

Recovery ahead...

About the stock: Sagar Cement is a south based cement player with a cement capacity of 10.5 million tonnes (mtpa). In terms of region wise capacity, Andhra Pradesh accounted for ~48%, followed by Telangana (~29%), Odisha (~14%) & Madhya Pradesh (~10%)

Q2FY25 performance: Consolidated revenue de-grew by 19% YoY (-15.2% QoQ) to ₹ 475 crores. Volumes stood at 1.16 million tonnes (-11.6% YoY, -9.5% QoQ). EBITDA de-grew by 66.9% YoY (-57.3% QoQ) to ₹ 19.9 crores. EBITDA/ton stood at ₹ 172/ton (-62.6% YoY, -52.9% QoQ). Net loss at ₹ 55.6 crores (vs loss of ₹ 10.5 crores in Q2FY24)

Investment Rationale:

- Improvement in capacity utilization to drive volume growth over FY25-27E:** Consolidated volume de-grew by 11.6% YoY to 1.16 mtpa in Q2FY25. Though volumes declined by 18% in standalone business, the overall decline was limited to ~12% YoY as the volumes increased substantially by 59% YoY in its subsidiary Andhra Cement, which has been ramping-up after its acquisition. Management has cut its volume guidance to 5.75 mtpa for FY25E, which implies ~4% YoY (~9% for H2FY25E). We believe that utilisation levels to improve further in FY26E across all the capacities (overall utilisation level stood at only ~44% in Q2FY25 with Andhra Cement operating at only ~27%). Moreover, company is in process of expanding its total cement capacity to 11.25 mtpa by FY27E (from 10.5 mtpa at present). We estimate volume CAGR of 8.6% over FY24-27E to 7.1 mtpa in FY27E
- Continuous focus on operational efficiencies to further improve EBITDA/ton:** Despite lower cost/ton (mainly lower power & fuel cost), operational performance was impacted during the quarter, primarily driven by lower sales realisation. Though EBITDA/ton for FY25E would remain lower on YoY basis (despite recovery expected in 2HFY25E), we believe that operational performance to improve meaningfully over FY26E-27E, factoring in improvement in realisations and continuous focus on improving operational efficiencies (increase in share of green power to 50% by FY30) & positive operating leverage (majorly in employee cost). The company plans to do a huge capex of ₹ 338 crores over FY26E-29E to optimise its power cost (by increasing its green power share). We estimate an improvement in EBITDA/ton to ₹ 709/ton in FY27E (from ₹ 381/ton in FY25E)

Rating and Target Price

- After a muted H1FY25, operational performance is expected to improve in 2HFY25E and further in FY26E-27E. We expect revenue to grow 8.4 % CAGR over FY24-27E while EBITDA is expected to grow at ~27% & PAT to turn positive by FY27E
- We revise downgrade our EBITDA estimates for FY25E/FY26E by ~34%/~26% respectively, to factor in lower-than-expected volume & realisation in Q2FY25. We also cut our target price to Rs 245 (based on 10x EV/EBITDA on FY26E-27E average and Rs 32/share for 107 acre land at Vizag). Recommend BUY



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,745
FY24 Gross Debt (₹ Crore)	1,439
FY24 Cash (₹ Crore)	261
EV (₹ Crore)	3,923
52 Week H/L (Rs)	305 / 190
Equity Capital	13.1
Face Value	2.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	48.3	48.3	48.3	48.3
FII	2.8	2.7	2.6	2.6
DII	17.0	17.3	17.1	17.5
Others	31.8	31.7	32.0	31.5

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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Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Revenues	1,371	1,597	2,230	2,505	22.2%	2,479	2,776	3,187	8.4%
EBITDA	400	276	153	246	-15.0%	219	335	500	26.7%
EBITDA margin (%)	29.2	17.3	6.9	9.8		8.8	12.1	15.7	
Net Profit	186	59	30	(43)		(156)	(80)	57	
EPS (₹)	14.2	5.0	2.3	(3.3)		(12.0)	(6.2)	4.3	
EV/EBITDA (x)	8.1	14.8	26.2	16.0		18.6	12.7	8.0	
RoCE (%)	16.8	7.1	6.3	2.5		0.3	3.3	8.3	
RoE (%)	15.4	4.7	1.5	(2.7)		(8.8)	(4.8)	3.3	

Q2FY25 Result Highlights:

- Consolidated revenue de-grew by 19% YoY to ₹ 475.1 crores (-15.2% QoQ), driven by dip in volume growth by 11.6% YoY (-9.4% QoQ) to 1.16 million tonnes, coupled with dip in sales realisation by 8.5% YoY (-6.3% QoQ)
- Total cost/tonne decreased by 2.2% YoY (-2.3% QoQ) to ₹ 3924/ton, primarily driven by lower power & fuel cost/ton.
- EBITDA/ton decreased by 62.6% YoY (-52.8% QoQ) to ₹ 172/ton. led by lower sales realisation & negative operating leverage. EBITDA decreased by 66.9% YoY (-57.3% QoQ) to ₹ 19.9 crores
- The company reported a loss of ₹ 55.6 crores (vs loss of ₹ 10.5 crores in Q2FY24 vs loss of ₹ 32.2 crores in Q1FY2)

Recent earnings call highlights:

- Consolidation across the industry is good in medium as well as long term, but it might have a negative impact in short term
- The management has guided for ₹ 200/300 crores in FY25/FY26. The capex of ₹ 83 crores is already been spent, while balance ₹ 120 crores will be spent in 2HFY25. Andhra Cement (spent ₹ 39 crores in 1HFY25, ₹ 100-115 crores to be spent). Sagar Cement on standalone (spent ₹ 44 crores in 1HFY25, ₹10 crores to be spent in 2HFY25)
- In terms of utilization level at plant level, Mattampally plant operated at 42%, while Gudipadu (83%), Bayyavaram (52%), Jeerabad (59%), Jajpura (20%) & Dachepalli (27%)
- The Dachepalli plant (a part of Andhra Cement) of 0.75 MT is expected to be commissioned in March-26 is running ahead of schedule. It has better EBITDA/t compared to Sagar Cement
- Demand during the quarters was soft, due to extended monsoon & sluggish project execution. Post Diwali, the demand uptick is likely to improve. 1st half of Q3 (due to festival season) would be very similar to Q2
- The company has cut its volume guidance of 5.75 MT in FY25E. They have guided for 9-9.5% YoY volume growth in 2HFY25. They have also guided volume growth of 6.5-6.75 MT in FY26E
- In terms of pricing in southern region, there was price correction of ₹ 5-10/ bag from Sept exit. Due to sudden rainfall in October month, there was correction in pricing. The company expects price to slowly move up post October (post festival season)
- In terms of cost/t, the company do not expect any cost reduction in Q3, but due to decline in procurement of fuel to \$95-98/ ton (earlier \$105-108/t), they expect saving of ₹ 75-100/t in Q4
- In terms of renewable power, the capex of ₹ 338 crores is likely to benefit the company in FY27 onwards. Solar plant at Dachepalli will take 4 years from now to operation
- The company plans to increase its green power share to 50% by FY30E (from 11.43% at present) with short term target of 20% by FY25E
- Operating leverage advantage (particularly due to employee cost) will translate into savings of ₹ 150/t on capacity utilization of 55-60%
- During the quarter, incentives of ₹ 23 crores has been booked on receipt basis. Incentives of Rs 23 crores will be recurring every year
- The company targets lead distance of below 300 km vs 254 km in Q2FY25
- A similar net debt number of ₹ 1300 crores in FY25 is expected
- More clarity on Vizag land sale is expected in Q3FY25

Exhibit 1: Quarterly Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Operating Income	475.1	586.8	-19.0	560.6	-15.2	Revenue de-grew due to decline in both volumes & sales realisation.
Other income	4.8	2.7	76.6	8.3	-41.7	
Total Revenue	480.0	589.6	-18.6	568.9	-15.6	
Raw materials costs	106.0	75.9	39.7	100.5	5.5	
Employees Expenses	30.7	29.9	2.8	30.4	1.0	
Other Expenses	70.4	71.4	-1.5	90.8	-22.5	
Total Expenditure	455.2	526.6	-13.6	513.9	-11.4	
EBITDA	19.9	60.2	-66.9	46.7	-57.3	EBITDA declined due to lower sales realisation.
EBITDA margins (%)	4.2	10.3	-607 bps	8.3	-414 bps	
Interest	46.4	46.8		46.4		
Depreciation	57.6	51.3	12.4	56.2	2.5	
Tax	-22.2	-9.8	127.1	-15.4	44.8	
PAT	-55.6	-25.3	119.4	-28.4	95.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Rs Crore	FY25E			FY26E			Comments
	Old	New	Change (%)	Old	New	Change (%)	
Revenue	2816.0	2479.0	-12.0	3287.0	2775.9	-15.5	
EBITDA	333.0	219.2	-34.2	454.0	335.2	-26.2	Due to decline in sales realisation.
EBITDA Margin (%)	11.8	8.8		13.8	12.1		
PAT	-31.0	-156.3		68.0	-80.5		
EPS (Rs)	-2.4	-12.0		5.2	-6.2		

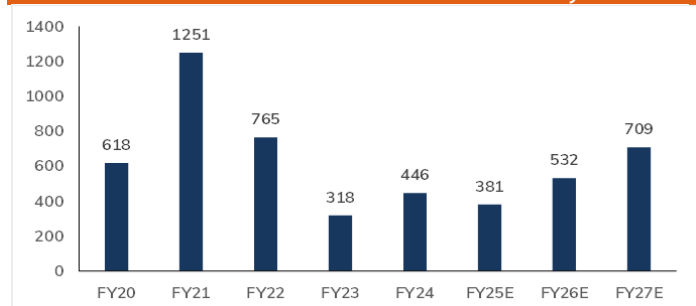
Source: Company, ICICI Direct Research

Exhibit 3: Volumes to grow at 8.6% CAGR (FY24-27E)



Source: Company, ICICI Direct Research

Exhibit 4: EBITDA/ton to inch towards ₹ 709/ton by FY27E



Source: Company, ICICI Direct Research

Financial summary - Consolidated

Exhibit 5: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Revenue	2,504.6	2,479.0	2,775.9	3,186.7
% Growth	12.3	(1.0)	12.0	14.8
Other income	54.1	23.0	23.0	25.0
Total Revenue	2,504.6	2,479.0	2,775.9	3,186.7
% Growth	12.3	(1.0)	12.0	14.8
Employee Expenses	117.3	125.5	135.6	146.4
other expenses	305.6	308.6	336.4	366.7
Total Operating Expenditure	2,258.7	2,259.8	2,440.7	2,686.3
Operating Profit (EBITDA)	245.9	219.2	335.2	500.4
% Growth	60.5	(10.9)	52.9	49.3
Interest	184.8	178.0	196.0	181.0
PBDT	115.2	64.2	162.2	344.4
Depreciation	214.1	230.5	252.6	270.9
PBT before Exceptional Item:	(98.9)	(166.3)	(90.5)	73.5
Total Tax	(32.1)	-	-	25.7
PAT before MI	(52.0)	(166.3)	(90.5)	47.8
PAT	(43.4)	(156.3)	(80.5)	56.8
EPS	(3.3)	(12.0)	(6.2)	4.3

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Equity Capital	26.1	26.1	26.1	26.1
Reserve and Surplus	1,914.4	1,748.9	1,660.6	1,709.6
Total Shareholders funds	1,940.5	1,775.1	1,686.8	1,735.7
Total Debt	1,439.0	1,626.0	1,550.0	1,342.0
Total Liabilities	3,702.9	3,724.4	3,560.1	3,401.0
Acc: Depreciation	1,588.5	1,819.1	2,071.7	2,342.6
Net Block	3,112.6	2,956.7	3,184.1	3,023.3
Capital WIP	14.7	150.0	20.0	20.0
Total Fixed Assets	3,265.0	3,244.4	3,341.8	3,181.0
Non Current Assets	229.1	222.0	228.5	240.3
Inventory	307.5	285.3	319.4	366.7
Debtors	207.7	244.5	251.0	261.9
Other Current Assets	74.8	74.4	83.3	95.6
Cash	260.6	289.7	47.7	67.3
Total Current Assets	861.4	904.1	711.9	802.2
Current Liabilities	518.3	516.2	578.0	663.5
Provisions	11.9	90.0	91.0	92.0
Total Current Liabilities	652.6	646.2	722.2	822.5
Net Current Assets	208.8	257.9	(10.3)	(20.3)
Total Assets	3,702.9	3,724.4	3,560.1	3,401.0

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement ₹ crore

(Rs Crore)	FY24	FY25E	FY26E	FY27E
Profit after Tax	(43.4)	(156.3)	(80.5)	56.8
Depreciation	214.1	230.5	252.6	270.9
Interest	184.8	178.0	196.0	181.0
Cash Flow before WC changes	355.6	252.2	368.2	508.6
Changes in inventory	(36.6)	22.3	(34.2)	(47.3)
Changes in loans & Advances	(0.4)	0.4	(0.2)	(0.1)
Changes in other current assets	42.6	0.4	(8.9)	(12.3)
Net Increase in Current Assets	(72.7)	(13.7)	(49.8)	(70.7)
Changes in creditors	209.5	(2.1)	61.8	85.5
Changes in provisions	1.1	1.2	0.6	0.7
Net Inc in Current Liabilities	217.3	(6.4)	75.9	100.4
Net CF from Operating activities	500.2	232.1	394.3	538.3
Changes in deferred tax assets	(45.9)	-	-	-
(Purchase)/Sale of Fixed Assets	(211.8)	(210.0)	(350.0)	(110.0)
Net CF from Investing activities	(221.4)	(202.9)	(356.5)	(121.8)
Dividend and Dividend Tax	(9.2)	(9.1)	(7.8)	(7.8)
Net CF from Financing Activities	(228.6)	(0.2)	(279.8)	(396.8)
Net Cash flow	50.2	29.0	(242.0)	19.6
Opening Cash/Cash Equivalent	210.5	260.6	289.7	47.7
Closing Cash/ Cash Equivalent	260.6	289.7	47.7	67.3

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
EPS	(3.3)	(12.0)	(6.2)	4.3
Cash per Share	19.9	22.2	3.6	5.2
BV	148.5	135.8	129.0	132.8
EBITDA Margin	9.8	8.8	12.1	15.7
PAT Margin	(1.7)	(6.3)	(2.9)	1.8
RoCE	2.5	0.3	3.3	8.3
RoIC	1.0	(0.4)	2.6	7.6
EV / EBITDA	16.0	18.6	12.7	8.0
P/E	(52.3)	(17.6)	(34.1)	48.4
EV / Net Sales	1.6	1.6	1.5	1.3
Sales / Equity	1.3	1.4	1.6	1.8
Market Cap / Sales	1.1	1.1	1.0	0.9
Price to Book Value	1.4	1.5	1.6	1.6
Asset turnover	0.7	0.7	0.9	1.0
Debtors Turnover Ratio	14.7	11.0	11.2	12.4
Creditors Turnover Ratio	6.1	4.8	5.1	5.1
Debt / Equity	0.7	0.9	0.9	0.8
Current Ratio	1.1	1.1	1.1	1.0
Quick Ratio	0.5	0.6	0.5	0.5

Source: Company, ICICI Direct Research

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