

Shree Cement Ltd.



RESULT UPDATE

23rd May 2022

Shree Cement Ltd.

Margin suffers due to steep rise in fuel costs

CMP INR 21,942	Target INR 25,085	Potential Upside 14.3%	Market Cap (INR Mn) INR 7,96,959	Recommendation ACCUMULATE	Sector Cement
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Result Highlights

- In Q4FY22, Shree Cement's revenue grew 3.1% YoY/20% QoQ to INR 43,642 mn, surpassing our estimate by 7.2%. For FY22, revenue grew 10.7% YoY to INR 150,096 Mn.
- For Q4FY22, EBITDA has seen a decline of 26.3% YoY to INR 9,188 mn, though on QoQ basis EBITDA grew by 8.7%. EBITDA margin also suffered contraction to the tune of 837 bps YoY and 219 bps QoQ to 21.1%. For FY22, EBITDA saw a decline of 9.1% YoY to INR 37,079 Mn, while EBITDA margins declined by 538 bps to 24.7%.
- Reported PAT for Q4FY22, has seen a growth of 36.4% QoQ to INR 6,572 mn, though on YoY basis PAT suffered a decline of 17.7%. PAT margin expanded by 181 bps YoY to 15.1%. However, on YoY basis, margin suffered a contraction of 379 bps. For FY22, PAT saw a muted growth of 2% YoY to INR 23,319 Mn while PAT margins contracted by 132 bps to 15.5%.

MARKET DATA

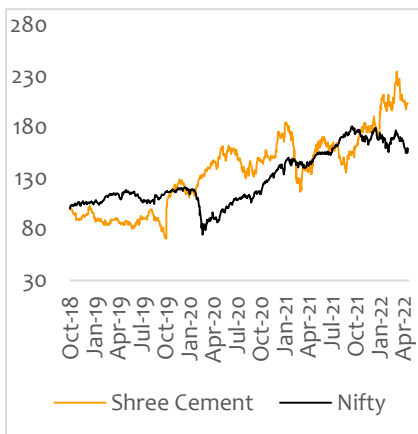
Shares outs (Mn)	36.08
Mkt Cap (INR Mn)	7,96,959
52 Wk H/L (INR)	31,470/21,690
Volume Avg (3m K)	34
Face Value (INR)	10
Bloomberg Code	SRCM IN

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,28,684	1,34,763	1,50,096	1,69,287	1,91,537
EBITDA	37,591	40,514	37,079	44,520	52,840
PAT	15,359	22,859	23,319	25,009	30,2610
Adj PAT	15,359	22,859	23,319	25,009	30,2610
EPS (INR)	426	634	646	693	839
Adj. EPS (INR)	426	634	646	693	839
EBITDA Margin (%)	29.2%	30.1%	24.7%	26.3%	27.6%
NPM (%)	11.9%	17.0%	15.5%	14.8%	15.8%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Increased capacity with low utilization level gives ample room for future growth

In Q4FY22, Shree Cement commissioned its 3 mtpa grinding unit at Pune, taking its overall capacity to 46.4 mtpa. The company's current utilization level stands at ~60% giving ample room for future growth by increasing its utilization level in subsequent quarters. The company is on track to achieve its target of 57 mtpa of capacity in next three years time. During Q4FY22, Shree Cement's sales volume stood at 8 MT, a growth of 22.1% on QoQ basis. However, on YoY basis it was a modest decline of 2.4%.

Rising input costs has taken a toll on the margin

For Q4FY22, EBITDA has seen a decline of 26.3% YoY to INR 9,188 mn, though on QoQ basis EBITDA grew by 8.7%. EBITDA margin also suffered contraction to the tune of 837 bps YoY and 219 bps QoQ to 21.1%. The decline in EBITDA was due to steep rise in power and fuel costs, which grew by 75.9% YoY/38.6% QoQ to INR 12,667 mn. As a result of higher input costs, blended EBITDA on a per ton basis was down by 24.4% YoY/11% QoQ to INR 1,149. Realisation was mostly flat, at INR 5,455/ton, a growth of 5.6% YoY/-1.8% QoQ.

Valuation and view

In light of the input cost inflation, we have lowered our EBITDA margin assumption for FY23E/FY24E from 29.6%/30% earlier to 26.3%/27.6%. However, we believe with increase in utilization level, economies of scale will kick in, which will help the company to withstand the margin pressure. **Since our last result update, the stock price has corrected by 11.4% in line with overall market correction. At CMP of INR 21,942, the stock is trading at FY23E/FY24E EV/EBITDA of 17.9x/15x. We continue to value the stock at 16x its FY24E EV/EBITDA, which yields a target price of INR 25,085 (previous TP of INR 27,978), giving an upside potential of 14.3% from the CMP. Accordingly, we maintain our "ACCUMULATE" rating due to correction in stock price.**

MARKET INFO

SENSEX	54,289
NIFTY	16,215

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sept-21
Promoters	62.6	62.6	62.6
FIIIs	12.2	13.1	13.5
DIIIs	11.2	10.5	9.9
Others	14.0	13.8	14.0
Total	100	100	100

13.0%

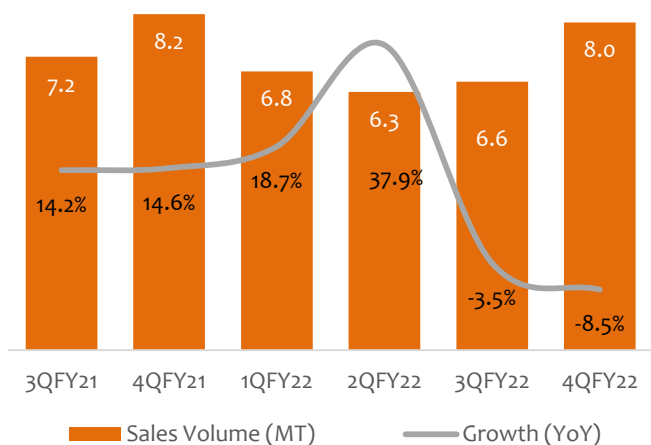
Revenue CAGR between FY22 and FY24E

14.5%

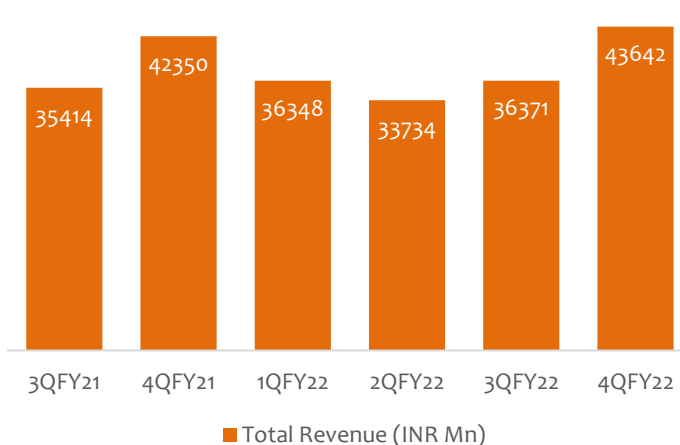
PAT CAGR between FY22 and FY24E

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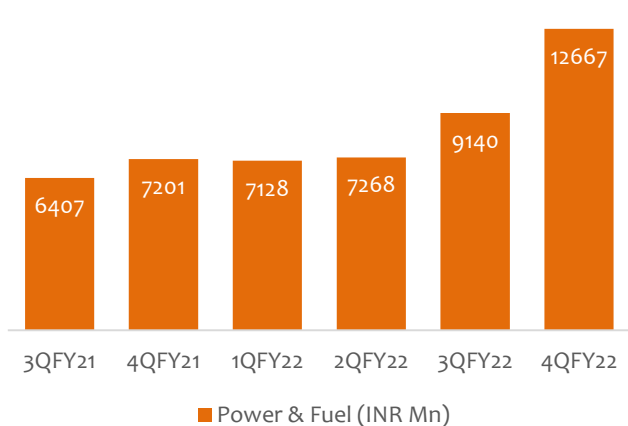
Volume Growth across quarters



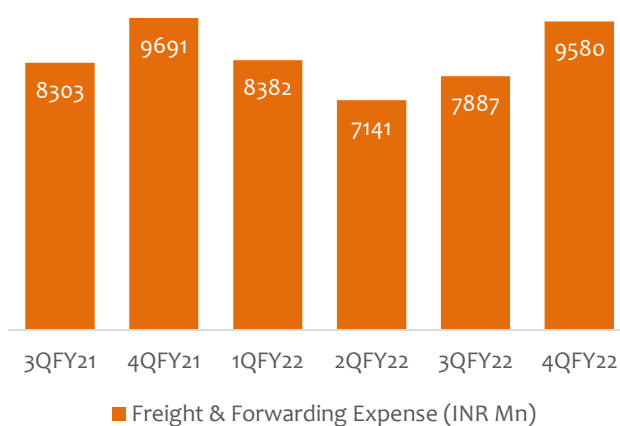
Quarterly revenue trends



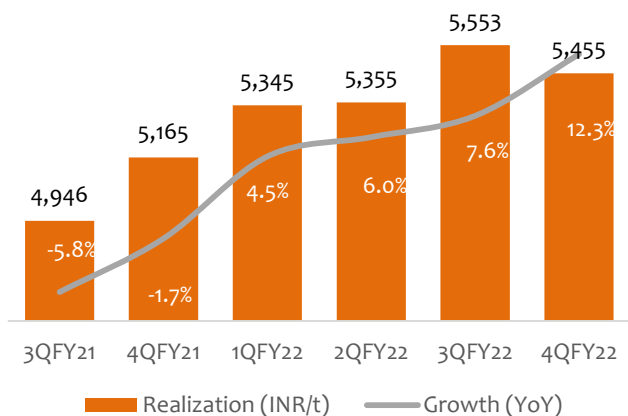
Power & Fuel Cost trend over the quarters



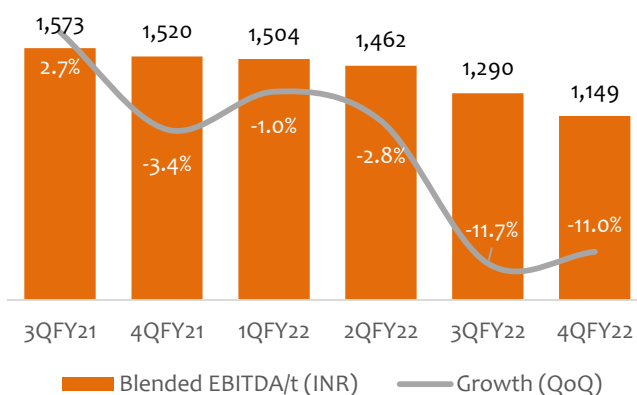
Freight & Forwarding Expense trend over the quarters



Realisation trend over the quarters



Sequential rise in cost puts pressure on EBITDA/t



Source: Company, KRChoksey Research

Shree Cement Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenues	1,25,547	1,28,684	1,34,763	1,50,096	1,69,287	1,91,537
COGS	10,154	9,905	10,696	10,382	13,337	15,351
Gross profit	1,15,392	1,18,779	1,24,067	1,39,714	1,55,950	1,76,186
Employee cost	7,672	8,540	8,692	9,135	9,480	11,109
Power & Fuel	30,926	27,027	23,488	36,202	40,019	43,365
Freight and Forwarding Expense	29,034	26,621	31,102	32,990	36,537	41,675
Other expenses	20,203	19,001	20,271	24,308	25,393	27,198
EBITDA	27,937	37,591	40,514	37,079	44,520	52,839
EBITDA Margin	22.3%	29.2%	30.1%	24.7%	26.3%	27.6%
Depreciation & amortization	14,718	18,078	12,623	11,459	15,311	17,323
EBIT	13,219	19,513	27,890	25,621	29,209	35,515
Interest expense	2,479	2,914	2,513	2,161	2,113	1,878
PBT	11,456	19,343	30,041	28,918	32,874	39,765
Tax	1,306	3,902	7,145	5,552	7,819	9,458
Minority interest	87	82	37	47	47	47
PAT	10,064	15,359	22,859	23,319	25,009	30,261
Adj. PAT	11,845	15,359	22,859	23,319	25,009	30,261
EPS (INR)	289	426	634	646	693	839
Adj. EPS	340	426	634	646	693	839

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	20,800	39,732	42,538	26,680	29,883	31,328
Net Cash Flow from/(used in) Investing Activities	(7,215)	(55,987)	(26,450)	(21,514)	(16,939)	(20,593)
Net Cash Flow from Financing Activities	(12,760)	15,811	(12,326)	(8,494)	(3,063)	(7,027)
Net Inc/Dec in cash equivalents	825	(445)	3,761	(3,328)	9,881	3,708
Opening Balance	335	1,177	1,142	4,723	1,486	11,366
Closing Balance Cash and Cash Equivalents	1,422	1,142	4,723	1,486	11,366	15,075

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	22.3%	29.2%	30.1%	24.7%	26.3%	27.6%
Tax rate (%)	11.4%	20.2%	23.8%	23.8%	23.8%	23.8%
Net Profit Margin (%)	8.0%	11.9%	17.0%	15.5%	14.8%	15.8%
RoE (%)	10.3%	11.6%	14.8%	13.3%	12.8%	13.7%
RoCE (%)	10.6%	12.5%	16.1%	13.1%	13.3%	14.5%
EPS (INR)	289	426	634	646	693	839

Source: Company, KRChoksey Research

Shree Cement Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Non-current assets						
Property, plant and equipment	61,352	56,974	57,145	67,242	68,860	70,690
Capital work-in-progress	11,295	11,967	9,965	10,535	10,535	10,535
Intangible assets	465	532	603	573	573	573
Financial assets						
Investments	22,529	32,713	46,990	55,063	60,570	66,627
Loans	531	540	621	44	44	44
Other financial assets	279	1,604	724	1,375	1,375	1,375
Deferred Tax Assets	6,126	7,438	7,861	6,744	6,744	6,744
Non-current Tax Assets (Net)	1,110	1,110	1,020	274	1,461	1,653
Other non-current assets	4,052	7,626	12,795	10,936	10,032	11,351
Total non-current assets	1,07,738	1,20,503	1,37,725	1,52,786	1,60,193	1,69,591
Current assets						
Inventories	18,703	17,135	17,157	24,970	28,163	31,864
Financial assets						
Investments	327	30,863	38,015	35,263	35,263	35,263
Trade receivables	10,237	10,805	6,859	7,883	8,891	10,059
Cash and cash equivalents	1,422	1,142	4,721	1,486	11,366	15,075
Other Balances with Banks	2,971	5,000	2,362	1,411	1,411	1,411
Loans	98	79	252	253	253	253
Other financial assets	1,068	2,110	1,599	2,363	2,363	2,363
Other current assets	12,366	11,805	10,908	11,075	12,491	21,069
Total current assets	47,192	78,938	81,873	84,703	1,00,201	1,17,358
TOTAL ASSETS	1,54,931	1,99,442	2,19,598	2,37,489	2,60,394	2,86,948
EQUITY AND LIABILITIES						
Equity						
Equity share capital	348	361	361	361	361	361
Other equity	96,359	1,31,334	1,53,613	1,74,242	1,94,921	2,19,986
Equity attributable to the equity shareholders	96,708	1,31,694	1,53,974	1,74,603	1,95,282	2,20,347
Non-controlling interests	625	688	512	503	550	596
Total equity	97,332	1,32,382	1,54,486	1,75,106	1,95,832	2,20,944
LIABILITIES						
Non-current liabilities						
Financial liabilities						
Borrowings	23,090	16,387	13,316	12,983	18,387	18,387
Other financial liabilities	7,342	10,163	10,005	1,362	1,362	1,362
Provisions	320	351	318	297	297	297
Deferred Tax Liabilities (Net)	3	2	0	0	2	3
Other Non-Current Liabilities	5,577	6,076	10,005	876	876	876
Total non-current liabilities	36,332	32,980	33,643	15,519	20,925	20,925
Current liabilities						
Financial liabilities						
Borrowings	4,727	7,102	5,087	7,158	5,087	5,087
Trade payables	5,382	6,577	8,830	8,904	10,042	11,362
Other financial liabilities	4,625	13,547	8,177	14,192	14,192	14,192
Other current liabilities	6,250	6,145	8,610	13,385	13,385	13,385
Provisions	60	74	83	84	98	111
Current Tax liabilities (Net)	223	634	681	3,142	834	944
Total current liabilities	21,266	34,079	31,468	46,864	43,637	45,080
Total liabilities	57,598	67,059	65,111	62,383	64,562	66,005
TOTAL EQUITY AND LIABILITIES	1,54,931	1,99,442	2,19,597	2,37,489	2,60,394	2,86,948

Source: Company, KRChoksey Research

Shree Cement Ltd.

Shree Cement Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Reco	Our Rating	Upside
23-May-22	21,942	25,085	ACCUMULATE	Buy	More than 15%
09-Feb-22	24,764	27,978	ACCUMULATE		
02-Nov-21	29,146	30,602	ACCUMULATE	Accumulate	5% – 15%
11-Aug-21	26,548	30,321	ACCUMULATE		
30-Jun-21	28,134	30,321	ACCUMULATE	Hold	0 – 5%
25-May-21	26,909	30,321	ACCUMULATE		
17-Mar-21	27,431	29,584	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

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