

January 28, 2024

RESULT REPORT Q3 FY24 | Sector: Cement

Sagar Cements

Operating leverage a catalyst for turnaround

Result Synopsis

Sagar Cements (SGC) reported double-digit growth for revenue +16% y/y and EBITDA 83% y/y aided by +14% y/y volume and +2% y/y NSR growth coupled with eased total cost of 3% y/y in Q3FY24. EBITDA missed by 21% translating to Rs619/te (v/s YSECe Rs750/te) as power cost/te reduced lesser than our expectation. SGC continued to report net loss of Rs77mn in Q3FY24 v/s Rs220mn in Q3FY23 due to higher depreciation and interest outgo. However, the rising operating profit has reduced net loss from Rs423mn in Q2FY23 to Rs 77mn in this quarter.

Due of lower operating leverage and sluggish govt demand, management stripped its volume & EBITDA guidance to 5.6MT & Rs550/te for FY24E v/s 6.2MT & Rs650/te earlier. Therefore, we trimmed our Revenue & EBITDA estimate by 10% & 14%, which will result in net loss of Rs520mn (earlier YSECe +Rs372mn) for FY24E due to higher depreciation and interest outgo. Moreover, we have cut our FY25/26E revenue estimate by 11/9% and EBITDA by 17/13% as the expansion timelines delayed to FY26 end. We believe SGC to witness volume growth of ~15% CAGR over FY24-26E on account of increasing utilization of ACL/Jajpur assets. However, a stable pricing environment in the east & south will be vital for our estimates. Improved operating leverage to aid SGC to generate healthy cashflow, which should fund ongoing capex and deleverage B/S (guidance Net Cash by FY28E) which should rerate the stock. At CMP, the company trades at 11/9x EV/EBITDA and \$58/50 EV/tonne on FY25/26E. We valued the stock at 10x EV/EBITDA (\$58 EV/te) and arriving at TP of Rs323/share with BUY rating on FY26 estimate.

Result Highlights

- Improved utilization of ACL and Jeerabad capacity resulted in +14% y/y volume growth to 1.41MTPA (YSECe 1.46MTPA), though volumes were affected by state elections and labor shortages during the festive season.
- In Q3FY24, NSR increased by +2% y/y coupled with healthy volume, drives +16% y/y revenue growth to Rs6.7bn (v/s YSECe Rs6.8bn).
- Total cost declined by 3% y/y (5% above YSECe) aided by eased power & other cost/te by 12/5% y/y in Q3FY24.
- EBITDA grew by +83% y/y and +45% q/q to Rs871mn, translating to Rs619/te (+61% y/y), which is 18% below YSECe due to higher-than-expected power cost.
- EBITDA margin improved from 10.3% in Q2FY24 to 13% in Q3FY24 against 8.3% in Q3FY23 and management guided to improve in Q4FY24 with better utilization.
- In Q3FY24, the company reports a net loss of Rs77mn as compared to a net loss of Rs232mn in Q3FY23 on account of higher interest outgo.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	6,694	6,833	6,044	(2.0)	10.8	Higher than power cost led EBITDA miss followed to be net loss
EBITDA	871	1,095	1,031	(20.5)	(15.6)	
Margin (%)	13.0	16.0	17.1	-302 bps	-405 bps	
Adj. PAT	(77)	137	(58)	NA	NA	

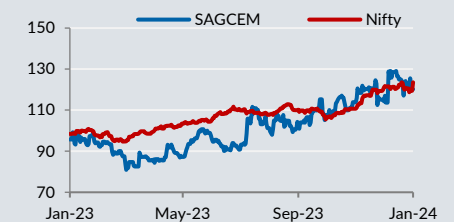
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 269
Target Price	: Rs 323
Potential Return	: +20%

Stock data (as on Jan 25, 2024)

Nifty	21,353
52 Week h/l (Rs)	305 / 180
Market cap (Rs/USD mn)	35200 / 424
Outstanding Shares (mn)	131
6m Avg t/o (Rs mn):	89
Div yield (%):	0.3
Bloomberg code:	SGC IN
NSE code:	SAGCEM

Stock performance



	1M	3M	1Y
Absolute return	5.2%	11.8%	25.6%

Shareholding pattern (As of Dec'23 end)

Promoter	48.3%
FII+DII	19.9%
Others	31.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	323	315

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	-4.0	4.4
EPS (Old)	2.8	13.2
% Change	-239%	-66%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	26,036	30,784	34,812
Growth	16.8	18.2	13.1
EBITDA	3,133	4,547	5,514
Margin	12.0	14.8	15.8
Adj PAT	(518)	578	1,138
Growth	(278.5)	(211.4)	97.1
EPS	(4.0)	4.4	8.7
ND/EBITDA	4.3	2.8	2.7
ROE	(3.3)	3.6	6.6
ROCE	3.6	8.5	10.3
EV/EBITDA	15.6	10.6	9.1

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Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	y/y (%)	q/q (%)	FY23	FY22	y/y (%)
Net Revenue	5,757	6,215	5,397	5,868	6,694	16.3	14.1	22,295	15,969	39.6
Total Expenses	5,282	5,827	5,092	5,266	5,824	10.3	10.6	20,764	13,211	57.2
COGS	1,267	1,243	999	759	1,078	(15.0)	42.1	4,222	2,253	87.4
Employee Expenses	251	258	268	299	299	19.1	0.2	993	856	16.1
Power & fuel	2,095	2,418	2,093	2,393	2,496	19.1	4.3	8,935	5,157	73.3
Freight Exp	984	1,131	1,017	1,117	1,215	23.5	8.8	3,889	2,786	39.6
Other Expenses	684	776	714	698	736	7.6	5.4	2,725	2,160	26.2
EBITDA	476	389	305	602	871	83.0	44.6	1,532	2,758	(44.5)
EBITDA (%)	8.3	6.3	5.6	10.3	13.0	474 bps	274 bps	6.9	17.3	-1040 bps
D&A	397	416	496	513	562	41.6	9.7	1,558	927	68.0
Other Income	143	1,810	39	27	37	(73.9)	36.1	2,227	134	1,559.5
Interest Expense	514	519	437	468	489	(4.9)	4.4	2,016	925	118.0
Exceptional/EO items	-	-	-	(148)	-	NA	NA	-	-	-
Share JV/Associates	-	-	-	-	-	NA	NA	-	-	-
EBT	(292)	1,264	(589)	(203)	(143)	NA	NA	185	1,040	(82.2)
Tax	(20)	285	(166)	(98)	(41)	NA	NA	100	449	(77.8)
Reported PAT	(272)	980	(422)	(105)	(102)	NA	NA	85	591	(85.6)
Less: Minority Interest	(52)	(26)	(26)	(21)	(24)	NA	NA	(205)	(100)	105.4
Adj. PAT	(220)	1,005	(397)	(232)	(77)	NA	NA	290	691	(58.0)

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis (Console)

Particulars (Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	y/y (%)	q/q (%)	FY23	FY22	y/y (%)
Total Volumes (MMT)	1.24	1.36	1.18	1.31	1.41	13.5	7.2	4.82	3.60	33.7
NSR/te (Blended)	4,645	4,581	4,575	4,471	4,757	2.4	6.4	4,628	4,431	4.4
RM/te	798	880	910	904	855	7.2	(5.4)	826	761	8.5
Employees/te	203	190	228	228	213	5.0	(6.5)	206	237	(13.1)
Power/te	1,915	1,818	1,712	1,498	1,684	(12.0)	12.5	1,905	1,296	47.1
Freight/te	794	834	862	851	864	8.8	1.5	807	773	4.4
Others/te	552	572	605	532	523	(5.2)	(1.7)	566	599	(5.6)
Opex/te (Blended)	4,261	4,294	4,317	4,012	4,138	(2.9)	3.2	4,310	3,666	17.6
EBITDA/te (Blended)	384	286	258	459	619	61.2	34.9	318	765	(58.4)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Volumes were affected by state elections, erratic rainfall, and festive season-led labor shortages.
- Management again revised its volume guidance to 5.6MT (earlier 6.2MT) for FY24E envisaging the muted demand from govt projects due to the upcoming general election.
- Jeerabad ramped up strongly to +80% (76% in Q3FY24), which will incentivize the company with Rs300mn for the next 6-7 years totaling Rs15bn.
 - The incentive is not linked with dispatches but needs to operate at a utilization level of 70%.
- While the utilization level of Jajpur assets increased to 69% in Q3FY24 as compared to 55% in Q2FY24 ACL operates at +55% of the utilization level in Q3FY24. Therefore, the increasing utilization level of ACL and Jajpur will bring incremental volume for the company.
- Management guided a volume of 7MT for FY25, of which ACL will contribute 0.9-1MT (earlier 1.25-1.5MT).
- In Q3FY24, the power cost remained elevated mainly due to the ACL's low operating leverage and use of high-cost inventories at ACL capacities.
- Management revised the EBITDA target to Rs3.1bn (earlier Rs4bn; Rs625/te) translating to Rs550/te for FY24.
 - In 9MFY24, company reported EBITDA of +Rs450/te (Rs1.77bn) and Rs620/te in Q3FY24.
 - In Q4FY24, Management expect EBITDA to improve by Rs150/te q/q, expecting NSR to remain same. Out of which Rs100/te is expected to come from eased fuel cost and Rs50/te from operating leverage from ACL.
- Jan'24 exit prices remained flat as compared to Sep'23 exit across the operating market.
- In 9MFY24, Company already spend ~Rs1450mn and will spend additional Rs150mn in Q4FY24.
- SGC's brownfield expansion in Gudipadu (0.5MTPA) & Jeerabad (0.25MTPA) is yet to start and will take total capacity to 12MTPA (incl. ACL expansion).
- For Andhra expansion, management guided CAPEX outlay of Rs4.7bn for 1.2MTPA of GU and 0.65MTPA of clinker capacity which will take 24 months for completion.
 - Out of which only Rs300mn will be spent for maintenance in FY24.
 - Overall capex spending will start in FY25, and commissioning will take another 24 months
- Management targets peak gross debt of Rs15bn and net debt of Rs12-13bn as expansion will be largely funded through equity of ACL and internal accruals.
 - Presently, management is seeking government clearance and signed with JLL as a consultant to monetize the land parcel (~107 acres Industrial area in Vizag City) and expected to take 5-6 months.
 - The discounted Vizag assets got 50% dismantled and by selling them company will realize ~Rs200mn
- Trade decline to 55% in Q3FY24 v/s 60% in Q2FY24, while C:C ratio was at 1.3x in Q3FY24.

Exhibit 4: Annual Operational Performance Estimates (Console)

Particulars (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total Volumes (MMT)	3.60	4.82	5.60	6.47	7.26
Utilization (%)	44%	58%	56%	64%	61%
Cement Realization/te	4,402	4,593	4,647	4,760	4,793
Net Realization/te (Blended)	4,431	4,628	4,647	4,760	4,793
RM/te	761	826	871	924	941
Power/te	1,296	1,905	1,536	1,400	1,400
Freight/te	773	807	828	803	833
Employees/te	237	206	209	232	247
Others/te	599	566	644	698	612
Opex/te (Blended)	3,666	4,310	4,088	4,057	4,034
EBITDA/te (Blended)	765	318	559	703	759

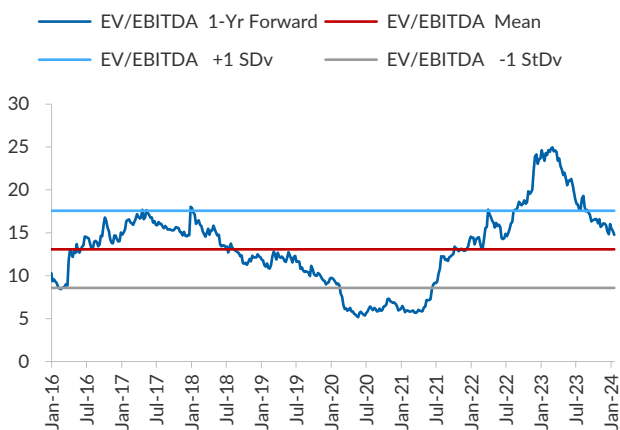
Source: Company, YES Sec

Exhibit 5: Key Estimate Revision (Console)

Y/e 31 Mar	FY24E			FY25E		
(Rs mn)	Old	New	Change	Old	New	Change
Revenues	28,850	26,036	-10%	34,763	30,784	-11%
EBITDA	3,643	3,133	-14%	5,455	4,547	-17%
PAT	372	(518)	-239%	1,723	578	-66%
EPS	2.8	(4.0)	-239%	13.2	4.4	-66%

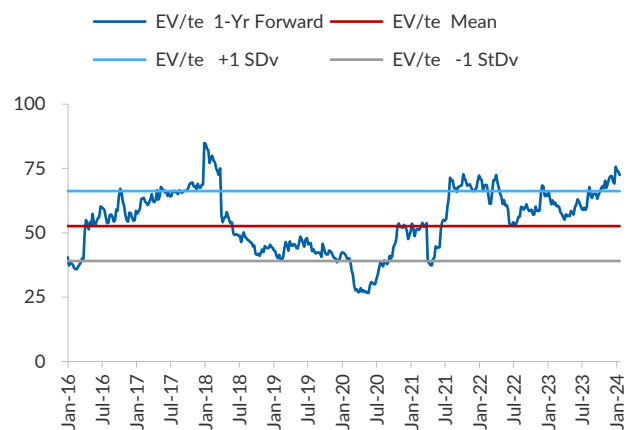
Source: Company, YES Sec

Exhibit 6: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 7: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet (Console)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	235	261	261	261	261
Reserves	12,319	16,114	15,504	15,990	17,037
Net worth	12,554	16,375	15,765	16,251	17,298
Other LT Liabilities	738	942	940	940	940
LT provision.	75	103	103	103	103
Minority interest	540	514	514	514	514
Long-term Borrowing	11,285	11,520	11,520	10,520	11,520
Deferred tax liabilities. (net)	977	1,083	1,083	1,083	1,083
Current Liabilities					
Trades Payables	2,210	3,088	2,728	2,982	3,364
Short-term Borrowing	3,748	3,202	3,513	3,774	4,107
Other current liabilities	1,485	1,363	1,363	1,363	1,363
Short Term Provision	31	44	44	44	44
Total Liabilities	33,643	38,233	37,572	37,573	40,335
Assets					
Total Net Block	19,931	27,400	25,558	24,806	27,660
CWIP & Other Assets	1,555	1,526	3,126	3,226	3,226
Investments	3,147	-	-	-	-
Other Non-current Asset	1,705	797	797	797	797
Deferred tax asset (net)	154	978	978	978	978
Current Assets					
Inventories	2,086	2,709	2,829	3,248	3,661
Trades Receivables	1,203	1,332	1,489	1,771	2,003
Other current assets	2,236	1,380	1,380	1,380	1,380
Short Term Loans & advances	-	5	5	5	5
Cash & Bank Balances	1,627	2,105	1,409	1,362	624
Total Assets	33,643	38,233	37,572	37,573	40,335

Source: Company, YES Sec

Exhibit 9: Income statement (Console)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	15,969	22,295	26,036	30,784	34,812
EBITDA	2,758	1,532	3,133	4,547	5,514
D&A	927	1,558	2,142	2,052	2,246
EBIT	1,831	(26)	991	2,495	3,268
Interest Expense	925	2,016	1,934	1,833	1,795
Other Income	134	2,227	169	200	226
Exceptional/EO items	-	-	-	-	-
EBT	1,040	185	(774)	862	1,699
Tax	449	100	(255)	284	561
Share of Profit/(Loss) in JV/Associates	-	-	-	-	-
Reported PAT	591	85	(518)	578	1,138
Less: Minority Interest	(100)	(205)	-	-	-
Adj. PAT	691	290	(518)	578	1,138

Source: Company, YES Sec

Exhibit 10: Cash Flow (Console)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Cash flow from operation	562	4,527	2,920	4,016	4,916
Profit before tax	1,140	390	(774)	862	1,699
Depreciation	927	1,558	2,142	2,052	2,246
Tax paid	(449)	(100)	255	(284)	(561)
Working capital Δ	(1,882)	868	(637)	(446)	(263)
Other operating items	825	1,811	1,934	1,833	1,795
Cash flow from Investing Activities	(4,739)	(8,914)	(1,900)	(1,400)	(5,100)
Capital expenditure	(4,224)	(8,998)	(1,900)	(1,400)	(5,100)
Change in other non-current assets	(515)	84	-	-	-
Free cash flow	(3,662)	(4,471)	1,020	2,616	(184)
Cash flow from Financing activities	3,262	4,865	(1,717)	(2,663)	(554)
Change in Equity & Reserves	146	3,827	-	(0)	0
Investments	(3,147)	3,147	-	-	-
Debt financing/disposal	6,969	(312)	311	(739)	1,333
Dividends paid	(1,016)	(2,108)	(2,025)	(1,924)	(1,887)
Other items	311	311	(2)	-	-
Net Δ in cash	(915)	478	(696)	(47)	(737)

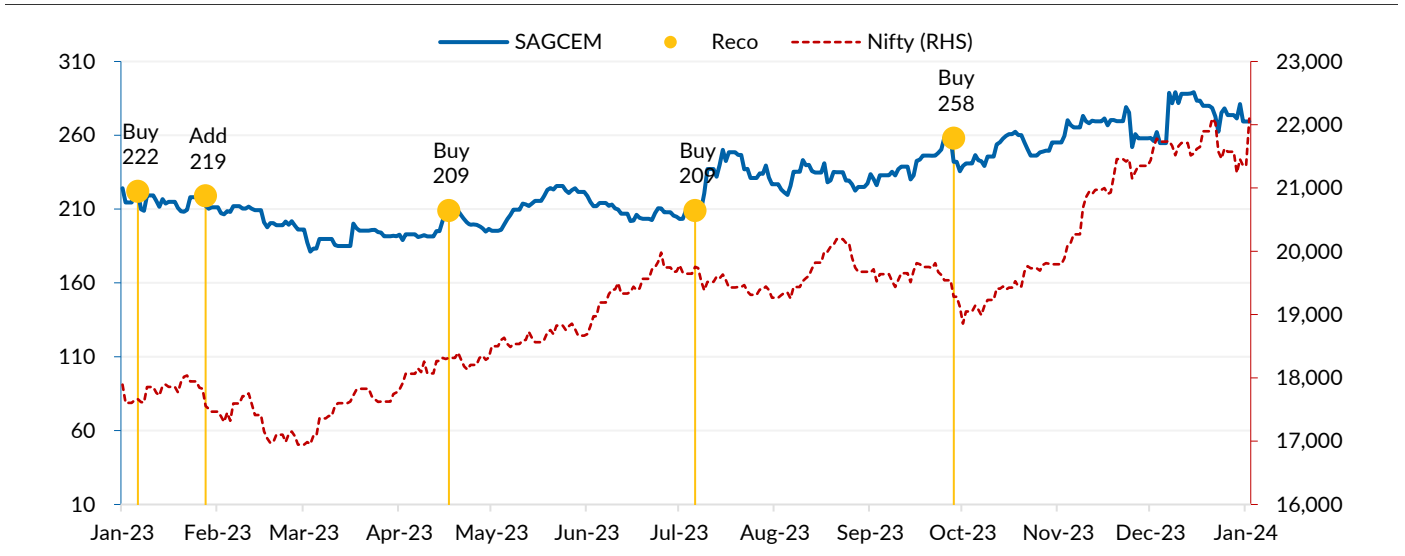
Source: Company, YES Sec

Exhibit 11: Ratio Analysis (Console)

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue	16.4	39.6	16.8	18.2	13.1
EBITDA	(31.1)	(44.5)	104.5	45.2	21.3
EBT	(63.0)	(82.2)	(518.9)	(211.4)	97.1
Adj. PAT	(62.8)	(58.0)	(278.5)	(211.4)	97.1
Reported EPS	(93.6)	(87.1)	(709.9)	(211.4)	97.1
Profitability ratios (%)					
EBITDA (%)	17.3	6.9	12.0	14.8	15.8
EBIT (%)	12.3	9.9	4.5	8.8	10.0
PAT (%)	3.7	0.4	(2.0)	1.9	3.3
ROCE	6.9	6.8	3.6	8.5	10.3
ROE	4.7	0.5	(3.3)	3.6	6.6
ROA	2.9	0.3	(1.9)	2.1	3.8
Per share ratios (Rs)					
EPS	5	1	(4)	4	9
DPS	1	1	1	1	1
Cash EPS	13	13	12	20	26
BVPS	107	125	121	124	132
Payout (%)					
Dividend payout	13.9	107.6	(17.6)	15.8	8.0
Tax payout	43.1	54.0	33.0	33.0	33.0
Liquidity ratios					
Inventory days	75	53	50	50	50
Payable days	78	57	57	57	57
Receivables days	25	21	21	21	21
Leverage ratios (x)					
Interest Coverage	2.1	1.1	0.6	1.5	1.9
Net D/E	0.8	0.8	0.9	0.8	0.9
Net Debt/EBITDA	4.9	8.2	4.3	2.8	2.7

Source: Company, YES Sec

Recommendation Tracker



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Name of the Research Analyst : Abhishek Lodhiya, Sonu Upadhyay

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

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