

March 28, 2023

## Cementing its position in southern markets...

**About the stock:** Sagar Cements is a **south based cement player** with cement capacity of 10.1 MT (including Andhra Cements). Region wise, AP/Telangana accounted for ~60% of sales followed by Tamil Nadu (16%), Karnataka (9%).

- Going forward, the company will be able to develop a presence in the faster-growing eastern market and the more profitable central market with the recent commissioning of the new 2.5 MT capacity
- Captive power (61.5 MW) and grinding units near market give it cost advantage

**Key highlights:** We recently met the management of Sagar Cements and visited its plant in Mattampally to understand the business and the industry outlook.

- Currently, industry utilisation rates are hovering in the range of ~70%. The management expects demand to grow at a steady CAGR of 6% to 425 MT in FY25E. We expect demand growth in the southern region to accelerate at 8-10% in FY24E owing to higher infra spending in the pre-election year
- From April 12, 2023, Andhra Cement is expected to start dispatches with clinker being supplied from Sagar Cement's plant in **Mattampally**. The company expects to begin clinker operations from middle of June 2023
- The company is aiming to increase the share of blended cement from the current 50% to 60% with increase in utilisation rates from the newly commissioned plants in Jajpur, Odisha and Jeerabad, Madhya Pradesh
- Sagar continues to be one of the lowest cost producers in the southern region (~12-15% lower than the industry). With softening of pet coke prices (current landed cost ~ US\$165/t), the company has contracted to import pet coke consignment. Benefit of lower fuel cost is expected to be reflected by Q1FY24. We expect EBITDA/t to improve gradually to ₹ 700/t in Q1FY24
- Recent attempt at price hikes (~₹ 10-15 per bag) was rolled back as players are targeting volume growth. Prices in Hyderabad and Bangalore remained flattish QoQ whereas Chennai and Cochin witnessed a decline in prices. Another attempt at a round of fresh hikes is expected by the end of March

**What should investors do?** With the recent price correction, Sagar Cement is trading at attractive valuations (US\$50/t vs. replacement cost of US\$110/t). We believe Sagar Cement is an attractive regional play in the southern cement markets and has demonstrated the ability to be one of the lowest cost producers

- We upgrade the stock from HOLD to **BUY** owing to the recent price correction and maintain our previous target price

**Target Price and Valuation:** We value Sagar at ₹ 250 i.e. 8x FY25E 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 and 1.8 MT in AP) to help grow the business from FY24E onwards
- Expect sales revenue CAGR of 25% during FY22-25E led by 23% CAGR growth in volumes

**Alternate Stock Idea:** Apart from Sagar Cement, in our cement sector coverage we like Shree Cement: BUY with a target price of ₹ 28500.

### Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	FY25E	3 year CAGR (%)
Sales	1217.6	1175.2	1371.3	1596.9	9.5	2242.5	2840.1	3132.9	25.2
EBITDA	149.4	185.5	400.4	275.8	22.7	189.1	468.2	587.9	28.7
EBITDA (%)	12.3	15.8	29.2	17.3		8.4	16.5	18.8	
PAT	13.6	26.5	185.6	59.1	63.3	-79.7	85.7	187.0	46.8
EPS (₹)	1.3	2.4	15.8	5.0		-6.1	6.6	14.3	
EV/EBITDA	19.0	15.3	7.4	12.5		20.8	8.9	6.6	
EV/Tonne (\$)	67	62	65	52		60	52	49	
RoNW	1.6	2.7	15.6	4.7		-5.3	5.4	10.6	
RoCE	6.5	7.6	16.0	6.6		1.1	8.5	11.6	

Source: Company, ICICI Direct Research



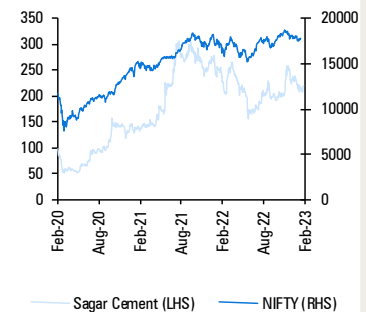
### Particulars

Particular	Amount
Market Capitalization	₹ 2418 Crore
Total Debt (FY22) ₹	₹ 1503
Cash and Investments (FY22)	₹ 477
EV	₹ 3444
52 week H/L	₹ 276/154
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

- Volatility in prices of key inputs like coal/petcoke could subdue profitability
- Slower than expected ramp-up in recently acquired plants

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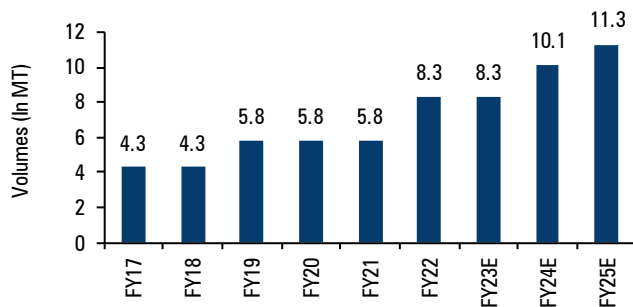
## Plant visit highlights and other key takeaways

- We visited Sagar Cement's integrated cement plant in Mattampally, Telangana, which is situated in the Nalgonda cluster. Sagar Cement is the largest player in Hyderabad having a market share of ~20%. The clinker unit in Mattampally is the mother plant of the company wherein the clinker is supplied to cement plants in Jajpur, Odisha and Bayyavaram in Andhra Pradesh (AP) (mainly through rail). The plant caters to end-market such as Andhra Pradesh, Telangana, Tamil Nadu, Odisha and Maharashtra
- The plant has a clinker capacity of 2.8 MT that is currently operating at 90%+ utilisation. The grinding capacity is ~3.0 MT and is operating at 60% utilisation level. The share of blended cement produced in the unit is ~45%, with clinker factor at 80%. The plant has been operational for ~330 days
- Most power requirements in the unit are met in-house through its captive power plant (CPP) of 28.1 MW (18.0 MW: Thermal Power, 8.8 MW: waste heat recovery system (WHRS)). The company sources 100% of its coal requirements for CPP from Singareni Collieries Company (SCCL) through its installed railway sliding
- The company has ample limestone reserves (401.28 MT) with 12,000-15,000 tonnes of extraction capacity per day. The expiry of the first mining lease is in 2035 post which the company would have to competitively bid for renewal though it would have a right of first refusal
- For the fuel mix, Sagar Cement is looking to maintain share of 40-60% of domestic coal and domestic pet coke (in terms of volume). Most of the pet coke is sourced through domestic companies like CPCL. After many months, the company has sourced imported pet coke as prices have corrected (landed cost ~ US\$165/t)
- The company expects to exit FY23E with volume of 4.8-4.9-MT and has reiterated its guidance of achieving 6.5 MT (including 1 MT of Andhra Cements) in FY24E. Currently, the Jajpur plant in Odisha is operating at sub-par utilisation levels due to lower pricing by incumbents. A critical monitorable would be utilisation reaching at least 50%, which will enable the unit to contribute to the overall profit pool (~₹ 60/t incremental contribution to EBITDA)
- The management expects the clinker plant in Mattampally to operate at 100% utilisation levels as some of the clinker would also be supplied to its Dachepalli plant (DCW Andhra Plant) initially. The company is aiming to produce the first batch of cement from its recently acquired DCW plant by mid-April and clinker by June 2023. The acquisition of Andhra will enable SCL to further consolidate its position in southern markets, mainly Andhra Pradesh and Telangana. The company is looking to leverage its existing network and the "Sagar" brand to become one of the leading players in the southern markets. More than 50% of volumes of the DCW plant will be sold in Telangana followed by 30% in AP and 20% in Tamil Nadu
- The company is contemplating discontinuing operations at its Vizag city plant due to constraints resulting from proximity to Vizag city. VCW is located on prime land of ~107 acres within Vizag city limit (land value ~ ₹ 4 crore per acre). The company may look to monetise the land in the medium term to pare debt

- All south based cement plants are relevant for Maharashtra also as they cater to certain demand from Maharashtra. Gulbarga cluster supplies 60-70% of its volume to Maharashtra. Also, some portion of Andhra Pradesh capacity caters to demand from Odisha. Andhra Pradesh has 95 million tonne (MT) of installed clinker capacity while Telangana has capacity of close to 35 MT and Karnataka has around 35 MT with the Tamil Nadu capacity close to 40 MT. Overall, south India is close to 200 MT, of which 20 MT is supplied to Maharashtra and 5 MT is for export and eastern states. Hence, effective capacity is 170 MT of which 15% is just name plate capacity and irrelevant. Hence, effective capacity is close to 150 MT. The demand in southern India is 80 MT, which entails a capacity utilisation of 55%. The southern states have added 10-15% capacity over the last two years
- For 200 km of road construction, 1 MT of cement is required. The asphalt road costs around ₹ 1 crore per km while concrete road costs ₹ 1.1 crore per km. Over a 10 year life cycle, a concrete road becomes more economical as the maintenance cost for bitumen roads is significantly higher
- There is sufficient limestone in the country while the company also has sufficient limestone. For 100 MT of limestone, 300-400 acre land (mining lease) is required. Most of the limestone is available at a depth of not more than 25 metre and the mining cost is not high
- On the cement pricing trend in southern states, the price had increased in January/February but has reverted back with some regions reporting prices, which are lower than before though Hyderabad prices have remained flat with a reduction of ₹ 2-3 per bag

## Financial story in charts

**Exhibit 1: Installed capacity to increase by 25% in FY22-25E**



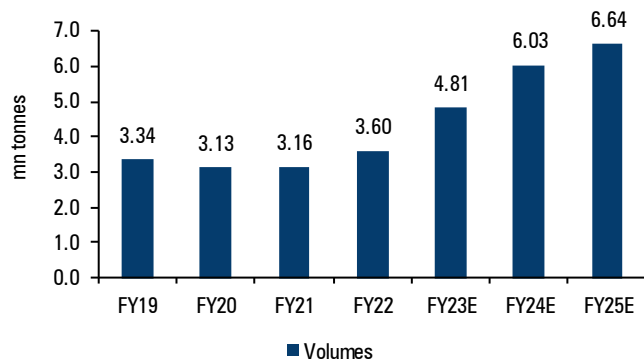
Source: Company, ICICI Direct Research

**Exhibit 2: Capacity across plants**

Location	Clinker MTPA	Cement MTPA
Mattampally , Telangana	2.8	3.0
Gudipadu , AP	1.0	1.3
Vizag , AP	-	1.5
Indore, MP	1.0	1.0
Jajpur, Odisha	-	1.5
Durga Cement Works, AP (post expansion)	2.3	3.0
<b>Total</b>	<b>7.1</b>	<b>11.3</b>

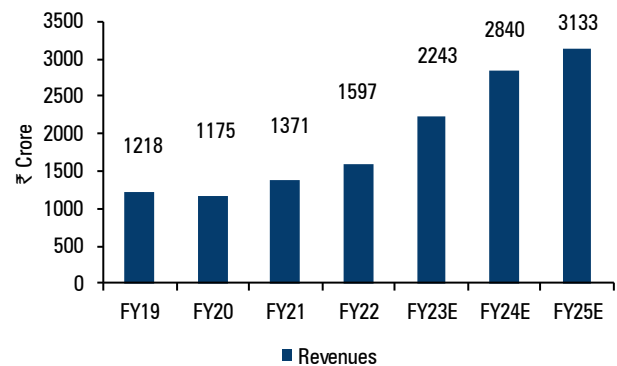
Source: Company, ICICI Direct Research

**Exhibit 3: Volumes to grow at 23% CAGR over FY22-25E with commissioning of new capacities**



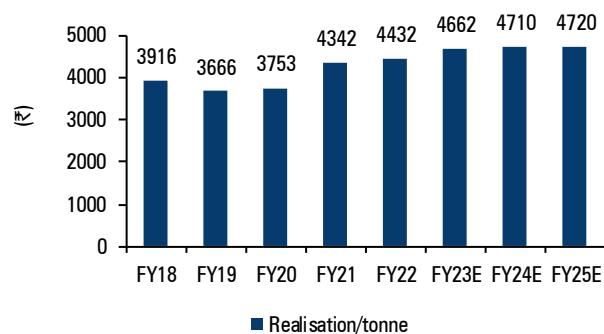
Source: Company, ICICI Direct Research

**Exhibit 4: Topline to grow at 25% CAGR over FY22-25E**



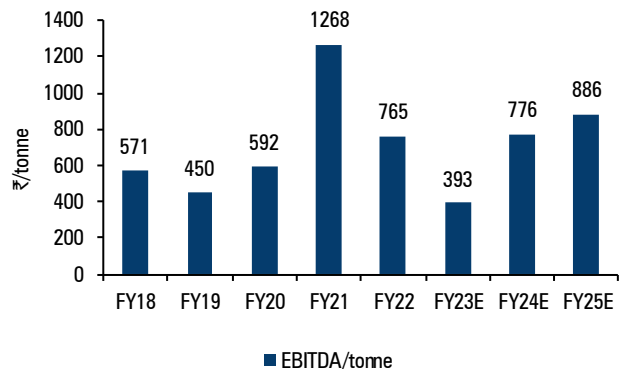
Source: Company, ICICI Direct Research

**Exhibit 5: Realisations to stay firm, going forward, owing to strong anticipated demand**



Source: Company, ICICI Direct Research

**Exhibit 6: EBITDA/t to improve gradually**



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 7: Profit & Loss Account

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating Income</b>	<b>1,371.3</b>	<b>1,596.9</b>	<b>2,242.5</b>	<b>2,840.1</b>	<b>3,132.9</b>
Growth (%)	16.7	16.4	40.4	26.6	10.3
Raw material cost	239.8	225.3	419.4	512.6	564.2
Power & fuel	261.4	515.7	867.7	904.5	929.3
Freight cost	234.2	278.6	387.8	470.3	531.0
Others	235.5	301.5	378.5	484.6	520.5
Total Operating Exp.	970.9	1,321.1	2,053.4	2,372.0	2,545.0
<b>EBITDA</b>	<b>400.4</b>	<b>275.8</b>	<b>189.1</b>	<b>468.2</b>	<b>587.9</b>
Growth (%)	115.9	-31.1	-31.4	147.6	25.6
Depreciation	80.6	92.7	154.0	185.0	195.0
Interest	46.6	92.5	201.2	185.0	155.0
Other Income	7.8	13.4	56.2	20.0	20.0
PBT	281.1	104.0	-110.0	118.2	257.9
Total Tax	95.5	44.9	-30.2	32.5	70.9
<b>PAT</b>	<b>185.6</b>	<b>59.2</b>	<b>-79.7</b>	<b>85.7</b>	<b>187.0</b>
PAT margin	13.5	3.7	-3.6	3.0	6.0
<b>Adjusted PAT</b>	<b>185.6</b>	<b>59.2</b>	<b>-79.7</b>	<b>85.7</b>	<b>187.0</b>
Growth (%)	599.5	-68.1	-234.8	-207.5	118.3
<b>Adjusted EPS (₹)</b>	<b>15.8</b>	<b>5.0</b>	<b>-6.1</b>	<b>6.6</b>	<b>14.3</b>

Source: Company, ICICI Direct Research

### Exhibit 9: Balance Sheet summary

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>					
Share Capital	23.5	23.5	26.1	26.1	26.1
Reserve and Surplus	1,167.4	1,231.9	1,490.2	1,562.8	1,736.8
Total Shareholders fund	1,190.9	1,255.4	1,516.4	1,589.0	1,762.9
Total Debt	806.5	1,503.4	1,548.5	1,759.8	1,621.3
Deferred Tax Liability	68.0	97.7	97.7	97.7	97.7
Minority Interest / Other	128.1	129.7	136.2	143.0	150.2
<b>Total Liabilities</b>	<b>2,193.5</b>	<b>2,986.2</b>	<b>3,298.7</b>	<b>3,589.4</b>	<b>3,632.0</b>
<b>Assets</b>					
Gross Block	1,913.0	2,743.1	3,633.1	3,703.1	4,203.1
Less: Acc Depreciation	611.5	695.0	849.0	1,034.0	1,229.0
Net Block	1,301.5	2,048.1	2,784.1	2,669.1	2,974.1
Capital WIP	517.5	100.5	100.0	490.0	80.0
Total Fixed Assets	1,818.9	2,148.6	2,884.1	3,159.1	3,054.1
Investments	0.0	314.7	9.4	10.4	11.4
Inventory	124.3	208.6	276.5	342.4	377.7
Debtors	100.7	120.3	153.6	194.5	214.6
Loans and Advances	248.1	394.1	409.9	426.3	443.3
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Cash	254.2	162.7	21.4	2.3	124.4
Total Current Assets	727.3	885.7	861.3	965.4	1,160.0
Creditors	229.0	221.0	307.2	389.1	429.2
Provisions	22.3	23.3	23.8	24.3	24.8
Other Current Liabilities	102.1	133.8	140.5	147.5	154.9
Total Current Liabilities	353.4	378.2	471.5	560.9	608.8
Net Current Assets	373.8	507.5	389.8	404.6	551.1
Others Assets	0.7	15.4	15.4	15.4	15.4
<b>Application of Funds</b>	<b>2,193.5</b>	<b>2,986.2</b>	<b>3,298.7</b>	<b>3,589.4</b>	<b>3,632.0</b>

Source: Company, ICICI Direct Research

### Exhibit 8: Cash flow statement

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	185.6	59.1	-79.7	85.7	187.0
Add: Depreciation	80.6	92.7	154.0	185.0	195.0
(Inc)/dec in Current Assets	-60.2	-249.9	-117.0	-123.2	-72.4
Inc/(dec) in CL and Prov.	-17.5	24.7	93.4	89.4	48.0
<b>CF from operations</b>	<b>188.4</b>	<b>-73.3</b>	<b>50.7</b>	<b>236.8</b>	<b>357.6</b>
(Inc)/dec in Investments	0.0	-314.7	305.2	-0.9	-1.0
(Inc)/dec in Fixed Assets	-407.6	-422.4	-889.5	-460.0	-90.0
Others	20.5	-14.7	0.0	0.0	0.0
<b>CF from investing act.</b>	<b>-387.1</b>	<b>-751.7</b>	<b>-584.3</b>	<b>-460.9</b>	<b>-91.0</b>
Issue/(Buy back) of Equity	1.2	0.0	2.6	0.0	0.0
Inc/(dec) in loan funds	378.6	696.9	45.1	211.3	-138.5
Others	60.3	36.7	344.5	-6.3	-5.9
<b>CF from financing act.</b>	<b>440.1</b>	<b>733.5</b>	<b>392.3</b>	<b>205.0</b>	<b>-144.4</b>
Net Cash flow	241.4	-91.5	-141.3	-19.1	122.1
Opening Cash	12.8	254.2	162.7	21.4	2.3
<b>Closing Cash</b>	<b>254.2</b>	<b>162.7</b>	<b>21.4</b>	<b>2.3</b>	<b>124.4</b>

Source: Company, ICICI Direct Research

### Exhibit 10: Ratio sheet

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>					
Adjusted EPS	15.8	5.0	-6.1	6.6	14.3
Cash EPS	22.7	12.9	5.7	20.7	29.2
BV	101.3	106.8	116.0	121.6	134.9
DPS	1.3	0.7	0.7	1.0	1.0
Cash Per Share	19.3	12.3	6.1	0.9	2.9
<b>Operating Ratios (%)</b>					
EBITDA Margin	29.2	17.3	8.4	16.5	18.8
Adjusted PAT Margin	13.5	3.7	-3.6	3.0	6.0
Inventory days	33.1	47.7	45.0	44.0	44.0
Debtor days	26.8	27.5	25.0	25.0	25.0
Creditor days	60.9	50.5	50.0	50.0	50.0
<b>Return Ratios (%)</b>					
RoE	15.6	4.7	-5.3	5.4	10.6
RoCE	16.0	6.6	1.1	8.5	11.6
RoIC	18.4	8.0	1.2	8.5	12.1
<b>Valuation Ratios (x)</b>					
P/E (adjusted)	11.7	36.7	-30.3	28.2	12.9
EV / EBITDA	7.4	12.5	20.8	8.9	6.6
EV / Net Sales	2.2	2.2	1.8	1.5	1.2
Market Cap / Sales	1.8	1.5	1.1	0.9	0.8
Price to Book Value	1.8	1.7	1.6	1.5	1.4
<b>Solvency Ratios</b>					
Debt/EBITDA	2.0	5.5	8.2	3.8	2.8
Debt / Equity	0.7	1.2	1.0	1.1	0.9
Current Ratio	2.1	3.1	2.7	2.4	2.3
Quick Ratio	1.7	2.6	2.1	1.8	1.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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