Cement
Result Update

Change in Estimates ☑ Target ☑ Reco ☐

27 June 2020

Sanghi Industries

Rating: **Buy**
Target Price: ₹37
Share Price: ₹26

Operating performance getting back on track; high leverage to continue; Buy

The demand slump in Sanghi's operating region and lockdown in Mar'20 pulled Q4 volumes down 24% y/y. On higher realisations, savings in logistics and advertising costs, however, and a low base, the operating performance was good with 12% y/y EBITDA growth. The ongoing Kutch expansion was further delayed by the lockdown. Demand revival and labour will be key things to watch. We retain our Buy, with a higher TP of ₹37 (earlier ₹30), 9x FY22e EV/EBITDA.

Expansion further delayed. The lockdown and labour delayed the Kutch expansion (2m tons GU and 3.3m tons clinker) by a further 4-5 months. It is now expected to commence in Q3 FY21. Management said ramping up is not the issue due to low capacity addition (JK Cements, 0.7m tons in Balasinor) and option to export clinker to Bangladesh, Sri Lanka or the Middle-East. The Surat GU continues to be deferred due to low demand.

Good operating performance. Despite revenue dipping 20% y/y, on firm prices and cost curtailment, EBITDA/ton was ₹960, up 47% y/y. Volumes were 26% lower in FY20. We expect them to fall only 4% in FY21 (on the low base) and grow 32% in FY22 due to the ramping up of new capacity. We expect a good EBITDA/ton: ₹859 in FY21, ₹969 in FY22 (₹980 in FY20).

Outlook, Valuation. Debt is expected to be high (for working capital and the ongoing expansion). The company has applied for a moratorium on loan repayment. It is operating at 80% clinker capacity; in FY20, capacity utilisation was 50%. Being the third-largest in Gujarat, it will be the key beneficiary when demand improves. However, higher debt, new capacity commencing and funds deployed for the expansion will squeeze profits on higher depreciation/interest cost and lower other income. We maintain our Buy rating at a target of ₹37, based on 9x FY22e EV/EBITDA. **Risks:** Extension of the lockdown; rising costs.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	10,264	10,610	8,875	8,713	11,774
Net profit (₹ m)	933	526	654	-121	448
EPS (₹)	3.7	2.1	2.6	-0.5	1.8
PE (x)	31.5	29.7	7.2	NA	14.8
EV / EBITDA (x)	15.2	14.3	8.7	12.1	7.9
EV / ton ($)	105.1	70.5	53.7	42.4	41.1
RoE (%)	6.9	3.2	3.9	-0.7	2.6
RoCE (%)	7.3	3.6	5.0	2.1	4.0
Dividend yield (%)	-	-	-	-	-
Net debt/equity (x)	0.2	0.4	0.7	0.8	0.7

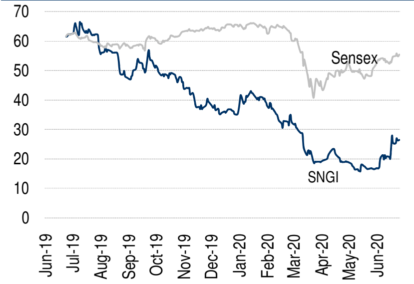
Source: Company, Anand Rathi Research

Key data	SNGI IN / SNGL.BO
52-week high / low	₹68 / 14
Sensex / Nifty	35171 / 10383
3-m average volume	$0.3m
Market cap	₹7bn / $87.6m
Shares outstanding	251m

Shareholding pattern (%)	Mar'20	Dec'19	Sept'19
Promoters	70.3	68.7	68.7
- of which, Pledged	*92.2*	*94.4*	*94.4*
Free float	29.7	31.3	31.3
- Foreign institutions	4.0	4.0	4.6
- Domestic institutions	12.7	13.1	13.0
- Public	13.0	14.2	13.8

Estimates revision (%)	FY21e	FY22e
Sales	2.3	1.9
EBITDA	21.1	13.9
PAT	NA	9.6

Relative price performance



Source: Bloomberg

Manish Valecha
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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	2.5	2.7	2.0	1.9	2.5
Net revenues	10,264	10,610	8,875	8,713	11,774
Growth (%)	*3.2*	*3.4*	*-16.3*	*-1.8*	*35.1*
Direct costs	6,889	8,073	5,827	5,783	7,735
SG&A	1,216	997	1,119	1,305	1,614
EBITDA	**2,158**	**1,540**	**1,929**	**1,624**	**2,425**
EBITDA margins (%)	*21.0*	*14.5*	*21.7*	*18.6*	*20.6*
- Depreciation	724	713	621	881	976
Other income	220	273	125	87	130
Interest expenses	721	573	780	979	1,032
PBT	933	526	654	-148	546
Effective tax rate (%)	*0.00*	*0.00*	*0.00*	*18.00*	*18.00*
+ Associates / (Minorities)	-	-	-	-	-
Net income	933	526	654	-121	448
Adjusted income	933	526	654	-121	448
WANS	251	251	251	251	251
FDEPS (₹ / sh)	3.7	2.1	2.6	-0.5	1.8
FDEPS growth (%)	*30*	*-44*	*24*	*-119*	*-469*

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	2,510	2,510	2,510	2,510	2,510
Net worth	15,979	16,504	17,154	17,032	17,480
Debt	7,672	8,025	12,528	13,228	13,228
Minority interest	-	-	-	-	-
DTL / (Assets)	-871	-860	-860	-860	-860
Capital employed	**22,780**	**23,668**	**28,821**	**29,400**	**29,847**
Net tangible assets	15,087	16,051	17,062	27,722	27,246
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2,936	4,368	10,041	500	500
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	3,369	5,213	5,540	4,540	6,135
Cash	4,281	1,667	539	218	805
Current liabilities	2,892	3,630	4,361	3,581	4,839
Working capital	476	1,583	1,178	960	1,297
Capital deployed	**22,780**	**23,668**	**28,821**	**29,400**	**29,847**
Contingent liabilities	1200	1070	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	933	526	654	-148	546
+ Non-cash items	724	713	621	881	976
Oper. prof. before WC	1,657	1,239	1,274	733	1,522
- Incr. / (decr.) in WC	382	1,106	-404	-219	337
Others incl. taxes	-	-	-	-27	98
Operating cash-flow	1,275	133	1,679	978	1,087
- Capex (tang. + intang.)	2,557	3,109	7,305	2,000	500
Free cash-flow	-1,282	-2,976	-5,627	-1,022	587
Acquisitions					
- Div.(incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	4,002	-	-	-	-
+ Debt raised	1,408	353	4,503	700	-
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	10	-9	4	0	-0
Net cash-flow	4,118	-2,614	-1,127	-322	587

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

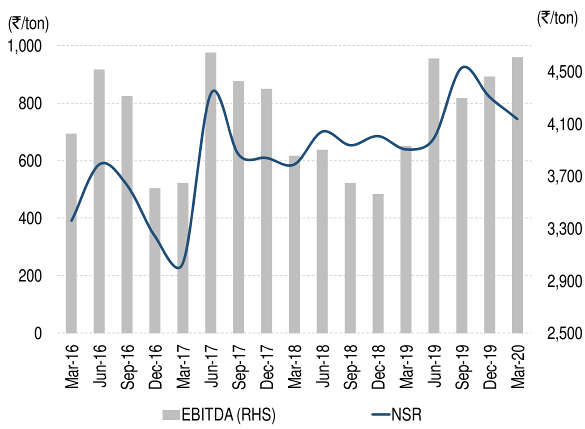
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	31.5	29.7	7.2	NA	14.8
EV / EBITDA (x)	15.2	14.3	8.7	12.1	7.9
EV / Sales (x)	3.2	2.1	1.9	2.3	1.6
P/B (x)	1.8	0.9	0.3	0.4	0.4
RoE (%)	6.9	3.2	3.9	-0.7	2.6
RoCE (%) - after tax	7.3	3.6	5.0	2.1	4.0
DPS (₹ / sh)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	0.2	0.4	0.7	0.8	0.7
WC days	17	54	48	40	40
EV / ton ($)	105.1	70.5	53.7	42.4	41.1
NSR / ton (₹)	4,116	3,973	4,508	4,608	4,708
EBITDA / ton (₹)	865	577	980	859	969
Volumes (m tons)	2.49	2.67	1.97	1.89	2.50
CFO : PAT (%)	136.6	25.3	256.9	-805.9	242.8

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



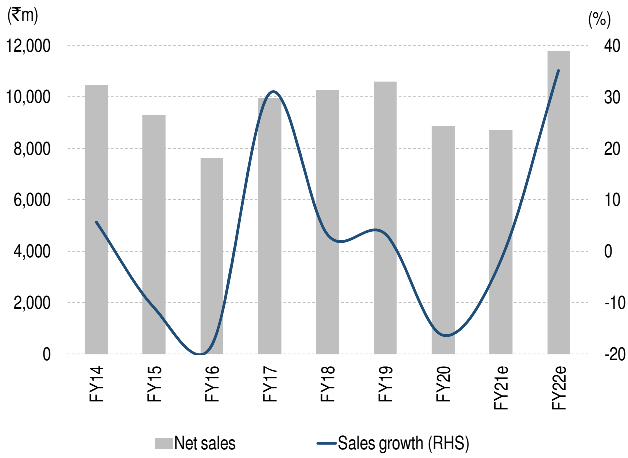
Source: Company, Anand Rathi Research

Key highlights

Revenue growth

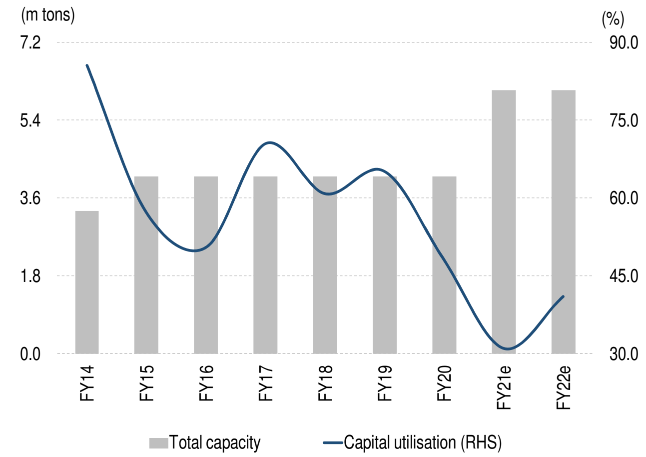
The lockdown, lower demand and maintenance shutdown drove volumes down 24% y/y in Q4 FY20 to 0.54m tons, leading to revenue falling 20% y/y to ₹2.2bn. However, on firm prices y/y, realisation/ton increased 6% y/y. The company sold 90% volumes in Gujarat, vs 83% a year ago. While April was a washout, the clinker plant operated at 80% capacity in May/June. Management said the higher utilisation and new clinker capacity would take care of requirements and it would not have to purchase clinker. In FY20, it purchased 115,000 tons of clinker, resulting in higher costs of ₹70m-80m.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



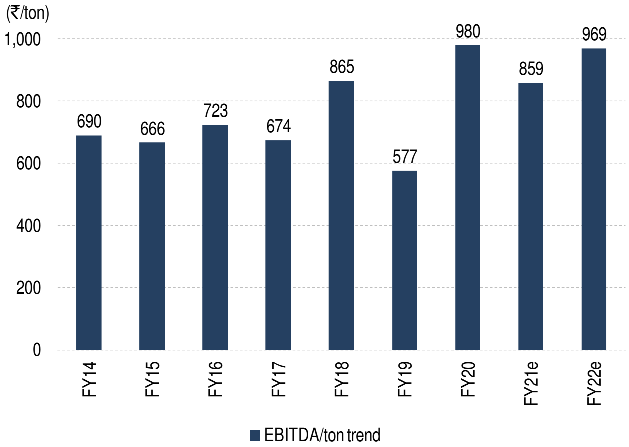
Source: Company, Anand Rathi Research

Operating performance

Q4 FY20 per-ton EBITDA shot up 47.4% y/y to ₹960. EBITDA grew 12% y/y to ₹514m on higher realisations and 14.6% y/y savings in freight cost/ton. Raw material costs increased mainly due to the purchase of clinker. The per-ton fixed-cost increase was due to lower absorption because of low volumes.

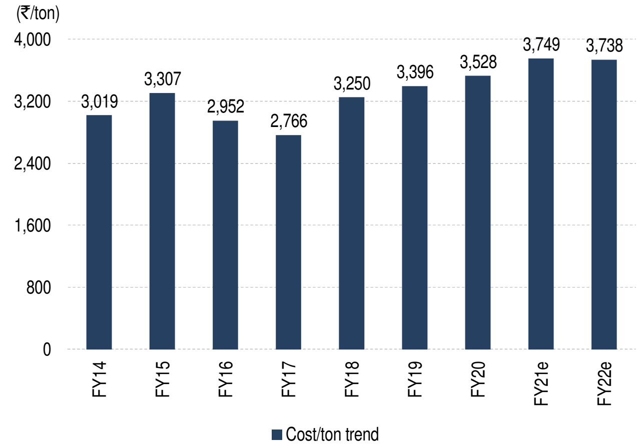
Adj. PAT declined 40% y/y to ₹158m. Interest cost increased 59% y/y on discontinuation of interest capitalisation (when the WHRS/Silo commenced) and higher working capital as monies were used for the expansion. Other income plunged 68% y/y due to funds deployed for the expansion. The nil tax expense continued on brought-forward losses and unabsorbed depreciation expenses.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(₹m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	2,056	2,796	2,741	2,748	2,441	2,661	2,760	2,741	2,047	1,872	2,216	*(19.7)*	*18.4*
EBITDA	467	618	657	434	324	321	460	657	370	388	514	*11.7*	*32.6*
EBITDA margins (%)	*22.7*	*22.1*	*24.0*	*15.8*	*13.3*	*12.1*	*16.7*	*24.0*	*18.1*	*20.7*	*23.2*	*653bps*	*249bps*
Interest	188.8	172.6	170.7	122.9	167.5	146.7	135.7	170.7	185.0	208.0	216.0	*59.2*	*3.8*
Depreciation	180	181	145	195	198	187	134	145	157	155	164	*22.1*	*5.6*
Other income	11.4	57.0	42.2	82.7	61.2	55.0	73.8	42.2	34.4	24.3	23.7	*(67.8)*	*(2.1)*
PBT	109	322	384	199	20	43	264	384	62	49	158	*(40.1)*	*222.8*
Tax	-	-	-	-	-	-	-	-	-	-	-	*NA*	*NA*
Adj. PAT	109	322	384	199	20	43	264	384	62	49	158	*(40.1)*	*222.8*

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(₹m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Realisation per ton	3,865	3,841	3,988	4,042	3,937	4,007	3,906	3,988	4,528	4,307	4,138	*5.9*	*(3.9)*
EBITDA per ton	877	849	956	638	523	484	651	956	819	892	960	*47.4*	*7.6*
Sales volumes (m tons)	0.5	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.5	0.4	0.5	*(24.2)*	*23.2*
Costs													
Raw material	241	245	283	297	355	327	342	283	397	705	512	*49.7*	*(27.3)*
Power & Fuel	861	811	913	1,210	1,251	1,034	955	913	1,146	1,110	988	*3.4*	*(11.0)*
Freight	1,275	1,250	1,448	1,508	1,573	1,493	1,363	1,448	1,365	1,272	1,164	*(14.6)*	*(8.5)*
Staff	256	175	178	178	173	128	141	178	275	283	207	*47.4*	*(26.7)*
Stores & consumable	216	182	157	172	186	162	145	157	196	171	164	*12.8*	*(4.4)*
Other expense	339	254	262	249	221	125	261	262	301	317	338	*29.8*	*6.8*

Source: Company, Anand Rathi Research

Con-call highlights

Operational highlights

- Cement sales volumes in Q4 FY20 fell 24% to 0.54m tons, and 26% in FY20 to 1.97m tons.
- Capacity utilisation was 50% in FY20. In May and June, the clinker plant operated at 80% capacity.
- The fuel mix was ~21% lignite, ~79% imported coal.
- The geographical sales-mix was Gujarat 90% (83% a year back), Maharashtra/Kerala/Rajasthan 10%.
- The PPC/OPC mix was 37:63.
- On the plant shutdown and lower production (because of the extended monsoon/cyclone in Q2 and Q3, 115,000 tons of clinker were purchased in FY20, resulting in `700m-800m higher costs. Management expects this to be a one-time expense. In FY21, the new clinker plant will come up, and clinker clinker plant is running at 80%.
- Of its cement sales volumes, 21% was bulk cement, which helped reduce packaging costs.
- Finance cost increased 59% y/y owing to the discontinuation of interest capitalisation (on the WHRS commencement, etc.) and increase of working capital as funds were deployed towards the expansion.
- The company has 1bn tons of limestone reserves at Kutch, sufficient for the next 50 years.
- Gujarat sold 21m tons in FY20, down 10% y/y. (Ultratech has a 38% market share in Gujarat.)
- Due to brought-forward depreciation and losses, the tax liability was nil.

Fig 13 – State-wise mix

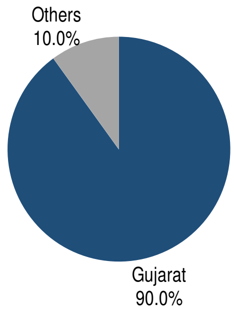


Fig 14 – Fuel mix

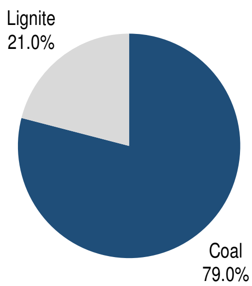
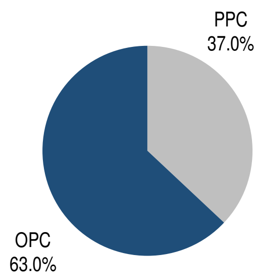


Fig 15 – PPC:OPC mix



Source: Company, Anand Rathi Research

Capex and Financial highlights

- Gross debt includes ₹10bn term debt and ₹2.5bn for working capital. Management said term debt would further increase by ₹1bn on the ongoing expansion. Interest cost of debt is 10.5%.
- The company has applied for a moratorium and said it had a debt repayment liability in FY21 of ₹1.25bn.

- The Kutch GU (2m tons) and clinker plant (3.3m tons) are expected to be ready by Q3 FY21 (earlier Q2 FY21). Management said it would incur capex of ₹1.75bn-2bn on expansion, apart from maintenance capex.
- Weak demand drove the company to defer its Surat GU (2m tons) expansion. Land procurement and environment clearance has been done for the Surat GU. It will take another 12-15 months to commence commercial operations once construction resumes. The company has spent ₹500m on land procurement; a further ₹2.5bn is required.

Outlook

- No new capacities except JK Cement's Balasinor unit will come up in the company's markets.
- Labour unavailability and restricted inter-regional movement delayed the completion of the Kutch GU.
- The company is not exporting clinker to any other country. Management said that ramping up will not be an issue for the new capacities as clinker exports (to Sri Lanka, Bangladesh and the Middle East) are possible. However, in the near term that will be difficult.
- The company purchased coal in March and April and now has stock till Q2 FY21.

Valuations

At the CMP, the stock trades at an EV/EBITDA of 7.9x and an EV/ton of $41. We arrive at a target of ₹37, based on 9x FY22e EV/EBITDA. The implied valuation of the cement business is EV/ton of $47. We maintain our Buy recommendation.

Change in estimates

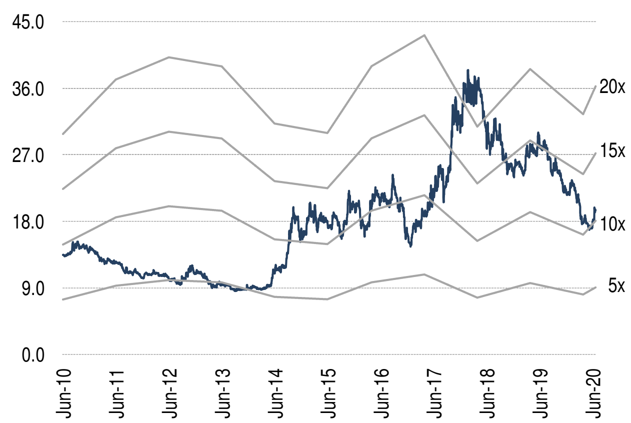
We have increased our FY21e and FY22e revenue 2.3% and 1.9% respectively, EBITDA 21.1% and 13.9% and FY22e PAT 9.6%.

Fig 16 – Change in estimates

	Old		New		Variance	
(₹ m)	FY21e	FY22e	FY21e	FY22e	% chg	% chg
Sales	8,517	11,556	8,713	11,774	*2.3*	*1.9*
EBITDA	1,341	2,129	1,624	2,425	*21.1*	*13.9*
PAT	(181)	409	(121)	448	*NA*	*9.6*

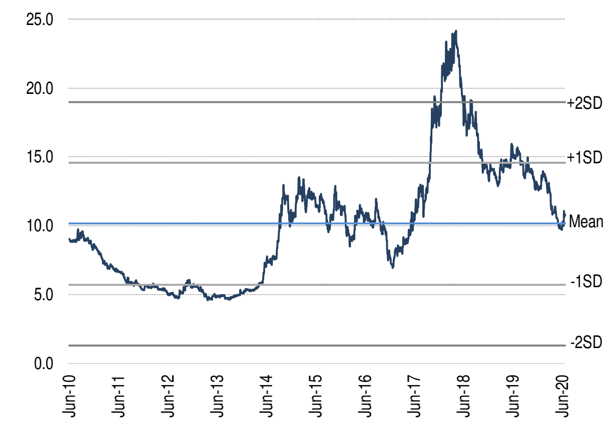
Source: Anand Rathi Research

Fig 17 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 18 – EV/EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Fig 19 – Peer comparison – Valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / ton ($)	
	(₹)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Sanghi Industries	26	NA	14.8	12.1	7.9	42	41
Birla Corp.	597	18.8	13.5	8.1	6.7	60	50
Dalmia Bharat	700	NA	NA	9.4	7.7	93	78
Deccan Cement	271	12.7	8.2	5.7	3.7	20	18
Heidelberg Cement	181	22.8	15.5	10.5	8.0	82	77
India Cement	125	NA	43.2	14.1	10.5	60	60
JK Cement	1,366	28.5	18.1	13.8	10.0	108	102
JK Lakshmi	256	43.1	12.7	9.9	5.6	46	39
Mangalam Cement	192	13.9	7.8	6.8	4.8	36	33
NCL Indus	75	11.2	5.9	5.2	3.5	26	23
Orient Cement	77	100.0	22.6	9.7	7.2	43	41
Prism Johnson	48	NA	29.2	10.9	7.9	52	49
Ramco Cement	642	36.0	23.7	20.1	14.0	117	112

Source: Anand Rathi Research

Risks

- Extension of the lockdown
- Higher operational costs and lignite non-availability.

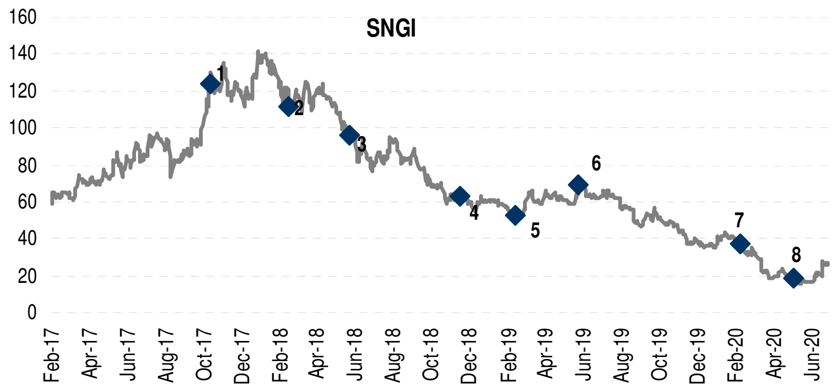
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 27 June 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	12-Oct-17	Buy	147	115
2	16-Feb-18	Buy	145	120
3	23-May-18	Buy	121	97
4	16-Nov-18	Buy	75	63
5	12-Feb-19	Buy	70	53
6	24-May-19	Buy	80	65
7	07-Feb-20	Buy	47	37
8	04-May-20	Buy	30	19

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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