Sagar Cement (SAGCEM)

ICICI direct Research

CMP: ₹ 650 | Target: ₹ 800 (23%) | Target Period: 12 months | BUY

July 26, 2019

Cost efficiency to improve further, reiterate BUY!

Sagar Cements exhibited a strong performance for Q1FY20 owing to healthy realisations. Revenues reported strong 25.2% YoY growth to ₹ 344.2 crore owing to 10.6% volume growth and 13.2% realisation growth. Volumes for the quarter were at 0.82 MT with strong realisation growth of 13% YoY to ~₹ 4200/t. With production costs staying flattish YoY, EBITDA/t and margins increased with EBITDA/t growing 95% YoY to ₹ 959/t and margins expanding ~960 bps YoY to 22.8% owing to better realisations and a low base of Q1FY19. Improved profitability led to 36.4% growth in EBITDA to ₹ 78.6 crore while PAT jumped ~4x to ₹ 29.5 crore. Total 50% of the 31 lakh warrants issued in January 2019 have been converted to equal number of shares at ₹ 730/share.

Increasing business from eastern markets to lead growth

During FY19, Sagar Cements commissioned additional capacity of 1.5 MT enhancing its capacity to 5.75 MT. Out of new capacity, 1.2 MT was added in Vizag, which will serve the growing eastern markets. With volumes of 3.3 MT being clocked in FY19, the company has sufficient headroom for growth. Diversified presence supported volume growth during the quarter despite soft demand. We lower our estimates for volume and revenue growth to 7.4% and 11.5% CAGR, respectively, in FY19-21E factoring in the impact of cancellation of various projects in Andhra Pradesh, sand mining and water scarcity issues. The company has raised equity capital by partly converting warrants into shares to fund the capacity expansions undertaken in central and eastern India, which are to be implemented at a capital outlay of ~₹ 730 crore over the next two years.

Margin expansion to keep EBITDA growth healthy…

The company would be commissioning a new TPP near its Gudipadu plant with 18 MW capacity in August 2019, which would take its captive power generation capacity to ~61 MW and make the company 70% self-reliant in terms of power consumption. This would enable the company to save ~₹ 20 crore annually. Further, reallocation of sales from Mattampally plant has led to reduction in lead distance to below 300 km from ~350 km earlier. Thus, led by saving in power costs, optimisation of lead distance flowing down to lower freight expenses, we expect margins to expand to 16.9% by FY21E and EBITDA to grow at 30.7% CAGR in FY19-21E to ₹ 255 crore.

Valuation & Outlook

Led by expectations of stable realisations post Q3FY20E and rationalisation of costs, Sagar Cements' profitability is expected to remain healthy. Also, the company would be raising debt for funding expansion. However, debt/EBITDA is expected to remain at comfortable levels of ~3.1x. Thus, we maintain **BUY** rating on the company valuing it at ~9.5x EV/EBITDA and arrive at a target price of ₹ 800/share (implying EV/t of $76/tonne).

SAGAR CEMENT

Stock Data

Particular	Amount
Market Capitalization	₹ 1326 Crore
Total Debt (FY19)	₹ 499.3 Crore
Cash and Investments (FY19)	₹ 29.9 Crore
EV	₹ 1795.4 Crore
52 week H/L	1.8
Equity capital	₹ 20.4 Crore
Face value	₹ 10

Key Highlights

- Total 15.5 lakh warrants converted to equal number of equity shares. Proceeds to be deployed towards capacity expansion
- Diversified market presence aided double digit volume growth despite soft demand
- Andhra Pradesh, Telangana demand to remain flattish YoY
- Maintain BUY with target price of ₹ 800

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR
Sales	813.8	1038.1	1217.6	1359.2	1512.9	11.5%
EBITDA	110.4	151.3	149.4	222.0	255.1	30.7%
EBITDA (%)	13.6	14.6	12.3	16.3	16.9	
PAT	-3.9	26.3	13.6	52.5	69.5	126.2%
EPS (₹)	-1.9	12.9	6.7	25.7	34.1	
EV/EBITDA	14.5	11.5	12.0	8.8	8.3	
EV/Tonne ($)	62.0	67.7	56.5	56.7	61.1	
RoNW	-0.5	3.4	1.6	5.4	6.2	
RoCE	5.4	8.1	6.4	9.7	10.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Operating Income	344.2	327.6	274.9	25.2	365.8	-5.9	Double digit growth in volumes as well as realisations supported strong topline growth
Other Income	1.5	1.0	0.5	168.5	0.9	62.9	
Raw Material Expenses	60.7	58.8	57.5	5.6	73.7	-17.6	Stabilisation of input costs led to sequential reduction of 5.1% on a per tonne basis
Employee Expenses	14.7	15.3	14.1	4.3	15.9	-7.2	
Power & Fuel	87.0	88.6	75.6	15.1	98.8	-12.0	Stabilisation of Gudipadu plant along with improved thermal efficiency helped control P&F costs increase
Freight cost	60.1	58.0	58.8	2.2	66.9	-10.3	Optimisation of lead distance owing to sales reallocation led to reduction in freight cost per tonne by 7.7% YoY
Others	43.1	42.7	32.5	32.7	48.8	-11.6	
EBITDA	78.6	64.3	36.4	115.8	61.7	27.3	EBITDA growth driven by double digit volume growth aided by margin expansion
EBITDA Margin (%)	22.8	19.6	13.3	959 bps	16.9	596 bps	Margin expansion driven by higher realisations with production costs remaining stable
Interest	15.0	17.3	14.1	6.0	16.5	-9.6	
Depreciation	17.8	17.5	13.6	30.6	17.4	2.3	Higher depreciation attributable to commissioning of additional capacity at Bayyavaram and Gudipadu plants
PBT	47.3	30.5	9.2	412.1	28.7	64.8	
Total Tax	17.8	10.7	3.4	420.8	10.0	78.8	
PAT	29.5	19.8	5.8	407.0	18.7	57.4	Low base of Q1FY19 and improved margins lead profits to soar
Key Metrics							
Volume (MT)	0.82	0.81	0.74	10.6	0.94	-13.1	Despite soft demand, increased sales in newer markets keep volume growth steady
Net realisation (₹)	4,198	4,069	3,709	13.2	3,875	8.3	Strong pricing environment owing to price hikes taken in Q4FY19 and during the quarter
EBITDA per Tonne (₹)	959	799	492	95.0	654	46.6	Production costs remaining broadly flat YoY lead to EBITDA/t backed by higher realisations

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	1,401.8	1,359.2	-3.0	1,572.8	1,512.9	-3.8	Volumes tweaked at lower end
EBITDA	208.9	222.0	6.3	239.7	255.1	6.4	Cost optimisation and stable realisations to drive margin expansion
EBITDA Margin (%)	14.9	16.3	143 bps	15.2	16.9	162 bps	
PAT	47.3	52.5	11.0	63.3	69.5	9.9	
EPS (₹)	23.2	25.7	11.0	31.0	34.1	10.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY17	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Volume (MT)	2.2	2.7	3.3	3.6	3.9	3.7	4.0	Volume forecast lowered marginally
Gross Realisation (₹)	3,697	3,916	3,666	3,813	3,927	3,809	3,885	Realisations to grow at 3.5% CAGR over FY19-21E
EBITDA per Tonne (₹)	501	571	450	623	652	568	592	EBITDA/t to improve led by margin expansion

Source: Company, ICICI Direct Research

Key conference call highlights

- During the quarter, demand has been and is further expected to remain sluggish for the company for FY20E. The management has a flat to 2% de-growth outlook for the AP-Telangana region, which is the largest market for the company, 5% for Tamil Nadu and Kerala while 10% for Maharashtra (on account of pre-election spending)
- For Sagar Cements, volumes are divided as 52% trade and 48% non-trade. As government orders are shrinking, the company expects traction to shift towards the trade segment in the near term for the industry
- The management expects at least ₹ 20 crore savings every year from the thermal power plant that is expected to be commissioned in August 2019
- Lead distance has reduced to below 300 km levels post sales reallocation and is further expected to reduce. Petcoke prices have marginally reduced on a sequential basis
- During the quarter, there has been a ~₹ 10 per bag reduction in prices. The management expects a further similar reduction in prices
- During FY19, demand was at 31 MT for AP-Telangana, 20 MT in Tamil Nadu, 20 MT in Karnataka, ~9 MT in Kerala and ~32 MT in Maharashtra. In the markets of Odisha where Sagar Cement operates, demand during FY19 was at ~12 MT
- Over the next two years, 3 MT capacity by Penna Cements, similar capacity by Chettinad Cements and two units by Ramco Cements would be added in the southern region
- New sand mining policy is expected to be released in September 2019. Thus, the management expects clarity and revival in demand from October 2019

Annual Report Highlights

- **Performance:** The company recorded topline growth of 17% YoY led by strong ~25% volume growth. AP & Telangana continue to take major share of Sagar's region wise sales distribution, exceeding 50% of total volumes sold. Though realisations improved in the ending months of FY19, average realisations for the company declined in FY19 over the previous year. Higher input costs during the year aided by lower realisations led the decline in margin

- **Capital raise:** To diversify its regional exposure, the company issued 31 lakh warrants at ₹ 730 per warrant during FY19. Against 15.5 lakh of these warrants, the Board has approved conversion into equal number of equity shares. The proceeds from the issue would be used to fund the capacity expansion in Madhya Pradesh and Odisha. Total equity infusion required by Sagar Cements for these projects is ~₹ 258 crore. The management expects these projects to get on stream from FY22E

- **Expansion in Central India:** Sagar Cement would be setting up an integrated cement plant in Madhya Pradesh under Satguru Cement Pvt Ltd where the company had acquired 65% stake during FY19. Expansion involves construction of 1 MT integrated cement plant and a waste heat recovery unit at a capital outlay of ~₹ 450 crore. This would be funded partially by raising ₹ 275 crore of debt

- **Expansion in eastern India: A new grinding unit** would be set up in Odisha via Sagar's newly acquired subsidiary Jajpur Cement Pvt Ltd. This project would involve setting up a 1.5 MT grinding unit (90% PSC) at an estimated capital outlay of ₹ 308 crore (₹ 200 crore debt)

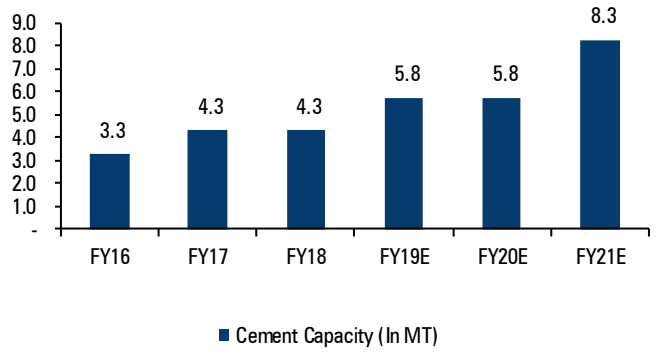
- **Cost rationalisation:** The company is in the process of setting up an 18 MW captive power plant near its Gudipadu unit. During the year, it also upgraded its WHR plant increasing its capacity to 8.8 MW. Further, the additional capacity at Bayyavaram unit in Vizag added during the year, would enable the company to optimise its logistics costs by serving the eastern markets from this added capacity, which were earlier being served by the Mattampally plan.

- **Weak ratios:** During FY19, the company witnessed pressure in terms of higher input costs aided by weak realisations. This resulted in dampening of the profits, which eventually led to deterioration in return ratios. EBITDA margins contracted from 14.6% in FY18 to 12.3% in FY19. RoCE and RoE deteriorated from 8.1% and 3.4% in FY18 to 6.4% and 1.6%, respectively, in FY19

- **Future outlook:** Demand in the AP & Telangana regions has been infra driven. However, housing demand in these regions is yet to pick up in a meaningful way and is expected to be one of the major demand drivers

Financial story in charts

Exhibit 4: Installed capacity



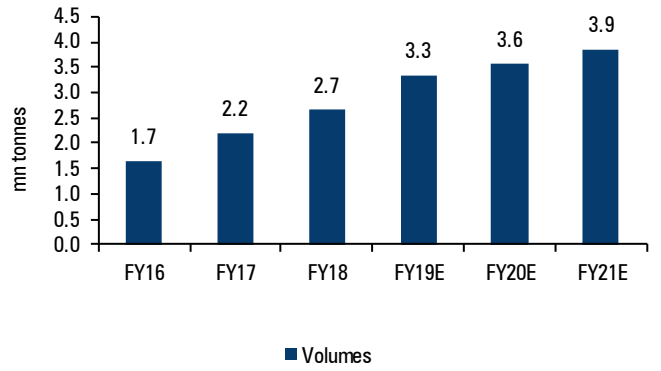
Source: Company, ICICI Direct Research

Exhibit 5: Capacity addition plans

Current capacity	MT
Cement (MT)	**5.8**
Additions	
MP - Satguru cement (Integrated plant - clinker capacity of 0.7 MT)	1.0
Odisha - Jajpur cement	1.5
FY21E cement capacity	**8.3**

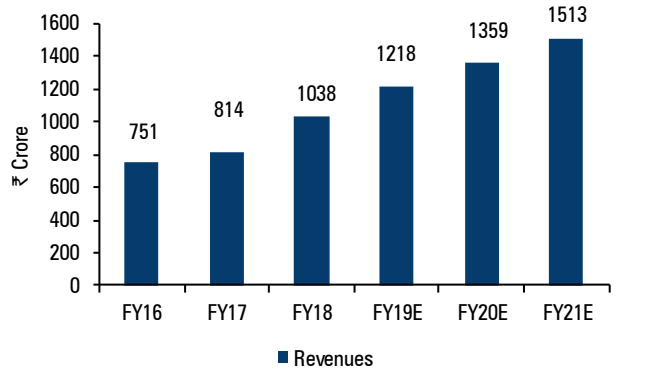
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 7.4% CAGR over FY19-21E



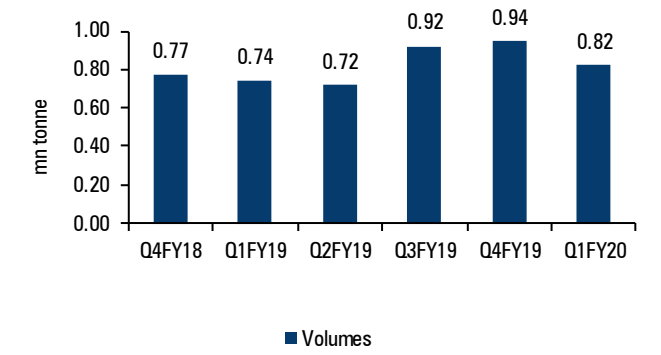
Source: Company, ICICI Direct Research

Exhibit 7: Topline to grow at 11.5% CAGR over FY19-21E



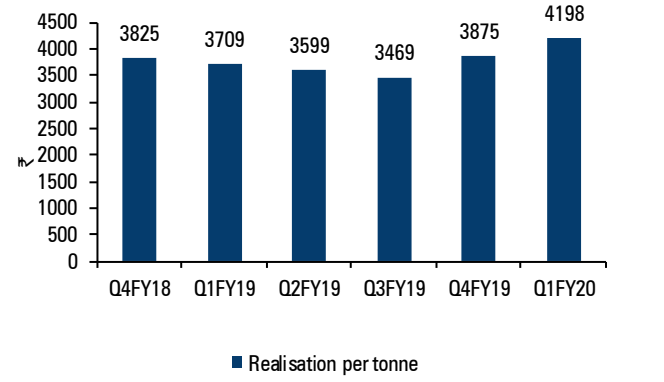
Source: Company, ICICI Direct Research

Exhibit 8: Volumes increase 10.6% YoY



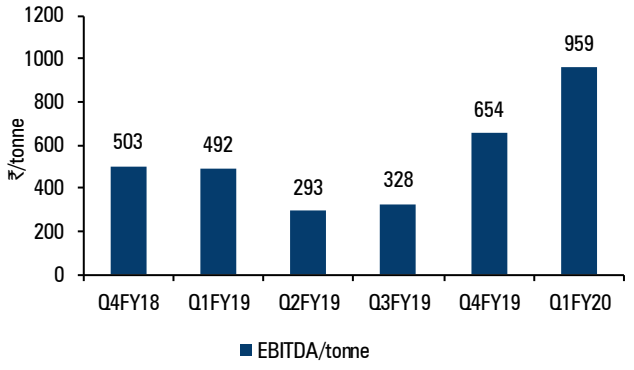
Source: Company, ICICI Direct Research

Exhibit 9: Realisations improve 13.2% YoY



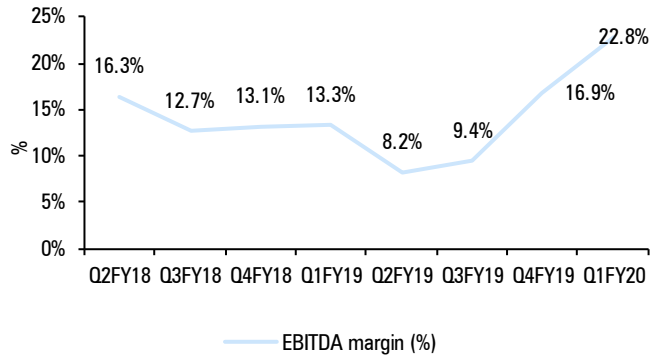
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t witnesses 95% growth YoY



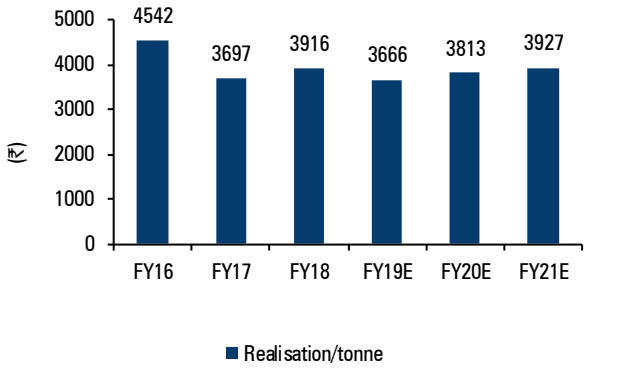
Source: Company, ICICI Direct Research

Exhibit 11: Margins improve ~960 bps YoY



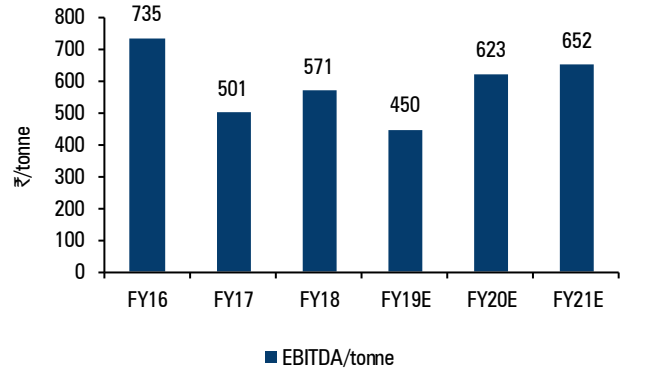
Source: Company, ICICI Direct Research

Exhibit 12: Realisations to cross ₹ 3900/t in FY21E



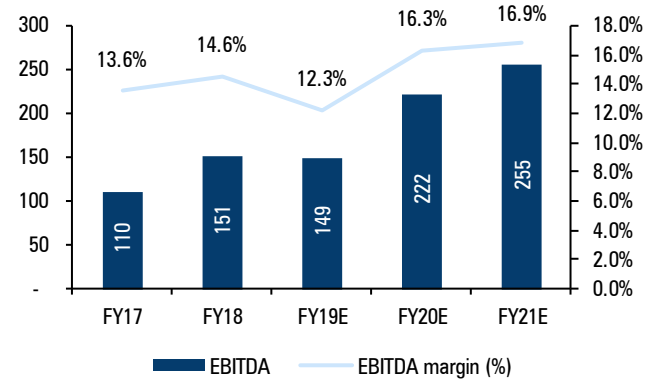
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t to grow at 20.4% CAGR over FY19-21E



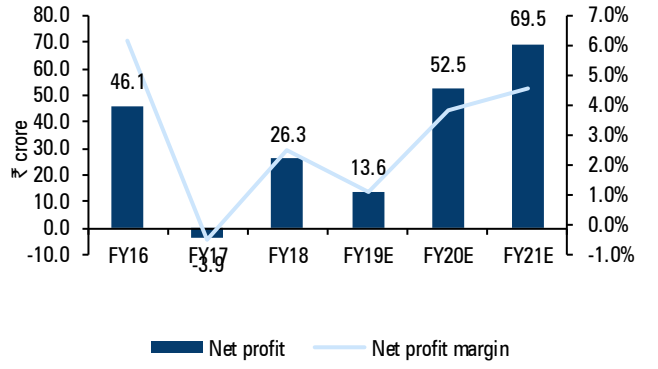
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA to grow at 30.7% CAGR over FY19-21E



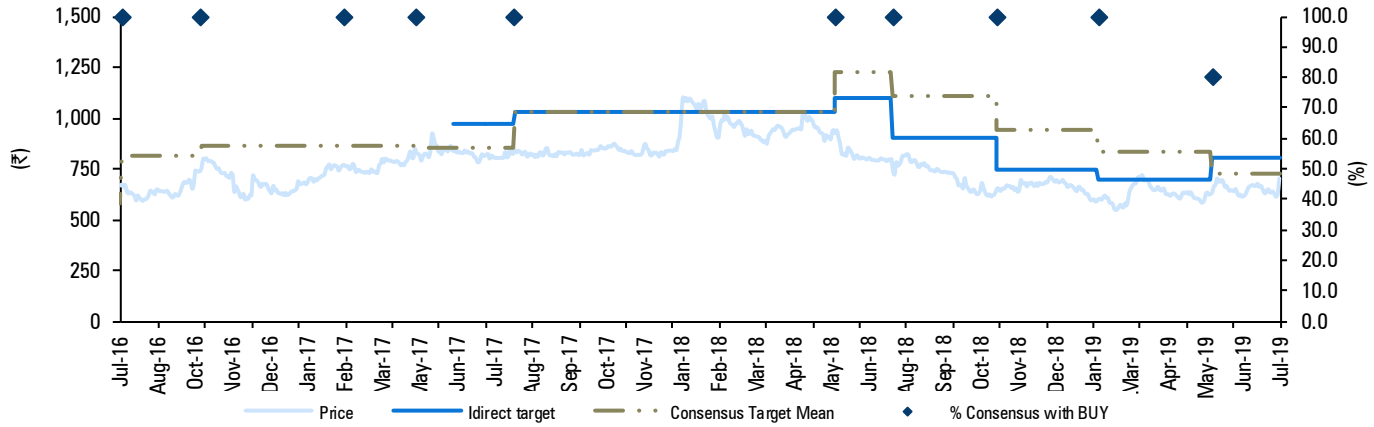
Source: Company, ICICI Direct Research

Exhibit 15: PAT expected to cross ₹ 60 crore in FY21E



Source: Company, ICICI Direct Research

Exhibit 16: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 17: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	AVH Resources India Pvt. Ltd.	30-Jun-19	18%	3.6	0.0
2	Sammidi (Veera Reddy)	30-Jun-19	8%	1.64	0.0
3	Sammidi (Aruna)	30-Jun-19	7%	1.37	0.0
4	Sammidi (Anand Reddy)	30-Jun-19	6%	1.31	0.0
5	HDFC Asset Management Co., Ltd.	30-Jun-19	6%	1.31	0.0
6	Sammidi (Sreekanth Reddy)	30-Jun-19	6%	1.24	0.0
7	Sammidi (Rachana)	30-Jun-19	6%	1.17	0.0
8	IDFC Asset Management Company Private Limite	30-Jun-19	5%	1.02	0.0
9	Sammidi (Vanajatha)	30-Jun-19	5%	0.99	0.0
10	Sagar Priya Housing & Industrial Enterprises, Ltd.	30-Jun-19	4%	0.86	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 18: Recent Activity

Buys			Sells		
Investor Name	Value (mn)	Shares (mn)	Investor Name	Value (mn)	Shares (mn)
IDFC Asset Management Company Private Limited	0.03	0.00	ICICI Prudential Asset Management Co. Ltd.	-0.14	-0.01
			Kitara India Micro Cap Growth	-0.01	0.00

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 19: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	50.05	50.05	50.05	50.06	50.06
FII	3.60	3.60	3.60	3.47	3.46
DII	13.76	13.91	13.99	14.04	13.81
Others	32.59	32.44	32.36	32.43	32.67

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 20: Profit and loss statement ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	**1,038.1**	**1,217.6**	**1,359.2**	**1,512.9**
Growth (%)	27.6	17.3	11.6	11.3
Raw material cost	145.1	238.8	267.4	296.6
Power & fuel	331.4	362.8	367.2	408.4
Freight cost	217.9	252.5	265.6	292.8
Others	192.4	214.1	237.1	260.0
Total Operating Exp.	886.8	1,068.1	1,137.2	1,257.8
EBITDA	**151.3**	**149.4**	**222.0**	**255.1**
Growth (%)	37.1	-1.2	48.6	14.9
Depreciation	53.6	65.7	66.6	67.2
Interest	59.3	63.4	74.2	79.9
Other Income	7.3	2.9	3.0	3.5
PBT	45.7	23.2	84.2	111.5
Total Tax	19.4	9.6	31.7	42.0
PAT	**26.3**	**13.6**	**52.5**	**69.5**
PAT margin	2.5	1.1	3.9	4.6
Adjusted PAT	**26.3**	**13.6**	**52.5**	**69.5**
Growth (%)	NA	-48.2	286.4	32.4
Adjusted EPS (₹)	**12.9**	**6.7**	**25.7**	**34.1**

Source: Company, ICICI Direct Research

Exhibit 21: Cash flow statement ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	26.3	13.6	52.5	69.5
Add: Depreciation	53.6	65.7	66.6	67.2
(Inc)/dec in Current Assets	-28.0	-10.0	-49.0	-43.0
Inc/(dec) in CL and Provisions	-28.1	-2.5	45.8	29.4
CF from operating activities	**83.1**	**130.2**	**190.2**	**203.0**
(Inc)/dec in Investments	0.3	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-175.7	-241.7	-325.0	-325.0
Others	16.6	74.1	-32.0	-32.0
CF from investing activities	**-158.8**	**-167.6**	**-357.0**	**-357.0**
Issue/(Buy back) of Equity	0.0	0.0	85.3	85.3
Inc/(dec) in loan funds	32.6	21.4	175.0	125.0
Dividend paid & dividend tax	-9.8	-9.8	-3.7	-3.7
Interest paid	-59.3	-63.4	-74.2	-79.9
Others	-0.2	61.0	0.0	0.0
CF from financing activities	**-36.7**	**9.2**	**182.4**	**126.6**
Net Cash flow	-112.4	-28.2	15.6	-27.4
Opening Cash	170.5	58.1	29.9	45.5
Closing Cash	**58.1**	**29.9**	**45.5**	**18.1**

Source: Company, ICICI Direct Research

Exhibit 22: Balance sheet ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Share Capital	20.4	20.4	22.0	23.5
Reserve and Surplus	758.8	823.6	956.1	1,105.6
Total Shareholders funds	779.2	844.0	978.0	1,129.1
Total Debt	477.9	499.3	674.3	799.3
Deferred Tax Liability	40.3	8.3	-23.7	-55.7
Minority Interest / Others	56.9	163.0	163.0	163.0
Total Liabilities	**1,354.2**	**1,514.5**	**1,791.6**	**2,035.7**
Assets				
Gross Block	1,380.8	1,637.9	1,822.9	2,247.9
Less: Acc Depreciation	366.9	432.6	499.2	566.4
Net Block	1,013.8	1,205.2	1,323.6	1,681.4
Capital WIP	125.4	110.0	250.0	150.0
Total Fixed Assets	1,139.2	1,315.2	1,573.6	1,831.4
Investments	38.7	38.7	38.7	38.7
Inventory	94.9	145.0	147.1	153.4
Debtors	92.6	115.6	117.3	124.3
Loans and Advances	19.7	21.9	20.4	22.7
Other Current Assets	127.4	62.1	108.7	136.2
Cash	58.1	29.9	45.5	18.1
Total Current Assets	392.7	374.5	439.0	454.6
Creditors	136.8	203.8	179.1	199.4
Provisions	79.6	10.1	80.6	89.7
Total Current Liabilities	216.4	213.9	259.7	289.1
Net Current Assets	176.3	160.6	179.3	165.5
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	**1,354.3**	**1,514.5**	**1,791.6**	**2,035.7**

Source: Company, ICICI Direct Research

Exhibit 23: Key ratios

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	12.9	6.7	25.7	34.1
Cash EPS	39.2	38.9	58.4	67.0
BV	382.0	413.7	479.4	553.5
DPS	4.0	4.0	1.5	1.5
Cash Per Share	28.5	14.7	22.3	8.8
Operating Ratios (%)				
EBITDA Margin	14.6	12.3	16.3	16.9
Adjusted PAT Margin	2.5	1.1	3.9	4.6
Inventory days	33.4	43.5	39.5	37.0
Debtor days	32.6	34.7	31.5	30.0
Creditor days	48.1	61.1	48.1	48.1
Return Ratios (%)				
RoE	3.4	1.6	5.4	6.2
RoCE	8.1	6.4	9.7	10.2
RoIC	8.8	6.9	11.7	11.0
Valuation Ratios (x)				
P/E (adjusted)	50.5	97.6	25.2	19.1
EV / EBITDA	11.5	12.0	8.8	8.3
EV / Net Sales	1.7	1.5	1.4	1.4
Market Cap / Sales	1.3	1.1	1.0	0.9
Price to Book Value	1.7	1.6	1.4	1.2
Solvency Ratios				
Debt/EBITDA	3.2	3.3	3.0	3.1
Debt / Equity	0.6	0.6	0.7	0.7
Current Ratio	1.4	1.0	1.0	1.1
Quick Ratio	1.0	0.6	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 24: ICICI Direct coverage universe (Cement)

Company	CMP			M Cap	EPS(₹)			EV/EBITDA (x)			EV/Tonne ($)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
ACC*	1,580	1,765	HOLD	29,695	81	73	83	15.1	12.3	10.6	120	117	113	14.7	18.5	19.6	14.9	12.7	13.7
Ambuja Cem*	214	235	HOLD	42,493	8.1	7.5	7.9	20.7	17.5	16.6	141	139	136	11.4	14.9	16.1	11.3	10.0	10.6
UltraTech Cem	4,460	5,300	BUY	122,382	89	157	160	21.5	15.9	13.0	248	199	196	9.7	12.4	14.7	8.8	13.5	12.2
Shree Cement	21,200	22,040	HOLD	73,776	318	521	615	29.0	20.8	18.1	227	181	178	11.5	18.3	19.2	11.5	16.3	16.5
Heidelberg Cem	197	220	HOLD	4,464	9.7	10.9	12.6	10.7	9.4	8.5	140	132	117	21.8	24.0	24.6	20.5	20.1	20.3
India Cement	95	115	HOLD	2,918	2.3	3.6	4.8	10.2	9.0	8.2	65	70	72	4.5	5.2	5.8	1.3	2.1	2.7
JK Cement	983	1,150	BUY	6,874	42.0	66.7	63.7	10.3	8.3	8.1	106	102	102	12.5	14.6	13.2	11.2	15.6	13.3
JK Lakshmi Cem	333	485	BUY	3,919	6.8	23.3	21.9	12.1	7.3	6.8	64	63	56	5.2	15.4	12.7	5.2	15.4	12.7
Mangalam Cem	229	215	REDUCE	611	-3.7	7.3	4.7	21.0	8.4	9.9	46	43	47	3.2	8.8	7.7	-2.0	3.8	2.4
Star Cement	107	120	HOLD	4,485	7.1	7.9	8.9	9.5	8.6	7.5	157	155	103	18.9	18.0	18.1	17.3	16.6	16.0
Ramco Cement	745	950	BUY	17,737	20.6	29.3	32.8	18.3	13.9	11.6	181	167	140	8.0	9.9	10.9	11.2	14.3	14.4
Sagar Cement	650	800	BUY	1,326	6.7	24.4	30.4	12.0	8.8	8.2	56	57	61	6.4	9.5	9.6	1.6	5.1	5.5

Source: Company, ICICI Direct Research

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