

Retail Equity Research

Sagar Cements Ltd.

Cement

BSE CODE: 502090

NSE CODE: SAGCEM

Bloomberg CODE: SGC:IN

SENSEX: 74,382

BUY

12 Months Investment Period Rating as per Small Cap
CMP Rs. 214 TARGET Rs. 258 RETURN 20% ↑
(Closing: 05-06-24)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Healthy volumes and lower input prices 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 maintain our BUY rating with a target price of Rs 258, factoring in healthy volume and margins.
- Q4FY24 revenue grew by 14%YoY, aided by healthy volume improvement (19%YoY). However, realization dropped by 4%YoY.
- Lower fuel prices, along with healthy volumes, aided operating profit to increase by 75% YoY. EBITDA margin improved by 340bps YoY to 9.6%.
- Cement prices are expected to improve post monsoon. This along with reduction in fuel prices, will aid margin improvement further.
- Clearance of land monetization of 107 acres (part of the Andhra Cements acquisition) is expected to be completed by the end of FY25 (Rs.4 crore/acre). SCL also expects ~Rs.210cr incentive from the government over a period of ~7years for its Jeerabad plant (MP) starting from Q2FY25.
- Expect revenue/EBITDA to grow at a 13%/44% CAGR over FY24-26E and value SCL on SOTP basis, with cement business at ~8.5x FY26E EV/EBITDA.

Healthy volumes drive revenue growth amidst falling prices.

Q4FY24 revenue grew by 14%YoY, aided by volume growth of 19% YoY. This was supported by ramp up in new capacities. The capacity utilization of the new units improved, Jeerabad was at 82%, Jajpur was at 35% and Andhra Cement was at 40%. However, realization dropped by 4% YoY due to a slowdown in demand on account of the general election and more specifically state election in Andhra Pradesh. The company has revised the volume guidance for FY25 from 7MT to 6.5MT. Revenue is expected to grow at a 13% CAGR over FY24-26E supported by a ramp up in new capacities, including Andhra acquisition.

Lower input and fuel prices aids margins.

Operating profit rose by 75%YoY as EBITDA margin improved to 9.6% from ~6.3% YoY. Total expenses/ton declined by ~7%YoY, while realisation dropped by 4%YoY. Power & fuel expenses (40% of total expenses) reduced by 14%YoY. EBITDA/ton improved to Rs. 423 vs. Rs. 287 YoY. Higher EBITDA/ton was influenced partly by improved cost management and fuel cost savings, as well as operating leverage. The company's investments aimed at increasing the share of green energy and WHRS capacity in the overall mix, along with the deployment of electric trucks and wheel loaders will improve margins in the future. Expect an improvement of Rs. 100 in EBITDA/ton in Q1FY25 vs Q4FY24, majority of which will be from power & fuel because fuel prices are trending down. We expect EBITDA margin to improve to ~14%/16% in FY25E/FY26E (Vs ~10%/7% in FY24/FY23). Adverse price movements in cement, fuel and RM prices are the key risks.

Valuation & Outlook

SCL is currently undertaking a capex of ~Rs.5bn over FY25-26. However, SCL expects the net debt to remain at Rs. 13bn and Debt/Equity at 0.7x. The healthy demand outlook along with SCL's consistent focus on lowering costs and improving operational efficiencies will aid growth and margins. We reiterate our BUY rating and value SCL on SOTP basis, with cement business at ~8.5x FY26E EV/EBITDA, to arrive at a revised target price of Rs. 258.

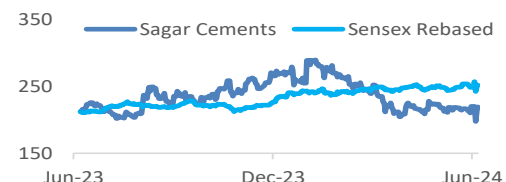
Company Data

Market Cap (Rs.cr)	2,797
Enterprise Value (Rs.cr)	3,997
Outstanding Shares (cr)	13.1
Free Float	21%
Dividend Yield	0.3%
52 week high (Rs.)	305
52 week low (Rs.)	191
6m average volume (Lakhs)	3.9
Beta	1.0
Face value Rs.	2

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	48.3	48.3	48.3
FII's	2.6	2.8	2.7
MFs/Insti	18.8	17.1	17.3
Public	8.1	9.0	9.6
Others	22.2	22.8	22.1
Total	100.0	100.0	100.0
Promoter encumbrance (%)	84.8	79.3	79.9

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-6.8%	-18.6%	3.2%
Absolute Sensex	1.1%	7.3%	18.6%
Relative Return*	-7.8%	-25.8%	-15.4%

*over or under performance to benchmark index



Consolidated (cr)	FY24	FY25E	FY26E
Sales	2,505	2,932	3,211
Growth (%)	12.4	17.1	9.5
EBITDA	246	414	511
EBITDA Margin (%)	9.8	14.1	15.9
Adj. PAT	-43	26	86
Growth (%)	-262.5	160.6	231.7
Adj. EPS	-3.3	2.0	6.6
Growth (%)	-262.5	160.6	231.7
P/E	-65.1	107.3	32.3
P/B	1.4	1.4	1.4
EV/EBITDA	16.3	10.2	8.0
ROE (%)	-2.4	1.3	4.3
D/E	0.8	0.7	0.7

Vincent K A
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr)	Q4FY24	Q4FY23	YoY Growth	Q3FY24	QoQ Growth	FY24	FY23	YoY Growth
Sales	709	622	14.0%	669	5.9%	2,505	2,230	12.3%
EBITDA	68	39	75.3%	87	-21.7%	246	153	60.5%
EBITDA margins	9.6%	6.3%	340bps	13.0%	-340bps	9.8%	6.9%	290bps
Depreciation	56	42	35.0%	57	-0.8%	213	156	37.0%
EBIT	12	-3	-548.0%	31	-60.5%	32	-3	-1351.7%
Interest	45	52	-12.4%	49	-6.9%	185	202	-8.3%
Other Income	44	181	-75.8%	4	1072.7%	54	223	-75.7%
Exceptional Items	0	0	0.0%	0	0.0%	15	0	0.0%
PBT	10	126	-91.9%	-15	-170.5%	-83	18	-553.1%
Tax	-1	28	-104.5%	-4	-68.5%	-32	10	-419.2%
Share of profit from associates	0	0	NA	0	NA	0	0	NA
Minority interest	0	-3	NA	0	NA	0	-15	NA
Reported PAT	12	100	-88.5%	-11	-210.3%	-52	24	-316.9%
Adjustments	0	0	0.0%	0	0.0%	0	0	0.0%
Adj PAT	12	100	-88.5%	-11	-210.3%	-52	24	-316.9%
No. of Shares	13	12	11.2%	13	0.0%	13	13	0.0%
Adj EPS (Rs)	0.9	7.7	-88.5%	-0.8	-210.3%	-4.0	1.8	-316.9%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	3,176	3,506	2,932	3,211	-7.7%	-8.4%
EBITDA	467	555	414	511	-11.3%	-7.9%
Margins	14.7%	15.8%	14.1%	15.9%	-60bps	10bps
Adj. PAT	78	133	26	86	-66.6%	-35.0%
EPS	6	10	2	7	-66.2%	-35.1%

Per Tonne Analysis

	Q4FY24	Q4FY23	YoY Growth	Q3FY24	QoQ Growth
Cement Volume (MT)	1.61	1.36	18.7%	1.41	14.4%
Cost of materials consumed	795	916	-13.2%	766	3.8%
Employee Expenses	190	191	-0.1%	213	-10.5%
Power & Fuel	1,578	1,783	-11.5%	1,774	-11.1%
Freight & forwarding	852	834	2.1%	864	-1.4%
Other expenses	564	572	-1.5%	523	7.8%
Total expenses	3,979	4,297	-7.4%	4,139	-3.9%
Realisation (inc. RMC)	4,402	4,584	-4.0%	4,758	-7.5%
EBITDA	423	287	47.7%	619	-31.6%

Sum of the parts (SOTP) valuation

Particulars	Basis	Base	Multiple	Value (Rs. cr.)	Value per share
Cement business	FY26E EV/EBITDA	511	8.5	4,347	
Less: Net Debt				1,316	
				3,032	232
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					258



PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	1,371	1,597	2,228	2,505	2,932	3,211
% change	16.7	16.5	39.5	12.4	17.1	9.5
EBITDA	401	276	151	246	414	511
% change	116.1	-31.1	-45.2	62.5	68.5	23.4
Depreciation	82	93	156	213	225	239
EBIT	319	183	-4	32	189	272
Interest	47	92	202	185	168	159
Other Income	7	12	222	54	25	26
PBT	279	103	16	-84	46	139
% change	476.1	-63.2	-84.5	-625.8	-154.9	202.1
Tax	95	45	10	-32	15	47
Tax Rate	33.9%	43.7%	62.8%	38.1%	33.0%	34.0%
Reported PAT	187	69	29	-43	26	86
Adj	1	1	3	0	0	0
Adj PAT	185	68	26	-43	26	86
% change	625.8	-63.3	-61.0	-262.5	160.6	231.7
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	2.0	6.6
% change	588.0	-63.3	-65.0	-262.5	160.6	231.7
DPS (Rs.)	1	1	1	1	1	1
CEPS (Rs.)	22.7	13.7	13.9	13.0	19.2	24.9

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Net inc. + Depn.	268	162	185	170	251	326
Non-cash adj.	3	9	-3	-33	0	0
Other adjustments	101	86	-26	121	173	164
Changes in W.C	5	-170	20	154	-87	47
C.F. Operation	377	88	175	400	337	537
Capital exp.	-461	-361	-118	-226	-375	-265
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	-375	-265
Issue of equity	67	11	350	0	0	0
Issue/repay debt	317	685	-521	-29	0	-25
Dividends paid	-15	-6	-9	-9	-11	-11
Other finance.CF	-47	-75	-185	-176	-168	-159
C.F - Finance	322	615	-366	-221	-179	-195
Chg. in cash	223	-81	32	-8	-217	76
Closing cash	225	143	175	167	-50	26

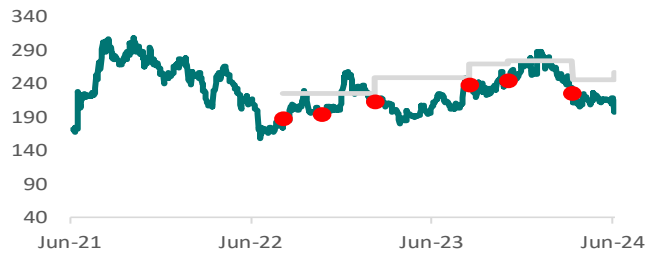
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Cash	254	163	210	262	45	121
Accounts Receivable	110	131	147	208	225	246
Inventories	124	209	279	308	354	362
Other Cur. Assets	153	259	168	85	129	167
Investments	0	315	0	0	0	0
Gross Fixed Assets	1,735	2,565	4,072	4,710	5,070	5,325
Net Fixed Assets	1,202	1,951	2,699	3,123	3,258	3,274
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	10	11
Total Assets	2,639	3,460	4,196	4,356	4,319	4,490
Current Liabilities	461	418	501	632	557	667
Provisions	50	56	63	12	16	18
Debt Funds	755	1,511	1,479	1,462	1,462	1,437
Other Liabilities	181	220	516	310	328	337
Equity Capital	24	24	26	26	26	26
Reserves & Surplus	1,167	1,232	1,611	1,915	1,930	2,006
Shareholder's Fund	1,191	1,255	1,637	1,941	1,956	2,032
Total Liabilities	2,639	3,460	4,196	4,356	4,319	4,490
BVPS (Rs.)	96	102	121	142	143	149

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24	FY25E	FY26E
Profitab. & Return						
EBITDA margin (%)	29.2	17.3	6.8	9.8	14.1	15.9
EBIT margin (%)	23.3	11.4	-0.2	1.3	6.5	8.5
Net profit mgn.(%)	13.5	4.3	1.2	-1.7	0.9	2.7
ROE (%)	17.3	5.6	1.8	-2.4	1.3	4.3
ROCE (%)	8.8	3.8	2.9	2.7	3.8	4.7
W.C & Liquidity						
Receivables (days)	33.9	27.6	22.8	25.9	26.9	26.8
Inventory (days)	32.0	38.0	39.9	42.7	41.2	40.7
Payables (days)	372.7	384.8	247.6	379.6	323.5	297.8
Current ratio (x)	1.1	1.0	1.0	0.9	0.8	0.9
Quick ratio (x)	0.6	0.4	0.4	0.5	0.3	0.4
Turnover & Leverage						
Gross asset T.O (x)	0.8	0.7	0.7	0.6	0.6	0.6
Total asset T.O (x)	0.6	0.5	0.6	0.6	0.7	0.7
Int. coverage ratio (x)	6.9	2.0	0.0	0.2	1.1	1.7
Adj. debt/equity (x)	0.7	1.2	0.9	0.8	0.7	0.7
Valuation						
EV/Sales (x)	2.2	2.2	1.8	1.6	1.4	1.3
EV/EBITDA (x)	7.7	12.9	26.9	16.3	10.2	8.0
P/E (x)	13.6	37.0	105.8	-65.1	107.3	32.3
P/BV (x)	2.1	2.0	1.7	1.4	1.4	1.4

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
31-Oct-22	Hold	219
09-Feb-23	Accumulate	249
28-Aug-23	Accumulate	260
06-Nov-23	Accumulate	274
18-Mar-24	Buy	246
06-June-24	Buy	258

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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