

Cost inflation offset pricing gains

Shree Cement's (SRCM) EBITDA declined 4% YoY in Q4FY17 despite an 11% YoY cement volume increase. This was due to a sharp increase in fuel and freight costs which led to flat cement EBITDA to Rs818/MT. Lower external power sales and fuel inflation contributed to the decline in EBITDA. While we expect SRCM to deliver 19% EBITDA CAGR over the next two years and also fund its large expansion through internal accruals, the valuations are extremely expensive at 22x/18x its FY18/19E EBITDA. We re-iterate SELL.

- Uptick in grey cement sales drives 19% YoY revenue growth in Q4FY17:** SRCM's revenue increased 19% YoY to Rs23.8bn driven by 11% YoY cement volume growth and 13% higher NSR. However, power revenue dipped 32% YoY on lower demand. Cement sales volume rose on better sales across both north and east markets. The eastern region accounted for 30% of total sales during the quarter vs average of 25% sales share earlier. Its average cement NSR improved 2% QoQ led by pricing recovery during the quarter, increased sales in the east and reduction in ex-factory sales in east.
- Cost escalation & lower contribution from power sales hits profits:** SRCM's cement opex rose 17%/9% YoY/QoQ, thus muting the benefits of a higher NSR YoY. Management highlighted that rising petcoke prices have dented costs - its average petcoke prices increased 13% QoQ and 36% YoY to Rs6,800/MT. This, along with higher diesel prices drove input cost higher by 23% YoY and 14% QoQ. Further, unitary freight cost surged 28%/20% YoY/QoQ led by higher diesel prices, restrictions on truck overloading across its markets, temporary increase in freight cost in east (Bihar plant shut down during Q4) and reduction in ex-factory sales in the east. Thus, cement EBITDA remained flat YoY at Rs818/MT (vs. our est. of Rs958/MT). Cement EBITDA thus rose 11% YoY to Rs4.9bn (15% lower than our est.). Driven by lower utilisation and higher fuel costs, power EBITDA fell 72% YoY to Rs260mn. Thus, total EBITDA fell 4% YoY to Rs5.1bn (14% below our estimates).
- Other highlights and outlook:** In compliance with IndAS, the company has restated its Q4FY16 financials: net sales have been revised down by 1%, EBITDA revised up by 5% thus driving up Q4FY16 OPM by 160bps to 26.6%. With a large 530% upgrade in other income (MTM reporting), its Q4FY16 PAT stands higher by 200%. As other income is lower YoY (post revision of Q4FY16 numbers), SRCM's adj PAT dipped 54% YoY to Rs3.1bn. We expect SRCM's capacity to increase to 38mn MT by end-FY19 vs. 27mn MT currently as it will increase its north capacity by 2mn MT, east by 6mn MT (by mid-FY19) and green-field expansion of 3mn MT in south (by end-FY19). We broadly maintain our earnings estimate for SRCM and expect SRCM to deliver 19% EBITDA CAGR during FY17-19E.
- Maintain Sell on expensive valuation:** SRCM's strong earnings growth coupled with its lean capital cost would lead to strong RoCE of 19%/21%/17% during FY17/18/19E – among the highest in the industry. We continue to value SRCM's cement business/power businesses at 13x/5x its FY19E EBITDA, leading to our revised TP of Rs13,340 (earlier Rs 13,780). The stock currently trades at 22x/18x its FY18/19E EBITDA. We reiterate SELL.

Y/E Jun (Rsmn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Q4FY17E	Variance %
Net Sales	23,803	19,988	19.1	18,434	29.1	23,426	1.6
Op. cost	18,691	14,668	27.4	13,744	36.0	17,466	7.0
EBITDA	5,112	5,320	(3.9)	4,690	9.0	5,959	(14.2)
EBITDA margin (%)	21.5	26.6	(514)bps	25.4	(397)bps	25.4	(397)bps
Depreciation	3,109	3,062	1.5	3,176	11.4	3,000	3.6
Interest	314	288	9.2	411	20.6	400	(21.4)
Other Income	1,510	4,752	(68.2)	1,356	(23.4)	1,200	25.9
Taxes Paid	154	92	66.9	105	46.9	376	(59.1)
Adjusted PAT	3,045	6,630	(54.1)	2,354	29.3	3,383	(10.0)

Source: Company, Centrum Research Estimate, Standalone Financials

Y/E Mar ^ (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	64,536	9.6	13,438	20.8	4,451	(42.3)	127.8	8.9	9.4	74.5	23.9
FY16	55,685	15.0	13,203	23.7	4,019	20.4	153.8	9.4	9.6	96.2	21.0
FY17P	84,291	13.5	23,671	28.1	13,391	149.9	384.4	20.4	19.4	39.8	21.4
FY18E	96,727	14.8	28,444	29.4	17,701	32.2	508.1	22.8	21.1	37.1	21.9
FY19E	1,14,858	18.7	33,822	29.4	16,884	(4.6)	484.7	18.0	17.1	38.9	18.3

Source: Company, Centrum Research Estimates, Standalone Financials, ^ FY16-19 – Y/E now Mar, FY16 is 9 months

Target Price	Rs13,340	Key Data	
CMP*	Rs18,870	Bloomberg Code	SRCM IN
Downside	29%	Curr Shares O/S (mn)	34.8
Previous Target	Rs13,780	Diluted Shares O/S(mn)	34.8
Previous Rating	Sell	Mkt Cap (Rsbn/USDbn)	657.4/10.2
Price Performance (%)*		52 Wk H / L (Rs)	20560/12477
	1M 6M 1Yr	5 Year H / L (Rs)	20560/2270
SRCM IN	6.7 34.4 44.0	Daily Vol. (3M NSE Avg.)	18692
NIFTY	3.8 17.0 20.0		

*as on 17 May 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar - 17	Dec-16	Sep-16	Jun-16
Promoter	64.8	64.8	64.8	64.8
FIs	14.6	14.4	14.0	13.8
Dom. Inst.	4.3	4.6	5.0	5.1
Public & Others	16.3	16.2	16.2	16.3

Source: BSE, *as on 17 May 2017

Operational performance trend

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Cem sales (mnMT)	5.9	5.4	10.7	4.9	20.7
Rs/ MT trends					
NSR	3,770	3,334	13.1	3,697	2.0
Raw materials	365	288	26.7	294	24.1
Power & fuel	576	480	20.1	533	8.1
Freight	1,023	800	27.9	856	19.6
Employee	228	237	(3.9)	267	(14.8)
Other Exp	760	710	7.0	772	(1.5)
Opex	2,952	2,515	17.4	2,722	8.5
EBITDA	818	819	(0.2)	975	(16.1)
Captive Power					
Sales (mn kWh)	434	661	(34.3)	79	452.2
NSR (Rs/ kWh)	3.33	3.22	3.2	3.5	(3.9)
Opex (Rs/ kWh)	2.7	1.8	50.3	4.7	(42.5)
EBITDA (Rs/ kWh)	0.6	1.4	(57.4)	(1.3)	(146.9)

Source: Company, Centrum Research,

Earning Revisions summary

Particulars (Rs bn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	96.7	95.4	1.4	114.9	113.6	1.1
EBITDA	28.4	28.5	(0.1)	33.8	34.3	(1.4)
Ebitda margin (%)	29.4	29.8		29.4	30.2	
Adj PAT	17.7	17.5	1.2	16.9	16.6	1.4

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY18E			FY19E		
	Centrum	BGG	Var (%)	Centrum	BGG	Var (%)
Net Sales	96.7	100.2	(3.5)	114.9	121.2	(5.2)
EBITDA	28.4	29.0	(2.0)	33.8	37.0	(8.7)
PAT	17.7	16.8	5.5	16.9	22.5	(25.0)

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)	Target Price (Rs)	
15	12	9	18,270	13,340	(27.0)

* as on 17 May 2017; Source: Bloomberg, Centrum Research Estimates

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Outlook & Valuation

Exhibit 1: 1-yr forward EV/EBITDA chart

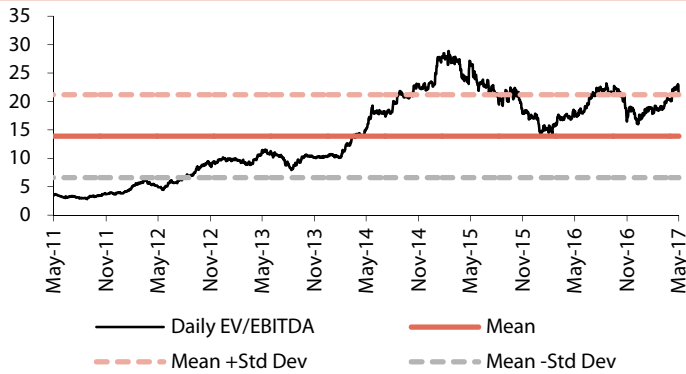
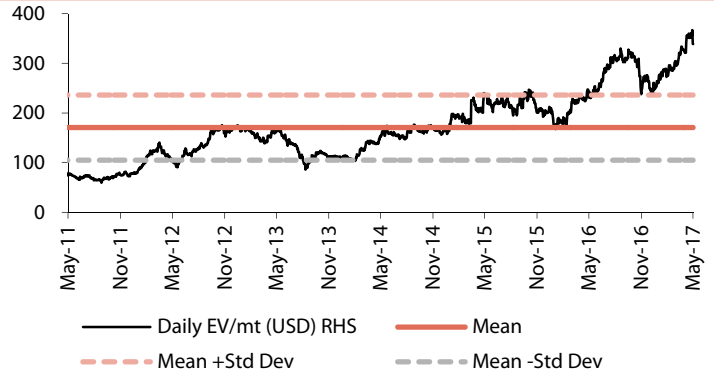


Exhibit 2: 1 yr forward EV/MT chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs bn)	CAGR FY17-19E (%)			EBITDA margin (%)			RoCE (%)			RoE (%)			EV/EBITDA (x)			EV/MT(USD)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Shree Cement	657.4	16.7	19.5	12.3	28.1	29.4	29.4	19.4	21.1	17.1	20.4	22.8	18.0	21.4	21.9	18.3	286	353	249
ACC	281.0	8.7	25.3	34.9	12.7	14.7	16.9	7.3	9.1	12.4	7.4	9.3	12.8	18.0	14.2	10.9	123	122	118
Ambuja Cements	488.3	8.6	14.9	30.8	18.2	18.5	20.3	6.7	7.2	8.3	6.7	7.2	8.3	15.0	18.3	15.3	131	178	177
UltraTech Cement	1,226.7	23.2	32.3	25.3	20.8	22.3	23.9	9.3	9.4	10.4	12.0	11.8	15.0	19.5	20.7	15.1	220	236	219

Source: Company, Centrum Research Estimates

Exhibit 4: Key Operational Assumptions - Cement

Particulars	FY14	FY15	FY16 ^	FY17	FY18E	FY19E
Grey Cement capacity (mn MT)	17.5	23.6	25.6	27.2	27.2	38.2
Sales Volume (mn MT)	14.3	16.2	14.2	20.6	22.6	25.8
YoY change (%)	14.4	13.4	17.5	8.4	9.8	14.0
(Rs/ MT trend)						
NSR	3,691	3,573	3,502	3,818	3,997	4,177
Raw Materials	316	313	333	305	309	320
Power & Fuel	561	622	470	501	531	547
Freight costs	761	740	741	910	920	942
Employee cost	277	282	256	261	265	276
Other expense	835	850	859	767	795	864
Total Opex	2,749	2,806	2,658	2,744	2,820	2,949
EBITDA per MT	929	761	788	1,074	1,177	1,228

Source: Company, Centrum Research Estimates, ^ FY16 is nine months data

Exhibit 5: Key Operational Assumptions - Power

Particulars	FY14	FY15	FY16 ^	FY17E	FY18E	FY19E
Power Sales (mn kWh)	1,860	1,885	1,739	1,658	1,824	2,007
YoY change (%)	(28.7)	1.3	23.0	(28.3)	10.0	10.0
NSR (Rs/ kWh)	3.4	3.7	3.4	3.4	3.5	3.6
YoY Growth (%)	(13.9)	7.9	(8.3)	0.9	2.0	3.0
Opex (Rs/ kWh)	3.1	3.1	2.3	2.5	2.5	2.5
YoY Growth (%)	2.5	1.4	(27.9)	9.8	-	1.0
EBITDA(Rs/ kWh)	0.3	0.6	1.1	0.9	1.0	1.1
YoY Growth (%)	(65.3)	67.9	100.7	(17.0)	7.3	7.9
Power Share of total EBITDA (%)	4.5	7.9	14.9	6.6	6.5	6.5

Source: Company, Centrum Research Estimates, ^ FY16 is nine months data

Exhibit 6: Quarterly financials trend

Y/E Jun (Rs mn)	Q1FY16	Q2FY16	Q3FY16	Q1FY17	Q2FY17	Q3FY17	Q3FY17	Q4FY17
Net Sales	17,246	17,119	18,030	19,988	21,987	20,068	18,434	23,803
Total Expenditure	13,678	12,733	13,443	14,668	14,678	13,506	13,744	18,691
Raw Materials	1,239	1,256	1,728	1,543	1,782	881	1,445	2,164
Power and Fuel	4,157	3,722	3,739	3,769	3,279	3,573	2,991	4,601
Employee	1,190	1,228	1,201	1,270	1,331	1,377	1,313	1,351
Transport	4,011	3,468	3,665	4,283	4,402	4,066	4,204	6,068
Others	3,081	3,060	3,110	3,804	3,885	3,609	3,791	4,508
EBITDA	3,568	4,386	4,586	5,320	7,309	6,563	4,690	5,112
Depreciation	2,383	2,448	2,766	3,062	1,540	4,322	3,176	3,109
EBIT	1,185	1,938	1,820	2,258	5,768	2,241	1,513	2,003
Interest	264	235	235	288	276	293	411	314
Other Income	392	958	1,017	4,752	978	1,233	1,356	1,510
PBT	1,314	2,661	2,602	6,723	6,471	3,180	2,459	3,199
Taxes	33	(26)	265	92	1,394	265	105	154
Exceptional expense/ (income)	(240)	(297)	3	61	5	(11)	(38)	43
Reported PAT	1,041	2,389	2,341	6,692	5,081	2,904	2,317	3,088
Adjusted PAT	1,281	2,686	2,338	6,630	5,077	2,915	2,354	3,045
Adj EPS (Rs)	36.8	77.1	67.1	190.3	145.7	83.7	67.6	87.4
YoY Growth (%)								
Sales volume - Cement	17.1	8.1	22.7	29.7	18.9	9.0	4.5	10.7
Sales volume - Power	14.9	10.5	9.7	97.8	6.3	(0.2)	(85.4)	(34.3)
NSR - Cement	(13.1)	(0.4)	(2.0)	(5.9)	10.6	9.1	6.9	13.1
Revenue	4.1	6.5	16.7	26.8	27.5	17.2	2.2	19.1
EBITDA	(18.7)	28.8	49.8	56.2	104.9	49.6	2.2	(3.9)
PBT	(57.0)	140.0	179.8	565.3	392.5	19.5	(5.5)	(52.4)
Adj PAT	(49.1)	132.5	200.3	436.1	296.3	8.5	0.7	(54.1)
Margins (%)								
EBITDA	20.7	25.6	25.4	26.6	33.2	32.7	25.4	21.5
EBIT	6.9	11.3	10.1	11.3	26.2	11.2	8.2	8.4
PBT	7.6	15.5	14.4	33.6	29.4	15.8	13.3	13.4
Adj PAT	7.4	15.7	13.0	33.2	23.1	14.5	12.8	12.8
Operational Trend – Cement & Power								
Cement & clinker Sales Vol (mn MT)	4.3	4.2	4.7	5.4	5.2	4.6	4.9	5.9
Trends (Rs/mt)								
Net sales realisation (NSR)	3,487	3,642	3,457	3,334	3,855	3,973	3,697	3,770
Raw material cost	285	300	368	288	345	193	294	365
Power and fuel cost	633	556	522	480	387	499	533	576
Employee cost	274	293	256	237	258	301	267	228
Transport cost	923	827	780	800	852	890	856	1,023
Other expenses	709	730	662	710	752	790	772	760
Operating cost	2,824	2,706	2,587	2,515	2,593	2,672	2,722	2,952
EBITDA - Cement (Rs/MT)	663	936	870	819	1,262	1,301	975	818
Power Sales Vol (mn kWh)	572	539	539	661	608	538	79	434
Power NSR (Rs/kWh)	3.6	3.6	3.3	3.2	3.4	3.6	3.5	3.3
Power EBITDA (Rs/kWh)	1.1	1.0	0.9	1.4	1.3	1.2	(1.3)	0.6
Power share of total EBITDA (%)	17.8	12.4	10.8	17.5	10.7	9.4	(2.1)	5.1

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 7: Income Statement

Y/E Jun/Mar ^ (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	64,536	55,685	84,291	96,727	1,14,858
Materials cost	5,056	4,738	6,272	6,982	8,245
% of revenues	7.8	8.5	7.4	7.2	7.2
Employee Cost	4,550	3,645	5,372	5,997	7,121
% of revenues	7.1	6.5	6.4	6.2	6.2
Others	41,491	34,099	48,976	55,303	65,670
% of revenues	64.3	61.2	58.1	57.2	57.2
EBITDA	13,438	13,203	23,671	28,444	33,822
EBITDA Margins (%)	20.8	23.7	28.1	29.4	29.4
Depreciation & Amortisation	9,248	9,084	12,147	11,000	18,000
EBIT	4,191	4,119	11,524	17,444	15,822
Interest expenses	1,206	751	1,294	1,013	1,015
PBT from operations	2,984	3,367	10,230	16,430	14,807
Other Income	1,379	1,201	5,077	5,696	6,298
Exceptional loss/(gain)	(188)	530	-	-	-
PBT	4,175	5,098	15,307	22,126	21,106
Taxes	(88)	550	1,916	4,425	4,221
Effective tax rate (%)	(2.1)	10.8	12.5	20.0	20.0
Net Profit	4,263	4,549	13,391	17,701	16,884
Reported Net Profit	4,263	4,549	13,391	17,701	16,884
Adj Net Profit	4,451	4,019	13,391	17,701	16,884

Source: Company, Centrum Research Estimates, ^ FY16-19 – Y/E now Mar, FY16 is 9 months

Exhibit 8: Key Ratios

Y/E Jun/Mar ^	FY15	FY16	FY17P	FY18E	FY19E
Growth ratios (%)					
Revenues	9.6	15.0	13.5	14.8	18.7
EBITDA	(3.3)	31.0	34.5	20.2	18.9
Adj Net Profit	(42.3)	20.4	149.9	32.2	(4.6)
Margin ratios (%)					
EBITDA Margin	20.8	23.7	28.1	29.4	29.4
PBT from operations Margin	4.6	6.0	12.1	17.0	12.9
Adj PAT Margin	6.9	7.2	15.9	18.3	14.7
Return Ratios (%)					
RoE	8.9	9.4	20.4	22.8	18.0
RoCE	9.4	9.6	19.4	21.1	17.1
RoIC	11.0	11.4	23.2	29.4	22.2
Turnover Ratios (days)					
Gross block turnover (x)	0.8	0.6	0.8	0.9	0.9
Debtors	26.9	16.2	14.5	18.0	18.0
Inventory	52.0	40.1	56.9	45.0	42.0
Creditors	16.5	12.7	15.2	14.6	14.1
Cash conversion cycle	62.4	43.5	56.2	48.4	45.9
Solvency Ratio					
Net debt-equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Debt-equity	0.2	0.1	0.1	0.1	0.1
Interest coverage ratio	3.5	5.5	8.9	17.2	15.6
Gross debt/EBITDA	0.7	0.7	0.4	0.4	0.3
Current Ratio	1.5	1.6	1.5	2.2	1.4
Per Share (Rs)					
Adjusted EPS	128	154	384	508	485
BVPS	1,515	1,774	1,995	2,468	2,906
CEPS	393	502	733	824	1,001
DPS	24.0	32.0	140.0	30.0	40.0
Dividend payout %	23.3	22.1	42.6	6.9	9.7
Valuations (x)(Avg Mkt Cap)					
P/E (adjusted)	74.5	96.2	39.8	37.1	38.9
P/BV	6.3	6.3	7.7	7.6	6.5
EV/EBITDA	23.9	21.0	21.4	21.9	18.3
EV/ton (USD \$)	203	216	281	347	245
Dividend yield %	0.3	0.2	0.9	0.2	0.2
5 Yr Avg AOCF/EV yield %	3.5	3.1	2.3	2.3	2.9

Source: Company, Centrum Research Estimates, ^ FY16-19 – Y/E now Mar, FY16 is 9 months

Exhibit 9: Balance Sheet

Y/E Jun/Mar ^ (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	348	348	348	348	348
Reserves & surplus	52,416	61,454	69,139	85,617	1,00,871
Total Shareholders' Fund	52,764	61,802	69,487	85,966	1,01,220
Total Debt	9,166	8,630	10,130	10,167	10,167
Def tax liab. (net)	(1,952)	(2,634)	(3,980)	(3,930)	(3,880)
Total Liabilities	59,978	67,798	75,638	92,203	1,07,507
Gross Block	86,496	95,980	1,03,339	1,08,339	1,53,339
Less:- Accumulated Depreciation	56,453	65,480	77,627	88,627	1,06,627
Net Block	30,043	30,501	25,713	19,713	46,713
Capital WIP	5,111	2,650	7,100	18,500	3,500
Net Fixed assets	35,154	33,150	32,813	38,213	50,213
Investments	16,626	23,662	29,662	25,662	45,662
Inventories	9,189	8,152	13,145	11,925	13,217
Sundry Debtors	4,764	3,286	3,351	4,770	5,664
Cash & bank balances	3,075	2,830	7,042	18,393	3,621
Loans & Advances	9,066	13,933	15,342	16,726	16,266
Other Assets	153	246	69	80	94
Total current assets	26,246	28,448	38,949	51,893	38,862
Trade payables	2,924	2,584	3,517	3,865	4,440
Other current liabilities	14,432	14,851	16,536	18,449	21,131
Provisions	693	27	5,734	1,251	1,659
Net current assets	8,198	10,986	13,163	28,328	11,632
Total	59,978	67,798	75,638	92,203	1,07,507

Source: Company, Centrum Research Estimates, ^ FY16-19 – Y/E now Mar, FY16 is 9 months

Exhibit 10: Cash Flow

Y/E Jun/Mar ^ (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Op profit before WC changes	12,606	12,389	20,409	24,069	29,651
Working capital changes	(218)	(2,059)	(3,671)	669	1,517
Cash from Operations	12,388	10,330	16,738	24,737	31,168
Adj. OCF (OCF-Interest)	11,142	9,438	15,444	23,724	30,153
Net capex	(14,819)	(7,348)	(11,809)	(16,400)	(30,000)
Adj. FCF (AOCF-Capex)	(3,677)	2,090	3,635	7,324	153
Cash from investing	(9,901)	(12,623)	(12,732)	(6,704)	(43,702)
Cash from financing	(2,586)	2,485	206	(6,683)	(2,238)
Net change in cash	(99)	193	4,212	11,350	(14,772)

Source: Company, Centrum Research Estimates, ^ FY16-19 – Y/E now Mar, FY16 is 9 months

Appendix A

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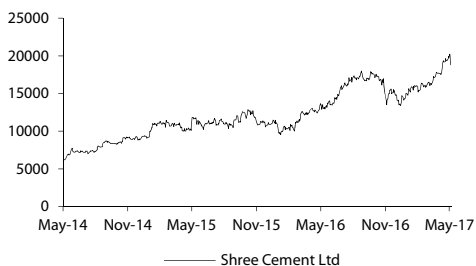
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Shree Cement price chart



Source: Bloomberg, Centrum Research

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