

# Sanghi Industries Ltd

SELL

CMP Rs26.4

Target Rs16.2

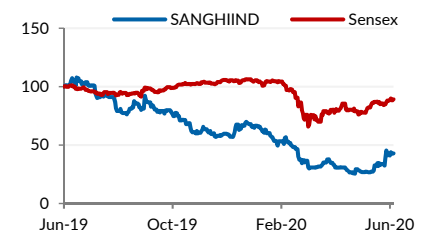
Downside 39%

<b>Highlights</b>	<ul style="list-style-type: none"> <li>✓ <b>Total Volumes</b> during the quarter declined sharply by 32.3% y/y – at 0.48 MT due to Coronavirus inflicted lockdown measures and maintenance shutdown. Similarly, volumes for FY20 de-grew by ~26% y/y to 1.97 MT with utilization level lingering around 48%.</li> <li>✓ <b>Operating performance:</b> Slump in volumes was offset by robust pricing scenario in Gujarat during Q4FY20 (NSR +19% y/y) and softer energy costs. Accordingly, EBITDA/te of SNGI stood at Rs 1,069 – sturdy growth of 65% y/y while absolute EBITDA grew by ~12% to Rs 514 mn.</li> <li>✓ <b>Capex:</b> Total outgo for SNGI was ~Rs 6 bn during FY20 towards completion of clinker and grinding unit of Kutch – expected to be commissioned by Q2FY21.</li> <li>✓ <b>Leverage position:</b> Total Net debt/EBITDA of company stood at alarming levels of 6.24x as of Mar'20 vis-à-vis ~3.92x in FY19.</li> </ul>
<b>Our View</b>	<ul style="list-style-type: none"> <li>✓ Post commissioning of Kutch grinding unit, capacity of SNGI will increase by ~50% to 6 MTPA. However, we foresee serious challenges w.r.t ramping up the grinding unit due to heightened competitive intensity and modest demand growth in Gujarat market while volumes would be driven by clinker exports (margin dilutive). Accordingly, we expect utilization levels to remain subdued – at 48% by FY22.</li> <li>✓ Going ahead, we do not expect debt repayment of Rs 1.2 bn in FY21E to be a challenge for SNGI as liquidation of NWC and surge in clinker exports would aid higher cash flow generation. However, inability to ramp up new plant would ensure a precarious balance sheet over the long term.</li> <li>✓ In our bull case scenario, despite factoring in volume/EBITDA CAGR of 22.1%/14.1% over FY20-FY22 (base of volume is weak due to two maintenance shutdowns in FY20), we expect net debt/EBITDA to hover at elevated levels of 4.4x by FY22.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>✓ Currently SNGI is trading at EV/EBITDA at ~7x and EV/te of \$41 on FY22E. Taking an average of EV/EBITDA and DCF derived values, we have a target of Rs 16.2/share (implied EV/EBITDA multiple of 6x on FY22E).</li> </ul>
<b>Risk to our call</b>	<ul style="list-style-type: none"> <li>✓ In a scenario of SNGI takeover by a PAN India player, there can be significant upside potential as asset valuation of company is subdued currently.</li> </ul>

## Stock data (as on June 26, 2020)

Sensex:	35,171
52 Week h/l (Rs)	68 / 14
Market cap (Rs/USD mn)	6,626 / 88
Outstanding Shares (mn)	251
6m Avg t/o (Rs mn):	13
Div yield (%):	-
Bloomberg code:	SNGI IN
NSE code:	SANGHIIND

## Stock performance



(%)	1M	3M	1Y
Absolute return	57.1	39.3	(57.4)

## Shareholding pattern (As of Mar'20 end)

Promoter	70.3%
FII+DII	16.7%
Others	12.9%

## Δ in earnings estimates

Rs bn	FY21E	FY22E
EBITDA (New)	1.90	2.51
EBITDA (Old)	1.92	2.57
% change	(1.2)	(2.3)

## Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q4 FY20	Q3 FY20	q/q (%)	Q4 FY19	y/y (%)
Revenue	2,216	1,872	18.4	2,760	(19.7)
EBITDA	514	388	32.5	460	11.7
EBITDA Margin (%)	23.2	20.7	247 bps	16.7	653 bps
D&A	164	155	5.6	134	22.1
Interest	216	208	3.8	136	59.2
PBT	158	49	220.9	264	(40.1)
Tax	0	0	-	0	-
Reported PAT	158	49	220.9	264	(40.1)

Source: Company, YES Sec – Research

## KUNAL SHAH

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## Exhibit 2: Per te analysis

(in Rs)	Q4 FY20	Q3 FY20	q/q (%)	Q4 FY19	y/y (%)
Volumes (in MT)	0.48	0.44	9.3	0.71	(32.3)
Net realization	4,607	4,254	8.3	3,887	18.5
Raw Material cost	352	234	50.5	378	(6.7)
Employee cost	231	283	(18.4)	146	58.6
Power and fuel cost	1,100	1,110	(0.9)	988	11.3
Freight cost	1,296	1,257	3.1	1,307	(0.9)
Other expenses	559	488	14.5	420	33.2
<b>EBITDA</b>	<b>1,069</b>	<b>882</b>	<b>21.2</b>	<b>648</b>	<b>64.9</b>

Source: Company, YES Sec - Research

## Con-call highlights:

- ✓ Lower volumes in Q4FY20 and FY20 was led by heavy monsoons, two maintenance shutdowns during the year and Coronavirus inflicted lockdown measures in latter half of Mar'20. However, post relaxation of lockdown, current clinker utilization is ~70-80%.
- ✓ Strong prices in Gujarat with NSR up 18% y/y and 7% q/q aided higher operating earnings despite sharp decline in volumes.
- ✓ Kutch clinker and grinding unit is nearing completion and commercial production should start by Q3FY21E. On the other hand, Surat grinding unit has been put on hold due to bleak demand scenario.
- ✓ Although ramp-up of new grinding unit would depend upon how the pandemic situation evolves, company would try to increase utilization levels through clinker exports in Bangladesh and Sri-Lanka which are predominantly clinker deficit markets.
- ✓ Total pending capex for Kutch plant is ~Rs 1.75-2 bn, which would be incurred in FY21E
- ✓ Total debt of the company currently is Rs 12.50 bn with expectation of further Rs 1 bn for project completion. Debt repayment obligation for FY21E is Rs 1.2 bn.

## Exhibit 3: Revision in estimates

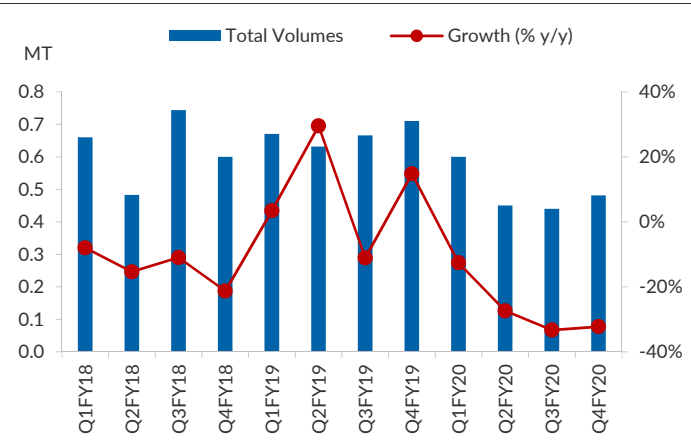
	FY21E		% change	FY22E		% change
	Revised	Old		Revised	Old	
Total Volumes (MT)	1.9	2.1	(9.7)	2.9	2.9	1.7
Net sales (Rs mn)	9,229	10,814	(14.7)	18,229	15,886	14.7
EBITDA (Rs mn)	1,901	1,924	(1.2)	2,510	2,569	(2.3)
Realization/te (Rs)	4,775	5,053	(5.5)	6,203	5,497	12.9
EBITDA/te (Rs)	983	899	9.4	854	889	(3.9)

Source: Company, YES Sec - Research

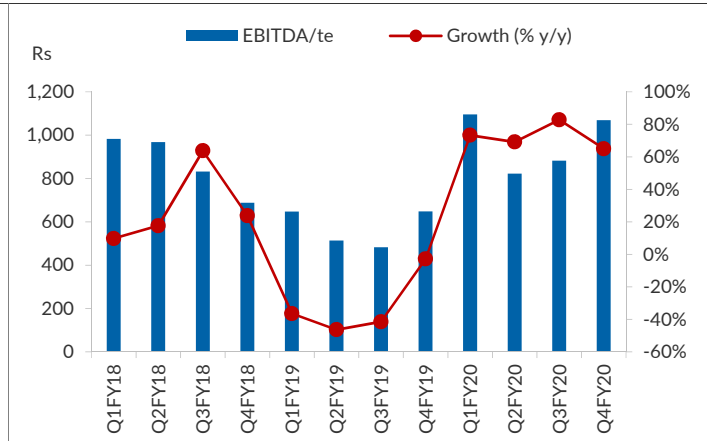
## CHARTS

**Exhibit 4: Downward trajectory of volumes continue...**

**Exhibit 5: ...while healthy pricing in Gujarat ensures sturdy EBITDA/te**

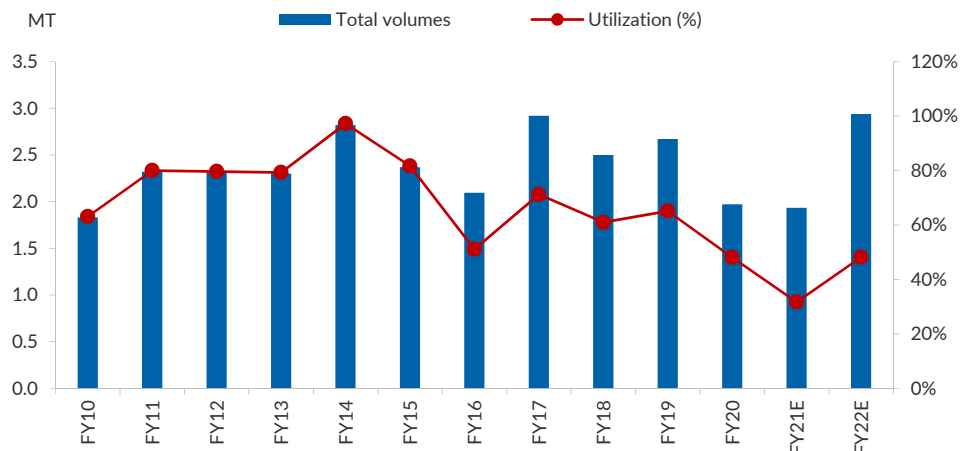


Source: Company, YES Sec - Research



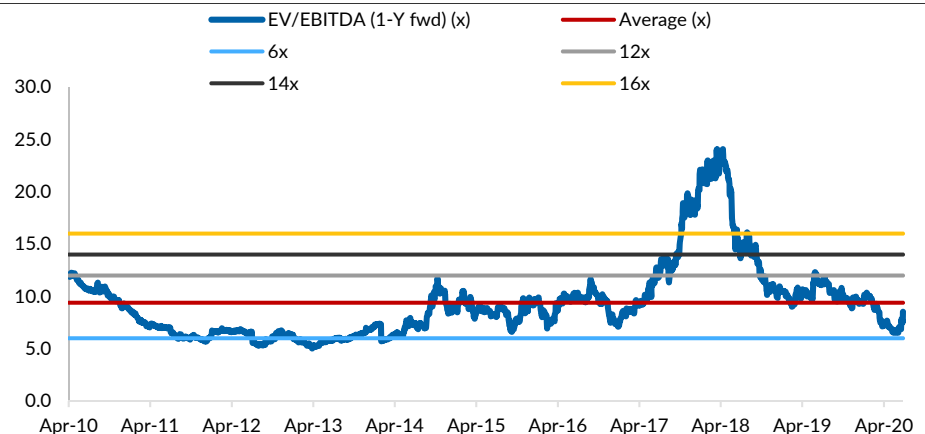
Source: Company, YES Sec - Research

**Exhibit 6: Utilization level of the company to remain subdued - at 48% by FY22E**



Source: Company, YES Sec - Research

**Exhibit 7: One year forward EV/EBITDA band of SNGI**



Source: Company, YES Sec - Research

## FINANCIALS

### Exhibit 8: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>10,610</b>	<b>8,875</b>	<b>9,229</b>	<b>18,229</b>
Growth (%)	3.4	(16.3)	4.0	97.5
<b>EBITDA</b>	<b>1,540</b>	<b>1,929</b>	<b>1,901</b>	<b>2,510</b>
<b>EBITDA margin (%)</b>	<b>14.5</b>	<b>21.7</b>	<b>20.6</b>	<b>13.8</b>
Growth (%)	(28.6)	25.3	(1.5)	32.0
D&A	713	621	700	786
Other income	273	125	3	4
<b>EBIT</b>	<b>1,099</b>	<b>1,433</b>	<b>1,205</b>	<b>1,729</b>
<b>EBIT margin (%)</b>	<b>10.4</b>	<b>16.1</b>	<b>13.1</b>	<b>9.5</b>
Interest	573	780	1,155	1,079
<b>PBT</b>	<b>526</b>	<b>654</b>	<b>50</b>	<b>650</b>
Tax	-	-	-	-
<b>Net profit</b>	<b>526</b>	<b>654</b>	<b>50</b>	<b>650</b>
<b>NPAT margin (%)</b>	<b>5.0</b>	<b>7.4</b>	<b>0.5</b>	<b>3.6</b>
EPS (Rs)	2	3	0.2	3
Growth (%)	(43.6)	24.3	(92.4)	1,202

Source: Company, YES Sec – Research

### Exhibit 9: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Equity Share Capital	2,510	2,510	2,510	2,510
Reserves	13,994	14,644	14,694	15,343
<b>Total Shareholders' Funds</b>	<b>16,504</b>	<b>17,154</b>	<b>17,204</b>	<b>17,853</b>
<b>Non-current liabilities</b>				
Long term borrowings	5,212	8,802	9,802	8,552
Other long term liabilities	314	568	568	568
<b>Current liabilities</b>				
Short term borrowings	1,927	2,586	759	1,317
Trade payables	1,930	1,330	1,244	1,746
Other current liabilities	1,558	2,832	2,832	2,832
<b>Total equity and liabilities</b>	<b>28,159</b>	<b>34,043</b>	<b>33,179</b>	<b>33,639</b>
<b>Non-current assets</b>				
PPE	16,051	17,062	24,236	23,650
CWIP	4,368	10,041	4,368	4,368
<b>Current assets</b>				
Current Investments	-	-	-	-
Inventories	2,373	3,566	1,637	2,298
Trade receivables	442	394	409	809
Cash and cash equivalents	5	23	89	74
Other bank balances	1,662	516	-	-
<b>Total assets</b>	<b>28,159</b>	<b>34,043</b>	<b>33,179</b>	<b>33,639</b>

Source: Company, YES Sec – Research

## Exhibit 10: Cash Flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>526</b>	<b>654</b>	<b>50</b>	<b>650</b>
Depreciation & Amortization	713	621	700	786
Finance cost	573	780	1,155	1,079
(Incr)/Decr in Working Capital	(377)	(1,294)	1,827	(558)
Taxes	(11)	12	0	0
<b>Cash from ops.</b>	<b>1,223</b>	<b>713</b>	<b>3,731</b>	<b>1,956</b>
(Incr)/ Decr in PP&E	(3,999)	(5,975)	(2,200)	(200)
Changes in other bank balances	2,614	1,146	516	0
<b>Cash Flow from Investing</b>	<b>(1,119)</b>	<b>(4,710)</b>	<b>(1,684)</b>	<b>(200)</b>
(Decr)/Incr in Borrowings	455	4,801	(827)	(692)
Finance cost	(573)	(780)	(1,155)	(1,079)
Dividend paid	-	-	-	-
<b>Cash Flow from Financing</b>	<b>(104)</b>	<b>4,015</b>	<b>(1,982)</b>	<b>(1,771)</b>
Incr/(Decr) in cash	0	18	66	(15)
<b>Cash and cash equivalents at beginning of year</b>	<b>4</b>	<b>5</b>	<b>23</b>	<b>89</b>
<b>Cash and cash equivalents at end of year</b>	<b>5</b>	<b>23</b>	<b>89</b>	<b>74</b>

Source: Company, YES Sec – Research

## Exhibit 11: Ratios

Y/e 31 Mar	FY19	FY20	FY21E	FY22E
ROE (%)	3.2	3.8	0.3	3.6
ROCE (%)	4.5	4.8	4.2	6.0
Net debt to equity (x)	0.4	0.7	0.7	0.6
Net debt to EBITDA (x)	3.9	6.2	6.1	4.4
Interest coverage (x)	1.9	1.8	1.0	1.6
EV/EBITDA (x)	14.0	6.6	9.6	7.0
EV/te (\$)	75	44	43	41

Source: Company, YES Sec – Research

## Exhibit 12: Operating Metrics

Per te (in Rs)	FY19	FY20	FY21E	FY22E
<b>Total volumes (MT)</b>	<b>2.7</b>	<b>2.0</b>	<b>1.9</b>	<b>2.9</b>
<b>Net plant realization</b>	<b>2,675</b>	<b>3,191</b>	<b>3,075</b>	<b>2,874</b>
Raw Material cost	364	364	347	320
Employee cost	156	245	251	184
Power and fuel cost	1,118	1,097	987	1,037
Other expenses	459	506	506	478
<b>EBITDA</b>	<b>577</b>	<b>979</b>	<b>983</b>	<b>854</b>

Source: Company, YES Sec – Research

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