Sagar Cement (SAGCEM)

ICICI direct Research

CMP: ₹ 248 Target: ₹ 305 (17%) Target Period: 12 months

BUY

July 30, 2024

Company Update

Operational performance to improve...

About the stock: Sagar Cement is a south based cement player with a cement capacity of 10.5 MT. In terms of region wise capacity, Andhra Pradesh accounted for ~47.6%, followed by Telangana (~28.6%), Odisha (~14.3%) & Madhya Pradesh (~9.5%)

- During FY24, revenue grew by 12.3% YoY to ₹ 2504 crores, while EBITDA grew by 60.5% YoY to ₹ 246 crores. Net loss stood at ₹ 43.4 crores (vs ₹ 30.3 crores in FY23)

Q1FY25 performance: Consolidated revenue grew by 3.9% YoY (-20.9% QoQ) to ₹ 560.6 crores. Volumes stood at 1.28 million tonnes (+8.5% YoY, -20.5% QoQ). EBITDA grew by 53.1% YoY (-31.5% QoQ) to ₹ 46.7 crores. EBITDA/ton stood at ₹ 365/ton (+41.1% YoY, -13.8% QoQ). Net loss stood at ₹ 32.2 crores (vs loss of ₹ 42 crore in Q1FY24)

Investment Rationale:

- **Improving capacity utilization to drive volume growth:** Consolidated volume growth of 8.5% to 1.28 mtpa in Q1FY25 was largely driven by ramp-up of Andhra Cements (which was acquired last year). Going forward, we believe volume growth to remain healthy, led by further ramp up of existing capacities as overall utilisation level stood at only ~49% in FY24 (with Andhra Cement's utilization level at ~22% in FY24) and demand pick-up in southern & eastern markets. Moreover, company is in process of expanding its total cement capacity to 11.25 mtpa by FY26E (from 10.5 mtpa at present). Management has guided for 6.5 mtpa volumes for FY25E, which implies ~18% YoY growth. We estimate volume CAGR of ~15% over FY24-26E to 7.25 mtpa in FY26E
- **Continuous focus on operational efficiencies to further improve EBITDA/ton:** Despite lower realisations, operational profitability improved during the quarter YoY, mainly driven by lower cost/ton. Going forward, with focus remains on further improving operational efficiencies (increase in share of green power) & positive operating leverage, EBITDA/ton is likely to improve over FY25-26E. Company targets to increase its green power share to 50% by FY30 (from 30% at present) by increasing its green power capacity by 35.5 MW (with capex of ₹ 324 crores). Going forward, we estimate an improvement in EBITDA/ton to ₹ 626/ton in FY26E (from Rs 446/ton in FY24)

Rating and Target Price

- With demand expected to pick-up in south & east markets, Sagar Cement is well positioned to grow its volumes substantially, considering the capacities are operating at low utilisation level. Operational performance is expected to pick up significantly over the next 2 years led by strong volume growth & improvement in margins. We expect revenue to grow 14.6% CAGR over FY24-26E while EBITDA is expected to grow at ~36% & PAT to turn positive in FY26E
- We recommend Buy on Sagar Cement with target price of Rs 305 (based on 11.5x of FY26E EV/EBITDA)

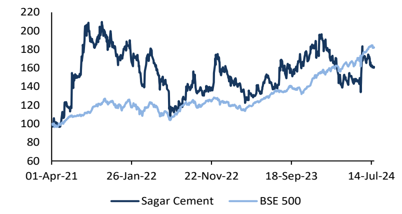
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	3,055
FY24 Gross Debt (₹ Crore)	1,439
FY24 Cash (₹ Crore)	261
EV (₹ Crore)	4,233
52 Week H/L (Rs)	305 / 190
Equity Capital	13.1
Face Value	2.0

Shareholding pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	48.3	48.3	48.3	48.3
FII	2.6	2.8	2.7	2.6
DII	18.8	17.0	17.3	17.1
Others	30.4	31.8	31.7	32.0

Price Chart



Key risks

(i) Slowdown in demand (ii) Delay in capacity expansion (iii) Increase in commodity prices (iv) High competition

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ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Revenues	1,371	1,597	2,230	2,505	22.2%	2,816	3,287	14.6%
EBITDA	400	276	153	246	-15.0%	333	454	35.9%
EBITDA margin (%)	29.2	17.3	6.9	9.8		11.8	13.8	
Net Profit	186	59	30	(43)		(31)	68	
EPS (₹)	14.2	5.0	2.3	(3.3)		(2.4)	5.2	
EV/EBITDA (x)	9.3	16.6	29.4	18.0		13.6	9.8	
RoCE (%)	16.8	7.1	6.3	2.5		4.3	7.8	
RoE (%)	15.4	4.7	1.5	(2.7)		(1.6)	3.5	

Source: Company, ICICI Direct Research

Q1FY25 Result Highlights:

- Consolidated revenue grew by 3.9% YoY to ₹ 560.6 crores, driven by volume growth of 8.5% YoY (driven by ramp in Andhra Cement) which was negated by lower realisation (-4.3% YoY). Sequentially, revenue de-grew by 20.5% QoQ, primarily on account of reduced sales volume. However, sales realization de-grew by 0.5% QoQ to ₹ 4380 crores
- Total cost/tonne decreased by 7% YoY (+0.9% QoQ) to ₹ 4015/ton driven by multiple cost saving initiatives (lower raw material cost/ton, lower power & fuel cost/ton & operating leverage benefit)
- Despite lower realization, EBITDA/ton grew by 41.1% YoY (-13.8% QoQ) to ₹ 365/ton led by lower power & fuel cost, & positive operating leverage
- EBITDA increased by 53.1% YoY (-31.5% QoQ) to ₹ 46.7 crores led by improvement in operating margins
- The company reported loss of ₹ 32.2 crores (vs loss of ₹ 42 crores in Q1FY24 vs profit of ₹ 11.6 crores in Q4FY24) due to higher interest & depreciation expense

Recent earnings call highlights:

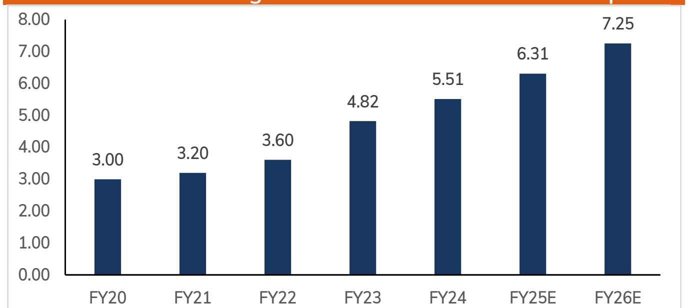
- The company is in the process of expanding its capacity to 11.25 MT by FY26E (from 10.5 MT at present). Capex expansion at Gudipadu & Jeerabad plants by 0.25 MT & 0.50 MT respectively are scheduled to be completed by FY26E
- Capex spends stood at ₹ 30 crores in Q1FY25 & the management has guided for ₹ 300 crores in FY25. Maintenance capex of ₹ 150-200/ton in a year.
- In terms of utilization level at plant level, Mattampally plant operated at 49%, while Gudipadu (78%), Bayyavaram (62%), Jeerabad (75%), Jajpura (26%) & Dachepalli (29%)
- The company has maintained its volume guidance of 6.5 MT (+18% YoY) for FY25
- The company guided for EBITDA of ₹ 350-375 crores translating into EBITDA/ton of ₹ 550-575/ton in FY25
- The company expects Andhra Cement to break-even by Q1FY26 (has maintained its stance)
- The demand was 20% lower than the last year (due to muted demand, labor unavailability, & a slowdown in constructive activities because of elections
- The company expects demand trend to be similar in Q1 & Q2, but H2 to be slightly better. The company expects demand to pick up from Q3FY24 onwards, while they do not expect a major change in pricing till the middle of Q3FY25
- The market share of top 10 companies has not moved significantly. The market share has not yet been impacted by Penna's Limited footprint in bigger markets
- The prices have further declined by ₹5 /bag (₹ 10/bag drop from Q4 exit to end of Q1FY25) from the end of June24 till now. The company expect prices to increase on pickup in demand
- Prices in Andhra-Telangana remained flat, while prices in the Southern region have corrected steeply & Chennai prices experiencing a rare decline
- In terms of cost, the company do not expect a major scope of cost reduction, except for operating leverage benefit. Fuel cost broadly to be stable in coming quarter. No further cost pressure expected in raw material cost
- The company aims to have 60% of renewable power of its total electrical energy portfolio. The company expects that increasing its green power usage of 50% (30% at present) will contribute an additional saving of ₹ 50-75 per ton. The overall average blended cost of ₹ 6/unit which could come down to ₹ 4.75 to ₹ 5 per unit (if share of renewable power increases to 50%) resulting in saving of roughly around ₹ 50 to 75 per ton.
- With the commissioning of solar plant at Gudipadu & Dachepalli, the company expects a saving of ₹ 5 crores.
- The company expects a similar net debt number of ₹ 1200-1300 crores in FY25
- The company's focus remains on capex of solar & brownfield capacity ramp up at Gudipadu, Dachepalli, & two other locations
- Vizag land sale expected to be concluded by the end of FY25. The company has not factored any cash flow from sale of this land.

Exhibit 1: Quarterly Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Operating Income	560.6	539.7	3.9	708.7	-20.9	Revenue YoY growth was driven by ramp up in Andhra Cement. Sequentially, revenue de-grew was led by lower volumes.
Other income	8.3	3.9	112.3	43.7	-81.0	
Total Revenue	568.9	543.6	4.7	752.5	-24.4	
Raw materials costs	100.5	99.9	0.6	128.1	-21.5	
Employees Expenses	30.4	26.8	13.3	30.7	-0.8	
Other Expenses	70.4	71.4	-1.5	90.8	-22.5	
Total Expenditure	513.9	509.2	0.9	640.6	-19.8	
EBITDA	46.7	30.5	53.1	68.1	-31.5	EBITDA improved due to higher volumes & better margins on YoY.
EBITDA margins (%)	8.3	5.7	268 bps	9.6	-128 bps	
Interest	46.4	43.7		45.5		
Depreciation	56.2	49.6	13.3	56.1	0.2	
Tax	-15.4	-16.9	-9.1	-1.3	1,089.9	
PAT	-32.2	-42.0	-23.3	13.3	-343.0	PAT was impacted due to higher interest & depreciation expense.

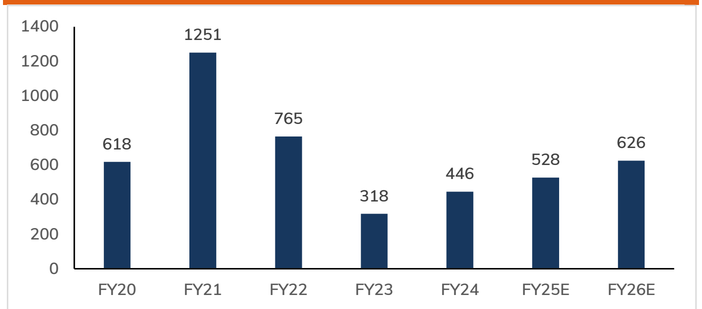
Source: Company, ICICI Direct Research

Exhibit 2: Volumes to grow at 14.7% CAGR to 7.25 mtpa



Source: Company, ICICI Direct Research

Exhibit 3: EBITDA/ton to ahead towards ₹ 626/ton in FY26E



Source: Company, ICICI Direct Research

Financial summary - Consolidated

Exhibit 4: Profit and loss statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Revenue	2,229.5	2,504.6	2,816.2	3,287.2
% Growth	*39.6*	*12.3*	*12.4*	*16.7*
Other income	222.7	54.1	42.0	50.0
Total Revenue	2,229.5	2,504.6	2,816.2	3,287.2
% Growth	*39.6*	*12.3*	*12.4*	*16.7*
Employee Expenses	99.3	117.3	134.9	148.4
other expenses	272.5	305.6	345.3	388.5
Total Operating Expenditure	2,076.4	2,258.7	2,483.1	2,832.9
Operating Profit (EBITDA)	153.2	245.9	333.1	454.3
% Growth	*(44.5)*	*60.5*	*35.5*	*36.4*
Interest	201.6	184.8	185.0	175.0
PBDT	174.2	115.2	190.1	329.3
Depreciation	155.8	214.1	230.9	240.0
PBT before Exceptional Items	18.5	(98.9)	(40.8)	89.3
Total Tax	8.9	(32.1)	-	31.2
PAT before MI	9.6	(52.0)	(40.8)	58.0
PAT	30.2	(43.4)	(30.8)	68.0
% Growth	*(49.0)*	*(243.8)*	*(28.9)*	*(320.6)*
EPS	2.3	(3.3)	(2.4)	5.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(Rs Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	30.2	(43.4)	(17.1)	49.9
Depreciation	155.8	214.1	228.8	240.0
Interest	201.6	184.8	185.0	185.0
Cash Flow before WC changes	387.6	355.6	396.7	474.9
Changes in inventory	(62.4)	(36.6)	(40.7)	(58.2)
Changes in debtors	(12.9)	(74.5)	(24.5)	(38.8)
Changes in loans & Advances	(0.5)	(0.4)	0.3	(0.3)
Changes in other current assets	100.5	42.6	(10.0)	(14.2)
Net Increase in Current Assets	24.3	(72.7)	(74.8)	(111.5)
Changes in creditors	87.8	209.5	62.2	97.1
Changes in provisions	1.3	1.1	2.0	1.0
Net Inc in Current Liabilities	62.8	217.3	71.5	118.6
Net CF from Operating activities	474.7	500.2	393.4	481.9
Changes in deferred tax assets	(79.2)	(45.9)	-	-
(Purchase)/Sale of Fixed Assets	(1,287.9)	(211.8)	(260.0)	(210.0)
Net CF from Investing activities	(903.1)	(221.4)	(260.5)	(220.3)
Dividend and Dividend Tax	(9.2)	(9.2)	(13.1)	(26.1)
Net CF from Financing Activities	476.2	(228.6)	(198.1)	(203.8)
Net Cash flow	47.8	50.2	(65.2)	57.8
Opening Cash/Cash Equivalent	162.7	210.5	260.6	195.4
Closing Cash/ Cash Equivalent	210.5	260.6	195.4	253.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Equity Capital	26.1	26.1	26.1	26.1
Reserve and Surplus	1,968.5	1,914.4	1,870.5	1,912.4
Total Shareholders funds	1,994.6	1,940.5	1,896.6	1,938.5
Total Debt	1,472.1	1,439.0	1,439.0	1,439.0
Total Liabilities	3,744.9	3,702.9	3,659.0	3,700.9
Acc: Depreciation	1,435.5	1,588.5	1,819.5	2,061.1
Net Block	3,025.7	3,112.6	3,046.4	3,134.7
Capital WIP	99.2	14.7	150.0	20.0
Total Fixed Assets	3,267.3	3,265.0	3,334.1	3,292.4
Non Current Assets	174.3	229.1	229.5	239.7
Inventory	270.9	307.5	347.2	405.3
Debtors	133.2	207.7	231.5	270.2
Other Current Assets	117.4	74.8	84.5	98.6
Cash	210.5	260.6	143.9	224.2
Total Current Assets	738.6	861.4	817.5	1,008.9
Current Liabilities	308.8	518.3	578.7	675.4
Provisions	10.3	11.9	90.0	91.0
Total Current Liabilities	435.3	652.6	722.0	840.2
Net Current Assets	303.3	208.8	95.5	168.7
Total Assets	3,744.9	3,702.9	3,659.0	3,700.9

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Rs Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	30.2	(43.4)	(30.8)	68.0
Depreciation	155.8	214.1	230.9	240.0
Interest	201.6	184.8	185.0	175.0
Cash Flow before WC changes	387.6	355.6	385.1	483.0
Changes in inventory	(62.4)	(36.6)	(39.7)	(58.1)
Changes in loans & Advances	(0.5)	(0.4)	0.3	(0.3)
Changes in other current assets	100.5	42.6	(9.7)	(14.1)
Net Increase in Current Assets	24.3	(72.7)	(72.8)	(111.2)
Changes in creditors	87.8	209.5	60.4	96.8
Changes in provisions	1.3	1.1	2.0	1.0
Net Inc in Current Liabilities	62.8	217.3	69.4	118.2
Net CF from Operating activities	474.7	500.2	381.7	490.1
Changes in deferred tax assets	(79.2)	(45.9)	-	-
(Purchase)/Sale of Fixed Assets	(1,287.9)	(211.8)	(300.0)	(200.0)
Net CF from Investing activities	(903.1)	(221.4)	(300.4)	(210.3)
Dividend and Dividend Tax	(9.2)	(9.2)	(13.1)	(26.1)
Net CF from Financing Activities	476.2	(228.6)	(198.1)	(199.5)
Net Cash flow	47.8	50.2	(116.7)	80.2
Opening Cash/Cash Equivalent	162.7	210.5	260.6	143.9
Closing Cash/ Cash Equivalent	210.5	260.6	143.9	224.2

Source: Company, ICICI Direct Research

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