

INDUSTRY	CEMENT
CMP (as on 17 May 17)	Rs 18,870
Target Price	Rs 14,565

Nifty	9,526
Sensex	30,659

KEY STOCK DATA

Bloomberg	SRCM IN
No. of Shares (mn)	35
MCap (Rs bn) / (\$ mn)	657/10,254
6m avg traded value (Rs mn)	302

STOCK PERFORMANCE (%)
52 Week high / low Rs 20,560 /12,477

	3M	6M	12M
Absolute (%)	23.0	40.6	47.4
Relative (%)	15.3	23.7	28.5

SHAREHOLDING PATTERN (%)

Promoters	64.79
FIs & Local MFs	14.65
FPIs	14.60
Public & Others	5.96

Source : BSE

Ankur Kulshrestha, CFA

ankur.kulshrestha@hdfcsec.com
+91-22-6171 7346

Meera Midha

meera.midha@hdfcsec.com
+91-22-6639 3033

Peak quarter disappointment

Shree Cement (SRCM) numbers disappointed (EBITDA/t : Rs 818 vs est 934, flat YoY, -16.1% QoQ). This was largely on account of a strong surge in freight, (Rs 1,023/t, 27.9% YoY, 19.5% QoQ), while P&F and RM costs hardened too. Power business delivered weak numbers again (EBITDA: Rs 260 mn, -72.1% YoY, loss in 3QFY17) driven by lower volumes (434mn kWh, -34.3% YoY) and higher fuel costs.

The headline profitability is low given that this was peak season. We remain cautious on the entire sector, especially SRCM, where valuations price in perfection (20.7/15.0x FY8/19 EV/EBITDA and US\$ 282/t on FY18 exit basis). We have cut our volume estimates by 4.5/6.3% resulting in lowering of EBITDA estimates by 8.3/11.7% for FY18/19 respectively. Maintain SELL with a TP of Rs 14,565 based on 12.0x FY19 cement EV/EBITDA (implies US\$190/t on FY19 exit capacity of 38.6 mTPA).

Financial Summary

(Rs mn)	4QFY17	3QFY16	YoY(%)	3QFY17	QoQ(%)	FY15	FY16*	FY17	FY18E	FY19E
Net Sales	23,803	19,988	19.1	18,434	29.1	64,536	55,678	84,292	105,584	138,524
EBITDA	5,112	5,320	(3.9)	4,689	9.0	13,710	13,406	23,677	30,235	41,007
PAT	3,045	6,528	(53.4)	2,333	30.5	4,452	4,019	13,417	14,823	20,642
Diluted EPS (Rs)	87.41	187.38	(53.4)	66.97	30.5	127.8	115.4	385.1	425.5	592.5
P/E (x)						141.7	99.6	45.1	40.8	29.3
EV / EBITDA (x)						44.0	33.2	26.9	20.7	15.0
RoE (%)						8.5	10.6	20.3	19.2	22.0

Source: Company, HDFC sec Inst Research

Note: FY16 is a 9 month period ending March 2016. FY16 numbers as initially reported, IndAS restated numbers not shown.

Highlights of the quarter

- Volume growth continued to remain strong (5.95 mT, 10.7% YoY) driven by higher contribution from Bihar (27% of despatches in 4Qfy17, 20% in FY17). Freight costs have been hardening for SRCM for some time now due to higher Bihar component. 4QFY17 hike is likely due to a) short period shutdown of Aurangabad unit, when SRCM supplied the Bihar markets from Chhattisgarh and Rajasthan and b) higher diesel prices.
- Near-term outlook:** Prices in East continue to remain strong, while North has come under pressure due to issues around sand mining and weak demand from housing sector. We believe prices will remain under pressure for the next few months, while costs pressure bite. Fly-ash availability and pricing is likely to be a key issue, especially for grinding units operating in Rajasthan and Punjab.

Cement EBITDA disappointed, mainly due to surging freight costs

SRCM saw an overall cost hardening due to (a) higher freight, (b) higher RM costs and (c) increasing fuel prices

Power division turned in a weak performance driven by weak volumes (YoY) and higher fuel costs.

Quarterly Financials Snapshot

(Rs mn)	4QFY17	3QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	23,803	19,988	19.1	18,434	29.1
Cement	22,359	17,858	25.2	18,162	23.1
Power	1,443	2,029	(28.9)	272	430.8
Power & Fuel	4,601	3,769		2,991	
Freight Expenses	6,068	4,283		4,204	
RM Costs	2,028	1,618		1,615	
Other Operating Expenses	5,995	4,999	19.9	4,934	21.5
EBITDA	5,112	5,320	(3.9)	4,689	9.0
Cement	4,852	4,388	10.6	4,790	1.3
Power	260	932	(72.1)	(101)	(357.8)
Other Income	1,510	4,752		1,356	
Interest Cost	314	288		411	
Depreciation	3,109	3,062		3,176	
PBT	3,199	6,723	(52.4)	2,459	30.1
Tax	154	92		105	
APAT	3,045	6,528	(53.4)	2,333	30.5
E/o (adj for tax)	0	103		21	
RPAT	3,045	6,630	(54.1)	2,354	29.3

Source: Company, HDFC sec Inst Research

Per Tonne Analysis

Per tonne data	4QFY17	3QFY16	YoY (%)	3QFY17	QoQ (%)
Volumes (mT)	5.9	5.4	10.7	4.9	20.8
Realisations (Rs/T)	3,771	3,334	13.1	3,699	1.9
P&F costs (Rs/T)	576	499	15.6	533	8.1
Freight costs (Rs/T)	1,023	800	27.9	856	19.5
RM costs (Rs/T)	342	302	13.2	329	4.0
Cement EBITDA/T (Rs/t)	818	819	(0.1)	976	(16.1)
Cement division costs	2,952	2,515	17.4	2,723	8.4

Source: Company, HDFC sec Inst Research

Power Business Snapshot

	4QFY17	3QFY16	YoY (%)	3QFY17	QoQ (%)
Units sold (mn)	434.3	660.7	(34.3)	78.6	452.5
Realisations (Rs/kWh)	3.32	3.07	8.2	3.46	(3.9)
EBITDA/Unit (Rs/kWh)	0.60	1.41	(57.6)	(1.28)	(146.7)
Cost Rs/kWh	2.72	1.66	64.0	4.74	(42.5)

Source: Company, HDFC sec Inst Research

Valuations now price in strong multiple year growth, and then some.

Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EV/EBITDA (x)		P/E (x)		EV/T (US\$)	
					FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Ultratech Cement	1,230.7	4,471	SELL	3,380	19.7	15.9	35.4	27.7	288	278
Shree Cement	657.4	18,870	SELL	14,565	20.7	15.0	40.8	29.3	268	235
Ambuja Cement ¹	510.8	258	SELL	200	15.0	11.2	37.4	26.5	168	160
ACC Ltd ¹	318.8	1,694	SELL	1,300	14.4	10.5	27.0	18.6	141	137
Ramco Cements	168.9	710	SELL	456	13.4	11.2	24.1	19.9	211	202
Birla Corp	59.6	774	NEU	678	11.7	9.7	68.7	27.9	108	105
Orient Cement	32.8	160	NEU	165	11.5	8.3	37.8	14.8	73	69
Sanghi Industries	18.6	84	NEU	83	6.0	4.1	10.3	6.7	82	72
Deccan Cements	8.7	1,242	BUY	1,468	7.9	4.7	17.2	15.0	60	55

Note: Prices as of May 17, 2017 close. US\$: INR = 64.67

¹December YE

Key Assumptions

Year Ending Mar	FY15	FY16	FY17	FY18E	FY19E
Blended Cement Volumes	16.2	14.2	20.9	23.1	30.6
Cement Realisations/t	3,629	3,473	3,763	4,238	4,317
Cement EBITDA/t	756	787	1,059	1,242	1,304
Power Unit Sales (mn kWh)	1,885	1,739	1,658	2,171	1,781
Power EBITDA/Unit	0.65	1.15	0.94	0.70	0.59

Source: Company, HDFC sec Inst Research

Note: FY16 is a 9 month period ending March 2016 due to financial year change (June to March ending)

Estimated EBITDA/Realisations exclude incentives/subsidies which are passed via PnL under IndAS

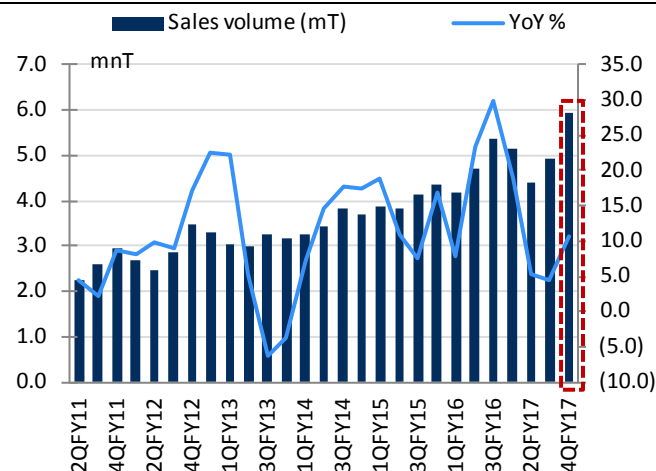
Changes to estimates

Changes to estimates	Old		New		% Change	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Volumes (mT)	24.2	32.7	23.1	30.6	(4.5)	(6.3)
Realisations (Rs/T)	4,230	4,339	4,238	4,317	0.2	(0.5)
Revenues (Rs mn)	109,817	147,126	105,584	138,524	(3.9)	(5.8)
EBITDA (Rs mn)	32,955	46,437	30,235	41,007	(8.3)	(11.7)
PAT (Rs mn)	16,863	25,263	14,823	20,642	(12.1)	(18.3)

Source: HDFC sec Inst Research

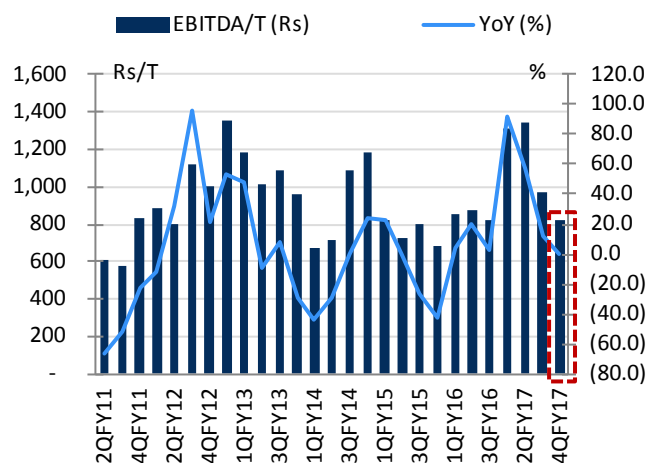
We have revised our earnings estimates driven by lower volumes.

Volume Strength Returned In 4QFY17



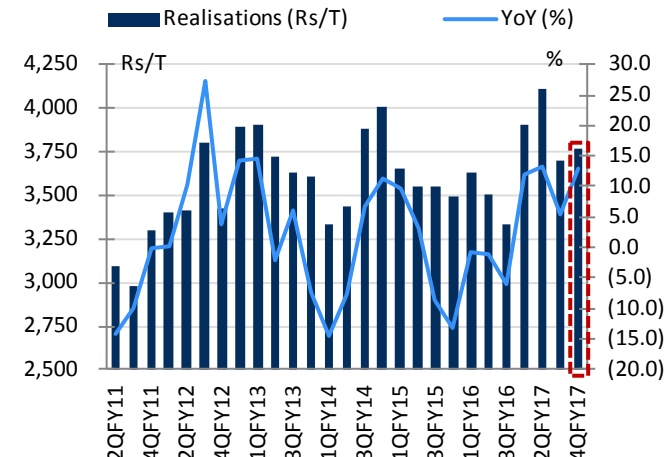
Source: Company, HDFC sec Inst Research

EBITDA/t At Rs 820



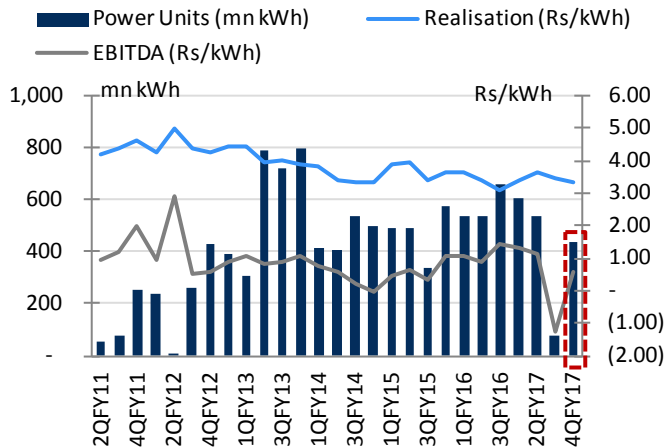
Source: Company, HDFC sec Inst Research

Pricing saw marginal improvement



Source: Company, HDFC sec Inst Research

Power Division Continues To Languish



Source: Company, HDFC sec Inst Research

Income Statement

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net sales	64,536	55,678	84,292	105,584	138,524
Growth %	9.6	15.0	13.5	25.3	31.2
Material Expenses	31,499	24,912	36,423	48,830	62,127
Employee Expenses	4,550	3,645	5,372	5,513	6,891
SG&A Expenses	14,126	12,935	19,179	20,885	28,303
Other operating expenses	923	983	(359)	121	196
Operating profits	13,438	13,203	23,677	30,235	41,007
Operating Profit Margin (%)	20.8	23.7	28.1	28.6	29.6
Other operating income	272	203	0	0	0
EBITDA	13,710	13,406	23,677	30,235	41,007
EBITDA %	21.2	24.1	28.1	28.6	29.6
EBITDA Growth %	(2.2)	30.4	32.5	27.7	35.6
Depreciation	9,248	9,084	12,147	13,056	17,322
EBIT	4,462	4,322	11,530	17,179	23,685
Other Income (including EO items)	753	975	5,077	1,984	2,736
Interest	1,206	751	1,294	634	618
PBT	4,009	4,545	15,312	18,529	25,803
Tax	(255)	(4)	1,917	3,706	5,161
RPAT	4,264	4,549	13,395	14,823	20,642
EO (Loss) / Profit (Net Of Tax)	(188)	530	(21)	-	-
APAT	4,452	4,019	13,417	14,823	20,642
APAT Growth (%)	(42.3)	20.4	150.4	10.5	39.3
Adjusted EPS (Rs.)	127.8	115.4	385.1	425.5	592.5
EPS Growth (%)	(42.3)	20.4	150.4	10.5	39.3

Source: Company, HDFC sec Inst Research

Note: FY16 is a 9 month period ending March 2016. FY16 numbers as initially reported, IndAS restated numbers not shown.

Balance Sheet

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	348	348	348	348	348
Reserves	52,415	61,453	69,804	83,651	103,317
Total Shareholders Funds	52,764	61,802	70,153	84,000	103,666
Long Term Debt	4,014	5,209	5,209	5,209	5,209
Short Term Debt	5,153	3,421	426	426	213
Total Debt	9,167	8,630	5,635	5,635	5,422
Deferred Taxes	(1,952)	(2,634)	(2,634)	(2,634)	(2,634)
Long Term Provisions & Others	8,714	9,339	9,339	9,339	9,339
TOTAL SOURCES OF FUNDS	68,693	77,137	82,493	96,340	115,793
APPLICATION OF FUNDS					
Net Block	30,043	30,502	22,541	19,485	32,163
CWIP	8,307	6,140	17,044	27,044	17,044
LT Loans and Advances	1,406	5,745	5,745	5,745	5,745
Total Non-current Assets	39,756	42,387	45,329	52,273	54,951
Inventories	9,189	8,152	12,602	10,861	14,325
Debtors	4,764	3,286	6,349	4,209	9,643
Other Current Assets	4,618	4,940	4,940	4,940	4,940
Cash & Equivalents	19,700	26,491	23,096	33,596	44,577
Total Current Assets	38,271	42,869	46,987	53,605	73,485
Creditors	2,924	2,584	2,349	2,286	3,714
Other Current Liabilities & Provns	6,410	5,535	7,475	7,254	8,930
Net Current Assets	28,937	34,750	37,163	44,066	60,841
TOTAL APPLICATION OF FUNDS	68,693	77,137	82,493	96,340	115,793

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	4,009	4,545	15,312	18,529	25,803
Non-operating & EO items	(1,025)	(1,178)	(5,077)	(1,984)	(2,736)
Interest expenses	1,206	751	1,294	634	618
Depreciation	9,248	9,084	12,147	13,056	17,322
Working Capital Change	(3,413)	(4,028)	(5,809)	3,597	(5,795)
Tax paid	(906)	(1,240)	(3,241)	(3,706)	(5,161)
OPERATING CASH FLOW (a)	9,118	7,934	14,626	30,126	30,052
Capex	(14,946)	(5,519)	(15,090)	(20,000)	(20,000)
Free cash flow (FCF)	(5,828)	2,415	(463)	10,126	10,052
Investments					
Non-operating Income	1,380	1,201	5,077	1,984	2,736
INVESTING CASH FLOW (b)	(13,566)	(4,318)	(10,013)	(18,016)	(17,264)
Debt Issuance/(Repaid)	(2,832)	(537)	(2,995)	0	(213)
Interest expenses	(1,206)	(751)	(1,294)	(634)	(618)
FCFE	(9,866)	1,127	(4,753)	9,492	9,221
Share Capital Issuance	0	0	0	0	0
Dividend	(976)	(976)	(5,044)	(976)	(976)
FINANCING CASH FLOW (c)	(5,014)	(2,264)	(9,334)	(1,610)	(1,807)
NET CASH FLOW (a+b+c)	(9,463)	1,352	(4,720)	10,500	10,981
EO Items/Others	5,126	5,440	(1,324)		
Closing Cash & Equivalents	19,700	26,492	23,096	33,596	44,577

Source: Company, HDFC sec Inst Research

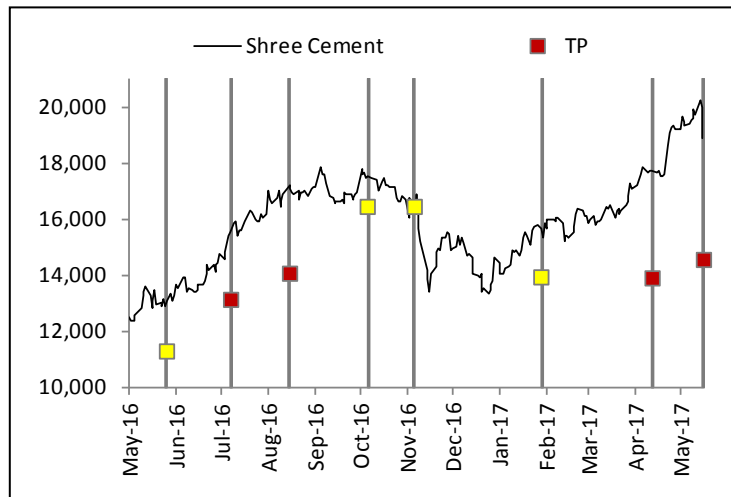
Note: FY16 is a 9 month period ending March 2016 due to financial year change (June to March ending)

Key Ratios

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
EBITDA Margin	21.2	24.1	28.1	28.6	29.6
APAT Margin	6.9	7.2	15.9	14.0	14.9
RoE	8.5	10.6	20.3	19.2	22.0
Core RoCE	13.0	14.2	24.9	31.8	39.5
RoCE	6.3	6.7	18.6	18.6	21.3
EFFICIENCY					
Tax Rate (%)	23.9	27.3	0.2	0.2	0.2
Asset Turnover (x)	1.0	0.8	1.1	1.2	1.4
Inventory (days)	49	43	45	41	33
Debtors (days)	22	20	21	18	18
Payables (days)	14	14	11	8	8
Cash Conversion Cycle (days)	57	49	55	51	44
Debt/EBITDA (x)	0.8	0.7	0.3	0.2	0.1
Net D/E	(0.20)	(0.29)	(0.25)	(0.33)	(0.38)
Interest Coverage	3.5	5.1	12.8	30.2	42.7
PER SHARE DATA					
EPS (Rs/sh)	128	115	385	425	592
CEPS (Rs/sh)	388	391	733	800	1,090
DPS (Rs/sh)	24	24	124	24	24
BV (Rs/sh)	1,514	1,774	2,014	2,411	2,975
VALUATION					
P/E	141.7	99.6	45.1	40.8	29.3
P/BV	11.4	9.8	8.6	7.2	5.8
EV/EBITDA	44.0	33.2	26.9	20.7	15.0
OCF/EV (%)	1.3%	1.1%	2.1%	4.2%	4.2%
FCF/EV (%)	(0.9%)	0.3%	(0.1%)	1.4%	1.4%
FCFE/Market Cap (%)	(2.6%)	0.4%	(1.0%)	2.9%	2.8%
Dividend Yield (%)	0.1	0.1	0.7	0.1	0.1

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
30-May-16	13,140	NEU	11,280
8-Jul-16	15,649	SELL	13,140
17-Aug-16	17,340	SELL	14,074
7-Oct-16	17,560	NEU	16,437
8-Nov-16	16,401	NEU	16,437
31-Jan-17	15,726	NEU	13,907
13-Apr-17	17,710	SELL	13,907
17-May-17	18,870	SELL	14,565

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Ankur Kulshrestha, PGDBM & Meera Midha, IDM**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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