

Shree Cement (SRCM IN)

Rating: HOLD | CMP: Rs18,733 | TP: Rs16,900

May 11, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	16,900		16,680	
Sales (Rs. m)	1,12,786	1,33,076	1,19,236	1,36,246
% Chng.	(5.4)	(2.3)		
EBITDA (Rs. m)	30,894	37,275	32,599	37,750
% Chng.	(5.2)	(1.3)		
EPS (Rs.)	330.0	543.8	359.7	513.4
% Chng.	(8.3)	5.9		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	1,25,525	1,28,684	1,12,786	1,33,076
EBITDA (Rs. m)	27,892	37,591	30,894	37,275
Margin (%)	22.2	29.2	27.4	28.0
PAT (Rs. m)	11,615	15,359	11,909	19,623
EPS (Rs.)	333.4	425.7	330.0	543.8
Gr. (%)	(16.1)	27.7	(22.5)	64.8
DPS (Rs.)	60.0	110.0	115.0	120.0
Yield (%)	0.3	0.6	0.6	0.6
RoE (%)	12.5	13.4	8.8	13.3
RoCE (%)	10.6	13.9	9.2	13.3
EV/Sales (x)	5.4	5.1	5.8	4.9
EV/EBITDA (x)	24.2	17.6	21.1	17.3
PE (x)	56.2	44.0	56.8	34.4
P/BV (x)	6.7	5.1	4.8	4.4

Key Data

SHCM.BO | SRCM IN

52-W High / Low	Rs.25,313 / Rs.15,410
Sensex / Nifty	31,643 / 9,252
Market Cap	Rs.676bn / \$ 8,946m
Shares Outstanding	36m
3M Avg. Daily Value	Rs.2622.49m

Shareholding Pattern (%)

Promoter's	62.55
Foreign	11.90
Domestic Institution	11.22
Public & Others	14.33
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	16.6	(6.1)	(5.4)
Relative	10.2	19.6	13.0

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Valuations came off but not meaningfully to add

Quick Pointers:

- Blended EBITDA/t rose 35% YoY/15% QoQ to Rs1,560 (PLe:Rs1,545) as company stopped separate reporting of Power division's earnings
- SRCM's volume growth outperformed industry, hinting towards undercutting

SRCM reported Q4FY20 earnings in line with our estimates. Company depicted strong maturity over last one year with tight discipline on volumes and prices in its Northern operations. This is reflected in highest ever margins since FY09 and best ever absolute bottom line. However, we see material downside risk to SRCM's margins due to competition from new capacities, weak demand outlook and increased likelihood of leakage on volumes coupled with widening gap between A and C category brands. Company raised Rs24bn in Q3FY20 through QIP of equity to fund capacity expansion despite quality B/S and strong cash flow generation. Overcapacity and weak demand would delay SRCM's capacity creation and hence, the RoE profile due to idle cash loaded in the B/S. Peaked out margins, slowing growth and stretched valuations (EV/EBITDA of 16.7x and P/E of 33x FY22E) leaves no scope for margin of safety. Hence, we maintain Hold with TP of Rs16,900 (earlier Rs16,680).

- Cement biz- Volumes meet estimate:** Volume fell 5.4% YoY to 6.9mnt (PLe:7.0mnt) due to steep fall in March volumes due to Covid-19 outbreak. As company posted lower fall in volumes than its peers did. However, we believe that it would have come at cost of lower realisations.
- Strong cement margins drove 27% growth in EBITDA:** Led by 5%/Rs220 growth in cement realisations (based on our estimate) and 18%/Rs200 fall in cost on account of lower coal prices, blended EBITDA/t rose 35% YoY to Rs1,562. Impacted by lower cement volumes, absolute EBITDA rose 27% to Rs10.8bn (PLe:Rs10.6bn). Aided by 117% growth in other income (due to interest income on QIP money) and lower tax rate (12% v/s PLe:25%,Q4FY19:20%), PAT rose 83% YoY to Rs5.9bn (PLe:Rs4.9bn)
- Constrained capacity addition pipeline:** Based on our channel checks, ordering for much awaited third clinker line of 2.6mtpa at Chhattisgarh unit is broadly completed in last quarter with commissioning expected by end of FY22 or Q1FY23. While, ordering for 3mtpa Greenfield plant at Nawalgarh, Rajasthan is likely to delay by 3-6 months due to virus outbreak and delay in award of Environment clearance (EC). Despite delay, addition at Nawalgarh holds upper edge over Ras due to its lower lead distance, tax incentives and acquisition of mining resources. Given the low margins at its south based plants and marginal presence, company may look to enter Gujarat due to strong profitability and limited capacity addition. This shows the limited capacity pipeline over next 3-4 years for SRCM defying the entire purpose of recent fundraising.

Exhibit 1: Q4FY20 Result Overview (Rs mn)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	32,175	32,849	(2.0)	28,483	1,19,040	1,17,220	1.6
Raw Material	1,816	2,501	(27.4)	2,503	7,682	8,642	(11.1)
<i>% of Net Sales</i>	<i>5.6</i>	<i>7.6</i>		<i>8.8</i>	<i>6.5</i>	<i>7.4</i>	
Staff Costs	1,691	1,705	(0.8)	1,856	7,310	6,778	7.8
<i>% of Net Sales</i>	<i>5.3</i>	<i>5.2</i>		<i>6.5</i>	<i>6.1</i>	<i>5.8</i>	
Power & Fuel	6,217	7,633	(18.6)	4,793	23,476	27,450	(14.5)
<i>% of Net Sales</i>	<i>19.3</i>	<i>23.2</i>		<i>16.8</i>	<i>19.7</i>	<i>23.4</i>	
Freight and selling expenses	7,144	7,747	(7.8)	6,438	26,061	28,641	(9.0)
<i>% of Net Sales</i>	<i>22.2</i>	<i>23.6</i>		<i>22.6</i>	<i>21.9</i>	<i>24.4</i>	
Other Expenses	4,519	4,786	(5.6)	4,400	17,765	17,790	(0.1)
<i>% of Net Sales</i>	<i>14.0</i>	<i>14.6</i>		<i>15.4</i>	<i>14.9</i>	<i>15.2</i>	
Total Expenditure	21,387	24,370	(12.2)	19,990	82,295	89,302	(7.8)
EBITDA	10,789	8,478	27.3	8,493	36,745	27,918	31.6
<i>Margin (%)</i>	<i>33.5</i>	<i>25.8</i>		<i>29.8</i>	<i>30.9</i>	<i>23.8</i>	
Depreciation	4,362	4,206	3.7	4,322	16,994	13,917	22.1
Other income	978	451	116.9	649	2,716	2,454	10.7
EBIT	7,404	4,723	56.8	4,821	22,467	16,455	36.5
Interest	726	697	4.2	741	2,865	2,470	16.0
PBT	6,678	4,026	65.9	4,079	19,602	13,986	40.2
Extraordinary income/(expense)	-	-		-	-	(3,171)	
PBT (After EO)	6,678	4,026	65.9	4,079	19,602	10,814	81.3
Tax	797	817	(2.5)	980	3,900	1,304	199.1
<i>% PBT</i>	<i>11.9</i>	<i>20.3</i>		<i>24.0</i>	<i>19.9</i>	<i>12.1</i>	
Reported PAT	5,882	3,210	83.3	3,100	15,702	9,510	65.1
Adjusted PAT	5,882	3,210	83.3	3,100	15,649	12,582	24.4

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Volume (mn te)-Cement	6.9	7.3	(5.4)	6.2	24.9	25.9	(3.6)
Volume (mn units)-Power	320	382	(16.2)	68	1,142	1,678	(32.0)
Net Realisations (Rs/te)	4,442	4,225	5.1	4,512	4,571	4,223	8.2
Realised rate (Rs/unit)	4.7	5.13	(8.6)	4.5	4.4	4.8	(6.9)
Cement EBITDA (Rs mn)	10,439	8,048	29.7	8,523	36,009	26,095	38.0
Power EBITDA (Rs mn)	350	430	(18.6)	-30	736	1,823	(59.6)
Cement EBITDA/ te (Rs/te)	1,512	1,103	37.1	1,365	1,444	1,009	43.1
Power EBITDA/Kwh (Rs)	1.09	1.13	(2.9)	(0.44)	0.64	1.09	(40.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	1,25,525	1,28,684	1,12,786	1,33,076
YoY gr. (%)	27.7	2.5	(12.4)	18.0
Cost of Goods Sold	18,013	9,905	15,046	18,427
Gross Profit	1,07,513	1,18,779	97,740	1,14,649
Margin (%)	85.7	92.3	86.7	86.2
Employee Cost	7,672	8,540	8,590	9,480
Other Expenses	17,595	19,001	18,039	19,664
EBITDA	27,892	37,591	30,894	37,275
YoY gr. (%)	12.9	34.8	(17.8)	20.7
Margin (%)	22.2	29.2	27.4	28.0
Depreciation and Amortization	14,718	18,078	16,154	14,735
EBIT	13,174	19,513	14,739	22,540
Margin (%)	10.5	15.2	13.1	16.9
Net Interest	2,455	2,914	3,080	2,951
Other Income	2,519	2,744	3,217	3,414
Profit Before Tax	11,456	19,343	14,877	23,003
Margin (%)	9.1	15.0	13.2	17.3
Total Tax	1,306	3,902	2,971	3,374
Effective tax rate (%)	11.4	20.2	20.0	14.7
Profit after tax	10,151	15,441	11,906	19,629
Minority interest	87	82	(3)	6
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,615	15,359	11,909	19,623
YoY gr. (%)	(16.1)	32.2	(22.5)	64.8
Margin (%)	9.3	11.9	10.6	14.7
Extra Ord. Income / (Exp)	(1,551)	-	-	-
Reported PAT	10,064	15,359	11,909	19,623
YoY gr. (%)	(27.3)	52.6	(22.5)	64.8
Margin (%)	8.0	11.9	10.6	14.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,064	15,359	11,909	19,623
Equity Shares O/s (m)	35	36	36	36
EPS (Rs)	333.4	425.7	330.0	543.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	1,06,207	1,24,099	1,27,087	1,42,887
Tangibles	1,06,207	1,24,099	1,27,087	1,42,887
Intangibles	-	-	-	-
Acc: Dep / Amortization	44,391	62,469	78,544	93,279
Tangibles	44,391	62,469	78,544	93,279
Intangibles	-	-	-	-
Net fixed assets	61,817	61,630	48,543	49,608
Tangibles	61,817	61,630	48,543	49,608
Intangibles	-	-	-	-
Capital Work In Progress	14,904	11,967	20,343	24,188
Goodwill	-	-	-	-
Non-Current Investments	23,339	34,856	23,362	23,373
Net Deferred tax assets	6,124	7,436	7,793	9,367
Other Non-Current Assets	1,553	4,612	1,753	1,853
Current Assets				
Investments	327	30,863	327	327
Inventories	18,703	17,135	17,922	21,146
Trade receivables	10,237	10,805	8,652	10,209
Cash & Bank Balance	4,393	6,142	49,469	49,575
Other Current Assets	12,366	11,805	14,566	16,092
Total Assets	1,54,931	1,99,442	1,93,917	2,06,936
Equity				
Equity Share Capital	348	361	361	361
Other Equity	96,359	1,31,334	1,39,174	1,54,467
Total Network	96,708	1,31,694	1,39,535	1,54,828
Non-Current Liabilities				
Long Term borrowings	28,027	23,489	24,927	19,927
Provisions	320	351	320	320
Other non current liabilities	5,577	6,076	5,577	5,577
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	5,382	6,577	5,203	6,137
Other current liabilities	10,948	20,401	11,217	12,068
Total Equity & Liabilities	1,54,931	1,99,442	1,93,917	2,06,936

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	13,238	19,343	14,877	23,003
Add. Depreciation	14,718	18,078	16,154	14,735
Add. Interest	2,479	2,914	3,080	2,951
Less Financial Other Income	2,519	2,744	3,217	3,414
Add. Other	(827)	(2,668)	(3,217)	(3,414)
Op. profit before WC changes	29,607	37,667	30,894	37,275
Net Changes-WC	(6,505)	6,927	308	(3,709)
Direct tax	(2,302)	(4,862)	(3,268)	(4,949)
Net cash from Op. activities	20,800	39,732	27,934	28,618
Capital expenditures	(19,225)	(15,403)	(10,851)	(19,645)
Interest / Dividend Income	2,506	1,934	-	-
Others	9,504	(42,518)	3,217	3,414
Net Cash from Invst. activities	(7,215)	(55,987)	(7,634)	(16,231)
Issue of share cap. / premium	-	-	-	-
Debt changes	(7,591)	25,008	(5,000)	(5,000)
Dividend paid	(2,407)	(6,284)	(2,526)	(4,330)
Interest paid	(2,761)	(2,893)	(3,080)	(2,951)
Others	-	63	-	-
Net cash from Fin. activities	(12,760)	15,895	(10,605)	(12,281)
Net change in cash	825	(360)	9,695	106
Free Cash Flow	1,436	24,284	17,083	8,973

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	30,364	28,017	28,483	32,175
YoY gr. (%)	(1.1)	8.3	2.4	(2.0)
Raw Material Expenses	1,856	1,508	2,503	1,816
Gross Profit	28,509	26,509	25,981	30,359
Margin (%)	93.9	94.6	91.2	94.4
EBITDA	9,022	8,442	8,493	10,789
YoY gr. (%)	38.8	39.8	23.1	27.3
Margin (%)	29.7	30.1	29.8	33.5
Depreciation / Depletion	4,027	4,283	4,322	4,362
EBIT	4,995	4,158	4,171	6,426
Margin (%)	16.5	14.8	14.6	20.0
Net Interest	680	717	741	726
Other Income	511	578	649	978
Profit before Tax	4,826	4,018	4,079	6,678
Margin (%)	15.9	14.3	14.3	20.8
Total Tax	1,196	928	980	797
Effective tax rate (%)	24.8	23.1	24.0	11.9
Profit after Tax	3,630	3,091	3,100	5,882
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,630	3,091	3,046	5,882
YoY gr. (%)	5.3	(0.7)	8.3	83.3
Margin (%)	12.0	11.0	10.7	18.3
Extra Ord. Income / (Exp)	-	-	53	-
Reported PAT	3,630	3,091	3,100	5,882
YoY gr. (%)	29.9	526.5	2.9	83.3
Margin (%)	12.0	11.0	10.9	18.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,630	3,091	3,100	5,882
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	104.2	88.7	87.4	168.8

Source: Company Data, PL Research

Key Financial Metrics

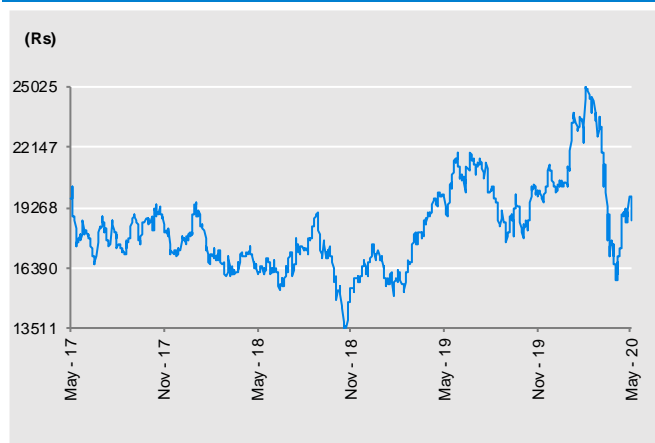
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	333.4	425.7	330.0	543.8
CEPS	755.8	926.7	777.7	952.2
BVPS	2,775.8	3,650.1	3,867.0	4,290.8
FCF	41.2	673.1	473.4	248.7
DPS	60.0	110.0	115.0	120.0
Return Ratio(%)				
RoCE	10.6	13.9	9.2	13.3
ROIC	9.8	15.1	10.7	16.1
RoE	12.5	13.4	8.8	13.3
Balance Sheet				
Net Debt : Equity (x)	0.2	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	69	61	69	69
Valuation(x)				
PER	56.2	44.0	56.8	34.4
P/B	6.7	5.1	4.8	4.4
P/CEPS	24.8	20.2	24.1	19.7
EV/EBITDA	24.2	17.6	21.1	17.3
EV/Sales	5.4	5.1	5.8	4.9
Dividend Yield (%)	0.3	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Volume (mn te)-Cement Domestic	26	25	22	26
Volume (mn units)-Power	1,678	1,143	1,208	1,331
Net Realisations (Rs/te)	4,209	4,571	4,548	4,480
Realised rate (Rs/unit)	5	4	4	4
Cement EBITDA (Rs/te)	1,444	1,444	1,337	1,329
Raw material cost (Rs/te)	308	321	324	334
Power & Fuel cost (Rs/te)	890	780	724	728
Freight cost (Rs/te)	820	762	762	778
Volume (mn te)- Cement Overseas	3	3	3	3
Net Realisations (Rs/te) - Overseas	2,966	2,817	2,874	2,931
Cement EBITDA (Rs/te) - Overseas	512	274	288	374

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-20	Accumulate	560	464
2	17-Feb-20	Reduce	19,500	24,317
3	03-Jan-20	Reduce	18,000	21,122
4	03-Oct-19	Reduce	18,500	18,260
5	10-Aug-19	Reduce	19,550	20,280
6	04-Jul-19	Reduce	19,750	21,648
7	21-May-19	Hold	19,370	20,346

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,340	1,137
2	Ambuja Cement	BUY	190	172
3	Coal India	Accumulate	195	149
4	Heidelberg Cement India	Accumulate	175	147
5	Hindalco Industries	BUY	170	118
6	Hindustan Zinc	Hold	200	175
7	J.Kumar Infraprojects	BUY	340	185
8	Jindal Steel & Power	BUY	150	92
9	JK Lakshmi Cement	Hold	16,680	16,064
10	JSW Steel	Reduce	145	177
11	NMDC	Hold	90	80
12	Shree Cement	Accumulate	560	464
13	Steel Authority of India	Reduce	25	28
14	Tata Steel	Reduce	242	293
15	The Ramco Cements	Reduce	725	810
16	Ultratech Cement	BUY	4,350	3,256

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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