

## Sagar Cements

### Depressed realizations continue to hurt margins

Sagar Cements (SGC) reported numbers ahead of our estimates but depressed realizations in its core markets continued to hurt margins as EBITDA/mt came in at Rs273, which is one of the lowest in our coverage universe. Better-than-expected EBITDA is largely due to lower-than-expected costs, which at Rs3,813/mt declined by 8% YoY, driven by lower P&F costs. While demand growth, which has been languishing in south, has picked up in recent weeks. But, realizations continue to be depressed, resulting in extremely weak margins. SGC has reported losses at the PAT level for 10 out of the past 12 quarters and hence higher realizations are eagerly awaited. We have maintained our estimates on SGC. We are building in EBITDA/mt of Rs718 for SGC in FY27. Maintain ADD rating.

#### Q3FY25 result summary

Revenue at Rs5.6bn declined by 16% YoY but was 3% above our estimate. Volume came in at 1.38mn mt and was down 2% YoY but 3% above our estimate. Realization was flattish QoQ at Rs4,086/mt and in line with estimate. Absolute EBITDA exceeded our expectation by 32% as largely all operating expenses reported a decline, except employee costs. Employee costs were elevated in Q3FY25 due to annual appraisals during Q3FY25. The company reported a loss of Rs545mn vs a loss of Rs146mn last year. Utilization during the quarter stood at 53%.

#### Awaiting price hikes in AP and Telangana

State elections in Telangana and AP followed by general elections have taken a toll on government spending in southern states. Given the weak financial profile of both AP and Telangana, pick-up in spending has been slower than anticipated. As a result of weak demand and increased supply, cement prices have remained depressed in AP and Telangana. South as a whole remains one of the weakest regions in terms of pricing growth and volatility in profitability as swings in cement prices is likely to result in uncertainty about price recovery in the region.

#### Utilization expected to remain subdued

SGC is currently operating at 53% utilization levels as ramp-up of recently acquired Andhra Cement assets remains slow. While we expect utilizations to improve to 61% by FY27, it still remains below all-India average, leading to lower operating leverage.

#### Valuation and outlook

SGC remains exposed to the volatility of cement prices in the fragmented southern market, posing risks of oversupply and reduced utilization rates. We are building in impressive 12%/32% CAGR over FY24-FY27 for SGC from a weak base. Overall, we expect EBITDA to grow from Rs2.5bn in FY24 to Rs5.6bn in FY27. We value SGC at 8x FY27E EV/EBITDA to arrive at our target price of Rs227. We maintain our ADD rating.

#### Financial and valuation summary

YE Mar (Rs mn)	3QFY25A	3QFY24A	YoY (%)	2QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	5,639	6,694	(15.8)	4,751	18.7	23,726	29,277	35,177
EBITDA	375	871	(56.9)	199	88.2	2,198	4,070	5,637
EBITDA margin (%)	6.7	13.0	(48.9)	4.2	58.5	9.3	13.9	16.0
Adj. Net profit	(546)	(105)	420.0	(570)	(4.2)	(1,240)	126	1,359
Adj. EPS (Rs)	(4.2)	(0.8)	420.0	(4.4)	(4.2)	(9.5)	1.0	10.4
EPS growth (%)						25.3	nm	978.7
PE (x)						nm	205.4	19.0
EV/EBITDA (x)						18.5	10.0	7.4
PBV (x)						1.4	1.4	1.3
RoE (%)						(6.6)	0.7	7.3
RoCE (%)						0.3	4.1	7.1

Source: Company, Centrum Broking

Result Update

India I Cement

27 January, 2025

ADD

Price: Rs198

Target Price: Rs227

Forecast return: 15%

Institutional Research

#### Market Data

Bloomberg:	SGC IN
52 week H/L:	278/194
Market cap:	Rs25.9bn
Shares Outstanding:	130.7mn
Free float:	40.1%
Avg. daily vol. 3mth:	90,250
Source:	Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EBITDA:	Unchanged
Source:	Centrum Broking

#### Shareholding pattern

	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	48.3	48.3	48.3	48.3
FIIIs	2.6	2.6	2.6	2.7
DIIIs	17.9	17.5	17.1	17.3
Public/other	31.2	31.6	32.0	31.7

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY25	Actual Q3FY25	Variance (%)
Revenue	5,471	5,639	3.1
EBITDA	284	376	32.4
EBITDA margin (%)	5.2	6.7	148 bps
Adj PAT	-529	-545	NA
EPS (Rs)	-4.0	-4.2	NA

Source: Bloomberg, Centrum Broking



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Cement

# Thesis Snapshot

## Star Cement versus Nifty Midcap 100

	1m	6m	1 year
STRCEM IN	(12.6)	(16.9)	(26.5)
Nifty Midcap 100	(9.1)	(10.3)	9.7

Source: Bloomberg, NSE

## Key assumptions

Y/E Mar (Rs/mn)	FY25E	FY26E	FY27E
Capacity (mn mt)	11.7	12.9	12.9
Volumes (mn mt)	5.6	6.7	7.9
Realizations (Rs/mt)	4,270	4,399	4,478
Operating expense (Rs/mt)	3,875	3,787	3,760
EBITDA/mt (Rs/mt)	396	612	718
Capex	-3,453	-2,300	-3,000
Net Debt	14,762	14,655	15,777

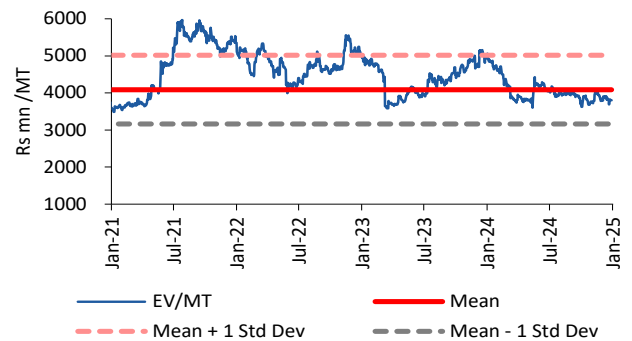
Source: Centrum Broking

## Valuation

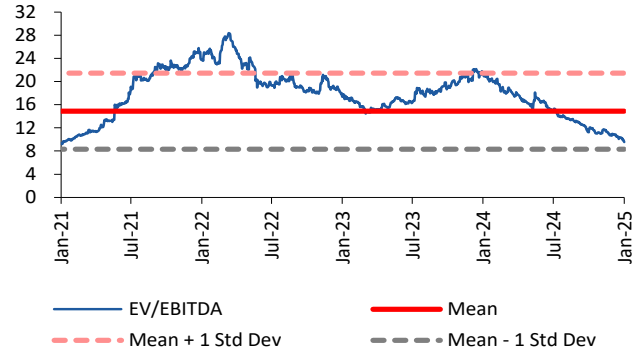
We are building in 12%/32% CAGR in Revenue/EBITDA for SGC over FY24-FY27E. We value SGC at 8x FY27E EV/EBITDA to arrive at our target price of Rs227.

Valuation	Rs/share
FY27E EBITDA	5,637
Target multiple (x)	8.0
Enterprise value	45,094
Less: Net debt and CWIP	15,377
Equity value	29,717
No of shares (mn)	130.7
<b>Target Price (Rs)</b>	<b>227</b>

### EV / MT mean and standard deviation



### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

## Peer Comparison

Company	Mkt Cap (Rs bn)	CAGR (FY24-27E)			EV/EBITDA (x)			EV/mt (US\$)			FY26E	
		Sales	EBITDA	EPS	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	RoE (%)	ROCE (%)
ACC	375	5.4%	12.2%	1.7%	11.5	9.3	7.7	99.0	94.4	88.9	11%	15%
Ambuja Cement	1,318	13.3%	22.9%	17.2%	24.7	16.3	14.0	185.9	166.6	155.0	8%	10%
Birla Corporation	88	3.5%	9.4%	18.2%	9.5	6.5	5.7	72.6	62.7	53.5	8%	9%
Heidelberg Cement	51	2.3%	15.9%	25.3%	16.1	10.3	8.9	90.1	87.8	84.5	19%	20%
JK Cement	370	10.0%	16.0%	19.3%	25.1	15.7	13.3	210.3	168.4	166.2	19%	13%
JK Lakshmi Cement	97	5.2%	12.5%	12.5%	13.6	8.6	7.5	76.2	67.0	60.3	16%	13%
Nuvoco Vistas	123	5.1%	8.7%	60.5%	10.3	7.7	6.5	76.1	71.1	65.5	5%	8%
<b>Sagar Cements</b>	<b>26</b>	<b>12.0%</b>	<b>31.9%</b>	<b>NA</b>	<b>18.5</b>	<b>10.0</b>	<b>7.4</b>	<b>43.5</b>	<b>43.4</b>	<b>44.6</b>	<b>1%</b>	<b>6%</b>
Shree Cements	907	7.3%	13.9%	13.0%	22.1	15.6	13.6	164.3	149.0	147.2	12%	19%
Star Cements	87	12.9%	17.6%	15.1%	15.2	11.2	9.4	126.8	126.1	124.0	12%	18%
The Ramco	208	6.3%	13.3%	25.0%	17.2	13.0	11.3	133.0	124.3	121.7	8%	9%
Ultratech Cements	3,312	11.2%	19.0%	23.1%	25.8	18.3	15.5	246.0	229.4	210.8	16%	16%

Source: Company, Centrum Broking

**Exhibit 1: Q3FY25 result summary**

Y/E March (Rs mm)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	YoY (%)
<b>Net Sales</b>	<b>6,694</b>	<b>4,751</b>	<b>5,639</b>	<b>(15.8)</b>	<b>18.7</b>	17,959	15,996	<b>(10.9)</b>
Expenditure								
Chg. in stock	(125)	166	(23)	NA	NA	(637)	44	NA
RM consumption	1,177	876	1,035	(12.1)	18.1	3,331	2,984	(10.4)
Purchase of traded goods	26	18	9	(64.1)	(47.2)	141	58	(59.3)
Employee costs	299	307	376	25.6	22.4	866	987	13.9
Freight Costs	1,215	967	1,150	(5.4)	18.9	3,350	3,200	(4.5)
Power and fuel	2,496	1,547	2,005	(19.7)	29.6	6,982	5,595	(19.9)
Other exp	736	670	712	(3.3)	6.2	2,148	2,085	(2.9)
Operating Expenses	5,824	4,552	5,262	(9.6)	15.6	16,181	14,953	(7.6)
<b>EBITDA</b>	<b>871</b>	<b>199</b>	<b>376</b>	<b>(56.8)</b>	<b>88.9</b>	<b>1,778</b>	<b>1,043</b>	<b>(41.3)</b>
<b>EBITDA Margin (%)</b>	<b>13.0%</b>	<b>4.2%</b>	<b>6.7%</b>	<b>(633)bps</b>	<b>248bps</b>	<b>9.9%</b>	<b>6.5%</b>	<b>(338)bps</b>
Other Income	37	48	48	29.0	(0.6)	104	180	72.9
Interest Costs	489	464	481	(1.6)	3.6	1,393	1,408	1.1
Depreciation	565	576	586	3.7	1.8	1,577	1,724	9.3
PBT	(146)	(792)	(642)	NA	NA	(1,089)	(1,910)	NA
Tax	(41)	(222)	(98)	NA	NA	(305)	(474)	NA
Exceptional Items	0	0	0	-	-	148	-	-
<b>Reported PAT</b>	<b>(105)</b>	<b>(570)</b>	<b>(545)</b>	<b>NA</b>	<b>NA</b>	<b>(636)</b>	<b>(1,436)</b>	<b>NA</b>
<b>Adjusted PAT</b>	<b>(146)</b>	<b>(570)</b>	<b>(545)</b>	<b>NA</b>	<b>NA</b>	<b>(1,237)</b>	<b>(1,910)</b>	<b>NA</b>
<b>NPM(%)</b>	<b>-1.6%</b>	<b>-12.0%</b>	<b>-9.7%</b>	<b>NA</b>	<b>NA</b>	<b>-6.9%</b>	<b>-11.9%</b>	<b>NA</b>
<b>EPS (Rs.)</b>	<b>(1.1)</b>	<b>(4.4)</b>	<b>(4.2)</b>	<b>NA</b>	<b>NA</b>	<b>(9.5)</b>	<b>(14.6)</b>	<b>NA</b>

Source: Centrum Broking, Company Data

**Exhibit 2: Operational Data**

Operational Data	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	YoY (%)
Volume (mn mt)	1.4	1.2	1.4	(1.9)	18.9	3.9	3.8	(1.9)
Cement Realisation (Rs/mt)	4,757	4,093	4,086	(14.1)	(0.2)	4,606	4,183	(9.2)
Operating Costs (Rs/mt)	4,138	3,921	3,813	(7.9)	(2.7)	4,150	3,910	(5.8)
EBITDA (Rs/mt)	619	172	273	(55.9)	58.9	456	273	(40.2)

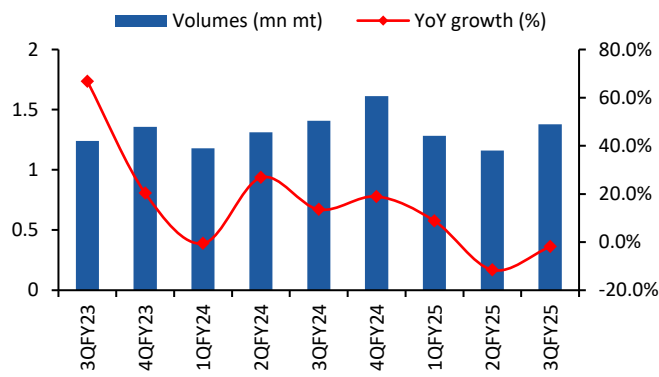
Source: Centrum Broking, Company Data

**Exhibit 3: Trend in operating costs/mt**

Costs/mt (Rs)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	YoY (%)	QoQ (%)
RM consumption	1,022	916	847	578	766	793	783	913	740	(3.4)	(19.0)
Employee cost	203	190	228	228	213	190	237	265	272	28.0	2.9
Freight, packing etc	794	834	862	851	864	850	844	833	833	(3.6)	(0.0)
Power and fuel	1,690	1,782	1,774	1,823	1,773	1,574	1,592	1,333	1,453	(18.1)	9.0
Other exp	552	572	605	532	523	563	548	577	516	(1.4)	(10.7)
<b>Operating costs/mt</b>	<b>4,261</b>	<b>4,294</b>	<b>4,316</b>	<b>4,012</b>	<b>4,138</b>	<b>3,969</b>	<b>4,005</b>	<b>3,921</b>	<b>3,813</b>	<b>(7.9)</b>	<b>(2.7)</b>
<b>EBITDA/mt</b>	<b>384</b>	<b>286</b>	<b>259</b>	<b>459</b>	<b>619</b>	<b>422</b>	<b>364</b>	<b>172</b>	<b>273</b>	<b>(55.9)</b>	<b>58.9</b>

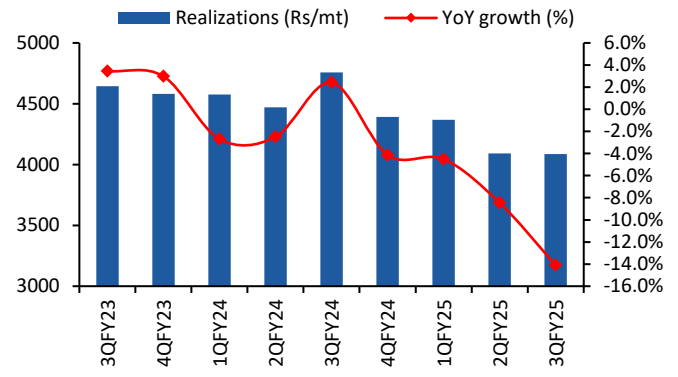
Source: Centrum Broking, Company Data

**Exhibit 4: Volume down 1.9% YoY**



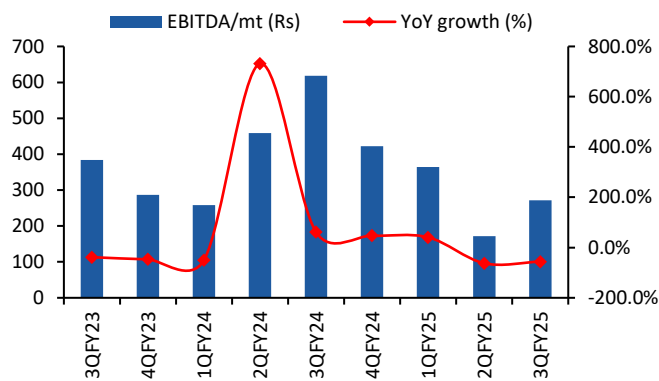
Source: Centrum Broking, Company Data

**Exhibit 5: Realization down 0.2% QoQ**



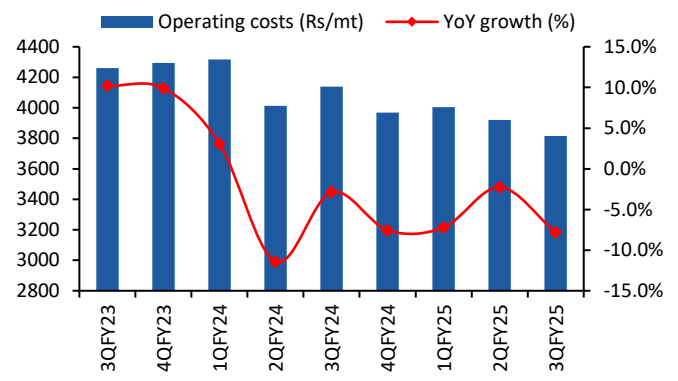
Source: Centrum Broking, Company Data

**Exhibit 6: EBITDA/mt at Rs273**



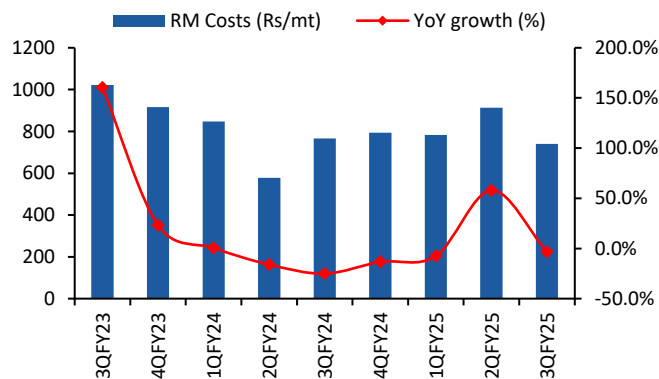
Source: Centrum Broking, Company Data

**Exhibit 7: Operating costs down 7.9% YoY**



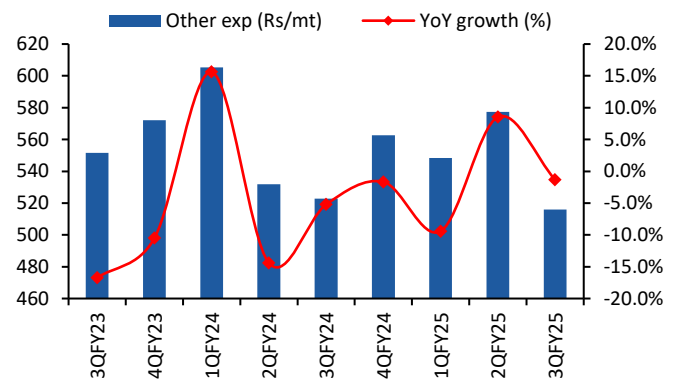
Source: Centrum Broking, Company Data

**Exhibit 8: RM costs down 3.4% YoY**



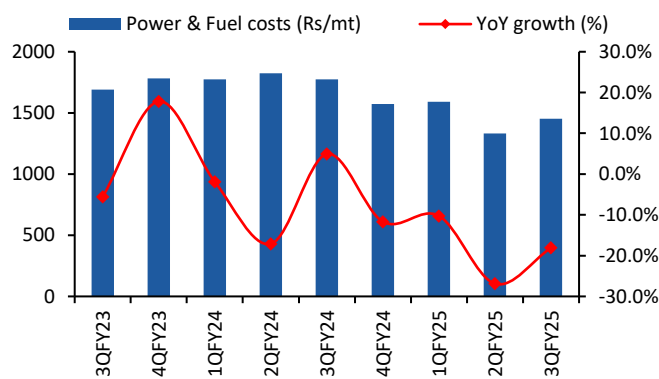
Source: Centrum Broking, Company Data

**Exhibit 9: Other expenses down 1.4% YoY**



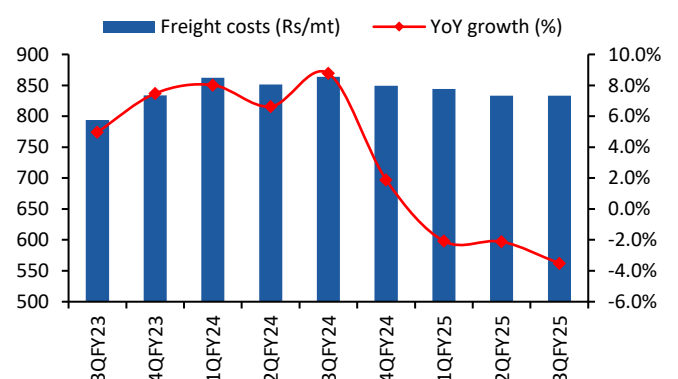
Source: Centrum Broking, Company Data

**Exhibit 10: Power & Fuel costs down 18.1% YoY**



Source: Centrum Broking, Company Data

**Exhibit 11: Freight costs down 3.6% YoY**



Source: Centrum Broking, Company Data

## Q3FY25 conference call highlights

**Demand-** Early signs of recovery as demand picked up in the latter part of the quarter. January has shown robust demand and expects the momentum to continue.

**Volume-** Reported 1.9% volume decline YoY; expects FY25 volume to be similar to FY24 at 5.5MTPA while FY26 volume is pegged at 6.4-6.5MTPA.

**Pricing-** Prices are expected to rise post Q1FY26 as companies focus on increasing volume to meet year-end targets.

**Costs-** All operating expenses declined YoY, except employee costs, which rose due to annual appraisals. In Q4FY25, EBITDA/T is likely to improve by Rs200-300 due to operating efficiency and better utilization. The internal target is to achieve an EBITDA/T of Rs500.

**Capex-** 9MFY25 – Rs880mn; Rs2.41bn of capex to be spent in 1.5 years, mostly in Andhra Cements. Vizag land sale - Two approvals received and cabinet approval is likely in Q1FY26.

**Others-** Commissioned 6MW Solar Power plant at Gudipadu. Also received approvals for implementation of 6MW Solar Power plant at Dachepalli.

Gross debt- Rs14.6bn and long term debt- Rs11.2bn while the rest is working capital. Bank debt at 10.5% interest rate.

On Andra Cements- It is expected to achieve breakeven by the end of next year. Ongoing upgrades to its old assets are anticipated to improve utilization, ultimately driving the company towards breakeven.

### Exhibit 12: Valuation summary

Particulars	(Rs mn)
FY27E EBITDA	5,637
Target multiple (x)	8.0
Enterprise value	45,094
Less: Net debt and CWIP	15,377
Equity value	29,717
No of shares (mn)	130.7
<b>Target Price (Rs)</b>	<b>227</b>

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Revenues</b>	<b>22,295</b>	<b>25,046</b>	<b>23,726</b>	<b>29,277</b>	<b>35,177</b>
Operating Expense	17,046	18,358	17,249	20,324	24,021
Employee cost	993	1,173	1,247	1,322	1,402
Others	2,725	3,056	3,032	3,560	4,118
<b>EBITDA</b>	<b>1,532</b>	<b>2,459</b>	<b>2,198</b>	<b>4,070</b>	<b>5,637</b>
Depreciation & Amortisation	1,558	2,141	2,298	2,350	2,400
<b>EBIT</b>	<b>(26)</b>	<b>318</b>	<b>(100)</b>	<b>1,720</b>	<b>3,237</b>
Interest expenses	2,016	1,848	1,838	1,750	1,600
Other income	547	222	261	200	200
<b>PBT</b>	<b>(1,495)</b>	<b>(1,308)</b>	<b>(1,676)</b>	<b>170</b>	<b>1,837</b>
Taxes	89	(318)	(436)	44	478
Effective tax rate (%)	5.9	24.3	26.0	26.0	26.0
<b>PAT</b>	<b>(1,584)</b>	<b>(990)</b>	<b>(1,240)</b>	<b>126</b>	<b>1,359</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>(1,584)</b>	<b>(990)</b>	<b>(1,240)</b>	<b>126</b>	<b>1,359</b>
Extraordinary items	1,680	467	0	0	0
<b>Reported PAT</b>	<b>96</b>	<b>(523)</b>	<b>(1,240)</b>	<b>126</b>	<b>1,359</b>

Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Growth (%)</b>					
Revenue	39.6	12.3	(5.3)	23.4	20.2
EBITDA	(44.5)	60.5	(10.6)	85.2	38.5
Adj. EPS	nm	(37.5)	25.3	nm	978.7
<b>Margins (%)</b>					
Gross	81.1	83.6	79.0	80.0	80.7
EBITDA	6.9	9.8	9.3	13.9	16.0
EBIT	(0.1)	1.3	(0.4)	5.9	9.2
Adjusted PAT	0.4	(2.1)	(5.2)	0.4	3.9
<b>Returns (%)</b>					
ROE	(9.7)	(5.0)	(6.6)	0.7	7.3
ROCE	1.5	1.2	0.3	4.1	7.1
ROIC	(0.1)	0.7	(0.2)	3.6	6.6
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	0.5	0.5	0.5	0.5	0.6
Debtors	21	25	28	22	23
Inventory	207	257	213	191	200
Creditors	229	367	344	294	309
Net working capital	50	31	18	9	6
<b>Solvency (x)</b>					
Net debt-equity	0.6	0.6	0.8	0.8	0.8
Interest coverage ratio	0.8	1.3	1.2	2.3	3.5
Net debt/EBITDA	8.2	4.8	6.7	3.6	2.8
<b>Per share (Rs)</b>					
Adjusted EPS	(12.1)	(7.6)	(9.5)	1.0	10.4
BVPS	152.6	148.5	138.2	138.1	147.3
CEPS	(0.2)	8.8	8.1	18.9	28.8
DPS	0.7	0.7	0.8	1.0	1.2
Dividend payout (%)	95.2	nm	nm	104.6	11.6
<b>Valuation (x)</b>					
P/E	nm	nm	nm	205.4	19.0
P/BV	1.3	1.3	1.4	1.4	1.3
EV/EBITDA	25.1	15.3	18.5	10.0	7.4
Dividend yield (%)	0.4	0.4	0.4	0.5	0.6

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	261	261	261	261	261
Reserves & surplus	19,685	19,151	17,801	17,795	18,996
Shareholders fund	19,946	19,412	18,062	18,057	19,258
Minority Interest	702	785	785	785	785
Total debt	14,721	14,390	16,390	15,890	16,890
Non Current Liabilities	1,044	1,369	921	944	16
Def tax liab. (net)	1,036	1,080	1,220	1,320	500
<b>Total liabilities</b>	<b>37,449</b>	<b>37,036</b>	<b>37,379</b>	<b>36,996</b>	<b>37,449</b>
Gross block	45,919	48,789	51,289	54,289	57,289
Less: acc. Depreciation	(15,663)	(17,663)	(19,960)	(22,310)	(24,710)
Net block	30,257	31,126	31,328	31,978	32,578
Capital WIP	992	147	1,100	400	400
Net fixed assets	31,783	31,793	32,949	32,899	33,499
Non Current Assets	2,634	3,148	3,255	3,366	3,396
Investments	0	0	0	0	0
Inventories	2,709	3,075	2,740	3,381	4,062
Sundry debtors	1,332	2,077	1,615	1,993	2,394
Cash & Cash Equivalents	2,105	2,621	1,628	1,235	1,114
Loans & advances	5	9	0	0	0
Other current assets	1,235	839	839	839	839
Trade payables	3,088	5,183	4,225	5,214	6,264
Other current liab.	1,221	1,289	1,366	1,448	1,535
Provisions	44	55	55	55	55
Net current assets	3,033	2,095	1,175	731	555
<b>Total assets</b>	<b>37,449</b>	<b>37,036</b>	<b>37,379</b>	<b>36,996</b>	<b>37,449</b>

Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	185	(841)	(1,676)	170	1,837
Depreciation & Amortisation	1,558	2,141	2,298	2,350	2,400
Net Interest	2,016	1,848	1,838	1,750	1,600
Net Change – WC	858	1,444	(74)	52	55
Direct taxes	(89)	318	436	(44)	(478)
<b>Net cash from operations</b>	<b>4,528</b>	<b>4,910</b>	<b>2,822</b>	<b>4,278</b>	<b>5,414</b>
Capital expenditure	(11,855)	(2,152)	(3,453)	(2,300)	(3,000)
Acquisitions, net	0	0	0	0	0
Investments	0	0	0	0	0
Others	2,373	(514)	(107)	(111)	(30)
<b>Net cash from investing</b>	<b>(9,482)</b>	<b>(2,666)</b>	<b>(3,560)</b>	<b>(2,411)</b>	<b>(3,030)</b>
<b>FCF</b>	<b>(7,327)</b>	<b>2,758</b>	<b>(631)</b>	<b>1,978</b>	<b>2,414</b>
Issue of share capital	26	0	0	0	0
Increase/(decrease) in debt	(312)	(331)	2,000	(500)	1,000
Dividend paid	(92)	(92)	(110)	(132)	(158)
Interest paid	(2,016)	(1,848)	(1,838)	(1,750)	(1,600)
Others	7,826	543	(307)	122	(1,747)
<b>Net cash from financing</b>	<b>5,432</b>	<b>(1,728)</b>	<b>(254)</b>	<b>(2,259)</b>	<b>(2,506)</b>
Net change in Cash	478	516	(993)	(393)	(122)

Source: Company, Centrum Broking

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**Star Cement**



Source: Bloomberg



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