Shree Cement (SHRCEM)

ICICI direct Research

CMP: ₹ 29,150 | Target: ₹ 34,500 (18%) | Target Period: 12 months | **BUY**

November 2, 2021

Healthy margins sustain despite cost pressure…

About the stock: Shree is the third largest cement group in India with domestic cement capacity of 43.4 MT as of FY21. In the past four years, it has diversified itself from being a 100% north player to a player with capacities now in Rajasthan, Uttarakhand, Bihar, Chhattisgarh, Haryana, Uttar Pradesh, Karnataka and Odisha.

- It also has a presence in UAE with integrated cement capacity of 4 MT and 3.3 MT clinker (located near port in Ras-Al-Khaimah)
- Proximity to end user market, use of split grinding units and power capacity of 742 MW (Including 211 MW WHRS) makes it most efficient player in the industry

Q2FY22 Results: The performance remained ahead of our estimates.

- Revenues were up 5% YoY on sustained higher realisations. Volumes were down 3.6% YoY on heavy monsoon and transporters strike in east
- EBITDA/t of ₹ 1427/t (down 7.5% YoY) remained ahead of our estimates
- PAT was up 5.6% YoY to ₹ 577.7 crore on lower tax, higher other income

What should investors do? Cost leadership, strong presence in north & east along with robust balance sheet justifies premium valuations.

- With volume led expected revenue CAGR of 18.7% and expected RoCE of 20%+, we remain positive on the company. Hence maintain **BUY** rating

Target Price and Valuation: We value Shree at ₹34,500 i.e.22x FY23E EV/EBITDA

Key triggers for future price performance:

- Commissioning of grinding unit of 3 MT in Maharashtra to take its domestic capacity to over 46.4 MT. The new clinker unit in Chhattisgarh (capacity of 12000t/day) to get commissioned by Q4FY22 (capex ₹ 1000 crore)
- New capex includes 1) Setting up of new integrated unit with 3.5 MT GU and 3.8 MT clinker unit in Rajasthan 2) 3 MT grinding unit in WB 3) 106 MW solar power at various locations with total capex of ₹ 4750 crore till FY24E. Total domestic capacity to reach 53.4 MT post these expansions
- The company will continue to maintain its cost leadership due to structural advantage it has in terms of accessing raw materials and markets
- The recent price hikes of 7-9% in October 2021 to sustain on the back of healthy demand and help recoup margins, to some extent

Alternate Stock Idea: Apart from Shree, in our cement sector coverage we also like UltraTech.

- It is a market leader with strong brand in the retail segment
- BUY with a target price of ₹ 8,700/share

Shree Cement

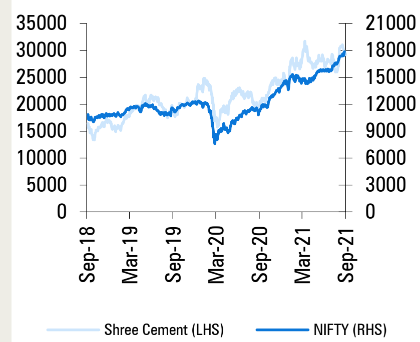
Particulars

Particular	Amount
Mcap	₹ 105183 crore
Debt (FY21)	₹ 2772 crore
Cash (FY21)	₹ 210 crore
EV	₹ 107746 crore
52 week H/L	₹ 15046 / 25355
Equity cap	₹ 36.1 crore
Face value	₹ 10

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	62.6	62.6	62.6	62.6
FII	12.2	12.5	13.0	13.5
DII	11.1	10.8	10.5	10.1
Others	14.2	14.1	14.0	13.8

Price Chart



Recent event & key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in prices of imported coal/petcoke

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	9833	11722	11904	12653	8.8	14735	17838	18.7
EBITDA	2473	2653	3675	3979	17.2	4289	5445	17.0
EBITDA (%)	25.1	22.6	30.9	31.4		29.1	30.5	
PAT	1384	1108	1570	2312	18.6	2427	3329	20.0
EPS (₹)	398	318	435	641		672	922	
EV/EBITDA	43.1	40.8	28.6	26.1		23.9	18.4	
EV/Tonne ($)	468	362	310	307		303	296	
RoNW	15.6	11.5	12.1	15.2		14.0	16.3	
RoCE	15.3	11.5	13.8	18.2		18.0	20.9	

Source: Company, ICICI Direct Research

Key performance highlights

- Domestic sales volumes were at 6.29 MT (down 3.6% YoY, 8% QoQ) while blended realisations were higher by 9% YoY, 1% QoQ to ₹ 5,094/tonne
- Capacity utilisation was at **58%** vs 64.7% in Q2FY21
- Cost of production was up 17% YoY to ₹ 3,667/t led by a sharp rise in power & fuel expenses (up 23.3% QoQ)
- Though EBITDA/t was down 7.5% YoY to ₹ 1,427/t, it was higher than our estimated EBITDA/t of ₹ 1,456/t

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
Total Operating Income	3205.9	3,115.0	3,053.3	5.0	3,449.5	-7.1
Other Income	150.0	115.5	83.0	80.6	139.2	7.7
Raw Material Consumed	239.6	169.9	201.1	19.1	274.9	-12.9
Stock Adjustment	-31.0	0.0	-3.0	926.5	-83.6	NA
Employee Expense	202.6	210.8	173.2	17.0	211.5	-4.2
Power, Oil & Fuel	628.3	648.2	486.0	29.3	652.4	-3.7
Freight cost	706.4	799.2	709.6	-0.4	832.2	-15.1
Other Expenses	561.8	509.7	479.0	17.3	548.6	2.4
EBITDA	898.2	777.2	1,007.4	-10.8	1,013.5	-11.4
EBITDA Margin (%)	28.0	24.9	33.0	-498 bps	29.4	-136 bps
Interest	55.6	49.3	62.7	-11.4	53.5	3.8
Depreciation	250.5	240.0	278.6	-10.1	232.5	7.8
PBT	742.0	603.4	749.0	-0.9	866.7	NA
Total Tax	164.3	151.4	201.8	-18.6	204.9	NA
PAT	577.7	451.9	547.3	5.6	661.7	-12.7
Key Metrics						
Volume (MT)	6.29	6.3	6.5	-3.6	6.8	-8.0
Cement Realisation/t (₹)	5,094	4,950	4,676	9.0	5,043	1.0
Blended EBITDA/Tonne (₹)	1,427	1,235	1,543	-7.5	1,482	-3.7

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Net revenues	15,680.3	14,735.3	-6.0	17,126.3	17,838.0	4.2	
EBITDA	4,717.3	4,289.4	-9.1	5,156.0	5,444.7	5.6	
EBITDA Margin (%)	30.1	29.1	-97 bps	30.1	30.5	42 bps	Expect company to maintain profitability leadership

Source: Company, ICICI Direct Research

Key triggers for future price performance

Stronghold over high growth markets of North and East regions

Shree Cement (SCL) is one of the strongest players in the northern region with operating units in Rajasthan, Haryana, Uttar Pradesh and Uttarakhand. Apart from stronghold in the north, which accounts for ~66% of revenues, the company also has increased its share in east and south markets with operating units at Chhattisgarh, Jharkhand and Bihar as well as operating unit in Karnataka. The share of eastern region increased from 21% in FY17 to 25% as of FY20. The company's strategy to adopt split grinding units close to user markets has also provided efficiency in terms of logistics cost.

Operating efficiency remains best in industry

Being a pioneer in many cost initiatives, SCL enjoys strong operating efficiency which makes it one of the low cost producers in India. The strong efficiency arises on account of being 1) 85% consumption of power from captive power plants including usage of WHRS 2) Higher sale of blended cement 3) use of split-grinding units and 5) adequate limestone reserves.

Exhibit 3: Cost of production on per tonne basis of top cement players

Total cost/tonne	FY17	FY18	FY19	FY20	FY21
Shree Cement	2,949	3,264	3,507	3,300	3,227
Ramco	3,322	3,551	3,679	3,786	3,732
Ambuja ^	3,564	3,708	3,915	3,965	3,856
UltraTech Cement	3,867	4,012	4,062	4,092	3,903
JK Cement	3,871	4,097	4,235	4,380	4,136
ACC ^	4,138	4,337	4,495	4,583	4,479
Total	**3810**	**3745**	**3837**	**3875**	**3820**

Source: Company, ICICI Direct Research

Credible record of low leverage and healthy return ratios

Tracking the data since FY07, Shree Cement has always reported double-digit RoE; thus speaking strongly of 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.

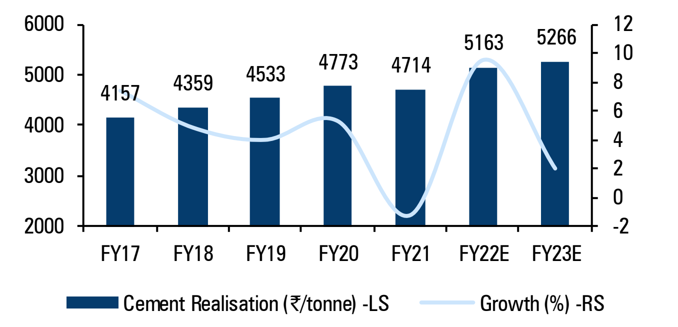
Financial story in charts

Exhibit 4: 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	Khushkhera	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	Harayana	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**

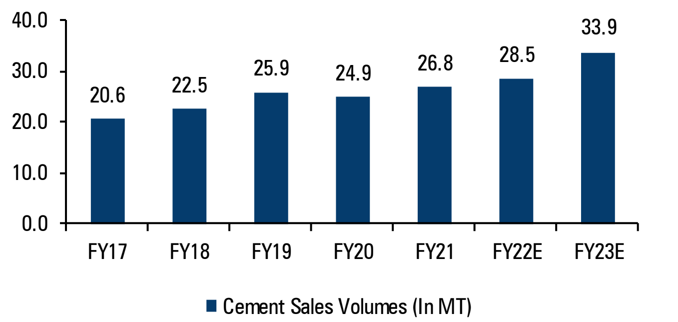
Source: Company, ICICI Direct Research

Exhibit 5: Cost pressure to keep realisations firm in FY22E; to stabilise thereafter



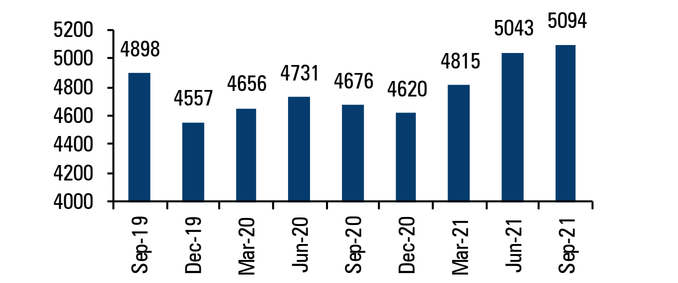
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 12.3% CAGR over FY21-23E



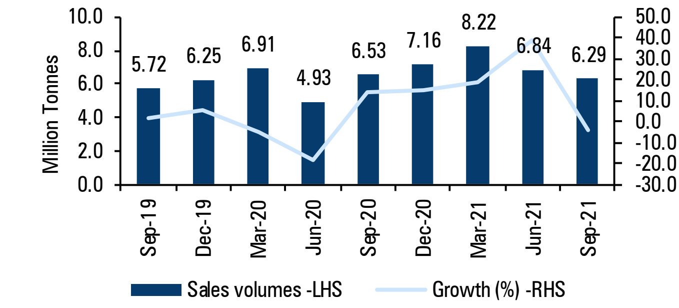
Source: Company, ICICI Direct Research

Exhibit 7: Realisations/tonne increase 9% YoY,1.0% QoQ



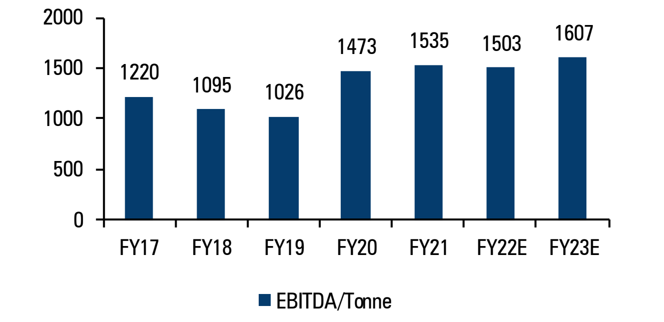
Source: Company, ICICI Direct Research

Exhibit 8: Cement volumes decline 3.6% YoY



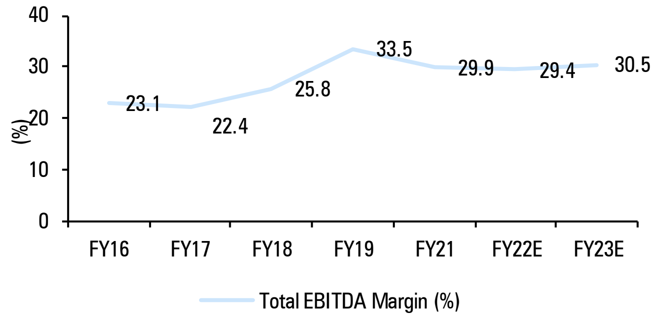
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t to remain healthy vs. industry



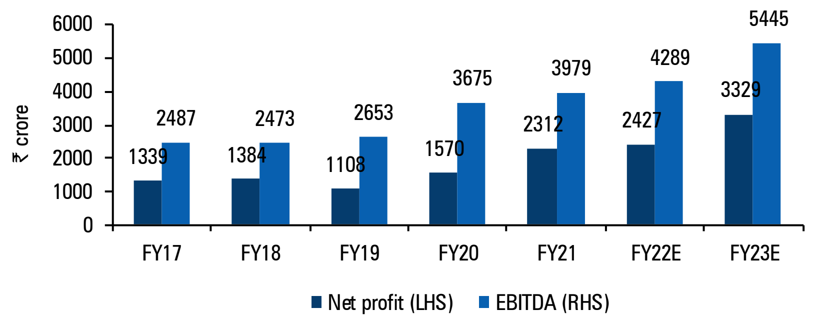
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins to stabilise around 30% in FY23E;



Source: Company, ICICI Direct Research

Exhibit 11: EBITDA, PAT to grow at 14.1%, 16.3% CAGR over FY21-23E, respectively



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Incon	**11,904.0**	**12,652.9**	**14,735.3**	**17,838.0**
Growth (%)	1.6	6.3	16.5	21.1
Raw material cost	768.2	875.6	969.9	1287.1
Power & Fuel cost	2347.6	2067.9	2844.6	3454.9
Freight cost	2606.1	3037.2	3356.6	3996.9
Employees cost	731.0	759.7	843.2	910.7
Others	1776.5	1933.2	2431.6	2743.6
Total Operating Exp.	8,229.5	8,673.6	10,445.9	12,393.3
EBITDA	**3,674.5**	**3,979.3**	**4,289.4**	**5,444.7**
Growth (%)	38.5	8.3	7.8	26.9
Depreciation	1,699.4	1,139.9	1,258.3	1,294.3
Interest	286.5	247.1	207.7	157.2
Other Income	271.6	433.4	442.0	450.9
PBT	1,960.2	3,025.7	3,265.5	4,444.2
Others	0.0	0.0	0.0	0.0
Total Tax	390.0	713.8	838.9	1,115.5
PAT	**1,570.2**	**2,311.9**	**2,426.6**	**3,328.7**
Adjusted PAT	**1,570.2**	**2,311.9**	**2,426.6**	**3,328.7**
Growth (%)	41.8	47.2	5.0	37.2
Adjusted EPS (₹)	**435.2**	**640.7**	**672.5**	**922.5**

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1,570.2	2,311.9	2,426.6	3,328.7
Add: Depreciation	1,699.4	1,139.9	1,258.3	1,294.3
Add: Interest	286.5	247.1	207.7	157.2
(Inc)/dec in Current Assets	45.4	346.5	-290.2	-750.6
Inc/(dec) in CL and Provision	982.2	-94.8	102.3	466.7
CF from operating activ	**4,583.7**	**3,950.6**	**3,704.7**	**4,496.2**
(Inc)/dec in Investments	-4,574.3	-2,080.4	-700.0	-1,500.0
(Inc)/dec in Fixed Assets	-1,384.3	-964.8	-1,800.0	-1,700.0
Others	-90.0	-37.0	0.0	0.0
CF from investing activ	**-6,048.6**	**-3,082.3**	**-2,500.0**	**-3,200.0**
Issue/(Buy back) of Equity	1.2	0.0	1.2	0.0
Inc/(dec) in loan funds	-218.8	-520.6	-800.0	-400.0
Dividend paid & dividend tax	-478.3	-260.9	-304.4	-304.4
Inc/(dec) in Sec. premium	2,246.0	263.0	0.0	0.0
Others	-286.5	-247.1	-207.7	-157.2
CF from financing activ	**1,263.6**	**-765.6**	**-1,310.8**	**-861.5**
Net Cash flow	-201.3	102.7	-106.1	434.7
Opening Cash	308.3	107.0	209.7	103.6
Closing Cash	**107.0**	**209.7**	**103.6**	**538.3**

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	36.1	36.1	37.3	37.3
Reserve and Surplus	12,900.3	15,214.4	17,336.6	20,360.9
Total Shareholders funds	12,936.4	15,250.5	17,373.9	20,398.2
Total Debt	3,292.4	2,771.8	1,971.8	1,571.8
Deferred Tax Liability	-680.4	-717.4	-717.4	-717.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	**15,548.4**	**17,304.8**	**18,628.3**	**21,252.6**
Assets				
Gross Block	16,009.8	16,965.8	18,986.7	20,836.7
Less: Acc Depreciation	11,690.9	12,830.8	14,089.1	15,383.4
Net Block	4,318.9	4,135.0	4,897.6	5,453.4
Capital WIP	962.1	971.0	750.0	600.0
Total Fixed Assets	5,281.0	5,106.0	5,647.6	6,053.4
Investments	9,119.6	11,200.1	11,900.1	13,400.1
Inventory	1,427.9	1,477.2	1,655.2	1,857.1
Debtors	828.5	485.9	605.6	781.9
Loans and Advances	60.3	85.7	147.4	178.4
Other Current Assets	1,768.7	1,690.1	1,620.9	1,962.2
Cash	107.0	209.7	103.6	538.3
Total Current Assets	4,192.3	3,948.5	4,132.6	5,317.9
Creditors	1,816.6	1,538.8	1,695.6	1,954.9
Provisions	1,228.0	1,411.0	1,356.5	1,563.9
Total Current Liabilities	3,044.6	2,949.8	3,052.0	3,518.7
Net Current Assets	1,147.8	998.8	1,080.5	1,799.1
Application of Funds	**15,548.4**	**17,304.8**	**18,628.2**	**21,252.6**

Source: Company, ICICI Direct Research

Exhibit 15: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	435.2	640.7	672.5	922.5
Cash EPS	906.1	956.6	1,021.2	1,281.2
BV	3,585.1	4,226.4	4,814.9	5,653.1
DPS	110.0	60.0	70.0	70.0
Cash Per Share	29.7	58.1	28.7	149.2
Operating Ratios (%)				
EBITDA Margin	30.9	31.4	29.1	30.5
PAT Margin	13.2	18.3	16.5	18.7
Inventory days	43.8	42.6	41.0	38.0
Debtor days	25.4	14.0	15.0	16.0
Creditor days	55.7	44.4	42.0	40.0
Return Ratios (%)				
RoE	12.1	15.2	14.0	16.3
RoCE	13.8	18.2	18.0	20.9
RoIC	16.6	22.0	21.7	27.8
Valuation Ratios (x)				
P/E	67.0	45.5	43.3	31.6
EV / EBITDA	28.6	26.1	23.9	18.4
EV / Net Sales	8.8	8.2	7.0	5.6
Market Cap / Sales	8.8	8.3	7.1	5.9
Price to Book Value	8.1	6.9	6.1	5.2
Solvency Ratios				
Debt/EBITDA	0.9	0.7	0.5	0.3
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	1.4	1.3	1.4	1.5
Quick Ratio	0.9	0.8	0.8	1.0

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Cement)

Company	CMP		EPS(₹)			EV/EBITDA (x)			EV/Tonne ($)			RoCE (%)			RoE (%)		
	(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,375	BUY	85	110	126	16.3	11.5	9.9	137	133	133	14.5	18.7	18.9	12.6	14.3	14.4
Ambuja Cem*	410	BUY	9	12	13	19.7	14.8	13.5	232	208	206	17.6	19.9	20.3	20.3	22.6	22.6
UltraTech Cem	7,775	BUY	191	232	281	19.7	16.6	14.2	276	265	227	14.7	16.3	18.1	12.7	13.7	14.5
Shree Cement	29,150	BUY	641	672	922	26.1	23.9	18.4	307	303	296	18.2	18.0	20.9	15.2	14.0	16.3
Heidelberg Cem	242	HOLD	14	15	17	12.0	10.0	8.3	131	127	121	20.1	23.7	27.2	21.1	20.3	20.8
JK Cement	3,390	HOLD	100	118	138	17.5	15.5	12.9	207	210	209	18.6	18.5	20.0	20.6	20.1	19.4
JK Lakshmi Cen	615	BUY	34	37	40	9.6	8.7	8.0	81	80	81	21.1	22.0	21.5	19.0	19.1	17.9
Star Cement	101	BUY	6	7	8	10.8	8.4	7.2	90	86	83	13.3	16.4	17.1	12.6	14.2	13.6
Ramco Cement	1,070	BUY	32	38	48	17.3	16.3	13.2	198	203	189	8.6	9.1	10.4	13.5	13.8	14.8
Sagar Cement	277	BUY	79	81	138	10.5	9.7	6.4	104	76	72	15.3	15.2	22.0	15.4	13.7	19.1

*Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E*

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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