KRChoksey | Institutional

Shree Cement Ltd.

RESULT UPDATE

14th Aug 2020

Shree Cement Ltd.

COVID-19 led lockdown affects cement volume offtake

CMP	Target	Potential Upside	Market Cap (INR Cr)	Recommendation	Sector
INR 21,237	**INR 22,710**	**6.9%**	**INR 76,623**	**ACCUMULATE**	**Cement**

Result Highlights of 1QFY21

- Shree Cement's 1QFY21 revenue declined 24.9% YoY (down 27.4% QoQ) to INR 2,480 Cr, as sales volume was muted on account of nationwide lockdown.
- EBITDA declined 27.4% YoY (down 34.9% QoQ) to INR 688 Cr. EBITDA margin contracted by 95bps YoY to 27.7% in 1QFY21 from 28.7% in corresponding quarter last year. On QoQ basis, EBITDA margin contracted 320 bps from 30.9% in 4QFY20.
- Net Profit for the quarter de-grew 13.2% YoY (down 38.5% QoQ) to INR 330 Cr while Net Profit margin for the quarter expanded 179 bps YoY to 13.3% (down 240 bps QoQ).

MARKET DATA

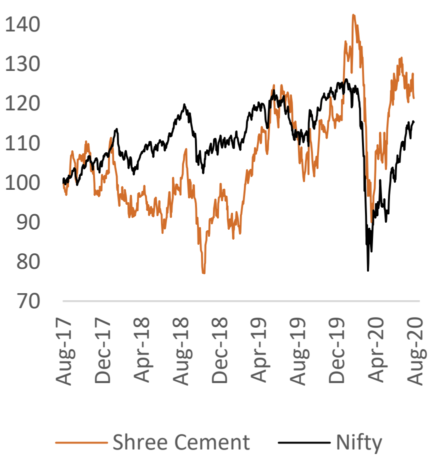
Shares outs (Cr)	3.6
Equity Cap (INR Cr)	13,238
Mkt Cap (INR Cr)	76,623
52 Wk H/L (INR)	25,355/15,410
Volume Avg (3m K)	68
Face Value (INR)	10
Bloomberg Code	SRCM IN

KEY FINANCIALS

INR Crores	FY18	FY19	FY20	FY21E	FY22E
Revenue	9,833	12,555	12,868	11,937	13,719
EBITDA	2,473	2,794	3,759	3,366	4,123
PAT	1,384	1,006	1,536	1,041	1,368
Adj PAT	1,384	1,185	1,536	1,041	1,368
EPS (INR)	397.3	288.9	435.4	288.4	379.3
Adj. EPS (INR)	397.3	340.0	435.4	288.4	379.3
EBITDA Margin (%)	25.1%	22.3%	29.2%	28.2%	30.1%
NPM (%)	14.1%	8.0%	11.9%	8.7%	10.0%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	38,310
NIFTY	11,300

SHARE HOLDING PATTERN (%)

Particulars	Jun-20 (%)	Mar-20 (%)	Dec-19 (%)
Promoters	62.6	62.6	62.6
FIIs	11.6	11.9	13.2
DIIs	11.6	11.2	9.8
Others	14.2	14.3	14.4
Total	100	100	100

Weak demand led to volume decline:

Decline in volumes for 1QFY21 was higher than 4QFY20 because of only few COVID-19 affected weeks in 4QFY20. Sales volume for the current quarter declined 18.6% YoY (down 28.7% QoQ) to 4.9MT, attributed to COVID-19 related slowdown. Cement sales realization on consolidated basis was down 7.7% YoY at INR 5,031/t but improved sequentially by 1.8% on QoQ basis.

Higher freight cost impacts margins; though fuel cost was lower:

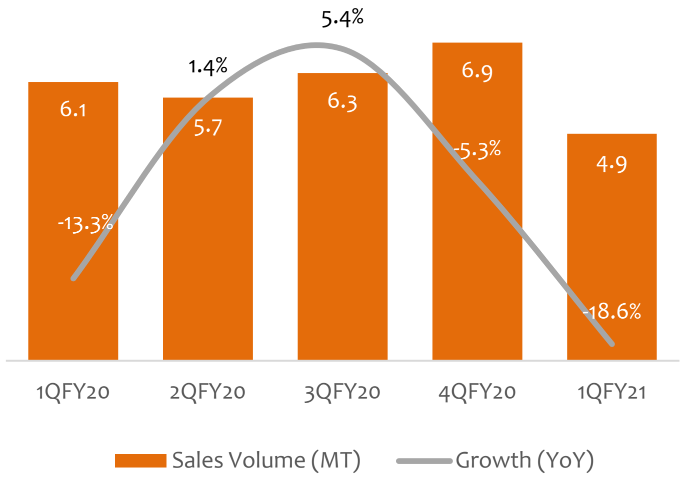
Blended EBITDA for the quarter declined 34.9% QoQ (down 27.4% YoY) to INR 688 Cr due to higher per ton manufacturing cost at INR 3,635/t (increase of 6.5% QoQ), primarily attributed to higher cost of RM at 7.2% of revenue (vs 6.8% in 4QFY20), higher freight costs at 23.4% of revenue (vs 21.3%/20.7% in 4QFY20/1QFY20) & higher other expenses at 15.4% of revenue (vs 14.8%/14.1% in 4QFY20/1QFY20). Overall, EBITDA/t for the quarter decreased 8.8% QoQ (-10.8% YoY) to INR 1,395/t; implying EBITDA margin contraction of 320bps QoQ (-95bps YoY). Net profit for the quarter de-grew by 38.5% QoQ (-13.2% YoY) on account of higher effective tax rate of 25.4% (vs 12.9% in 4QFY20 due to deferred tax adjustment of ~INR 135 Cr). D&A cost declined by -35%/-30% on QoQ/YoY basis while other income was higher by 29%/143% on QoQ/YoY basis. Overall, Net profit contracted 240bps on QoQ basis though improved by 179bps YoY.

Valuation and view:

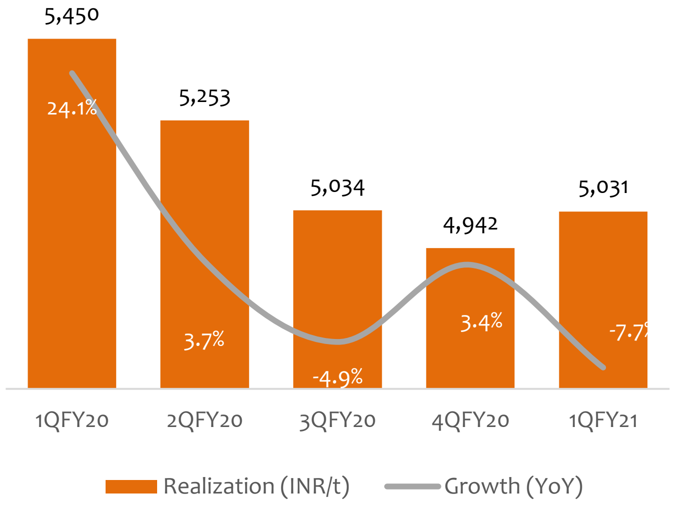
Shree cement trades at premium valuation for its aggressive growth plan, but it has been affected due to COVID-19 led demand disruption. With lockdown getting eased across the nation, we expect better demand going forward & resumption in capacity enhancement activities. Significant fall in Crude oil prices compared to historical levels is helping the cement companies to cap the impact arising from low volume offtake. Expectations of normal monsoon will result in some traction in the cement demand, especially from rural parts. Moreover, though earnings will be affected in near term due to lower volume off-take, we like Shree Cement for its leadership position in the North region & recent foray into Eastern market to help in geographical diversification. Overall, Revenue & EBITDA to grow at 3.3%/4.7% over FY20-22E. Since our last update of the stock, the Shares of Shree cement have rallied 12.1% and are currently trading at EV/EBITDA multiple of 23.4/19.1x on FY21E/FY22E EBITDA estimates. **We expect better demand recovery going forward and hence we have raised our target EV/EBITDA multiple to 19.5x (earlier 19.0x) on FY22E EBITDA of INR 4,123 Cr (previously 3,766 Cr) and arrive at a revised Target Price of INR 22,710 per share; an upside potential of 6.9% over CMP. Accordingly, we assign an "ACCUMULATE" rating on the shares of Shree Cement.**

Shree Cement Ltd.

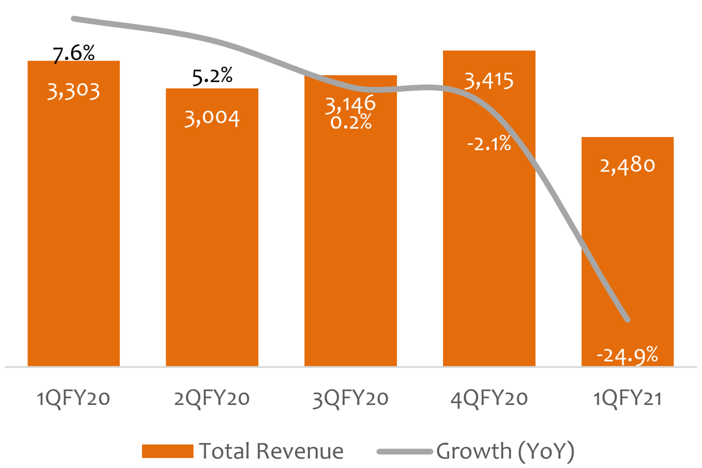
Volume affected due to lockdown



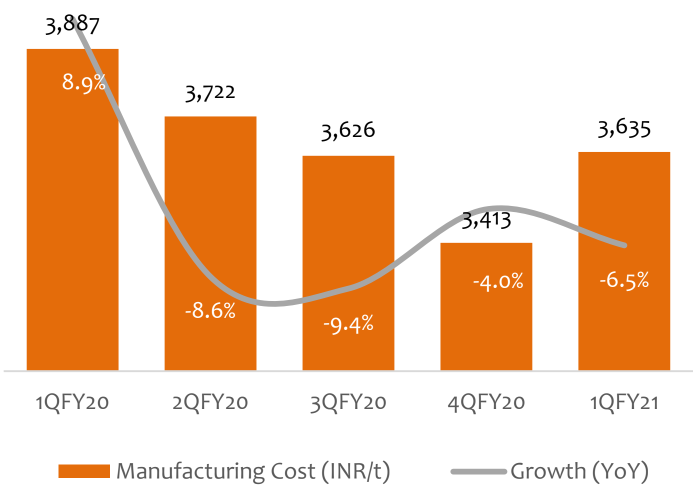
Sequential improvement in realizations



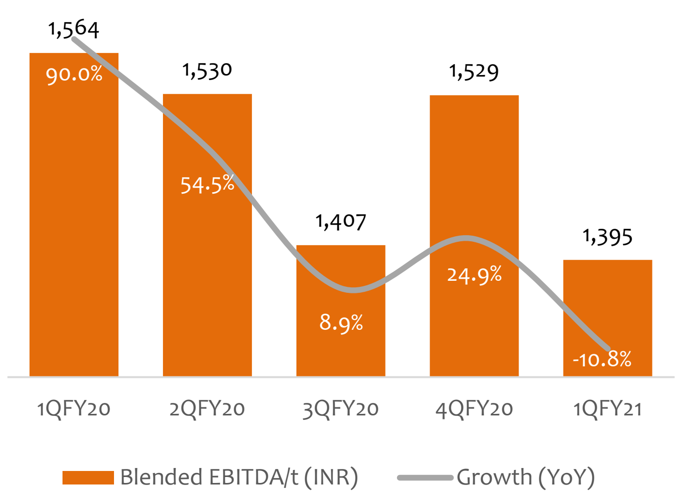
Lower revenue due to volume decline (INR Cr)



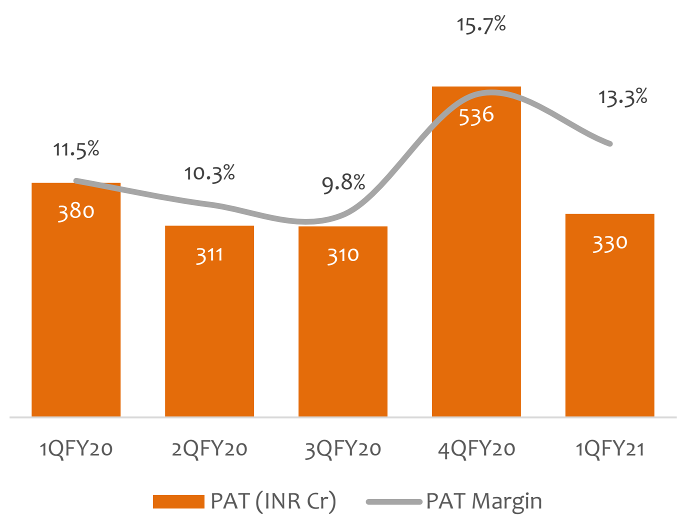
Sequential rise in per ton cost



Sequential rise in cost puts pressure on EBITDA/t



Improvement in NPM on YoY basis



Source: Company, KRChoksey Research; Charts based on standalone numbers

Shree Cement Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crores	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	**8,594**	**9,833**	**12,555**	**12,868**	**11,937**	**13,719**
COGS	627	770	1,015	990	912	1,063
Gross profit	**7,967**	**9,063**	**11,539**	**11,878**	**11,025**	**12,656**
Employee cost	537	588	767	854	836	892
Power & Fuel	1,444	1,980	3,093	2,703	2,430	2,741
Freight and Forwarding Expense	1,874	2,525	2,903	2,662	2,544	2,911
Other expenses	1,623	1,554	2,020	1,900	1,850	1,989
EBITDA	**2,513**	**2,473**	**2,794**	**3,759**	**3,366**	**4,123**
EBITDA Margin	***29.2%***	***25.1%***	***22.3%***	***29.2%***	***28.2%***	***30.1%***
Depreciation & amortization	1,215	899	1,472	1,808	2,154	2,476
EBIT	**1,298**	**1,573**	**1,322**	**1,951**	**1,212**	**1,648**
Interest expense	129	135	248	291	294	331
PBT	**1,531**	**1,827**	**1,146**	**1,934**	**1,345**	**1,765**
Tax	192	443	131	390	296	388
Minority interest	0	0	9	8	8	8
PAT	**1,339**	**1,384**	**1,006**	**1,536**	**1,041**	**1,368**
Adj. PAT	**1,339**	**1,384**	**1,185**	**1,536**	**1,041**	**1,368**
EPS (INR)	**384.4**	**397.3**	**288.9**	**435.4**	**288.4**	**379.3**
Adj. EPS	**384.4**	**397.3**	**340.0**	**435.4**	**288.4**	**379.3**

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Crores	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	2,202	1,879	2,080	3,973	2,128	3,631
Net Cash Flow from/(used in) Investing Activities	(2,048)	(3,595)	(722)	(5,599)	(1,627)	(2,639)
Net Cash Flow from Financing Activities	(167)	1,726	(1,276)	1,581	(519)	(756)
Net Inc/Dec in cash equivalents	(13)	10	83	(44)	(18)	236
Opening Balance	36	23	34	118	114	97
Closing Balance Cash and Cash Equivalents	46	52	142	114	97	333

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY17	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	29.2%	25.1%	22.3%	29.2%	28.2%	30.1%
Tax rate (%)	12.5%	24.2%	11.4%	20.2%	22.0%	22.0%
Net Profit Margin (%)	15.6%	14.1%	8.0%	11.9%	8.7%	10.0%
RoE (%)	17.4%	15.6%	10.3%	11.6%	7.5%	9.2%
RoCE (%)	14.4%	12.8%	10.6%	12.5%	7.4%	9.5%
EPS (INR)	384.4	397.3	288.9	435.4	288.4	379.3

Source: Company, KRChoksey Research

Shree Cement Ltd.

Exhibit 4: Balance Sheet

INR Crores	FY17	FY18	FY19	FY20	FY21E	FY22E
Non-current assets						
Property, plant and equipment	2,586	3,577	6,135	5,697	5,334	5,465
Capital work-in-progress	710	1,427	1,129	1,197	1,197	1,197
Intangible assets	13	12	46	53	53	53
Financial assets						
Investments	3,388	3,123	2,253	3,271	3,598	3,958
Loans	44	49	53	54	54	54
Other financial assets	200	200	28	160	160	160
Deffered Tax Assets	508	513	613	744	744	744
Non-current Tax Assets (Net)	20	100	111	111	103	118
Other non-current assets	414	440	405	763	707	813
Total non-current assets	**7,884**	**9,441**	**10,774**	**12,050**	**11,951**	**12,563**
Current assets						
Inventories	1,315	1,569	1,870	1,713	2,126	2,110
Financial assets						
Investments	654	2,311	33	3,086	3,086	3,086
Trade receivables	335	459	1,024	1,080	1,308	1,503
Cash and cash equivalents	46	52	142	114	97	333
Other Balances with Banks	66	69	297	500	500	500
Loans	6	8	10	8	8	8
Other financial assets	87	93	107	211	211	211
Other current assets	775	1,139	1,237	1,180	1,095	1,259
Total current assets	**3,282**	**5,700**	**4,719**	**7,894**	**8,431**	**9,010**
TOTAL ASSETS	**11,166**	**15,142**	**15,493**	**19,944**	**20,382**	**21,573**
EQUITY AND LIABILITIES						
Equity						
Equity share capital	35	35	35	36	36	36
Other equity	7,663	8,862	9,636	13,133	13,741	14,677
Equity attributable to the equity shareholders	7,698	8,897	9,671	13,169	13,777	14,713
Non-controlling interests	0	0	62	69	77	85
Total equity	**7,698**	**8,897**	**9,733**	**13,238**	**13,854**	**14,798**
LIABILITIES						
Non-current liabilities						
Financial liabilities						
Borrowings	519	2,208	2,309	1,639	1,839	1,839
Other financial liabilities	366	526	734	1,016	1,016	1,016
Provisions	7	8	32	35	35	35
Deferred Tax Liabilities (Net)	0	0	0	0	0	0
Other Non-Current Liabilities	587	537	558	608	608	608
Total non-current liabilities	**1,479**	**3,278**	**3,633**	**3,298**	**3,498**	**3,498**
Current liabilities						
Financial liabilities						
Borrowings	774	1,186	473	710	710	710
Trade payables	352	727	538	658	654	752
Other financial liabilities	386	412	463	1,355	985	1,125
Other current liabilities	475	619	625	615	615	615
Provisions	1	1	6	7	7	8
Current Tax liabilities (Net)	1	22	22	63	59	68
Total current liabilities	**1,989**	**2,967**	**2,127**	**3,408**	**3,030**	**3,277**
Total liabilities	**3,468**	**6,245**	**5,760**	**6,706**	**6,528**	**6,775**
TOTAL EQUITY AND LIABILITIES	**11,166**	**15,142**	**15,493**	**19,944**	**20,382**	**21,573**

Source: Company, KRChoksey Research

Shree Cement Ltd.

Shree Cement Ltd.			
Date	CMP (INR)	TP (INR)	Reco
13-Aug-20	21,237	22,710	ACCUMULATE
12-May-20	18,945	20,260	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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