

October 30, 2018

## Sagar Cements

### Q2FY19 Result Update

#### A pickup in realization still yet to be seen

A higher input cost environment, coupled with a dip in realization muted Sagar Cements' (SCL) performance for the quarter. At the consolidated level, the SCL reported a net loss of INR 8cr, pulled back by its acquired Gudipadu plant (52-day shutdown due to replacement of coolers and modernizing kilns), which reported net loss of INR 10.2cr in the quarter. Capacity utilization remained low at 52% vis-à-vis 68% in Q1FY19, owing to the monsoon season and plant shutdown.

#### Operating margin remain under pressure

The high prices of imported petcoke, coal and diesel continue to keep margins under pressure. Although the lead distance was optimized for SCL (Freight cost/ton in Q2FY19 reduced by 1.7% YoY), power and fuel costs continue to rise up (+7% YoY) and currently contributes 38% of overall expenses. EBITDA/ton declined from INR 645 in Q2FY18 to INR 294 in the quarter. EBITDA Margin for the quarter stood at 8.1% down from 16.3% in Q2FY18 and 13.3% in Q1FY19.

#### AP & Telangana continue to show strong demand

Andhra Pradesh and Telangana markets continue to show increased demand and in turn steady prices on the back of a sustained infrastructure spending by the government, such as on affordable housing, Polavaram project etc. However, the West region showed softening of prices due to a low demand growth (owing to monsoon) and a heightened competitive intensity.

#### 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. SCL will commission a coal based CPP of 18MW by March 2019, which is expected to partially offset rising power costs. However, a delay in the pickup in realization, along with a prolonged hardening of input prices, coupled with a dip in demand due to Kerala floods, prompts us to revise our target price downwards to INR 776/share. (i.e valuing the stock at an average of 8x EV/EBITDA, FY21 EBITDA of INR 212cr and EV/Ton of \$50/ton)

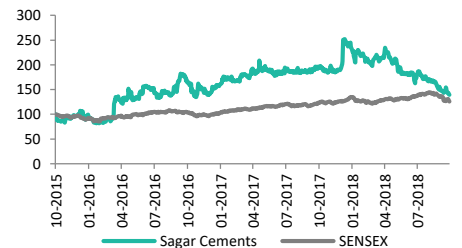
# STRONG BUY\*

Downside Scenario	Current Price	Price Target	Upside Scenario
	616	776	
		26%▲	

Market Data	
Industry	Cement
Sensex	34067
Nifty	10251
Bloomberg Code	SGC:IN
Eq. Cap. (INR Crores)	20.4
Face Value (INR)	10
52-w H/L	603/1176
Market Cap (INR Crores)	1326

Valuation Data	FY18	FY19E	FY20E
OPM	14.6%	12.6%	13.8%
NPM	2.5%	1.6%	3.4%
P/E (x)	80.5	112.0	46.8
EV/EBITDA (x)	14.8	11.8	9.0
EV/Ton (\$)	69.4	42.7	41.0

#### Sagar Cements Vs SENSEX



#### Shareholding Pattern

	Sep'18	Jun'18	Sep'17
Promoters	50.05	50.05	50.03
FIIIs	3.60	3.60	3.50
DIIIs	13.91	13.76	15.61
Retail	32.44	32.59	30.86
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	814	1038	1151	1332	1495
<b>Growth%</b>	<b>8%</b>	<b>28%</b>	<b>11%</b>	<b>16%</b>	<b>12%</b>
EBITDA	110	151	145	183	212
<b>Growth%</b>	<b>-11%</b>	<b>37%</b>	<b>-4%</b>	<b>27%</b>	<b>16%</b>
Adjusted PAT	-4	26	19	45	70
<b>Growth%</b>	<b>-109%</b>	<b>570%</b>	<b>-28%</b>	<b>139%</b>	<b>55%</b>
EPS (INR)	-	12.8	9.2	22.0	34.2
Sales Volume (MT)	2.2	2.7	3.05	3.5	3.9
EV/EBITDA (x)	17.4	14.8	11.8	9.0	7.4
EV/Tonne (\$)	66.5	69.4	42.7	41.0	37.4
P/E (x)	-	80.5	112.0	46.8	30.1

Source: Company, NSPL Research

\* Read last page for disclaimer &amp; rating rationale



## Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Revenue	258	235	275	9.6%	-6.3%
COGS	38	20	58	89.7%	-34.5%
Employee Expenses	15	13	14	21.4%	8.4%
Power and Fuel	89	83	76	7.1%	17.7%
Freight and Forwarding	59	50	59	17.8%	0.7%
Other Expenses	35	31	32	15.2%	9.1%
<b>Total Expenses</b>	<b>237</b>	<b>197</b>	<b>238</b>	<b>20.3%</b>	<b>-0.8%</b>
<b>EBITDA</b>	<b>21</b>	<b>38</b>	<b>36</b>	<b>-45.1%</b>	<b>-42.2%</b>
Depreciation	17	13	14	28.5%	25.8%
Other Income	1	2	1	-65.6%	18.5%
<b>EBIT</b>	<b>5</b>	<b>27</b>	<b>23</b>	<b>-83.0%</b>	<b>-80.4%</b>
Finance Cost	15	14	14	6.6%	8.2%
<b>PBT</b>	<b>-11</b>	<b>13</b>	<b>9</b>	<b>-184.5%</b>	<b>-215.6%</b>
Taxes	-3	4	3	-165.1%	-178.1%
<b>Net Profit</b>	<b>-8</b>	<b>9</b>	<b>6</b>	<b>-193.8%</b>	<b>-237.6%</b>

Source: Company, NSPL Research

- The company's net sales grew 9.6% y-o-y (from INR 235cr in Q2FY18) but declined 6.3% q-o-q (from INR 275cr in Q1FY19) to INR 258cr in Q2FY19.
- EBITDA for the company stood at INR 21cr down from INR 38cr (-45% Y-o-Y) and down from INR 36cr (-42% Q-o-Q) with EBITDA Margins at 8.2% as against 16.4% in Q2FY18 and 13.3% in Q1FY19. The decline in margins may be attributed to higher input prices, lower realization and shut down of Gudipadu plant.
- EBITDA/Ton for the quarter stood at INR 294 down from INR 645 (-54% Y-o-Y) in Q2FY18 and from INR 492 (-40% Q-o-Q) in Q1FY19. Total cement volumes for the quarter stood at 0.72mt.
- Reported PAT stood at a loss of INR 8cr which was down from a profit of INR 9cr in Q2FY18 and INR 6cr in Q1FY19. PAT Margins went down from 3.6% in Q2FY18 and 2.1% in Q1FY19.
- Capacity utilization stood at ~52% for the quarter vis-à-vis 55% in Q2FY18.

(INR/Ton)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Realization	3596	3944	3709	-8.8%	-3.1%
RM Cost	526	333	776	57.7%	-32.2%
Employee Cost	214	212	191	1.0%	12.1%
Power and Fuel	1241	1394	1020	-11.0%	21.8%
Freight and Forwarding	826	843	793	-2.0%	4.2%
Other Expenditure	495	516	438	-4.2%	12.8%
Total Expenditure	3302	3299	3218	0.1%	2.6%
<b>EBITDA</b>	<b>294</b>	<b>645</b>	<b>492</b>	<b>-54.4%</b>	<b>-40.2%</b>

Source: Company, NSPL Research

## Key Concall Highlights

- In Q2FY19, the Mattampally plant was operating at a capacity utilization of 61%, Gudipadu plant at 56% and Bayyavaram plant at 23%. Capacity utilization in the South region stood at 60-62% in H1FY19
- The plant shutdown at Gudipadu is now over (although the downtime was 52 days; 12 days more than expected) . Coolers have been replaced, kilns modernised and efficiency of pyrosystem increased, leading the plant to have an overall efficiency more than Matampally. The management expects an energy saving of ~60kcal/ton due to the coolers.
- As of 30<sup>th</sup> September, consolidated gross debt stood at 550cr and debt-to-equity stood at 0.48.
- State-wise demand growth has been maintained to be +15% for AP & Telangana, -5% for TN & Kerala, +5% for Karnataka and +10% for Maharashtra. Demand revival in Kerala post floods are visible now.
- 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 INR70cr more. The management expects INR 16cr of annual EBITDA savings post commissioning. Beyond this project, the company only aims to incur maintenance capex for the next two years.
- Post the increase in Bayyavaram capacity (commissioned on June 10), the company has increased production of slag cement. This has resulted in an increase in RM cost, however an equal amount of savings have been observed in the power and fuel as well as freight cost (lower clinker factor.)
- Capacity additions by companies in the operating regions include 1.5mt by KCP (in the next 6 months), 2.6mt by Penna and 3.5mt by Chettinad (in the next 15-18 months) and 3mt by Shree Cement in Gulbarga ( expected in Q3FY19)
- The company currently dispatches 50% of its volumes for AP&Telangana, 15% for Tamil Nadu, 15 % for Kerala and 10% for Orissa and Kerala.

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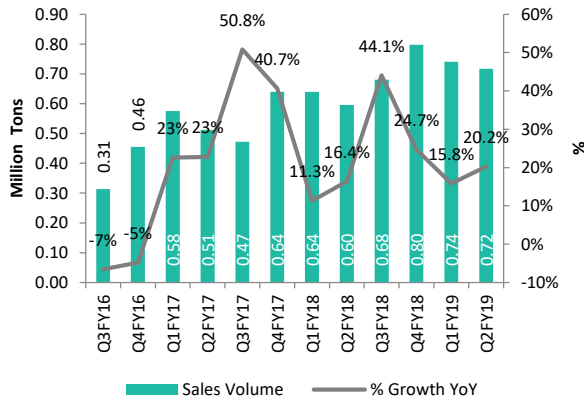
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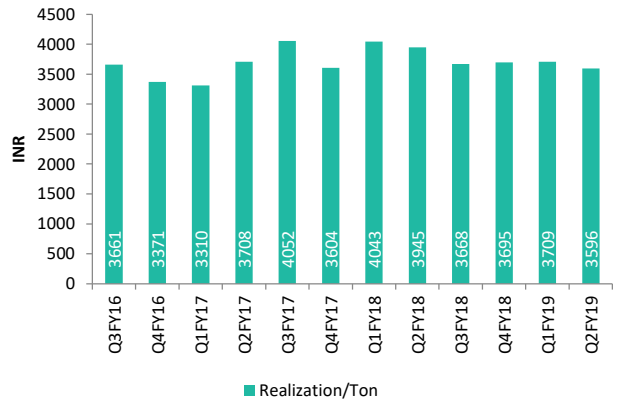
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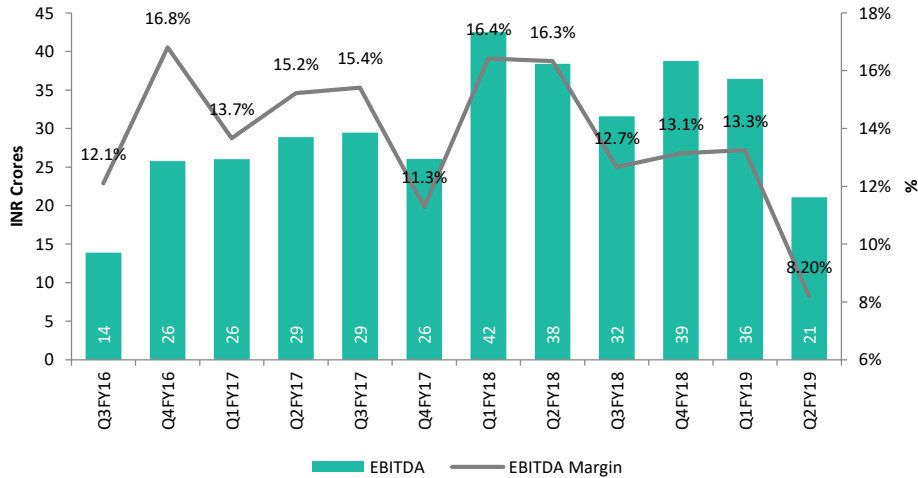
Sales Volume



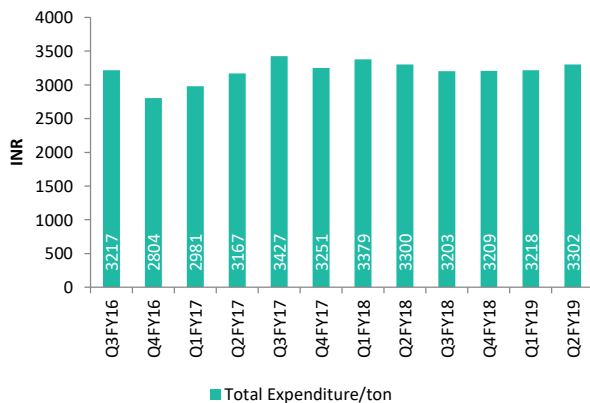
Realization/Ton



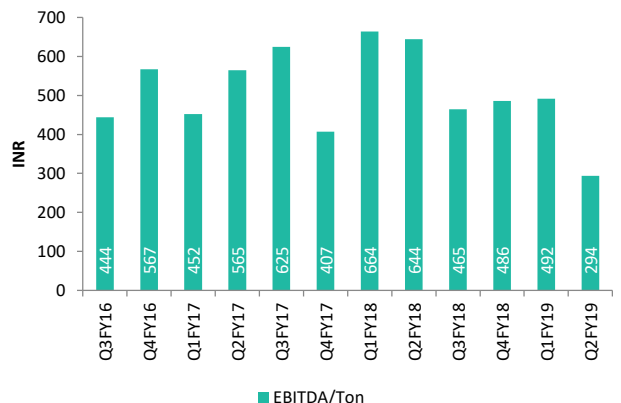
Margin declined y-o-y due to higher input prices and lower realization



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



EBITDA/Ton



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>813.8</b>	<b>1038.1</b>	<b>1151.4</b>	<b>1331.6</b>	<b>1494.5</b>
COGS	104.5	145.1	165.6	192.5	216.6
Employee Expenses	43.1	51.3	55.9	58.7	64.0
Power and fuel	271.9	331.4	385.3	447.4	510.3
Transportation cost	151.1	217.9	249.9	289.1	322.0
Other Expenses	132.9	141.1	149.9	160.7	169.9
<b>EBITDA</b>	<b>110.4</b>	<b>151.3</b>	<b>144.8</b>	<b>183.2</b>	<b>211.7</b>
D&A	47.6	53.6	57.8	59.2	60.9
Other income	3.5	7.3	4.6	5.3	6.0
<b>EBIT</b>	<b>66.3</b>	<b>105.0</b>	<b>91.6</b>	<b>129.4</b>	<b>156.8</b>
Interest Expense	62.1	59.3	63.4	62.0	52.1
<b>PBT</b>	<b>4.2</b>	<b>45.7</b>	<b>28.2</b>	<b>67.3</b>	<b>104.7</b>
Tax	8.1	19.4	9.3	22.2	34.5
Effective tax rate	192.9%	42.5%	33.0%	33.0%	33.0%
<b>PAT</b>	<b>-3.9</b>	<b>26.3</b>	<b>18.9</b>	<b>45.1</b>	<b>70.1</b>

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	20.40	20.40	20.40	20.40	20.40
Reserves & Surplus	742.6	758.8	774.8	811.2	872.8
<b>Shareholder's Funds</b>	<b>763.0</b>	<b>779.2</b>	<b>795.2</b>	<b>833.6</b>	<b>893.2</b>
Long-term borrowings	349.7	329.7	329.7	249.7	169.7
Deferred Tax Liability (Net)	30.0	42.6	42.6	42.6	42.6
Other long-term liabilities	48.2	52.9	99.4	115.5	129.9
Long term provisions	2.4	3.9	4.1	5.0	5.5
<b>Non-current liabilities</b>	<b>430.2</b>	<b>429.2</b>	<b>475.8</b>	<b>412.8</b>	<b>347.8</b>
Short-term borrowings	95.6	166.0	154.2	159.2	171.2
Trade payables	147.8	136.8	183.6	222.4	231.5
Other current liabilities	94.6	57.1	86.2	78.2	70.2
Short-term provisions	2.1	2.3	2.3	2.3	2.3
<b>Current liabilities</b>	<b>340.0</b>	<b>362.2</b>	<b>426.3</b>	<b>462.1</b>	<b>475.2</b>
<b>Total Equity and Liabilities</b>	<b>1,533.2</b>	<b>1,570.6</b>	<b>1,697.3</b>	<b>1,708.5</b>	<b>1,716.2</b>

Goodwill on consolidation	38.7	38.7	38.7	38.7	38.7
Gross Block	1,330.5	1,490.5	1,650.5	1,690.5	1,740.5
Less: Accum. Depreciation	313.3	366.9	424.7	483.9	544.8
Net Fixed Assets	1,017.2	1,139.2	1,225.8	1,206.6	1,195.7
Non-current investments	69.5	101.0	101.0	101.0	101.0
<b>Non-current Assets</b>	<b>1,125.4</b>	<b>1,279.0</b>	<b>1,365.5</b>	<b>1,346.4</b>	<b>1,335.5</b>
Inventories	110.4	94.9	130.94	160.5	164.5
Trade receivables	80.8	92.6	91.48	105.8	122.8
Cash and cash equivalents	161.8	41.0	60.8	46.4	43.9
Other Bank Balances	8.7	17.1	0.0	0.0	0.0
Other current assets	46.2	46.1	48.6	49.5	49.5
<b>Current Assets</b>	<b>407.8</b>	<b>291.6</b>	<b>331.8</b>	<b>362.2</b>	<b>380.7</b>
<b>Total Assets</b>	<b>1,533.2</b>	<b>1,570.6</b>	<b>1,697.3</b>	<b>1,708.6</b>	<b>1,716.2</b>

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
PBT	4.2	45.7	28.2	67.3	104.7
Depreciation & Amortization	47.6	53.6	57.8	59.2	60.9
(Incr)/Decr in Working Capital	-40.9	-57.0	85.0	3.1	-4.9
<b>Cash Flow from Operating</b>	<b>101.0</b>	<b>67.6</b>	<b>225.1</b>	<b>169.4</b>	<b>178.2</b>
(Incr)/ Decr in Gross PP&E	-145.2	-175.7	-144.3	-40.0	-50.0
<b>Cash Flow from Investing</b>	<b>-150.6</b>	<b>-175.7</b>	<b>-144.3</b>	<b>-40.0</b>	<b>-50.0</b>
(Decr)/Incr in Debt	41.1	50.5	-11.8	-75.0	-68.1
Finance costs	-62.1	-59.3	-63.4	-62.0	-52.1
Dividend Paid	-3.1	-3.9	-2.8	-6.8	-10.5
<b>Cash Flow from Financing</b>	<b>208.5</b>	<b>-12.8</b>	<b>-78.1</b>	<b>-143.8</b>	<b>-130.6</b>
Incr/(Decr) in Balance Sheet Cash	158.8	-120.8	2.7	-14.4	-2.5
Cash at the Start of the Year	3.0	161.8	58.1	60.8	46.4
<b>Cash at the End of the Year</b>	<b>161.8</b>	<b>41.0</b>	<b>60.8</b>	<b>46.4</b>	<b>43.9</b>
Other Bank Balances	8.7	17.1			

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
<b>Particulars</b>					
EBITDA/Ton	501.3	557.4	474.4	524.3	543.8
Sales Volume (mn tons)	2.20	2.71	3.05	3.49	3.89
<b>Growth (%)</b>					
Total Sales	8.0%	27.6%	10.9%	15.6%	12.2%
EBITDA	-11.0%	37.1%	-4.3%	26.5%	15.5%
PAT	-108.5%	569.8%	-28.1%	139.0%	55.5%
<b>Profitability (%)</b>					
EBITDA Margin	13.6%	14.6%	12.6%	13.8%	14.2%
NPM	-0.5%	2.5%	1.6%	3.4%	4.7%
RoE (%)	-0.5%	3.4%	2.4%	5.4%	7.9%
RoCE (%)	5.1%	7.6%	6.4%	9.2%	11.1%
<b>Debt Ratios</b>					
Net Debt/EBITDA	2.9	3.1	3.2	2.1	1.5
Net Debt/Equity	0.4	0.6	0.6	0.5	0.4
Interest Coverage	1.1	1.8	1.4	2.1	3.0
<b>Per share data / Valuation</b>					
EPS (INR.)	-	12.9	9.3	22.1	34.4
BPS (INR.)	374.0	382.0	389.8	408.6	437.8
P/E (INR.)	-	80.5	112.0	46.8	30.1
EV/EBITDA (x)	17.4	14.8	11.8	9.0	7.4
EV/Ton (\$)	66.5	69.4	42.7	41.0	37.4

Source: Company, NSPL Research



Sagar Cements Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 30, 2018	616	776	Strong Buy	Buy	5% - 15%
July 20, 2018	739	1051	Strong Buy	Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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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"> <li>NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F &amp; O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI</li> <li>SEBI Registration Number: INH000004617</li> </ul>
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