

Strong operating performance...

Shree Cement's operational performance for Q2FY21 was ahead of our estimates led by improved sales volumes and cost efficiencies. Reported revenue growth was 7.9% YoY to ₹ 3022.4 crore (vs. I-direct estimate: ₹ 2,964.1 crore). Volumes grew 14% YoY to 6.5 MT while blended realisations were down 5.4% YoY to ₹ 4636/t (vs. I-direct estimate: ₹ 4,882/t) as cement prices stayed weak in north and eastern region in Q2. On the cost front, blended costs/tonne of cement were at ₹ 3,147 (vs. I-direct estimate of ₹ 3,283/t), down 7.2% YoY. This was driven mainly by lower power costs per tonne, which fell 30% YoY on a per tonne basis. This led to healthy EBITDA growth of 17% YoY to ₹ 988 crore. It remained above our estimated EBITDA of ₹ 841 crore. Blended EBITDA/t for Q2FY21 came in at ₹ 1,515/t, up 2.7% YoY (vs. I-direct estimate of ₹ 1,301/t). Other income was up 77% to ₹ 102 crore. This, along with a sharp fall in depreciation charge (down 34.9% YoY to ₹ 278.6 crore) led the company to report better than estimated PAT of ₹ 547.3 crore (up 77.1% YoY) vs. our estimated PAT of ₹ 387.3 crore. The company has announced 3.5-4 MT clinker capacity expansion entailing capex of ₹ 1000 crore at Raipur. It is likely to get commissioned by September 2022E. It aims to double its total capacity in next seven years.

Stronghold in operating markets...

Shree Cement has a strong presence in the north and eastern markets. Historically, every time, sales dip in a particular year, it has bounced back strongly and delivered robust volume growth in the coming years, despite a setback. This is also been reflected in its performance in the current quarter where volume growth was above industry average. With strong volume traction being seen in Q2, we expect the same momentum to continue, going ahead, post end of monsoon. Cement prices, after falling 3.5% in the north region during Q2 is now improving. This would provide a cushion against rising power costs. Overall, we expect revenue, PAT CAGR of 11.8%, 17.4%, respectively, during FY20-23E.

Credible record of low leverage, healthy return ratios

Tracking the data since FY07, Shree Cement has always reported double-digit RoE, thus indicating strongly the management's efficient capital allocation. These healthy returns have been generated with net debt/EBITDA remaining below 1x all throughout this period. We believe the same is going to be maintained despite new capex announcement involving capex of ₹ 1000 crore with an aim of doubling the capacity in seven years.

Valuation & Outlook

Shree Cement has added capacity by entering non-core regions without jeopardising its profitability and return ratios. We expect the company to continue its leadership on costs. This would, in turn, help it to consistently gain market share with improved profitability and return matrix. Thus, it remains a long term structural play. Hence, we maintain our **BUY** rating on the company with a revised TP of ₹ 27,500/share (19x FY23E EV/EBITDA).



Stock Data

Particular	Amount
Mcap	₹ 84435 crore
Debt (FY20)	₹ 3292 crore
Cash & Invest (FY20)	₹ 107 crore
EV	₹ 87621 crore
52 week H/L	₹ 15046 / 25355
Equity cap	₹ 36.1 crore
Face value	₹ 10

Key Highlights

- To add new clinker capacity (~4 MT) in East with total capex of ₹1000 crore
- Expect revenue CAGR of 11.8% over FY20-23E and volume CAGR of 10.7%.
- EBITDA margin of 32.7% remains best in the industry considering 5.5% YoY fall in the realisations.
- Expect cost and profitability leadership to continue
- Maintain BUY with revised target price of ₹27,500.

Research Analyst

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Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	11722	11904	12673	14997	16631	11.8%
EBITDA	2653	3675	4178	4651	5036	11.1%
EBITDA (%)	22.6	30.9	33.0	31.0	30.3	
PAT	1108	1570	2207	2356	2538	17.4%
EPS (₹)	318	435	611	653	703	
EV/EBITDA	33.0	22.9	20.2	17.9	16.2	
EV/Tonne (\$)	291	248	233	230	225	
RoNW	11.5	12.1	14.9	13.9	13.3	
RoCE	11.5	13.8	17.6	17.7	17.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	3022.4	2,964.1	2,801.7	7.9	2,325.8	29.9	Sales volume increased 14% YoY to 6.5 MT. Prices remained weak due to monsoon
Other Income	102.4	64.5	57.8	77.3	124.4	-17.7	Increase in short-term investments led by deployment of QIP proceeds
Raw Material Consumed	201.1	206.8	180.2	11.6	145.5	38.2	
Stock Adjustment	-3.0	0.0	-29.4	-89.7	15.7	NA	
Employee Expense	173.2	179.0	185.0	-6.4	173.0	0.1	
Power, Oil & Fuel	475.4	512.2	598.4	-20.6	383.1	24.1	P&F costs per tonne decline 30.4% YoY
Freight cost	709.6	752.9	579.7	22.4	560.2	26.7	
Other Expenses	478.2	471.9	443.7	7.8	347.6	37.6	
EBITDA	988.0	841.3	844.2	17.0	700.7	41.0	
EBITDA Margin (%)	32.7	28.4	30.1	256 bps	30.1	256 bps	
Interest	62.7	62.8	71.7	-12.5	70.6	-11.1	
Depreciation	278.6	340.0	428.3	-34.9	271.4	2.7	
PBT	749.0	503.0	401.8	86.4	483.2	NA	
Total Tax	201.8	115.7	92.8	117.5	112.3	NA	
PAT	547.3	387.3	309.1	77.1	370.9	47.6	Lower production cost and higher other income led to growth in profitability
Key Metrics							
Volume (MT)	6.53	6.5	5.7	14.2	4.9	32.5	
Cement Realisation/t (₹)	4,628	4,585	4,898	-5.5	4,718	-1.9	
Blended EBITDA/Tonne (₹)	1,513	1,301	1,476	2.5	1,421	6.5	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Net revenues	11,665.2	12,673.2	8.6	14,436.0	14,997.3	3.9	
EBITDA	3,657.1	4,177.8	14.2	4,262.3	4,651.2	9.1	
EBITDA Margin (%)	31.4	33.0	162 bps	29.5	31.0	149 bps	Expect company to maintain profitability leadership

Source: Company, ICICI Direct Research

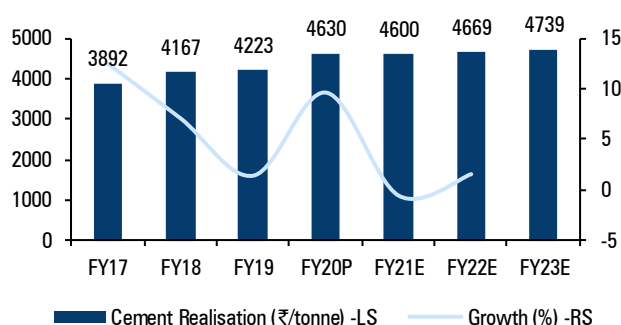
Financial story in charts

Exhibit 3: Region-wise capacity details

Region	Plant Location	Region/ Location	Cement Capacity (MTPA)*	Clinker Capacity (MTPA)*
North India	Ras#	Rajasthan	7.0	15.0
North India	Khushkhhera	Rajasthan	3.5	-
North India	Beawar#	Rajasthan	3.6	3.0
North India	Jobner	Rajasthan	1.5	-
North India	Suratgarh	Rajasthan	5.4	-
North India	Laksar	Uttarakhand	1.8	-
North India	Panipat	Haryana	1.5	-
Total Capacity in North India			24.3	18.0
Central India	Bulandshahr##	UP	2.0	-
Total Capacity in Central India			2.0	-
East India	Baloda Bazar#	Chhattisgarh	3.0	5.2
East India	Burudih	Jharkhand	2.5	-
East India	Aurangabad	Bihar	5.6	-
Total Capacity in East India			11.1	5.2
South India	Kodla#	Karnataka	3.0	2.4
Total Capacity in South India			3.0	2.4
Total Capacity in India			40.4	25.6
Overseas				
Middle East	Ras Al Khaimah	UAE	4.0	3.3
Total Current Capacity			44.4	28.9
Expected Capacity Additions				
East India**	Athagarh	Odisha	3.0	-
West India^	Patas	Maharashtra	3.0	-
Expected Capacity by FY21			50.4	28.9

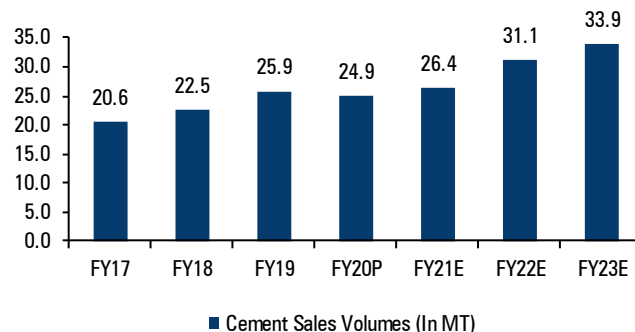
Source: Company, ICICI Direct Research

Exhibit 4: Realisations to see recovery in FY22E



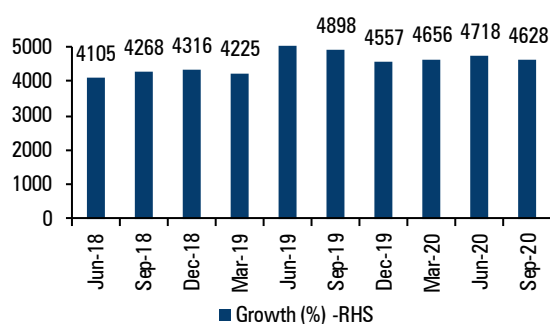
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 10.7% CAGR over FY20-23E



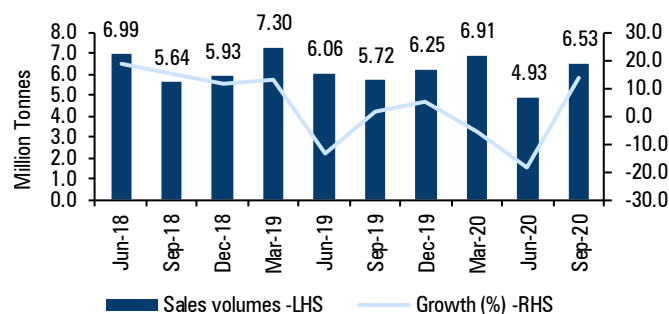
Source: Company, ICICI Direct Research

Exhibit 6: Realisations/tonne decline 5.5% YoY



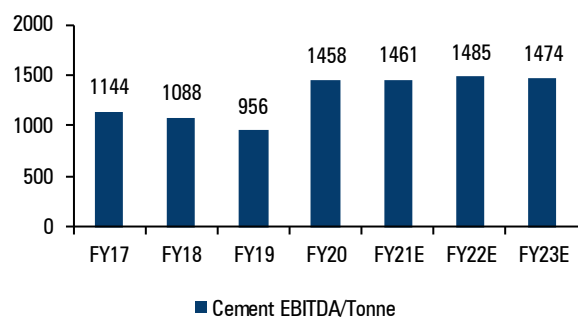
Source: Company, ICICI Direct Research

Exhibit 7: Cement volumes improve 14% YoY



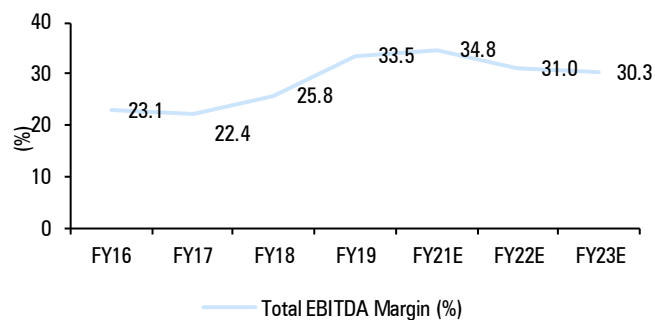
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA/t to remain healthy vs. industry



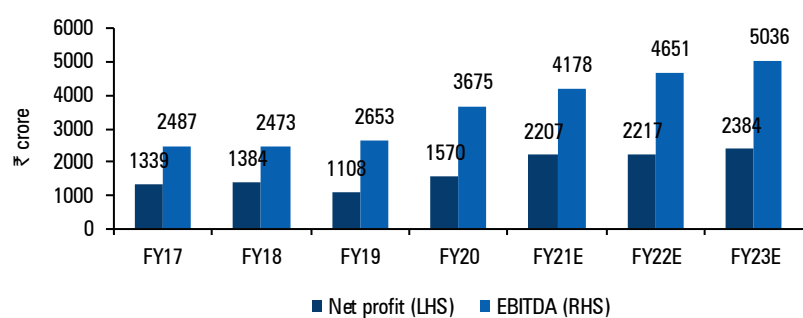
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margins to stabilise around 30% in FY23E;

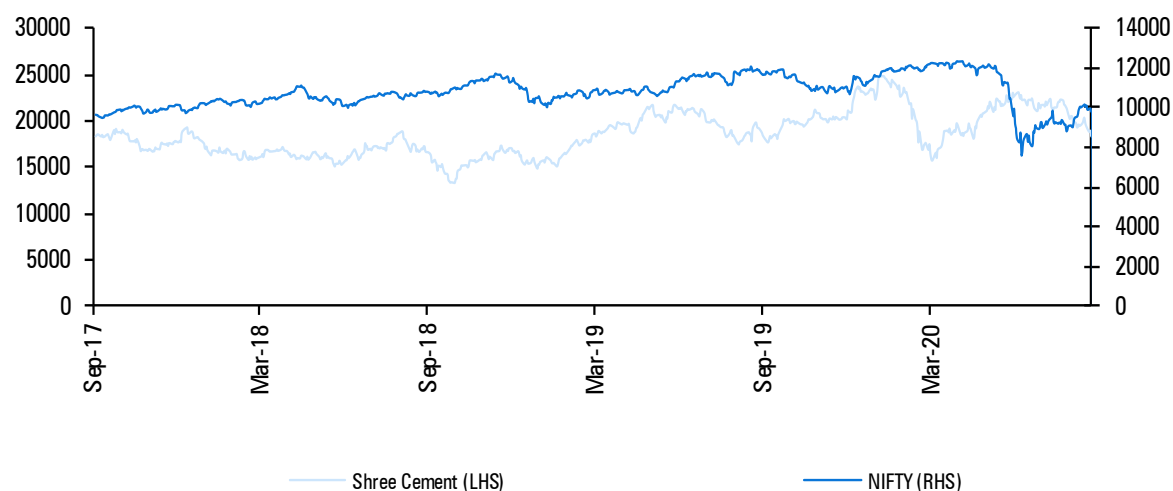


Source: Company, ICICI Direct Research

Exhibit 10: EBITDA, PAT to grow at 11%, 15% CAGR over FY20-23E, respectively



Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Shree Capital Servic	31-Dec-19	24.9	9.0	0.0
2	Digvijay Finlease Lt	31-Dec-19	11.7	4.2	0.0
3	Flt Ltd	31-Dec-19	10.0	3.6	0.0
4	Mannakrishna Invs Pv	31-Dec-19	5.7	2.0	0.0
5	Newa Investments Pvt	31-Dec-19	3.8	1.4	0.0
6	Ragini Finance Ltd	31-Dec-19	3.5	1.3	0.0
7	Didu Investments Pvt	31-Dec-19	3.3	1.2	0.0
8	Sbi Funds Management	31-Mar-20	2.5	0.9	0.2
9	Nbi Industrial Finan	31-Dec-19	2.4	0.8	0.0
10	Fmr Llc	31-Mar-20	1.3	0.5	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 13: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	64.79	62.55	62.55	62.55	62.55
FII	11.88	13.20	11.90	11.90	11.37
DII	8.57	9.89	11.22	12.22	11.54
Others	14.76	14.36	14.33	13.33	14.54

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 14: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Incon	11,904.0	12,673.2	14,997.3	16,630.9
Growth (%)	1.6	6.5	18.3	10.9
Raw material cost	768.2	866.9	1119.2	1287.1
Power & Fuel cost	2347.6	2145.9	2809.9	3178.7
Freight cost	2606.1	2822.5	3281.6	3629.2
Employees cost	731.0	722.2	772.7	857.7
Others	1776.5	1938.0	2362.7	2642.0
Total Operating Exp.	8,229.5	8,495.4	10,346.2	11,594.7
EBITDA	3,674.5	4,177.8	4,651.2	5,036.1
Growth (%)	38.5	13.7	11.3	8.3
Depreciation	1,699.4	1,432.0	1,669.2	1,858.2
Interest	286.5	259.0	199.2	159.2
Other Income	271.6	355.8	362.9	370.2
PBT	1,960.2	2,842.7	3,145.6	3,388.9
Others	0.0	0.0	0.0	0.0
Total Tax	390.0	636.2	789.6	850.6
PAT	1,570.2	2,206.5	2,356.1	2,538.3
Adjusted PAT	1,570.2	2,206.5	2,356.1	2,538.3
Growth (%)	41.8	40.5	6.8	7.7
Adjusted EPS (₹)	435.2	611.5	653.0	703.4

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,570.2	2,206.5	2,356.1	2,538.3
Add: Depreciation	1,699.4	1,432.0	1,669.2	1,858.2
Add: Interest	286.5	259.0	199.2	159.2
(Inc)/dec in Current Assets	45.4	-683.7	-833.5	-610.2
Inc/(dec) in CL and Provision	982.2	-1,378.0	305.6	-58.6
CF from operating activ	4,583.7	1,835.8	3,696.7	3,886.9
(Inc)/dec in Investments	-4,574.3	1,050.0	-700.0	-1,000.0
(Inc)/dec in Fixed Assets	-1,384.3	-1,462.9	-1,800.0	-1,700.0
Others	-90.0	0.0	0.0	0.0
CF from investing activ	-6,048.6	-412.9	-2,500.0	-2,700.0
Issue/(Buy back) of Equity	1.2	0.0	0.0	0.0
Inc/(dec) in loan funds	-218.8	-500.0	-800.0	-400.0
Dividend paid & dividend tax	-478.3	-304.4	-304.4	-304.4
Inc/(dec) in Sec. premium	2,246.0	0.0	0.0	0.0
Others	-286.5	-259.0	-199.2	-159.2
CF from financing activ	1,263.6	-1,063.3	-1,303.6	-863.6
Net Cash flow	-201.3	359.6	-106.9	323.3
Opening Cash	308.3	107.0	466.6	359.7
Closing Cash	107.0	466.6	359.7	683.1

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	36.1	36.1	36.1	36.1
Reserve and Surplus	12,900.3	14,802.5	16,854.2	19,088.1
Total Shareholders funds	12,936.4	14,838.6	16,890.3	19,124.2
Total Debt	3,292.4	2,792.4	1,992.4	1,592.4
Deferred Tax Liability	-680.4	-680.4	-680.4	-680.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	15,548.4	16,950.5	18,202.3	20,036.2
Assets				
Gross Block	16,009.8	17,371.9	19,721.9	21,571.9
Less: Acc Depreciation	11,690.9	13,359.9	15,029.2	16,887.4
Net Block	4,318.9	4,011.9	4,692.7	4,684.5
Capital WIP	962.1	1,300.0	750.0	600.0
Total Fixed Assets	5,281.0	5,311.9	5,442.7	5,284.5
Investments	9,119.6	8,069.6	8,769.6	9,769.6
Inventory	1,427.9	1,527.7	1,849.0	2,050.4
Debtors	828.5	833.3	903.9	1,002.4
Loans and Advances	60.3	126.7	150.0	166.3
Other Current Assets	1,768.7	2,281.2	2,699.5	2,993.6
Cash	107.0	466.6	359.7	683.1
Total Current Assets	4,192.3	5,235.6	5,962.2	6,895.7
Creditors	1,816.6	833.3	986.1	956.8
Provisions	1,228.0	833.3	986.1	956.8
Total Current Liabilities	3,044.6	1,666.6	1,972.3	1,913.7
Net Current Assets	1,147.8	3,569.0	3,989.9	4,982.0
Application of Funds	15,548.4	16,950.5	18,202.3	20,036.1

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	435.2	611.5	653.0	703.4
Cash EPS	906.1	1,008.4	1,115.6	1,218.4
BV	3,585.1	4,112.3	4,680.9	5,300.0
DPS	110.0	70.0	70.0	0.0
Cash Per Share	29.7	129.3	99.7	189.3
Operating Ratios (%)				
EBITDA Margin	30.9	33.0	31.0	30.3
PAT Margin	13.2	17.4	15.7	15.3
Inventory days	43.8	44.0	45.0	45.0
Debtor days	25.4	24.0	22.0	22.0
Creditor days	55.7	24.0	24.0	21.0
Return Ratios (%)				
RoE	12.1	14.9	13.9	13.3
RoCE	13.8	17.6	17.7	17.1
RoIC	16.6	20.2	20.0	20.3
Valuation Ratios (x)				
P/E	54.0	38.4	36.0	33.4
EV / EBITDA	23.0	20.3	18.0	16.3
EV / Net Sales	7.1	6.7	5.6	4.9
Market Cap / Sales	7.1	6.7	5.7	5.1
Price to Book Value	6.6	5.7	5.0	4.4
Solvency Ratios				
Debt/EBITDA	0.9	0.7	0.4	0.3
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	1.4	3.1	3.0	3.6
Quick Ratio	0.9	2.2	2.1	2.5

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Cement)

Company	CMP	Rating	M Cap (₹ Cr)	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,563	BUY	29,375	73	84	94	11.4	9.6	8.5	106	109	91	17.4	17.8	18.1	11.9	12.3	12.4
Ambuja Cem*	250	HOLD	49,641	7.7	8.7	9.5	13.9	12.7	11.2	139	151	133	12.2	17.1	17.3	14.7	19.7	19.6
UltraTech Cem	4,630	BUY	133,609	189	172	204	16.8	13.8	12.1	183	183	172	11.4	13.7	14.9	14.2	11.6	12.2
Shree Cement	23,500	BUY	84,796	435	611	614	23.0	20.3	17.9	249	234	230	13.8	17.6	16.9	12.1	14.9	13.2
Heidelberg Cem	185	BUY	4,192	11.8	10.2	14.4	8.4	9.4	7.0	113	100	94	22.3	20.3	27.2	20.4	19.0	23.8
JK Cement	1,855	HOLD	14,333	74.9	86.4	95.2	14.1	11.5	10.1	154	146	150	16.2	17.4	17.4	18.5	18.0	16.9
JK Lakshmi Cem	288	BUY	3,390	22.6	28.3	28.4	6.5	5.4	4.9	53	51	51	17.1	19.2	19.9	15.5	16.0	15.2
Star Cement	82	BUY	3,437	6.9	4.5	8.8	7.5	8.5	5.4	112	112	77	17.1	10.9	18.9	15.4	9.5	16.4
Ramco Cement	827	BUY	19,689	25.7	36.4	37.4	19.8	13.7	12.6	174	168	163	7.5	9.9	10.1	12.3	15.0	13.4
Sagar Cement	750	BUY	1,763	17.1	59.5	73.8	12.1	6.9	5.5	56	57	42	7.2	14.2	15.3	4.2	11.8	12.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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