

# Retail Equity Research

## Sagar Cements Limited

Cement

BSE CODE: 502090

NSE CODE: SAGCEM

Bloomberg CODE: SGC:IN

SENSEX: 64,364

**Accumulate**

12 Months Investment Period Rating as per Small Cap  
CMP Rs. 244 TARGET Rs. 274 RETURN 12% ↑  
(Closing: 03-11-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Ramp up in capacities and price hike to aid margins.

Sagar Cements Limited (SCL), established in 1985, is a south India based cement manufacturer with a capacity of ~10.5MT (South-8.1MT, Central-1MT, East-1.5MT). SCL has a total captive power capacity of 66.85MW.

- We maintain our Accumulate rating with a target price of Rs. 274, considering the expected improvement in utilisation and margin.
- Q2FY24 revenue grew by 24%YoY, mainly due to volume improvement (27%YoY) aided by new capacities.
- Higher utilization and lower input prices supported operating profit to increase to Rs.60cr vs. Rs. 6cr YoY.
- Net loss narrowed to Rs.11cr vs. Rs.42cr YoY. Margin improvement to continue in the coming quarters owing to better volume growth from the new capacities and the recent price hike.
- Newly acquired, Andhra Cement's grinding unit (2.25MT) was operationalized in April, while clearance of land monetization of 107 acres (part of the acquisition) is expected to be completed in ~15 months (Rs.4 crore per acre).
- SCL has guided for an EBITDA/ton of Rs.800 for FY24 (Rs.314 in FY23). We expect revenue/PAT to grow at a 22%/120% CAGR over FY23-25E and value SCL on SoTP basis, with cement business at ~9x FY25E EV/EBITDA.

### Strong revenue growth aided by ramp up in new capacities.

Q2FY24 revenue growth improved by 24%YoY, mainly due to volume growth of 27% aided by new capacities while realisation declined by 2.5%YoY. The capacity utilization of the new units, Jeerabad was at 65%, while Jajpur was at 26% and the recently acquired Andhra Cement utilization was at 22%. The company expects the utilization of these new capacities will further improve in the H2FY24 and targets total sales volume of ~6.2Mn ton (+29%YoY) in FY24. We expect revenue to grow at a 22% CAGR over FY23-25E.

### Lower fuel prices and ramp up in new capacities aided margins.

Operating profit improved to Rs.60cr compared to Rs.6cr in YoY quarter as EBITDA margin improved to 10% from ~1% YoY. The margin improvement was mainly due to the reduction in fuel costs along with ramp up in the newly acquired capacities. EBITDA/ton improved to Rs. 459 (vs. Rs. 55 YoY, Rs. 258 QoQ). Total expenses/ton declined by 11%YoY, while realisation declined by 2.5%YoY. Pet coke average prices for Q2FY24 have declined by ~39% YoY. The fuel prices have been witnessing some upward trend recently. However, the company expects margins to improve further in 2HFY24 mainly on account of the operating leverage from the ramp up in the new capacities including Andhra cement along with the recent price hikes in the operating regions. We expect EBITDA margin to improve to ~13%/16% 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's capacity expansion, coupled with the healthy demand outlook given strong GoI focus on Infra & Housing and pre-election spending, will aid future volume growth. The gross debt is Rs.15.3bn (net debt at Rs.13.8bn) and Debt/Equity is 1.0x. Ramping up of new capacities along with higher realisation will aid further margin improvement. We value SCL on SoTP basis, with cement business at ~9x FY25E EV/EBITDA, to arrive at a Target of Rs. 274, maintain Accumulate rating.

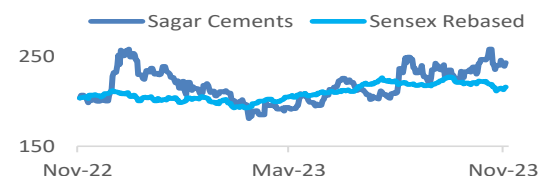
#### Company Data

Market Cap (Rs.cr)	3,202
Enterprise Value (Rs.cr)	4,470
Outstanding Shares (cr)	13.1
Free Float	34%
Dividend Yield	0.3%
52 week high (Rs.)	270
52 week low (Rs.)	180
6m average volume (Lakhs)	2.3
Beta	1.0
Face value Rs.	2

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	45.2	45.2	48.3
FII's	3.9	3.0	2.6
MFs/Insti	19.1	19.6	18.8
Public	7.0	7.2	8.1
Others	24.8	25.1	22.2
Total	100.0	100.0	100.0
Promoter encumbrance (%)	84.7	84.8	79.3

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.7%	26.7%	19.3%
Absolute Sensex	-1.9%	5.6%	6.0%
Relative Return*	4.7%	21.1%	13.4%

\*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	2,228	2,854	3,339
Growth (%)	39.5	28.1	17.0
EBITDA	151	379	527
EBITDA Margin (%)	6.8	13.3	15.8
Adj. PAT	26	10	132
Growth (%)	-61.0	-60.6	1167.5
Adj. EPS	2.5	0.8	10.1
Growth (%)	-65.0	-60.6	1167.5
P/E	121.1	307.6	24.3
P/B	2.0	2.0	1.8
EV/EBITDA	29.6	12.3	8.9
ROE (%)	1.8	0.6	7.8
D/E	0.9	1.0	0.9

Vincent Andrews  
Research Analyst

## Quarterly Financials (Consolidated)

### Profit & Loss

Rs (cr)	Q2FY24	Q2FY23	YoY Growth	Q1FY24	QoQ Growth	H1FY24	H1FY23	YoY Growth
<b>Sales</b>	587	475	23.7%	540	8.7%	1,126	1,032	9.1%
<b>EBITDA</b>	60	6	954.6%	30	97.6%	91	67	35.9%
EBITDA margins %	10.3%	1.2%	910bps	5.6%	460bps	8.1%	6.5%	160bps
Depreciation	51	38	35.1%	50	3.4%	101	75	35.4%
<b>EBIT</b>	9	-32	-127.8%	-19	-146.9%	-10	-8	30.6%
Interest	47	50	-6.9%	44	7.2%	90	98	-8.0%
Other Income	3	15	-81.6%	4	-29.9%	7	27	-75.7%
Exceptional Items	15	0	0.0%	0	0.0%	15	0	0.0%
<b>PBT</b>	-20	-68	-69.9%	-59	-65.5%	-79	-79	0.6%
Tax	-10	-18	-46.7%	-17	-41.2%	-26	-16	60.6%
Share of profit from associates	0	0	NA	0	NA	0	0	NA
Minority interest	0	-7	NA	0	NA	0	-13	NA
<b>Reported PAT</b>	-11	-42	-75.1%	-42	-75.1%	-53	-49	6.7%
Adjustments	0	0	0.0%	0	0.0%	0	0	0.0%
<b>Adj PAT</b>	-11	-42	-75.1%	-42	-75.1%	-53	-49	6.7%
No. of Shares	13	12	11.2%	13	0.0%	13	13	0.0%
<b>Adj EPS (Rs)</b>	-0.8	-3.2	-75.1%	-3.2	-75.1%	-4.0	-3.8	6.7%

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	2,797	3,232	2,854	3,339	2.0%	3.3%
EBITDA	364	491	379	527	4.2%	7.3%
Margins	13.0%	15.2%	13.3%	15.8%	30bps	60bps
Adj. PAT *	3	110	10	132	247.0%	20.0%
EPS	0	8	1	10	298.2%	20.2%

### Per Tonne Analysis

	Q2FY24	Q2FY23	YoY Growth	Q1FY24	QoQ Growth
<b>Cement Volume (MT)</b>	1.31	1.03	26.8%	1.18	11.3%
Cost of materials consumed	578	689	-16.1%	847	-31.8%
Employee Expenses	228	222	2.7%	228	0.0%
Power & Fuel	1,823	2,200	-17.1%	1,774	2.8%
Freight & forwarding	851	798	6.6%	862	-1.3%
Other expenses	532	622	-14.4%	605	-12.1%
Total expenses	4,012	4,530	-11.4%	4,317	-7.1%
Realisation (inc. RMC)	4,471	4,585	-2.5%	4,575	-2.3%
EBITDA	459	55	731.6%	258	77.6%

### Sum of the parts (SOTP) valuation

Particulars	Basis	Base	Multiple	Value (Rs. cr.)	Value per share
Cement business	25E EV/EBIT	527	9	4741	
Less: Net Debt				1508	
				3233	247
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
<b>Total</b>					274



## PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>1,175</b>	<b>1,371</b>	<b>1,597</b>	<b>2,228</b>	<b>2,854</b>	<b>3,339</b>
% change	-3.5	16.7	16.5	39.5	28.1	17.0
<b>EBITDA</b>	<b>185</b>	<b>401</b>	<b>276</b>	<b>151</b>	<b>379</b>	<b>527</b>
% change	24.7	116.1	-31.1	-45.2	150.6	38.9
Depreciation	79	82	93	156	202	209
<b>EBIT</b>	<b>106</b>	<b>319</b>	<b>183</b>	<b>-4</b>	<b>178</b>	<b>318</b>
Interest	61	47	92	202	176	136
Other Income	3	7	12	222	20	27
<b>PBT</b>	<b>48</b>	<b>279</b>	<b>103</b>	<b>16</b>	<b>22</b>	<b>208</b>
% change	119.0	476.1	-63.2	-84.5	39.8	837.7
Tax	23	95	45	10	8	71
Tax Rate	47.8%	33.9%	43.7%	62.8%	34.0%	34.0%
<b>Reported PAT</b>	<b>27</b>	<b>187</b>	<b>69</b>	<b>29</b>	<b>10</b>	<b>132</b>
Adj*	1	1	1	3	0	0
<b>Adj PAT</b>	<b>26</b>	<b>185</b>	<b>68</b>	<b>26</b>	<b>10</b>	<b>132</b>
% change	103.7	625.8	-63.3	-61.0	-60.6	1,167.5
No. of shares (cr)	11.1	11.8	11.8	13.1	13.1	13.1
<b>Adj EPS (Rs.)</b>	<b>2.6</b>	<b>15.9</b>	<b>5.9</b>	<b>2.5</b>	<b>0.8</b>	<b>10.1</b>
% change	86.5	588.0	-63.3	-65.0	-60.6	1167.5
DPS (Rs.)	1	1	1	1	1	1
CEPS (Rs.)	9.4	22.7	13.7	13.9	16.2	26.1

## CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Net inc. + Depn.</b>	<b>106</b>	<b>268</b>	<b>162</b>	<b>185</b>	<b>212</b>	<b>341</b>
Non-cash adj.	-10	3	9	-3	0	0
Other adjustments	73	101	86	-26	180	142
Changes in W.C	31	5	-170	20	-225	-135
<b>C.F. Operation</b>	<b>201</b>	<b>377</b>	<b>88</b>	<b>175</b>	<b>167</b>	<b>347</b>
Capital exp.	-228	-461	-361	-118	-190	-230
Change in inv.	-4	1	-427	183	0	0
Other invest.CF	5	-16	4	157	0	0
<b>C.F - Investment</b>	<b>-227</b>	<b>-476</b>	<b>-784</b>	<b>222</b>	<b>-190</b>	<b>-230</b>
Issue of equity	103	67	11	350	0	0
Issue/repay debt	-24	317	685	-521	100	50
Dividends paid	-6	-15	-6	-9	-11	-11
Other finance.CF	-62	-47	-75	-185	-176	-136
<b>C.F - Finance</b>	<b>10</b>	<b>322</b>	<b>615</b>	<b>-366</b>	<b>-87</b>	<b>-97</b>
Chg. in cash	-16	223	-81	32	-110	20
Closing cash	3	225	143	175	65	85

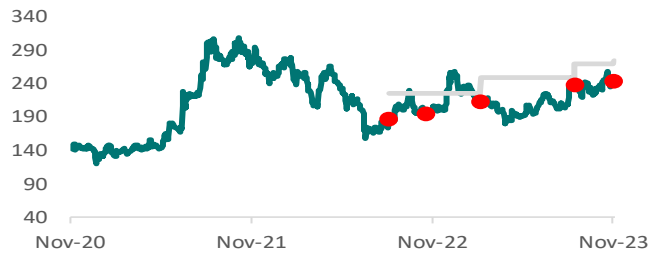
## BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	13	254	163	210	101	121
Accounts Receivable	145	110	131	147	235	256
Inventories	116	124	209	279	285	358
Other Cur. Assets	60	153	259	168	314	368
Investments	0	0	315	0	0	0
Gross Fixed Assets	1,715	1,735	2,565	4,072	4,331	4,561
Net Fixed Assets	1,283	1,202	1,951	2,699	2,756	2,777
CWIP	108	517	101	99	30	30
Intangible Assets	101	99	97	95	95	95
Def. Tax (Net)	106	1	15	288	288	288
Other Assets	204	178	219	211	354	414
<b>Total Assets</b>	<b>2,135</b>	<b>2,639</b>	<b>3,460</b>	<b>4,196</b>	<b>4,457</b>	<b>4,706</b>
Current Liabilities	377	461	418	501	607	646
Provisions	58	50	56	63	94	110
Debt Funds	442	755	1,511	1,479	1,579	1,629
Other Liabilities	290	181	220	516	541	565
Equity Capital	22	24	24	26	26	26
Reserves & Surplus	922	1,167	1,232	1,611	1,611	1,732
Shareholder's Fund	967	1,191	1,255	1,637	1,637	1,758
<b>Total Liabilities</b>	<b>2,135</b>	<b>2,639</b>	<b>3,460</b>	<b>4,196</b>	<b>4,457</b>	<b>4,706</b>
<b>BVPS (Rs.)</b>	<b>79</b>	<b>96</b>	<b>102</b>	<b>121</b>	<b>121</b>	<b>130</b>

## RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Profitab. &amp; Return</b>						
EBITDA margin (%)	15.8	29.2	17.3	6.8	13.3	15.8
EBIT margin (%)	9.1	23.3	11.4	-0.2	6.2	9.5
Net profit mgn.(%)	2.2	13.5	4.3	1.2	0.4	4.0
ROE (%)	2.9	17.3	5.6	1.8	0.6	7.8
ROCE (%)	3.2	8.8	3.8	2.9	3.9	5.4
<b>W.C &amp; Liquidity</b>						
Receivables (days)	41.3	33.9	27.6	22.8	24.4	26.8
Inventory (days)	40.5	32.0	38.0	39.9	36.0	35.1
Payables (days)	372.5	372.7	384.8	247.6	303.2	248.6
Current ratio (x)	0.6	1.1	1.0	1.0	1.1	1.3
Quick ratio (x)	0.3	0.6	0.4	0.4	0.4	0.4
<b>Turnover &amp; Leverage</b>						
Gross asset T.O (x)	0.7	0.8	0.7	0.7	0.7	0.8
Total asset T.O (x)	0.6	0.6	0.5	0.6	0.7	0.7
Int. coverage ratio (x)	1.7	6.9	2.0	0.0	1.0	2.3
Adj. debt/equity (x)	0.5	0.7	1.2	0.9	1.0	0.9
<b>Valuation</b>						
EV/Sales (x)	2.5	2.5	2.5	2.0	1.6	1.4
EV/EBITDA (x)	16.1	8.6	14.2	29.6	12.3	8.9
P/E (x)	107.0	15.6	42.4	121.1	307.6	24.3
P/BV (x)	2.9	2.4	2.3	2.0	2.0	1.8

## 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

## 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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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