

# Shree Cement

Meets expectation; Going bigger with no dilution in its core

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Rating	<b>Accumulate</b>
Price	Rs16,348
Target Price	Rs17,500
Implied Upside	7.0%
Sensex	27,459
Nifty	8,497

(Prices as on November 07, 2016)

## Trading data

Market Cap. (Rs bn)	569.5
Shares o/s (m)	34.8
3M Avg. Daily value (Rs m)	229.1

## Major shareholders

Promoters	64.79%
Foreign	13.10%
Domestic Inst.	5.12%
Public & Other	16.99%

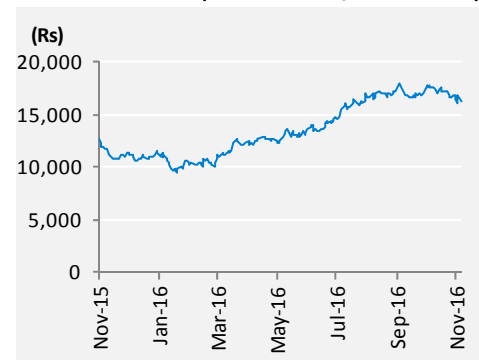
## Stock Performance

(%)	1M	6M	12M
Absolute	(7.3)	29.4	36.3
Relative	(5.2)	20.6	31.7

## How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	342.0	465.8	-26.6
2018	468.2	593.0	-21.0

## Price Performance (RIC:SHCM.BO, BB:SRCM IN)



Source: Bloomberg

*Shree Cement (SRCM) reported Q2FY17 earnings in line with our estimates. Unlike its peers, SRCM delivered both on volumes and margins. It posted 9% growth in volumes with highest in the industry EBITDA/t of Rs1300 (without including the sales tax incentives). We reiterate our positive outlook on SRCM, given its highly efficient operations and strong earnings growth potential (driven by 15% volumes growth and EBITDA/t of Rs1150). We maintain 'Accumulate' with PT of Rs17500, EV/EBITDA of 16x FY18E.*

- **Exploited the benefit of strong prices and low costs to the fullest extent:** Volumes grew 9% YoY at 4.6m tonnes (PLe: 4.5 mt) aided by higher volumes from East. Realisations rose 9%/Rs342 YoY (+3%/Rs114 QoQ) at Rs3,970 (PLe:Rs3970). Thanks to fall in pet coke prices, Costs/t fell 1.8% YoY at Rs2,668 (PLe:Rs2650). Aided by volume growth and higher margins, Cement EBITDA grew 56% YoY at Rs5.9bn (PLe:Rs6.0bn).
- **Lower fuel cost drove the growth in Power EBITDA:** Volumes remained flat YoY at 538m (PLe: 550m) units. While, realisations fell 0.6% YoY (↑6% QoQ) at Rs3.6/unit, above our estimate of Rs3.3. Cost/unit fell 4%/Rs0.1 at Rs2.4 (PLe:Rs2.2) on the back of lower fuel costs. Hence, EBITDA grew 8% YoY at Rs622m (PLe:Rs605m). Total EBITDA (Cement + Power) grew 50% YoY at Rs6.6bn (excluding incentives of Rs451m), in line with our estimates.
- **On track to become 40mtpa (current 27mtpa) player by FY19:** SRCM is aggressively expanding capacity by 5m tonnes in Bihar, one of the most profitable and growing market in the eastern region. It is also adding 2m tonnes of split grinding capacity in Suratgarh (Rajasthan) to maintain its market leadership in Northern region. Work is on advanced stage at its 4m tonnes Greenfield plant in Karnataka, backed by one of the best logistics and improved demand outlook.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	64,399	55,677	87,816	101,016
Growth (%)	9.6	(13.5)	57.7	15.0
EBITDA (Rs m)	13,127	13,188	27,377	32,231
PAT (Rs m)	4,451	4,019	11,916	16,312
EPS (Rs)	127.8	115.4	342.0	468.2
Growth (%)	(42.3)	(9.7)	196.5	36.9
Net DPS (Rs)	24.0	24.0	34.0	38.0

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	20.4	23.7	31.2	31.9
RoE (%)	8.9	7.0	17.8	20.5
RoCE (%)	7.6	6.0	15.2	18.3
EV / EBITDA (x)	42.6	41.8	19.7	16.4
EV / Tonne (\$)	441.9	319.1	293.6	21,524.4
PE (x)	128.0	141.7	47.8	34.9
P / BV (x)	10.8	9.2	7.9	6.5
Net dividend yield (%)	0.1	0.1	0.2	0.2

Source: Company Data; PL Research

**Exhibit 1: Q2FY17 Result Overview (Rs m)**

Y/e June	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
<b>Net Sales</b>	<b>20,068</b>	<b>17,119</b>	<b>17.2</b>	<b>21,987</b>	<b>42,055</b>	<b>34,313</b>	<b>22.6</b>
Raw Material	881	1,256	(29.8)	1,782	2,663	2,495	6.7
<i>% of Net Sales</i>	<i>4.4</i>	<i>7.3</i>		<i>8.1</i>	<i>6.3</i>	<i>7.3</i>	
Staff Costs	1,377	1,228	12.1	1,331	2,708	2,418	12.0
<i>% of Net Sales</i>	<i>6.9</i>	<i>7.2</i>		<i>6.1</i>	<i>6.4</i>	<i>7.0</i>	
Power & Fuel	3,573	3,722	(4.0)	3,279	6,851	7,879	(13.0)
<i>% of Net Sales</i>	<i>17.8</i>	<i>21.7</i>		<i>14.9</i>	<i>16.3</i>	<i>23.0</i>	
Freight and selling expenses	4,066	3,468	17.3	4,402	8,468	7,479	13.2
<i>% of Net Sales</i>	<i>20.3</i>	<i>20.3</i>		<i>20.0</i>	<i>20.1</i>	<i>21.8</i>	
Other Expenses	3,609	3,283	9.9	3,885	7,494	6,364	17.8
<i>% of Net Sales</i>	<i>18.0</i>	<i>19.2</i>		<i>17.7</i>	<i>17.8</i>	<i>18.5</i>	
Total Expenditure	13,506	12,956	4.2	14,678	28,184	26,634	5.8
<b>EBITDA</b>	<b>6,563</b>	<b>4,163</b>	<b>57.7</b>	<b>7,308</b>	<b>13,871</b>	<b>7,679</b>	<b>80.6</b>
<i>Margin (%)</i>	<i>32.7</i>	<i>24.3</i>		<i>33.2</i>	<i>33.0</i>	<i>22.4</i>	
Depreciation	4,322	2,448	76.6	1,540	5,862	4,831	21.4
Other income	1,233	958	28.7	979	2,212	1,402	57.8
<b>EBIT</b>	<b>3,473</b>	<b>2,673</b>	<b>30.0</b>	<b>6,746</b>	<b>10,220</b>	<b>4,250</b>	<b>140.5</b>
Interest	293	235	25.0	276	569	498	14.2
<b>PBT</b>	<b>3,180</b>	<b>2,438</b>	<b>30.4</b>	<b>6,471</b>	<b>9,650</b>	<b>3,752</b>	<b>157.2</b>
Extraordinary income/(expense)	-	-		-	-	(240)	
<b>PBT (After EO)</b>	<b>3,180</b>	<b>2,438</b>	<b>30.4</b>	<b>6,471</b>	<b>9,650</b>	<b>3,512</b>	<b>174.8</b>
Tax	265	(26)	NA	1,394	1,659	7	NA
<i>% PBT</i>	<i>8.3</i>	<i>(1.1)</i>		<i>21.5</i>	<i>17.2</i>	<i>0.2</i>	
<b>Reported PAT</b>	<b>2,915</b>	<b>2,464</b>	<b>18.3</b>	<b>5,077</b>	<b>7,992</b>	<b>3,505</b>	<b>128.0</b>
<b>Adjusted PAT</b>	<b>2,915</b>	<b>2,464</b>	<b>18.3</b>	<b>5,077</b>	<b>7,992</b>	<b>3,745</b>	<b>113.4</b>

Source: Company Data, PL Research

**Exhibit 2: Operating Metrics**

Y/e June	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Volume (m te)-Cement	4.6	4.2	9.1	5.2	9.7	8.5	14.1
Volume (m units)-Power	538	539	(0.2)	608	1,145	1,111	3.1
Net Realisations (Rs/te)	3,969	3,626	9.4	3,855	3,909	3,550	10.1
Realised rate (Rs/unit)	3.55	3.57	(0.6)	3.36	3.50	3.63	(3.6)
Cement EBITDA (Rs m)	5,941	3,585	65.7	6,524	12,465	6,495	91.9
Power EBITDA (Rs m)	622	578	7.6	784	1,406	1,184	18.7
Cement EBITDA/ te (Rs/te)	1,301	857	51.9	1,262	1,281	761	68.2
Power EBITDA/Kwh (Rs)	1.16	1.07	7.8	1.29	1.23	1.07	15.2

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2015	2016	2017E	2018E
<b>Net Revenue</b>	<b>64,399</b>	<b>55,677</b>	<b>87,816</b>	<b>101,016</b>
Raw Material Expenses	9,105	7,936	10,986	12,870
Gross Profit	55,294	47,742	76,830	88,146
Employee Cost	4,550	3,645	5,444	6,097
Other Expenses	37,617	30,909	44,009	49,818
<b>EBITDA</b>	<b>13,127</b>	<b>13,188</b>	<b>27,377</b>	<b>32,231</b>
Depr. & Amortization	9,248	9,084	14,350	14,189
Net Interest	1,032	736	1,209	1,101
Other Income	1,161	1,178	3,322	3,786
<b>Profit before Tax</b>	<b>4,008</b>	<b>4,545</b>	<b>15,141</b>	<b>20,727</b>
Total Tax	(255)	(4)	3,225	4,415
<b>Profit after Tax</b>	<b>4,263</b>	<b>4,549</b>	<b>11,916</b>	<b>16,312</b>
Ex-Od items / Min. Int.	(355)	(23)	—	—
<b>Adj. PAT</b>	<b>4,451</b>	<b>4,019</b>	<b>11,916</b>	<b>16,312</b>
<b>Avg. Shares O/S (m)</b>	<b>34.8</b>	<b>34.8</b>	<b>34.8</b>	<b>34.8</b>
<b>EPS (Rs.)</b>	<b>127.8</b>	<b>115.4</b>	<b>342.0</b>	<b>468.2</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
C/F from Operations	12,386	10,330	25,723	28,469
C/F from Investing	(9,709)	(12,214)	(12,144)	(13,380)
C/F from Financing	(2,586)	2,485	(4,390)	(5,761)
Inc. / Dec. in Cash	92	601	9,189	9,328
Opening Cash	4,784	4,683	4,875	14,064
Closing Cash	4,683	4,875	14,064	23,392
FCFF	(6,948)	254	15,648	27,550
FCFE	(9,780)	(282)	12,648	24,550

**Key Financial Metrics**

Y/e March	2015	2016	2017E	2018E
<b>Growth</b>				
Revenue (%)	9.6	(13.5)	57.7	15.0
EBITDA (%)	(4.0)	0.5	107.6	17.7
PAT (%)	(42.3)	(9.7)	196.5	36.9
EPS (%)	(42.3)	(9.7)	196.5	36.9
<b>Profitability</b>				
EBITDA Margin (%)	20.4	23.7	31.2	31.9
PAT Margin (%)	6.9	7.2	13.6	16.1
RoCE (%)	7.6	6.0	15.2	18.3
RoE (%)	8.9	7.0	17.8	20.5

**Balance Sheet**

Net Debt : Equity	(0.2)	(0.3)	(0.4)	(0.5)
Net Wrkng Cap. (days)	49	24	(6)	2

**Valuation**

PER (x)	128.0	141.7	47.8	34.9
P / B (x)	10.8	9.2	7.9	6.5
EV / EBITDA (x)	42.6	41.8	19.7	16.4
EV / Sales (x)	8.7	9.9	6.1	5.2

**Earnings Quality**

Eff. Tax Rate	(6.4)	(0.1)	21.3	21.3
Other Inc / PBT	34.7	26.3	21.9	18.3
Eff. Depr. Rate (%)	10.7	9.5	13.3	13.0
FCFE / PAT	(219.7)	(7.0)	106.1	150.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	52,764	61,802	72,328	87,088
Total Debt	9,166	8,630	5,630	2,630
Other Liabilities	8,523	9,150	9,380	9,610
<b>Total Liabilities</b>	<b>70,454</b>	<b>79,582</b>	<b>87,338</b>	<b>99,328</b>
Net Fixed Assets	38,350	36,642	36,192	37,403
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	30,152	40,307	48,513	59,291
<i>Cash &amp; Equivalents</i>	<i>19,701</i>	<i>26,492</i>	<i>35,681</i>	<i>45,009</i>
<i>Other Current Assets</i>	<i>19,976</i>	<i>22,122</i>	<i>21,870</i>	<i>24,211</i>
<i>Current Liabilities</i>	<i>9,525</i>	<i>8,308</i>	<i>9,039</i>	<i>9,929</i>
Other Assets	1,952	2,634	2,634	2,634
<b>Total Assets</b>	<b>70,454</b>	<b>79,582</b>	<b>87,338</b>	<b>99,328</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
<b>Net Revenue</b>	<b>18,268</b>	<b>20,174</b>	<b>21,987</b>	<b>20,068</b>
<b>EBITDA</b>	<b>4,240</b>	<b>5,050</b>	<b>7,308</b>	<b>6,563</b>
% of revenue	23.2	25.0	33.2	32.7
Depr. & Amortization	3,042	3,338	1,540	4,322
Net Interest	233	286	276	293
Other Income	236	755	979	472
<b>Profit before Tax</b>	<b>1,199</b>	<b>2,181</b>	<b>6,471</b>	<b>2,419</b>
Total Tax	170	(53)	1,394	265
<b>Profit after Tax</b>	<b>1,029</b>	<b>2,233</b>	<b>5,077</b>	<b>2,154</b>
<b>Adj. PAT</b>	<b>1,030</b>	<b>2,234</b>	<b>5,077</b>	<b>2,154</b>

**Key Operating Metrics**

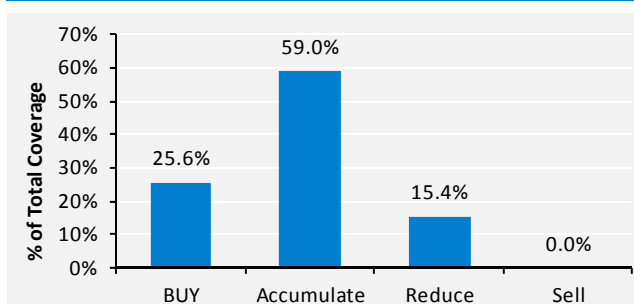
Y/e March	2015	2016	2017E	2018E
Volume (mn te)-Cement	16.2	14.2	22.4	25.2
Volume (mn units)-Power	1,885.0	1,739.0	1,966.6	1,995.7
Net Realisations (Rs/te)	3,547.6	3,491.1	3,625.9	3,734.7
Realised rate (Rs/unit)	3.7	3.4	3.4	3.4
Cement EBITDA (Rs/te)	735.1	785.5	1,136.9	1,205.2
Raw material cost (Rs/te)	364.0	333.7	320.2	340.6
Power & Fuel cost (Rs/te)	610.9	516.7	513.1	498.9
Freight cost (Rs/te)	608.8	573.4	556.2	572.9

Source: Company Data, PL Research.

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