Sagar Cement (SAGCEM)

CMP: ₹ 180 | Target: ₹ 205 (14%) | Target Period: 12 months | **HOLD**

July 22, 2022

Cost pressure and high debt to keep return ratios muted in the medium term…

About the stock: Sagar Cements is the **South based cement player** with cement capacity of 8.25MT. Region wise, AP/Telangana accounted for ~60% of sales followed by Tamil Nadu (16%), Karnataka (9%).

- Going forward, the co. will be developing a presence in the faster-growing eastern and central market with recent commissioning of new 2.5MT capacity.
- Self-reliance in power (61.5MW), ability to switch between coal and petcoke for fuel requirement and split grinding units near market gives it cost advantage.

Q1FY23 Results: Performance was weak. However, it broadly remained in-line with the estimates.

- Revenues were up 42.1% YoY to ₹557.7 crore (up 11.2% QoQ) that was led by commissioning of new capacities and higher realisations
- Margins further declined 123bps QoQ to 10.9% (down 1634bps YoY) on higher production costs
- Net loss came in at ₹13.1 crore on lower margins and higher interest expenses.

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

- However, the ongoing cost pressure and rise in the debt for potential M&A to pose challenge in the near-term. Hence, we downgrade the rating from BUY to **HOLD**

Target Price and Valuation: We value Sagar at ₹205 i.e.7.0x FY24E EV/EBITDA

Key triggers for future price performance:

- **Incremental volumes from new units** (1MT ICU at MP, 1.5MT grinding unit in Odisha) to help grow the business in FY23E. Expect revenue CAGR of 26.4% during FY22-24E led by 24.8% CAGR growth in the volumes.
- However, short term headwinds w.r.t. costs to keep margins under check. Operating leverage to kick-in post stabilisation of its new capacities.
- The company is on the course to reach over 10MT capacity through M&A in the medium term for which additional debt of ₹500 crore has been raised

Alternate Stock Idea: Apart from Sagar Cement, in our cement sector coverage we also like another high dividend paying company Heidelberg Cement.

- The company is the cost efficient player in central India having a strong BS.
- BUY with a target price of ₹220/share

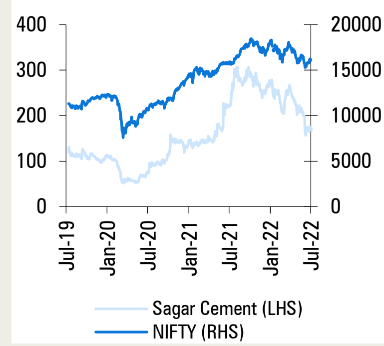
Particulars

Particular	Amount
Market Capitalization	₹ 2353 Crore
Total Debt (FY22)	₹ 1572 Crore
Cash and Investments (FY22)	₹ 476 Crore
EV	₹ 3449 Crore
52 week H/L	₹ 317/118
Equity capital	₹ 26.1 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	50.28	50.28	50.28	45.20
FII	6.14	5.80	5.24	4.47
DII	8.16	8.96	8.87	18.21
Others	35.42	34.96	35.61	32.12

Price Chart



Key risks

- Persistent slowdown in the demand
- Volatility in prices of key inputs like coal/petcoke

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	2 year CAGR (%)
Sales	1217.6	1175.2	1371.3	1596.9	9.5	2385.5	2552.6	26.4
EBITDA	149.4	185.5	400.4	275.8	22.7	363.8	428.7	24.7
EBITDA (%)	12.3	15.8	29.2	17.3		15.3	16.8	
PAT	13.6	26.5	185.6	59.1	63.3	102.9	160.1	64.5
EPS (₹)	1.0	2.0	14.2	4.5		7.9	12.2	
EV/EBITDA	18.9	15.3	7.3	12.5		8.4	6.4	
EV/Tonne ($)	76	71	72	60		53	47	
RoNW	1.6	2.8	15.5	4.7		6.1	8.8	
RoCE	6.4	7.2	15.4	6.6		8.6	10.5	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volume increased 35% YoY to 1.19MT (up 5.3% QoQ) led by commissioning of its new 2.5MT cement capacities in East & Central region. Average realizations were also higher by 5.3% YoY to ₹4,702/t mainly to offset the rising cost pressure.
- Capacity utilization stood at 57.5%. New units operated at 22% while existing units operated at 72% utilizations levels
- EBITDA margin came in at 10.9% that was lower than our estimated EBITDA margin of 11.5% that was mainly led by higher P&F cost that was up 124% YoY, 19.5% QoQ to ₹1800/tonne. Reported EBITDA/t came in at ₹515/t (vs I-direct est: ₹523/t) that were down by 57.8% YoY, 5.1% QoQ. On an absolute basis, EBITDA came in at ₹61.1 crore (down 43% YoY, flat QoQ) vs I-direct est of ₹61.8 crore
- Net loss came in at ₹13.1 crore mainly due to sharp jump in the interest expenses (up 3x YoY to ₹48.1 crore, flat QoQ) and higher depreciation expenses (up 89% YoY) due to commissioning of new capacities

Key concall highlights

- Sales volume of over 5MT for FY23E is maintained. Of this target, ~1.4MT sales volume to come from new units which commissioned got recently. Satguru (1MT integrated unit at MP) commenced operations from Oct 27th 2021 while Jajpur Odshisa unit (1.5MT GU) got commissioned from Jan-22.
- Costs: With current fuel inventory (2 months for coal & 45 days for pet coke) P&F cost to broadly remain stable in Q2. Pet coke prices recently corrected by over 10%. The benefit of which will start accrue from Q3 onwards.
- Gross debt stood at ₹1490 crore of which ₹500 crore structured debt instrument raised for future acquisition *(most probably for Andhra Cement acquisition which is having cement capacity of 2.6MT)*.
- As indicated, the resolution plan will be submitted before 18 Aug for M&A. By Sep-Oct will get more clarity on the deal. Revenue to start flowing 3 months post the deal execution.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	
Total Operating Income	557.7	538.4	392.6	42.1	501.7	11.2	Sales volume were up by 35% YoY led by capacity expasnion and low base effect
EBITDA	61.0	61.8	107.1	-43.0	61.1	-0.1	
EBITDA Margin (%)	10.9	11.5	27.3	1634 bps	12.2	-123 bps	
Interest	48.1	47.1	15.6	208.8	47.1	2.0	Structured debt of ₹500 crore for potential M&A lead to higher interest cost
Depreciation	36.6	31.5	19.4	88.5	31.5	16.1	
PBT	-11.2	-11.8	76.9	-114.6	-13.4	-16.4	
Total Tax	1.9	5.3	26.8	-92.9	5.8	-66.9	
PAT	-13.1	-17.1	50.1	-126.2	-19.2	-31.6	
Key Metrics							
Volume (MT)	1.19	1.18	0.88	34.9	1.13	5.3	
Net realisation (₹)	4,702	4,563	4,464	5.3	4,452	5.6	
EBITDA per Tonne (₹)	515	523	1,218	-57.8	542	-5.1	

Per tonne	Q1FY23	Q3FY22	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	
Net Sales	4,702	4,374	4,464	5.3	4,452	5.6	
Raw Material Expenses	843	620	598	41.0	744	13.2	
Employee Expenses	214	210	217	-1.1	236	-9.1	
Power and fuel	1,808	1,674	1,138	58.9	1,514	19.5	Higher fuel prices led to sharp jump in the fuel cost
Freight	798	780	762	4.7	776	2.8	
Others	524	567	531	-1.3	640	-18.1	
Production costs	4,187	3,851	3,246	29.0	3,910	7.1	
EBITDA	515	523	1,218	-57.8	542	-5.1	

Source: Company, ICICI Direct Research

Key triggers for future price performance

To achieve 10MT capacity by FY25E: The company is targeting to reach to 10MT capacity by FY25E. In the first phase, the company has added 2.5MT capacity (1MT in MP and 1.5MT in Odisha). Post these expansions the total capacity has now increased to 8.25MT. With likely acquisition on the cards in the next fiscal, we expect debt levels to stay at elevated levels. However, incremental operating cash flows will take care its debt servicing ability and help bring down its debt subsequently post normalisation of its new capacities.

Low cost producer in AP/Telangana region: In the past three years, company has initiated various cost efficiency measures like setting up of coal based CPP of 18MW at its plant in Matapally, Nalgonda taking its total power capacity to 61.5MW. This resulted in the company being 100% self-sufficient in FY20 in terms of power as compared with 50% dependence on purchased power three years back. The co. also expanded grinding unit in Bayyavaram to 1.5MT. This in turn has helped the company 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 26.4% during FY22-24E, though full potential of new capacities would start reflecting from FY23E onwards. However, the ongoing cost pressure and rise in the debt for potential M&A to pose challenge in the near-term. Hence, we downgrade the rating from BUY to **HOLD**. We value Sagar at ₹205 i.e.7.0x FY24E EV/EBITDA

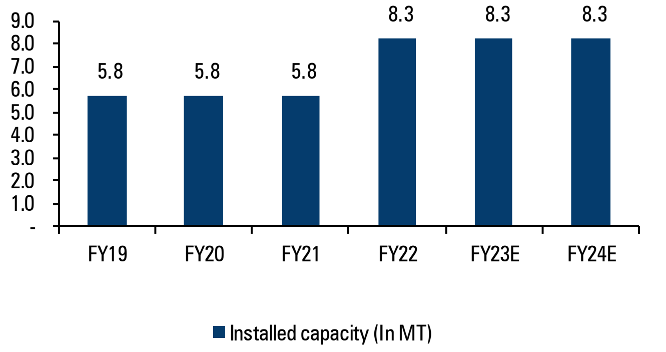
Exhibit 2: Change in estimates

	FY23E			FY24E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	2,347.6	2,385.5	1.6	NA	2,552.6	NA	
EBITDA	384.7	363.8	-5.4	NA	428.7	NA	
EBITDA Margin (%)	16.4	15.3	-113 bps	NA	16.8	NA	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Installed capacity increased by 43.5% in FY22



Source: Company, ICICI Direct Research

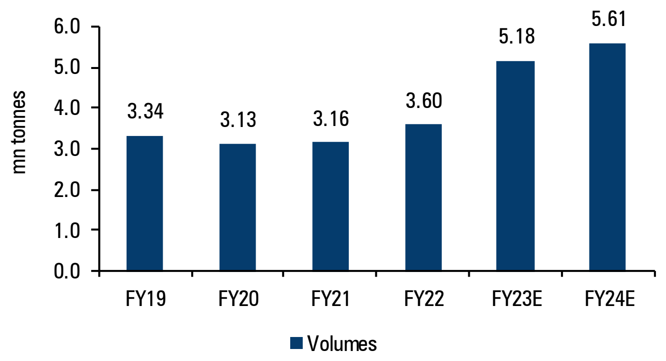
Exhibit 4: Capacity addition plans

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
FY22 Capacity	**4.5**	**8.3**

Source: Company, ICICI Direct Research

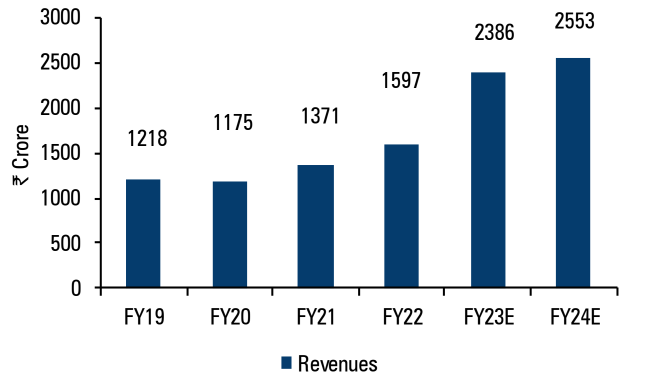
82% of SCL's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company’s brand “Sagar Cements” being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%). With the plants under Satguru Cement and Jajpur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

Exhibit 5: Volumes to grow at 24.7% CAGR over FY22-24E with commissioning of new capacities



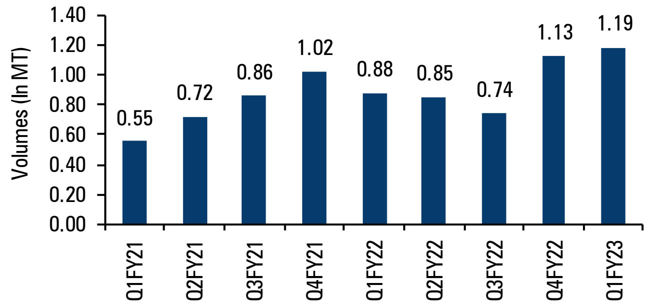
Source: Company, ICICI Direct Research

Exhibit 6: Topline to grow at 26.4% CAGR over FY22-24E



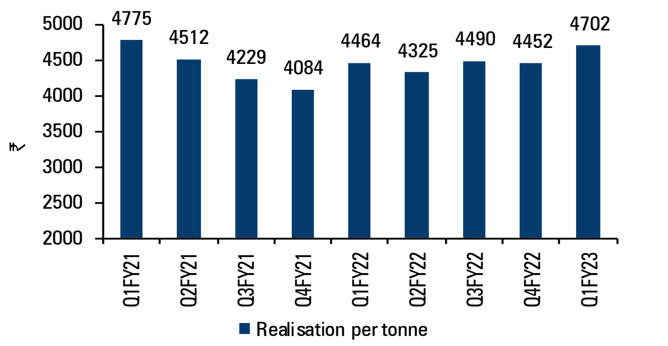
Source: Company, ICICI Direct Research

Exhibit 7: Volumes increased 34.9% YoY in Q1FY23



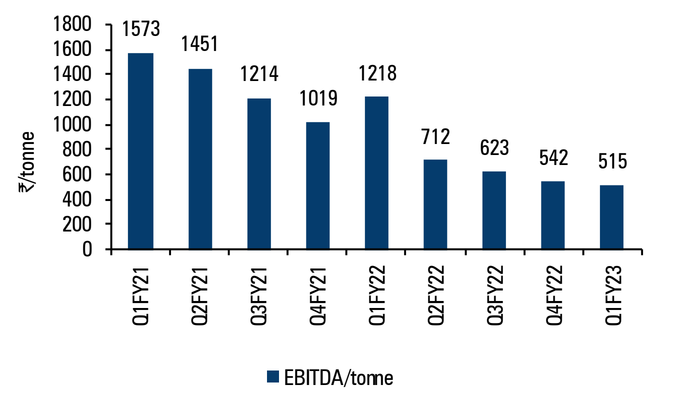
Source: Company, ICICI Direct Research

Exhibit 8: Realisations were higher 5.3% YoY on increased cost pressure



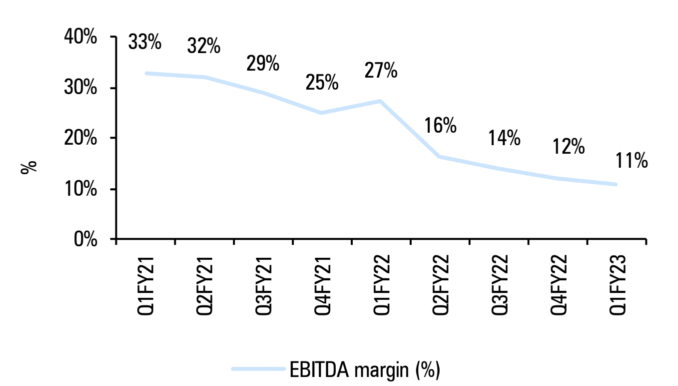
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t declined further on high cost pressure



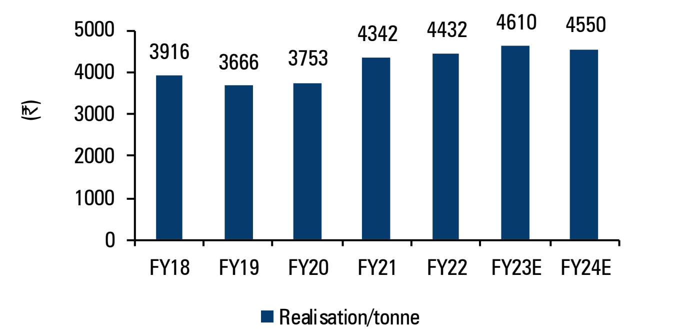
Source: Company, ICICI Direct Research

Exhibit 10: Margins trends



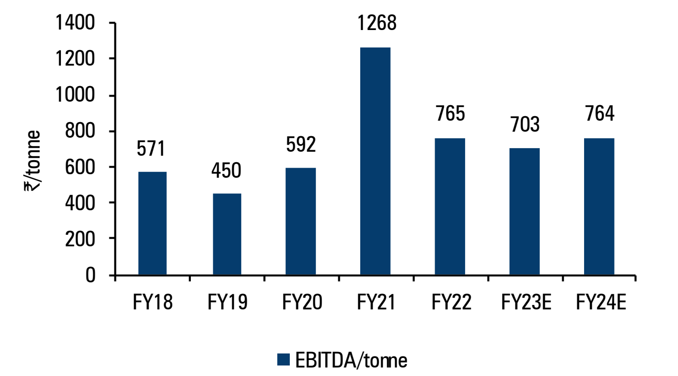
Source: Company, ICICI Direct Research

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



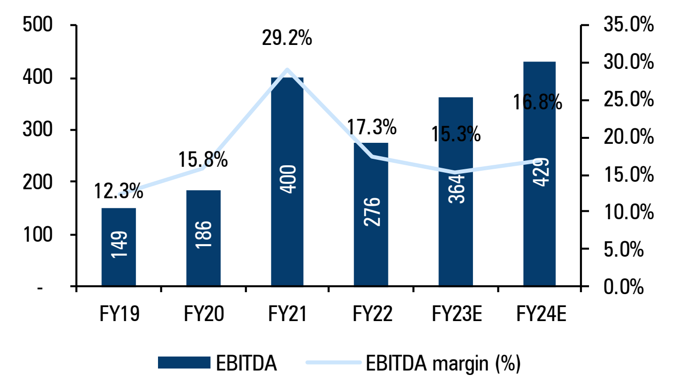
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t trend



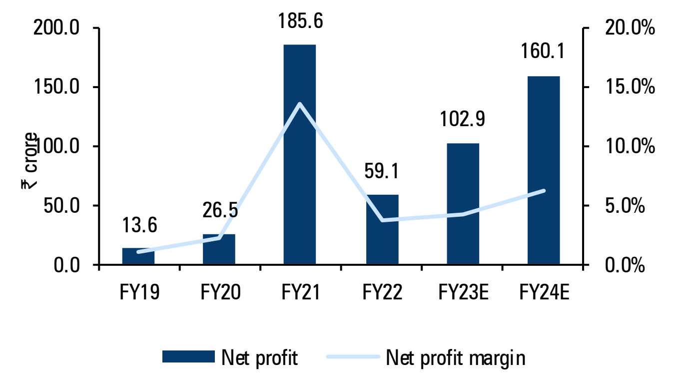
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA margins to stabilise at ~18% by FY24E



Source: Company, ICICI Direct Research

Exhibit 14: Profitability to improve from FY23E led by capacity additions and likely cost stabilisation



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Operating Income	**1,175.2**	**1,371.3**	**1,596.9**	**2,385.5**	**2,552.6**
Growth (%)	-3.5	16.7	16.4	49.4	7.0
Raw material cost	227.3	239.8	225.3	388.1	420.8
Power & fuel	309.2	261.4	515.7	853.9	813.5
Freight cost	223.8	234.2	278.6	414.0	437.6
Others	229.4	235.5	301.5	365.7	452.1
Total Operating Exp.	989.7	970.9	1,321.1	2,021.7	2,123.9
EBITDA	**185.5**	**400.4**	**275.8**	**363.8**	**428.7**
Growth (%)	24.2	115.9	-31.1	31.9	17.8
Depreciation	78.9	80.6	92.7	112.3	109.1
Interest	61.0	46.6	92.5	136.4	118.8
Other Income	4.0	7.8	13.4	26.8	20.0
PBT	49.7	281.1	104.0	141.9	220.8
Total Tax	23.1	95.5	44.9	39.0	60.7
PAT	**26.5**	**185.6**	**59.2**	**102.9**	**160.1**
PAT margin	2.3	13.5	3.7	4.3	6.3
Adjusted PAT	**26.5**	**185.6**	**59.2**	**102.9**	**160.1**
Growth (%)	95.2	599.5	-68.1	74.0	55.6
Adjusted EPS (₹)	**2.0**	**14.2**	**4.5**	**7.9**	**12.2**

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	26.5	185.6	59.1	102.9	160.1
Add: Depreciation	78.9	80.6	92.7	112.3	109.1
(Inc)/dec in Current Assets	-68.3	-60.2	-292.7	-185.4	61.0
Inc/(dec) in CL and Prov.	22.4	3.4	-8.1	56.0	4.7
CF from operations	**120.5**	**256.0**	**-56.4**	**222.2**	**453.7**
(Inc)/dec in Investments	-11.8	0.6	-346.8	-250.0	0.0
(Inc)/dec in Fixed Assets	-202.2	-430.5	-342.1	-40.0	-30.0
Others	-8.6	98.0	-9.2	21.8	21.8
CF from investing act.	**-222.6**	**-331.9**	**-698.1**	**-268.2**	**-8.2**
Issue/(Buy back) of Equity	85.6	84.9	0.1	349.8	0.0
Inc/(dec) in loan funds	-1.2	312.2	761.7	-180.0	-180.0
Dividend paid incl. taxes	-4.7	-20.5	-11.0	-15.8	-15.8
Interest paid	-61.0	-46.6	-92.5	-136.4	-118.8
Others	65.3	-13.0	5.0	0.0	0.0
CF from financing act.	**83.9**	**317.0**	**663.2**	**17.6**	**-314.5**
Net Cash flow	-18.2	241.0	-91.3	-28.4	131.0
Opening Cash	29.8	11.6	252.2	161.0	132.6
Closing Cash	**11.6**	**252.7**	**161.0**	**132.6**	**263.6**

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Share Capital	22.3	23.5	23.5	26.1	26.1
Reserve and Surplus	935.2	1,171.0	1,224.2	1,658.5	1,802.8
Total Shareholders fun	957.5	1,194.5	1,247.7	1,684.6	1,828.9
Total Debt	498.0	810.2	1,571.9	1,391.9	1,211.9
Deferred Tax Liability	22.7	75.9	97.7	119.5	141.3
Minority Interest / Othe	193.9	238.3	207.8	207.8	207.8
Total Liabilities	**1,672.1**	**2,318.9**	**3,125.0**	**3,403.7**	**3,389.9**
Assets					
Gross Block	1,842.1	1,863.1	2,622.1	2,727.6	2,727.6
Less: Acc Depreciatior	511.5	592.0	684.8	797.1	906.2
Net Block	1,330.6	1,271.0	1,937.4	1,930.5	1,821.4
Capital WIP	108.0	517.5	100.5	35.0	65.0
Total Fixed Assets	1,438.6	1,788.5	2,037.9	1,965.5	1,886.4
Investments	53.4	52.8	400.1	650.1	650.1
Inventory	115.8	124.3	208.6	215.7	230.8
Debtors	136.8	100.7	120.3	294.1	314.7
Loans and Advances	21.2	22.4	20.2	35.8	38.3
Other Current Assets	139.1	225.7	416.6	405.5	306.3
Cash	11.6	252.2	161.0	132.6	263.6
Total Current Assets	424.5	725.3	926.7	1,083.7	1,153.7
Creditors	223.0	229.0	221.0	261.4	265.7
Provisions	13.3	10.7	10.6	26.1	26.6
Total Current Liabilities	236.3	239.7	231.6	287.6	292.3
Net Current Assets	188.2	485.6	695.1	796.2	861.4
Others Assets	0.0	0.0	0.0	0.0	0.0
Application of Fun	**1,680.2**	**2,326.9**	**3,133.0**	**3,411.8**	**3,397.9**

Source: Company, ICICI Direct Research

Exhibit 18: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	2.0	14.2	4.5	7.9	12.2
Cash EPS	8.1	20.4	11.6	16.5	20.6
BV	73.3	91.4	95.5	128.9	139.9
DPS	0.3	1.3	0.7	1.0	1.0
Cash Per Share	0.9	19.3	12.3	10.1	20.2
Operating Ratios (%)					
EBITDA Margin	15.8	29.2	17.3	15.3	16.8
Adjusted PAT Margin	2.3	13.5	3.7	4.3	6.3
Inventory days	36.0	33.1	47.7	33.0	33.0
Debtor days	42.5	26.8	27.5	45.0	45.0
Creditor days	69.3	60.9	50.5	40.0	38.0
Return Ratios (%)					
RoE	2.8	15.5	4.7	6.1	8.8
RoCE	7.2	15.4	6.6	8.6	10.5
RoIC	7.5	23.3	7.6	10.0	13.8
Valuation Ratios (x)					
P/E (adjusted)	88.7	12.7	39.8	22.9	14.7
EV / EBITDA	15.3	7.3	12.5	8.4	6.4
EV / Net Sales	2.4	2.1	2.2	1.3	1.1
Market Cap / Sales	2.0	1.7	1.5	1.0	0.9
Price to Book Value	2.5	2.0	1.9	1.4	1.3
Solvency Ratios					
Debt/EBITDA	2.7	2.0	5.7	3.8	2.8
Debt / Equity	0.5	0.7	1.3	0.8	0.7
Current Ratio	1.2	1.2	2.1	2.2	2.0
Quick Ratio	0.9	0.9	1.6	1.8	1.5

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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