

# Shree Cement

**BSE SENSEX** 27,238  
**S&P CNX** 8,400

**CMP: INR14,921 TP: INR17,096 (+15%)**

**Buy**



## Stock Info

Bloomberg	SRCM IN
Equity Shares (m)	34.8
52-Week Range (INR)	18519/9350
1, 6, 12 Rel. Per (%)	-2/-3/32
M.Cap. (INR b)	523.7
M.Cap. (USD b)	7.7
Avg Val, INRm	216.4
Free float (%)	35.2

## Financials Snapshot (INR b)

Y/E June	2016	2017E	2018E
Sales	72.8	84.3	98.9
EBITDA	17.0	24.1	30.5
NP	7.0	13.7	20.3
Adj EPS (INR)	201.1	394.3	582.0
EPS Gr. (%)	50.9	96.1	47.6
BV/Sh. (INR)	1,774	2,128	2,663
RoE (%)	12.2	20.2	24.3
RoCE (%)	12.3	19.8	23.4
Payout (%)	14.4	10.3	8.0

## Valuation

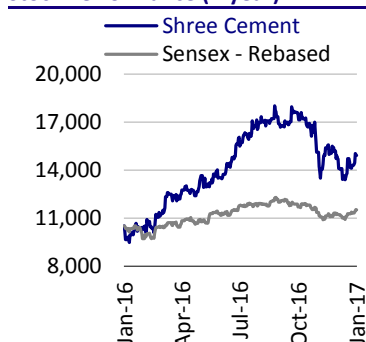
P/E (x)	74.2	37.8	25.6
P/BV (x)	8.4	7.0	5.6
EV/EBITDA (x)	29.5	20.1	15.1
EV/Ton (USD)	279	251	223

## Shareholding pattern (%)

As On	Dec-16	Sep-16	Dec-15
Promoter	64.8	64.8	64.8
DII	15.0	15.3	15.4
FII	14.4	14.0	13.6
Others	5.9	5.9	6.2

FII Includes depository receipts

## Stock Performance (1-year)



## Inordinate valuation premium illusory

Expect capacity-led rerating; maintain Buy

- Based on FY17 capacity, SRCM trades at an EV/tonne of USD 253, which translates into a 80% premium to average of the large cap players. However, given its low cost capacity addition over the next 2-3 years, its FY19E EV/tonne works out to USD161 – a 27% premium to the industry average.
- SRCM is expanding capacity by ~44% over FY17-19 and we estimate associated capex at USD50/tonne. Over FY13-16, when it doubled capacity, SRCM saw a rerating from an EV/tonne of USD100 to USD200. We expect a capacity-led rerating this time too, though it might not be as sharp.
- SRCM is the most cost efficient player in the industry. Its superior execution capability enables it to achieve higher return ratios than peers. We believe SRCM deserves to trade at premium valuations and value the stock at 14x FY19E EV/EBITDA to arrive at a target price of INR17,096. Maintain Buy.

## Trades at USD 253/tonne based on FY17 capacity...

Based on FY17 capacity of ~27m tonnes, SRCM trades at an EV/tonne of USD 253, which translates into a 80% premium to average of the large cap players. While it trades at ~20% premium to UltraTech, which has ~3x SRCM's capacity, it trades at 83-144% premium to most other large cap players. Given its relatively high profitability, superior return ratios and efficient execution capabilities, SRCM deserves to trade at higher valuations than its peers. However, the valuation premium implied in FY17E EV/tonne might appear inordinate.

## ...but at USD161/tonne based on FY19E capacity

While industry supply addition is coming off meaningfully in light of weak profitability and return ratio profile, SRCM is the only large cap player adding substantial capacity through the organic route over the next 2-3 years. Its capacity is likely to increase by 44% over FY17-19 from 27m tonnes to ~39m tonnes. We estimate associated capex of INR40b over FY16-19 for the 12m-tonne capacity addition (at USD50/tonne). On adjusted capacity of 39m tonnes in FY19, SRCM trades at an EV/tonne of USD161, which translates into a 27% premium to average of the large cap players as against the current 80% premium.

## Expect capacity-led rerating

We expect SRCM to incur capex of ~USD50/tonne, which is in line with its last round of capex, where it doubled capacity from 13m tonnes to ~27m tonnes in a span of three years. The market is likely to value this additional capacity at USD150/tonne – 3x the capex incurred. Over FY13-16, when it doubled its capacity, SRCM saw a rerating from an EV/tonne of USD100 to USD200. We expect a capacity-led rerating this time as well, though the rerating might not be as sharp.

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**Deserves premium valuations; reiterate Buy**

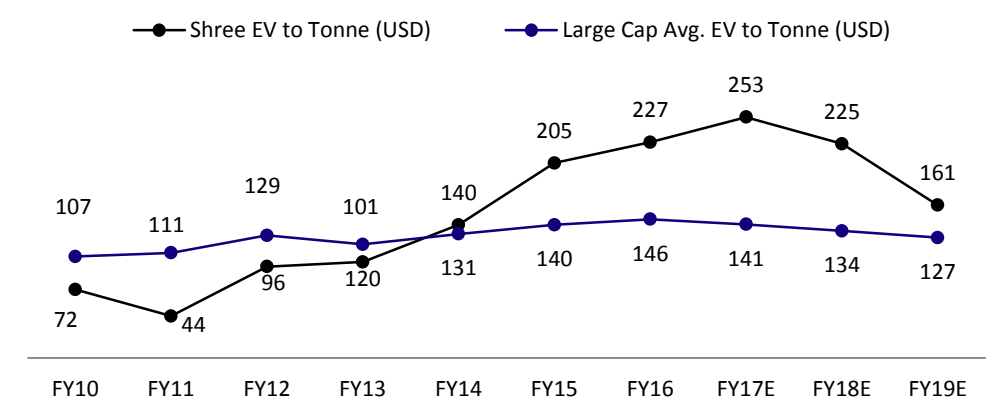
SRCM is the most cost efficient player in the industry. Its superior execution capability enables it to achieve RoIC of over ~50% (FY18E). SRCM's gross-block-to-capacity (GB/capacity) – currently at ~USD50/tonne – has been structurally trending downwards, as the proportion of brownfield expansions has increased. Its GB/capacity is at 32% discount to peers, which is also reflected in its superior RoCE profile. We believe SRCM deserves to trade at premium valuations and value the stock at 14x FY19E EV/EBITDA to arrive at a target price of INR17,096. Maintain **Buy**.

### Inordinate valuation premium illusory

Based on FY17 capacity of ~27m tonnes, SRCM trades at an EV/tonne of USD253, which translates into a 80% premium to average of the large cap players. While it trades at ~20% premium to UltraTech, which has ~3x SCRM's capacity, it trades at 83-144% premium to most other large cap players. Given its relatively high profitability, superior return ratios and efficient execution capabilities, SRCM deserves to trade at higher valuations than its peers. However, the valuation premium implied in FY17E EV/tonne might appear inordinate.

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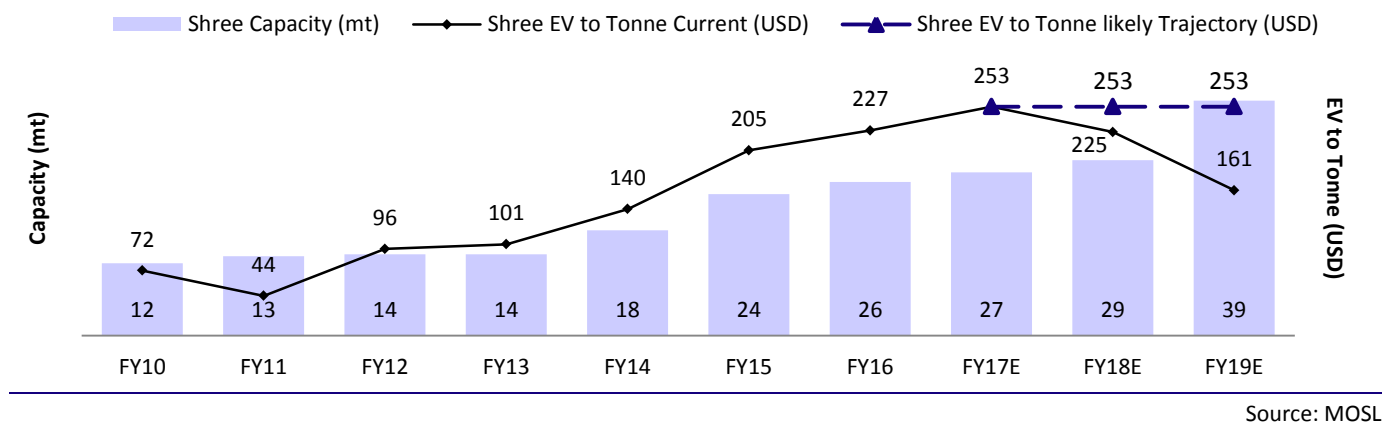
**Exhibit 1: SRCM's valuation (EV/tonne) to converge with large cap average by FY19**



Source: MOSL

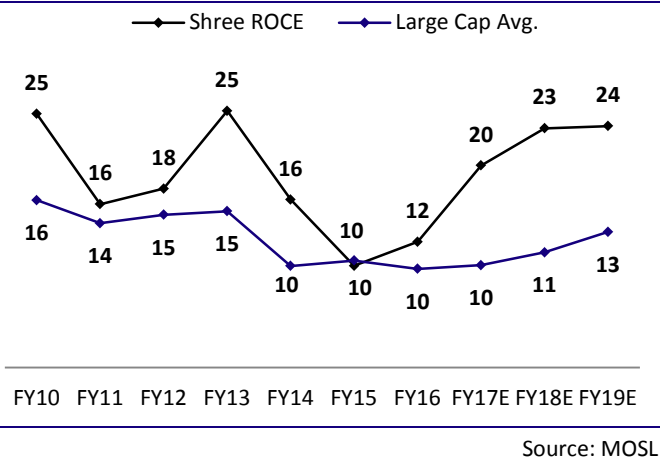
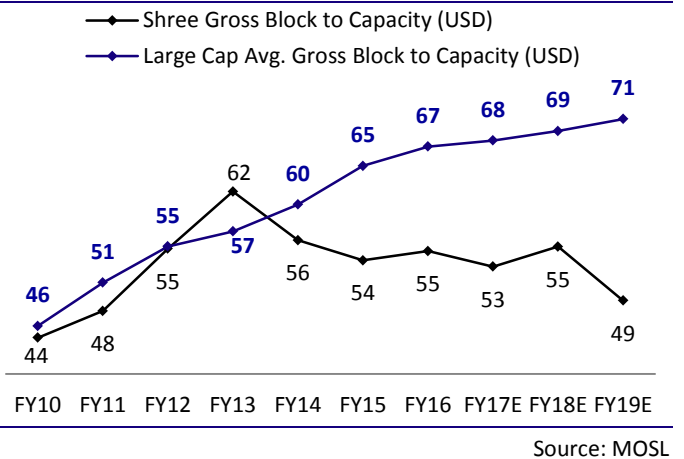
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**Exhibit 2: SRCM's capacity and EV/tonne**

### Deserves premium valuations; reiterate Buy

SRCM is the most cost efficient player in the industry. Its superior execution capability enables it to achieve RoIC of over ~50% (FY18E). SRCM's gross-block-to-capacity (GB/capacity) – currently at ~USD50/tonne – has been structurally trending downwards, as the proportion of brownfield expansions has increased. Its GB/capacity is at 32% discount to peers, which is also reflected in its superior RoCE profile. We believe SRCM deserves to trade at premium valuations and value the stock at 14x FY19E EV/EBITDA to arrive at a target price of INR17,096. Maintain **Buy**.

**Exhibit 3: RoCE – SRCM v/s large cap average****Exhibit 4: Gross block to capacity – SRCM v/s large cap average**

## Financials and Valuations

Income Statement						(INR Million)		
Y/E June	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Net Sales</b>	<b>47,806</b>	<b>55,671</b>	<b>58,759</b>	<b>64,399</b>	<b>72,755</b>	<b>84,253</b>	<b>98,864</b>	<b>112,127</b>
Change (%)	38.4	16.5	5.5	9.6	13.0	15.8	17.3	13.4
Total Expenditure	33,941	40,293	44,975	51,097	55,787	60,193	68,355	75,802
% of Sales	71.0	72.4	76.5	79.3	76.7	71.4	69.1	67.6
<b>EBITDA</b>	<b>13,865</b>	<b>15,378</b>	<b>13,784</b>	<b>13,302</b>	<b>16,969</b>	<b>24,060</b>	<b>30,509</b>	<b>36,325</b>
Margin (%)	29.0	27.6	23.5	20.7	23.3	28.6	30.9	32.4
Depreciation	7,133	4,356	5,499	9,248	11,210	12,033	12,241	15,961
<b>EBIT</b>	<b>6,732</b>	<b>11,022</b>	<b>8,285</b>	<b>4,054</b>	<b>5,758</b>	<b>12,027</b>	<b>18,269</b>	<b>20,364</b>
Int. and Finance Charges	1,878	1,931	1,292	1,206	1,017	1,155	541	376
Other Income - Rec.	1,471	2,114	1,964	1,515	2,393	5,100	7,000	12,000
<b>PBT before EO Expense</b>	<b>6,325</b>	<b>11,205</b>	<b>8,957</b>	<b>4,363</b>	<b>7,133</b>	<b>15,972</b>	<b>24,728</b>	<b>31,988</b>
EO Expense/(Income)	41	11	-154	355	242	0	0	0
PBT after EO Expense	6,284	11,194	9,111	4,008	6,891	15,972	24,728	31,988
Tax	649	1,155	1,238	-255	125	2,236	4,451	6,717
Tax Rate (%)	10.3	10.3	13.6	-6.4	1.8	14.0	18.0	21.0
<b>Reported PAT</b>	<b>5,635</b>	<b>10,040</b>	<b>7,872</b>	<b>4,263</b>	<b>6,767</b>	<b>13,736</b>	<b>20,277</b>	<b>25,270</b>
<b>Adj PAT for EO items</b>	<b>5,671</b>	<b>10,049</b>	<b>7,739</b>	<b>4,640</b>	<b>7,004</b>	<b>13,736</b>	<b>20,277</b>	<b>25,270</b>
Change (%)	119.7	77.2	-23.0	-40.0	50.9	96.1	47.6	24.6
Margin (%)	11.9	18.1	13.2	7.2	9.6	16.3	20.5	22.5
<b>Normal PAT *</b>	<b>9,558</b>	<b>11,017</b>	<b>9,392</b>	<b>9,610</b>	<b>12,686</b>	<b>19,117</b>	<b>25,221</b>	<b>32,215</b>

Balance Sheet						(INR Million)		
Y/E June	2012	2013	2014	2015	2016	2017E	2018E	2019E
Equity Share Capital	348	348	348	348	348	348	348	348
Other Reserves	26,991	38,088	46,760	52,416	61,454	73,773	92,430	116,081
Total Reserves	26,991	38,088	46,760	52,416	61,454	73,773	92,430	116,081
<b>Net Worth</b>	<b>27,339</b>	<b>38,436</b>	<b>47,109</b>	<b>52,764</b>	<b>61,802</b>	<b>74,121</b>	<b>92,779</b>	<b>116,430</b>
Deferred Liabilities	-697	-938	-1429	-1952	-2634	-2634	-3376	-3376
Secured Loan	16,079	11,274	10,783	8,200	7,167	5,667	4,167	2,667
Unsecured Loan	532	0	0	0	0	0	0	0
Total Loans	16,611	11,274	10,783	8,200	7,167	5,667	4,167	2,667
<b>Capital Employed</b>	<b>43,253</b>	<b>48,773</b>	<b>56,463</b>	<b>59,012</b>	<b>66,335</b>	<b>77,154</b>	<b>93,570</b>	<b>115,721</b>
Gross Block	50,564	56,895	66,764	85,764	95,014	97,514	109,514	129,514
Less: Accum. Deprn.	35,886	40,242	45,741	54,989	63,817	75,850	88,090	104,051
<b>Net Fixed Assets</b>	<b>14,678</b>	<b>16,653</b>	<b>21,023</b>	<b>29,154</b>	<b>29,647</b>	<b>21,664</b>	<b>21,423</b>	<b>25,462</b>
Capital WIP	1,500	2,500	8,500	6,000	3,500	10,000	10,000	10,000
Investments	25,352	22,033	22,444	16,626	23,682	23,682	23,682	23,682
<b>Curr. Assets</b>	<b>17,499</b>	<b>19,478</b>	<b>19,892</b>	<b>26,246</b>	<b>28,688</b>	<b>46,613</b>	<b>65,819</b>	<b>86,152</b>
Inventory	5,033	5,305	8,098	9,189	8,152	12,696	10,293	10,445
Account Receivables	1,811	3,147	2,966	4,764	3,286	6,463	5,417	5,222
Cash and Bank Balance	4,590	3,694	1,593	3,075	3,071	17,067	38,733	58,197
Others	6,065	7,333	7,236	9,219	14,179	10,387	11,376	12,288
<b>Curr. Liability &amp; Prov.</b>	<b>15,776</b>	<b>11,891</b>	<b>15,396</b>	<b>19,015</b>	<b>18,921</b>	<b>24,544</b>	<b>27,094</b>	<b>29,315</b>
Account Payables	13,822	10,841	14,209	18,135	18,709	23,083	25,732	27,648
Provisions	1,954	1,050	1,186	880	213	1,461	1,362	1,667
<b>Net Current Assets</b>	<b>1,723</b>	<b>7,587</b>	<b>4,496</b>	<b>7,231</b>	<b>9,767</b>	<b>22,069</b>	<b>38,725</b>	<b>56,837</b>
<b>Appl. of Funds</b>	<b>43,253</b>	<b>48,773</b>	<b>56,463</b>	<b>59,012</b>	<b>66,596</b>	<b>77,415</b>	<b>93,830</b>	<b>115,982</b>

E: MOSL Estimates;

## Financials and Valuations

### Ratios

Y/E June	2012	2013	2014	2015	2016	2017E	2018E	2019E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>162.8</b>	<b>288.5</b>	<b>222.2</b>	<b>133.2</b>	<b>201.1</b>	<b>394.3</b>	<b>582.0</b>	<b>725.4</b>
Cash EPS	479.1	441.3	427.5	541.3	686.0	894.2	1,075.3	1,382.9
BV/Share	784.8	1,103.3	1,352.3	1,514.6	1,774.0	2,127.6	2,663.2	3,342.1
DPS	20.0	20.0	22.0	24.0	24.0	35.0	40.0	40.0
Payout (%)	14.5	8.1	11.4	22.8	14.4	10.3	8.0	6.4

### Valuation (x)

P/E		51.7	67.2	112.0	74.2	37.8	25.6	20.6
Cash P/E		33.8	34.9	27.6	21.8	16.7	13.9	10.8
P/BV		13.5	11.0	9.9	8.4	7.0	5.6	4.5
EV/Sales		9.5	9.0	8.2	7.2	6.0	4.9	4.1
EV/EBITDA		32.9	36.7	38.2	29.5	20.1	15.1	12.1
EV (US\$)	7,158	7,127	7,093	7,166	7,102	6,810	6,496	6,210
EV/ton (USD-Cap)	530	528	405	305	279	251	223	159
Dividend Yield (%)	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3

### Return Ratios (%)

RoIC	41.5	61.1	32.2	15.1	16.3	33.1	63.0	71.5
RoE	24.0	30.6	18.1	9.3	12.2	20.2	24.3	24.2
RoCE	17.5	25.2	16.5	10.0	12.3	19.8	23.4	23.7
Normalized RoE	40.5	33.5	22.0	19.2	22.1	28.1	30.2	30.8

### Working Capital Ratios

Inventory (Days)	38	35	50	52	41	55	38	34
Debtor (Days)	14	19	17	24	15	25	18	15
Creditor (Days)	106	71	88	103	94	100	95	90
Working Capital Turnover (Days)	13	50	28	41	49	96	143	185

### Leverage Ratio (x)

Current Ratio	1.1	1.6	1.3	1.4	1.5	1.9	2.4	2.9
Debt/Equity	0.6	0.3	0.2	0.2	0.1	0.1	0.0	0.0

### Cash Flow Statement

(INR Million)

	2012	2013	2014	2015	2016	2017E	2018E	2019E
Oper. P/L before Tax	13,865	15,368	13,938	12,947	13,030	24,060	30,509	36,325
Interest/Dividends Recd.	1,471	2,114	1,964	1,515	1,949	5,100	7,000	12,000
Direct Taxes Paid	-564	-2,198	-1,729	-268	-513	-2,236	-5,193	-6,717
(Inc)/Dec in WC	6,173	-5,957	990	-1,253	-2,360	1,694	5,010	1,352
<b>CF from Operations</b>	<b>20,945</b>	<b>9,326</b>	<b>15,162</b>	<b>12,942</b>	<b>12,106</b>	<b>28,618</b>	<b>37,326</b>	<b>42,959</b>
(inc)/dec in FA	-4,350	-7,331	-15,869	-14,879	-6,820	-10,550	-12,000	-20,000
<b>Free Cash Flow</b>	<b>16,594</b>	<b>1,995</b>	<b>-707</b>	<b>-1,938</b>	<b>5,286</b>	<b>18,067</b>	<b>25,326</b>	<b>22,959</b>
(Pur)/Sale of Investments	-13,387	3,319	-411	5,818	-7,056	0	0	0
<b>CF from investments</b>	<b>-17,738</b>	<b>-4,012</b>	<b>-16,280</b>	<b>-9,062</b>	<b>-13,876</b>	<b>-10,550</b>	<b>-12,000</b>	<b>-20,000</b>
Issue of Shares	2,617	1,867	1,697	2,364	4,284	0	0	0
(Inc)/Dec in Debt	-3,468	-5,337	-491	-2,583	-1,033	-1,500	-1,500	-1,500
Interest Paid	-1,878	-1,931	-1,292	-1,206	-754	-1,155	-541	-376
Dividend Paid	-815	-810	-897	-972	-972	-1,417	-1,619	-1,619
<b>CF from Fin. Activity</b>	<b>-3,544</b>	<b>-6,211</b>	<b>-983</b>	<b>-2,398</b>	<b>1,526</b>	<b>-4,072</b>	<b>-3,660</b>	<b>-3,495</b>
<b>Inc/Dec of Cash</b>	<b>-337</b>	<b>-896</b>	<b>-2,101</b>	<b>1,482</b>	<b>-244</b>	<b>13,996</b>	<b>21,666</b>	<b>19,464</b>
Add: Beginning Balance	4,987	4,590	3,694	1,593	3,075	3,071	17,067	38,733
<b>Closing Balance</b>	<b>4,590</b>	<b>3,693</b>	<b>1,592</b>	<b>3,075</b>	<b>3,071</b>	<b>17,067</b>	<b>38,733</b>	<b>58,197</b>

NOTES

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