Sanghi Industry Ltd.

Rs 134.25– BUY **Target 188 (+40% up)**

Busines Overview

Sanghi Industry 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, 30M3 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 1MTPA cargo

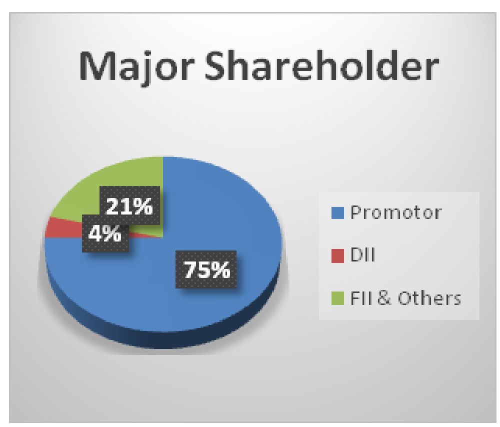
Sanghi has lease up to 2046 for "A" grade marine limestone reserves of 1,000MMT within 3km of its clinker plant. Fly ash at Mundra UMPP supports the 1.2mt PPC plant. The company has captive port facilities to import fuel and export clinker and cement. It has abundant lignite available at GMDC plant which 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, Sanghi has ordered 2 ships to increase presence in coastal areas of Mumbai and Kerala. Currently, Sanghi 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.

While diversification into the newer markets will provide scale, it will also result in improved profitability. We also see SIL as a strong re-rating candidate, as the expected increase in capacity over the next few years should help it achieve significant scale benefits.SIL targets to increase its cement grinding capacity from 4.1mt now to 8.2mt over the next 30 months 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.

12-Jan-18	
Priced on 11 Jan 2018 CNX Nifty @	10651
12 Months High / Low	55.60/144
12 Month Price Target	188
±% potential	+40%
Free Float	25
Market Cap	28.4

Major Shareholder	
Promotor	75
DII	4
FII & Others	21.2



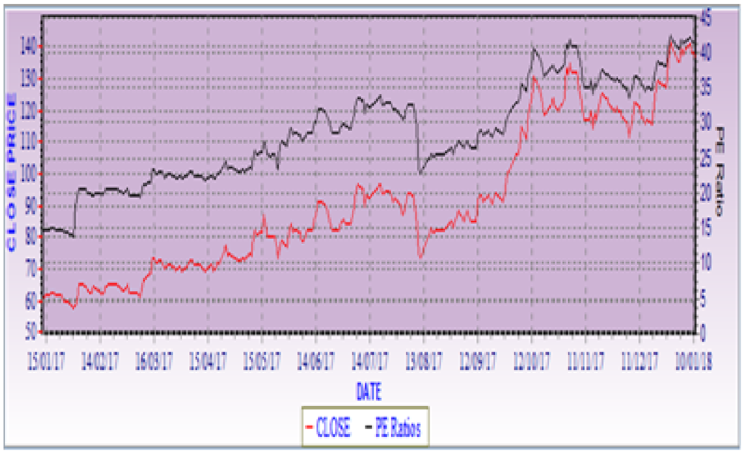
Financial and Valuation Snapshot

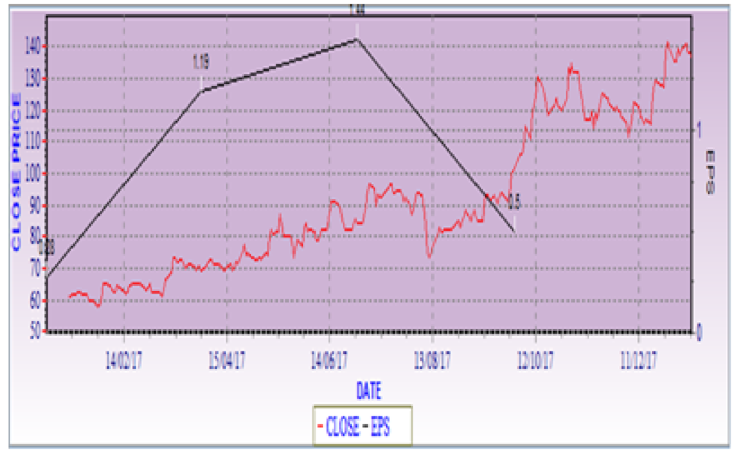
	2017A	2018E	2019E	2020E	2021E
Net Sales	1102.02	1354.89	1830.9	2656.98	3856.34
Profit For the Year	63.14	157.39	180.92	278.11	305.29
Pat	1.3	1.9	2.6	3.2	3.6
EBITDA	2.8	3.5	4.1	4.7	5.2
EPS	5.1	5.9	6.3	6.9	7.3
ROE	9.6	10.6	13.6	15.6	17.5
ROCE	10.5	11.2	12.5	12.9	13.1
P/E	18.6	21.6	16.2	14.6	10.5
P/BV	2.1	2.3	1.9	1.6	1.4
EV/ EBITDA	9.5	10.5	9.6	8.7	6.5

Valuation Discussion:

At CMP of Rs 134/share, Sanghi Industries Limited exchanges at EV/EBITDA of 10.5/9.6x on FY18E/19E income (balanced for CWIP identified with multiplying of limit). We esteem Sanghi Industries Limited present limit of 4.1mt at EV/ton of USD120 and proposed limit extension of 4.1mt at USD78/t (35% markdown to substitution cost of USD120/t) to catch the low capital cost for incremental capex. Henceforth, we esteem its general limit of 8.1mt (with extra obligation of INR12b for extra limit) at USD99/t. Incremental cost of limit expansion is bring down at USD45/t, as against the business standard of USD120/t, as the development is brownfield in nature and a lot of capex has been acquired toward the auxiliary set-up.

We thus initiate coverage on Sanghi Industries Limited with a Buy rating and a target price of Rs 188/share, implying upside of +40% from the current levels.





Multi-fuel kiln offers flexibility in terms of fuel cost, providing the company an edge over competitors. Captive thermal plant of 63MW makes it self-reliant for power with low cost. Availability of low-priced lignite at close proximity further increases flexibility, reducing overall power & fuel cost.

Sanghi Industries rises over 11% in two sessions

Shares of Sanghi Industries rose 8.72% to settle at Rs 138.35 yesterday, 27 December 2017. The stock has risen 11.43% in two sessions from its close of Rs 127.25 on 26 December 2017.

Meanwhile, the S&P BSE Sensex was down 81.86 points, or 0.24% to 33,829.95.

On the BSE, 2.17 lakh shares were traded in the counter so far, compared with average daily volumes of 1.61 lakh shares in the past two weeks. The stock had hit a high of Rs 144 so far during the day, which is also a record high for the counter. The stock had hit a low of Rs 138.25 so far during the day. The stock hit a 52-week low of Rs 48.80 on 30 December 2016.

The brokerage reportedly stated that Sanghi Industries (SIL) is one of the lowest cost cement producers due to its quality limestone, locational advantage and strong integration across the manufacturing value chain. SIL's strength lies in its access to 1b tonne of quality marine limestone reserves. SIL is a strong candidate for a re-rating, led by expected increase in its capacity over the next 30 months and anticipated scale benefits led by diversification into new higher-priced markets, the brokerage added.

Net profit of Sanghi Industries rose 28.3% to Rs 10.92 crore on 0.8% decline in net sales to Rs 205.59 crore in Q2 September 2017 over Q2 September 2016.

Sanghi Industries deals in the production and distribution of cement under the brand name 'Sanghi Cement'.

Comparable Company Analysis									EPS			P/E (x)			EV / EBITDA (x)		
	Price (INR)	# of shares	Debt (INR)	Cash (INR)	Market Cap (INR)	Enterprise Value (INR)	EBITDA (INR)	Net Income (INR)	FY2017A	FY2018E	FY2019E	FY2017A	FY2018E	FY2019E	FY2017A	FY2018E	FY2019E
Cement Sector																	
JK Laxmi	450.10	699	1,966.31	8.98	3,14,619.9	3,16,577.2	74.20	82.00	3.55	4.1	2.5	33.4x	37.3x	36.7x	7.9x	8.9x	9.7x
JK Cement	1141.90	1176	2,484.23	417.85	13,42,874.4	13,44,940.8	304.93	220.76	4.5	3.9	3.5	27.3x	35.2x	36.4x	8.2x	8.9x	9.6x
India Cement	192.40	3064	2,681.43	6.78	5,89,513.6	5,92,188.3	260.2	173.35	3.2	2.9	3.1	32.3x	29.4x	31.3x	5.4x	6.2x	7.8x
Ramco Cement	799.50	2380	1,138.14	118.08	19,02,810.0	19,03,830.1	856.91	654.21	7.55	8.26	7.75	33.3x	36.3x	35.2x	10.5x	12.8x	13.6x
Heidelberg	168.70	2266	575.19	14.20	3,82,274.2	3,82,835.2	113.63	76.21	3.36	4.25	4.85	35.3x	39.4x	41.3x	8.6x	9.2x	10.0x
Mean									4.4	4.7	4.3	32.3	35.5	36.1	8.1	9.2	10.1
Median									3.6	4.1	3.5	33.3	36.3	36.4	8.2	8.9	9.7
Sanghi Industry																	

Investment Rational

Sanghi Industries announces Rs 1250 crore expansion plan

To increase capacity from 4.1 MMTPA to 8.1 MMTPA

Sanghi Industries has decided to expand its capacity from 4.1 MMTPA to 8.1 MMTPA as under:

a). Expansion Plan will primarily consist of

(i) brownfield expansion of 3.3 MTPA Clinker Capacity and 2 MMTPA Cement Capacity within the premises of our existing plant at Sanghipuram, Gujarat and Satellite grinding unit of 2 MMTPA cement capacity

(ii) 65 MW Thermal Power Plant unit adjacent to our existing captive thermal power plant at Sanghipuram, Gujarat.

b.) The estimated cost of the expansion plan will be around Rs 1250 crore, out of which around Rs. 800 crores will be funded from borrowings. The Company has received sanctions from banks and financial institutions for the same.

SENSITIVITY ANALYSIS						
			WACC			
	188.39	14.00%	14.50%	15.00%	15.98%	16.25%
Growth Rate	5.00%	212.68	201.98	192.36	176.09	172.12
	5.50%	222.04	210.24	199.70	181.99	177.69
	6.00%	232.57	219.47	207.84	188.47	183.80
	6.50%	244.51	229.86	216.95	195.64	190.53
	7.00%	258.16	241.64	227.20	203.61	198.00

The hike in import duty for petcoke puts Sanghi Industry Ltd. in a cost-advantageous position: The company is likely to see a minimal impact on its power & fuel cost/t due to an increase in import duty on petcoke, as its dependence on lignite is to the extent of ~66%, which isolates its power & fuel cost/t to great extent. Its P&F cost/t will likely be impacted to the extent of increase in imported coal prices (34% of its fuel mix) due to demand push. Additionally, the industry is expected to increase cement prices to offset the impact of cost push.

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Stock Price Graph	
11-08-2017	75.40
11-09-2017	93.65
11-10-2017	121.45
11-11-2017	117.35
11-12-2017	120.85
11-01-2018	135.35

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