

## New capacities to drive growth...

Sagar Cements' Q4FY21 performance was in line with our estimates, supported by healthy sales volumes. Revenues grew 37.6% YoY to ₹ 417.7 crore (vs. I-direct estimate: ~₹ 410.6 crore) led by sales volume growth of 22.2% YoY to 1.02 MT (vs. I-direct estimate: 0.99 MT). Realisations were also up 12.6% YoY to ₹ 4084/t while QoQ it was down 3.4%. Plants during the quarter operated at 70% vs. 58% last year, 60% in the last quarter. EBITDA margin was at 25% vs. 14.7% last year. However, it fell 375 bps QoQ. A sharp jump was seen in power & fuel costs (up 10% QoQ to ₹ 864/tonne) as petcoke prices, international coal prices increased 3.2%, 16.5%, respectively, QoQ. Reported EBITDA/t was at ₹ 1019/t (vs. I-direct estimate: ₹ 1053/t) up 91.1% YoY, albeit down 16% QoQ due to dual impact of rise in cost, lower realisations. On an absolute basis, EBITDA was at ₹ 104.3 crore, up 133.5% YoY, flat QoQ (vs. I-direct estimate of ₹ 104.5 crore). For full year, the company reported impressive performance, reporting revenue growth of 16.7% YoY to ₹ 1371 crore along with EBITDA margin expansion of over 1341 bps to 29.2% and PAT of over ₹ 186 crore despite pandemic woes.

## To achieve 10 MT capacity by FY25E

The company is aiming to reach 10 MT capacity by FY25E. In the first phase, Sagar Cement is adding 2.5 MT capacity (1 MT in MP and 1.5 MT in Odisha) for capex of ₹ 800 crore. These capacities will get commissioned by the end of Q2FY22E. Post these expansions the total capacity will increase to 8.25 MT. Having already spent ₹ 545 crore, we expect debt levels to peak around ₹ 815 crore and D/E to peak at 0.6x by FY22E.

## Low cost producer in AP/Telangana region

In the past three years, the company has initiated various cost efficiency measures like setting up of coal based CPP of 18 MW at its plant in Mattampally, Nalgonda taking its total power capacity to 61.5 MW. This resulted in the company being 100% self-sufficient in FY20 in terms of power compared to 50% dependence on purchased power three years back. The company also expanded grinding unit in Bayyavaram to 1.5 MT. This, in turn, has helped the company to reduce lead distance. For fuel requirement, Sagar 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 30.2% during FY21-23E though full potential of new capacities would start reflecting from FY23E onwards. Despite a run up in the past four months, the stock is still available at FY23E EV/t of \$38/t, and FY23E EV/EBITDA of 3.6x implying a considerable margin of safety. Given the strong management and healthy b/s, we maintain **BUY** with a revised TP of ₹ 925/share (i.e. at 4x FY23E EV/EBITDA, \$45/t on 8.25 MT) (earlier TP ₹ 900/share).

### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY20-23E)
Sales	1217.6	1175.2	1371.3	1669.2	2324.5	30.2%
EBITDA	149.4	185.5	400.4	434.7	625.3	25.0%
EBITDA (%)	12.3	15.8	29.2	26.0	26.9	
PAT	13.6	26.5	185.6	174.4	295.2	26.1%
EPS (₹)	5.8	11.3	79.0	74.2	125.6	
EV/EBITDA	15.4	12.5	6.0	5.6	3.6	
EV/Tonne (\$)	62	58	59	42	38	
RoNW	1.6	2.7	15.4	12.8	17.9	
RoCE	6.4	7.2	15.3	14.9	21.2	

Source: Company, ICICI Direct Research



### Stock Data

Particular	Amount
Market Capitalization	₹ 1833 Crore
Total Debt (FY21)	₹ 810 Crore
Cash and Investments (FY21)	₹ 255 Crore
EV	₹ 2388 Crore
52 week H/L	₹ 732/236
Equity capital	₹ 23.5 Crore
Face value	₹ 10

### Key Risks to our call

- Delay in commercialisation of new cement capacities could lead to cost overruns and may lead to reduced profitability
- Volatility in cement prices in AP and Telangana impact margin profile and profitability of the company significantly

### Research Analyst

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**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	
Total Operating Income	417.7	410.6	303.6	37.6	363.7	14.8	Sales volume grew 12.6% YoY. While realisations were up 23.2% YoY, they declined 6.3% QoQ
Other Income	1.7	2.0	2.3	-25.7	2.0	-14.1	
Raw Material Expenses	73.2	79.4	59.5	22.9	69.8	4.9	
Employee Expenses	23.4	19.0	18.9	23.7	17.5	33.3	
Power & Fuel	88.4	82.9	76.3	15.9	67.5	30.9	Usage of high cost petcoke & international coal led to QoQ increase in power & fuel costs
Freight cost	75.9	74.4	59.7	27.1	63.7	19.1	
Others	52.6	50.6	44.5	18.1	40.7	29.2	
EBITDA	104.3	104.5	44.7	133.5	104.4	-0.2	
EBITDA Margin (%)	25.0	25.4	14.7	1025 bps	28.7	-375 bps	While cost of production reduced 0.9% YoY, it remained higher by 1.6% QoQ leading to 375 bps fall in margins
Interest	10.8	11.3	14.5	-25.2	11.3	-3.7	
Depreciation	20.0	20.0	21.4	-6.3	20.3	-1.6	
PBT	75.1	75.2	11.1	576.6	74.8	0.4	
Total Tax	25.3	25.3	9.9	154.6	25.2	0.2	
PAT	49.8	49.9	1.2	4,123.7	49.6	0.5	

**Key Metrics**

Volume (MT)	1.02	0.99	0.84	22.2	0.86	18.9	Company operated at 70% capacity utilisation during the quarter
Net realisation (₹)	4,084	4,140	3,627	12.6	4,229	-3.4	Higher institutional sales led to lower realisations
EBITDA per Tonne (₹)	1,019	1,053	534	91.1	1,214	-16.0	

Source: Company, ICICI Direct Research

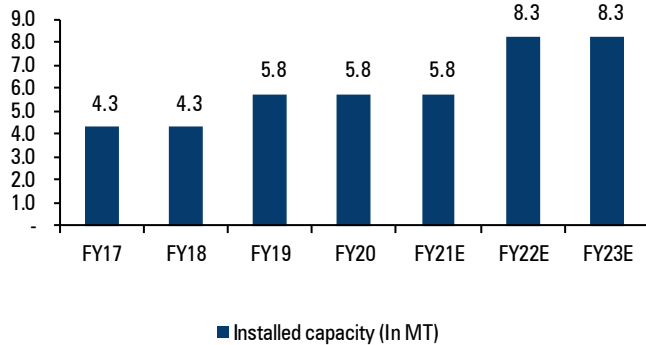
**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,705.1	1,669.2	-2.1	NA	2,324.5	NA	With ongoing second wave, the demand is likely to get impacted in FY22E. However, we are hopeful of meaningful recovery from H2FY22E onwards
EBITDA	443.2	434.7	-1.9	NA	625.3	NA	With improved geographical mix from FY22E, we expect stability in their margin profile
EBITDA Margin (%)	26.0	26.0	5 bps	NA	26.9	NA	

Source: Company, ICICI Direct Research

## Financial story in charts

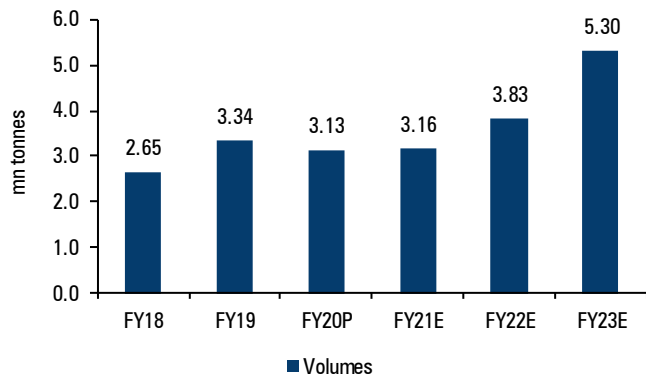
Exhibit 3: Installed capacity to increase by 43.5% by FY22E



Source: Company, ICICI Direct Research

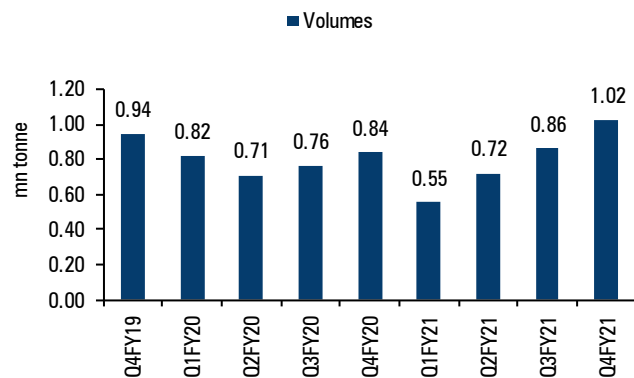
Total 82% of SCL's volume is from Andhra Pradesh (34%), Telangana (25%), Tamil Nadu (12%) and Karnataka (11%), with the company's brand "Sagar Cements" being a renowned one in southern India. The company also has a presence in Maharashtra (9%) and Odisha (8%). With the plants under Satguru Cement (capex 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 5: Volumes to grow at 30% CAGR over FY21-23E with commissioning of new capacities



Source: Company, ICICI Direct Research

Exhibit 7: Volumes grow 22.2% YoY in Q4FY21



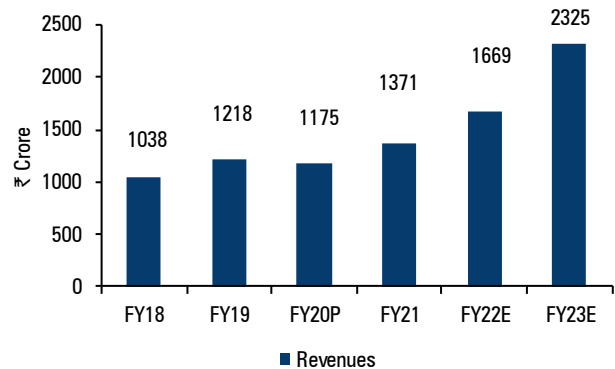
Source: Company, ICICI Direct Research

Exhibit 4: Capacity addition plans

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

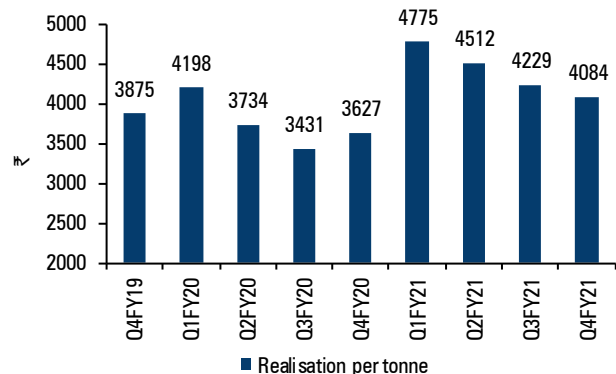
Source: Company, ICICI Direct Research

Exhibit 6: Topline to grow at 30.2% CAGR over FY21-23E



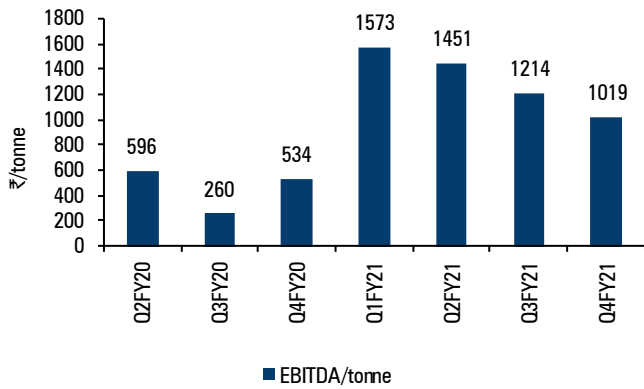
Source: Company, ICICI Direct Research

Exhibit 8: Realisations dip QoQ by 3% though remained healthy YoY



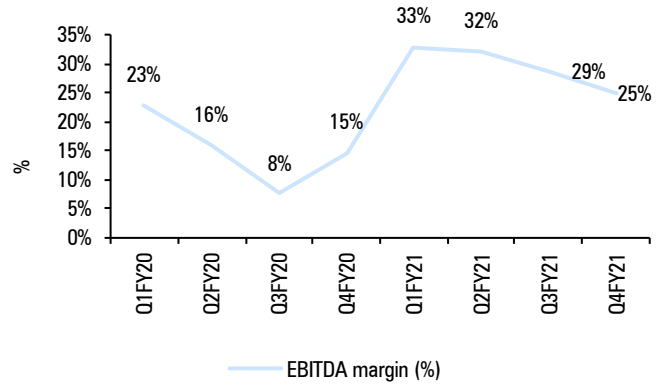
Source: Company, ICICI Direct Research

**Exhibit 9: EBITDA/t improves sharply YoY in Q4FY21. However, it declined from peak of ₹1573/t in Q1FY21**



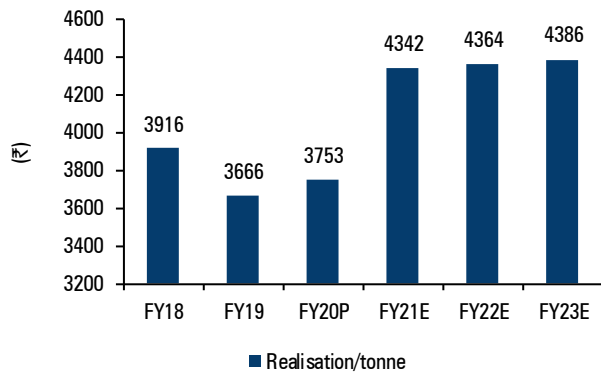
Source: Company, ICICI Direct Research

**Exhibit 10: Margins trends**



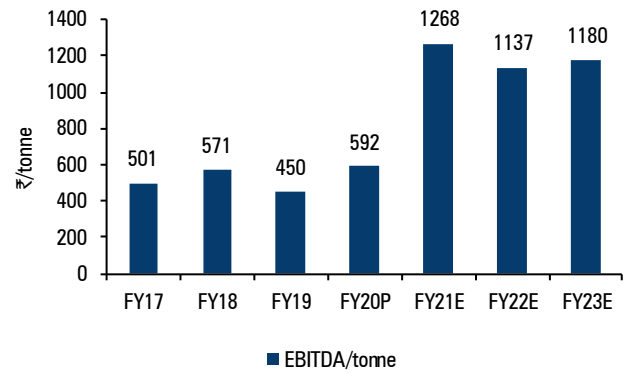
Source: Company, ICICI Direct Research

**Exhibit 11: Realisations to stay firm in FY21; to contract in FY22 with normalisation of demand & supply**



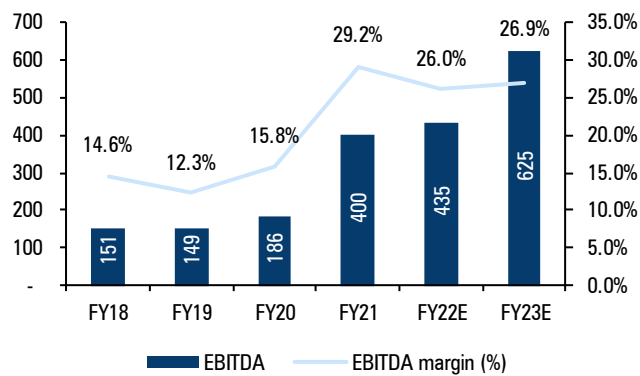
Source: Company, ICICI Direct Research

**Exhibit 12: EBITDA/t trend**



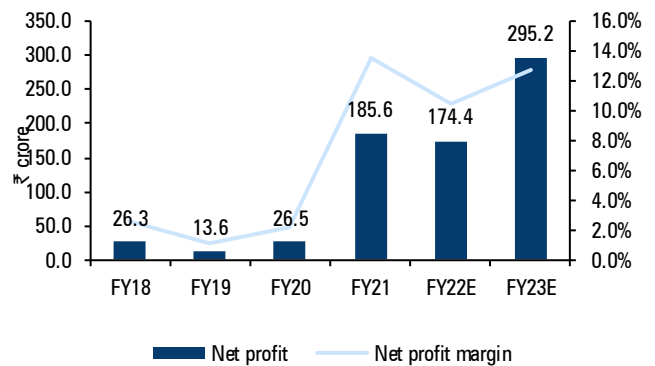
Source: Company, ICICI Direct Research

**Exhibit 13: Margins to normalise from FY22E onwards**



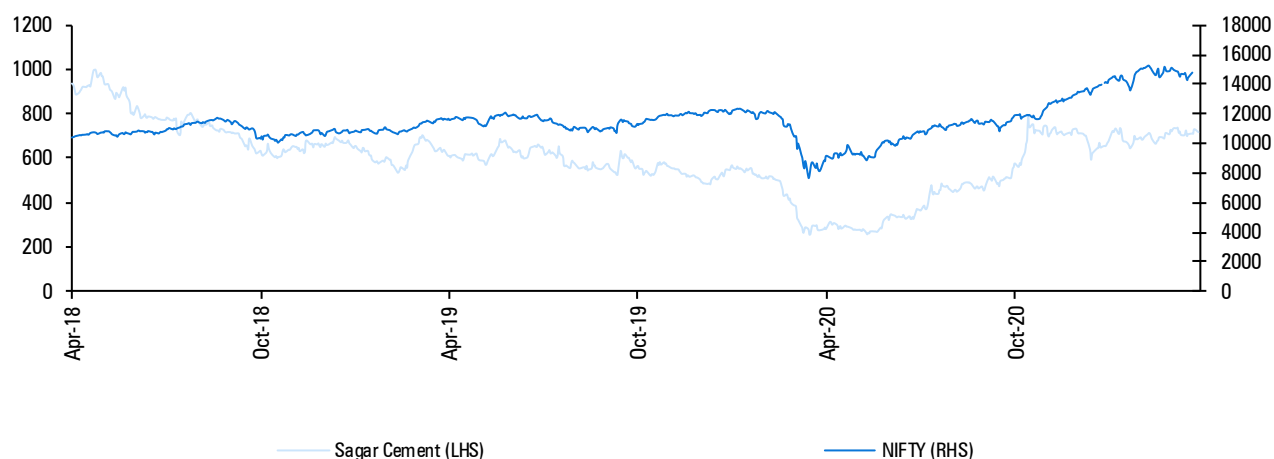
Source: Company, ICICI Direct Research

**Exhibit 14: Company to report sharp improvement in profits led by firm pricing and new capacity additions in FY23E**



Source: Company, ICICI Direct Research

Exhibit 15: Three year price chart vs Nifty



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: 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 17: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	50.06	50.90	50.16	50.16	50.28
FI	2.88	2.88	2.73	2.73	3.24
DII	12.04	12.71	12.36	12.36	11.77
Others	35.02	33.51	34.75	34.75	34.71

Source: Company, ICICI Direct Research, Thomson Reuters

## Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Incon</b>	<b>1,175.2</b>	<b>1,371.3</b>	<b>1,669.2</b>	<b>2,324.5</b>
Growth (%)	-3.5	16.7	21.7	39.3
Raw material cost	227.3	239.8	298.4	413.4
Power & fuel	309.2	261.4	344.3	471.7
Freight cost	223.8	234.2	279.2	389.6
Others	229.4	235.5	312.7	424.5
Total Operating Exp.	989.7	970.9	1,234.5	1,699.2
<b>EBITDA</b>	<b>185.5</b>	<b>400.4</b>	<b>434.7</b>	<b>625.3</b>
Growth (%)	24.2	115.9	8.6	43.8
Depreciation	78.9	80.6	100.7	106.5
Interest	61.0	46.6	79.9	81.5
Other Income	4.0	7.8	10.0	10.0
PBT	49.7	281.1	264.2	447.3
Total Tax	23.1	95.5	89.8	152.1
<b>PAT</b>	<b>26.5</b>	<b>185.6</b>	<b>174.4</b>	<b>295.2</b>
PAT margin	2.3	13.5	10.4	12.7
<b>Adjusted PAT</b>	<b>26.5</b>	<b>185.6</b>	<b>174.4</b>	<b>295.2</b>
Growth (%)	95.2	599.5	-6.1	69.3
<b>Adjusted EPS (₹)</b>	<b>11.3</b>	<b>79.0</b>	<b>74.2</b>	<b>125.6</b>

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	26.5	185.6	174.4	295.2
Add: Depreciation	78.9	80.6	100.7	106.5
(Inc)/dec in Current Assets	-68.3	-60.2	-43.1	-178.2
Inc/(dec) in CL and Provisions	22.4	3.4	11.9	98.7
<b>CF from operating activiti</b>	<b>120.5</b>	<b>256.0</b>	<b>323.7</b>	<b>403.8</b>
(Inc)/dec in Investments	-11.8	0.6	0.0	0.0
(Inc)/dec in Fixed Assets	-202.2	-430.5	-280.0	-90.0
Others	-8.6	98.0	0.0	0.0
<b>CF from investing activiti</b>	<b>-222.6</b>	<b>-331.9</b>	<b>-280.0</b>	<b>-90.0</b>
Issue/(Buy back) of Equity	85.6	85.6	0.0	0.0
Inc/(dec) in loan funds	-1.2	312.2	5.0	-100.0
Dividend paid & dividend tax	-4.3	-18.4	-14.2	-14.2
Interest paid	-61.0	-46.6	-79.9	-81.5
Others	65.3	-13.0	0.0	0.0
<b>CF from financing activiti</b>	<b>84.4</b>	<b>319.8</b>	<b>-89.1</b>	<b>-195.7</b>
Net Cash flow	-17.7	243.8	-45.4	118.1
Opening Cash	29.8	12.1	255.4	210.1
<b>Closing Cash</b>	<b>12.1</b>	<b>255.8</b>	<b>210.1</b>	<b>328.1</b>

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Share Capital	22.3	24.1	24.1	24.1
Reserve and Surplus	943.7	1,181.6	1,341.8	1,622.8
Total Shareholders funds	966.0	1,205.7	1,365.9	1,646.9
Total Debt	498.0	810.2	815.2	715.2
Deferred Tax Liability	22.7	75.9	75.9	75.9
Minority Interest / Others	193.9	238.3	238.3	238.3
<b>Total Liabilities</b>	<b>1,680.6</b>	<b>2,330.0</b>	<b>2,495.2</b>	<b>2,676.3</b>
<b>Assets</b>				
Gross Block	1,842.1	1,863.1	2,610.5	2,715.5
Less: Acc Depreciation	511.5	592.0	692.7	799.2
Net Block	1,330.6	1,271.0	1,917.8	1,916.3
Capital WIP	108.0	517.5	50.0	35.0
Total Fixed Assets	1,438.6	1,788.5	1,967.8	1,951.3
Investments	53.4	52.8	52.8	52.8
Inventory	115.8	124.3	160.1	210.2
Debtors	136.8	100.7	205.8	286.6
Loans and Advances	21.2	22.4	25.0	34.9
Other Current Assets	139.1	225.7	125.2	162.7
Cash	12.1	255.4	210.1	328.1
Total Current Assets	424.9	728.5	726.2	1,022.5
Creditors	223.0	229.0	228.7	318.4
Provisions	13.3	10.7	22.9	31.8
Total Current Liabilities	236.3	239.7	251.5	350.3
Net Current Assets	188.7	488.8	474.6	672.2
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,680.6</b>	<b>2,330.1</b>	<b>2,495.3</b>	<b>2,676.3</b>

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Adjusted EPS	11.3	79.0	74.2	125.6
Cash EPS	44.9	113.3	117.0	170.9
BV	411.0	513.1	581.2	700.8
DPS	1.5	6.5	5.0	5.0
Cash Per Share	5.1	108.7	89.4	139.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.8	29.2	26.0	26.9
Adjusted PAT Margin	2.3	13.5	10.4	12.7
Inventory days	36.0	33.1	35.0	33.0
Debtor days	42.5	26.8	45.0	45.0
Creditor days	69.3	60.9	50.0	50.0
<b>Return Ratios (%)</b>				
RoE	2.7	15.4	12.8	17.9
RoCE	7.2	15.3	14.9	21.2
RoIC	7.5	23.3	16.3	24.4
<b>Valuation Ratios (x)</b>				
P/E (adjusted)	69.1	9.9	10.5	6.2
EV / EBITDA	12.5	6.0	5.6	3.6
EV / Net Sales	2.0	1.7	1.5	1.0
Market Cap / Sales	1.6	1.3	1.1	0.8
Price to Book Value	1.9	1.5	1.3	1.1
<b>Solvency Ratios</b>				
Debt/EBITDA	2.7	2.0	1.9	1.1
Debt / Equity	0.5	0.7	0.6	0.4
Current Ratio	1.2	1.2	1.3	1.4
Quick Ratio	0.9	0.9	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP (₹)	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,877	BUY	73	85	101	14.2	13.4	9.6	131	113	110	17.4	14.5	18.6	11.9	12.6	13.3
Ambuja Cem*	308	BUY	7.7	9.0	10.9	17.4	15.9	12.6	173	186	166	12.2	17.6	19.1	14.7	20.3	21.7
UltraTech Cem	6,380	BUY	96	88	125	41.2	32.5	26.4	370	370	290	13.1	9.0	11.4	11.2	7.6	9.4
Shree Cement	26,780	BUY	435	624	666	25.7	23.6	20.0	278	262	259	13.8	18.2	18.0	12.1	15.1	14.2
Heidelberg Cem	235	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	2,760	BUY	51.8	99.5	101.6	17.5	13.6	12.8	174	163	168	16.2	18.9	17.3	12.8	20.2	17.5
JK Lakshmi Cen	407	BUY	7.0	7.1	6.8	16.6	14.2	13.7	76	76	70	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	101	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	932	BUY	25.7	29.5	30.2	20.5	16.5	15.5	180	175	171	7.5	8.6	8.7	12.3	12.5	11.4
Sagar Cement	781	BUY	-1.9	12.9	5.8	22.2	17.2	17.7	81	86	71	5.4	8.1	6.4	-0.5	3.4	1.6

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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