

Sagar Cements

Refer to important disclosures at the end of this report

Capacity enhancement ahead of schedule; leverage to remain high; downgrade to HOLD

CMP	Target Price
Rs 222 as of (January 30, 2023)	Rs 240 (▲) 12 months
Rating	Upside
HOLD (▼)	7.9 %

Sagar Cements' Q3FY23 EBITDA increased ~2% YoY/~7x QoQ (on a low base) to Rs476mn, broadly in line with consensus and our estimates. Sagar has recently been declared as a successful resolution applicant for acquisition of Andhra Cements (clinker/cement capacity of 1.65mt/2.65mt) and Management expects to receive final approval from NCLT in Q4FY23. Post-acquisition, Company would cross another milestone of +10mt capacity, well ahead of its guidance of FY25E. Accordingly, we expect industry-leading volume CAGR of 24% over FY22-25E. However, capex funding requirement would keep leverage high, with 'net debt-to-EBITDA' in the 3-3.5x range for a couple of years. Factoring-in the acquisition of Andhra Cements and the slow pace of price hike, we cut our FY24E EBITDA by 6%; but we increase FY25E EBITDA by 3%. With higher leverage and limited upside, we downgrade the stock from Buy to HOLD, with Mar-24 TP to Rs240/share (earlier Rs220), post half-yearly roll-over. Our DCF-based TP implies a one-year forward EV/EBITDA of 9x.

Results Summary: Sagar Cements' consolidated volumes increased by 67% YoY/20% QoQ to 1.24mt, in line with our estimates, while cement realization/ton increased ~4% YoY/~1% QoQ to Rs4,645, coming in ~3% below our estimates. Total cost/ton increased 10% YoY/declined 6% QoQ to Rs4,261 (Emkay est.: Rs4,359). The company reported loss of Rs220mn. Net debt declined by Rs993mn QoQ to Rs10.8bn, as of Dec-22.

What we liked: Superior volume growth and lower-than-expected cost.

What we did not like: Lower-than-expected realization.

Earnings call KTAs: 1) Management stated that prices have been largely flat, with negative bias in Jan-23 despite several attempts to raise prices. Prices are expected to remain flat for Q4FY23 and likely to increase from Q1FY24; 2) Net debt declined by Rs993mn QoQ to Rs10.8bn, as of Dec-22. Management expects net debt to increase by Rs1.5bn to Rs12.5bn post the acquisition; 3) Management has broadly retained its volume guidance of 4.9-4.95mt for FY23. Further, it has guided for volumes of 5.5mt (excluding Andhra Cements) for FY24 (+12% YoY). 4) Management expects robust demand in South India for the next two years due to elections, and expects volumes to grow by 8-10%, also for the next two years. Going ahead, government infrastructure and urban housing are expected to be key demand drivers; 5) Sagar has been declared as a successful resolution applicant for Andhra Cements, and the matter is pending in Amravati NCLT, with the final order expected soon. Andhra Cements' clinker/cement capacity expected to operationalize by the end/middle of Q1FY24. Capacity utilization of 55-60% is expected over the next few quarters; 6) The company expects savings of Rs100-125/ton in Q4FY23 due to the decline in fuel costs and operating leverage benefits. Management targets for fuel mix of 60% domestic coal and 40% petcoke, going ahead; 8) The Jeerabad plant (MP) has already achieved breakeven at the EBITDA level, whereas the Jaipur plant (Odisha) is expected to reach breakeven in mid-Q1FY24; 9) Mgmt has guided for maintenance capex (ex Andhra Cements) of Rs300mn each for FY24 and FY25; 10) Trade mix has increased by 300bps QoQ to 60% in Q4 and blending ratio stands at 49%; Mgmt expects it to reach 55-60% in FY24.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13,713	15,969	22,541	27,518	33,568
EBITDA	4,004	2,758	1,891	3,781	5,069
EBITDA Margin (%)	29.2	17.3	8.4	13.7	15.1
APAT	1,865	692	(661)	699	1,683
EPS (Rs)	79.4	5.9	(5.1)	5.4	12.9
EPS (% chg)	562.1	(92.6)	(185.9)	0.0	140.7
ROE (%)	17.2	5.6	(4.7)	4.5	10.0
P/E (x)	2.8	37.7	(43.9)	41.5	17.2
EV/EBITDA (x)	7.7	11.5	20.8	9.7	8.6
P/BV (x)	0.4	2.1	1.9	1.8	1.7

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	27-/(-34)
Target Price change (%)	9
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	(5.1)	5.4
Consensus	(2.8)	(10.2)
Mean Consensus TP (12M)	Rs 260	

Stock Details

Bloomberg Code	SGC IN
Face Value (Rs)	2
Shares outstanding (mn)	131
52 Week H/L	275 / 154
M Cap (Rs bn/USD bn)	29 / 0.36
Daily Avg Volume (nos.)	113,031
Daily Avg Turnover (USD mn)	-

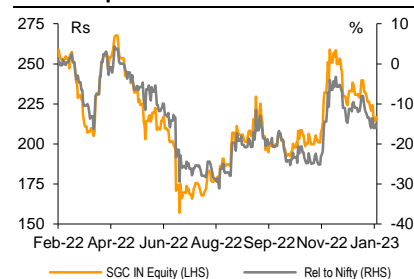
Shareholding Pattern Dec '22

Promoters	45.2%
FIIIs	4.0%
DIIIs	19.1%
Public and Others	31.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	12	25	(9)
Rel. to Nifty	(2)	13	22	(12)

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Quarterly Highlights

Exhibit 1: Actual vs. Estimates (Q3FY23)

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	5,757	5,900	5,611	(2.4)	2.6	Broadly in line
EBITDA	476	507	451	(6.1)	5.5	Lower-than-expected realization offset by lower-than-expected cost
Adj. PAT	(220)	(87)	(145)	NA	NA	Owing to lower EBITDA, higher finance cost and lower tax reversals
Volume (mt)	1.24	1.24		0.2		
Cement Realization (Rs/ton)	4,645	4,768		(2.6)		
EBITDA (Rs/ton)	384	410		(6.3)		

Source: Bloomberg, Emkay Research

Exhibit 2: Quarterly financial highlights (Consolidated)

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	9MFY22	9MFY23	YoY (%)
Revenue	3,337	5,017	5,577	4,746	5,757	72.6	21.3	10,952	16,080	46.8
Expenditure	2,869	4,406	4,967	4,688	5,282	84.1	12.7	8,805	14,937	69.6
Total RM	292	839	999	713	1,267	334.2	77.8	1,415	2,979	110.6
Power & Fuel	1,330	1,706	2,145	2,277	2,095	57.5	(8.0)	3,452	6,517	88.8
Freight	562	875	947	826	984	75.1	19.1	1,911	2,757	44.3
Staff cost	197	266	254	229	251	27.4	9.5	590	735	24.7
Other expenditure	488	721	621	643	684	40.2	6.3	1,439	1,948	35.4
EBITDA	468	611	610	57	476	1.8	733.3	2,146	1,143	(46.7)
Depreciation	219	315	366	379	397	81.7	4.7	610	1,142	87.2
EBIT	249	296	245	(322)	79	(68.4)	NA	1,536	1	(99.9)
Other Income	19	42	124	149	143	644.3	(4.3)	93	417	350.4
Interest	184	471	481	503	514	179.8	2.2	454	1,497	230.2
PBT	85	(134)	(112)	(676)	(292)	NA	NA	1,175	(1,080)	NA
Total Tax	34	58	19	(184)	(20)	NA	NA	438	(185)	NA
Adjusted PAT	51	(192)	(131)	(492)	(272)	NA	NA	737	(895)	NA
(Profit)/loss from JV's/Ass/MI	(7)	(76)	(59)	(69)	(52)	NA	NA	(24)	(180)	NA
PAT after MI	58	(115)	(72)	(423)	(220)	NA	NA	761	(715)	NA
Extra ordinary items	47	-	-	-	-			47	-	
Reported PAT	105	(115)	(72)	(423)	(220)	NA	NA	808	(715)	NA
Adjusted EPS (Rs)	0.5	(1.0)	(0.6)	(3.6)	(1.9)	NA	NA	6.5	(6.1)	NA

Source: Company, Emkay Research

(%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (bps)	QoQ (bps)	9MFY22	9MFY23	YoY (bps)
EBITDA	14.0	12.2	10.9	1.2	8.3	(575)	706	19.6	7.1	(1,249)
EBIT	7.5	5.9	4.4	(6.8)	1.4	(609)	816	14.0	0.0	(1,402)
EBT	2.5	(2.7)	(2.0)	(14.2)	(5.1)	(761)	916	10.7	(6.7)	(1,745)
PAT	1.5	(3.8)	(2.3)	(10.4)	(4.7)	(624)	564	6.7	(5.6)	(1,230)
Effective Tax rate	40.0	(43.1)	(17.1)	27.2	6.9			37.3	17.1	

Source: Company, Emkay Research

Exhibit 3: Quarterly analysis on per-ton basis

(Rs/ton)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	9MFY22	9MFY23	YoY (%)
Volumes (mt)	0.74	1.13	1.19	1.03	1.24	66.8	19.8	2.48	3.46	39.8
Blended Realization	4,489	4,448	4,702	4,585	4,645	3.5	1.3	4,423	4,646	5.0
Raw Material	393	744	842	689	1,022	160.3	48.5	571	861	50.7
Power & Fuel	1,790	1,512	1,808	2,200	1,690	(5.6)	(23.2)	1,394	1,883	35.1
Freight	756	776	798	798	794	5.0	(0.5)	772	797	3.2
Staff cost	265	236	214	222	203	(23.6)	(8.6)	238	212	(10.8)
Other expenditure	656	639	524	621	552	(16.0)	(11.2)	581	563	(3.1)
Operating cost	3,860	3,907	4,187	4,530	4,261	10.4	(5.9)	3,556	4,316	21.4
EBITDA	629	542	514	55	384	(39.0)	595.8	867	330	(61.9)

Source: Company, Emkay Research

Exhibit 4: We decrease our FY23-24 EBITDA estimates by 4-6% and increase our FY25 EBITDA estimates by ~3%

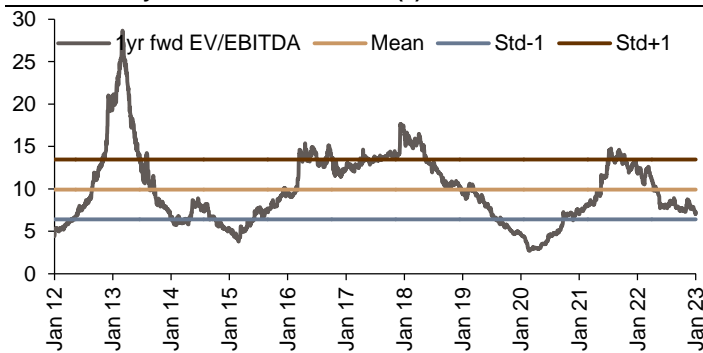
Y/E March (Rs mn)	FY23E			FY24E			FY25E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	22,404	22,541	0.6	25,657	27,518	7.3	29,598	33,568	13.4
EBITDA	1,964	1,891	(3.7)	4,026	3,781	(6.1)	4,900	5,069	3.4
PAT	(519)	(661)	27.2	1,053	699	(33.6)	1,816	1,683	(7.3)

Source: Emkay Research

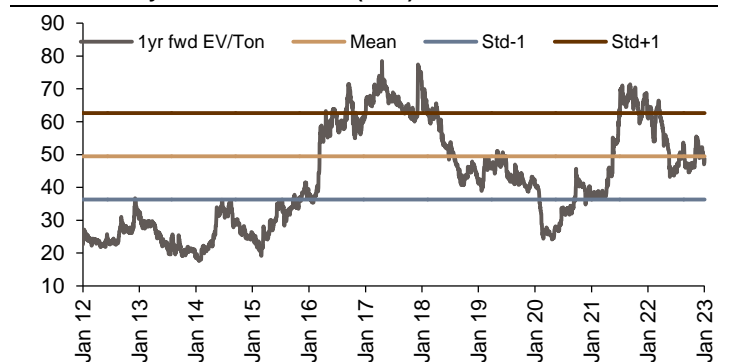
Exhibit 5: Downgrade to HOLD, with TP of Rs240/share, based on Mar-25E EV/EBITDA**EV/E method, backed by DCF analysis**

Mar-25E EBITDA (Rs bn)	5.1
EV/E (x)	9.0
Enterprise Value (Rs bn)	46
Net debt (Mar-24E, Rs bn)	14
Equity value (Rs bn)	31
No. of shares (mn)	131
Mar-24 Target Price (Rs/share)	240

Source: Emkay Research

Exhibit 6: 1-year forward EV/EBITDA (x)

Source: Bloomberg, Emkay Research

Exhibit 7: 1-year forward EV/ton (USD)

Source: Bloomberg, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13,713	15,969	22,541	27,518	33,568
Expenditure	9,709	13,211	20,650	23,737	28,499
EBITDA	4,004	2,758	1,891	3,781	5,069
Depreciation	810	927	1,542	1,755	1,901
EBIT	3,194	1,831	349	2,026	3,168
Other Income	78	134	537	188	197
Interest expenses	466	925	2,071	1,428	1,263
PBT	2,806	1,040	(1,186)	786	2,102
Tax	945	449	(300)	199	532
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	4	100	225	113	113
Reported Net Income	1,865	692	(661)	699	1,683
Adjusted PAT	1,865	692	(661)	699	1,683

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	235	235	261	261	261
Reserves & surplus	11,810	12,319	15,132	15,762	17,276
Net worth	12,045	12,554	15,394	16,023	17,538
Minority Interest	535	540	540	540	540
Loan Funds	8,129	15,034	14,034	16,034	15,534
Net deferred tax liability	759	823	823	823	823
Total Liabilities	21,468	28,951	30,790	33,420	34,434
Net block	13,238	20,481	19,351	26,896	24,995
Investment	0	3,147	0	0	0
Current Assets	7,273	8,857	16,552	12,349	13,882
Cash & bank balance	2,542	1,627	6,276	1,613	1,155
Other Current Assets	1,370	1,762	2,211	2,699	3,292
Current liabilities & Provision	4,218	4,539	6,118	7,550	9,348
Net current assets	3,055	4,318	10,434	4,799	4,535
Misc. exp	0	0	0	0	0
Total Assets	21,468	28,951	30,790	33,420	34,434

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	2,636	1,016	(1,272)	823	2,130
Other Non-Cash items	0	0	0	0	0
Chg in working cap	223	(1,700)	(1,466)	972	(194)
Operating Cashflow	3,772	870	1,175	4,780	4,568
Capital expenditure	(4,613)	(3,610)	(412)	(10,020)	(3,180)
Free Cash Flow	(841)	(2,740)	762	(5,240)	1,388
Investments	0	0	0	0	0
Other Investing Cash Flow	107	(4,090)	0	0	0
Investing Cashflow	(4,475)	(7,643)	124	(9,832)	(2,983)
Equity Capital Raised	671	105	3,500	0	0
Loans Taken / (Repaid)	3,190	6,873	(1,000)	2,000	(500)
Dividend paid (incl tax)	(153)	(59)	0	(70)	(168)
Other Financing Cash Flow	(17)	(19)	0	0	0
Financing Cashflow	3,217	6,149	429	502	(1,931)
Net chg in cash	2,513	(625)	1,728	(4,551)	(346)
Opening cash position	29	2,251	1,627	6,276	1,613
Closing cash position	2,542	1,627	6,276	1,613	1,155

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	29.2	17.3	8.4	13.7	15.1
EBIT Margin	23.3	11.5	1.5	7.4	9.4
Effective Tax Rate	33.7	43.1	25.3	25.3	25.3
Net Margin	13.6	3.7	(3.9)	2.1	4.7
ROCE	17.8	7.8	3.0	6.9	9.9
ROE	17.2	5.6	(4.7)	4.5	10.0
RoIC	15.2	5.6	1.1	5.6	8.1

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	79.4	5.9	(5.1)	5.4	12.9
CEPS	113.9	13.8	6.7	18.8	27.4
BVPS	512.6	106.8	117.8	122.6	134.2
DPS	6.5	0.8	0.0	0.5	1.3

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	2.8	37.7	(43.9)	41.5	17.2
P/CEPS	1.9	16.1	32.9	11.8	8.1
P/BV	0.4	2.1	1.9	1.8	1.7
EV / Sales	0.8	2.3	1.6	1.6	1.3
EV / EBITDA	7.7	11.5	20.8	9.7	8.6
Dividend Yield (%)	2.9	0.4	0.0	0.2	0.6

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.5	0.8	0.5	0.9	0.8
Net Debt/EBIDTA	1.4	3.7	4.1	3.8	2.8
Working Cap Cycle (days)	13.7	61.5	67.3	42.3	36.8

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	16.7	16.4	41.2	22.1	22.0
EBITDA	115.9	(31.1)	(31.4)	100.0	34.1
EBIT	199.5	(42.7)	(81.0)	481.0	56.4
PAT	598.4	(62.9)	(195.5)	0.0	140.7

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	3,337	5,017	5,577	4,746	5,757
EBITDA	468	611	610	57	476
EBITDA Margin (%)	14.0	12.2	10.9	1.2	8.3
PAT	105	(115)	(72)	(423)	(220)
EPS (Rs)	4.5	(4.9)	(3.1)	(18.0)	(9.4)

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	50.3	50.3	45.2	45.2	45.2
FIs	5.8	5.2	4.5	4.3	4.0
DIs	9.0	8.9	18.2	18.2	19.1
Public and Others	35.0	35.6	32.1	32.3	31.8

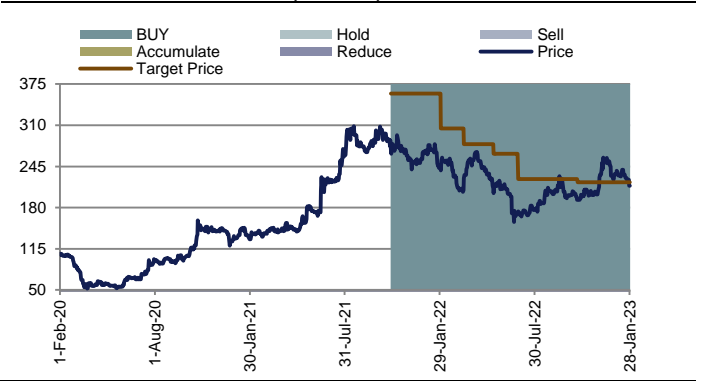
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
29-Dec-22	229	220	12m	Buy	Dharmesh Shah
5-Dec-22	241	220	12m	Buy	Dharmesh Shah
5-Nov-22	209	220	12m	Buy	Dharmesh Shah
20-Oct-22	192	220	12m	Buy	Dharmesh Shah
4-Oct-22	199	225	12m	Buy	Dharmesh Shah
4-Sep-22	201	225	12m	Buy	Dharmesh Shah
21-Jul-22	178	225	12m	Buy	Dharmesh Shah
4-Jul-22	166	225	12m	Buy	Dharmesh Shah
28-Jun-22	174	225	12m	Buy	Dharmesh Shah
12-May-22	203	265	12m	Buy	Dharmesh Shah
27-Mar-22	255	280	12m	Buy	Dharmesh Shah
16-Mar-22	227	280	12m	Buy	Dharmesh Shah
31-Jan-22	238	305	12m	Buy	Dharmesh Shah
31-Dec-21	270	360	12m	Buy	Dharmesh Shah
2-Dec-21	258	360	12m	Buy	Dharmesh Shah
28-Oct-21	265	360	12m	Buy	Dharmesh Shah
27-Oct-21	270	360	12m	Buy	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Dissemination Date: 30 Jan 2023 22:36:59 (SGT)

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