

Retail Equity Research Sagar Cements Ltd.

Cement

BSE CODE: 502090

NSE CODE: SAGCEM

Bloomberg CODE: SGC:IN

SENSEX: 81,455

BUY

12 Months Investment Period Rating as per Small Cap
CMP Rs. 249 TARGET Rs. 299 RETURN 20% ↑
(Closing: 30-07-24)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Healthy volumes and lower input prices aid margins.

Sagar Cements Limited (SCL), established in 1985, is a south India based cement manufacturer with a capacity of ~10.5MT (South-8MT, Central-1MT, East-1.5MT). SCL has a total captive power capacity of 96.96MW.

- We maintain our BUY rating with a revised target price of Rs. 299, factoring in healthy volumes and margin outlook.
- Q1FY25 revenue grew by 4% YoY, partially impacted by drop in realization (-5% YoY). However, volumes improved by 9%YoY aided by ramp up in acquisitions.
- Lower fuel prices, along with healthy volumes, aided operating profit to increase by 53% YoY. EBITDA margin improved by 270bps YoY to 8.3%.
- Cement prices witnessed a drag since March quarter which is expected to improve post monsoon.
- Clearance of land monetization of 107 acres (part of the Andhra Cements acquisition) is expected to be completed by the end of FY25 (Rs.4 crore/acre). SCL also expects ~Rs.210cr incentive from the government over a period of ~7years for its Jeerabad plant (MP) starting from Q2FY25.
- Expect revenue/EBITDA to grow at a 13%/40% CAGR over FY24-26E. The recent acquisitions in cement industry were at EV/ton of \$85-\$120 (EV/ton of SCL is ~\$50). We value SCL on SOTP basis, with cement business at ~10x FY26E EV/EBITDA.

Healthy volumes drive revenue growth amidst falling prices.

Q1FY25 revenue grew by 4%YoY, aided by volume growth of 9% YoY. This was supported by ramp up in new capacities. The capacity utilization of the new units, Jeerabad was at 75%, Jajpur was at 26% and Andhra Cement was at 29% partially impacted by election and adverse weather. Realization dropped by 5% YoY due to a slowdown in demand. The company has maintained the volume guidance for FY25 at 6.5MT. We expect realization to improve post monsoon. Revenue is expected to grow at a 12% CAGR over FY24-26E supported by a ramp up in new capacities, including Andhra acquisition.

Volume growth and lower fuel prices aid margins.

Operating profit rose by 53%YoY as EBITDA margin improved to 8.3% from 5.6% YoY. Total expenses/ton declined by ~7%YoY, while realization dropped by 5%YoY. Power & fuel expenses (40% of total expenses) declined by ~2.4% YoY. EBITDA/ton improved to Rs. 365 vs. Rs. 258 YoY. With improvement in operational efficiencies across units and a higher share of renewable energy in the mix along with a ramp up in volumes, we expect margins to improve in coming years. SCL targets a green power mix of 50% which is currently at 30%. This will result in a saving of Rs. 50-75/ton. The ongoing capex is expected to provide a saving of ~Rs. 275/ton of cement at Andhra Cements from FY27 onwards due to the improvement in efficiency. We expect EBITDA margin to improve to ~12%/15% in FY25E/FY26E (Vs ~10%/7% in FY24/FY23).

Valuation & Outlook

SCL is currently undertaking a capex of ~Rs.5bn over FY25-26. However, SCL expects the net debt to remain at around Rs. 13bn and Debt/Equity at 0.6x. The healthy demand outlook along with SCL's consistent focus on lowering costs and improving operational efficiencies will aid growth and margins. The cement industry is currently in a consolidation phase and the recent average deal valuation is in the range of EV/ton of \$85-\$120 (Current EV/ton of SCL is ~\$50). We reiterate our BUY rating and value SCL on SOTP basis, with cement business at 10x FY26E EV/EBITDA, to arrive at a revised target price of Rs. 299.

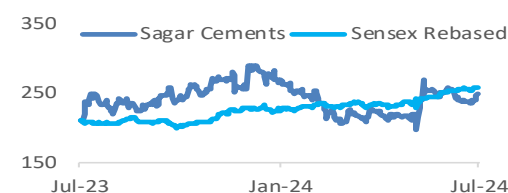
Company Data

Market Cap (Rs.cr)	3,255
Enterprise Value (Rs.cr)	4,454
Outstanding Shares (cr)	13.1
Free Float	21%
Dividend Yield	0.3%
52 week high (Rs.)	305
52 week low (Rs.)	195
6m average volume (Lakhs)	2.3
Beta	0.8
Face value Rs.	2

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	48.3	48.3	48.3
FII's	2.8	2.7	2.6
MFs/Insti	17.1	17.3	17.1
Public	9.0	9.6	10.1
Others	22.8	22.1	21.9
Total	100.0	100.0	100.0
Promoter encumbrance (%)	79.3	79.9	79.9

Price Performance	3 Month	6 Month	1 Year
Absolute Return	11.1%	-6.6%	18.1%
Absolute Sensex	9.4%	13.7%	22.4%
Relative Return*	1.7%	-20.3%	-4.4%

*over or under performance to benchmark index



Consolidated (cr)	FY24	FY25E	FY26E
Sales	2,505	2,896	3,189
Growth (%)	12.4	15.6	10.1
EBITDA	246	346	478
EBITDA Margin (%)	9.8	12.0	15.0
Adj. PAT	-43	-18	62
Growth (%)	-262.5	58.5	448.4
Adj. EPS	-3.3	-1.4	4.8
Growth (%)	-262.5	58.5	448.4
P/E	-75.7	-182.3	52.3
P/B	1.7	1.7	1.7
EV/EBITDA	18.1	13.4	9.5
ROE (%)	-2.4	-0.9	3.2
D/E	0.8	0.8	0.7

Vincent K A
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q1FY25	Q1FY24	YoY Growth	Q4FY24	QoQ Growth
Sales	561	540	3.9%	709	-20.9%
EBITDA	47	30	53.2%	68	-31.5%
EBITDA margins	8.3%	5.6%	270bps	9.6%	-130bps
Depreciation	56	50	13.3%	56	0.2%
EBIT	-9	-19	50.4%	12	-178.7%
Interest	46	44	6.2%	45	1.9%
Other Income	8	4	112.3%	44	-81.0%
Exceptional Items	0	0	0.0%	0	0.0%
PBT	-48	-59	19.2%	10	-561.7%
Tax	-15	-17	-7.8%	-1	1089.9%
Share of profit from associates	0	0	NA	0	NA
Minority interest	0	0	NA	0	NA
Reported PAT	-32	-42	23.8%	12	-377.8%
Adjustments	0	0	0.0%	0	0.0%
Adj PAT	-32	-42	23.8%	12	-377.8%
No. of Shares	13	13	0.0%	13	0.0%
Adj EPS (Rs)	-2.5	-3.2	23.8%	0.9	-377.8%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,932	3,211	2,896	3,189	-1.2%	-0.7%
EBITDA	414	511	346	478	-16.3%	-6.4%
Margins	14.1%	15.9%	12.0%	15.0%	-210bps	-90bps
Adj. PAT	26	86	-18	62	-168.7%	-27.7%
EPS	2	7	-1	5	-168.3%	-32.0%

Per Tonne Analysis

	Q1FY25	Q1FY24	YoY Growth	Q4FY24	QoQ Growth
Cement Volume (MT)	1.28	1.18	8.5%	1.61	-20.5%
Cost of materials consumed	785	847	-7.4%	795	-1.3%
Employee Expenses	238	228	4.4%	190	24.8%
Power & Fuel	1,596	1,774	-10.0%	1,578	1.2%
Freight & forwarding	846	862	-1.8%	852	-0.6%
Other expenses	550	605	-9.2%	564	-2.5%
Total expenses	4,015	4,317	-7.0%	3,979	0.9%
Realisation (inc. RMC)	4,380	4,575	-4.3%	4,402	-0.5%
EBITDA	365	258	41.2%	423	-13.8%

Sum of the parts (SOTP) valuation

Particulars	Basis	Base	Multiple	Value (Rs. cr.)	Value per share
Cement business	FY26E EV/EBITDA	478	10	4,870	
Less: Net Debt				1,307	
				3,563	273
Land value for monetisation (Excess land, a part of Andhra Cement acquisition -107 acres, Rs.4cr per acre, applied for monetization), expected to be completed in 15-18 months	Market value	428	At 20% discount	342	26
Total					299



PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	1,371	1,597	2,228	2,505	2,896	3,189
% change	16.7	16.5	39.5	12.4	15.6	10.1
EBITDA	401	276	151	246	346	478
% change	116.1	-31.1	-45.2	62.5	40.9	38.1
Depreciation	82	93	156	213	225	240
EBIT	319	183	-4	32	121	239
Interest	47	92	202	185	171	162
Other Income	7	12	222	54	29	26
PBT	279	103	16	-84	-21	102
% change	476.1	-63.2	-84.5	-625.8	-74.9	-587.2
Tax	95	45	10	-32	-8	35
Tax Rate	33.9%	43.7%	62.8%	38.1%	36.9%	34.0%
Reported PAT	187	69	29	-43	-18	62
Adj	1	1	3	0	0	0
Adj PAT	185	68	26	-43	-18	62
% change	625.8	-63.3	-61.0	-262.5	58.5	448.4
No. of shares (cr)	11.8	11.8	13.1	13.1	13.1	13.1
Adj EPS (Rs.)	15.9	5.9	2.5	-3.3	-1.4	4.8
% change	588.0	-63.3	-65.0	-262.5	58.5	448.4
DPS (Rs.)	1	1	1	1	1	1
CEPS (Rs.)	22.7	13.7	13.9	13.0	15.9	23.1

BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Cash	254	163	210	262	124	130
Accounts Receivable	110	131	147	208	190	210
Inventories	124	209	279	308	342	360
Other Cur. Assets	153	259	168	85	111	140
Investments	0	315	0	0	0	0
Gross Fixed Assets	1,735	2,565	4,072	4,710	5,080	5,335
Net Fixed Assets	1,202	1,951	2,699	3,123	3,268	3,283
CWIP	517	101	99	15	30	40
Intangible Assets	99	97	95	127	127	127
Def. Tax (Net)	1	15	288	140	140	140
Other Assets	178	219	211	89	10	11
Total Assets	2,639	3,460	4,196	4,356	4,344	4,441
Current Liabilities	461	418	501	632	578	687
Provisions	50	56	63	12	16	17
Debt Funds	755	1,511	1,479	1,462	1,512	1,437
Other Liabilities	181	220	516	310	326	336
Equity Capital	24	24	26	26	26	26
Reserves & Surplus	1,167	1,232	1,611	1,915	1,886	1,937
Shareholder's Fund	1,191	1,255	1,637	1,941	1,912	1,964
Total Liabilities	2,639	3,460	4,196	4,356	4,344	4,441
BVPS (Rs.)	96	102	121	142	140	144

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Net inc. + Depn.	268	162	185	170	207	302
Non-cash adj.	3	9	-3	-33	0	0
Other adjustments	101	86	-26	121	176	167
Changes in W.C	5	-170	20	154	-4	50
C.F. Operation	377	88	175	400	379	519
Capital exp.	-461	-361	-118	-226	-385	-265
Change in inv.	1	-427	183	75	0	0
Other invest.CF	-16	4	157	13	0	0
C.F - Investment	-476	-784	222	-188	-385	-265
Issue of equity	67	11	350	0	0	0
Issue/repay debt	317	685	-521	-29	50	-75
Dividends paid	-15	-6	-9	-9	-11	-11
Other finance.CF	-47	-75	-185	-176	-171	-162
C.F - Finance	322	615	-366	-221	-132	-248
Chg. in cash	223	-81	32	-8	-138	6
Closing cash	225	143	175	167	29	35

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	29.2	17.3	6.8	9.8	12.0	15.0
EBIT margin (%)	23.3	11.4	-0.2	1.3	4.2	7.5
Net profit mgn.(%)	13.5	4.3	1.2	-1.7	-0.6	2.0
ROE (%)	17.3	5.6	1.8	-2.4	-0.9	3.2
ROCE (%)	8.8	3.8	2.9	2.7	2.8	4.3
W.C & Liquidity						
Receivables (days)	33.9	27.6	22.8	25.9	25.1	22.9
Inventory (days)	32.0	38.0	39.9	42.7	41.0	40.2
Payables (days)	372.7	384.8	247.6	379.6	335.7	314.0
Current ratio (x)	1.1	1.0	1.0	0.9	0.8	0.8
Quick ratio (x)	0.6	0.4	0.4	0.5	0.3	0.3
Turnover & Leverage						
Gross asset T.O (x)	0.8	0.7	0.7	0.6	0.6	0.6
Total asset T.O (x)	0.6	0.5	0.6	0.6	0.7	0.7
Int. coverage ratio (x)	6.9	2.0	0.0	0.2	0.7	1.5
Adj. debt/equity (x)	0.7	1.2	0.9	0.8	0.8	0.7
Valuation						
EV/Sales (x)	2.5	2.5	2.0	1.8	1.6	1.4
EV/EBITDA (x)	8.7	14.3	29.9	18.1	13.4	9.5
P/E (x)	15.8	43.1	123.0	-75.7	-182.3	52.3
P/BV (x)	2.5	2.3	2.0	1.7	1.7	1.7



Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
09-Feb-23	Accumulate	249
28-Aug-23	Accumulate	260
06-Nov-23	Accumulate	274
18-Mar-24	Buy	246
06-Jun-24	Buy	258
31-Jul-24	Buy	299

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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