

Cost pressure to ease out; debt remains an overhang

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, the company will be developing 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

Q3FY23 Results: Q3 performance broadly remained in line with our estimates.

- Revenues were up 72.6% YoY to ₹ 575.7 crore, led by sales volume growth of 66.8% YoY
- EBITDA improved sequentially with major delta coming from declining power & fuel costs
- At the PAT level, the company reported a net loss of ₹ 27.2 crore led by higher interest cost (pertaining to loan taken for potential M&A) and depreciation (due to commissioning of new capacities)

What should investors do? With capacity expansions in high growth regions like east & central, we expect strong growth momentum, going forward.

- However, higher debt for potential M&A to pose challenge in the medium-term. Hence, we maintain **HOLD** rating on the stock

Target Price and Valuation: We value Sagar at ₹ 250 i.e. 8.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- **Incremental volumes from new units** (1 MT ICU at MP, 1.5 MT grinding unit in Odisha) to help grow the business. Expect revenue CAGR of 23.7% during FY22-24E led by 20.1% CAGR in volumes
- However, short term headwinds with respect to costs to keep margins under check. Operating leverage to kick in post stabilisation of new capacity
- The company is on course to reach over 10 MT capacity through M&A in the medium term for which additional debt of ₹ 500 crore has been raised

Alternate Stock Idea: In our cement sector coverage we also like another high dividend paying company Heidelberg Cement.

- The company is a cost efficient player in central India having a strong b/s
- BUY with a target price of ₹ 220/share



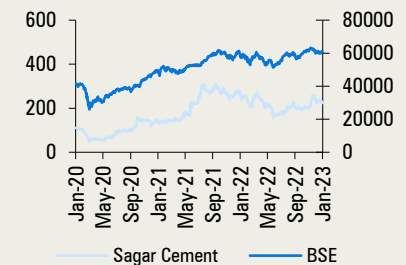
Particulars

Particular	Amount
Market Capitalization	₹ 2888 Crore
Total Debt (FY22)	₹ 1572 Crore
Cash and Investments (FY22)	₹ 476 Crore
EV	₹ 3985 Crore
52 week H/L	₹ 317/118
Equity capital	₹ 26.1 Crore
Face value	₹ 2

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	50.28	45.20	45.20	45.20
FII	5.24	4.47	4.47	3.99
DII	8.87	18.21	18.21	19.06
Others	35.61	32.12	32.12	31.75

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	2242.5	2442.8	23.7
EBITDA	149.4	185.5	400.4	275.8	22.7	189.1	440.8	26.4
EBITDA (%)	12.3	15.8	29.2	17.3		8.4	18.0	
PAT	13.6	26.5	185.6	59.1	63.3	-79.7	77.5	14.4
EPS (₹)	1.0	2.0	14.2	4.5		-6.1	5.9	
EV/EBITDA	22.5	18.2	8.6	14.4		19.3	7.6	
EV/Tonne (\$)	91	84	86	69		63	58	
RoNW	1.6	2.8	15.5	4.7		-5.3	5.0	
RoCE	6.4	7.2	15.4	6.6		2.9	10.1	

Source: Company, ICICI Direct Research

Key performance highlights

- Revenues were up 72.6% YoY to ₹ 575.7 crore, in line with I-direct estimate of ₹ 575.8 crore. Growth was led by 66.8% YoY jump in volumes to 1.24 MT (up 19.8% QoQ) and 3.4% YoY increase in realisations to ₹ 4645/tonne (up 1.3% QoQ)
- Capacity utilisation was at 60% vs. 49% in the last quarter
- EBITDA margin came in at 8.3%, broadly in line with our estimated EBITDA margin of 8.4%. It declined 561 bps YoY mainly due to high power & fuel cost. However, on a sequential basis, fall in fuel prices led to 706 bps jump in margins
- Reported EBITDA/t came in at ₹ 384/t (vs. I-direct estimate: ₹ 391/t), down 38.4% YoY. On an absolute basis, EBITDA came in at ₹ 47.6 crore vs. I-direct estimate of ₹ 48.1 crore
- Net loss came in at ₹ 27.2 crore due to a sharp jump in interest expenses (up ~3x YoY to ₹ 51.4 crore, up 2.2%QoQ) and higher depreciation (up ~82% YoY) due to commissioning of new capacities

Key conference call highlights

- **Demand outlook** - Demand growth YoY in last nine months was 20%+ in Andhra Pradesh/Telangana, 24% in Karnataka, 20% in Tamil Nadu, 25% in Kerala, 0-3% in Maharashtra and flattish in Odisha. Expect 4.9-4.95 MT sales volume in FY23 whereas 5.5 MT in FY24 from existing plants (excluding Andhra Cements asset)
- **Prices** – Q3FY23 exit realisation was flattish compared to the quarter average. Overall prices are expected to remain flattish in Q4FY23 and increase from mid-Q1FY24
- **Costs** - Expect ₹ 100-125/tonne cost saving QoQ in Q4FY23 on the back of reduction in fuel cost (better mix) + better operating leverage. Sagar is currently using domestic coal and domestic petcoke
- **Capex & Debt** - Net debt likely to increase by ₹ 150 crore but expected to peak out at ₹ 1,250 crore with acquisition of Andhra Cements assets (includes working capital expectations also). A ₹ 30 crore maintenance capex will be incurred in FY24, FY25
- **Andhra Cements update** - Lol has been received and the same has been admitted to Amravati bench of NCLT – final order expected in due course (due date is February 9, 2023). Expect the plant to start operations from mid-Q1FY24 (cement capacity) and expect it to reach 55-60% utilisation in a couple of quarters after final order is received

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Total Operating Income	575.7	575.8	333.7	72.6	474.6	21.3	Revenue growth driven by sales volumes that were up 66.8% YoY
EBITDA	47.6	48.1	46.3	2.8	5.7	733.3	
EBITDA Margin (%)	8.3	8.4	13.9	-561 bps	1.2	706 bps	
Interest	51.4	50.9	18.4	179.8	50.3	2.2	Structured debt of ₹ 500 crore for potential M&A leads to higher
Depreciation	39.7	38.1	21.9	81.7	37.9	4.7	
PBT	-29.2	-27.0	8.0	-465.2	-67.6	-56.7	
Total Tax	-2.0	-5.1	3.4	-160.1	-18.4	-88.9	
PAT	-27.2	-21.9	4.6	-688.5	-49.2	-44.7	
Key Metrics							
Volume (MT)	1.24	1.23	0.74	66.8	1.03	19.8	Capacity utilisation for the quarter at 60% vs. 49% in Q2
Net realisation (₹)	4,645	4,681	4,490	3.4	4,585	1.3	
EBITDA per Tonne (₹)	384	391	623	-38.4	55	595.8	
Per tonne							
Net Sales	4,645	4,374	4,490	3.4	4,585	1.3	
Raw Material Expenses	1,022	620	393	160.3	689	48.5	
Employee Expenses	203	210	265	-23.6	222	-8.6	
Power and fuel	1,690	2,360	1,790	-5.6	2,200	-23.2	Petcoke prices declined sequentially leading to 23% reduction on the P&F cost on QoQ basis
Freight	794	780	757	5.0	798	-0.5	
Others	552	13	662	-16.7	621	-11.2	
Production costs	4,261	3,983	3,867	10.2	4,530	-5.9	
EBITDA	384	391	623	-38.4	55	595.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,285.5	2,242.5	-1.9	2,452.6	2,442.8	-0.4	
EBITDA	194.7	189.1	-2.9	428.7	440.8	2.8	
EBITDA Margin (%)	8.5	8.4	-9 bps	17.5	18.0	57 bps	

Source: Company, ICICI Direct Research

Key triggers for future price performance

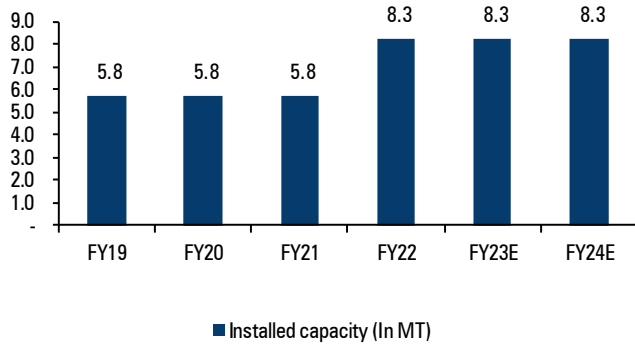
To achieve 10 MT capacity by FY25E: The company is aiming to reach 10 MT capacity by FY25E. In the first phase, the company has added 2.5 MT capacity (1 MT in MP and 1.5 MT in Odisha). Post these expansions, the total capacity has increased to 8.25 MT. With likely acquisition on the cards, we expect debt levels to stay elevated in the near term due to increase in the working capital requirement. 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 compared to 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 23.7% during FY22-24E, though full potential of new capacities would start reflecting from H1FY24E onwards post potential takeover of cement assets in AP. However, the rise in the debt due to M&A would pose challenge in the medium-term. Hence, we continue to maintain our **HOLD** rating on the stock. We value Sagar at ₹ 251 i.e. 8.5x FY24E EV/EBITDA.

Financial story in charts

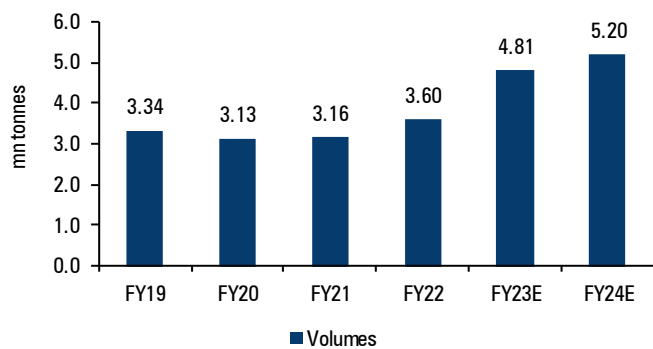
Exhibit 3: Installed capacity increases 43.5% in FY22



Source: Company, ICICI Direct Research

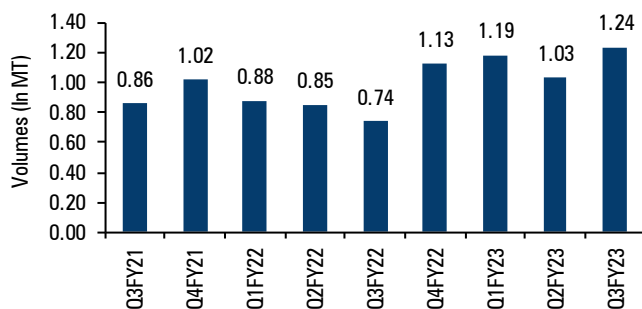
Total 82% of SCL's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company's brand "Sagar Cements" being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%). With the plants under Satguru Cement and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

Exhibit 5: Volumes to grow at 20.1% CAGR in FY22-24E with commissioning of new capacities



Source: Company, ICICI Direct Research

Exhibit 7: Volumes increase 66.8% YoY in Q3FY23



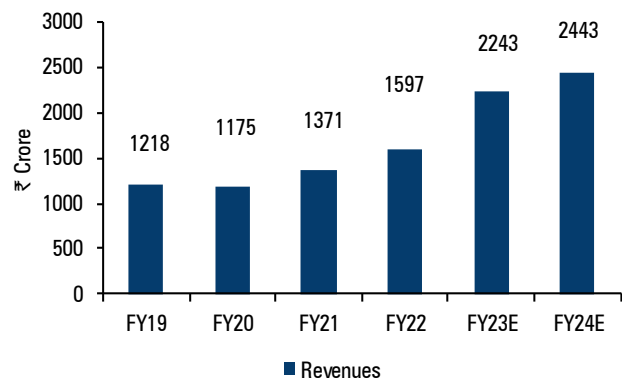
Source: Company, ICICI Direct Research

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

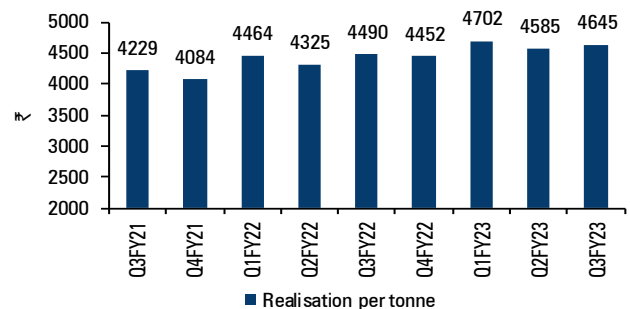
Source: Company, ICICI Direct Research

Exhibit 6: Topline to grow at 23.7% CAGR over FY22-24E



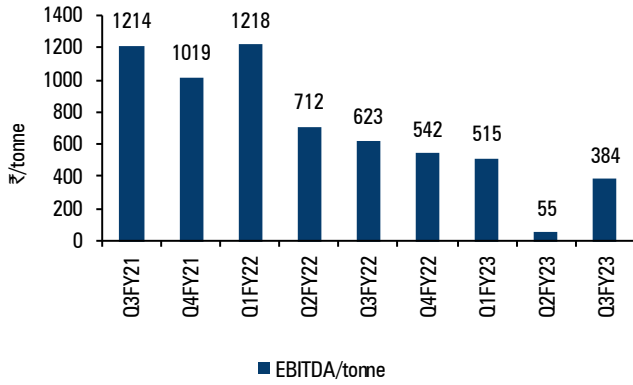
Source: Company, ICICI Direct Research

Exhibit 8: Realisations up 3.4% YoY on increased cost pressure



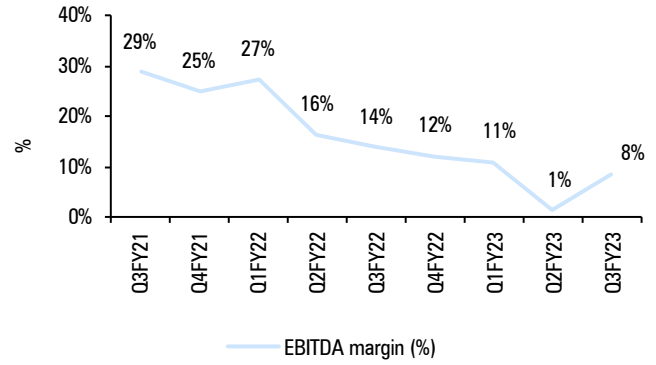
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t improves QoQ on easing cost pressure



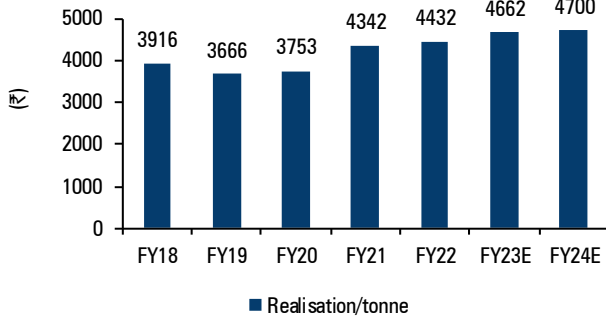
Source: Company, ICICI Direct Research

Exhibit 10: Margins trends



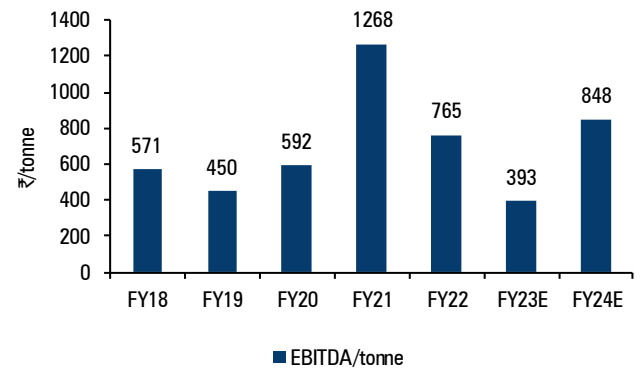
Source: Company, ICICI Direct Research

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



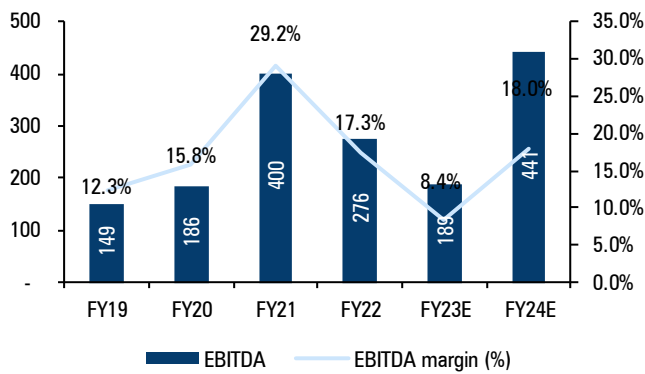
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t trend



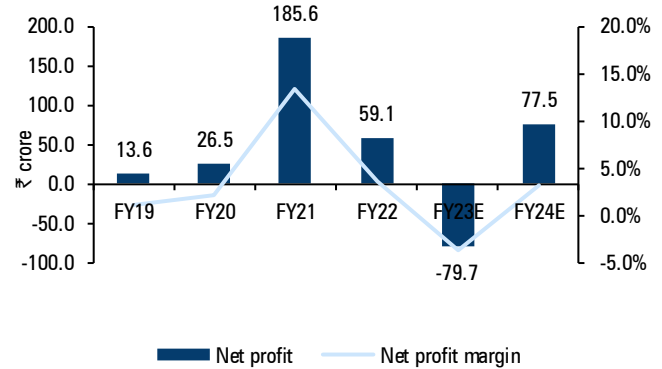
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 14: Profitability to improve from FY24E led by likely cost stabilisation and improved asset utilisation



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	2,242.5	2,442.8
Growth (%)	-3.5	16.7	16.4	40.4	8.9
Raw material cost	227.3	239.8	225.3	419.4	389.8
Power & fuel	309.2	261.4	515.7	867.7	753.6
Freight cost	223.8	234.2	278.6	387.8	405.4
Others	229.4	235.5	301.5	378.5	453.1
Total Operating Exp.	989.7	970.9	1,321.1	2,053.4	2,002.0
EBITDA	185.5	400.4	275.8	189.1	440.8
Growth (%)	24.2	115.9	-31.1	-31.4	133.1
Depreciation	78.9	80.6	92.7	154.0	153.5
Interest	61.0	46.6	92.5	201.2	200.5
Other Income	4.0	7.8	13.4	56.2	20.0
PBT	49.7	281.1	104.0	-110.0	106.8
Total Tax	23.1	95.5	44.9	-30.2	29.4
PAT	26.5	185.6	59.2	-79.7	77.5
PAT margin	2.3	13.5	3.7	-3.6	3.2
Adjusted PAT	26.5	185.6	59.2	-79.7	77.5
Growth (%)	95.2	599.5	-68.1	-234.8	-197.2
Adjusted EPS (₹)	2.0	14.2	4.5	-6.1	5.9

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	1,475.8	1,537.5
Total Shareholders fun	957.5	1,194.5	1,247.7	1,502.0	1,563.7
Total Debt	498.0	810.2	1,571.9	1,471.9	1,291.9
Deferred Tax Liability	22.7	75.9	97.7	119.5	141.3
Minority Interest / Other	193.9	238.3	207.8	207.8	207.8
Total Liabilities	1,672.1	2,318.9	3,125.0	3,301.1	3,204.6
Assets					
Gross Block	1,842.1	1,863.1	2,622.1	2,727.6	2,727.6
Less: Acc Depreciator	511.5	592.0	684.8	838.8	992.3
Net Block	1,330.6	1,271.0	1,937.4	1,888.9	1,735.4
Capital WIP	108.0	517.5	100.5	35.0	65.0
Total Fixed Assets	1,438.6	1,788.5	2,037.9	1,923.9	1,800.4
Investments	53.4	52.8	400.1	550.1	550.1
Inventory	115.8	124.3	208.6	202.8	220.9
Debtors	136.8	100.7	120.3	245.8	234.2
Loans and Advances	21.2	22.4	20.2	33.6	36.6
Other Current Assets	139.1	225.7	416.6	381.2	293.1
Cash	11.6	252.2	161.0	242.2	357.1
Total Current Assets	424.5	725.3	926.7	1,105.5	1,142.0
Creditors	223.0	229.0	221.0	245.8	254.3
Provisions	13.3	10.7	10.6	24.6	25.4
Total Current Liabilities	236.3	239.7	231.6	270.3	279.8
Net Current Assets	188.2	485.6	695.1	835.2	862.2
Others Assets	0.0	0.0	0.0	0.0	0.0
Application of Funds	1,680.2	2,326.9	3,133.0	3,309.1	3,212.6

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	-79.7	77.5
Add: Depreciation	78.9	80.6	92.7	154.0	153.5
(Inc)/dec in Current Assets	-68.3	-60.2	-292.7	-97.7	78.5
Inc/(dec) in CL and Prov.	22.4	3.4	-8.1	38.8	9.4
CF from operations	120.5	256.0	-56.4	216.6	519.4
(Inc)/dec in Investments	-11.8	0.6	-346.8	-150.0	0.0
(Inc)/dec in Fixed Assets	-202.2	-430.5	-342.1	-40.0	-30.0
Others	-8.6	98.0	-9.2	21.8	21.8
CF from investing act.	-222.6	-331.9	-698.1	-168.2	-8.2
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	-100.0	-180.0
Dividend paid incl. taxes	-4.7	-20.5	-11.0	-15.8	-15.8
Interest paid	-61.0	-46.6	-92.5	-201.2	-200.5
Others	65.3	-13.0	5.0	0.0	0.0
CF from financing act.	83.9	317.0	663.2	32.8	-396.3
Net Cash flow	-18.2	241.0	-91.3	81.2	114.9
Opening Cash	29.8	11.6	252.2	161.0	242.2
Closing Cash	11.6	252.7	161.0	242.2	357.1

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	-6.1	5.9
Cash EPS	8.1	20.4	11.6	5.7	17.7
BV	73.3	91.4	95.5	114.9	119.6
DPS	0.3	1.3	0.7	1.0	1.0
Cash Per Share	0.9	19.3	12.3	18.5	27.3
Operating Ratios (%)					
EBITDA Margin	15.8	29.2	17.3	8.4	18.0
Adjusted PAT Margin	2.3	13.5	3.7	-3.6	3.2
Inventory days	36.0	33.1	47.7	33.0	33.0
Debtor days	42.5	26.8	27.5	40.0	35.0
Creditor days	69.3	60.9	50.5	40.0	38.0
Return Ratios (%)					
RoE	2.8	15.5	4.7	-5.3	5.0
RoCE	7.2	15.4	6.6	2.9	10.1
RoIC	7.5	23.3	7.6	1.5	13.5
Valuation Ratios (x)					
P/E (adjusted)	108.9	15.6	48.8	-36.2	37.3
EV / EBITDA	18.2	8.6	14.4	19.3	7.6
EV / Net Sales	2.9	2.5	2.5	1.6	1.4
Market Cap / Sales	2.5	2.1	1.8	1.3	1.2
Price to Book Value	3.0	2.4	2.3	1.9	1.8
Solvency Ratios					
Debt/EBITDA	2.7	2.0	5.7	7.8	2.9
Debt / Equity	0.5	0.7	1.3	1.0	0.8
Current Ratio	1.2	1.2	2.1	2.1	1.8
Quick Ratio	0.9	0.9	1.6	1.7	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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