

Sector: Cement  
Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 18,741</b>	
Price Target: <b>Rs. 20,660</b>	↑

↑ Upgrade ↔ No change ↓ Downgrade

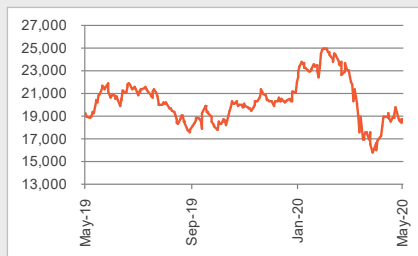
## Company details

Market cap:	Rs. 67,618 cr
52-week high/low:	Rs. 25341/15500
NSE volume: (No of shares)	0.3 lakh
BSE code:	500387
NSE code:	SHREECEM
Sharekhan code:	SHREECEM
Free float: (No of shares)	1.4 cr

## Shareholding (%)

Promoters	62.6
FII	11.9
DII	11.2
Others	14.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	10.8	-24.9	-6.0	-2.8
Relative to Sensex	9.3	-2.2	15.5	12.9

Sharekhan Research, Bloomberg

Shree Cement Limited (Shree Cement) reported better-than-expected standalone operational performance, which was driven by better realisation and lower cost of production. The company's standalone revenue declined by 2% y-o-y to Rs. 3,217.5 crore on account of lower cement volume (down 5.4% y-o-y). The company has stopped providing power division's operational numbers from Q4FY2020, as most power is consumed for cement operations. Lower volume during Q4FY2020 was on account of COVID-19-led lockdown, which affected 10 days during Q4FY2020. Blended realisation improved by 3.5% y-o-y, led by higher cement prices in Northern and Eastern regions. On the operational front, the company reported 34.5% y-o-y rise in blended EBITDA/tonne at Rs. 1,562 due to lower cost of production (down 7.2% y-o-y, led by lower raw material, power and fuel, and freight costs). Hence, operating profit rose by 27.3% y-o-y, which came in much higher than our estimates. Further, higher other income and lower effective tax rate led to standalone net profit growth of 83.3% y-o-y to Rs. 588 crore. The company's UAE subsidiary posted operating loss of Rs. 22 crore versus operating profit of Rs. 46 crore in Q4FY2019/ Rs. 30 crore in Q3FY2020, respectively. Due to COVID-19 pandemic, Shree Cement is currently operating its plants at ~40% capacity utilisation from trailing 10-15 days. Management expects cement demand would take couple of years to reach FY2020 levels. Hence, management has put its capacity expansion plans on hold for at least a year and would just carry out its aggregate 6MT grinding unit expansion at Odisha and Maharashtra. We have cut down our volume estimates for FY2021 and FY2022, while expecting improvement in OPM in FY2022. Shree Cement has runup by ~17% over the trailing one month and is currently trading at an EV/EBITDA of 14.3x its FY2022E earnings. We expect further upside potential for Shree Cement, considering its strong balance sheet, efficient operations, and scarcity premium (relatively low absolute free float). Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 20,660.

## Key positives

- Well-capitalised balance sheet to wither through the near-term weak demand environment.
- Strong operational performance backed by a decline in cost of production.

## Key negatives

- Weak demand outlook in the near term.
- UAE subsidiary posts operating loss during Q4FY2020 versus operating profit during Q4FY2019 and Q3FY2020.

## Our Call

**Valuation –Maintain Buy with a revised PT of Rs. 20,660:** The cement industry is expected to go through weak demand outlook during FY2021 on account of COVID-19-led disruption in the economy. However, Shree Cement's deferment of new expansion plan for at least a year along with well-capitalised balance sheet (raised Rs. 2,400 crore through QIP during Q3FY2020) will aid the company in maintaining healthy liquidity and working capital management. We have cut down our volume estimates for FY2021 and FY2022, while expecting improvement in OPM in FY2022. Shree Cement has runup by ~17% over the trailing one month and is currently trading at an EV/EBITDA of 14.3x its FY2022E earnings. We expect further upside potential for Shree Cement, considering its strong balance sheet, efficient operations, and scarcity premium (relatively low absolute free float). Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 20,660.

## Key Risks

Weak demand and pricing environment in north and east regions in India can negatively affect profitability.

## Valuation (Standalone)

Particulars	Rs cr			
	FY19	FY20	FY21E	FY22E
Revenue	11,722.0	11,904.0	11,480.1	13,284.5
OPM (%)	23.5	30.9	29.9	31.8
Adjusted PAT	1,232.8	1,570.2	1,346.8	1,848.5
% YoY growth	(13.5)	27.4	(14.2)	37.3
Adjusted EPS (Rs.)	353.8	435.2	373.2	512.3
P/E (x)	53.0	43.1	50.2	36.6
P/B (x)	6.8	5.2	4.8	4.4
EV/EBITDA (x)	23.0	16.6	17.8	14.3
RoNW (%)	13.3%	13.9%	10.0%	12.5%
RoCE (%)	11.5%	13.0%	9.7%	11.9%

Source: Company; Sharekhan estimates

**Strong operational performance amidst weak demand:** Shree Cement reported 2% y-o-y decline in standalone net revenue to Rs. 3,217.5 crore for Q4FY2020, which was marginally below our estimates. From Q4FY2020, the company has stopped reporting power division's operating numbers. The cement division reported a 5.4% y-o-y decline (up 10.6% q-o-q) in sales volume, as it was affected by COVID-19-led shutdown during last 10 days of Q4FY2020. Blended realisation improved by 3.5% y-o-y (up 2.1% q-o-q). On the operational front, blended EBITDA/tonne rose by 34.5% y-o-y (up 14.9% q-o-q) to Rs. 1,562. The strong operational performance was led by lower raw-material costs (down 23.2% on per tonne basis), lower power and fuel cost (down 13.9% y-o-y), and lower freight costs (down 2.5% y-o-y). Hence, overall operating profit grew by 27.3% y-o-y to Rs. 1,079 crore, which was much higher than our estimate. Strong operational performance along with steep rise in other income (up 2.2x y-o-y) and lower ETR (11.9% Vs 20.3% in Q4FY2019) led to standalone adjusted net profit growth of 83% y-o-y to Rs. 588 crore, which again was much higher than our estimate. The company's UAE subsidiary posted an operating loss of Rs. 22 crore as against operating profit of Rs. 46 crore in Q4FY2019 and Rs. 30 crore in Q3FY2020, as the plant was affected by shut down during March 2020.

**New capacity expansion plan put on hold for a year:** Shree Cement's standalone installed capacity stood at 40.4MTPA as of December 2019. The company completed 3MT Odisha grinding unit (at a cost of Rs. 423 crore) and is expected to complete 3MT Maharashtra grinding unit (at a cost of Rs. 525 crore) in Q3FY2021. Shree Cement had raised Rs. 2,400 crore during Q3FY2020 to expand its capacity. However, COVID-19-led disruptions have started to affect the cement industry. Shree Cement has been operating its plants at 40% capacity utilisation from the trailing 10-15 days. Cement demand is expected to decline during FY2021 and is expected to bounce back in FY2022. Hence, management would not be undertaking any new capacity expansion plan over a year and would wait for the demand environment to improve. Meanwhile, the funds raised would aid the company in better management of working capital during the current tough environment.

#### Per-tonne analysis (blended)

Particulars	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	y-o-y (%)	q-o-q (%)
<b>Volume</b>	<b>7,300,000</b>	<b>6,060,000</b>	<b>5,722,000</b>	<b>6,245,000</b>	<b>6,906,000</b>	<b>-5.4%</b>	<b>10.6%</b>
<b>Realisation</b>	<b>4,500</b>	<b>5,011</b>	<b>4,896</b>	<b>4,561</b>	<b>4,659</b>	<b>3.5%</b>	<b>2.1%</b>
Cost break-up							
RM cost	343	306	264	401	263	-23.2%	-34.4%
Employee expenses	234	316	323	297	245	4.8%	-17.6%
Power and fuel	1,046	1,070	1,046	768	900	-13.9%	17.3%
Transportation and handling	1,061	1,103	1,013	1,031	1,034	-2.5%	0.3%
Other expenses	656	728	775	705	654	-0.2%	-7.1%
<b>Total expenditure per tonne</b>	<b>3,338</b>	<b>3,522</b>	<b>3,421</b>	<b>3,201</b>	<b>3,097</b>	<b>-7.2%</b>	<b>-3.3%</b>
<b>EBITDA per tonne</b>	<b>1,161</b>	<b>1,489</b>	<b>1,475</b>	<b>1,360</b>	<b>1,562</b>	<b>34.5%</b>	<b>14.9%</b>

Source: Company; Sharekhan Research

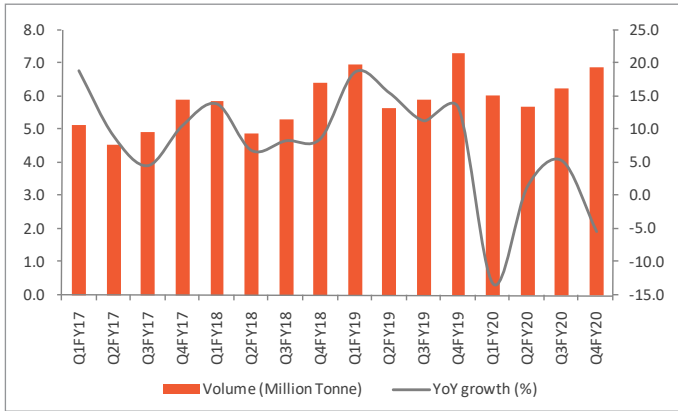
#### Results (Standalone)

Particulars	Q4FY2020	Q4FY2019	% yoy	Q3FY2020	% qoq
<b>Net Sales</b>	<b>3217.5</b>	<b>3284.9</b>	<b>-2.0%</b>	<b>2848.3</b>	<b>13.0%</b>
Total Expenditure	2138.7	2437.0	-12.2%	1999.0	7.0%
<b>Operating profit</b>	<b>1078.9</b>	<b>847.8</b>	<b>27.3%</b>	<b>849.3</b>	<b>27.0%</b>
Other Income	97.8	45.1	116.9%	64.9	50.6%
EBIDTA	1176.7	892.9	31.8%	914.3	28.7%
Interest	72.6	69.7	4.2%	74.1	-2.1%
PBDT	1104.1	823.2	34.1%	840.1	31.4%
Depreciation	436.2	420.6	3.7%	432.2	0.9%
<b>PBT</b>	<b>667.8</b>	<b>402.6</b>	<b>65.9%</b>	<b>407.9</b>	<b>63.7%</b>
Tax	79.7	81.7	-2.5%	98.0	-18.7%
Extraordinary items	0.0	0.0	-	0.0	-
<b>Reported Profit After Tax</b>	<b>588.2</b>	<b>321.0</b>	<b>83.3%</b>	<b>310.0</b>	<b>89.8%</b>
<b>Adjusted PAT</b>	<b>588.2</b>	<b>321.0</b>	<b>83.3%</b>	<b>310.0</b>	<b>89.8%</b>
Margins					
OPM	33.5%	25.8%	772	29.8%	371
PAT	18.3%	9.8%	851	10.9%	740
Tax rate	11.9%	20.3%	-836	24.0%	(1,209)

Source: Company; Sharekhan Research

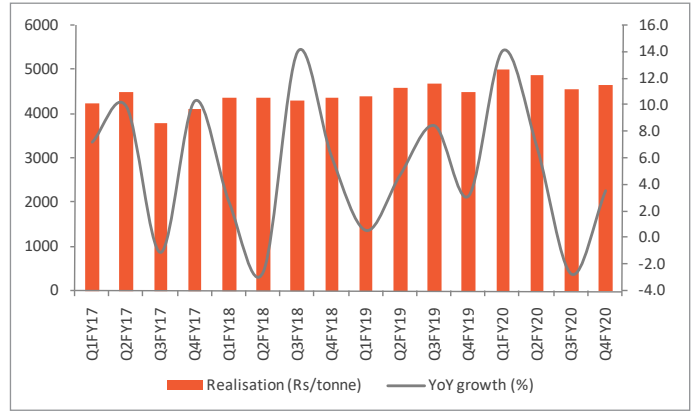
**Financials in charts**

**Cement sales -5.4% y-o-y/+10.6% q-o-q**



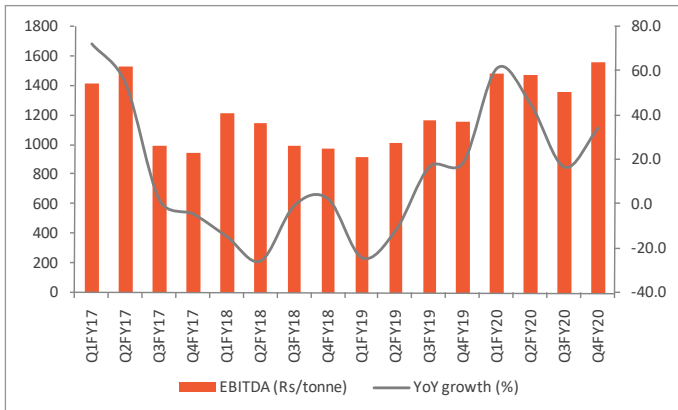
Source: Company, Sharekhan Research

**Blended realisation +3.5% y-o-y/+2.1% q-o-q**



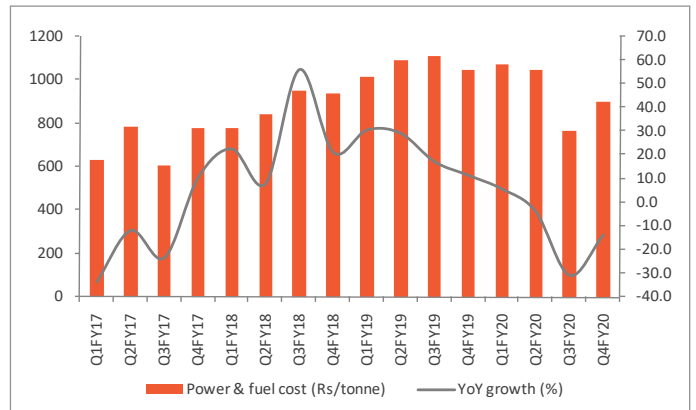
Source: Company, Sharekhan Research

**Blended EBITDA/tonne +34.5% y-o-y/+14.9% q-o-q**



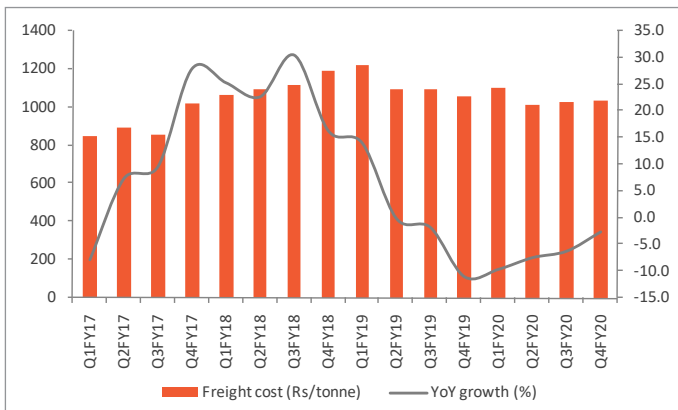
Source: Company, Sharekhan Research

**Power and fuel cost-13.9% y-o-y/+17.3% q-o-q**



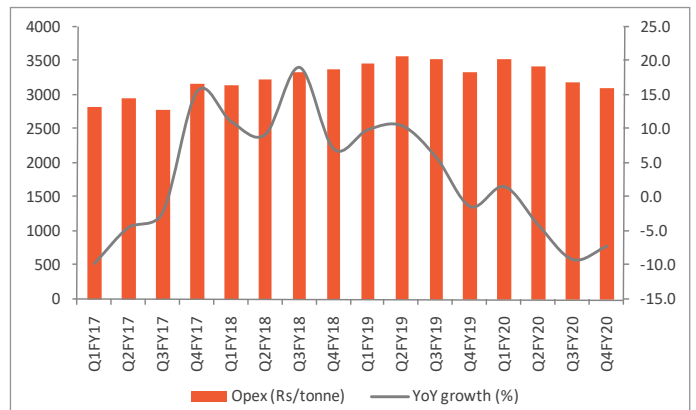
Source: Company, Sharekhan Research

**Freight cost -2.5% y-o-y/+0.3% q-o-q**



Source: Company, Sharekhan Research

**Total opex cost -7.2% y-o-y/-3.3% q-o-q**



Source: Company, Sharekhan Research

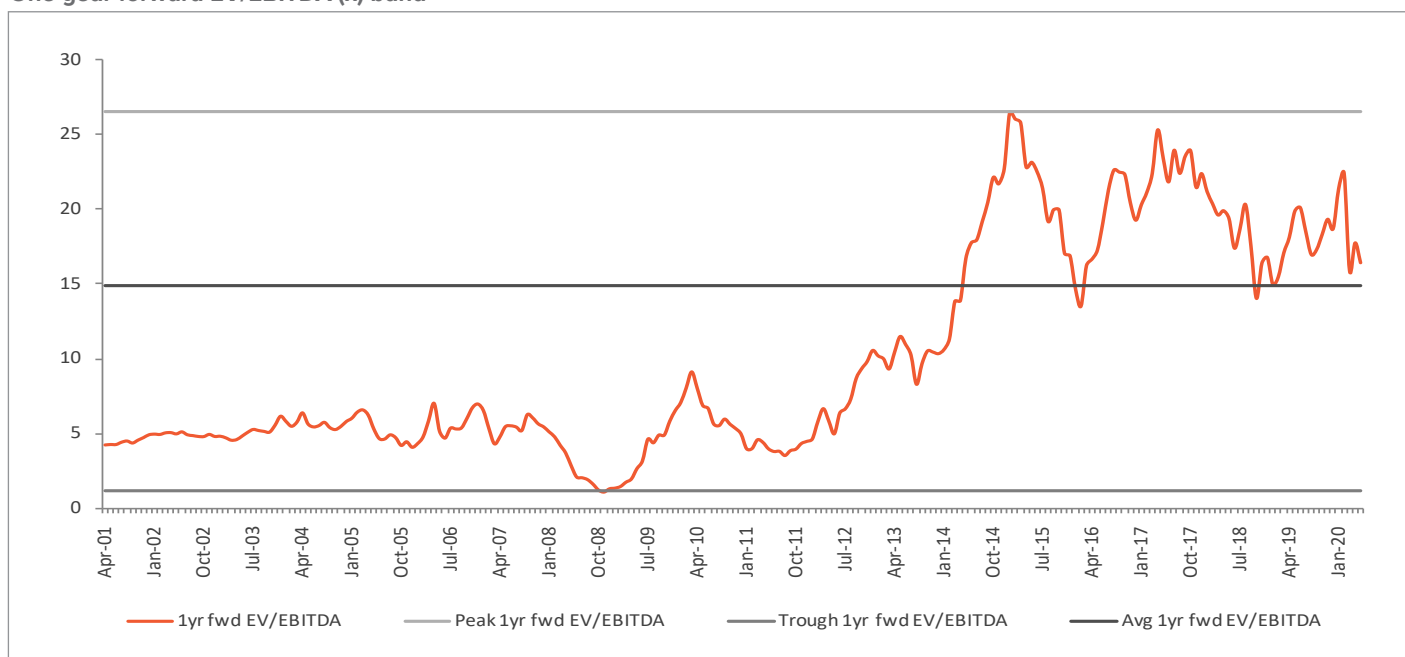
## Outlook

**Cement demand expected to bounce back in FY2022:** The cement industry has been affected by COVID-19-led disruption caused on the Indian economy. Shree Cement's plants are currently operating at ~40% capacity utilisation and is expected to inch up as the situation normalises. Management expects cement demand to remain weak in the near term. Consequently, the company will not be expanding for atleast a year, for which it had raised Rs. 2,400 crore through QIP during Q3FY2020. However, cement demand is expected to bounce back in FY2022, while cement players' deferment of capacity expansion plan would help in maintaining a healthy pricing discipline, limiting the impact on their profitability.

## Valuation

**Maintain Buy with a revised PT of Rs. 20,660:** The cement industry is expected to go through a weak demand outlook during FY2021 on account of COVID-19-led disruption in the economy. However, Shree Cement's deferment of new expansion plan for atleast a year along with well-capitalised balance sheet (raised Rs. 2,400 crore through QIP during Q3FY2020) will aid the company in maintaining healthy liquidity and working capital management. We have cut down our volume estimates for FY2021 and FY2022, while expecting improvement in OPM in FY2022. Shree Cement has runup by ~17% over the trailing one month and is currently trading at an EV/EBITDA of 14.3x its FY2022E earnings. We expect further upside potential for Shree Cement, considering its strong balance sheet, efficient operations, and scarcity premium (relatively low absolute free float). Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 20,660.

### One-year forward EV/EBITDA (x) band



Source: Company; Sharekhan Research

### Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Shree Cement	50.2	40.2	17.8	15.1	4.8	4.4	10.0	11.5
UltraTech Cement	33.2	22.4	13.3	10.3	2.8	2.5	8.8	11.9
The Ramco Cement	24.0	17.9	13.5	10.4	2.6	2.1	9.9	12.1
JK Lakshmi Cement	11.5	9.8	5.1	4.6	1.2	1.1	10.8	11.5
India Cements	37.4	22.8	7.7	6.9	0.6	0.6	1.5	2.4

Source: Sharekhan Research

## About company

Shree Cement, incorporated in 1979 by Kolkata-based Bangur Family, was listed in 1984. The company has a consolidated installed cement capacity of 44.4MTPA and power capacity of 711MW. Of the total cement capacity, 40.4MTPA is in India and 4MTPA is in UAE through subsidiaries. Domestically, the company's presence is predominately in the northern region, with installed capacity of 26.3MTPA, followed by east at 11.1MTPA and south at 3.0MTPA. Shree Cement is among the top three cement groups in India in terms of cement capacity.

## Investment theme

Shree Cement has put its expansion plans on hold for atleast a year as it expects cement demand to be affected by COVID-19 pandemic, which would take couple of years to reach FY2020 levels. During Q3FY2020, the company has raised Rs. 2,400 crore through QIP to fund its expansion plans, which would now aid the company in maintaining a healthy liquidity position and managing working capital requirements during the current tough macro-economic environment. On the positive note, the deferment of capacity expansion plans in the industry should aid in maintaining healthy pricing discipline, limiting the impact on the players' net profit in the near to medium term.

## Key Risks

- ◆ Slowdown in cement demand especially north, east and south affects overall volume growth of the company.
- ◆ Increased pet coke price and diesel price affect profitability.
- ◆ Decline in cement prices especially in its region of operations affects profitability.

## Additional Data

### Key management personnel

Mr. Benu Gopal Bangur	Chairman
Shri H. M. Bangur	Managing Director
Shri Prashant Bangur	Joint Managing Director
Subhash Jajoo	Chief Finance Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Shree Capital Services Ltd.	25.79
2	Digvijay Finlease Ltd.	12.16
3	FLT Ltd.	10.33
4	Mannakrishna Investments Pvt. Ltd.	5.86
5	Newa Investments Pvt. Ltd.	3.95
6	Ragini Finance Ltd.	3.64
7	Didu Investments Pvt. Ltd.	3.36
8	NBI Industrial Finance Co. Ltd.	2.44
9	PineBridge Investments LP	1.54
10	SBI Funds Management Pvt. Ltd.	1.41

Source: Bloomberg

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by BNP PARIBAS

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