

Shree Cement

Estimate change



TP change



Rating change



Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USD\$)	1034.1 / 13.8
52-Week Range (INR)	32050 / 20720
1, 6, 12 Rel. Per (%)	-2/-18/-17
12M Avg Val (INR M)	1617

Financial Snapshot (INR b)

Y/E Mar	2022E	2023E	2024E
Sales	149.5	163.6	182.6
EBITDA	40.4	42.4	50.2
Adj. PAT	25.2	25.5	28.3
EBITDA Margin (%)	27.0	25.9	27.5
Cons. Adj. EPS (INR)	699.4	706.1	785.6
EPS Gr. (%)	9.2	1.0	11.3
BV/Sh. (INR)	4,846.2	5,457.3	6,142.9

Ratios

Net D:E	-0.5	-0.5	-0.5
RoE (%)	15.4	13.7	13.5
RoCE (%)	14.7	13.2	13.1
Payout (%)	11.4	13.5	12.7

Valuations

P/E (x)	41.0	40.6	36.5
P/BV (x)	5.9	5.3	4.7
EV/EBITDA(x)	23.3	21.9	18.4
EV/ton (USD)	282.8	261.5	245.4
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	1.7	1.7	1.9

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	62.6	62.6	62.6
DII	10.1	10.5	11.5
FII	13.5	13.0	11.4
Others	13.8	14.0	14.5

FII Includes depository receipts

CMP: INR28,659

TP: INR28,220 (-2%)

Neutral

Beats estimates on lower cost and higher power revenue

Raise EPS estimates on lower depreciation and higher other income

- SRCM's 2QFY22 result beat our estimate on account of: a) higher Power sales, which offset the impact of weaker Cement realization and 4% miss on volumes, and b) lower freight costs. Blended EBITDA/t declined by 4% QoQ to INR1,421/t v/s our estimate of INR1,236/t.
- We broadly maintain our FY22E/FY23E/FY24E EBITDA estimate, but raise our EPS estimate by 15%/1%/11% to factor in higher other income and lower depreciation cost (in line with its 1HFY22 run-rate). We maintain our **Neutral** rating as the valuation (21.9x FY23E EV/EBITDA) prices in earnings growth.

Miss on volumes offset by better realization on higher power sales

- Revenue/EBITDA/adjusted PAT stood at INR32.1b/INR9b/INR5.8b (+6%/-9%/+6% YoY; -1%/+10%/+17% v/s our estimate) in 2QFY22. Sales volume missed our estimate by 4% and declined by 3% YoY to 6.32mt (-8% QoQ).
- Miss on volume was offset by higher blended realization, which rose 1% QoQ and 10% YoY to INR5,073/t (est. INR4,888/t). Gray Cement realization dropped by ~2% QoQ, but higher Power sales aided blended realization.
- Cost/t came in line at INR3,651/t (up 17% YoY and 3% QoQ) as a rise in other expenses was offset by: 1) lower fuel cost (INR994/t v/s our estimate of INR1,030/t), and 2) lower freight cost (INR1,118/t v/s our estimate of INR1,229/t), led by lower lead distance (458km v/s 472km in 1QFY22) and lower freight rates.
- EBITDA/t beat our estimate by 15% and stood at INR1,421/t (down 6% YoY and 4% QoQ).
- Depreciation fell 10% YoY (on lower capitalization in the past 18 months), while other income rose 46%. Profit was up 6% YoY at INR5.8b (est. INR5b).
- Revenue/EBITDA/adjusted PAT was up 24%/13%/35% YoY in 1HFY22 at INR66.6b/INR19.1b/INR12.4b, led by 15% YoY growth in volumes to 13.16mt.
- OCF/capex/FCF stood at INR9.9b/INR7.6b/INR2.3b in 1HFY22 v/s INR20.3b/INR3.3b/INR17.1b in 1HFY21.

Valuation and view

- We expect SRCM to maintain its premium valuations based on: a) 8% EBITDA CAGR over FY21-24E on a strong base of FY20-21; b) strong Balance Sheet – net cash expected to increase to INR110b in FY24E v/s INR64.5b in FY21; c) stable return ratios (the company enjoys one of the best return ratios in the Cement sector, with a RoIC of 39.2% in FY21) and; d) execution of its expansion projects.
- SRCM trades at 21.9x/18.4x FY23E/FY24E EV/EBITDA. The stock has traded at an average EV/EBITDA of 20x for the last seven years. We value SRCM at 19x Sep'23E EV/EBITDA to arrive at our TP of INR28,220 and maintain our **Neutral** rating on the stock.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (S/A)

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	23,258	30,224	33,094	39,308	34,495	32,059	38,345	44,608	125,884	149,506	32,270	-1
YoY Change (%)	-23.4	7.9	16.2	22.2	48.3	6.1	15.9	13.5	5.7	18.8	6.8	
Total Expenditure	16,252	20,344	22,205	27,537	24,360	23,077	28,398	33,276	86,337	109,110	24,112	-4
EBITDA	7,006	9,880	10,890	11,772	10,135	8,982	9,947	11,332	39,547	40,396	8,158	10
Margins (%)	30.1	32.7	32.9	29.9	29.4	28.0	25.9	25.4	31.4	27.0	25.3	
Depreciation	2,714	2,786	2,906	2,993	2,325	2,505	2,605	3,188	11,399	10,624	2,500	0
Interest	706	627	585	553	535	556	556	578	2,471	2,225	500	11
Other Income	1,244	1,024	1,068	1,244	1,392	1,500	1,600	1,609	4,580	6,100	1,450	3
PBT before EO Exp	4,831	7,490	8,466	9,469	8,667	7,420	8,386	9,175	30,257	33,647	6,608	12
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	4,831	7,490	8,466	9,469	8,667	7,420	8,386	9,175	30,257	33,647	6,608	12
Tax	1,123	2,018	2,204	1,793	2,049	1,643	2,264	2,455	7,536	8,412	1,652	
Rate (%)	23.3	26.9	26.0	18.9	23.6	22.1	27.0	26.8	23.6	25.0	25.0	
Reported PAT	3,708	5,473	6,262	7,677	6,617	5,777	6,121	6,720	23,119	25,235	4,956	17
Adj PAT	3,708	5,473	6,262	7,677	6,617	5,777	6,121	6,720	23,119	25,235	4,956	17
YoY Change (%)	2.1	77.1	102.0	30.5	78.5	5.6	-2.2	-12.5	47.2	9.2	-9.4	

E:MOFSL Estimates

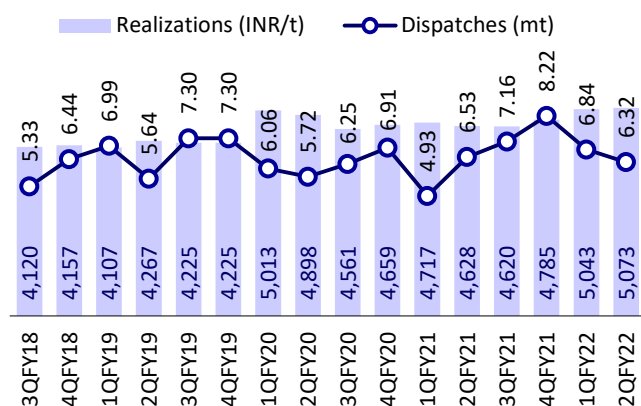
Key operating summary

(INR/t)

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales volume (m ton)	4.93	6.53	7.16	8.22	6.84	6.32	7.52	8.56	26.84	29.24	6.60	-4
YoY Change (%)	-18.6	14.2	14.7	19.0	38.7	-3.2	5.0	4.2	7.7	8.9	1.1	
Blended Realization	4,717	4,628	4,620	4,785	5,043	5,073	5,098	5,212	4,677	5,047	4,888	4
YoY Change (%)	-5.9	-5.5	1.3	2.7	6.9	9.6	10.3	8.9	2.4	7.9	5.6	
Expenditure												
RM Cost	327	303	263	399	280	330	330	357	326	343	330	0
Staff Cost	351	265	236	297	309	321	277	249	265	286	324	-1
Power & Fuel	777	728	777	753	954	994	1,194	1,422	752	1,129	1,030	-3
Freight	1,136	1,087	1,137	1,160	1,217	1,118	1,174	1,191	1,132	1,177	1,229	-9
Other Expenses	705	732	687	743	802	889	800	668	688	781	740	20
Total Op cost	3,296	3,115	3,099	3,352	3,561	3,651	3,775	3,888	3,164	3,715	3,652	0
EBITDA	1,421	1,513	1,520	1,433	1,482	1,421	1,322	1,324	1,514	1,332	1,236	15
YoY Change (%)	-4.6	2.5	11.8	-8.3	4.3	-6.1	-13.0	-7.6	4.5	-12.0	-18.3	

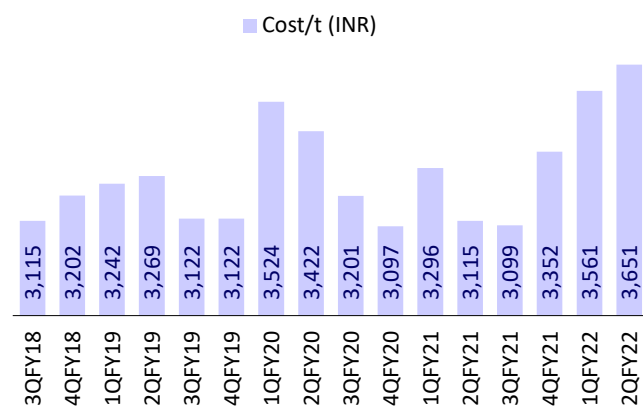
Key exhibits

Exhibit 1: Volume down 3% YoY, but realization up 10% YoY



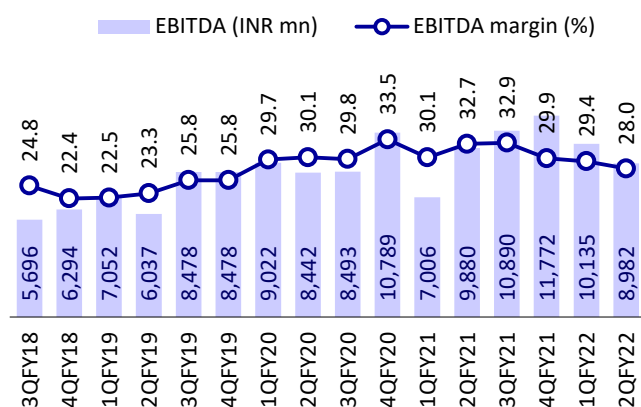
Source: Company, MOFSL

Exhibit 2: Total cost/t up 17% YoY (INR/t)



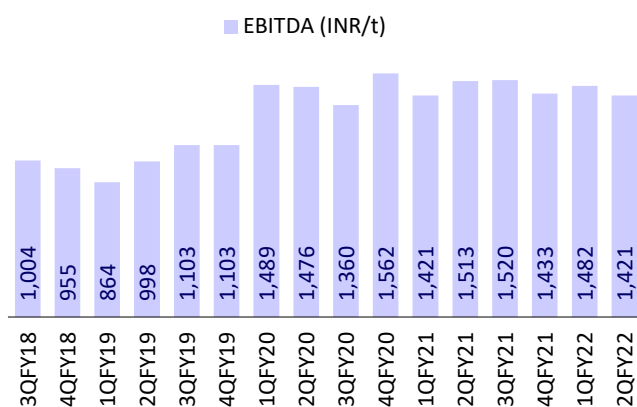
Source: Company, MOFSL

Exhibit 3: EBITDA margin down 470bps YoY



Source: Company, MOFSL

Exhibit 4: Trend in blended EBITDA/t



Source: Company, MOFSL

Exhibit 5: Key performance indicators

INR/t	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ(%)
Net Blended Realization	5,073	4,628	10%	5,043	1%
Raw Material Cost	330	303	9%	280	18%
Staff Cost	321	265	21%	309	4%
Power & fuel	994	728	37%	954	4%
Freight & selling Exp	1,118	1,087	3%	1,217	-8%
Other Exp	889	732	21%	802	11%
Total Exp	3,651	3,115	17%	3,561	3%
EBITDA	1,421	1,513	-6%	1,482	-4%

Source: Company, MOFSL

Valuation and view

Consistent capacity expansion with differentiated approach: SRCM has been consistent in its capacity expansion (capacity CAGR of 19.2% over FY05-21) with its differentiated expansion style (engagement with different contractors for expansion projects, small and identical sized kilns, etc.) which has helped it achieve timely execution of projects. The company typically breaks down a project into smaller components and engages different contractors for each of the smaller projects, which has helped in timely execution of its expansion projects. After commissioning six identical kilns of 1mtpa each at Ras, Rajasthan, the company has increased the kiln size to 2mtpa for the next two kilns (Unit IX and X) and plans to build higher capacity kilns for its expansion projects in the East and South regions.

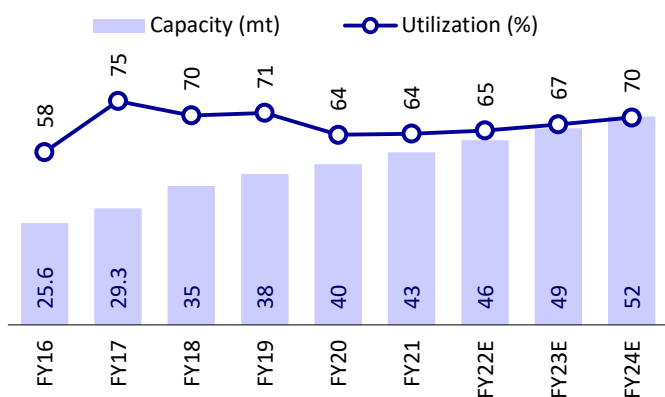
Expansion plans to continue: SRCM recently announced its expansion plans in the North region (integrated plant in Nawalgarh, Rajasthan) with a clinker/cement manufacturing capacity of 3.8mtpa/3.5mtpa) and East region (grinding capacity of 3mtpa in Purulia, West Bengal). In March 2021, the company commissioned 3mtpa of grinding capacity in Cuttack, Odisha and is currently in the process of commissioning a 3mtpa grinding unit in Patas, Pune. SRCM's clinker expansion of 12,000 tpd (3.96mtpa) in Baloda Bazar, Chhattisgarh will be completed by FY23E. The management aims to increase its capacities to 80mtpa over the next 6-7 years. The company had raised INR24bn through the issue of equity shares (12.435mn shares were issued at INR19,300/share through a QIP) in November 2019. We estimate SRCM to record a volume CAGR of 9.6% over FY21-24E.

One of the lowest cost producers of cement: SRCM is a pioneer in deploying cost reduction initiatives and has maintained cost leadership through a) higher share of green power (WHRS and solar power) which fulfils 40% of its power requirements; b) higher dependence on split grinding units; c) higher dependence on alternative raw materials as 60% of its gypsum requirements are fulfilled by synthetic gypsum generated through captive sources and; d) higher clinker to cement conversion ratio. SRCM is the lowest cost producer of cement among the companies in our coverage universe. It is also in the process of setting up solar power capacity of 106MW by Q2FY23. Also, the company is increasing its synthetic gypsum manufacturing capacity by 100TPH (current capacity: 70TPH).

Valuation and view: SRCM trades at 21.9x/18.4x FY23/24E EV/EBITDA. The stock has traded at an average EV/EBITDA of 20x for the last seven years. We value SRCM at 19x Sep-23E EV/EBITDA to arrive at our target price of INR28,220 and maintain Hold rating on the stock. We expect SRCM to maintain its premium valuations based on a) EBITDA CAGR of 8% over FY21-24E on a strong base of FY20/21; b) strong balance sheet - net cash expected to increase to INR110.0bn in FY24E vs. INR64.5bn in FY21; c) stable return ratios (the company enjoys one of the best return ratios in the cement sector with an RoIC of 39.2% in FY21 and; d) execution of its expansion projects.

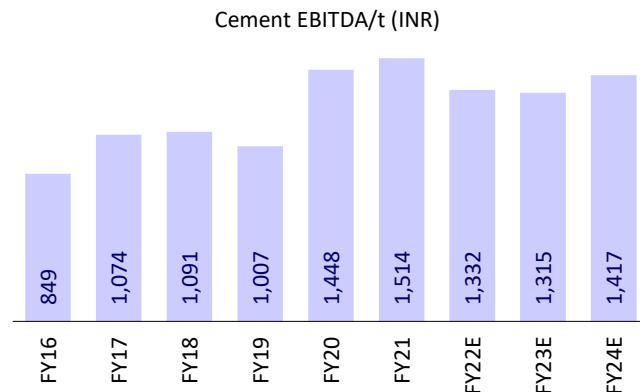
Story in charts

Exhibit 6: Utilization to remain weak



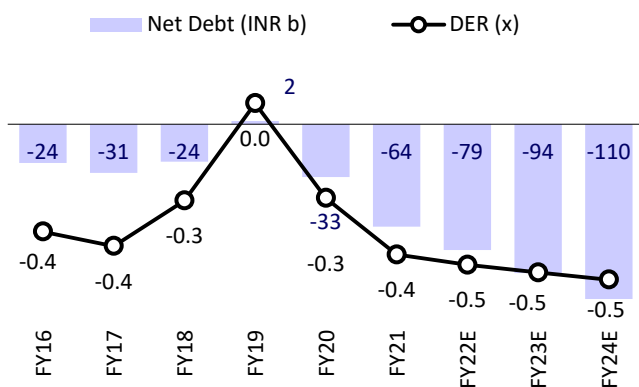
Source: Company, MOFSL

Exhibit 7: EBITDA/t to decline in FY22E



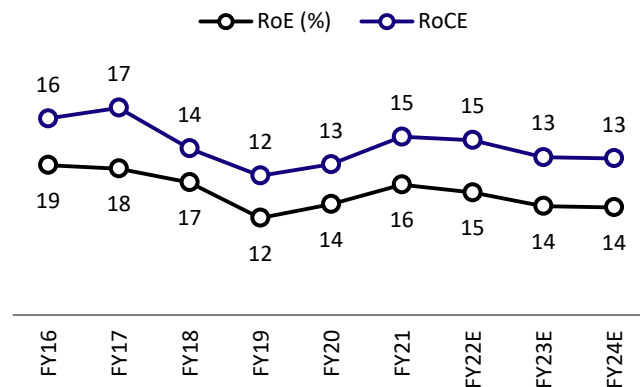
Source: Company, MOFSL

Exhibit 8: Cash pile to rise further on limited capex



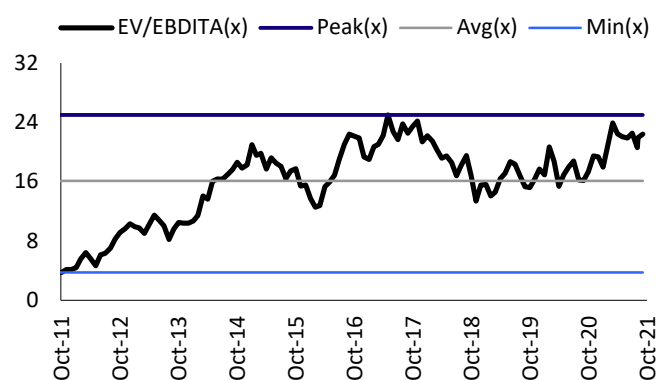
Source: MOFSL, Company

Exhibit 9: Return ratios to decline in FY23/24E



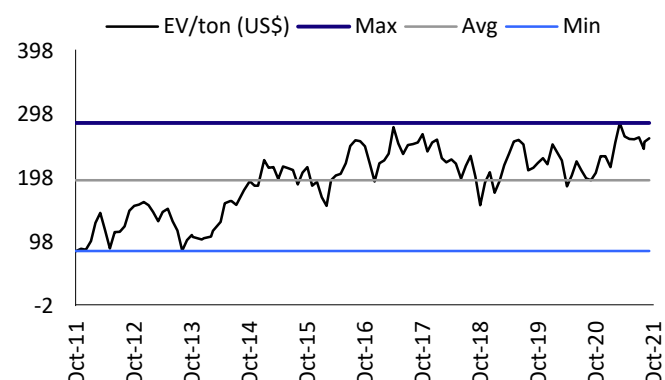
Source: MOFSL, Company

Exhibit 10: SRCM EV/EBITDA trend



Source: MOFSL, Company

Exhibit 11: SRCM EV/t trend



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Gross Sales	95,215	102,158	117,599	119,040	125,884	149,506	163,606	182,588
Less: Excise Duty	10,674	3,264	0	0	0	0	0	1
Net Sales	84,541	98,894	117,599	119,040	125,884	149,506	163,606	182,587
Change (%)	53.0	17.0	18.9	1.2	5.7	18.8	9.4	11.6
EBITDA	23,672	24,728	27,869	36,745	39,547	40,396	42,362	50,175
Margin (%)	28.0	25.0	23.7	30.9	31.4	27.0	25.9	27.5
Depreciation	12,147	8,994	13,917	16,994	11,399	10,624	13,058	17,847
EBIT	11,525	15,734	13,952	19,751	28,148	29,772	29,304	32,329
Int. and Finance Charges	1,294	1,353	3,810	2,865	2,471	2,225	2,060	2,060
Other Income - Rec.	5,077	3,891	2,454	2,716	4,580	6,100	6,727	7,525
PBT before EO Expense	15,308	18,272	12,596	19,602	30,257	33,647	33,970	37,793
EO Expense/(Income)	0	0	1,781	0	0	0	0	0
PBT after EO Expense	15,308	18,272	10,814	19,602	30,257	33,647	33,970	37,793
Tax	3,263	4,466	2,177	5,248	7,536	8,412	8,493	9,448
Deferred Tax	-1,346	-36	-873	-1,348	-398	0	0	0
Tax Rate (%)	12.5	24.2	12.1	19.9	23.6	25.0	25.0	25.0
Reported PAT	13,391	13,842	9,510	15,702	23,119	25,235	25,478	28,345
Adj PAT for EO items	13,391	13,842	11,292	15,702	23,119	25,235	25,478	28,345
Change (%)	17.1	3.4	-18.4	39.1	47.2	9.2	1.0	11.3
Margin (%)	15.8	14.0	9.6	13.2	18.4	16.9	15.6	15.5

Balance Sheet								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Equity Share Capital	348	348	348	361	361	361	361	361
Other Reserves	76,633	88,620	95,626	129,003	152,140	174,489	196,539	221,276
Total Reserves	76,633	88,620	95,626	129,003	152,140	174,489	196,540	221,278
Net Worth	76,981	88,968	95,974	129,364	152,501	174,850	196,901	221,639
Deferred Liabilities	-5077	-5131	-6126	-7438	-7855	-7855	-7855	-7855
Secured Loan	6,854	23,761	27,980	31,042	21,332	18,396	18,396	18,396
Unsecured Loan	6,072	10,269	0	400	0	0	0	0
Total Loans	12,925	34,030	27,980	31,442	21,332	18,396	18,396	18,396
Capital Employed	84,830	117,868	117,827	153,368	165,978	185,391	207,442	232,180
Gross Block	46,354	65,480	88,365	103,231	113,070	127,070	147,070	184,070
Less: Accum. Deprn.	20,363	29,586	43,608	60,042	71,155	81,779	94,837	112,684
Net Fixed Assets	25,991	35,895	44,757	43,189	41,916	45,292	52,233	71,387
Capital WIP	11,035	18,303	14,725	12,576	12,836	14,836	14,836	2,836
Financial investments	40,424	54,341	22,856	63,575	83,712	95,712	108,712	121,712
Strategic Investment	3	3	21,583	25,579	26,794	26,794	26,794	26,794
Curr. Assets	29,132	37,749	41,886	41,022	37,275	41,075	45,456	52,655
Inventory	13,145	15,690	15,891	14,279	14,772	17,203	18,826	21,010
Account Receivables	3,351	4,593	7,324	8,285	4,859	5,734	6,275	7,003
Cash and Bank Balance	3,110	3,209	3,078	1,082	2,098	1,813	3,216	6,647
Others	9,526	14,258	15,593	17,378	15,547	16,325	17,141	17,998
Curr. Liability & Prov.	21,754	28,420	27,979	32,573	36,555	38,318	40,590	43,205
Account Payables	21,660	28,335	27,886	32,470	36,430	38,193	40,466	43,081
Provisions	95	86	93	103	125	125	125	125
Net Current Assets	7,378	9,329	13,907	8,450	721	2,758	4,866	9,450
Appl. of Funds	84,830	117,870	117,828	153,368	165,978	185,391	207,442	232,180

Financials and valuations

Ratios								
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
EPS	345.7	396.3	324.1	435.2	640.8	699.4	706.1	785.6
Cash EPS	911.1	776.7	958.3	1,155.9	1,060.7	1,065.0	1,168.6	1,444.7
BV/Share	2,209.6	2,553.6	2,754.7	3,585.5	4,226.7	4,846.2	5,457.3	6,142.9
DPS	140.0	50.0	60.0	110.0	70.0	80.0	95.0	100.0
Payout (%)	36.4	12.6	22.0	25.3	10.9	11.4	13.5	12.7
Valuation (x)								
P/E			88.4	65.9	44.7	41.0	40.6	36.5
Cash P/E			29.9	24.8	27.0	26.9	24.5	19.8
P/BV			10.4	8.0	6.8	5.9	5.3	4.7
EV/Sales			8.7	8.3	7.6	6.3	5.7	5.0
EV/EBITDA			36.6	26.9	24.2	23.3	21.9	18.4
EV/ton (USD-Cap)			376	341	308	283	262	245
Dividend Yield (%)			0.2	0.4	0.2	0.3	0.3	0.3
Return Ratios (%)								
RoIC	35.7	43.5	23.4	25.8	39.2	42.4	38.1	35.6
RoE	18.4	16.7	12.2	13.9	16.4	15.4	13.7	13.5
RoCE	17.4	14.0	11.7	12.6	14.9	14.7	13.2	13.1
Working Capital Ratios								
Inventory (Days)	57	58	49	44	43	42	42	42
Debtor (Days)	13	16	23	25	14	14	14	14
Creditor (Days)	94	105	87	100	106	93	90	86
Working Capital Turnover (Days)	32	34	43	26	2	7	11	19
Leverage Ratio (x)								
Current Ratio	1.3	1.3	1.5	1.3	1.0	1.1	1.1	1.2
Net Debt/Equity	-0.4	-0.3	0.0	-0.3	-0.4	-0.5	-0.5	-0.5

Cash Flow Statement								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
OP/(Loss) before Tax	15,308	18,272	10,814	19,602	30,257	33,647	33,970	37,793
Depreciation	12,147	8,994	13,916	16,994	11,399	10,624	13,058	17,847
Interest & Finance Charges	-1,210	-740	833	1,132	220	0	0	0
Direct Taxes Paid	-2,891	-5,068	-2,300	-4,859	-7,439	-8,412	-8,493	-9,448
(Inc)/Dec in WC	-509	-1,131	-5,302	5,591	8,762	-2,322	-707	-1,154
CF from Operations	22,845	20,327	17,962	38,460	43,200	33,538	37,829	45,037
Others	-829	-1,540	2,635	-947	-2,264	0	0	0
CF from Operating incl EO	22,017	18,788	20,597	37,513	40,936	33,538	37,829	45,037
(Inc)/Dec in FA	-12,793	-25,263	-18,853	-12,941	-9,984	-16,000	-20,000	-25,000
Free Cash Flow	9,223	-6,475	1,744	24,572	30,953	17,538	17,829	20,037
(Pur)/Sale of Investments	-7,686	-10,685	10,727	-42,478	-17,791	-12,000	-13,000	-13,000
Others	411	-3	51	0	0	0	0	0
CF from Investments	-20,068	-35,950	-8,075	-55,419	-27,774	-28,000	-32,999	-37,998
Issue of Shares	0	0	0	23,833	0	0	0	0
Inc/(Dec) in Debt	4,455	20,353	-7,591	1,175	-9,610	-2,936	0	0
Interest Paid	-1,278	-1,248	-2,753	-2,868	-2,514	0	0	0
Dividend Paid	-4,846	-1,843	-2,308	-6,231	-22	-2,886	-3,428	-3,608
CF from Fin. Activity	-1,669	17,262	-12,653	15,910	-12,146	-5,822	-3,428	-3,608
Inc/Dec of Cash	279	99	-131	-1,996	1,016	-285	1,403	3,431
Opening Balance	2,830	3,110	3,209	3,078	1,082	2,098	1,813	3,216
Closing Balance	3,110	3,209	3,078	1,082	2,098	1,813	3,216	6,647

*Y/E June

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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