

October 20, 2022

**RESULT REPORT Q2 FY23** | Sector: Cement

# Sagar Cements

## Consecutive weak performance distorts earning visibility for FY23E

### Result Synopsis

**Sagar Cements (SGC) reported sequential volume degrowth of 13% (+21% y/y) due to erratic monsoon in Q2FY23. Similarly, NSR corrected sequentially by ~3% q/q (+6% y/y) translated into revenue of Rs4.7bn, declined by 15% q/q (+29% y/y). Total cost/te surged by 8% q/q (+25% y/y) due to elevated power cost/te (+22% q/q & +68% y/y) dented EBITDA/te by 89% q/q (92% y/y) to Rs55. EBITDA de-grew by 91% q/q and y/y both to Rs57mn and reported adj. net loss of Rs423mn due to higher finance cost. In H1FY23, EBITDA/te declined by 69% y/y to Rs300, owing to elevated power cost (Rs1,991/te; +63% y/y) eroded the earning visibility for FY23E. As a result, we have trimmed our EBITDA estimate for FY23E by 60% to Rs1.8bn. With trimmed EBITDA and higher finance cost, we expect SGC to report a net loss of Rs594mn (earlier Net profit of Rs1.5bn) in FY23E. While we have reduced revenue estimates by 9% on account of missing volume guidance of 5MT for FY23E. Newly added capacities in MP & Orissa will allow SGC to lower the southern exposure and grow beyond south markets. Also, higher blended cement dispatches from the East/Central units will improve the overall blending ratio (guided ~60% for FY23E) and will improve the utilization of south clinker units. SGC borrowed Rs5bn for acquiring Andhra Cement bloated the finance cost for the near term, while the acquisition process is expected to finalize by the end of Q3FY23E, if all approvals are received timely. With this acquisition, SGC will be on track to achieve ~10MTPA capacity by FY25E (2x in the last 10 years). Given the lower capex we expect an FCF of Rs2.1bn over FY23-24E, aids to deleverage the B/S. We retain our BUY rating with a TP of Rs256, valuing the stock at 7.5x EV/EBITDA on the FY24E.**

### Result Highlights

- New capacities helped cement volume to grow by 21% y/y to 1.03MTPA, while ongoing monsoon resulted in sequential decline of 13% (v/s YSEC est. of 1.13MT) in Q2FY23.
- SGC reported healthy NSR growth of 6% y/y but sequentially corrected by 2.5% in Q2FY23. As a result, revenue grew by 29% y/y to Rs4.7bn in Q2FY23 but declined by 15% q/q due to muted volume and NSR.
- Power cost increased by 68% y/y and 22% q/q took the overall cost/te to Rs4530, up by 25% y/y and 8% q/q in Q2FY23. As a result, EBITDA/te sharply declined by 92% y/y and 89% q/q to Rs55 in Q2FY23.
- SGC reported an EBITDA of Rs57mn lower by 91% y/y and q/q both (v/s YSEC est. of Rs441mn) translating into an EBITDA margin of 1.2% in Q2FY23. Reported adj. net loss of Rs423mn in Q2FY23.

### Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	4,746	5,011	4,496	(5.3)	5.5	Muted volume & NSR coupled with increasing cost resulted in major miss on all front
EBITDA	57	441	234	(87.1)	(75.6)	
Margin (%)	1.2	8.8	5.2	(760 bps)	(400 bps)	
Adj. PAT	(423)	(370)	(408)	NA	NA	

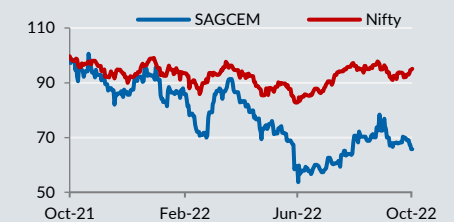
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 192
Target Price	: Rs 256
Potential Return	: +33%

### Stock data (as on Oct 20, 2022)

Nifty	17,564
52 Week h/l (Rs)	298 / 154
Market cap (Rs/USD mn)	25142 / 304
Outstanding Shares (mn)	131
6m Avg t/o (Rs mn):	18
Div yield (%):	0.7
Bloomberg code:	SGC IN
NSE code:	SAGCEM

### Stock performance



	1M	3M	1Y
Absolute return	-14.5%	11.9%	-32.1%

### Shareholding pattern (As of Sep'22 end)

Promoter	45.2%
FII+DII	22.7%
Others	32.3%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	256	290

### Δ in earnings estimates

	FY23E	FY24E
EPS (New)	(5.1)	19.3
EPS (Old)	12.7	23.0
% change	NA	-16%

### Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	15,969	22,318	25,687
Growth	16.4	39.8	15.1
EBITDA	2,758	1,802	5,559
Margin	17.3	8.1	21.6
Adj PAT	691	(594)	2,268
Growth	(68.1)	NA	NA
EPS	5.0	(5.1)	19.3
ND/EBITDA	4.9	8.3	2.1
ROE	4.7	(5.0)	15.9
ROCE	6.7	3.2	16.9
EV/EBITDA	14.0	20.8	6.1

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## Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Net Revenue	3,689	3,337	5,017	5,577	4,746	28.6	(14.9)	15,969	13,713	16.4
Total Expenses	3,082	2,874	4,406	4,967	4,688	52.1	(5.6)	13,211	9,709	36.1
COGS	597	292	839	999	713	19.4	(28.7)	2,253	2,397	(6.0)
Employee Expenses	202	197	266	254	229	13.7	(9.8)	856	764	12.0
Power & fuel	1,120	1,330	1,706	2,145	2,277	103.2	6.2	5,157	2,614	97.3
Freight Exp	678	562	875	947	826	21.9	(12.7)	2,786	2,342	18.9
Other Expenses	485	492	721	621	643	32.7	3.5	2,160	1,591	35.7
EBITDA	608	463	611	610	57	(90.6)	(90.6)	2,758	4,004	(31.1)
EBITDA (%)	16.5	13.9	12.2	10.9	1.2	(1527 bps)	(974 bps)	17.3	29.2	(1193 bps)
D&A	199	219	315	366	379	90.3	3.7	927	806	15.1
Other Income	26	19	42	124	149	480.9	20.0	134	78	72.5
Interest Expense	114	184	471	481	503	340.2	4.6	925	466	98.6
Exceptional/EO items	-	-	-	-	-	-	-	-	-	-
Share JV/Associates	-	-	-	-	-	-	-	-	-	-
EBT	320	80	(134)	(112)	(676)	NA	NA	1,040	2,811	(63.0)
Tax	112	34	58	19	(184)	NA	NA	449	955	(53.0)
Reported PAT	208	46	(192)	(131)	(492)	NA	NA	591	1,856	(68.1)
Less: Minority Interest	(3)	(7)	(76)	(59)	(69)	NA	NA	(100)	(4)	NA
Adj. PAT	211	53	(115)	(72)	(423)	NA	NA	691	1,860	(62.8)

Source: Company, YES Sec

## Exhibit 3: Quarterly Operational Performance Analysis (Console)

Particulars (Rs m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Total Volumes (MMT)	0.85	0.74	1.13	1.19	1.03	21.3	(12.8)	3.60	3.16	14.0
NSR/te (Blended)	4,324	4,489	4,448	4,702	4,585	6.0	(2.5)	4,431	4,339	2.1
RM/te	700	393	744	842	689	(1.6)	(18.3)	625	758	(17.6)
Employees/te	236	265	236	214	222	(6.2)	3.4	237	242	(1.7)
Power/te	1,313	1,790	1,512	1,808	2,200	67.5	21.7	1,431	827	73.0
Freight/te	794	756	776	798	798	0.5	0.0	773	741	4.3
Others/te	568	662	639	524	621	9.4	18.7	599	503	19.0
Opex/te (Blended)	3,612	3,866	3,907	4,187	4,530	25.4	8.2	3,666	3,072	19.3
EBITDA/te (Blended)	712	623	542	514	55	(92.3)	(89.3)	765	1,267	(39.6)

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Demand

- According to the management, demand was seasonally weak during Q2FY23 due to erratic monsoon. While witnessing some recovery by the end of Q2FY23.
- Management lowered its volume guidance to 4.75MT for FY23E v/s 5MT earlier.
- Out of 4.75MT, the existing south capacity to produce close to 3.9MT and the rest 0.85MT (Jajpur 0.25MT and Satguru 0.6MT) from new capacity of east & central (Statguru MP capacity expected to ramp up faster than Jajpur Orissa).

### Pricing

- Sagar Cement price movement from Q2FY23 exit to Oct'22:
  - Bangalore and Tamil Nadu prices saw a rise of Rs25/bag M/M.
  - Hyderabad price increased by Rs18-20/bag, while Vizag rose by Rs15/bag.
  - Western market prices increase by Rs20/bag, while Orissa prices up by Rs10/bag.
  - Indore market did not see much price change in Oct'22.
- Management stated that the NSR would recover for the upcoming quarters. Gap between Trade & Non-trade prices stood stable in the ongoing quarter.
- Trade sales stood at 57% in Q2FY23 resulting in muted NSR while expected to rebound to ~65% in upcoming quarters.

### Operating & Other Costs

- The ongoing geopolitical tension hampering the input cost resulted in lower margin.
- Pet coke prices started increasing again to USD195/te for Nov'22 delivery v/s USD169/te recently landed cost.
- Management indicated that the company holds sufficient fuel for this quarter operations that would result in power cost/te softening by Rs200-250/te in Q3FY23E.
- Fuel mix likely to be 60% coal and 40% pet coke in upcoming quarter.
- Ramping up of new capacities would lower the lead distance going forward.
- Company had switched to grid power as CPP production cost increased to Rs12 per kwh as it required higher imported coal.

### Other Key Takeaways

- As the ongoing capacity addition has been completed, the CAPEX for FY23E is expected to be to the tune of ~Rs300mn.
- Increase in blended cement from 46% to 51% resulted in an increase in raw material cost.
- SGC board has approved the acquisition process of the Andhra cement capacity (2.6MTPA cement & 1.65MTPA clinker capacity). Acquisition of Andhra cement went under bidding process and expected to be resolved by the end of Q3FY23.

**Exhibit 4: Annual Operational Performance Estimates (Console)**

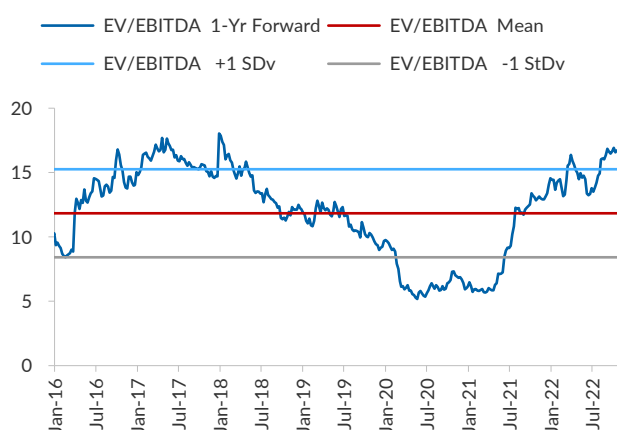
Particulars (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Total Volumes (MMT)	3.13	3.16	3.60	4.70	5.34
Utilization (%)	53%	53%	44%	57%	65%
Cement Realization/te	3,699	4,269	4,402	4,714	4,776
Net Realization/te (Blended)	3,753	4,339	4,431	4,748	4,813
RM/te	726	758	625	831	794
Power/te	987	827	1,431	1,876	1,444
Freight/te	715	741	773	872	812
Employees/te	207	242	237	191	177
Others/te	526	503	599	595	545
Opex/te (Blended)	3,161	3,072	3,666	4,365	3,771
EBITDA/te (Blended)	592	1,267	765	383	1,041

Source: Company, YES Sec

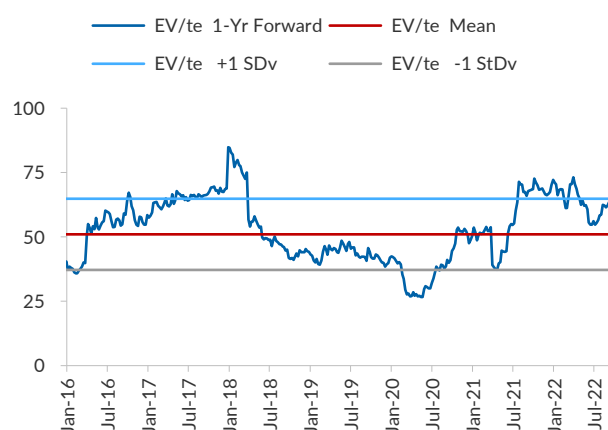
**Exhibit 5: Key Estimate Revision (Console)**

Y/e 31 Mar	FY23E			FY24E		
(Rs m)	Old	New	Change	Old	New	Change
Revenues	24,437	22,318	-9%	25,779	25,687	0%
EBITDA	4,470	1,802	-60%	6,224	5,559	-11%
PAT	1,495	(594)	NA	2,700	2,268	-16%
EPS	12.7	(5.1)	NA	23.0	19.3	-16%

Source: Company, YES Sec

**Exhibit 6: 1-yr forward EV/EBITDA band**


Source: Company, YES Sec

**Exhibit 7: 1-yr forward EV/te (\$) band**


Source: Company, YES Sec

## FINANCIALS

**Exhibit 8: Balance Sheet (Console)**

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	223	235	235	235	235
Reserves	9,444	11,674	12,319	11,725	13,993
<b>Net worth</b>	<b>9,667</b>	<b>11,909</b>	<b>12,554</b>	<b>11,960</b>	<b>14,228</b>
Other LT Liabilities	750	742	738	738	738
LT provision.	97	62	75	75	75
Minority interest	539	535	540	540	540
Long-term Borrowing	2,872	6,380	11,285	10,785	6,785
Deferred tax liabilities. (net)	439	680	977	977	977
<b>Current Liabilities</b>					
Trades Payables	2,230	2,290	2,210	2,949	3,589
Short-term Borrowing	1,406	1,685	3,748	5,718	6,750
Other current liabilities	1,351	1,142	1,485	1,485	1,485
Short Term Provision	36	44	31	31	31
<b>Total Liabilities</b>	<b>19,388</b>	<b>25,469</b>	<b>33,643</b>	<b>35,258</b>	<b>35,198</b>
<b>Assets</b>					
Total Net Block	13,306	12,487	19,931	23,894	22,932
CWIP & Other Assets	1,614	5,703	1,555	1,555	1,555
Investments	-	-	3,147	-	-
Other Non-current Asset	1,249	1,337	1,705	1,705	1,705
Deferred tax asset (net)	47	7	154	154	154
<b>Current Assets</b>					
Inventories	1,158	1,243	2,086	2,808	2,971
Trades Receivables	1,368	1,007	1,203	1,325	1,661
Other current assets	519	1,144	2,236	2,236	2,236
Short Term Loans & advances	-	-	-	-	-
Cash & Bank Balances	128	2,542	1,627	1,581	1,984
<b>Total Assets</b>	<b>19,388</b>	<b>25,469</b>	<b>33,643</b>	<b>35,258</b>	<b>35,198</b>

Source: Company, YES Sec

## Exhibit 9: Income statement (Console)

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
<b>Net Revenue</b>	<b>11,752</b>	<b>13,713</b>	<b>15,969</b>	<b>22,318</b>	<b>25,687</b>
<b>EBITDA</b>	<b>1,855</b>	<b>4,004</b>	<b>2,758</b>	<b>1,802</b>	<b>5,559</b>
D&A	789	806	927	1,337	1,262
<b>EBIT</b>	<b>1,066</b>	<b>3,199</b>	<b>1,831</b>	<b>465</b>	<b>4,296</b>
Interest Expense	610	466	925	1,892	1,502
Other Income	40	78	134	513	591
Exceptional/EO items	-	-	-	-	-
<b>EBT</b>	<b>497</b>	<b>2,811</b>	<b>1,040</b>	<b>(914)</b>	<b>3,385</b>
Tax	231	955	449	(320)	1,117
Share of Profit/(Loss) in JV/Associates	-	-	-	-	-
<b>Reported PAT</b>	<b>265</b>	<b>1,856</b>	<b>591</b>	<b>(594)</b>	<b>2,268</b>
Less: Minority Interest	(2)	(4)	(100)	-	-
<b>Adj. PAT</b>	<b>267</b>	<b>1,860</b>	<b>691</b>	<b>(594)</b>	<b>2,268</b>

Source: Company, YES Sec

## Exhibit 10: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
<b>Cash flow from operation</b>	<b>1,656</b>	<b>2,638</b>	<b>562</b>	<b>2,530</b>	<b>5,173</b>
Profit before tax	499	2,815	1,140	(914)	3,385
Depreciation	789	806	927	1,337	1,262
Tax paid	(231)	(955)	(449)	320	(1,117)
Working capital Δ	(8)	(489)	(1,882)	(105)	141
Other operating items	608	461	825	1,892	1,502
<b>Cash flow from Investing Activities</b>	<b>(2,780)</b>	<b>(4,124)</b>	<b>(4,739)</b>	<b>(5,300)</b>	<b>(300)</b>
Capital expenditure	(2,166)	(4,076)	(4,224)	(5,300)	(300)
Change in other non-current assets	(614)	(48)	(515)	-	-
<b>Free cash flow</b>	<b>(511)</b>	<b>(1,438)</b>	<b>(3,662)</b>	<b>(2,770)</b>	<b>4,873</b>
<b>Cash flow from Financing activities</b>	<b>957</b>	<b>3,900</b>	<b>3,262</b>	<b>2,724</b>	<b>(4,470)</b>
Change in Equity & Reserves	1,025	539	146	-	-
Investments	-	-	(3,147)	3,147	-
Debt financing/disposal	(168)	3,786	6,969	1,470	(2,968)
Dividends paid	(671)	(618)	(1,016)	(1,892)	(1,502)
Other items	772	194	311	-	-
<b>Net Δ in cash</b>	<b>(168)</b>	<b>2,414</b>	<b>(915)</b>	<b>(46)</b>	<b>403</b>

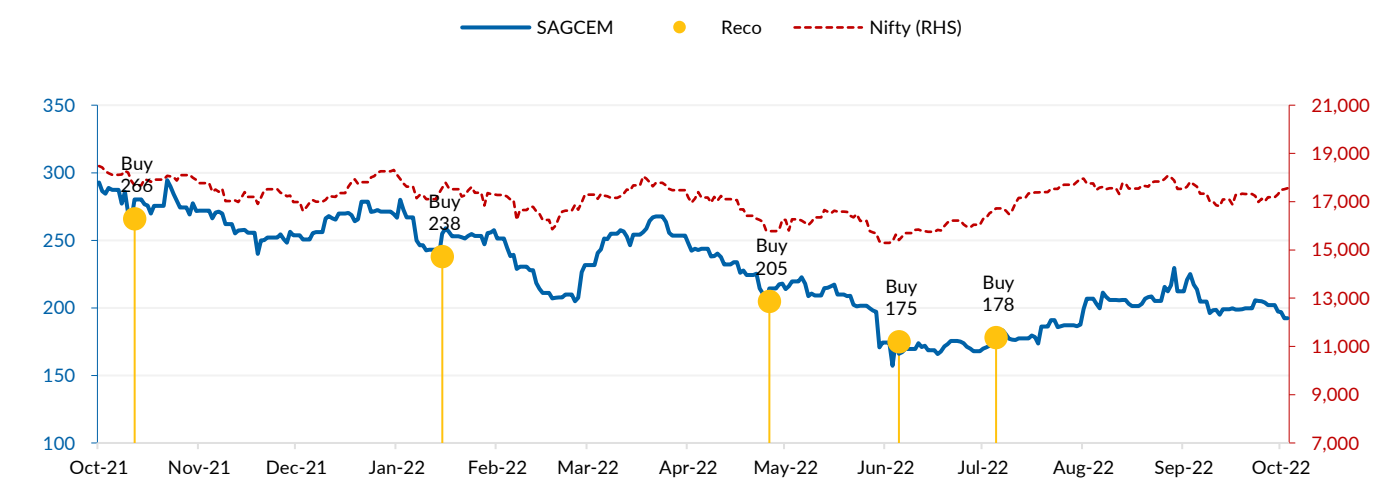
Source: Company, YES Sec

## Exhibit 11: Ratio Analysis (Console)

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Revenue	(3.5)	16.7	16.4	39.8	15.1
EBITDA	24.2	115.9	(31.1)	(34.7)	208.5
EBT	114.1	466.0	(63.0)	NA	NA
PAT	95.2	599.6	(68.1)	NA	NA
EPS	78.7	563.3	(93.6)	NA	NA
<b>Profitability ratios (%)</b>					
EBITDA (%)	15.8	29.2	17.3	8.1	21.6
EBIT (%)	9.4	23.9	12.3	4.4	19.0
PAT (%)	2.3	13.5	3.7	(2.7)	8.8
ROCE	7.6	15.9	6.7	3.2	16.9
ROE	2.7	15.6	4.7	(5.0)	15.9
ROA	1.8	10.5	2.8	(2.4)	9.5
<b>Per share ratios (Rs)</b>					
EPS	12	79	5	(5)	19
DPS	3	7	1	-	-
Cash EPS	47	113	13	6	30
BVPS	434	507	107	102	121
<b>Payout (%)</b>					
Dividend payout	21.0	8.2	13.9	-	-
Tax payout	46.6	34.0	43.1	35.0	33.0
<b>Liquidity ratios</b>					
Inventory days	47	44	75	75	75
Payable days	107	117	78	78	78
Receivables days	39	32	25	25	25
<b>Leverage ratios (x)</b>					
Interest Coverage	1.8	7.0	2.1	0.5	3.3
Net D/E	0.5	0.5	0.8	1.2	0.8
Net Debt/EBITDA	2.6	1.4	4.9	8.3	2.1

Source: Company, YES Sec

## Recommendation Tracker





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## DISCLOSURE OF INTEREST

Name of the Research Analyst : Abhishek Lodhiya, Sonu Upadhyay

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
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8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
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10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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