



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✓	✓
Right Quality (RQ)	✓	✓	✓
Right Valuation (RV)	✓	✓	✓

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View

Reco: Buy	↔
CMP: Rs. 27,500	
Price Target: Rs. 31,610	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

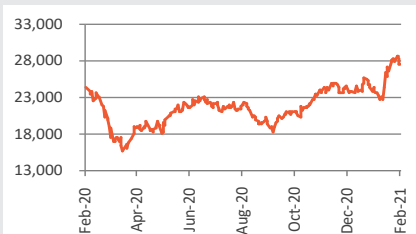
Company details

Market cap:	Rs. 99,221 cr
52-week high/low:	Rs. 29098/15500
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	15.1	15.0	24.6	12.9
Relative to Sensex	12.8	-1.0	-8.5	-10.7

Sharekhan Research, Bloomberg

Summary

- We retain our Buy rating on Shree Cement Limited (Shree Cement) with a revised PT of Rs. 31,610, as we expect it to report industry-leading growth led by rising capacity utilisation.
- Shree Cement is expected to benefit from strong cement pricing environment in north and high cement demand in east.
- Expect to continue to report industry-leading volume growth, driven by its presence in key regional markets viz. north and east.
- Capacity expansion plans to reach 57 mtpa over three years and 80 mtpa over six-seven years would provide sustainable long-term growth.

Shree Cement Limited (Shree Cement) is expected to benefit from a strong cement pricing environment in the northern region along with high cement demand from the eastern region. Cement price in the northern region during January-February 2021 increased by 1% versus Q4FY2020 (down 2% versus Q3FY2021). The northern region has witnessed high capacity utilisation, led by strong demand from infrastructure projects. Average cement prices in the eastern region during January-February 2021 are lower 2.2% versus Q4FY2020 (down 0.5% versus Q3FY2021). Cement prices in the eastern region have remained under pressure, although the region has continued to outperform on the demand front, led by strong trade demand. Shree Cement would be embarking on long-term capacity expansion plan to reach 57 mtpa and 80 mtpa over three year and six-seven year period, respectively. Consequently, the company 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 46.4 mtpa by FY2021E from 40.4 mtpa in FY2020. The company is undertaking 10,000-12,000 TPD clinker capacity at Chhattisgarh, which will be completed over 18-20 months. Shree Cement is currently trading at an EV/EBITDA of 17.1x its FY2023E earnings, which is at a premium to its peers owing to its strong operational efficiencies, presence in key regional markets, low absolute free float, and strong headroom for growth, led by its aggressive capacity expansion plans. We continue to maintain Buy on the stock with a revised PT of Rs. 31,610.

Benefits from cement pricing in north and demand in east: Shree Cement is expected to benefit from strong demand in east, led by high growth in the trade segment, driven by individual home builders' segment. Demand in the northern region is driven by infrastructure projects, which is expected to maintain the growth momentum with increased government spending on the infrastructure sector over the next five years. Cement price in the northern region during January-February 2021 increased by 1% versus Q4FY2020 (down 2% versus Q3FY2021). Average cement prices in the eastern region during January-February 2021 are lower 2.2% versus Q4FY2020 (down 0.5% versus Q3FY2021). Shree Cement is expected to benefit from strong demand in the eastern region and stable pricing environment in the northern region going ahead.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 31,610: Shree Cement continues to report industry-leading volume growth due to its presence in key regional markets viz. north and east. The company's long-term capacity expansion plans are expected to capture the strong demand for the cement sector over the next five years, led by government spending on the infrastructure sector. Shree Cement is currently trading at an EV/EBITDA of 17.1x its FY2023E earnings, which is at a premium to its peers owing to its strong operational efficiencies, presence in key regional markets, low absolute free float, and strong headroom for growth led by its aggressive capacity expansion plans. We continue to maintain Buy on the stock with a revised PT of Rs. 31,610.

Key Risks

Weak demand and pricing environment in north and east regions in India can negatively affect profitability.

Valuation (Standalone)

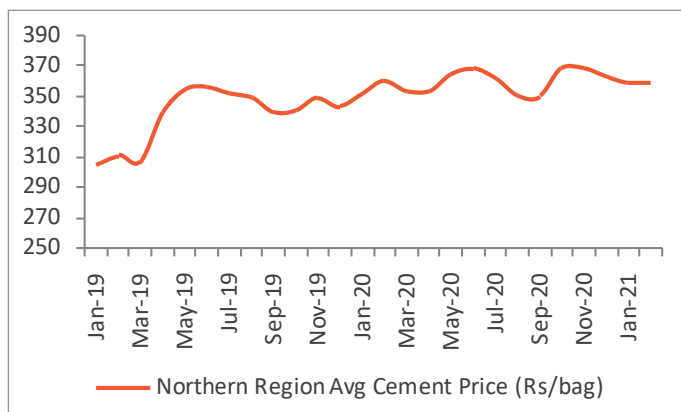
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	11,904.0	12,442.9	13,862.3	15,355.8
OPM (%)	30.9	32.6	32.8	33.1
Adjusted PAT	1,570.2	2,264.5	2,482.9	2,828.2
% YoY growth	27.4	44.2	9.6	13.9
Adjusted EPS (Rs.)	435.2	627.6	688.1	783.8
P/E (x)	63.2	43.8	40.0	35.1
P/B (x)	7.7	6.7	5.8	5.1
EV/EBITDA (x)	25.2	22.4	19.6	17.1
RoNW (%)	13.9%	16.3%	15.6%	15.5%
RoCE (%)	13.0%	15.2%	14.7%	14.8%

Source: Company; Sharekhan estimates

Healthy pricing discipline in north coupled with strong demand in east

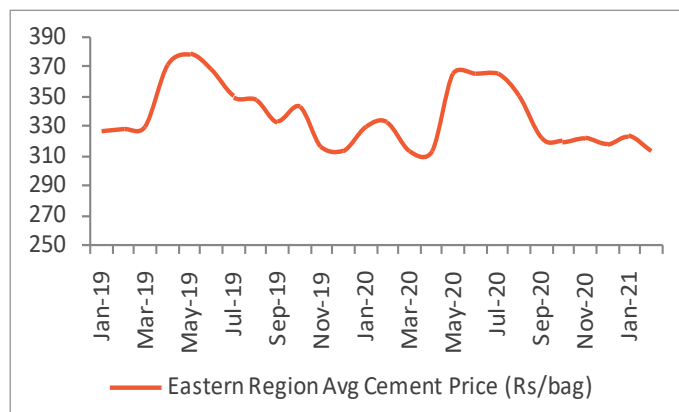
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North Cement Price Trend



Source: Industry; Sharekhan Research

East Cement Price Trend



Source: Industry; Sharekhan Research

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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