

Sagar Cements

23 May 2019

Reuters: SGRC.NS; Bloomberg: SGC IN

Performance In Line; Better Show To Continue

Sagar Cements (SGC) reported a healthy performance in 4QFY19 (in line with our expectation) following contribution from realisation gains and volume jump. Strong jump in cement prices in SGC's key markets (Andhra Pradesh & Telangana) led to realisation jump of ~5% YoY at Rs3,874/tn. Volume jumped by a strong ~18% YoY to 0.94mt, indicating SGC balancing despatches (in eastern region) and realisation gains in key home markets. Effectively, revenues grew 24% YoY to Rs3.65bn (our estimate Rs3.65bn). Costs/tn stayed flat YoY at Rs3,221/tn, leading to ~60% jump in EBITDA to Rs6108mn (Rs387mn in 4QFY18). EBITDA margin gained 380bps at 16.9%, while EBITDA/tn increased to Rs654 from Rs485 in 4QFY18. Higher interest costs and depreciation because of commissioning of additional capacity at Bayyavaram (1.5mt from 0.3mt) dragged SGC's APAT to Rs188mn, a leap from Rs47mn in 4QFY18. Demand outlook in SGC's key markets is healthy, but higher supply is likely to keep pricing pressure, thereby capping margin gains. Further, capacity addition (though strategically healthy in the long run) supported by debt continues to add to the discomfort in the medium term. Cost structure may further improve with the commissioning of the new captive power plant by 1HFY20, but the consistency in strong pricing in a scenario of higher infrastructure sector-driven demand is a key concern in SGC's performance. We have maintained our earnings estimates for FY20/FY21 at Rs13.2/Rs21.0, respectively, following SGC's entry in the eastern region through its Vizag unit, cost-saving initiatives through captive power availability and a presence in markets having better demand like Andhra Pradesh and Telangana. We have now valued SGC at a replacement cost of Rs3.0bn/mt (March 2021E capacity factoring in the expansion), ~60% discount to the replacement cost to arrive at its fair value. We have retained Accumulate rating on the stock with a revised target price of Rs685 (from Rs692 earlier). At our target price, the stock trades at EV/EBITDA of 9.5x (9.7x earlier) March 2021 estimated earnings.

Strong volume growth backed by realisation: Despatches grew ~18% in 4QFY19 to 0.94mt backed by strong demand growth in Andhra Pradesh and Telangana - SGC's key markets (~50% contribution to revenues) and in the eastern region. Realisation, grew by ~5% YoY following price hikes in Andhra Pradesh and Telangana markets in the second-half of 4QFY19. This helped revenue growth of 24% and improved EBITDA as well as EBITDA margin of SGC.

Cost inflation flat YoY: SGC reported flat YoY cost inflation at Rs3,221/tn contributed by lower energy costs and logistic expenses. Energy costs fell 5% YoY, largely because of the benefits of a mix of lower fuel costs, sourcing from captive sources and better capacity utilisation at one of the plants (Gudupaddu). Freight costs fell 11% YoY to Rs709/tn because of better lead distance (~285km, improvement of ~10 km). The costs could have declined further, but for higher raw material costs (largely because of blending that requires additives and inter-unit clinker costs) restricting cost savings. Flat costs and healthy realisation effectively pushed EBITDA by ~60% YoY to Rs618mn and pulled up EBITDAM to ~17%. EBITDA/tn rose 35% to Rs654.

New expansion in central and eastern regions: SGC has announced capacity addition at Jajpur in Odisha (1.5mt grinding unit) and 1.0mt integrated unit in Madhya Pradesh. This addition will be at a cost of Rs7.25bn and add to SGC's debt by ~Rs4.75bn. This will take the total debt to ~Rs9bn (our assumption), although the company gave guidance of peak debt of Rs8bn. The new capacities are likely to be commissioned by FY21-end.

Retain our earnings estimates and outlook: Demand outlook in SGC's key markets is healthy, but higher supply is likely to keep pricing pressure and thereby cap margin gains. Further, capacity addition (though strategically healthy in the long run) supported by debt continues to add to the discomfort in the medium term. Cost structure may further improve with the commissioning of a new captive power plant by 1HFY20, but the consistency in strong pricing in a scenario of higher infrastructure sector-driven demand is a key concern in SGC's performance. We have maintained our earnings estimates for FY20/FY21 at Rs13.2/Rs21.0, respectively, following SGC's entry in the eastern region through its Vizag unit, cost-saving initiatives through captive power availability and a presence in markets having better demand like Andhra Pradesh and Telangana. We have now valued SGC at a replacement cost of Rs3.0bn/mt (March 2021 capacity factoring in the expansion), ~60% discount to the replacement costs to arrive at its fair value. We have maintained Accumulate rating on the stock with a revised target price of Rs685 (from Rs692 earlier). At our target price, the stock trades at EV/EBITDA of 9.5x (9.7x earlier) March 2021 estimated earnings.

Y/E March (Rsmn)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %
Net sales	3,658	2,949	24.1	3,191	14.6
Operating expenses	3,041	2,562	18.7	2,890	5.2
EBITDA	618	387	59.6	301	104.9
EBITDA margin (%)	17	13	376bps	9	744 bps
Other income	9	17	(48.6)	8	9.9
Interest costs	165	154	7.5	175	(5.5)
Depreciation	174	142	22.8	175	(0.7)
PBT	287	109	163.9	(41)	-
Non-recurring items	-	-	-	-	-
PBT (after non-recurring items)	287	109	163.9	(41)	-
Tax	100	62	60.1	(11)	-
Reported PAT	188	47	302.4	(30)	-
Adjusted PAT	188	47	302.4	(30)	-
NPM (%)	5.1	1.6	354bps	(0.9)	-
Adjusted EPS (Rs)	9.2	2.3	302.4	(1.5)	-

Source: Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Cement

CMP: Rs624

Target Price: Rs685

Upside: 10%

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Key Data

Current Shares O/S (mn)	20.4
Mkt Cap (Rsbn/US\$m)	12.8/183.3
52 Wk H / L (Rs)	959/528
Daily Vol. (3M NSE Avg.)	6,332

Price Performance (%)

	1 M	6 M	1 Yr
Sagar Cements	4.5	(9.2)	(30.8)
Nifty Index	0.7	10.7	11.8

Source: Bloomberg

Key conference-call highlights

- SGC's management indicated that price hikes were in the trade segment. The non-trade contracts are not renegotiated currently. The new state government in Andhra Pradesh after the elections will take a decision on pricing. SGC currently has a presence of 35% in the non-trade segment, while 65% is the trade segment.
- The new 18MW captive power plant will be commissioned in 1QFY20. Collectively, with the waste heat recovery unit, the captive sourcing of power will help savings of Rs450mn, as indicated by the management.
- The lead distance for the company improved by ~ 10km during the quarter. The current lead distance is ~385 km.
- SGC's management has indicated that the fuel inventory will be higher with holding of three months' buffer stock. This will continue to exert stress on the working capital cycle. However, the receivables may improve following the election of a new state government in Andhra Pradesh.
- The new capacity addition will lead to additional debt of Rs4.5bn. The peak debt expected by the management is ~ Rs8bn. The new capacity at Jajpur and Sadguru will receive incentives from Madhya Pradesh government, but the exact quantum of the same is yet to be finalised.

Exhibit 1: Operational details

(Rs)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %	4QFY19E	Deviation %
Volume (mnmt)	0.94	0.80	18.3	0.92	2.5	0.98	(3.8)
Cement realisation (Rs/mt)	3,874	3,694	4.9	3,441	12.6	3,725	4.0
Operating costs (Rs/mt)	(3,221)	(3,210)	0.3	(3,138)	2.6	(3,079)	4.6
EBITDA (Rs/mt)	654	485	34.9	327	99.9	646	1.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Detailed quarterly financials

(Rsmn)	4QFY19	4QFY18	YoY %	3QFY19	QoQ %	4QFY19E	Deviation %
Net sales	3,658	2,949	24.1	3,191	14.6	3,658	-
Expenditure							
Change in stock	8	52	(84.0)	69.1	(88.0)	(75.0)	-
Raw material consumed	650	388	67.6	569	14.3	624	4.3
Purchased products	78	39		61	28.3	61	-
Power & fuel costs	988	883	12.0	994	(0.6)	1,091	(9.4)
Freight costs	669	634	5.6	675	(0.9)	751	(10.9)
Employee costs	159	159	0.1	135	18.0	151	5.1
Other expenses	488	408	19.6	387	26.1	421	15.8
Total operating expenses	3,041	2,562	18.7	2,890	5.2	3,024	0.6
EBITDA	618	387	59.6	301	104.9	634	(2.6)
EBITDA margin (%)	16.9	13.1	376bps	9.4	744bps	17.3	(46bps)
Other income	9	17	(48.6)	8	9.9	8	9.9
Interest costs	165	154	7.5	175	(5.5)	176	(6.1)
Depreciation	174	142	22.8	175	(0.7)	188	(7.4)
PBT	287	109	163.9	(41)	-	278	3.2
Non-recurring items	-	-	-	-	-	-	-
PBT (after non-recurring items)	287	109	163.9	(41)	-	278	3.2
Tax	100	62	60.1	(11)	-	(11)	-
Tax rate (%)	35	57	(39bps)	-	-	-	-
Reported PAT	188	47	302.4	(30)	-	289	(35.2)
Adjusted PAT	188	47	302.4	(30)	-	289	(35.2)
NPM (%)	5.1	1.6	354bps	(0.9)	-	7.9	(278bps)
Adjusted EPS (Rs)	9.2	2.3	302.4	(1.5)	-	14.2	(35.2)

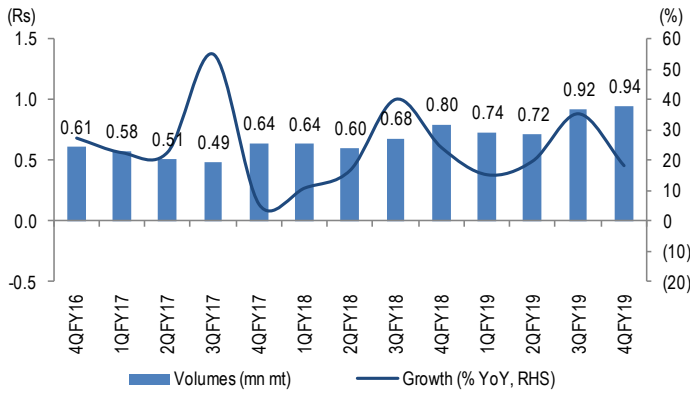
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Estimates retained

(Rsmn)	Old		New		Variance (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	13,824	15,815	13,824	15,815	-	-
Operating profit	1,630	2,079	1,630	2,079	-	-
Net profit	270	428	270	428	-	-
EPS (Rs)	13	21	13.2	21.0	-	-
Target price (Rs)	692		685			
Rating	Accumulate		Accumulate			

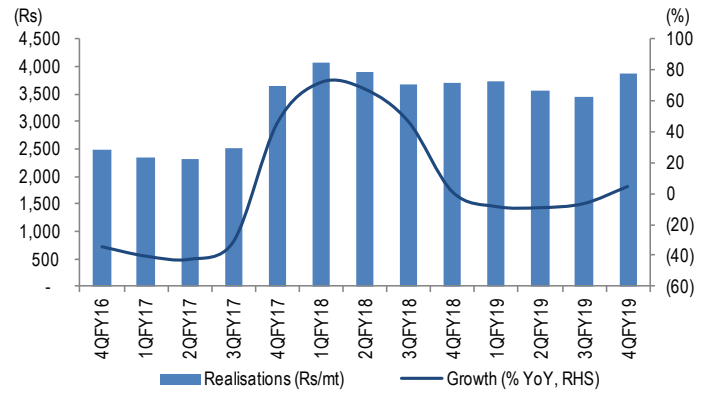
Source: Nirmal Bang Institutional Equities Research

Exhibit 4: Healthy demand in key markets helps volume gain



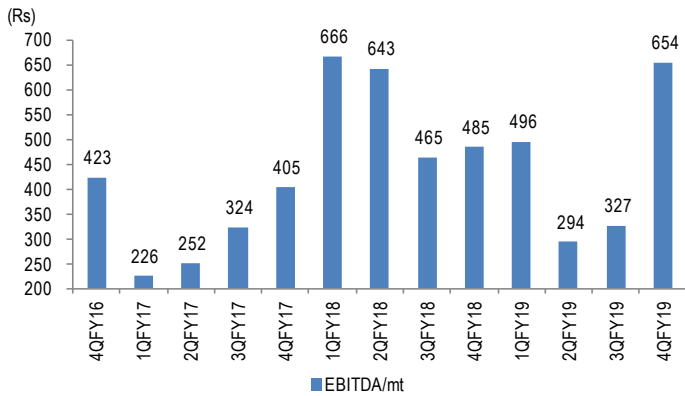
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Strong pricing pushed up realisation by ~5% YoY



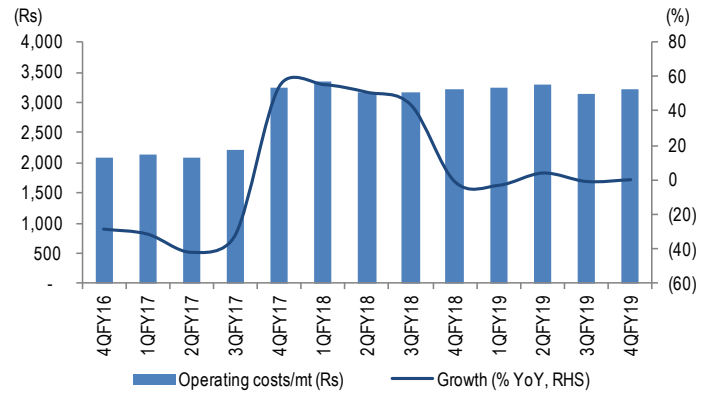
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: EBITDA/tn jumps following realisation gain



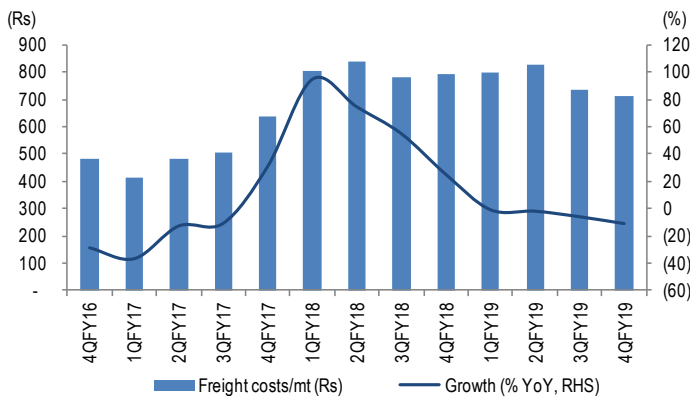
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Operating cost inflation minimal in 4QFY19



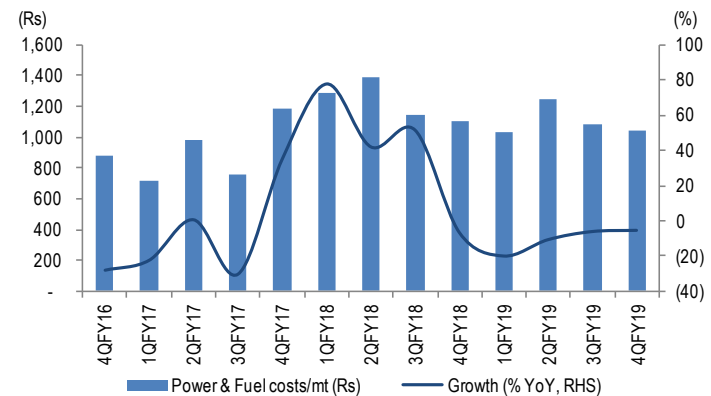
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Better lead distance and fuel cost decline helps logistics cost control



Source: Company, Nirmal Bang Institutional Equities Research

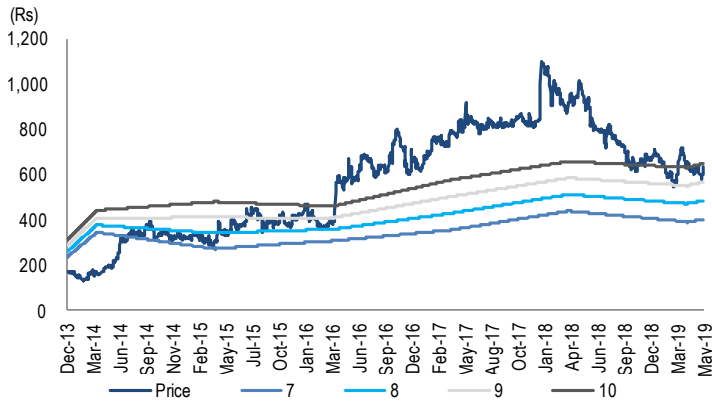
Exhibit 9: Better fuel mix and higher capacity utilisation helps energy cost decline



Source: Company, Nirmal Bang Institutional Equities Research

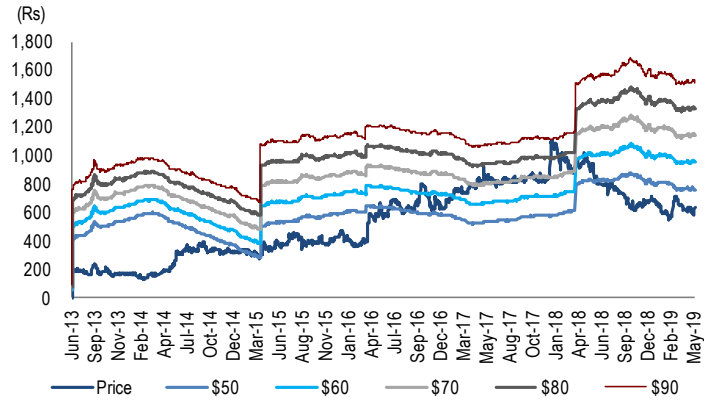
Valuation Charts:

Exhibit 10: EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: EV/tn



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 12: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19P	FY20E	FY21E
Net sales	8,082	10,375	12,176	13,824	15,815
Growth (%)	(19.3)	28.4	17.4	13.5	14.4
Operating expenses	(7,035)	(8,867)	(10,681)	(12,193)	(13,736)
EBITDA	1,047	1,508	1,494	1,630	2,079
Growth (%)	(35.1)	44.1	(0.9)	9.1	27.5
Depreciation & amortisation	(476)	(536)	(657)	(647)	(741)
EBIT	663	1,051	866	1,069	1,428
Other income	92	79	29	86	90
Interest paid	(621)	(593)	(634)	(694)	(841)
Extraordinary/exceptional items	-	-	-	-	-
PBT	42	458	232	375	587
Tax	(81)	(194)	(96)	(105)	(158)
Effective tax rate (%)	(192.9)	(42.4)	(41.4)	(28.0)	(27.0)
Net profit	(39)	264	136	270	428
Minority interest	-	-	-	-	-
Reported net profit	(39)	264	136	270	428
Non-recurring items	-	-	-	-	-
Adjusted net profit	(39)	264	136	270	428
Growth (%)	(106.6)	n/a	(48.4)	98.4	58.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19P	FY20E	FY21E
Cash & bank balance	1,705	581	717	1,955	1,837
Other current assets	2,819	3,020	2,964	3,905	4,719
Investments	390	-	-	3	5
Net fixed assets	9,844	11,491	11,052	13,725	15,434
Goodwill & intangible assets	328	288	288	285	285
Other non-current assets	-	-	-	-	-
Total assets	15,085	15,380	15,020	19,872	22,280
Current liabilities	2,935	3,062	2,680	3,363	3,871
Borrowings	4,456	4,450	2,910	7,304	8,857
Other non-current liabilities	54	77	411	-	-
Total liabilities	7,444	7,588	6,001	10,667	12,728
Share capital	204	204	204	204	204
Reserves & surplus	7,426	7,588	8,813	9,001	9,348
Shareholders' funds	7,642	7,792	9,017	9,205	9,552
Minority interest	-	-	-	-	-
Total equity & liabilities	15,086	15,381	15,018	19,872	22,280

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19P	FY20E	FY21E
Pre-tax profit	42	458	232	375	587
Depreciation	471	458	657	647	741
Chg in working capital	(252)	(74)	(340)	(243)	(307)
Total tax paid	(45)	(171)	253	(531)	(158)
Other operating activities	-	-	-	-	-
Operating CF	216	672	802	248	862
Capital expenditure	(1,306)	(2,067)	(217)	(3,317)	(2,450)
Chg in investments	(0)	390	-	(3)	(2)
Other investment activities	-	-	-	-	-
Investing CF	(1,306)	(1,677)	(217)	(3,320)	(2,452)
FCF	(1,091)	(1,005)	585	(3,072)	(1,591)
Equity raised/(repaid)	2,130	(12)	-	-	-
Debt raised/(repaid)	604	(6)	(1,540)	4,394	1,554
Dividend (incl. tax)	-	(98)	(82)	(82)	(82)
Other financing activities	(3)	(3)	1,172	(2)	-
Financing CF	2,730	(119)	(450)	4,310	1,472
Net chg in cash & bank bal.	1,640	(1,124)	136	1,238	(118)
Closing cash & bank bal	1,705	581	717	1,955	1,837

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Key ratios

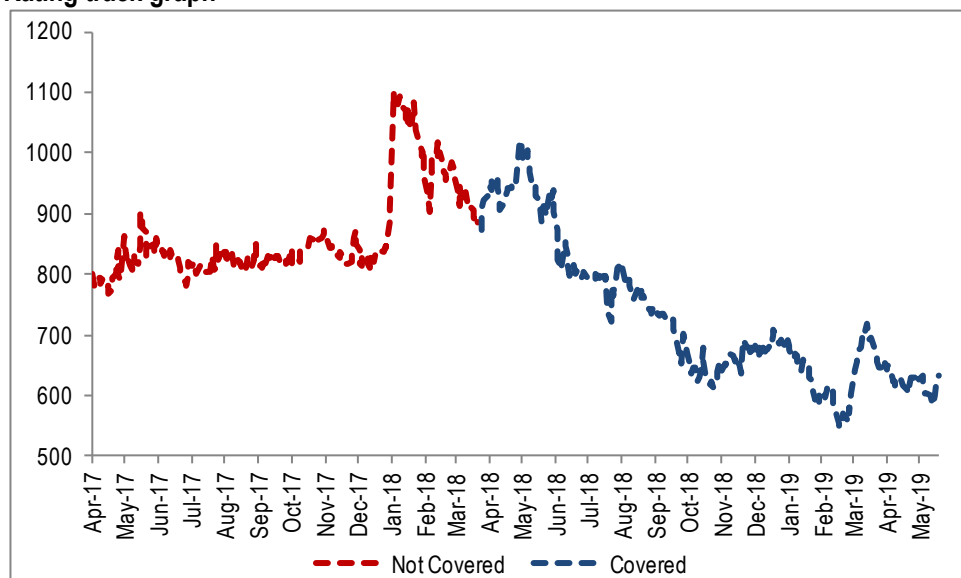
Y/E March	FY17	FY18	FY19P	FY20E	FY21E
Profitability and return ratios (%)					
EBITDAM	13.0	14.5	12.3	11.8	13.1
EBITM	8.2	10.1	7.1	7.7	9.0
NPM	(0.5)	2.5	1.1	2.0	2.7
RoE	(0.6)	3.4	1.6	3.0	4.6
RoCE	6.1	8.6	7.0	7.4	8.2
RoIC	(6.5)	5.6	4.3	5.9	6.7
Per share data (Rs)					
O/s shares	20.4	20.4	20.4	20.4	20.4
EPS	(1.9)	12.9	6.7	13.2	21.0
FDEPS	(1.9)	12.9	6.7	13.2	21.0
CEPS	21.4	39.2	38.9	45.0	57.3
BV	374.6	382.0	442.0	451.2	468.2
DPS	-	4.8	4.0	4.0	4.0
Valuation ratios (x)					
PE	n/a	45.6	88.4	44.6	28.1
P/BV	1.6	1.5	1.3	1.3	1.3
EV/EBITDA	12.4	9.4	8.3	9.6	8.3
EV/Sales	1.6	1.4	1.0	1.1	1.1
Other key ratios					
D/E (x)	0.4	0.5	0.2	0.6	0.7
DSO (days)	36.5	32.6	23.4	30.4	30.4
DuPont analysis - RoE					
NPM (%)	(0.5)	2.5	1.1	2.0	2.7
Asset turnover (x)	0.6	0.7	0.8	0.8	0.8
Equity multiplier (x)	2.1	2.0	1.8	1.9	2.2
RoE (%)	(0.6)	3.4	1.6	3.0	4.6

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Buy	880	1,058
31 May 2018	Buy	922	1,063
6 July 2018	Buy	790	1,063
23 July 2018	Buy	739	1,004
30 October 2018	Buy	632	814
31 January 2019	Accumulate	590	658
23 May 2019	Accumulate	624	685

Rating track graph



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BUY > 15%

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SELL < -5%

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