

Lower sales volume largely offset by firm pricing...

Sagar Cements reported a robust performance with EBITDA, PAT growth of 10%, 22%, respectively, in a challenging Q1FY21. The results were ahead of our estimates mainly on account of a sharp increase in cement prices in AP, Telangana aided by lower fuel prices during the quarter. Revenues fell 23.3% YoY to ₹ 264.1 crore (broadly in line with our estimated revenue of ~₹ 271 crore). Sharp fall in sales volume (down 32.5% YoY to 0.55 MT was largely offset by a sharp rise in cement prices (up 13.8% YoY, 31.6% QoQ to ₹4775/t) in AP, Telangana region. The company outperformed our expectations on the margins, profitability front, reporting EBITDA margins of 32.9% (up 1010 bps YoY) for the quarter, which is highest ever margins reported so far during the quarter by any cement company. Drop in petcoke prices also helped it to reduce power & fuel cost by 24% YoY to ₹ 805/t. Capacity utilisation for the quarter was at 37%. With gradual unlocking of economic activities, we expect utilisation to improve, going forward.

Moving ahead with capex; to achieve 10 MT capacity by FY25E

The company is aiming to reach 10 MT capacity by FY25E. In the first phase, it is adding 2.5 MT capacity (1 MT in MP, 1.5 MT in Odisha) for capex of ₹ 800 crore. These capacities will likely get commissioned by end of Q2FY22. Post these expansions, total capacity will increase to 8.25 MT. Having already spent ~₹ 200 crore on these two plants, the company expects debt to peak ~₹ 800 crore and D/E to peak at 0.6x in FY22E. The company has the backing of promoters and international investor, providing comfort.

Lower CoP, firm pricing to support margin expansion

The company's cost of production (CoP) is one of the lowest in the south market. In the past three years, the company has also initiated further cost efficiency measures like setting up of coal based CPP of 18 MW at its plant in Mattampally, Nalgonda and expansion of grinding unit in Bayyavaram to 1.5 MT. This, in turn, has helped the company to reduce lead distance and power costs. For fuel requirement, the company also uses 100% petcoke, prices of which also fell 24% YoY leading to further reduction in CoP by 1.1% YoY to ₹ 3,200/t despite lower sales volume offtake on account of lockdown during the quarter. Going forward, we expect the company to broadly maintain the CoP at optimum levels, which would help it to improve margins on a YoY basis despite factoring in the softening of cement prices after a sharp rally due to supply disruptions.

Valuation & Outlook

While the full benefit of new capacities would start flowing in from FY23, we expect expansion led revenue CAGR of 14.2% in FY20-22E. On the valuation front, the company is available at an FY20 EV/t of \$51, implying a considerable margin of safety to the replacement cost of \$100-110. Further, with strong management profile, cost efficiency and healthy BS, we maintain **BUY** rating with a revised target price of ₹ 650 (i.e. at 7x FY22E EV/EBITDA).



Stock Data

Particular	Amount
Market Capitalization	₹ 1163 Crore
Total Debt (FY20)	₹ 498 Crore
Cash and Investments (FY20)	₹ 12 Crore
EV	₹ 1649 Crore
52 week H/L	₹ 732/236
Equity capital	₹ 23.5 Crore
Face value	₹ 10

Key Highlights

- Company operated at 37% capacity post lockdown
- Will continue with capex, new capacities to come on stream by Q3FY22
- Reduction in input costs a relief to cement companies
- Maintain BUY with revised target price of ₹650 (Earlier: ₹ 350)

Research Analyst

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Sales	1038.1	1217.6	1175.2	1113.7	1532.9	14.2%
EBITDA	151.3	149.4	185.5	267.8	322.7	31.9%
EBITDA (%)	14.6	12.3	15.8	24.0	21.1	
PAT	26.3	13.6	40.2	101.9	120.9	73.4%
EPS (₹)	12.9	5.8	17.1	43.3	51.4	
EV/EBITDA	10.5	10.9	8.9	6.4	5.9	
EV/Tonne (\$)	53	44	41	43	33	
RoNW	3.4	1.6	4.2	8.9	9.6	
RoCE	8.1	6.4	7.2	10.7	11.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	
Total Operating Income	264.1	271.1	344.2	-23.3	303.6	-13.0	Volume decline of 32.5% YoY largely offset by sharp increase in realisations (up 13.8% YoY)
Other Income	0.8	1.0	1.5	-45.5	2.3	-65.7	
Raw Material Expenses	49.6	50.0	60.7	-18.3	59.5	-16.7	
Employee Expenses	14.5	15.0	14.7	-1.3	18.9	-23.1	
Power & Fuel	44.6	70.5	87.0	-48.8	76.3	-41.6	Lower petcoke prices (down 24% YoY to ₹6829/t) and optimisation of thermal efficiency have led to lower fuel expenses for the quarter
Freight cost	39.1	49.4	60.1	-34.9	59.7	-34.5	
Others	29.3	42.8	43.1	-32.0	44.5	-34.1	
EBITDA	87.0	43.4	78.6	10.7	44.7	94.8	
EBITDA Margin (%)	32.9	16.0	22.8	1010 bps	14.7	1823 bps	
Interest	12.8	15.0	15.0	-14.3	14.5	-11.6	
Depreciation	20.0	22.0	17.8	12.1	21.4	-6.6	
PBT	55.0	7.4	47.3	16.3	11.1	395.8	
Total Tax	19.0	2.5	17.8	6.9	9.9	91.9	
PAT	36.0	4.9	29.5	22.0	1.2	2,950.0	

Key Metrics

Volume (MT)	0.55	0.65	0.82	-32.5	0.84	-33.9	Company operated with 38% capacity utilisation during the quarter
Net realisation (₹)	4,775	4,117	4,198	13.8	3,627	31.6	Limited availability of cement led to sharp spike in cement prices
EBITDA per Tonne (₹)	1,573	659	959	64.1	534	194.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,061.0	1,113.7	5.0	1,350.0	1,532.9	13.5	The sharp spike in cement prices and gradual stabilisation of pandemic situation should lead to better growth than expected earlier Factoring in the 31% QoQ increase in prices, EBITDA estimates for FY21E and FY22E has been revised upwards
EBITDA	131.0	267.8	104.4	198.0	322.7	63.0	
EBITDA Margin (%)	12.3	24.0	1170 bps	14.7	21.1	638 bps	

Source: Company, ICICI Direct Research

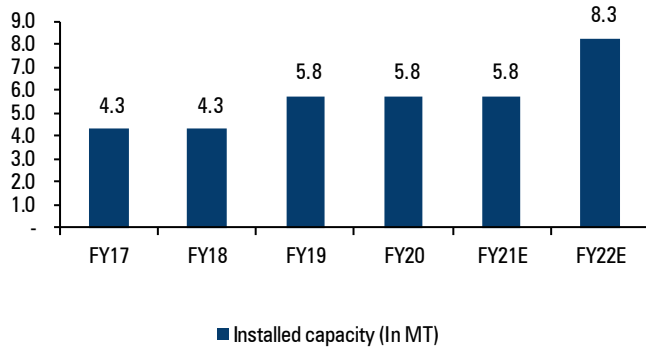
Exhibit 3: Assumptions

	Current					Earlier	
	FY18	FY19	FY20P	FY21E	FY22E	FY21E	FY22E
Volume (MT)	2.7	3.3	3.1	2.6	3.7	2.5	3.3
Gross Realisation (₹)	3,916	3,666	3,753	4,306	4,091	3,617	3,725
EBITDA per Tonne (₹)	571	450	592	1,035	861	446	547

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 4: Installed capacity to increase 43.5% by FY22E



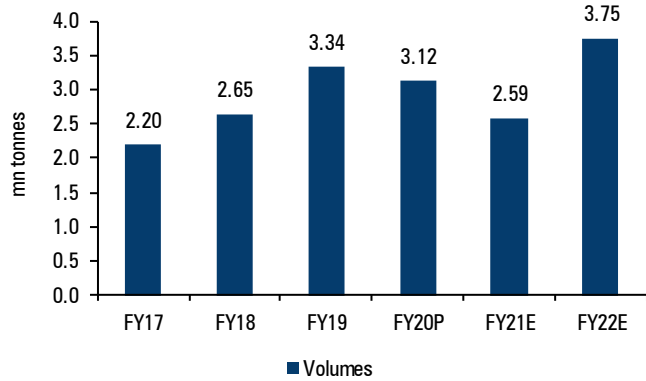
Source: Company, ICICI Direct Research

Exhibit 5: Capacity addition plans

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

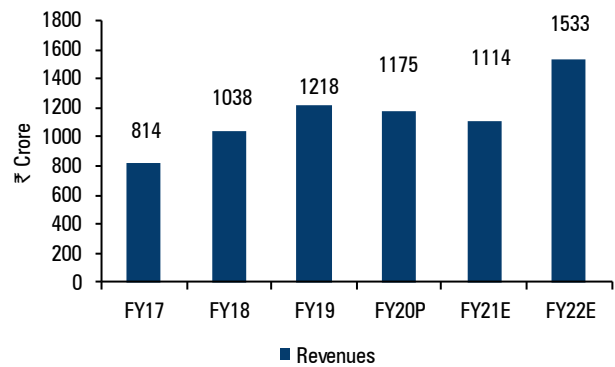
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 9.6% CAGR over FY20-22E with commissioning of new capacities



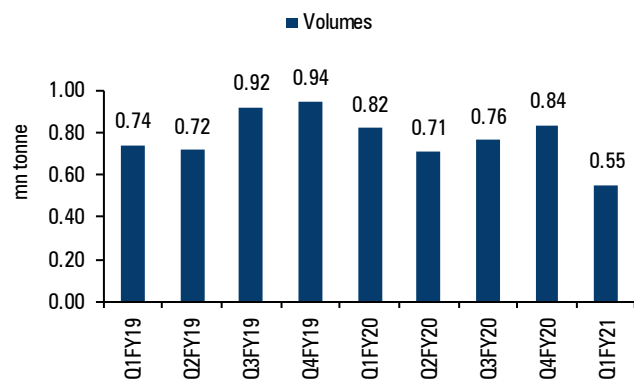
Source: Company, ICICI Direct Research

Exhibit 7: Topline to grow at 16% CAGR over FY20-22E



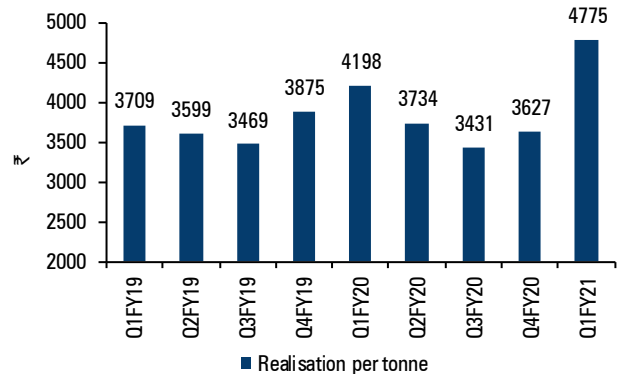
Source: Company, ICICI Direct Research

Exhibit 8: Volumes decline 32.5% YoY in Q1FY21



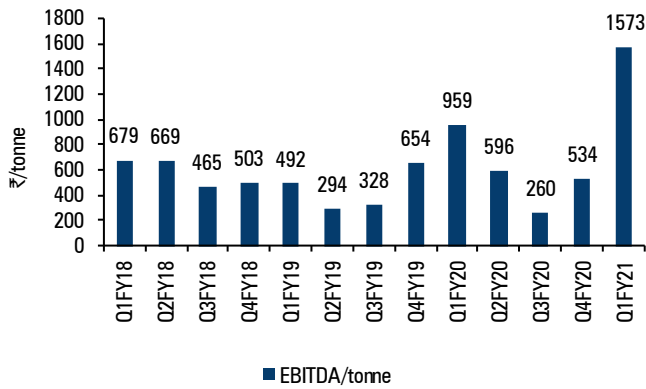
Source: Company, ICICI Direct Research

Exhibit 9: Realisations spike sharply by over ₹1000/t QoQ



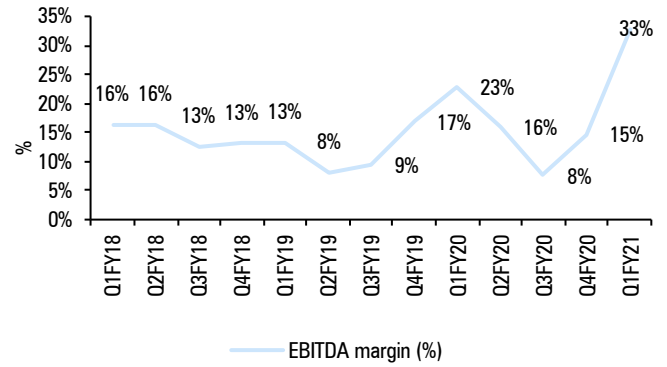
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t spiked 64% YoY in Q1FY21 led by sharp increase in realisations



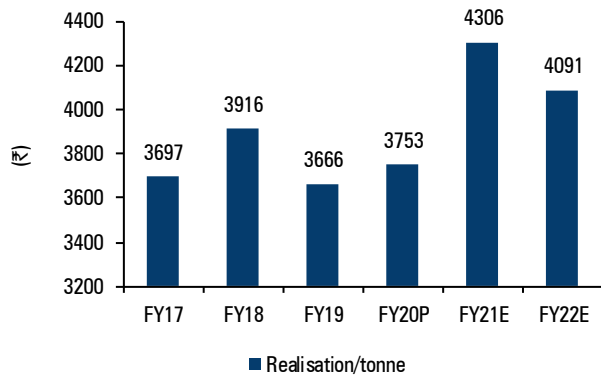
Source: Company, ICICI Direct Research

Exhibit 11: Margins expand 1010 bps YoY during Q1FY21



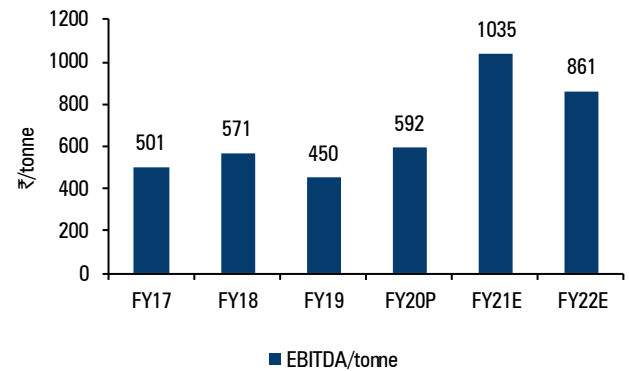
Source: Company, ICICI Direct Research

Exhibit 12: Realisations to stay firm in FY21; to contract in FY22 with normalisation of demand & supply



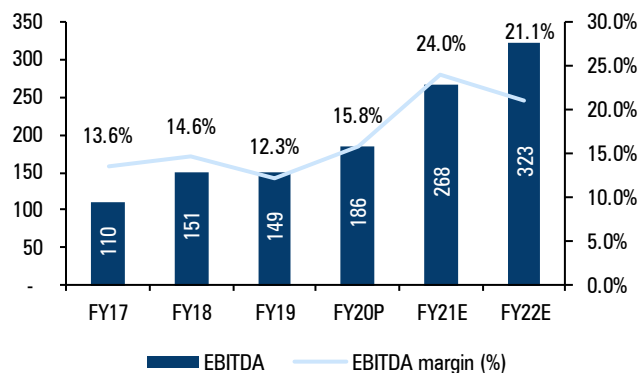
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t trend



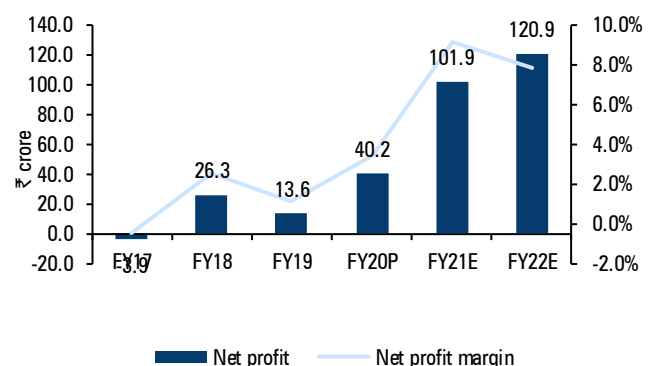
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA to normalise from FY22 onwards



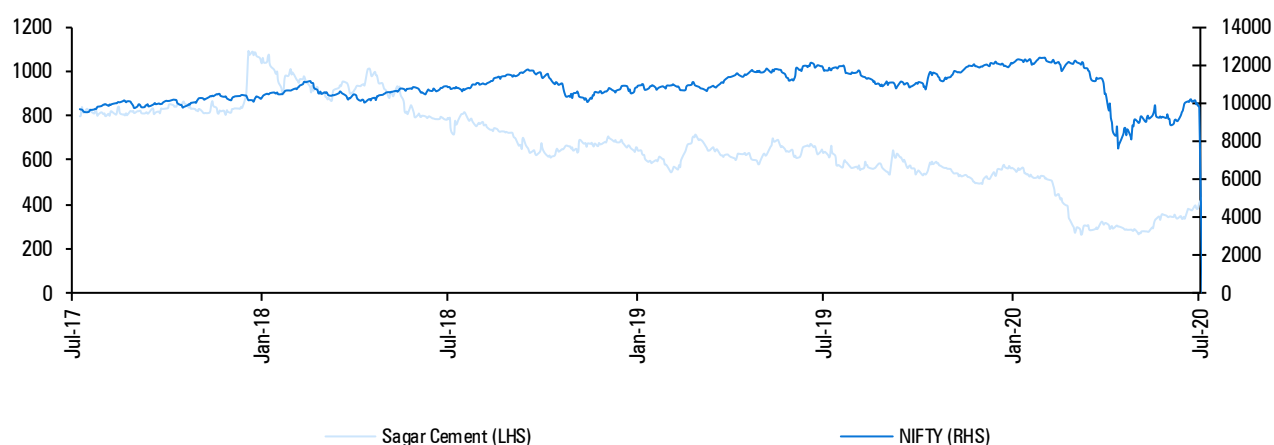
Source: Company, ICICI Direct Research

Exhibit 15: To report profit in FY22E led by higher EBITDA



Source: Company, ICICI Direct Research

Exhibit 16: Three year price chart vs Nifty



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 Consitng Srvcv Pv	31-Mar-20	5.0	1.10	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 18: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	50.06	50.06	50.06	50.06	50.90
FII	3.46	3.06	3.05	2.88	2.88
DII	13.81	12.82	12.86	12.04	12.71
Others	32.67	34.06	34.03	35.02	33.51

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 19: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Incon	1,217.6	1,175.2	1,113.7	1,532.9
Growth (%)	17.3	-3.5	-5.2	37.6
Raw material cost	238.8	227.3	219.8	281.0
Power & fuel	362.8	309.2	232.8	352.2
Freight cost	252.5	223.8	186.2	277.3
Others	214.1	229.4	207.1	299.6
Total Operating Exp.	1,068.1	989.7	845.9	1,210.2
EBITDA	149.4	185.5	267.8	322.7
Growth (%)	-1.2	24.2	44.4	20.5
Depreciation	65.7	78.9	79.0	90.4
Interest	63.4	47.3	44.6	60.6
Other Income	2.9	4.0	3.5	3.5
PBT	23.2	63.3	147.6	175.2
Total Tax	9.6	23.1	45.8	54.3
PAT	13.6	40.2	101.9	120.9
PAT margin	1.1	3.4	9.1	7.9
Adjusted PAT	13.6	40.2	101.9	120.9
Growth (%)	-48.2	195.9	NA	NA
Adjusted EPS (₹)	5.8	17.1	43.3	51.4

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	13.6	40.2	101.9	120.9
Add: Depreciation	65.7	78.9	79.0	90.4
(Inc)/dec in Current Assets	-10.0	-68.3	56.9	-117.9
Inc/(dec) in CL and Provisions	-2.5	22.4	-15.0	83.3
CF from operating activities	130.2	120.5	267.3	237.2
(Inc)/dec in Investments	0.0	-11.8	0.0	0.0
(Inc)/dec in Fixed Assets	-241.7	-202.2	-380.0	-370.0
Others	74.1	-8.6	14.4	14.4
CF from investing activities	-167.6	-222.6	-365.6	-355.6
Issue/(Buy back) of Equity	0.0	85.3	84.0	0.0
Inc/(dec) in loan funds	21.4	-1.2	60.0	200.0
Dividend paid & dividend tax	-11.3	-4.3	-5.9	-3.5
Interest paid	-63.4	-47.3	-44.6	-60.6
Others	63.9	52.3	0.0	0.0
CF from financing activities	10.6	84.8	93.5	135.8
Net Cash flow	-26.9	-17.3	-4.7	17.5
Opening Cash	56.6	29.8	12.5	7.7
Closing Cash	29.8	12.5	7.7	25.2

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	20.4	22.0	22.3	22.3
Reserve and Surplus	823.4	944.4	1,124.1	1,241.4
Total Shareholders funds	843.8	966.3	1,146.3	1,263.6
Total Debt	499.3	498.0	558.0	758.0
Deferred Tax Liability	8.3	22.7	37.2	51.6
Minority Interest / Others	163.0	193.9	193.9	193.9
Total Liabilities	1,514.4	1,681.0	1,935.4	2,267.2
Assets				
Gross Block	1,637.9	1,842.1	1,920.1	2,600.1
Less: Acc Depreciation	432.6	511.5	590.5	680.9
Net Block	1,205.2	1,330.6	1,329.6	1,919.2
Capital WIP	110.0	108.0	410.0	100.0
Total Fixed Assets	1,315.2	1,438.6	1,739.6	2,019.2
Investments	38.7	53.4	53.4	53.4
Inventory	145.0	115.8	112.9	147.0
Debtors	115.6	136.8	137.3	189.0
Loans and Advances	21.9	21.2	16.7	23.0
Other Current Assets	62.1	139.1	89.1	115.0
Cash	29.8	12.5	7.7	25.2
Total Current Assets	374.4	425.3	363.7	499.1
Creditors	203.8	223.0	152.6	210.0
Provisions	10.1	13.3	68.7	94.5
Total Current Liabilities	213.9	236.3	221.2	304.5
Net Current Assets	160.5	189.1	142.5	194.7
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	1,514.4	1,681.0	1,935.4	2,267.2

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adjusted EPS	5.8	17.1	43.3	51.4
Cash EPS	33.7	50.7	77.0	89.9
BV	359.1	411.2	487.8	537.7
DPS	4.0	1.5	2.5	1.5
Cash Per Share	12.7	5.3	3.3	10.7
Operating Ratios (%)				
EBITDA Margin	12.3	15.8	24.0	21.1
Adjusted PAT Margin	1.1	3.4	9.1	7.9
Inventory days	43.5	36.0	37.0	35.0
Debtor days	34.7	42.5	45.0	45.0
Creditor days	61.1	69.3	50.0	50.0
Return Ratios (%)				
RoE	1.6	4.2	8.9	9.6
RoCE	6.4	7.2	10.7	11.1
RoIC	6.9	7.5	13.7	11.6
Valuation Ratios (x)				
P/E (adjusted)	85.6	28.9	11.4	9.6
EV / EBITDA	10.9	8.9	6.4	5.9
EV / Net Sales	1.3	1.4	1.5	1.2
Market Cap / Sales	1.0	1.0	1.0	0.8
Price to Book Value	1.4	1.2	1.0	0.9
Solvency Ratios				
Debt/EBITDA	3.3	2.7	2.1	2.3
Debt / Equity	0.6	0.5	0.5	0.6
Current Ratio	1.0	1.2	1.1	1.2
Quick Ratio	0.6	0.9	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 23: ICICI Direct coverage universe (Cement)

Company	CMP		M Cap		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	(₹ Cr)		'1FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,390	HOLD	26,124	73	64	82	10.2	11.1	9.0	92	95	81	17.4	14.0	16.4	11.9	9.7	11.2	
Ambuja Cem*	201	HOLD	39,912	7.7	7.8	9.1	11.0	10.9	8.8	109	114	100	13.2	13.4	15.4	10.0	9.4	10.9	
UltraTech Cem	4,210	BUY	121,489	189	132	181	15.4	15.8	12.1	168	168	158	11.4	10.6	13.8	14.2	9.2	11.3	
Shree Cement	21,350	BUY	77,038	435	223	453	20.9	27.4	19.7	226	214	212	13.8	7.7	13.4	12.1	6.0	11.1	
Heidelberg Cem	180	BUY	4,079	11.8	8.7	12.7	8.2	10.9	8.1	110	96	94	22.3	19.0	26.2	20.4	16.6	22.1	
JK Cement	1,440	HOLD	11,127	74.9	29.5	52.8	11.4	16.9	12.1	124	119	115	16.2	9.4	13.0	18.5	7.0	11.4	
JK Lakshmi Cem	276	BUY	3,249	22.6	13.3	27.0	6.2	7.0	5.0	45	43	42	17.1	13.3	19.2	15.5	8.4	14.8	
Star Cement	86	BUY	3,605	6.9	4.3	8.7	7.9	9.4	5.7	117	117	80	17.1	10.3	18.9	15.4	9.0	16.4	
Ramco Cement	640	BUY	15,237	25.7	12.1	22.1	15.9	19.9	13.4	140	131	125	7.5	4.7	7.3	12.3	5.6	9.2	
Sagar Cement	495	BUY	1,163	17.1	43.3	51.4	8.9	6.4	5.9	41	43	33	7.2	10.7	11.1	4.2	8.9	9.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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