

July 20, 2018

Sagar Cements

Q1FY19 Result Update

Lower realization, higher prices keep profitability low

Sagar Cements (SCL) reported a subdued performance in Q1FY19 driven by a dip in realization as well as higher input prices which led to a fall in EBITDA margins. SCL reported a volume of 0.74mt, which was up by 15.8% yoy (from 0.64mt) and declined by 7.1% qoq (from 0.80mt).

Operating costs remain under pressure

Although total expenditure remained flat, there was a reduction in variable costs due to maintenance shutdown and usage of inventory. Higher slag, petcoke and diesel prices continue to keep margins under pressure. EBITDA/ton declined from 664 in Q1FY19 to 492 in this quarter. EBITDA Margin for the quarter stood at 13.3% down from 16.4% in Q1FY18 and up from 13.1% in Q4FY18.

AP & Telangana to be strong demand drivers

We expect a growth of 15% from the Andhra Pradesh and Telangana markets due to increased infrastructure spending by the government (on affordable housing, Polavaram project etc.) The management has also witnessed a surprise pickup of demand in the Tamil Nadu and Kerala markets in this quarter. A higher volume push to non-southern regions such as Maharashtra will also boost volumes in the coming quarters.

Valuations

After the recent commissioning of the expanded capacity of grinding unit at Bayyavaram, we expect a higher blended mix by the company which leads to higher realization. This also enables the company to cater to markets such as Orissa with a much lower lead distance. With the company poised to expand its capacity to 6mt by FY20E, followed by cost rationalization procedures such as expansion of WHRS plants and commissioning of CPPs, we expect margins and volumes to rise significantly. We expect revenue and EBITDA to grow at a CAGR of 20.3% and 28.1% between FY18-20E and maintain our BUY rating on the stock with a target price of INR 1051/share (i.e valuing at an average of 8x EV/EBITDA, FY20E EBITDA of INR 248cr and a \$70 EV/Ton).

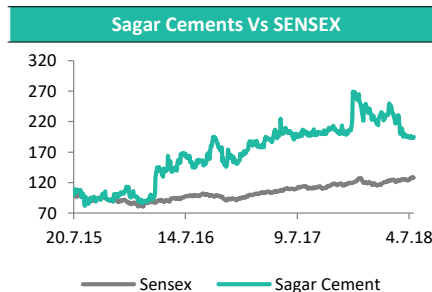
(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Revenue	753	814	1038	1245	1503
Growth%	31%	8%	28%	20%	21%
EBITDA	124	110	151	190	248
Growth%	120%	-11%	37%	26%	30%
Adjusted PAT	46	-4	26	55	94
Growth%	-84%	-109%	770%	108%	72%
EPS (INR)	26.5	-	12.8	26.7	45.9
Sales Volume (MT)	1.7	2.2	2.7	3.2	3.9
EV/EBITDA (x)	9.0	17.4	14.3	10.2	7.1
EV/Ton (\$)	41.8	66.5	67.4	48.2	43.9
P/E (x)	15.0	-	67.1	27.6	16.0

BUY

Downside Scenario	Current Price	Price Target	Upside Scenario
	739	1051	
		42%▲	

Stock Details	
Industry	Cement
Sensex	36496
Nifty	11010
Bloomberg Code	SGC:IN
Eq. Cap. (INR. Cr.)	20.4
Face Value (INR.)	10
52-w H/L	733/1176
Market Cap (INR. Cr.)	1516

Valuation Data			
	FY18	FY19E	FY20E
OPM	14.6%	15.3%	16.5%
NPM	2.5%	4.4%	6.3%
P/E (x)	67.1	27.6	16.0
EV/EBITDA (x)	14.3	10.2	7.1
EV/Ton (\$)	67.4	48.2	43.9



Shareholding Pattern			
	Jun'18	Mar'18	Jun'17
Promoters	50.05	50.03	50.03
FIIs	3.6	3.57	3.55
DIIs	13.76	14.35	15.49
Retail	32.59	32.04	30.92
	100.0	100.0	100.0

ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
 Nirmal Gopi, nirmal.gopi@nalandasecurities.com, +91-22-6281-9648

NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
 +91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Revenue	275	259	295	6.2%	-6.8%
COGS	58	37	48	55.8%	20.3%
Employee Expenses	14	11	16	28.3%	-10.9%
Power and Fuel	76	82	88	-7.7%	-14.4%
Freight and Forwarding	59	51	63	14.5%	-7.3%
Other Expenses	32	35	41	-7.5%	-20.3%
Total Expenses	238	256	256	-6.8%	-6.9%
EBITDA	36	42	39	-14.2%	-6.0%
Depreciation	14	13	14	7.9%	-3.8%
Other Income	1	2	2	-76.1%	-68.8%
EBIT	23	32	26	-27.3%	-11.3%
Finance Cost	14	15	15	-6.6%	-8.2%
PBT	9	17	11	-45.7%	-15.7%
Exceptional Items	0	0	0		
Taxes	3	7	6	-51.5%	-45.0%
Net Profit	6	10	5	-41.6%	22.8%

- The company's net sales grew 6.2% y-o-y (from 259cr in Q1FY18) and declined 6.8% q-o-q (from 295cr in Q4FY18) to INR 275cr in Q1FY19.
- EBITDA for the company stood at INR 36.4cr down from INR 42.5cr (-14.2% Y-o-Y) and down from INR 38.8cr (-6% Q-o-Q) with EBITDA Margins at 13.3% as against 16.4% in Q1FY18 and 13.1% in Q4FY18. The decline in margins may be attributed to higher input prices, slightly lower realization and shutting down of WHRS plant due to upgradation of its capacity.
- EBITDA/Ton for the quarter stood at INR 492 down from INR 664 (-25.9% Y-o-Y) in Q1FY18 and up from INR 486 (1.2% Q-o-Q) in Q4FY18. Total cement volumes for the quarter stood at 0.74 mnT.
- Reported PAT stood at INR 5.8cr which was down by 41.6% Y-o-Y (from INR 10cr) and up by 22.8% Q-o-Q (from INR 4.7cr). PAT Margins stood at 2.1%, down from 3.9% in Q1FY18 and up from 1.6% in Q4FY18.
- Capacity utilization stood at ~67% for the quarter vis-à-vis 58% in Q1FY18. Pet coke usage stood at 83% vis-à-vis 75% in Q4FY18.

(INR/Ton)	Q1FY19	Q1FY18	Y-o-Y	Q4FY18	Q-o-Q
Realization	3709	4043	-8.3%	3695	0.4%
RM Cost	776	577	34.6%	599	29.5%
Employee Cost	191	172	10.7%	199	-4.1%
Power and Fuel	1020	1280	-20.3%	1106	-7.8%
Freight and Forwarding	793	802	-1.1%	795	-0.2%
Other Expenditure	438	549	-20.1%	511	-14.2%
Total Expenditure	3218	3379	-4.8%	3209	0.3%
EBITDA	492	664	-25.9%	486	1.2%

Key Concall Highlights

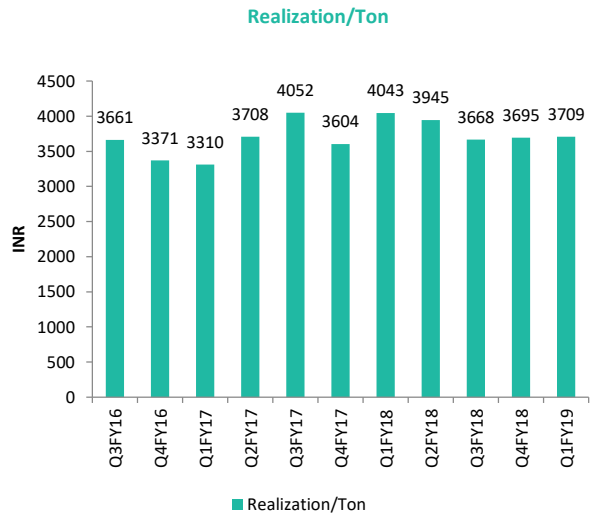
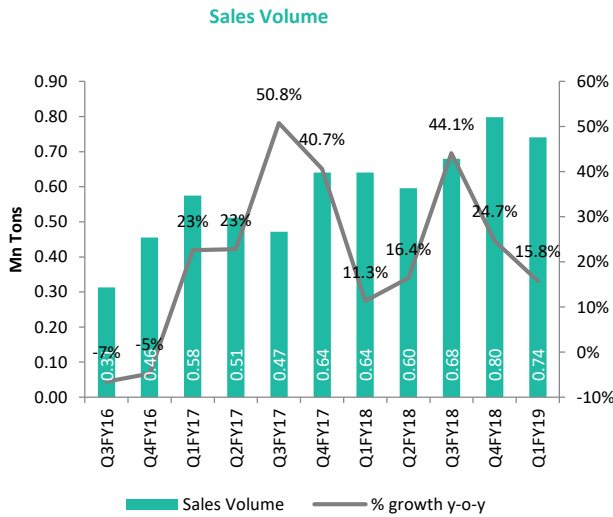
- In Q1FY19, the Mattampally plant was operating at a capacity utilization of 64%, and Gudipadu plant was operating at 80%
- As of 30th June, consolidated gross debt stood at 550cr and debt-to-equity stood at 0.47.
- The management expects an upturn in prices to occur only from Q3FY19.
- State-wise demand growth is expected to be +15% for AP & Telangana, -5% for TN & Kerala, +5% for Karnataka and +10% for Maharashtra in FY19.
- Blended mix for the quarter remained at 65:35. Bulk of the demand for the company has come from the government.
- The company is building a 18MW coal-based CPP in Mattampally plant which is expected to be commissioned by Q4FY19. INR 55cr has been spent so far, and the company is expecting to incur INR45cr more. Beyond this project, the company only aims to incur maintenance capex for the next two years.
- The company will shut down its Gudipadu plant for 40 days starting from 28th July, for replacement of its coolers. Despatches will continue and the company aims to produce 3.2mt in FY19 after accounting for the temporary shutdown.
- Variable costs were relatively low, as despatches were mainly from inventory produced in Q4 and Q3 (due to maintenance shutdown)
- Post commissioning of the Vizag grinding unit, the management is expecting to produce 80-85% of PSC and the rest to be specialty cements as well as OPC.
- Slag prices for the company is estimated to be INR 550/ton.

ANALYST

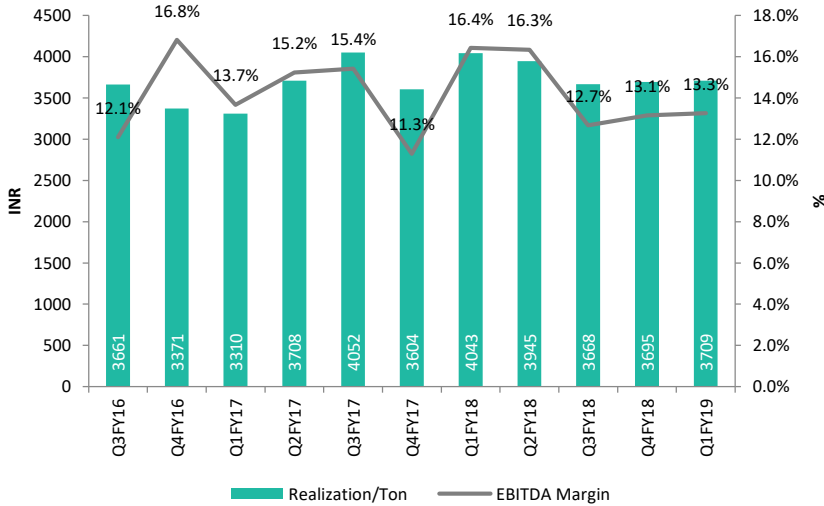
Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
Nirmal Gopi, nirmal.gopi@nalandasecurities.com, +91-22-6281-9648

NALANDA SECURITIES PRIVATE LIMITED

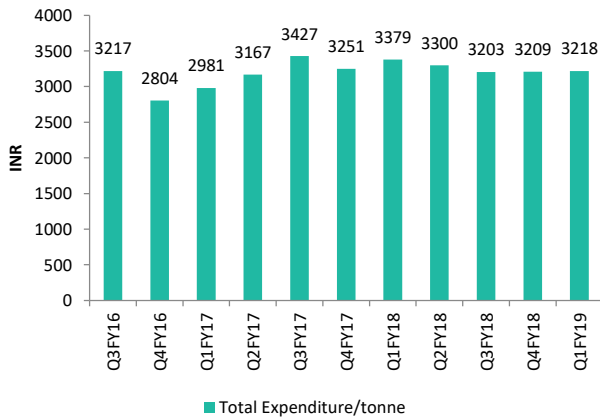
310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
+91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



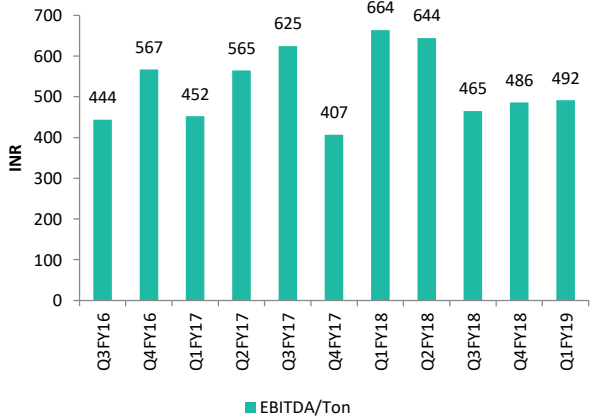
Margin declined y-o-y due to higher input prices and lower realization



Increasing cost pressure due to rising pet-coke and diesel prices



EBITDA/Ton



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net sales	753	814	1038	1245	1503
COGS	137	104	145	176	213
Employee Expenses	41	43	51	72	77
Power and fuel	220	272	331	381	474
Transportation cost	120	151	218	265	313
Other Expenses	111	133	141	161	177
EBITDA	124	110	151	190	248
D&A	34	48	54	59	60
Other income	4	4	7	6	7
EBIT	94	66	105	137	196
Interest Expense	42	62	59	56	55
PBT	53	4	46	82	140
Tax	7	8	19	27	46
Effective tax rate	12.5%	192.9%	42.5%	33.0%	33.0%
PAT	46	-4	26	55	94

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	20.4	20.4	20.4	20.4	20.4
Reserves & Surplus	531.7	742.6	758.8	805.2	885.1
Shareholder's Funds	549.1	763.0	779.2	825.6	905.5
Long-term borrowings	295.4	349.7	329.7	329.7	179.7
Deferred Tax Liability (Net)	22.9	30.0	42.6	42.6	42.6
Other long-term liabilities	46.7	48.2	52.9	105.3	127.7
Long term provisions	25.7	2.4	3.9	3.5	4.1
Non-current liabilities	390.6	430.2	429.2	406.2	272.8
Short-term borrowings	87.0	95.6	166.0	98.7	107.9
Trade payables	132.4	147.8	136.8	250.1	303.3
Other current liabilities	107.2	94.6	57.1	86.2	71.2
Short-term provisions	1.8	2.1	2.3	2.3	2.3
Current liabilities	328.4	340.0	362.2	37.3	484.7
Total Equity and Liabilities	1,268.1	1,533.2	1,570.6	1,729.9	1,758.4
Goodwill on consolidation	38.7	38.7	38.7	38.7	38.7
Gross Block	1,150.2	1,330.5	1,490.5	1,680.5	1,700.5
Less: Accum. Depreciation	265.7	313.3	366.9	425.7	485.3
Net Fixed Assets	933.7	1,017.2	1,139.2	1,254.7	1,215.2
Non-current investments	79.2	69.5	101.0	101.0	101.0
Non-current Assets	1,051.6	1,125.4	1,279.0	1,394.5	1,355.0
Inventories	90.5	110.4	94.9	182.8	221.7
Trade receivables	80.9	80.8	92.6	113.8	137.3
Cash and cash equivalents	3.0	161.8	41.0	22.7	40.7
Other Bank Balances	3.5	8.7	17.1	8.7	8.7
Other current assets	38.6	46.2	46.1	38.6	38.6
Current Assets	216.5	407.8	291.6	365.5	433.5
Total Assets	1,268.1	1,533.2	1,570.6	1,729.9	1,758.4

ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
Nirmal Gopi, nirmal.gopi@nalandasecurities.com, +91-22-6281-9648

NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
+91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
PBT	52.7	4.2	45.7	81.5	140.3
Depreciation & Amortization	33.7	47.6	53.6	58.8	59.5
(Incr)/Decr in Working Capital	17.7	-40.9	-57.0	17.7	17.7
Cash Flow from Operating	128.9	101.0	67.6	225.4	251.3
(Incr)/ Decr in Gross PP&E	-72.0	-145.2	-175.7	-174.3	-20.0
Cash Flow from Investing	-110.9	-150.6	-175.7	-174.3	-20.0
(Decr)/Incr in Debt	-330.4	41.1	50.5	-67.4	-140.8
Dividend Paid	-14.8	-3.1	-3.9	-8.2	-14.1
Finance costs	-40.1	-62.1	-59.3	-55.9	-55.4
Cash Flow from Financing	-235.3	208.5	-12.8	-131.4	-210.3
Incr/(Decr) in Balance Sheet Cash	-217.3	158.8	-120.8	-17.7	18.0
Cash at the Start of the Year	216.7	3.0	161.8	41.0	22.7
Cash at the End of the Year	3.0	161.8	41.0	22.7	40.7

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Particulars					
EBITDA/Ton	750	501	557	589	642
Sales Volume (mn tons)	1.7	2.2	2.7	3.2	3.9
Growth (%)					
Total Sales	30.9%	8.0%	27.6%	20.0%	20.7%
EBITDA	119.9%	-11.0%	37.1%	25.9%	30.3%
PAT	-84.5%	-108.5%	569.8%	108.0%	72.1%
Profitability (%)					
EBITDA Margin	16.5%	13.6%	14.6%	15.3%	16.5%
NPM	6.1%	-0.5%	2.5%	4.4%	6.3%
RoE (%)	8.4%	-0.5%	3.4%	6.6%	10.4%
RoCE (%)	9.2%	5.1%	7.6%	15.7%	19.3%
Debt Ratios					
Net Debt/EBITDA	3.5	2.9	2.7	2.3	1.0
Net Debt/Equity	0.8	0.4	0.5	0.5	0.3
Interest Coverage	2.3	1.1	1.8	2.5	3.5
Per share data / Valuation					
EPS (INR.)	26.5	-	12.8	26.7	45.9
BPS (INR.)	315.6	374.0	382.0	404.7	443.9
P/E (INR.)	15.0x	-	67.1x	27.6x	16.0x
EV/EBITDA (x)	9.0x	17.4x	14.3x	10.2x	7.1x
EV/Ton (\$)	41.8	66.5	67.4	48.2	43.9



Disclaimer

This report has been prepared by Nalanda Securities Pvt. Ltd ("NSPL") and published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014, for use by the recipient as information only and is not for circulation or public distribution. NSPL includes subsidiaries, group and associate companies, promoters, directors, employees and affiliates. This report is not to be altered, transmitted, reproduced, copied, redistributed, uploaded, published or made available to others, in any form, in whole or in part, for any purpose without prior written permission from NSPL. The projections and the forecasts described in this report are based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections are forecasts were based will not materialize or will vary significantly from actual results and such variations will likely increase over the period of time. All the projections and forecasts described in this report have been prepared solely by authors of this report independently. None of the forecasts were prepared with a view towards compliance with published guidelines or generally accepted accounting principles.

This report should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this report nor anything contained therein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. It does not constitute a personal recommendation or take into account the particular investment objective, financial situation or needs of individual clients. The research analysts of NSPL have adhered to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. The recipients of this report must make their own investment decisions, based on their own investment objectives, financial situation or needs and other factors. The recipients should consider and independently evaluate whether it is suitable for its/ his/ her/their particular circumstances and if necessary, seek professional / financial advice as there is substantial risk of loss. NSPL does not take any responsibility thereof. Any such recipient shall be responsible for conducting his/her/its/their own investigation and analysis of the information contained or referred to in this report and of evaluating the merits and risks involved in securities forming the subject matter of this report. The price and value of the investment referred to in this report and income from them may go up as well as down, and investors may realize profit/loss on their investments. Past performance is not a guide for future performance. Actual results may differ materially from those set forth in the projection.

Except for the historical information contained herein, statements in this report, which contain words such as 'will', 'would', etc., and similar expressions or variations of such words may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements are not predictions and may be subject to change without notice. NSPL undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof. NSPL accepts no liabilities for any loss or damage of any kind arising out of use of this report.

This report has been prepared by NSPL based upon the information available in the public domain and other public sources believed to be reliable. Though utmost care has been taken to ensure its accuracy and completeness, no representation or warranty, express or implied is made by NSPL that such information is accurate or complete and/or is independently verified. The contents of this report represent the assumptions and projections of NSPL and NSPL does not guarantee the accuracy or reliability of any projection, assurances or advice made herein. Nothing in this report constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. This report is based / focused on fundamentals of the Company and forward-looking statements as such, may not match with a report on a company's technical analysis report. This report may not be followed by any specific event update/ follow-up.

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

ANALYST

Vaibhav Chowdhry, vaibhav.chowdhry@nalandasecurities.com, +91-22-6281-9649
Nirmal Gopi, nirmal.gopi@nalandasecurities.com, +91-22-6281-9648

NALANDA SECURITIES PRIVATE LIMITED

310-311 Hubtown Solaris, NS Phadke Marg, Opp Teli Gali, Andheri East, Mumbai 69
+91-22-6281-9600 | research@nalandasecurities.com | www.nalandasecurities.com