

Sagar Cement

2 June 2020

Reuters: SGRC.NS; Bloomberg: SGC:IN

Capex to stretch balance sheet in short term

Sagar Cements Ltd (SGC) has reported good set of numbers for 4QFY20. Revenue at Rs3.04bn declined by 17% YoY due to 11% YoY decline in volume. Realization was better with 5.4% QoQ uptick, but it was down by 6.6% YoY. Operating cost/mt declined by 4% YoY as raw material cost and power & fuel cost were lower. As a result, EBITDA/mt came in at Rs534, which was almost double compared to 3QFY20 but down 18% YoY. SGC will continue to add capacity in Madhya Pradesh and Odisha which will take its total capacity from current 5.75mn mt to 8.25mn mt by June 2021. The current gross debt of the company stands at Rs4.9bn, which is expected to reach Rs8bn post completion of capex. Given the expected slowdown in government spending, we believe that the ramp up of new capacities will take time. The debt: EBITDA in that case is likely to cross 3x, which is a bit stretched in our opinion. Nevertheless, we are confident of the growth story in SGC and believe that despite hiccups, the management will be able to successfully commission the new plants and deliver superior volume and earnings growth in future. We have not changed our estimates for the time being and maintain our BUY rating on the stock with TP of Rs567. SGC is our preferred pick in the small cap segment.

Uptick post lifting of lockdown very limited: SGC has resumed its operations only from the first week of May instead of the last week of April and is currently operating at 25% to 30% utilization. State government orders and rural and individual housing demand have resulted in short term uptick in demand for the company. However, compared to other regions, revival of demand in SGC's key markets of AP and Telangana seems to be lower. Overall, demand in this region can come down by 25% this year.

Pricing to sustain at higher levels: Cement prices in south had reached decadal low in 3QFY20 (adjusted for inflation). From the lows, average pricing has increased in 3Q as well as 4Q. Price increases are just mean reversal and not inflated pricing based on the current cost structure of cement companies and hence higher pricing is likely to sustain in the near term.

Capex plans largely on track: The company is continuing with capex at both locations in Madhya Pradesh and Odisha. Based on current estimates, the management expects delay of around 3 months in the commissioning of these capacities. It is now expected by June 2021 instead of March 2021. However, labour availability in these locations is still hampered and hence it might get delayed further.

Government spending may come back in south: The management believes that state government spending in both Andhra Pradesh and Telangana will come back strongly after few months. In fact, the state government of Andhra Pradesh has already committed 1mn mt of cement offtake for various infra projects. This coupled with the other central projects are likely to drive cement demand in the near future for the company.

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	3,658	2,621	3,036	(17.0)	15.8
Operating Expenses	3,041	2,422	2,589	(14.9)	6.9
EBITDA	618	199	447	(27.7)	124.8
EBITDA Margin (%)	16.9	7.6	14.7	(217)bps	713bps
Other Income	9	5	23	158.4	389.4
Interest Costs	165	157	145	(12.3)	(7.9)
Depreciation	174	205	214	22.8	4.4
PBT	287	(159)	111	(61.3)	NA
Tax	100	(68)	99	(0.4)	NA
Reported PAT	188	(91)	12	(93.7)	NA
Exceptional Items	-	-	-	-	-
Adjusted PAT	188	(91)	12	(93.7)	NA
NPM (%)	5.1	(3.5)	0.4	(474)bps	NA
EPS (Rs.)	9.2	(4.1)	0.5	(94.2)	NA

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Cement

CMP: Rs292

Target Price: Rs567

Upside: 94%

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Key Data

Current Shares O/S (man)	20.0
Mkt Cap (Rsbn/US\$m)	6.5/85.4
52 Wk H / L (Rs)	722/236
Daily Vol. (3M NSE Avg.)	11,623

Price Performance (%)

	1 M	6 M	1 Yr
Sagar Cement	(1.6)	(44.1)	(57.2)
Nifty Index	(0.3)	(18.5)	(17.6)

Source: Bloomberg

Exhibit 1: Detailed financials (Consolidated)

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	3,658	2,621	3,036	(17.0)	15.8	12,176	11,752	(3.5)
Expenditure								
Chg. in stock	8	208	4	(54.2)	(98.2)	136	(98)	(172.4)
RM consumption	650	439	523	(19.6)	19.2	1,993	2,047	2.7
Purchase of traded goods	78	56	69	(12.5)	23.2	260	324	24.7
Employee cost	159	160	189	19.1	18.1	588	649	10.4
Freight, packing etc.	669	545	597	(10.8)	9.5	2,525	2,238	(11.4)
Power and fuel	988	627	763	(22.8)	21.6	3,628	3,092	(14.8)
Other exp	488	387	445	(8.7)	15.0	1,554	1,646	5.9
Operating Expenses	3,041	2,422	2,589	(14.9)	6.9	10,681	9,897	(7.3)
EBITDA	618	199	447	(27.7)	124.8	1,494	1,855	24.2
EBITDA Margin (%)	16.9%	7.6%	14.7%	(217)bps	713bps	12.3%	15.8%	351bps
Other Income	9	5	23	158.4	389.4	29	40	39.9
Interest Costs	165	157	145	(12.3)	(7.9)	634	610	(3.8)
Depreciation	174	205	214	22.8	4.4	657	789	20.0
PBT	287	(159)	111	(61.3)	NA	232	497	114.1
Tax	100	(68)	99	(0.4)	NA	96	231	140.8
Reported PAT	188	(91)	12	(93.7)	NA	136	265	95.2
Exceptional Items	-	-	-	-	-	-	-	-
Adjusted PAT	188	(91)	12	(93.7)	NA	136	265	95.2
NPM (%)	5.1%	(3.5)%	0.4%	(474)bps	NA	1.1%	2.3%	114bps
EPS (Rs.)	9.2	(4.1)	0.5	(94.2)	NA	6.7	11.9	78.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational data

Operational Data	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Volume (mn mt)	0.94	0.76	0.84	(11.3)	9.6	3.32	3.13	(5.8)
Cement Realization (Rs/mt)	3,875	3,431	3,617	(6.6)	5.4	3,664	3,753	2.4
Operating Costs (Rs/mt)	3,221	3,171	3,094	(4.0)	(2.4)	3,214	3,161	(1.7)
EBITDA (Rs/mt)	654	260	534	(18.4)	105.2	450	592	31.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs

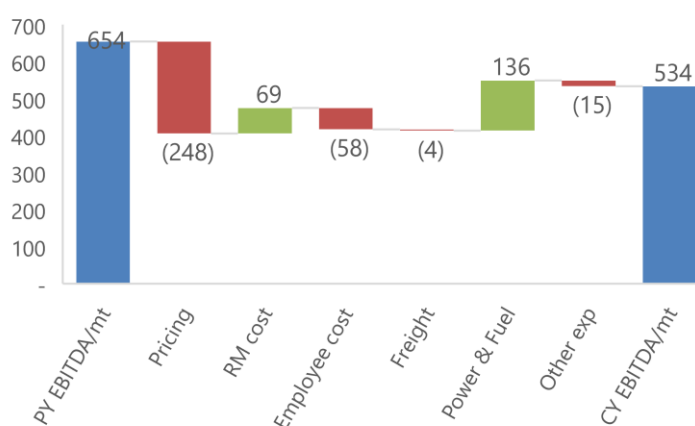
Costs/mt (Rs)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	YoY (%)	QoQ (%)
RM consumption	620	777	523	760	781	740	518	920	711	(8.9)	(22.7)
Employee cost	206	191	213	146	168	180	215	209	226	34.3	7.8
Freight Cost	822	794	822	734	709	732	697	714	713	0.6	(0.1)
Power and fuel	1,145	1,021	1,236	1,080	1,047	1,060	1,172	821	911	(13.0)	11.0
Other exp	529	439	492	420	517	526	538	507	532	3.0	4.9
Op exp /mt	3,322	3,222	3,286	3,141	3,221	3,239	3,140	3,171	3,094	(4.0)	(2.4)
EBITDA/mt	503	492	293	328	654	959	597	260	534	(18.4)	105.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key Financial Summary

Y/E March (Rsmm)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	10,381	12,176	11,920	11,714	20,604
YoY (%)	27.6	17.3	(2.1)	(1.7)	75.9
EBITDA	1,482	1,468	1,910	1,426	3,322
EBITDA (%)	14.3	12.1	16.0	12.2	16.1
Adj. PAT	263	136	385	(157)	1,121
YoY (%)	NA	(48.2)	183.2	(140.8)	NA
EPS (Rs)	12.9	6.7	16.4	(6.7)	47.7
ROE (%)	3.4	1.7	4.2	(1.6)	10.9
EV/EBITDA	14.5	13.1	6.0	8.6	3.9
EV/mt (\$)	73.4	47.9	26.5	19.7	20.8
P/E (x)	67.2	111.1	18.6	NA	6.1

Exhibit 5: YoY Movement in EBITDA/mt



Source: Nirmal Bang Institutional Equities Research

4QFY20 Conference call highlights

Demand

- For FY20, there was 6% decline YoY in volume which was primarily contributed by Andhra Pradesh (-18%), Karnataka (-10%) and Telangana (-4%). This was partially offset by a slight increase in Orissa, Tamil Nadu and Maharashtra markets.
- According to the company, demand has largely been affected due to the unavailability of workers and supply chain disruption. However, the company did some volume in April for emergency govt orders whereas May has been better than April. Cumulatively, volume in April and May has been less than 50% compared to a year ago.
- Around 60% of the company's demand is from rural areas and rest from urban areas, which has now increased to 70-75% from rural and rest from urban.
- Current capacity utilisation is 25-30%, which is enough for breakeven with the given price realization.

Pricing

- There was a substantial improvement in pricing from 3QFY20 lows. Prices have increased in 4QFY20 as well as 1QFY21. The current price increase in 1QFY21 is close to Rs750-1000/mt in net sales realization terms.

Supply

- There was a lot of supply-related issue in April. However, things have improved once the lockdown has been relaxed and is expected to be normal within the next 3-4 months.
- Plants that are expected to come are Chettinad clinker line in Andhra Pradesh, Ramco Cement's Kurnool unit by 3Q or 4Q of FY21.

Costs

- The procurement cost of petcoke is 15-20% lower than the last purchased price and the benefits of the same are expected to be seen from 2QFY21 onwards.
- The company is completely dependent on road transport of goods (tried some rake delivery in 4QFY20) and is facing logistics issues such as shortage of drivers, non-allowance of trucks at end customer's site, etc. The company does not own any trucks.

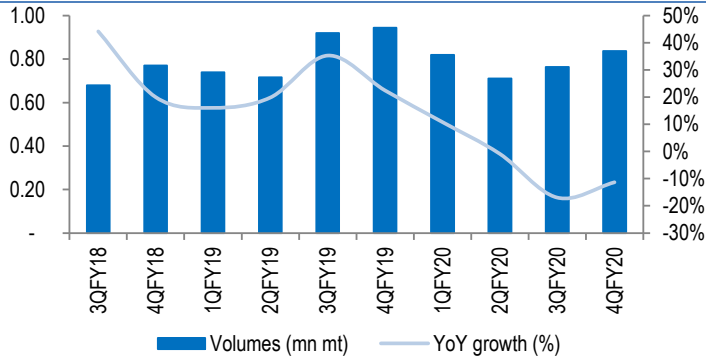
Capex

- There is going to be a delay of a minimum of 3 months for its Satguru and Jajpur plants due to COVID impact.
- Total capex for the Satguru plant of 1mn integrated unit is Rs4.85bn, out of which Rs1.2bn has been spent whereas for the Jajpur plant (1.5mn mt grinding unit) the capex is Rs3.1bn, out of which Rs0.8bn has been spent till now. The debt drawn down for both the projects is Rs0.5bn.

Others

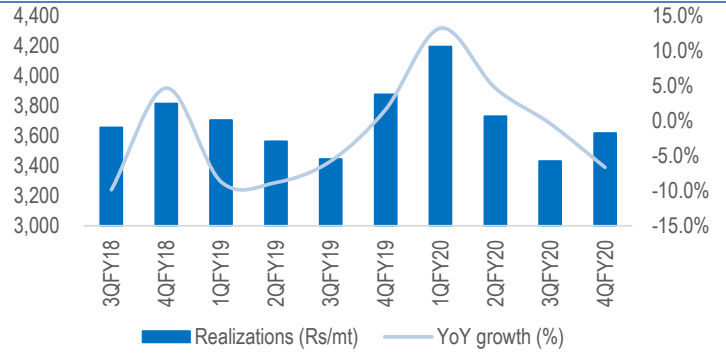
- 1.2 million share warrants are still outstanding and the last date to convert them is July 2020 and the company is hopeful that all the warrants would be converted by then.
- The tax expense has increased due to reversal of deferred tax asset of Rs66.9mn by Sagar Cements (R) due to the implementation of new tax regime.

Exhibit 6: Volume down by 11.3% YoY



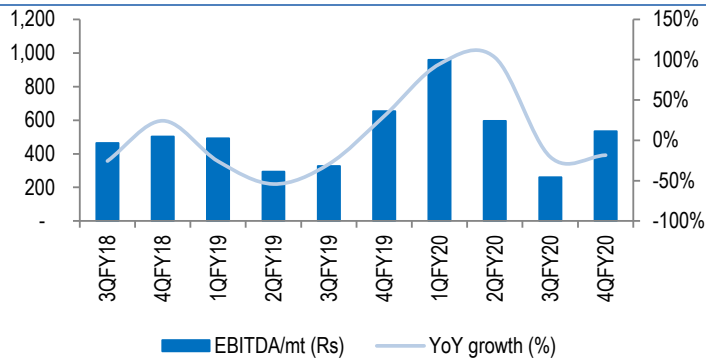
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Realization down by 6.6% YoY but up QoQ



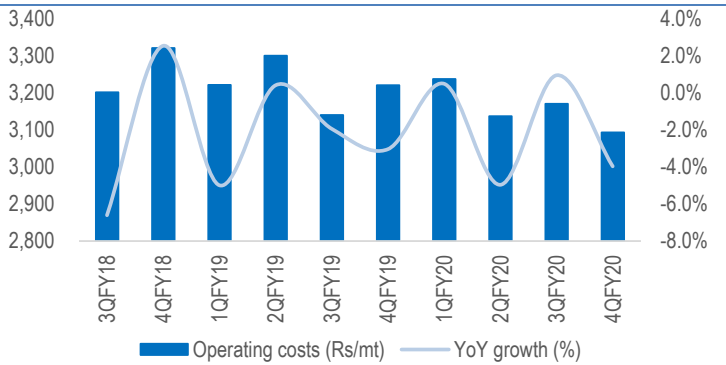
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA was down 18.4% YoY



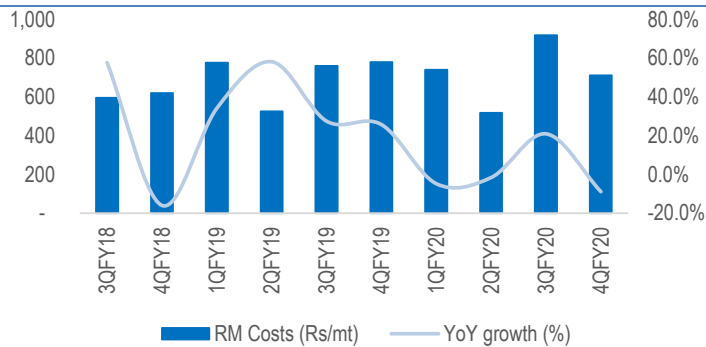
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Operating cost decreased 4% YoY



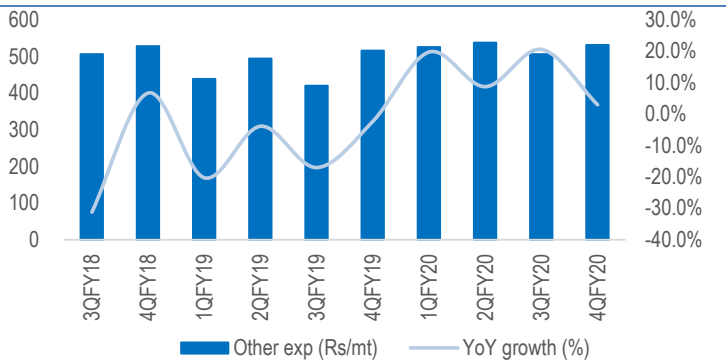
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: RM cost was down by 8.9% YoY



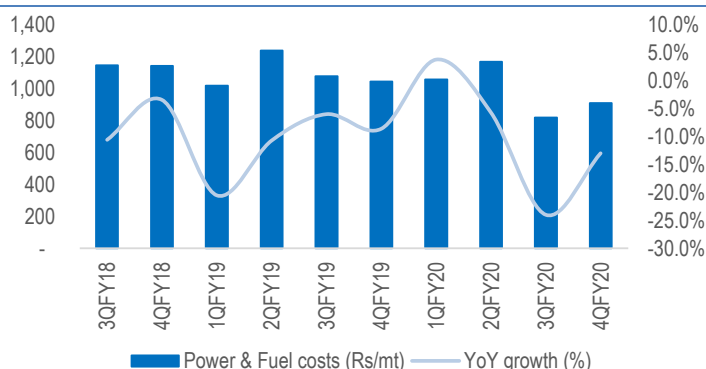
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Other expenses was almost flat YoY



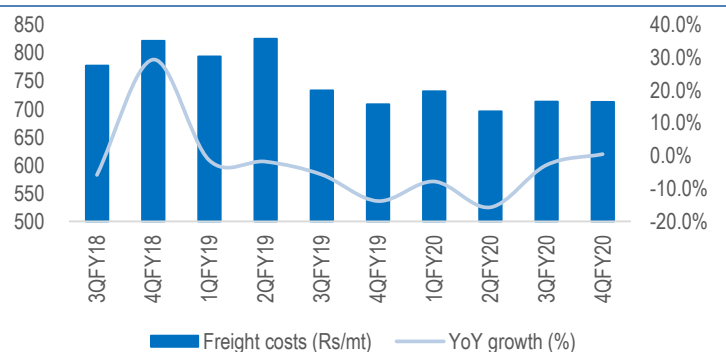
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Power & Fuel cost down by 13% YoY



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Freight cost is flat YoY

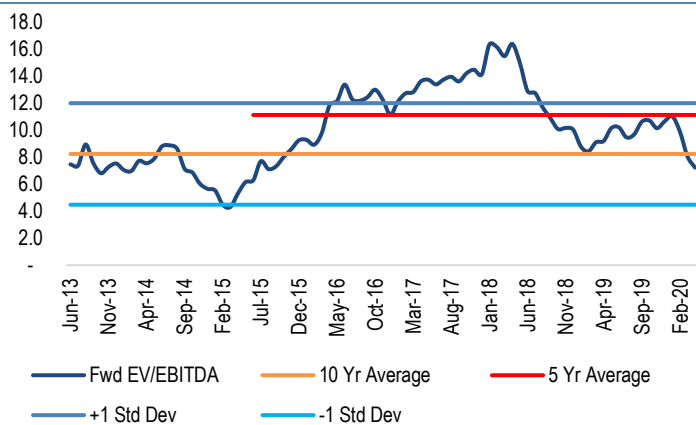


Source: Company, Nirmal Bang Institutional Equities Research

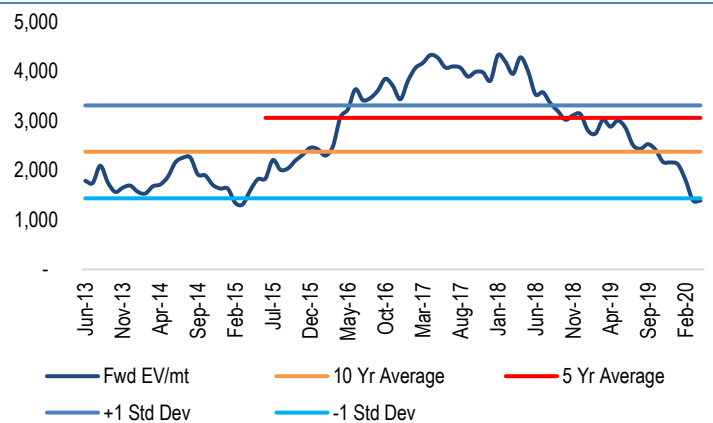
Exhibit 14: Valuation summary

Particulars	(Rs)
Sep 21 EBITDA	2,374
Target multiple (x)	8.0
Enterprise value	18,992
Less: Net debt	5,668
Equity value	13,324
No of shares (mn)	23.5
Value per share (Rs)	567
CMP (Rs)	292
Upside / (downside) %	94%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Rolling valuation charts


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement
Exhibit 16: Income statement

YE March, Rsmn	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	10,381	12,176	11,920	11,714	20,604
Raw Material Consumed	1,445	2,388	2,195	2,271	4,089
Power & Fuel Cost	3,315	3,628	3,320	3,317	5,799
Employee Cost	513	588	601	672	784
Freight and Forwarding	2,179	2,525	2,286	2,375	3,918
Other expenses	1,447	1,580	1,609	1,653	2,691
Total Expenditure	8,899	10,707	10,010	10,289	17,281
Operating profit	1,482	1,468	1,910	1,426	3,322
Operating profit margin (%)	14%	12%	16%	12%	16%
Other Income	104	55	25	25	25
Interest	593	634	664	770	878
Depreciation	536	657	776	882	965
PBT	457	232	494	(202)	1,504
Exceptional items	-	-	-	-	-
PBT post exc items	457	232	494	(202)	1,504
Tax	194	96	109	(45)	383
Tax rate (%)	43%	41%	22%	22%	25%
PAT	263	136	385	(157)	1,121
EPS (Rs)	12.9	6.7	16.4	(6.7)	47.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

YE March	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Sales	27.6	17.3	(2.1)	(1.7)	75.9
Operating Profits	36.0	(1.0)	30.1	(25.3)	133.0
Net Profits	NA	(48.2)	183.2	(140.8)	NA
Leverage (x)					
Net Debt: Equity	0.50	0.49	0.43	0.56	0.56
Interest Cover(x)	2.50	2.32	2.87	1.85	3.78
Total Debt/EBITDA	3.00	3.03	2.56	4.21	1.96
Profitability (%)					
OPM	14.3	12.1	16.0	12.2	16.1
NPM	2.5	1.1	3.2	(1.3)	5.4
ROE	3.4	1.7	4.2	(1.6)	10.9
ROCE	8.5	7.4	9.7	4.7	15.7
Turnover ratios (x)					
GFAT	0.8	0.8	0.7	0.6	0.9
Debtors Turnover(x)	9	28	27	20	44
WC days	144	88	95	105	71
Valuation (x)					
P/E	67.2	111.1	18.6	NA	6.1
P/B	2.3	1.8	0.7	0.7	0.6
EV/EBITDA	14.5	13.1	6.0	8.6	3.9
EV/mt (\$)	73.4	47.9	26.5	19.7	20.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance Sheet

YE March, Rsmn	FY18	FY19	FY20E	FY21E	FY22E
Equity Capital	204	770	235	235	235
Reserves and Surplus	7,588	7,669	9,699	9,521	10,621
Networth	7,792	8,438	9,934	9,756	10,856
Total Debt	4,450	4,447	4,897	5,997	6,497
Deferred tax liability	84	83	83	83	83
Other non-current liabilities	569	642	679	699	713
Trade Payables	1,368	2,038	1,915	1,964	3,256
Other Current Liabilities	1,124	1,635	1,546	1,473	1,416
Total Current Liabilities	3,645	5,062	5,099	5,076	6,311
Total liabilities	15,387	17,283	19,054	19,972	22,821
Net Block	10,526	12,442	14,555	15,689	16,490
CWIP	1,254	1,101	528	278	278
Investment	-	-	-	-	-
Other non-current assets	692	353	375	398	422
Inventories	949	1,450	1,362	1,397	2,313
Sundry Debtors	926	1,156	1,132	1,115	1,901
Cash and Bank	581	295	592	565	376
Other current assets	461	486	510	530	1,041
Total Current Assets	2,916	3,388	3,596	3,607	5,631
Total Assets	15,387	17,283	19,054	19,972	22,821

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Cash flow statement

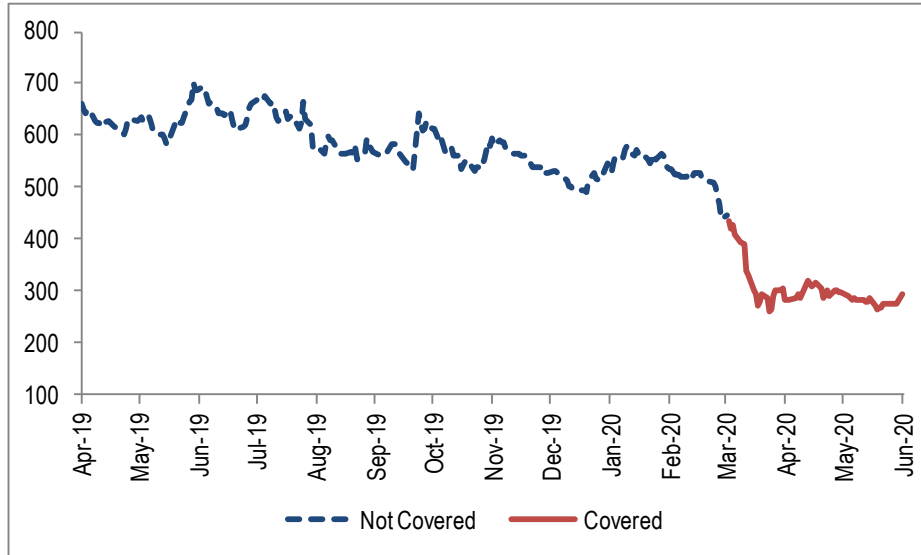
YE March, Rsmn	FY18	FY19	FY20E	FY21E	FY22E
Profit before tax	457	232	494	(202)	1,504
Add: Depreciation	536	657	776	882	965
Add: Interest Exp	593	634	664	770	878
CFO b4 WC	1,586	1,523	1,934	1,450	3,347
Net change in Working capital	67	366	(124)	(61)	(978)
Tax paid	(194)	(96)	(109)	45	(383)
Net cash from operations	1,459	1,793	1,701	1,435	1,986
Capital expenditure	(1,757)	(2,420)	(2,316)	(1,766)	(1,766)
Sale of investments	3	-	-	-	-
Net cash from investing	(1,999)	(2,081)	(2,338)	(1,789)	(1,791)
Issue of shares	-	566	(535)	-	-
Increase in debt	(3)	(3)	450	1,100	500
Dividends paid incl. tax	(98)	(37)	(37)	(37)	(37)
Interest paid	(593)	(634)	(664)	(770)	(878)
Net cash from financing	(583)	2	934	329	(385)
Net Cash	(1,124)	(286)	297	(26)	(190)
Opening Cash	1,705	581	295	592	565
Closing Cash	581	295	592	565	376

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 March 2020	BUY	439	801
13 April 2020	BUY	288	567
2 June 2020	BUY	292	567

Rating track graph



DISCLOSURES

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