


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

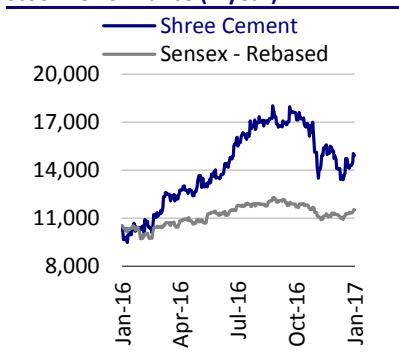
Valuation

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)


Shree Cement

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

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 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.

...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.

Deserves premium valuations; reiterate Buy

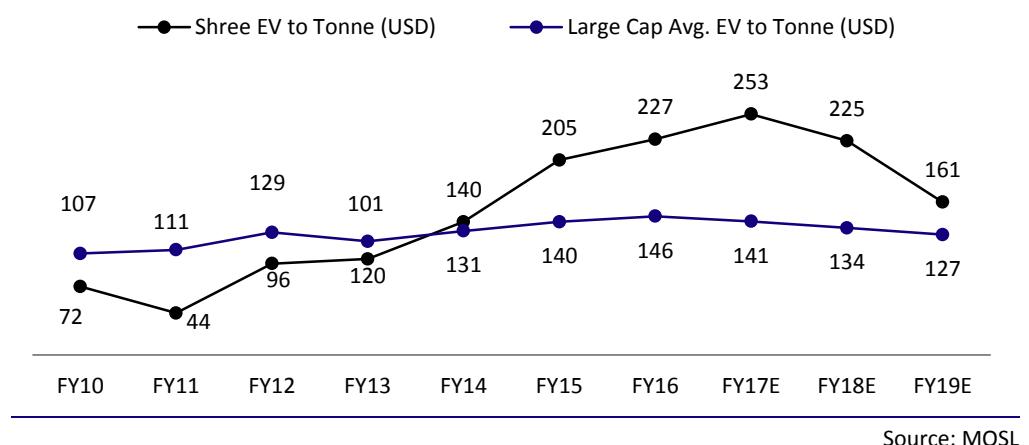
SRCM is the most cost efficient player in the industry. Its superior execution capability enables it to achieve RoIC of over ~50% (FY18E). SRCM's gross-block-to-capacity (GB/capacity) – currently at ~USD50/tonne – has been structurally trending downwards, as the proportion of brownfield expansions has 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**.

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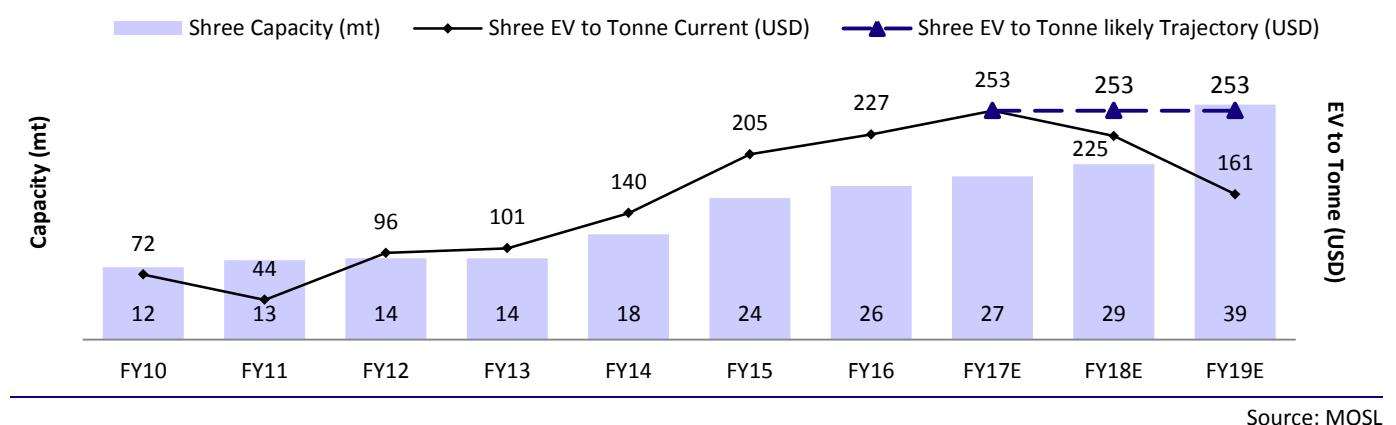
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Exhibit 1: SRCM's valuation (EV/tonne) to converge with large cap average by FY19



Expect capacity-led rerating

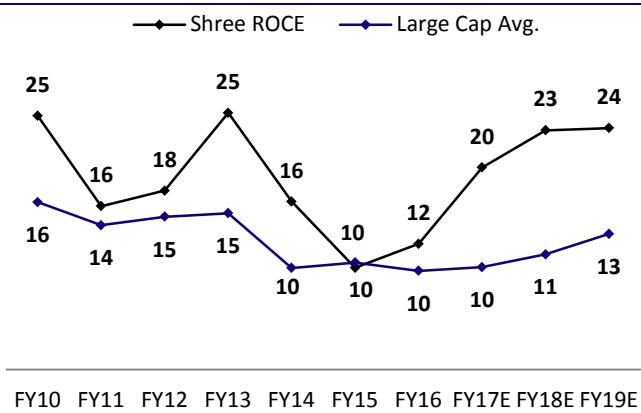
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Exhibit 2: SRCM's capacity and EV/tonne

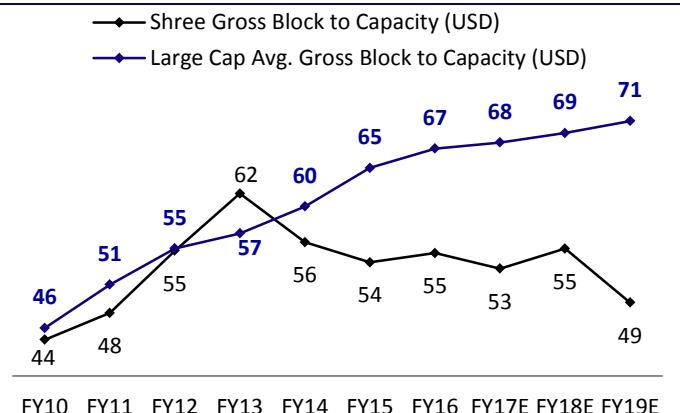
Source: MOSL

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Exhibit 3: RoCE – SRCM v/s large cap average

Source: MOSL

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

Source: MOSL

Financials and Valuations

Income Statement									(INR Million)
Y/E June	2012	2013	2014	2015	2016	2017E	2018E	2019E	
Net Sales	47,806	55,671	58,759	64,399	72,755	84,253	98,864	112,127	
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	
EBITDA	13,865	15,378	13,784	13,302	16,969	24,060	30,509	36,325	
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	
EBIT	6,732	11,022	8,285	4,054	5,758	12,027	18,269	20,364	
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	
PBT before EO Expense	6,325	11,205	8,957	4,363	7,133	15,972	24,728	31,988	
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	
Reported PAT	5,635	10,040	7,872	4,263	6,767	13,736	20,277	25,270	
Adj PAT for EO items	5,671	10,049	7,739	4,640	7,004	13,736	20,277	25,270	
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	
Normal PAT *	9,558	11,017	9,392	9,610	12,686	19,117	25,221	32,215	
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	
Net Worth	27,339	38,436	47,109	52,764	61,802	74,121	92,779	116,430	
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 Laon	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	
Capital Employed	43,253	48,773	56,463	59,012	66,335	77,154	93,570	115,721	
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	
Net Fixed Assets	14,678	16,653	21,023	29,154	29,647	21,664	21,423	25,462	
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	
Curr. Assets	17,499	19,478	19,892	26,246	28,688	46,613	65,819	86,152	
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	
Curr. Liability & Prov.	15,776	11,891	15,396	19,015	18,921	24,544	27,094	29,315	
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	
Net Current Assets	1,723	7,587	4,496	7,231	9,767	22,069	38,725	56,837	
Appl. of Funds	43,253	48,773	56,463	59,012	66,596	77,415	93,830	115,982	

E: MOSL Estimates;

Financials and Valuations

Ratios

Y/E June	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
EPS	162.8	288.5	222.2	133.2	201.1	394.3	582.0	725.4
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
CF from Operations	20,945	9,326	15,162	12,942	12,106	28,618	37,326	42,959
(inc)/dec in FA	-4,350	-7,331	-15,869	-14,879	-6,820	-10,550	-12,000	-20,000
Free Cash Flow	16,594	1,995	-707	-1,938	5,286	18,067	25,326	22,959
(Pur)/Sale of Investments	-13,387	3,319	-411	5,818	-7,056	0	0	0
CF from investments	-17,738	-4,012	-16,280	-9,062	-13,876	-10,550	-12,000	-20,000
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
CF from Fin. Activity	-3,544	-6,211	-983	-2,398	1,526	-4,072	-3,660	-3,495
Inc/Dec of Cash	-337	-896	-2,101	1,482	-244	13,996	21,666	19,464
Add: Beginning Balance	4,987	4,590	3,694	1,593	3,075	3,071	17,067	38,733
Closing Balance	4,590	3,693	1,592	3,075	3,071	17,067	38,733	58,197

NOTES

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations. MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

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SHREE CEMENT

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