

Strong operational performance...

Sagar Cement reported a robust performance with EBITDA, PAT growth of 2.5x, 10x, respectively, in Q2FY21. Revenues grew 22.8% YoY to ₹ 325.9 crore (vs. I-direct estimate: ~₹ 319 crore). Sales volumes recovered with growth of 1.7% YoY to 0.72 MT (above pre-Covid levels). Realisations improved sharply by 20.8% YoY to ₹ 4512/t (down 5.5% QoQ) in AP and Telangana region. The plants during the quarter operated at 50% vs. 49% last year. As the company uses 100% petcoke, usage of low cost petcoke inventory (prices down 27% YoY) helped it to reduce power & fuel cost by 28% YoY to ₹ 844/t. Freight costs, however were up 10% YoY to ₹ 769/t due to increase in lead distance from 288 km to 319 km along with increase in diesel prices. Overall, the company managed to reduce total production cost per tonne by 2.4% YoY to ₹ 3062/t. As a result, EBITDA/t increased sharply by 143% YoY to ₹ 1,451/t (vs. I-direct estimate of ₹ 1,365/t) and margins doubled YoY to 32%. Higher operating profits and low interest costs led the company to report 919% YoY growth in net profit to ₹ 50.2 crore for the quarter vs. I-direct estimate of ₹ 43.5 crore. Gross debt was at ₹ 527 crore with D/E of 0.35 for the quarter. The company declared an interim dividend of ₹ 2/share (i.e. 20% of face value).

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 and 1.5 MT in Odisha) for capex of ₹ 800 crore. These capacities will likely get commissioned by the end of Q2FY22E, Q3FY22E. Post these expansions, total capacity will increase to 8.25 MT. Having already spent ₹ 350 crore, we expect debt levels to peak around ₹ 800 crore and D/E to peak at 0.6x in FY22E.

Low cost producer in south region

In the past three years, the company has initiated various cost efficiency measures like setting up of coal based CPP of 18 MW at its plant in Matapally, Nalgonda taking its total power capacity to 61.5 MW. This led the company to be 100% self-sufficient in FY20 in terms of power compared to 50% dependence on purchased power three years back. The company also expanded grinding unit in Bayyavaram to 1.5 MT. In turn, this has helped it to reduce lead distance. For fuel requirement, the company has the option to use petcoke or coal depending upon its cost benefit analysis. These measures would help it to maintain costs at optimum level vs. peers and achieve better margins, going forward.

Valuation & Outlook

With capacity expansion into newer geographies like east & central, we expect revenue CAGR of 21.3% in FY20-22E though full potential of new capacities would start reflecting from FY23E onwards. Despite the sharp run-up, the stock is still available at FY22E EV/t of \$44, implying a considerable margin of safety to the replacement cost of \$85-90/t. With strong management, cost efficiency and healthy b/s, we maintain **BUY** with a revised target price of ₹ 950 (i.e. at 7x FY22E EV/EBITDA, \$50/t on 8.25 MT).

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Sales	1038.1	1217.6	1175.2	1273.8	1729.4	21.3%
EBITDA	151.3	149.4	185.5	332.9	435.5	53.2%
EBITDA (%)	14.6	12.3	15.8	26.1	25.2	
PAT	26.3	13.6	40.2	139.9	173.5	107.7%
EPS (₹)	12.9	5.8	17.1	59.5	73.8	
EV/EBITDA	15.2	15.7	12.8	7.2	5.8	
EV/Tonne (\$)	76	63	59	60	44	
RoNW	3.4	1.6	4.2	11.8	12.8	
RoCE	8.1	6.4	7.2	14.2	15.3	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Market Capitalization	₹ 1880 Crore
Total Debt (FY20)	₹ 498 Crore
Cash and Investments (FY20)	₹ 12 Crore
EV	₹ 2366 Crore
52 week H/L	₹ 732/236
Equity capital	₹ 23.5 Crore
Face value	₹ 10

Key Highlights

- Operated at ~50% capacity vs. 37% capacity in Q1FY21
- Will continue with capex, new capacities to come on stream by Q3FY22E
- Capacity to increase from 5.75 MT to 8.25 MT by FY22E
- Debt levels to peak out at ₹ 800 crore in FY22E
- Maintain BUY with revised target price of ₹ 950 (earlier: ₹ 650)

Research Analyst

Rashesh Shah
rashesh.shah@icicisecurities.com

Exhibit 1: Variance Analysis

	Q2FY21E	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	
Total Operating Income	325.9	319.0	265.3	22.8	264.1	23.4	Sales volume grew 1.7% YoY. Realisations were up 20.8% YoY
Other Income	3.3	1.0	-0.2	-1,831.6	0.8	316.5	
Raw Material Expenses	47.2	52.6	36.8	28.4	49.6	-4.8	
Employee Expenses	20.9	15.5	15.2	37.3	14.5	43.9	
Power & Fuel	61.0	61.3	83.2	-26.7	44.6	36.8	Reduction in fuel price, usage of alternative fuel, and optimisation of thermal efficiency led to lower fuel expenses for quarter
Freight cost	55.5	51.6	49.5	12.3	39.1	42.0	Freight cost per tonne increased 10% due to increase in diesel prices
Others	36.5	39.7	38.2	-4.5	29.3	24.3	
EBITDA	104.8	98.4	42.4	147.3	87.0	20.4	
EBITDA Margin (%)	32.1	30.8	16.0	1618 bps	32.9	-79 bps	
Interest	11.7	13.0	15.8	-26.3	12.8	-9.1	
Depreciation	20.2	20.0	19.3	5.1	20.0	1.5	
PBT	76.2	66.4	7.1	969.8	55.0	38.4	
Total Tax	26.0	22.9	2.2	1,081.8	19.0	36.6	
PAT	50.2	43.5	4.9	919.7	36.0	39.4	

Key Metrics

Volume (MT)	0.72	0.72	0.71	1.7	0.55	30.6	Company operated with 50% capacity utilisation during the quarter
Net realisation (₹)	4,512	4,425	3,734	20.8	4,775	-5.5	Limited availability of cement led to sharp spike in cement prices
EBITDA per Tonne (₹)	1,451	1,365	596	143.2	1,573	-7.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,172.7	1,273.8	8.6	1,532.9	1,729.4	12.8	The sharp spike in cement prices and gradual stabilisation of pandemic situation should lead to better growth than expected earlier
EBITDA	287.8	332.9	15.7	362.7	435.5	20.1	Factoring the 21% YoY increase in prices, EBITDA estimates for FY21E and FY22E has been revised upwards
EBITDA Margin (%)	24.5	26.1	160 bps	23.7	25.2	152 bps	

Source: Company, ICICI Direct Research

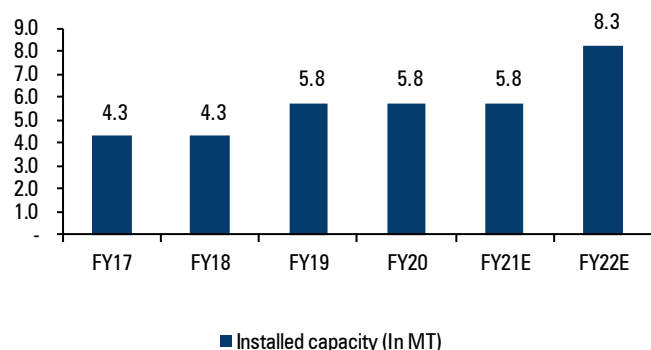
Exhibit 3: Assumptions

	Current					Earlier	
	FY18	FY19	FY20P	FY21E	FY22E	FY21E	FY22E
Volume (MT)	2.7	3.3	3.1	2.8	4.0	2.5	3.3
Gross Realisation (₹)	3,916	3,666	3,753	4,495	4,338	4,691	4,645
EBITDA per Tonne (₹)	571	450	592	1,175	1,092	1,151	1,099

Source: Company, ICICI Direct Research

Financial story in charts

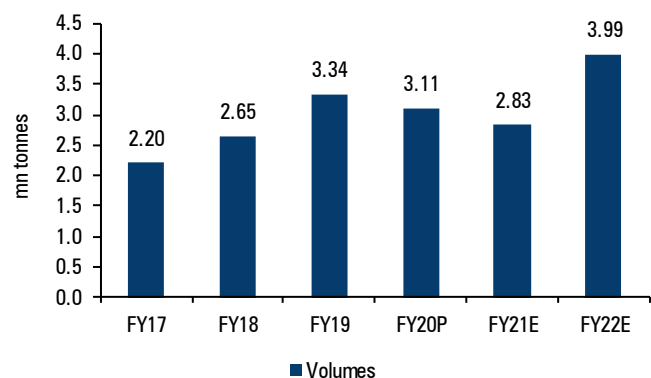
Exhibit 4: Installed capacity to increase by 43.5% by FY22E



Source: Company, ICICI Direct Research

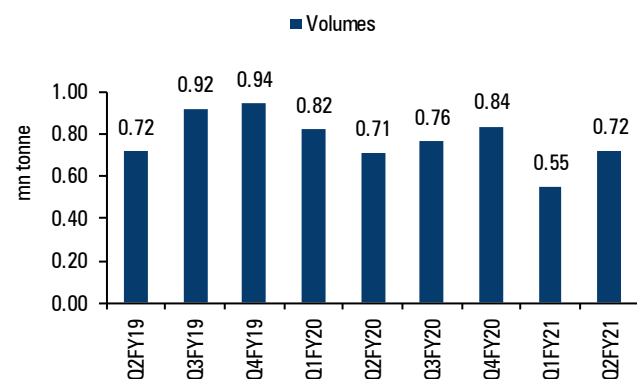
Total 82% of SCL's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company's brand "Sagar Cements" being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%). With the plants under Satguru Cement (capex of ₹488 crore) and Jajpur Cements (capex of ₹ 308 crore) coming on steam, the company's presence will improve in the eastern, central and western regions, going forward.

Exhibit 6: Volumes to grow at 13.2% CAGR over FY20-22E with commissioning of new capacities



Source: Company, ICICI Direct Research

Exhibit 8: Volumes grows 1.7% YoY in Q2FY21



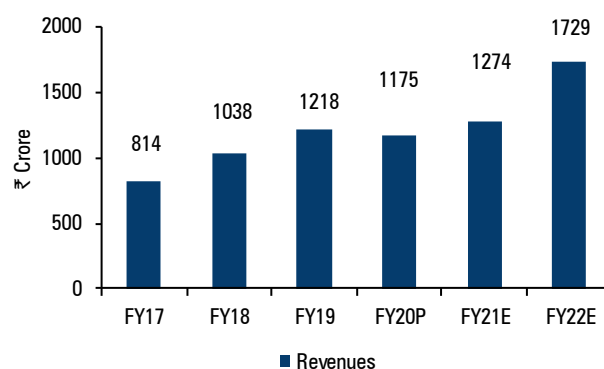
Source: Company, ICICI Direct Research

Exhibit 5: Capacity addition plans

Capacity	Clinker (MT)	Cement (MT)
Current capacity	3.8	5.8
Additions		
Dhar, MP (Satgurur Cement)	0.7	1.0
Jajpur, Orissa (Jajpur Cement)		1.5
FY22E Capacity	4.5	8.3

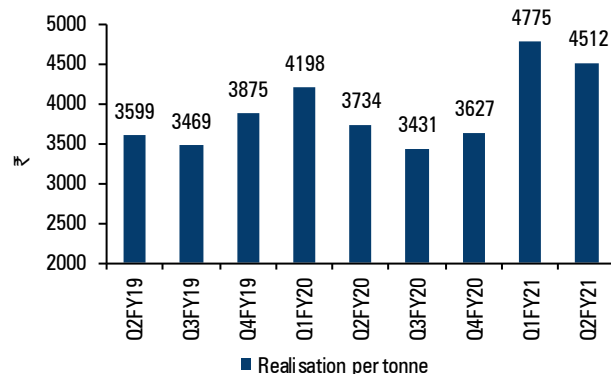
Source: Company, ICICI Direct Research

Exhibit 7: Topline to grow at 21.3% CAGR over FY20-22E



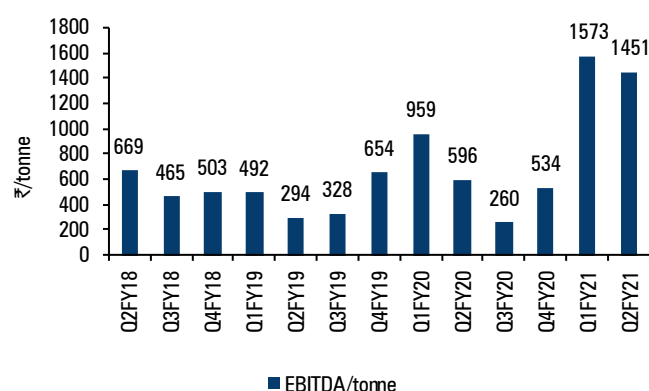
Source: Company, ICICI Direct Research

Exhibit 9: Realisations spike sharply by over ₹ 750/t YoY



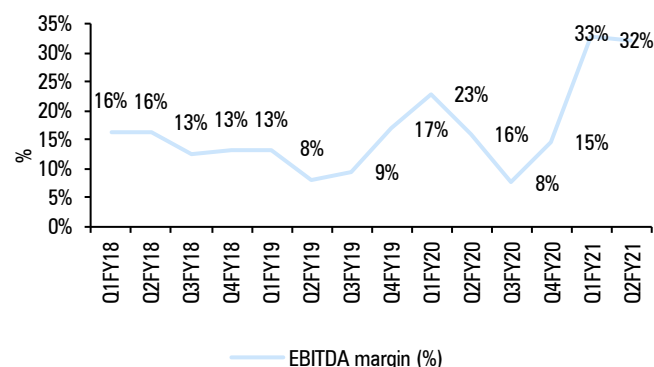
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t spikes 143% YoY in Q2FY21 led by sharp increase in realisations, lower cost of production



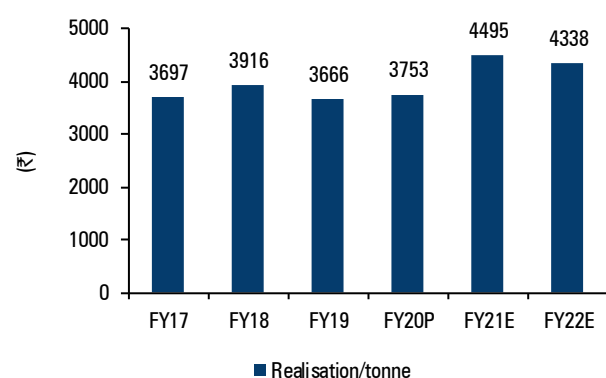
Source: Company, ICICI Direct Research

Exhibit 11: Margins double YoY in Q2FY21



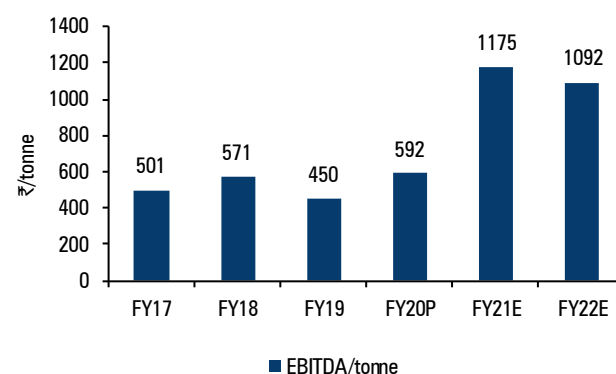
Source: Company, ICICI Direct Research

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



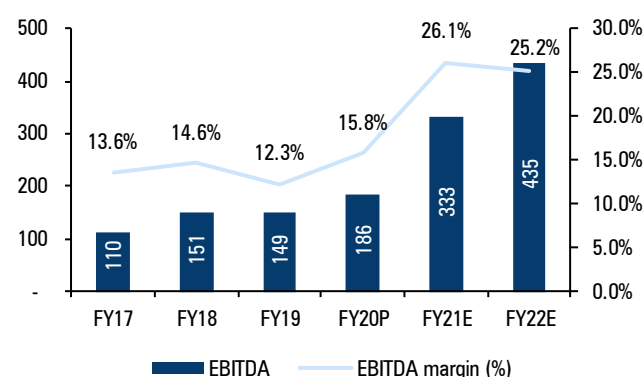
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t trend



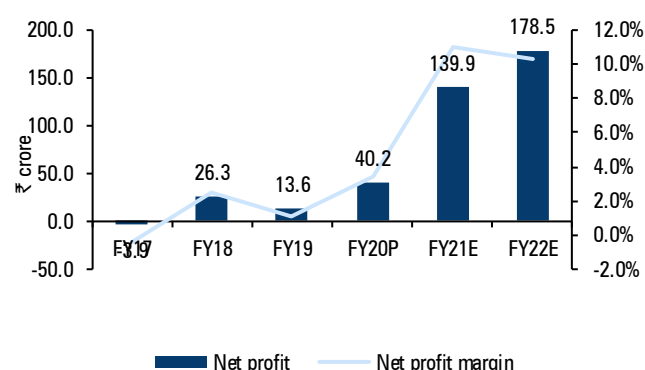
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA to normalise from FY22 onwards

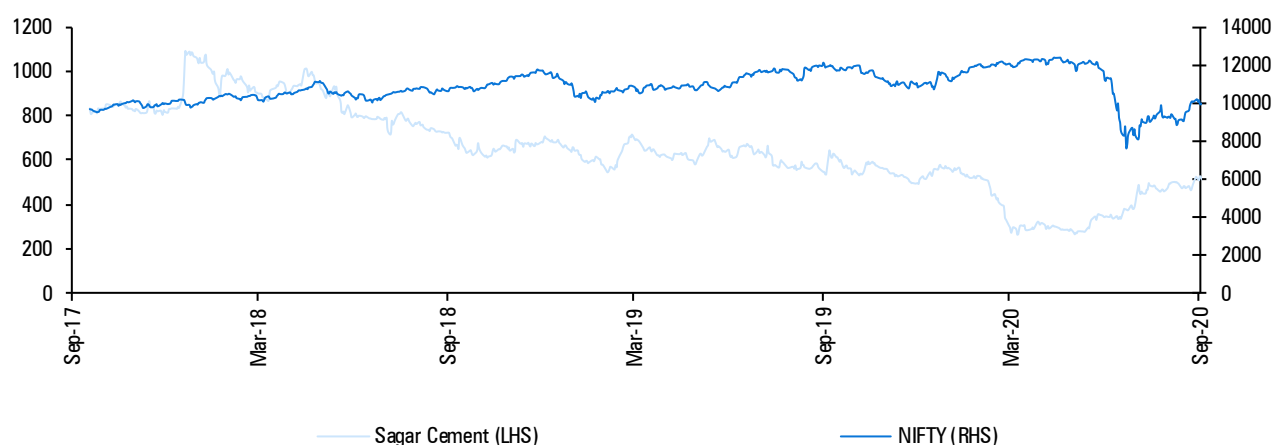


Source: Company, ICICI Direct Research

Exhibit 15: Company to report sharp improvement in profit led by firm pricing, new capacity addition



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 Consltng SrvcS Pv	31-Mar-20	5.0	1.10	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 18: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	50.06	50.06	50.06	50.90	50.16
FII	3.06	3.05	2.88	2.88	2.73
DII	12.82	12.86	12.04	12.71	12.36
Others	34.06	34.03	35.02	33.51	34.75

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	1,273.8	1,729.4
Growth (%)	17.3	-3.5	8.4	35.8
Raw material cost	238.8	227.3	240.8	299.0
Power & fuel	362.8	309.2	263.1	374.7
Freight cost	252.5	223.8	215.3	307.0
Others	214.1	229.4	221.5	313.2
Total Operating Exp.	1,068.1	989.7	940.8	1,293.9
EBITDA	149.4	185.5	332.9	435.5
Growth (%)	-1.2	24.2	79.5	30.8
Depreciation	65.7	78.9	79.0	101.7
Interest	63.4	47.3	44.6	75.8
Other Income	2.9	4.0	6.0	6.5
PBT	23.2	63.3	215.3	264.5
Total Tax	9.6	23.1	75.4	91.0
PAT	13.6	40.2	139.9	173.5
PAT margin	1.1	3.4	11.0	10.0
Adjusted PAT	13.6	40.2	139.9	173.5
Growth (%)	-48.2	195.9	NA	NA
Adjusted EPS (₹)	5.8	17.1	59.5	73.8

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	139.9	173.5
Add: Depreciation	65.7	78.9	79.0	101.7
(Inc)/dec in Current Assets	-10.0	-68.3	5.7	-127.5
Inc/(dec) in CL and Provisions	-2.5	22.4	16.8	90.5
CF from operating activiti	130.2	120.5	286.0	314.0
(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 activiti	-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	-75.8
Others	63.9	52.3	0.0	0.0
CF from financing activiti	10.6	84.8	93.5	120.7
Net Cash flow	-26.9	-17.3	14.0	79.1
Opening Cash	56.6	29.8	12.5	26.4
Closing Cash	29.8	12.5	26.4	105.5

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	1,162.1	1,332.1
Total Shareholders funds	843.8	966.3	1,184.4	1,354.4
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	1,973.5	2,357.9
Assets				
Gross Block	1,637.9	1,842.1	1,920.1	2,600.1
Less: Acc Depreciation	432.6	511.5	590.5	692.2
Net Block	1,205.2	1,330.6	1,329.6	1,907.9
Capital WIP	110.0	108.0	410.0	100.0
Total Fixed Assets	1,315.2	1,438.6	1,739.6	2,007.9
Investments	38.7	53.4	53.4	53.4
Inventory	145.0	115.8	129.1	165.8
Debtors	115.6	136.8	157.0	213.2
Loans and Advances	21.9	21.2	19.1	25.9
Other Current Assets	62.1	139.1	101.9	129.7
Cash	29.8	12.5	26.4	105.5
Total Current Assets	374.4	425.3	433.6	640.2
Creditors	203.8	223.0	174.5	236.9
Provisions	10.1	13.3	78.5	106.6
Total Current Liabilities	213.9	236.3	253.0	343.5
Net Current Assets	160.5	189.1	180.6	296.7
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	1,514.4	1,681.0	1,973.5	2,357.9

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	59.5	73.8
Cash EPS	33.7	50.7	93.2	117.1
BV	359.1	411.2	504.0	576.3
DPS	4.0	1.5	2.5	1.5
Cash Per Share	12.7	5.3	11.2	44.9
Operating Ratios (%)				
EBITDA Margin	12.3	15.8	26.1	25.2
Adjusted PAT Margin	1.1	3.4	11.0	10.0
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	11.8	12.8
RoCE	6.4	7.2	14.2	15.3
RoIC	6.9	7.5	18.2	16.6
Valuation Ratios (x)				
P/E (adjusted)	138.3	46.8	13.4	10.8
EV / EBITDA	15.7	12.8	7.2	5.8
EV / Net Sales	1.9	2.0	1.9	1.5
Market Cap / Sales	1.5	1.6	1.5	1.1
Price to Book Value	2.2	1.9	1.6	1.4
Solvency Ratios				
Debt/EBITDA	3.3	2.7	1.7	1.7
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)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
ACC*	1,563	BUY	29,375	73	84	94	11.4	9.6	8.5	106	109	91	17.4	17.8	18.1	11.9	12.3	12.4
Ambuja Cem*	248	HOLD	49,244	7.7	8.1	9.4	13.8	12.1	10.2	137	142	126	13.2	15.0	16.3	10.0	10.5	11.5
UltraTech Cem	4,630	BUY	133,609	189	172	204	16.8	13.8	12.1	183	183	172	11.4	13.7	14.9	14.2	11.6	12.2
Shree Cement	21,100	BUY	76,136	435	411	527	20.7	22.9	17.9	223	210	207	13.8	12.7	14.6	12.1	10.5	12.1
Heidelberg Cem	185	BUY	4,192	11.8	9.6	13.7	8.4	9.9	7.4	113	100	95	22.3	19.6	26.3	20.4	18.0	23.1
JK Cement	1,800	BUY	13,908	74.9	69.4	98.0	13.8	12.9	9.7	150	142	134	16.2	15.4	19.2	18.5	15.0	17.9
JK Lakshmi Cem	280	BUY	3,296	22.6	19.8	25.7	6.3	6.2	5.1	46	44	42	17.1	16.0	18.9	15.5	12.1	14.0
Star Cement	82	BUY	3,437	6.9	4.5	8.8	7.5	8.5	5.4	112	112	77	17.1	10.9	18.9	15.4	9.5	16.4
Ramco Cement	785	BUY	18,689	25.7	19.6	27.2	18.9	18.9	14.1	167	163	156	7.5	6.4	8.4	12.3	8.7	10.8
Sagar Cement	800	BUY	1,880	17.1	59.5	73.8	12.8	7.2	5.8	59	60	44	7.2	14.2	15.3	4.2	11.8	12.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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