



Shree Cement Limited

Outperformance on profitability continues

Cement	Sharekhan code: SHREECEM	Result Update
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3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	Green	↔	Green
RQ	Green	↔	Green
RV	Grey	↔	Grey

Reco/View

Reco: Buy	↔
CMP: Rs. 22,749	
Price Target: Rs. 27,000	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

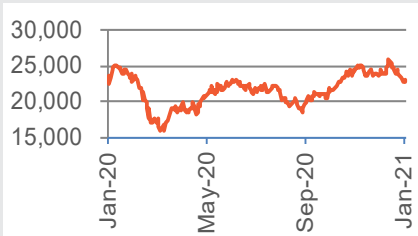
Company details

Market cap:	Rs. 82,080 cr
52-week high/low:	Rs. 25947/15,500
NSE volume: (No of shares)	0.3 lakh
BSE code:	500387
NSE code:	SHREECEM
Free float: (No of shares)	1.4 cr

Shareholding (%)

Promoters	62.6
FII	12.2
DII	11.1
Others	14.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.4	4.9	6.4	-3.2
Relative to Sensex	-4.4	-11.5	-16.3	-16.4

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on Shree Cement Limited (Shree Cement) with an unchanged PT of Rs. 27,000, as we expect it to report industry leading growth led by rising capacity utilisation.
- In Q3FY2021, Shree Cement reported strong beat on operational profitability and net earnings while net revenues broadly remained in-line with estimates.
- We expect strong demand to continue for its key regional markets viz. North and East. Expect cement prices to increase in busy season led by higher demand and increased key input costs.
- Capacity expansion plans to reach 57MTPA over three years and 80MTPA over six-seven years would provide sustainable long term growth.

Shree Cement Limited (Shree Cement) reported strong beat on operational profitability and net earnings during Q3FY2021 while net revenues broadly remained in-line with estimates. The company's standalone net revenues grew by 16.2% y-o-y to Rs. 3309 crore led by a strong 14.7% y-o-y (up 9.6% q-o-q) rise in cement volumes while blended realizations were up 1.3% y-o-y (almost flat q-o-q). The strong volume growth is attributable to a healthy demand environment in both North and Eastern regions during Q3. The trade mix and premium sales mix for the quarter marginally improved sequentially. The company reported strong beat on operational profitability with blended EBITDA/tonne at Rs. 1521 (up 11.8% y-o-y and 0.5% q-o-q). The operational beat was mainly led by lower-than-expected power & fuel costs (led by lower pet coke fuel mix) and lower other expense (down 2.5% y-o-y). However, the freight costs rose 10.4% y-o-y on a per tonne basis led by increased diesel prices. The impact of the same is expected to be felt in Q4FY2021. Strong OPM led to operating profit growth of 28.2% y-o-y to Rs. 1089 crore. Strong operational performance along with higher other income, lower depreciation and lower interest expense led to a standalone net profit growth of 2x y-o-y to Rs. 626 crore which was much higher than our estimate. We expect Shree cement to report strong volume offtake numbers going ahead as cement demand in its key operating markets Northern and Eastern regions remains healthy. On the input cost front, the company may see the impact of rise in pet coke, coal prices and diesel prices in the near term. However, with demand improving, the cement sector is aptly placed to increase cement prices in the busy season to contain the key input costs. Shree Cement would be embarking on long term capacity expansion plan to reach 57MTPA and 80MTPA over three year and six-seven year period respectively. Consequently, it has applied for mining approvals at various locations in Rajasthan, Gujarat and Andhra Pradesh. In the near term, standalone capacity is slated to increase to 46.4MTPA by FY2021E from 40.4MTPA in FY2020. It is undertaking 10,000-12,000TPD clinker capacity at Chhattisgarh which will be completed over 18-20 months. We have revised our net earnings estimates upwards for FY2021E-FY2023E factoring in higher volume considering a sharp improvement in demand environment and healthy outlook going forward. We continue to maintain our Buy rating on the stock with unchanged price target (PT) of Rs. 27,000.

Key positives

- Strong outperformance on operational profitability front led by lower opex.
- Maintains cost efficiencies through lower mix of pet coke fuel and lower other expense.
- Capacity expansion plans over medium to long term horizon intact.

Key negatives

- Rise in diesel prices reflects in Q3 and would be seen in Q4

Our Call

Valuation – Maintain Buy with unchanged PT of Rs. 27,000: Shree Cement is witnessing a strong traction in demand in its regional markets (North and East) and since revisited its medium to long term capacity expansion plans. We expect Shree Cement to benefit from sustained demand emanating from rural and semi-urban sectors along with pick up in government led infrastructure projects. We expect Shree Cement to outperform industry growth over FY2021E-FY2023E led by improving capacity utilization and addition of newer capacities. We have revised our net earnings estimates upwards for FY2021E-FY2023E factoring higher volume considering sharp improvement in demand environment and healthy outlook going forward. Hence, we maintain our buy rating on the stock with unchanged price target (PT) of Rs. 27,000.

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	12,442.9	13,862.3	15,355.8
OPM (%)	30.9	32.6	32.8	33.1
Adjusted PAT	1,570.2	2,264.5	2,482.9	2,828.2
% YoY growth	27.4	44.2	9.6	13.9
Adjusted EPS (Rs.)	435.2	627.6	688.1	783.8
P/E (x)	52.3	36.2	33.1	29.0
P/B (x)	6.3	5.5	4.8	4.2
EV/EBITDA (x)	20.5	18.2	15.8	13.7
RoNW (%)	13.9%	16.3%	15.6%	15.5%
RoCE (%)	13.0%	15.2%	14.7%	14.8%

Source: Company; Sharekhan estimates

Strong beat on operational and net profitability

The company's standalone net revenues grew by 16.2% y-o-y to Rs. 3309 crore led by a strong 14.7% y-o-y (up 9.6% q-o-q) rise in cement volumes while blended realizations were up 1.3% y-o-y (almost flat q-o-q). The strong volume growth is attributable to a healthy demand environment in both North and Eastern regions during Q3. The trade mix and premium sales mix for the quarter marginally improved sequentially. The company reported strong beat on operational profitability with blended EBITDA/tonne at Rs. 1521 (up 11.8% y-o-y and 0.5% q-o-q). The operational beat was mainly led by lower than expected power & fuel costs (led by lower pet coke fuel mix) and lower other expense (down 2.5% y-o-y). However, the freight costs rose 10.4% y-o-y on per tonne basis led by increased diesel prices, the impact of the same is expected to be felt in Q4FY2021. Strong OPM led to operating profit growth of 28.2% y-o-y to Rs. 1089 crore. Strong operational performance along with higher other income, lower depreciation and lower interest expense led to a standalone net profit growth of 2x y-o-y to Rs. 626 crore which was much higher than our estimate.

Capacity expansion plans for long term sustainable

Shree Cement's standalone installed capacity is slated to increase to 46.4MTPA by FY2021E from 40.4MTPA as of FY2020 with completion of 3MT Odisha grinding unit (at a cost of Rs. 423 crore) and 3MT Maharashtra grinding unit (at a cost of Rs. 525 crore) in Q4FY2021. Further, it is undertaking 10,000-12000 tonne/day third clinker line at Chhattisgarh at a capex of Rs. 800-900 crore which is to be completed over 18-20 months along with addition of WHRS. The company would be undertaking capacity expansion plan from 40MTPA to 57MTPA over three years period and to 80MTPA over six to seven years. The three year plan would comprise expansions in Northern and Eastern region which will then be followed by expansion in the Southern region. The company has applied for limestone mining approvals at various locations in Rajasthan, Gujarat and Andhra Pradesh which is expected to take one to two years and will aid the expansion plans as mentioned above.

Per-tonne analysis (Blended)

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	y-o-y (%)	q-o-q (%)
Volume	6,245,000	6,906,000	4,930,000	6,530,000	7,160,000	14.7%	9.6%
Realisation	4,561	4,659	4,718	4,628	4,622	1.3%	-0.1%
Cost break-up							
RM cost	401	263	327	303	263	-34.4%	-13.3%
Employee expenses	297	245	351	265	236	-20.5%	-10.9%
Power and fuel	768	900	777	728	777	1.2%	6.7%
Transportation and handling	1,031	1,034	1,136	1,087	1,138	10.4%	4.7%
Other expenses	705	654	705	732	687	-2.5%	-6.2%
Total expenditure per tonne	3,201	3,097	3,297	3,115	3,101	-3.1%	-0.5%
EBITDA per tonne	1,360	1,562	1,421	1,513	1,521	11.8%	0.5%

Source: Company; Sharekhan Research

Results (Standalone)					Rs cr	
Particulars	Q3FY2021	Q3FY2020	% yoy	Q2FY2021	% qoq	
Net Sales	3309.4	2848.3	16.2%	3022.4	9.5%	
Total Expenditure	2220.5	1999.0	11.1%	2034.4	9.1%	
Operating profit	1089.0	849.3	28.2%	988.0	10.2%	
Other Income	106.8	64.9	64.5%	102.4	4.3%	
EBIDTA	1195.8	914.3	30.8%	1090.4	9.7%	
Interest	58.5	74.1	-21.1%	62.7	-6.7%	
PBDT	1137.2	840.1	35.4%	1027.7	10.7%	
Depreciation	290.6	432.2	-32.8%	278.6	4.3%	
PBT	846.6	407.9	107.5%	749.0	13.0%	
Tax	220.4	98.0	124.9%	201.8	9.2%	
Extraordinary items	0.0	0.0	-	0.0	-	
Reported Profit After Tax	626.2	310.0	102.0%	547.3	14.4%	
Adjusted PAT	626.2	310.0	102.0%	547.3	14.4%	
Margins						
OPM	32.9%	29.8%	309	32.7%	21	
PAT	18.9%	10.9%	804	18.1%	82	
Tax rate	26.0%	24.0%	201	26.9%	(91)	

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens outlook

The cement industry has seen sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the trailing five years. Amidst COVID-19 led disruption, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand is expected to pickup from Q3FY2021, with labourers returning to project sites. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. Evidently, the Government's Rs. 111 lakh crore infrastructure investment plans from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

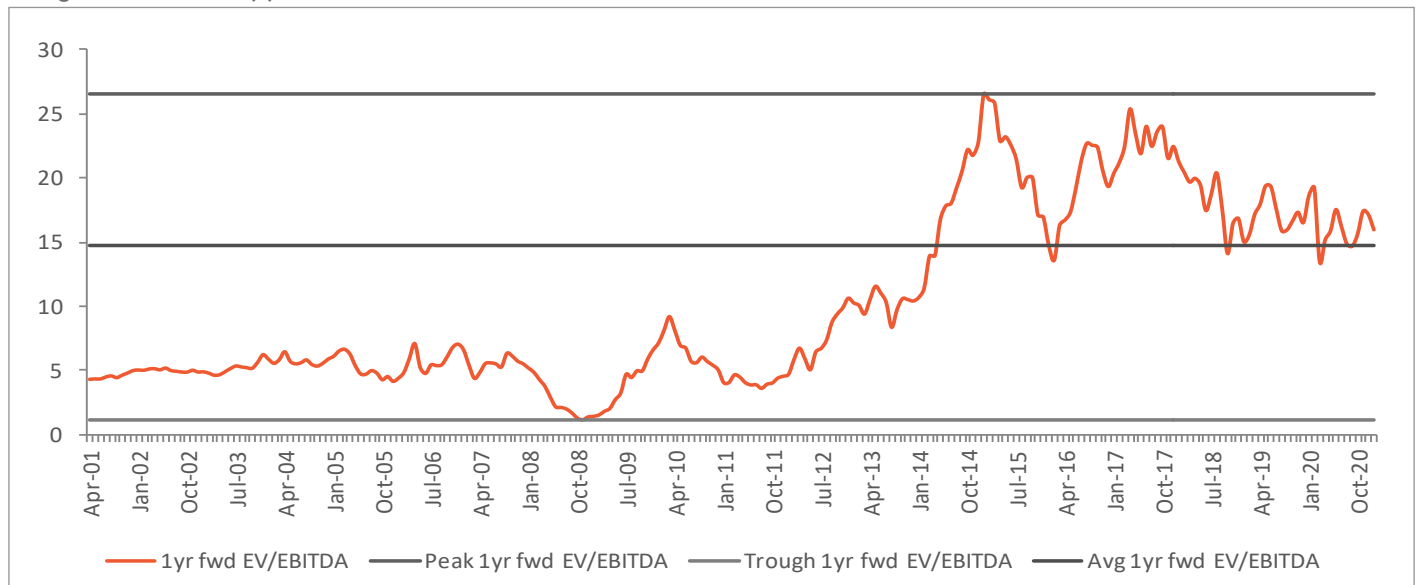
■ Company outlook - Expect Shree cement to outperform industry on volume offtake during FY2021E-FY2023E

The cement industry which had been affected by the disruption led by COVID-19 during Q4FY2020 and Q1FY2021 is seeing strong traction in demand from its key regional markets viz. North and East. 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. The firm cement demand has led to the management re-visiting its capex plans of increasing capacity from 40MTPA to 57MTPA over a three years period and to 80MTPA over six to seven years.

■ Valuation - Maintain Buy with revised PT of Rs. 27,000

Shree cement is witnessing strong traction in demand in its regional markets (North and East) and since revisited its medium to long term capacity expansion plans. We expect Shree Cement to benefit from sustained demand emanating from rural and semi-urban sectors along with pick up in government led infrastructure projects. We expect Shree Cement to outperform industry growth over FY2021E-FY2023E led by improving capacity utilization and addition of newer capacities. We have revised our net earnings estimates upwards for FY2021E-FY2023E factoring higher volume considering sharp improvement in demand environment and healthy outlook going forward. Hence, we maintain our buy rating on the stock with unchanged price target (PT) of Rs. 27,000.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Shree Cement	33.1	29.0	15.8	13.7	4.8	4.2	15.6	15.5
UltraTech Cement	28.4	23.8	14.0	11.7	3.2	2.9	12.0	12.7
The Ramco Cement	20.0	18.1	12.5	11.0	2.9	2.5	15.4	14.9
JK Lakshmi Cement	13.4	11.4	5.2	4.6	1.7	1.5	13.2	13.7

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 is seeing strong traction in demand from its key regional markets viz. North and East. 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. The firm cement demand has led to the management re-visiting its capex plans of increasing capacity from 40MTPA to 57MTPA over three years period and to 80MTPA over six to seven years.

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

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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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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