ANANDRATHI

India I Equities

Cement
Result Update

Change in Estimates ☑ Target ☑ Reco ☐

17 August 2020

Sanghi Industries

Expansion to revive performance; maintaining a Buy

Rating: **Buy**
Target Price: ₹31
Share Price: ₹25

Hit hard by the incidence of Covid-19 cases in the western region (Gujarat/Maharashtra), Sanghi's Q1 revenue, EBITDA and PAT fell 46%, 43% and 84%. Labour unavailability has postponed its Kutch expansion to Q3. We believe pent-up demand and its capacity commencement will boost volume growth. De-levering and cost optimisation are key things to watch. We retain our Buy, with a lower TP of ₹31 (earlier ₹37), 8x FY22e EV/EBITDA.

Covid-scarred quarter. Demand in its key operating areas, Gujarat and Maharashtra, contracted 52% and 80%, leading overall volumes to fall 53% y/y in Q1. Realizations, however, rose 16% y/y on higher trade/PPC/ex-factory sales and a price hike. While EBITDA fell 43% y/y, EBITDA/ton came at ₹1,156, its highest, on high realisations and cost-savings.

Operating parameters to return to pre-Covid levels. Higher trade demand led to a PPC-OPC mix of 45:53 (vs. 34:63 a year ago) and the trade-non trade mix to 45:55. Unavailable lignite and logistical issues led to the company using 100% coal; hence, power & fuel cost increased. However, from Q3 this is expected to be normal. Reduced use of purchased clinker on the higher clinker utilisation and new clinker capacity would help save costs.

Outlook, Valuation. With ~98% of the Kutch expansion completed (3.3m tons for clinker, 2m tons for cement), management expects production to commence by Q3 FY21. The Surat GU expansion continues to be deferred. The company has applied for a moratorium on loan repayment. Clinker exports are expected to be poor in the near term. While demand in Maharashtra continues to be weak, pent-up demand and rural demand in Gujarat are expected to provide a boost. We expect volumes to dip 4% in FY21 and grow 39% in FY22 on greater demand and the Kutch GU commencing. We maintain our Buy rating at a target of ₹31, based on 8x 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	12,296
Net profit (₹ m)	933	526	654	36	703
EPS (₹)	3.7	2.1	2.6	0.1	2.8
PE (x)	31.5	29.7	7.2	NA	8.9
EV / EBITDA (x)	15.2	14.3	9.0	11.8	7.3
EV / ton ($)	106.5	71.5	56.3	41.0	39.2
RoE (%)	6.9	3.2	3.9	0.2	4.0
RoCE (%)	7.3	3.6	4.9	2.4	4.5
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	0.2	0.4	0.7	0.7	0.7

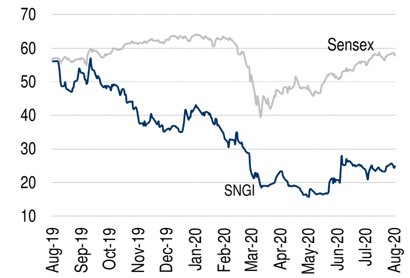
Source: Company, Anand Rathi Research

Key data	SNGI IN / SNGL.BO
52-week high / low	₹60 / 14
Sensex / Nifty	37877 / 11178
3-m average volume	$0.4m
Market cap	₹6bn / $83.1m
Shares outstanding	251m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	70.3	70.3	68.7
- of which, Pledged	*92.2*	*92.2*	*94.4*
Free float	29.7	29.7	31.3
- Foreign institutions	1.5	4.0	4.0
- Domestic institutions	9.3	12.7	13.1
- Public	18.9	13.0	14.2

Estimates revision (%)	FY21e	FY22e
Sales	-	4.4
EBITDA	(2.4)	0.6
PAT	NA	57.0

Relative price performance



Source: Bloomberg

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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	2.6
Net revenues	10,264	10,610	8,875	8,713	12,296
Growth (%)	3.2	3.4	-16.3	-1.8	41.1
Direct costs	6,889	8,073	5,827	5,847	8,309
SG&A	1,216	997	1,119	1,280	1,547
EBITDA	**2,158**	**1,540**	**1,929**	**1,586**	**2,440**
EBITDA margins (%)	21.0	14.5	21.7	18.2	19.8
- Depreciation	724	713	621	737	829
Other income	220	273	125	87	135
Interest expenses	721	573	780	893	884
PBT	933	526	654	44	862
Effective tax rate (%)	0.00	0.00	0.00	18.50	18.50
+ Associates / (Minorities)					
Net income	933	526	654	36	703
Adjusted income	933	526	654	36	703
WANS	251	251	251	251	251
FDEPS (₹ / sh)	3.7	2.1	2.6	0.1	2.8
FDEPS growth (%)	30	-44	24	-95	1,874

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	17,189	17,892
Debt	7,672	8,025	13,127	13,127	12,127
Minority interest	-	-	-	-	-
DTL / (Assets)	-871	-860	-860	-860	-860
Capital employed	**22,780**	**23,668**	**29,420**	**29,456**	**29,159**
Net tangible assets	15,087	16,051	17,062	26,867	26,538
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	4,846	6,744
Cash	4,281	1,667	539	585	430
Current liabilities	2,892	3,630	3,762	3,342	5,053
Working capital	476	1,583	1,778	1,504	1,691
Capital deployed	**22,780**	**23,668**	**29,420**	**29,456**	**29,159**
Contingent liabilities	1200	1070	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	933	526	654	44	862
+ Non-cash items	724	713	621	737	829
Oper. prof. before WC	1,657	1,239	1,274	780	1,691
- Incr. / (decr.) in WC	382	1,106	195	-274	187
Others incl. taxes	-	-	-	8	160
Operating cash-flow	1,275	133	1,080	1,046	1,344
- Capex (tang. + intang.)	2,557	3,109	7,305	1,000	500
Free cash-flow	-1,282	-2,976	-6,226	46	844
Acquisitions					
- Div.(incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	4,002	-	-	-	-
+ Debt raised	1,408	353	5,102	-	-1,000
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	10	-9	4	-0	0
Net cash-flow	4,118	-2,614	-1,127	46	-156

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

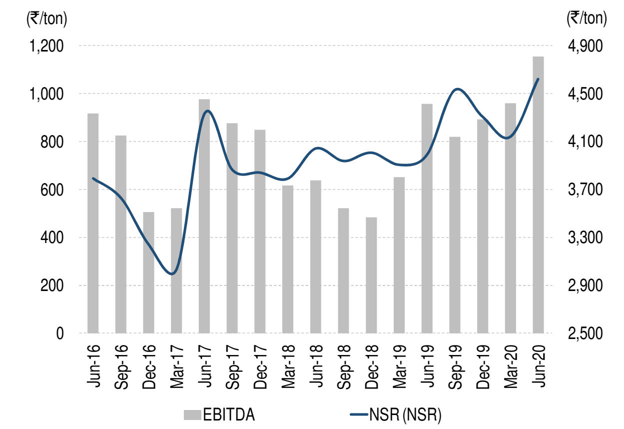
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	31.5	29.7	7.2	NA	8.9
EV / EBITDA (x)	15.2	14.3	9.0	11.8	7.3
EV / Sales (x)	3.2	2.1	2.0	2.2	1.5
P/B (x)	1.8	0.9	0.3	0.4	0.3
RoE (%)	6.9	3.2	3.9	0.2	4.0
RoCE (%) - after tax	7.3	3.6	4.9	2.4	4.5
DPS (₹ / sh)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	0.2	0.4	0.7	0.7	0.7
WC days	17	54	73	63	50
EV / ton ($)	106.5	71.5	56.3	41.0	39.2
NSR / ton (₹)	4,116	3,973	4,508	4,608	4,688
EBITDA / ton (₹)	865	577	980	839	930
Volumes (m tons)	2.49	2.67	1.97	1.89	2.62
CFO : PAT (%)	136.6	25.3	165.2	2,938.3	191.3

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



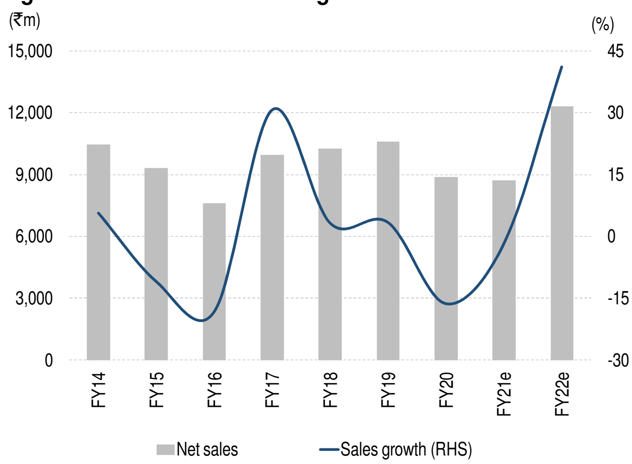
Source: Company, Anand Rathi Research

Key highlights

Revenue growth

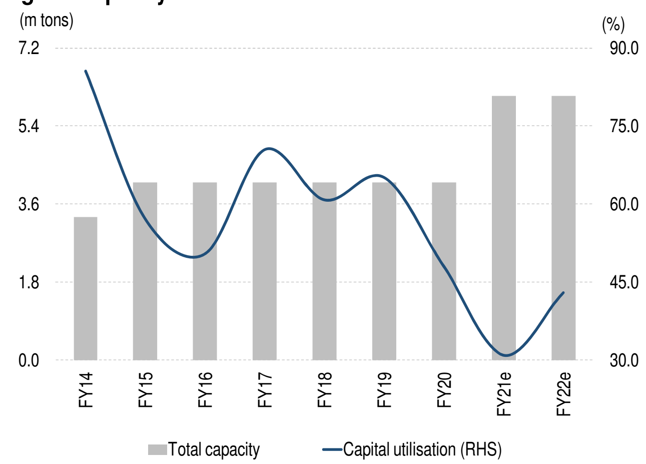
The regions where it operates being greatly affected by Covid-19, April was a complete washout for Sanghi, leading to ~34% lower cement utilization. Its Q1 sales plunged 53% y/y to 0.32m tons, leading to revenue falling ~46% y/y to ₹1.5bn. Demand in its key operating regions, Gujarat and Maharashtra, declined 52% and 80% y/y respectively. However, on firm prices y/y, realisation/ton rose 16% y/y. Sales volumes in Gujarat were only 79% (vs. 90% otherwise). The clinker plant operated at 60% capacity. Management said greater utilisation and the new clinker capacity would suffice for its requirements and it would not have to purchase clinker. In FY20, it purchased 115,000 tons, resulting in ₹70m-80m higher costs.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



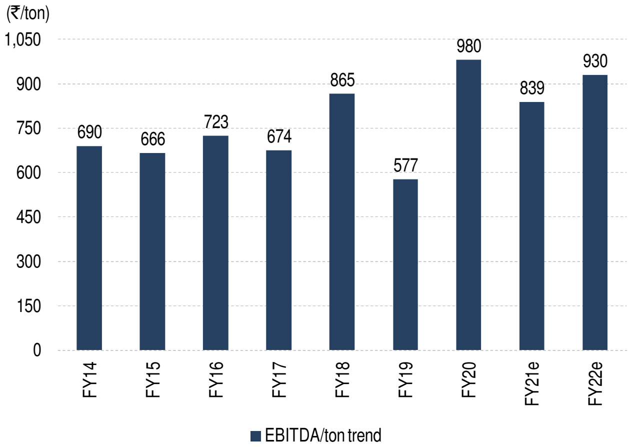
Source: Company, Anand Rathi Research

Operating performance

The Q1 FY21 EBITDA/ton rose 21% y/y to ₹1,156 because of more PPC sales, cost savings and higher realisations. EBITDA declined 43% y/y to ₹372m. The company used 100% coal as no lignite was available (mines closed, logistical issues) leading to power & fuel costs increasing. Ex-factory sales resulted in savings in freight costs. The effective cost of production of clinker reduced by ₹80/ton. The increase in fixed costs per ton was because low volumes led to lower absorption.

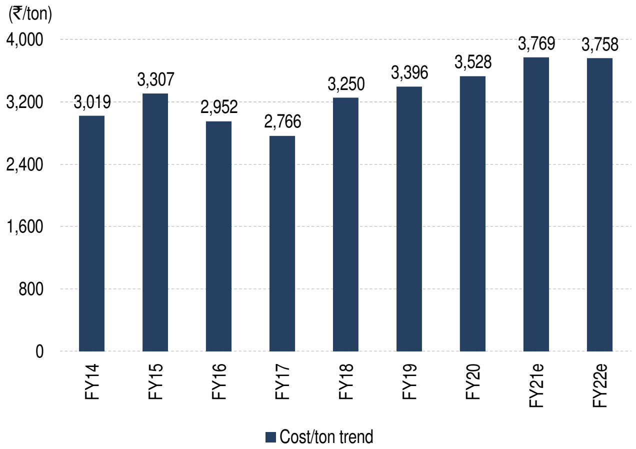
Adj. PAT plunged 84% y/y to ₹60m. Interest cost was flat y/y whereas depreciation cost rose 7% and other income fell 66.5% y/y as funds were deployed for the expansion. The nil tax expense continued on brought-forward losses and unabsorbed depreciation expenses.

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)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Sales	2,796	2,741	2,748	2,441	2,661	2,760	2,741	2,047	1,872	2,216	1,487	(45.7)	(32.9)
EBITDA	618	657	434	324	321	460	657	370	388	514	372	(43.4)	(27.6)
EBITDA margins (%)	22.1	24.0	15.8	13.3	12.1	16.7	24.0	18.1	20.7	23.2	25.0	105bps	181bps
Interest	172.6	170.7	122.9	167.5	146.7	135.7	170.7	185.0	208.0	216.0	171.0	0.2	(20.8)
Depreciation	181	145	195	198	187	134	145	157	155	164	155	7.0	(5.2)
Other income	57.0	42.2	82.7	61.2	55.0	73.8	42.2	34.4	24.3	23.7	14.2	(66.5)	(40.4)
PBT	322	384	199	20	43	264	384	62	49	158	60	(84.3)	(62.0)
Tax	-	-	-	-	-	-	-	-	-	-	-	NA	NA
Adj. PAT	322	384	199	20	43	264	384	62	49	158	60	(84.3)	(62.0)

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(₹m)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Realisation per ton	3,841	3,988	4,042	3,937	4,007	3,906	3,988	4,528	4,307	4,138	4,619	15.8	11.6
EBITDA per ton	849	956	638	523	484	651	956	819	892	960	1,156	20.9	20.3
Sales volumes (m tons)	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.5	0.4	0.5	0.3	(53.2)	(39.9)
Costs													
Raw material	245	283	297	355	327	342	283	397	705	512	583	105.6	13.7
Power & Fuel	811	913	1,210	1,251	1,034	955	913	1,146	1,110	988	1,880	106.1	90.3
Freight	1,250	1,448	1,508	1,573	1,493	1,363	1,448	1,365	1,272	1,164	1,266	(12.6)	8.8
Staff	175	178	178	173	128	141	178	275	283	207	337	89.0	62.5
Stores & consumable	182	157	172	186	162	145	157	196	171	164	200	27.1	22.1
Other expense	254	262	249	221	125	261	262	301	317	338	289	10.3	(14.5)

Source: Company, Anand Rathi Research

Con-call highlights

Operational highlights

- Q1 FY21 cement sales fell 53% to 0.32m tons. Cement and clinker capacity utilisation were 34% and 60% respectively.
- The company used 100% coal as lignite was unavailable (mines closed, logistical issues).
- No clinker was exported.
- The geographical sales-mix was Gujarat 79%; outside Gujarat 21%. Of its sales, 8-10% were ex-factory. Bulk cement was only 13% of sales volumes due to higher trade and rural demand.
- The PPC-OPC mix was 45:55 (vs. 34:63 a year ago). The trade-nontrade mix was 45:55 on high rural demand.

Fig 13 – State-wise mix

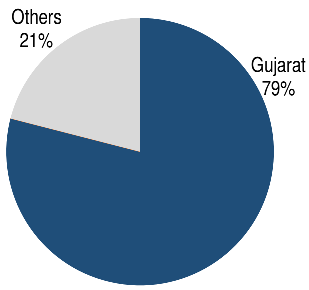


Fig 14 – Trade-non trade mix

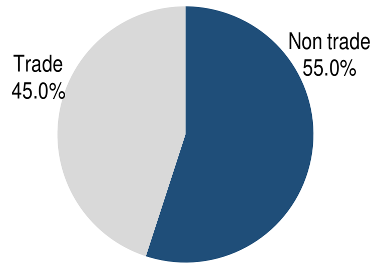
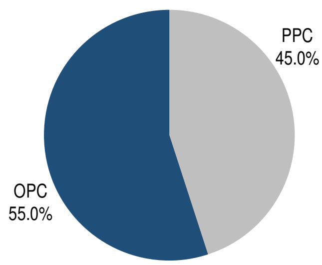


Fig 15 – PPC-OPC mix



Source: Company, Anand Rathi Research

Capex and Financial highlights

- Gross debt was ₹12.5bn-13bn. Interest cost of debt was 10.5%. The company has applied for a moratorium.
- The Kutch GU (2m tons) and clinker plant (3.3m tons) are expected to be ready by Q3 FY21. FY21 maintenance capex would be ₹150m-200m.
- Weak demand led the company to defer its Surat GU expansion. For this 2m-ton expansion, land has been purchased (for ₹500m) and environment clearance obtained. Once construction starts, commercial operations will take 12-15 months to commence. ₹2.5bn would be required for the rest of the works.

Outlook

- In Q1 FY21, demand in Gujarat and Maharashtra dropped 52% and 80% y/y. In the cement sector management expects a 15-20% decline in FY21, but it expects its own FY21 sales volumes to be better than those in FY20, helped by the expansion.
- Prices declined by ₹10-20/bag in July. Management expects Q2 FY21 demand in Gujarat similar to Q2 FY20, but demand in Maharashtra to shrink 60-70%.
- Labour unavailability and restricted inter-regional movement delayed the completion of the Kutch GU.
- The company purchased coal in March and April and has stock till Q2 FY21. Management expects savings in power & fuel costs in Q3 onwards from low prices of coal and use of lignite.

Valuations

At the CMP, the stock trades at an EV/EBITDA of 7.3x and an EV/ton of \$41. We arrive at a target of ₹31, based on 8x FY22e EV/EBITDA. The implied valuation of the cement business is EV/ton of \$43. We maintain our Buy recommendation.

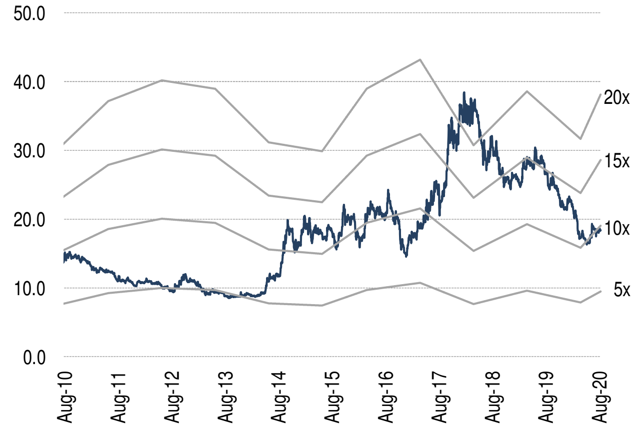
Change in estimates

Fig 16 – Change in estimates

	Old		New		Variance	
(₹ m)	FY21e	FY22e	FY21e	FY22e	% chg	% chg
Sales	8,713	11,774	8,713	12,296	-	*4.4*
EBITDA	1,624	2,425	1,586	2,440	*(2.4)*	*0.6*
PAT	(121)	448	36	703	*NA*	*57.0*

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	25	NA	8.9	11.8	7.3	40	38
Birla Corp.	613	15.6	12.2	7.8	6.8	61	51
Ramco Cement	675	30.7	22.3	18.6	14.2	128	119
Dalmia Bharat	790	NA	NA	8.3	7.3	102	90
Deccan Cement	295	8.9	6.4	4.4	2.9	21	18
Heidelberg Cement	181	18.6	13.5	9.0	6.9	82	76
India Cement	115	NA	30.0	12.8	9.4	57	58
JK Cement	1,513	31.5	20.1	15.0	10.9	119	113
JK Lakshmi	276	17.3	11.3	7.3	5.3	47	41
Mangalam Cement	203	14.7	8.3	7.0	5.0	38	35
NCL Indus	89	10.8	7.6	5.3	4.5	30	30
Orient Cement	69	24.5	12.3	7.4	5.6	40	37
Prism Johnson	48	NA	21.4	12.0	7.3	53	50
Star Cement	88	17.1	13.2	9.6	7.5	78	79

Source: Anand Rathi Research

Risks

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

Appendix

Analyst Certification

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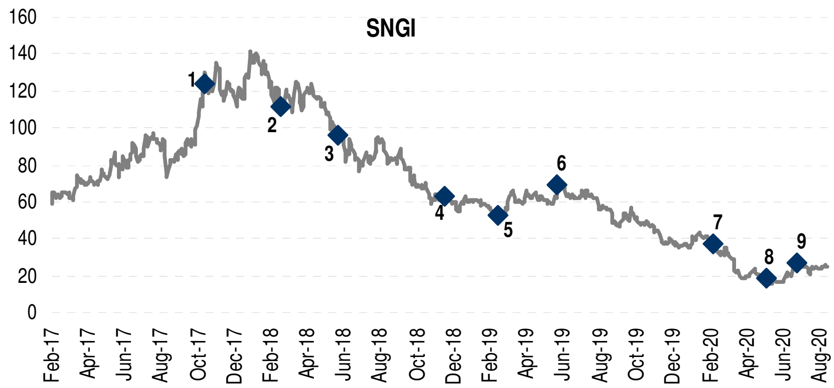
Important Disclosures on subject companies

Rating and Target Price History (as of 17 August 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
9	27-Jun-20	Buy	37	26

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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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