

Shubh Nivesh



Poised for a healthy uptick in operational performance...

About the stock: Sagar Cements is a **south based cement player** with cement capacity of 10 MT. Region wise, Andhra Pradesh/Telangana accounted for ~54% of sales followed by Tamil Nadu (13%), Madhya Pradesh (9%) and Karnataka (8%)

- 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

Investment Rationale:

- **On an expansion spree:** Sagar Cements has been one of the fastest growing cement companies wherein its capacity has nearly doubled from 5.8 MT in FY19 to 10 MT currently (~15% CAGR). In FY23, company recorded robust volume growth of 34% YoY to 4.8 MT mainly driven by commissioning of new capacities in Jeerabad, MP (Central: 1.0 MT) and Jajpur, Odhisa (East: 1.5 MT). The Jeerabad facility has witnessed swift ramp-up with utilisation rates already at 80%+ levels and generating | 840+ EBITDA/T in Q1FY24E. Recently, it acquired Andhra Cements (1.8 MT) to further consolidate its position in southern markets. The operations have commenced from Q1FY24E (sold ~30K Ton volumes) and the management expects the new facility to add ~ 0.75 MT volumes in FY24 (42% CU). While company's performance in Q1FY24 was tepid (mainly owing to maintenance shutdown at its mother-plant in Mattampally), we expect the volumes & profitability trajectory to improve in the ensuing quarters. We model in volume growth of 25% YoY to 6.0 MT in FY24E and 10% YoY to 6.7 MT by FY25E. Benefit of declining fuel costs expected to flow from Q2FY24 onwards (~ | 100/t in Q2 and further reduction expected in H2FY24). We expect company to clock in EBITDA/T of | 600/t in FY24E and cross the | 700/t mark in FY25E.
- **B/S deleveraging to begin from FY25E:** Significantly higher capex over last four years (including acquisition of Andhra Cements) has resulted in gross debt bloating from ~ | 400 crore in FY20 to | 1470 crore as on FY23 (D/E: 0.9x). Going forward, company is looking for mainly brownfield expansion (in Jeerabad, Gudipadu & Andhra Cements) which could entail lower capex requirements. We build in capex of | ~ 400 crore over FY24-25E (incurred capex of | 1300+ crore in last two years). We expect the company to generate steady free cash flow (FCF) and model in debt reduction of ~| 350 crore by FY25E (D/E: 0.6x). Though not factored in our estimates, Vizag land sale (which was a part of Andhra Cement acquisition) could further help deleverage the b/s (~107 acres which is worth~ | 400 crore).

Rating and Target Price

- Sagar Cement is trading at attractive valuations (US\$ 50/t vs. replacement cost of US\$ 110/t). We believe Sagar Cement is an attractive regional play in the southern cement markets and has demonstrated the ability to be one of the lowest cost producers. Hence, we ascribe **BUY** rating on the stock.
- We value Sagar at | 305 i.e. 10x FY25E EV/EBITDA.



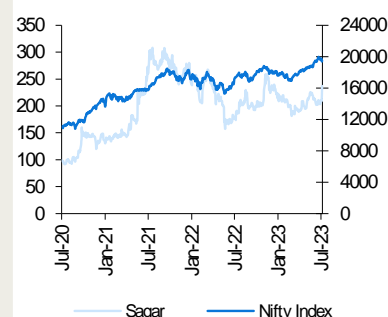
Particulars

Particular	Amount
Market Capitalization ()	3085 Crore
Total Debt (FY23) ()	1472
Cash and Investments (FY23)	210
EV ()	4346
52 week H/L	267/174
Equity capital	26.1 Crore
Face value	2

Shareholding pattern

(in %)	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	45.20	45.20	45.20	45.20
FII	4.47	3.99	3.94	2.98
DII	18.21	19.06	19.07	19.59
Others	32.12	31.75	31.79	32.23

Price Chart



Key risks

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

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Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	FY23	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	175.1	
EPS ()	1.3	2.4	15.8	5.0	0.7		3.7	13.4	
EV/EBITDA	23.4	18.9	9.1	14.9	28.4		12.0	8.1	
EV/Tonne (\$)	83	76	79	62	66		55	52	
RoNW	1.6	2.7	15.6	4.7	0.5		2.9	9.5	
RoCE	6.5	7.6	16.0	6.6	-0.1		6.2	11.3	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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