BUY

Coverage Stock: Sanghi Industries Limited

Strengthening geographical presence to boost profitability   CMP INR: 62   Target Price: 102

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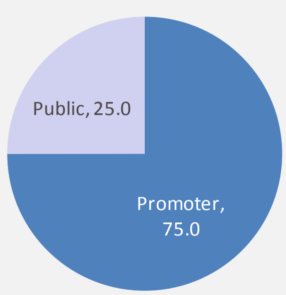
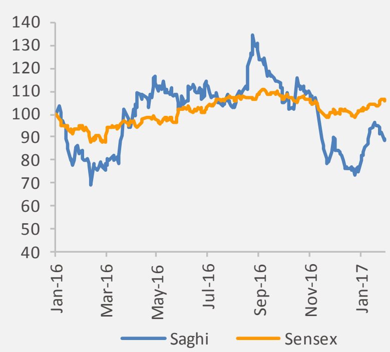
Bloomberg:	**SNGI:IN**
52-week range (INR):	91 / 46
Share in issue (Crs):	22
M cap (INR crs):	1,354
Avg. Daily Vol. BSE/NSE :('000):	316

SHARE HOLDING PATTERN (%)





Date: 08th March, 2017

Sanghi Industries (SNGI) is a well integrated cement manufacturing player based in Gujarat with an installed grinding capacity of 4.1MTPA, clinker capacity of 3.6MTPA and a 60MW multi-fuel power plant. Easy access to excellent quality raw material lends it the distinction of being the lowest cost cement producer in the state and also leads to production of the best quality cement, which commands a price premium in the Gujarat market. Moreover, the company is undertaking a comprehensive capacity expansion plan which will take total capacity of grinding to 8.1mt, clinker to 6.6mt and power to 126MW. Additionally, in order to make inroads in the high realisation Mumbai market, SNGI has set up terminals at Navlakhi in Gujarat & Dharamtar in Maharashtra and also ordered 2 ships to cater to the market via the coastal route. Shipment via the sea route will prune transportation cost by 50% and also boost realisation. We estimate SNGI to clock 14% revenue CAGR over FY16-19 led primarily by higher volume CAGR of 8.6% and 5% realisation CAGR. The volume spurt will be spearheaded by Mumbai and local markets. We forecast 22.5% EBITDA CAGR and 31.7% EBIT CAGR over FY16-19, while net profit surge is expected to be remain moderate because of next phase of expansion due to higher capital cost. At current market price of INR 62, we initiate coverage with 'BUY' and target price of INR 102, entailing 65% upside.

Proximity of plants to premium quality raw material lends distinct cost edge over peers

Proximity of SNGI's clinker plants to best quality limestone is the company's core strength. While availability of abundant resources near the manufacturing site reduces transportation cost, premium quality of limestone (47-48% CaCo3 content) leads to production of superior quality cement. Availability of premium quality raw material within 3km of the plant and access to fly ash within 170km helped the company generate 93.3% gross margin. Moreover, SNGI generates one of the highest EBITDA per tonne in the western market on account of: a) lower raw material cost; b) lowest labour cost; and c) lowest power & fuel cost in the industry because of multi-fuel power plant, own jetty to import coal & pet coke and availability of lignite within 43km range.

Comprehensive capacity expansion programme burnishes prospects

SNGI has chalked out a comprehensive capacity expansion programme spanning Q4FY17 to FY20. The next leg of capex entails 4mt grinding units, 3.3mt clinker capacity and a 63MW power project, which will take the company's total capacity of grinding to 8.1mt, clinker to 6.6mt and power to 126MW. The upcoming capacities are anticipated to reduce the lead distance because of enhancement of shipment from Kutch to Surat, Mumbai and Kerala.

Deeper inroads in lucrative Mumbai market to boost realisation and margin

Currently, SNGI sells 7.5-8k tonne cement per month in Mumbai, which is expected to catapult to 60k-70k tonne cement per month, resulting 7.5-8.5lakh tonne per annum. Mumbai's current market size is about 4mt per annum, which is expected to jump exponentially as slum rehabilitation accelerates under PMAY and also construction of the Navi Mumbai airport will provide another tailwind. Considering the opportunity pie, the company has set up terminals at Navlakhi in Gujarat & Dharamtar in Maharashtra and also ordered 2 ships to cater to the Mumbai market via the coastal route. Shipment via the sea route will prune transportation cost by 50% and also boost realisation. As the per tonne cement realisation in Mumbai is much higher than in Gujarat and Rajasthan—its mainstay markets—SNGI's average realisation and margin are bound to improve from H2FY18

Outlook and valuations: Value play; recommend 'BUY'

SNGI is currently trading at attractive valuation of 7.2x FY18E and 5.5x FY19E EV/EBITDA and an EV/tonne of USD 70 versus average of 11.3x FY18E EV/EBITDA and EV/tonne of USD86. We believe, it should trade at higher multiple from current levels led by virtue of being a low cost producer and securing a long term contact for raw material near to its plant. Based on 8.0x FY19E EV/EBITDA, we arrive at a target price of INR102 per share which entails 65% upside. At current market price of INR 62, we initiate coverage on SNGI with 'BUY' recommendation.

Year to March	FY15	FY16*	FY17E	FY18E	FY19E
Revenues (INR Cr)	932	777	1,104	1,287	1,540
Rev growth (%)	-11.1	11.1	6.6	16.6	19.7
EBITDA (INR Cr)	157	141	218	265	345
Net Profit (INR Cr)	31	2	58	84	125
EPS (INR Cr)	1.4	2.8	2.6	3.8	5.7
EPS growth (%)	-38	170	-30	44	48
P/E (x)	45.2	22.4	23.9	16.5	11.1
P/B (x)	1.5	1.5	1.4	1.3	1.2
RoACE (%)	3.4	5.8	7.2	8.0	9.0
RoAE (%)	3.4	0.2	6.4	8.2	9.8

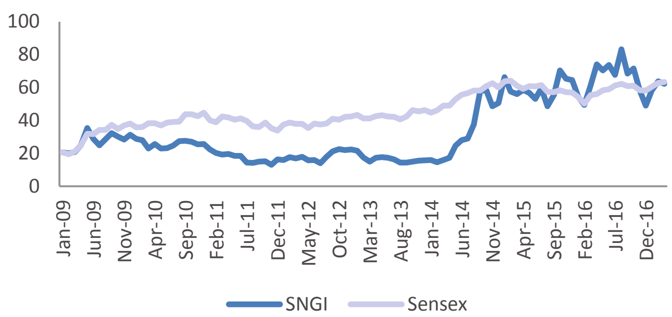
*9M data

Focus Charts

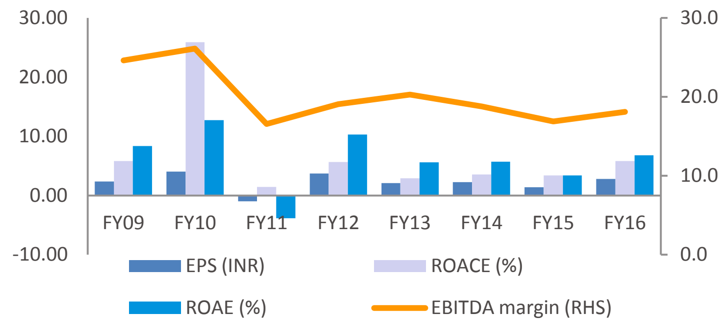
Average Daily Turnover			Stock Price (CAGR)				Stock Price (CAGR)			
3 months	6 months	1 year	1 year	3 years	5 years	10 years	1 year	3 years	5 years	10 years
1.7	2.1	1.5	19	57	30	2	2	48	19	-7

(INR cr)	FY12	FY13	FY14	FY15	FY16	CAGR (%) FY12-16	Exp Growth (%) FY16-19E
Net Sales	974	990	1048	932	777	1.5	14.1
EBITDA	186	201	197	157	141	0.2	22.5
Ajusted PAT	82	46	50	31	62	0.2	14.7
1 Yr Fwd PE(x)	-64	17	30	28	45		
1 Yr Fwd EV/EBITDA(x)	9	4	6	9	10		

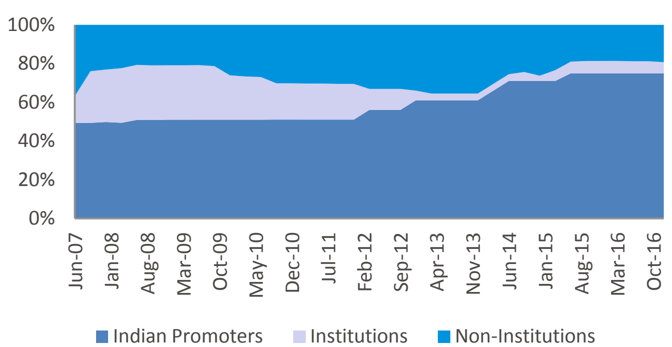
Stock Price



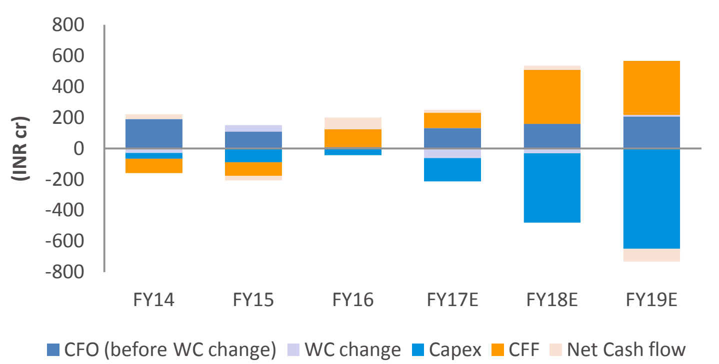
EPS Return & Margin



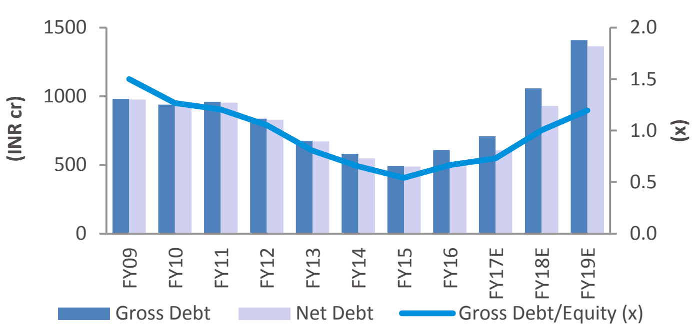
Movement in Share Holding



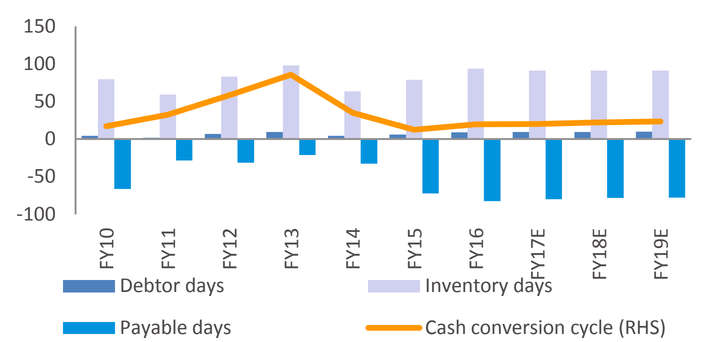
Cash Flow Analysis



Debt Analysis



Working Capital Analysis



Source: Company, Edel Invest Research

We estimate SNGI to clock 14% revenue CAGR over FY16-19 led primarily by higher volume CAGR of 8.6% and 5% realisation CAGR. The volume spurt will be spearheaded by Mumbai and local markets. We forecast 22.5% EBITDA CAGR and 31.7% EBIT CAGR over FY16-19E.

Improving utilisation and accelerating cement sales volume to lucrative market are expected to drive the net revenue at higher pace

	FY14	FY15	FY16	FY17E	FY18E	FY19E
Revenue	1048	932	777	1104	1287	1540
EBITDA	197	157	141	218	265	345
EBITDA Margin	18.8	16.9	18.1	19.7	20.6	22.4
PAT	50	31	62	58	84	125

Strengthening of sea route to prune freight cost and boost margin

	FY14	FY15	FY16	FY17E	FY18E	FY19E
RoACE (%)	3.6	3.4	5.8	7.2	8.0	9.0
Working Cap (Days)	35	12	20	20	22	23

Consequently, we estimate SNGI's core EBITDA per tonne to jump INR 964 from INR 672, which will lead to the stock re-rating

Particulars	Methodology	Multiples	Price Target
FY19E EBITDA	EV/EBITDA	8.0	102
FY19E EPS	P/E(x)	18	102
USD to INR : 67	EV/Tonne	Capacity : 4.1mn tonne	101

Entry = INR 62@5.5x FY19E EV/EBITDA

EBITDA CAGR of 22.5% exit multiple of 8.0x FY19E EV/EBITDA

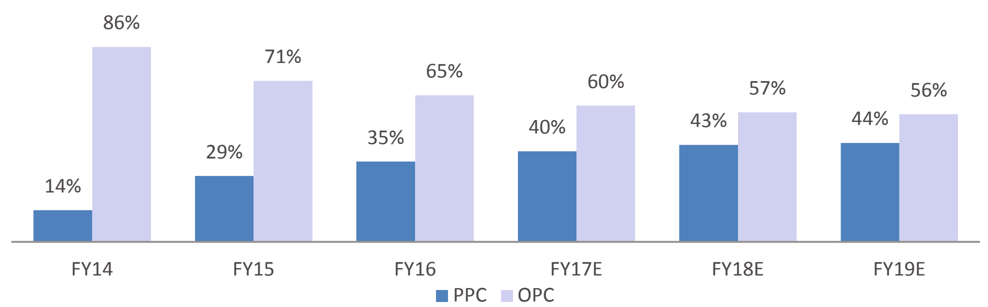
Total Return of 65%

Investment Rationale

I. Rising share of high margin PPC and strengthening coastal volumes to augment EBITDA per tonne

SNGI entered the high margin PPC segment in FY14 and expanded the market by setting up a 1.2mn PPC plant in FY16. Ergo, the product's contribution to revenue mix has catapulted to 35% in FY16 from 14% in FY14 and we estimate it to jump to 44% by FY19E. The cost of PPC is marginally lower than OPC because of the blending mix—composition is clinker, fly ash and gypsum versus clinker and gypsum in OPC. The cost of fly ash is lower than clinker which augments profitability.

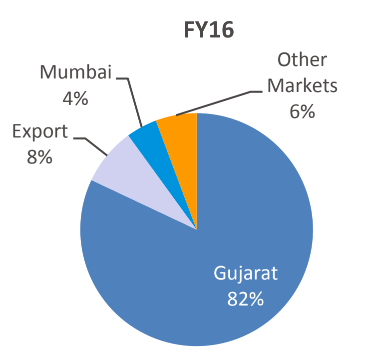
Increasing PPC share to increase the profitability



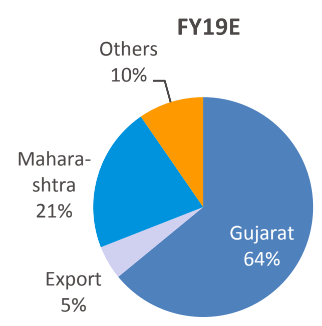
Source: Company, Edel Invest Research

Moreover, currently, the coastal market contributes 6-7% (Mumbai 4% and Kerala 2-3%) to the company's total revenue, which is anticipated to increase to 24-25% by FY19. SNGI is targeting to grow Mumbai's market volume to 60-70k tonne/month from H2FY18 from 7.5-8k tonne/month currently. The company has its own jetty which handles 10,000 tonne/day of loading and unloading. Moreover, to accelerate supply to the Mumbai market, SNGI has ordered 2 new ships which are expected to be delivered by July 2017. We anticipate freight cost to the Mumbai market to plummet by 50% and realisation to firm up as sales volume to Mumbai market jumps significantly.

Gujarat remains the primary market



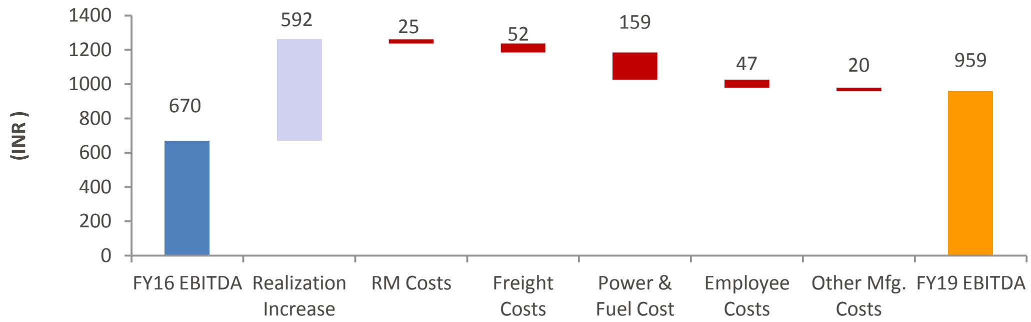
Growing market share in high margin zone



Source: Company, Edel Invest Research

Consequently, we estimate SNGI's core EBITDA per tonne to jump to INR 959 by FY19E from INR 672 currently on account of 5% realisation CAGR, while operating cost is estimated to grow at mere 3.2% over FY16-19E. The operating cost growth is marginally lower because of advantage accruing from rising coastal market volumes.

Improving realization and cost control augment the EBITDA from 672 per tonne to INR 959

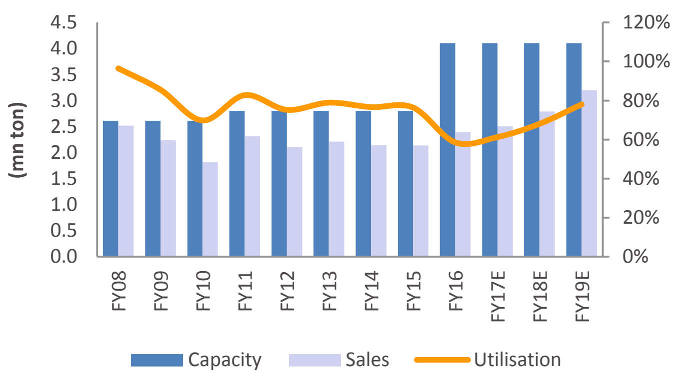


Source: Company, Edel Invest Research

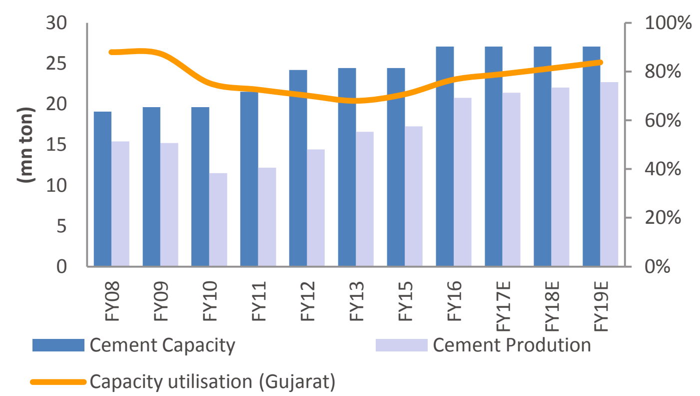
a) No fresh capacity addition in attractive Gujarat market to boost utilsation

SNGI is adding 4mt capacity in Gujarat and no fresh incremental cement capacity addition is on the cards in the Gujarat market in the near term. This market has always remained attractive for cement manufacturers because of availability of abundant resources, healthy demand and export opportunity to Gulf & African countries via the sea route. Moreover, cement utilisation in the state remains high compared to the Western region and India—about 77% in FY16 compared to 70% across India and 74% in West. While we expect Gujarat's capacity utilisation to improve from 77% currently to 89% in FY19E and that of West region from 74% in FY16 to 81% in FY19E.

SNGI's capacity utilization in-line with industry

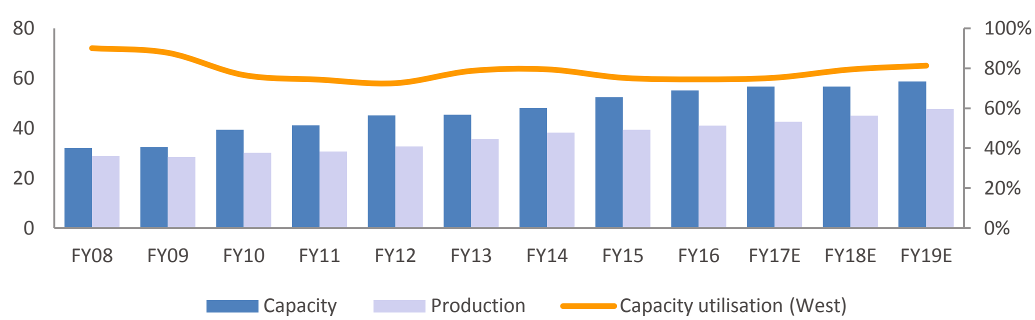


Gujarat market attractiveness reflecting in Utilisation



Source: Company, Edel Invest Research

Capacity utilization in West

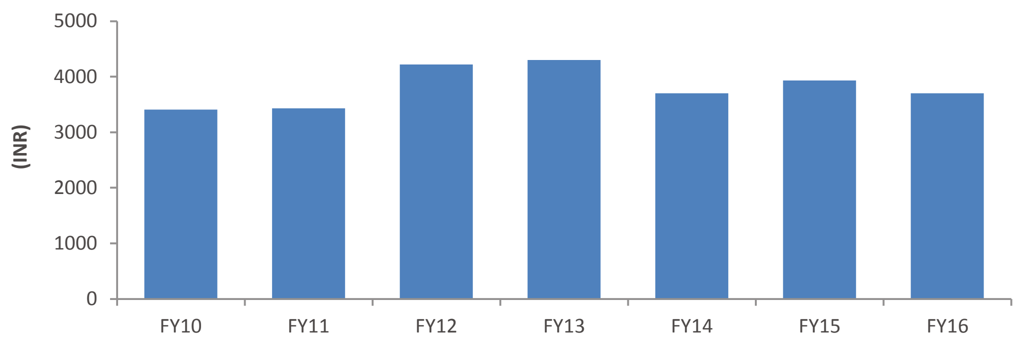


Source: Company, Edel Invest Research

b) Superior realisation by virtue of premium brand

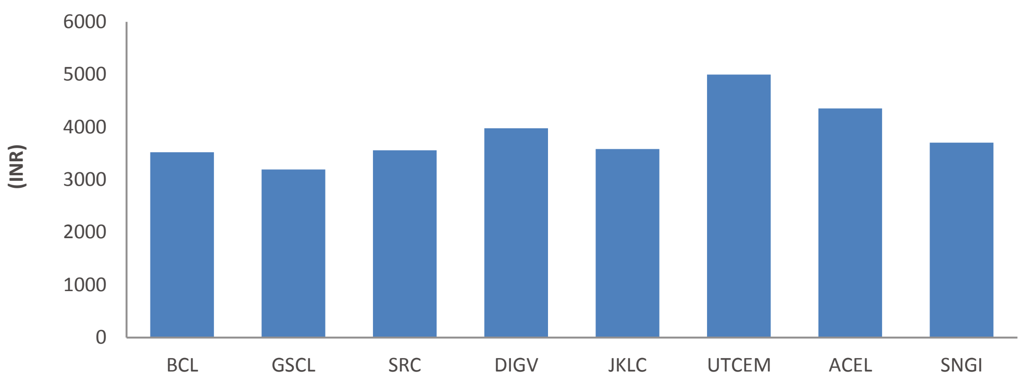
SNGI's per tonne realisation is one of the highest in the Gujarat market by virtue of its premium brand. While average realisation of Gujarat-based cement companies was INR3,858 per tonne (excluding Ultratech and Ambuje, the average realisation was INR 3,564) in FY16, SNGI's stood at INR3,704. The higher realisation is attributable to premium quality raw material, which helps produce suprerior quality cement.

A grade brand is reflecting in realisation



Source: Company, Edel Invest Research

Realisation of Gujarat based cement manufacturers



Source: Company, Edel Invest Research

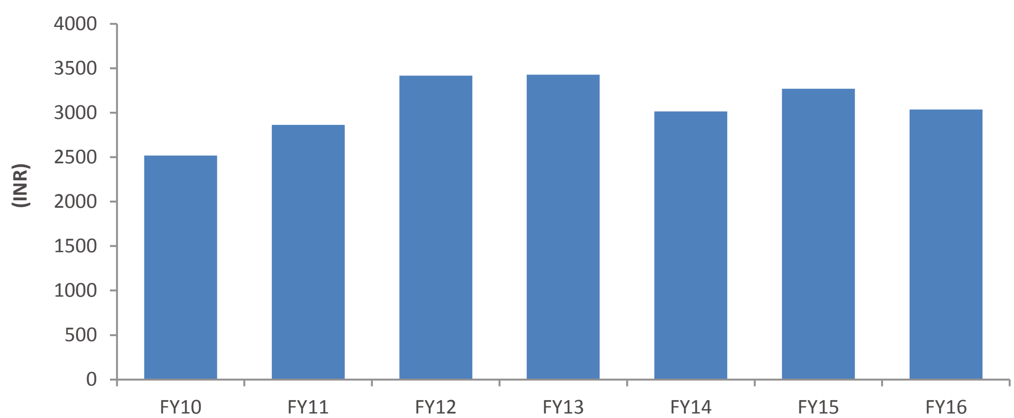
II. Proximity to premium quality raw material enhances operational efficiency

Proximity of SNGI's clinker plant to best quality limestone is the company's core strength. While availability of abundant resources near the manufacturing site reduces transportation cost, premium quality of limestone—CaCo3 in limestone is 47-48% versus 42-43% requirement—leads to superior quality of cement. Availability of premium quality raw material within 3km of the plant and access to fly ash within 170km helped the company generate 93.3% gross margin in FY16.

The distance from clinker plants to available resources are:

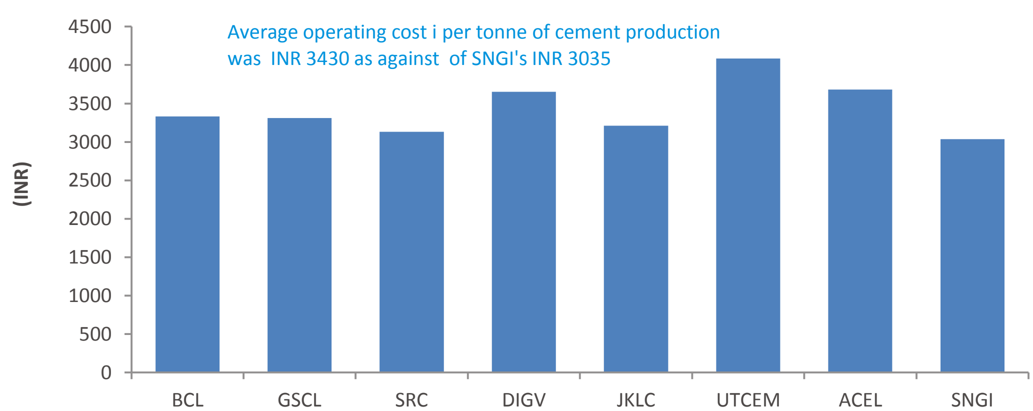
Particulars	Distance in KM
Power plants	8
Grinding Units	10
Fly Ash (Mundra UMPP)	170
Lignite (GMDC)	43
Jetty from grinding units	1
Limestone mines	3

SNGI's operating cost per tonne of cement production



Source: Company, Edel Invest Research

Operating cost of peer based on Gujarat

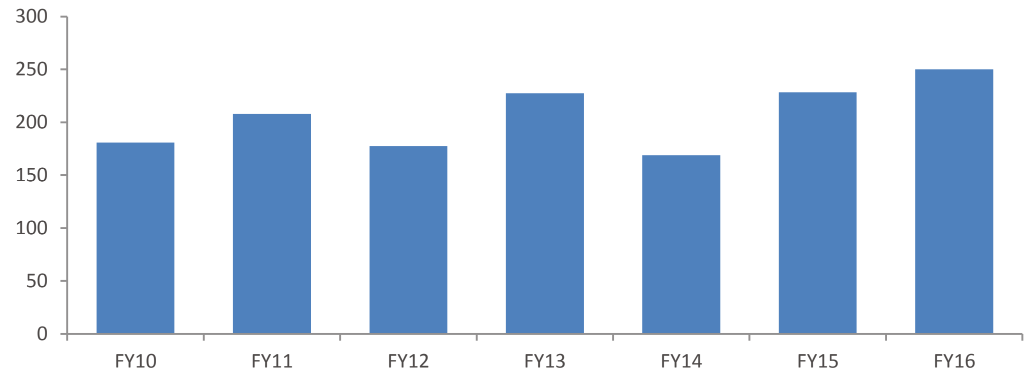


Source: Company, Edel Invest Research

a) Raw material

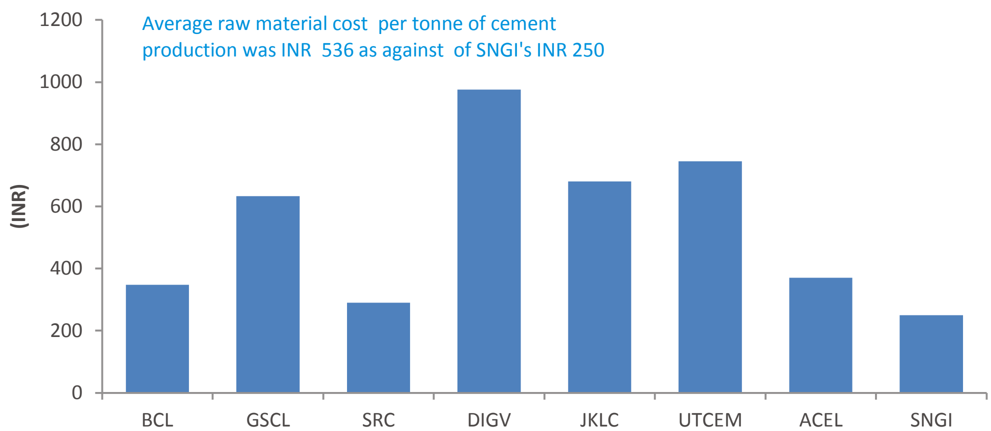
The proximity to and superior quality of raw material reduces per tonne of cement production cost substantially. Industry's raw material cost per tonne of cement production was INR 529 whereas SNGI's stood at INR 250 per tonne; raw material cost including ULCME and ACEM stands at INR 536 per tonne.

Raw material cost per tonne of cement production



Source: Company, Edel Invest Research

RM cost per tonne of cement production Gujarat



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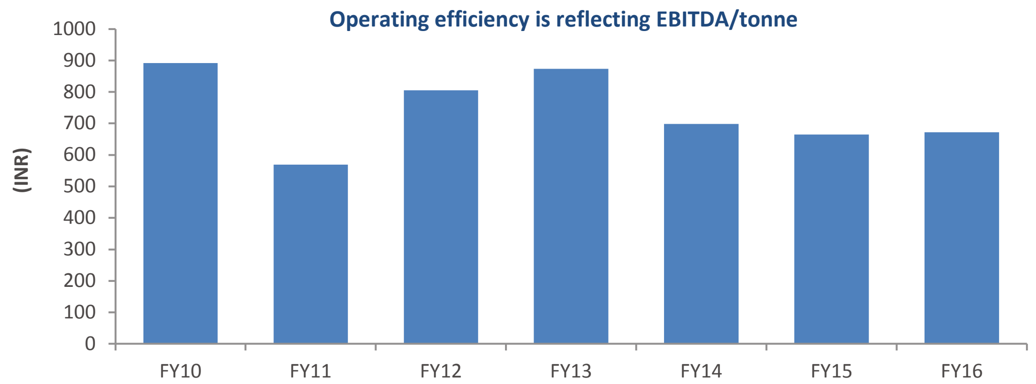
Source: Company, Edel Invest Research

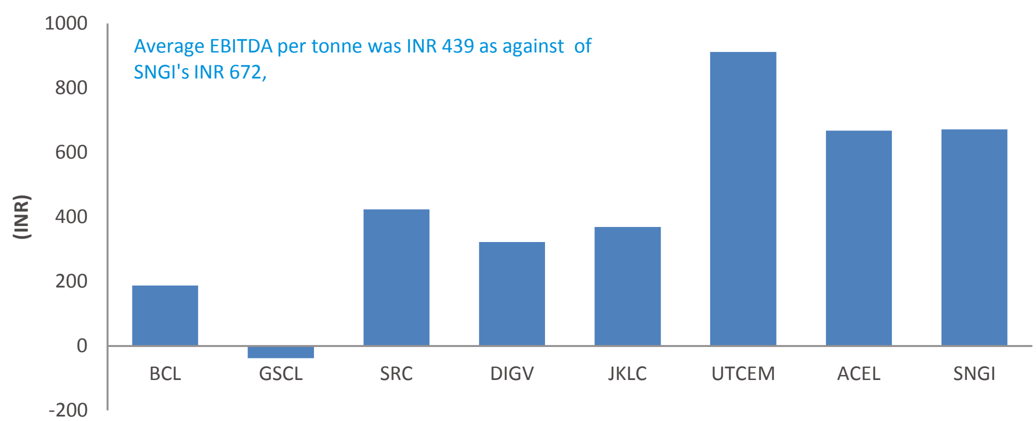
III. Boasts of higher EBITDA per tonne by virtue of lower operating cost

SNGI generates one of the highest EBITDA per tonne in the industry on account of: a) lower raw material cost; b) lowest labour cost; and c) lowest power and fuel cost in the industry because of multi-fuel power plant, own jetty to import coal & pet coke and availability of lignite within 43km range. However, the company's transportation cost is slightly higher because of longer lead distance. We believe the lead distance will reduce as SNGI is setting up a grinding unit in Gujarat and will preferably opt for the sea route to cater to coastal sales.



Source: Company, Edel Invest Research

EBITDA per tonne of Gujarat based companies

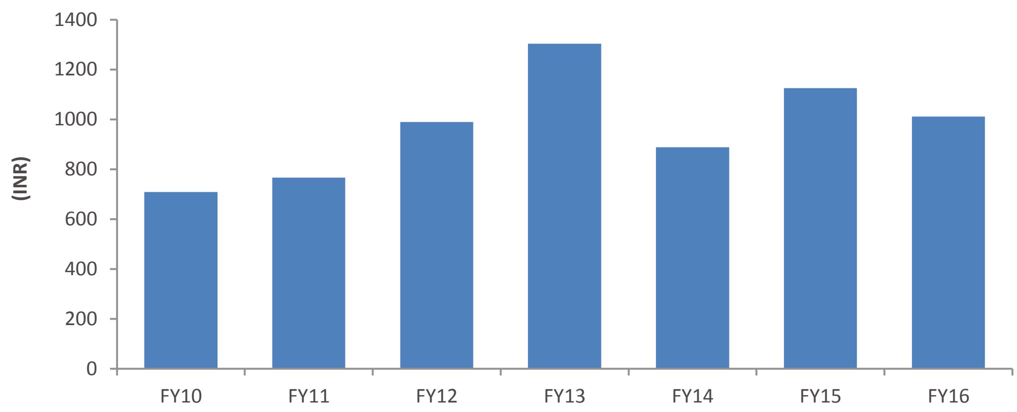


Source: Company, Edel Invest Research

IV Strengthening of sea route to prune freight cost and boost margin

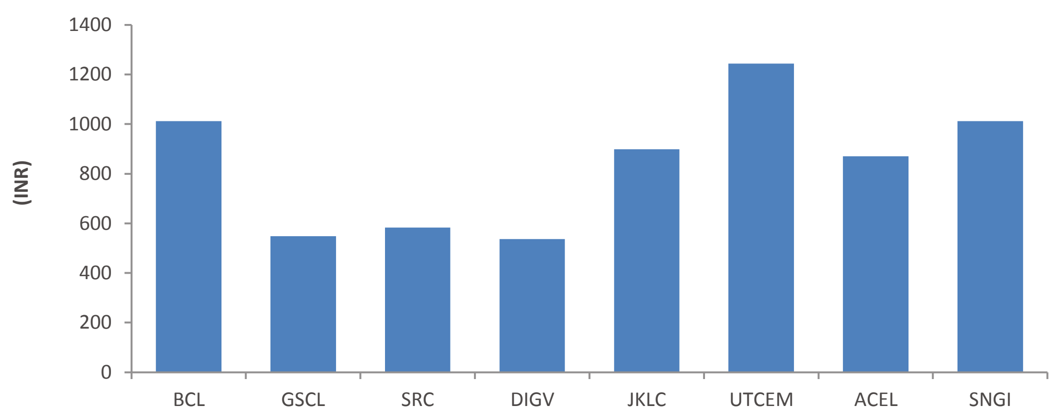
Currently, SNGI's freight and forwarding cost is marginally higher than the industry average as lead distance is higher. However, we expect the company's transportation cost to fall as cement despatches to Mumbai market are expected to accelerate from 7.5-8.0k tonne/month currently to 60-70k tonne/month from H2FY18 via the sea route. The company has its own jetty which handles 10,000 tonne/day of loading and unloading. Moreover, to accelerate supply to the Mumbai market, SNGI has ordered 2 new ships which are expected to be delivered by July 2017. We anticipate freight cost to the Mumbai market to plummet by 50% and realisation to firm up as sales volume to the mumbai market increases.

Freight and forwarding cost per tonne of cement is expected to dip as sales via sea route increase.



Source: Company, Edel Invest Research

Freight and forwarding cost /tonne

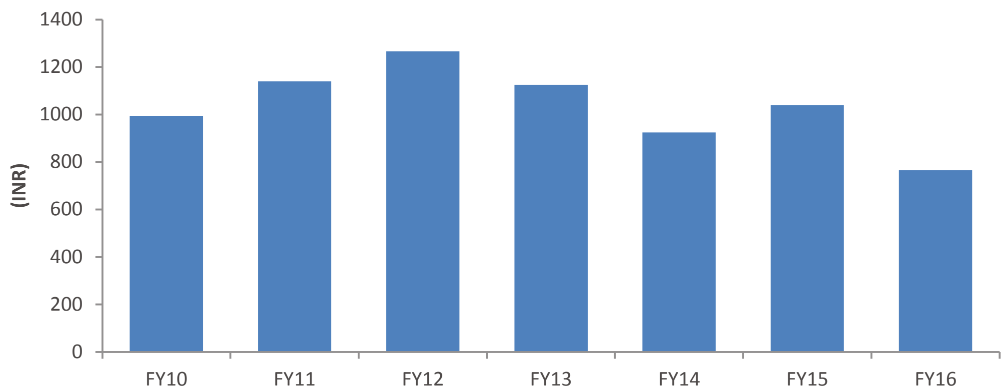


Source: Company, Edel Invest Research

V. Multi-fuel power plant, WHRS to propel significant savings in power and fuel cost

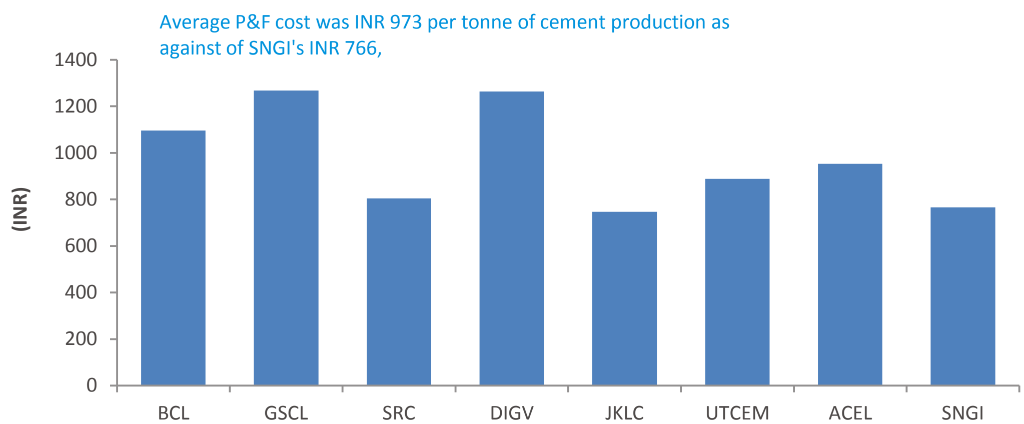
SNGI has a 63MW multi-fuel power plant which significantly enhances efficiency. Moreover, on the anvil is a 13MW Waste heat recovery system (WHRS), which will prune power generation cost substantially. WHRS is expected to be installed by FY18 end at a cost of INR1.2bn. Power generation through WHRS will cost <INR0.8/kwh compared to weightage average cost of power reduced to INR2.68/kwh through CPP in FY16 from INR3.68/kwh in FY15, due to improvement in utilisation from 45% to 56%. The multi-fuel power plant provides an edge in inter-changing fuels, while WHRS will further enhance cost reduction. The average power & fuel (P&F) cost of all companies was INR 973 in FY16, while SNGI's P&F cost was INR 766. We believe, WHRS installation will prune power cost significantly.

Tight leash on power & fuel cost per tonne of cement production



Source: Company, Edel Invest Research

Power & Fuel cost per tonne of cement produced by Gujarat based Companies



Source: Company, Edel Invest Research

VI. Comprehensive expansion plan

SNGI has chalked out the next leg of capacity expansion at the existing site and in Surat at total capital outlay of INR12bn. The capex includes 4 mt of grinding units (2 mt in Surat and 2 mt at existing site), 3.3mt of clinker and a 63MW power plant. The capital expenditure is pegged at INR1.5bn, INR4.5bn and INR6.5bn in FY17, FY18 and FY19, respectively. The debt to equity ratio for the upcoming projects is estimated at 2:1. The company has given mandate to a leading bank for debt closure, but approval is awaited. SNGI has a huge land bank in existing plants and land acquisition in Surat is in advanced stages. Management has guided to complete the Surat grinding unit earlier as installation of grinding unit takes less time compared to a clinker plant, which generally takes 18-24 months. The installation cost for Surat grinding unit is estimated at INR1.5bn; balance INR10.5bn is expected to be incurred at the existing site.

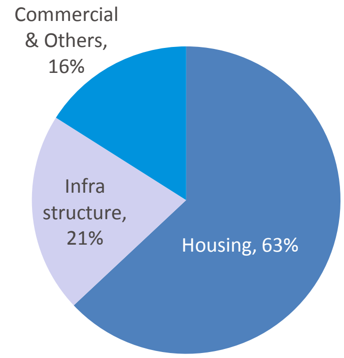
Particulars	Capacity expansion details
Grinding unit at existng site (mn tonne)	2
Grinding unit at Surat (mn tonne)	2
Clinker capacity 10000 TPD	3.3 (MTPA)
Captive Power Plant (MW)	63
Total capital Outlay (INR cr)	1200
Debt to Equity	2:1

Resources/approvals required	Status
Land	Adequate land for existing site and land acquisition in Surat is progressing well
Raw Materials	Abundant reserve of limestone
Ancillary Infrastructures	in place
Approval	not a hurdle (can get easily)
Contracts	Identification of suppliers is in progressed
Funding	In advance stage

Key demand drivers in place

The housing sector is a key demand driver of cement in India aided by rapid urbanisation, rising per capital incomes, government subsidy and increasing disposable incomes. Renewed focus on Housing For All by 2022, Smart Cities, interest subsidy and redefinition of affordable housing are expected to alter the demand pattern in the medium to long term. Above all, falling interest rate is bound to spur housing demand, translating into higher demand for cement.

Cement demand breakup

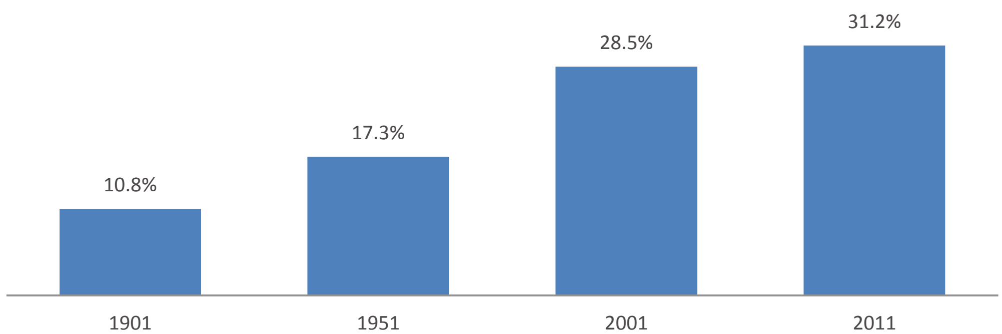


Source: Company, Edel Invest Research

(1) Accelerating urbanisation propelling cement demand

Rising urbanisation and growing per capita incomes are expected to strengthen housing demand. Urbanisation in India was 10.8% in 1901, which jumped to 17.31% in 1951 and 28.53% in 2001. It jumped to 31.16% in 2011 from 28.53% in 2001, up 2.63%. We anticipate the pace of urbanisation to increase due to industrialization, creating smart cities leading to increase in cement demand.

Urbanisation create extra requirement of housing, translating higher demand of cement

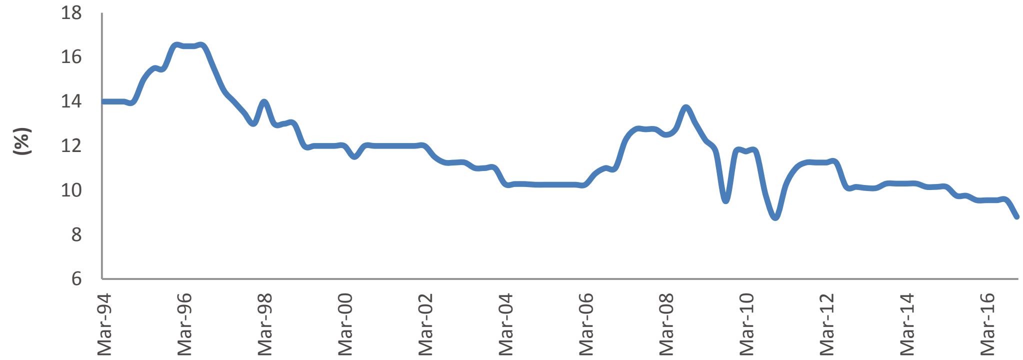


Source: Census, Edel Invest Research

(2) Interest rates on housing loan continue to fall

We expect huge demand for housing on back of falling interest rates, rapid urbanisation, rising disposable incomes, favourable demographics and interest subsidy on affordable housing. Housing For All by 2022, Smart Cities and PMAY are a few government initiatives to bridge the housing shortage gap. We expect short-term demand to be under pressure due to demonetisation, but the 7th Pay Commission payout, interest subsidy on affordable housing loans and falling housing rates are envisaged to bolster demand in the medium to long term.

Home interest rate continues to decline

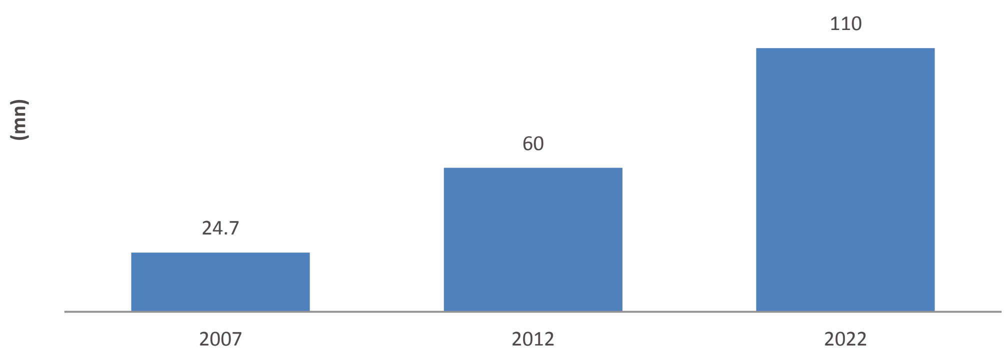


Source: Company, Edel Invest Research

(3) Housing shortage to double by 2022

The housing shortage in India is expected to double by 2022 to 110mn houses from 60mn in 2012. Ergo, we envisage housing construction to accelerate. India's per capita income jumped from USD1,130 in 2007 to ~USD1,835 in 2016 and is estimated at USD2,832 by 2022 with 7.5% growth over 2016-22. In light of these factors, housing demand should jump, which in turn will boost cement demand.

Housing shortage to augment

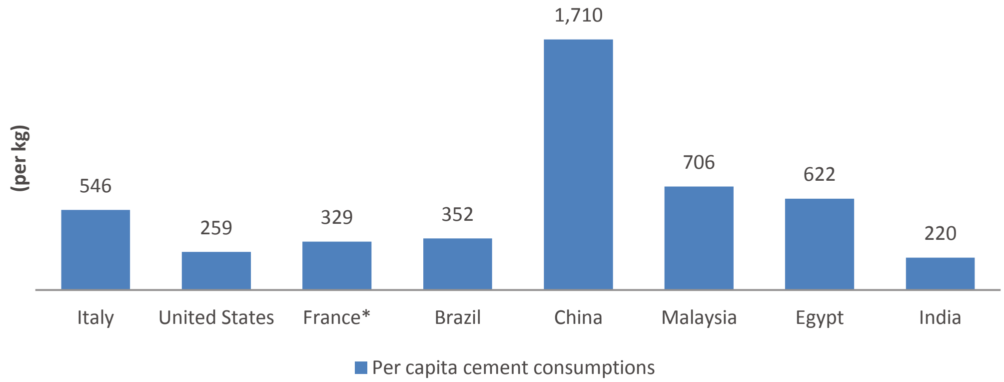


Source: Census, Edel Invest Research

(4) Low per capita cement consumption entails humungous growth opportunity

Though India is the second largest cement manufacturer in the world, its per capita consumption is <50% of the world and <15% of China. We believe, the current cycle will boost cement demand because of favourable catalysts such as low interest rates, interest subsidy and policy push. Consequently, per capita cement consumption is expected to rise.

Per capita cement consumption to accelerate



Source: Company, Edel Invest Research

Company Description

SNGI is a well integrated cement manufacturer and distributor of the *Sanghi* brand based in Kutch, Gujarat. In Gujarat, *Sanghi* is acknowledged as a premium brand because of the higher CaCo3 in limestone. The company has 4.1mt of grinding units, 3.3mt clinker, 30M^3 per hour capacity RMC plant at Ahmedabad and a 63MW multi- fuel power plant. It has a huge land bank at existing site, which is envisaged to support the next phase of capacity expansion. SNGI has a captive port which currently handles about 1MMTPA cargo.

In light of the abundant resources at cheaper cost of per tonne cement production, huge land bank and large opportunities, SNGI decided to double its capacity. The company is in advance stage to set up a 4mt grinding unit, 3.3mt of clinker plant at Kutch and 63MW captive power plant including 13MW of WHRS. These initiatives will take the company's total grinding capacity to 8.1mt, clinker capacity to 6.6mt and captive power capacity to 126MW. The total capital outlay for the aforementioned expansion is envisaged at around INR12.0bn with debt to equity of 2:1.

SNGI has lease up to 2046 for "A" grade marine limestone reserves of 1,000MMT within 3km of its clinker plant. Fly ash at Mundra UMPP supports the 1.2mt PPC plant. The company has captive port facilities to import fuel and export clinker and cement. It has abundant lignite available at GMDC plant which is costlier compared to pet coke and coal, but per Kcal is higher.

Gujarat remains the company's primary market with 10-12% share, which is expected to increase to 16-18% with next phase of expansion. Considering the coastal opportunity, SNGI has ordered 2 ships to increase presence in coastal areas of Mumbai and Kerala. Currently, SNGI sells 7.5-8k tonne cement per month in Mumbai, which is expected to increase to 60k-70k tonne, resulting in 7.5-8.5lakh tonne per annum. The current market size of Mumbai is about 4mt per annum, which is expected to increase as slum rehabilitation is expected to accelerate aided by PMAY and also construction of the Navi Mumbai airport.

Successfully exited from CDR before schedule date

SNGI's cement and clinker plant were delayed substantially because of litigation related to environment clearance, leading to massive debt pile up. Hence, SNGI was unable to service its debt repayment obligations. Consequently, the company has endeavoured to restructure its outstanding debt. It has been engaged in negotiations with lenders for restructuring outstanding debt under the aegis of the Corporate Debt Restructuring Scheme of the Reserve Bank of India notified under circular number DBOD No. BP.BC. 68/21.04.114/2002-03. The restructuring package and the terms thereof (CDR Scheme) were approved by the Corporate Debt Restructuring Cell.

SNGI issued 2,59,11,465 Optionally Convertible Cumulative Participating Preference (OCCPPS) shares of INR100 each to banks consortium, aggregating INR 259 cr. As certified by the company, 92,36,730 Optionally Convertible Cumulative Participating Preference shares are outstanding as on date. The balance have been redeemed/ waived under the Corporate Debt Restructuring Scheme. As per the terms of the CDR package, the OCCPPS will be repaid in 7 years from the quarter ended June 2011 to quarter ending March 2018. However, the OCCPPS will be convertible into equity shares in the event of default by the company.

SNGI repaid outstanding CDR loans before time, along with Right of Recompense to Lenders and net effect of this has been treated as Exceptional Items - One-time Expenditure of INR60.39cr.

In order to repay existing CDR loans, SNGI has raised INR 257 cr by issue of 15.50% Redeemable Non-Convertible Debentures on private placement basis. The funds have been partly utilised to make early settlement of loans and redemption of preference shares. Balance funds have been retained for general corporate expenses. The money has been largely used for repayment of loans ahead of schedule and balance amount is likely to be used about INR 100 cr for capacity expansion.

Board of Directos	
Ravi Sanghi	Chairman and Managing Director
Aditya Sanghi	Executive Director
Alok Sanghi	Executive Director
Bina Engineer	Executive Director
N. B. Gohil	Executive Director
D. K. Kambale	Director
Sadashiv Sawrikar	Director
D. B. N. Rao	Director
R. K. Pandey	Director
T. M. Jagan Mohan	Director
M.K. Doogar	Director
Jayesh Desai	Director

Key Risks

Cement demand fails to accelerate

We have assumed cement demand to accelerate propelled by government push to affordable housing and renewed focus on infra spending. Any major delay in execution of affordable housing under PMAY and infra spending will negatively impact our assumptions.

Failure of initiatives to enhance coastal revenue mix

SNGI has developed terminals and ordered 2 ships to increase coastal cement sales volume. The company is planning to increase coastal revenue mix from 6-7% currently to 23-24% over the next 2 years. We believe any delay in execution will negatively impact margin, resulting in lower profitability.

Expansion delays may dent profitably

The company is doubling capacity of cement, clinker and power with debt to equity ratio of 2:1. We estimate capex to be completed by FY20. Any major delay in capex may increase the financial cost, which will negatively impact our estimates and earnings.

Company	Bloomberg code
Binani Cement	BCL
Gujarat Sidhee Cement	GSCL
Saurastra Cement	SRC
Shree Digvijay Cement	DIGV
JK Lakshmi Cement	JKLC
UltraTech Cement	UTCEM
Ambuja Cements	ACEM
Sanghi Industries	SNGI
JK Cement Ltd.	JKCE
Mangalam Cement Ltd.	MGC
OCL India Ltd.	OSC
Orient Cement Ltd.	ORCMNT

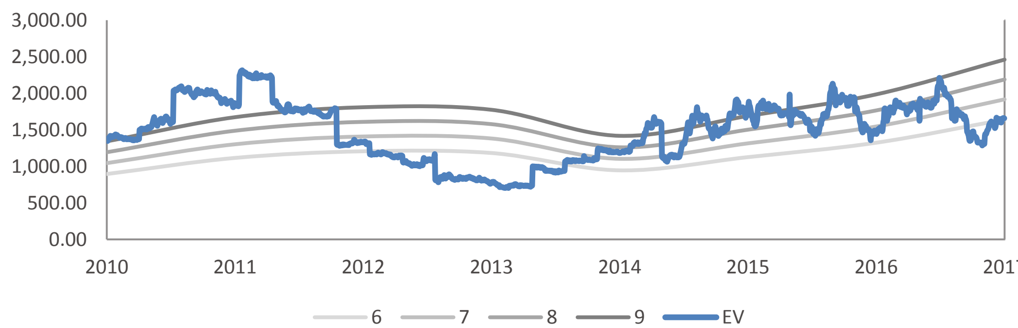
Valuations

We estimate SNGI's revenue to post 14% CAGR over FY16-19 led primarily by higher volume CAGR of 8.6% and 5.1% CAGR in realisation. The volume growth will be driven by Mumbai and local market. We have forecast 22.5% EBITDA growth and 31.8% EBIT growth over FY16-19, while net profit surge is expected to grow at slower pave because of next phase of expansion, hence higher capital cost.

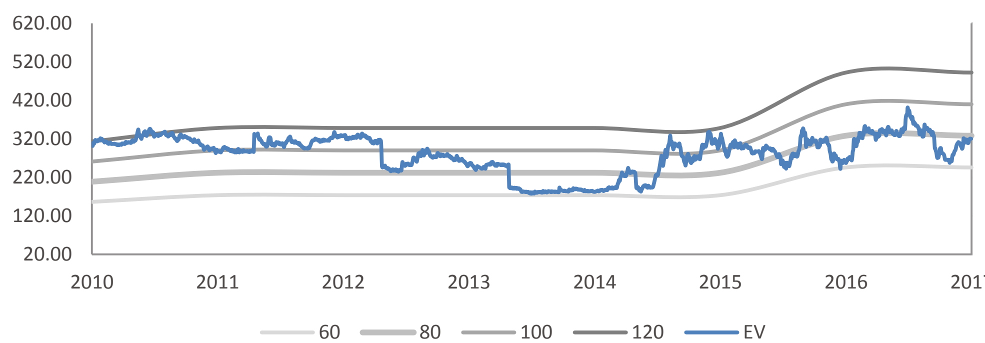
Next phase of expansion is envisaged to boost realisation and margin as cement sales in coastal areas are expected to increase. The company is planning to double cement, grinding and power capacities by FY20 at the existing site. These expansions will not only prune power cost, but also enhance cement sales volume in coastal areas. Moreover, realisation per tonne of cement in Mumbai is higher than in Gujarat and transportation cost is also estimated to dip by ~50%. Consequently, realisation and margin will improve.

SNGI is currently trading at attractive valuation of 7.2x FY18E and 5.5x FY19E EV/EBITDA and an EV/tonne of USD70 versus average of 11.3x FY18E EV/EBITDA and EV/tonne of USD86. We believe, it should trade at a premium to peers by virtue of it being a low cost producer and securing a long term contract for raw material near to its plant. Based on 8.0x FY19E EV/EBITDA, we arrive at a target price of INR102 per share At current market price of INR62, we initiate coverage on SNGI with **'BUY'** and target price of INR102, entailing 65% upside.

One Year Forward EV/EBITDA Band



EV/Tonne



Source: Company, Edel Invest Research

Peer comparisons with capacities

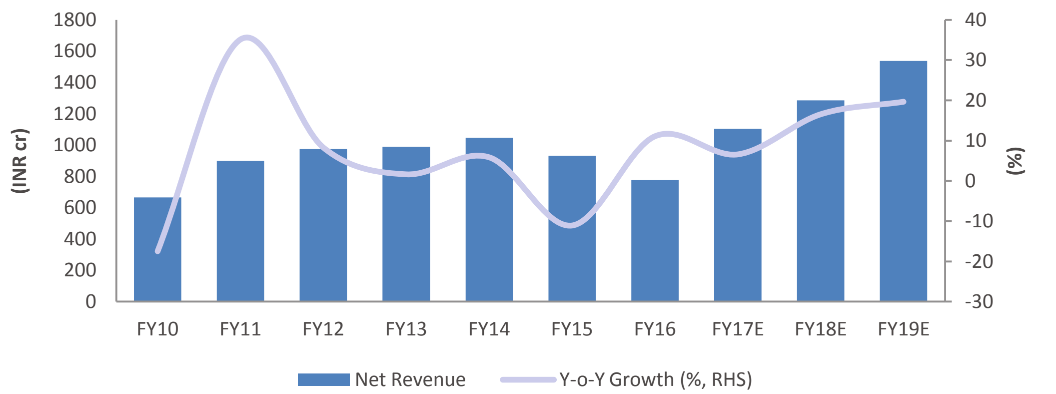
Company Name	EV/tonne		EV/EBITDA		P/E(x)		P/BV		P/Sales	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
JK Cement Ltd.	107.8	104.8	14.3	12.1	26.3	23.1	3.2	2.8	1.7	1.5
JK Lakshmi Cement Ltd.	96.6	85.4	14.1	12.4	44.2	35.7	1.7	1.5	1.8	1.6
Mangalam Cement Ltd.	53.4	51.3	9.7	8.0	18.5	15.2	1.5	1.4	1.0	0.9
OCL India Ltd.	136.8	129.5	10.9	8.9	16.5	14.6	0.6	0.5	1.9	1.7
Orient Cement Ltd.	76.0	74.9	23.1	19.3	52.5	36.1	0.3	0.3	1.8	1.6
Sanghi Industries Ltd.	68.1	67.1	8.6	7.0	23.5	16.3	1.4	1.3	1.2	1.1
Average	89.8	85.5	13.5	11.3	30.3	23.5	1.4	1.3	1.6	1.4

Company Name	Revenue Growth		EBITDA Margin		PAT margin		RoAA (%)		RoAE (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
JK Cement Ltd.	0.9	11.8	15.6	16.1	6.4	6.5	5.5	6.3	12.7	12.9
JK Lakshmi Cement Ltd.	-0.6	12.9	17.6	18.1	4.2	4.6	5.0	5.9	7.9	8.9
Mangalam Cement Ltd.	-0.6	12.9	14.3	14.8	5.3	5.7	5.0	5.9	8.5	9.6
OCL India Ltd.	5.1	12.9	20.2	20.7	11.4	11.4	8.8	9.4	20.5	19.3
Orient Cement Ltd.	0.5	12.9	11.2	11.7	3.5	4.5	3.5	4.2	5.3	7.3
Sanghi Industries Ltd.	6.6	16.6	19.7	20.6	5.3	6.5	7.5	8.3	6.2	8.3
Average	0.1	13.3	16.4	17.0	6.0	6.5	5.9	6.7	10.2	11.1

Company Name	Debtor Days		Inventory Days		Creditors Days		Cash Conversion Cycle		Asset turnover (x)	
	FY15	FY16	FY15	FY16	FY15	FY16	FY15	FY16	FY17E	FY18E
JK Cement Ltd.	11.8	13.5	49.5	43.5	24.2	27.6	37.1	29.4	0.6	0.6
JK Lakshmi Cement Ltd.	9.0	10.4	23.2	28.8	31.0	30.4	1.1	8.8	0.6	0.6
Mangalam Cement Ltd.	8.9	12.0	47.5	51.7	53.5	74.7	3.0	-11.1	0.6	0.7
OCL India Ltd.	30.8	22.1	49.4	42.3	48.7	54.5	31.5	9.8	0.7	0.7
Orient Cement Ltd.	14.8	17.7	18.2	25.4	27.7	39.4	5.3	3.7	0.5	0.6
Sanghi Industries Ltd.	5.7	8.7	78.7	93.5	72.3	82.6	12.1	19.6	0.7	0.6
Average	13.5	14.0	44.4	47.5	42.9	51.6	15.0	10.0	0.6	0.6

Financial Outlook

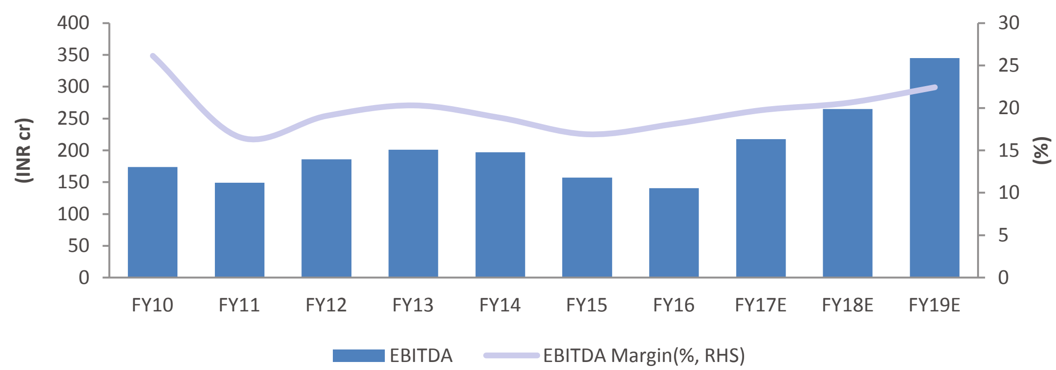
We have projected 14% net revenue CAGR over FY16-19 led by 5% realisation CAGR and 8.6% volume growth over FY16-19E. Clinker and RMC sales are expected to remain subdued as SNGI is likely to shift focus to cement sales.



*Revenue is for nine months but growth is annualised
Source: Company, Edel Invest Research

The company's EBITDA margin is estimated to inch up on account of realisation and other manufacturing cost benefit. Average EBITDA margin between FY09 and FY16 was 20.1%; we forecast 20-22% over FY16-19E.

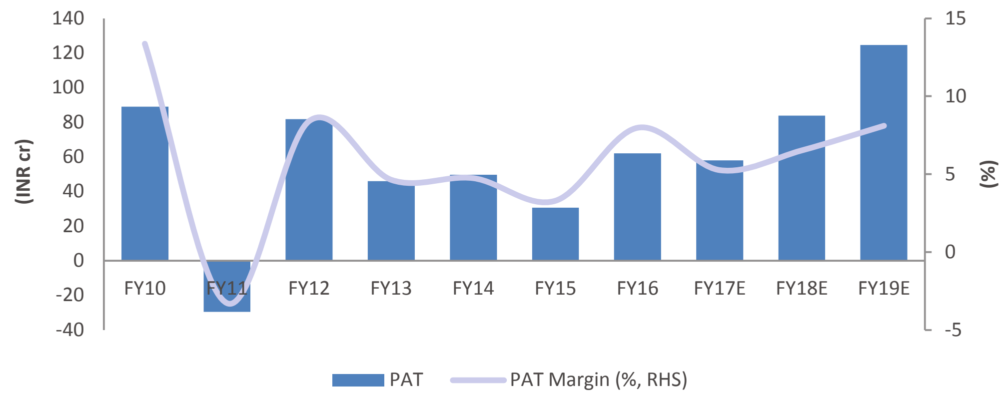
EBITDA and EBITDA margin are expected to increase on cost control and higher realisation



Source: Company, Edel Invest Research

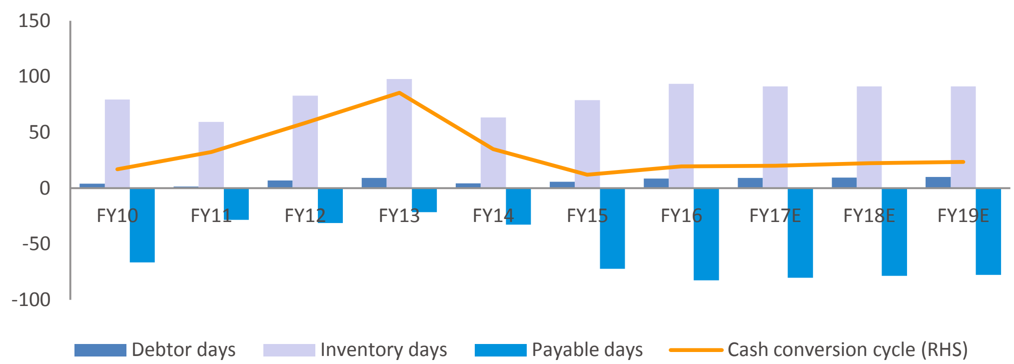
Net profit is expected to improve marginally at a lower pace because of increasing financial cost for incremental borrowing for new plant. We have projected PAT margin to improve to 5-8% over FY16-18 compared to an average of 5.7% over FY09-16.

Net PAT and PAT margin



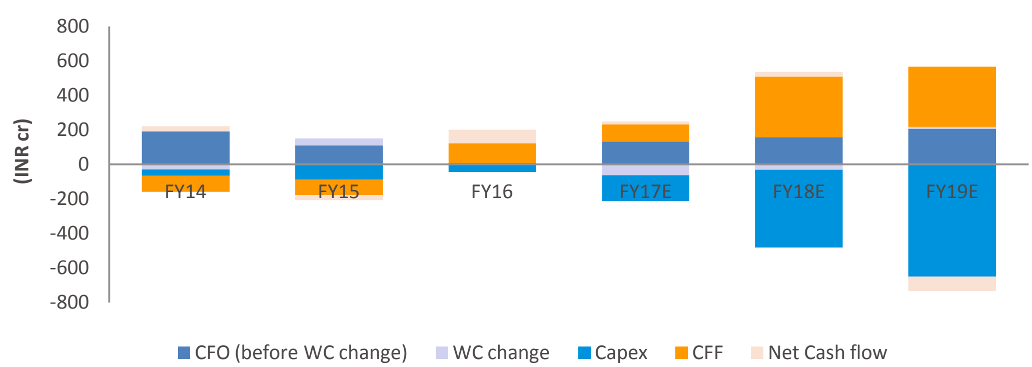
Source: Company, Edel Invest Research

Cash conversion cycle is within the industry range



Source: Company, Edel Invest Research

Operating healthy cash flow supports further leveraging

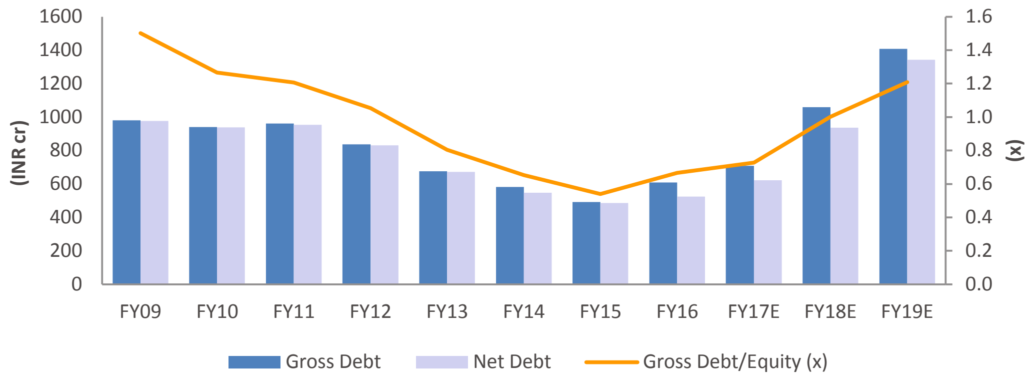


Source: Company, Edel Invest Research

Continuous deleveraging to support next leg of capex

SNGI has consistently repaid debt and its current long-term outstanding debt stands at about INR 476 cr compared to INR 1,004 cr in FY08. The company entered in to CDR in June 2011 with a repayment period of 7 years, which was expected to be completed in March 2018. However, it repaid the entire outstanding in FY16 and exited CDR. Its current gross debt to equity stands at 0.67x compared to 1.50x in FY09, which is expected to rise to 1.23x with the next capex phase. We estimate SNGI's long-term debt to rise to INR 1,151cr by FY19, translating into gross debt to equity of 1.21x in FY19E.

Debt to Equity

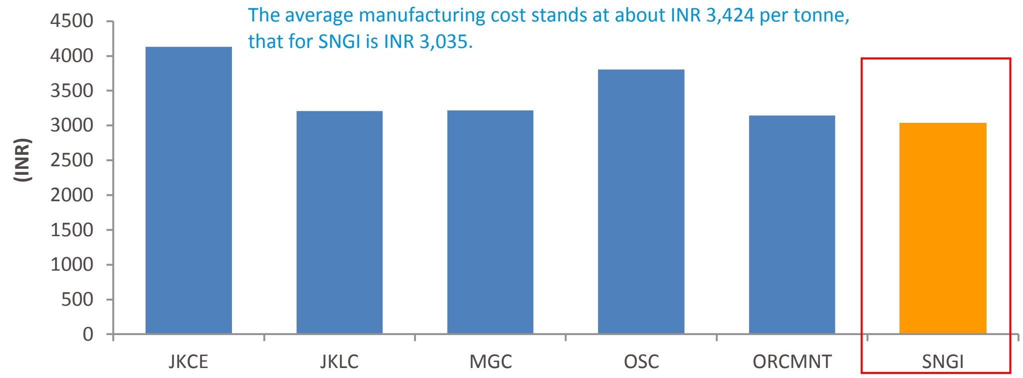


Source: Company, Edel Invest Research

We have done detailed Peer comparison of cement companies based on similar capacity, however spread in different zones

Operating Cost:- SNGI enjoys the benefit of lower raw material and employee costs, resulting in lowest per tonne of operating cost.

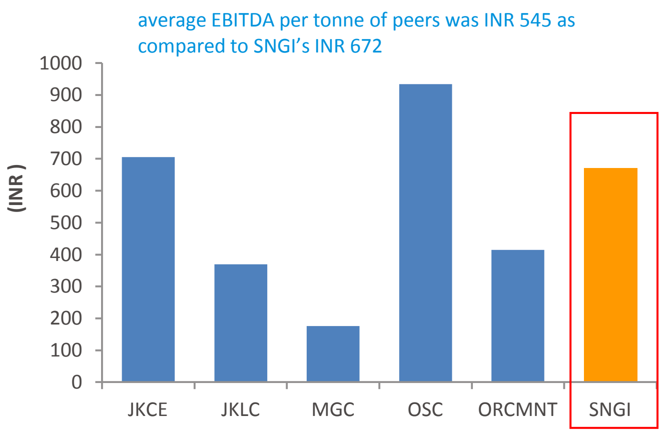
SNGI enjoys lowest operating cost amongst its peers



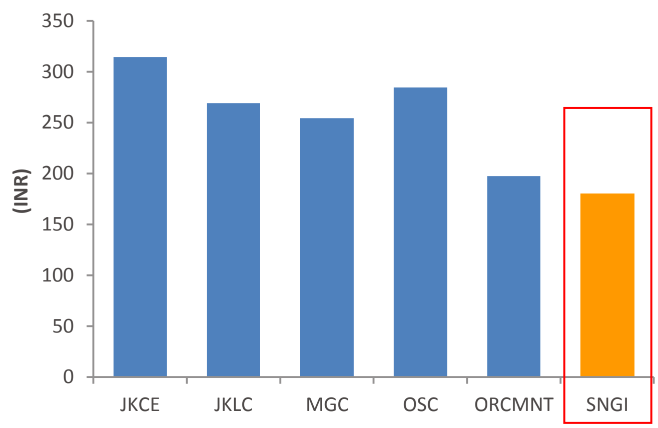
Source: Company, Edel Invest Research

EBITDA:- The average EBITDA per tonne of peers was INR 545 compared to SNGI's INR672. The company enjoys the benefit of lower raw material and employee costs and lower power & fuel cost, resulting in highest EBITDA per tonne.

EBITDA- Proximity of raw material and cost controlled reflecting in EBITDA per tonne



Employee Cost :- Softness in limestone requires lower labour, resulting lower employee cost

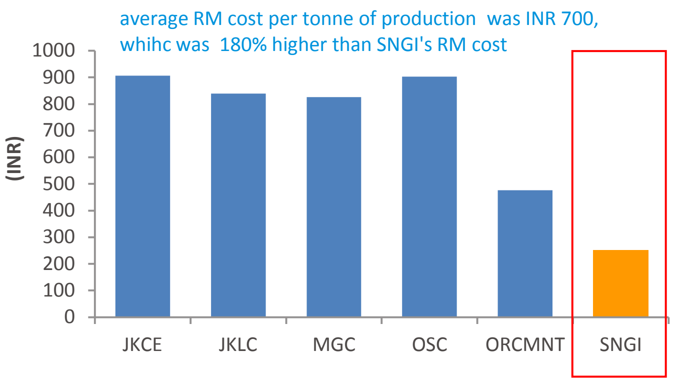


Source: Company, Edel Invest Research

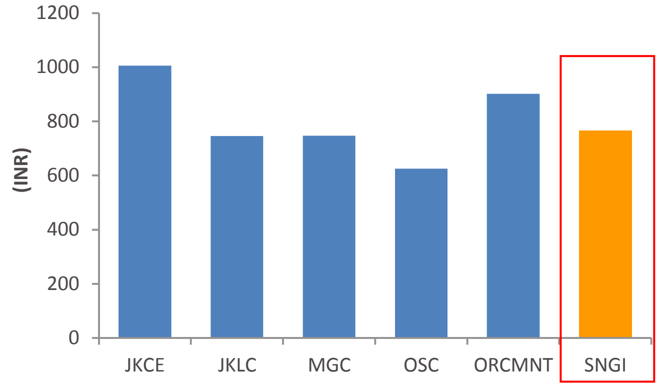
Employee Cost- The company's employee cost per tonne of production is lowest in the industry because of labour required for raw material procurement is lowest.

- SNGI's raw material cost was INR250 per tonne against the average cost of its peers was INR700 per tonne because of superior quality of raw material and proximity to clinker plant.
- Power & power fuel cost is marginally lower than industry average because of multi-fuel power plant.

RM cost per tonne of cement productions



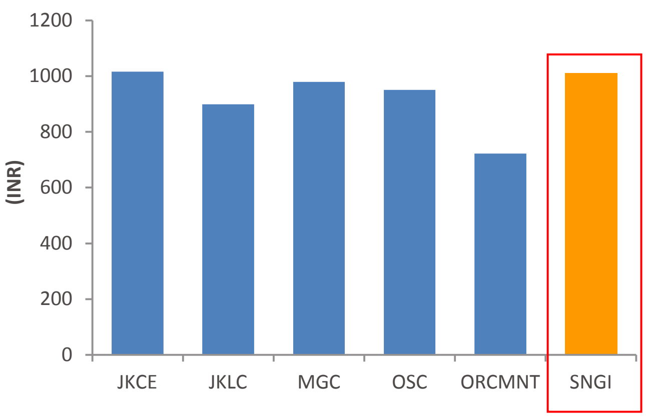
Power & Fuel cost per tonne of cement prodution



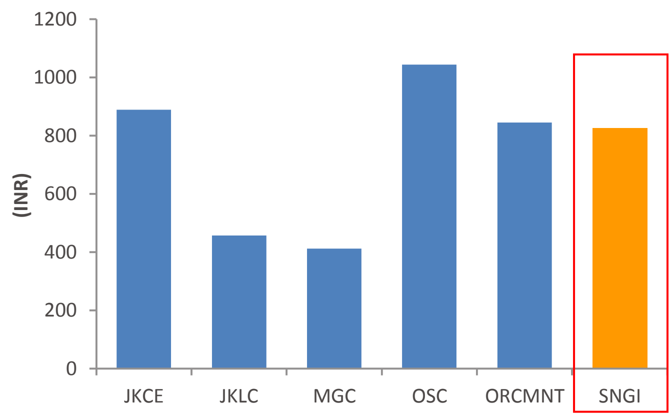
Source: Company, Edel Invest Research

- SNGI's freight and forwarding cost was slightly higher than the industry average because of higher lead distances. However, management has taken several initiatives to reduce this cost via sea route transportation, which will cut the lead distance.
- Other manufacturing cost of SNGI was higher in FY16 because of change of financial year from June to March, resulting higher fixed cost and therefore it is marginally higher than industry average.

Freight and forwarding cost per tonne is 1.12x of its peers



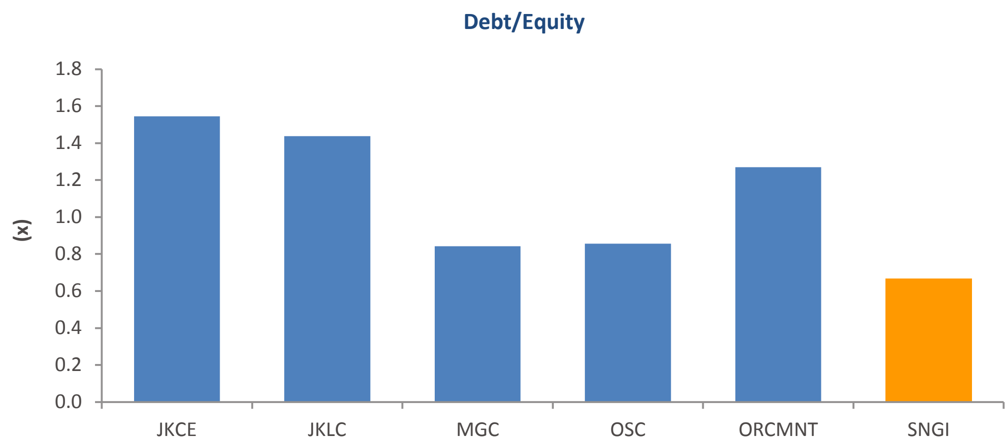
Other manufacturing cost is 1.05x of its peers



Source: Company, Edel Invest Research

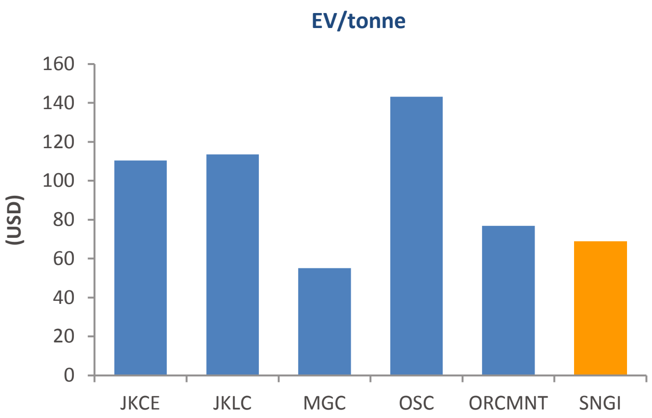
Debt to equity favourable for next phase of expansion

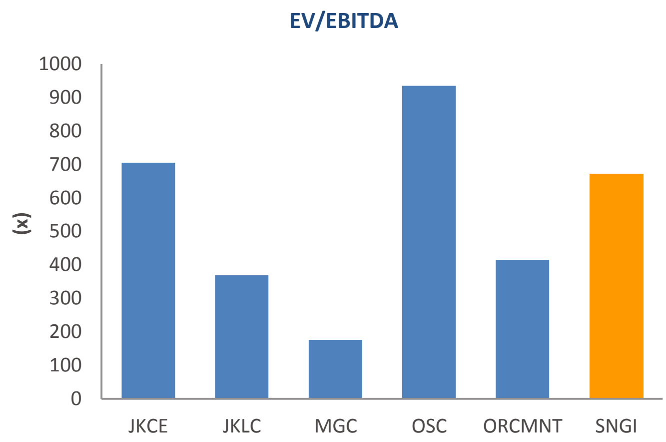
Based on FY16 Annual report, the average debt to equity ratio of 6 companies was 1.1x, while SNGI's debt to equity ratio stood at 0.7x. JK Cement, JK Lakshmi Cement and Orient Cement have debt to equity ratios of 1.5x, 1.4x and 1.3x, respectively. SNGI's below industry average debt to equity offers an opportunity to leverage for next phase of expansion.



Source: Company, Edel Invest Research

Average industry EV/tonne is USD95 versus SNGI's USD69. We believe SNGI should trade at a premium to peers because of its lower manufacturing cost, proximity to raw material, own jetty and expected 2 ships for coastal cement delivery, rendering it attractive amongst peers.





Source: Company, Edel Invest Research

SNGI is available at attractive valuations based on EV/EBITDA per tonne. Currently, peers are trading at 19x FY16 EV/EBITDA, while SNGI is available at 10x FY16 EV/EBITDA (adjusting for 12 months as the company has shifted to March year ending from June; therefore, reported 9 months results).

Financial

Income Statement					(INR cr)
Year to March	**FY15**	**FY16***	**FY17E**	**FY18E**	**FY19E**
Net revenue	932	777	1,104	1,287	1,540
Materials costs	54	52	72	84	98
Gross profit	878	724	1,032	1,203	1,442
Power & Fuel Cost	247	160	244	283	331
Freight Cost	267	212	290	328	381
Other Cost	208	211	280	327	385
EBITDA	157	141	218	265	345
Depreciation & Amortization	106	54	74	74	81
EBIT	51	87	144	190	264
Other income	7	3	4	7	8
Interest expenses	27	27	76	93	117
Profit before tax before EI	31	62	72	105	156
Exceptional Items	-	(60)	-	-	-
PBT	31	2	72	105	156
Provision for tax	-	0	14	21	31
Reported PAT	31	1.53	58	84	125
Adjustment in PAT	-	60.4	-	-	-
Adj Net Profit	31	62	58	84	125
Basic shares outstanding (crs)	22	22	22	22	22
EPS (Rs.)	1.4	2.8	2.6	3.8	5.7
Dividend per share (Rs.)	-	-	-	-	-
Dividend payout (%)	0.00	0.00	0.00	0.00	0.00

Common Size					
Year to March (%)	**FY15**	**FY16**	**FY17E**	**FY18E**	**FY19E**
Gross profit margin	**94.2**	**93.3**	**93.5**	**93.5**	**93.6**
Power & fuel	26.4	20.7	22.1	22.0	21.5
Freight & forwarding	**28.6**	**27.3**	**26.3**	**25.5**	**24.7**
Other manufacturing cost	22.3	27.2	25.4	25.4	25.0
EBITDA margin	16.9	18.1	19.7	20.6	22.4
Depreciation	**11.4**	**7.0**	**6.7**	**5.8**	**5.2**
Interest expenses	2.9	3.5	6.9	7.2	7.6
Tax rate	**0.0**	**0.6**	**20.0**	**20.0**	**20.0**
Net profit margins	3.3	0.2	5.3	6.5	8.1

Growth Ratios					
Year to March (%)	**FY15**	**FY16****	**FY17E**	**FY18E**	**FY19E**
Revenues	-11.1	11.1	6.6	16.6	19.7
EBITDA	-20.1	19.2	16.0	21.7	30.3
PBT	-29.7	171.3	-12.8	44.7	48.6
Net profit	-38.2	169.5	-29.8	44.7	48.6

*FY16 is for 9M

**adjusted for 12M

Balance Sheet (INR cr)

As on 31st March	FY15	FY16	FY17E	FY18E	FY19E
Equity capital	220	220	220	220	220
Preference Share Capital	43	0	0	0	0
Reserves & surplus	691	692	750	834	959
Borrowings	492	608	708	1058	1408
Deferred Tax Liabilities (Net)	-59	-59	-59	-59	-59
Sources of funds	**1387**	**1462**	**1620**	**2054**	**2528**
Net Fixed Assets	1294	1287	1364	1739	2309
Investments	0	0	0	0	0
Inventories	167	163	222	255	299
Sundry debtors	15	18	27	33	42
Cash & Bank Balances	6	83	101	128	45
Other Current assets	46	46	55	64	76
Loans and advances	174	177	228	266	268
Total current assets	407	488	633	747	729
Sundry creditors and others	153	144	195	220	255
Provisions	161	169	183	213	255
Total current liabilities & provisions	314	313	377	433	509
Net current assets	93	174	256	314	220
Uses of funds	**1387**	**1462**	**1620**	**2054**	**2528**

Free cash flow

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Net profit	31	62	58	84	125
Add : Depreciation	106	54	74	74	81
Adjustment	-27	-109	0	0	0
Operating profit (before WC changes)	110	7	132	158	205
Less: Changes in WC	-40	4	63	31	-11
Operating cash flow	150	3	68	127	216
Less: Capex	89	41	150	450	650
Free cash flow	60	-38	-82	-323	-434

Cash Flow Statement

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Cash flow from operations	177	112	68	127	216
Cash Flow from investing activities	-89	-41	-150	-450	-650
Cash Flow from financing activities	-89	116	100	350	350
Capex	-89	-41	-150	-450	-650
Dividends	-	-	-	-	-

Profitability & Efficiency Ratios

Year to March	FY15	FY16	FY17E	FY18E	FY19E
ROAE (%)	3.40	6.79	6.16	8.29	11.17
ROAA (%)	3.42	5.81	7.21	8.04	9.01
Inventory day	78.73	93.51	91.25	91.25	91.25
Debtors days	5.70	8.67	9.10	9.50	9.91
Payable days	72.30	82.62	80.20	78.55	77.80
Cash conversion cycle (days)	12.13	19.56	20.15	22.21	23.36
Current ratio	1.54	1.55	2.43	2.22	1.71
Gross debt/equity	0.54	0.67	0.73	1.00	1.19
Adjusted debt/Equity	0.53	0.58	0.63	0.88	1.16
Interest coverage ratio	1.9	3.2	1.9	2.1	2.3

Turnover Ratios

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Total asset turnover	0.6	0.5	0.7	0.7	0.7
Fixed asset turnover	0.7	0.6	0.9	1.1	1.3
Equity turnover	1.0	0.9	1.2	1.3	1.4

Du Pont Analysis

Year to March	FY15	FY16	FY17E	FY18E	FY19E
NP margin (%)	3.29	7.98	5.26	6.53	8.11
Total assets turnover	0.65	0.55	0.72	0.70	0.67
Leverage multiplier	1.60	1.56	1.64	1.81	2.05
ROAE (%)	3.41	6.80	6.17	8.30	11.18

Valuation Parameters

Year to (March)	FY15	FY16**	FY17E	FY18E	FY19E
Adjusted Diluted EPS (INR)	1.4	2.8	2.6	3.8	5.7
Y-o-Y growth (%)	-38.2	169.5	-29.8	44.7	48.6
Adjusted Cash EPS (INR)	6.2	5.3	6.0	7.2	9.3
Diluted P/E (x)	44.5	22.0	23.5	16.3	10.9
P/BV (x)	1.5	1.5	1.4	1.3	1.2
EV/tonne (USD/tonne)	95.3	68.8	68.8	68.8	68.8
EV/sales (x)	2.0	2.4	1.7	1.5	1.2
EV/EBITDA (x)	11.8	13.4	8.7	7.1	5.5
EV/EBITDA (x), 1 yr fwd.	13.1	8.7	7.1	5.5	3.6

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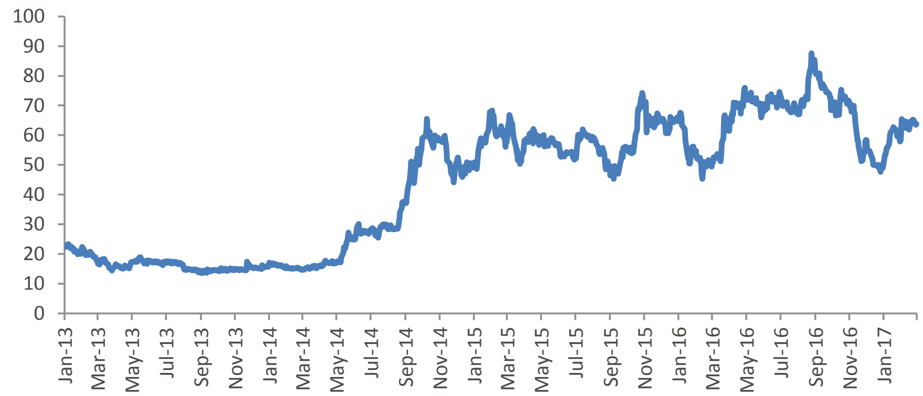
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period

Sanghi Ind 5 years price chart



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