MOTILAL OSWAL

14 August 2019

1QFY20 Results Update | Sector: Cement

Sanghi Industries

BSE SENSEX	S&P CNX
35,457	10,682

CMP: INR56 **TP: INR80(+44%)** **Buy**

Bloomberg	SNGI IN
Equity Shares (m)	251
M.Cap.(INRb)/(USDb)	14.1 / 0.2
52-Week Range (INR)	144 / 58
1, 6, 12 Rel. Per (%)	-12/-39/-54
12M Avg Val (INR M)	44
Free float (%)	34.3

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	10.6	11.8	15.1
EBITDA	1.5	2.5	3.1
PAT	0.5	1.1	0.8
EPS (INR)	2.0	4.4	3.4
Gr. (%)	-44.9	113.1	-23.0
BV/Sh (INR)	65.8	70.1	83.8
RoE (%)	3.2	6.4	4.7
RoCE (%)	4.6	6.0	6.0
P/E (x)	27.3	12.8	16.6
P/BV (x)	0.9	0.8	0.7
EV/EBITDA (x)	13.0	9.2	7.4

Estimate change

TP change

Rating change

Healthy realizations support margins amid volumes pressure

- **Volumes decline, but realizations healthy…:** Volumes declined 12% YoY to 0.6mt in 1QFY20 due to demand pressure in Gujarat (-11% YoY). However, realizations were up 13% YoY at INR4,562/t, resulting in revenue of INR2.7b (flat YoY; our estimate: INR2.6b).
- **…driving an improvement in margins:** Unitary cost increased 2% YoY to INR3,469/t, as savings in freight and power & fuel cost were offset by higher other expenses. However, strong realizations led to a 71% YoY (+68% QoQ) increase in EBITDA/t to INR1,093, with EBITDA at INR657m (+51% YoY; our estimate: INR482). PAT rose 93% YoY to INR384m (our estimate: INR233m).
- **Management commentary:** (1) Demand in Gujarat declined 11% YoY amid elections due to shortage of labor and slowdown in government spending. The state also faced liquidity issues and water shortage in the quarter. (2) SNGI expects flattish demand in 2QFY20 due to seasonality but a pick-up post monsoon. (3) Gujarat constituted 86% of sales mix, with remaining 14% coming from Maharashtra, Rajasthan and Kerala. (4) Freight cost per ton declined 4% YoY due to lower diesel prices and benefits of axle load norms.
- **Valuation view:** SNGI targets to increase its cement grinding capacity from 4.1mt now to 8.2mt by FY21 by adding one more line of clinker unit at its existing location as well as split grinding units of 2mt each in Kutch and Surat. The diversification into the newer markets will not only provide scale but also improve profitability. We expect the margin to expand ~6pp over FY19-21. We value the stock at EV/tonne of USD50 on FY21 capacity to arrive at a target price of INR80. **Buy**.

Standalone - Quarterly Earning Model **(INR Million)**

Y/E March	FY19				FY20				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	**0.68**	**0.62**	**0.66**	**0.71**	**0.60**	**0.62**	**0.69**	**0.76**	**2.67**	**2.67**
YoY Change (%)	2.3	29.4	(10.8)	14.0	(11.6)	-	4.0	7.3	9.5	-
Realization (INR/ton)	**4,042**	**3,937**	**4,007**	**3,903**	**4,562**	**4,362**	**4,384**	**4,424**	**3,974**	**4,430**
YoY Change (%)	(6.5)	(8.3)	6.6	(4.6)	12.9	10.8	9.4	13.3	(5.6)	11.5
QoQ Change (%)	(1.2)	(2.6)	1.8	(2.6)	16.9	(4.4)	0.5	0.9		
Net Sales	**2,748**	**2,441**	**2,661**	**2,760**	**2,741**	**2,704**	**3,027**	**3,356**	**10,610**	**11,829**
YoY Change (%)	-4.4	18.7	-4.8	8.8	-0.3	10.8	13.8	21.6	3.4	11.5
EBITDA	**434**	**324**	**321**	**460**	**657**	**531**	**601**	**684**	**1,540**	**2,473**
Margins (%)	15.8	13.3	12.1	16.7	24.0	19.6	19.9	20.4	14.5	20.9
Depreciation	195	198	187	134	145	145	145	146	713	581
Interest	123	167	147	136	171	175	175	175	573	696
Other Income	83	61	55	74	42	42	45	45	261	174
PBT	**199**	**20**	**43**	**264**	**384**	**253**	**326**	**408**	**515**	**1,371**
Tax	0	0	0	0	0	0	65	209	0	274
Rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	20.0	51.2	0.0	20.0
Reported PAT	**199**	**20**	**43**	**264**	**384**	**253**	**261**	**199**	**515**	**1,097**
Adj PAT	**199**	**20**	**43**	**264**	**384**	**253**	**261**	**199**	**515**	**1,097**
YoY Change (%)	-37.1	-82.1	-86.6	42.1	92.8	1,189.2	504.7	-24.6	-44.9	113.1
Margins (%)	7.2	0.8	1.6	9.6	14.0	9.3	8.6	5.9	4.8	9.3

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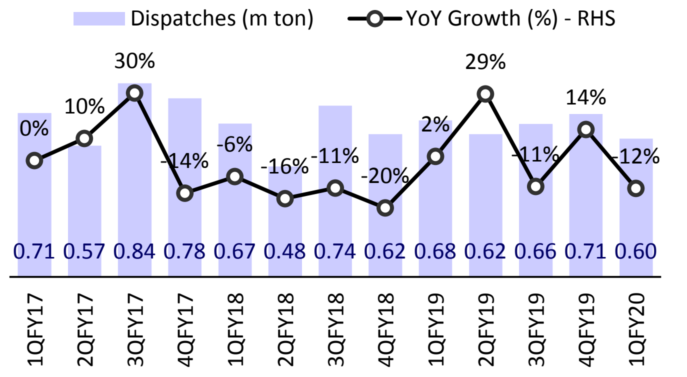
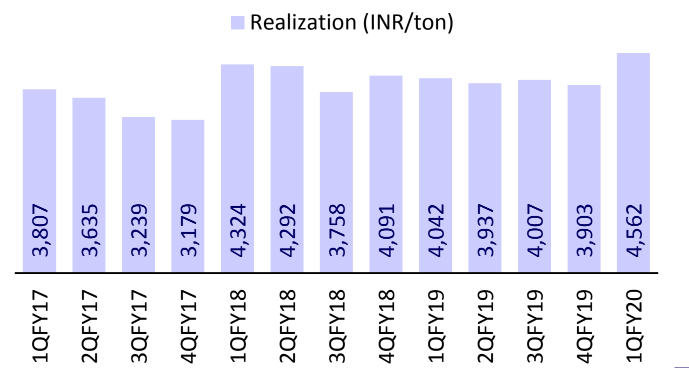
Exhibit 1: Volumes declined 12% YoY



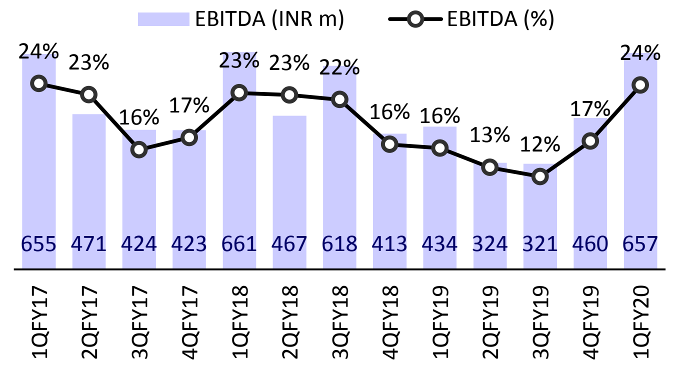
Source: MOFSL, Company

Exhibit 2: Realizations increase 13% YoY



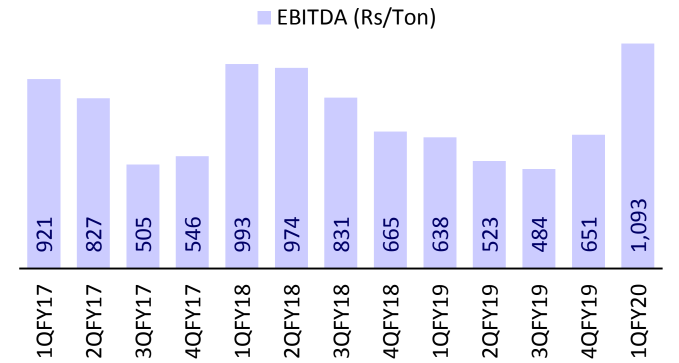
Source: MOFSL, Company

Exhibit 3: Margins expand 8pp YoY



Source: Company, MOFSL

Exhibit 4: Trend in cement EBITDA



Source: Company, MOFSL

Exhibit 5: Key performance indicator

INR/t	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ(%)
Net Realization	4,562	4,042	13%	3,903	17%
Raw Material Cost	376	171	120%	379	-1%
Staff Cost	204	178	14%	146	40%
Power & fuel	1,044	1,210	-14%	992	5%
Freight & selling Exp	1,364	1,424	-4%	1,313	4%
Other Exp	480	421	14%	422	14%
Total Exp	3,469	3,404	2%	3,252	7%
EBITDA	1,093	638	71%	651	68%

Source: MOFSL, Company

Management commentary

- Demand in Gujarat declined 11% YoY amid elections due to shortage of labor and slowdown in government spending. The state also faced liquidity issues and water shortage in the quarter.
- SNGI expects flattish demand in 2QFY20 due to seasonality but a pick-up post monsoon.
- Average prices in Gujarat stood at INR 300/bag in 1QFY20. These prices are still sustaining in June and July 2019.
- Gujarat constituted 86% of sales mix, with the remaining 14% coming from Maharashtra, Rajasthan and Kerala.
- Freight cost per ton declined 4% YoY due to lower diesel prices and benefits of axle load norms.

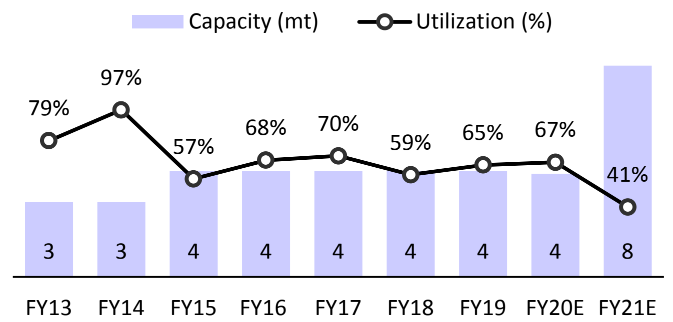
- Lignite constituted 25% of the fuel mix, while coal accounted for 75%. Weighted cost of fuel stood at INR0.92.
- The company's expansion program is on track; 80% of the civil work has been completed. The Kutch grinding unit is expected to commission by 1QFY20. Environment clearance for the Surat grinding unit is expected to be received by end-August, post which capacity should come on stream by Oct'20.

Valuation and view

SNGI targets to increase its cement grinding capacity from 4.1mt now to 8.2mt by FY21 by adding one more line of clinker unit at its existing location as well as split grinding units of 2mt each in Kutch and Surat. The diversification into the newer markets will not only provide scale but also improve profitability. We expect the margin to expand ~6pp over FY19-21. We value the stock at EV/tonne of USD50 on FY21 capacity to arrive at a target price of INR80. **Buy**.

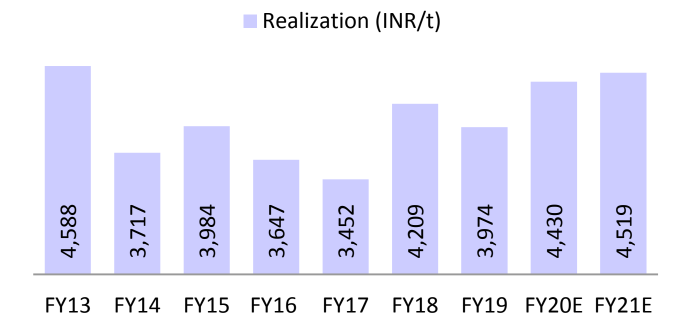
Story in charts

Exhibit 6: Capacity addition to drive growth in FY21



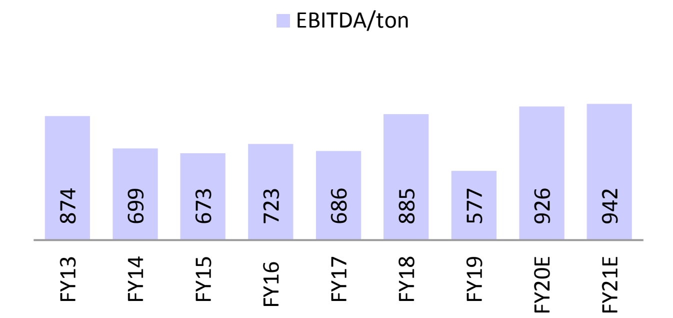
Source: MOFSL, Company

Exhibit 7: Trend in realization (INR/t)



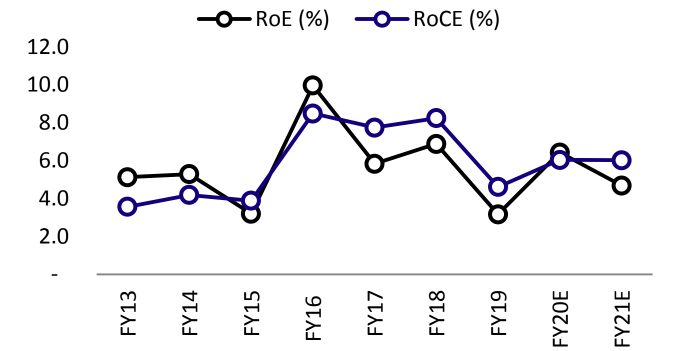
Source: MOFSL, Company

Exhibit 8: Trend in EBITDA/t (INR/t)



Source: Company, MOFSL

Exhibit 9: Trend in ROE/ROCE



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement (INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	**10,483**	**9,323**	**7,622**	**9,975**	**10,264**	**10,610**	**11,829**	**15,081**
Change (%)	-0.7	-11.1	-18.2	-1.8	2.9	3.4	11.5	27.5
Raw Materials	962	378	694	789	663	972	1,078	1,374
Employees Cost	451	465	382	525	539	417	508	635
Power & Fuel Cost	2,609	2,466	1,604	2,310	2,428	2,986	2,791	3,558
Selling Expenses	3,239	3,287	2,432	3,333	3,330	3,668	3,763	4,821
Other Expenses	1,251	1,154	998	1,036	1,144	1,026	1,217	1,551
Total Expenditure	**8,511**	**7,749**	**6,110**	**7,993**	**8,106**	**9,070**	**9,356**	**11,939**
% of Sales	81.2	83.1	80.2	80.1	79.0	85.5	79.1	79.2
EBITDA	**1,971**	**1,574**	**1,512**	**1,982**	**2,158**	**1,540**	**2,473**	**3,142**
Margin (%)	18.8	16.9	19.8	19.9	21.0	14.5	20.9	20.8
Depreciation	1,478	1,064	540	731	724	713	581	1,012
EBIT	**494**	**510**	**972**	**1,251**	**1,434**	**827**	**1,892**	**2,130**
Int. and Finance Charges	141	275	222	642	721	573	696	1,285
Other Income	83	71	17	22	220	261	174	211
PBT bef. EO Exp.	**436**	**306**	**767**	**631**	**933**	**515**	**1,371**	**1,056**
EO Items	0	0	-604	0	0	0	0	0
PBT after EO Exp.	**436**	**306**	**164**	**631**	**933**	**515**	**1,371**	**1,056**
Total Tax	-60	0	4	0	0	0	274	211
Tax Rate (%)	-13.8	0.0	2.4	0.0	0.0	0.0	20.0	20.0
Reported PAT	**496**	**306**	**160**	**631**	**933**	**515**	**1,097**	**845**
Adjusted PAT	**496**	**306**	**749**	**631**	**933**	**515**	**1,097**	**845**
Change (%)	8.1	-38.3	144.8	-36.8	47.8	-44.9	113.1	-23.0
Margin (%)	4.7	3.3	9.8	6.3	9.1	4.8	9.3	5.6

Standalone - Balance Sheet (INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	2,200	2,200	2,200	2,200	2,510	2,510	2,510	2,510
Share premium	0	0	0	0	0	0	0	0
Total Reserves	6,695	6,909	7,812	8,442	12,971	13,496	14,592	15,437
Net Worth	**9,591**	**9,535**	**10,510**	**11,140**	**15,979**	**16,504**	**17,600**	**18,445**
Total Loans	5,811	4,925	5,365	5,868	7,138	7,559	13,059	13,059
Deferred Tax Liabilities	-540	-585	-585	-957	-871	-860	-860	-860
Capital Employed	**14,862**	**13,875**	**15,289**	**16,051**	**22,246**	**23,203**	**29,799**	**30,644**
Gross Block	21,949	22,873	25,356	25,820	27,112	28,789	29,289	39,407
Less: Accum. Deprn.	9,293	10,492	10,573	11,301	12,025	12,738	13,319	14,331
Net Fixed Assets	**12,656**	**12,380**	**14,783**	**14,519**	**15,087**	**16,051**	**15,970**	**25,076**
Capital WIP	593	563	824	1,671	2,936	4,368	8,368	750
Total Investments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Curr. Assets, Loans&Adv.	**3,779**	**4,071**	**4,012**	**3,510**	**7,649**	**7,056**	**9,813**	**10,373**
Account Receivables	125	145	184	239	321	442	486	620
Cash and Bank Balance	340	55	830	163	4,281	1,667	4,418	3,793
Loans and Advances	1,837	2,199	1,613	1,242	1,573	2,575	2,602	3,016
Curr. Liability & Prov.	**2,166**	**3,140**	**4,329**	**3,648**	**3,426**	**4,273**	**4,364**	**5,566**
Account Payables	896	1,713	1,440	1,421	1,327	1,930	1,794	2,290
Other Current Liabilities	991	1,043	2,108	1,643	1,514	1,629	1,774	2,262
Provisions	279	385	782	584	585	714	796	1,014
Net Current Assets	**1,613**	**931**	**-317**	**-138**	**4,223**	**2,784**	**5,449**	**4,806**
Appl. of Funds	**14,862**	**13,875**	**15,290**	**16,052**	**22,246**	**23,203**	**29,787**	**30,632**

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	**2.3**	**1.4**	**3.4**	**2.9**	**3.7**	**2.0**	**4.4**	**3.4**
Cash EPS	9.0	6.2	5.9	6.2	6.6	4.9	6.7	8.4
BV/Share	43.6	43.3	47.8	50.6	63.7	65.8	70.1	83.8
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E						27.3	12.8	16.6
Cash P/E						11.4	8.4	6.6
P/BV						0.9	0.8	0.7
EV/Sales						1.9	1.9	1.5
EV/EBITDA						13.0	9.2	7.4
EV/tonne (US$)						54.4	51.3	39.4
Return Ratios (%)								
RoE	5.3	3.2	7.5	5.8	6.9	3.2	6.4	4.7
RoCE	4.2	3.9	6.4	7.7	8.2	4.6	6.0	6.0
RoIC	4.1	3.9	7.3	9.3	10.2	5.3	9.1	8.1
Working Capital Ratios								
Asset Turnover (x)	0.7	0.7	0.5	0.6	0.5	0.5	0.4	0.5
Inventory (Days)	51	65	66	68	52	82	71	71
Debtor (Days)	4	6	9	9	11	15	15	15
Creditor (Days)	31	67	69	52	47	66	55	55
Leverage Ratio (x)								
Current Ratio	1.7	1.3	0.9	1.0	2.2	1.7	2.2	1.9
Interest Cover Ratio	3.5	1.9	4.4	1.9	2.0	1.4	2.7	1.7
Net Debt/Equity	0.6	0.5	0.4	0.5	0.2	0.4	0.5	0.5

Standalone - Cash Flow Statement (INR Million)

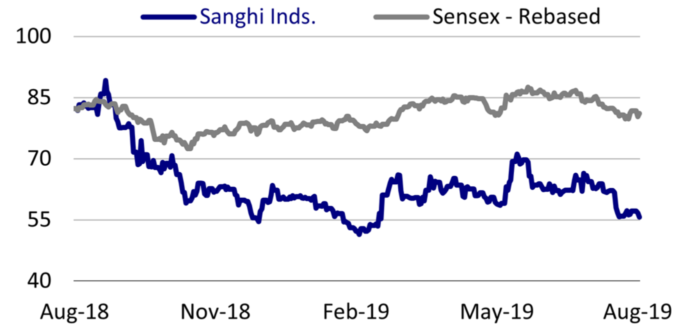
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	436	306	164	630	934	515	1,371	1,056
Depreciation	1,477	1,064	540	731	724	713	581	1,012
Interest & Finance Charges	132	264	219	637	562	312	522	1,074
Direct Taxes Paid	-12	-6	-1	-15	114	0	-274	-211
(Inc)/Dec in WC	70	357	6	-1,223	-120	-1,175	86	17
CF from Operations	**2,104**	**1,985**	**927**	**759**	**2,214**	**365**	**2,285**	**2,949**
Others	1	-16	498	1	4	0	0	0
CF from Operating incl EO	**2,105**	**1,969**	**1,424**	**760**	**2,218**	**365**	**2,285**	**2,949**
(Inc)/Dec in FA	-442	-743	-464	-751	-2,889	-3,109	-4,500	-2,500
Free Cash Flow	**1,663**	**1,226**	**961**	**9**	**-671**	**-2,744**	**-2,215**	**449**
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	315	13	4	5	161	270	174	211
CF from Investments	**-127**	**-730**	**-460**	**-746**	**-2,729**	**-2,839**	**-4,326**	**-2,289**
Issue of Shares	0	0	0	0	3,905	0	0	0
Inc/(Dec) in Debt	-1,390	-980	1,876	21	1,405	421	5,500	0
Interest Paid	-216	-274	-1,639	-703	-682	-573	-696	-1,285
Dividend Paid	0	0	0	0	0	0	0	0
Others	-67	-269	-427	0	0	0	0	0
CF from Fin. Activity	**-1,673**	**-1,523**	**-190**	**-682**	**4,629**	**-152**	**4,804**	**-1,285**
Inc/Dec of Cash	**305**	**-284**	**775**	**-668**	**4,118**	**-2,626**	**2,763**	**-626**
Opening Balance	35	340	55	830	163	4,281	1,655	4,418
Closing Balance	**340**	**55**	**830**	**163**	**4,281**	**1,655**	**4,418**	**3,793**

Corporate profile

Company description

Sanghi Industries Limited (SIL) is a Gujarat-based cement company, with capacity of 4.1mt. Around ~85% of its volumes are sold in Gujarat. An integrated cement unit, SIL owns a 63MW captive power plant and a port. SIL is one of the lowest cost cement producers due to its quality limestone, locational advantage and strong integration across the manufacturing value chain.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-19	Mar-19	Jun-18
Promoter	65.7	65.7	65.7
DII	12.7	12.4	9.4
FII	4.8	4.8	7.5
Others	16.8	17.2	17.4

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
RELIANCE CAPITAL TRUSTEE CO LTD (THROUGH MULTIPLE SCHEMES)	5.2
NAVDURGA VOYAGE PRIVATE LIMITED	3.2
ADITYA BIRLA SUN LIFE TRUSTEE PRIVATE LIMITED (THROUGH MULTIPLE SCHEMES)	3.2
FRANKLIN INDIA SMALLER COMPANIES FUND	3.2
BALAJI VOYAGE PRIVATE LIMITED	3.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Ravi Sanghi	Chairman & Managing Director
Bina Engineer	Whole Time Director & CFO
Anil Agrawal	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
D B N Rao*	Sundaram Balasubramanian*
Devidas Kashinath Kambale*	Bina Engineer
Mahendra Kumar Dooger*	Aditya Sanghi
R K Pandey*	Alok Sanghi
Sadashiv Sawrikar*	N B Gohil

*Independent

Exhibit 6: Auditors

Name	Type
Chaturvedi & Shah	Statutory
N D Birla & Co	Cost Auditor
Parikh Dave & Associates	Secretarial Audit
S K Mehta & Co	Statutory

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	4.4	3.2	39.7
FY21	3.4	3.7	-9.3

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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