

Retail Equity Research

Sagar Cements Ltd.

Cement

BSE CODE: 502090

NSE CODE: SAGCEM

Bloomberg CODE: SGC:IN

SENSEX: 72,996

BUY

12 Months Investment Period Rating as per Small Cap
CMP Rs. 205 TARGET Rs. 246 RETURN 20% ↑
(Closing: 27-03-24)

KEY CHANGES:

TARGET ↓

RATING ↑

EARNINGS ↓

Ramp up in capacities to aid margins.

Sagar Cements Limited (SCL), established in 1985, is a south India based cement manufacturer with a capacity of ~10.6MT (South-8.1MT, Central-1MT, East-1.5MT). SCL has a total captive power capacity of 96.96MW.

- We revised our target price to Rs. 246 and upgrade our rating to BUY factoring in expected improvements in utilization and margin, along with the correction in valuation.
- Q3FY24 revenue grew by 16%YoY, aided by volume improvement (14%YoY) from new capacities. However, SCL has lowered volume guidance for FY24 due to the impact of the flood and state elections.
- Ramp up in new capacities along with lower input prices aided operating profit to increase by 83% YoY to Rs.87cr. Net loss narrowed to Rs.10cr vs. Rs.27cr YoY. Margin will improve further with better utilization. Recent pressure on cement prices is the key risk to watch out for.
- Clearance of land monetization of 107 acres (part of the Andhra Cements acquisition) is expected to be completed in ~12-15 months (Rs.4 crore/acre). SCL also expects ~Rs.150cr incentive from the government over a period of ~6.5years for its Jeerabad plant (MP) starting from FY24.
- Expect revenue/EBITDA to grow at a 17%/34% CAGR over FY24E-26E, value SCL on SOTP basis, with cement business at ~8x FY26E EV/EBITDA.

Volumes impacted due to floods and state elections.

Q3FY24 revenue grew by 16%YoY, aided by volume growth of 14% YoY and realisation growth of 2.4% YoY. The capacity utilization of the new units, Jeerabad was at 69%, Jaipur was at 28% and Andhra Cement was at 37%. State Elections (MP and Telangana), floods and festivals (Pongal & Sankranti) have impacted the volumes, leading to a downward revision of volume guidance for FY 24 from 6.2MT to 5.6MT. Further, the company has also revised the volume guidance for FY 25 from 7.5MT to 7MT owing to the impact of general elections and more specifically state election in Andhra Pradesh. Revenue is expected to grow at a 17% CAGR over FY24-26E supported by ramp up in new capacities, including Andhra acquisition.

Lower input prices and ramp up in new capacities aids margins.

Operating profit rose by 83%YoY to Rs.87cr as EBITDA margin improved to 13% from ~8.3% YoY. Total expenses/ton declined by ~3%YoY, while realisation increased by 2.5%YoY. EBITDA/ton improved to Rs. 619 (vs. Rs. 384 YoY, Rs. 459 QoQ). The improvement in margin is expected to continue, supported by further ramp up in recently acquired units, improvement in green power mix, and deployment of electric trucks and wheel loaders. The company is expecting ~Rs. 150 improvements in EBITDA/ton in the coming quarters, Rs. 100 would come from power & fuel and Rs. 50 from an increase in sales volume from new capacities. We expect EBITDA margin to improve to ~12%/15% in FY24E/FY25E (Vs 7%/17% in FY23/FY22). Adverse price movements in cement, fuel and RM prices are the key risks.

Valuation & Outlook

SCL is currently undertaking a capex of Rs.470cr over FY24-26. However, SCL expects the net debt to remain at Rs. 14bn-Rs. 14.5bn. Currently, the net debt is at Rs. 14bn (gross debt at Rs.15.6bn) and Debt/Equity is 1.0x. The healthy demand outlook, given strong GoI focus on Infra & Housing along with SCL's consistent focus on lowering costs and improving operational efficiencies will aid growth and margins. We value SCL on SOTP basis, with cement business at ~8x FY26E EV/EBITDA, to arrive at a target price of Rs. 246. We upgrade our rating to BUY due to recent correction in stock price and expected improvement in utilization and margin of new capacities.

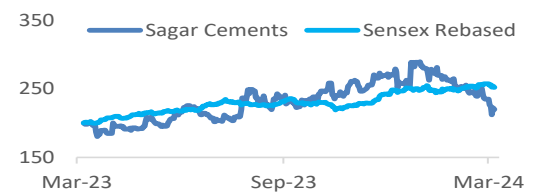
Company Data

Market Cap (Rs.cr)	2,680
Enterprise Value (Rs.cr)	3,948
Outstanding Shares (cr)	13.1
Free Float	21%
Dividend Yield	0.3%
52 week high (Rs.)	305
52 week low (Rs.)	180
6m average volume (Lakhs)	4.2
Beta	1.0
Face value Rs.	2

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24
Promoters	45.2	48.3	48.3
FII's	3.0	2.6	2.8
MFs/Insti	19.6	18.8	17.1
Public	7.2	8.1	9.0
Others	25.1	22.2	22.8
Total	100.0	100.0	100.0
Promoter encumbrance (%)	84.8	79.3	75.2

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-18.4%	-6.4%	10.0%
Absolute Sensex	1.6%	7.1%	26.0%
Relative Return*	-20.1%	-13.4%	-16.0%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	2,228	2,580	3,176
Growth (%)	39.5	15.8	23.1
EBITDA	151	311	467
EBITDA Margin (%)	6.8	12.0	14.7
Adj. PAT	26	-44	78
Growth (%)	-61.0	-264.9	-277.7
Adj. EPS	2.5	-3.3	5.9
Growth (%)	-65.0	-264.9	-277.7
P/E	101.3	-61.4	34.6
P/B	1.6	1.7	1.6
EV/EBITDA	26.1	13.2	9.0
ROE (%)	1.8	-2.7	4.8
D/E	0.9	1.0	1.0

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q3FY24	Q3FY23	YoY Growth	Q2FY24	QoQ Growth	9MFY24	9MFY23	YoY Growth
Sales	669	576	16.3%	587	14.1%	1,796	1,608	11.7%
EBITDA	87	48	83.0%	60	44.6%	178	114	55.5%
EBITDA margins %	13.0%	8.3%	470bps	10.3%	270bps	9.9%	7.1%	280bps
Depreciation	56	40	41.6%	51	9.7%	157	114	37.5%
EBIT	31	8	291.9%	9	244.2%	21	0	20590.0%
Interest	49	51	-4.9%	47	4.4%	139	150	-6.9%
Other Income	4	14	-73.9%	3	36.1%	10	42	-75.1%
Exceptional Items	0	0	0.0%	15	0.0%	15	0	0.0%
PBT	-14	-29	-51.1%	-20	-29.7%	-93	-108	-13.4%
Tax	-4	-2	102.0%	-10	-58.1%	-31	-18	65.1%
Share of profit from associates	0	0	NA	0	NA	0	0	NA
Minority interest	0	0	NA	0	NA	0	-13	NA
Reported PAT	-10	-27	-62.5%	-11	-3.2%	-63	-77	-17.9%
Adjustments	0	0	0.0%	0	0.0%	0	0	0.0%
Adj PAT	-10	-27	-62.5%	-11	-3.2%	-63	-77	-17.9%
No. of Shares	13	12	11.2%	13	0.0%	13	13	0.0%
Adj EPS (Rs)	-0.8	-2.1	-62.5%	-0.8	-3.2%	-4.8	-5.9	-17.9%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	2,854	3,339	2,580	3,176	-9.6%	-4.9%
EBITDA	379	527	311	467	-18.1%	-11.4%
Margins	13.3%	15.8%	12.0%	14.7%	-120bps	-110bps
Adj. PAT	10	132	-44	78	n.m	-41.3%
EPS	1	10	-3	6	n.m	-40.7%

Per Tonne Analysis

	Q3FY24	Q3FY23	YoY Growth	Q2FY24	QoQ Growth
Cement Volume (MT)	1.41	1.24	13.5%	1.31	7.2%
Cost of materials consumed	766	1,022	-25.1%	578	32.5%
Employee Expenses	213	203	5.0%	228	-6.5%
Power & Fuel	1,774	1,690	4.9%	1,823	-2.7%
Freight & forwarding	864	794	8.8%	851	1.5%
Other expenses	523	552	-5.2%	532	-1.7%
Total expenses	4,139	4,261	-2.9%	4,012	3.2%
Realisation (inc. RMC)	4,758	4,645	2.4%	4,471	6.4%
EBITDA	619	384	61.2%	459	34.8%

Sum of the parts (SOTP) valuation

Particulars	Basis	Base	Multiple	Value (Rs. cr.)	Value per share
Cement business	26E EV/EBIT	555	8	4272	
Less: Net Debt				1394	
				2879	220
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					246



PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	1,371	1,597	2,228	2,580	3,176	3,506
% change	16.7	16.5	39.5	15.8	23.1	10.4
EBITDA	401	276	151	311	467	555
% change	116.1	-31.1	-45.2	105.3	50.3	18.9
Depreciation	82	93	156	201	206	217
EBIT	319	183	-4	110	260	338
Interest	47	92	202	183	160	155
Other Income	7	12	222	17	25	28
PBT	279	103	16	-57	125	211
% change	476.1	-63.2	-84.5	-459.9	-319.4	67.9
Tax	95	45	10	-17	43	72
Tax Rate	33.9%	43.7%	62.8%	30.0%	34.0%	34.0%
Reported PAT	187	69	29	-44	78	133
Adj	1	1	3	0	0	0
Adj PAT	185	68	26	-44	78	133
% change	625.8	-63.3	-61.0	-264.9	-277.7	71.8
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	5.9	10.2
% change	588.0	-63.3	-65.0	-264.9	-277.7	71.8
DPS (Rs.)	1	1	1	1	1	1
CEPS (Rs.)	22.7	13.7	13.9	12.0	21.7	26.8

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net inc. + Depn.	268	162	185	157	284	350
Non-cash adj.	3	9	-3	0	0	0
Other adjustments	101	86	-26	187	166	161
Changes in W.C	5	-170	20	-151	-197	60
C.F. Operation	377	88	175	193	252	571
Capital exp.	-461	-361	-118	-160	-180	-270
Change in inv.	1	-427	183	0	0	0
Other invest.CF	-16	4	157	0	0	0
C.F - Investment	-476	-784	222	-160	-180	-270
Issue of equity	67	11	350	0	0	0
Issue/repay debt	317	685	-521	100	50	-150
Dividends paid	-15	-6	-9	-11	-11	-11
Other finance.CF	-47	-75	-185	-183	-160	-155
C.F - Finance	322	615	-366	-94	-121	-316
Chg. in cash	223	-81	32	-61	-49	-15
Closing cash	225	143	175	114	65	49

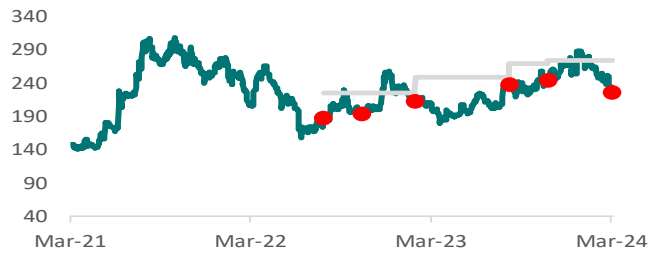
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	254	163	210	149	100	85
Accounts Receivable	110	131	147	212	244	269
Inventories	124	209	279	263	340	369
Other Cur. Assets	153	259	168	284	350	386
Investments	0	315	0	0	0	0
Gross Fixed Assets	1,735	2,565	4,072	4,301	4,481	4,751
Net Fixed Assets	1,202	1,951	2,699	2,727	2,700	2,753
CWIP	517	101	99	30	30	30
Intangible Assets	99	97	95	95	95	95
Def. Tax (Net)	1	15	288	288	288	288
Other Assets	178	219	211	320	394	435
Total Assets	2,639	3,460	4,196	4,368	4,541	4,710
Current Liabilities	461	418	501	592	601	769
Provisions	50	56	63	85	104	115
Debt Funds	755	1,511	1,479	1,579	1,629	1,479
Other Liabilities	181	220	516	529	558	576
Equity Capital	24	24	26	26	26	26
Reserves & Surplus	1,167	1,232	1,611	1,557	1,623	1,745
Shareholder's Fund	1,191	1,255	1,637	1,583	1,649	1,772
Total Liabilities	2,639	3,460	4,196	4,368	4,541	4,710
BVPS (Rs.)	96	102	121	117	122	131

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	29.2	17.3	6.8	12.0	14.7	15.8
EBIT margin (%)	23.3	11.4	-0.2	4.2	8.2	9.6
Net profit mgn.(%)	13.5	4.3	1.2	-1.7	2.4	3.8
ROE (%)	17.3	5.6	1.8	-2.7	4.8	7.8
ROCE (%)	8.8	3.8	2.9	3.1	4.9	5.8
W.C & Liquidity						
Receivables (days)	33.9	27.6	22.8	25.4	26.2	26.7
Inventory (days)	32.0	38.0	39.9	38.3	34.7	36.9
Payables (days)	372.7	384.8	247.6	328.5	251.2	264.8
Current ratio (x)	1.1	1.0	1.0	1.1	1.3	1.2
Quick ratio (x)	0.6	0.4	0.4	0.4	0.4	0.4
Turnover & Leverage						
Gross asset T.O (x)	0.8	0.7	0.7	0.6	0.7	0.8
Total asset T.O (x)	0.6	0.5	0.6	0.6	0.7	0.8
Int. coverage ratio (x)	6.9	2.0	0.0	0.6	1.6	2.2
Adj. debt/equity (x)	0.7	1.2	0.9	1.0	1.0	0.8
Valuation						
EV/Sales (x)	2.2	2.2	1.8	1.6	1.3	1.2
EV/EBITDA (x)	7.4	12.5	26.1	13.2	9.0	7.3
P/E (x)	13.0	35.5	101.3	-61.4	34.6	20.1
P/BV (x)	2.0	1.9	1.6	1.7	1.6	1.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
08-Aug-22	Buy	226
31-Oct-22	Hold	219
09-Feb-23	Accumulate	249
28-Aug-23	Accumulate	260
06-Nov-23	Accumulate	274
28-Mar-24	Buy	246

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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