

Shree Cement

Estimate change

TP change

Rating change


Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USD\$b)	676.2 / 8.8
52-Week Range (INR)	25300 / 15500
1, 6, 12 Rel. Per (%)	11/16/11
12M Avg Val (INR M)	765

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	119.0	104.8	128.7
EBITDA	36.7	30.0	39.5
Adj. PAT	15.7	10.8	18.8
EBITDA Margin (%)	30.9	28.6	30.7
Cons. Adj. EPS (INR)	435	299	521
EPS Gr. (%)	34.3	-31.4	74.3
BV/Sh. (INR)	3,585	3,764	4,176

Ratios

Net D:E	-0.3	-0.4	-0.7
RoE (%)	13.9	8.1	13.1
RoCE (%)	13.0	8.1	12.2
Payout (%)	6.9	13.4	9.6

Valuations

P/E (x)	43.1	62.7	36.0
P/BV (x)	5.2	5.0	4.5
EV/EBITDA(x)	17.0	20.3	14.4
EV/ton (USD)	204	174	162
Div. Yield (%)	0.2	0.2	0.3
FCF Yield (%)	3.6	3.1	3.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	62.6	62.6	64.8
DII	11.2	9.9	6.2
FII	11.9	13.2	13.0
Others	14.3	14.4	16.0

FII Includes depository receipts

CMP: INR 18,741
TP: INR 19,500 (+4%)
Neutral

Margins remain strong led by better realization

Net cash balance sheet a key strength in current times

- Shree Cement's (SRCM) 4QFY20 results reflect the benefit of improved pricing as EBITDA/t has improved sharply as expected with decline in costs.
- A strong balance sheet (~INR45b net cash) and limited capex provides comfort in the current environment of weak demand due to COVID-19. We, however, believe this is factored in at the current valuation (15x FY22E EV/EBITDA), and hence, maintain **Neutral** rating.

In-line operational results; lower tax rate leads to PAT beat

- SRCM's 4QFY20 volumes declined 5.4% YoY to 6.9mt. This was much lower than the 10-12% YoY decline reported by peers ACC and Ambuja.
- Blended realization (incl. power) was up ~3.5% YoY (+2% QoQ) to INR4,659/t (5% lower than est. INR4,881/t), which could be due to external sale of power (not disclosed from this quarter).
- Total revenue declined 2% YoY to INR32.2b (4% lower than est.).
- Blended cost/t declined 7% YoY (-3% QoQ) to INR3,097/t. Employee cost dropped 9% QoQ due to INR125m cut in remuneration by top management.
- EBITDA/t rose 34% YoY (15% QoQ) to INR1,562/t (in-line).
- Total EBITDA grew 27% YoY to INR10.8b (v/s est. INR10.7b) with margin at 33.5% (+7.7pp YoY).
- Tax rate was lower than expected at 11.9% for 4QFY20 (v/s 24% in 4QFY19 and est. 24%). As a result, PAT was up 83% YoY to INR5.9b (v/s est. INR4.9b).
- The company has stopped reporting power segment details from 4QFY20.
- FY20 operating cash flows (OCF) have nearly doubled YoY to INR38.5b due to stronger EBITDA (+32% YoY) and working capital release of INR6.9b (v/s increase of INR6.5b last year).
- FCF has also improved substantially to INR24.6b (v/s INR1.7b in FY19) due to lower capex of INR12.9b (v/s INR18.9b in FY19).
- Net cash has accordingly risen to ~INR45b (v/s debt of INR2b in FY19).

Valuation and view

- While SRCM's home market of North India remains better placed (due to consolidated market structure and lower capacity additions), its increasing exposure to the East is expected to result in blended margin declining. The East region is likely to witness ~30% capacity expansion by various players (including SRCM) over the next 18 months, which would likely create a fight for market share in a weak demand environment.
- A strong balance sheet (~INR45b net cash) and limited capex provides comfort in the current environment of weak demand due to COVID-19.
- We value SRCM at 15x FY22E EV/EBITDA and add value of the UAE operations at USD70/t to arrive at a target price of INR19,500. The stock trades at 14.4x FY22E EV/EBITDA, which does not offer much upside in our view. Maintain **Neutral**.

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

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Quarterly Performance (S/A)

(INR Million)

Y/E March	FY19				FY20				FY19	FY20	FY20 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	30,699	25,866	27,806	32,849	30,364	28,017	28,483	32,175	1,17,599	1,19,040	33,568	-4
YoY Change (%)	21.0	21.0	21.1	16.9	-1.1	8.3	2.4	-2.0	18.9	1.2	2.2	
Total Expenditure	24,247	19,829	20,906	24,370	21,342	19,576	19,990	21,387	89,731	82,295	22,891	-7
EBITDA	6,452	6,037	6,901	8,478	9,022	8,442	8,493	10,789	27,869	36,745	10,677	1
Margins (%)	21.0	23.3	24.8	25.8	29.7	30.1	29.8	33.5	23.7	30.9	31.8	
Depreciation	3,055	3,295	3,361	4,206	4,027	4,283	4,322	4,362	13,917	16,994	4,409	
Interest	1,262	1,458	393	697	680	717	741	726	3,810	2,865	732	
Other Income	936	514	553	451	511	578	649	978	2,454	2,716	900	
PBT before EO Exp	3,071	1,798	3,700	4,026	4,826	4,018	4,079	6,678	12,596	19,602	6,435	4
Extra-Ord Expense	0	1,781	0	0	0	0	0	0	1,781	0	0	
PBT	3,071	17	3,700	4,026	4,826	4,018	4,079	6,678	10,814	19,602	6,435	4
Tax	276	-476	687	817	1,196	928	980	797	2,177	5,248	1,543	
Rate (%)	9.0	-2,784.8	18.6	20.3	24.8	23.1	24.0	11.9	12.1	19.9	24.0	
Reported PAT	2,795	493	3,013	3,210	3,630	3,091	3,100	5,882	9,510	15,702	4,893	20
Adj PAT	2,795	2,275	3,013	3,210	3,630	3,091	3,100	5,882	11,292	15,702	4,893	20
YoY Change (%)	-36.5	7.5	-9.6	-19.6	29.9	35.9	2.9	83.3	-18.4	39.1	52.4	

E:MOSL Estimates

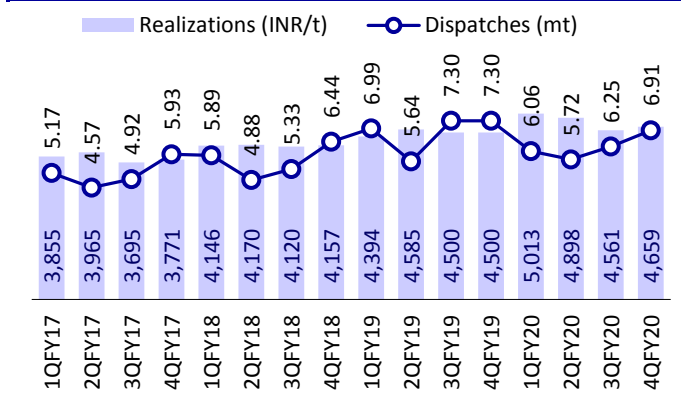
Quarterly performance

(INR/t)

Sales volume (m ton)	6.99	5.64	5.93	7.30	6.06	5.72	6.25	6.91	25.86	24.92	6.20	1
YoY Change (%)	18.7	15.6	11.4	13.3	-13.3	1.4	5.3	-5.4	14.8	-3.6	4.5	
Blended Realization	4,394	4,585	4,688	4,500	5,013	4,898	4,561	4,659	4,237	4,642	4,881	-7
YoY Change (%)	6.0	10.0	13.8	8.2	14.1	6.8	-2.7	3.5	1.0	9.6	4.6	
Expenditure												
RM Cost	345	298	346	343	306	264	401	263	334	327	333	-21
Staff Cost	244	301	281	234	316	323	297	245	245	293	287	-15
Power & Fuel	1,014	1,089	1,111	1,046	1,070	1,046	768	900	868	773	928	-3
Freight	1,219	1,039	1,098	1,061	1,103	1,013	1,031	1,034	1,107	1,041	1,018	2
Other Expenses	648	787	689	656	728	776	705	654	675	742	763	-14
Total Op cost	3,470	3,515	3,524	3,338	3,524	3,422	3,201	3,097	3,230	3,177	3,328	-7
EBITDA	923	1,070	1,163	1,161	1,489	1,476	1,360	1,562	1,007	1,466	1,552	1
YoY Change (%)	-20.2	-5.5	15.8	21.6	61.3	37.9	16.9	34.5	-7.7	45.5		

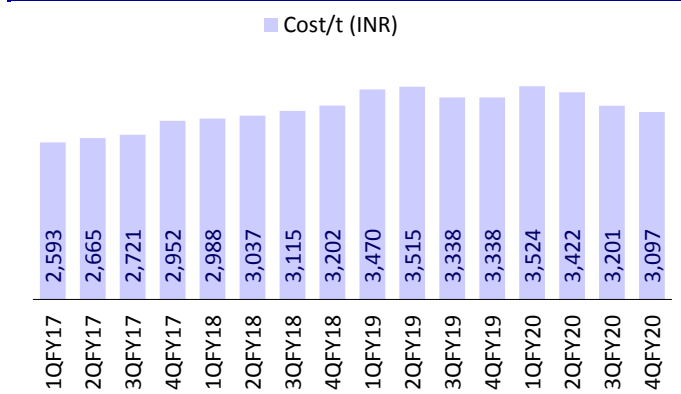
Key exhibits

Exhibit 1: Volumes down 5.4% YoY; realizations up 3.5% YoY



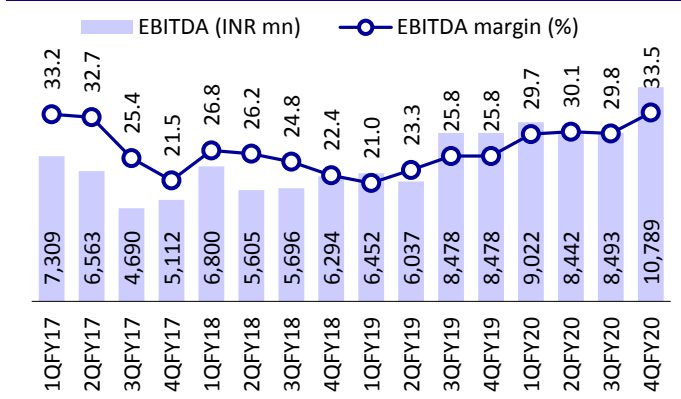
Source: Company, MOFSL

Exhibit 2: Total cost/t down 7% YoY (INR/t)



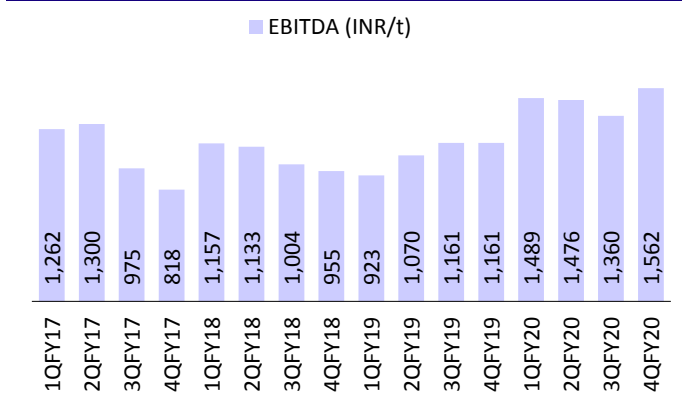
Source: Company, MOFSL

Exhibit 3: Margins expand 7.7pp YoY



Source: Company, MOFSL

Exhibit 4: Trend in cement EBITDA/t



Source: Company, MOFSL

Exhibit 5: Key performance indicators

INR/t	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ(%)
Net Blended Realization	4,659	4,500	4%	4,561	2%
Raw Material Cost	263	343	-23%	401	-34%
Staff Cost	245	234	5%	297	-18%
Power & fuel	900	1,046	-14%	768	17%
Freight & selling Exp	1,034	1,061	-3%	1,031	0%
Other Exp	654	656	0%	705	-7%
Total Exp	3,097	3,338	-7%	3,201	-3%
EBITDA	1,562	1,161	35%	1,360	15%

Source: Company, MOFSL

Valuation and view

Size limiting market share gains: SRCM has the advantage of being the largest player in the North-India market, which contributes ~60% of its volumes. However, this is also disadvantageous as high penetration in the North (25% market share) and key operating states in the East (Bihar, Chhattisgarh, etc.) has slowed down market share gains for the company – a key driver of its premium valuations. While all-India market share of SRCM expanded from 3% in FY07 to 7.5% in FY17, it has remained stagnant since then.

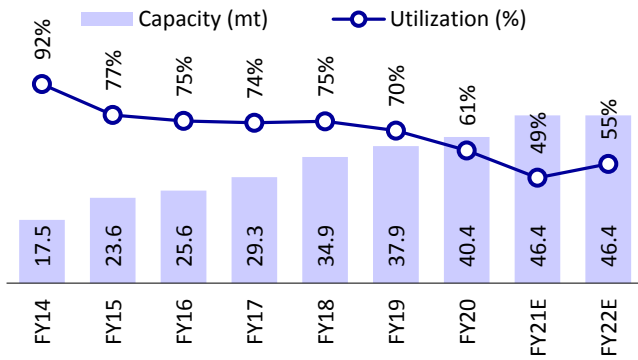
Pace of capacity expansion has slowed down: Despite strong OCF, SRCM has not announced any clinker capacity expansion over the past three years (longest such period in the past 15 years). Also, some of the announced expansions have seen delays in commissioning in the past 18 months. In our view, this is likely due to the slower-than-expected ramp-up of capacities commissioned over the past two years as well as execution challenges (land acquisition, limestone availability, etc.) in setting up new projects. We believe that these factors have impacted RoCE and increased the payback period for setting up new capacities for the company.

Increased exposure in East to lower blended margin: While SRCM's home market of North India continues to be better placed (due to consolidated market structure and lower capacity additions), its increasing exposure to the East would likely result in a decline in blended margin. The East region is likely to witness ~30% capacity expansion by various players (including SRCM) over the next 18 months, which would likely create a fight for market share in a weak demand environment.

Valuation: We value SRCM at 15x FY22E EV/EBITDA and add value of the UAE operations at USD70/t to arrive at a target price of INR19,500. A strong balance sheet (~INR45b net cash) and limited capex provides comfort in the current environment of weak demand due to COVID-19. We, however, believe this is factored in the current valuation (15x FY22E EV/EBITDA), and hence, maintain **Neutral** rating.

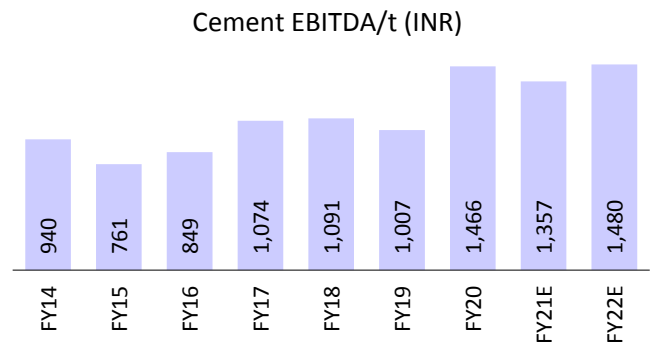
Story in Charts

Exhibit 6: Utilizations to remain lower in FY21



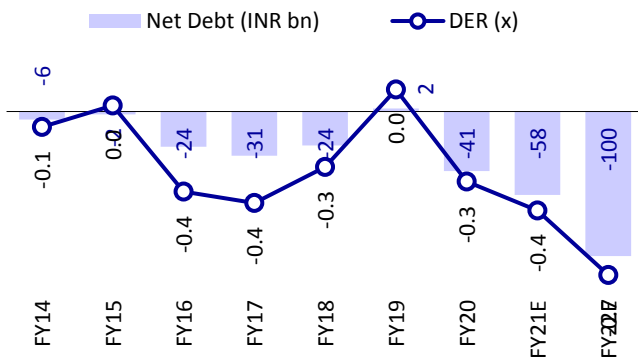
Source: Company, MOFSL

Exhibit 7: EBITDA/t to decline in FY21



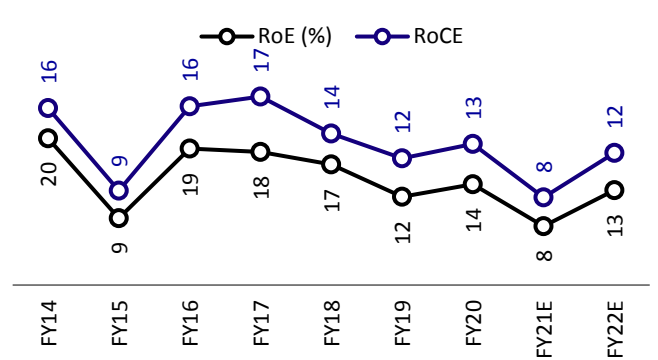
Source: Company, MOFSL

Exhibit 8: Balance sheet remains healthy



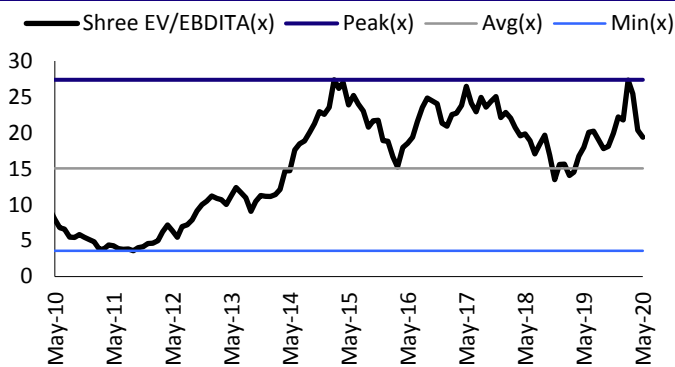
Source: MOFSL, Company

Exhibit 9: Return ratios to decline in FY21E



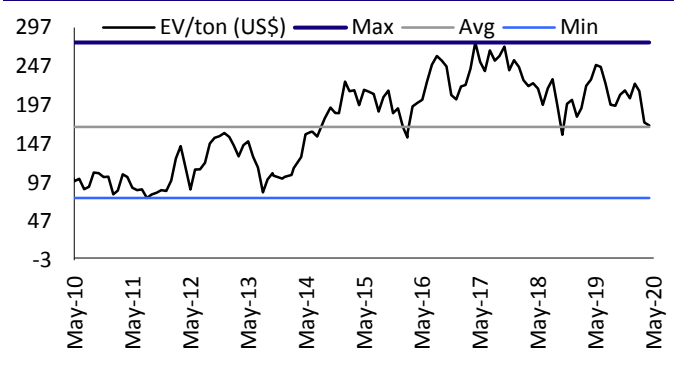
Source: MOFSL, Company

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	2015*	2016	2017	2018	2019	2020	2021E	2022E
Gross Sales	72,036	62,029	95,215	102,158	117,599	1,19,040	1,04,774	1,28,685
Less: Excise Duty	7,536	6,763	10,674	3,264	0	0	0	0
Net Sales	64,500	55,266	84,541	98,894	117,599	1,19,040	1,04,774	1,28,685
Change (%)	9.5	-14.3	53.0	17.0	18.9	1.2	-12.0	22.8
EBITDA	13,439	14,069	23,672	24,728	27,868	36,745	29,999	39,457
Margin (%)	20.8	25.5	28.0	25.0	23.7	30.9	28.6	30.7
Depreciation	9,248	8,276	12,147	8,994	13,917	16,994	16,256	14,317
EBIT	4,191	5,793	11,525	15,734	13,951	19,751	13,743	25,140
Int. and Finance Charges	1,206	758	1,294	1,353	3,810	2,865	2,639	2,860
Other Income - Rec.	1,379	6,727	5,077	3,891	2,454	2,716	3,075	3,950
PBT before EO Expense	4,363	11,763	15,308	18,272	12,596	19,602	14,179	26,230
EO Expense/(Income)	355	0	0	0	1,781	0	0	0
PBT after EO Expense	4,008	11,763	15,308	18,272	10,814	19,602	14,179	26,230
Tax	268	668	3,263	4,466	2,177	5,248	3,403	7,442
Deferred Tax	-523	-337	-1,346	-36	-873	-1,348	0	0
Tax Rate (%)	-6.4	2.8	12.5	24.2	12.1	19.9	24.0	28.4
Reported PAT	4,263	11,431	13,391	13,842	9,510	15,702	10,776	18,788
Adj PAT for EO items	4,618	11,431	13,391	13,842	11,292	15,702	10,776	18,788
Change (%)	-46.8	147.5	17.1	3.4	-18.4	39.1	-31.4	74.3
Margin (%)	7.2	20.7	15.8	14.0	9.6	13.2	10.3	14.6

*Y/E June

Balance Sheet						(INR M)		
Y/E March	2015*	2016	2017	2018	2019	2020	2021E	2022E
Equity Share Capital	348	348	348	348	348	361	361	361
Other Reserves	52,416	68,107	76,633	88,620	95,626	1,29,003	1,35,437	1,50,317
Total Reserves	52,416	68,107	76,633	88,620	95,626	1,29,003	1,35,437	1,50,317
Net Worth	52,764	68,455	76,981	88,968	95,974	1,29,364	1,35,798	1,50,678
Deferred Liabilities	-1952	-3718	-5077	-5131	-6126	-7438	-7438	-7438
Secured Loan	9,166	8,350	6,854	23,761	27,770	23,474	27,770	27,770
Unsecured Loan	8,523	455	6,072	10,269	210	0	0	0
Total Loans	17,690	8,805	12,925	34,030	27,980	23,474	27,770	27,770
Capital Employed	68,502	73,542	84,830	117,868	117,827	1,45,401	1,56,130	1,71,010
Gross Block	86,496	38,720	46,354	65,480	88,259	1,03,686	1,12,936	1,22,936
Less: Accum. Deprn.	56,453	8,218	20,363	29,586	43,503	60,497	76,753	91,070
Net Fixed Assets	30,043	30,501	25,991	35,895	44,757	43,189	36,183	31,866
Capital WIP	8,307	6,140	11,035	18,303	14,725	9,621	8,621	8,621
Financial investments	16,625	30,305	40,424	54,341	22,856	63,575	78,575	78,575
Strategic Investment	1	1	3	3	21,583	25,579	25,579	25,579
Curr. Assets	23,051	23,968	29,132	37,749	41,886	43,976	49,964	72,011
Inventory	9,189	8,152	13,145	15,690	15,891	14,279	14,158	17,389
Account Receivables	4,764	3,286	3,351	4,593	7,324	8,285	6,525	8,014
Cash and Bank Balance	3,075	2,830	3,110	3,209	3,078	1,082	6,916	23,571
Others	6,023	9,700	9,526	14,258	15,593	20,332	22,365	23,036
Curr. Liability & Prov.	9,525	17,373	21,754	28,420	27,979	40,540	42,792	45,642
Account Payables	8,645	17,283	21,660	28,335	27,886	40,437	42,689	45,539
Provisions	880	91	95	86	93	103	103	103
Net Current Assets	13,526	6,595	7,378	9,329	13,907	3,436	7,172	26,368
Appl. of Funds	68,502	73,542	84,830	117,870	117,828	1,45,401	1,56,130	1,71,010

*Y/E June

Financials and valuations

Ratios

Y/E March	2015*	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	117.5	318.5	345.7	396.3	324.1	435.2	298.7	520.7
Cash EPS	505.7	678.4	911.1	776.7	958.4	1,155.7	954.8	1,061.3
BV/Share	1,514.6	1,965.0	2,209.6	2,553.6	2,754.7	3,585.5	3,763.8	4,176.2
DPS	24.0	24.0	140.0	50.0	60.0	30.0	40.0	50.0
Payout (%)	19.6	7.3	36.4	12.6	22.0	6.9	13.4	9.6
Valuation (x)								
P/E					75.0	43.1	62.7	36.0
Cash P/E					25.4	16.2	19.6	17.7
P/BV					8.8	5.2	5.0	4.5
EV/Sales					7.4	5.3	5.8	4.4
EV/EBITDA					31	17	20	14
EV/ton (USD-Cap)					318	204	174	162
Dividend Yield (%)					0.2	0.2	0.2	0.3
Return Ratios (%)								
RoIC	8.2	9.3	14.9	14.3	14.0	16.9	9.3	15.8
RoE	9.2	18.9	18.4	16.7	12.2	13.9	8.1	13.1
RoCE	8.7	16.5	17.4	14.0	11.7	13.0	8.1	12.2
Working Capital Ratios								
Inventory (Days)	52	54	57	58	49	44	49	49
Debtor (Days)	24	19	13	16	23	25	23	23
Creditor (Days)	49	114	94	105	87	124	149	129
Working Capital Turnover (Days)	77	44	32	34	43	11	25	75
Leverage Ratio (x)								
Current Ratio	2.4	1.4	1.3	1.3	1.5	1.1	1.2	1.6
Net Debt/Equity	0.0	-0.4	-0.4	-0.3	0.0	-0.3	-0.4	-0.7

Cash Flow Statement

	2015*	2016	2017	2018	2019	2020	2021E	2022E
(INR M)								
OP/(Loss) before Tax	4,008	11,763	15,308	18,272	10,814	19,602	14,179	26,230
Depreciation	9,315	8,276	12,147	8,994	13,916	16,994	16,256	14,317
Interest & Finance Charges	654	-754	-1,210	-740	833	1,132	0	0
Direct Taxes Paid	-906	-1,431	-2,891	-5,068	-2,300	-4,859	-3,403	-7,442
(Inc)/Dec in WC	-2,920	-1,748	-509	-1,131	-5,302	5,591	2,098	-2,541
CF from Operations	10,150	16,105	22,845	20,327	17,962	38,460	29,131	30,564
Others	2,236	-444	-829	-1,540	2,635	-947	0	0
CF from Operating incl EO	12,386	15,662	22,017	18,788	20,597	37,513	29,131	30,564
(Inc)/Dec in FA	-11,236	-7,339	-12,793	-25,263	-18,853	-12,941	-8,250	-10,000
Free Cash Flow	1,150	8,322	9,223	-6,475	1,744	24,572	20,881	20,564
(Pur)/Sale of Investments	1,334	-5,306	-7,686	-10,685	10,727	-40,792	-15,000	0
Others	1,583	-553	411	-3	51	0	0	0
CF from Investments	-8,318	-13,199	-20,068	-35,950	-8,075	-53,733	-23,250	-10,000
Issue of Shares	0	0	0	0	0	23,833	0	0
Inc/(Dec) in Debt	-446	-224	4,455	20,353	-7,591	1,175	4,296	0
Interest Paid	-1,246	-892	-1,278	-1,248	-2,753	-2,868	0	0
Dividend Paid	-893	-1,592	-4,846	-1,843	-2,308	-6,231	-4,342	-3,908
CF from Fin. Activity	-2,586	-2,708	-1,669	17,262	-12,653	15,910	-47	-3,908
Inc/Dec of Cash	1,482	-245	279	99	-131	-310	5,834	16,656
Opening Balance	1,593	3,075	2,830	3,110	3,209	3,078	2,768	8,602
Closing Balance	3,075	2,830	3,110	3,209	3,078	2,768	8,602	25,258

*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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