

31 January 2023

## Sagar Cements

*Andhra Cements-acquisition – awaiting NCLT order; retaining a Buy*

Amid steady demand and pricing, Sagar's Q3 revenue grew well, backed by the ramp-ups of the Jeerabad and Jajpur units, whereas cost pressures continued to curtail its operating performance. Doubling capacity every 10 years with greater profitability and lower balance-sheet stress remains its core focus. The resolution professional of Andhra Cements declared Sagar as the successful resolution applicant; the acquisition is expected to be completed by Feb'23. After its Andhra Cements acquisition, capacity will increase to 10.65m tonnes and, we believe, would trigger a re-rating. We retain our Buy rating, with an unchanged TP of Rs283.

**Robust volume growth.** At 60% utilisation, Q3 volumes grew a robust 67% y/y to 1.24m tonnes, boosted by steady demand from a pick-up in construction post-monsoon and the festival season, along with the ramping-up of capacities. Realisations grew 3.5% y/y on product-mix changes, while cement prices were stable. Sales of 5m/5.5m tonnes were guided to for FY23/FY24. Prices would be flat to upward in the near future. We expect 23%/19% revenue/volume CAGRs over FY22-25.

**Respite in input costs anticipated.** The operating performance continues to be under pressure despite some cooling off in fuel prices; EBITDA grew 2% y/y and EBITDA/ton declined 39% y/y to Rs384/tonne. However, q/q cost savings of Rs100-125/ton are expected in Q4 FY23 on softening fuel prices. We expect a 24% EBITDA CAGR over FY22-25.

**Business outlook, Valuations.** The resolution professional of Andhra Cements declared Sagar as the successful resolution applicant; the acquisition is expected to be completed by Feb'23. Net debt at 31<sup>st</sup> Dec'22 was Rs10.8bn, which the company guided to rise by Rs1.5bn on ramping up Andhra Cements. Demand in its key operating regions (AP/Telangana) is expected to grow 8-10% in the next few years, backed by more government spend during the coming election. We retain our Buy rating, with a Rs283 target, at 8x FY25e EV/EBITDA and an EV/ton of \$63. **Risks:** Rising prices of pet-coke, diesel, demand slowdown.

Key financials (YE Mar) (Rs m)	FY21	FY22	FY23e	FY24e	FY25e
Sales	13,526	15,933	22,570	26,192	29,563
Net profit	1,865	692	-512	740	1,712
EBITDA / ton	1,208	755	397	724	856
EPS	15.8	5.0	-5.2	6.0	13.8
PE (x)	9.0	49.0	NA	37.1	16.1
EV / EBITDA (x)	2.5	15.8	19.6	9.2	6.5
EV / ton (\$)	50.0	65.3	57.8	55.6	50.9
RoE (%)	17.3	5.7	-3.7	4.8	10.2
RoCE (%)	8.1	4.1	1.1	6.9	10.8
Dividend yield (%)	0.9	0.3	0.3	0.3	0.3

Source: Company, Anand Rathi Research \*EPS adjusting split

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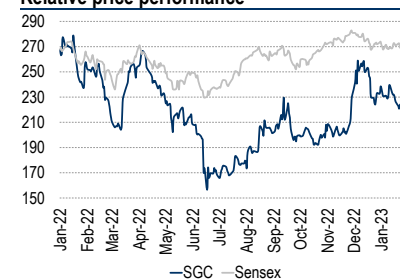
Rating: Buy  
Target Price: Rs.283  
Share Price: Rs.222

Key data	SGC IN / SGRC.BO
52-week high / low	Rs.275 / 154
Sensex / Nifty	59550 / 17662
3-m average volume	\$0.3m
Market cap	Rs.29bn / \$357.6m
Shares outstanding	131m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	45.2	45.2	45.2
- of which, Pledged	84.79	10.91	84.79
Free float	54.8	54.8	54.8
- Foreign institutions	3.99	4.33	4.47
- Domestic institutions	19.06	18.16	18.21
- Public	31.75	33.31	32.12

Estimates revision (%)	FY23e	FY24e	FY25e
Sales	1.8	(2.3)	(0.1)
EBITDA	(15.3)	(0.4)	2.2
PAT	NA	(13.6)	3.2

### Relative price performance



Source: Bloomberg

Manish Valecha  
Research Analyst

Vibha Jain  
Research Associate

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Sales volume (m tonnes)	3.2	3.6	4.9	5.5	6.1
Net revenues	13,526	15,933	22,570	26,192	29,563
<i>Growth (%)</i>	16.6	17.8	41.6	16.0	12.9
Direct costs	7,354	10,196	16,963	18,304	20,283
SG&A	2,355	3,015	3,661	3,896	4,090
<b>EBITDA</b>	<b>3,817</b>	<b>2,722</b>	<b>1,946</b>	<b>3,992</b>	<b>5,189</b>
<i>EBITDA margins (%)</i>	28.22	17.09	8.62	15.24	17.55
- Depreciation	810	927	1,540	1,583	1,605
Other income	265	170	564	393	443
Interest expenses	466	925	2,002	1,621	1,296
PBT	2,806	1,040	(1,033)	1,180	2,731
<i>Effective tax rate (%)</i>	34	43	34	34	34
+ Associates / (Minorities)	(4)	(100)	(170)	39	90
Net income	1865	692	-512	740	1712
Adjusted income	1865	692	-512	740	1712
WANS	24	118	131	131	131
FDEPS (Rs / sh) *	16	5	(5)	6	14
<i>FDEPS growth (%)</i>	565.1	(68.2)	P2L	L2P	131.4

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	3007	1795	405	2409	3584
+ Non-cash items	810	927	1540	1583	1605
Oper. prof. before WC	3817	2722	1946	3992	5189
- Incr. / (decr.) in WC	182	2226	-1212	404	-74
Others incl. taxes	423	306	-351	401	928
Operating cash-flow	3212	190	3509	3186	4335
- Capex (tang. + intang.)	4080	4224	400	400	400
Free cash-flow	-868	-4033	3109	2786	3935
Acquisitions					
- Div. (incl. buyback & taxes)	153	91	91	91	91
+ Equity raised	533	146	3447	0	0
+ Debt raised	3183	6954	-1996	-2500	-2500
- Fin investments	0	3147	0	0	0
- Misc. (CFI + CFF)	281	743	1608	1190	763
Net cash-flow	2415	-915	2861	-995	581

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

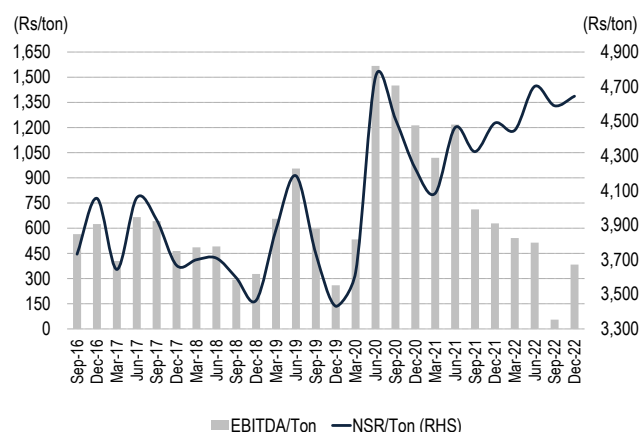
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	235	235	261	261	261
Net worth	11909	12554	15228	15916	17627
Debt	8765	15719	13723	11223	8723
Minority interest	535	540	370	409	499
DTL / (Assets)	673	823	823	823	823
<b>Capital employed</b>	<b>21881</b>	<b>29636</b>	<b>30144</b>	<b>28371</b>	<b>27672</b>
Net tangible assets	11911	19374	18988	17805	16600
Net intangible assets	687	691	691	691	691
Goodwill	416	416	416	416	416
CWIP (tang. & intang.)	5175	1005	250	250	250
Investments (strategic)	0	3147	3147	3147	3147
Investments (financial)	0	0	0	0	0
Current assets (excl. cash)	4731	7230	8162	9386	10189
Cash	2542	1627	4488	3493	4074
Current liabilities	3581	3853	5998	6817	7694
Working capital	1150	3377	2164	2569	2494
<b>Capital deployed</b>	<b>21881</b>	<b>29636</b>	<b>30144</b>	<b>28371</b>	<b>27672</b>
Contingent liabilities	-	-	-	-	-

13.071m shares allotted at Rs265 each (incl. premium of Rs263) on 7<sup>th</sup> May'22

**Fig 4 – Ratio analysis**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	9.0	49.0	NA	37.1	16.1
EV / EBITDA (x)	2.5	15.8	19.6	9.2	6.5
EV / Sales (x)	0.7	2.7	1.7	1.4	1.1
P/B (x)	0.3	2.3	1.9	1.8	1.6
RoE (%)	17.3	5.7	-3.7	4.8	10.2
RoCE (%) - after tax	8.1	4.1	1.1	6.9	10.8
DPS (Rs / sh) *	1.3	0.7	0.7	0.7	0.7
Dividend payout (%) - incl. DDT	8.2	13.2	-17.9	12.3	5.3
Net debt / equity (x)	0.5	1.1	0.6	0.5	0.3
WC days	31.0	77.3	35.0	35.8	30.8
EV / tonne (\$)	50.0	65.3	57.8	55.6	50.9
NSR / tonne (Rs)	4279	4421	4601	4751	4876
EBITDA / tonne (Rs)	1208	755	397	724	856
Volumes (m tons)	3.2	3.6	4.9	5.5	6.1
CFO : PAT %	172.2	27.5	-686.0	430.6	253.2

Source: Company, Anand Rathi Research \* DPS and EPS adjusted for the split

**Fig 6 – Quarterly per-tonne NSR and EBITDA trends**


Source: Company

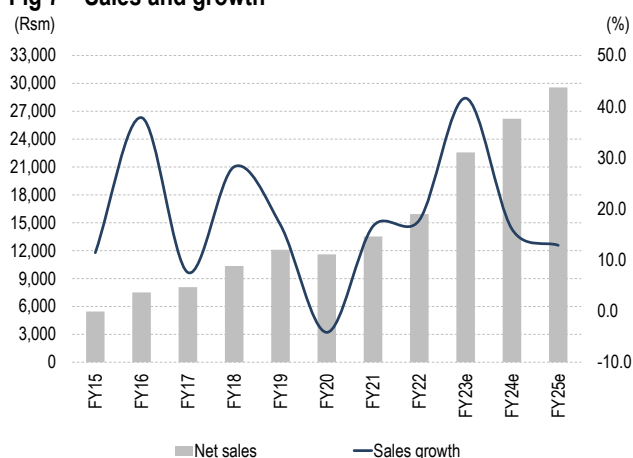
## Key highlights

### Revenue growth

Aiming at 10m tpa capacity by FY25, in FY22 Sagar raised capacity to 8.25m tonnes (from 5.75m) on commissioning of a 1m-tonne integrated unit in MP and a 1.5m-tonne grinding unit in Odisha, extending its operations to the Central and growing Eastern regions. The Resolution Professional of Andhra Cements declared Sagar as the successful resolution applicant; the acquisition is expected to be completed by Feb'23. After the Andhra Cements acquisition capacity would increase to 10.65m tonnes, thereby completing the company's target of more than 10m tonnes by FY23 itself.

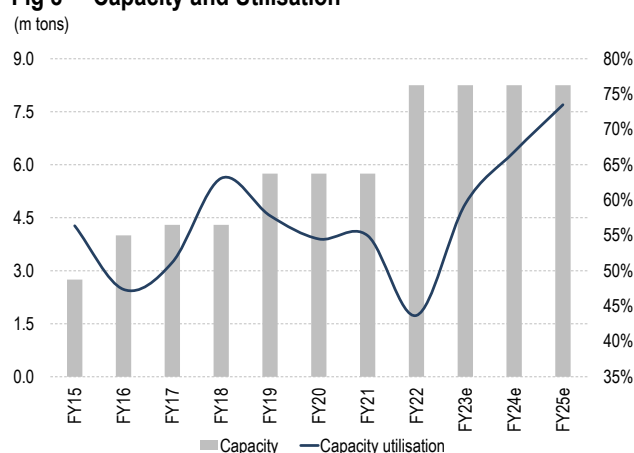
Q3 FY23 revenue grew 72.6% y/y to ~Rs5.8bn as sales of cement rose 66.8% y/y to 1.24m tonnes on the commissioning of the new capacities and steady demand backed by a pick-up in construction, post-monsoon and the festival season. Net realisation grew 3.5% to Rs4,645/tonne, boosted by a change in the product mix, where cement prices only slightly declined. Overall, capacity utilisation was 60%.

**Fig 7 – Sales and growth**



Source: Company, Anand Rathi Research

**Fig 8 – Capacity and Utilisation**



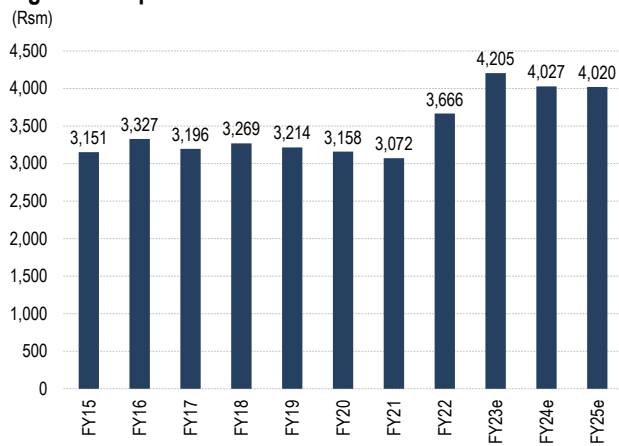
Source: Company, Anand Rathi Research

### Optimised costs

High costs contained Q3 EBITDA growth to 2% y/y (to Rs476m), whereas EBITDA/ton fell 39% y/y to Rs384 (Rs629 a year ago, Rs55 the quarter prior). Freight cost/tonne rose 5% y/y. Power & fuel costs and raw material cost/tonne declined respectively 5.5% y/y and 7.9% y/y. Staff costs and other expenditure increased respectively 27% and 40% y/y on an absolute basis.

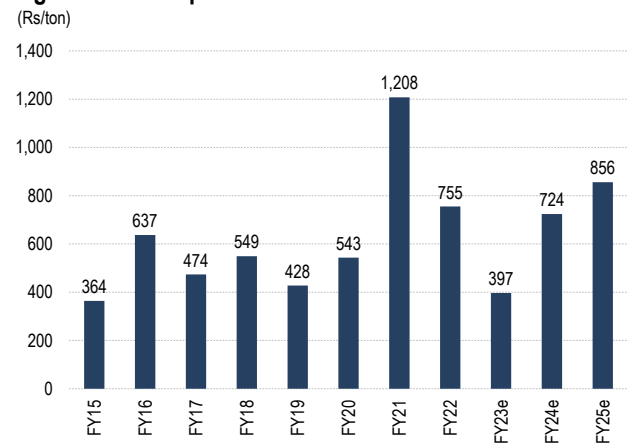
Overall cost/tonne is expected to reduce by Rs100-125 in Q4 FY23, aided by fuel costs easing. The company reported an adj. PAT loss (after minority interest) of Rs220m on the subdued operating performance and higher depreciation (up 81% y/y) and interest expenses (up 180% y/y) related to the commissioning of the two plants and more borrowings for potential acquisitions.

**Fig 9 – Cost per tonne**



Source: Company, Anand Rathi Research

**Fig 10 – EBITDA per tonne**



Source: Company, Anand Rathi Research

## Result highlights

**Fig 11 – Quarterly trend**

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Sales	2,641	3,259	3,637	4,177	3,926	3,689	3,337	5,017	5,577	4,746	5,757	72.6	21.3
EBITDA	870	1,048	1,044	1,043	1,071	608	468	611	610	57	476	1.8	733.3
<i>EBITDA margin (%)</i>	32.9	32.1	28.7	25.0	27.3	16.5	14.0	12.2	10.9	1.2	8.3	-575bps	706bps
EBITDA / tonne (Rs)	1,567	1,451	1,213	1,019	1,218	712	629	542	514	55	384	(39.0)	595.1
Interest	128	117	113	108	156	114	184	471	481	503	514	179.8	2.2
Depreciation	200	202	203	202	192	199	219	315	366	379	397	81.5	4.7
Other income	8	33	20	17	48	26	19	42	124	149	143	644.3	(4.3)
PBT	550	762	748	750	771	320	84	(134)	(112)	(676)	(292)	P2L	NA
Tax	190	260	252	268	285	112	(14)	58	19	(184)	(20)	NA	NA
Adj. PAT	360	502	496	481	486	208	98	(191)	(131)	(492)	(272)	P2L	NA
Minority Interest	(1.3)	(1.0)	(0.8)	(1.1)	(13.4)	(3.1)	(7.1)	(76.4)	(58.8)	(69.4)	(51.7)	NA	NA
Adj. PAT after MI	361	503	497	483	499	211	105	(115)	(72)	(423)	(220)	P2L	NA

Source: Company, Anand Rathi Research

**Fig 12 – Per-tonne analysis**

	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Realisation	4,756	4,512	4,226	4,084	4,463	4,324	4,489	4,448	4,702	4,589	4,645	3.5	1.2
EBITDA	1,567	1,451	1,213	1,019	1,218	712	629	542	514	55	384	(39.0)	595.1
Sales volumes (m tons)	0.56	0.72	0.86	1.02	0.88	0.85	0.74	1.13	1.19	1.03	1.24	66.8	19.9
<b>Costs</b>													
Raw material	594	623	635	664	740	754	825	575	713	806	760	(7.9)	(5.8)
Power & Fuel	839	850	803	869	1,136	1,324	1,789	1,514	1,806	2,202	1,690	(5.5)	(23.2)
Freight	704	769	740	742	762	794	756	776	798	799	794	5.0	(0.6)
Staff	274	292	209	230	216	238	265	236	214	222	203	(23.6)	(8.7)
Other expenditure	553	509	484	517	529	573	656	640	523	622	552	(15.9)	(11.3)

Source: Company, Anand Rathi Research

## Concall highlights

- The resolution professional of Andhra Cements declared Sagar as the successful resolution applicant. The company has received the Letter of Intent (LoI) in this regard, which it has accepted. This is subject to further approvals as may be required from the Authorities concerned. The hearing by the Amravati NCLT is due on 9<sup>th</sup> Feb'23.
- Andhra Cements has 2.6m tonnes cement capacity and 1.65m tons clinker capacity. It will take three months to start production, post-acquisition.
- Demand in AP/Telangana has grown 25% over 9M FY23 (Karnataka ~24%, TN ~20%, Kerala ~25%, Maharashtra 0-3%, Odisha flat). Demand is expected to grow 8-10% in the next two years, backed by more government spending during the coming election.
- The company is aiming at sales of 5m tonnes in FY23, and 5.5m in FY24. FY23 sales from the Jeerabad and Jajpur units are expected to be respectively 0.5m-0.6m and 0.25m-0.3m tonnes; FY24 ~0.75m-0.8m and 0.45-0.5m.
- Cement prices have been stable with a slight drop in the last few months. The product-mix change helped realisations remain flat. Cement prices are guided to be stable in Q4 and expected to increase in Q1 FY24 as the recent cost softness is very small. Cement prices are now Rs15-20/bag less than at peak.
- Overall capacity utilisation was 60% in Q3 FY23. The Mattampally, Gudipadu, Bayavvaram, Jeerabad and Jajpur units operated at respectively 65%, 95%, 68%, 57% and 15%. The subdued pricing situation in the East led to the slow capacity ramp-up at the Jajpur unit continuing.
- The proportion of trade sales in Q3 FY23 was 60%. The share of blended cement was 49% and would rise to 55-60% in FY25 on the ramp-up of the recently-commissioned units.
- At 31<sup>st</sup> Dec'22, gross and net debt were Rs13.9bn (Rs15bn at 31<sup>st</sup> Mar'22) and Rs10.8bn. Net debt is expected to rise to Rs12.5bn after the Andhra Cements acquisition to re-start and for working capital.
- While the Andhra Cements acquisition is expected to be completed by Q4 FY23, interest cost in Q4 FY23 is expected to be a high Rs150m. Finance cost would shrink, post-acquisition, when structured loans would be converted to term loans.
- FY23/FY24 operational capex was guided to be Rs300m.
- Cost savings q/q of Rs100-125/tonne are expected in Q4 FY23 on softening of fuel prices. Petcoke spot prices were \$170/tonne (vs \$180-200 earlier) and coal prices were \$130/tonne (vs \$160 earlier). Coal cost on a kcal basis was higher than that of petcoke.
- While the recently commissioned Ramco and Chettinand capacities would be ramped up, new capacity expansions at My Home and Shree Cements are expected to be commissioned in the next few quarters in the company's operating regions.
- The company has coal stocks for 4.5 months, and 35,000 tonnes of petcoke.

## Valuations

Doubling its capacity every 10 years with greater profitability and less balance-sheet stress remains Sagar Cement’s core focus. With capacity enhancement after its Andhra Cements acquisition, we believe a re-rating of its multiple is on the cards. The cost-efficient Sagar Cements, with its strategic acquisition and strong operations in the key southern market, is set to benefit.

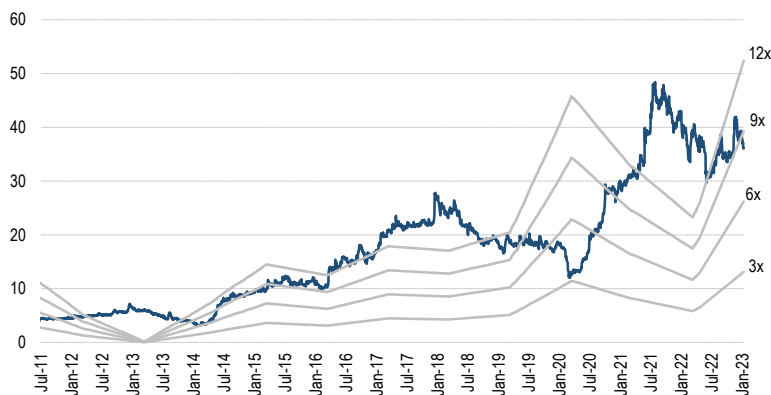
At our target price of Rs.283, the stock quotes at 8x FY25e EV/EBITDA, and an EV/ton of \$63. We maintain our Buy rating.

**Fig 13 – Change in estimates**

(Rs m)	Old			New			Variance (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Sales	22,177	26,802	29,591	22,570	26,192	29,563	1.8	(2.3)	(0.1)
EBITDA	2,298	4,009	5,076	1,946	3,992	5,189	(15.3)	(0.4)	2.2
PAT	(320)	902	1747	(682)	779	1,802	NA	(13.6)	3.2

Source: Anand Rathi Research

**Fig 14 – EV / EBITDA band**



Source: Company, Anand Rathi Research

**Fig 15 – Peer comparison on valuations**

	CMP	P / E (x)			EV / EBITDA (x)			EV / ton (\$)		
	(Rs)	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
<b>Sagar Cement</b>	<b>222</b>	<b>NA</b>	<b>37.1</b>	<b>16.1</b>	<b>19.6</b>	<b>9.2</b>	<b>6.5</b>	<b>58</b>	<b>56</b>	<b>51</b>
NCL Industries	163	13.8	7.3	6.3	7.2	4.4	3.5	36	33	28
Birla Corp.	905	62.4	14.0	9.7	12.8	7.5	5.8	62	58	53
Dalmia Bharat	1,765	44.8	35.8	27.0	12.9	11.0	8.9	96	80	77
Deccan Cement	472	11.3	8.9	7.9	6.0	6.1	5.8	36	47	40
Heidelberg	175	22.6	17.4	13.1	11.1	8.7	6.5	71	62	58
India Cement	193	NA	38.8	19.6	32.3	13.9	10.5	72	71	68
JK Cement	2,708	31.3	26.5	23.0	15.8	14.2	12.6	190	170	156
JK Lakshmi	740	20.8	18.4	16.3	10.1	9.1	7.9	92	88	81
Mangalam Cement	285	10.4	7.9	5.9	5.5	4.2	3.1	34	31	26
Orient Cement	123	15.7	12.4	11.2	7.0	6.5	6.3	44	51	57
Ramco Cement	676	36.7	27.7	21.7	18.2	14.2	11.9	124	124	114
Sanghi Industries	64	NA	40.8	23.1	13.2	10.3	8.7	63	62	59
Star Cement	111	22.5	21.1	19.5	11.3	10.7	8.9	102	83	70
Prism Johnson	105	107.2	21.6	15.6	14.9	9.0	7.3	77	74	68

Source: Company, Anand Rathi Research

### Risks

- Rising pet-coke and diesel prices
- Demand slowdown.



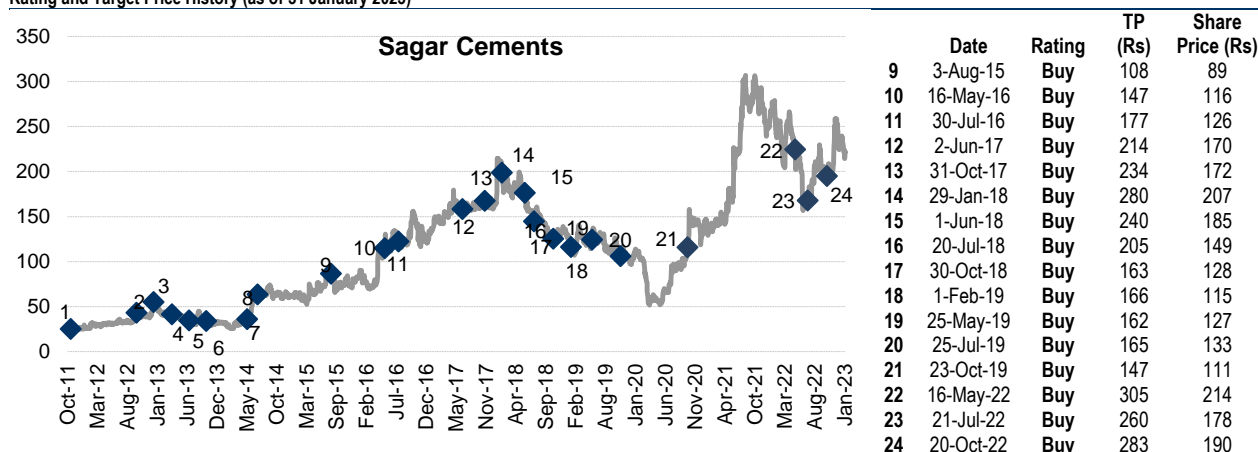
## Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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