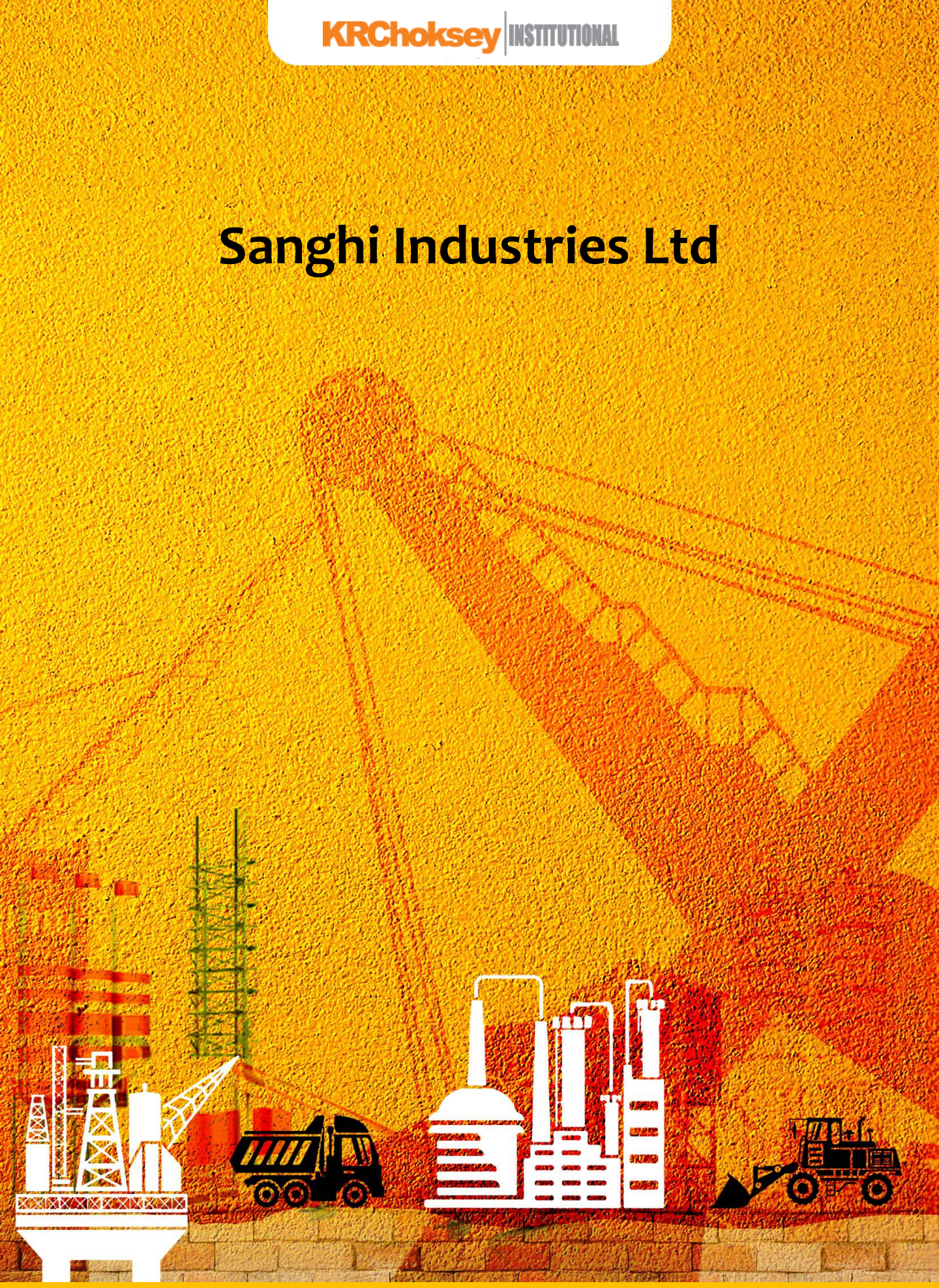
KRChoksey INSTITUTIONAL

# Sanghi Industries Ltd



RESULT UPDATE

14th February, 2018

# Sanghi Industries Ltd.

**Outperformance on all fronts !**

| CMP | Target | Potential Upside | Market Cap (INR mn) | Recommendation | Sector |
|---|---|---|---|---|---|
| **INR 120** | **INR 155** | **29.2%** | **30,246** | **BUY** | **Cement** |

## Result highlights

• During Q3FY18, net sales for the company stood at INR 2796 mn (est. of INR 2466 mn) witnessing a growth of 2.8% y-o-y and 36% q-o-q. Total volumes came in at 0.744 MT as against 0.845 MT in Q3FY17 and 0.478 MT in Q2FY18.

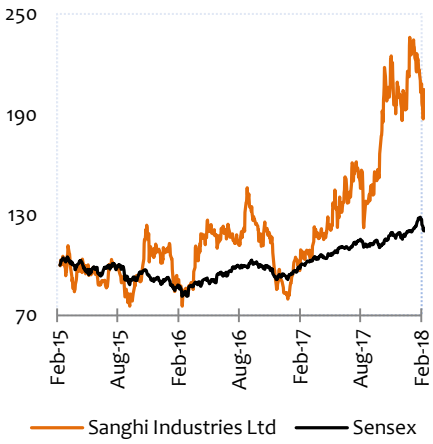
• EBIDTA stood at INR 618 mn which grew by 45.8% y-o-y and 32.5% q-o-q. EBITDA/ton spiked sharply by 65.6% y-o-y (~32.2% volume sales from clinker exports in Q3FY17 as compared to ~9.14% in Q3FY18) and de-grew by 14.9% q-o-q at INR 831 (est. of INR 737). EBITDA margins stood at 22.1% (est. of 18.8%); improving by 653 bps y-o-y and down 59 bps q-o-q.

• PAT stood at INR 322 mn which was up by 597.5% y-o-y and 194.7% q-o-q while PAT Margin stood at 11.5%. Net profit was primarily above our estimates of INR 114 mn due to higher operational efficiencies and no tax outgo in the current quarter.

## MARKET DATA

| | |
|---|---|
| Shares outs (mn) | 251 |
| EquityCap (INR mn) | 2510 |
| Mkt Cap (INR mn) | 30246 |
| 52 Wk H/L (INR) | 144/61 |
| Volume Avg (3m K) | 726.4 |
| Face Value (INR) | 10 |
| Bloomberg Code | SNGI IN |

## SHARE PRICE PERFORMANCE




## MARKET INFO

| | |
|---|---|
| SENSEX | 34156 |
| NIFTY | 10501 |

## Top-line above estimates:

Cement sales volumes for Sanghi Industries Ltd (SNGI) during the quarter stood at 0.66 MT; registering an impressive growth of 16.40% y-o-y. Total volumes for Q3FY18 stood at 0.744 MT which de-grew by 12% y-o-y owing to higher clinker exports (~0.27 MT) in Q3FY17. The company has witnessed sharp pick-up in demand in Gujarat belt during Q3FY18 (grew by ~8% y-o-y) and the management believes it to sustain over Q4FY18 as well. Demand generation has largely been from the institutional side with higher infrastructure activities resulting into healthy growth for cement volumes. In terms of sales mix, Gujarat accounted for ~89% of volumes while Maharashtra (MH) accounted for 5% during the quarter. Going ahead, we expect the sales dispatches in MH to increase significantly, accounting for ~13.4% of total volumes.

We reckon enhanced infrastructure activities coupled with off-take in affordable housing projects to drive cement demand going ahead. Likewise, we estimate volumes for the company to grow at 8.54% from 2.92 MT in FY17 to 3.73 MT in FY20E.

## Robust operational efficiencies to sustain:

EBITDA/ton for the company improved from INR 502 in Q3FY17 to INR 831 in Q3FY18 owing to higher share of cement volumes in overall sales coupled with reduction in P&F and freight costs. During the quarter, total cost of production surged by 14% y-o-y while NPR witnessed robust growth of 26.3% y-o-y on a per ton basis.

Going ahead, we estimate operational efficiencies to further enhance owing to operating leverage, commissioning of WHRS and CPP coupled with increase in dispatches to Mumbai market(better realizations as compared to Gujarat market). Consequently, we expect EBITDA/ton to improve from INR 679 in FY17 to INR 945 by FY20E with EBITDA growing at 21.2% over the same period.

## Valuation and Outlook:

The company issued and allotted 31.02 mn equity shares to Qualified Institutional Buyers aggregating to INR 4001.7 mn coupled with borrowings of ~8000 mn from banks to fund the capex plan of ~INR 12500 mn. SNGI plans to complete the commissioning of 4 MTPA by March-2020 lifting its total capacity to 8.1 MTPA. We factor in revenue/EBITDA/PAT growth of 17.35%/21.2%/38.78% over FY17-FY20E. With an expected net debt of INR 8645 mn by FY20E, the company trades at an EV/ton of ~$73 and EV/EBITDA of 10.9x. We believe SNGI should fetch premium valuations as compared to its historic valuations (average EV/ton of ~$70) on account of i.) higher revenue visibility, ii.) change in market mix, iii.) enhancement in operating efficiencies, and iv.) superior brand creation. We value the company at an **EV/ton of $90** on FY20E and arrive at a target price of **INR 155/share** translating into an upside of 29.2% from CMP of **INR 120/share**. We have a **BUY** rating on the stock.

## SHARE HOLDING PATTERN (%)

| Particulars | Dec 17 | Sep 17 | Jun 17 |
|---|---|---|---|
| Promoters | 74.98 | 74.98 | 74.94 |
| FIIs | 0.31 | 0.18 | 0.16 |
| DIIs | 4.6 | 4.06 | 3.56 |
| Others | 20.1 | 20.79 | 21.34 |
| Total | 100 | 100 | 100 |

**17.3%**

Revenue CAGR over FY 17 to FY 20E

**21.2%**

EBITDA CAGR over FY 17 to FY 20E

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# Sanghi Industries Ltd.

## KEY FINANCIALS

| Particulars (INR mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| Net sales | 7622.00 | 9975.30 | 12034.76 | 14113.12 | 16119.19 |
| EBITDA | 1511.70 | 1982.00 | 2536.73 | 3042.69 | 3529.93 |
| APAT | 763.60 | 631.50 | 1122.02 | 1803.54 | 1687.88 |
| AEPS | 3.47 | 2.87 | 4.47 | 7.19 | 6.72 |
| P/E (x) | 17.29 | 23.85 | 26.84 | 16.70 | 18.11 |
| EV/EBITDA (x) | 12.72 | 10.62 | 12.37 | 11.47 | 10.98 |

Source: Company, KRChoksey Research

## Q3FY18 Result Snapshot

| Particulars (mn) | Q3FY18 | Q2FY18 | Q3FY17 | q-o-q | y-o-y |
|---|---|---|---|---|---|
| **Net sales** | **2796** | **2056** | **2721** | **36.0%** | **2.8%** |
| **Total Expenditure** | **2178** | **1589** | **2297** | **37.0%** | **-5.2%** |
| Cost of Raw Materials | 303 | 101 | 323 | 200.7% | -6.2% |
| Employee Cost | 129 | 136 | 128 | -4.7% | 1.1% |
| Power and Fuel Costs | 599 | 458 | 719 | 30.7% | -16.7% |
| Transportation costs | 825 | 599 | 949 | 37.7% | -13.1% |
| Other expenses | 321 | 295 | 178 | 8.8% | 80.7% |
| **PBIDT (Excl OI)** | **618** | **467** | **424** | 32.5% | 45.8% |
| EBITDA Margins (%) | 22.1% | 22.7% | 15.6% | -59bps | 653bps |
| Depreciation | 181 | 180 | 184 | 0.4% | -1.7% |
| EBIT before Exceptional Item | **437** | **287** | **240** | 52.6% | 82.2% |
| Exceptional Items | 0 | 0 | 0 | - | - |
| Other Income | 57 | 11 | 14 | 400.5% | 316.7% |
| **EBIT** | **494** | **298** | **254** | **65.9%** | **94.8%** |
| Interest | 173 | 189 | 191 | -8.6% | -9.8% |
| **EBT** | 322 | 109 | 62 | 194.7% | 415.4% |
| Tax | 0 | 0 | 16 | - | - |
| **PAT** | **321.88** | **109.2** | **46.2** | 194.7% | 597.5% |
| PAT Margin (%) | 11.5% | 5.3% | 1.70% | 620bps | 982bps |
| **EPS** | **1.46** | **0.50** | **0.21** | 194.7% | 597.5% |

Source: Company, KRChoksey Research

## Key takeaways from conference call:

• Demand in Western region picked up sharply during the quarter witnessing a growth of ~8% y-o-y primarily owing to higher infrastructure activities while the effect of GST has been fully absorbed. Cement realizations improved by 12% y-o-y and de-grew by 7-8% q-o-q. In terms of geographical mix, the company derived ~89% of its volumes from Gujarat while 5% from Maharashtra. In terms of sales mix, OPC accounted for 67% while the rest from PPC and PSC.

• Commissioning of the ships was completed by October-2017 while the company plans to commission the WHRS by March-2018. Lignite accounted for 70% of fuel mix while the rest being coal and the weighted average fuel cost stood at ~73 paisa/kcal during the quarter.

• The company achieved financial closure for borrowings from the banks to the tune of INR 8000 mn at 10.75% interest rate for a tenure of 11 years coupled with successfully raising INR 4000 mn through QIP route. Management is confident of commissioning 4 MTPA capacity by March 2020 which will lift the total capacity to 8.1 MTPA.

• The company believes demand to grow by ~3% in Gujarat for FY18 and expect to achieve total volumes of ~3.1 MT in FY19 (0.35 MT from Mumbai market).

# Sanghi Industries Ltd.

## KEY FINANCIALS:

| Profit & Loss (INR mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| **Net Sales** | **7622.00** | **9975.30** | **12034.76** | **14113.12** | **16119.19** |
| COGS | 693.6 | 788.70 | 812.26 | 947.61 | 1070.20 |
| Employee Expenses | 382.4 | 525.30 | 606.90 | 667.60 | 734.35 |
| Power and fuel | 1604.5 | 2310.30 | 2830.98 | 3476.50 | 4157.18 |
| Transportation cost | 2431.6 | 3333.20 | 3714.80 | 4333.84 | 4894.47 |
| Other Expenses | 998.2 | 1035.80 | 1533.09 | 1644.88 | 1733.06 |
| **EBITDA** | **1511.7** | **1982.00** | **2536.73** | **3042.69** | **3529.93** |
| D&A | 539.8 | 730.60 | 757.86 | 922.78 | 1095.68 |
| Other income | 17.4 | 22.40 | 30.00 | 500.00 | 500.00 |
| **EBIT** | 989.3 | 1273.80 | 1808.87 | 2619.91 | 2934.25 |
| Interest Expense | 221.8 | 642.30 | 686.85 | 816.37 | 1246.37 |
| **PBT** | 767.5 | 631.50 | 1122.02 | 1803.54 | 1687.88 |
| Tax | 3.9 | 0.00 | 0.00 | 0.00 | 0.00 |
| Effective tax rate | 0.51% | 0.00% | 0.00% | 0.00% | 0.00% |
| Adjusted PAT before exceptional items | 763.6 | 631.50 | 1122.02 | 1803.54 | 1687.88 |
| Exceptional items | 603.9 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Reported PAT** | **159.70** | **631.50** | **1122.02** | **1803.54** | **1687.88** |

Source: Company, KRChoksey Research

| Balance Sheet (INR mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| Equity Share Capital | 2199.80 | 2199.80 | 2510.00 | 2510.00 | 2510.00 |
| Reserves | 8310.30 | 8940.00 | 13753.52 | 15557.06 | 17244.95 |
| **Net worth** | **10510.10** | **11139.80** | **16263.52** | **18067.06** | **19754.95** |
| Total loans | 6030.80 | 5994.10 | 6494.10 | 8568.30 | 14368.30 |
| **Capital Employed** | **16892** | **18515** | **24256** | **28260** | **35748** |
| Net block | 15606.80 | 16190.00 | 16432.14 | 21709.36 | 27113.69 |
| Inventories | 1384.50 | 1865.80 | 2114.09 | 2466.39 | 2785.45 |
| Sundry debtors | 184.40 | 239.40 | 292.79 | 343.35 | 392.16 |
| Sundry creditors | 1439.60 | 1421.30 | 1464.29 | 1687.53 | 1905.83 |
| Cash and bank | 2.50 | 1.70 | 5242.19 | 3788.90 | 5722.90 |
| Total Current assets | 3817.50 | 3881.00 | 9423.18 | 8372.74 | 10674.60 |
| Total Current liabilities | 3963.70 | 3419.30 | 3462.29 | 3685.53 | 3903.83 |
| **Capital Deployed** | **16893** | **18515** | **24256** | **28260** | **35748** |

Source: Company, KRChoksey Research

| Cash Flow (INR mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| **PAT** | **763.60** | **631.50** | **1122.02** | **1803.54** | **1687.88** |
| Depreciation & Amortization | 539.80 | 730.60 | 757.86 | 922.78 | 1095.68 |
| (Incr)/Decr in Working Capital | -14.40 | -1217.80 | -141.08 | -179.62 | -149.56 |
| **Cash Flow from Operating** | **1424.20** | **760.00** | **2425.65** | **3363.07** | **3880.37** |
| (Incr)/ Decr in Gross PP&E | -463.80 | -752.20 | -1000.00 | -6200.00 | -6500.00 |
| **Cash Flow from Investing** | **-1235.20** | **-78.70** | **-1000.00** | **-6200.00** | **-6500.00** |
| (Decr)/Incr in Debt | 1875.50 | 20.70 | 500.00 | 2200.00 | 5800.00 |
| Dividend | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Proceeds from issue of debentures/QIP | 0.00 | 0.00 | 4001.70 | 0.00 | 0.00 |
| **Cash Flow from Financing** | **-189.60** | **-682.20** | **3814.85** | **1383.63** | **4553.63** |
| Incr/(Decr) in Balance Sheet Cash | -0.60 | -0.90 | 5240.49 | -1453.30 | 1934.00 |
| **Cash at the Start of the Year** | **3.00** | **2.40** | **1.70** | **5242.19** | **3788.90** |
| Others | 827.90 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Cash at the End of the Year** | **830.30** | **1.50** | **5242.19** | **3788.90** | **5722.90** |

Source: Company, KRChoksey Research

**ANALYST**
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# Sanghi Industries Ltd.

| Operating metrics (in INR) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| **Realization/ton** | **3714.55** | **3416.20** | **4082.00** | **4185.25** | **4317.26** |
| COGS cost/ton | 331.87 | 270.10 | 275.50 | 281.01 | 286.64 |
| Employee cost/ton | 182.97 | 179.90 | 205.85 | 197.98 | 196.69 |
| Power and fuel cost/ton | 767.70 | 791.20 | 960.22 | 1030.96 | 1113.43 |
| Transportation and Handling cost/ton | 1163.44 | 1141.51 | 1260.00 | 1285.20 | 1310.90 |
| Other Expenses/ton | 477.61 | 354.73 | 520.00 | 487.79 | 464.17 |
| **EBITDA/ton** | **721.39** | **678.77** | **860.42** | **902.31** | **945.43** |

Source: Company, KRChoksey Research

| Ratio Analysis (Consolidated) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|
| **EBITDA/ton** | **721.39** | **678.77** | **860.42** | **902.31** | **945.43** |
| **Volume (mn tons)** | **2.09** | **2.92** | **2.95** | **3.37** | **3.73** |
| **Growth (%)** | | | | | |
| Total Sales | 8.28% | -1.61% | 21.22% | 17.27% | 14.21% |
| EBITDA | 28.06% | -1.67% | 27.99% | 19.95% | 16.01% |
| PAT | 232.83% | -37.97% | 77.68% | 60.74% | -6.41% |
| **Profitability (%)** | | | | | |
| EBITDA Margin | 19.47% | 19.87% | 21.08% | 21.56% | 21.90% |
| NPM | 9.84% | 6.33% | 9.32% | 12.78% | 10.47% |
| **Return ratios** | | | | | |
| ROE | 7.27% | 5.67% | 6.90% | 9.98% | 8.54% |
| ROCE | 5.86% | 6.88% | 7.46% | 9.27% | 8.21% |
| **Per share data** | | | | | |
| EPS | 3.47 | 2.87 | 4.47 | 7.19 | 6.72 |
| BPS | 47.75 | 50.66 | 64.79 | 71.98 | 78.70 |
| **Valuations (x)** | | | | | |
| P/E (x) | 17.29 | 23.85 | 26.84 | 16.70 | 18.11 |
| P/BV (x) | 1.26 | 1.35 | 1.85 | 1.67 | 1.55 |
| EV/EBITDA (x) | 12.72 | 10.62 | 12.37 | 11.47 | 10.98 |
| EV/Ton ($) | 70.02 | 76.65 | 117.72 | 130.95 | 73.63 |
| Net Debt/EBITDA | 3.99 | 3.02 | 0.49 | 1.57 | 2.45 |
| Net Debt/Equity | 0.57 | 0.54 | 0.08 | 0.26 | 0.44 |
| Interest Coverage | 4.46 | 1.98 | 2.63 | 3.21 | 2.35 |

Source: Company, KRChoksey Research

# Sanghi Industries Ltd.

| Sanghi Industries Ltd. | | | | Rating Legend | |
|---|---|---|---|---|---|
| Date | CMP (INR) | TP (INR) | Recommendation | Our Rating | Upside |
| 14-Feb-18 | 120 | 155 | BUY | **Buy** | More than 15% |
| 13-Nov-17 | 118 | 134 | ACCUMULATE | **Accumulate** | 5% – 15% |
| 10-Aug-17 | 84 | 115 | BUY | **Hold** | 0 – 5% |
| 12-Jun-17 | 82 | 115 | BUY | **Reduce** | -5% – 0 |
| | | | | **Sell** | Less than – 5% |

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