

#### View: Strong quarter, fair valuation; Downgrade to Accumulate

- SGC reported results above estimates on all fronts.
- SGC posted strong set of numbers with +48.6% / +23.1% / +42.3% YoY growth in revenue/ EBITDA/ APAT to Rs3.9 bn/ Rs1.1 bn/ Rs514 mn led by +58.4% / -6.2% YoY growth in volume/ realization (+9.3% QoQ).
- We expect 26.8% / 9.7% / 3.1% revenue/ EBITDA/ APAT CAGR over FY21-23E led by 20.4% / 36.3% volume growth and -1.0% / -1.0% realization de-growth in FY22E/ FY23E.
- We increase our revenue and EBITDA estimates by 6.0% / 4.8% and 7.0% / 5.4% for FY22E/ FY23E factoring Q1FY22 results. Accordingly, we increase our APAT estimates by 15.6% / 8.8% for FY22E/ FY23E.
- We like SGC for its continuous efforts to expand its capacity combined with diversify its revenue and one of the lowest cost producer led by various cost rationalizing measures. SGC is increasing its capacity significantly by 2.5mtpa (43.5%) to 8.25mtpa by Q2FY22 in newer strong demand geographies like East (1.5mtpa in Odisha) and Central (1mtpa with 0.7mtpa clinker in MP) regions. These expansions to support strong volume growth in FY22E and FY23E. SGC's long term vision of expanding capacity to 10 mtpa by FY25E stays intact.
- Despite ongoing capacity expansion, we expect debt to remain under control with net D:E at 0.5x for FY22E/ FY23E. However, the stock has run up ~62% since our Q4FY21 result update note dated 14 May'21 thus we downgrade to Accumulate with a TP of Rs1,379 based on 8x (20% / 27% discount to 5/10 year averages) consolidated FY23E EV/EBITDA.

#### EBITDA/tn - down 22.3% / +19.5% YoY / QoQ

Higher than anticipated volume (+58.4% YoY/ -14.0% QoQ to 0.88mt), higher than expected realization (-6.2% YoY / +9.3% QoQ to Rs4,463/tn) and lower than expected operating cost/tn (+1.8% YoY / +5.9% QoQ to Rs3,246/tn) helped SGC to report strong EBITDA/tn of Rs1,218.

#### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	3,926	2,641	48.6	4,177	(6.0)
Total Expense	2,855	1,771	61.2	3,134	(8.9)
EBITDA	1,071	870	23.1	1,043	2.7
Depreciation	194	200	(2.7)	200	(3.0)
EBIT	877	671	30.8	842	4.1
Other Income	48	8	502.5	17	178.4
Interest	156	128	21.5	108	43.6
EBT	769	550	39.7	751	2.4
Tax	268	190	40.8	253	6.1
RPAT	514	361	42.3	500	3.0
APAT	514	361	42.3	500	3.0
			(bps)		(bps)
Gross Margin (%)	44.0	49.6	(553)	43.2	88
EBITDA Margin (%)	27.3	32.9	(566)	25.0	232
NPM (%)	13.1	13.7	(58)	12.0	114
Tax Rate (%)	34.9	34.6	26	33.6	122
EBIT Margin (%)	22.3	25.4	(305)	20.2	217

CMP	Rs 1,301		
Target / Upside	Rs 1,379 / 6%		
NIFTY	15,709		
<b>Scrip Details</b>			
Equity / FV	Rs 235mn / Rs 10		
Market Cap	Rs 31bn		
	USD 411mn		
52-week High/Low	Rs 1,390/ 444		
Avg. Volume (no)	87,245		
Bloom Code	SGC IN		
<b>Price Performance</b>			
1M	3M	12M	
Absolute (%)	17	83	179
Rel to NIFTY (%)	18	78	141

#### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	50.3	50.3	50.3
MF/Banks/FIs	12.1	11.8	11.5
FII	3.0	3.2	3.1
Public / Others	34.7	34.7	35.1

#### Valuation (x)

	FY21A	FY22E	FY23E
P/E	16.4	22.2	15.5
EV/EBITDA	9.0	10.3	7.6
ROE (%)	28.6	19.2	25.1
RoACE (%)	21.1	16.8	20.4

#### Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	13,713	16,343	22,059
EBITDA	4,004	3,637	4,818
PAT	1,860	1,377	1,976
EPS (Rs.)	79.2	58.6	84.1

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**Exhibit 1: Actual V/s DART estimates (Rs mn)**

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	3,926	3,453	13.7	+9.2% / +4.1% higher/ higher than estimated volume/ realization
EBITDA (Rs mn)	1,071	800	33.8	+4.1% / -1.5% higher/ lower than estimated realization/ cost
EBITDA%	27.3	23.2	411	
PAT (Rs mn)	514	278	84.8	Led by better operating efficiencies

Source: Company, DART

**Exhibit 2: Change in estimates - Increase FY22E/ FY23E estimates**

(Rs mn)	FY22E			FY23E		
	New	Old	% change	New	Old	%change
Net revenues	16,343	15,416	6.0	22,059	21,056	4.8
EBIDTA	3,637	3,399	7.0	4,818	4,570	5.4
EBIDTA margin (%)	22.3	22.1	20	21.8	21.7	14
Adj. Net Profit	1,377	1,191	15.6	1,976	1,817	8.8
EPS (Rs)	58.6	50.7	15.6	84.1	77.3	8.8

Source: DART, Company

**Exhibit 3: Volume, Realization & Cost/tn Analysis**

(Rs)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume(MT)	0.88	0.56	58.4	1.02	(14.0)	3.2	3.1	0.9
Realization/tn (Rs)	4,463	4,756	(6.2)	4,084	9.3	4,339	3,753	15.6
EBITDA/tn (Rs)	1,218	1,567	(22.3)	1,019	19.5	1,267	592	113.9
Cost/tn (Rs)	3,246	3,189	1.8	3,064	5.9	3,072	3,161	(2.8)
Raw Material Cost/tn (Rs)	598	892	(33.0)	716	(16.5)	758	726	4.5
Employee Expenses/tn (Rs)	217	262	(17.2)	229	(5.1)	242	207	16.6
Power and Fuels/tn (Rs)	1,138	802	41.9	864	31.7	827	987	(16.2)
Freight Expenses/tn (Rs)	762	704	8.2	742	2.8	741	715	3.7
Other expenses/tn (Rs)	531	528	0.4	514	3.1	503	526	(4.2)

Source: Company, DART

**Exhibit 4: % of Revenue**

Particulars	Q1FY22	Q1FY21	bps	Q4FY21	bps	FY21	FY20	bps
Raw Material Cost	13.4	18.8	(537)	17.5	(413)	17.5	19.3	(186)
Employee Expenses	4.9	5.5	(65)	5.6	(74)	5.6	5.5	5
Power and Fuels	25.5	16.9	863	21.2	434	19.1	26.3	(725)
Freight Expenses	17.1	14.8	227	18.2	(108)	17.1	19.0	(196)
Other expenses	11.9	11.1	78	12.6	(71)	11.6	14.0	(240)

Source: Company, DART

**Exhibit 5: Income statement (Consolidated)**

Particulars (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Total Revenue</b>	3,926	2,641	48.6	4,177	(6.0)	13,713	11,752	16.7
Raw Material Cost	526	496	6.1	732	(28.2)	2,397	2,273	5.5
Employee Expenses	191	145	31.2	234	(18.4)	764	649	17.7
Power and Fuel	1,001	446	124.7	884	13.3	2,614	3,092	(15.4)
Freight Cost	671	391	71.4	759	(11.6)	2,342	2,238	4.7
Other expenses	467	293	59.0	526	(11.3)	1,591	1,646	(3.3)
<b>Total Expenditure</b>	2,855	1,771	61.2	3,134	(8.9)	9,709	9,897	(1.9)
<b>PBIDT (Excl. OI)</b>	1,071	870	23.1	1,043	2.7	4,004	1,855	115.9
Other Income	48	8	502.5	17	178.4	78	40	93.1
Depreciation	194	200	(2.7)	200	(3.0)	806	789	2.1
<b>EBIT</b>	925	679	36.3	859	7.6	3,277	1,107	196.1
Interest	156	128	21.5	108	43.6	466	610	(23.7)
<b>EBT</b>	769	550	39.7	751	2.4	2,811	497	466.0
Tax	268	190	40.8	253	6.1	955	231	312.7
<b>RPAT</b>	501	360	39.1	498	0.5	1,856	265	599.6
<b>APAT</b>	514	361	42.3	500	3.0	1,860	267	596.4
<b>Adj. EPS (Rs)</b>	21.9	15.4	42.3	21.3	3.0	79	11	596.4
				<b>bps</b>	<b>bps</b>			<b>bps</b>
<b>EBIDTA Margin (excl. O.I.)</b>	27.3	32.9	(566)	25.0	232	29.2	15.8	1,342
<b>NPM (%)</b>	13.1	13.7	(58)	12.0	114	13.6	2.3	1,129
<b>Tax Rate (%)</b>	34.9	34.6	26	33.6	122	34.0	46.6	(1,261)

Source: DART, Company

**Exhibit 6: Valuation**

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	8.0
EBITDA (FY23E)	4,818
EV	38,544
Less: Net Debt (FY23E)	6,144
Mcap	32,400
Shares o/s (mn)	24
<b>Target Price</b>	<b>1,379</b>
<b>CMP (Rs)</b>	<b>1,301</b>
<b>Upside (%)</b>	<b>6.0</b>

Source: Company, DART

## Key earnings takeaways

### Demand

- Q1FY22 witnessed low volumes due to 2<sup>nd</sup> wave of covid however, volumes improved by end of Q1FY22. In the south region, retail demand was benign but government demand was strong in Hyderabad. In the West region, Non-trade demand improved but retail demand decreased. East region improved.
- Demand contracted 15% in FY21 in states where the company operates, not giving any demand guidance on industry due to 3<sup>rd</sup> wave of covid, but can expect ~2% growth in FY22.
- Volume guidance for FY22 – Maintains target to achieve 3.6mt in FY22, of which 3.2mt (~1-2% YoY growth) will come from the existing plants and 0.4mt from 2 new plants.
- East region consistently growing at 10% for the past 15 years and will continue to grow. Lot of capacity coming up in East but its majorly grinding and not clinker unit. Management believes with supply coming in the East, demand will catch up.
- 55-60% of Sagar's volume comes from AP & Telangana and its exposure to TN is very limited and Kerala is negligible. Companies having more exposure to TN and Kerala had witnessed more de-growth in Q1FY22. Kerala is going for strict weekend lockdown.

### Prices

- South and East region witnessed steady pick up, West was stable. Management is hopeful that industry likely to pass on increase in input cost to end consumers
- Trade prices in Hyderabad – Q4FY21 exit prices at Rs350 then increased to 360-370 and now stands at Rs365. In Bangalore, Rs350 was the Q4FY21 exit prices post which increased to Rs370-385 and now stands at Rs380. Prices in Chennai (North TN) was Rs375 in Q4FY21 exit post which increased to 385-395 and now stands at Rs390.
- In absolute terms, cement prices are high but management believes adjusted for inflation, prices are not at multi-year high.

### Cost

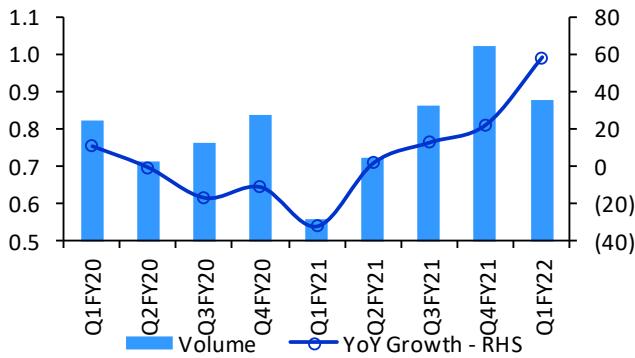
- Input cost are increasing very high. Management has factored Rs150/tn QoQ increase in operating cost in Q2FY22.
- Management expects Power & Fuel cost/tn to increase by Rs100/tn from exit of Q1FY22 to Q2FY22. However, increase in blended cement can set off the rise in fuel prices to some extent.
- Increasing diesel cost is a worry. If it moves further, cost will shoot up majorly.
- Fuel ordering is a continuous process and alternate fuel arrangement is being made. Sagar Cement continues with its policy to hedge fuel inventory for two quarters beyond which it is not viable to hedge since holding cost increases and it becomes expensive to hedge beyond 2 quarters. It used 100% imported coal in Q1FY22 but now back to use pet coke and domestic coal (Singareni coal).
- With 2 new capacities blending rate is expected
- Petcoke is higher on Kcal basis. Company will procure domestic coal from Singareni coal (low quality coal) and will blend both which will lead to lower Kcal value.

### Capex & Utilization

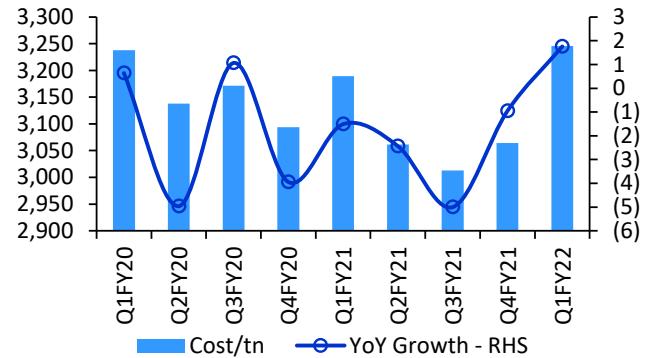
- Matampally/ Gudipadu/ Bayyavaram utilization stood at 56%/ 78%/ 59%.
- Satguru and Jajpur plants to commission by Sept'21. Expect 1<sup>st</sup> dispatch by 15 Aug'21 and full production by Sept'21. Expect 75%/ 60-65% capacity utilization for FY22E and 85%/ 70-75% for FY23E at Satguru/ Jajpur plants.
- The plan to expand capacity to 10mtpa by FY25 and doubling capacity in a decade is on. Sagar is open for organic and inorganic expansion and brownfield and greenfield. They will not opt for North East region for expansion.
- Company has enough clinker to support 70%/ 70%/ 65% utilization at Jajpur/ Vizag/ Matampally plants.

### Debt & Others

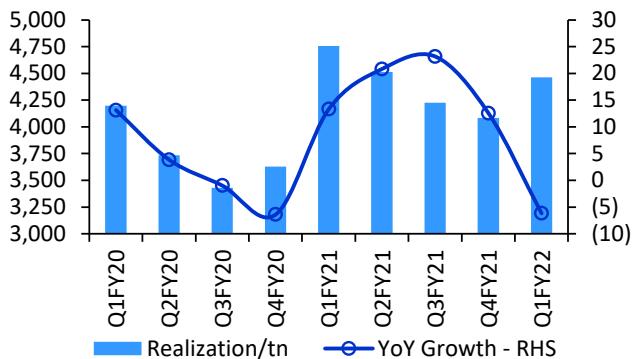
- Gross debt increased by Rs377 mn QoQ to Rs8.44 bn (Q1FY22) and cash balance stands at Rs1.72 bn, so net debt at Rs6.72 bn. Net D:E at 0.56x. Management expects gross debt (incl WC) to peak at Rs8.5-8.75 bn (earlier Rs8 bn) but by Q1FY23E debt should reduce. It has Rs1.85 bn repayment including interest scheduled for FY22.
- Capex of Rs750 mn is done in Q1FY22 and Rs1.5 bn is pending for Q2FY22.
- MP state has Rs1.5 bn incentives paid over 7 years and Odisha government is providing incentive in transit for which detail clarity to come in 1<sup>st</sup> week of Oct'21.
- Expect 8-10% hike in employee cost on annual basis. Recruitment for both new plants is done and will be capitalized before commissioning of those plants.
- M&A potential always exist and nothing can be ruled out.

**Exhibit 7: Volume (mt)**


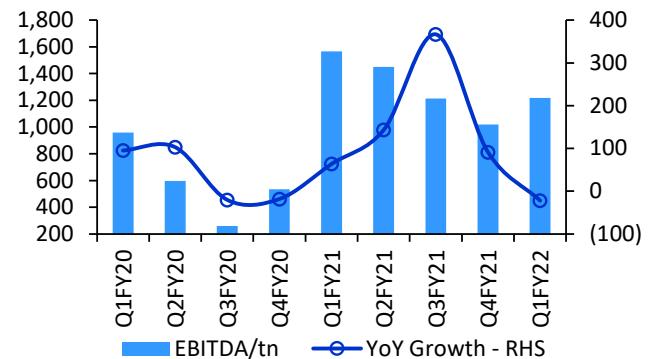
Source: Company, DART

**Exhibit 8: Cost/tn (Rs)**


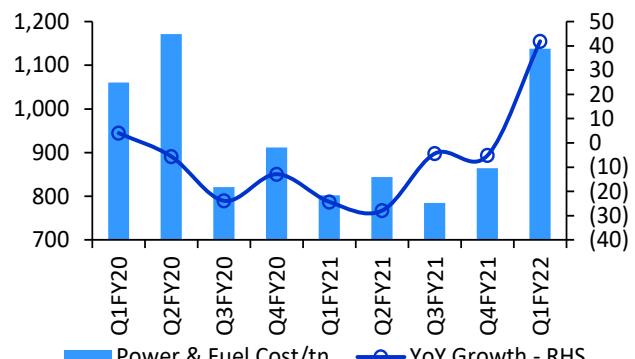
Source: Company, DART

**Exhibit 9: Realization/tn (Rs)**


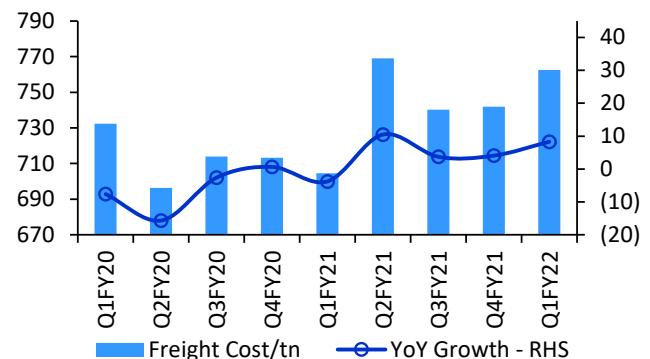
Source: Company, DART

**Exhibit 10: EBITDA/tn (Rs)**


Source: Company, DART

**Exhibit 11: Power & fuel cost/tn (Rs)**


Source: Company, DART

**Exhibit 12: Freight cost/tn (Rs)**


Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>11,752</b>	<b>13,713</b>	<b>16,343</b>	<b>22,059</b>
<b>Total Expense</b>	<b>9,897</b>	<b>9,709</b>	<b>12,706</b>	<b>17,241</b>
COGS	7,602	7,354	9,889	13,558
Employees Cost	649	764	863	992
Other expenses	1,646	1,591	1,954	2,691
<b>EBIDTA</b>	<b>1,855</b>	<b>4,004</b>	<b>3,637</b>	<b>4,818</b>
Depreciation	789	806	988	1,173
<b>EBIT</b>	<b>1,066</b>	<b>3,199</b>	<b>2,649</b>	<b>3,645</b>
Interest	610	466	661	706
Other Income	40	78	98	55
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>497</b>	<b>2,811</b>	<b>2,086</b>	<b>2,995</b>
Tax	231	955	709	1,018
RPAT	267	1,860	1,377	1,976
Minority Interest	(2)	(4)	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>267</b>	<b>1,860</b>	<b>1,377</b>	<b>1,976</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	223	235	235	235
Minority Interest	539	535	535	535
Reserves & Surplus	9,444	11,810	13,093	14,976
<b>Net Worth</b>	<b>10,206</b>	<b>12,580</b>	<b>13,863</b>	<b>15,746</b>
Total Debt	4,880	8,065	8,452	8,152
Net Deferred Tax Liability	227	759	759	759
<b>Total Capital Employed</b>	<b>15,313</b>	<b>21,404</b>	<b>23,074</b>	<b>24,657</b>

**Applications of Funds**

Net Block	<b>13,423</b>	<b>12,822</b>	<b>19,333</b>	<b>19,660</b>
CWIP	1,080	5,175	1,175	2,175
Investments	0	0	0	0
<b>Current Assets, Loans &amp; Advances</b>	<b>4,672</b>	<b>7,689</b>	<b>7,550</b>	<b>9,453</b>
Inventories	1,158	1,243	1,478	1,994
Receivables	1,368	1,007	1,254	1,692
Cash and Bank Balances	128	2,542	1,554	2,008
Loans and Advances	0	0	0	0
Other Current Assets	2,019	2,897	3,264	3,759
<b>Less: Current Liabilities &amp; Provisions</b>	<b>3,862</b>	<b>4,281</b>	<b>4,983</b>	<b>6,631</b>
Payables	2,230	2,290	2,687	3,626
Other Current Liabilities	1,632	1,991	2,297	3,005
<i>sub total</i>				
Net Current Assets	810	3,408	2,566	2,822
<b>Total Assets</b>	<b>15,313</b>	<b>21,404</b>	<b>23,074</b>	<b>24,657</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21A	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	35.3	46.4	39.5	38.5
EBIDTA Margin	15.8	29.2	22.3	21.8
EBIT Margin	9.1	23.3	16.2	16.5
Tax rate	46.6	34.0	34.0	34.0
Net Profit Margin	2.3	13.6	8.4	9.0
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	64.7	53.6	60.5	61.5
Employee	5.5	5.6	5.3	4.5
Other	14.0	11.6	12.0	12.2
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.5	0.6	0.6	0.5
Interest Coverage	1.7	6.9	4.0	5.2
Inventory days	36	33	33	33
Debtors days	42	27	28	28
Average Cost of Debt	12.2	11.2	14.6	14.6
Payable days	69	61	60	60
Working Capital days	25	91	57	47
FA T/O	0.9	1.1	0.8	1.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	11.4	79.2	58.6	84.1
CEPS (Rs)	44.9	113.4	100.7	134.0
DPS (Rs)	2.3	6.5	4.0	4.0
Dividend Payout (%)	20.1	8.2	6.8	4.8
BVPS (Rs)	434.3	535.3	589.9	670.0
RoANW (%)	2.9	28.6	19.2	25.1
RoACE (%)	6.1	21.1	16.8	20.4
RoAIC (%)	7.5	31.3	23.5	29.9
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1301	1301	1301	1301
P/E	114.5	16.4	22.2	15.5
Mcap (Rs Mn)	30,578	30,578	30,578	30,578
MCap/ Sales	2.6	2.2	1.9	1.4
EV	35,331	36,101	37,476	36,722
EV/Sales	3.0	2.6	2.3	1.7
EV/EBITDA	19.0	9.0	10.3	7.6
P/BV	3.0	2.4	2.2	1.9
Dividend Yield (%)	0.2	0.5	0.3	0.3
<b>(F) Growth Rate (%)</b>				
Revenue	(3.5)	16.7	19.2	35.0
EBITDA	24.2	115.9	(9.2)	32.5
EBIT	27.3	200.0	(17.2)	37.6
PBT	113.9	466.0	(25.8)	43.5
APAT	96.3	596.4	(26.0)	43.5
EPS	96.3	596.4	(26.0)	43.5

**Cash Flow**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	2,021	3,772	2,845	4,034
CFI	(2,304)	(4,572)	(3,466)	(2,481)
CFF	99	3,217	(367)	(1,100)
FCFF	(994)	1,988	(703)	768
Opening Cash	295	128	2,542	1,554
Closing Cash	128	2,542	1,554	2,008

E – Estimates

## **DART RATING MATRIX**

### Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



\*Price as on recommendation date

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