

CMP: ₹ 205

Target: ₹ 240 (17%)

Target Period: 12 months

BUY

May 12, 2023

Uptick in operational performance to be visible from FY24E...

About the stock: Sagar Cements is a **south based cement player** with cement capacity of 10 MT. Region wise, Andhra Pradesh/Telangana accounted for ~60% of sales followed by Tamil Nadu (16%), Karnataka (9%).

- Going forward, the company will be able to develop a presence in the faster-growing eastern market and the more profitable central market with the recent commissioning of the new 2.5 MT capacity
- Captive power (61.5 MW) and grinding units near market give it cost advantage

Q4FY23 Results: Despite healthy capacity utilisation (65% vs. 55% YoY), profitability continued to remain at sub-par levels.

- Revenue grew 24% YoY to ₹ 622.0 crore, mainly driven by 20% YoY growth in volumes to 1.36 MT
- Overall COP per ton remained flattish QoQ at ₹ 4297/t and was higher than our estimate of ₹ 4095/t. Higher opex was on account of increased promotional spends, one-off legal expenses pertaining to latest acquisition and high cost of fuel inventory. EBITDA/t declined by ~ ₹ 97/t to ₹ 287/t. The performance is disappointing as most of the companies reported an improvement in profitability on a sequential basis
- Sagar recorded higher other income of ₹ 181.0 crore (Q3FY23: ₹ 14 crore) of which ₹ 168 crore pertains to redemption of non-convertible debentures held by the subsidiary. Hence, PAT came in at ₹ 97.9 crore (adjusting for exceptional income, net loss was at ~₹ 30 crore)

What should investors do? With capacity expansion in high growth regions like Central & East and recent acquisition of Andhra Cement (to further solidify its presence in the southern region) we expect volume growth momentum to sustain. However, profitability may remain under check owing to ramping up of new facilities (Jajpur & Dachepalli).

- Sagar Cement continues to trades at reasonable valuations (US\$50/t vs. replacement cost of US\$110/t). Hence, we maintain **BUY** rating on the stock

Target Price and Valuation: We value Sagar at ₹ 240 i.e. 8x FY25E EV/EBITDA.

Key triggers for future price performance:

- **Incremental volumes from new units** (1 MT ICU at MP, 1.5 MT grinding unit in Odisha and 1.8 MT in AP) to help grow the business from FY24E onwards
- Expect revenue CAGR of 18% in FY23-25E led by 17% CAGR in volumes
- We build in EBITDA/t of ₹ 609/t in FY24E and ₹ 778/t in FY25E, driven by reduction in fuel costs and gradual ramping up of new capacities

Alternate Stock Idea: In our cement sector coverage we also like Star Cement (BUY with a target price of ₹ 150).



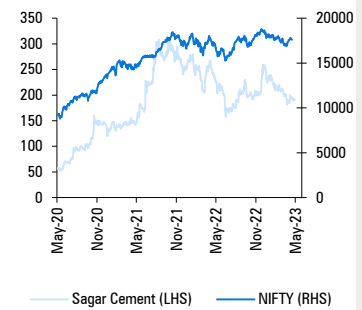
Particulars

Particular	Amount
Market Capitalization (₹)	₹ 2692 Crore
Total Debt (FY23) (₹)	1472
Cash and Investments (FY23)	210
EV (₹)	3954
52 week H/L	₹ 267/154
Equity capital	₹ 26.1 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	45.20	45.20	45.20	45.20
FII	4.47	4.47	3.99	3.94
DII	18.21	18.21	19.06	19.07
Others	32.12	32.12	31.75	31.79

Price Chart



Key risks

- Volatility in prices of key inputs like coal/petcoke could subdue profitability
- Slower than expected ramp-up in recently acquired plants

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Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	FY23E	4 year CAGR (%) (FY19-23)	FY24E	FY25E	2 year CAGR (%)
Sales	1217.6	1175.2	1371.3	1596.9	2229.5	16.3	2822.0	3132.9	18.5
EBITDA	149.4	185.5	400.4	275.8	153.2	0.6	367.2	516.6	
EBITDA (%)	12.3	15.8	29.2	17.3	6.9		13.0	16.5	
PAT	13.6	26.5	185.6	59.1	8.5		48.3	166.5	
EPS (₹)	1.3	2.4	15.8	5.0	0.7		3.7	12.7	
EV/EBITDA	20.8	16.8	8.1	13.5	25.8		11.0	7.4	
EV/Tonne (\$)	73	68	71	56	60		50	43	
RoNW	1.6	2.7	15.6	4.7	0.5		2.9	9.1	
RoCE	6.5	7.6	16.0	6.6	-0.1		6.2	10.9	

Source: Company, ICICI Direct Research

Key conference call takeaways

- Volumes for the company could have been even higher if not for labour unavailability due to the festive season and unseasonal rains during the end of Q4FY23
- Demand in the southern region during FY23 was healthy at 20%+ owing to pre-election year. The company expects the region to grow 8-10% in FY24E
- Mattampally plant (mother plant) operated at 73% capacity utilisation. Gudipadu, Bayyavaram, Jeerabad and Jajpur plants operated at 93%, 66%, 81% and 14%, respectively, during the quarter. Overall capacity utilisation at the group level was at 65%. The newly commission plant of Jeerabad (MP) witnessed a swift ramp-up with utilisation rate already at 80%+ levels (vs. 30% YoY)
- The management has reiterated its guidance for sales volume of 6.5 MT (including 1 MT of Andhra Cements) in FY24E. Out of the two new commissioned plants, the company expects the MP plant to operate at 80-85% capacity utilisation while the Jajpur plant is expected to operate at subpar utilisation levels due to lower pricing by incumbents
- The company has produced the first batch of cement from its recently acquired DCW plant in mid-April and expects clinker by June 2023. Modernisation capex (mainly for pre-heaters) is likely to enhance output and enable cost savings
- Trade share similar to previous quarter at 60%. Prices in deep south markets like Tamil Nadu were much lower than other states in the south. Hence, the company limited its sales volume in those regions. There was a ₹ 10-15/bag increase in Hyderabad market from Q4 exit whereas Bangalore prices have remained steady. Prices in Chennai continue to be under pressure
- Higher other expenses during the quarter were owing to higher spends on promotional expense (₹ 10-11 crore) and also one-off legal expenses owing to recent acquisition
- The company continues to have high-cost fuel inventory and expects a marginal reduction in power & fuel cost of ₹ 50/t in Q1FY24E and ₹ 100/t savings in Q2FY24E
- Sagar Cement has sourced imported pet coke as prices have corrected (landed cost ~ US\$160/t). Expected shipment is at the end of this month
- The company is targeting EBITDA/t of ₹ 625/t in FY24E led by 1-2% increase in realisation, better cost efficiencies (WHRS, installation of railway sliding, new pre-heater at AP) and reduction in fuel costs. It has targeted EBITDA of ₹ 400 crore in FY24E
- The company has trimmed its capex guidance towards upgrading the existing clinker and cement capacities in DCW from 1.65 MT to 2.3 MT (clinker) and 1.8 MT to 3.0 MT (cement) from earlier envisaged ₹ 468 crore to ₹ 275-325 crore. It would initially aim to ramp up and will later on incur capex from H2FY24 onwards (would be commissioned by Q4FY25)

Sagar Cements- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	5.0	25.3	21.3
Social	19.9	29.5	29.5
Governance	78.6	78.6	78.6
Overall ESG Score	34.6	44.5	43.2

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

On the b/s front, the company generated operating cashflow of ₹ 175 crore in FY23 and incurred capex (including Andhra Cement acquisition) of ~₹ 900 crore. The company currently has gross debt of ₹ 1472 crore. We expect debt levels to be at ~₹ 1500 crore in FY24E with a gradual reduction from FY25E onwards. We expect the company to generate FCF from FY25E onwards and model debt reduction of ~₹ 200 crore in FY25E. RoCE to reach double digit by FY25E (~11%). Expect finance cost to decline from FY24E onwards owing to rollover of structured debt to long term debt.

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
Total Operating Income	621.5	617.2	501.7	23.9	575.7	8.0	Volumes grew 20% YoY to 1.36 MT mainly on the back of commissioning of new capacities in Jajpur and Jeerabad
Other Income	181.0	14.5	4.2	4,241.5	14.3	1,166.9	The company recorded higher other income of ₹ 181.0 crore of which ₹ 168 crore is pertaining to redemption of non-convertible debentures held by the subsidiary
EBITDA	38.9	51.0	61.1	-36.4	47.6	-18.3	
EBITDA Margin (%)	6.3	8.3	12.2	-592 bps	8.3	-201 bps	Profitability impacted owing to higher than expected other
Interest	51.9	40.0	47.1	10.1	51.4	1.0	
Depreciation	41.6	39.8	31.5	31.9	39.7	4.6	
PBT	126.4	-14.3	-13.4	-1,045.0	-29.2	-532.7	
Total Tax	28.5	-1.0	5.8	393.2	-2.0	-1,502.0	
PAT	98.0	-13.3	-19.2	-611.6	-27.2	-460.4	Adjusting for the exceptional income, net loss was at ~ ₹ 30 crore
Key Metrics							
Volume (MT)	1.36	1.37	1.13	20.3	1.24	9.4	The company operated at 65% utilisation levels (vs. 55% in
Net realisation (₹)	4,584	4,505	4,452	3.0	4,645	-1.3	Owing to decline in prices in southern markets, realisations declined by ₹ 60/t QoQ to ₹ 4584/t
EBITDA per Tonne (₹)	287	373	542	-47.1	384	-25.3	
Per tonne							
Net Sales	4,584	4,505	4,452	3.0	4,645	-1.3	
Raw Material Expenses	916	920	744	23.1	1,022	-10.4	RM expenses inched up owing to increase in sales of Jajpur plant (Odisha) since clinker is being transported from Mattampally unit to Jajpur
Employee Expenses	191	243	236	-19.3	203	-6.0	
Power and fuel	1,783	1,640	1,514	17.8	1,690	5.5	Power cost per kcal declined ~3% QoQ to ₹ 2.1/Kcal mainly owing to a change in fuel mix with higher usage of domestic coke (48% vs. 19% in Q3FY23)
Freight	834	785	776	7.5	794	5.1	
Others	572	545	640	-10.5	552	3.8	
Production costs	4,297	4,133	3,910	9.9	4,261	0.9	

Source: Company, ICICI Direct Research

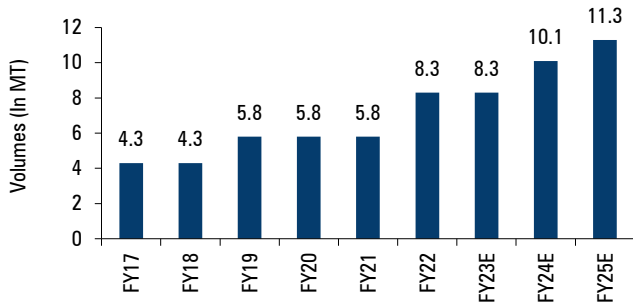
Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	2,840.1	2,822.0	-0.6	3,132.9	3,132.9	0.0
EBITDA	468.2	367.2	-21.6	567.9	516.6	-9.0
EBITDA Margin (%)	16.5	13.0	-347 bps	18.1	16.5	-164 bps

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Installed capacity has nearly doubled in last four years



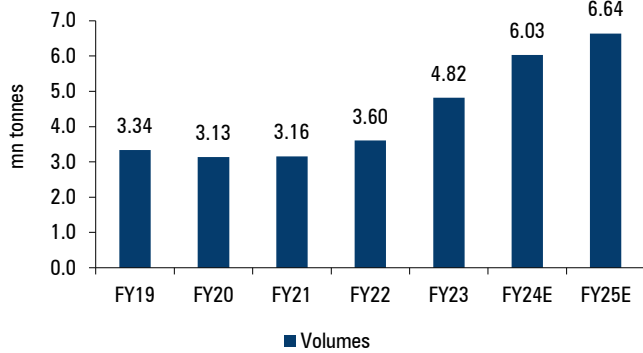
Source: Company, ICICI Direct Research

Exhibit 4: Capacity addition plans

Location	Clinker MTPA	Cement MTPA
Mattampally, Telangana	2.8	3.0
Gudipadu, AP	1.0	1.3
Vizag, AP	-	1.5
Indore, MP	1.0	1.0
Jajpur, Odisha	-	1.5
Durga Cement Works, AP (post expansion)	2.3	3.0
Total	7.1	11.3

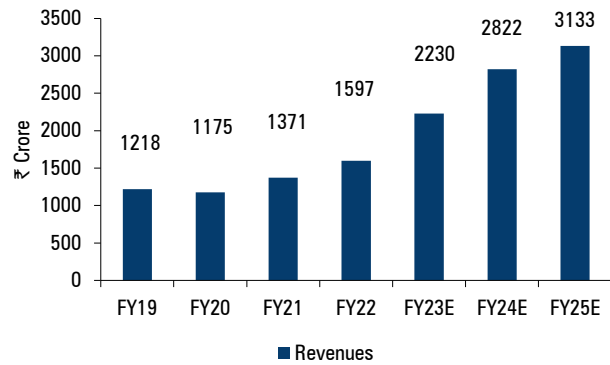
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 17% CAGR in FY23-25E with commissioning of new capacities, acquisition



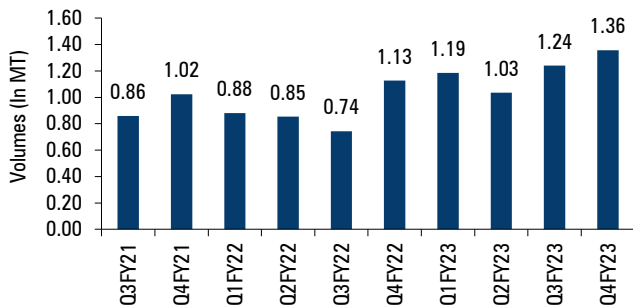
Source: Company, ICICI Direct Research

Exhibit 6: Topline to grow at 18.5% CAGR over FY23-25E



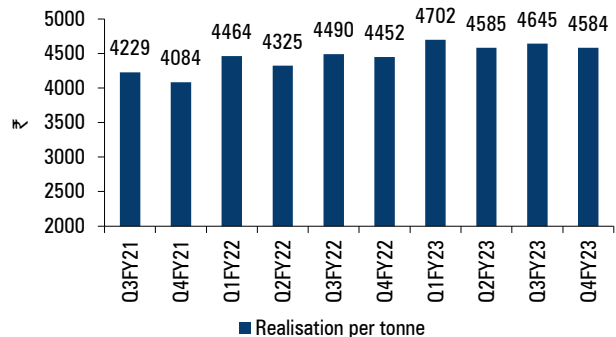
Source: Company, ICICI Direct Research

Exhibit 7: Volumes increase 20% YoY in Q4FY23



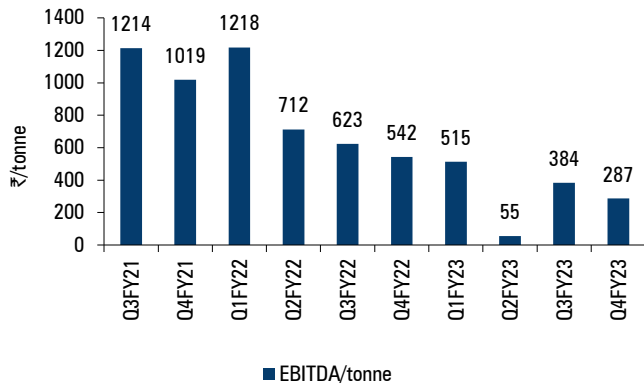
Source: Company, ICICI Direct Research

Exhibit 8: Owing to weak pricing environment (especially in southern markets), realisation declined QoQ



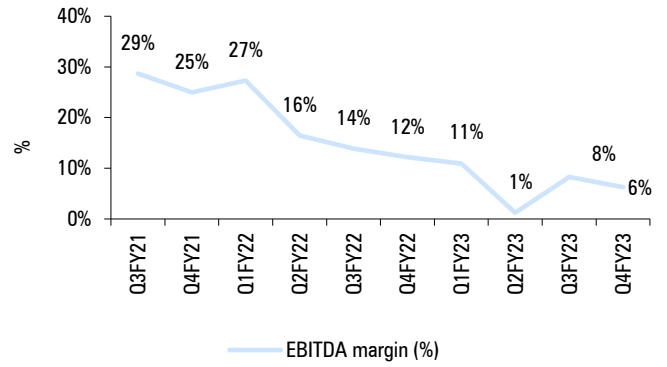
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t continues to remain under pressure



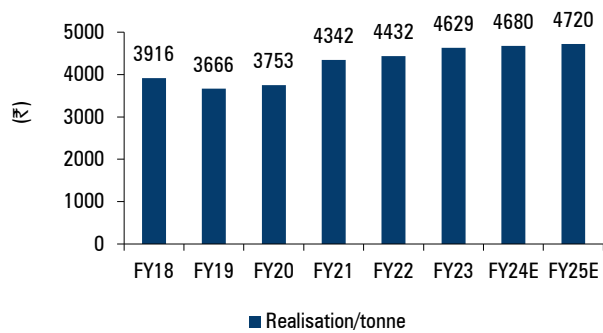
Source: Company, ICICI Direct Research

Exhibit 10: Margins trends



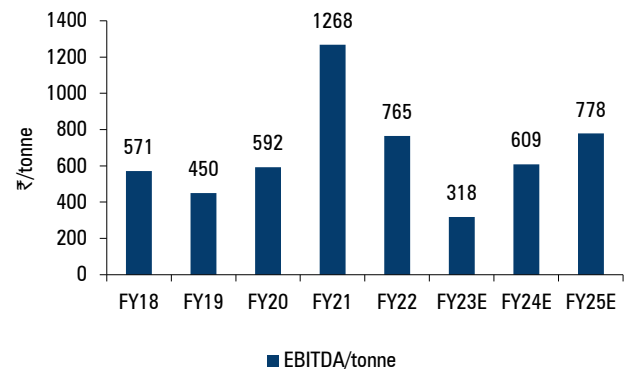
Source: Company, ICICI Direct Research

Exhibit 11: Realisations to stay stable, going forward



Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit & Loss Account

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	1,371.3	1,596.9	2,229.5	2,822.0	3,132.9
Growth (%)	16.7	16.4	39.6	26.6	11.0
Raw material cost	239.8	225.3	422.2	542.7	610.7
Power & fuel	261.4	515.7	893.5	964.8	982.4
Freight cost	234.2	278.6	388.9	476.4	531.0
Others	235.5	301.5	371.8	470.9	492.3
Total Operating Exp.	970.9	1,321.1	2,076.4	2,454.8	2,616.3
EBITDA	400.4	275.8	153.2	367.2	516.6
Growth (%)	115.9	-31.1	-44.5	139.7	40.7
Depreciation	80.6	92.7	155.8	170.0	180.0
Interest	46.6	92.5	201.6	150.7	126.9
Other Income	7.8	13.4	222.7	20.0	20.0
PBT	281.1	104.0	18.5	66.6	229.6
Total Tax	95.5	44.9	10.0	18.3	63.2
PAT	185.6	59.2	8.5	48.3	166.5
PAT margin	13.5	3.7	0.4	1.7	5.3
Adjusted PAT	185.6	59.2	8.5	48.3	166.5
Growth (%)	599.5	-68.1	-85.6	467.8	245.0
Adjusted EPS (₹)	15.8	5.0	0.7	3.7	12.7

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet summary

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Share Capital	23.5	23.5	26.1	26.1	26.1
Reserve and Surplus	1,167.4	1,231.9	1,611.4	1,646.5	1,800.0
Total Shareholders fund	1,190.9	1,255.4	1,637.5	1,672.7	1,826.1
Total Debt	806.5	1,503.4	1,472.1	1,506.7	1,269.4
Deferred Tax Liability	68.0	97.7	108.3	108.3	108.3
Minority Interest / Other	128.1	129.7	147.4	154.8	162.5
Total Liabilities	2,193.5	2,986.2	3,365.3	3,442.4	3,366.2
Assets					
Gross Block	1,913.0	2,743.1	3,642.4	3,712.4	4,042.4
Less: Acc Depreciation	611.5	695.0	849.0	1,019.0	1,199.0
Net Block	1,301.5	2,048.1	2,793.4	2,693.4	2,843.4
Capital WIP	517.5	100.5	99.2	300.0	80.0
Total Fixed Assets	1,818.9	2,148.6	2,892.6	2,993.4	2,923.4
Investments	0.0	314.7	0.0	0.0	0.0
Inventory	124.3	208.6	270.9	340.2	377.7
Debtors	100.7	120.3	133.2	185.6	206.0
Loans and Advances	248.1	394.1	218.2	226.9	236.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Cash	254.2	162.7	210.5	141.3	118.1
Total Current Assets	727.3	885.7	832.8	893.9	937.7
Creditors	229.0	221.0	308.8	386.6	429.2
Provisions	22.3	23.3	14.7	15.0	15.3
Other Current Liabilities	102.1	133.8	134.5	141.2	148.3
Total Current Liabilities	353.4	378.2	458.0	542.8	592.8
Net Current Assets	373.8	507.5	374.8	351.1	345.0
Others Assets	0.7	15.4	97.8	97.8	97.8
Application of Funds	2,193.5	2,986.2	3,365.2	3,442.3	3,366.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	185.6	59.1	8.5	48.3	166.5
Add: Depreciation	80.6	92.7	155.8	170.0	180.0
(Inc)/dec in Current Assets	-60.2	-249.9	-67.4	-130.3	-67.0
Inc/(dec) in CL and Prov.	-17.5	24.7	79.9	84.8	49.9
CF from operations	188.4	-73.3	176.8	172.7	329.4
(Inc)/dec in Investments	0.0	-314.7	314.7	0.0	0.0
(Inc)/dec in Fixed Assets	-407.6	-422.4	-899.8	-270.8	-110.0
Others	20.5	-14.7	85.6	0.0	0.0
CF from investing act.	-387.1	-751.7	-499.5	-270.8	-110.0
Issue/(Buy back) of Equity	1.2	0.0	2.6	0.0	0.0
Inc/(dec) in loan funds	378.6	696.9	-31.2	34.6	-237.3
Others	60.3	36.7	399.2	-5.7	-5.3
CF from financing act.	440.1	733.5	370.6	28.9	-242.6
Net Cash flow	241.4	-91.5	47.8	-69.2	-23.2
Opening Cash	12.8	254.2	162.7	210.5	141.3
Closing Cash	254.2	162.7	210.5	141.3	118.1

Source: Company, ICICI Direct Research

Exhibit 16: Ratio sheet

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Adjusted EPS	15.8	5.0	0.7	3.7	12.7
Cash EPS	22.7	12.9	12.6	16.7	26.5
BV	101.3	106.8	125.3	128.0	139.7
DPS	1.3	0.7	0.7	1.0	1.0
Cash Per Share	19.3	12.3	13.3	4.0	3.1
Operating Ratios (%)					
EBITDA Margin	29.2	17.3	6.9	13.0	16.5
Adjusted PAT Margin	13.5	3.7	0.4	1.7	5.3
Inventory days	33.1	47.7	44.4	44.0	44.0
Debtor days	26.8	27.5	21.8	24.0	24.0
Creditor days	60.9	50.5	50.6	50.0	50.0
Return Ratios (%)					
RoE	15.6	4.7	0.5	2.9	9.1
RoCE	16.0	6.6	-0.1	6.2	10.9
RoIC	18.4	8.0	-0.1	6.5	11.3
Valuation Ratios (x)					
P/E (adjusted)	13.0	40.9	316.8	55.8	16.2
EV / EBITDA	8.1	13.5	25.8	11.0	7.4
EV / Net Sales	2.4	2.3	1.8	1.4	1.2
Market Cap / Sales	2.0	1.7	1.2	1.0	0.9
Price to Book Value	2.0	1.9	1.6	1.6	1.5
Solvency Ratios					
Debt/EBITDA	2.0	5.5	9.6	4.1	2.5
Debt / Equity	0.7	1.2	0.9	0.9	0.7
Current Ratio	2.1	3.1	2.3	2.1	2.0
Quick Ratio	1.7	2.6	1.7	1.5	1.4

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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ANALYST CERTIFICATION

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