May 14, 2021

RESULT REPORT Q4 FY21 | Sector: Cement

Sagar Cements Ltd

BUY	CMP Rs 780	Target Rs 1,051	Upside 35%

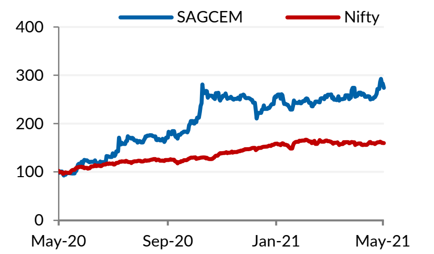
Our View:

- ✓ Sagar Cements continues to deliver consistently strong nos. as company's volume/EBITDA growth during the quarter stood at ~22%/134% y/y respectively. Volumes came in at 1.02 MT which was 2.3% above our estimates while absolute EBITDA stood at Rs 1,043 mn which was 7.4% ahead of our expectations. EBITDA/te at Rs 1,019 witnessed a decline of 16% sequentially on account of pricing pressure but improved by 91% y/y (low base). Sagar also marked an exceptional end to FY21 with overall volumes flat y/y at 3.16 MT but EBITDA surging by 116% y/y to ~Rs 4 bn.
- ✓ Company is also on the verge of commissioning 1 MTPA integrated unit at Indore and 1.5 MTPA grinding unit at Odisha which is expected to be completed by Sep-21. This would not only diversify geographical volume exposure of the company but would also provide sustainability to the business model of Sagar as Central market is a high profitability region for cement players while demand continues to be extremely robust in Eastern market. Post the commissioning, company would scale to a capacity of 8.25 MTPA.
- ✓ Going ahead, we factor in volume/EBITDA CAGR of 30.1%/2.4% over FY21-FY23E. Our EBITDA growth expectation remains conservative as we factor in pricing decline in AP and Telangana during FY22E-FY23E relative to FY21 base. Accordingly, we factor in EBITDA/te of Rs 798/Rs 784 for FY22E/FY23E respectively vis-à-vis Rs 1267 for FY21. However, in a scenario if strong pricing scenario sustains in the Southern market, it would subsequently lead to earnings upgrade for the company going ahead. On the balance sheet side, we expect company to materially deleverage over FY21-FY23E with net debt/EBITDA declining from 1.4x to 0.9x during the same period.
- ✓ At CMP of Rs 780, Sagar is trading at EV/EBITDA of ~5.3x on FY23E. We assign an EV/EBITDA multiple of 7x on FY23E and arrive at TP of Rs 1,051/share with potential upside of 35%. We maintain our BUY rating on the stock.
- ✓ **Key Risk:** Further lockdowns across states due to second wave of COVID would hamper volume growth and timelines of capex commissioning.

Stock data (as on May 14, 2021)

Nifty	14,678
52 Week h/l (Rs)	868 / 255
Market cap (Rs/USD mn)	18318 / 250
Outstanding Shares	24
6m Avg t/o (Rs mn):	33
Div yield (%):	0.3
Bloomberg code:	SGC IN
NSE code:	SAGCEM

Stock performance



	1M	3M	1Y
Absolute return	6.5%	11.2%	181.9%

Shareholding pattern (As of March'21 end)

Promoter	50.28%
FII+DII	15.01%
Others	34.72%

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,051	1.008

Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q4FY21	Q3FY21	qoq(%)	Q4FY20	yoy (%)
Revenue	4,177	3,637	14.8	3,036	37.6
Operating Profit	1,043	1,044	(0.2)	447	133.5
OPM (%)	25.0	28.7	(375) bps	14.7	1025 bps
Other Income	17	20	(14.1)	23	(590)
Depreciation	200	203	(1.6)	214	(6.3)
Interest	108	113	(3.7)	145	(25.2)
PBT	751	748	0.4	111	576.6
Tax	253	252	0.2	99	154.6
PAT	500	497	0.6	13	3772.1

Source: Company, YES Sec – Research

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CON-CALL HIGHLIGHTS

- ✓ Demand witnessed slowdown post April,15 2021 due to regional lockdowns on account of second wave of COVID-19. Management refrained from providing any near-term demand guidance.
- ✓ In terms of prices, they were up by Rs 15/bag from April to May while March-April prices were up but quantum is still under review.
- ✓ In terms of volume growth expectation for FY22E, company expects volume sales of 3.6 MTPA of which 0.4 MTPA will come from new capacities.
- ✓ Company stated that commissioning of greenfield projects of Satguru and Jajpur is progressing as per schedule. New capacities of Satguru & Jaipur are likely to commission by Sept-21. Although for FY22, new plants should operate at 25%, the same is subject to COVID related lockdowns
- ✓ In terms of costs, management expects rise in energy costs to the tune of Rs 250/te going ahead for FY22E.
- ✓ Net debt came in at Rs 5,523 Mn in March-21 Vs Rs 5,579 Mn in Dec-20. Management stated that gross borrowings should peak-out at Rs 8,000 mn in FY22E.
- ✓ Company will incur capex of Rs 2,250-2,500 mn for FY22E.

Exhibit 2: Per tonne analysis (blended)

Per te (in Rs)	Q4FY21	Q3FY21	qoq(%)	Q4FY20	yoy (%)
Cement volumes (MT)	**1.02**	**0.86**	**18.8**	**0.84**	**22.2**
Net realization	**4,083**	**4,224**	**(3.3)**	**3,627**	**12.6**
Raw Material cost	715	811	(11.7)	711	0.6
Employee cost	228	204	12.2	226	1.2
Power and fuel cost	864	784	10.1	911	(5.2)
Freight cost	742	740	0.3	713	4.0
Other expenses	514	473	8.7	532	(3.3)
EBITDA	**1,019**	**1,213**	**(16.0)**	**533**	**91.0**

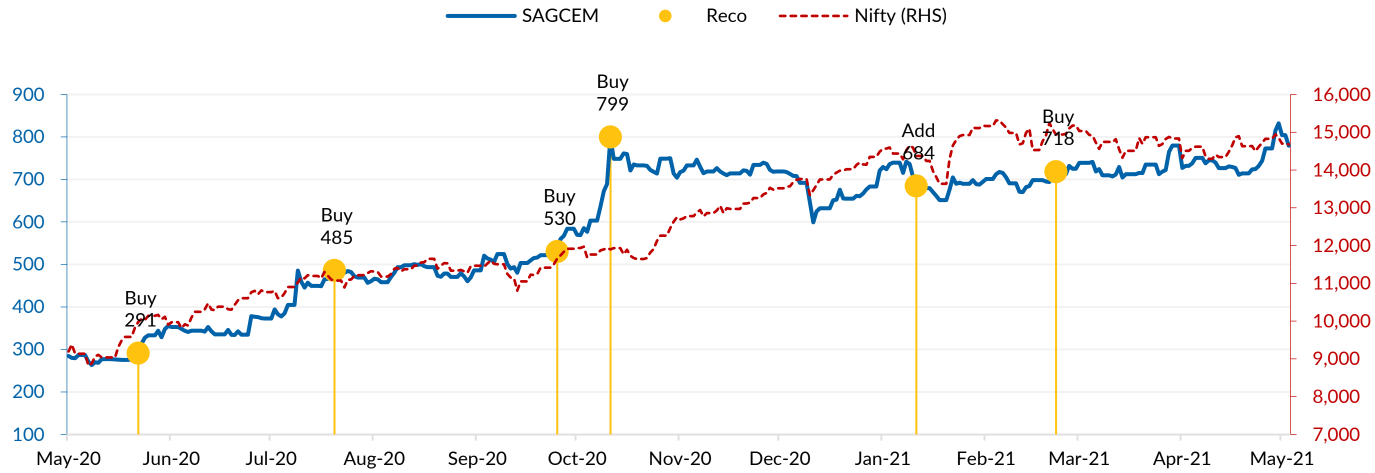
Source: Company, YES Sec – Research

Exhibit 3: Financial Summary

Y/e 31 Mar (In Rs mn)	FY20A	FY21A	FY22E	FY23E
Cement volumes (MT)	3.13	3.16	3.74	5.35
Revenues	11,752	13,713	15,424	22,828
EBITDA	1,855	4,004	2,986	4,195
EBITDA/te (Rs)	592	1,267	798	784
CFI	(2,270)	(4,766)	(2,030)	(200)
Net debt	4,753	5,520	6,058	3,859
Net debt/Equity (x)	0.49	0.46	0.47	0.27
Net debt/EBITDA (x)	2.56	1.38	2.03	0.92
ROE (%)	2.74	15.44	8.26	11.02
ROCE (%)	7.61	16.30	11.08	16.75
EV/EBITDA (x)	6.1	5.6	8.2	5.3

Source: Company, YES Sec – Research

Recommendation Tracker



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