

Sagar Cements

Andhra cement acquisition contributes positively

Sagar cements (SGC) reported good set of numbers for 2QFY24 as reported EBITDA came in at Rs602mn, up 97% QoQ and 105% above our estimate. Better than expected volumes and lower costs resulted in this sharp beat. Recently acquired Andhra cement plant contributed positively with better than expected volumes as well as profitability. The management has lowered its volume guidance from 6.4mn mt to 6.2mn mt for FY24, however maintained its FY24 EBITDA estimate of Rs4bn. As a result, 2HFY24 is expected to be better on account of better volumes as well as better pricing given the recent uptick in price in Andhra and Telangana region. We have tweaked our estimates marginally and have moved our valuation to Sep 25 to arrive at our revised target price of Rs255 (Rs231 earlier). We maintain Reduce rating on the stock.

SGC – 2QFY24 result highlights

SGC reported good set of numbers for 2QFY24 driven by strong volume growth, turnaround of operations at Andhra cements and lower than expected costs. SGC reported EBITDA of Rs602mn vs our expectation of Rs294mn (EBITDA/mt of Rs459). Recently acquired Andhra cement reported EBITDA of Rs77mn and EBITDA/mt of 818/mt. Volumes came in at 1.31mn mt, 10% ahead of our estimates and up 27% YoY. Revenue came in at Rs5.8bn which was up 24% YoY. Realization at Rs4,471/mt was down 2.5% on a QoQ basis. Power and fuel costs/mt declined by 17% YoY mainly due to reduction in coal and petcoke prices. Operating cost/mt at Rs4,012 reduced by 11.4% YoY and 7% QoQ. Company reported net loss of Rs105mn against our estimate of Rs379mn. Exceptional item included impairment reversal of Rs148mn.

FY24 volume guidance lowered to 6.2mn mt from of 6.4mn mt

The management has guided for 6.2mn mt volumes in FY24 (lower from earlier guidance of 6.4mn mt) and Rs4bn EBITDA. So volume growth as well as profitability is likely to accelerate in 2HFY24. The management cited upcoming state elections in Telangana as a reason for softness in volumes. The management maintained its EBITDA guidance of Rs4bn which means the company will have to deliver 3.7mn mt of volumes and Rs3.1bn EBITDA in 2HFY24 vs 2.5mn mt of volumes and Rs907mn EBITDA reported in 1HFY24.

Next set of capacity expansion in Andhra cement deferred

Existing capacity of SGC excluding Andhra cement is 8.25 mn mt. Recently acquired Andhra cement plant capacity is 1.8mn mt (excluding Vizag GU) which was planned to increase to 3 mn mt. This coupled with brownfield expansions at Gudipadu (AP) and Jeerabad (MP) would have taken total capacity of the company beyond 12mn mt. Peak net debt is expected to remain around Rs15bn.

Maintain Reduce rating with TP of Rs255

While we are confident of successful transformation of acquired assets by SGC given its track record, we believe that near term earnings will remain depressed. Additionally, higher debt and weak profitability in south is also likely to weigh on margins. While cement prices have increased recently in south, sustainability is an issue given competition. We value the stock based on 8x FY25 EV/EBITDA to arrive at our revised TP of Rs255 (Rs231 earlier). We believe that current valuations of FY25E EV/EBITDA of 10.9x is higher and we maintain Reduce rating.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	5,868	4,746	23.7	5,397	8.7	29,637	34,122	38,144
EBITDA	602	57	954.6	305	97.4	3,858	4,719	5,750
EBITDA margin (%)	10.3	1.2	752.9	5.7	81.6	13.0	13.8	15.1
Adj. Net profit	(253)	(435)	(41.8)	(422)	(40.0)	296	1,059	1,954
Adj. EPS (Rs)	(1.9)	(3.3)	(41.8)	(3.2)	(40.0)	2.3	8.1	14.9
EPS growth (%)						nm	257.5	84.5
PE (x)						113.9	31.8	17.3
EV/EBITDA (x)						15.6	10.9	8.3
PBV (x)						2.1	1.9	1.7
RoE (%)						1.8	6.3	10.6
RoCE (%)						4.6	5.7	7.5

Source: Company, Centrum Broking

Result Update

India I Cement

22 October, 2023

REDUCE

Price: Rs258

Target Price: Rs255

Forecast return: -1%

Institutional Research

Market Data

Bloomberg:	SGC IN
52 week H/L:	270/180
Market cap:	Rs33.8bn
Shares Outstanding:	130.7mn
Free float:	40.1%
Avg. daily vol. 3mth:	2,39,005

Source: Bloomberg

Changes in the report

Rating:	ADD; Unchanged
Target price:	+3.6% From Rs223 to Rs231
EPS:	FY24: +32%; FY25: +13%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	48.3	45.2	45.2	45.2
FIIs	2.6	3.0	3.9	4.0
DIIIs	8.0	8.9	8.4	8.4
Public/other	41.1	42.9	42.5	42.4

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	5,336	5,868	10.0
EBITDA	294	602	104.7
EBITDA margin	5.5	10.3	475 bps
Adj. PAT	-379	-351	NA
EPS (Rs)	-2.9	-2.7	NA

Source: Bloomberg, Centrum Broking



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Cement

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	29,637	29,339	1.0	34,122	34,161	-0.1
EBITDA	3,858	3,819	1.0	4,719	4,780	-1.3
EBITDA margin	13.0	13.0	(0) bps	13.8	14.0	(16) bps
Adj. PAT	296	1,388	-78.7	1,059	1,996	-46.9
Diluted EPS (Rs)	2.3	10.6	-78.7	8.1	15.3	-46.9

Source: Centrum Broking; Note: We have now added numbers of recently acquired Andhra cement company

Sagar Cement versus NIFTY MidCap 100

	1m	6m	1 year
SGC IN	13.9	33.1	34.3
NIFTY MidCap 100	(1.6)	27.7	29.1

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E
Capacity (mn mt)	10.05	11.25
Volumes (mn mt)	6.3	7.0
Realizations (Rs/mt)	4,733	4,859
Operating expense (Rs/mt)	4,117	4,187
EBITDA/mt (Rs/mt)	616	672
Capex (Rs mn)	-7,570	-1,694
Net Debt (Rs mn)	16,955	16,020

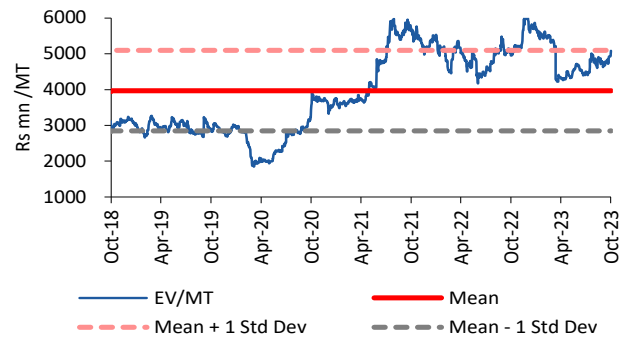
Source: Centrum Broking

Valuations

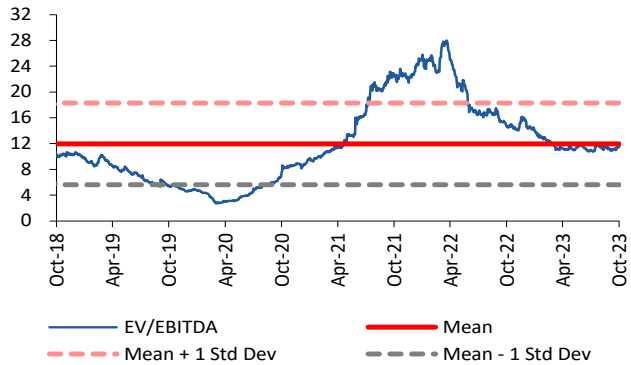
While we are confident of successful transformation of acquired assets by SGC given its track record, we believe that near term earnings will remain depressed. Additionally, higher debt and weak profitability in south is also likely to weigh on margins. We value the stock based on 8x FY25 EV/EBITDA to arrive at our revised TP of Rs255 (Rs231 earlier). Maintain Reduce rating.

Valuations	Rs/share
Sep 25E EBITDA	5,234
Target multiple (x)	8.0
Enterprise value	41,876
Less: Net debt	8,487
Equity value	33,388
No of shares (mn)	130.7
Target price (Rs)	255

EV/MT mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY23-25E)			EV/EBITDA (x)			EV/mt (US\$)			FY25E	
	(Rs bn)	Sales	EBITDA	EPS	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	RoE (%)	ROCE (%)
ACC	369	-0.9%	33.2%	53.9%	17.7	12.0	8.8	112.9	104.4	91.9	13%	16%
Ambuja Cement	1,059	-2.6%	16.9%	7.3%	20.5	17.3	15.9	255.6	258.2	218.3	6%	8%
Birla Corporation	97	10.5%	51.9%	328.1%	17.2	8.8	6.9	80.9	80.2	75.0	11%	10%
Heidelberg Cement	43	5.5%	17.5%	28.1%	11.6	8.7	7.8	76.6	73.6	71.2	18%	20%
JK Cement	255	12.0%	25.0%	38.4%	21.3	15.1	13.4	145.4	144.3	123.9	18%	13%
JK Lakshmi Cement	80	9.7%	20.4%	31.6%	11.8	9.1	7.9	72.0	71.8	58.9	17%	16%
Nuvoco Vistas	125	7.2%	30.5%	469.3%	14.0	9.0	7.3	85.8	81.2	71.9	6%	9%
Sagar Cements	34	23.7%	75.5%	173.4%	19.8	15.6	10.9	68.1	61.1	53.6	6%	7%
Shree Cements	917	11.0%	29.2%	29.3%	30.5	20.9	18.1	238.7	209.5	196.1	11%	18%
Star Cements	67	21.8%	30.0%	15.3%	13.6	11.7	9.7	138.2	109.4	97.5	13%	13%
The Ramco Cements	233	11.2%	31.2%	47.2%	23.5	14.9	13.1	165.2	156.7	151.7	11%	11%
Ultratech Cements	2,441	12.6%	22.1%	33.8%	23.2	16.5	15.2	222.6	220.4	187.6	14%	15%

Source: Company, Centrum Broking

Exhibit 1: 2QFY24 results summary

Y/E March (Rsmm)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Sales	4,746	5,397	5,868	23.7	8.7
Expenditure					
Chg. in stock	(194)	(84)	(428)	NA	NA
RM consumption	839	1,030	1,124	34.0	9.1
Purchase of traded goods	69	53	62	(9.1)	17.1
Employee costs	229	268	299	30.2	11.3
Freight Costs	826	1,017	1,117	35.2	9.8
Power and fuel	2,277	2,093	2,393	5.1	14.3
Other exp	643	714	698	8.6	(2.2)
Total Operating Expenses	4,688	5,092	5,266	12.3	3.4
EBITDA	57	305	602	954.6	97.4
<i>EBITDA Margin (%)</i>	<i>1.2%</i>	<i>5.7%</i>	<i>10.3%</i>	<i>906bps</i>	<i>461bps</i>
Other Income	149	39	27	(81.6)	(29.9)
Finance Costs	503	437	468	(6.9)	7.2
Depreciation	379	496	513	35.1	3.4
PBT	(676)	(589)	(351)	NA	NA
Tax	(240)	(166)	(98)	NA	NA
Exceptional Items	0	0	148	-	-
Reported PAT	(435)	(422)	(105)	NA	NA
Adjusted PAT	(435)	(422)	(351)	NA	NA
<i>NPM(%)</i>	<i>-9.2%</i>	<i>-7.8%</i>	<i>-1.8%</i>	<i>NA</i>	<i>NA</i>
EPS (Rs.)	(3.3)	(3.2)	(2.7)	NA	NA

Source: Centrum Broking, Company Data

Exhibit 2: Operational data

Operational Data	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Volume (mn mt)	1.0	1.2	1.3	26.8	11.3
Cement Realisation (Rs/mt)	4,585	4,575	4,471	(2.5)	(2.3)
Operating Costs (Rs/mt)	4,530	4,316	4,012	(11.4)	(7.1)
EBITDA (Rs/mt)	55	259	459	731.6	77.4

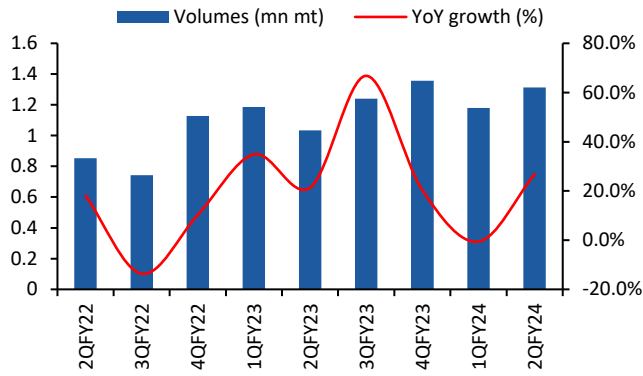
Source: Centrum Broking, Company Data

Exhibit 3: Trend in operating cost per tonne

Costs/mt (Rs)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	YoY (%)	QoQ (%)
RM consumption	700	393	744	842	689	1,022	916	847	578	(16.1)	(31.8)
Employee cost	236	265	236	214	222	203	190	228	228	2.7	0.0
Freight Cost	794	756	776	798	798	794	834	862	851	6.6	(1.3)
Power and fuel	1,313	1,790	1,513	1,808	2,200	1,690	1,782	1,774	1,823	(17.1)	2.8
Other exp	568	662	639	524	621	552	572	605	532	(14.4)	(12.1)
Op exp /mt	3,612	3,866	3,907	4,187	4,530	4,261	4,294	4,316	4,012	(11.4)	(7.1)
EBITDA/mt	712	623	541	514	55	384	286	259	459	731.6	77.4

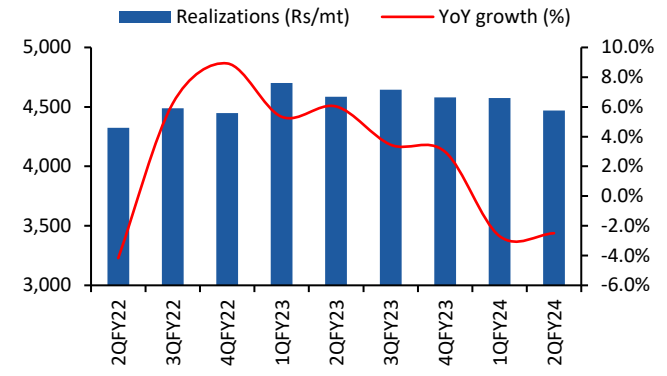
Source: Centrum Broking, Company Data

Exhibit 4: Robust volume growth of 26.8% YoY



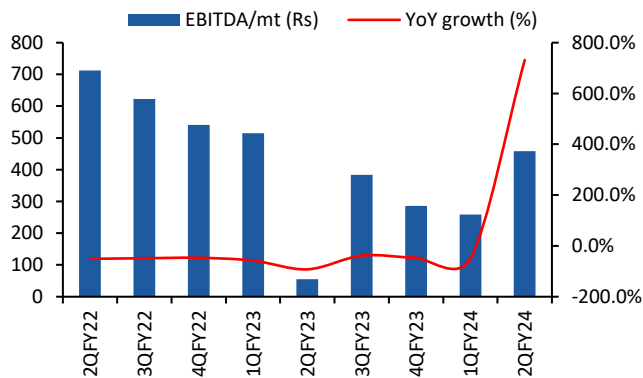
Source: Centrum Broking, Company Data

Exhibit 5: Realization down by 2.3% QoQ



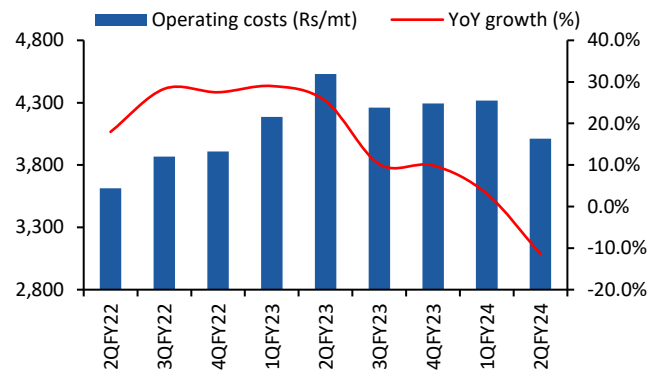
Source: Centrum Broking, Company Data

Exhibit 6: EBITDA/mt at Rs459



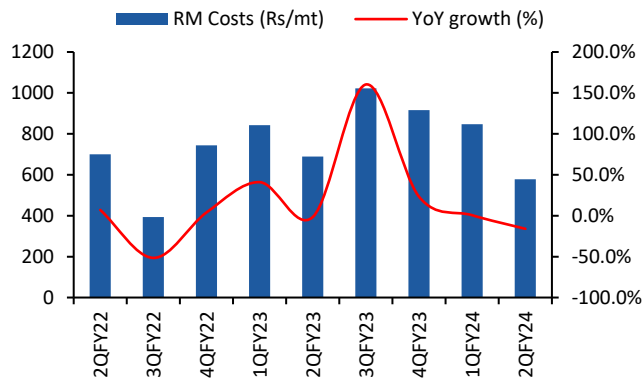
Source: Centrum Broking, Company Data

Exhibit 7: Operating costs down by 11.4% YoY



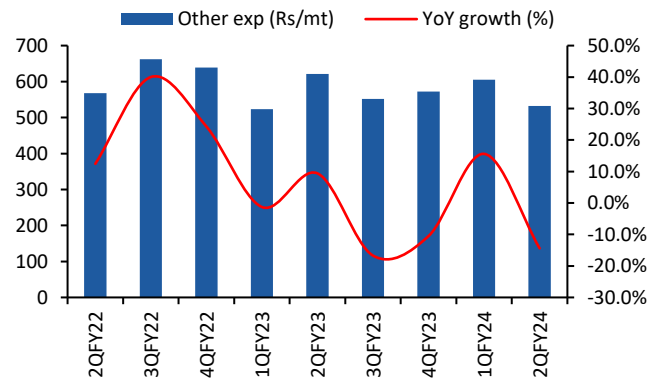
Source: Centrum Broking, Company Data

Exhibit 8: RM costs down by 16.1% YoY



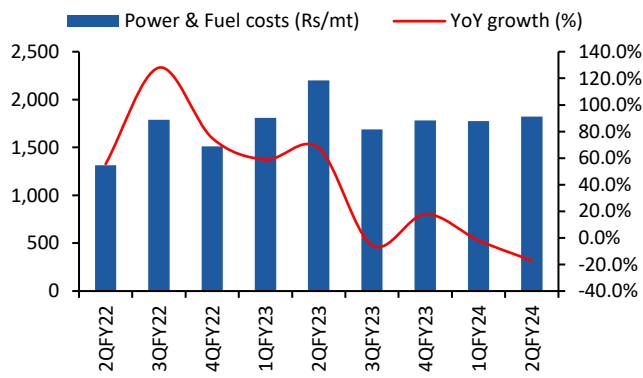
Source: Centrum Broking, Company Data

Exhibit 9: Other expenses down by 14.4% YoY



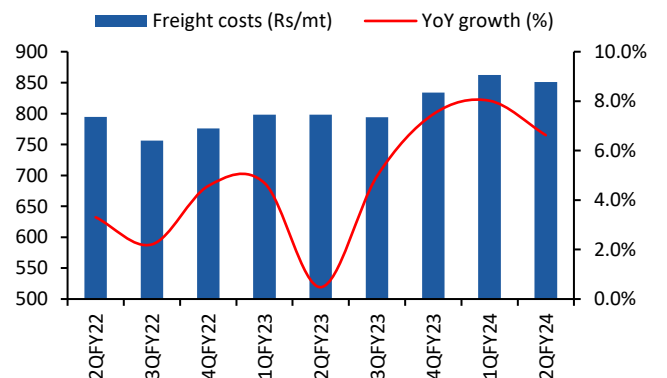
Source: Centrum Broking, Company Data

Exhibit 10: P&F costs to decline further



Source: Centrum Broking, Company Data

Exhibit 11: Freight costs/mt remain elevated



Source: Centrum Broking, Company Data

2QFY24 con call KTAs

Demand: Cement demand in south esp. Andhra and Telangana is expected to improve by 9-10% in FY24. While the 1H demand growth was higher at ~12-14%, elections in Telangana may lead to some softening in demand in 2H. Odisha and MP is expected to grow in high single digit.

Volume guidance: The Company has reduced its FY24 volume guidance to 6.2mn mt from 6.4mn mt on account of Telangana elections. Expect 1.75mn mt volumes in 3QFY24.

Cement pricing: Pricing change since exit prices of September - Hyderabad - +Rs35/bag; Vizag – +Rs35-40/bag; Bangalaoe - +Rs20/bag; Chennai - +Rs40/bag; Solapur - +Rs20/bag; East - +Rs35 (from August); Indore - +Rs15/bag.

EBITDA guidance: The management has maintained its guidance of Rs4bn EBITDA in FY24. As a result, SGC expects Rs800/mt EBITDA in 2HFY24 driven by better pricing and operating leverage driven cost decline.

Debt: Current gross debt stands at Rs15.3bn and cash is Rs1.5bn. Peak debt is expected to be Rs15bn only.

Andhra cement: Andhra cement plants operated at 22% utilizations. The management expects volumes of 0.75mn mt in FY24 and 1.2-1.5 mn mt in FY25. The capex plan at Andhra cement is deferred and the board has not yet given approval for this capex. Profitability of Andhra cement was higher as clinker production was higher compared to cement production. SGC owns 95% in Andhra cement at the moment. As per listing rules, the management needs to pare down the holding to 90% in first 12 months and 75% in 3 years. The company plans to do it through equity fund raise instead of share sale.

Incentives – MP government has approved the incentive eligibility of the company and total of Rs1.5bn will be accrued as incentives for MP plant over 7 year period.

Other:

- Clinker utilisation in the quarter was 65%.
- Trade Share at 65%. Non-trade slightly increasing due to govt. ramping up projects before elections.
- Green share for the quarter was 27%.

Exhibit 12: Key changes to our estimates and assumptions

YE Mar (Rs mn)	FY24E	FY24E	% chg	FY25E	FY25E	% chg
	New	Old		New	Old	
Revenue	29,637	29,339	1.0	34,122	34,161	-0.1
EBITDA	3,858	3,819	1.0	4,719	4,780	-1.3
EBITDA margin	13.0	13.0	(0) bps	13.8	14.0	(16) bps
Adj. PAT	296	1,388	-78.7	1,059	1,996	-46.9
Diluted EPS (Rs)	2.3	10.6	-78.7	8.1	15.3	-46.9

YE Mar	FY24E	FY24E	% chg	FY25E	FY25E	% chg
	New	Old		New	Old	
Volumes (mn mt)	6.3	6.3	-	7.0	7.2	-3.1
Realization (Rs/mt)	4,733	4,686	1.0	4,859	4,713	3.1
Operating exp/mt	4,117	4,076	1.0	4,187	4,053	3.3
EBITDA/mt	616	610	1.0	672	660	1.9

Source: Centrum Broking, Company Data; Note: We have now added estimates of recently acquired Andhra cements in our assumptions

Exhibit 13: Valuation summary

Particulars	(Rs mn)
Sep 25E EBITDA	5,234
Target multiple (x)	8.0
Enterprise value	41,876
Less: Net debt	8,487
Equity value	33,388
No of shares (mn)	130.7
Target price (Rs)	255

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	15,969	22,295	29,637	34,122	38,144
Operating Expense	10,196	17,046	21,192	24,243	26,710
Employee cost	856	993	1,122	1,240	1,367
Others	2,160	2,725	3,466	3,919	4,318
EBITDA	2,758	1,532	3,858	4,719	5,750
Depreciation & Amortisation	927	1,558	1,867	2,044	2,100
EBIT	1,831	(26)	1,991	2,675	3,650
Interest expenses	925	2,016	1,740	1,414	1,210
Other income	134	547	150	170	200
PBT	1,040	(1,495)	400	1,431	2,640
Taxes	449	43	104	372	686
Effective tax rate (%)	43.1	2.9	26.0	26.0	26.0
PAT	592	(1,538)	296	1,059	1,954
Minority/Associates	0	0	0	0	0
Recurring PAT	592	(1,538)	296	1,059	1,954
Extraordinary items	0	1,680	0	0	0
Reported PAT	592	142	296	1,059	1,954

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	16.4	39.6	32.9	15.1	11.8
EBITDA	(31.1)	(44.5)	151.9	22.3	21.9
Adj. EPS	(68.1)	nm	nm	257.5	84.5
Margins (%)					
Gross	85.9	81.1	82.5	82.5	82.7
EBITDA	17.3	6.9	13.0	13.8	15.1
EBIT	11.5	(0.1)	6.7	7.8	9.6
Adjusted PAT	3.7	0.6	1.0	3.1	5.1
Returns (%)					
ROE	4.8	(10.6)	1.8	6.3	10.6
ROCE	4.6	1.7	4.6	5.7	7.5
ROIC	3.7	(0.1)	4.1	5.5	7.3
Turnover (days)					
Gross block turnover ratio (x)	0.6	0.5	0.7	0.8	0.8
Debtors	25	21	23	27	27
Inventory	270	207	202	199	203
Creditors	364	229	305	366	367
Net working capital	78	50	29	32	41
Solvency (x)					
Net debt-equity	1.0	0.7	1.0	0.9	0.7
Interest coverage ratio	3.0	0.8	2.2	3.3	4.8
Net debt/EBITDA	4.9	8.2	4.4	3.4	2.6
Per share (Rs)					
Adjusted EPS	5.0	(11.8)	2.3	8.1	14.9
BVPS	106.8	125.3	124.9	133.5	148.8
CEPS	12.9	0.1	16.5	23.7	31.0
DPS	0.5	0.7	0.8	1.0	1.2
Dividend payout (%)	9.9	64.6	37.1	12.4	8.1
Valuation (x)					
P/E	51.3	nm	113.9	31.8	17.3
P/BV	2.4	2.1	2.1	1.9	1.7
EV/EBITDA	20.0	19.8	15.6	10.9	8.3
Dividend yield (%)	0.2	0.3	0.3	0.4	0.5

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	235	261	261	261	261
Reserves & surplus	12,319	16,114	16,063	17,191	19,191
Shareholders fund	12,554	16,375	16,325	17,452	19,452
Minority Interest	540	514	514	514	514
Total debt	15,034	14,721	19,721	19,221	18,721
Non Current Liabilities	813	1,044	891	922	945
Def tax liab. (net)	977	1,083	1,320	1,220	1,320
Total liabilities	29,918	33,737	38,772	39,330	40,953
Gross block	26,832	41,919	43,169	44,419	46,269
Less: acc. Depreciation	(6,900)	(14,519)	(10,275)	(11,775)	(13,414)
Net block	19,931	27,400	32,895	32,645	32,855
Capital WIP	1,005	992	1,200	1,100	1,000
Net fixed assets	21,486	28,926	34,629	34,279	34,389
Non Current Assets	1,859	1,775	1,827	2,020	2,232
Investments	3,147	0	0	0	0
Inventories	2,086	2,709	3,042	3,469	3,854
Sundry debtors	1,203	1,332	2,325	2,682	3,010
Cash & Cash Equivalents	1,627	2,105	2,767	3,201	4,027
Loans & advances	0	5	0	0	0
Other current assets	2,236	1,380	1,639	2,015	2,218
Trade payables	2,210	3,088	5,569	6,420	6,825
Other current liab.	1,485	1,363	1,845	1,873	1,909
Provisions	31	44	44	44	44
Net current assets	3,426	3,036	2,316	3,031	4,331
Total assets	29,918	33,737	38,772	39,330	40,953

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	1,040	185	400	1,431	2,640
Depreciation & Amortisation	927	1,558	1,867	2,044	2,100
Net Interest	925	2,016	1,740	1,414	1,210
Net Change – WC	(2,532)	854	1,383	(281)	(474)
Direct taxes	(449)	(43)	(104)	(372)	(686)
Net cash from operations	(88)	4,570	5,286	4,236	4,789
Capital expenditure	(4,000)	(8,998)	(7,570)	(1,694)	(2,210)
Acquisitions, net	0	0	0	0	0
Investments	0	0	0	0	0
Others	(3,608)	3,231	(52)	(193)	(212)
Net cash from investing	(7,609)	(5,767)	(7,622)	(1,887)	(2,422)
FCF	(4,089)	(4,428)	(2,284)	2,542	2,579
Issue of share capital	0	26	0	0	0
Increase/(decrease) in debt	7,632	(312)	5,000	(500)	(500)
Dividend paid	(59)	(92)	(110)	(132)	(158)
Interest paid	(925)	(2,016)	(1,740)	(1,414)	(1,210)
Others	134	4,069	(153)	132	327
Net cash from financing	6,782	1,675	2,997	(1,914)	(1,541)
Net change in Cash	(915)	478	662	434	826

Source: Company, Centrum Broking

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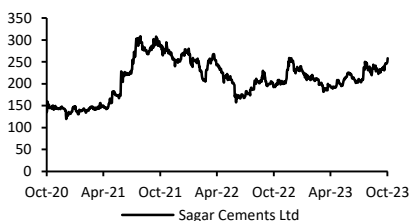
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Sagar Cements



Source: Bloomberg

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