Sagar Cement (SAGCEM)

CMP: ₹ 210 | Target: ₹ 265 (26%) | Target Period: 12 months | BUY

May 13, 2022

Result Update

New capacities to drive healthy growth going forward…

About the stock: Sagar Cements is a **south based cement player** with cement capacity of 8.25 MT. Region wise, AP/Telangana accounted for ~60% of sales followed by Tamil Nadu (16%), Karnataka (9%).

- Going forward, it will be able to develop a presence in the faster-growing eastern and central market with recent commissioning of new 2.5 MT capacity
- Self-reliance in power (61.5 MW), ability to switch between coal and petcoke for fuel requirement and split grinding units near market gives it cost advantage

Q4FY22 Results: Higher production costs and sharp rise in interest led to net loss during Q4.

- Revenues were up 50.4% QoQ to ₹ 501.7 crore (up 20.1% YoY), led by commissioning of new capacities in east and central region
- Margins further declined 170 bps QoQ to 12.2% (down 1278 bps YoY) on higher production costs
- Net loss came in at ₹ 19.2 crore due to sharp jump in interest expenses

What should investors do? With capacity expansions into high growth regions like East & Central, we expect strong growth momentum, going forward.

- Expect costs to pick-out and operating leverage to kick-in from H2FY23E with stabilisation of new capacities. Hence, we maintain **BUY** rating

Target Price and Valuation: We value Sagar at ₹ 265 i.e. 8.0x FY24E EV/EBITDA

Key triggers for future price performance:

- **Incremental volumes from new units** (1 MT ICU at Madhya Pradesh, 1.5 MT grinding unit in Odisha) to help grow the business in FY23E. Expect sales revenue CAGR of 26.4% in FY22-24E led by 24.7% CAGR in volumes
- However, short term headwinds with respect to cost to keep margins under check. Operating leverage to kick-in post stabilisation of its new capacities
- The company is on course to reach over 10 MT capacity through M&A in the medium term for which funding tie-up has already been done

Alternate Stock Idea: Apart from Sagar Cement, in our cement sector coverage we also like another south based player Ramco Cement.

- The company is the cost efficient player in the south. It is expanding its footprints in the eastern region
- BUY with a target price of ₹ 900/share

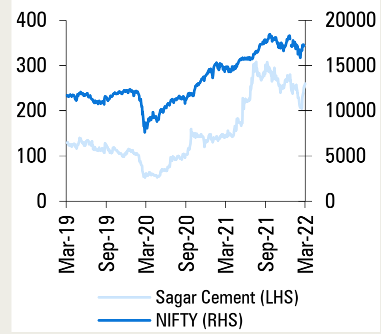
Particulars

Particular	Amount
Market Capitalization	₹ 2745 Crore
Total Debt (FY22)	₹ 1572 Crore
Cash and Investments (FY22)	₹ 476 Crore
EV	₹ 3841 Crore
52 week H/L	₹ 317/118
Equity capital	₹ 26.1 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	50.28	50.28	50.28	50.28
FII	3.05	6.14	5.80	5.24
DII	11.54	8.16	8.96	8.87
Others	35.13	35.42	34.96	35.61

Price Chart



Key risks

- Persistent slowdown in demand
- Volatility in prices of key inputs like coal/petcoke

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Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	2 year CAGR (%)
Sales	1217.6	1175.2	1371.3	1596.9	9.5	2328.8	2552.6	26.4
EBITDA	149.4	185.5	400.4	275.8	22.7	384.7	456.7	28.7
EBITDA (%)	12.3	15.8	29.2	17.3		16.5	17.9	
PAT	13.6	26.5	185.6	59.1	63.3	115.0	172.0	70.5
EPS (₹)	1.0	2.0	14.2	4.5		8.8	13.2	
EV/EBITDA	21.5	17.4	8.2	13.9		8.2	6.3	
EV/Tonne ($)	87	80	82	67		54	50	
RoNW	1.6	2.8	15.5	4.7		6.8	9.3	
RoCE	6.4	7.2	15.4	6.6		9.6	11.7	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Key performance highlights

- Sales volume improved 51.7% QoQ to 1.13 MT (up 10.2% YoY) led by commissioning of its new 2.5 MT cement capacities in East & Central region while average realisations declined 0.8% QoQ to ₹4452/t despite an attempt to increase the prices to offset the rising cost pressure
- EBITDA margin came in at 12.2%, lower than our estimated EBITDA margin of 13.5%. This was mainly led by higher raw material expenses. On the positive side, P&F cost cooled off by 15% on QoQ basis (up 75% YoY) mainly on account of increase in the usage of domestic coal. Its share went from 26% in Q3FY22 to over 40% in Q4
- Net loss came in at ₹ 19.2 crore, mainly due to sharp jump in the interest expenses (up 4.1x YoY to ₹ 47.1 crore)

Key conference call highlights

- Fluctuating demand in south discouraged cement players to increase the prices to offset the cost pressure.
- Satguru (1 MT integrated unit at MP) commenced operations from October 27, 2021 while Jajpur Odisha unit (1.5 MT GU) got commissioned from January 10, 2022. Expect sales volume of over 5 MT for FY23E
- Apart from higher fuel prices, start-up cost pertaining to new units led to additional cost of ₹ 100-150/tonne
- **Costs**: Current fuel mix is at 40% domestic coal, 45% petcoke, 10% alternative fuel, balance from international coal. With current fuel inventory of four and a half months, P&F cost to broadly remain stable in Q1 and first half of Q2. However, higher freight cost to increase cost further by 2-3%
- Gross debt was at ₹ 1503 crore of which ₹ 500 crore structured debt instrument raised for future acquisition (most probably for Andhra Cement acquisition which is having cement capacity of 2.6 MT). Debt repayment of ₹ 185 crore is due in the next year

Key triggers for future price performance

To achieve 10 MT capacity by FY25E: The company is aiming to reach 10 MT capacity by FY25E. In the first phase, the company has added 2.5 MT capacity (1 MT in MP and 1.5 MT in Odisha). Post these expansions the total capacity has now increased to 8.25 MT. With likely acquisition on the cards in the next fiscal, we expect debt levels to stay at elevated levels. However, incremental operating cash flows will take care its debt servicing ability and help bring down its debt subsequently post normalisation of its new capacities.

Low cost producer in AP/Telangana 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 resulted in the company being 100% self-sufficient in FY20 in terms of power as compared with 50% dependence on purchased power three years back. The company also expanded grinding unit in Bayyavaram to 1.5 MT. This, in turn, has helped the company to reduce lead distance. For fuel requirement, the company has option to use petcoke or coal depending upon its cost benefit. Hence, we expect the company to broadly maintain the CoP at optimum levels vs. peers, which would help it to maintain better margins, going forward.

Valuation & Outlook: With capacity expansions into newer geographies like East & Central, we expect revenue CAGR of 26.4% during FY22-24E, though full potential of new capacities would start reflecting from FY23E onwards. The recent price hikes taken will take care of the cost pressure and we expect the company to sustain EBITDA/t of over ₹ 800/t, going ahead. Hence, we maintain BUY rating with a revised target price of ₹ 265/share (i.e. at 8x FY24E EV/EBITDA, $80/t on 8.25 MT).

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Total Operating Income	501.7	516.0	417.7	20.1	333.7	50.4	Sales volume were up 51.7% QoQ to 1.13MT
EBITDA	61.1	69.6	104.3	-41.4	46.3	31.9	
EBITDA Margin (%)	12.2	13.5	25.0	1278 bps	13.9	-170 bps	
Interest	47.1	29.5	10.8	334.8	18.4	156.7	Sharp increase in the debt for potential M&A led to higher interest cost
Depreciation	31.5	25.0	20.0	57.4	21.9	44.1	
PBT	-13.4	24.4	75.1	-117.8	8.0	-267.2	
Total Tax	5.8	6.2	25.3	-77.2	3.4	70.7	
PAT	-19.2	18.2	49.8	-138.4	4.6	-514.5	
Key Metrics							
Volume (MT)	1.13	1.13	1.02	10.2	0.74	51.7	
Net realisation (₹)	4,452	4,566	4,084	9.0	4,490	-0.8	Cement prices remained weak despite cost pressure during Q4FY22
EBITDA per Tonne (₹)	542	616	1,019	-46.8	623	-13.0	

Per tonne	Q4FY22	Q3FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Net Sales	4,452	4,374	4,084	9.0	4,490	-0.8	
Raw Material Expenses	744	620	716	4.0	393	89.5	
Employee Expenses	236	210	229	3.3	265	-11.0	
Power and fuel	1,514	1,950	864	75.1	1,790	-15.4	Increase in the share of cheaper domestic coal from 26% in Q3 to 40% in Q4 led to decline in the power & fuel cost
Freight	776	780	742	4.6	757	2.6	
Others	640	198	514	24.4	662	-3.4	
Production costs	3,910	3,758	3,064	27.6	3,867	1.1	
EBITDA	542	616	1,019	-46.8	623	-13.0	

Source: Company, ICICI Direct Research

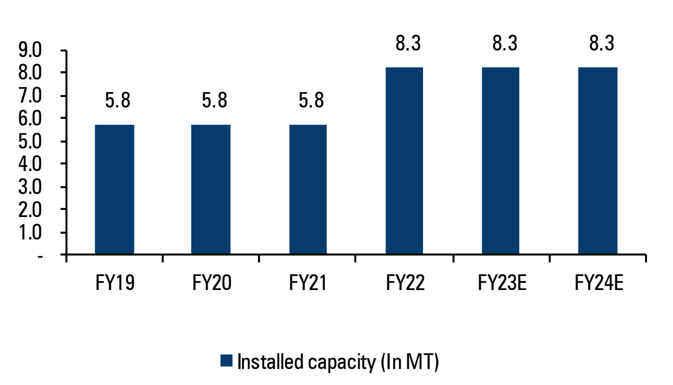
Exhibit 2: Change in estimates

	FY23E			FY24E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	2,347.6	2,328.8	-0.8	NA	2,552.6	NA	
EBITDA	400.3	384.7	-3.9	NA	456.7	NA	
EBITDA Margin (%)	17.1	16.5	-53 bps	NA	17.9	NA	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Installed capacity increased by 43.5% in FY22



Source: Company, ICICI Direct Research

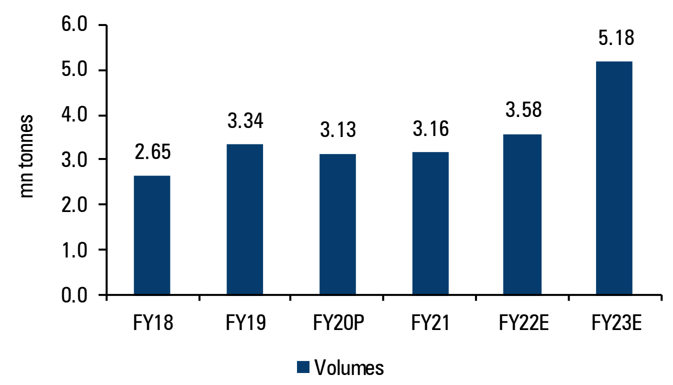
Exhibit 4: Capacity addition plans

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
FY22 Capacity	**4.5**	**8.3**

Source: Company, ICICI Direct Research

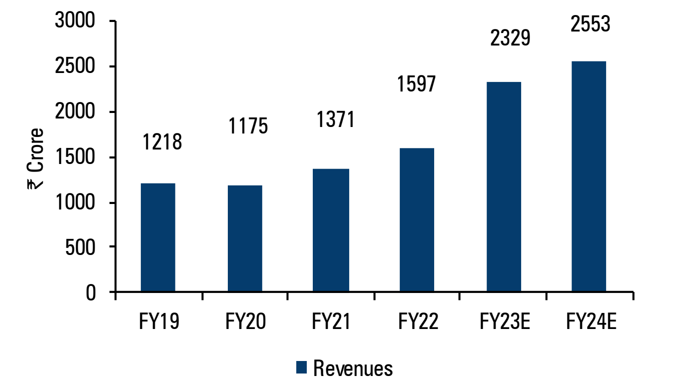
Also, 82% of SCL's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company's brand "Sagar Cements" being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%). With the plants under Satguru Cement and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

Exhibit 5: Volumes to grow at 24.7% CAGR over FY22-24E with commissioning of new capacities



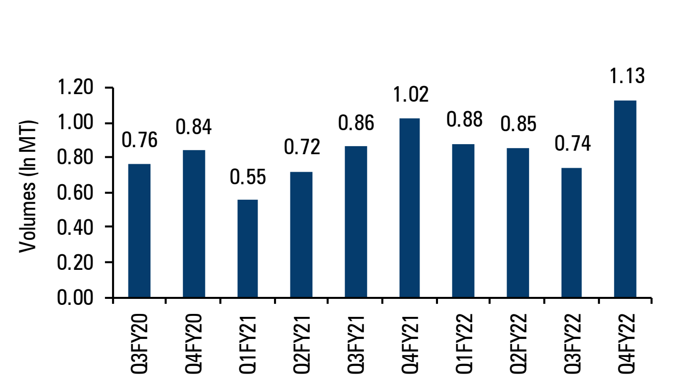
Source: Company, ICICI Direct Research

Exhibit 6: Topline to grow at 26.4% CAGR over FY21-23E



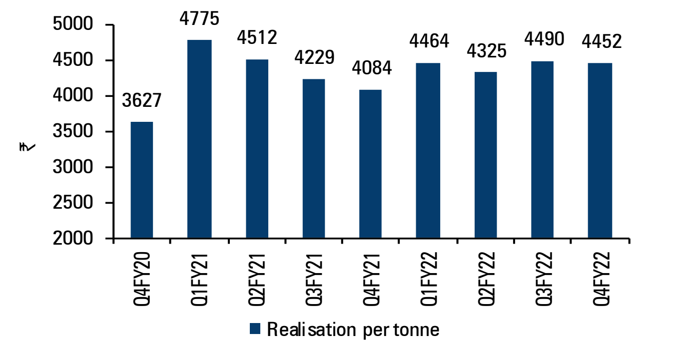
Source: Company, ICICI Direct Research

Exhibit 7: Volumes increase 10.2% YoY in Q4FY22



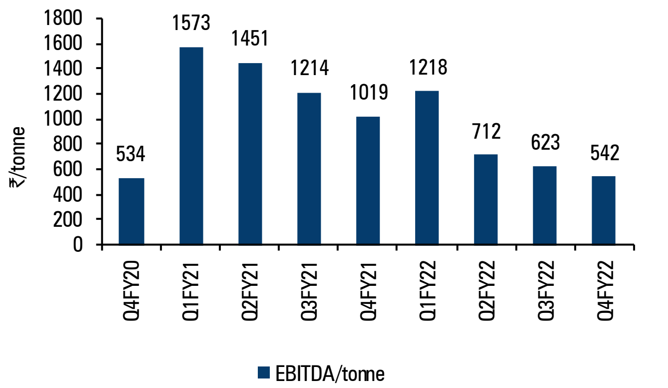
Source: Company, ICICI Direct Research

Exhibit 8: Realisations up 9% YoY on increased cost pressure though down 0.8% QoQ



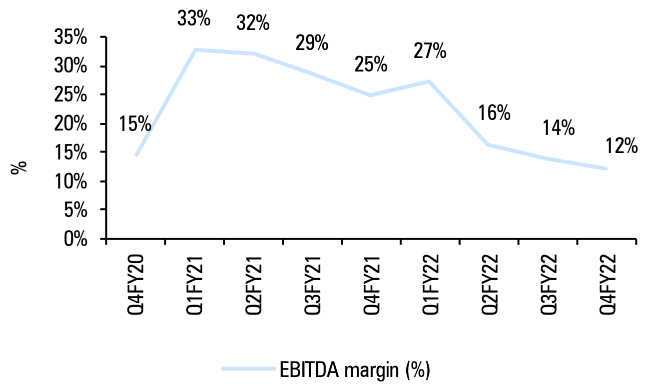
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t declines sharply on high cost pressure



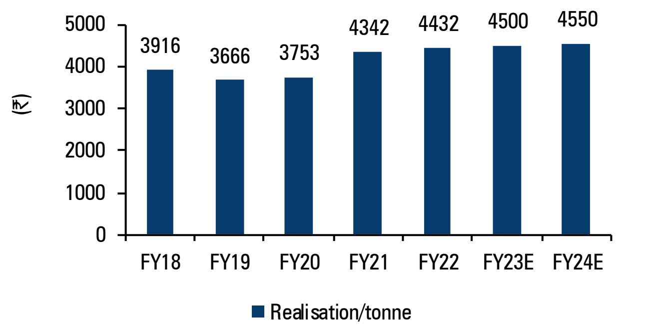
Source: Company, ICICI Direct Research

Exhibit 10: Margins trends



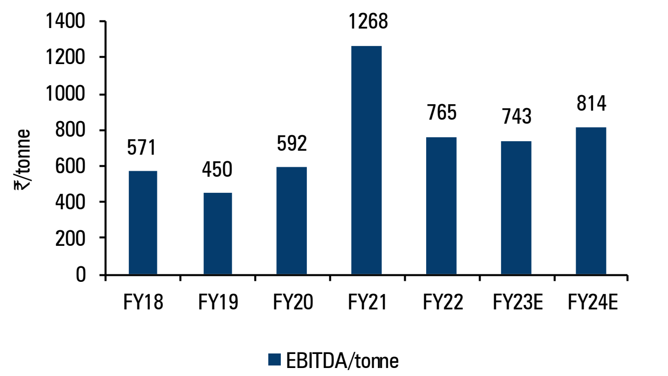
Source: Company, ICICI Direct Research

Exhibit 11: Realisations to stay firm, going forward, on high cost pressure



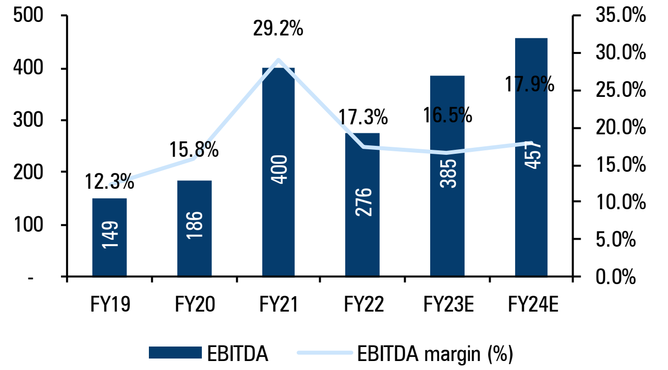
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t trend



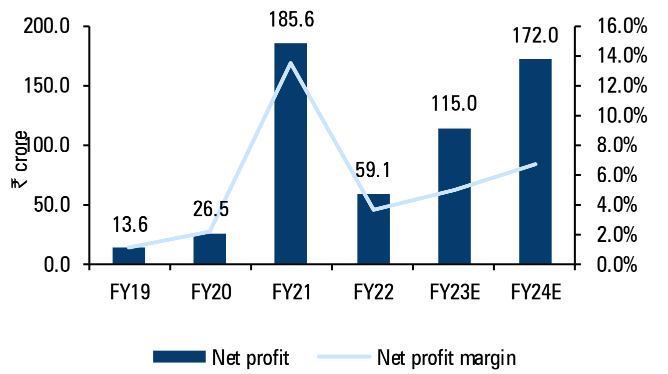
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA margins to stabilise at ~18% by FY24E



Source: Company, ICICI Direct Research

Exhibit 14: Profitability to improve from FY23E led by capacity additions and likely cost stabilisation



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Operating Income	**1,175.2**	**1,371.3**	**1,596.9**	**2,328.8**	**2,552.6**
Growth (%)	-3.5	16.7	16.4	45.8	9.6
Raw material cost	227.3	239.8	225.3	362.3	420.8
Power & fuel	309.2	261.4	515.7	776.3	813.5
Freight cost	223.8	234.2	278.6	414.0	437.6
Others	229.4	235.5	301.5	391.6	424.0
Total Operating Exp.	989.7	970.9	1,321.1	1,944.1	2,095.8
EBITDA	**185.5**	**400.4**	**275.8**	**384.7**	**456.7**
Growth (%)	24.2	115.9	-31.1	39.5	18.7
Depreciation	78.9	80.6	92.7	113.1	110.5
Interest	61.0	46.6	92.5	136.4	118.8
Other Income	4.0	7.8	13.4	40.3	35.0
PBT	49.7	281.1	104.0	175.5	262.5
Total Tax	23.1	95.5	44.9	60.4	90.4
PAT	**26.5**	**185.6**	**59.2**	**115.0**	**172.0**
PAT margin	2.3	13.5	3.7	4.9	6.7
Adjusted PAT	**26.5**	**185.6**	**59.2**	**115.0**	**172.0**
Growth (%)	95.2	599.5	-68.1	94.4	49.6
Adjusted EPS (₹)	**2.0**	**14.2**	**4.5**	**8.8**	**13.2**

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	26.5	185.6	59.1	115.0	172.0
Add: Depreciation	78.9	80.6	92.7	113.1	110.5
(Inc)/dec in Current Assets	-68.3	-60.2	-292.7	70.1	-66.8
Inc/(dec) in CL and Prov.	22.4	3.4	-8.1	119.3	33.7
CF from operations	**120.5**	**256.0**	**-56.4**	**553.9**	**368.2**
(Inc)/dec in Investments	-11.8	0.6	-346.8	-500.0	0.0
(Inc)/dec in Fixed Assets	-202.2	-430.5	-342.1	-75.0	5.0
Others	-8.6	98.0	-9.2	21.8	21.8
CF from investing act.	**-222.6**	**-331.9**	**-698.1**	**-553.2**	**26.8**
Issue/(Buy back) of Equity	85.6	84.9	0.1	349.8	0.0
Inc/(dec) in loan funds	-1.2	312.2	761.7	-180.0	-180.0
Dividend paid incl. taxes	-4.7	-20.5	-11.0	-15.8	-15.8
Interest paid	-61.0	-46.6	-92.5	-136.4	-118.8
Others	65.3	-13.0	5.0	0.0	0.0
CF from financing act.	**83.9**	**317.0**	**663.2**	**17.6**	**-314.5**
Net Cash flow	-18.2	241.0	-91.3	18.3	80.5
Opening Cash	29.8	11.6	252.2	161.0	179.3
Closing Cash	**11.6**	**252.7**	**161.0**	**179.3**	**259.8**

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Share Capital	22.3	23.5	23.5	26.1	26.1
Reserve and Surplus	935.2	1,171.0	1,224.2	1,670.6	1,826.8
Total Shareholders fun	957.5	1,194.5	1,247.7	1,696.7	1,853.0
Total Debt	498.0	810.2	1,571.9	1,391.9	1,211.9
Deferred Tax Liability	22.7	75.9	97.7	119.5	141.3
Minority Interest / Othe	193.9	238.3	207.8	207.8	207.8
Total Liabilities	**1,672.1**	**2,318.9**	**3,125.0**	**3,415.9**	**3,413.9**
Assets					
Gross Block	1,842.1	1,863.1	2,622.1	2,762.6	2,762.6
Less: Acc Depreciatior	511.5	592.0	684.8	797.8	908.3
Net Block	1,330.6	1,271.0	1,937.4	1,964.8	1,854.3
Capital WIP	108.0	517.5	100.5	35.0	30.0
Total Fixed Assets	1,438.6	1,788.5	2,037.9	1,999.8	1,884.3
Investments	53.4	52.8	400.1	900.1	900.1
Inventory	115.8	124.3	208.6	210.5	230.8
Debtors	136.8	100.7	120.3	287.1	314.7
Loans and Advances	21.2	22.4	20.2	34.9	38.3
Other Current Assets	139.1	225.7	416.6	163.0	178.7
Cash	11.6	252.2	161.0	179.3	259.8
Total Current Assets	424.5	725.3	926.7	874.9	1,022.2
Creditors	223.0	229.0	221.0	319.0	349.7
Provisions	13.3	10.7	10.6	31.9	35.0
Total Current Liabilities	236.3	239.7	231.6	350.9	384.6
Net Current Assets	188.2	485.6	695.1	524.0	637.6
Others Assets	0.0	0.0	0.0	0.0	0.0
Application of Fun	**1,680.2**	**2,326.9**	**3,133.0**	**3,423.9**	**3,422.0**

Source: Company, ICICI Direct Research

Exhibit 18: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	2.0	14.2	4.5	8.8	13.2
Cash EPS	8.1	20.4	11.6	17.5	21.6
BV	73.3	91.4	95.5	129.8	141.8
DPS	0.3	1.3	0.7	1.0	1.0
Cash Per Share	0.9	19.3	12.3	13.7	19.9
Operating Ratios (%)					
EBITDA Margin	15.8	29.2	17.3	16.5	17.9
Adjusted PAT Margin	2.3	13.5	3.7	4.9	6.7
Inventory days	36.0	33.1	47.7	33.0	33.0
Debtor days	42.5	26.8	27.5	45.0	45.0
Creditor days	69.3	60.9	50.5	50.0	50.0
Return Ratios (%)					
RoE	2.8	15.5	4.7	6.8	9.3
RoCE	7.2	15.4	6.6	9.6	11.7
RoIC	7.5	23.3	7.6	12.1	16.3
Valuation Ratios (x)					
P/E (adjusted)	103.5	14.8	46.4	23.9	16.0
EV / EBITDA	17.4	8.2	13.9	8.2	6.3
EV / Net Sales	2.7	2.4	2.4	1.3	1.1
Market Cap / Sales	2.3	2.0	1.7	1.2	1.1
Price to Book Value	2.9	2.3	2.2	1.6	1.5
Solvency Ratios					
Debt/EBITDA	2.7	2.0	5.7	3.6	2.7
Debt / Equity	0.5	0.7	1.3	0.8	0.7
Current Ratio	1.2	1.2	2.1	1.5	1.4
Quick Ratio	0.9	0.9	1.6	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Cement)

Company	CMP			EPS(₹)			EV/EBITDA (x)			EV/Tonne ($)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,200	2,600	BUY	85	102	77	10.9	13.3	9.9	136	124	113	14.7	17.6	12.7	12.6	13.4	9.5
Ambuja Cem*	369	350	BUY	9	10	10	14.7	15.8	12.1	203	206	174	18.6	17.8	15.8	21.0	20.6	18.3
UltraTech Cem	6,753	8,000	BUY	185	245	197	18.2	17.9	17.6	217	214	210	14.7	14.2	13.6	12.7	14.4	10.6
Shree Cement	24,630	25,700	HOLD	641	620	596	22.0	23.2	21.9	257	260	224	18.2	16.1	14.8	15.2	13.1	11.4
Heidelberg Cem	205	225	HOLD	14	8	11	9.8	13.0	11.0	107	106	103	20.1	15.7	19.7	21.1	12.6	15.2
JK Cement	2,750	2,640	HOLD	78	99	77	15.2	15.6	17.5	155	184	161	18.6	16.7	13.2	20.6	17.5	12.2
JK Lakshmi Cem	460	580	BUY	31	28	17	7.2	9.0	11.0	62	63	66	21.1	16.8	12.4	19.0	15.3	9.2
Birla Corp	1,132	1,320	HOLD	88	35	41	9.7	12.8	10.6	119	93	91	10.8	6.5	7.2	12.4	5.0	5.5
Ramco Cement	806	900	BUY	32	24	25	14.2	18.1	17.2	162	168	160	8.6	6.4	6.2	13.5	9.3	8.7
Sagar Cement	210	265	BUY	14	5	9	8.2	13.9	8.2	82	67	54	15.4	6.6	9.6	15.5	4.7	6.8

*Source: Company, ICICI Direct Research, *ACC and Ambuja FY21=CY20, FY22E=CY21E, FY23E=CY22E*

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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