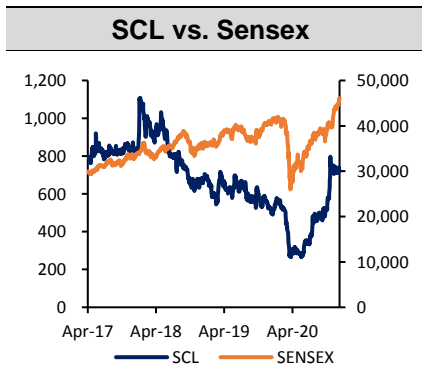


Target: Rs.826
CMP Rs.630 (6.7x FY23 EV/EBITDA)
BUY

Index Details	
Sensex	46,444
Nifty	13,601
Industry	Cement

Scrip Details	
Mkt Cap (Rs Cr)	1,480
O/S Share (Cr)	2.35
3 M Avg Vol (000)	15.0
52 Wk H/L (Rs)	829/236
Div Yield (%)	0.38
FVPS (Rs)	10.0

Shareholding Pattern	
Shareholder	%
Promoters	50.16
Institutional	15.09
Public	34.75
Total	100.00


Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY19	1,218	149	14	12.3	1.1	5.8	359.1	1.6	6.2	108.9	1.8	13.1
FY20	1,175	186	27	15.8	2.3	11.3	434.3	2.6	7.1	55.8	1.5	10.5
FY21E	1,190	322	100	27.1	8.4	42.6	545.1	7.5	10.8	14.8	1.1	6.5
FY22E	1,850	351	96	19.0	5.2	40.9	581.5	6.8	9.7	15.4	1.0	6.7
FY23E	2,220	345	92	15.5	4.2	39.3	616.3	6.1	9.3	16.0	1.0	6.7

Sagar Cement Ltd (SCL) has presence across all key states of Southern India. It services the incumbent markets through its 3 facilities – Bayyavaram (Telangana, capacity of 1.5 MTPA), Mattampally (North Andhra Pradesh, capacity of 3.0 MTPA) and Gudipadu (South Andhra Pradesh, capacity of 1.25 MTPA). SCL is expanding its footprint in the states of Madhya Pradesh and Odisha by setting up manufacturing facilities in Indore (capacity 1.0 MTPA) and Jajpur (capacity 1.5 MTPA) respectively.

SCL's existing plants are in proximity to their key markets (range of 300 km), raw material sources and ports. And the upcoming expansion in Jajpur and Indore will provide access to western, central and eastern parts of India. Jajpur unit will have access to raw materials from Mattampally and Bayyavaram plants, while Indore unit has limestone captive mines (expiry in the year 2070).

With the cement prices in southern India having skyrocketed to Rs.350+ per bag, SCL managed to arrest revenue decline at 3.2% YoY to Rs.590 cr despite a double-digit volume decline of 16.7% YoY to 1.3 mn MT in H1FY21. The strong realization and lower input cost helped improve profitability. EBITDA grew at 58.5% YoY to Rs.192 (EBITDA per MT Rs.1,504 in H1FY21, +Rs.713 over H1FY20). Inline with this trend, net profit also grew to Rs.86 cr (YoY growth of 150.3% in H1FY21)

Historically, the cement prices have rarely stayed above Rs.300/bag in the region. Further, the market is well supplied (capacity utilization of 70%) and hence any incremental demand can be met without pressurising prices. Given these dynamics, it is our view that the cement prices should cool off as the COVID disruptions normalize. In our forecast, we have assumed that the cement prices in southern India to degrow at a CAGR of 6.4% to Rs.190/bag by FY23 from the current average price Rs.358/bag.

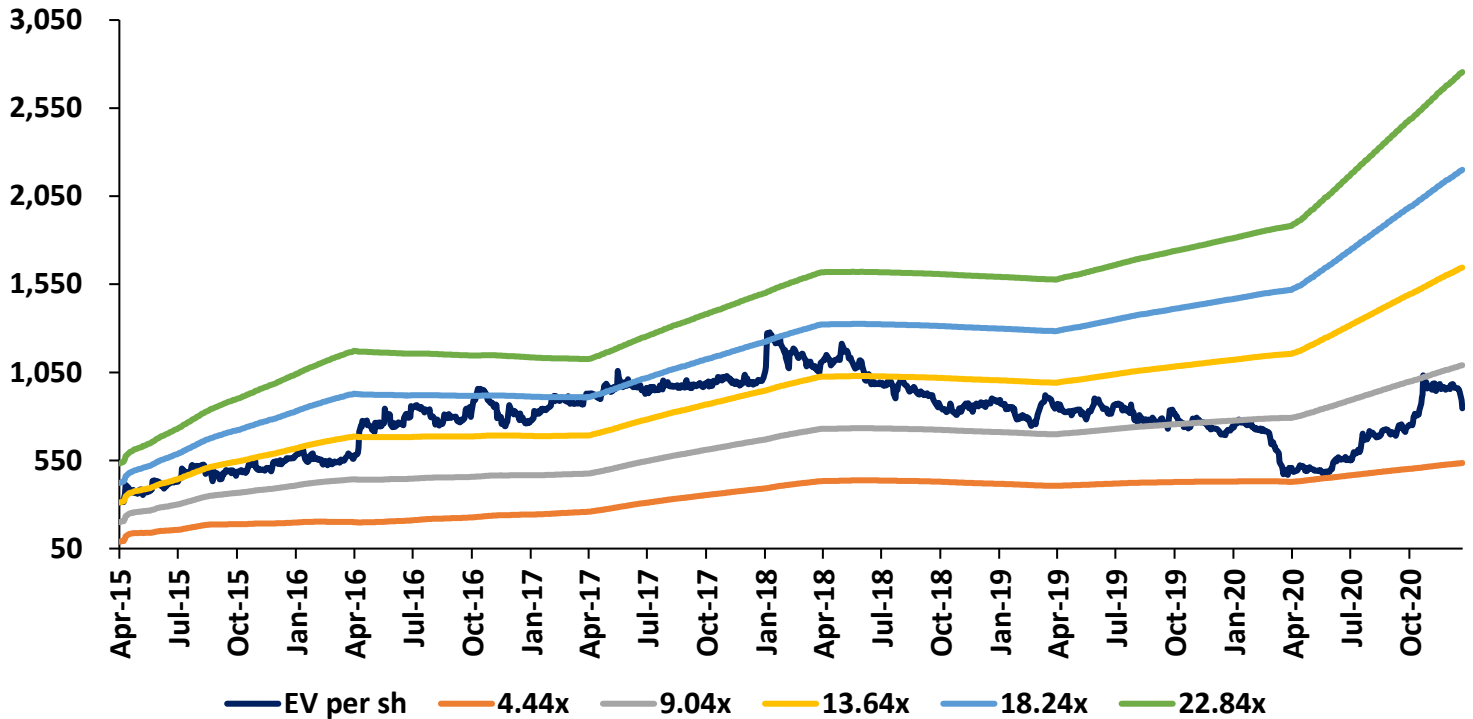
Going forward we expect revenues to grow at a CAGR of 23.6% to Rs.2,220 cr aided by the volume CAGR of 23.4% to 5.9 MT by FY23 (contributions from the new facilities at Indore – FY22 0.1 MT, FY23 0.4 MT and Jajpur – FY22 0.2 MT, FY23 0.9 MT) amidst pressure on realizations.

We expect a record EBITDA and net earnings of Rs.322 cr (73.6% YoY growth) and Rs.100 cr (277.1% YoY growth) respectively for FY21. However, the profitability is expected to dip post FY21 given the predicted pricing pressure and surge in input cost of petcoke and diesel. Accordingly, we expect EBITDA and net earnings to grow at a CAGR of 3.6% and -3.4% to Rs.346 cr and Rs.93 cr respectively during FY21-23E. EBITDA/tn is also expected to retract to Rs.587 by FY23.

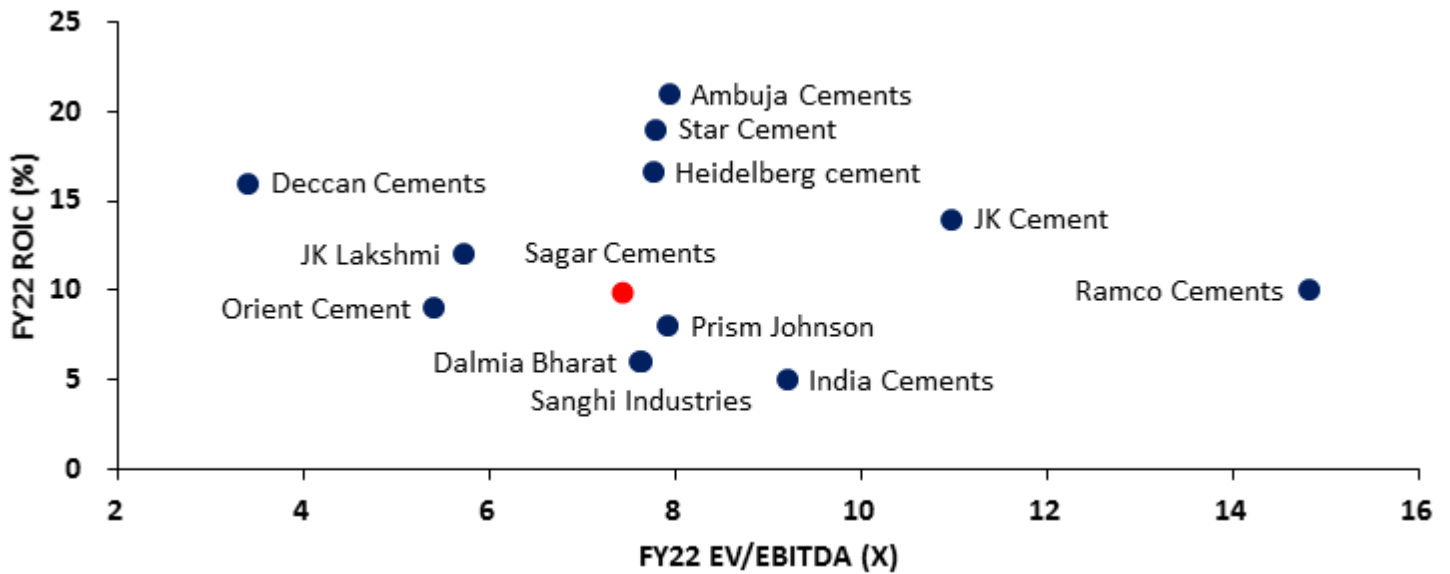
SCL has MAT credit balance of Rs.47 cr, which cannot be used to set off future tax payments if the company opt for the new tax regime. Therefore, the effective tax rate would continue at 35% in the coming years.

Despite our conservative outlook on revenue and profitability, we believe that the stock is grossly undervalued. In addition, geographic diversification in high growth states of Madhya Pradesh and Odisha are expected to provide new growth opportunities and improve cash flows in the coming years. This in our opinion is valuation positive.

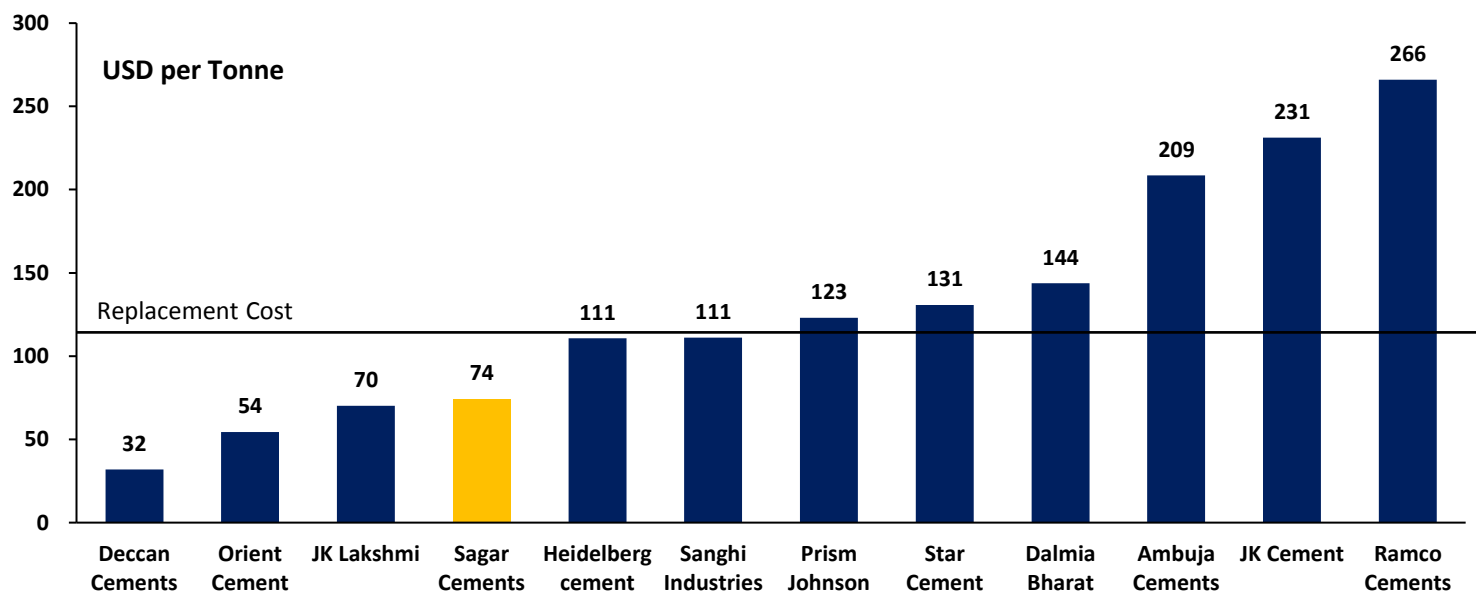
We initiate coverage on SCL with a BUY for a price target of Rs.826 (8.0X EV/EBITDA FY23) representing a potential appreciation of 31% over the next 24 months from the CMP of Rs.630.

EV/EBITDA 1 year forward band chart


Source: BSE & Ventura Research

Sustained double digit RoIC in growth phase


Source: Bloomberg & Ventura Research

FY22 EV per tonne of selected industry players


Source: Bloomberg & Ventura Research

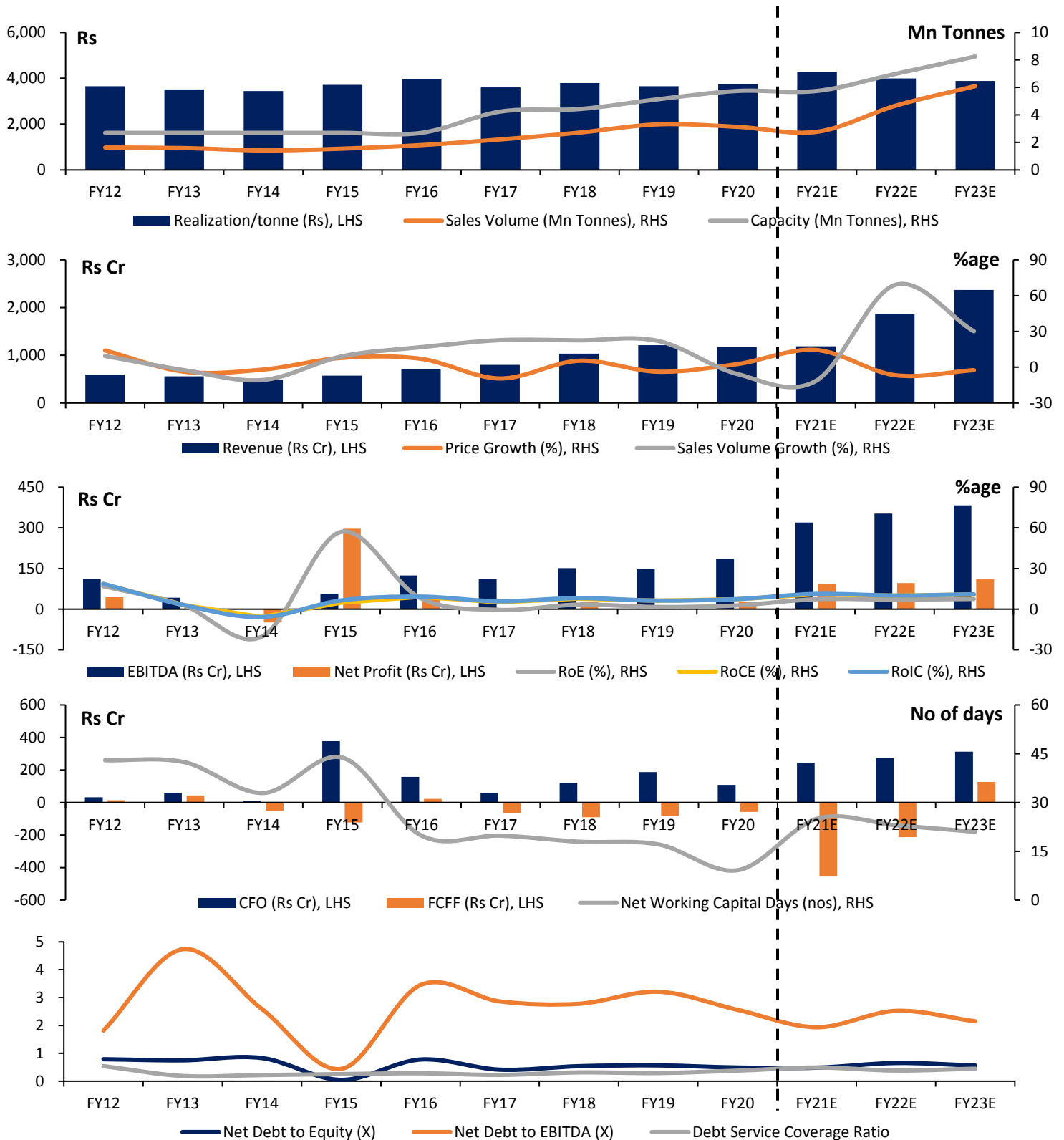
Sagar Cement - FY23 EBITDA per tonne vs Sales Volume sensitivity analysis

		FY23 EBITDA per MT (Rs)														
PAT >>	92	500	550	600	650	700	750	800	850	900	950	1,000	1,050	1,100	1,150	1,200
FY23 Sales Volume (Mn MT)	5.0	30.6	46.9	63.1	79.4	95.6	111.9	128.1	144.4	160.6	176.9	193.1	209.4	225.6	241.9	258.1
	5.5	46.9	64.8	82.6	100.5	118.4	136.3	154.1	172.0	189.9	207.8	225.6	243.5	261.4	279.3	297.1
	6.0	63.1	82.6	102.1	121.6	141.1	160.6	180.1	199.6	219.1	238.6	258.1	277.6	297.1	316.6	336.1
	6.5	79.4	100.5	121.6	142.8	163.9	185.0	206.1	227.3	248.4	269.5	290.6	311.8	332.9	354.0	375.1
	7.0	95.6	118.4	141.1	163.9	186.6	209.4	232.1	254.9	277.6	300.4	323.1	345.9	368.6	391.4	414.1
	7.5	111.9	136.3	160.6	185.0	209.4	233.8	258.1	282.5	306.9	331.3	355.6	380.0	404.4	428.8	453.1
	8.0	128.1	154.1	180.1	206.1	232.1	258.1	284.1	310.1	336.1	362.1	388.1	414.1	440.1	466.1	492.1
	8.5	144.4	172.0	199.6	227.3	254.9	282.5	310.1	337.8	365.4	393.0	420.6	448.3	475.9	503.5	531.1
	9.0	160.6	189.9	219.1	248.4	277.6	306.9	336.1	365.4	394.6	423.9	453.1	482.4	511.6	540.9	570.1
9.5	176.9	207.8	238.6	269.5	300.4	331.3	362.1	393.0	423.9	454.8	485.6	516.5	547.4	578.3	609.1	

Our base case net profit range in Rs Crore

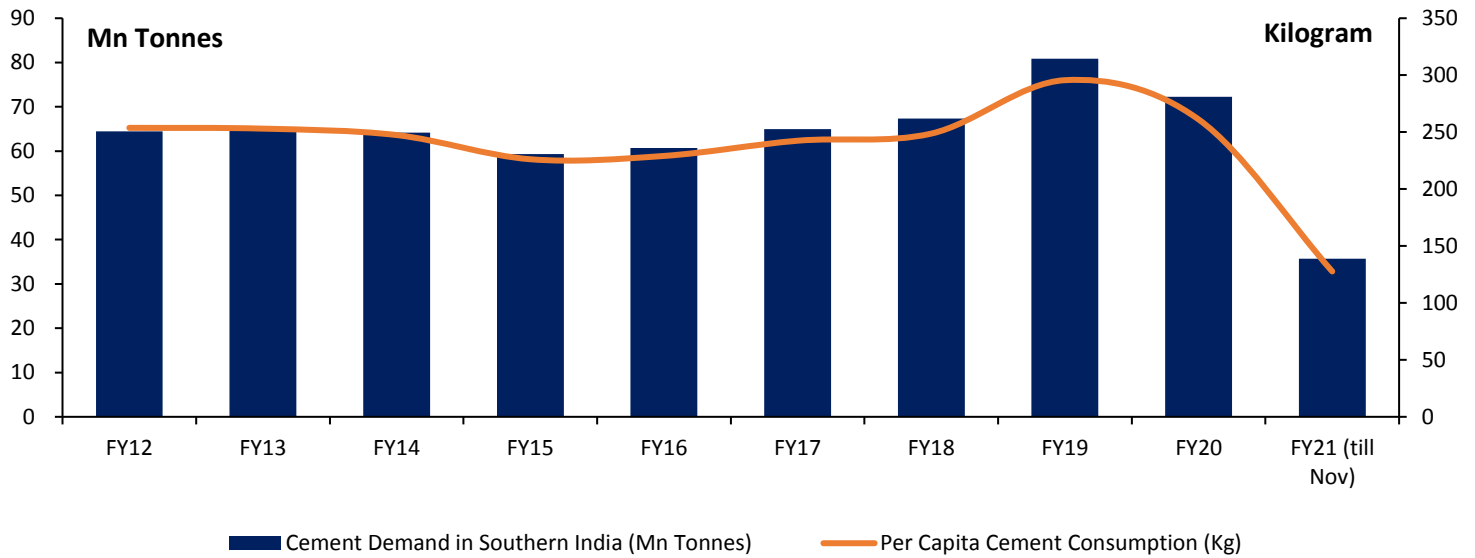
Source: Bloomberg & Ventura Research

Sagar Cement story in charts



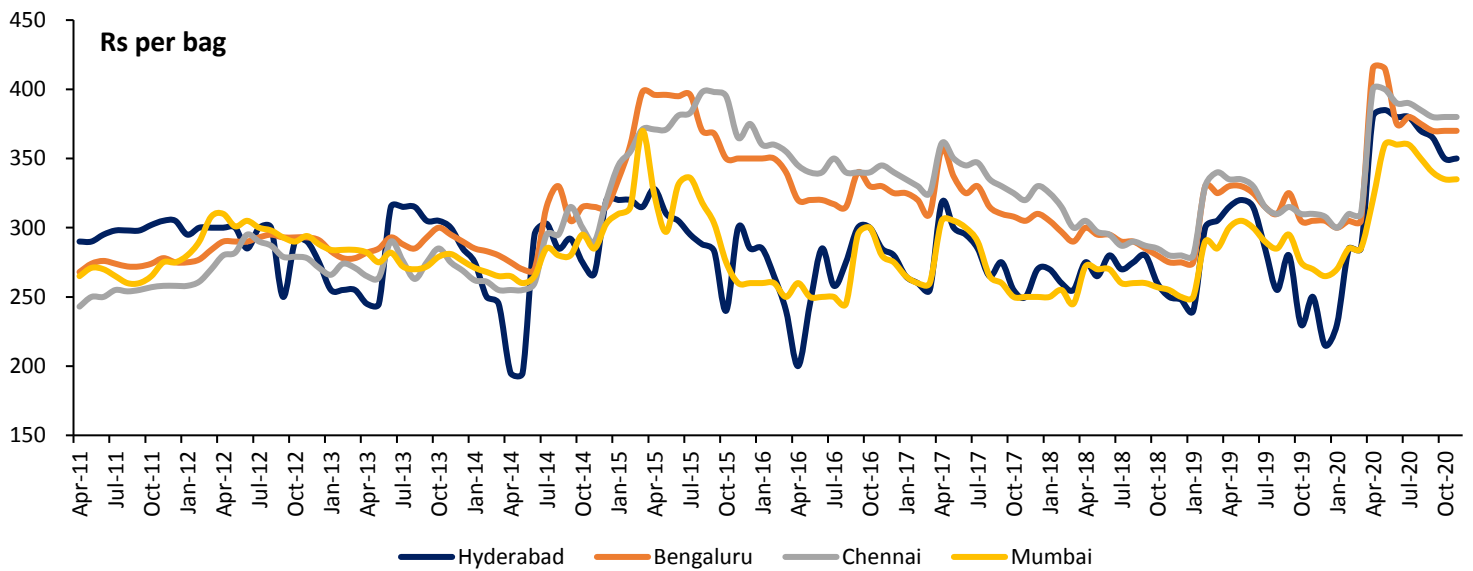
Source: Company Reports & Ventura Research

Cement demand in Southern India



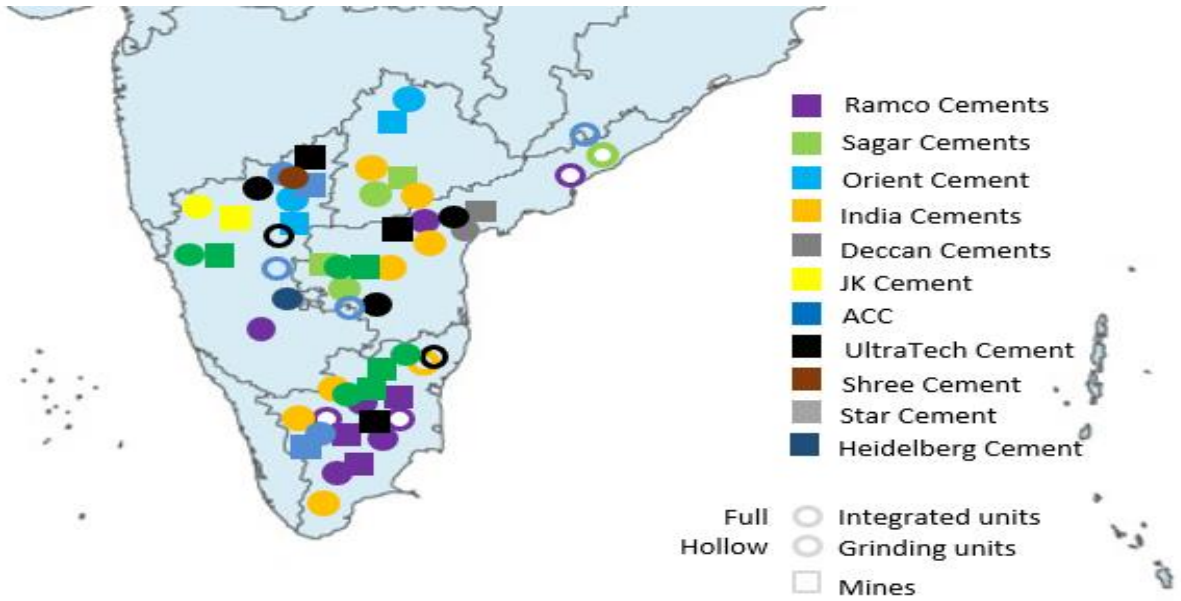
Source: Company Reports & Ventura Research

Cement prices per bag

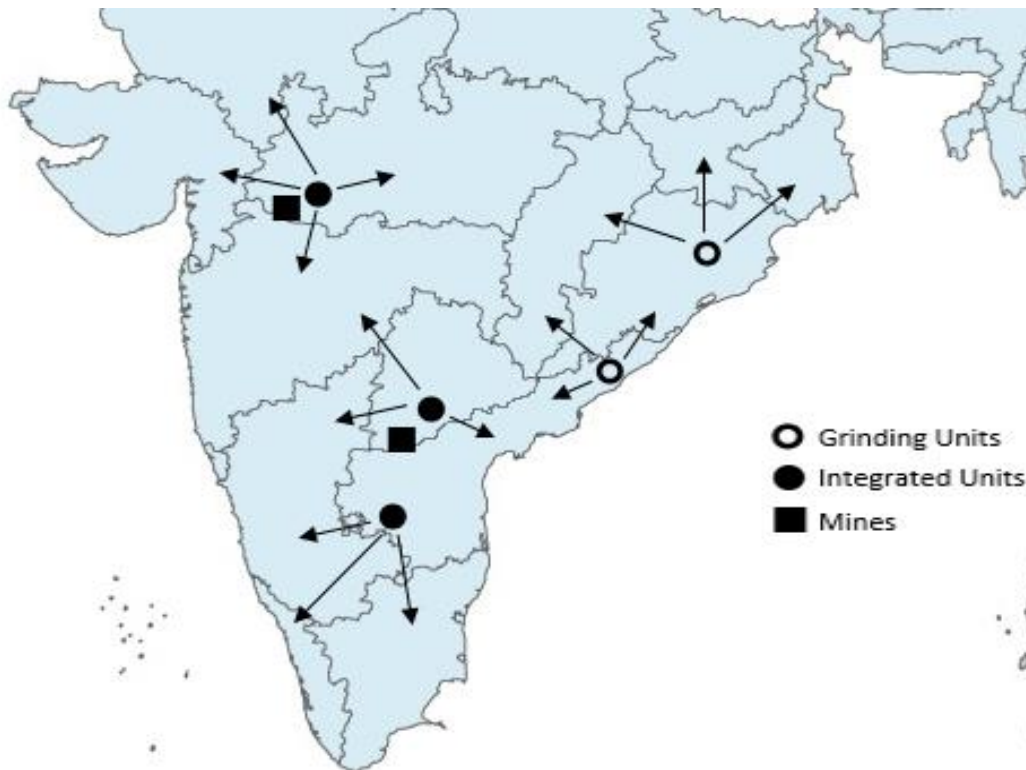


Source: Company Reports & Ventura Research

Cement unit locations in South India



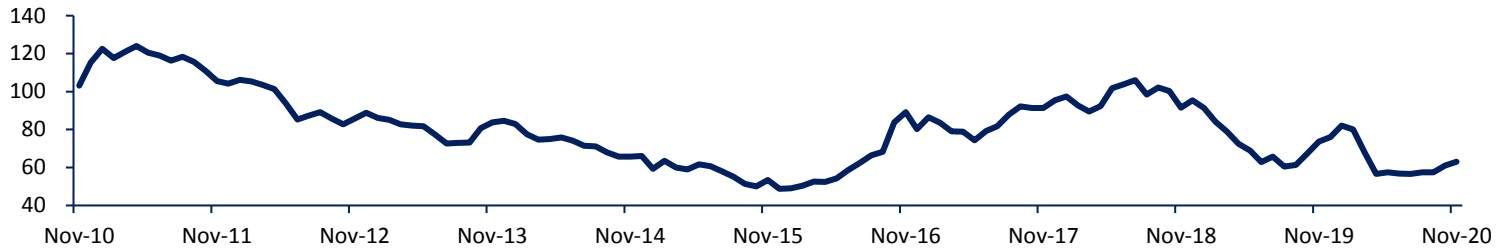
SCL's existing plants and upcoming units in Madhya Pradesh and Odisha



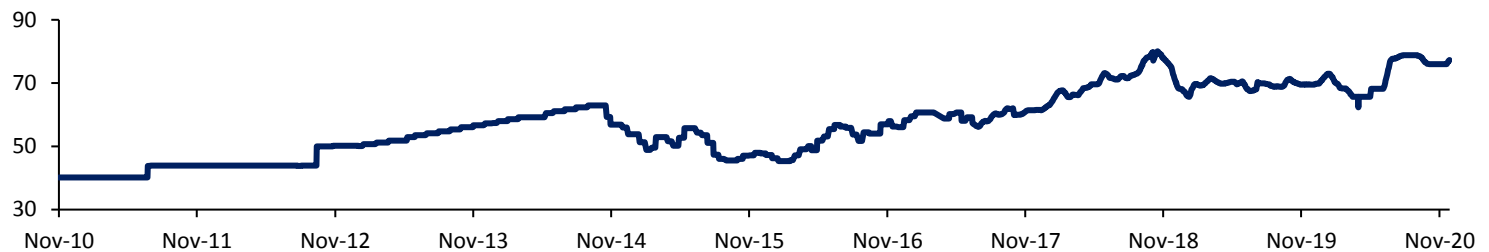
Source: Company Reports & Ventura Research

Economic recovery portends rebound in energy prices

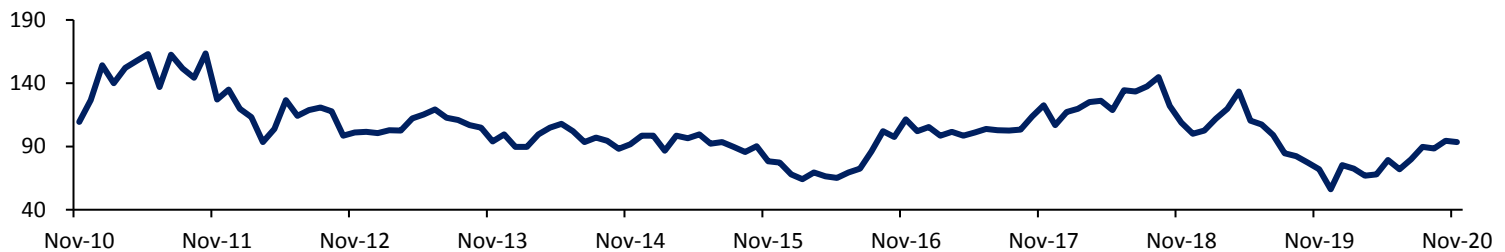
South African coal price (USD/metric tonne)



Domestic Diesel Price (Rs/Ltr)



Petcoke Price (USD/metric tonne)



Source: Bloomberg & Indexmundi

Key risk and concern areas

- While we have assumed an extremely conservative pricing environment, any deterioration in demand growth can have a negative impact on our valuations.
- In the case of runaway inflation, cost pressure can significantly impact profitability
- Slower than expected utilization of new plants at Madhya Pradesh and Orissa would impact asset sweating which could further reduce the profitability

Quarterly Financial Performance

Figures in Rs Cr	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21E	FY22E	FY23E
Capacity (Mn Tonnes)	5.2	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	7.0	8.3
Sales Volume (Mn Tonnes)	3.3	0.8	0.7	0.8	0.8	3.1	0.6	0.7	0.8	0.8	2.8	4.6	5.9
-Volume from existing plants	3.3	0.8	0.7	0.8	0.8	3.1	0.6	0.7	0.8	0.8	2.8	4.3	4.6
-Volume from MP plant												0.1	0.4
-Volume from Orissa plant												0.2	0.9
Capacity Utilization (%)	64.5	57.0	49.4	53.1	58.4	54.5	38.6	50.1	52.2	52.2	48.3	66.2	71.4
Net Sales	1,212.2	343.9	264.9	262.1	302.7	1,173.6	264.1	325.1	300.0	300.0	1,189.2	1,849.5	2,220.2
YoY Growth (%)	17.4	25.5	3.7	-17.3	-17.2	-3.2	-23.2	22.7	14.5	-0.9	1.3	55.5	20.0
Average Sales per MT (Rs)	3,651.2	4,193.7	3,731.4	3,430.6	3,603.9	3,744.9	4,758.9	4,515.4	4,000.0	4,000.0	4,285.5	3,990.3	3,769.4
Other Operating Revenue	5.3	0.3	0.3	0.0	0.8	1.5	0.0	0.8	0.0	0.0	0.8	0.0	0.0
Total Revenue	1,217.6	344.2	265.3	262.1	303.6	1,175.2	264.1	325.9	300.0	300.0	1,190.0	1,849.5	2,220.2
YoY Growth (%)	17.3	25.2	2.9	-17.9	-17.0	-3.5	-23.3	22.8	14.5	-1.2	1.3	55.4	20.0
Raw Material Cost	238.8	60.7	36.8	70.3	59.5	227.3	49.6	47.2	52.5	56.3	205.5	359.2	456.5
RM Cost per MT (Rs)	719.3	740.4	518.0	919.6	708.7	725.2	893.0	655.7	700.0	750.0	740.6	775.0	775.0
Power & Fuel Cost	362.8	87.0	83.2	62.7	76.3	309.2	44.6	61.0	68.9	69.6	244.0	441.2	562.7
Power Cost per MT (Rs)	1,092.7	1,060.5	1,172.0	821.1	908.1	986.5	802.7	846.7	918.3	927.9	879.2	952.0	955.3
Freight & Forwarding Cost	252.5	60.1	49.5	54.5	59.7	223.8	39.1	55.5	56.8	57.4	208.8	375.7	501.3
Freight Cost per MT (Rs)	760.4	732.4	696.8	713.7	710.6	713.9	704.9	771.4	757.2	764.7	752.4	810.6	851.1
Employee Cost	58.8	14.7	15.2	16.0	18.9	64.9	14.5	20.9	16.3	16.3	68.1	76.7	83.9
Other Expenses	155.4	43.1	38.2	38.7	44.5	164.6	29.3	36.5	38.3	37.5	141.6	245.7	270.9
EBITDA	149.4	78.6	42.4	19.9	44.7	185.5	87.0	104.8	67.3	63.0	322.0	351.0	344.9
EBITDA per MT (Rs)	450.0	958.8	596.8	259.9	531.5	591.9	1,567.7	1,455.1	896.9	839.7	1,160.4	757.3	585.6
EBITDA Margin (%)	12.3	22.8	16.0	7.6	14.7	15.8	32.9	32.1	22.4	21.0	27.1	19.0	15.5
Net Profit	13.6	29.5	4.9	-9.1	1.2	26.5	36.0	50.2	8.3	5.5	100.0	96.2	92.3
Net Margin (%)	1.1	8.6	1.9	-3.5	0.4	2.3	13.6	15.4	2.8	1.8	8.4	5.2	4.2
Adjusted EPS (Rs)	5.8	12.6	2.1	-3.9	0.5	11.3	15.3	21.3	3.5	2.4	42.6	40.9	39.3
Net Debt Equity (X)	0.6		0.5			0.5		0.4			0.5	0.6	0.6
Net Debt EBITDA (X)	3.2		2.2			2.6		1.7			1.9	2.5	2.4
RoE (%)	1.6		5.2			2.7		7.0			7.8	7.0	6.4
RoCE (%)	6.2		9.7			7.3		10.6			11.1	9.9	9.5
RoIC (%)	6.3		9.8			7.4		11.2			11.4	10.0	9.6
Enterprise Value (EV)	1,813.5		1,822.1			1,156.2		1,657.6			2,092.2	2,355.8	2,297.5
EV per Metric Tonne (Rs)	5,462.3		5,375.0			3,689.3		5,757.5			7,539.4	5,082.6	3,900.6
EV per Metric Tonne (USD)	78.2		76.4			51.9		77.9			101.1	67.8	52.0
EV/EBITDA (X)	12.1		8.6			6.2		6.5			6.5	6.7	6.7

Source: Company Reports & Ventura Research

Financials & Projections

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E	Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E
Income Statement						Per Share Data & Yields					
Sales Volume (Mn Tonnes)	3.3	3.1	2.8	4.6	5.9	Adjusted EPS (Rs)	5.8	11.3	42.6	40.9	39.3
Average Sales per MT (Rs)	3,651.2	3,744.9	4,285.5	3,990.3	3,769.4	Adjusted Cash EPS (Rs)	33.7	44.9	88.1	95.2	93.7
Revenue from operations	1,212.2	1,173.6	1,189.2	1,849.5	2,220.2	Adjusted BVPS (Rs)	359.1	434.3	567.9	604.4	639.1
Other Operating Revenue	5.3	1.5	0.8	0.0	0.0	CFO per share (Rs)	51.6	93.9	103.8	119.7	127.5
Total Revenue	1,217.6	1,175.2	1,190.0	1,849.5	2,220.2	CFO Yield (%)	8.2	14.9	16.5	19.0	20.2
<i>YoY Growth (%)</i>	<i>17.3</i>	<i>-3.5</i>	<i>1.3</i>	<i>55.4</i>	<i>20.0</i>	FCF per share (Rs)	-35.1	-24.5	-193.3	-88.2	48.9
Raw Material Cost	238.8	227.3	205.5	359.2	456.5	FCF Yield (%)	-5.6	-3.9	-30.7	-14.0	7.8
<i>YoY Growth (%)</i>	<i>64.6</i>	<i>-4.8</i>	<i>-9.6</i>	<i>74.8</i>	<i>27.1</i>	Solvency Ratio (X)					
Power & Fuel Cost	362.8	309.2	244.0	441.2	562.7	Total Debt to Equity	0.6	0.5	0.5	0.6	0.6
<i>YoY Growth (%)</i>	<i>9.4</i>	<i>-14.8</i>	<i>-21.1</i>	<i>80.9</i>	<i>27.5</i>	Net Debt to Equity	0.6	0.5	0.5	0.6	0.5
Gross Profit	616.0	638.7	740.5	1,049.0	1,201.0	Net Debt to EBITDA	3.2	2.6	1.9	2.5	2.4
<i>Margin (%)</i>	<i>50.6</i>	<i>54.3</i>	<i>62.2</i>	<i>56.7</i>	<i>54.1</i>	Interest Coverage Ratio	1.3	1.7	3.2	2.8	2.8
Freight Expenses	252.5	223.8	208.8	375.7	501.3	Debt Service Coverage Ratio	0.3	0.4	0.5	0.4	0.4
<i>YoY Growth (%)</i>	<i>15.8</i>	<i>-11.4</i>	<i>-6.7</i>	<i>79.9</i>	<i>33.4</i>	Working Capital Ratios					
Employee Cost	58.8	64.9	68.1	76.7	83.9	Payable Days	61	69	60	60	60
<i>YoY Growth (%)</i>	<i>14.5</i>	<i>10.4</i>	<i>5.0</i>	<i>12.6</i>	<i>9.4</i>	Receivable Days	35	43	45	44	43
Other Expenses	155.4	164.6	141.6	245.7	270.9	Inventory Days	44	36	40	38	36
<i>YoY Growth (%)</i>	<i>10.2</i>	<i>5.9</i>	<i>-14.0</i>	<i>73.5</i>	<i>10.3</i>	Gross Working Capital Days	78	79	85	82	79
EBITDA	149.4	185.5	322.0	351.0	344.9	Net Working Capital Days	17	9	25	22	19
EBITDA per Tonne	450.0	591.9	1,160.4	757.3	585.6	Return Ratios (%)					
<i>Margin (%)</i>	<i>12.3</i>	<i>15.8</i>	<i>27.1</i>	<i>19.0</i>	<i>15.5</i>	Return on Equity	1.6	2.6	7.5	6.8	6.1
Depreciation	65.7	78.9	107.1	127.4	127.9	Return on Capital Employed	6.2	7.1	10.8	9.7	9.3
<i>Dep to Gross Block (%)</i>	<i>3.8</i>	<i>4.2</i>	<i>4.4</i>	<i>4.4</i>	<i>4.2</i>	Return on Invested Capital	6.3	7.1	11.0	9.7	9.4
EBIT	83.7	106.6	214.9	223.6	217.0	Valuation (X)					
<i>Margin (%)</i>	<i>6.9</i>	<i>9.1</i>	<i>18.1</i>	<i>12.1</i>	<i>9.8</i>	P/E	108.9	55.8	14.8	15.4	16.0
Other Income	2.9	4.0	4.1	3.7	2.2	P/BV	1.8	1.5	1.1	1.0	1.0
Finance Cost	63.4	61.0	66.5	79.2	77.1	EV/EBITDA	13.1	10.5	6.5	6.7	6.7
PBT	23.2	49.7	152.5	148.0	142.0	EV/Sales	1.6	1.7	1.8	1.3	1.0
<i>Margin (%)</i>	<i>1.9</i>	<i>4.2</i>	<i>12.8</i>	<i>8.0</i>	<i>6.4</i>	EV/Tonne (Rs)	5,902.2	6,238.9	7,539.4	5,082.6	3,900.6
Reported Tax	9.6	23.1	52.5	51.8	49.7	Cash Flow Statement					
<i>Tax Rate</i>	<i>41.4</i>	<i>46.6</i>	<i>34.4</i>	<i>35.0</i>	<i>35.0</i>	Profit Before Tax	23.2	49.7	152.5	148.0	142.0
PAT	13.6	26.5	100.0	96.2	92.3	Adjustments	113.7	166.9	195.8	215.1	211.3
<i>Margin (%)</i>	<i>1.1</i>	<i>2.3</i>	<i>8.4</i>	<i>5.2</i>	<i>4.2</i>	Change in Working Capital	-6.1	27.2	-51.9	-30.0	-4.1
Balance Sheet						Less: Tax Paid	-9.6	-23.1	-52.5	-51.8	-49.7
Share Capital	20.4	22.3	23.5	23.5	23.5	Cash Flow from Operations	121.3	220.7	243.9	281.3	299.6
Total Reserves	823.4	998.3	1,311.1	1,396.7	1,478.5	Net Capital Expenditure	-195.1	-227.2	-650.0	-450.0	-150.0
Shareholders' Fund	843.8	1,020.6	1,334.6	1,420.2	1,502.0	Change in Investments	25.1	-24.7	121.2	-5.1	-3.6
Long Term Borrowings	305.8	289.8	552.9	802.7	652.6	Cash Flow from Investing	-170.1	-251.9	-528.8	-455.1	-153.6
Other Non Curr Liabilities	56.9	72.5	82.9	77.4	73.5	Proceeds from Equity	56.6	102.7	225.0	0.0	0.0
Long Term Provisions	7.3	9.7	10.2	11.5	12.5	Change in Borrowings	30.7	-21.0	162.0	240.0	-60.0
Deferred Tax Liability	41.1	43.9	55.1	55.1	55.1	Less: Finance Cost	-63.4	-61.0	-66.5	-79.2	-77.1
Total Liabilities	1,255.0	1,436.5	2,035.7	2,366.9	2,295.7	Dividends Paid (incl tax)	-3.7	-6.2	-10.6	-10.6	-10.6
Gross Block	1,711.5	1,876.9	2,418.9	2,868.9	3,018.9	Cash Flow from Financing	20.2	14.5	309.9	150.2	-147.7
Less: Accumulated Dep	423.1	497.5	604.6	732.0	860.0	Net Cash Flow	-28.6	-16.8	25.1	-23.6	-1.7
Net Block	1,288.4	1,379.4	1,814.3	2,136.9	2,158.9	Opening Balance of Cash	58.1	29.5	12.8	37.8	14.2
Goodwill & Intang Assets	65.8	100.8	99.9	99.9	99.9	Closing Balance of Cash	29.5	12.8	37.8	14.2	12.5
Other Non Curr Assets	35.3	108.4	123.2	115.3	109.8						
Deferred Tax Assets	32.8	21.2	15.0	15.0	15.0						
Net Current Assets	-167.4	-173.3	-16.8	-0.2	-87.9						
Total Assets	1,255.0	1,436.5	2,035.7	2,366.9	2,295.7						

Source: Company Reports & Ventura Research

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