

## Pandemic halts business recovery...

Sagar Cements saw another weak quarter as volume recovery was hit by the disruption caused by the virus outbreak. Revenues for Q4FY20 declined 17% YoY to ₹ 303.6 crore (vs. I-direct estimate: ₹ 295 crore) as volumes for the quarter remained subdued. Volumes were at 0.84MT, down 11.3% YoY (vs. I-direct estimate: 0.83). Amid weak demand and a consequent weaker pricing scenario in Sagar's major markets, average realisations dropped 6.4% YoY to ₹ 3,627/t (vs. I-direct estimate: ₹ 3,682/t). EBITDA margins deteriorated by 217 bps YoY to 14.7% (vs. I-direct estimate: 13.6%) and EBITDA/t declined 18.5% YoY to ₹ 533/t (vs. I-direct estimate: ₹ 497/t). Lower profitability during the quarter is attributable to lower realisations per tonne. Some respite was seen in the form of savings in P&F costs that fell 13% YoY on a per tonne basis. On an absolute level, EBITDA dropped 27.7% YoY to ₹ 44.7 crore (vs. I-direct estimate: ₹ 40 crore). PAT shrank 94% YoY to ₹ 1.2 crore (vs. I-direct estimate: ₹ 5 crore) owing to higher tax expenses.

## FY21 to be another challenging year

Led by a demand slump in Andhra Pradesh from H2FY20, Sagar Cements faced challenges in FY20. While signs of a recovery were seen from January 2020, the virus outbreak led to weakness in demand and a nationwide lockdown. While operations have resumed gradually, the management said that its business is 50% below previous year's volumes and also cannot be confident whether this demand will sustain in coming months. Thus, the management expects FY21 to be a challenging year with volumes seeing a double digit decline, owing to utilisation levels remaining sub-par. We model a 21% drop in volumes in FY21E and a healthy bounce back of 39% in FY22E in volumes. Prices, which have remained elevated currently are also expected to taper off. Thus, we model 4% drop in realisations in FY21E with a similar rise in FY22E.

## Moving ahead with capex; debt to peak in FY22E

While many companies have halted or postponed their capex plans, Sagar Cements intends to move ahead with its capex plans. Since the construction of plants is slow owing to labour shortage and lockdown, the company expects these capacities to keep up with a delay of a quarter or two. Having already spent ~₹ 200 crore towards these two plants, the company expects debt levels to peak around ₹ 800 crore and D/E to peak at 0.6x in FY22E. While debt levels would be high, the company commands backing of promoters as well as international investor, which provides comfort.

## Valuation & Outlook

While private demand could be weak and recovery could be prolonged, government spending, like what has been promised by the Andhra Pradesh government could provide cushion to falling demand. Furthermore, Sagar Cements is currently available at an FY20 EV/t of \$30, implying a considerable margin of safety to the replacement cost of \$100-110. We, thus, maintain **BUY** rating but keep our upside limited maintaining caution. We value the company at 8x FY22E EV/EBITDA to arrive at a TP of ₹ 350.

### Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20-22E)
Sales	1038.1	1217.6	1175.2	890.8	1236.5	2.6%
EBITDA	151.3	149.4	185.5	102.7	187.0	0.4%
EBITDA (%)	14.6	12.3	15.8	11.5	15.1	
PAT	26.3	13.6	40.2	-11.2	25.3	-20.7%
EPS (₹)	12.9	5.8	17.1	-4.7	10.8	
EV/EBITDA	7.4	7.8	6.3	12.0	7.9	
EV/Tonne (\$)	36.9	31.3	29.2	30.7	25.7	
RoNW	3.4	1.6	4.2	-1.1	2.4	
RoCE	8.1	6.4	7.2	1.7	5.1	

Source: Company, ICICI Direct Research



### Stock Data

Particular	Amount
Market Capitalization	₹ 691 Crore
Total Debt (FY20E)	₹ 498 Crore
Cash and Investments (FY20E)	₹ 12 Crore
EV	₹ 1176 Crore
52 week H/L	₹ 732/236
Equity capital	₹ 23.5 Crore
Face value	₹ 10

### Key Highlights

- Company operating at 25-30% capacity post lockdown
- Will continue with capex, capacities might come up with delay
- Facing challenge on the logistics and labour front
- Reduction in input costs a relief to cement companies
- Maintain BUY with target price of ₹350 (Earlier: ₹ 365)

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**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	303.6	295.0	365.8	-17.0	262.1	15.8	Volumes decline 11.3% and realisations slip 6.4% YoY
Other Income	2.3	1.0	0.9	158.4	0.5	389.4	
Raw Material Expenses	59.5	60.4	73.7	-19.2	70.3	-15.3	
Employee Expenses	18.9	14.5	15.9	19.1	16.0	18.1	
Power & Fuel	76.3	78.6	98.8	-22.8	62.7	21.6	Per tonne costs down 13% led by savings from reduction in petcoke costs (₹ 7167/t vs ₹ 9529/t YoY)
Freight cost	59.7	59.0	66.9	-10.8	54.5	9.5	
Others	44.5	43.0	48.8	-8.7	38.7	15.0	
EBITDA	44.7	40.0	61.7	-27.7	19.9	124.8	
EBITDA Margin (%)	14.7	13.6	16.9	-217 bps	7.6	713 bps	Lower realisations lead to subdued profitability
Interest	14.5	15.0	16.5	-12.3	15.7	-7.9	
Depreciation	21.4	19.3	17.4	22.8	20.5	4.4	
PBT	11.1	-1.9	28.7	-61.3	-15.9	-169.9	
Total Tax	9.9	-6.8	10.0	-0.4	-6.8	-246.1	
PAT	1.2	5.0	18.7	-93.7	-9.1	-113.0	

**Key Metrics**

Volume (MT)	0.84	0.84	0.94	-11.3	0.76	9.6	
Net realisation (₹)	3,627	3,682	3,875	-6.4	3,431	5.7	Pricing environment weak in south and east
EBITDA per Tonne (₹)	534	497	654	-18.4	260	105.2	Lower realisations lead to subdued EBITDA/t

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY21E			FY22E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	1,061.0	890.8	-16.0	1,350.0	1,236.5	-8.4	Volumes toned down in line with management estimates
EBITDA	131.0	102.7	-21.6	198.0	187.0	-5.6	
EBITDA Margin (%)	12.3	11.5	-82 bps	14.7	15.1	45 bps	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current					Earlier	
	FY18	FY19	FY20P	FY21E	FY22E	FY21E	FY22E
Volume (MT)	2.7	3.3	3.1	2.5	3.3	2.9	3.6
Gross Realisation (₹)	3,916	3,666	3,753	3,603	3,747	3,617	3,725
EBITDA per Tonne (₹)	571	450	592	415	567	446	547

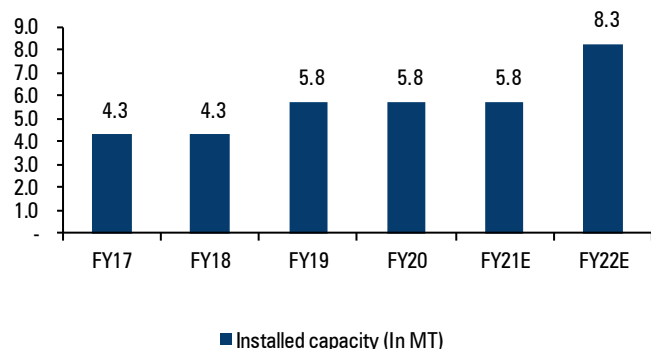
Source: Company, ICICI Direct Research

## Conference call key highlights

- Current scenario: Sagar Cements started operations of plants post first week of May. Utilisations are currently around 25-30%. April and May volumes combined are ~50% lower YoY. It is facing challenges on the logistics as well as labour (construction activities) front. The company is selling mostly on a cash and carry basis to contractors
- Demand: Exhaustion of inventory at dealer level would have led to big pent up demand. Sustainability remains key. In Maharashtra, the company does not have meaningful exposure to Mumbai and Pune, which are the most affected
- Government demand: Pre-Covid, the AP government had promised intake of 1 MT of cement per month. The company has received orders during May from education department of AP government for 20000 tonne of cement. We expect orders in the range of 35000-40000 tonnes in June
- Pricing: Prices have improved in the current quarter significantly from Q4FY20 and also are higher than Q1FY20 levels. We have seen an increase of ₹ 750-1000 per tonne at NSR (pre-GST) levels over Q4FY20.
- Cost front: Moderation in input costs would support profitability. Currently procuring petcoke at ~20% lower price YoY. Sagar Cements currently has one to two quarters of petcoke inventory
- Capex: The company would continue its capacity expansion in MP and Odisha but there may be delay of a quarter or two. It has spent ~₹ 200 crore on the two projects combined (however the entire amount has not been encashed yet). Total spends would be ~₹ 800 crore.
- Debt: The company expects debt to peak around ₹ 800 crore. D/E to peak in FY22E at ~0.6x. Gross debt as at end of FY20 is at ₹ 488 crore (long as well as short term debt)
- Region wise performance: During FY20, the company lost 10% sales in Karnataka, 18% in AP and 4% in Telangana and got demand support from Odisha, Maharashtra and Tamil Nadu, ending FY20 lower by 6% in volume terms
- Outlook: While current demand has improved gradually, outlook in the short-term remains break. We see demand side risk to be greater than supply side risks
- Others: The sector could see stress and few capacities may be up for sale. The company sees itself as a going concern. Sagar Cements generally has more exposure towards rural segment. In the current scenario, 75-80% of demand is from the rural region, compared to 60% generally

## Financial story in charts

**Exhibit 4: Installed capacity**



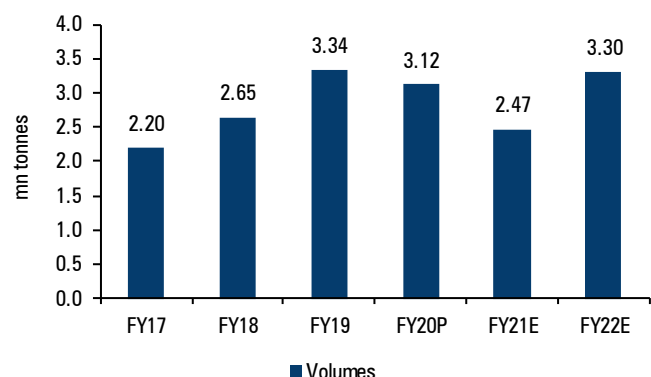
Source: Company, ICICI Direct Research

**Exhibit 5: Capacity addition plans**

Current capacity	MT
Cement (MT)	5.8
<b>Additions</b>	
MP - Satguru cement (Integrated plant - clinker capacity of 0.7 MT)	1.0
Odisha - Jajpur cement	1.5
<b>FY22E cement capacity</b>	<b>8.3</b>

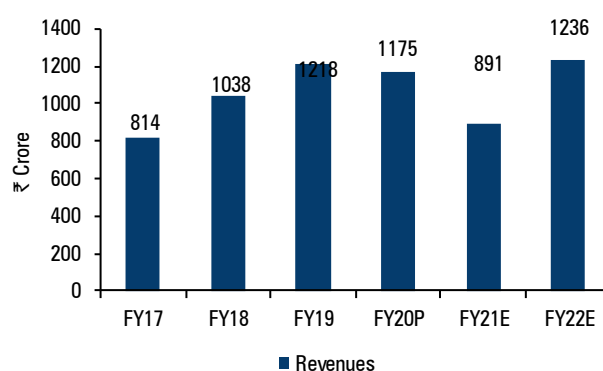
Source: Company, ICICI Direct Research

**Exhibit 6: Volumes to grow at 2.8% CAGR over FY20-22E**



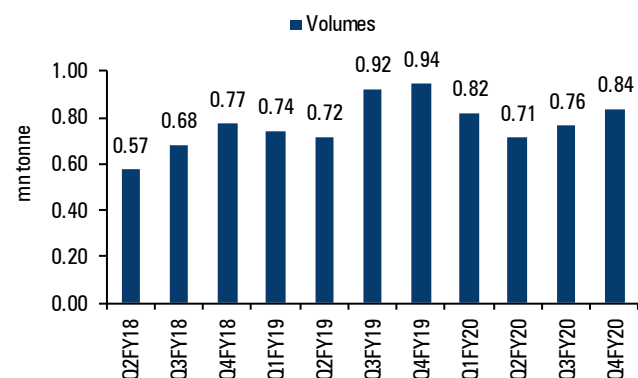
Source: Company, ICICI Direct Research

**Exhibit 7: Topline to grow at 2.6% CAGR over FY20-22E**



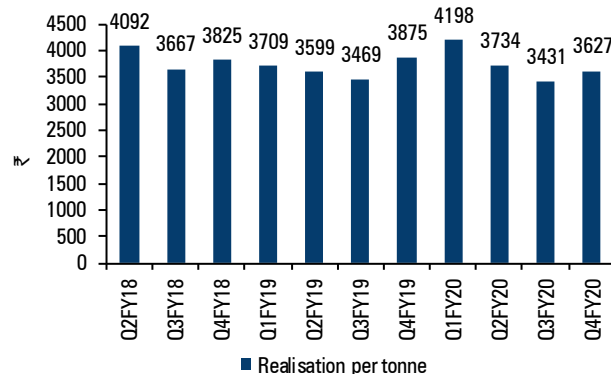
Source: Company, ICICI Direct Research

**Exhibit 8: Volumes decline 11% YoY in Q4FY20**



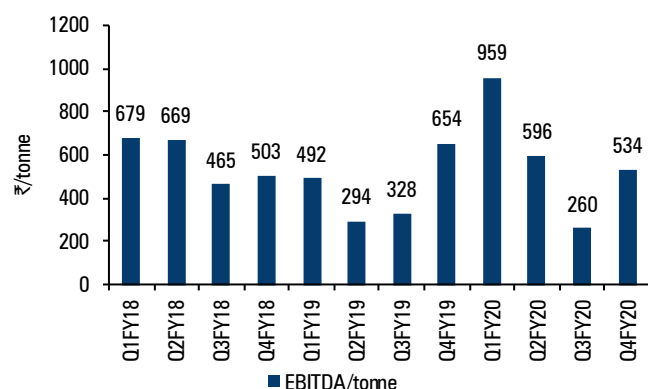
Source: Company, ICICI Direct Research

**Exhibit 9: Realisations decline 6.4% YoY during Q4FY20**



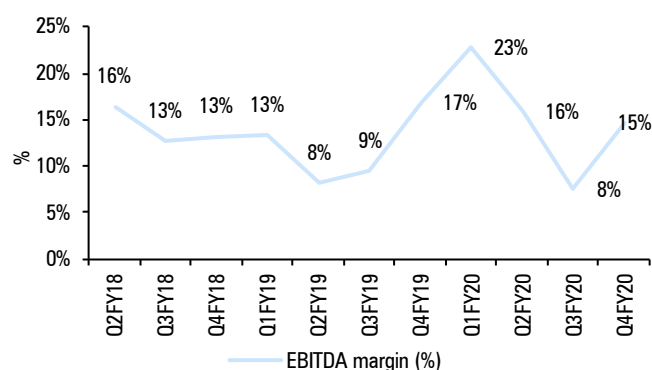
Source: Company, ICICI Direct Research

**Exhibit 10: EBITDA/t drops 18.5% YoY in Q4FY20 led by lower realisations**



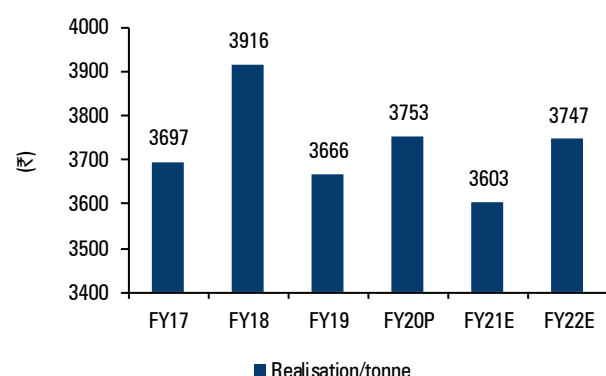
Source: Company, ICICI Direct Research

**Exhibit 11: Margins contract 217 bps YoY during quarter as realisations decline YoY**



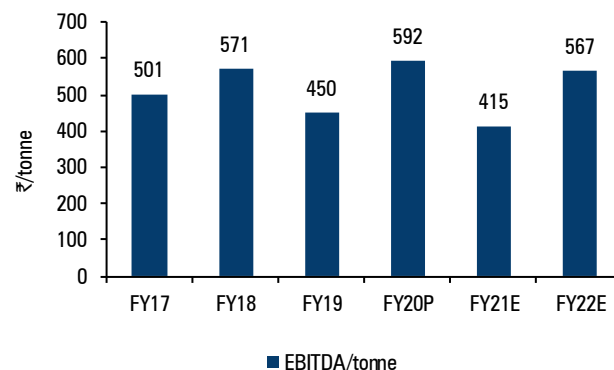
Source: Company, ICICI Direct Research

**Exhibit 12: Realisations to recover in FY22E**



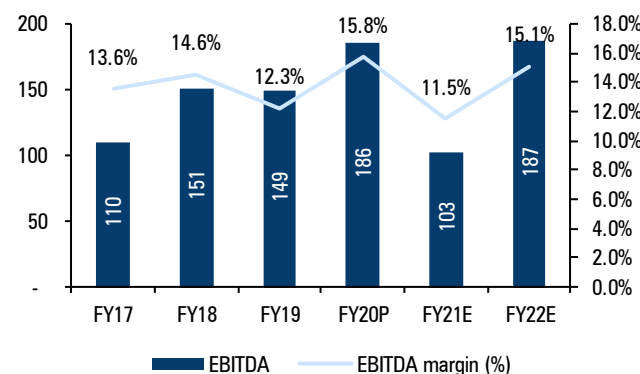
Source: Company, ICICI Direct Research

**Exhibit 13: EBITDA/t to see improvement from FY22E**



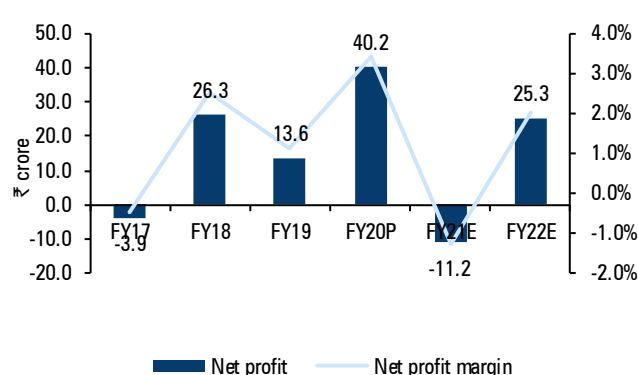
Source: Company, ICICI Direct Research

**Exhibit 14: EBITDA to rebound in FY22**

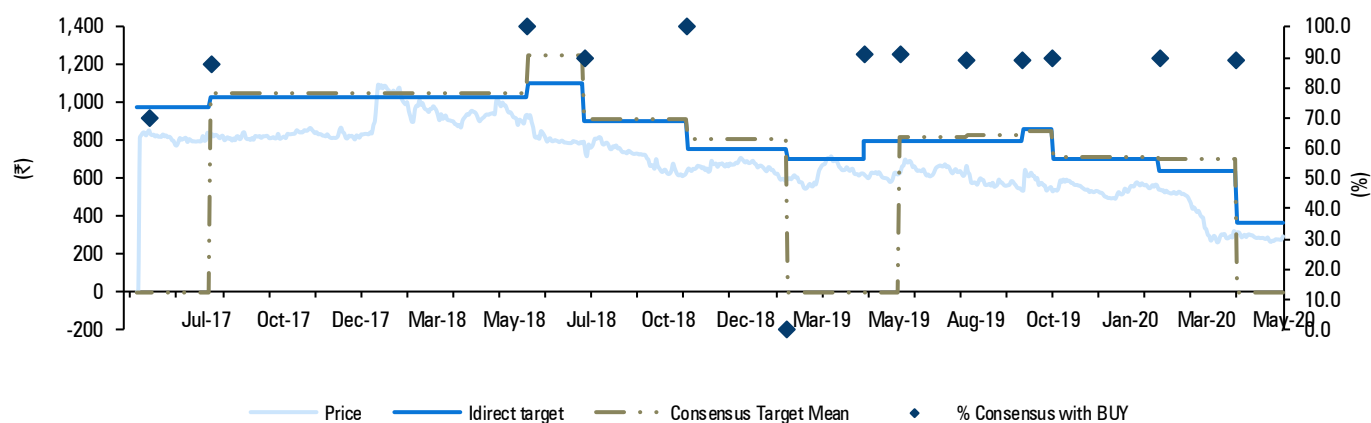


Source: Company, ICICI Direct Research

**Exhibit 15: Company to report profits in FY22E led by higher EBITDA**



Source: Company, ICICI Direct Research

**Exhibit 16: Recommendation History vs. Consensus**


Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 17: Top 10 Shareholders**

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Avh Resources India	31-Dec-19	19.9	4.4	0.0
2	S Veera Reddy	31-Dec-19	7.5	1.64	1.6
3	Reddy S Veera	30-Jun-19	7.5	1.64	1.6
4	Aruna S	31-Mar-20	6.2	1.37	0.0
5	Hdfc Asset Managemen	30-Apr-20	6.0	1.31	0.0
6	Reddy S Anand	31-Mar-20	6.0	1.31	0.0
7	Reddy Sammidi Sreeka	31-Dec-19	5.7	1.24	1.2
8	Sammidi Sreekanth Re	31-Mar-20	5.6	1.24	0.0
9	Rachana S	31-Mar-20	5.3	1.17	0.0
10	Rv Consltnng Srvcsv Pv	31-Mar-20	5.0	1.10	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

**Exhibit 18: Shareholding Pattern**

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	50.06	50.06	50.06	50.06	50.06
FII	3.47	3.46	3.06	3.05	2.88
DII	14.04	13.81	12.82	12.86	12.04
Others	32.43	32.67	34.06	34.03	35.02

Source: Company, ICICI Direct Research, Thomson Reuters

## Financial summary

Exhibit 19: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Total operating Income</b>	<b>1,217.6</b>	<b>1,175.2</b>	<b>890.8</b>	<b>1,236.5</b>	
Growth (%)	17.3	-3.5	-24.2	38.8	
Raw material cost	238.8	227.3	185.4	247.5	
Power & fuel	362.8	309.2	231.2	310.2	
Freight cost	252.5	223.8	178.0	244.2	
Others	214.1	229.4	193.4	247.6	
Total Operating Exp.	1,068.1	989.7	788.1	1,049.5	
<b>EBITDA</b>	<b>149.4</b>	<b>185.5</b>	<b>102.7</b>	<b>187.0</b>	
Growth (%)	-1.2	24.2	-44.6	82.0	
Depreciation	65.7	78.9	77.7	89.6	
Interest	63.4	47.3	44.6	64.2	
Other Income	2.9	4.0	3.5	3.5	
PBT	23.2	63.3	-16.2	36.6	
Total Tax	9.6	23.1	-5.0	11.4	
<b>PAT</b>	<b>13.6</b>	<b>40.2</b>	<b>-11.2</b>	<b>25.3</b>	
PAT margin	1.1	3.4	-1.3	2.0	
<b>Adjusted PAT</b>	<b>13.6</b>	<b>40.2</b>	<b>-11.2</b>	<b>25.3</b>	
Growth (%)	-48.2	195.9	NA	NA	
<b>Adjusted EPS (₹)</b>	<b>5.8</b>	<b>17.1</b>	<b>-4.7</b>	<b>10.8</b>	

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Profit after Tax	13.6	40.2	-11.2	25.3	
Add: Depreciation	65.7	78.9	77.7	89.6	
(Inc)/dec in Current Assets	-10.0	-68.3	164.7	-69.8	
Inc/(dec) in CL and Provisions	-2.5	22.4	-66.0	66.1	
<b>CF from operating activities</b>	<b>130.2</b>	<b>120.5</b>	<b>209.9</b>	<b>175.4</b>	
(Inc)/dec in Investments	0.0	-11.8	0.0	0.0	
(Inc)/dec in Fixed Assets	-241.7	-202.2	-320.0	-370.0	
Others	74.1	-8.6	14.4	14.4	
<b>CF from investing activities</b>	<b>-167.6</b>	<b>-222.6</b>	<b>-305.6</b>	<b>-355.6</b>	
Issue/(Buy back) of Equity	0.0	85.3	85.3	0.0	
Inc/(dec) in loan funds	21.4	-1.2	60.0	245.0	
Dividend paid & dividend tax	-11.3	-4.3	-3.5	-3.5	
Interest paid	-63.4	-47.3	-44.6	-64.2	
Others	63.9	52.3	0.0	0.0	
<b>CF from financing activities</b>	<b>10.6</b>	<b>84.8</b>	<b>97.1</b>	<b>177.2</b>	
Net Cash flow	-26.9	-17.3	1.4	-3.0	
Opening Cash	56.6	29.8	12.5	13.9	
<b>Closing Cash</b>	<b>29.8</b>	<b>12.5</b>	<b>13.9</b>	<b>10.9</b>	

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet					₹ crore
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Liabilities</b>					
Share Capital	20.4	22.0	23.5	23.5	
Reserve and Surplus	823.4	944.4	1,013.4	1,035.1	
Total Shareholders funds	843.8	966.3	1,036.9	1,058.6	
Total Debt	499.3	498.0	558.0	803.0	
Deferred Tax Liability	8.3	22.7	37.2	51.6	
Minority Interest / Others	163.0	193.9	193.9	193.9	
<b>Total Liabilities</b>	<b>1,514.4</b>	<b>1,681.0</b>	<b>1,826.0</b>	<b>2,107.2</b>	
<b>Assets</b>					
Gross Block	1,637.9	1,842.1	1,860.1	2,620.1	
Less: Acc Depreciation	432.6	511.5	589.2	678.8	
Net Block	1,205.2	1,330.6	1,270.8	1,941.2	
Capital WIP	110.0	108.0	410.0	20.0	
Total Fixed Assets	1,315.2	1,438.6	1,680.8	1,961.2	
Investments	38.7	53.4	53.4	53.4	
Inventory	145.0	115.8	90.3	105.0	
Debtors	115.6	136.8	73.2	101.6	
Loans and Advances	21.9	21.2	13.4	18.5	
Other Current Assets	62.1	139.1	71.3	92.7	
Cash	29.8	12.5	13.9	10.9	
Total Current Assets	374.4	425.3	262.0	328.9	
Creditors	203.8	223.0	117.4	162.9	
Provisions	10.1	13.3	52.8	73.3	
Total Current Liabilities	213.9	236.3	170.2	236.3	
Net Current Assets	160.5	189.1	91.8	92.6	
Others Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>1,514.4</b>	<b>1,681.0</b>	<b>1,826.0</b>	<b>2,107.2</b>	

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios					
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Per share data (₹)</b>					
Adjusted EPS	5.8	17.1	-4.7	10.8	
Cash EPS	33.7	50.7	28.3	48.9	
BV	359.1	411.2	441.2	450.5	
DPS	4.0	1.5	1.5	1.5	
Cash Per Share	12.7	5.3	5.9	4.7	
<b>Operating Ratios (%)</b>					
EBITDA Margin	12.3	15.8	11.5	15.1	
Adjusted PAT Margin	1.1	3.4	-1.3	2.0	
Inventory days	43.5	36.0	37.0	31.0	
Debtor days	34.7	42.5	30.0	30.0	
Creditor days	61.1	69.3	48.1	48.1	
<b>Return Ratios (%)</b>					
RoE	1.6	4.2	-1.1	2.4	
RoCE	6.4	7.2	1.7	5.1	
RoIC	6.9	7.5	2.0	5.0	
<b>Valuation Ratios (x)</b>					
P/E (adjusted)	50.8	17.2	-61.9	27.3	
EV / EBITDA	7.8	6.3	12.0	7.9	
EV / Net Sales	1.0	1.0	1.4	1.2	
Market Cap / Sales	0.6	0.6	0.8	0.6	
Price to Book Value	0.8	0.7	0.7	0.7	
<b>Solvency Ratios</b>					
Debt/EBITDA	3.3	2.7	5.4	4.3	
Debt / Equity	0.6	0.5	0.5	0.8	
Current Ratio	1.0	1.2	0.9	1.0	
Quick Ratio	0.6	0.9	0.6	0.7	

Source: Company, ICICI Direct Research

**Exhibit 23: ICICI Direct coverage universe (Cement)**

Company	CMP		Rating	M Cap (₹ Cr)	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
ACC*	1,284	1,380	BUY	24,131	73	48	64	9.3	14.3	11.2	83	88	76	17.4	10.8	13.4	11.9	7.4	9.2
Ambuja Cem*	189	195	BUY	37,529	6.3	6.3	7.7	12.5	12.4	10.3	105	105	101	11.3	11.4	13.2	8.6	8.4	10.0
UltraTech Cem	3,815	0	BUY	104,684	88	189	56	17.5	14.1	20.8	156	154	145	9.0	11.4	6.3	7.6	14.2	4.1
Shree Cement	21,069	23,500	BUY	76,024	318	435	240	29.8	20.7	26.4	263	222	211	11.5	13.8	8.2	11.5	12.1	6.4
Heidelberg Cem	165	200	BUY	3,739	9.7	11.8	8.7	9.1	7.5	10.0	111	101	89	21.8	22.3	19.0	20.5	20.4	16.6
India Cement	127	100	HOLD	3,901	2.2	3.3	5.6	11.7	10.4	12.3	76	81	78	4.5	5.0	3.6	1.3	1.9	3.2
JK Cement	1,206	1,275	BUY	8,434	42.0	67.4	27.4	12.2	9.1	13.8	126	118	121	12.5	15.3	8.7	11.2	15.7	6.0
JK Lakshmi Cem	243	260	BUY	2,860	6.8	22.6	12.4	9.9	5.7	6.9	44	41	40	9.3	17.1	12.2	5.2	15.5	7.9
Mangalam Cem	181	145	HOLD	483	-3.7	29.0	14.7	18.6	4.4	6.0	41	37	33	3.2	15.8	9.7	-2.0	13.4	6.4
Star Cement	75	82	HOLD	3,131	7.2	7.1	3.9	6.6	7.1	9.8	108	109	73	19.5	17.5	9.7	17.8	16.2	8.4
Ramco Cement	617	610	BUY	14,689	22.2	23.3	10.2	15.3	14.9	19.5	149	124	120	8.2	7.8	5.3	11.7	11.4	5.0
Sagar Cement	294	350	BUY	691	5.8	17.1	-4.7	7.8	6.3	12.0	31	29	31	6.4	7.2	1.7	1.6	4.2	-1.1

Source: Company, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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