

CMP: ₹ 220

Target: ₹ 250 (14%)

Target Period: 12 months

HOLD

February 20, 2023

Latest acquisition to further solidify presence in south...

About the stock: Sagar Cements is a **south based cement player** with cement capacity of 8.25 MT (excluding Andhra Cements). Region wise, AP/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 recent commissioning of new 2.5 MT capacity
- Self-reliance in power (61.5 MW), ability to switch between coal and petcoke for fuel requirement and split grinding units near market gives it cost advantage

Key highlights: NCLT has approved resolution plan for acquisition of Andhra Cements by the company, which would help achieve its target of 10 MT by FY25E.

- SCL would be acquiring an integrated unit, with clinker capacity of 1.65 MT and cement capacity of 1.8 MT along with 30 MW captive power plant located at Guntur District, AP (DCW). It will also acquire a grinding unit, with capacity of 0.8 MT at Vizag, AP (VCW, contemplating discontinuing this plant and might look to monetise the land in the medium term)
- It is expected to spend ~₹ 762 crore towards acquisition and restarting capex of ₹ 85 crore. Further, the board has also approved an additional capital outlay of ₹ 468 crore for enhancement of the clinker capacity to 2.3 MT and cement capacity to 3 MT for its DCW unit
- Overall capex of ~ ₹ 1400 crore to be spent over the next three years with acquisition cost coming in at US\$56/t (vs. greenfield implementation cost of US\$100/t). Recent commissioning of new capacities (2.5 MT in central & East) and latest acquisition of Andhra Cement would propel healthy volume CAGR of 23% in FY22-25E
- On the balance sheet front, we expect the company to generate OCF worth ₹ 1160 crore (ex-interest cost) in FY23-25E vs. overall capex at ~ ₹ 1480 crore during the same period. Hence, we expect debt to remain elevated (D/E expected at 0.9x in FY25E)

What should investors do? With capacity expansion in high growth regions like east & central, we expect strong growth momentum, going forward.

- However, higher debt levels are expected to pose challenges in the medium-term. Hence, we maintain **HOLD** rating on the stock

Target Price and Valuation: We value Sagar at ₹ 250 i.e.8x FY25E EV/EBITDA.

Key triggers for future price performance:

- **Incremental volumes from new units** (1MT 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 sales revenue CAGR of 25% during FY22-25E led by 23% CAGR growth in volumes

Alternate Stock Idea: Apart from Sagar Cement, in our cement sector coverage we like Shree Cement

- BUY with a TP of ₹ 28500



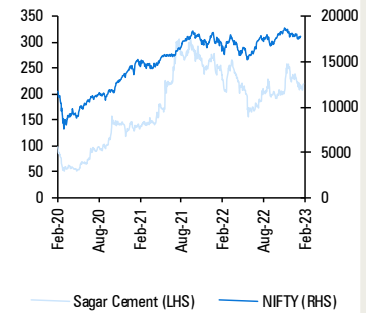
Particulars

Particular	Amount
Market Capitalization	₹ 2875 Crore
Total Debt (FY22)	₹ 1572 Crore
Cash and Investments (FY22)	₹ 476 Crore
EV	₹ 3972 Crore
52 week H/L	₹ 276/154
Equity capital	₹ 26.1 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	50.28	45.20	45.20	45.20
FII	5.24	4.47	4.47	3.99
DII	8.87	18.21	18.21	19.06
Others	35.61	32.12	32.12	31.75

Price Chart



Key risks

- Volatility in prices of key inputs like coal/petcoke could subdue profitability
- Upside risk of faster than anticipated decline in debt levels

Research Analyst

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	FY25E	3 year CAGR (%)
Sales	1217.6	1175.2	1371.3	1596.9	9.5	2242.5	2840.1	3132.9	25.2
EBITDA	149.4	185.5	400.4	275.8	22.7	189.1	468.2	587.9	28.7
EBITDA (%)	12.3	15.8	29.2	17.3		8.4	16.5	18.8	
PAT	13.6	26.5	185.6	59.1	63.3	-79.7	85.7	187.0	46.8
EPS (₹)	1.0	2.0	14.2	4.5		-6.1	6.6	14.3	
EV/EBITDA	22.4	18.1	8.6	14.4		23.6	10.0	7.6	
EV/Tonne (\$)	90	84	85	69		77	67	63	
RoNW	1.6	2.8	15.5	4.7		-5.3	5.5	10.7	
RoCE	6.4	7.2	15.4	6.6		2.7	8.4	11.5	

Key Conference call highlights

- The acquisition will enable SCL to further consolidate its position in southern markets, mainly Andhra Pradesh and Telangana. Looking to leverage its existing network/ brand of "Sagar," making the company one of the leading players in the southern markets. More than 50% of volumes of the DCW plant will be sold in Telangana followed by 30% in Andhra Pradesh and 20% in Tamil Nadu. The operations are expected to commence from Q1FY24E, exit with capacity utilisation rate of 55% in FY24 and gradually improving to 60% in FY25E. For the VCW plant (0.8 MT), the company is contemplating to discontinue operations due to constraints resulting from plant's proximity to Vizag city. VCW is located on prime land of ~107 acres within Vizag city limit (land value ~ ₹ 4 crore per acre). The company may look to monetise the land in the medium term to pare debt (we have not considered the same in our estimates)
- The company has proposed to invest ₹ 468 crore 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). The upgradation is expected to be completed by H2FY25E, post which SCL's overall capacity will be 11.3 MT. The company has ample limestone availability (~200 MT) in its DCW plant with a potential of doubling capacity from 3 MT to 6 MT (brownfield).
- The current acquisition cost (including the upgrade) is at US\$56/t, lower than the greenfield implementation cost of ~US\$100/t. The total debt of Andhra Cements, which was to the tune of ₹ 1316 crore was taken over by SCL at ₹ 725 crore (~45% haircut). ACL will continue to remain listed with Sagar Cements having 95% stake and public holding at 5%. SCL will reduce its holding to 90% within 12 months and further to 75% within 36 months from the NCLT approval date
- Demand growth YoY in the last nine months was 20%+ in Andhra Pradesh/Telangana, 24% in Karnataka, 20% in Tamil Nadu, 25% in Kerala, 0-3% in Maharashtra and flatish in Odisha. The management has guided 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% CU and Jajpur Odisha unit at 33% CU in FY24E. Given the strong underlying demand, we expect revenues to grow at a CAGR of 25% in FY22-25E driven by stabilisation of new capacities. Furthermore, with better sweating of assets and gradual decline in power and fuel cost, we expect the company to generate RoIC of 12% by FY25E with EBITDA/t improving to ₹ 886/t
- **On the balance sheet front, we expect the company to generate OCF worth ₹ 1160 crore (ex-interest cost) in FY23-25E vs. overall capex of ~ ₹ 1480 crore during the same period. Hence, we expect debt to remain elevated (D/E expected at 0.9x in FY25E) with material decline expected only from FY26E onwards. We expect finance cost to decline from FY24E onwards owing to rollover of structured debt to long term debt. We maintain HOLD rating on the stock with a target price of ₹ 250 (~8x FY25E EV/EBITDA, EV/t: US\$70/t)**

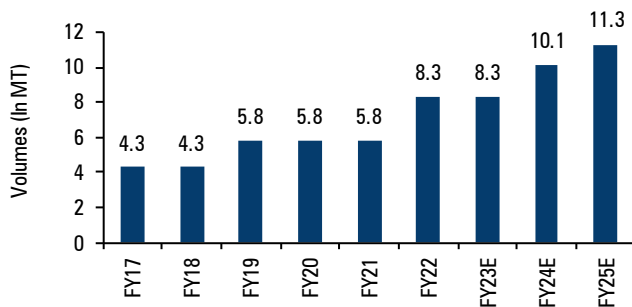
Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	2,242.5	2,242.5	0.0	2,442.8	2,840.1	16.3	3,132.9	Revised FY24E revenue upwards as we factor in Andhra Cement acquisition
EBITDA	189.1	189.1	0.0	440.8	468.2	6.2	587.9	
EBITDA Margin (%)	8.4	8.4	0 bps	18.0	16.5	-156 bps	18.8	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 2: Installed capacity to increase by 25% in FY22-25E



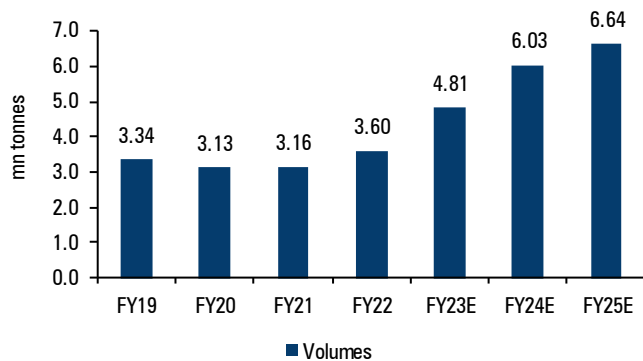
Source: Company, ICICI Direct Research

Exhibit 3: Capacity across plants

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

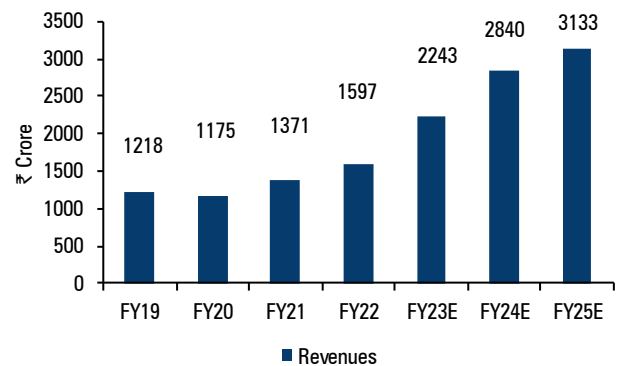
Source: Company, ICICI Direct Research

Exhibit 4: Volumes to grow at 23% CAGR over FY22-25E with commissioning of new capacities



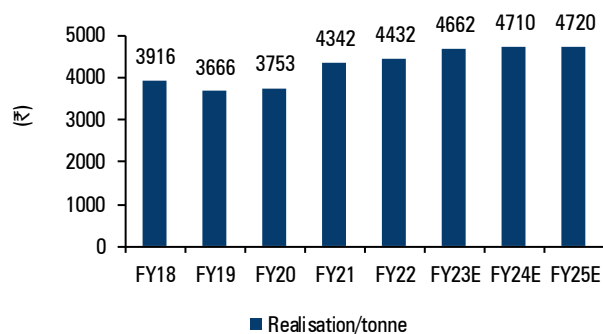
Source: Company, ICICI Direct Research

Exhibit 5: Topline to grow at 25% CAGR over FY22-25E



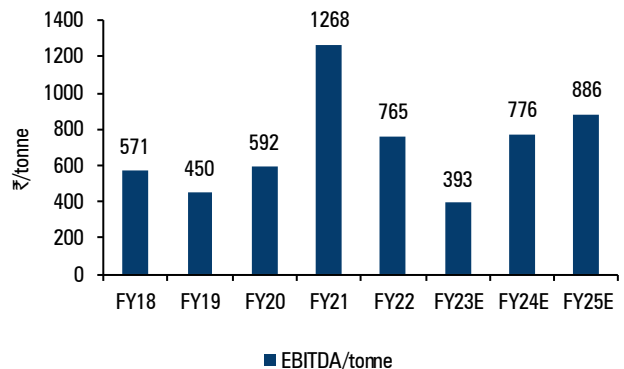
Source: Company, ICICI Direct Research

Exhibit 6: Realisations to stay firm, going forward, owing to strong anticipated demand



Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/t to improve gradually



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	1,175.2	1,371.3	1,596.9	2,242.5	2,840.1	3,132.9
Growth (%)	-3.5	16.7	16.4	40.4	26.6	10.3
Raw material cost	227.3	239.8	225.3	419.4	512.6	564.2
Power & fuel	309.2	261.4	515.7	867.7	904.5	929.3
Freight cost	223.8	234.2	278.6	387.8	470.3	531.0
Others	229.4	235.5	301.5	378.5	484.6	520.5
Total Operating Exp.	989.7	970.9	1,321.1	2,053.4	2,372.0	2,545.0
EBITDA	185.5	400.4	275.8	189.1	468.2	587.9
Growth (%)	24.2	115.9	-31.1	-31.4	147.6	25.6
Depreciation	78.9	80.6	92.7	154.0	185.0	195.0
Interest	61.0	46.6	92.5	201.2	185.0	155.0
Other Income	4.0	7.8	13.4	56.2	20.0	20.0
PBT	49.7	281.1	104.0	-110.0	118.2	257.9
Total Tax	23.1	95.5	44.9	-30.2	32.5	70.9
PAT	26.5	185.6	59.2	-79.7	85.7	187.0
PAT margin	2.3	13.5	3.7	-3.6	3.0	6.0
Adjusted PAT	26.5	185.6	59.2	-79.7	85.7	187.0
Growth (%)	95.2	599.5	-68.1	-234.8	-207.5	118.3
Adjusted EPS (₹)	2.0	14.2	4.5	-6.1	6.6	14.3

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Liabilities						
Share Capital	22.3	23.5	23.5	26.1	26.1	26.1
Reserve and Surplus	935.2	1,171.0	1,224.2	1,475.8	1,545.7	1,717.0
Total Shareholders fun	957.5	1,194.5	1,247.7	1,502.0	1,571.9	1,743.1
Total Debt	498.0	810.2	1,571.9	1,671.9	1,821.9	1,621.9
Deferred Tax Liability	22.7	75.9	97.7	119.5	141.3	163.1
Minority Interest / Oth	193.9	238.3	207.8	207.8	207.8	207.8
Total Liabilities	1,672.1	2,318.9	3,125.0	3,501.1	3,742.8	3,735.9
Assets						
Gross Block	1,842.1	1,863.1	2,622.1	3,509.6	3,604.6	4,104.6
Less: Acc Depreciator	511.5	592.0	684.8	838.8	1,023.8	1,218.8
Net Block	1,330.6	1,271.0	1,937.4	2,670.9	2,580.9	2,885.9
Capital WIP	108.0	517.5	100.5	100.0	520.0	100.0
Total Fixed Assets	1,438.6	1,788.5	2,037.9	2,770.9	3,100.9	2,985.9
Investments	53.4	52.8	400.1	85.4	85.4	85.4
Inventory	115.8	124.3	208.6	245.8	295.7	326.2
Debtors	136.8	100.7	120.3	221.2	272.3	343.3
Loans and Advances	21.2	22.4	20.2	33.6	42.6	47.0
Other Current Assets	131.1	217.7	408.6	373.2	332.8	367.9
Cash	11.6	252.2	161.0	75.2	6.9	33.4
Total Current Assets	416.5	717.3	918.7	949.0	950.4	1,117.9
Creditors	223.0	229.0	221.0	276.5	357.9	412.0
Provisions	13.3	10.7	10.6	27.6	35.8	41.2
Total Current Liabilities	236.3	239.7	231.6	304.1	393.7	453.2
Net Current Assets	180.2	477.6	687.1	644.9	556.6	664.7
Others Assets	0.0	0.0	0.0	0.0	0.0	0.0
Application of Funds	1,672.2	2,318.9	3,125.0	3,501.1	3,742.9	3,735.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	26.5	185.6	59.1	-79.7	85.7	187.0
Add: Depreciation	78.9	80.6	92.7	154.0	185.0	195.0
(Inc)/dec in Current Assets	-68.3	-60.2	-292.7	-116.1	-69.6	-141.0
Inc/(dec) in CL and Prov.	22.4	3.4	-8.1	72.5	89.6	59.5
CF from operations	120.5	256.0	-56.4	231.9	475.6	455.5
(Inc)/dec in Investments	-11.8	0.6	-346.8	314.7	0.0	0.0
(Inc)/dec in Fixed Assets	-202.2	-430.5	-342.1	-887.0	-515.0	-80.0
Others	-8.6	98.0	-9.2	21.8	21.8	21.8
CF from investing act.	-222.6	-331.9	-698.1	-550.5	-493.2	-58.2
Issue/(Buy back) of Equity	85.6	84.9	0.1	349.8	0.0	0.0
Inc/(dec) in loan funds	-1.2	312.2	761.7	100.0	150.0	-200.0
Dividend paid incl. taxes	-4.7	-20.5	-11.0	-15.8	-15.8	-15.8
Interest paid	-61.0	-46.6	-92.5	-201.2	-185.0	-155.0
Others	65.3	-13.0	5.0	0.0	0.0	0.0
CF from financing act.	83.9	317.0	663.2	232.8	-50.8	-370.8
Net Cash flow	-18.2	241.0	-91.3	-85.8	-68.3	26.5
Opening Cash	29.8	11.6	252.2	161.0	75.2	6.9
Closing Cash	11.6	252.7	161.0	75.2	6.9	33.4

Source: Company, ICICI Direct Research

Exhibit 11: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)						
Adjusted EPS	2.0	14.2	4.5	-6.1	6.6	14.3
Cash EPS	8.1	20.4	11.6	5.7	20.7	29.2
BV	73.3	91.4	95.5	114.9	120.3	133.4
DPS	0.3	1.3	0.7	1.0	1.0	1.0
Cash Per Share	0.9	19.3	12.3	5.8	0.5	2.6
Operating Ratios (%)						
EBITDA Margin	15.8	29.2	17.3	8.4	16.5	18.8
Adjusted PAT Margin	2.3	13.5	3.7	-3.6	3.0	6.0
Inventory days	36.0	33.1	47.7	40.0	38.0	38.0
Debtor days	42.5	26.8	27.5	36.0	35.0	40.0
Creditor days	69.3	60.9	50.5	45.0	46.0	48.0
Return Ratios (%)						
RoE	2.8	15.5	4.7	-5.3	5.5	10.7
RoCE	7.2	15.4	6.6	2.7	8.4	11.5
RoIC	7.5	23.3	7.6	1.1	9.2	11.5
Valuation Ratios (x)						
P/E (adjusted)	108.4	15.5	48.6	-36.1	33.6	15.4
EV / EBITDA	18.1	8.6	14.4	23.6	10.0	7.6
EV / Net Sales	2.9	2.5	2.5	2.0	1.7	1.4
Market Cap / Sales	2.4	2.1	1.8	1.3	1.0	0.9
Price to Book Value	3.0	2.4	2.3	1.9	1.8	1.6
Solvency Ratios						
Debt/EBITDA	2.7	2.0	5.7	8.8	3.9	2.8
Debt / Equity	0.5	0.7	1.3	1.1	1.2	0.9
Current Ratio	1.2	1.2	2.1	2.0	1.8	1.8
Quick Ratio	0.9	0.9	1.6	1.5	1.3	1.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Cheragh Sidhwa, MBA, Bharat Chhoda, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.