

CMP: ₹ 1,301

Target: ₹ 1,700 (31%)

Target Period: 12 months

BUY

July 29, 2021

New capacities to drive strong growth from H2FY22E...

About the stock: Sagar Cements is the **cost efficient player in South India** with cement capacity of 5.75 MT. Region wise, AP/Telangana account for ~60% of sales followed by Tamil Nadu (16%), Karnataka (9%) with balance from Maharashtra and Odisha.

- From primarily being a south-based player, the company will be able to develop a presence in the faster-growing eastern market and the more profitable central market with the 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 helps it to maintain cost efficiency

Q1FY22 Results: Results remained ahead of our estimates led by better-than-expected sales volume and improved realisations.

- Clocked revenue of ₹ 392.6 crore, down 6% QoQ led by sales volumes de-growth of 14% to 0.88 MT. On a YoY basis, revenues were up 48.6%
- EBITDA/t was up 19.5% QoQ to ₹ 1218/t (vs. last quarter EBITDA/t of ₹ 1,019/t). EBITDA margin was at 27.3%, up 232 bps QoQ (down 566 bps YoY)
- PAT was at ₹ 50.1 crore, up 39.2% YoY, flat QoQ (our estimate: ₹ 40.7 crore)

What should investors do? With capacity expansions in high growth regions like East & Central, we expect strong growth momentum, going forward.

- Given the healthy outlook, cost efficiency, healthy b/s and **relatively inexpensive valuations**, we maintain BUY rating.

Target Price and Valuation: We value Sagar at ₹ 1,700 i.e. 7.0x FY23E EV/EBITDA

Key triggers for future price performance:

- Incremental volumes from new units** (1 MT integrated unit at MP, 1.5 MT grinding unit in Odisha) to help grow the business from H2FY22 onwards
- Expect sales revenue CAGR of 30.8% in FY21-23E led by 30% CAGR in volumes. **Debt levels to peak out in FY22E;**
- Strong operating cash flows to help the **company achieve 10 MT capacity** by FY25E

Alternate Stock Idea: Apart from Sagar Cement, in our cement coverage, we also like north based player Mangalam Cement.

- The upcoming UP election along with enhanced clinker capacity to drive growth. The benefit of various incentives would provide cost advantage
- BUY with a target price of ₹ 600/share



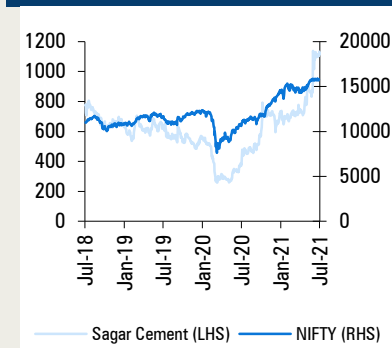
Particulars

Particular	Amount
Market Capitalization	₹ 3057 Crore
Total Debt (FY21)	₹ 810 Crore
Cash and Investments (FY21)	₹ 255 Crore
EV	₹ 3612 Crore
52 week H/L	₹ 732/236
Equity capital	₹ 23.5 Crore
Face value	₹ 10

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	50.16	50.16	50.28	50.28
FII	2.73	2.73	3.24	3.05
DII	12.36	12.36	11.77	11.54
Others	34.75	34.75	34.71	35.13

Price Chart



Key risks

- Delay in commissioning of new capacities
- Volatility in prices of key inputs like coal/petcoke

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Key Financial Summary

Particulars	FY18	FY19	FY20	FY21	3 year CAGR (%)	FY22E	FY23E	2 year CAGR (%)
Sales	1038.1	1217.6	1175.2	1371.3	9.7	1685.9	2347.6	30.8
EBITDA	151.3	149.4	185.5	400.4	38.3	451.3	648.5	27.3
EBITDA (%)	14.6	12.3	15.8	29.2		26.8	27.6	
PAT	26.3	13.6	26.5	185.6	91.9	189.2	323.7	32.1
EPS (₹)	12.9	5.8	11.3	79.0		80.5	137.7	
EV/EBITDA	23.0	23.6	19.1	9.0		8.4	5.5	
EV/Tonne (\$)	116	95	88	90		66	62	
RoNW	3.4	1.6	2.7	15.4		13.7	19.1	
RoCE	8.1	6.4	7.2	15.3		15.2	22.0	

Source: Company, ICICI Direct Research

Key performance highlights

- Domestic sales volumes were at 0.88 MT (down 14% QoQ) while blended realisations were up 9.3% QoQ to ₹ 4,464/tonne, down 6.5% YoY
- Cost of production was up 5.9% QoQ to ₹ 3,246/t, led by a sharp rise in diesel and petcoke prices
- However, EBITDA/t improved QoQ by 19.5% to ₹ 1218/t (vs. I-direct estimate: ₹ 1,175/t) on back of higher realisations.

Key conference call highlights

- **Demand** impacted by second wave of pandemic. Exposure to AP/Telangana is 55-60% of volumes with minimal exposure in Kerala. Capacity utilisation at Mattampally was at 56%, Gudipadu 78% and Bayyavaram at 59%. Persistent increase in costs has led to a hike in cement prices. Supportive prices helped to offset the impact of lower volumes
- **Targeting** ~3.6 MT sales for FY22E of which 0.4 MT will be from Satguru n Jajpur. These new capacities will get commissioned by end of September 2021. In August 2015 first commercial dispatch would happen. Expect these new capacities to operate at 75-80% levels from FY23E
- **Capex:** Total ₹ 75 crore spent in Q1. Pending ₹ 150 crore to get spend in Q2
- **Costs:** Expect further cost increase of ₹ 100/t in Q2 in power & fuel due to sharp increase in fuel prices. Overall, expect costs to increase by ₹ 150/t QoQ further taking fuel, freight and other costs altogether
- **Cement prices to remain firm:** Q4 exit rate at Hyderabad was at ₹ 350, improved to ₹ 360/bag in May, ₹ 370/bag in June. Now with small compression prices are at ₹ 365 at retail level. In Bangalore, Q4 exit prices were at ₹ 350/bag, increased to ₹ 370 in June and are now at ₹ 385. In Chennai – exit prices were at ₹ 375/bag now hovering around ₹ 385-395/bag
- **Gross debt** was at ₹ 844 crore of which long-term debt is at ₹ 731 crore and balance working capital loan. Gross debt is higher by ₹ 44 crore from earlier target due to cost overrun in Sadguru project - Expect peak gross debt of ₹ 850-875 crore for very short period of time. Next year it will come down rapidly. Debt repayment of ₹ 185 crore is due in FY22E
- **Incentives:** Expect ₹ 150 crore incentives from MP government, which will be received over seven years. Other benefits include electricity duty exemption

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
Total Operating Income	392.6	338.0	264.1	48.6	417.7	-6.0	
EBITDA	107.1	91.3	87.0	23.1	104.3	2.7	
EBITDA Margin (%)	27.3	27.0	32.9	-566 bps	25.0	232 bps	Better realisations aided margin expansion despite cost increase of 5.9% QoQ on per tonne basis
PAT	50.1	40.7	36.0	39.2	49.8	0.5	

Key Metrics

Volume (MT)	0.88	0.78	0.55	59.0	1.02	-14.0
Net realisation (₹)	4,464	4,349	4,775	-6.5	4,084	9.3
EBITDA per Tonne (₹)	1,218	1,175	1,573	-22.6	1,019	19.5

Per tonne	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
Net Sales	4,464	4,349	4,775	-6.5	4,084	9.3	
Raw Material Expenses	598	734	896	-33.3	716	-16.5	
Employee Expenses	217	270	263	-17.5	229	-5.1	
Power and fuel	1,138	880	805	41.3	864	31.7	Higher petcoke prices (₹ 1.56/Kcal from ₹0.92/Kcal QoQ) have led to spike in the power & fuel costs
Freight	762	760	707	7.8	742	2.8	
Others	531	530	530	0.0	514	3.2	
Production costs	3,246	3,174	3,202	1.4	3,064	5.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,705.1	1,685.9	-1.1	2,292.5	2,347.6	2.4	
EBITDA	443.2	451.3	1.8	603.2	648.5	7.5	
EBITDA Margin (%)	26.0	26.8	78 bps	26.3	27.6	131 bps	

Source: Company, ICICI Direct Research

Key triggers for future price performance

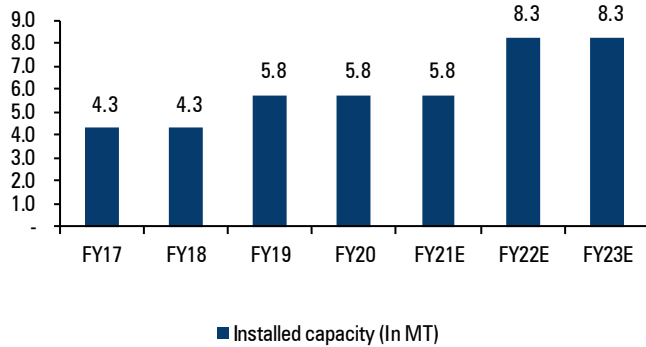
To achieve 10 MT capacity by FY25E: The company is aiming to reach 10 MT capacity by FY25E. In the first phase, Sagar is adding 2.5 MT capacity (1 MT in MP and 1.5 MT in Odisha) for a capex of ₹ 800 crore. These capacities will likely get commissioned by end of Q2FY22E, Q3FY22E. Post these expansions, total capacity will increase to 8.25 MT. Post incurring capex of ₹ 890 crore (spent till date ₹ 741 crore), we expect debt levels to peak around ₹ 870 crore and D/E to peak at 0.7x.

Low cost producer in AP/Telangana region: In the past three years, the company has initiated various cost efficiency measures like setting up of coal based CPP of 18 MW at its plant in Matapally, Nalgonda taking its total power capacity to 61.5 MW. This resulted in the company being 100% self-sufficient in FY20 in terms of power compared with 50% dependence on purchased power three years back. The company also expanded grinding unit in Bayyavaram to 1.5 MT. This, in turn, has helped Sagar to reduce lead distance. For fuel requirement, the company has option to use petcoke or coal depending upon its cost benefit. Hence, we expect the company to broadly maintain the CoP at optimum levels vs. peers, which would help it to maintain better margins, going forward.

Valuation & Outlook: With capacity expansions into newer geographies like East & Central, we expect revenue CAGR of 30.8% in FY21-23E, though full potential of new capacities would start reflecting from FY23E onwards. Despite the sharp run-up in the past four months, the stock is still available at FY23E EV/t of \$62/t and FY23E EV/EBITDA of 5.5x, implying a considerable margin of safety. With strong growth outlook, cost efficiency and healthy b/s, we maintain BUY rating with a revised target price of ₹ 1700/share (i.e. at 7x FY23E EV/EBITDA, \$80/t on 8.25 MT).

Financial story in charts

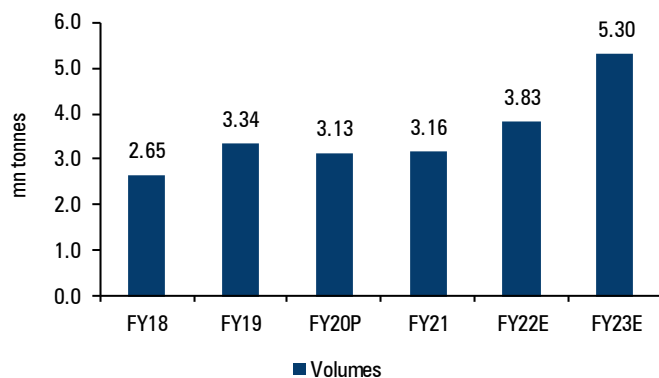
Exhibit 3: Installed capacity to increase by 43.5% by FY22E



Source: Company, ICICI Direct Research

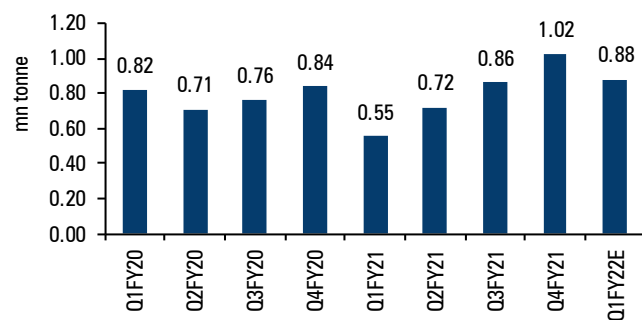
Total 82% of Sagar's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company's brand "Sagar Cements" being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%). With the plants under Satguru Cement (capex of ₹488 crore) and Jajpur Cements (capex of ₹308 crore) coming on steam, the company's presence will improve in eastern, central, and western regions, going forward.

Exhibit 5: Volumes to grow at 30% CAGR over FY21-23E with commissioning of new capacities



Source: Company, ICICI Direct Research

Exhibit 7: Volumes de-grew 14% QoQ in Q1FY22



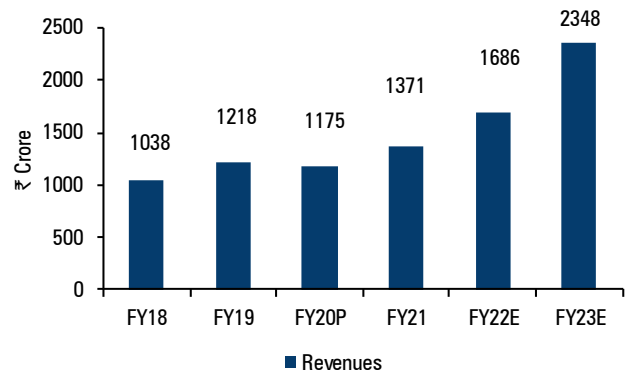
Source: Company, ICICI Direct Research

Exhibit 4: Capacity addition plans

Capacity	Clinker (MT)	Cement (MT)
Current capacity	3.8	5.8
Additions		
Dhar, MP (Satgurur Cement)	0.7	1.0
Jajpur, Orissa (Jajpur Cement)		1.5
FY22E Capacity	4.5	8.3

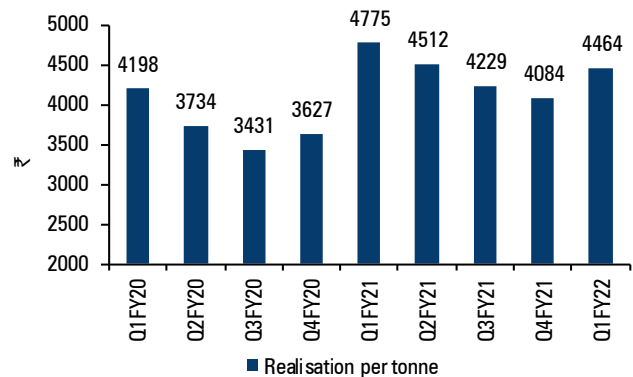
Source: Company, ICICI Direct Research

Exhibit 6: Topline to grow at 31% CAGR over FY21-23E



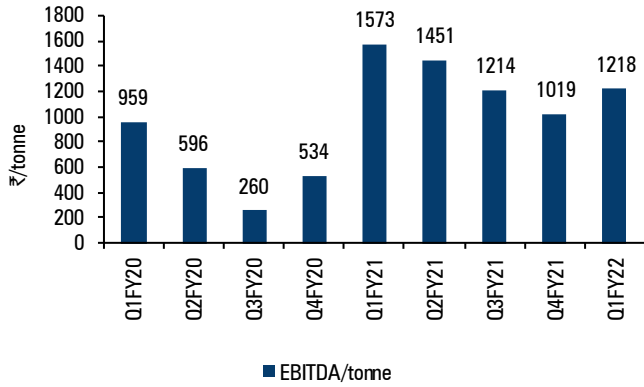
Source: Company, ICICI Direct Research

Exhibit 8: Realisations up 9.3% QoQ but down 6.5% YoY



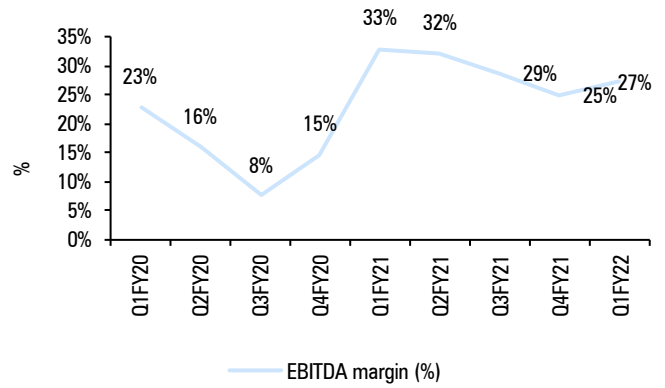
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t improves QoQ. However, remains lower from peak of ₹ 1573/t in Q1FY21



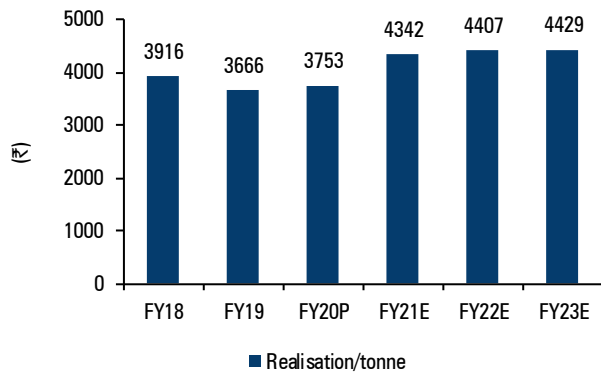
Source: Company, ICICI Direct Research

Exhibit 10: Margins trends



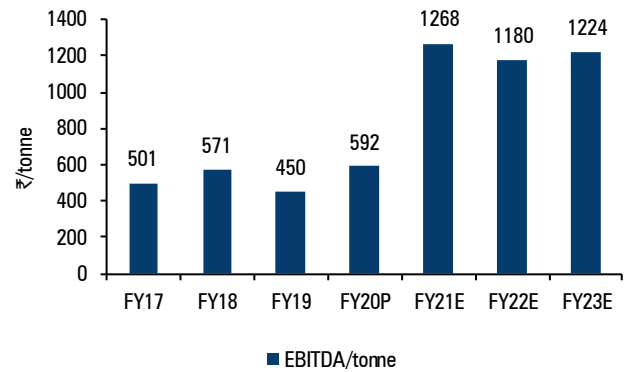
Source: Company, ICICI Direct Research

Exhibit 11: Realisations to stay firm, going forward, on high cost pressure



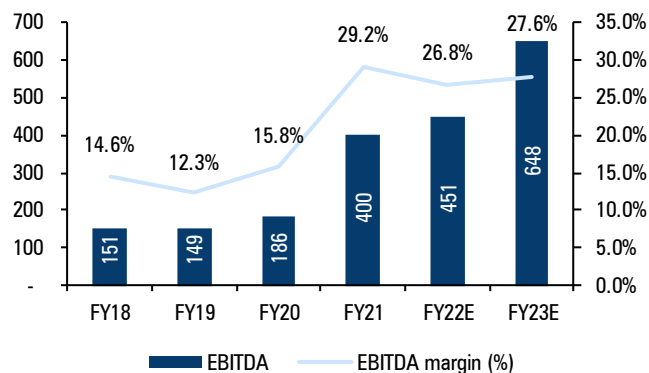
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t trend



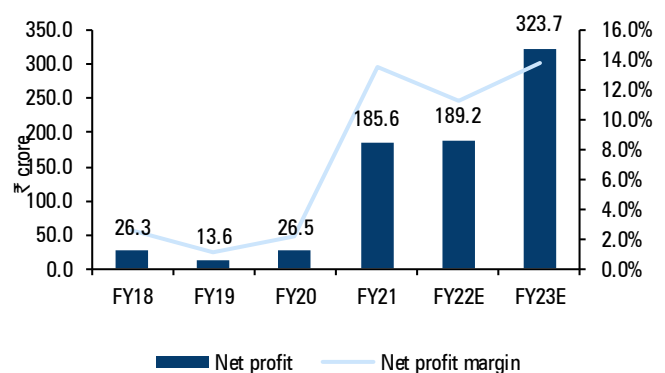
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA to jump in FY23E with stabilisation of new capacities



Source: Company, ICICI Direct Research

Exhibit 14: Company to report sharp improvement in profits led by firm pricing and new capacity additions



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Incon	1,175.2	1,371.3	1,685.9	2,347.6
Growth (%)	-3.5	16.7	22.9	39.3
Raw material cost	227.3	239.8	298.4	413.4
Power & fuel	309.2	261.4	344.3	471.7
Freight cost	223.8	234.2	279.2	389.6
Others	229.4	235.5	312.7	424.5
Total Operating Exp.	989.7	970.9	1,234.5	1,699.2
EBITDA	185.5	400.4	451.3	648.5
Growth (%)	24.2	115.9	12.7	43.7
Depreciation	78.9	80.6	100.7	106.4
Interest	61.0	46.6	74.0	61.7
Other Income	4.0	7.8	10.0	10.0
PBT	49.7	281.1	286.7	490.4
Total Tax	23.1	95.5	97.5	166.7
PAT	26.5	185.6	189.2	323.7
PAT margin	2.3	13.5	11.2	13.8
Adjusted PAT	26.5	185.6	189.2	323.7
Growth (%)	95.2	599.5	2.0	71.0
Adjusted EPS (₹)	11.3	79.0	80.5	137.7

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Share Capital	22.3	24.1	24.1	24.1
Reserve and Surplus	943.7	1,181.6	1,356.6	1,666.1
Total Shareholders funds	966.0	1,205.7	1,380.7	1,690.2
Total Debt	498.0	810.2	870.2	685.2
Deferred Tax Liability	22.7	75.9	75.9	75.9
Minority Interest / Others	193.9	238.3	238.3	238.3
Total Liabilities	1,680.6	2,330.0	2,565.1	2,689.6
Assets				
Gross Block	1,842.1	1,863.1	2,760.5	2,865.5
Less: Acc Depreciation	511.5	592.0	692.7	799.1
Net Block	1,330.6	1,271.0	2,067.8	2,066.4
Capital WIP	108.0	517.5	50.0	35.0
Total Fixed Assets	1,438.6	1,788.5	2,117.8	2,101.4
Investments	53.4	52.8	52.8	52.8
Inventory	115.8	124.3	161.7	212.3
Debtors	136.8	100.7	207.8	289.4
Loans and Advances	21.2	22.4	25.3	35.2
Other Current Assets	139.1	225.7	126.4	164.3
Cash	12.1	255.4	127.3	187.9
Total Current Assets	424.9	728.5	648.5	889.1
Creditors	223.0	229.0	230.9	321.6
Provisions	13.3	10.7	23.1	32.2
Total Current Liabilities	236.3	239.7	254.0	353.8
Net Current Assets	188.7	488.8	394.5	535.4
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	1,680.6	2,330.1	2,565.1	2,689.6

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	26.5	185.6	189.2	323.7
Add: Depreciation	78.9	80.6	100.7	106.4
(Inc)/dec in Current Assets	-68.3	-60.2	-48.2	-180.0
Inc/(dec) in CL and Provisions	22.4	3.4	14.4	99.7
CF from operating activiti	120.5	256.0	330.0	411.4
(Inc)/dec in Investments	-11.8	0.6	0.0	0.0
(Inc)/dec in Fixed Assets	-202.2	-430.5	-430.0	-90.0
Others	-8.6	98.0	0.0	0.0
CF from investing activiti	-222.6	-331.9	-430.0	-90.0
Issue/(Buy back) of Equity	85.6	85.6	0.0	0.0
Inc/(dec) in loan funds	-1.2	312.2	60.0	-185.0
Dividend paid & dividend tax	-4.3	-18.4	-14.2	-14.2
Interest paid	-61.0	-46.6	-74.0	-61.7
Others	65.3	-13.0	0.0	0.0
CF from financing activiti	84.4	319.8	-28.1	-260.8
Net Cash flow	-17.7	243.8	-128.1	60.6
Opening Cash	29.8	12.1	255.4	127.3
Closing Cash	12.1	255.8	127.3	187.9

Source: Company, ICICI Direct Research

Exhibit 18: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	11.3	79.0	80.5	137.7
Cash EPS	44.9	113.3	123.4	183.0
BV	411.0	513.1	587.5	719.2
DPS	1.5	6.5	5.0	5.0
Cash Per Share	5.1	108.7	54.2	80.0
Operating Ratios (%)				
EBITDA Margin	15.8	29.2	26.8	27.6
Adjusted PAT Margin	2.3	13.5	11.2	13.8
Inventory days	36.0	33.1	35.0	33.0
Debtor days	42.5	26.8	45.0	45.0
Creditor days	69.3	60.9	50.0	50.0
Return Ratios (%)				
RoE	2.7	15.4	13.7	19.1
RoCE	7.2	15.3	15.2	22.0
RoIC	7.5	23.3	15.9	23.8
Valuation Ratios (x)				
P/E (adjusted)	115.2	16.5	16.2	9.4
EV / EBITDA	19.1	9.0	8.4	5.5
EV / Net Sales	3.0	2.6	2.3	1.5
Market Cap / Sales	2.6	2.2	1.8	1.3
Price to Book Value	3.2	2.5	2.2	1.8
Solvency Ratios				
Debt/EBITDA	2.7	2.0	1.9	1.1
Debt / Equity	0.5	0.7	0.6	0.4
Current Ratio	1.2	1.2	1.3	1.4
Quick Ratio	0.9	0.9	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Cement)

Company	CMP		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
ACC*	2,394	BUY	73	85	125	17.6	16.5	10.5	167	139	134	17.4	14.5	20.6	11.9	12.6	16.0
Ambuja Cem*	410	BUY	7.7	9.0	10.9	17.4	15.9	12.6	173	186	166	12.2	17.6	19.1	14.7	20.3	21.7
UltraTech Cem	7,650	BUY	124	191	238	26.3	20.2	17.1	286	279	274	11.4	14.7	16.7	9.3	12.7	14.0
Shree Cement	27,500	BUY	435	641	706	26.4	24.2	21.5	286	265	261	13.8	18.2	18.5	12.1	15.2	14.6
Heidelberg Cem	254	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	3,035	HOLD	51.8	99.6	107.0	20.3	15.5	14.1	201	183	187	16.2	18.6	18.2	12.8	20.6	18.6
JK Lakshmi Cem	725	BUY	7.0	7.1	6.8	20.2	17.4	16.9	94	94	86	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	109	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	1,040	BUY	523.0	601.4	761.1	22.2	25.5	32.3	25	24	18	11.7	12.2	13.5	242.1	213.1	201.4
Sagar Cement	1,340	BUY	-1.9	12.9	5.8	24.2	18.6	19.2	89	94	77	5.4	8.1	6.4	-0.5	3.4	1.6

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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