Kyon ki bhaiya, sabse bada rupaiya.

Sagar Cement Ltd
BUY

STOCK POINTER

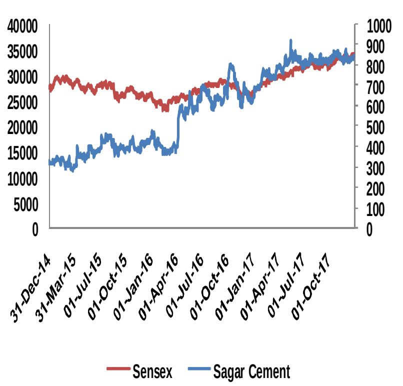
Target Price ₹ 1,715 | **CMP ₹ 908** | **11xFY20EV/EBIDTA**

Index Details	
Sensex	33,812
Nifty	10,442
Industry	Cement

Scrip Details	
MktCap (Rs cr)	1853.3
O/s Shares (Cr)	2.0
52 Week H/L	585.5/942.1
Div Yield (%)	Nil
FVPS ('Rs)	10.0

Shareholding Pattern	
Shareholders	%
Promoters	50.0
Public	50.0
Total	100.0

Sagar Cement vs. Sensex



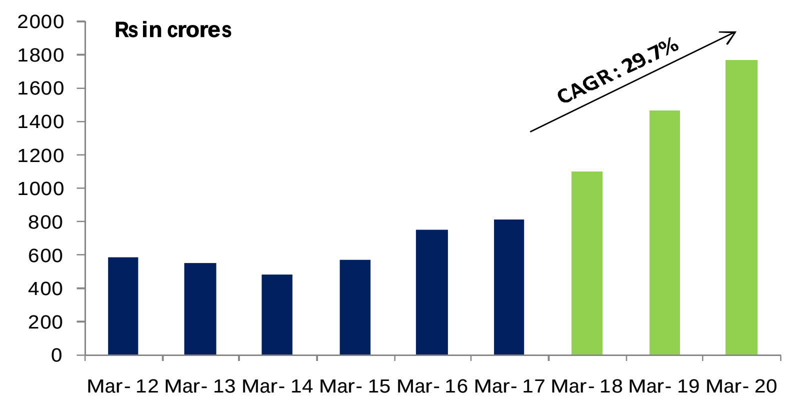
We are pretty enthused by Sagar Cement Ltd's (SCL) astute understanding of the cement cycle, meticulous and careful selection of acquisition targets and its relentless focus on cost efficiencies. SCL is our favorite way to play the cement growth story in south India. We upgrade our price target on the stock to Rs 1,715 (11x FY20 EV/EBITDA) as we introduce estimates for FY20. Our revised price target implies a potential upside of 88.9% from the CMP of Rs 908 over the next 24 months.

Our optimism is bolstered by the following:

- **Strong revenue growth on the cards**

  Sales volumes to grow at a healthy CAGR of 18.7% to 3.68 MT by FY20. Pricing trends have remained resilient despite capacity overhang. We build in 8.9% CAGR growth in average realizations. On the back drop of the above net revenues are expected to grow to Rs 1,775 crores.

Revenue - Sagar Cement



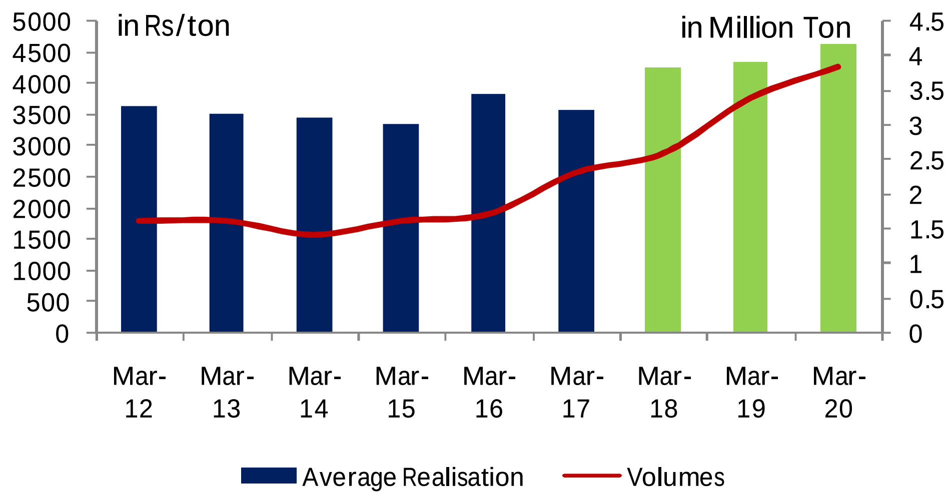
Source: SCL, Ventura Research

Key Financials (Rs in cr)

Y/E Mar	Net Sales	EBITDA	Adj PAT	EPS (Rs)	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (x)	EV/EBITDA (x)
2017	813.8	109.0	-4.0	NA	NA	NA	6.2	NA	19.5
2018E	1101.6	178.4	61.4	30.1	NA	8.0	10.1	30.2	12.0
2019E	1463.6	227.4	100.2	49.1	63.3	12.4	12.8	18.5	9.4
2020E	1775.4	318.8	157.6	77.3	57.2	18.0	16.3	11.8	5.8

Tuesday, 02nd January, 2018

Sales Volume & Average Realisation – Sagar Cement

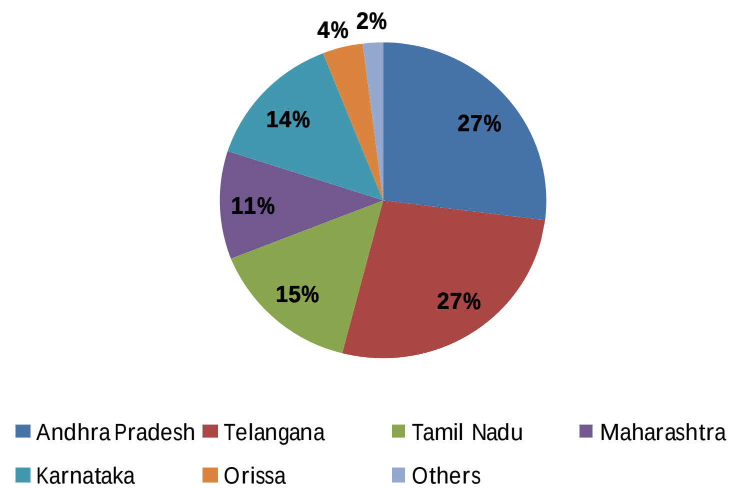


Source: SCL, Ventura Research

❖ **SCL, has a diversified geographical sales mix.**

In Q2 FY18, the company sold 54% of its volumes in AP and Telangana, TN (15%), Maharashtra (11%), Karnataka (14%), Orissa (4%) and other states (1%). Going forward it plans to increase its sales in the markets of Orissa due to additional capacity of SCL coming up in Vizag.

Geographical Sales Mix – Sagar Cement

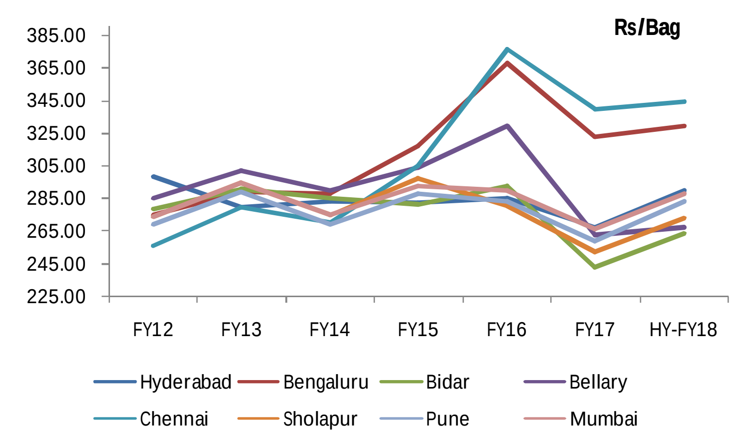


Source: SCL, Ventura Research

Andhra Pradesh and Telangana is responsible for over 54% of SCL's overall sales. Strong demand trends in AP and Telangana to witness 12-15% and 10% demand growth in FY18E and FY19E, respectively.

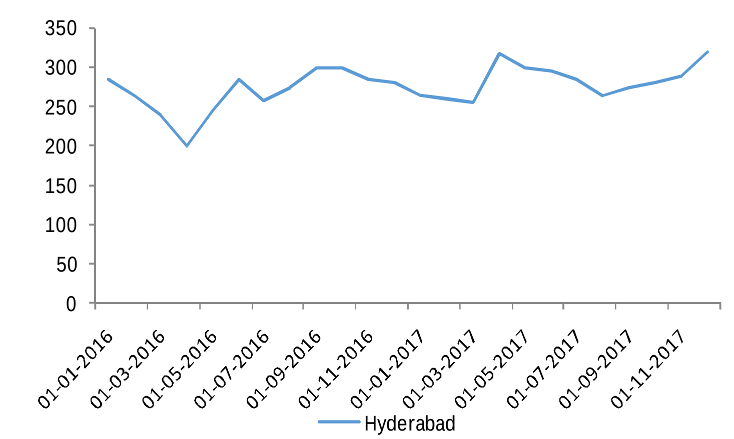
Development of commercial and government infrastructure in the capital Amarawati is expected to fuel this demand. States with muted growth in past such as Tamil Nadu and Karnataka are expected to witness revival in demand given there has been good rainfall recently. The management anticipates 5% demand de-growth in Tamil Nadu in FY18E and a marginal increase in FY19E. However, the demand in Karnataka is expected to grow by 5% and 10% in FY18E and FY19E, respectively.

City wise cement price trend



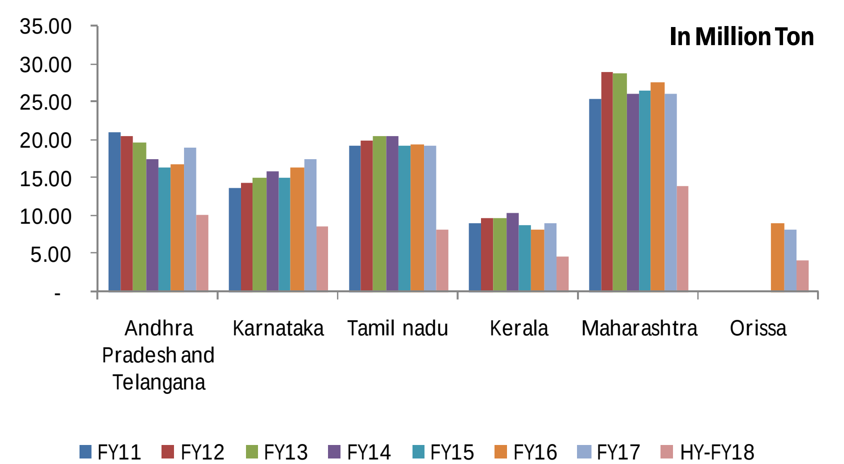
Source: SCL, Ventura Research

Monthly cement price trend- Hyderabad



Source: SCL, Ventura Research

State wise cement demand trend



Source: SCL, Ventura Research

SCL believes, the low cost housing and big ticket irrigation projects may contribute in 2nd half of FY18 in a small fashion. However, they are expected to contribute meaningfully from the next year onwards.

❖ **Strategic capacity expansions and cost savings to help lower freight costs and boost EBITDA/tonne**

SCL has got three manufacturing facilities, one each at Vizag, Mattampaly and Ananthapur and its capacity is set to scale to 6 MT p.a by FY20

Plantwise capacity and production - Sagar Cement

Unit	FY17	FY18E	FY19E	FY20E
Bayavvaram, Vizag				
Capacity	0.3	0.3	1.5	1.5
Production	0.1	0.3	0.9	0.9
Utilisation (in %)	33.0	87.6	58.0	60.0
Naigonda, Mattampally				
Capacity	3.0	3.0	3.0	3.0
Production	1.5	1.7	1.8	1.9
Utilisation (in %)	50.0	55.0	60.0	65.0
Gudipadu, Ananthapur				
Capacity	1.0	1.0	1.0	1.5
Production	0.7	0.7	0.7	1.0
Utilisation (in %)	67.0	67.0	70.0	65.0

Source: SCL, Ventura Research

Plant Location and Capacity- Sagar Cement

Source: SCL, Ventura Research

Well thought out capacity expansions both brownfield and greenfield and a strategic partnership to enable maximum return on capital employed.

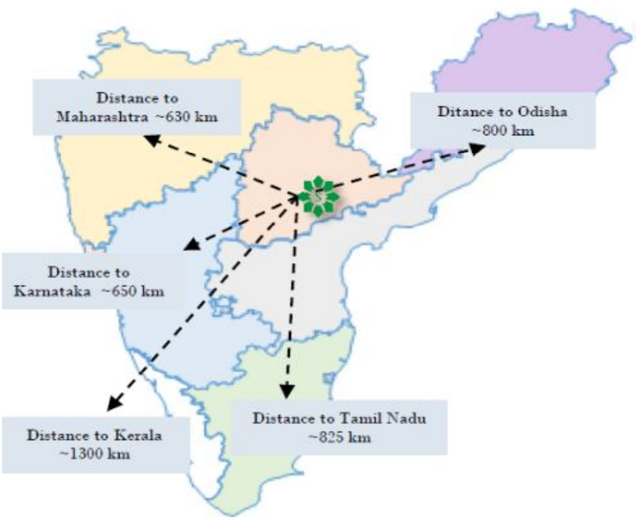
a) SCL had acquired a grinding unit of 1,81,500 MT capacity at Bayyavaram in Visakhapatnam District of A.P. for Rs 60 crores and had expanded its capacity to 0.3 million tonnes by shifting idle equipment to the Sagar, Mattampally unit. The Bayyavaram expansion is expected to cater to the high growth markets of Kakinada and Vishakhapatnam in Andhra Pradesh and Bhubaneswar in Orissa. The expansion from 0.3 mtpa to 1.5 mtpa is likely to be completed by June 2018 at a cost of Rs 168 crores.

b) De-bottlenecking at the BMM plant at Ananthapur should help enhance capacity to 1.5 mtpa by FY20 from the present 1 mtpa. Here, SCL has adequate limestone reserves and hence will not be a constraint to service expanded capacity.

c) SCL, has also entered into a MOU with Heidelberg Cement (Zuari Cement), whereby SCL shall purchase cement from Heidelberg cement's plant near Solapur and shall be selling the same under Sagar Cement brand name in the Solapur market which is closer to Heidelberg's plant compared to Mattampally plant of SCL. SCL shall procure this cement at Rs 2850/ton plus taxes (with an escalation clause of significant changes in the price of coal and pet coke). Freight shall be born by SCL over and above the purchase price. By the above arrangement SCL shall save Rs 300-400/ton while catering to the Solapur Market which was a significant market to SCL.

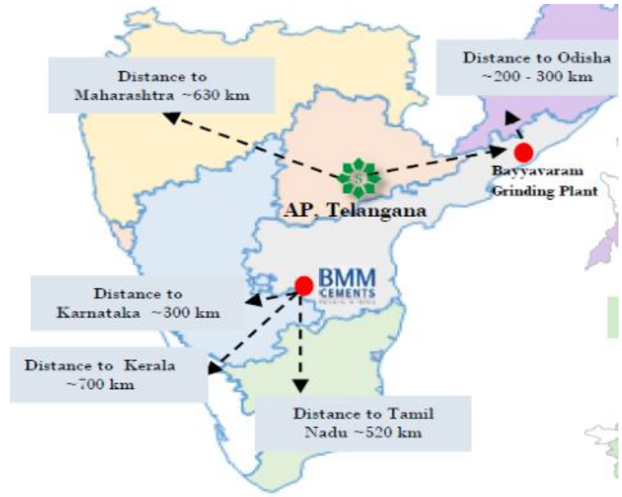
All the above measures will help to significantly cut down on the average lead distance from its manufacturing capacity to its markets. Now the BMM acquisition will service Tamil Nadu, Karnataka & Kerala markets. The Bayyavaram unit will enable deeper reach in North Eastern coastal AP Districts & Southern districts of Odisha markets

Lead Distance- Pre acquisition



Source: SCL, Ventura Research

Lead Distance – Post new units



Source: SCL, Ventura Research

❖ Significant cost savings initiatives to boost profitability

SCL has taken several initiatives to lower cost

a) <u>Waste Heat Recovery system</u>

During the quarter, SCL has commissioned a 6MW Waste Heat Recovery system, which helps save cost to the tune of Rs 1.5 cr per month.

b) <u>1 MW solar plant</u>

It has also commissioned a 1 MW solar plant during the quarter. Further, it has surplus power capacity at its BMM plant. The excess capacity at the BMM power generating plant (25MW) will be supplied to Matampally plant and over and above that will be sold.

c) <u>18MW power plant</u>

Once the 18MW power plant is commissioned in FY19, further savings of 50 paise/unit is expected.

d) <u>Introduction of Slag Cement</u>

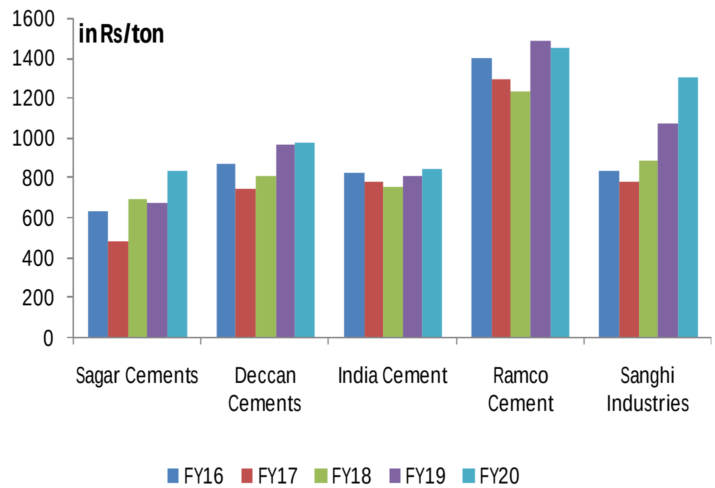
SCL plans to introduce Slag Cement for the coastal markets from its Bayavaram unit. While slag is available in ample quantity, clinker will be supplied by the mother plant at Mattampally, Nalgonda Dist. This shall reduce pressure on the

Matampally plant as slag cement requires only 45% clinker as compared to 95% in OPC.

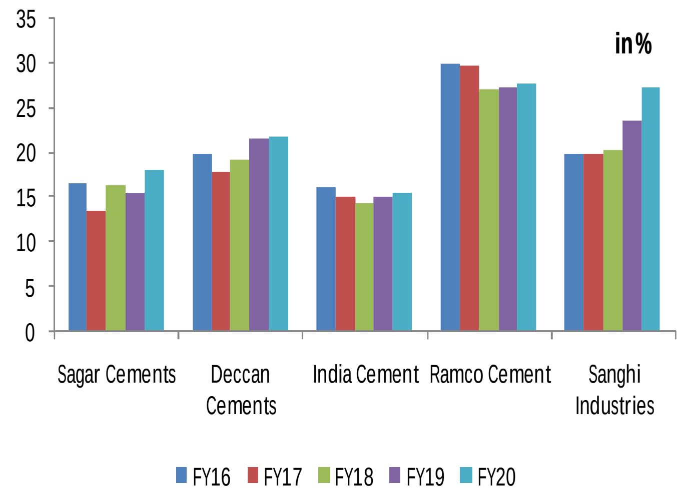
As a result of the above initiatives we expect EBITDA/ton to grow at a CAGR of 20.1% to Rs 834/ton by FY20 from the current Rs 481/ton.

Further improving operating cash flows should help lower debt despite significant capex.

EBITDA and EBITDA Margins will rapidly catch up with peers

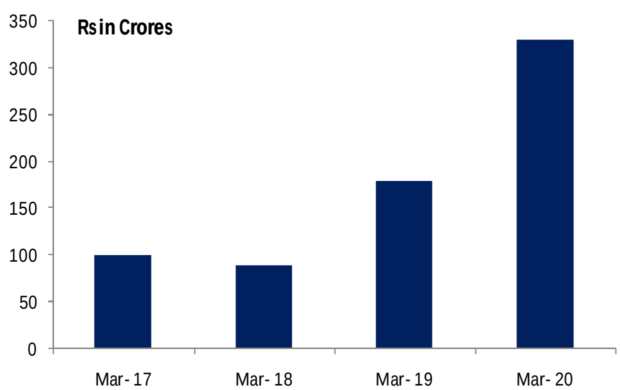


Source: SCL, Ventura Research

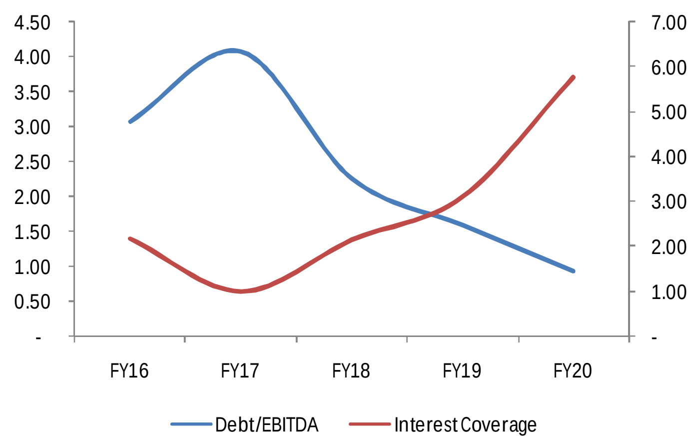


Source: SCL, Ventura Research

Sharply improving cash flows to lower gearing



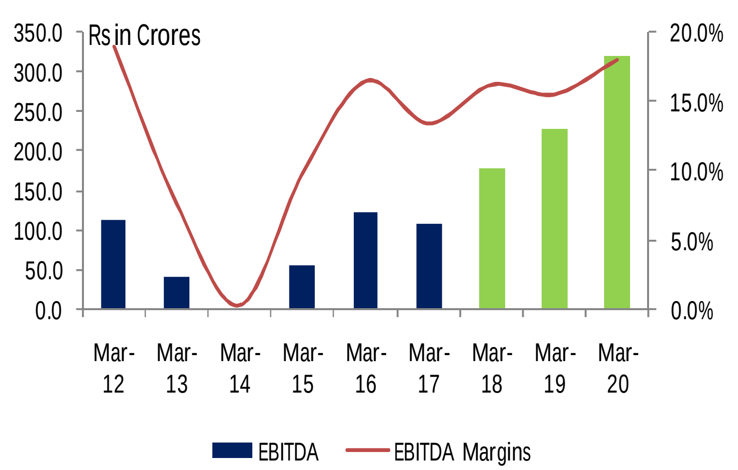
Source: SCL, Ventura Research



Source: SCL, Ventura Research

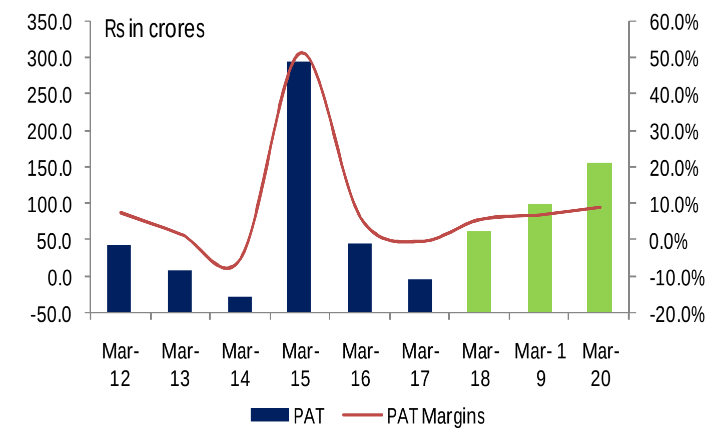
With its strong revenue growth and continuing strong performance in costs, we expect EBITDA to grow at a CAGR of 43.0% from Rs 109 crores in FY17 to Rs 318.8 crores in FY20. Further, we anticipate PAT to grow from a loss of Rs 4.1 crores in FY17 to Rs 157.6 crores in FY20

EBITDA and EBITDA Margins



Source: SCL, Ventura Research

PAT and PAT Margins

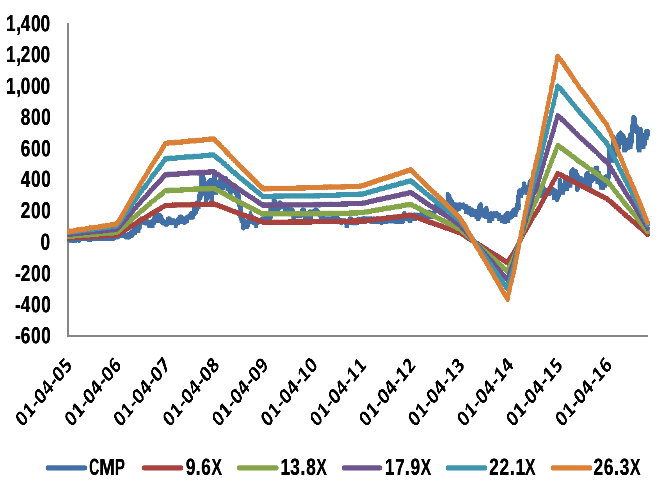


Source: SCL, Ventura Research

➢ Valuations

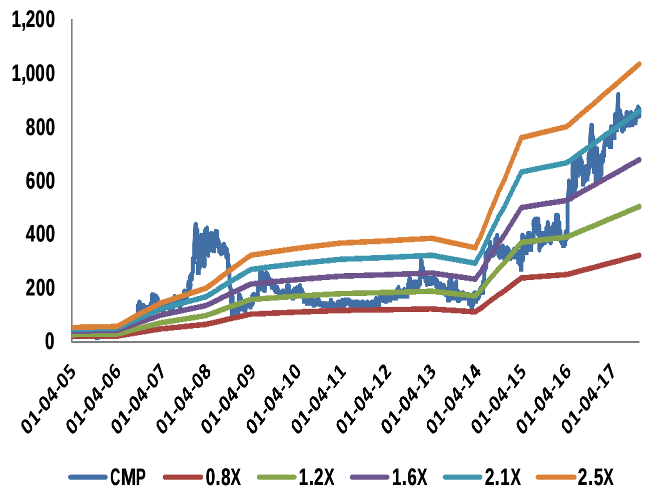
Given the improved visibility on revenue growth, profitability and future expansion plans, we believe the stock is due for a re-rating. We have revised our target estimates to Rs 1,715 (11x FY20 EV/EBITDA) representing a potential upside of 88.9% from the CMP of Rs 908 over the next 24 months.

Sagar Cement P/E trend



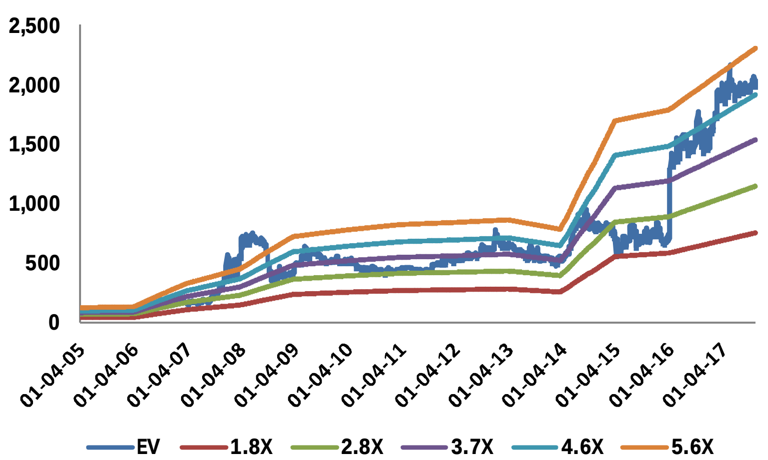
Source: SCL, Ventura Research

Sagar Cement P/B trend



Source: SCL, Ventura Research

Sagar EV/EBITDA Trend



Source: SCL, Ventura Research

Peer Comparison

Y/E March	CMP	Current Market Cap.	Sales	EBITDA	PAT	EBITDA (%)	PAT (%)	ROE (%)	ROCE (%)	P/E	EV/ EBITDA
Sagar Cements	908	1,853.4									
2017			813.8	109.0	-4.0	13.4	-0.5	NA	6.2	NA	19.5
2018E			1101.6	178.0	61.4	16.2	5.6	8.0	10.1	30.2	12.0
2019E			1463.6	227.0	100.3	15.5	6.9	12.7	12.9	18.5	9.4
Sanghi Industries	140	3,074.0									
2017			997.5	198.0	63.2	19.8	6.3	0.1	5.2	25.1	10.9
2018E			1262.3	256.0	94.1	20.3	7.5	5.8	4.1	22.0	10.5
2019E			1448.8	342.0	160.1	23.6	11.1	7.9	8.9	12.9	9.2
Ramco Cements	785	18,852.0									
2017			3856.8	1176.4	649.3	31.0	17.0	19.0	16.0	25.0	15.0
2018E			4417.7	1272.4	710.7	29.0	16.0	18.0	17.0	23.0	13.5
2019E			5004.8	1474.0	892.3	29.0	18.0	19.0	20.0	18.0	11.1
Heidelberg	153	3,469.0									
2017			1687.6	249.0	76.2	14.8	4.5	7.9	8.2	38.4	15.1
2018E			1899.4	321.5	131.6	16.9	6.9	12.6	12.4	22.2	11.3
2019E			2114.0	362.0	162.1	17.1	7.7	14.6	14.5	18.0	9.8

Financial Projections

Y/E March, Fig in ` Cr	FY17	FY18E	FY19E	FY20E
Profit & Loss Statement				
Net Sales	**813.8**	**1101.6**	**1463.6**	**1775.5**
% Chg.		*35.4*	*32.9*	*21.3*
Total Expenditure	704.8	923.2	1236.2	1456.6
% Chg.		*31.0*	*33.9*	*17.8*
EBITDA	109.0	178.5	227.4	318.8
EBDITA Margin %	*13.4*	*16.2*	*15.5*	*18.0*
Other Income	4.8	6.5	8.6	10.5
PBDIT	**113.8**	**185.0**	**236.1**	**329.3**
Depreciation	47.6	49.0	58.6	59.1
Interest	62.1	60.6	54.5	45.0
Exceptional items	0.0			
PBT	**4.2**	**75.4**	**123.0**	**225.2**
Tax Provisions	8.1	13.9	22.8	67.6
Reported PAT	**-4.0**	**61.4**	**100.3**	**157.6**
Minority Interest	0.0	0.0	0.0	0.0
Share of Associate	0.0	0.0	0.0	0.0
PAT	**-4.0**	**61.4**	**100.3**	**157.6**
PAT Margin (%)	*-0.5*	*5.6*	*6.8*	*8.9*
Power / Sales (%)	*29.3*	*33.4*	*25.4*	*22.4*
Balance Sheet				
Share Capital	20.4	20.4	20.4	20.4
Reserves & Surplus	742.6	785.9	856.6	1014.2
Minority Interest				
Long Term Borrowings	349.7	308.7	267.7	204.7
Deferred Tax Liability	30.0	30.0	30.0	30.0
Other Non Current Liabilities	50.5	70.0	192.8	282.9
Total Liabilities	**1194.2**	**1216.0**	**1367.5**	**1554.2**
Gross Block	**1314.5**	**1399.5**	**1673.1**	**1688.1**
Less: Acc. Depreciation	314.6	363.6	422.2	481.3
Net Block	999.8	1035.8	1250.9	1206.8
Capital Work in Progress	55.3	5.0	5.0	5.0
Other Non Current Assets	29.6	76.8	29.1	30.1
Net Current Assets	67.8	-12.9	-63.8	133.8
Long term Loans & Advances	41.6	110.2	146.4	177.5
Total Assets	**1194.2**	**1215.9**	**1367.5**	**1554.2**

Y/E March, Fig in ` Cr	FY17	FY18E	FY19E	FY20E
Per Share Data (Rs)				
Adj. EPS	NA	30.1	49.1	77.3
Cash EPS	25.1	54.1	77.9	106.2
DPS	0.0	0.0	0.0	0.0
Book Value	374.0	395.2	429.9	507.2
Capital, Liquidity, Returns Ratio				
Debt / Equity (x)	0.6	0.5	0.4	0.3
Current Ratio (x)	0.8	1.0	1.1	0.8
ROE (%)	NA	8.0	12.4	18.0
ROCE (%)	6.2	10.1	12.8	16.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
Valuation Ratio (x)				
P/E	NA	30.2	18.5	11.8
P/BV	2.4	2.3	2.1	1.8
EV/Sales	2.6	1.9	1.5	1.0
EV/EBIDTA	19.5	12.0	9.4	5.8
Efficiency Ratio (x)				
Inventory (days)	43.9	49.5	40.0	40.0
Debtors (days)	39.3	36.3	35.0	35.0
Creditors (days)	64.1	58.0	55.0	55.0
Cash Flow Statement				
Profit Before Tax	**4.2**	**75.4**	**123.0**	**225.2**
Depreciation	47.6	49.0	58.6	59.1
Working Capital Changes	-8.3	19.7	11.5	10.1
Others	57.5	-54.6	-13.4	36.4
Operating Cash Flow	**100.9**	**89.5**	**179.7**	**330.7**
Capital Expenditure	-152.1	-34.7	-273.6	-15.0
Other Investment Activities	1.5	0.0	150.0	0.0
Cash Flow from Investing	**-150.6**	**-34.7**	**-123.6**	**-15.0**
Changes in Share Capital	216.1	0.0	0.0	0.0
Changes in Borrowings	49.7	-41.0	-41.0	-63.0
Dividend and Interest	-57.1	-60.6	-54.5	-45.0
Cash Flow from Financing	**208.7**	**-101.6**	**-95.5**	**-108.0**
Net Change in Cash	**159.0**	**-46.9**	**-39.4**	**207.7**
Opening Cash Balance	**11.5**	**170.5**	**123.6**	**84.2**
Closing Cash Balance	**170.5**	**123.6**	**84.2**	**291.9**

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