



INDEPENDENT EQUITY RESEARCH

Sagar Cements Ltd

Q4FY11 First Cut

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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Sagar Cements Ltd

Q4FY11 first cut – Growth driven by improved realisations

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 5/5 (CMP has strong upside)

Industry Cement

Sagar Cements Ltd's (Sagar's) revenues were better than Crisil Equities' expectations. Both top-line and PAT grew on the back of higher realisation. However, given the oversupply in Andhra Pradesh (AP), we expect the company's EBITDA margins to be drop in FY12 and FY13. We will revisit our estimates post interaction with the management. We maintain the fundamental grade of 2/5.

Q4FY11 result analysis

- Sagar's Q4 revenues grew by 36.2% y-o-y to Rs 1,682 mn on the back of realisations increasing 49.4% y-o-y (11% q-o-q) to Rs 4,238 per tonne; but sales volumes declined marginally by 1.1% y-o-y. Similarly, clinker sales volume witnessed a sharp decline of ~59% y-o-y while realisations were up 47% y-o-y to Rs 2,817 per tonne. In FY11, revenue grew by 3.8% y-o-y driven by 5.9% y-o-y growth in sales volumes and 8% y-o-y growth in realisations.
- Q4 EBITDA margin expanded by 1,538 bps to 23.5% owing to improved realisations. However, for the full year (FY11), EBITDA margins declined by 424 bps despite 7-8% improvement in realisation. The drop is due to increased operational cost including power and freight costs.
- In Q4FY11, PAT went up to Rs 193 mn from Rs 3 mn in Q4FY10 due to better operating profit and lower tax rate (30.7% in Q4FY11 as against 68.6% in Q4FY10). However, full year PAT declined by 8% y-o-y to Rs 176 mn despite reporting three-fold growth in other income and a lower tax rate (23% in FY11 vs. ~36% in FY10). The drop is mainly due to 22.7% y-o-y fall in EBITDA. Excluding other income, the company has reported net loss of Rs 14 mn in FY11 as against profit of Rs 123 mn in FY10.

Valuations: Current market price has strong upside

We continue to value Sagar on the sum-of-the-parts basis using the EV/tonne of Rs 1,720 for the core business and its investments in Sagar-Vicat JV at 6x EV/EBITDA. Based on the FY12 estimates, we maintain our fair value of Rs 202 and our valuation grade of 5/5.

KEY FORECAST

(Rs mn)	FY08	FY09	FY10	FY11E#	FY12E*
Operating income	2,235	2,701	4,305	4,978	4,961
EBITDA	643	653	905	616	806
Adj PAT	331	189	202	176	131
Adj EPS-Rs	24.8	12.6	13.5	11.7	7.6
EPS growth (%)	1.0	(49.2)	6.7	(12.9)	(35.0)
Dividend yield	4.0	14.0	2.4	2.6	2.0
RoCE (%)	26.5	11.4	13.7	7.6	10.0
RoE (%)	33.2	11.8	9.6	7.9	5.8
P/E (x)	3.9	2.6	11.3	13.0	16.5
P/BV (x)	1.1	0.2	1.0	1.0	0.9
EV/EBITDA (x)	5.2x	4.4	5.0	7.6	5.6

NM: Not meaningful; CMP: Current Market Price

#FY11 numbers based on the abridged financials

*We could revisit our estimates and fair value after interaction with the management

Source: Company, CRISIL Equities estimate

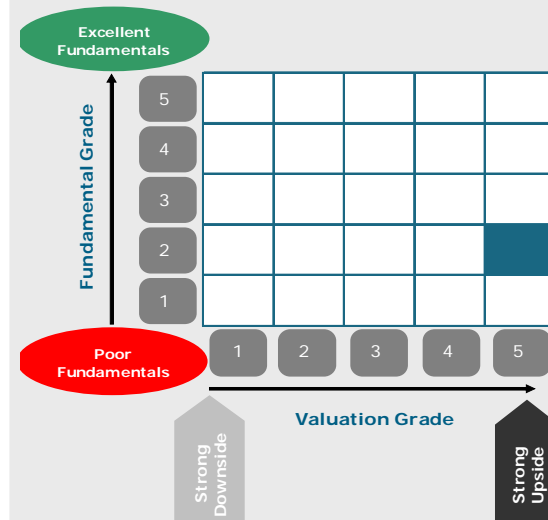


May 19, 2011

Fair Value Rs 202

CMP Rs 152

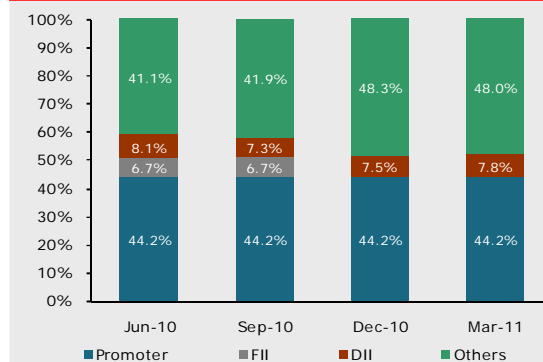
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5421
NSE ticker	SAGCEM
Face value (Rs per share)	10
Shares outstanding (mn)	15.0
Market cap (Rs mn)/(US\$ mn)	2,280/84
Enterprise value (Rs mn) / (US\$ mn)	4,652/103
52-week range (Rs) (H/L)	184/115
Beta	1.04
Free float (%)	55.8
Avg daily volumes (30-days)	2,183
Avg daily value (30-days) (Rs mn)	0.3

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Sagar	-12%	-1%	-6%	-27%
NIFTY	-6%	0%	-9%	7%

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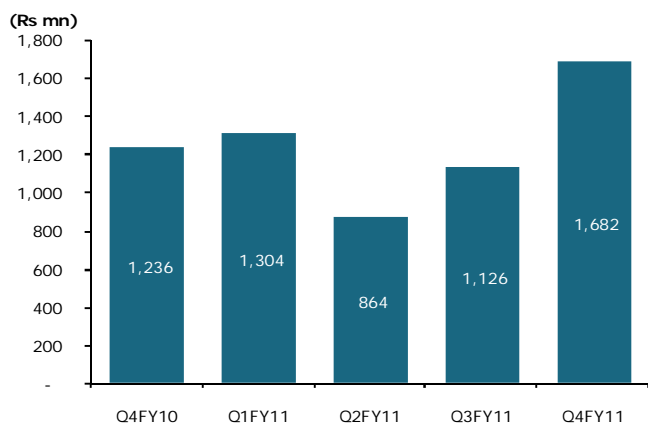
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Q4FY11 Result Summary

(Rs mn)	Q4FY11	Q3FY11	Q4FY10	q-o-q (%)	y-o-y (%)	FY11	FY10	y-o-y (%)
Net sales	1,682	1,126	1,236	49.3	36.2	4,978	4,796	3.8
Consumption of Raw Materials	763	456	657	67.2	16.2	2,402	2,266	6.0
Raw material as a % of sales	36%	44%	50%	(772) bps	(1,415) bps	44%	47%	(315) bps
(Increase) / Decrease in Stock in Trade	(158)	36	(38)	542.8	(319.8)	(229)	(21)	987.2
Other expenses	639	452	465	41.2	37.3	2,028	1,616	25.5
Employees Cost	42	41	50	3.2	(15.8)	161	138	16.2
EBITDA	396	141	101	180.9	292.9	616	797	(22.7)
EBITDA margin	23.5%	12.5%	8.2%	1,102 bps	1,538 bps	12.4%	16.6%	(424) bps
Depreciation	68	66	68	2.3	(0.9)	270	277	(2.4)
EBIT	328	75	33	338.2	906.4	346	520	(33.5)
Interest and finance charges	83	83	69	0.5	20.2	306	290	5.9
Operating PBT	245	(8)	(37)	NM	(768.5)	39	230	(82.9)
Other Income	33	43	45	(23.0)	(26.1)	190	68	180.1
Extraordinary Income/(expense)	-	-	-	NM	NM	-	-	NM
PBT	278	35	8	695.9	3,367.4	229	298	(23.1)
Tax	85	4	6	2,087.2	1,453.3	53	107	(50.1)
PAT	193	31	3	520.8	7,544.9	176	191	(8.0)
Adj PAT	193	31	3	520.8	7,544.9	176	191	(8.0)
Adj PAT margin	11.5%	2.8%	0.2%	9 bps	1,125 bps	3.5%	4.0%	(45) bps
No of equity shares (Mn)	15.0	15.0	15.0	(0.0)	(0.0)	15.0	15.0	-
Adj EPS (Rs)	12.8	2.1	0.2	520.9	7,545.9	11.7	12.7	(8.0)

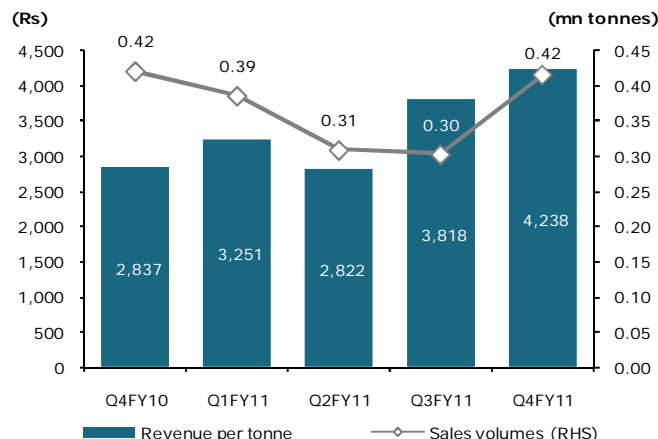
Source: Company, CRISIL Equities

Strong growth in revenues...



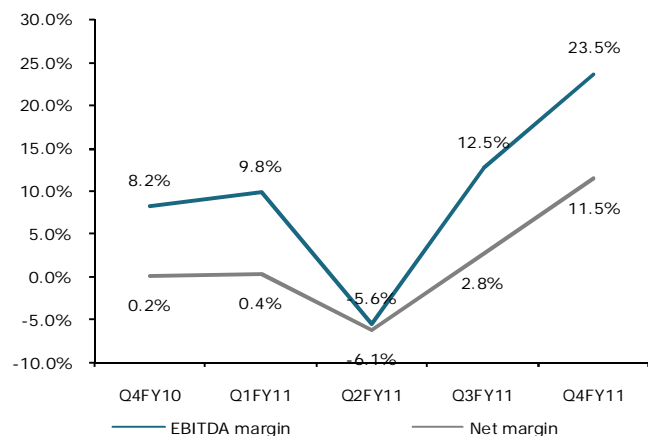
Source: Company, CRISIL Equities

... Driven by improved realisations



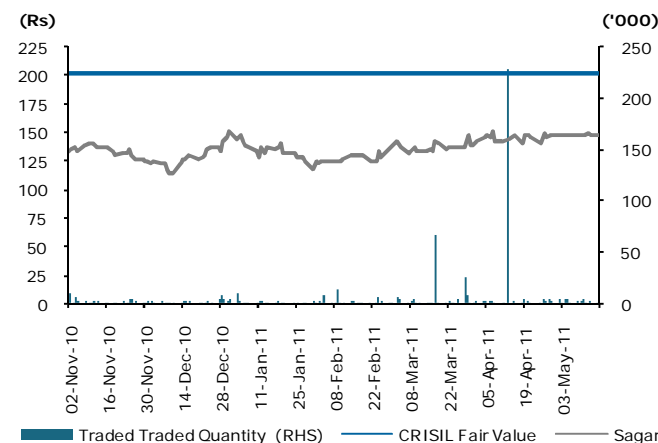
Source: Company, CRISIL Equities

Quarterly EBITDA and PAT margin trend



Source: Company, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

FINANCIALS

Income statement - Sagar Cements

(Rs mn)	FY09	FY10	FY11#
Operating income	2,701	4,305	4,978
EBITDA	653	905	616
EBITDA margin	24.2%	21.0%	12.4%
Depreciation	207	287	270
EBIT	447	618	346
Interest	164	301	306
Operating PBT	283	317	39
Other income	4	3	190
Exceptional inc/(exp)	6	0	-
PBT	293	321	229
Tax provision	98	119	53
Minority interest	-	-	-
PAT (Reported)	195	202	176
Less: Exceptionals	6	0	-
Adjusted PAT	189	202	176

Ratios

	FY09	FY10	FY11#
Growth			
Operating income (%)	(42.9)	6.7	(12.9)
EBITDA (%)	1.6	38.5	(31.9)
Adj PAT (%)	(42.9)	6.7	(12.9)
Adj EPS (%)	(49.2)	6.7	(12.9)
Profitability			
EBITDA margin (%)	24.2	21.0	12.4
Adj PAT Margin (%)	7.0	4.7	3.5
RoE (%)	11.8	9.6	7.9
RoCE (%)	11.4	13.7	7.6
RoIC (%)	9.6	12.1	17.2
Valuations			
Price-earnings (x)	2.6	11.3	13.0
Price-book (x)	0.2	1.0	1.0
EV/EBITDA (x)	4.4	5.0	7.6
EV/Sales (x)	1.1	1.1	0.9
Dividend payout ratio (%)	35.1	27.1	34.1
Dividend yield (%)	14.0	2.4	2.6
B/S ratios			
Inventory days	88	66.4	47
Creditors days	109	80.5	75
Debtor days	38	33.9	25
Working capital days	36	38.8	41
Gross asset turnover (x)	0.8	0.9	1.0
Net asset turnover (x)	1.1	1.1	1.4
Sales/operating assets (x)	0.75	1.1	1.36
Current ratio (x)	1.8	1.6	1.7
Debt-equity (x)	123.7	105.4	106.7
Net debt/equity (x)	118.0	104.0	105.5
Interest coverage	2.7	2.1	1.1

Per share

	FY09	FY10	FY11#
Adj EPS (Rs)	12.6	13.5	11.7
CEPS	26.4	32.6	29.7
Book value	135.8	145.9	149.9
Dividend (Rs)	4.6	3.7	4.0
Actual o/s shares (mn)	15.0	15.0	15.0

Balance Sheet - Sagar cements

(Rs mn)	FY09	FY10	FY11#
Liabilities			
Equity share capital	150	150	150
Reserves	1,888	2,038	2,098
Minorities	-	-	-
Net worth	2,038	2,188	2,248
Convertible debt	10	10	10
Other debt	2,510	2,296	2,388
Total debt	2,520	2,306	2,398
Deferred tax liability (net)	159	271	347
Total liabilities	4,717	4,765	4,993
Assets			
Net fixed assets	3,822	3,782	3,382
Capital WIP	183	103	61
Total fixed assets	4,005	3,885	3,443
Investments	150	381	860
Current assets			
Inventory	430	493	558
Sundry debtors	249	418	429
Loans and advances	468	387	621
Cash & bank balance	115	31	27
Marketable securities	-	-	-
Total current assets	1,261	1,330	1,635
Total current liabilities	700	831	945
Net current assets	562	499	690
Intangibles/Misc. expenditure	-	-	-
Total assets	4,717	4,765	4,993

Cash flow

(Rs mn)	FY09	FY10	FY11#
Pre-tax profit	287	321	229
Total tax paid	(13)	(7)	23
Depreciation	207	287	270
Working capital changes	(354)	(21)	(195)
Net cash from operations	127	580	327
Cash from investments			
Capital expenditure	(1,050)	(167)	172
Investments and others	(150)	(231)	(479)
Net cash from investments	(1,200)	(398)	(307)
Cash from financing			
Equity raised/(repaid)	198	-	(1,050)
Debt raised/(repaid)	431	(214)	92
Dividend (incl. tax)	(68)	(55)	(70)
Others (incl extraordinary)	557	3	1,005
Net cash from financing	1,117	(265)	(24)
Change in cash position	44	(84)	(4)
Closing cash	115	31	27

Quarterly financials

(Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Net Sales	1,236	1,304	864	1,126	1,682
Change (q-o-q)	38.0%	5.6%	-33.7%	30.3%	49.3%
EBITDA	101	127	(48)	141	396
Change (q-o-q)	-28.5%	26.4%	-137.8%	-392.6%	180.9%
EBITDA margin	8.2%	9.8%	-5.6%	12.5%	23.5%
PAT	3	5	(53)	31	193
Adj PAT	3	5	(53)	31	193
Change (q-o-q)	NM	109.9%	-1100.0%	-158.7%	520.8%
Adj PAT margin	0.2%	0.4%	-6.1%	2.8%	11.5%
Adj EPS	0.2	0.4	(3.5)	2.1	12.8

#FY11 numbers based on the abridged financials

Source: Company, CRISIL Equities estimate

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