

Sector: Cement  
Company Update

	Change
Reco: <b>Buy</b>	↑
CMP: <b>Rs. 19,502</b>	
Price Target: <b>Rs. 23,453</b>	↔
↑ Upgrade ↔ No change ↓ Downgrade	

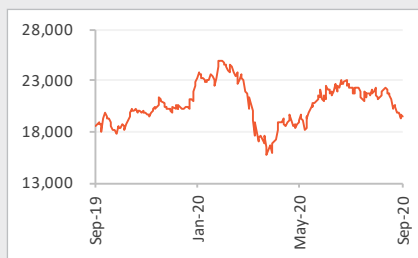
## Company details

Market cap:	Rs. 70,366 cr
52-week high/low:	Rs. 25,341/15,500
NSE volume: (No of shares)	0.7 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	-8.8	-13.2	-4.0	4.8
Relative to Sensex	-10.0	-28.3	-22.5	0.1

Sharekhan Research, Bloomberg

Shree Cement Limited (Shree Cement) has corrected ~13% over trailing fortnight. As per the DPIIT, cement production declined by 38% y-o-y and 13.5% y-o-y during Q1FY2021 and July 2020 led by impact of Covid-19 and the onset of monsoons respectively. However, our interaction with the management of Shree Cement suggest that it has witnessed volume growth of 7% y-o-y and 6% y-o-y during July 2020 and August 2020 while cement offtake has been good during September 2020 till date. Hence, we believe Shree Cement should continue its industry outperformance during Q2FY2021 as was seen during Q1FY2021 (where Shree Cement reported 19% y-o-y decline in volume versus industry volume estimated to have declined by 30-35% y-o-y). The trade sales mix in the overall volume is expected to remain high at 75-80% which highlights sustained healthy demand from the Individual House Builders (IHB) segment during Q2FY2021 as was witnessed during Q1FY2021. The cement realization has come down by Rs. 150-200 per tone compared to June 2020 on account of seasonality. Further, its grinding units at Pune (2.5MT) and Cuttack (3MT) are expected to be completed during Q3FY2021 which would further enhance its capacity from current standalone capacity of 40.4MTPA. The company would be doing capital expenditure of Rs. 1000 crore during FY2021. Further capacity expansion plans would be decided by Q3FY2021. The company's net profitability is also expected to be supported by higher other income (funds raised through QIP) and lower depreciation (~Rs. 1300 crore for FY2021, a dip of 20%+ y-o-y). We have revised our net earnings estimates for FY2021 and FY2022 factoring in lower depreciation. We also introduce FY2023E earnings in this note. We expect Shree Cement to outperform industry growth over FY2021E-FY2023E led by improving capacity utilization and the addition of newer capacities. We believe that the recent correction in the stock provides an opportunity to Buy the stock. Hence, we upgrade our rating on the stock to Buy with unchanged PT of Rs. 23,453.

**Expect industry outperformance over FY2021E-FY2023E:** Shree Cement has outperformed industry volume growth in three out of four trailing quarters comparing it with DPIIT production data. The company reported 19% y-o-y decline in cement volume during Q1FY2021 in which cement industry volume decline was estimated at 30-35% y-o-y. Further, as per DPIIT, cement production during July has declined by 13.5% y-o-y and is expected to be weak with ongoing monsoon. However, our interaction with Shree Cement indicates healthy volume growth of 7% y-o-y and 6% y-o-y for July 2020 and August 2020 with September month till date having good demand. Hence we expect that, Shree cement may outperform industry volume offtake during Q2FY2021. Further, increasing capacity utilization along with capacity additions in FY2021 is expected to lead to healthy volume growth outperformance during FY2021E-FY2023E.

## Our Call

**Valuation –Upgrade to Buy with unchanged PT of Rs. 23,453:** Shree Cement has corrected ~13% over trailing fortnight. Although, cement industry production (as per DPIIT) during July 2020 shows a decline of 13.5% y-o-y and is expected to remain weak in August and September due to monsoons and the impact of Covid, we expect Shree Cement to outperform industry volume offtake for Q2FY2021. We have revised our net earnings estimates for FY2021 and FY2022 factoring in lower depreciation. We also introduce FY2023E earnings in this note. We expect Shree Cement to outperform industry growth over FY2021E-FY2023E led by improving capacity utilization and addition of newer capacities. We believe the recent correction in the stock provides an opportunity to Buy the stock. Hence, we upgrade our rating on the stock to Buy with unchanged 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)

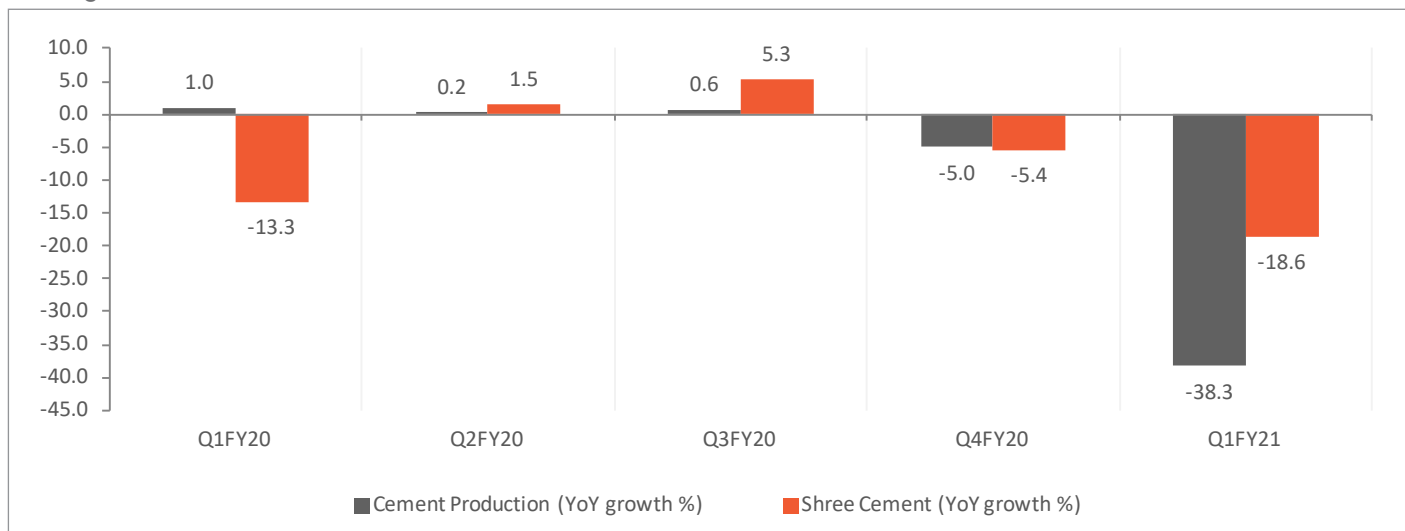
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	11,904.0	11,149.0	12,901.3	14,549.5
OPM (%)	30.9	27.7	29.0	30.0
Adjusted PAT	1,570.2	1,355.7	1,726.5	1,962.8
% YoY growth	27.4	(13.7)	27.4	13.7
Adjusted EPS (Rs.)	435.2	375.7	478.5	544.0
P/E (x)	44.8	51.9	40.8	35.9
P/B (x)	5.4	5.0	4.6	4.1
EV/EBITDA (x)	17.3	20.2	16.3	13.7
RoNW (%)	13.9%	10.1%	11.7%	12.1%
RoCE (%)	13.0%	9.9%	11.3%	11.6%

Source: Company; Sharekhan estimates

### Healthy demand during July and August versus expectation of industry de-growth

Shree Cement has been outperforming cement industry volume offtake in three of the trailing four quarters as compared to the DPIIT data on India’s cement production. The company’s volume for Q1FY2021 declined 18.6% y-o-y while industry’s cement production declined by 38.3% y-o-y and industry’s sales volume is estimated to have declined by 30-35% y-o-y. Further, cement production for July is lower by 13.5% y-o-y as per DPIIT. Our interaction with Shree Cement suggest that cement volume of the company grew 7% y-o-y and 6% y-o-y during July and August. The cement demand for September till date has been good. Hence, we expect Shree cement to outperform industry volume offtake during Q2FY2021 as well.

Industry Cement Production/Shree Cement sales volume



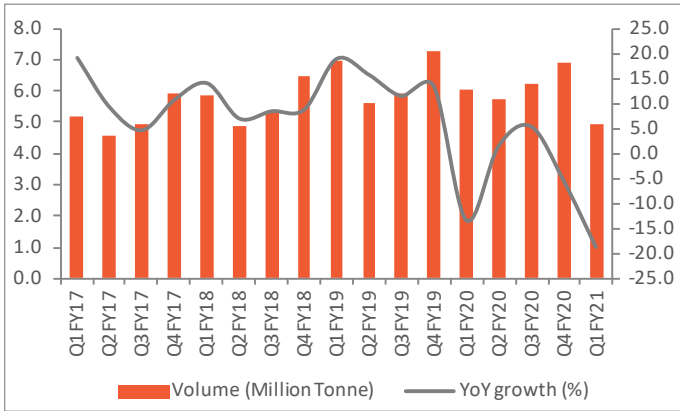
Source: DPIIT, Company, Sharekhan Research

### Rising capacity utilization along with new capacities to outperform industry over FY2021E-FY2023E

Shree Cement is undertaking capacity expansion of 3MT at the Odisha grinding unit (at a cost of Rs. 423 crore) and 3MT Maharashtra grinding unit (at a cost of Rs. 525 crore) which are expected to be completed by Q3FY2021. Shree Cement’s standalone installed capacity is slated to increase to 46.4MTPA by FY2021E from 40.4MTPA as of FY2020 with completion of the same. Further, the company will firm up new capacity additions during Q3FY2021. We believe as the company sees improvement in demand, the increasing capacity utilization along with new capacity additions would aid outperformance of the industry volume growth rates over FY2021E-FY2023E.

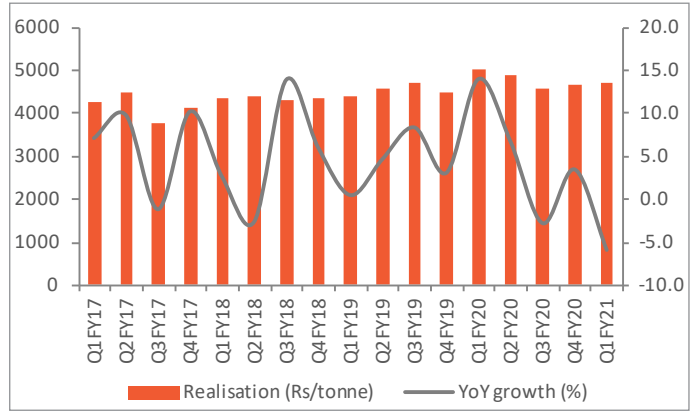
**Financials in charts**

**Cement volume trend**



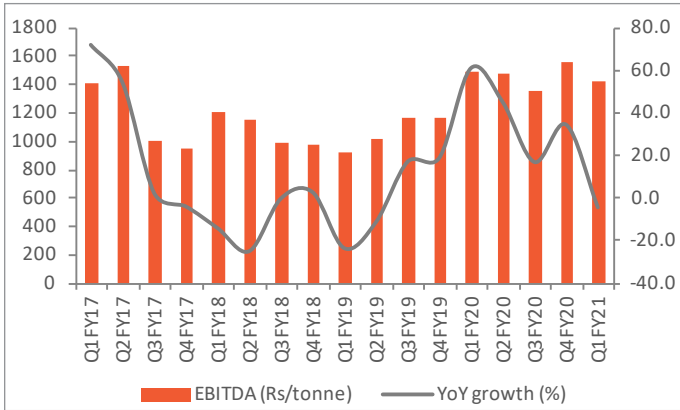
Source: Company, Sharekhan Research

**Blended realization trend**



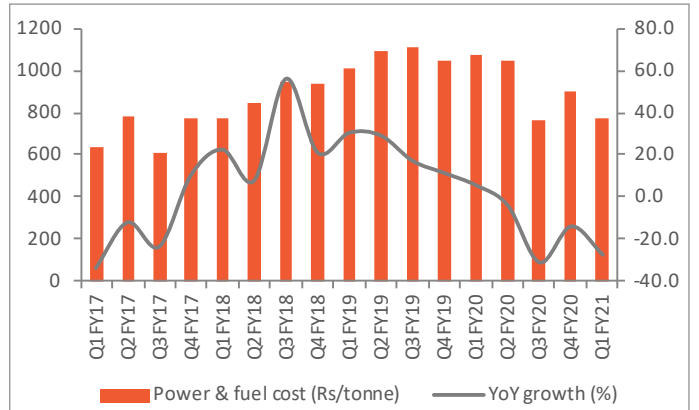
Source: Company, Sharekhan Research

**Blended EBITDA/tonne trend**



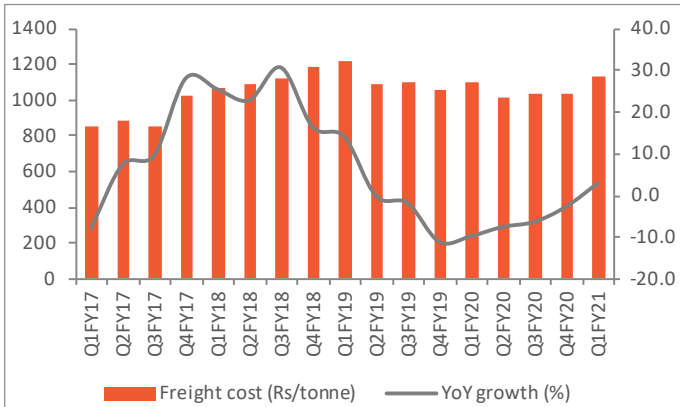
Source: Company, Sharekhan Research

**Power & Fuel cost/tonne trend**



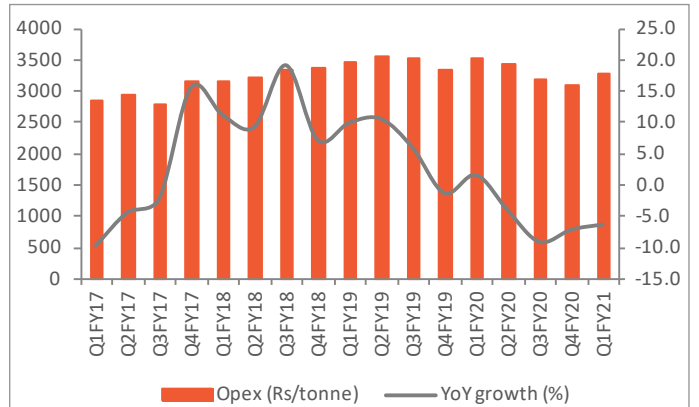
Source: Company, Sharekhan Research

**Freight cost/tonne trend**



Source: Company, Sharekhan Research

**Opex/tonne trend**



Source: Company, Sharekhan Research

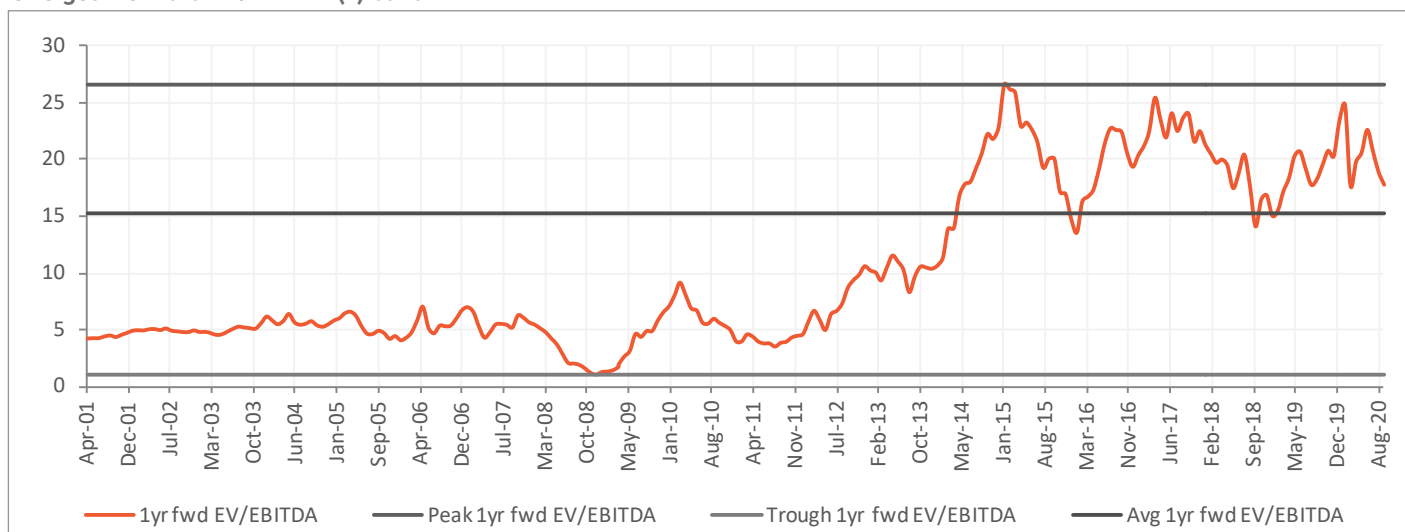
## Outlook

**Expect Shree cement to outperform industry on volume offtake during FY2021E-FY2023E:** The cement industry which had been affected by the disruption led by Covid-19 during Q4FY2020 and Q1FY2021 is seeing signs of improvement with improving capacity utilization and trade demand sustaining during Q2FY2021. Shree Cement has been outpacing industry volume offtake over most of the trailing four quarters and is further expected to outperform over FY2021E-FY2023E led by improving capacity utilization and addition of newer capacities. The company will be utilizing the Rs. 2,400 crore funds raised through a QIP during Q3FY2020 for further capacity expansion.

## Valuation

**Upgrade to Buy with unchanged PT of Rs. 23,453:** Shree Cement has corrected ~13% over the trailing fortnight. Although, cement industry production (as per DPIIT) during July 2020 shows a decline of 13.5% y-o-y and is expected to remain weak in August and September due to the dual impact of monsoon and Covid, we expect Shree Cement to outperform industry volume offtake for Q2FY2021. We have revised our net earnings estimates for FY2021 and FY2022 factoring lower depreciation. We also introduce FY2023E earnings in this note. We expect Shree Cement to outperform industry growth over FY2021E-FY2023E led by improving capacity utilization and addition of newer capacities. We believe the recent correction in the stock provides an opportunity to Buy the stock. Hence, we upgrade our rating on the stock to Buy with unchanged 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	51.9	40.8	20.2	16.3	5.0	4.6	10.1	11.7
UltraTech Cement	33.8	26.0	14.2	11.8	2.7	2.5	8.4	10.0
The Ramco Cement	27.2	21.3	16.1	12.9	3.0	2.7	11.7	13.4
JK Lakshmi Cement	16.2	13.3	5.7	5.0	1.6	1.4	10.3	11.4

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 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.	24.90
2	Digvijay Finlease Ltd.	11.74
3	FLT Ltd.	9.98
4	Mannakrishna Investments Pvt. Ltd.	5.66
5	Newa Investments Pvt. Ltd.	3.81
6	Ragini Finance Ltd.	3.52
7	Didu Investments Pvt. Ltd.	3.25
8	SBI Funds Management Pvt. Ltd.	2.47
9	NBI Industrial Finance Co. Ltd.	2.35
10	FMR LLC	1.65

Source: Bloomberg

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by BNP PARIBAS

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