Q2FY25 Result Update

Retail Equity Research

Sagar Cements Ltd.

Accumulate

Sector: Cement

02nd December 2024

Key Changes	Target ▼	Rating ▼		Earnings ▼		Target	Rs. 250
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame	CMP	Rs. 217
Small Cap	SGC:IN	79,803	SAGCEM	533309	12 Months	Return	+15%

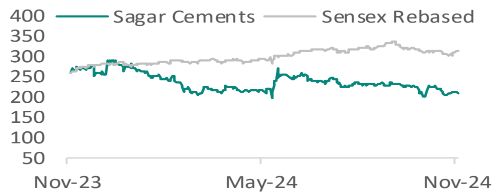
Data as of: 29-11 2024

Company Data	
Market Cap (Rs.cr)	2,836
52 Week High — Low (Rs.)	305-195
Enterprise Value (Rs.cr)	4,036
Outstanding Shares (cr)	13.1
Free Float	21%
Dividend Yield	0.3%
6m average volume (cr)	1.90
Beta	0.9
Face value Rs.	2

Shareholding (%)	Q4FY24	Q1FY25	Q2FY25
Promoters	48.3	48.3	48.3
FII's	11.4	9.4	2.7
MFs/Insti	12.6	13.6	17.5
Public	10.4	11.8	9.6
Others	9.8	9.3	21.9
Total	100.0	100.0	100.0
Promotor pledge	79.9	79.9	79.9

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-7.6%	-4.5%	-19.1%
Absolute Sensex	-2.3%	8.5%	21.2%
Relative Return*	-5.3%	-13.0%	-40.3%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	2,505	2,415	2,844
Growth (%)	12.4	-3.6	17.8
EBITDA	246	273	392
EBITDA Margin (%)	9.8	11.3	13.8
Adj. PAT	-58	-85	-25
Growth (%)	-318.4	-47.6	70.4
Adj. EPS	-3.3	-6.5	-1.9
Growth (%)	-318.4	-47.6	70.4
P/E	-49.1	-33.3	-112.4
P/B	1.5	1.5	1.6
EV/EBITDA	16.4	15.5	11.1
ROE (%)	-3.2	-4.5	-1.4
D/E	0.8	0.9	0.9

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Low cement prices weighing on performance

Sagar Cements Ltd. (SCL), established in 1985, is a south Indian 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.

- Q2FY25 revenue declined by 23% YoY to Rs. 452cr with volumes dropping by 12% YoY and realisation declining by ~13% YoY (excluding incentive).
- EBITDA fell by a 67% YoY as EBITDA margin declined by 610bps YoY to 4.2%. EBITDA/tonne fell by a 63% YoY to Rs. 172 owing to lower realisations and negative operating leverage.
- The company reported a net loss of Rs. 57cr in Q2FY25 (vs loss of Rs. 10.5cr YoY and loss of Rs. 32cr QoQ).
- The process of clearance of land monetization of 107 acres (Rs.4cr/acre, part of the Andhra Cements acquisition) is progressing (received 1 of 3 government approvals). More clarity on this is expected after Q3.
- SCL has received Rs. 23cr of incentives from the government for its Jeerabad plant (MP) in Q2. It expects to receive the next tranche in H2FY25 out of a total of ~Rs.150cr incentive over a period of ~7 years.

Outlook & Valuation

Demand is expected to pick up in H2FY25 given the likely expedition in government infrastructure & housing projects, which will also support realisations. Cement capacity expansion plans are underway at Dachepalli (0.75 MTPA), Jeerabad (0.5 MTPA) and Gudipadu (0.25 MTPA) to take the total to 12 MTPA by FY26 end. The company plans to increase its green power share to 50% by FY30E with a short-term target of 20% by FY25E from the current ~11%. However, the company has reduced its volume guidance for FY25 from 6.5MT to 5.75MT. The healthy demand outlook, along with SCL's consistent focus on lowering costs and improving utilisations, will aid growth and margins. **We value SCL at 9x Dec 2026E EV/EBITDA (2Yr avg=~10x) to arrive at a target price of Rs. 250, downgrading to Accumulate rating considering the sustained pressure on cement prices.**

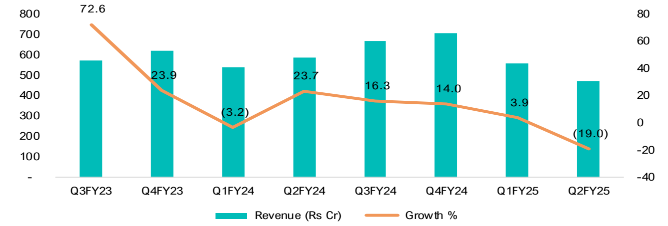
Quarterly Financials Consol.

Rs.cr	Q2FY25	Q2FY24	YoY Growth (%)	Q1FY25	QoQ Growth (%)	H1FY25	H1FY24	YoY Growth (%)
Sales	475	587	-19.0	561	-15.2	1,036	1,126	-8.1
EBITDA	20	60	-66.9	47	-57.3	67	91	-26.5
Margin (%)	4.2	10.3	-610bps	8.3	-410bps	6.4	8.1	-160bps
EBIT	(38)	9	-520.4	(9)	-297.4	(47)	(10)	-364.5
PBT	(79)	(20)	-289.8	(48)	-66.6	(127)	(79)	-60.1
Rep. PAT	(57)	(11)	-441.1	(32)	-77.0	(89)	(53)	-69.0
Adj PAT	(57)	(25)	-125.0	(32)	-77.0	(89)	(68)	-32.0
EPS (Rs)	-4.4	-1.9	-125.0	-2.5	-77.0	-6.8	-5.2	-32.0

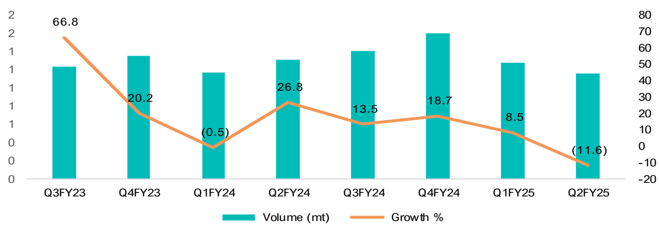
Key Highlights…

- Consolidation across the industry is good in medium and long term, but it might have a negative impact in short term. The impact of industry consolidation is very limited in regions where Sagar Cements has a market footprint.
- Demand during the quarter decelerated on the back of extended monsoons and sluggish project execution.
- Sagar Cements plans to add 35.5MW of green power capacities over the next 4 years.
- Plant wise utlisation in Q2FY25- Mattampally (42%), Gudipadu (83%), Bayyavaram (52%), new plants- Jeerabad (59%), Jajpur (20%) and Dachepalli (27%).

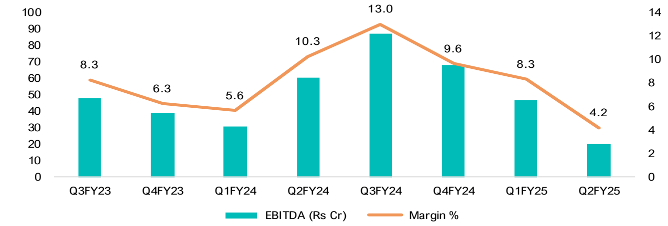
Revenue



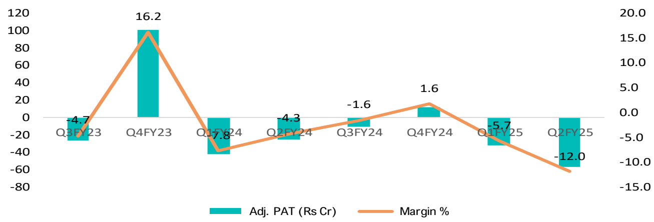
Cement Volume



EBITDA



PAT



Per Tonne Analysis

	Q2FY25	Q2FY24	YoY Growth	Q1FY25	QoQ Growth
Cement Volume (MT)	1.2	1.3	-11.6	1.3	-9.4
Cost of materials consumed	914	578	58.1	785	16.4
Employee Expenses	265	227.6	16.3	238	11.4
Power & Fuel	1334	1,823	-26.8	1596	-16.4
Freight & forwarding	834	851	-2.0	846	-1.5
Other expenses	578	532	8.6	550	5.1
Total expenses	3924	4,012	-2.2	4015	-2.3
Realisation (inc. RMC)	4096	4471	-8.4	4380	-6.5
EBITDA	172	459	-62.6	365	-52.9

Sum of the parts (SOTP) valuation

Particulars	Basis	Base	Multiple	Value (Rs. cr.)	Value per share
Cement business	FY26E EV/EBITDA	486	9	4,447	
Less: Net Debt				1,526	
				2,921	223
Land value for monetisation (107 acres, Rs.4cr per acre, applied for monetization).	Market value	428	At 20% discount	342	26
Total					250

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	**FY25E**	**FY26E**	**FY25E**	**FY26E**	**FY25E**	**FY26E**
Revenue	2,896	3,189	2,415	2,844	-16.6	-10.8
EBITDA	346	478	273	392	-21.0	-18.1
Margins (%)	11.9	15.0	11.3	13.8	-60bps	-120bps
Adj. PAT	-18	62	-85	-25	-373.8	-140.7
EPS	-1.4	4.8	-6.5	-1.9	-366.1	-140.2

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	**1,371**	**1,597**	**2,228**	**2,505**	**2,415**	**2,844**
% change	16.7	16.5	39.5	12.4	-3.6	17.8
EBITDA	**401**	**276**	**151**	**246**	**273**	**392**
% change	116.1	-31.1	-45.2	62.5	11.2	43.3
Depreciation	82	93	156	213	235	254
EBIT	**319**	**183**	**-4**	**32**	**38**	**137**
Interest	47	92	202	185	188	194
Other Income	7	12	222	54	27	28
PBT	**279**	**103**	**16**	**-84**	**-123**	**-28**
% change	476.1	-63.2	-84.5	-625.8	-47.2	76.9
Tax	95	45	10	-32	-42	-10
Tax Rate	33.9%	43.7%	62.8%	38.1%	34.4%	34.0%
Reported PAT	**187**	**69**	**29**	**-43**	**-85**	**-25**
Adj	**1**	**1**	**3**	**15**	**0**	**0**
Adj PAT	**185**	**68**	**26**	**-58**	**-85**	**-25**
% change	625.8	-63.3	-61.0	-318.4	-47.6	70.4
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**	**-6.5**	**-1.9**
% change	588.0	-63.3	-65.0	-318.4	-47.6	70.4
DPS (Rs.)	**1**	**1**	**1**	**1**	**1**	**1**
CEPS (Rs.)	22.7	13.7	13.9	11.9	11.5	17.5

BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Cash	254	163	210	262	244	120
Accounts Receivable	110	131	147	208	198	195
Inventories	124	209	279	308	321	337
Other Cur. Assets	153	259	168	85	93	125
Investments	0	315	0	0	0	0
Gross Fixed Assets	1,735	2,565	4,072	4,710	5,080	5,410
Net Fixed Assets	1,202	1,951	2,699	3,123	3,258	3,334
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	9	10
Total Assets	**2,639**	**3,460**	**4,196**	**4,356**	**4,421**	**4,427**
Current Liabilities	461	418	501	632	613	635
Provisions	50	56	63	12	13	16
Debt Funds	755	1,511	1,479	1,462	1,646	1,646
Other Liabilities	181	220	516	310	304	322
Equity Capital	24	24	26	26	26	26
Reserves & Surplus	1,167	1,232	1,611	1,915	1,819	1,783
Shareholder's Fund	1,191	1,255	1,637	1,941	1,845	1,809
Total Liabilities	**2,639**	**3,460**	**4,196**	**4,356**	**4,421**	**4,427**
BVPS (Rs.)	**96**	**102**	**121**	**142**	**135**	**132**

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Net inc. + Depn.	**268**	**162**	**185**	**170**	**150**	**229**
Non-cash adj.	3	9	-3	-33	0	0
Other adjustments	101	86	-26	121	193	201
Changes in W.C	5	-170	20	154	40	-9
C.F. Operation	**377**	**88**	**175**	**400**	**382**	**421**
Capital exp.	-461	-361	-118	-226	-385	-340
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**	**-340**
Issue of equity	67	11	350	0	0	0
Issue/repay debt	317	685	-521	-29	184	0
Dividends paid	-15	-6	-9	-9	-11	-11
Other finance.CF	-47	-75	-185	-176	-188	-194
C.F – Finance	**322**	**615**	**-366**	**-221**	**-15**	**-205**
Chg. in cash	223	-81	32	-8	-18	-124
Closing cash	225	143	175	167	149	25

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	29.2	17.3	6.8	9.8	11.3	13.8
EBIT margin (%)	23.3	11.4	-0.2	1.3	1.6	4.8
Net profit mgn.(%)	13.5	4.3	1.2	-2.3	-3.5	-0.9
ROE (%)	17.3	5.6	1.8	-3.2	-4.5	-1.4
ROCE (%)	8.8	3.8	2.9	2.4	2.0	3.2
W.C & Liquidity						
Receivables (days)	33.9	27.6	22.8	25.9	30.7	25.2
Inventory (days)	32.0	38.0	39.9	42.7	47.5	42.2
Payables (days)	372.7	384.8	247.6	379.6	406.3	348.9
Current ratio (x)	1.1	1.0	1.0	0.9	0.8	0.7
Quick ratio (x)	0.6	0.4	0.4	0.5	0.4	0.3
Turnover & Leverage						
Gross asset T.O (x)	0.8	0.7	0.7	0.6	0.5	0.5
Total asset T.O (x)	0.6	0.5	0.6	0.6	0.6	0.6
Int. coverage ratio (x)	6.9	2.0	0.0	0.2	0.2	0.7
Adj. debt/equity (x)	0.7	1.2	0.9	0.8	0.9	0.9
Valuation						
EV/Sales (x)	2.3	2.2	1.8	1.6	1.8	1.5
EV/EBITDA (x)	7.8	13.0	27.1	16.4	15.5	11.1
P/E (x)	13.8	37.6	107.2	-49.1	-33.3	-112.4
P/BV (x)	2.1	2.0	1.7	1.5	1.5	1.6

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
02-Dec-24	Accumulate	250

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.

Symbols definition: Upgrade No Change Downgrade

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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