

Shree Cement

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR22,389 TP: INR21,500 (-4%) Neutral

Disappoints on weaker margins

Margins to further weaken in near term

- Shree Cement (SCRM)'s 1QFY21 result was relatively weaker than large-cap peers (UTCEM, Ambuja) as EBITDA/t declined to INR1421/t v/s sharp expansion reported by peers.
- While we keep our estimates largely unchanged, we see challenges related to near-term margins for SRCM. These pertain to the hike in cost, but decline in price in its operating regions. The balance sheet should, however, strengthen further (~INR33b net cash) on limited capex under execution. We maintain **Neutral** as the current valuation (16.8x FY22E EV/EBITDA) does not offer any upside.

In-line operational results; lower tax rate leads to PAT beat

- SRCM's rev/EBITDA/PAT came in at -23%/22%/+2% YoY to INR23.2b/INR7.0b/INR3.7b, and -3%/+1%/+57% v/s our est.
- Volumes declined 19% YoY to 4.93mt (est.: 4.97mt), lower than industry decline of ~35% YoY, largely due to a low base (-13% YoY in 1QFY20 v/s +1% for the industry).
- While blended EBITDA/t (incl. power) declined 5% YoY and 9% QoQ to INR1,421, we estimate Clean Cement's EBITDA/t (excluding power and incentives booked) to be nearly flat YoY and QoQ at INR1350/t.
- Blended realization (incl. power) was down 6% YoY (+1% QoQ) to INR4,717/t (2% below est. of INR4,821/t), probably due to lower merchant power sales. We estimate cement realization (excl. incentives booked and power sales) to have improved 7–8% QoQ to ~INR4,600/t.
- Blended cost/t declined 6% YoY (+6% QoQ) to INR3,296/t (est.: INR3,422) on lower power and fuel cost at INR777/t (-27% YoY; -14% QoQ). This was offset by negative operating leverage (from lower volumes).
- Depreciation expense declined 33% YoY to INR2.7b, driving the beat on PAT v/s our estimates.

Valuation and view

- While SRCM's home market of northern India remains better placed (due to consolidated market structure and lower capacity additions), its increasing exposure to the eastern region is expected to result in blended margin decline. The eastern region is likely to witness ~30% capacity expansion by various players (including SRCM) over the next 18 months. This is likely to lead to a battle for market share in a weak demand environment.
- A strong balance sheet (~INR33b net cash at FY20-end) and limited capex provide comfort in the current uncertain demand environment on account of COVID-19.
- We value SRCM at 16x FY22E EV/EBITDA and add the value of the UAE operations at USD70/t to arrive at TP of INR21,500. We expect EBITDA to grow at just a 6% CAGR over FY20–22E, lower than large-cap peers. We therefore rate it as **Neutral**. The stock trades at 16.8x FY22E EV/EBITDA.

Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USD b)	807.8 / 10.5
52-Week Range (INR)	25300 / 15500
1, 6, 12 Rel. Per (%)	-4/-3/9
12M Avg Val (INR M)	983

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Financial Snapshot (INR b)

Y/E Mar	2020	2021E	2022E
Sales	119.0	109.7	131.2
EBITDA	36.7	32.9	41.4
Adj. PAT	15.7	14.7	20.9
EBITDA Margin (%)	30.9	30.0	31.6
Cons. Adj. EPS (INR)	435.2	408.5	578.7
EPS Gr. (%)	34.3	-6.1	41.6
BV/Sh. (INR)	3,586	3,934	4,453

Ratios

Net D:E	-0.3	-0.4	-0.6
RoE (%)	13.9	10.9	13.8
RoCE (%)	12.6	10.2	12.8
Payout (%)	25.3	14.7	10.4

Valuations

P/E (x)	51.4	54.8	38.7
P/BV (x)	6.2	5.7	5.0
EV/EBITDA(x)	20.7	22.6	16.8
EV/ton (USD)	262.5	223.8	209.5
Div. Yield (%)	0.5	0.3	0.3
FCF Yield (%)	3.0	2.4	3.0

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	62.6	62.6	64.8
DII	11.7	11.2	6.9
FII	11.6	11.9	12.2
Others	14.3	14.3	16.1

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Quarterly Performance (S/A)

(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	30,364	28,017	28,483	32,175	23,258	25,196	26,618	34,632	1,19,040	1,09,704	23,944	-3
YoY Change (%)	-3.0	8.3	2.4	-2.0	-23.4	-10.1	-6.5	7.6	1.2	-7.8	-21.1	
Total Expenditure	21,342	19,576	19,990	21,387	16,252	17,497	19,294	23,721	82,295	76,764	16,996	-4
EBITDA	9,022	8,442	8,493	10,789	7,006	7,699	7,325	10,911	36,745	32,940	6,949	1
Margins (%)	29.7	30.1	29.8	33.5	30.1	30.6	27.5	31.5	30.9	30.0	29.0	
Depreciation	4,027	4,283	4,322	4,362	2,714	4,200	4,100	5,843	16,994	16,857	4,300	
Interest	680	717	741	726	706	650	650	466	2,865	2,471	680	
Other Income	511	578	649	978	1,244	1,444	1,644	1,197	2,716	5,530	1,100	
PBT before EO Exp	4,826	4,018	4,079	6,678	4,831	4,293	4,219	5,799	19,602	19,143	3,069	57
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	4,826	4,018	4,079	6,678	4,831	4,293	4,219	5,799	19,602	19,143	3,069	57
Tax	1,196	928	980	797	1,123	987	970	1,322	5,248	4,403	706	
Rate (%)	24.8	23.1	24.0	11.9	23.3	23.0	23.0	22.8	19.9	23.0	23.0	
Reported PAT	3,630	3,091	3,100	5,882	3,708	3,306	3,249	4,478	15,702	14,740	2,363	57
Adj PAT	3,630	3,091	3,100	5,882	3,708	3,306	3,249	4,478	15,702	14,740	2,363	57
YoY Change (%)	6.9	35.9	2.9	83.3	2.1	7.0	4.8	-23.9	39.1	-6.1	-34.9	

E:MOFSL Estimates

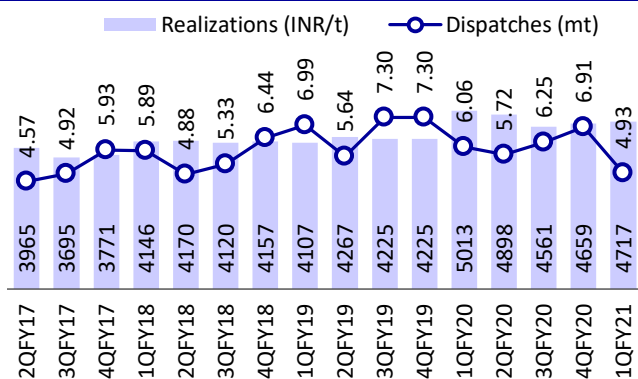
Quarterly performance

(INR/t)

	6.06	5.72	6.25	6.91	4.93	5.43	5.93	7.55	24.92	23.85	4.97	-1
Sales volume (m ton)	6.06	5.72	6.25	6.91	4.93	5.43	5.93	7.55	24.92	23.85	4.97	-1
YoY Change (%)	-13.3	1.4	5.3	-5.4	-18.6	-5.0	-5.0	9.4	-3.6	-4.3	-18.0	
Blended Realization	5,013	4,898	4,561	4,659	4,717	4,637	4,487	4,585	4,569	4,419	4,821	-2
YoY Change (%)	22.1	14.8	5.7	10.3	-5.9	-5.3	-1.6	-1.6	7.8	-3.3	-3.8	
Expenditure												
RM Cost	306	264	401	263	327	295	295	298	308	296	310	5
Staff Cost	316	323	297	245	351	322	303	240	275	297	332	6
Power & Fuel	1,070	1,046	768	900	777	813	913	943	811	706	930	-16
Freight	1,103	1,013	1,031	1,034	1,136	1,080	1,091	1,091	1,046	1,098	1,050	8
Other Expenses	728	776	705	654	705	710	650	569	682	649	800	-12
Total Op cost	3,524	3,422	3,201	3,097	3,296	3,220	3,252	3,141	3,121	3,046	3,422	-4
EBITDA	1,489	1,476	1,360	1,562	1,421	1,417	1,235	1,445	1,448	1,373	1,399	2
YoY Change (%)	72.3	47.8	27.6	41.7	-4.6	-4.0	-9.2	-7.5	43.8	-5.2	-6.1	

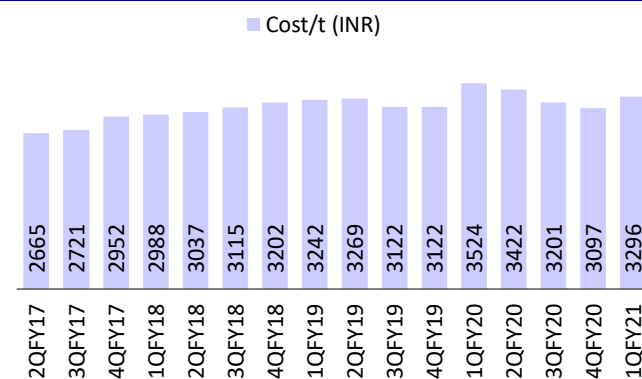
Key exhibits

Exhibit 1: Volumes/Realizations down 19% YoY / 5.9% YoY



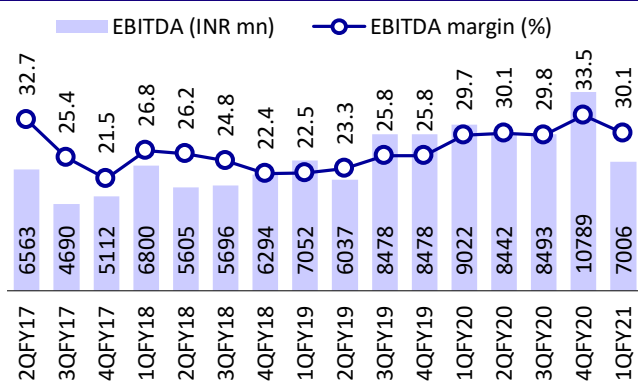
Source: Company, MOFSL

Exhibit 2: Total cost/t down 6% YoY (INR/t)



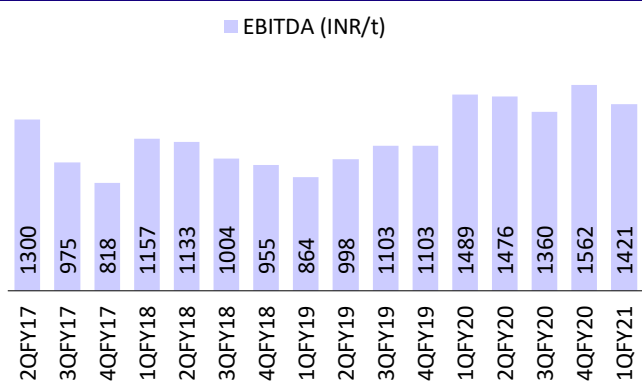
Source: Company, MOFSL

Exhibit 3: Margins expand 40bps YoY



Source: Company, MOFSL

Exhibit 4: Trend in cement EBITDA/t



Source: Company, MOFSL

Exhibit 5: Key performance indicators

INR/t	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ(%)
Net Blended Realization	4,717	5,013	-6%	4,659	1%
Raw Material Cost	327	306	7%	263	24%
Staff Cost	351	316	11%	245	43%
Power & fuel	777	1,070	-27%	900	-14%
Freight & selling Exp	1,136	1,103	3%	1,034	10%
Other Exp	705	728	-3%	654	8%
Total Exp	3,296	3,524	-6%	3,097	6%
EBITDA	1,421	1,489	-5%	1,562	-9%

Source: Company, MOFSL

Valuation and view

Size limiting market share gains: SCRM has the advantage of being the largest player in the northern India market, which contributes ~60% to its volumes. However, this is also disadvantageous as high penetration in northern (25% market share) and key operating states in eastern (Bihar, Chhattisgarh, etc.) have slowed market share gains for the company – a key driver of its premium valuations. While all-India market share of SCRM expanded to 7.5% in FY17 from 3% in FY07, it has since remained stagnant.

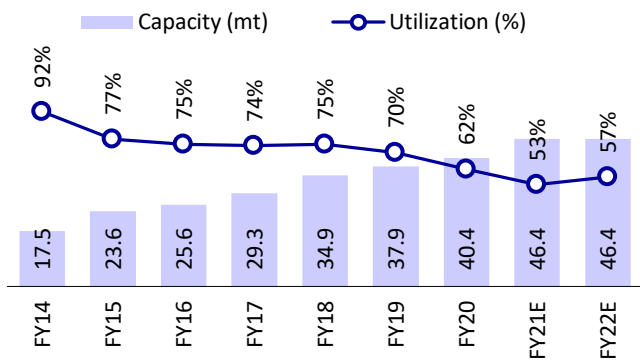
Pace of capacity expansion has slowed: Despite strong OCF, SCRM has not announced any clinker capacity expansion over the past three years (longest such period in the past 15 years). Also, some of the announced expansions have seen delays in commissioning in the past 18 months. In our view, this is likely due to slower-than-expected ramp-up of capacities commissioned over the past two years as well as execution challenges (land acquisition, limestone availability, etc.) in setting up new projects. We believe these factors have impacted RoCE and increased the payback period for setting up new capacities for the company.

Increased exposure in eastern to lower blended margin: While SRCM's home market of northern India continues to be better placed (owing to a consolidated market structure and lower capacity additions), its increasing exposure to the eastern region would likely result in decline in blended margin. The eastern region is likely to witness ~30% capacity expansion by various players (including SRCM) over the next 18 months. This would likely lead to battle for market share in a weak demand environment.

Valuation: We value SCRM at 16x FY22E EV/EBITDA and add the value of the UAE operations at USD70/t to arrive at TP of INR21,500. A strong balance sheet (~INR33b net cash at FY20-end) and limited capex provide comfort in the current uncertain demand environment on account of COVID-19. However, we believe this is factored in the current valuation (16.8x FY22E EV/EBITDA) and hence maintain a **Neutral** rating.

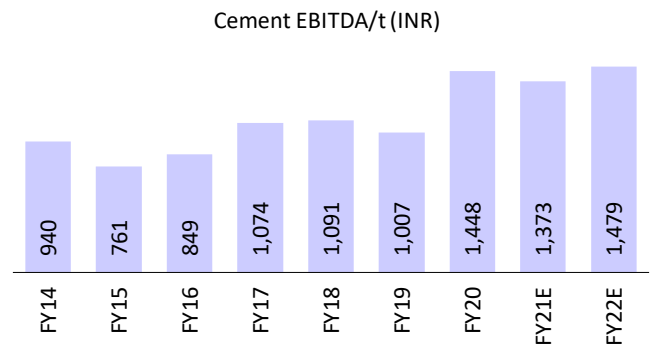
Story in charts

Exhibit 6: Utilizations to remain lower in FY21



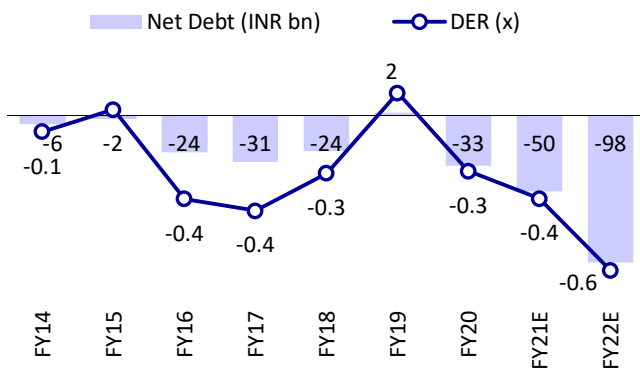
Source: Company, MOFSL

Exhibit 7: EBITDA/t to decline in FY21



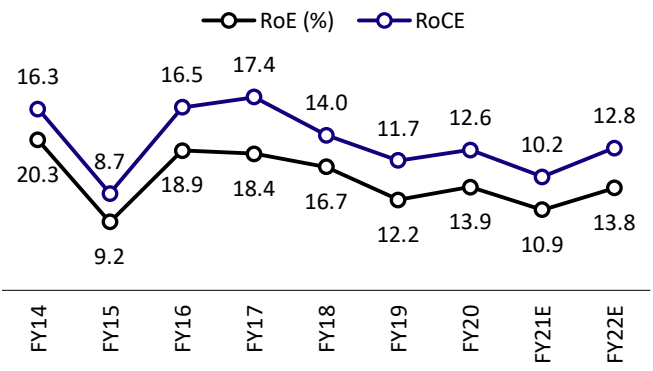
Source: Company, MOFSL

Exhibit 8: Balance sheet remains healthy



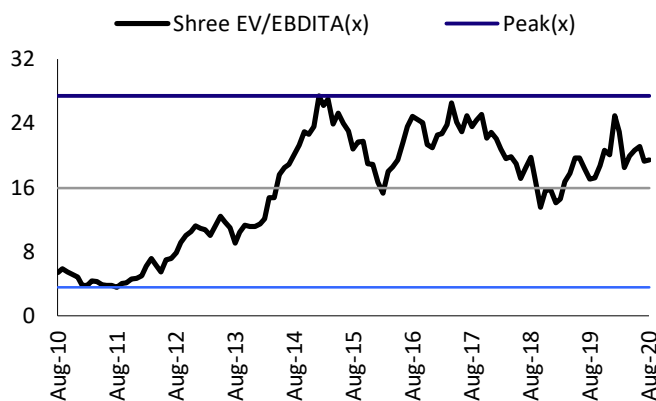
Source: MOFSL, Company

Exhibit 9: Return ratios to decline in FY21E



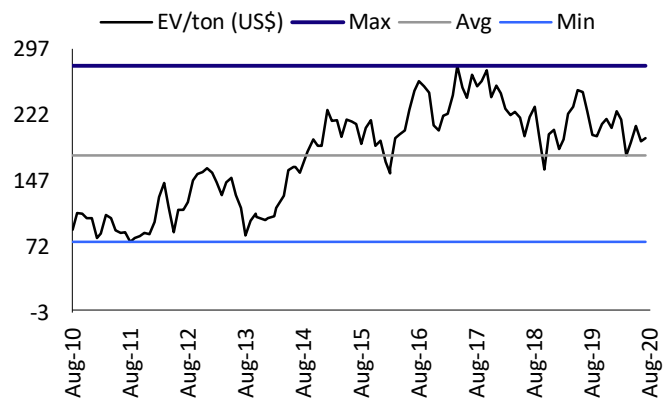
Source: MOFSL, Company

Exhibit 10: SRCM EV/EBITDA trend



Source: MOFSL, Company

Exhibit 11: SRCM EV/t trend



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
Y/E March	2015*	2016	2017	2018	2019	2020	2021E	2022E
Gross Sales	72,036	62,029	95,215	102,158	117,599	1,19,040	1,09,704	1,31,170
Less: Excise Duty	7,536	6,763	10,674	3,264	0	0	0	0
Net Sales	64,500	55,266	84,541	98,894	117,599	1,19,040	1,09,704	1,31,170
Change (%)	9.5	-14.3	53.0	17.0	18.9	1.2	-7.8	19.6
EBITDA	13,439	14,069	23,672	24,728	27,868	36,745	32,940	41,447
Margin (%)	20.8	25.5	28.0	25.0	23.7	30.9	30.0	31.6
Depreciation	9,248	8,276	12,147	8,994	13,917	16,994	16,857	16,426
EBIT	4,191	5,793	11,525	15,734	13,951	19,751	16,084	25,021
Int. and Finance Charges	1,206	758	1,294	1,353	3,810	2,865	2,471	2,113
Other Income - Rec.	1,379	6,727	5,077	3,891	2,454	2,716	5,530	6,330
PBT before EO Expense	4,363	11,763	15,308	18,272	12,596	19,602	19,143	29,238
EO Expense/(Income)	355	0	0	0	1,781	0	0	0
PBT after EO Expense	4,008	11,763	15,308	18,272	10,814	19,602	19,143	29,238
Tax	268	668	3,263	4,466	2,177	5,248	4,403	8,359
Deferred Tax	-523	-337	-1,346	-36	-873	-1,348	0	0
Tax Rate (%)	-6.4	2.8	12.5	24.2	12.1	19.9	23.0	28.6
Reported PAT	4,263	11,431	13,391	13,842	9,510	15,702	14,740	20,879
Adj PAT for EO items	4,618	11,431	13,391	13,842	11,292	15,702	14,740	20,879
Change (%)	-46.8	147.5	17.1	3.4	-18.4	39.1	-6.1	41.6
Margin (%)	7.2	20.7	15.8	14.0	9.6	13.2	13.4	15.9

*Y/E June

Balance Sheet							(INR m)	
Y/E March	2015*	2016	2017	2018	2019	2020	2021E	2022E
Equity Share Capital	348	348	348	348	348	361	361	361
Other Reserves	52,416	68,107	76,633	88,620	95,626	1,29,003	1,41,578	1,60,292
Total Reserves	52,416	68,107	76,633	88,620	95,626	1,29,003	1,41,578	1,60,292
Net Worth	52,764	68,455	76,981	88,968	95,974	1,29,364	1,41,939	1,60,653
Deferred Liabilities	-1952	-3718	-5077	-5131	-6126	-7438	-7438	-7438
Secured Loan	9,166	8,350	6,854	23,761	27,770	31,042	23,074	23,074
Unsecured Loan	8,523	455	6,072	10,269	210	400	400	400
Total Loans	17,690	8,805	12,925	34,030	27,980	31,442	23,474	23,474
Capital Employed	68,502	73,542	84,830	117,868	117,827	1,53,368	1,57,976	1,76,690
Gross Block	86,496	38,720	46,354	65,480	88,259	1,03,231	1,16,231	1,28,231
Less: Accum. Deprn.	56,453	8,218	20,363	29,586	43,503	60,042	76,899	93,325
Net Fixed Assets	30,043	30,501	25,991	35,895	44,757	43,189	39,332	34,906
Capital WIP	8,307	6,140	11,035	18,303	14,725	12,576	11,576	11,576
Financial investments	16,625	30,305	40,424	54,341	22,856	63,575	68,575	83,575
Strategic Investment	1	1	3	3	21,583	1,03,231	1,16,231	1,28,231
Curr. Assets	23,051	23,968	29,132	37,749	41,886	41,022	45,072	56,456
Inventory	9,189	8,152	13,145	15,690	15,891	14,279	14,427	16,172
Account Receivables	4,764	3,286	3,351	4,593	7,324	8,285	8,115	8,984
Cash and Bank Balance	3,075	2,830	3,110	3,209	3,078	1,082	5,153	12,184
Others	6,023	9,700	9,526	14,258	15,593	17,378	17,378	19,115
Curr. Liability & Prov.	9,525	17,373	21,754	28,420	27,979	32,573	32,159	35,402
Account Payables	8,645	17,283	21,660	28,335	27,886	32,470	32,056	35,299
Provisions	880	91	95	86	93	103	103	103
Net Current Assets	13,526	6,595	7,378	9,329	13,907	8,450	12,914	21,054
Appl. of Funds	68,502	73,542	84,830	117,870	117,828	1,53,368	1,57,976	1,76,690

*Y/E June

Financials and valuations

Ratios

Y/E March	2015*	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	117.5	318.5	345.7	396.3	324.1	435.2	408.5	578.7
Cash EPS	505.7	678.4	911.1	776.7	958.4	1,155.9	1,095.0	1,213.9
BV/Share	1,514.6	1,965.0	2,209.6	2,553.6	2,754.7	3,585.5	3,934.0	4,452.7
DPS	24.0	24.0	140.0	50.0	60.0	110.0	60.0	60.0
Payout (%)	19.6	7.3	36.4	12.6	22.0	25.3	14.7	10.4
Valuation (x)								
P/E					69.1	51.4	54.8	38.7
Cash P/E					23.4	19.4	20.4	18.4
P/BV					8.1	6.2	5.7	5.0
EV/Sales					6.8	6.4	6.8	5.3
EV/EBITDA					29	21	23	17
EV/ton (USD-Cap)					292	263	224	209
Dividend Yield (%)					0.3	0.5	0.3	0.3
Return Ratios (%)								
RoIC	8.2	9.3	14.9	14.3	14.0	16.4	10.8	14.7
RoE	9.2	18.9	18.4	16.7	12.2	13.9	10.9	13.8
RoCE	8.7	16.5	17.4	14.0	11.7	12.6	10.2	12.8
Working Capital Ratios								
Inventory (Days)	52	54	57	58	49	44	48	45
Debtor (Days)	24	19	13	16	23	25	27	25
Creditor (Days)	49	114	94	105	87	100	107	98
Working Capital Turnover (Days)	77	44	32	34	43	26	43	59
Leverage Ratio (x)								
Current Ratio	2.4	1.4	1.3	1.3	1.5	1.3	1.4	1.6
Net Debt/Equity	0.0	-0.4	-0.4	-0.3	0.0	-0.3	-0.4	-0.6

Cash Flow Statement

	2015*	2016	2017	2018	2019	2020	2021E	2022E
(INR m)								
OP/(Loss) before Tax	4,008	11,763	15,308	18,272	10,814	19,602	19,143	29,238
Depreciation	9,315	8,276	12,147	8,994	13,916	16,994	16,857	16,426
Interest & Finance Charges	654	-754	-1,210	-740	833	1,132	0	0
Direct Taxes Paid	-906	-1,431	-2,891	-5,068	-2,300	-4,859	-4,403	-8,359
(Inc)/Dec in WC	-2,920	-1,748	-509	-1,131	-5,302	5,591	-393	-1,108
CF from Operations	10,150	16,105	22,845	20,327	17,962	38,460	31,203	36,197
Others	2,236	-444	-829	-1,540	2,635	-947	0	0
CF from Operating incl EO	12,386	15,662	22,017	18,788	20,597	37,513	31,203	36,197
(Inc)/Dec in FA	-11,236	-7,339	-12,793	-25,263	-18,853	-12,941	-12,000	-12,000
Free Cash Flow	1,150	8,322	9,223	-6,475	1,744	24,572	19,203	24,197
(Pur)/Sale of Investments	1,334	-5,306	-7,686	-10,685	10,727	-40,792	-5,000	-15,000
Others	1,583	-553	411	-3	51	0	0	0
CF from Investments	-8,318	-13,199	-20,068	-35,950	-8,075	-53,733	-17,000	-27,000
Issue of Shares	0	0	0	0	0	23,833	0	0
Inc/(Dec) in Debt	-446	-224	4,455	20,353	-7,591	1,175	-7,968	0
Interest Paid	-1,246	-892	-1,278	-1,248	-2,753	-2,868	0	0
Dividend Paid	-893	-1,592	-4,846	-1,843	-2,308	-6,231	-2,165	-2,165
CF from Fin. Activity	-2,586	-2,708	-1,669	17,262	-12,653	15,910	-10,132	-2,165
Inc/Dec of Cash	1,482	-245	279	99	-131	-310	4,071	7,032
Opening Balance	1,593	3,075	2,830	3,110	3,209	3,078	2,768	6,839
Closing Balance	3,075	2,830	3,110	3,209	3,078	2,768	6,839	13,871

*Y/E June

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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