Shree Cement

Accumulate

Result Update

View: Beat on all fronts; Upgrade to Accumulate

- Results were above estimates on all fronts. SRCM posted 23.4% YoY de-growth in revenue to Rs23.3 bn due to 18.6% YoY volume decline to 4.9mt coupled with decline in blended realization by 5.9% YoY (+1.2% QoQ) to Rs4,716/tn. EBITDA down 22.3% YoY to Rs7.0 bn and APAT up 2.1% YoY to Rs3.7 bn.
- We expect 4.2%/ 3.3/ -2.9% revenue/ EBITDA/ APAT CAGR over FY20-22E led by -7.0%/ 15.0% volume growth and -0.5%/ 2.0% blended realization growth in FY21E/ FY22E.
- We increase our revenue estimates by 7.4% each for FY21E/ FY22E and broadly maintain EBITDA margins to factor Q1FY21 results. We increase other income estimates and reduce depreciation and interest cost and accordingly we increase our APAT estimates by 43.6%/ 15.9% for FY21E/ FY22E.
- We believe SRCM is on the right track by adding capacity at regular intervals to improve its dominance on the market. This is helping it to increase its market share with robust profitability without much stress on balance sheet. SRCM's size, its industry leadership in cost and healthy cash position are its advantages. Hence, its premium multiple is going to sustain. Thus, we upgrade to Accumulate with a TP of Rs23,830 based on 20x (in line with its 1/3/5 year averages) standalone FY22E EV/EBITDA and valuing investment in UAE subsidiary at 1x P/B). Our TP factors EV of USD 241/tn.

Blended EBITDA/tn - down 4.6%/ 9.1% YoY/ QoQ

Higher than expected volume (-18.6% YoY/ -28.6% QoQ to 4.9 mt), lower than expected blended realization (-5.9% YoY/ +1.2% QoQ to Rs4,716/ tn) and lower than expected blended operating cost (-6.5% YoY/ +6.4% QoQ to Rs3,295/tn) helped SRCM to report blended EBITDA/tn of Rs1,421 (-4.6% YoY, -9.1% QoQ).

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	23,258	30,364	(23.4)	32,175	(27.7)
Total Expense	16,252	21,342	(23.9)	21,387	(24.0)
EBITDA	7,006	9,022	(22.3)	10,789	(35.1)
Depreciation	2,714	4,027	(32.6)	4,362	(37.8)
EBIT	4,293	4,995	(14.1)	6,426	(33.2)
Other Income	1,244	511	143.3	978	27.3
Interest	706	680	3.7	726	(2.8)
EBT	4,831	4,826	0.1	6,678	(27.7)
Tax	1,123	1,196	(6.1)	797	41.0
RPAT	3,708	3,630	2.1	5,882	(37.0)
APAT	3,708	3,630	2.1	5,882	(37.0)
			(bps)		(bps)
Gross Margin (%)	52.5	50.5	197	52.8	(32)
EBITDA Margin (%)	30.1	29.7	41	33.5	(341)
NPM (%)	15.9	12.0	399	18.3	(234)
Tax Rate (%)	23.3	24.8	(153)	11.9	1132
EBIT Margin (%)	18.5	16.5	201	20.0	(152)

CMP	Rs 22,396
Target / Upside	Rs 23,830 / 6%
BSE Sensex	38,206
NSE Nifty	11,270

Scrip Details

Equity / FV	Rs 361mn / Rs 10
Market Cap	Rs 808bn
	US$ 11bn
52-week High/Low	Rs 25,355/Rs 15,410
Avg. Volume (no)	66,148
NSE Symbol	SHREECEM
Bloomberg Code	SRCM

Shareholding Pattern Jun'20(%)

Promoters	62.6
MF/Banks/FIs	10.0
FIIs	11.6
Public / Others	15.9

Valuation (x)

	FY20A	FY21E	FY22E
P/E	51.3	61.0	54.5
EV/EBITDA	21.1	23.5	19.2
ROE (%)	14.0	9.9	10.3
RoACE (%)	13.0	9.9	10.2

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	1,19,040	1,10,154	1,29,258
EBITDA	36,745	32,235	39,224
PAT	15,755	13,246	14,840
EPS (Rs.)	436.7	367.1	411.3

VP Research: Shravan Shah
Tel: +91 22 40969749
E-mail: shravans@dolatcapital.com

Associate: Maulik Shah
Tel: +91 22 40969775
E-mail: mauliks@dolatcapital.com

Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue(Rs mn)	23,258	19,723	*17.9*	+23.5% higher than estimated volumes with -4.5% lower realization than estimates
EBITDA(Rs mn)	7,006	5,662	*23.7*	
EBITDA%	30.1	28.7	*141 bps*	-4.5% lower than estimated realization combined with -6.4% lower cost than estimates
PAT(Rs mn)	3,708	1,083	*242.3*	Better operational efficiency

Source: Company, DART

Exhibit 2: Upgrade revenue and PAT estimates

(Rs mn)	FY21E			FY22E		
	New	Old	% change	New	Old	% change
Net revenue	1,10,154	1,02,529	7.4	1,29,258	1,20,311	7.4
EBIDTA	32,235	30,155	6.9	39,224	36,734	6.8
EBIDTA margin (%)	29.3	29.4	(15)	30.3	30.5	(19)
Adj. Net Profit	13,246	9,224	43.6	14,840	12,799	15.9
EPS (Rs)	367.1	255.7	43.6	411.3	354.7	15.9

Source: DART, Company

Exhibit 3: Volume, Realization & Cost/tn Analysis

(Rs)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume(MT)	4.9	6.1	(18.6)	6.9	(28.6)	24.9	25.9	(3.6)
Realization/tn (Rs)	4,716	5,013	(5.9)	4,659	1.2	4,775	4,533	5.3
EBITDA/tn (Rs)	1,421	1,489	(4.6)	1,562	(9.1)	1,474	1,026	43.7
Cost/tn (Rs)	3,295	3,524	(6.5)	3,097	6.4	3,301	3,507	(5.9)
Raw Material Cost/tn (Rs)	327	306	6.7	263	24.3	308	334	(7.8)
Employee Expenses/tn (Rs)	351	316	11.0	245	43.3	293	262	11.9
Power and Fuels/tn (Rs)	777	1,070	(27.4)	900	(13.7)	942	1,062	(11.3)
Freight Expenses/tn (Rs)	1,136	1,103	3.0	1,034	9.8	1,045	1,108	(5.6)
Other expenses/tn (Rs)	705	728	(3.2)	654	7.7	713	742	(3.9)

Source: Company, DART

Exhibit 4: % of Revenue

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Raw Material Cost	6.9	6.1	82	5.6	129	6.5	7.4	(92)
Employee Expenses	7.4	6.3	114	5.3	219	6.1	5.8	36
Power and Fuels	16.5	21.3	(487)	19.3	(285)	19.7	23.4	(370)
Freight Expenses	24.1	22.0	208	22.2	189	21.9	24.4	(254)
Other expenses	14.9	14.5	42	14.0	90	14.9	16.4	(144)

Source: Company, DART

Exhibit 5: Valuation

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	20
EBITDA (FY22E)	39,224
EV	7,84,470
Less: Net Debt (FY22E)	(54,460)
Mcap	8,38,930
Shares o/s (mn)	36
Value/share (Rs) – A	23,251
Investments in UAE subsidiary	20,868
P/B (x)	1
Value/share (Rs) – B	578
Target Price (A+B)	**23,830**
CMP (Rs)	**22,396**
Upside (%)	6.4

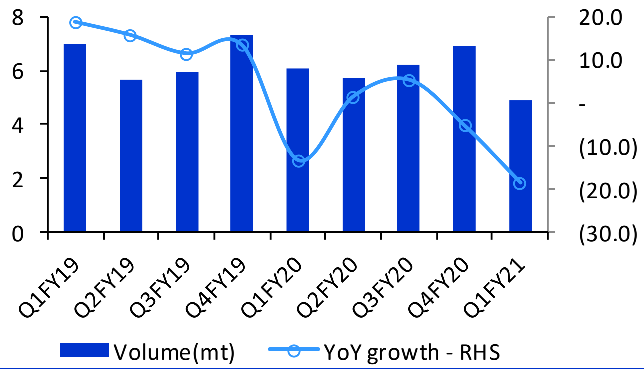
Source: Company, DART

Exhibit 6: Income statement (Standalone)

Rs mn	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Total Revenue	**23,258**	**30,364**	**(23.4)**	**32,175**	**(27.7)**	**1,19,040**	**1,17,220**	**1.6**
Raw Material Cost	1,612	1,856	(13.1)	1,816	(11.3)	7,682	8,642	(11.1)
Employee Expenses	1,731	1,914	(9.6)	1,691	2.4	7,310	6,778	7.8
Power and Fuel	3,831	6,482	(40.9)	6,217	(38.4)	23,476	27,450	(14.5)
Freight Cost	5,602	6,682	(16.2)	7,144	(21.6)	26,061	28,641	(9.0)
Other expenses	3,476	4,409	(21.2)	4,519	(23.1)	17,765	19,180	(7.4)
Total Expenditure	**16,252**	**21,342**	**(23.9)**	**21,387**	**(24.0)**	**82,295**	**90,692**	**(9.3)**
PBIDT (Excl. OI)	**7,006**	**9,022**	**(22.3)**	**10,789**	**(35.1)**	**36,745**	**26,528**	**38.5**
Other Income	1,244	511	143.3	978	27.3	2,716	2,454	10.7
Depreciation	2,714	4,027	(32.6)	4,362	(37.8)	16,994	13,917	22.1
EBIT	**5,537**	**5,507**	**0.6**	**7,404**	**(25.2)**	**22,467**	**15,065**	**49.1**
Interest	706	680	3.7	726	(2.8)	2,865	2,470	16.0
PBT (before exceptional item)	**4,831**	**4,826**	**0.1**	**6,678**	**(27.7)**	**19,602**	**12,596**	**55.6**
Exceptional items	-	-	-	-	-	-	1,781	(100.0)
PBT (after exceptional item)	**4,831**	**4,826**	**0**	**6,678**	**(27.7)**	**19,602**	**10,814**	**81.3**
Tax	1,123	1,196	(6.1)	797	41.0	3,900	1,304	199.1
RPAT	**3,708**	**3,630**	**2.1**	**5,882**	**(37.0)**	**15,702**	**9,510**	**65.1**
Adjustment	-	-		-		-	1,781	
APAT	**3,708**	**3,630**	**2.1**	**5,882**	**(37.0)**	**15,702**	**11,292**	**39.1**
Adj. EPS (Rs)	**102.8**	**100.6**	**2.1**	**163.0**	**(37.0)**	**435.2**	**313.0**	**39.1**
			bps		*bps*			*bps*
EBIDTA Margin (excl. O.I.)	30.1	29.7	41	33.5	(341)	30.9	22.6	824
NPM (%)	15.9	12.0	399	18.3	(234)	13.2	9.6	356
Tax Rate (%)	23.3	24.8	(153)	11.9	1,132	19.9	12.1	784

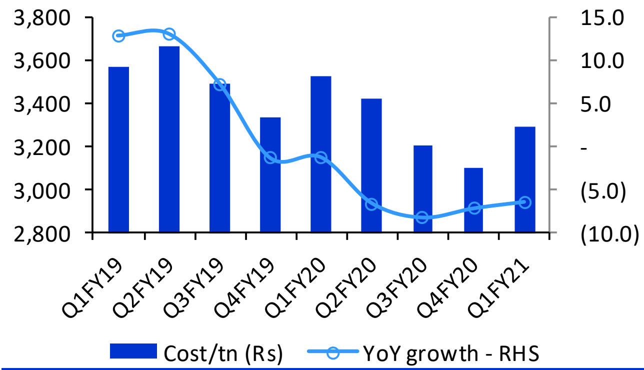
Source: DART, Company

Exhibit 7: Volume (mt)



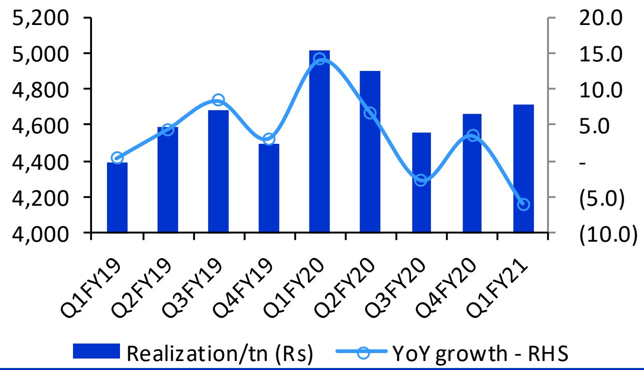
Source: Company, DART

Exhibit 8: Cost/tn (Rs)



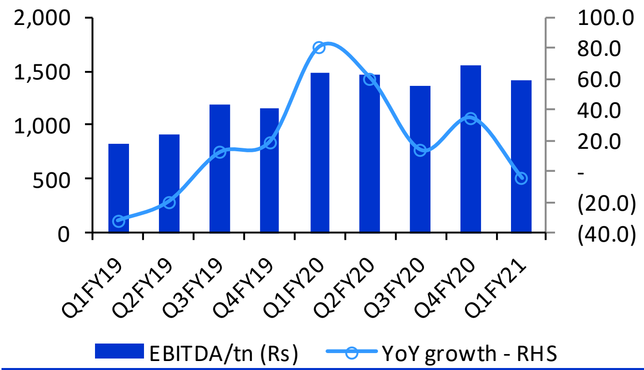
Source: Company, DART

Exhibit 9: Realization/tn (Rs)



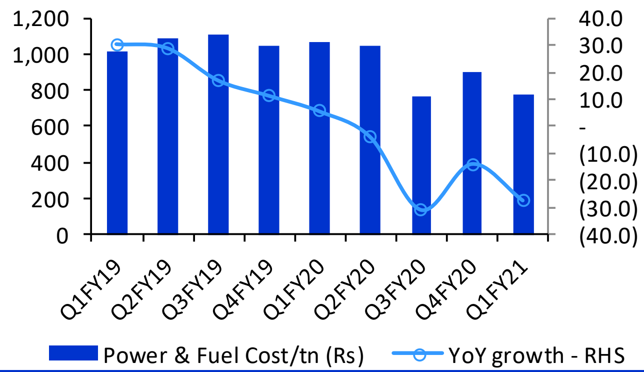
Source: Company, DART

Exhibit 10: EBITDA/tn (Rs)



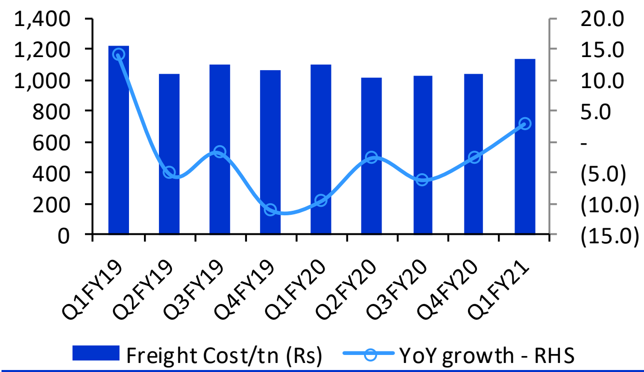
Source: Company, DART

Exhibit 11: Power & fuel cost/tn (Rs)



Source: Company, DART

Exhibit 12: Freight cost/tn (Rs)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	**1,17,220**	**1,19,040**	**1,10,154**	**1,29,258**
Total Expense	**90,692**	**82,295**	**77,918**	**90,034**
COGS	64,733	57,220	54,802	63,876
Employees Cost	6,778	7,310	7,091	7,729
Other expenses	19,180	17,765	16,026	18,429
EBIDTA	**26,528**	**36,745**	**32,235**	**39,224**
Depreciation	13,917	16,994	15,825	19,642
EBIT	**12,611**	**19,751**	**16,410**	**19,581**
Interest	2,470	2,865	3,155	3,155
Other Income	2,454	2,716	4,406	3,361
Exc. / E.O. items	(1,781)	0	0	0
EBT	**10,814**	**19,602**	**17,662**	**19,787**
Tax	1,304	3,900	4,415	4,947
RPAT	9,511	15,702	13,246	14,840
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**11,319**	**15,755**	**13,246**	**14,840**

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	348	361	361	361
Minority Interest	0	0	0	0
Reserves & Surplus	95,626	1,29,003	1,38,642	1,49,874
Net Worth	**95,974**	**1,29,364**	**1,39,002**	**1,50,235**
Total Debt	27,979	31,546	31,546	31,546
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	**1,23,953**	**1,60,910**	**1,70,548**	**1,81,780**
Applications of Funds				
Net Block	**44,757**	**43,189**	**45,985**	**51,343**
CWIP	11,211	9,621	8,000	8,000
Investments	21,583	25,579	25,579	25,579
Current Assets, Loans & Advances	**74,382**	**1,14,990**	**1,29,262**	**1,39,713**
Inventories	15,891	14,279	14,788	17,352
Receivables	7,324	8,285	6,639	7,791
Cash and Bank Balances	3,078	1,082	10,582	12,430
Loans and Advances	97	76	100	114
Other Current Assets	25,137	27,693	26,077	28,450
Less: Current Liabilities & Provisions	**27,979**	**32,469**	**36,835**	**41,410**
Payables	4,508	5,280	5,130	6,020
Other Current Liabilities	23,471	27,189	31,705	35,390
sub total				
Net Current Assets	46,402	82,521	92,427	98,302
Total Assets	**1,23,953**	**1,60,910**	**1,71,991**	**1,83,224**

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	44.8	51.9	50.2	50.6
EBIDTA Margin	22.6	30.9	29.3	30.3
EBIT Margin	10.8	16.6	14.9	15.1
Tax rate	12.1	19.9	25.0	25.0
Net Profit Margin	9.7	13.2	12.0	11.5
(B) As Percentage of Net Sales (%)				
COGS	55.2	48.1	49.8	49.4
Employee	5.8	6.1	6.4	6.0
Other	16.4	14.9	14.5	14.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	(0.3)	(0.4)	(0.4)
Interest Coverage	5.1	6.9	5.2	6.2
Inventory days	49	44	49	49
Debtors days	23	25	22	22
Average Cost of Debt	8.0	9.6	10.0	10.0
Payable days	14	16	17	17
Working Capital days	144	253	306	278
FA T/O	2.6	2.8	2.4	2.5
(D) Measures of Investment				
AEPS (Rs)	313.7	436.7	367.1	411.3
CEPS (Rs)	699.4	907.7	805.7	955.7
DPS (Rs)	55.0	110.0	100.0	100.0
Dividend Payout (%)	17.5	25.2	27.2	24.3
BVPS (Rs)	2660.0	3585.4	3852.5	4163.8
RoANW (%)	12.2	14.0	9.9	10.3
RoACE (%)	11.1	13.0	9.9	10.2
RoAIC (%)	10.4	14.1	10.3	11.9
(E) Valuation Ratios				
CMP (Rs)	22396	22396	22396	22396
P/E	71.4	51.3	61.0	54.5
Mcap (Rs Mn)	8,08,079	8,08,079	8,08,079	8,08,079
MCap/ Sales	6.9	6.8	7.3	6.3
EV	8,10,125	7,74,967	7,57,967	7,53,619
EV/Sales	6.9	6.5	6.9	5.8
EV/EBITDA	30.5	21.1	23.5	19.2
P/BV	8.4	6.2	5.8	5.4
Dividend Yield (%)	0.2	0.5	0.4	0.4
(F) Growth Rate (%)				
Revenue	19.2	1.6	(7.5)	17.3
EBITDA	7.3	38.5	(12.3)	21.7
EBIT	(19.8)	56.6	(16.9)	19.3
PBT	(40.8)	81.3	(9.9)	12.0
APAT	(18.2)	39.2	(15.9)	12.0
EPS	(18.2)	39.2	(15.9)	12.0

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	20,597	37,514	33,110	30,946
CFI	(8,126)	(53,733)	(18,290)	(22,335)
CFF	(12,653)	15,910	(4,959)	(4,959)
FCFF	1,626	24,663	16,110	5,946
Opening Cash	1,209	3,078	1,082	10,582
Closing Cash	3,078	1,082	10,582	12,430

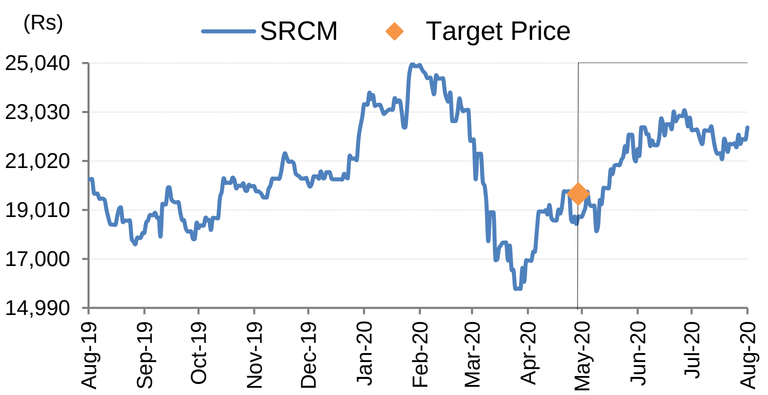
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-20	Reduce	19,667	18,733

*Price as on recommendation date

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com