

Sagar Cements Ltd.

24 February, 2023
Reuters: SGRC.NS; Bloomberg: SGC:IN

Andhra acquisition aids to reach 10MTPA capacity

South India based cement manufacturer Sagar Cements Ltd (SCL) has an installed capacity of 8.25MT (South-5.75MT, Central-1MT and East-1.5MT). SCL has a total captive power capacity of 66.85MW. In contrast to its previous predominant exposure to South India, it has now increased its market presence in the East and Central regions as well, which are seeing rapid growth.

Key highlights:

The resolution plan for the company's purchase of Andhra Cements, which would enable it to reach its goal of 10MT by FY25E, has been authorized by the NCLT.

- SCL will purchase an integrated operation with 1.65MTPA clinker capacity, 1.8MTPA cement capacity and 30MW captive power plant in the Guntur District, Andhra Pradesh (DCW). Moreover, it will purchase a 0.8MTPA grinding facility in Vizag, Andhra Pradesh (Viskha Cement Works – VCW). SCL is considering closing this plant and may try to monetize the land in the long term. It has envisaged spending Rs7.62bn on this acquisition besides a capex of Rs850mn. Also, the Board has authorized an additional capex of Rs4.7bn to increase the DCW unit's clinker capacity to 2.3MTPA and cement capacity to 3MTPA.
- A total of Rs14bn will be spent on capex over the next three years, with the purchase cost of DCW coming in at US\$56 per tonne (vs. US\$90 per tonne for greenfield implementation). The purchase of Andhra Cements and the recent commissioning of additional capacity (2.5MT in the Central and Eastern regions) will drive volume growth going forward.
- We expect SCL to fully capitalize on its location in the fast-growing East and Central regions. Maintaining market share in these high supply regions requires careful attention to price and brand positioning in its core consumption markets.
- The company's balance sheet is likely to remain leveraged if debt financing is used.
- We continue to rate SCL a BUY.
- Target Price (TP) and Valuation: We value SCL at 7x FY25E EV/EBITDA or Rs274.

BUY

Sector: Cement
CMP: Rs210
Target Price: Rs274
Upside: 30%
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Key Data

Current Shares O/S (mn)	130.7
Mkt Cap (Rsbn/US\$mn)	27.5/332.0
52 Wk. H / L (Rs)	275/154
Daily Vol. (3M NSE Avg.)	125,762

Price Performance (%)

	1 M	6 M	1 Yr.
Sagar Cement	(5.7)	5.3	(12.1)
Nifty Index	(3.1)	(0.2)	2.8

Source: Bloomberg

Exhibit 1: Key Financial Summary

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenues	13,713	15,969	21,886	23,309	28,575
YoY (%)	16.7	16.4	37.1	6.5	22.6
EBITDA	4,004	2,758	1,895	4,097	6,985
<i>EBITDA Margin (%)</i>	29.2	17.3	8.7	17.6	24.4
Adj. PAT	1,851	592	(582)	1,147	3,286
YoY (%)	597.8	(68.0)	NA	NA	186.5
EPS (Rs)	15.8	5.0	(4.5)	8.8	25.1
ROE (%)	17.2	4.8	(4.6)	9.1	26.1
EV/EBITDA	7.5	13.8	20.2	9.4	5.5
EV/mt (\$)	70.1	61.6	47.0	47.1	47.1
P/E (x)	13.3	41.8	NA	23.9	8.4

Source: Company, Nirmal Bang Institutional Equities Research

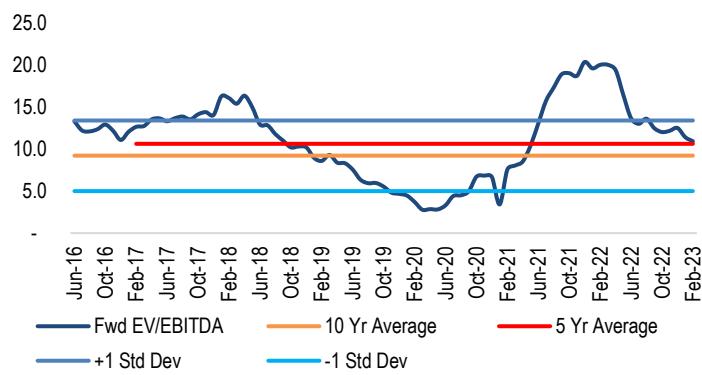
Conference call highlights

- The acquisition of Andhra Cements will allow SCL to further solidify its foothold in the Southern regions, particularly Andhra Pradesh and Telangana. The company aims to capitalize on its current extensive distribution network and "Sagar" brand to become one of the main cement companies in the Southern regions. More than 50% of the DCW plant's output would be marketed in Telangana followed by 30% in Andhra Pradesh and 20% in Tamil Nadu. The manufacturing activities are expected to begin in 1QFY24E with capacity utilisation pegged at 55% for FY24E and a steady increase in the same up to 60% in FY25E. The company is considering ceasing operations at the Visaka facility (0.80MT) owing to difficulties coming from the plant's proximity to the Visakhapatnam city. VCW is situated on 107 acres of premium property inside the municipal limits of Visakhapatnam (land worth Rs40mn/acre). In order to reduce debt, the company may try to monetize the land in the near future.
- SCL plans to spend a total of Rs4.68bn on the expansion of clinker and cement capacity at DCW; it plans to increase clinker capacity from 1.65MTPA to 2.3MTPA and cement capacity from 1.8MTPA to 3.0MTPA. Following the completion of this expansion, which is not anticipated until 2HFY25E, the company's total capacity is estimated to reach 11.25MTPA. The company has abundant supply of limestone (~188MT) at its DCW facility, which has the potential to double its capacity from 3MTPA to 6MTPA through brownfield expansion.
- The current acquisition cost (including the capacity expansion) is US\$56/MT, which is less than the US\$90/MT greenfield implementation cost. SCL has assumed the complete debt of Andhra Cements, which stood at Rs13.16bn, for Rs7.25bn (45% haircut). Andhra Cements will remain publicly traded, with SCL owning 95% shareholding and the public shareholding being 5%. SCL will lower its stake to 90% within 12 months and to 75% after 36 months of the NCLT's approval.

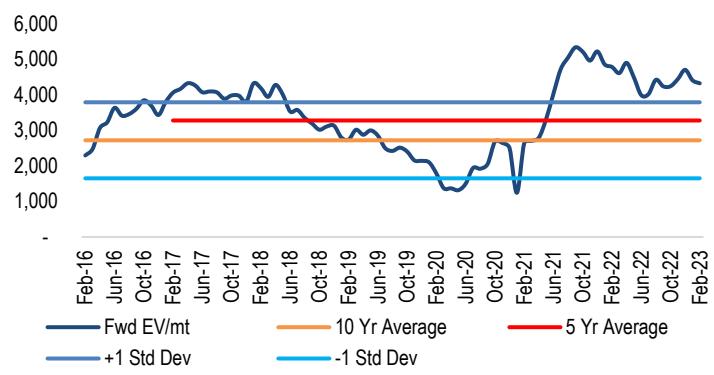
Exhibit 2: Valuation summary

Particulars	(Rs mn)
Sep 24 EBITDA	5,541
Target multiple (x)	7
Enterprise value	40,338
Less: Net debt	4,541
Equity value	35,797
No of shares (mn)	130.7
Value per share (Rs)	274
CMP (Rs)	210
Upside / (downside) %	30%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Rolling valuation charts


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 4: Income statement

YE March, Rs mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	13,713	15,969	21,886	23,309	28,575
Raw Material Consumed	2,397	2,253	3,322	2,488	3,569
Power & Fuel Cost	2,614	5,157	9,038	8,192	8,795
Employee Cost	764	856	859	829	1,134
Freight and Forwarding	2,342	2,786	3,794	4,473	4,412
Other expenses	1,591	2,160	2,978	3,230	3,680
Total Expenditure	9,709	13,211	19,991	19,212	21,589
Operating profit	4,004	2,758	1,895	4,097	6,985
<i>Operating profit margin (%)</i>	29%	17%	9%	18%	24%
Other Income	78	134	529	480	400
Interest	466	925	1,486	1,486	1,600
Depreciation	810	927	1,504	1,504	1,700
PBT	2,806	1,040	(566)	1,587	4,085
Exceptional items	-	-	-	-	-
PBT post exc items	2,806	1,040	(566)	1,587	4,085
Tax	955	449	16	439	799
<i>Tax rate (%)</i>	34%	43%	-3%	28%	20%
PAT	1,851	592	(582)	1,147	3,286
EPS (Rs)	15.8	5.0	(4.5)	8.8	25.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
Sales	16.7	16.4	37.1	6.5	22.6
Operating Profits	115.9	(31.1)	(31.3)	116.2	70.5
Net Profits	597.8	(68.0)	NA	NA	186.5
Leverage (x)					
Net Debt: Equity	0.46	1.07	0.86	0.86	0.86
Interest Cover(x)	8.60	2.98	1.28	2.76	4.37
Total Debt/EBITDA	2.01	5.45	7.04	3.27	1.93
Profitability (%)					
OPM	29.2	17.3	8.7	17.6	24.4
NPM	13.5	3.7	(2.7)	4.9	11.5
ROE	17.2	4.8	(4.6)	9.1	26.1
ROCE	21.5	8.7	3.7	12.3	23.2
Turnover ratios (x)					
GFAT	0.7	0.7	0.8	0.9	1.1
Debtors Turnover(x)	12	14	18	19	23
WC days	-21	1	14	9	4
Valuation (x)					
P/E	13.3	41.8	NA	23.9	8.4
P/B	2.1	2.0	2.2	2.2	2.2
EV/EBIDTA	7.5	13.8	20.2	9.4	5.5
EV/mt (\$)	70.1	61.6	47.0	47.1	47.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance Sheet

YE March, Rs mn	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital & Share warrants	235	235	261	261	261
Reserves and Surplus	11,674	12,319	12,319	12,319	12,319
Networth	11,909	12,554	12,581	12,581	12,581
Total Debt	8,065	15,034	13,344	13,414	13,493
Deferred tax liability	680	977	699	785	820
Other non-current liabilities	785	783	797	788	789
Trade Payables	2,290	2,210	2,298	2,390	2,486
Other Current Liabilities	1,187	1,516	1,363	1,355	1,411
Total Current Liabilities	5,161	7,474	5,941	6,316	6,763
Total liabilities	25,469	33,643	31,652	31,884	32,150
Net Block	12,487	19,931	20,069	20,204	20,337
CWIP	5,175	1,005	1,000	1,000	1,000
Investment	-	3,147	-	-	-
Other non-current assets	1,344	1,859	1,885	1,899	1,913
Inventories	1,243	2,086	2,148	2,213	2,279
Sundry Debtors	1,007	1,203	1,227	1,252	1,277
Cash and Bank	2,542	1,627	2,559	2,575	2,625
Other current assets	1,144	2,236	2,213	2,191	2,169
Total Current Assets	5,936	7,151	8,148	8,231	8,351
Total Assets	25,469	33,643	31,652	31,884	32,150

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow statement

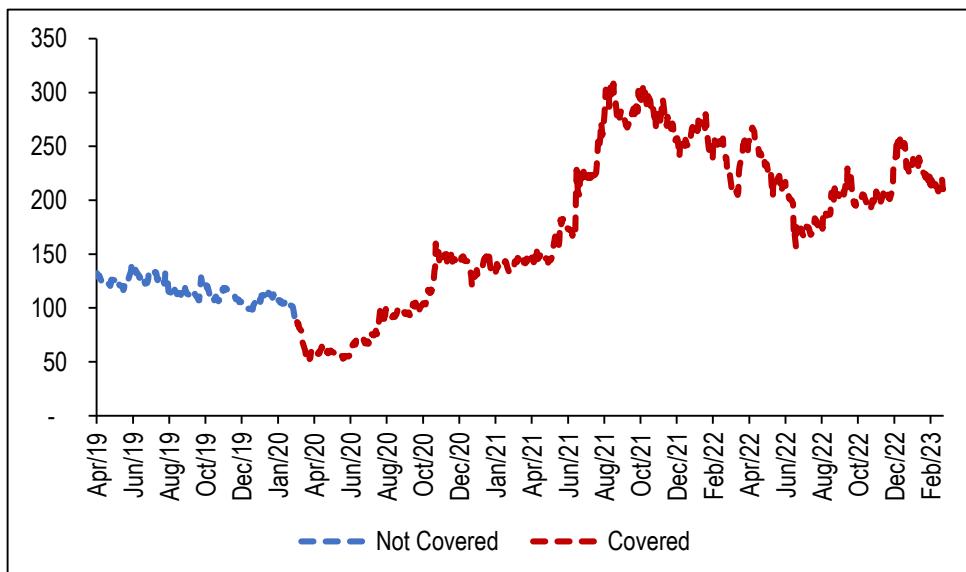
YE March, Rs mn	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	2,806	1,040	(566)	1,587	4,085
Add: Depreciation	810	927	1,504	1,504	1,700
Add: Interest Exp	466	925	1,486	1,486	1,600
CFO b4 WC	4,082	2,892	2,424	4,577	7,385
Net change in Working capital	(498)	(1,868)	(134)	17	85
Tax paid	(955)	(449)	(16)	(439)	(799)
Net cash from operations	2,629	575	2,274	4,154	6,671
Capital expenditure	(4,080)	(4,224)	(1,637)	(1,639)	(1,833)
Sale of investments	-	(3,147)	3,147	-	-
Net cash from investing	(4,129)	(7,886)	1,484	(1,653)	(1,847)
Issue of shares	12	-	26	-	-
Increase in debt	3,786	6,969	(1,689)	70	79
Dividends paid incl. tax	(153)	(59)	-	-	-
Interest paid	(466)	(925)	(1,486)	(1,486)	(1,600)
Net cash from financing	3,914	6,395	(2,826)	(2,485)	(4,774)
Net Cash	2,414	(915)	932	16	50
Opening Cash	128	2,542	1,627	2,559	2,575
Closing Cash	2,542	1,627	2,559	2,575	2,625

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
17 July 2020	BUY	380	520
31 July 2020	ACCUMULATE	489	520
16 October 2020	BUY	577	801
23 October 2020	BUY	789	1,040
7 January 2021	BUY	667	1,239
22 January 2021	BUY	701	1,304
12 March 2021	BUY	725	1,304
8 April 2021	BUY	765	1,304
16 May 2021	BUY	781	1,304
25 June 2021	BUY	1,034	1,304
30 July 2021	BUY	1,302	1,825
26 Sep 2021	BUY	289	375
29 October 2021	BUY	266	355
6 January 2022	BUY	254	355
31 January 2022	BUY	244	333
23 February 2022	BUY	240	333
13 May 2022	BUY	205	300
13 June 2022	ACCUMULATE	202	220
22 July 2022	BUY	176	220
14 September 2022	BUY	216	306
21 October 2022	BUY	197	236
12 January 2023	BUY	230	274
30 January 2023	BUY	217	274
24 February 2023	BUY	210	274

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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