

CMP: ₹ 220

Target: ₹ 250 (14%)

Target Period: 12 months

HOLD

February 20, 2023

## Latest acquisition to further solidify presence in south...

**About the stock:** Sagar Cements is a **south based cement player** with cement capacity of 8.25 MT (excluding Andhra Cements). Region wise, AP/Telangana accounted for ~60% of sales followed by Tamil Nadu (16%), Karnataka (9%).

- Going forward, the company will be able to develop a presence in the faster-growing eastern market and the more profitable central market with recent commissioning of new 2.5 MT capacity
- Self-reliance in power (61.5 MW), ability to switch between coal and petcoke for fuel requirement and split grinding units near market gives it cost advantage

**Key highlights:** NCLT has approved resolution plan for acquisition of Andhra Cements by the company, which would help achieve its target of 10 MT by FY25E.

- SCL would be acquiring an integrated unit, with clinker capacity of 1.65 MT and cement capacity of 1.8 MT along with 30 MW captive power plant located at Guntur District, AP (DCW). It will also acquire a grinding unit, with capacity of 0.8 MT at Vizag, AP (VCW), contemplating discontinuing this plant and might look to monetise the land in the medium term)
- It is expected to spend ~₹ 762 crore towards acquisition and restarting capex of ₹ 85 crore. Further, the board has also approved an additional capital outlay of ₹ 468 crore for enhancement of the clinker capacity to 2.3 MT and cement capacity to 3 MT for its DCW unit
- Overall capex of ~ ₹ 1400 crore to be spent over the next three years with acquisition cost coming in at US\$56/t (vs. greenfield implementation cost of US\$100/t). Recent commissioning of new capacities (2.5 MT in central & East) and latest acquisition of Andhra Cement would propel healthy volume CAGR of 23% in FY22-25E
- On the balance sheet front, we expect the company to generate OCF worth ₹ 1160 crore (ex-interest cost) in FY23-25E vs. overall capex at ~ ₹ 1480 crore during the same period. Hence, we expect debt to remain elevated (D/E expected at 0.9x in FY25E)

**What should investors do?** With capacity expansion in high growth regions like east & central, we expect strong growth momentum, going forward.

- However, higher debt levels are expected to pose challenges in the medium-term. Hence, we maintain **HOLD** rating on the stock

**Target Price and Valuation:** We value Sagar at ₹ 250 i.e.8x FY25E EV/EBITDA.

### Key triggers for future price performance:

- **Incremental volumes from new units** (1MT ICU at MP, 1.5 MT grinding unit in Odisha and 1.8 MT in AP) to help grow the business from FY24E onwards
- Expect sales revenue CAGR of 25% during FY22-25E led by 23% CAGR growth in volumes

**Alternate Stock Idea:** Apart from Sagar Cement, in our cement sector coverage we like Shree Cement

- BUY with a TP of ₹ 28500



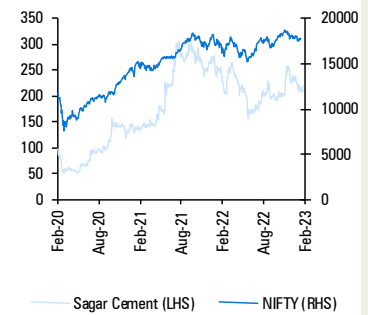
### Particulars

Particular	Amount
Market Capitalization	₹ 2875 Crore
Total Debt (FY22)	₹ 1572 Crore
Cash and Investments (FY22)	₹ 476 Crore
EV	₹ 3972 Crore
52 week H/L	₹ 276/154
Equity capital	₹ 26.1 Crore
Face value	₹ 2

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	50.28	45.20	45.20	45.20
FII	5.24	4.47	4.47	3.99
DII	8.87	18.21	18.21	19.06
Others	35.61	32.12	32.12	31.75

### Price Chart



### Key risks

- Volatility in prices of key inputs like coal/petcoke could subdue profitability
- Upside risk of faster than anticipated decline in debt levels

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### Key Financial Summary

Particulars	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	FY25E	3 year CAGR (%)
Sales	1217.6	1175.2	1371.3	1596.9	9.5	2242.5	2840.1	3132.9	25.2
EBITDA	149.4	185.5	400.4	275.8	22.7	189.1	468.2	587.9	28.7
EBITDA (%)	12.3	15.8	29.2	17.3		8.4	16.5	18.8	
PAT	13.6	26.5	185.6	59.1	63.3	-79.7	85.7	187.0	46.8
EPS (₹)	1.0	2.0	14.2	4.5		-6.1	6.6	14.3	
EV/EBITDA	22.4	18.1	8.6	14.4		23.6	10.0	7.6	
EV/Tonne (\$)	90	84	85	69		77	67	63	
RoNW	1.6	2.8	15.5	4.7		-5.3	5.5	10.7	
RoCE	6.4	7.2	15.4	6.6		2.7	8.4	11.5	

## Key Conference call highlights

- The acquisition will enable SCL to further consolidate its position in southern markets, mainly Andhra Pradesh and Telangana. Looking to leverage its existing network/ brand of "Sagar," making the company one of the leading players in the southern markets. More than 50% of volumes of the DCW plant will be sold in Telangana followed by 30% in Andhra Pradesh and 20% in Tamil Nadu. The operations are expected to commence from Q1FY24E, exit with capacity utilisation rate of 55% in FY24 and gradually improving to 60% in FY25E. For the VCW plant (0.8 MT), the company is contemplating to discontinue operations due to constraints resulting from plant's proximity to Vizag city. VCW is located on prime land of ~107 acres within Vizag city limit (land value ~ ₹ 4 crore per acre). The company may look to monetise the land in the medium term to pare debt (we have not considered the same in our estimates)
- The company has proposed to invest ₹ 468 crore towards upgrading the existing clinker and cement capacities in DCW from 1.65 MT to 2.3 MT (clinker) and 1.8 MT to 3.0 MT (cement). The upgradation is expected to be completed by H2FY25E, post which SCL's overall capacity will be 11.3 MT. The company has ample limestone availability (~200 MT) in its DCW plant with a potential of doubling capacity from 3 MT to 6 MT (brownfield).
- The current acquisition cost (including the upgrade) is at US\$56/t, lower than the greenfield implementation cost of ~US\$100/t. The total debt of Andhra Cements, which was to the tune of ₹ 1316 crore was taken over by SCL at ₹ 725 crore (~45% haircut). ACL will continue to remain listed with Sagar Cements having 95% stake and public holding at 5%. SCL will reduce its holding to 90% within 12 months and further to 75% within 36 months from the NCLT approval date
- Demand growth YoY in the last nine months was 20%+ in Andhra Pradesh/Telangana, 24% in Karnataka, 20% in Tamil Nadu, 25% in Kerala, 0-3% in Maharashtra and flattish in Odisha. The management has guided for sales volume of 6.5 MT (including 1 MT of Andhra Cements) in FY24E. Out of the two new commissioned plants, the company expects the MP plant to operate at 80% CU and Jajpur Odisha unit at 33% CU in FY24E. Given the strong underlying demand, we expect revenues to grow at a CAGR of 25% in FY22-25E driven by stabilisation of new capacities. Furthermore, with better sweating of assets and gradual decline in power and fuel cost, we expect the company to generate RoIC of 12% by FY25E with EBITDA/t improving to ₹ 886/t
- On the balance sheet front, we expect the company to generate OCF worth ₹ 1160 crore (ex-interest cost) in FY23-25E vs. overall capex of ~ ₹ 1480 crore during the same period. Hence, we expect debt to remain elevated (D/E expected at 0.9x in FY25E) with material decline expected only from FY26E onwards. We expect finance cost to decline from FY24E onwards owing to rollover of structured debt to long term debt. We maintain HOLD rating on the stock with a target price of ₹ 250 (~8x FY25E EV/EBITDA, EV/t: US\$70/t)**

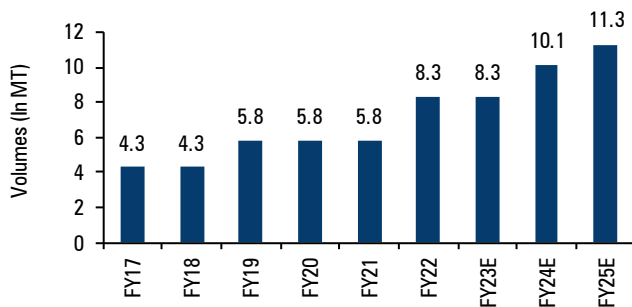
### Exhibit 1: Change in estimates

₹ (Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	2,242.5	2,242.5	0.0	2,442.8	2,840.1	16.3	3,132.9	Revised FY24E revenue upwards as we factor in Andhra Cement acquisition
EBITDA	189.1	189.1	0.0	440.8	468.2	6.2	587.9	
EBITDA Margin (%)	8.4	8.4	0 bps	18.0	16.5	-156 bps	18.8	

Source: Company, ICICI Direct Research

## Financial story in charts

**Exhibit 2: Installed capacity to increase by 25% in FY22-25E**



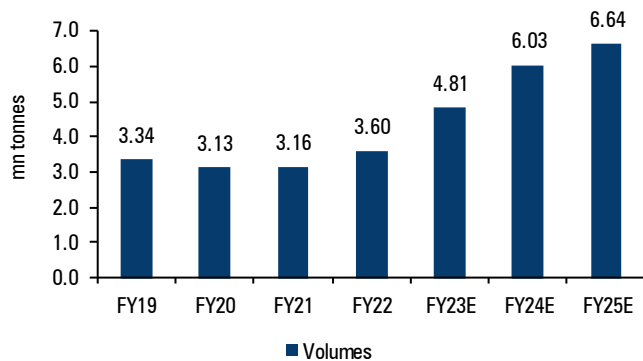
Source: Company, ICICI Direct Research

**Exhibit 3: Capacity across plants**

Location	Clinker MTPA	Cement MTPA
Mattampally , Telangana	2.8	3.0
Gudipadu , AP	1.0	1.3
Vizag , AP	-	1.5
Indore, MP	1.0	1.0
Jajpur, Odisha	-	1.5
Durga Cement Works, AP (post expansion)	2.3	3.0
<b>Total</b>	<b>7.1</b>	<b>11.3</b>

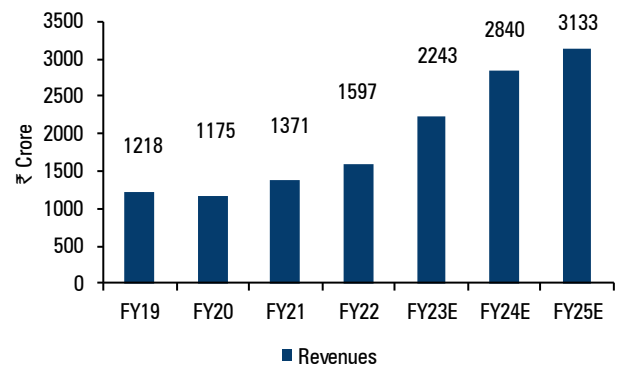
Source: Company, ICICI Direct Research

**Exhibit 4: Volumes to grow at 23% CAGR over FY22-25E with commissioning of new capacities**



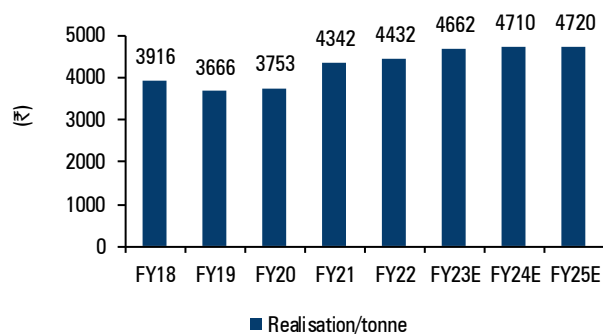
Source: Company, ICICI Direct Research

**Exhibit 5: Topline to grow at 25% CAGR over FY22-25E**



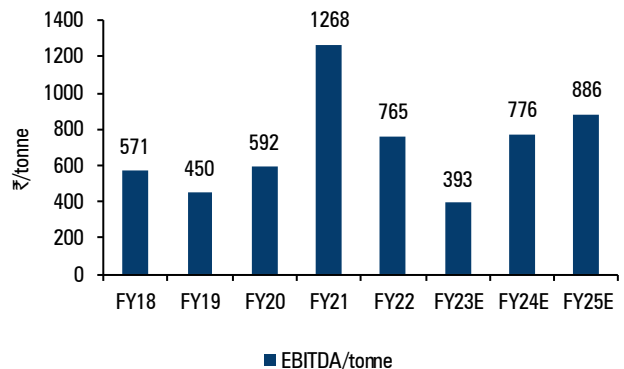
Source: Company, ICICI Direct Research

**Exhibit 6: Realisations to stay firm, going forward, owing to strong anticipated demand**



Source: Company, ICICI Direct Research

**Exhibit 7: EBITDA/t to improve gradually**



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 8: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating Income</b>	<b>1,175.2</b>	<b>1,371.3</b>	<b>1,596.9</b>	<b>2,242.5</b>	<b>2,840.1</b>	<b>3,132.9</b>
Growth (%)	-3.5	16.7	16.4	40.4	26.6	10.3
Raw material cost	227.3	239.8	225.3	419.4	512.6	564.2
Power & fuel	309.2	261.4	515.7	867.7	904.5	929.3
Freight cost	223.8	234.2	278.6	387.8	470.3	531.0
Others	229.4	235.5	301.5	378.5	484.6	520.5
Total Operating Exp.	989.7	970.9	1,321.1	2,053.4	2,372.0	2,545.0
<b>EBITDA</b>	<b>185.5</b>	<b>400.4</b>	<b>275.8</b>	<b>189.1</b>	<b>468.2</b>	<b>587.9</b>
Growth (%)	24.2	115.9	-31.1	-31.4	147.6	25.6
Depreciation	78.9	80.6	92.7	154.0	185.0	195.0
Interest	61.0	46.6	92.5	201.2	185.0	155.0
Other Income	4.0	7.8	13.4	56.2	20.0	20.0
PBT	49.7	281.1	104.0	-110.0	118.2	257.9
Total Tax	23.1	95.5	44.9	-30.2	32.5	70.9
<b>PAT</b>	<b>26.5</b>	<b>185.6</b>	<b>59.2</b>	<b>-79.7</b>	<b>85.7</b>	<b>187.0</b>
PAT margin	2.3	13.5	3.7	-3.6	3.0	6.0
<b>Adjusted PAT</b>	<b>26.5</b>	<b>185.6</b>	<b>59.2</b>	<b>-79.7</b>	<b>85.7</b>	<b>187.0</b>
Growth (%)	95.2	599.5	-68.1	-234.8	-207.5	118.3
<b>Adjusted EPS (₹)</b>	<b>2.0</b>	<b>14.2</b>	<b>4.5</b>	<b>-6.1</b>	<b>6.6</b>	<b>14.3</b>

Source: Company, ICICI Direct Research

### Exhibit 10: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>						
Share Capital	22.3	23.5	23.5	26.1	26.1	26.1
Reserve and Surplus	935.2	1,171.0	1,224.2	1,475.8	1,545.7	1,717.0
Total Shareholders fun	957.5	1,194.5	1,247.7	1,502.0	1,571.9	1,743.1
Total Debt	498.0	810.2	1,571.9	1,671.9	1,821.9	1,621.9
Deferred Tax Liability	22.7	75.9	97.7	119.5	141.3	163.1
Minority Interest / Oth	193.9	238.3	207.8	207.8	207.8	207.8
<b>Total Liabilities</b>	<b>1,672.1</b>	<b>2,318.9</b>	<b>3,125.0</b>	<b>3,501.1</b>	<b>3,742.8</b>	<b>3,735.9</b>
<b>Assets</b>						
Gross Block	1,842.1	1,863.1	2,622.1	3,509.6	3,604.6	4,104.6
Less: Acc Depreciator	511.5	592.0	684.8	838.8	1,023.8	1,218.8
Net Block	1,330.6	1,271.0	1,937.4	2,670.9	2,580.9	2,885.9
Capital WIP	108.0	517.5	100.5	100.0	520.0	100.0
Total Fixed Assets	1,438.6	1,788.5	2,037.9	2,770.9	3,100.9	2,985.9
Investments	53.4	52.8	400.1	85.4	85.4	85.4
Inventory	115.8	124.3	208.6	245.8	295.7	326.2
Debtors	136.8	100.7	120.3	221.2	272.3	343.3
Loans and Advances	21.2	22.4	20.2	33.6	42.6	47.0
Other Current Assets	131.1	217.7	408.6	373.2	332.8	367.9
Cash	11.6	252.2	161.0	75.2	6.9	33.4
Total Current Assets	416.5	717.3	918.7	949.0	950.4	1,117.9
Creditors	223.0	229.0	221.0	276.5	357.9	412.0
Provisions	13.3	10.7	10.6	27.6	35.8	41.2
Total Current Liabilities	236.3	239.7	231.6	304.1	393.7	453.2
Net Current Assets	180.2	477.6	687.1	644.9	556.6	664.7
Others Assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,672.2</b>	<b>2,318.9</b>	<b>3,125.0</b>	<b>3,501.1</b>	<b>3,742.9</b>	<b>3,735.9</b>

Source: Company, ICICI Direct Research

### Exhibit 9: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	26.5	185.6	59.1	-79.7	85.7	187.0
Add: Depreciation	78.9	80.6	92.7	154.0	185.0	195.0
(Inc)/dec in Current Assets	-68.3	-60.2	-292.7	-116.1	-69.6	-141.0
(Inc)/dec in CL and Prov.	22.4	3.4	-8.1	72.5	89.6	59.5
<b>CF from operations</b>	<b>120.5</b>	<b>256.0</b>	<b>-56.4</b>	<b>231.9</b>	<b>475.6</b>	<b>455.5</b>
(Inc)/dec in Investments	-11.8	0.6	-346.8	314.7	0.0	0.0
(Inc)/dec in Fixed Assets	-202.2	-430.5	-342.1	-887.0	-515.0	-80.0
Others	-8.6	98.0	-9.2	21.8	21.8	21.8
<b>CF from investing act.</b>	<b>-222.6</b>	<b>-331.9</b>	<b>-698.1</b>	<b>-550.5</b>	<b>-493.2</b>	<b>-58.2</b>
Issue/(Buy back) of Equity	85.6	84.9	0.1	349.8	0.0	0.0
Inc/(dec) in loan funds	-1.2	312.2	761.7	100.0	150.0	-200.0
Dividend paid incl. taxes	-4.7	-20.5	-11.0	-15.8	-15.8	-15.8
Interest paid	-61.0	-46.6	-92.5	-201.2	-185.0	-155.0
Others	65.3	-13.0	5.0	0.0	0.0	0.0
<b>CF from financing act.</b>	<b>83.9</b>	<b>317.0</b>	<b>663.2</b>	<b>232.8</b>	<b>-50.8</b>	<b>-370.8</b>
Net Cash flow	-18.2	241.0	-91.3	-85.8	-68.3	26.5
Opening Cash	29.8	11.6	252.2	161.0	75.2	6.9
<b>Closing Cash</b>	<b>11.6</b>	<b>252.7</b>	<b>161.0</b>	<b>75.2</b>	<b>6.9</b>	<b>33.4</b>

Source: Company, ICICI Direct Research

### Exhibit 11: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>						
Adjusted EPS	2.0	14.2	4.5	-6.1	6.6	14.3
Cash EPS	8.1	20.4	11.6	5.7	20.7	29.2
BV	73.3	91.4	95.5	114.9	120.3	133.4
DPS	0.3	1.3	0.7	1.0	1.0	1.0
Cash Per Share	0.9	19.3	12.3	5.8	0.5	2.6
<b>Operating Ratios (%)</b>						
EBITDA Margin	15.8	29.2	17.3	8.4	16.5	18.8
Adjusted PAT Margin	2.3	13.5	3.7	-3.6	3.0	6.0
Inventory days	36.0	33.1	47.7	40.0	38.0	38.0
Debtor days	42.5	26.8	27.5	36.0	35.0	40.0
Creditor days	69.3	60.9	50.5	45.0	46.0	48.0
<b>Return Ratios (%)</b>						
RoE	2.8	15.5	4.7	-5.3	5.5	10.7
RoCE	7.2	15.4	6.6	2.7	8.4	11.5
RoIC	7.5	23.3	7.6	1.1	9.2	11.5
<b>Valuation Ratios (x)</b>						
P/E (adjusted)	108.4	15.5	48.6	-36.1	33.6	15.4
EV / EBITDA	18.1	8.6	14.4	23.6	10.0	7.6
EV / Net Sales	2.9	2.5	2.5	2.0	1.7	1.4
Market Cap / Sales	2.4	2.1	1.8	1.3	1.0	0.9
Price to Book Value	3.0	2.4	2.3	1.9	1.8	1.6
<b>Solvency Ratios</b>						
Debt/EBITDA	2.7	2.0	5.7	8.8	3.9	2.8
Debt / Equity	0.5	0.7	1.3	1.1	1.2	0.9
Current Ratio	1.2	1.2	2.1	2.0	1.8	1.8
Quick Ratio	0.9	0.9	1.6	1.5	1.3	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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