

Sagar Cements Ltd



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Robust earnings outlook !

CMP INR 822	Target INR 1100	Potential Upside 34%	Market Cap (INR Mn) 16561	Recommendation Buy	Sector Cement
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KEY FINANCIALS

Particulars (INR mn)	FY15*	FY16	FY17	FY18E	FY19E
Revenues	6626.60	8624.10	9415.90	11250.30	15054.88
EBITDA	564.00	1240.10	1103.70	1826.27	2873.05
APAT	2966.60**	461.10	-39.20	509.26	1269.79
AEPS	170.49	26.50	-1.92	24.96	62.24
P/E (x)	1.73	14.96	-	32.93	13.21
EV/EBITDA (x)	9.99	9.01	17.18	11.03	6.92

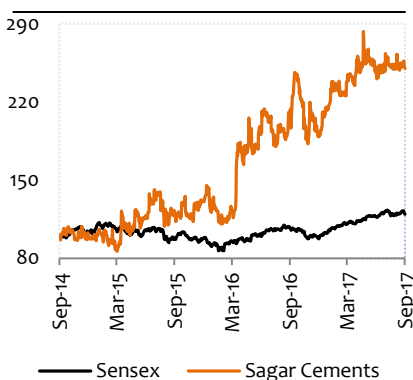
*standalone; **includes other income of INR 3490 mn on stake sale in JV

Source: Company data, KRChoksey Research

MARKET DATA

Shares outs (Mn)	20
Equity Cap (INR Mn)	204
Mkt Cap (INR Mn)	16561
52 Wk H/L (INR)	940/574
Volume Avg (3m K)	7.2
Face Value (INR)	10
Bloomberg Code	SGC IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	31627
NIFTY	9873

Key Management meet highlights :

We visited the Mattampally plant of Sagar Cements Ltd and attended the AGM of the company on 22nd September, 2017. We had the privilege to meet the top Management including the company's Executive Director – Mr. Sreekanth Reddy, CFO – Mr. K. Prasad and Vice President (Works) - Mr. DSNV Prasad and we came back with much more confidence regarding the business strategies of the company going forward.

1) In terms of regional overview, AP & Telangana continue to grow at a robust pace of ~12-15% primarily on account of higher Government spending while demand remains sluggish in other southern states of Tamil Nadu, Karnataka and Kerala.

2) The company achieved a volume growth of 1.5%/15.3% in July/Aug 2017 on account of healthy demand scenario in AP & Telangana coupled with high capacity utilization levels (~85%) at Bayyavaram unit. The management is confident of completion of brownfield expansion at BMM unit (by FY18 end) and Bayyavaram unit (by H1FY19) resulting into its capacity increasing from 4.3 MTPA currently to 6 MTPA by H1FY19. Consequently, we factor in a volume growth of 23.13% from 2.20 MT to 3.34 MT over FY17-FY19E for the company.

3) The company has successfully commissioned WHRS of 6 MW at Mattampally unit and is confident of setting up of CPP of 18 MW by H1FY19 leading to substantial cost savings. Likewise, we expect total cost of production/ton to decline from INR 3195 in FY17 to INR 3061 by FY19E despite factoring in a hike of 20%/10% in pet-coke prices/diesel costs over the same period.

4) Key focus for the management is to grow prudently with a long term target of increasing its manufacturing capacity from 4.3 MTPA currently to 10 MTPA by 2025.

Valuations & Views: With an expected net debt of INR 3113.2 mn by FY19E, the company trades at an EV/EBITDA of 6.92x and EV/ton of \$50. The company possesses one of the strongest balance sheet (net debt/equity of 0.34x by FY19E) among its peers providing significant headroom to grow. We believe that the company should fetch premium valuations on account of i.) good brand presence in operating regions, ii.) outperforming volume growth, iii.) sharp pick up in operating efficiencies, iv.) financial de-leveraging, and v) surge in return ratios. The company remains our preferred pick among small cap cement stocks and we maintain our conviction **BUY** rating on the stock. **We have revised our implied valuation on the stock and value Sagar Cements Ltd at an EV/EBITDA of 8x and EV/ton of \$70 on FY19E arriving at a target price of INR 1100 which is an upside of 34% from CMP of INR 822.** Further, valuations are subject to re-rating depending upon improvement in operating margins.

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	50.03	50.04	56.7
FIIIs	3.55	3.82	2.12
DIIIs	15.5	15.11	5.38
Others	30.93	31.03	35.81
Total	100	100	100

23.1%

Volume CAGR between FY 17
and FY 19E

26.4%

Revenue CAGR between FY 17
and FY 19E

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Q1FY18 Result Snapshot

Particulars (mn)	Q1FY18	Q4FY17	Q1FY17	Q-O-Q	Y-O-Y
Total Sales	2984	2709	2286	10.1%	30.5%
Total Expenditure	2559	2450	2026	4.5%	26.3%
Cost of Raw Materials	369	474	306	-22.2%	20.6%
Employee Cost	110	119	105	-7.7%	4.4%
Power and Fuel Costs	819	762	646	7.5%	26.8%
Transportation costs	513	408	329	25.8%	55.9%
Other expenses	351	318	328	10.3%	7.1%
Excise duty	396	368	312	7.6%	27.2%
PBIDT (Excl OI)	425	260	260	63.7%	63.5%
EBITDA Margins (%)	14.2%	9.6%	11.4%	466bps	287bps
Depreciation	126	128	113	-1.6%	12.1%
EBIT before Exceptional Item	299	131	147	127.5%	102.9%
Exceptional Items	0	0	0	-	-
Other income	23	12	9	85.2%	159.8%
EBIT	321	144	156	123.9%	106.1%
Interest	151	154	143	-1.8%	5.4%
EBT	170	-10	13	1753.4%	1251.6%
Tax	71	22	15	226.4%	363.8%
PAT	100	-32	-3	412.9%	384.1%
PAT Margin (%)	3.3%	-1.2%	-0.11%	452bps	346bps
EPS	4.89	-1.56	-0.13	412.9%	384.1%

Source: Company, KRChoksey Research

Top-line above estimates on account of healthy realizations:

Sagar Cements Ltd(SGC) reported a robust top-line growth of 30.5% Y-O-Y during the quarter on account of healthy demand in AP & Telangana and capacity addition at Bayyavaram coupled with strong pick up in realizations. Going ahead, we expect volume growth in South to remain strong owing to pick-up in affordable housing projects, development of Amaravati city, off-take in irrigation and dams projects and healthy demand from IHB segment. However, AP & Telangana are estimated to be the key growth drivers in South with estimated demand growth of 15% over FY17-FY19 in those regions. We expect volumes for the company to grow at 23.13% from 2.20 MT in FY17 to 3.34 MT in FY19E primarily on account of healthy volume growth outlook and capacity addition (installed capacity of 6 MT by FY19E as against 4.3 MT in FY17). Consequently, we estimate top-line to grow at 26.4% from INR 9415.9 mn in FY17 to INR 15054.8 mn in FY19.

Operating efficiencies to pick-up:

EBITDA during the quarter stood at INR 425 mn and was above our estimates of INR 330 mn on account of higher realizations and lower than expected power and fuel costs. Going ahead, we expect operating efficiencies to pick up sharply on account of commissioning of WHRS (6 MW), shift from imported coal to pet-coke usage in BMM unit and setting up of 18 MW of CPP at Mattampally unit (by H1FY19).

We estimate EBITDA/ton to increase from INR 502 in FY17 to INR 861 in FY19E and EBITDA margins to increase from 11.72% to 19.08% over the same period.

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Consolidated Profit & Loss (INR mn)	FY15*	FY16	FY17	FY18E	FY19E
Total Sales	6626.60	8624.1	9415.90	11250.30	15054.88
COGS	573.20	1368.5	1044.50	1201.18	1501.47
Employee Expenses	334.50	410.1	431.10	482.83	675.96
Power and fuel	2102.30	2204	2718.90	2925.63	3599.52
Transportation cost	1085.70	1204.8	1511.20	1771.92	2371.14
Other expenses	1096.10	1106.6	1329.00	1575.04	2070.05
Excise duty	870.80	1090	1277.50	1467.43	1963.68
EBITDA	564.00	1240.1	1103.70	1826.27	2873.05
Other income	3662.60**	40.8	35.20	39.38	60.22
D&A	215.00	336.5	475.90	521.66	574.16
EBIT	4011.60	944.4	663.00	1343.98	2359.11
Interest Expense	230.80	417.7	620.80	583.90	463.90
PBT	3780.80	526.7	42.20	760.09	1895.21
Tax	814.20	65.6	81.40	250.83	625.42
Effective tax rate	21.54%	12.45%	192.89%	33.00%	33.00%
PAT	2966.60	461.1	-39.20	509.26	1269.79

Source: Company, KRChoksey Research

Consolidated Balance Sheet (INR mn)	FY15*	FY16	FY17	FY18E	FY19E
Equity Share Capital	173.80	173.80	204.00	204.00	204.00
Reserves	5039.40	5322.30	5252.50	5685.37	6764.69
Net worth	5213.20	5496.10	7656.50	8089.37	9168.69
Total loans	2452.50	4342.70	4865.80	3865.80	3165.80
Capital Employed	8128	10284	13339	12840	13399
Net block	4455.80	8996.70	10171.60	11249.94	12175.77
Inventories	623.10	905.20	1103.50	1184.72	1480.90
Sundry debtors	580.60	812.10	808.30	986.33	1237.39
Sundry creditors	513.10	1324.00	1477.70	1711.26	2139.08
Cash and bank	1957.80	64.70	1815.45	487.29	52.55
Total Current assets	4799.50	2188.50	4133.75	3111.45	3338.09
Total Current liabilities	2221.50	3288.70	3352.90	3908.30	4501.27
Capital Deployed	8128	10284	13339	12840	13399

Source: Company, KRChoksey Research

Consolidated Cash Flow (INR mn)	FY15*	FY16	FY17	FY18E	FY19E
PAT	2966.60	461.10	-39.20	509.26	1269.79
Depreciation & Amortization	215.00	336.50	475.90	521.66	574.16
(Incr)/Decr in Working Capital	-249.20	176.70	241.95	317.31	111.78
Cash Flow from Operating	498.00	1288.80	1329.85	1932.12	2419.63
(Incr)/ Decr in Gross PP&E	-1927.00	-719.50	-1650.80	-1600.00	-1500.00
Cash Flow from Investing	1741.00	-1109.00	-1650.80	-1600.00	-1500.00
(Decr)/Incr in Debt	5.50	-3303.50	523.10	-1000.00	-700.00
Dividend	-104.30	-147.80	-30.60	-76.39	-190.47
Finance costs	-228.00	-401.20	-620.80	-583.90	-463.90
Issue of debentures/QIP	0.00	1500.00	2200.00	0.00	0.00
Cash Flow from Financing	-326.80	-2352.50	2071.70	-1660.28	-1354.36
Incr/(Decr) in Balance Sheet Cash	1912.20	-2172.70	1750.75	-1328.16	-434.74
Cash at the Start of the Year	45.70	2166.90	64.70	1815.45	487.29
Cash at the End of the Year	1957.90	29.70	1815.45	487.29	52.55

*standalone;

**includes other income of INR 3490 mn on stake sale in JV

Source: Company data, KRChoksey Research

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Operating metrics (in INR)	FY15	FY16	FY17	FY18E	FY19E
Realization/ton	3713.35	4557.83	3696.79	3807.69	3921.92
COGS cost/ton	369.81	827.89	474.45	467.52	449.82
Employee cost/ton	215.81	248.09	195.82	187.93	202.51
Power and fuel cost/ton	1356.32	1333.33	1235.03	1138.71	1078.36
Transportation and Handling cost/ton	700.45	728.86	686.45	689.67	710.36
Other Expenses/ton	707.16	669.45	603.69	613.04	620.15
EBITDA/ton	363.87	750.21	501.35	710.82	860.72

Source: Company data, KRChoksey Research

Ratio Analysis	FY15*	FY16	FY17	FY18E	FY19E
EBITDA/ton	363.87	750.21	501.35	710.82	860.72
Volume (mn tons)	1.55	1.65	2.20	2.57	3.34
Growth (%)					
Total Sales	18.10%	30.14%	9.18%	19.48%	33.82%
EBITDA	4205.34%	119.88%	-11.00%	65.47%	57.32%
PAT	1259.73%	-84.46%	-108.50%	1199.13%	149.34%
Profitability (%)					
EBITDA Margin	8.51%	14.38%	11.72%	16.23%	19.08%
NPM	44.77%	5.35%	-0.42%	4.53%	8.43%
Return ratios					
ROE	-10.04%**	8.39%	-0.51%	6.30%	13.85%
ROCE	6.42%	9.18%	4.97%	10.47%	17.61%
Per share data					
EPS	170.49	26.50	-1.92	24.96	62.24
BPS	299.61	315.87	375.32	396.54	449.45
Valuations (x)					
P/E (x)	1.73	14.96	-	32.93	13.21
P/BV (x)	0.99	1.26	2.08	2.07	1.83
EV/EBITDA (x)	9.99	9.01	17.18	11.03	6.92
EV/Ton (\$)	35.80	41.71	65.82	62.65	49.46
Net Debt/EBITDA	0.88	3.45	2.76	1.85	1.08
Net Debt/Equity	0.09	0.78	0.40	0.42	0.34
Interest Coverage	17.38	2.26	1.07	2.30	5.09

*standalone

**adjusting for other income

Source: Company data, KRChoksey Research

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Sagar Cements Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
26-Sep-17	822	1100	BUY	Buy	More than 15%
31-July-17	840	1045	BUY	Accumulate	5% – 15%
1-June-17	860	1045	BUY	Hold	0 – 5%
20-Mar-17	748	972	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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