

August 09, 2018

Sanghi Industries

Q1FY19 Result Update

Lower-than-expected volumes and sluggish realization impacts performance

The company posted a revenue of INR 275cr for the quarter, down by 4.4% mainly due to a dip in realization (-5.8% YoY to INR 4042/ton). Total sales volume for the quarter stood at 0.68mt up by 1.5% YoY (from 0.6mt), although demand growth in its key markets stood at 9-10%. This was due to an unavailability of truck fleets to cater to distant markets.

Cost escalation impacts EBITDA/Ton

EBITDA/Ton for the quarter stood at INR 638 down by 34% YoY (from INR 968) and 7.2% QoQ (from INR 688) due to higher power and fuel costs (up by 17% YoY to INR 1210/ton), as well as logistics costs (up by 1.2% YoY to INR 1424/ton). Fuel costs rose dramatically, due to the unavailability of lignite, leading to a change in the fuel mix. Coal, which accounted for 73% of the fuel consumption (from 17% in Q1FY18), has also seen a hike in prices. This led to an overall increase in operating costs to INR 3404/ton (up by 2.4% YoY from INR 3324/ton)

Estimated capex is on track

The company has successfully commissioned the 15 MW WHRS plant in the quarter, and generated 8 MW in its trial run. Going forward, this is expected to reduce the power costs. Moreover, the work for capacity expansion to 8.1mt is on track, and is expected to be commissioned by Q1FY21.

Valuations

Although the company witnessed a subdued quarter, the company continues to be one of the lowest variable-cost producers in the industry, due to its locational advantage (proximity to good quality marine limestone reserves) as well as captive thermal power plant of 63 MW. We expect the low availability of fly-ash to be a temporary issue and expect a higher proportion of Portland Pozzolana Cement (PPC) in its sales mix, thereby leading to a higher realization. With the government's increased focus on infrastructure development and affordable housing, we expect continued demand in its key markets of Gujarat, Maharashtra and Rajasthan. At a CMP of INR 87, the stock trades at an EV/EBITDA of 10.6 on FY20 earnings. We remain positive on the stock with a target price of INR 104 giving an upside of 19%. (i.e. valuing the stock at FY20E EV/Ton of \$80/Ton, 10x FY20E EV/EBITDA).

(INR Crores)	9MFY16	FY17	FY18	FY19E	FY20E
Net Sales	776	998	1026	1296	1558
Growth%	-17%	28%	3%	26%	20%
EBITDA	151	198	216	248	315
Growth%	-4%	31%	9%	15%	27%
Adjusted PAT	16	63	93	105	112
Growth%	-48%	295%	48%	12%	7%
EPS (INR)	0.73	2.87	3.72	4.17	4.45
Sales Volume (MT)	2.1	2.9	2.5	3.1	3.6
EV/EBITDA	12.2	10.5	11.1	11.7	10.6
EV/Tonne	68.6	76.0	91.0	103.6	58.6
P/E (x)	17.3	23.9	23.4	20.9	27.4

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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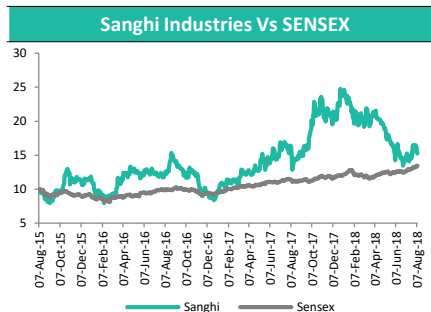
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STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	87	104	
		19% ▲	

Stock Details	
Industry	Cement
Sensex	38025
Nifty	11471
Bloomberg Code	SNGI:IN
Eq. Cap. (INR. Cr.)	251
Face Value (INR.)	10
52-w H/L	73/144
Market Cap (INR. Cr.)	2182

Valuation Data			
	FY18	FY19E	FY20E
OPM	21.0%	19.1%	20.2%
NPM	9.1%	8.1%	7.2%
P/E (x)	23.4	20.9	27.4
EV/EBITDA (x)	11.1	11.7	10.6
EV/Ton (\$)	91.0	103.6	58.6



Shareholding Pattern			
	Jun'18	Mar'18	Jun'17
Promoters	65.72	65.72	74.94
FIIIs	7.52	8.77	0.16
DIIIs	9.35	9.29	3.57
Retail	17.41	16.21	21.34
	100.0	100.0	100.0



Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Net Sales	275	288	254	-4.4%	8.4%
COGS	12	10	16	16.6%	-27.3%
Employee Expenses	12	12	15	-1.4%	-19.6%
Power and Fuel	82	69	68	18.8%	21.2%
Freight and Forwarding	97	94	96	2.7%	0.5%
Other Expenses	29	37	17	-22.5%	67.6%
Total Expenses	231	223	212	3.9%	9.0%
EBITDA	43.4	64.8	41.3	-33%	5%
Depreciation	19	18	18	9.2%	5.4%
Other Income	8	2	13	293.8%	-36.7%
EBIT	32.2	49.1	35.9	-34.5%	-10.3%
Finance Cost	12.3	17.5	17.3	-29.8%	-28.8%
PBT	19.9	31.6	18.6	-37.1%	6.9%
Taxes	0	0	0	0%	0%
Net Profit	19.9	31.6	18.6	-37.1%	6.9%

- The company's net sales declined 4.4% y-o-y (from INR 288cr in Q1FY18) and grew 8.4% q-o-q (from INR 254cr in Q4FY18) to INR 275cr in Q2CY18.
- EBITDA for the company stood at INR 43.4cr down from INR 64.8cr (-33% Y-o-Y) and up from INR 41.3 cr (5% Q-o-Q) with EBITDA Margins at 15.8% as against 22.5% in Q1FY18 and 16.3% in Q4FY18. The fall in margins was primarily due to higher power and fuel costs, as well as raw material costs.
- EBITDA/Ton for the quarter stood at INR 638 down from INR 968 (-34% Y-o-Y) in Q1FY18 and INR 688 (-7.2% Q-o-Q) in Q4FY18. Total cement volumes for the quarter stood at 0.68 mn tons. The cement volumes grew at 1.5% YoY and 13.3% QoQ.
- Reported PAT stood at INR 19.9cr which was down by 37% Y-o-Y (from INR 31.6cr) and up by 6.9% Q-o-Q (from INR 18.6cr). PAT Margins stood at 7.2%, down from 11% in Q1FY18 and up from 7.3% in Q4FY18.
- Realization/ Ton has increased to INR 4042, down from INR 4292 (-5.8% Y-o-Y) and INR 4227 (-4.4% Q-o-Q).
- Capacity Utilization stood at 66% for the quarter.

(INR/Ton)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Realization	4042	4292	4227	-5.8%	-4.4%
RM Cost	171	149	266	14.8%	-35.8%
Employee Cost	178	184	251	-2.8%	-29.0%
Power and Fuel	1210	1034	1131	17.1%	7.0%
Freight and Forwarding	1424	1407	1606	1.2%	-11.3%
Other Expenditure	421	551	285	-23.7%	47.8%
Total Expenditure	3404	3324	3540	2.4%	-3.8%
EBITDA	638	968	688	-34.1%	-7.2%

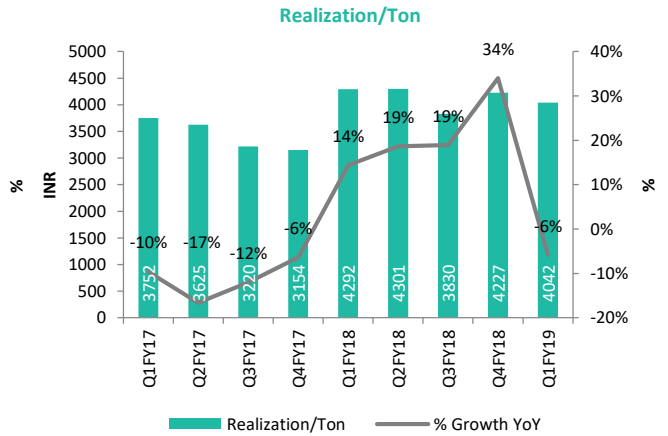
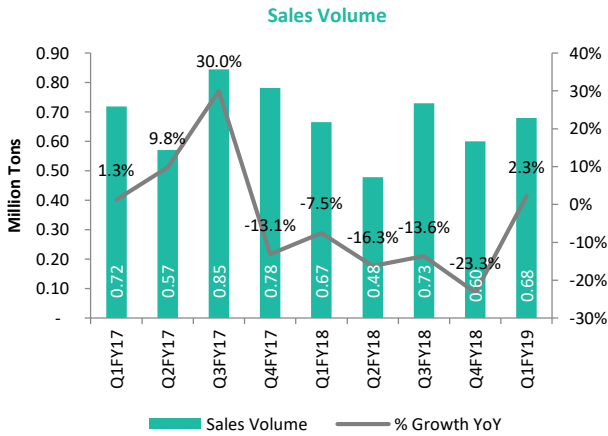
Source: Company, NSPL Research

Key Concall Highlights

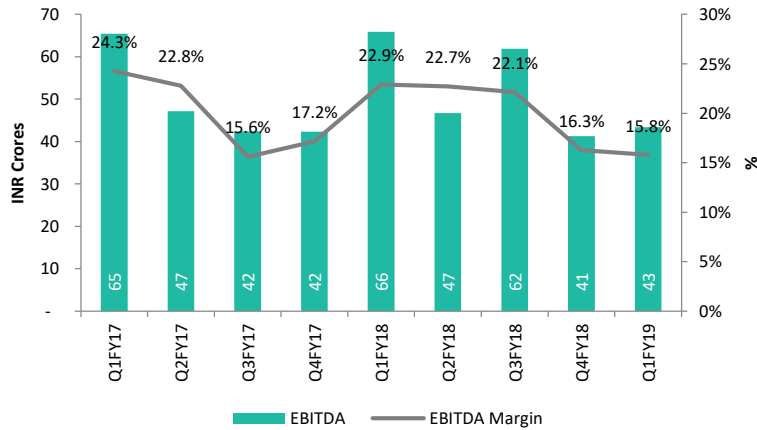
- The 15MW WHRS plant which was under construction has been successfully commissioned. In the month of May and June, 8 MW was generated. The capacity expansion to 8.1mt is undergoing, and civil work has commenced in the factory site.
- Although a hike in prices was witnessed in April and May, a significant drop in prices were witnessed in the second half of June, bringing down the overall realization for the quarter.
- There was a shortage in the availability of fly-ash, affecting PPC production as well as trade sales. (Trade segment primarily purchase blended cement).
- Power and fuel costs were considerably higher for the quarter due to reduced availability of lignite (due to waterlogging in the mines where lignite is sourced). As a result, fuel mix for firing the kilns was 27% lignite and 73% coal as compared to 83% lignite and 17% coal in Q1FY18. Coal costs have also gone up by 15%, thus exacerbating the effect.
- Finance cost has come down due to the refinancing of debt to the tune of INR 325cr (from 15.5% to 10.5%).
- The company witnessed a healthy demand in its markets. Gujarat witnessed a demand growth of 15%, Maharashtra grew by 9% and Rajasthan grew by 12-13%. However, sales growth for the company has been subdued due to a stricter implementation of overloading of trucks by RTO, leading to a higher logistics cost and in turn, reducing sales to farther markets. Also, there was a lower availability of ships in June, due to the onset of monsoon in both Saurashtra and Mumbai regions.



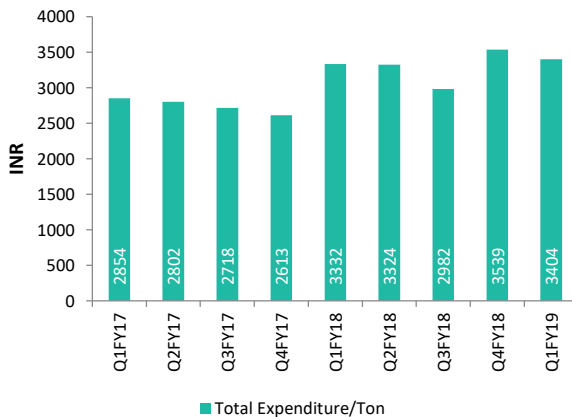
- 40% of the estimated INR 1250cr of capex is expected to be spent this year with the remaining to be spent next year.
- The capacity expansion project is expected to be commissioned by the end of Q4FY20.
- The management expects that there will not be any tax outgo in this financial year.
- The trade mix for the quarter has reduced 4-5% YoY. This would translate to a price differential of INR 5-7/bag (higher for trade segment) after considering discounts.
- Blended mix stands at 67% OPC and 33% PPC. The percentage of PPC was higher by about 4-5% in Q1FY18.
- Currently, the cost of coal is INR 1.15/kcal and cost of lignite is INR 0.84/kcal.
- The company is not considering catering to the Southern region in the near future, due to higher investments in terminals and ships. Sanghi enjoys a good realization and demand in the Mumbai and Gujarat markets, and they plan to continue catering to the same markets.
- As of Q1FY19, term debt stands at INR 575cr, with working capital at ~INR 200cr.



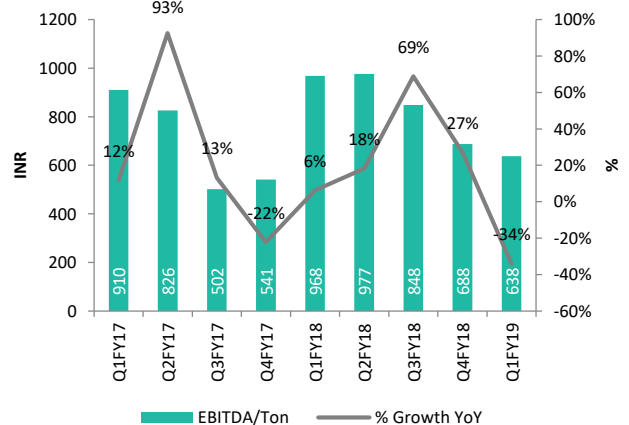
Margin fell due to higher logistics cost and higher power and fuel cost



Increasing cost pressure due to lower availability of lignite and ships



EBITDA/Ton



Source: Company, NSPL Research



Profit & Loss (INR Crores)	9MFY16	FY17	FY18	FY19E	FY20E
Net sales	762.2	997.5	1026.4	1295.5	1558.0
COGS	69.4	78.9	66.4	84.9	100.5
Employee Expenses	38.2	52.5	53.9	59.3	65.3
Power and fuel	160.5	231.0	242.8	319.8	401.0
Transportation cost	243.2	333.3	333.0	438.6	519.5
Other Expenses	99.8	103.6	114.4	145.0	156.6
EBITDA	151.2	198.2	215.8	247.9	315.1
D&A	54.0	73.1	72.4	96.5	113.8
Other income	1.7	2.2	22.0	35.0	35.0
EBIT	98.9	127.4	165.4	186.4	236.3
Interest Expense	22.2	64.2	72.1	81.6	124.6
PBT	76.8	63.1	93.3	104.7	111.6
Tax	0.4	0.0	0.0	0.0	0.0
Effective tax rate	0.51%	0.00%	0.00%	0.00%	0.00%
PAT	76.4	63.1	93.3	104.7	111.6
Exceptional Items	60.4	0.0	0.0	0.0	0.0
Reported PAT	16.0	63.1	93.3	104.7	111.6

Balance Sheet (INR Crores)	9MFY16	FY17	FY18	FY19E	FY20E
Share Capital	220.0	220.0	251.0	251.0	251.0
Reserves & Surplus	831.0	894.0	1,346.9	1,451.6	1,563.2
Shareholder's Funds	1,051.0	1,114.0	1,597.9	1,702.6	1,814.2
Long-term borrowings	471.2	459.0	550.8	819.0	1,319.0
Other non-current liabilities	47.4	102.6	73.6	73.6	73.6
Long term provisions	54.4	48.1	38.3	38.3	38.3
Non-current liabilities	573.0	609.7	662.8	931.0	1,431.0
Short-term borrowings	65.2	127.8	163.0	163.0	163.0
Trade payables	144.0	142.1	132.7	174.4	206.6
Other current liabilities	163.4	61.7	77.8	77.8	77.8
Short-term provisions	23.8	10.3	20.2	20.2	20.2
Current liabilities	396.4	341.9	393.7	435.4	467.5
Total Equity and Liabilities	2,020.4	2,065.6	2,654.3	3,069.0	3,712.8
Gross Block	2,618.0	2,749.1	3,008.2	3,628.2	4,278.2
Less: Accum. Depreciation	1,057.3	1,130.1	1,210.1	1,306.6	1,420.4
Net Fixed Assets	1,560.7	1,619.0	1,802.3	2,321.6	2,857.8
Deferred Tax Assets	58.5	58.5	87.1	87.1	87.1
Other Non-current Assets	19.5	-	33.7	33.7	33.7
Non-current Assets	1,638.7	1,677.5	1,923.1	2,442.3	2,978.5
Inventories	138.5	186.6	147.5	186.0	220.3
Trade receivables	18.4	23.9	32.1	39.2	47.4
Cash and cash equivalents	83.0	16.3	428.1	277.8	342.9
Other current assets	141.8	161.3	123.7	123.7	123.7
Current Assets	381.7	388.1	731.3	626.7	734.2
Total Assets	2,020.4	2,065.6	2,654.3	3,069.0	3,712.8

Source: Company, NSPL Research



Cash Flow (INR Crores)	9MFY16	FY17	FY18E	FY19E	FY20E
PBT	16.4	63.0	93.4	104.7	111.6
Depreciation & Amortization	54.0	73.1	72.4	96.5	113.8
(Incr)/Decr in Working Capital	-1.4	-121.8	-12.0	-3.9	-10.4
Cash Flow from Operating	142.4	76.0	221.8	279.0	339.7
(Incr)/ Decr in Gross PP&E	-46.4	-75.2	-289.1	-615.8	-650.0
Cash Flow from Investing	-123.5	-7.9	-684.4	-615.8	-650.0
(Decr)/Incr in Debt	187.6	2.1	140.5	268.2	500.0
Finance costs	-206.5	-70.3	-68.2	-81.6	-124.6
Cash Flow from Financing	-19.0	-68.2	462.9	186.6	375.4
Incr/(Decr) in Balance Sheet Cash	-0.1	-0.1	0.2	-150.2	65.1
Cash at the Start of the Year	0.3	0.2	0.2	0.4	-149.8
Cash at the End of the Year	0.2	0.2	0.4	-149.8	-84.8
Cash and Bank Balances	83.0	16.3	428.1	277.8	342.9

RATIOS	9MFY16	FY17	FY18E	FY19E	FY20E
Particulars					
EBITDA/Ton	721.4	678.8	862.5	789.9	864.6
Sales Volume (mn tons)	2.1	2.9	2.5	3.1	3.6
Growth (%)					
Total Sales	8.3%	-1.6%	-4.5%	35.9%	21.0%
EBITDA	28.1%	-1.7%	8.9%	14.9%	27.1%
PAT	232.8%	-38.0%	47.8%	12.3%	6.6%
Profitability (%)					
EBITDA Margin	19.5%	19.9%	21.0%	19.1%	20.2%
NPM	9.8%	6.3%	9.1%	8.1%	7.2%
RoE (%)	7.3%	5.7%	5.8%	6.2%	6.2%
RoCE (%)	5.9%	6.9%	6.8%	6.7%	6.9%
Debt Ratios					
Net Debt/EBITDA	3.4	2.9	1.0	2.8	3.6
Net Debt/Equity	0.5	0.5	0.1	0.4	0.6
Interest Coverage	4.5	2.0	2.3	2.3	1.9
Per share data / Valuation					
EPS (INR.)	3.5	2.9	3.7	4.2	4.4
BPS (INR.)	47.8	50.7	63.7	67.8	72.3
P/E (x)	17.3	23.9	23.4	20.9	27.4
EV/EBITDA (x)	12.2	10.5	11.1	11.7	10.6
EV/Ton (\$)	68.6	76.0	91.0	103.6	58.6

Source: Company, NSPL Research



Sanghi Industries				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 09, 2018	87	104	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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