

Cost efficiency improves further...

Sagar cements reported healthy set of numbers with EBITDA growing 5x vs last year during Q3FY21, though it was down marginally by 0.3% on QoQ basis. Sales volume recorded double digit growth of 12.6% YoY to 0.86MT. Realisations also remained firm at ₹4229/t (up 23.2% YoY) in AP and Telangana region. However, it corrected by 6.3% QoQ. The plants during the quarter operated at 58% vs 52% last year and 50% in the last quarter. EBITDA margin for the quarter came in at 28.7% vs 7.6% LY. However, it declined by 344bps QoQ. Sharp jump being witnessed in the raw material cost (up 24% QoQ to ₹812/tonne). However, it was down by 11.8% on YoY basis. Freight cost increased by 3.7% on per tonne basis due to rise in the diesel prices. Optimal thermal efficiency and usage of alternative fuel helped in keeping power cost lower for the quarter. Overall, company managed to reduce total production cost by 4.9% YoY to ₹ 3015/t (down 1.5% QoQ). As a result, EBITDA/t increased by 367% YoY to ₹1,214/t (vs. I-direct est of ₹1,206/t). Higher operating profits and low interest led to company reporting net profits of ₹ 49.6 crore for the quarter vs (I-direct est: ₹ 45.5 crore). Gross debt stood at ₹ 635 crore with D/E of 0.44x for the quarter. The company has declared second interim dividend of ₹2/share (ie. 20% of face value).

To achieve 10MT capacity by FY25E;

The company is targeting to reach to 10MT capacity by FY25E. In the first phase, the company is adding 2.5MT capacity (1MT in MP and 1.5MT in Odisha) for capex of ₹800 crore. These capacities will likely get commissioned by end of Q2/Q3FY22E. Post these expansions the total capacity will increase to 8.25MT. Having already spent ₹450 crore, we expect debt levels to peak around ₹ 750 crore and D/E to peak at 0.5x by FY22E.

Low cost producer in the AP/Telangana region

In the past three years, company has initiated various cost efficiency measures like setting up of coal based CPP of 18MW at its plant in Matapally, Nalgonda taking its total power capacity to 61.5MW. This resulted in the company being 100% self-sufficient in FY20 in terms of power as compared with 50% dependence on purchased power three years back. The co. also expanded grinding unit in Bayyavaram to 1.5MT. This in turn has helped the company to reduce lead distance. For fuel requirement, the company has option to use petcoke or coal depending upon its cost benefit. Hence, we expect the company to broadly maintain the CoP at optimum levels vs peers which would help it to maintain better margins going forward.

Valuation & Outlook

With capacity expansions into newer geographies like East & Central, we expect revenue CAGR of 20.5% during FY20-22E, though full potential of new capacities would start reflecting from FY23E onwards. Despite sharp run-up in the past 4 months, the stock is still available at FY22E EV/t of \$41/t, and FY22E P/E of 8.2x implying a considerable margin of safety. With strong management, cost efficiency and healthy BS, we maintain **BUY** rating with revised TP of ₹900/share (ie at 7x FY22E EV/EBITDA, \$50/t on 8.25MT)

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Sales	1038.1	1217.6	1175.2	1328.9	1705.1	20.5%
EBITDA	151.3	149.4	185.5	398.5	443.2	54.6%
EBITDA (%)	14.6	12.3	15.8	30.0	26.0	
PAT	26.3	13.6	40.2	188.0	202.5	124.4%
EPS (₹)	12.9	5.8	17.1	80.0	86.2	
EV/EBITDA	13.9	14.4	11.7	5.5	5.3	
EV/Tonne (\$)	70	58	54	54	41	
RoNW	3.4	1.6	4.2	15.4	14.4	
RoCE	8.1	6.4	7.2	17.5	15.4	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Market Capitalization	₹ 1704 Crore
Total Debt (FY20)	₹ 498 Crore
Cash and Investments (FY20)	₹ 12 Crore
EV	₹ 2189 Crore
52 week H/L	₹ 732/236
Equity capital	₹ 23.5 Crore
Face value	₹ 10

Key Risks to our call

- Delay in commercialization of new cement capacities could lead to cost overruns and may lead to reduced profitability
- Lower than expected cement prices in AP and Telangana as against our estimated drop of 3.5% in FY22E could further deteriorate margin profile and profitability of the company

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Exhibit 1: Variance Analysis

	Q3FY21E	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	
Total Operating Income	363.7	357.7	262.1	38.8	325.9	11.6	Sales volume grew by 12.6% YoY. While realisations were up by 23.2% YoY, it declined 6.3% QoQ
Other Income	2.0	3.0	0.5	323.4	3.3	-39.5	
Raw Material Expenses	69.8	55.8	70.3	-0.7	47.2	47.8	
Employee Expenses	17.5	19.0	16.0	9.6	20.9	-16.2	
Power & Fuel	67.5	76.3	62.7	7.7	61.0	10.8	Optimal thermal efficiency at Matapally & Gudipadu plant helped contain the power & fuel cost during the quarter
Freight cost	63.7	63.6	54.5	16.8	55.5	14.7	Freight cost per tonne increased by 4% YoY due to increase in the diesel prices.
Others	40.7	44.3	38.7	5.1	36.5	11.6	
EBITDA	104.4	98.9	19.9	425.7	104.8	-0.3	
EBITDA Margin (%)	28.7	27.6	7.6	2113 bps	32.1	-344 bps	While cost of production reduced by 1.5% QoQ, low realisations from Q2FY21 led to QoQ fall in margins
Interest	11.3	11.8	15.7	-28.5	11.7	-3.3	
Depreciation	20.3	21.0	20.5	-0.6	20.2	0.5	
PBT	74.8	69.1	-15.9	-571.3	76.2	-1.8	
Total Tax	25.2	23.6	-6.8	-471.3	26.0	-3.0	
PAT	49.6	45.5	-9.1	-646.1	50.2	-1.2	

Key Metrics

Volume (MT)	0.86	0.82	0.76	12.6	0.72	19.1	Company operated with 58% capacity utilisation during the quarter
Net realisation (₹)	4,229	4,362	3,431	23.2	4,512	-6.3	Resumption to normalcy led to better cement availability leading QoQ fall in the realisations
EBITDA per Tonne (₹)	1,214	1,206	260	366.9	1,451	-16.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,273.8	1,328.9	4.3	1,729.4	1,705.1	-1.4	We expect realisations levels to moderate further by 3.5% in FY22E vs earlier estimate of 3% due to improved cement production
EBITDA	372.9	399.4	7.1	435.5	443.2	1.8	With improved geographical mix from FY22E, we expect margin profile of the company to improve
EBITDA Margin (%)	29.3	30.1	78 bps	25.2	26.0	81 bps	

Source: Company, ICICI Direct Research

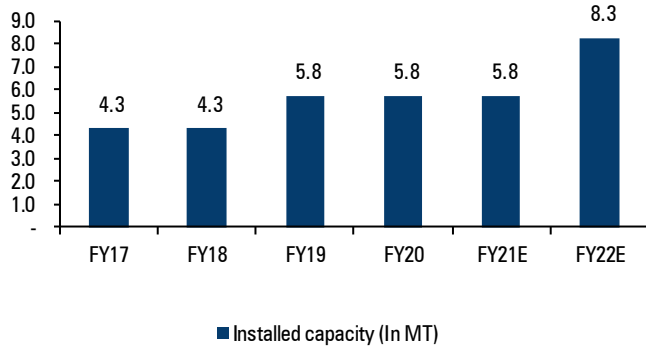
Exhibit 3: Assumptions

	Current				Earlier		
	FY18	FY19	FY20P	FY21E	FY22E	FY21E	FY22E
Volume (MT)	2.7	3.3	3.1	3.0	4.0	2.8	4.0
Gross Realisation (₹)	3,916	3,666	3,753	4,412	4,257	4,495	4,338
EBITDA per Tonne (₹)	571	450	592	1,326	1,107	1,275	1,092

Source: Company, ICICI Direct Research

Financial story in charts

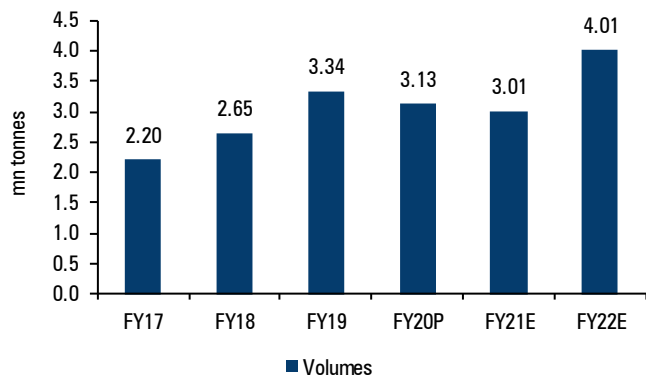
Exhibit 4: Installed capacity to increase by 43.5% by FY22E



Source: Company, ICICI Direct Research

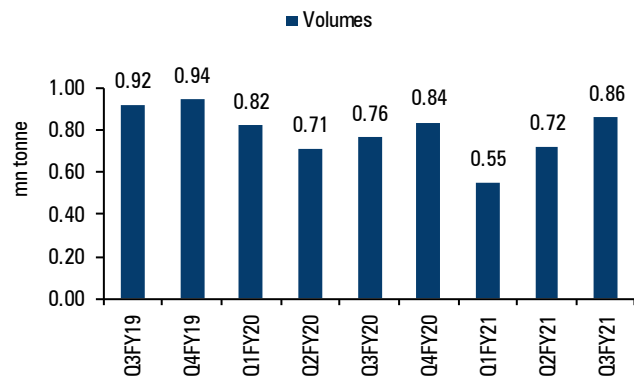
82% of SCL's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company's brand "Sagar Cements" being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%). With the plants under Satguru Cement (capex of ₹488 crore) and Jajpur Cements (capex of ₹308 crore) coming on steam, the company's presence will improve in eastern, central, and western regions going forward.

Exhibit 6: Volumes to grow at 13.1% CAGR over FY20-22E with commissioning of new capacities



Source: Company, ICICI Direct Research

Exhibit 8: Volumes grows 12.6% YoY in Q3FY21



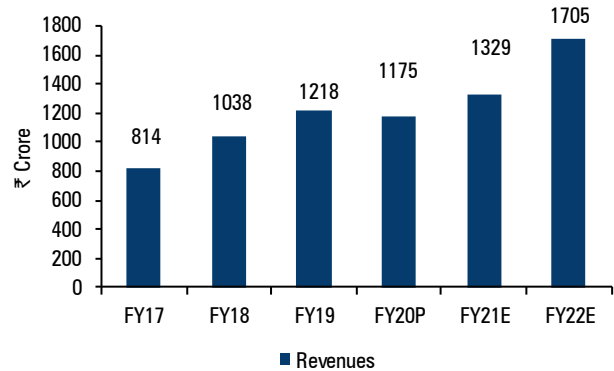
Source: Company, ICICI Direct Research

Exhibit 5: Capacity addition plans

Capacity	Clinker (MT)	Cement (MT)
Current capacity	3.8	5.8
Additions		
Dhar, MP (Satgurur Cement)	0.7	1.0
Jajpur, Orissa (Jajpur Cement)		1.5
FY22E Capacity	4.5	8.3

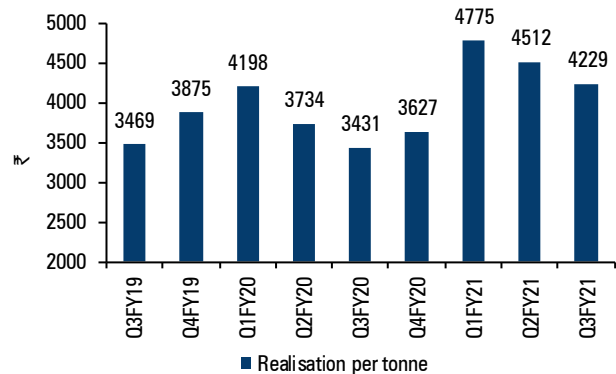
Source: Company, ICICI Direct Research

Exhibit 7: Topline to grow at 20.5% CAGR over FY20-22E



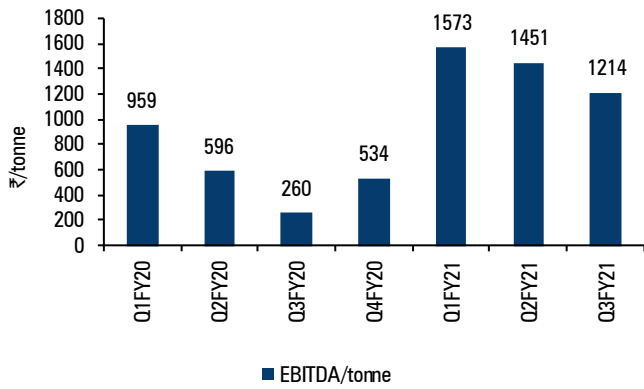
Source: Company, ICICI Direct Research

Exhibit 9: Realisations dipped QoQ by 6.3% though remained healthy YoY



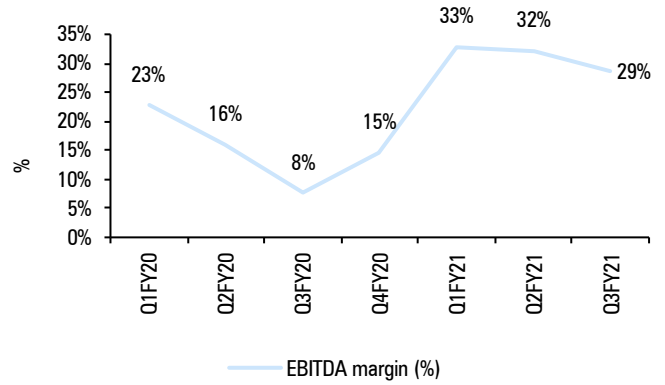
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t improved sharply YoY in Q3FY21. However, it declined from peak of ₹1573/t in Q1FY21



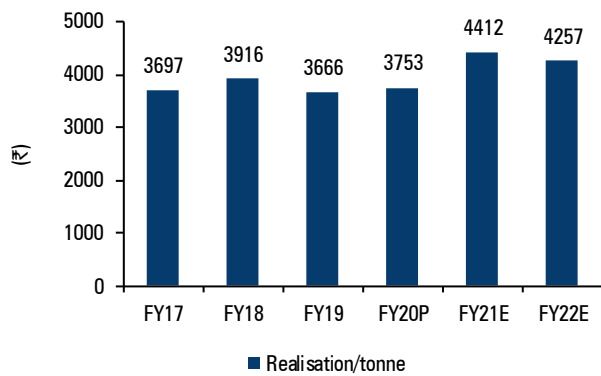
Source: Company, ICICI Direct Research

Exhibit 11: Margins trends



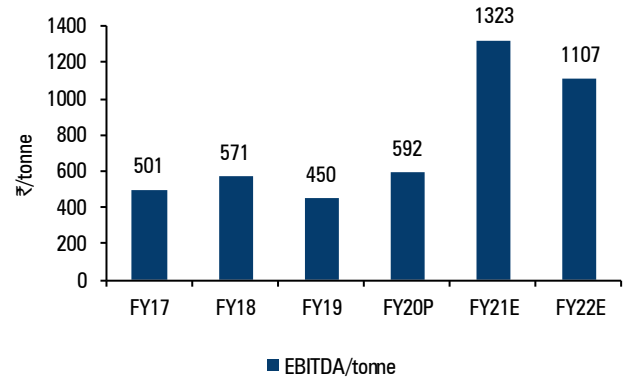
Source: Company, ICICI Direct Research

Exhibit 12: Realisations to stay firm in FY21; to contract in FY22 with normalisation of demand & supply



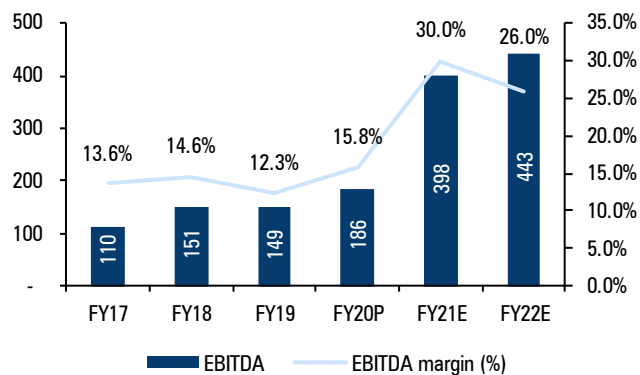
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t trend



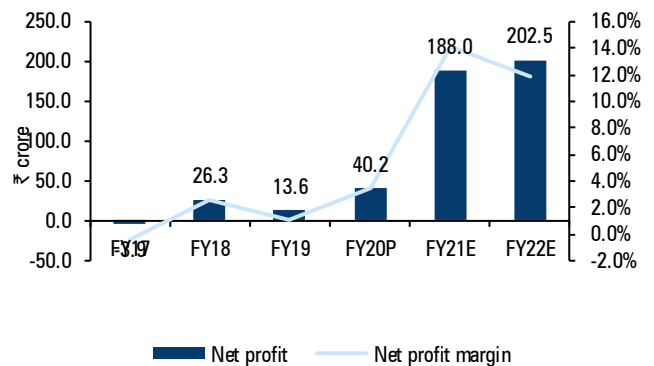
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA to normalise from FY22E onwards



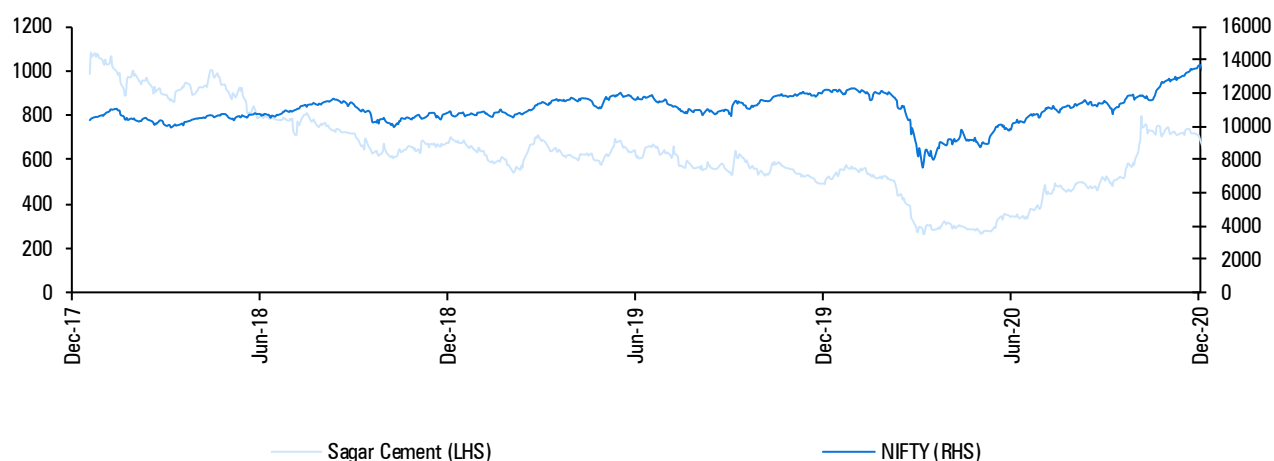
Source: Company, ICICI Direct Research

Exhibit 15: Company to report sharp improvement in profits led by firm pricing and new capacity additions



Source: Company, ICICI Direct Research

Exhibit 16: Three year price chart vs Nifty



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 17: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Avh Resources India	31-Dec-19	19.9	4.4	0.0
2	S Veera Reddy	31-Dec-19	7.5	1.64	1.6
3	Reddy S Veera	30-Jun-19	7.5	1.64	1.6
4	Aruna S	31-Mar-20	6.2	1.37	0.0
5	Hdfc Asset Managemen	30-Apr-20	6.0	1.31	0.0
6	Reddy S Anand	31-Mar-20	6.0	1.31	0.0
7	Reddy Sammidi Sreeka	31-Dec-19	5.7	1.24	1.2
8	Sammidi Sreekanth Re	31-Mar-20	5.6	1.24	0.0
9	Rachana S	31-Mar-20	5.3	1.17	0.0
10	Rv Consltng Srvcs Pv	31-Mar-20	5.0	1.10	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 18: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	50.06	50.06	50.90	50.16	50.16
FII	3.05	2.88	2.88	2.73	2.73
DII	12.86	12.04	12.71	12.36	12.36
Others	34.03	35.02	33.51	34.75	34.75

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 19: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Incon	1,217.6	1,175.2	1,328.9	1,705.1
Growth (%)	17.3	-3.5	13.1	28.3
Raw material cost	238.8	227.3	236.7	300.4
Power & fuel	362.8	309.2	246.3	340.4
Freight cost	252.5	223.8	224.1	308.4
Others	214.1	229.4	223.2	312.7
Total Operating Exp.	1,068.1	989.7	930.4	1,261.9
EBITDA	149.4	185.5	398.5	443.2
Growth (%)	-1.2	24.2	114.8	11.2
Depreciation	65.7	78.9	79.0	104.0
Interest	63.4	47.3	44.6	64.4
Other Income	2.9	4.0	8.1	10.0
PBT	23.2	63.3	282.9	284.8
Total Tax	9.6	23.1	94.9	82.3
PAT	13.6	40.2	188.0	202.5
PAT margin	1.1	3.4	14.2	11.9
Adjusted PAT	13.6	40.2	188.0	202.5
Growth (%)	-48.2	195.9	NA	NA
Adjusted EPS (₹)	5.8	17.1	80.0	86.2

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	13.6	40.2	188.0	202.5
Add: Depreciation	65.7	78.9	79.0	104.0
(Inc)/dec in Current Assets	-10.0	-68.3	-11.9	-102.4
Inc/(dec) in CL and Provisions	-2.5	22.4	27.7	74.7
CF from operating activiti	130.2	120.5	327.5	343.2
(Inc)/dec in Investments	0.0	-11.8	0.0	0.0
(Inc)/dec in Fixed Assets	-241.7	-202.2	-380.0	-470.0
Others	74.1	-8.6	14.4	14.4
CF from investing activiti	-167.6	-222.6	-365.6	-455.6
Issue/(Buy back) of Equity	0.0	85.3	84.0	0.0
Inc/(dec) in loan funds	21.4	-1.2	60.0	200.0
Dividend paid & dividend tax	-11.3	-4.3	-17.0	-14.2
Interest paid	-63.4	-47.3	-44.6	-64.4
Others	63.9	52.3	0.0	0.0
CF from financing activiti	10.6	84.8	82.4	121.4
Net Cash flow	-26.9	-17.3	44.3	9.1
Opening Cash	56.6	29.8	12.5	56.7
Closing Cash	29.8	12.5	56.7	65.8

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	20.4	22.0	22.3	22.3
Reserve and Surplus	823.4	944.4	1,199.1	1,387.5
Total Shareholders funds	843.8	966.3	1,221.4	1,409.7
Total Debt	499.3	498.0	558.0	758.0
Deferred Tax Liability	8.3	22.7	37.2	51.6
Minority Interest / Others	163.0	193.9	193.9	193.9
Total Liabilities	1,514.4	1,681.0	2,010.4	2,413.2
Assets				
Gross Block	1,637.9	1,842.1	1,920.1	2,700.1
Less: Acc Depreciation	432.6	511.5	590.5	694.5
Net Block	1,205.2	1,330.6	1,329.6	2,005.6
Capital WIP	110.0	108.0	410.0	100.0
Total Fixed Assets	1,315.2	1,438.6	1,739.6	2,105.6
Investments	38.7	53.4	53.4	53.4
Inventory	145.0	115.8	134.7	163.5
Debtors	115.6	136.8	163.8	210.2
Loans and Advances	21.9	21.2	19.9	25.6
Other Current Assets	62.1	139.1	106.3	127.9
Cash	29.8	12.5	56.7	65.8
Total Current Assets	374.4	425.3	481.5	593.0
Creditors	203.8	223.0	182.0	233.6
Provisions	10.1	13.3	81.9	105.1
Total Current Liabilities	213.9	236.3	264.0	338.7
Net Current Assets	160.5	189.1	217.5	254.3
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	1,514.4	1,681.0	2,010.5	2,413.3

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adjusted EPS	5.8	17.1	80.0	86.2
Cash EPS	33.7	50.7	113.6	130.4
BV	359.1	411.2	519.7	599.9
DPS	4.0	1.5	6.0	5.0
Cash Per Share	12.7	5.3	24.1	28.0
Operating Ratios (%)				
EBITDA Margin	12.3	15.8	30.0	26.0
Adjusted PAT Margin	1.1	3.4	14.2	11.9
Inventory days	43.5	36.0	37.0	35.0
Debtor days	34.7	42.5	45.0	45.0
Creditor days	61.1	69.3	50.0	50.0
Return Ratios (%)				
RoE	1.6	4.2	15.4	14.4
RoCE	6.4	7.2	17.5	15.4
RoIC	6.9	7.5	22.8	16.1
Valuation Ratios (x)				
P/E (adjusted)	125.4	42.4	9.1	8.4
EV / EBITDA	14.5	11.8	5.5	5.4
EV / Net Sales	1.8	1.9	1.7	1.4
Market Cap / Sales	1.4	1.4	1.3	1.0
Price to Book Value	2.0	1.8	1.4	1.2
Solvency Ratios				
Debt/EBITDA	3.3	2.7	1.4	1.7
Debt / Equity	0.6	0.5	0.5	0.5
Current Ratio	1.0	1.2	1.2	1.2
Quick Ratio	0.6	0.9	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 23: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)		(₹ Cr)	'1FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
ACC*	1,666	1,950	BUY	31,010	73	84	97	12.2	10.3	8.7	113	116	97	17.4	17.8	18.6	11.9	12.3	12.8	
Ambuja Cem*	252	280	HOLD	50,038	7.7	8.7	9.5	14.1	12.8	11.2	140	152	134	12.2	17.1	17.3	14.7	19.7	19.6	
UltraTech Cem	5,544	6,100	BUY	151,500	173	211	253	15.5	13.4	11.2	202	202	190	13.8	15.3	16.9	11.7	12.6	13.2	
Shree Cement	23,751	28,000	BUY	86,240	435	611	653	23.4	20.7	18.3	253	239	235	13.8	17.6	17.7	12.1	14.9	13.9	
Heidelberg Cem	221	265	BUY	5,212	11.8	10.2	14.6	10.4	11.6	8.7	139	123	117	22.3	20.3	27.5	20.4	19.0	24.0	
JK Cement	2,172	2,400	BUY	15,608	74.9	86.4	95.2	15.2	12.4	10.8	165	157	161	16.2	17.4	17.4	18.5	18.0	16.9	
JK Lakshmi Cen	327	450	BUY	4,025	22.6	26.3	28.4	7.4	6.6	5.7	61	59	59	17.1	18.2	20.1	15.5	15.1	15.4	
Star Cement	100	120	BUY	4,318	6.9	4.8	6.7	9.6	10.5	8.4	131	90	85	17.1	12.1	14.9	15.4	10.1	12.9	
Ramco Cement	801	1,000	BUY	20,713	25.7	36.4	37.4	20.7	14.3	13.2	182	175	170	7.5	9.9	10.1	12.3	15.0	13.4	
Sagar Cement	706	900	BUY	1,659	17.1	80.0	86.2	11.6	5.4	5.3	53	54	41	7.2	17.5	15.4	4.2	15.4	14.4	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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