

Shree Cement (SRCM IN)

Rating: REDUCE | CMP: Rs23,485 | TP: Rs20,550

November 12, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	20,550		19,100	
Sales (Rs. m)	1,43,717	1,57,165	1,32,373	1,45,646
% Chng.	8.6	7.9		
EBITDA (Rs. m)	41,507	46,182	38,587	42,296
% Chng.	7.6	9.2		
EPS (Rs.)	662.7	680.1	551.8	714.1
% Chng.	20.1	(4.8)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,28,661	1,28,994	1,43,717	1,57,165
EBITDA (Rs. m)	37,541	39,067	41,507	46,182
Margin (%)	29.2	30.3	28.9	29.4
PAT (Rs. m)	15,305	20,169	23,911	24,537
EPS (Rs.)	424.2	559.0	662.7	680.1
Gr. (%)	27.2	31.8	18.6	2.6
DPS (Rs.)	110.0	107.6	112.4	112.4
Yield (%)	0.5	0.5	0.5	0.5
RoE (%)	13.4	14.4	15.0	13.7
RoCE (%)	13.5	14.7	15.2	13.8
EV/Sales (x)	6.5	6.4	5.7	5.1
EV/EBITDA (x)	22.4	21.2	19.6	17.4
PE (x)	55.4	42.0	35.4	34.5
P/BV (x)	6.4	5.7	5.0	4.5

Key Data

SHCM.BO | SRCM IN

52-W High / Low	Rs.25,313 / Rs.15,410
Sensex / Nifty	43,357 / 12,691
Market Cap	Rs.847bn / \$ 11,351m
Shares Outstanding	36m
3M Avg. Daily Value	Rs.2962.52m

Shareholding Pattern (%)

Promoter's	62.55
Foreign	11.37
Domestic Institution	11.54
Public & Others	14.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.1	22.8	18.9
Relative	4.9	(11.2)	10.6

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Expensive valuations overshadow strong show

Quick Pointers:

- To expand capacity by ~40% to 57mnt in three years
- Seeing 7-8% demand growth in FY21e excluding April

Shree cement (SRCM) reported Q2FY21 EBITDA above our/consensus estimates (CE) by 7%/20% at Rs9.9bn, up 17% YoY. The beat was largely led by better than expected realisations.

SRCM has evolved as a mature player over last couple of years with discipline on both volumes and prices in its North markets (constitutes 2/3rd of its volumes). This is reflected in highest ever margins since FY09. However, expensive valuations (EV/EBITDA of 19x FY22e/16.8x FY23e) continue to deter buying opportunity in the stock. Most importantly, slowing earnings growth (due to high margin and volume base) estimated at a CAGR of 7% in FY20-FY23, would keep valuations under check. We maintain Reduce rating with TP of Rs20,550 (earlier Rs19,100) based on EV/EBITDA of 16x FY22e.

- **Better than expected realisations drove the beat:** Volumes grew 14% YoY to 6.5mnt (PLe:6.6mnt). Realisations fell 2% QoQ/Rs88 (down 0.5% YoY/Rs24) at Rs4,630 (PLe:Rs4,484). Due to lower energy cost and S,G&A costs, Cost fell 3% YoY at Rs3,103/t (PLe:Rs3,086). Led by higher realisations, EBITDA/t grew 5% YoY at Rs1,525 (PLe:Rs1,400). Aided by 77% increase in other income (due to unused proceeds of QIP) and 35% fall in depreciation, PAT grew 77% YoY at Rs5.47bn (PLe:Rs5.33bn, CE:Rs3.7bn)
- **Key earnings call highlights:** **1)** Expects demand growth of 7-8% in FY21 excluding April **2)** Will expand domestic capacity from current 40mnt to 57mnt in next three years and 80mnt in next six-seven years **3)** Company has mining leases in AP, Gujarat and Rajasthan which are in different stages of approval, land acquisition, etc **4)** Will spend Rs12-14bn/Rs12bn on capex in FY21/FY22 **5)** Odisha and Pune grinding units would commission by Dec-2020 **6)** Reducing the share of pet coke as thermal coal is cheaper by 10% **7)** Share of renewable power in the overall requirement would increase to 50%+ in a year from current 46% **8)** Karnataka plant is operating at 67-68% **9)** North/East/South constitute 65%/27%/8% of volumes **10)** Overall share of trade volumes at 76% with share at 65%/100%/85-90% in North/East/South **11)** It will take few quarters for improvement in profitability of UAE operations **12)** Increase in kiln capacity and recently commissioned WHR plant at UAE plant would help in reducing cost **13)** UAE operations hit by high working capital requirement as receivable days shoot up to a year

Exhibit 1: Q2FY21 Result Overview (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	30,224	28,017	7.9	23,258	53,482	58,381	(8.4)
Raw Material	1,981	1,508	31.4	1,612	3,593	3,363	6.8
<i>% of Net Sales</i>	<i>6.6</i>	<i>5.4</i>		<i>6.9</i>	<i>6.7</i>	<i>5.8</i>	
Staff Costs	1,732	1,850	(6.4)	1,731	3,462	3,763	(8.0)
<i>% of Net Sales</i>	<i>5.7</i>	<i>6.6</i>		<i>7.4</i>	<i>6.5</i>	<i>6.4</i>	
Power & Fuel	4,754	5,984	(20.6)	3,831	8,585	12,466	(31.1)
<i>% of Net Sales</i>	<i>15.7</i>	<i>21.4</i>		<i>16.5</i>	<i>16.1</i>	<i>21.4</i>	
Freight and selling expenses	7,096	5,797	22.4	5,602	12,698	12,479	1.8
<i>% of Net Sales</i>	<i>23.5</i>	<i>20.7</i>		<i>24.1</i>	<i>23.7</i>	<i>21.4</i>	
Other Expenses	4,782	4,437	7.8	3,476	8,257	8,846	(6.7)
<i>% of Net Sales</i>	<i>15.8</i>	<i>15.8</i>		<i>14.9</i>	<i>15.4</i>	<i>15.2</i>	
Total Expenditure	20,344	19,576	3.9	16,252	36,595	40,918	(10.6)
EBITDA	9,880	8,442	17.0	7,006	16,886	17,463	(3.3)
<i>Margin (%)</i>	<i>32.7</i>	<i>30.1</i>		<i>30.1</i>	<i>31.6</i>	<i>29.9</i>	
Depreciation	2,786	4,283	(34.9)	2,714	5,500	8,310	(33.8)
Other income	1,024	578	77.3	1,244	2,268	1,089	108.3
EBIT	8,118	4,736	71.4	5,537	13,655	10,242	33.3
Interest	627	717	(12.5)	706	1,333	1,398	(4.6)
PBT	7,490	4,018	86.4	4,831	12,322	8,845	39.3
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	7,490	4,018	86.4	4,831	12,322	8,845	39.3
Tax	2,018	928	117.5	1,123	3,141	2,124	47.9
<i>% PBT</i>	<i>26.9</i>	<i>23.1</i>		<i>23.3</i>	<i>25.5</i>	<i>24.0</i>	
Reported PAT	5,473	3,091	77.1	3,708	9,181	6,721	36.6
Adjusted PAT	5,473	3,091	77.1	3,708	9,181	6,721	36.6

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Volume (mnt)	6.5	5.7	14.2	4.9	11.5	11.8	(2.7)
Blended EBITDA/t	1,513	1,475	2.5	1,421	1,473	1,483	(0.6)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,28,661	1,28,994	1,43,717	1,57,165
YoY gr. (%)	2.5	0.3	11.4	9.4
Cost of Goods Sold	16,943	17,557	19,648	21,941
Gross Profit	1,11,718	1,11,437	1,24,068	1,35,224
Margin (%)	86.8	86.4	86.3	86.0
Employee Cost	8,540	8,316	9,327	10,206
Other Expenses	16,495	17,885	18,009	18,316
EBITDA	37,541	39,067	41,507	46,182
YoY gr. (%)	34.6	4.1	6.2	11.3
Margin (%)	29.2	30.3	28.9	29.4
Depreciation and Amortization	18,078	14,142	13,716	18,781
EBIT	19,462	24,925	27,791	27,401
Margin (%)	15.1	19.3	19.3	17.4
Net Interest	2,887	3,078	2,814	2,567
Other Income	2,767	4,911	5,453	5,966
Profit Before Tax	19,343	26,758	30,430	30,799
Margin (%)	15.0	20.7	21.2	19.6
Total Tax	3,902	6,607	6,535	6,276
Effective tax rate (%)	20.2	24.7	21.5	20.4
Profit after tax	15,441	20,151	23,895	24,523
Minority interest	82	(18)	(16)	(14)
Share Profit from Associate	-	-	-	-
Adjusted PAT	15,305	20,169	23,911	24,537
YoY gr. (%)	31.8	31.8	18.6	2.6
Margin (%)	11.9	15.6	16.6	15.6
Extra Ord. Income / (Exp)	53	-	-	-
Reported PAT	15,359	20,169	23,911	24,537
YoY gr. (%)	52.6	31.3	18.6	2.6
Margin (%)	11.9	15.6	16.6	15.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15,359	20,169	23,911	24,537
Equity Shares O/s (m)	36	36	36	36
EPS (Rs)	424.2	559.0	662.7	680.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,24,074	1,37,854	1,57,154	1,61,454
Tangibles	1,24,074	1,37,854	1,57,154	1,61,454
Intangibles	-	-	-	-
Acc: Dep / Amortization	62,444	76,585	90,301	1,09,082
Tangibles	62,444	76,585	90,301	1,09,082
Intangibles	-	-	-	-
Net fixed assets	61,630	61,268	66,853	52,371
Tangibles	61,630	61,268	66,853	52,371
Intangibles	-	-	-	-
Capital Work In Progress	15,036	13,980	9,080	29,680
Goodwill	-	-	-	-
Non-Current Investments	34,856	34,868	34,879	34,891
Net Deferred tax assets	7,436	8,262	10,129	12,326
Other Non-Current Assets	1,543	1,643	1,743	1,843
Current Assets				
Investments	30,863	30,863	30,863	30,863
Inventories	17,135	20,458	22,793	24,925
Trade receivables	10,805	9,876	11,004	12,033
Cash & Bank Balance	6,142	15,418	23,301	27,751
Other Current Assets	11,805	12,838	14,123	15,512
Total Assets	1,99,442	2,11,672	2,26,973	2,44,406
Equity				
Equity Share Capital	361	361	361	361
Other Equity	1,31,334	1,49,033	1,68,887	1,89,368
Total Network	1,31,694	1,49,394	1,69,248	1,89,728
Non-Current Liabilities				
Long Term borrowings	31,602	26,602	21,602	16,602
Provisions	351	351	351	351
Other non current liabilities	6,076	6,076	6,076	6,076
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,577	6,554	6,940	7,583
Other current liabilities	12,288	12,340	12,339	12,960
Total Equity & Liabilities	1,99,442	2,11,672	2,26,973	2,44,406

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	19,343	26,758	30,430	30,799
Add. Depreciation	18,078	14,142	13,716	18,781
Add. Interest	2,914	3,078	2,814	2,567
Less Financial Other Income	2,767	4,911	5,453	5,966
Add. Other	(2,668)	(5,161)	(5,728)	(6,276)
Op. profit before WC changes	37,667	38,817	41,232	45,872
Net Changes-WC	6,927	(3,998)	(4,404)	(2,701)
Direct tax	(4,862)	(7,433)	(8,402)	(8,473)
Net cash from Op. activities	39,732	27,386	28,426	34,698
Capital expenditures	(15,403)	(12,723)	(14,400)	(24,900)
Interest / Dividend Income	1,934	-	-	-
Others	(42,518)	5,161	5,728	6,276
Net Cash from Invst. activities	(55,987)	(7,562)	(8,672)	(18,624)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,154	(5,000)	(5,000)	(5,000)
Dividend paid	(6,284)	(2,470)	(4,057)	(4,057)
Interest paid	(2,893)	(3,078)	(2,814)	(2,567)
Others	-	-	-	-
Net cash from Fin. activities	(8,023)	(10,548)	(11,871)	(11,624)
Net change in cash	(24,278)	9,276	7,883	4,450
Free Cash Flow	24,284	14,663	14,026	9,798

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	28,483	32,175	23,258	30,224
YoY gr. (%)	2.4	(2.0)	(23.4)	7.9
Raw Material Expenses	2,503	1,816	1,612	1,981
Gross Profit	25,981	30,359	21,646	28,243
Margin (%)	91.2	94.4	93.1	93.4
EBITDA	8,493	10,789	7,006	9,880
YoY gr. (%)	23.1	27.3	(22.3)	17.0
Margin (%)	29.8	33.5	30.1	32.7
Depreciation / Depletion	4,322	4,362	2,714	2,786
EBIT	4,171	6,426	4,293	7,094
Margin (%)	14.6	20.0	18.5	23.5
Net Interest	741	726	706	627
Other Income	649	978	1,244	1,024
Profit before Tax	4,079	6,678	4,831	7,490
Margin (%)	14.3	20.8	20.8	24.8
Total Tax	980	797	1,123	2,018
Effective tax rate (%)	24.0	11.9	23.3	26.9
Profit after Tax	3,100	5,882	3,708	5,473
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,046	5,882	3,708	5,473
YoY gr. (%)	8.3	83.3	2.1	77.1
Margin (%)	10.7	18.3	15.9	18.1
Extra Ord. Income / (Exp)	53	-	-	-
Reported PAT	3,100	5,882	3,708	5,473
YoY gr. (%)	2.9	83.3	2.1	77.1
Margin (%)	10.9	18.3	15.9	18.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,100	5,882	3,708	5,473
Avg. Shares O/s (m)	35	35	35	35
EPS (Rs)	86.3	166.7	105.1	155.1

Source: Company Data, PL Research

Key Financial Metrics

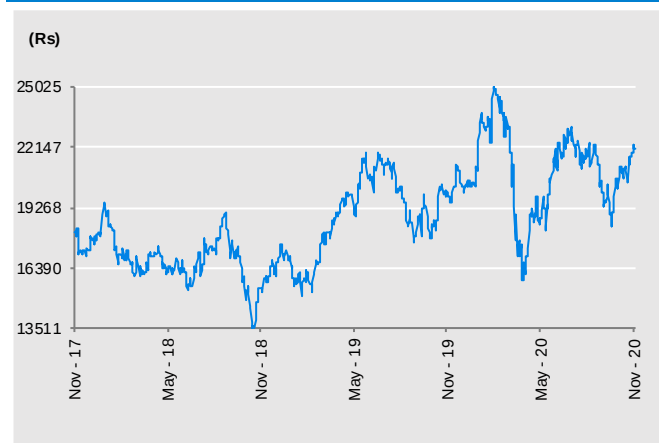
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	424.2	559.0	662.7	680.1
CEPS	925.3	951.0	1,042.9	1,200.6
BVPS	3,650.1	4,140.6	4,690.9	5,258.5
FCF	673.1	406.4	388.7	271.6
DPS	110.0	107.6	112.4	112.4
Return Ratio(%)				
RoCE	13.5	14.7	15.2	13.8
ROIC	14.5	15.2	16.9	15.6
RoE	13.4	14.4	15.0	13.7
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	61	67	68	68
Valuation(x)				
PER	55.4	42.0	35.4	34.5
P/B	6.4	5.7	5.0	4.5
P/CEPS	25.4	24.7	22.5	19.6
EV/EBITDA	22.4	21.2	19.6	17.4
EV/Sales	6.5	6.4	5.7	5.1
Dividend Yield (%)	0.5	0.5	0.5	0.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Volume (mn te)-Cement Domestic	25	26	28	31
Volume (mn units)-Power	1,142	146	722	557
Net Realisations (Rs/te)	4,558	4,631	4,646	4,646
Realised rate (Rs/unit)	5	4	4	4
Cement EBITDA (Rs/te)	1,447	1,484	1,443	1,453
Raw material cost (Rs/te)	286	325	331	338
Power & Fuel cost (Rs/te)	830	713	805	797
Freight cost (Rs/te)	783	830	847	864
Volume (mn te)- Cement Overseas	3	3	3	3
Net Realisations (Rs/te) - Overseas	2,817	2,874	2,931	2,990
Cement EBITDA (Rs/te) - Overseas	274	100	150	195

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-20	Reduce	19,100	20,297
2	21-Aug-20	Reduce	19,100	22,080
3	11-Aug-20	Reduce	19,100	22,396
4	09-Jul-20	Hold	19,000	22,452
5	16-Jun-20	Hold	18,330	22,117
6	11-May-20	Hold	16,900	18,733
7	09-Apr-20	Accumulate	560	464
8	17-Feb-20	Reduce	19,500	24,317
9	03-Jan-20	Reduce	18,000	21,122

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Hold	195	185
5	Hindalco Industries	BUY	230	192
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	191
8	JK Lakshmi Cement	BUY	370	285
9	JSW Steel	Reduce	223	321
10	NMDC	Accumulate	98	91
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	675	802
15	Ultratech Cement	BUY	5,400	4,629

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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