

January 30, 2023

RESULT REPORT Q3 FY23 | Sector: Cement

Sagar Cements

Net loss continues even after higher-than-expected revenues

Result Synopsis

Sagar Cements (SGC) beat our revenue estimate by +8% as volume spurt by +67% y/y to 1.24MT (+13% higher than YSECe). Total cost came +9% higher than our estimate due to incremental volumes resulting in-line EBITDA of Rs476mn. Whereas, due to higher depreciation (+82% y/y) & interest cost (+180% y/y), SGC continued to report a net loss of Rs220mn in this quarter. SGC's total cost/te increased by +10% y/y led by inflated fuel costs, while it moderated sequentially by 6% due to reduction of power cost/te by +23% q/q and other cost/te by 11% q/q. As a result, EBITDA/te declined by 38% y/y but sequentially improved by 6x to Rs384 (11% below YSECe due to 4% lower NSR than YSECe). SGC borrowed Rs5bn for acquiring Andhra Cement, which increased the finance cost for the near term. Whereas management expects the acquisition process to finalize by the end of FY23E and post that finance cost is expected to come down.

With this acquisition, SGC will accomplish its target of ~10MTPA capacity, a year before FY25E. We are positive on SGC and believe that ramp up of newly added capacities in MP & Orissa will reduce its southern exposure and grow beyond south markets. As a result, we expect SGC volume to grow at ~17% CAGR over FY23-25E (excl. volume from Andhra Cement). Also, higher blended cement dispatches from the East/Central units will improve the overall blending ratio (guided ~60% for FY24E) and will improve the utilization of clinker units in the south. Given the lower capex guidance, we believe SGC to generate FCF of Rs8.1bn over FY24-25E, which will aid to deleverage the B/S. We rolled forward our estimates to FY25 and arrived at a price target of Rs271, valuing the stock at 7.5x EV/EBITDA on FY25E.

Result Highlights

- SGC delivered volume growth of +67% y/y and +20% q/q to 1.24MT aided by ramp up of newly added capacities in Orissa (Jajpur) and MP (Satguru).
- NSR improved by 4% y/y and 1% q/q but came 4% below YSECe to Rs4645/te. As a result, Revenue grew by +73% and +21% to Rs5.76bn (+8% higher than YSECe).
- EBITDA grew by +3% y/y (7.3x q/q) to Rs476mn (In-line with YSECe) translates to EBITDA/te of Rs384 in Q3FY23 v/s YSECe of Rs431/te (missed due to lower-than-expected NSR).
- Due to higher depreciation and interest cost coupled with lower margins, SGC continues to report net loss of Rs220mn (v/s YSECe of Rs191mn net loss) v/s net loss of Rs423mn in Q2FY23 and net profit of Rs53mn in Q3FY22.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	5,757	5,314	5,611	8.4	2.6	
EBITDA	476	473	451	0.7	5.5	Muted NSR resulted in miss on EBITDA/te
Margin (%)	8.3	8.9	5.2	(63 bps)	306 bps	
Adj. PAT	(220)	(191)	(145)	N/A	N/A	

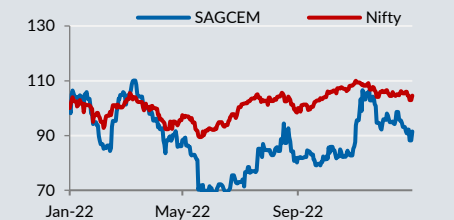
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 222
Target Price	: Rs 271
Potential Return	: +22%

Stock data (as on Jan 30, 2023)

Nifty	17,649
52 Week h/l (Rs)	275 / 154
Market cap (Rs/USD mn)	28030 / 344
Outstanding Shares (mn)	131
6m Avg t/o (Rs mn):	21
Div yield (%):	0.3
Bloomberg code:	SGC IN
NSE code:	SAGCEM

Stock performance



	1M	3M	1Y
Absolute return	-4.7%	12.4%	-8.6%

Shareholding pattern (As of Dec'22 end)

Promoter	45.2%
FII+DII	23.1%
Others	31.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	271	256

Δ in earnings estimates

	FY23E	FY24E
EPS (New)	(6.3)	11.7
EPS (Old)	(5.1)	19.3
% change	N/A	(39%)

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	22,318	25,687	28,363
Growth	39.8	15.1	10.4
EBITDA	1,810	4,519	5,539
Margin	8.1	17.6	19.5
Adj PAT	(744)	1,377	2,175
Growth	N/A	N/A	57.9
EPS	(6.3)	11.7	18.5
ND/EBITDA	8.3	2.7	1.8
ROE	(6.3)	10.4	14.2
ROCE	2.9	12.6	14.7
EV/EBITDA	22.7	8.5	6.5

ABHISHEK LODHIYA

Lead Analyst

abhishek.lodhiya@ysil.in

+91 22 6885 0521


SONU UPADHYAY, Associate

Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Net Revenue	3,337	5,017	5,577	4,746	5,757	72.6	21.3	15,969	13,713	16.4
Total Expenses	2,874	4,406	4,967	4,688	5,282	83.8	12.7	13,211	9,709	36.1
COGS	292	839	999	713	1,267	334.2	77.8	2,253	2,397	(6.0)
Employee Expenses	197	266	254	229	251	27.4	9.5	856	764	12.0
Power & fuel	1,330	1,706	2,145	2,277	2,095	57.5	(8.0)	5,157	2,614	97.3
Freight Exp	562	875	947	826	984	75.1	19.1	2,786	2,342	18.9
Other Expenses	492	721	621	643	684	38.9	6.3	2,160	1,591	35.7
EBITDA	463	611	610	57	476	2.8	733.3	2,758	4,004	(31.1)
EBITDA (%)	13.9	12.2	10.9	1.2	8.3	(561 bps)	706 bps	17.3	29.2	(1193 bps)
D&A	219	315	366	379	397	81.7	4.7	927	806	15.1
Other Income	19	42	124	149	143	644.3	(4.3)	134	78	72.5
Interest Expense	184	471	481	503	514	179.8	2.2	925	466	98.6
Exceptional/EO items	-	-	-	-	-	-	-	-	-	-
Share JV/Associates	-	-	-	-	-	-	-	-	-	-
EBT	80	(134)	(112)	(676)	(292)	N/A	N/A	1,040	2,811	(63.0)
Tax	34	58	19	(184)	(20)	N/A	N/A	449	955	(53.0)
Reported PAT	46	(192)	(131)	(492)	(272)	N/A	N/A	591	1,856	(68.1)
Less: Minority Interest	(7)	(76)	(59)	(69)	(52)	N/A	N/A	(100)	(4)	N/A
Adj. PAT	53	(115)	(72)	(423)	(220)	N/A	N/A	691	1,860	(62.8)

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis (Console)

Particulars (Rs m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Total Volumes (MMT)	0.74	1.13	1.19	1.03	1.24	66.8	19.8	3.60	3.16	14.0
NSR/te (Blended)	4,489	4,448	4,702	4,585	4,645	3.5	1.3	4,431	4,339	2.1
RM/te	393	744	842	689	1,022	160.3	48.5	625	758	(17.6)
Employees/te	265	236	214	222	203	(23.6)	(8.6)	237	242	(1.7)
Power/te	1,790	1,512	1,808	2,200	1,690	(5.6)	(23.2)	1,431	827	73.0
Freight/te	756	776	798	798	794	5.0	(0.5)	773	741	4.3
Others/te	662	639	524	621	552	(16.7)	(11.2)	599	503	19.0
Opex/te (Blended)	3,866	3,907	4,187	4,530	4,261	10.2	(5.9)	3,666	3,072	19.3
EBITDA/te (Blended)	623	542	514	55	384	(38.4)	595.8	765	1,267	(39.6)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management expects that the demand in the southern market will grow by 8-10% over the next 1-2 years on account of an upcoming election in its market of operation.
- During 9MFY23, the demand in South & East for SGC was robust.
 - AP & Telangana witnessed +25% demand growth during 9MFY23.
 - Whereas Karnataka/Tamil Nadu/Kerala faced a healthy demand growth of 24/20/25%, respectively. Similarly, Maharashtra demand grew by +3%, while Orissa remained flat during 9MFY23.
- Management indicated that despite sequential price hikes during Q3FY23, the NSR improved marginally due to overall product-mix.
 - Even post Dec'22 exit the price remained flat for SGC and therefore management expects price in Q4FY23E to remain flat or marginally up.
- Management also suggested that, despite the softening of fuel/energy prices, the cement prices are not likely to correct as the average fuel consumption cost remains elevated as compared to last year.
- The net debt stood at Rs10.8bn as on Q3FY23, while management guided that the net debt to increase by Rs1.5bn for the Andhra cement additional expenses (incl. CAPEX and Working Capital).
 - As a result, Net Debt is expected to move up to +Rs12.5bn post Andhra Cement transaction and then trend down.
- Resolution professional of Andhra Cements Limited declared SGC as the successful Resolution applicant and received the letter of Intent which was accepted by the company.
 - Now it is subject to further approvals from the concerned authorities (NCLT), while management expects to finalize by mid of Q4FY23.
 - Management stated that the Andhra cement grinding capacity to get operational by Q1FY24E and the clinker capacity by the end of Q1FY24E.
- SGC management reaffirmed volume guidance of ~5MT for FY23E. And guided for +10% volume growth to 5.5MT in FY24E (excluding Andhra cement volumes).
- Management expects a cost saving of Rs100/te in the upcoming quarter with the declining fuel/energy prices.
- Trade sales stood at 60% and Blended sales stood at 49% in Q3FY23 v/s 51% in Q2FY23.

Exhibit 4: Annual Operational Performance Estimates (Console)

Particulars (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Total Volumes (MMT)	3.16	3.60	4.70	5.34	5.78
Utilization (%)	53%	44%	57%	65%	70%
Cement Realization/te	4,269	4,402	4,714	4,776	4,872
Net Realization/te (Blended)	4,339	4,431	4,748	4,813	4,911
RM/te	758	625	845	818	835
Power/te	827	1,431	1,820	1,530	1,449
Freight/te	741	773	872	812	872
Employees/te	242	237	191	177	171
Others/te	503	599	634	629	624
Opex/te (Blended)	3,072	3,666	4,363	3,966	3,952
EBITDA/te (Blended)	1,267	765	385	847	959

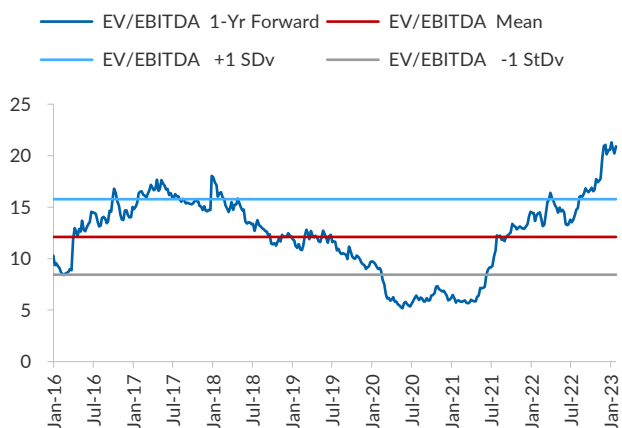
Source: Company, YES Sec

Exhibit 5: Key Estimate Revision (Console)

Y/e 31 Mar	FY23E			FY24E		
(Rs m)	Old	New	Change	Old	New	Change
Revenues	22,318	22,318	0%	25,687	25,687	0%
EBITDA	1,802	1,810	0%	5,559	4,519	-19%
PAT	(594)	(744)	N/A	2,268	1,377	-39%
EPS	(5.1)	(6.3)	N/A	19.3	11.7	-39%

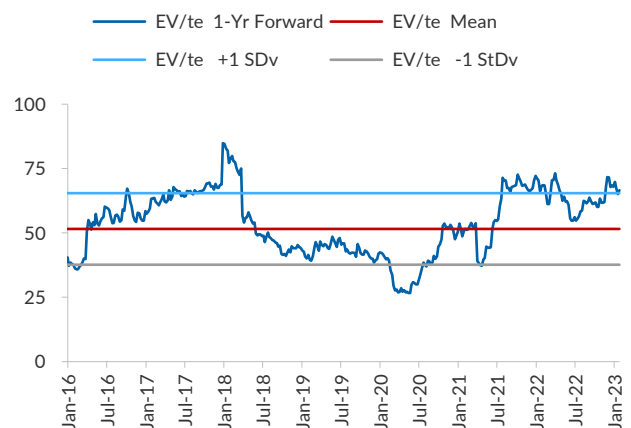
Source: Company, YES Sec

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)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	235	235	235	235	235
Reserves	11,674	12,319	11,575	12,952	15,127
Net worth	11,909	12,554	11,810	13,187	15,362
Other LT Liabilities	742	738	738	738	738
LT provision.	62	75	75	75	75
Minority interest	535	540	540	540	540
Long-term Borrowing	6,380	11,285	10,785	6,785	6,785
Deferred tax liabilities. (net)	680	977	977	977	977
Current Liabilities					
Trades Payables	2,290	2,210	2,929	3,665	3,838
Short-term Borrowing	1,685	3,748	5,744	6,804	8,276
Other current liabilities	1,142	1,485	1,485	1,485	1,485
Short Term Provision	44	31	31	31	31
Total Liabilities	25,469	33,643	35,114	34,287	38,107
Assets					
Total Net Block	12,487	19,931	23,776	22,703	21,888
CWIP & Other Assets	5,703	1,555	1,555	1,555	1,555
Investments	-	3,147	-	-	-
Other Non-current Asset	1,337	1,705	1,705	1,705	1,705
Deferred tax asset (net)	7	154	154	154	154
Current Assets					
Inventories	1,243	2,086	2,814	3,101	3,364
Trades Receivables	1,007	1,203	1,325	1,661	1,870
Other current assets	1,144	2,236	2,236	2,236	2,236
Short Term Loans & advances	-	-	-	-	-
Cash & Bank Balances	2,542	1,627	1,549	1,173	5,335
Total Assets	25,469	33,643	35,114	34,287	38,107

Source: Company, YES Sec

Exhibit 9: Income statement (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	13,713	15,969	22,318	25,687	28,363
EBITDA	4,004	2,758	1,810	4,519	5,539
D&A	806	927	1,456	1,373	1,315
EBIT	3,199	1,831	354	3,146	4,225
Interest Expense	466	925	2,012	1,476	1,404
Other Income	78	134	513	385	425
Exceptional/EO items	-	-	-	-	-
EBT	2,811	1,040	(1,145)	2,055	3,246
Tax	955	449	(401)	678	1,071
Share of Profit/(Loss) in JV/Associates	-	-	-	-	-
Reported PAT	1,856	591	(744)	1,377	2,175
Less: Minority Interest	(4)	(100)	-	-	-
Adj. PAT	1,860	691	(744)	1,377	2,175

Source: Company, YES Sec

Exhibit 10: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Cash flow from operation	2,638	562	2,592	4,339	4,594
Profit before tax	2,815	1,140	(1,145)	2,055	3,246
Depreciation	806	927	1,456	1,373	1,315
Tax paid	(955)	(449)	401	(678)	(1,071)
Working capital Δ	(489)	(1,882)	(131)	113	(299)
Other operating items	461	825	2,012	1,476	1,404
Cash flow from Investing Activities	(4,124)	(4,739)	(5,300)	(300)	(500)
Capital expenditure	(4,076)	(4,224)	(5,300)	(300)	(500)
Change in other non-current assets	(48)	(515)	-	-	-
Free cash flow	(1,438)	(3,662)	(2,708)	4,039	4,094
Cash flow from Financing activities	3,900	3,262	2,630	(4,415)	68
Change in Equity & Reserves	539	146	-	-	-
Investments	-	(3,147)	3,147	-	-
Debt financing/disposal	3,786	6,969	1,496	(2,940)	1,472
Dividends paid	(618)	(1,016)	(2,012)	(1,476)	(1,404)
Other items	194	311	-	-	-
Net Δ in cash	2,414	(915)	(77)	(377)	4,163

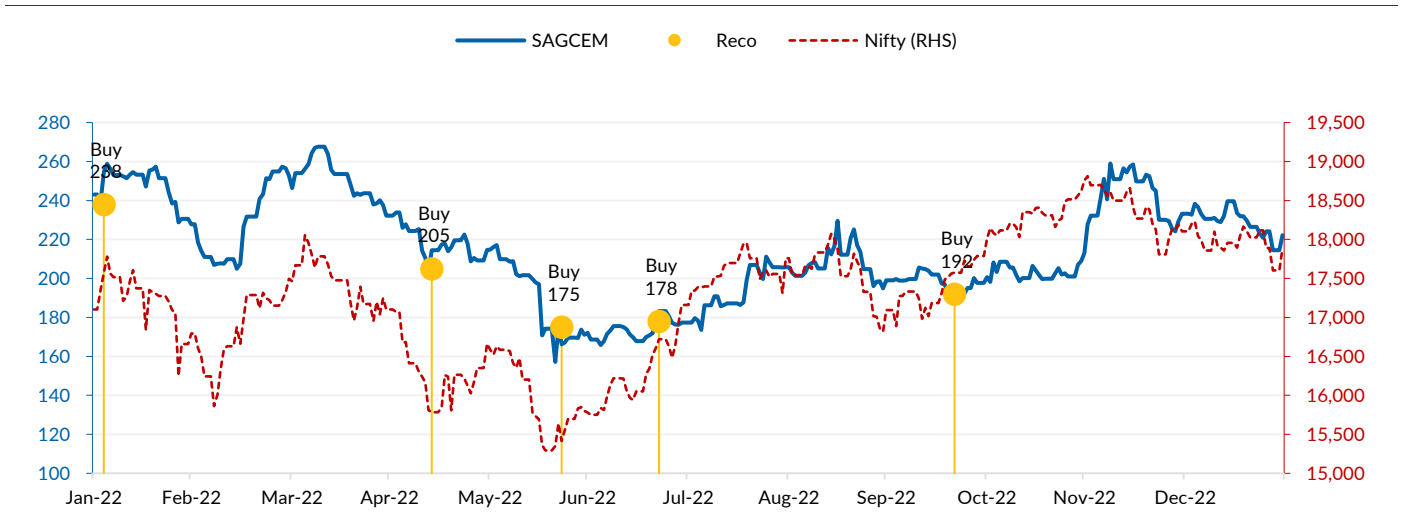
Source: Company, YES Sec

Exhibit 11: Ratio Analysis (Console)

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue	16.7	16.4	39.8	15.1	10.4
EBITDA	115.9	(31.1)	(34.4)	149.7	22.6
EBT	466.0	(63.0)	N/A	N/A	57.9
PAT	599.6	(68.1)	N/A	N/A	57.9
EPS	563.3	(93.6)	N/A	N/A	57.9
Profitability ratios (%)					
EBITDA (%)	29.2	17.3	8.1	17.6	19.5
EBIT (%)	23.9	12.3	3.9	13.7	16.4
PAT (%)	13.5	3.7	(3.3)	5.4	7.7
ROCE	15.9	6.7	2.9	12.6	14.7
ROE	15.6	4.7	(6.3)	10.4	14.2
ROA	10.5	2.8	(3.0)	5.8	9.5
Per share ratios (Rs)					
EPS	79	5	(6)	12	19
DPS	7	1	-	-	-
Cash EPS	113	13	6	23	30
BVPS	507	107	101	112	131
Payout (%)					
Dividend payout	8.2	13.9	-	-	-
Tax payout	34.0	43.1	35.0	33.0	33.0
Liquidity ratios					
Inventory days	44	75	75	75	75
Payable days	117	78	78	78	78
Receivables days	32	25	25	25	25
Leverage ratios (x)					
Interest Coverage	7.0	2.1	0.4	2.4	3.3
Net D/E	0.5	0.8	1.3	0.9	0.6
Net Debt/EBITDA	1.4	4.9	8.3	2.7	1.8

Source: Company, YES Sec

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT
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Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

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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