

Sector: Cement
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 21,500	
Price Target: Rs. 23,453	↓
↑ Upgrade ↔ No change ↓ Downgrade	

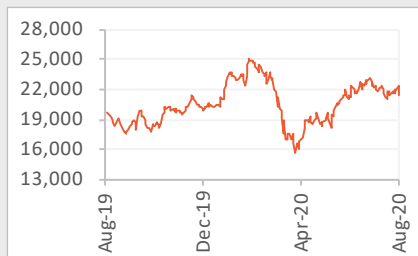
Company details

Market cap:	Rs. 77,574 cr
52-week high/low:	Rs. 25,341/15,500
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	11.6
DII	11.7
Others	14.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.6	12.5	-12.9	9.1
Relative to Sensex	-8.3	-9.9	-5.3	5.2

Sharekhan Research, Bloomberg

Shree Cement Limited (Shree Cement) reported lower-than-expected operational performance for Q1FY2021, even as net profit beat estimates led by higher other income and lower depreciation. Standalone net revenues declined 23.4% y-o-y to Rs. 2,326 crore led by 18.6% y-o-y decline in volumes (including clinker) affected by COVID-19 lockdown in April 2020. Blended realisation lagged estimates at Rs. 4,718/tonne (-5.8% y-o-y, +1.3% q-o-q) likely on account of regional sales mix and lower merchant power revenue. EBITDA/tonne at Rs. 1,421 (-4.5% y-o-y, -9.0% q-o-q) came in lower than estimate due to weak realization. Its Opex/tonne was broadly in-line due to steep decline in power & fuel cost (-27.3% y-o-y). However, compared to other larger players in the industry, which posted strong savings in Opex/tonne, which was not visible in Shree Cement. The standalone operating profit declined by 22.3% y-o-y to Rs. 701 crore, which was lower than our estimate. Standalone net profit was up 2.1% y-o-y to Rs. 371 crore which was mainly aided by higher other income (up 2.4x y-o-y) and steep decline in depreciation (-32.6% y-o-y). The company's UAE subsidiary posted an operating loss of Rs. 12.7 crore versus operating profit of Rs. 45.3 crore in Q1FY2020 and operating loss of Rs. 22.1 crore in Q4FY2020, respectively. Shree Cement's standalone capacity is slated to increase to 46.4MTPA by FY2021E from 40.4MTPA in FY2020. It is yet to announce revival of new capacity additions post holding it back in FY2020 due to COVID-19-led disruption in demand environment. However, considering its capacity at FY2021E end and decline in volumes, it would be utilizing ~50% capacity which provides enough headroom for volume growth. We expect Shree Cement to undertake new capacity additions once clearly signs of demand revival appears as it had raised Rs. 2,400 crore during Q3FY2020. We have lowered our net earnings estimates for FY2021E and FY2022E factoring lower realizations leading to lower OPM for the same period. Hence, our price target (PT) stands revised to Rs. 23,453. Shree Cement is currently trading at an EV/EBITDA of 18.1x its FY2022E earnings, which we believe provides an unfavourable risk-reward to investors at this stage. Hence, we maintain our Hold rating on the stock.

Key positives

- ◆ Cement volume decline lower than industry demand decline.
- ◆ Maintains cost efficiencies through steep reduction in power & fuel cost.

Key negatives

- ◆ Blended realization came in lower than estimate.
- ◆ Compared to larger industry peers, further reduction in opex/tonne did not materialize

Our Call

Valuation –Maintain Hold with a revised PT of Rs. 23,453: The cement industry is expected to go through weak demand outlook during FY2021 on account of COVID-19-led disruption in the economy. However, a healthy bounce-back is expected in FY2022. We expect Shree Cement to undertake new capacity additions once clear signs of demand revival appear, as the company had raised Rs. 2,400 crore during Q3FY2020. We have lowered our net earnings estimates for FY2021E and FY2022E factoring lower realizations leading to lower OPM for the same period. Hence, our PT stands revised to Rs. 23,453. Shree Cement is currently trading at an EV/EBITDA of 18.1x its FY2022E earnings which we believe provides unfavourable risk-reward to the investors at this stage. Hence, we maintain our Hold rating on the stock with a revised price target (PT) of Rs. 23,453.

Key Risks

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

Valuation (Standalone)

Particulars	FY19	FY20	FY21E	FY22E
Revenue	11,722.0	11,904.0	11,149.0	12,901.3
OPM (%)	23.5	30.9	28.2	30.2
Adjusted PAT	1,232.8	1,570.2	1,159.7	1,636.1
% YoY growth	(13.5)	27.4	(26.1)	41.1
Adjusted EPS (Rs.)	353.8	435.2	321.4	453.4
P/E (x)	60.8	49.4	66.9	47.4
P/B (x)	7.8	6.0	5.6	5.1
EV/EBITDA (x)	26.5	19.3	22.6	18.1
RoNW (%)	13.3%	13.9%	8.7%	11.3%
RoCE (%)	11.5%	13.0%	8.7%	10.9%

Source: Company; Sharekhan estimates

Strong operational performance amidst weak demand: Shree Cement reported a 23.4% y-o-y decline in standalone net revenue to Rs. 2,326 crore for Q1FY2020, which was marginally below our estimates. The company reported an 18.6% y-o-y decline in volume (including that of clinker) affected by COVID-19 led lockdown during April 2020. However, blended realization was lower than expected at Rs. 4,718 per tonne (-5.8% y-o-y, +1.3% q-o-q) which is likely on account of regional sales mix and lower merchant power sales. The blended EBITDA/tonne for the quarter declined 4.5% y-o-y (-9.0% q-o-q) to Rs. 1,421, which was lower than expectation mainly led by weak realization. The company's opex/tonne broadly remained inline with estimates at Rs. 3,297, driven by steep decline in power & fuel cost (-27.3% y-o-y, -13.7% q-o-q) while freight expense was up 3.1% y-o-y (+9.9% q-o-q). Overall, operating profit declined by 22.3% y-o-y to Rs. 701 crore which was lower than our expectations. A sharp rise in other income (up 2.4x y-o-y) along with steep decline in depreciation (-32.6% y-o-y) lifted standalone net profit to Rs. 371 crore (+2.1% y-o-y), which was higher than our estimate.

Current capacity provides enough headroom for volume growth: Shree Cement's standalone installed capacity is slated to increase to 46.4MTPA by FY2021E from 40.4MTPA as of FY2020 with completion of 3MT Odisha grinding unit (at a cost of Rs. 423 crore) and 3MT Maharashtra grinding unit (at a cost of Rs. 525 crore) in Q3FY2021. The company has not yet announced revival of its capacity expansion plan which was put on hold for a year as of FY2020-end due to a weak demand environment amidby COVID-19 pandemic. Considering expanded capacity of 46.4MTPA and expected volume decline in FY2021, the company would be utilizing ~50% capacity which provides enough headroom for volume growth. However, as the company sees improvement in demand, we expect it to undertake new capacity expansion plans for which it had raised Rs. 2,400 crore during Q3FY2020.

Per-tonne analysis (blended)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	y-o-y (%)	q-o-q (%)
Volume	6,060,000	5,722,000	6,245,000	6,906,000	4,930,000	-18.6%	-28.6%
Realisation	5,011	4,896	4,561	4,659	4,718	-5.8%	1.3%
Cost break-up							
RM cost	306	264	401	263	327	6.8%	24.3%
Employee expenses	316	323	297	245	351	11.1%	43.4%
Power and fuel	1,070	1,046	768	900	777	-27.3%	-13.7%
Transportation and handling	1,103	1,013	1,031	1,034	1,136	3.1%	9.9%
Other expenses	728	775	705	654	705	-3.1%	7.8%
Total expenditure per tonne	3,522	3,421	3,201	3,097	3,297	-6.4%	6.4%
EBITDA per tonne	1,489	1,475	1,360	1,562	1,421	-4.5%	-9.0%

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Q1FY2021	Q1FY2020	% yoy	Q4FY2020	% qoq
Net Sales	2325.8	3036.4	-23.4%	3217.5	-27.7%
Total Expenditure	1625.2	2134.2	-23.9%	2138.7	-24.0%
Operating profit	700.6	902.2	-22.3%	1078.9	-35.1%
Other Income	124.4	51.1	143.3%	97.8	27.3%
EBIDTA	825.0	953.3	-13.5%	1176.7	-29.9%
Interest	70.6	68.0	3.7%	72.6	-2.8%
PBDT	754.5	885.3	-14.8%	1104.1	-31.7%
Depreciation	271.4	402.7	-32.6%	436.2	-37.8%
PBT	483.1	482.6	0.1%	667.8	-27.7%
Tax	112.3	119.6	-6.1%	79.7	41.0%
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	370.8	363.0	2.1%	588.2	-37.0%
Adjusted PAT	370.8	363.0	2.1%	588.2	-37.0%
Margins					
OPM	30.1%	29.7%	41	33.5%	(341)
PAT	15.9%	12.0%	399	18.3%	(234)
Tax rate	23.3%	24.8%	-153	11.9%	1,132

Source: Company; Sharekhan Research

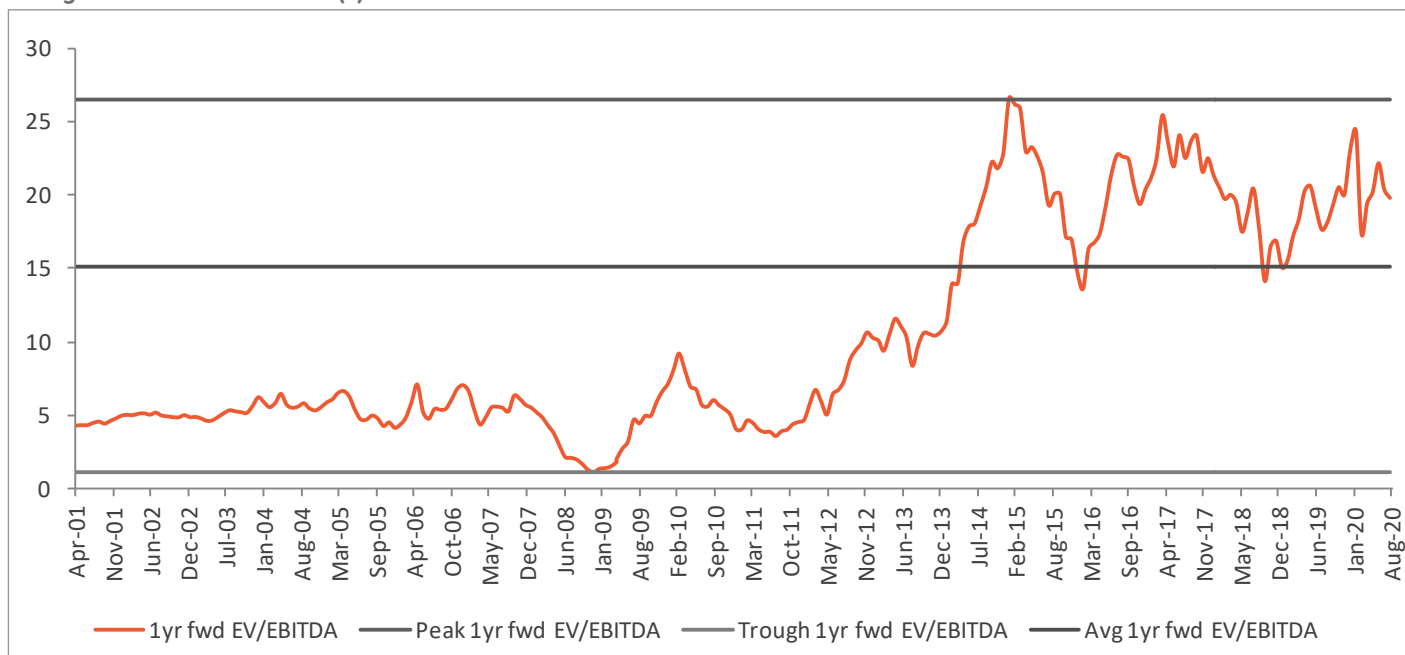
Outlook

Cement demand to bounce back in FY2022: The cement industry has been affected by COVID-19-led disruption caused on the Indian economy. 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 a QIP during Q3FY2020. However, cement demand is expected to bounce back in FY2022, while cement players' deferral of capacity expansions would help maintain a healthy pricing discipline, limiting the impact on their profitability. Considering Shree Cement's expanded capacity of 46.4MTPA and expected volume decline in FY2021, the company would be utilising ~50% capacity which provides enough headroom for volume growth for FY2022.

Valuation

Maintain Hold with a revised PT of Rs. 23,453: The cement industry is expected to go through weak demand outlook during FY2021 on account of COVID-19-led disruption in the economy. However, a healthy bounce-back is expected in FY2022. We expect Shree Cement to undertake new capacity additions once clear signs of demand revival appear, as the company had raised Rs. 2,400 crore during Q3FY2020. We have lowered our net earnings estimates for FY2021E and FY2022E factoring lower realizations leading to lower OPM for the same period. Hence, our PT stands revised to Rs. 23,453. Shree Cement is currently trading at an EV/EBITDA of 18.1x its FY2022E earnings which we believe provides unfavourable risk-reward to the investors at this stage. Hence, we maintain our Hold rating on the stock with a revised price target (PT) of Rs. 23,453.

One-year forward EV/EBITDA (x) band



Source: 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	66.9	47.4	22.6	18.1	5.6	5.1	8.7	11.3
UltraTech Cement	34.4	26.5	14.5	12.1	2.8	2.5	8.4	10.0
The Ramco Cement	31.8	23.5	17.6	13.8	3.1	2.8	10.1	12.4
JK Lakshmi Cement	14.6	10.9	5.5	4.5	1.6	1.4	11.4	13.7

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 Website

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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