

### All well, issue equity puzzling...

We retain **NEUTRAL** on Shree Cement (SRCM) with TP of Rs 20,000. Our TP implies cement EV of USD 215/MT.

#### HIGHLIGHTS OF THE QUARTER

- In 2QFY20, Shree reported stellar performance as its standalone net sales/EBITDA/adj PAT rose 8/45/7% YoY to Rs28.02/8.44/3.09bn resp.
- Strong trade focus bolstered realisation:** Sales vol rose 2% YoY, led by 5% contribution from south plant while sales in north/east fell 4%. As Shree increased its trade sales to 80% in the mix in 2Q, its NSR was lesser impacted by non-trade price volatility, falling 1% QoQ (vs. industry trend of 5-8% decline). This led to a robust 9% NSR gain YoY.
- Decade high unitary EBITDA:** Co reported 3/2% YoY/QoQ opex decline on lower fuel cost and robust cost controls. These buoyed unitary EBITDA by 51/1% YoY/QoQ to a decade high of Rs 1,451/MT.
- Stellar 1HFY20:** EBITDA in 1H surged 42% YoY to Rs 17.46bn, on robust Rs 1,447/MT unitary EBITDA despite a 7% vol decline. Working capital reduced by Rs 3.14bn. Shree spent Rs 7bn towards on-going expansions.

#### Financial Summary (Standalone)

Year Ending Mar (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	28,017	25,866	8.3	30,364	(7.7)	98,331	117,221	125,112	142,425	159,138
EBITDA	8,442	5,813	45.2	9,022	(6.4)	24,324	27,694	37,826	42,253	45,386
APAT	3,091	2,890	6.9	3,630	(14.9)	13,438	12,457	17,434	19,535	21,495
Diluted EPS (Rs)	88.7	83.0	6.9	104.2	(14.9)	385.7	357.6	500.4	560.7	617.0
EV / EBITDA (x)						25.9	23.6	16.9	14.7	13.5
EV/MT (USD)						284	241	226	210	187
P/E (x)						48.4	52.2	37.3	33.3	30.3
RoE (%)						16.2	13.5	16.9	16.4	15.8

Source: Company, HDFC sec Inst Research

- Fund raising for inorganic opportunities:** Shree's board approved QIP of upto Rs 30bn, to fund inorganic acquisition (without major debt additions). As the promoters won't infuse any capital, we estimate their holdings will dilute upto 300bps to 62%. We find this unnecessary (owing to an already strong bal sheet) and potentially negative for Shree's premium valuations. See inside for our detailed view on this development.
- Near term outlook:** Shree will commission green-field GUs in Cuttack/Pune (3mn MT each) by 4QFY20/3QFY21 respectively. We expect Shree's robust unitary EBIDTA (1HFY20 ~Rs 1,400/MT, its best ever) to sustain through FY20-22E on op cost tailwinds, increased trade focus and expected demand recovery.

#### STANCE

**We retain NEUTRAL rating with an SOTP based TP of Rs 20,000 (Standalone cement/power biz at 15/5x Sep-21E EBITDA and Gulf assets at 1x BV). The stock currently trades at 14.7/13.5x FY21/22E EBITDA and EV of USD 200/MT. Despite ascribing premium valuation to the cement biz for its industry leading growth and return ratios, the stock price offers a limited upside.**

INDUSTRY	CEMENT
<b>CMP (as on 18 Oct 2019)</b>	Rs 18,680
<b>Target Price</b>	Rs 20,000
Nifty	11,662
Sensex	39,298

#### KEY STOCK DATA

Bloomberg	SRCM IN
No. of Shares (mn)	35
MCap (Rs bn) / (\$ mn)	650/9,132
6m avg traded value (Rs mn)	599

#### STOCK PERFORMANCE (%)

52 Week high / low	Rs 22,400/13,100	3M	6M	12M
Absolute (%)	(12.9)	(5.2)	23.4	
Relative (%)	(13.9)	(5.6)	10.4	

#### SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	64.79	64.79
FIs & Local MFs	6.22	6.86
FPIs	12.97	12.21
Public & Others	16.02	16.14
Pledged Shares *	-	-

Source : BSE \*as % of total shares o/s

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*We find Shree's equity raising both unnecessary*

*Shree is well poised to fund a 7-10mn MT acquisition though debt without straining its leverage ratios even in a stress case scenario*

*Also intention to dilute equity when Shree has access to low cost debt, is counter-intuitive for its premium valuations*

## Equity dilution to avoid marginal debt pile up?

- **Equity raise to fund inorganic growth:** The board of directors of Shree Cement approved the company's plans to raise equity through QIP not exceeding Rs30bn. The promoters which hold 64.8% in the company will not participate in this fund raise. This will lead to ~300bps dilution in their holding to 62%, post the QIP. The management reasoned that the company is building a war chest to scout for various potential acquisition targets which are currently available/ may come up over next 12-18 months. The company does not want to borrow any major debt to for any potential inorganic acquisitions and hence their affinity towards an equity dilution.
- Assuming Shree is eyeing an inorganic asset between 6-10mn MT, this would require cash of upto Rs 80bn. As Shree has almost zero net debt on books currently, with large annual OCF outlook of ~Rs 37bn, we find this equity raise and dilution both unnecessary. Owing to its robust balance sheet, operating metrics and project executions, Shree also has access to low cost debt at 7.5-8%.
- **Robust balance sheet currently:** We currently estimate Shree to deliver industry leading unitary EBITDA of ~1,400/MT during FY20-22E at a modest 7% volume CAGR. Despite modeling in annual capex of ~Rs 20bn each during FY20/21/22E towards various greenfield/ brownfield expansion plans, we estimate annual FCF of ~Rs 19bn during FY20-22E. Thus, Shree is capable to easily meet interest exp of ~Rs 6.5bn per annum. Both the leverage ratios - net Debt/EBITDA and net D/E will remain comfortable at well below 2x and 0.5x respectively. We have not even added the profit contribution from the acquired assets.
- **Balance sheet remains strong even in a stress case scenario:** In a weak demand scenario during FY20-22, we estimate slower volumes CAGR of 4% and weaker margins of ~Rs 1200/MT vs Rs1400/MT (base case). These would reduce annual OCF/FCF outlook to ~Rs 32/12bn (against base case of ~Rs 37/19bn respectively). Thus, Shree would still be generating enough cash to fund the additional interest cost. Its Net debt/EBITDA and net D/E ratios will comfortable at below 2x and 0.5x respectively. Again, we have not even added the profit contribution from the acquired assets
- Hence, Shree Cement's aversion to debt seems unfounded until the acquisition target is of a much larger size (10mn MT+).
- Further, Shree currently trades at the highest valuations in the Indian Cement industry (~20% premium to Ultratech, the largest player). We believe this is justified for its industry leading growth/return ratios. However, the promoters not participating in the intended equity raise holds a negative signaling value for minority shareholders!

**SRCM delivered strong EBITDA growth in 2QFY20, driven by robust pricing, increased vol contribution from south plant, falling fuel cost tailwinds and strong op cost controls**

**Shree's 6MFY20 EBITDA margins are at 8-yr high levels!**

**Higher interest cost and tax expense vs tax credit YoY muted Shree's PAT growth**

**While SRCM's sales volume in the north/east fell 4% YoY, contribution from the south plant drove 2% total vol growth**

**Increased focus on trade sales (80% in 2Q) moderated NSR QoQ decline**

**Opex fall aided by falling fuel prices and strong cost controls**

### Quarterly Financials' Snapshot

(Rs Mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
<b>Net Sales</b>	<b>28,017</b>	<b>25,866</b>	<b>8.3</b>	<b>30,364</b>	<b>(7.7)</b>	<b>58,381</b>	<b>56,565</b>	<b>3.2</b>
Raw Materials	1,508	1,701	(11.4)	1,856	(18.7)	3,363	4,109	(18.1)
Power and Fuel	5,984	6,143	(2.6)	6,482	(7.7)	12,466	13,226	(5.7)
Employee	1,850	1,700	8.8	1,914	(3.4)	3,763	3,408	10.4
Transport	5,797	6,073	(4.5)	6,682	(13.2)	12,479	14,593	(14.5)
Other Exp	4,437	4,435	0.0	4,409	0.6	8,846	8,914	(0.8)
<b>EBITDA</b>	<b>8,442</b>	<b>5,813</b>	<b>45.2</b>	<b>9,022</b>	<b>(6.4)</b>	<b>17,463</b>	<b>12,315</b>	<b>41.8</b>
<i>EBITDA margin</i>	<i>30.1</i>	<i>22.5</i>	<i>760bps</i>	<i>29.7</i>	<i>40bps</i>	<i>29.9</i>	<i>21.8</i>	<i>810bps</i>
Depreciation & amortisation	4,283	3,295	30.0	4,027	6.4	8,310	6,350	30.9
<b>EBIT</b>	<b>4,158</b>	<b>2,518</b>	<b>65.1</b>	<b>4,995</b>	<b>(16.8)</b>	<b>9,153</b>	<b>5,965</b>	<b>53.5</b>
Other Income (Including EO Items)	578	(1,883)		511	12.9	1,089	(1,697)	
Interest Cost	717	618	16.1	680	5.4	1,398	1,180	18.5
<b>PBT - Reported</b>	<b>4,018</b>	<b>17</b>	<b>23,399.4</b>	<b>4,826</b>	<b>(16.7)</b>	<b>8,844</b>	<b>3,088</b>	<b>186.4</b>
Tax	928	(476)		1,196	(22.4)	2,124	(200)	
<i>Tax rate</i>	<i>23.1</i>	<i>(2,784.8)</i>		<i>24.8</i>		<i>24.0</i>	<i>(6.5)</i>	
(Minority Int)/ Associates' profit								
<b>RPAT</b>	<b>3,091</b>	<b>493</b>	<b>526.5</b>	<b>3,630</b>	<b>(14.9)</b>	<b>6,721</b>	<b>3,288</b>	<b>104.4</b>
EO (Loss) / Profit (Net Of Tax)	-	(2,397)		-		-	(3,147)	
<b>Adj PAT margin</b>	<b>3,091</b>	<b>2,890</b>	<b>6.9</b>	<b>3,630</b>	<b>(14.9)</b>	<b>6,721</b>	<b>6,435</b>	<b>4.4</b>
<i>APAT</i>	<i>11.0</i>	<i>11.2</i>		<i>12.0</i>		<i>11.5</i>	<i>11.4</i>	

Source: Company, HDFC sec Inst Research

### Quarterly Performance Analysis – Cement

	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
<b>Sales vol (mn MT)</b>	<b>5.7</b>	<b>5.6</b>	<b>1.5</b>	<b>6.1</b>	<b>(5.5)</b>	<b>11.8</b>	<b>12.6</b>	<b>(6.7)</b>
<b>Rs/MT trend</b>								
<b>NSR</b>	<b>4,653</b>	<b>4,268</b>	<b>9.0</b>	<b>4,703</b>	<b>(1.1)</b>	<b>4,679</b>	<b>4,179</b>	<b>12.0</b>
Raw materials	264	302	(12.6)	306	(14.0)	286	325	(12.3)
Power & fuel	826	842	(1.8)	806	2.5	816	811	0.6
Freight	1,013	1,077	(5.9)	1,103	(8.2)	1,059	1,156	(8.3)
Employee	323	301	7.2	316	2.3	320	270	18.4
Other Exp	775	786	(1.4)	728	6.5	751	706	6.4
Opex	3,202	3,308	(3.2)	3,260	(1.8)	3,232	3,268	(1.1)
<b>EBITDA</b>	<b>1,451</b>	<b>960</b>	<b>51.2</b>	<b>1,443</b>	<b>0.5</b>	<b>1,447</b>	<b>910</b>	<b>58.9</b>

Source: Company, HDFC sec Inst Research

**Power sales and EBITDA declined on poor power demand in the northern markets**

**Weak 1H should flatten SRCM's FY20 cement volume growth (slowest in past nine years!). We estimate 12% volume CAGR in FY20-22E on capacity ramp-up and demand recovery**

**We estimate Shree's strong 1H margin (industry leading) to sustain during FY20-22E on increased trade-focus, fuel cost reduction and strong controls**

**We estimate power sales contribution to total EBITDA to remain low at 3-4%**

### Quarterly Performance Analysis – Power sales

	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Sales volume (mn Kwh)	366	400	(8.5)	388	(5.7)	754	850	(11.3)
NSR (Rs/Kwh)	3.81	4.49	(15.1)	4.8	(21.2)	4.34	4.47	(2.9)
Opex (Rs/Kwh)	3.4	3.5	(1.6)	4.1	(16.6)	3.8	3.5	8.0
EBITDA (Rs/Kwh)	0.4	1.0	(62.0)	0.7	(47.2)	0.6	1.0	(42.4)
Power Share of total EBITDA (%)	1.6	6.9		3.1		2.4	6.6	

Source: Company, HDFC sec Inst Research

### Operational Trends and Assumptions – Annual (Cement & power)

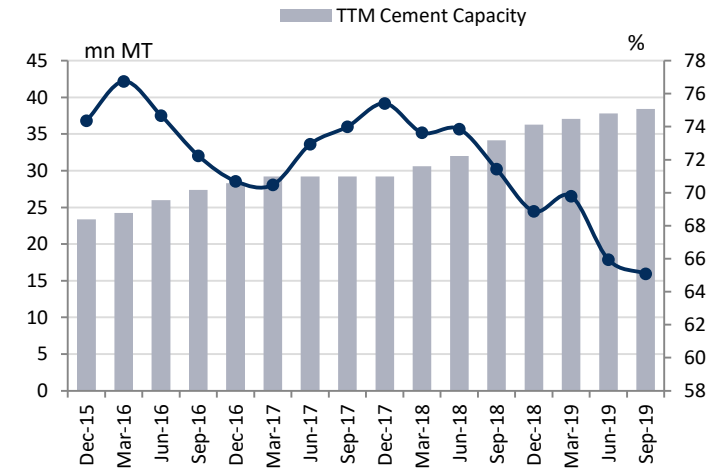
	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Cement business - India</b>						
Installed cement cap (mn MT)	29.2	34.8	37.8	43.3	46.3	49.3
Sales Volume (mn MT)	20.6	22.5	25.9	25.6	28.7	32.0
YoY change (%)	8.4	9.5	14.8	(0.9)	12.0	11.4
Utilisation (%)	70.5	64.8	68.4	59.2	62.0	64.9
<b>(Rs/ MT trend)</b>						
NSR	3,897	4,172	4,223	4,631	4,699	4,735
YoY change (%)	12.5	7.0	1.2	9.7	1.5	0.8
Raw Materials	305	342	334	300	350	361
Power & Fuel	501	693	822	795	795	819
Freight costs	910	1,120	1,116	1,050	1,082	1,126
Employee cost	261	261	262	310	304	305
Other expense	777	682	688	739	762	763
<b>Total Opex</b>	<b>2,754</b>	<b>3,099</b>	<b>3,223</b>	<b>3,194</b>	<b>3,292</b>	<b>3,373</b>
YoY change (%)	6.0	12.5	4.0	(0.9)	3.1	2.5
<b>EBITDA per MT</b>	<b>1,144</b>	<b>1,073</b>	<b>1,000</b>	<b>1,437</b>	<b>1,407</b>	<b>1,361</b>
<b>Power Segment</b>						
Sales volume (mn Kwh)	1,658	1,197	1,678	1,550	1,628	1,628
YoY change (%)	(4.6)	(27.8)	40.2	(7.6)	5.0	-
NSR (Rs/Kwh)	3.4	3.6	4.8	4.2	4.7	4.7
Opex (Rs/Kwh)	2.5	3.5	3.7	3.5	3.5	3.6
<b>EBITDA (Rs/Kwh)</b>	<b>1.0</b>	<b>0.1</b>	<b>1.1</b>	<b>0.7</b>	<b>1.2</b>	<b>1.1</b>
Power Share of total EBITDA (%)	6.3	0.6	6.6	2.7	4.4	4.1

Source: Company, HDFC sec Inst Research

We have plotted SRCM's standalone trailing 12m (TTM) operational performance trends for the past six years

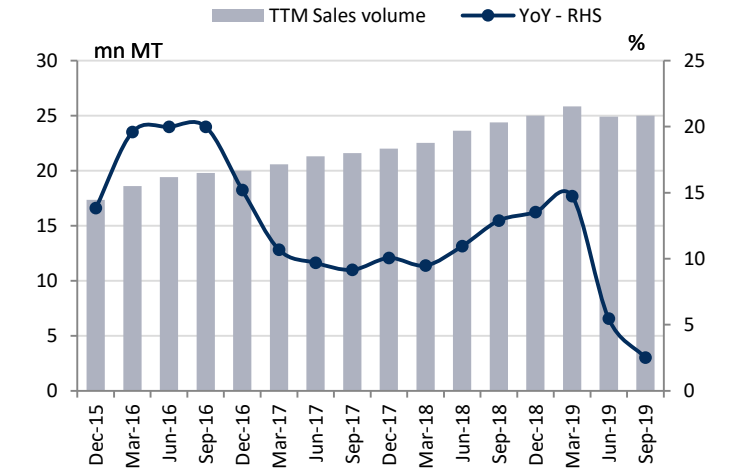
Long term performance trends (standalone, cement division)

While Shree doubled its capacity in past six years, slower vol growth has pulled down utilization



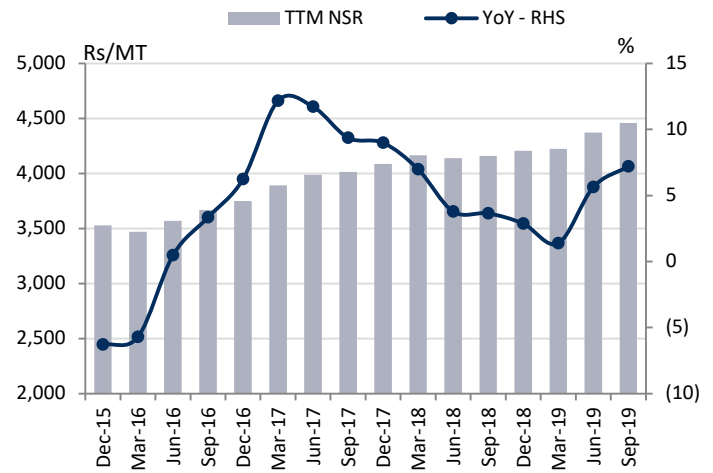
Source: Company, HDFC Sec Inst Research

Weak sales in 1HFY20 has slowed its TTM growth to multi-year low



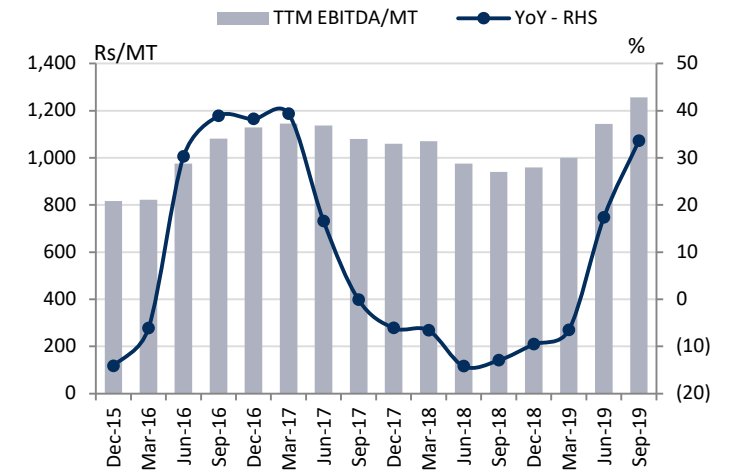
Source: Company, HDFC Sec Inst Research

However, Shree's NSR is firming up strong trade sales focus and better pricing in north markets



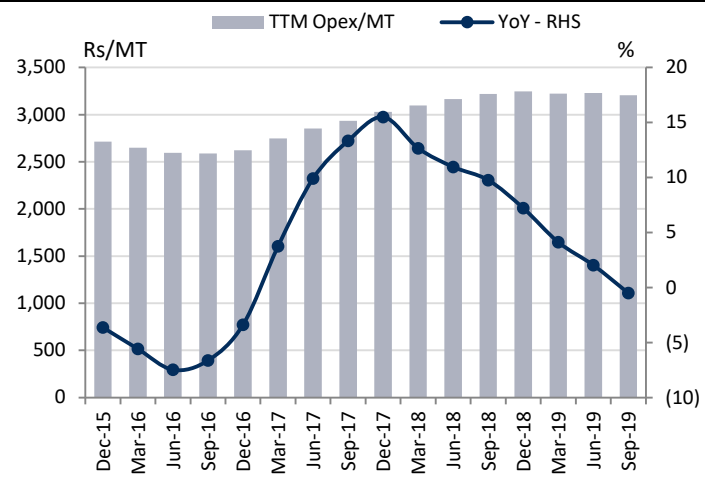
Source: Company, HDFC Sec Inst Research

Robust pricing and strong cost controls both lead to decade high unitary EBITDA



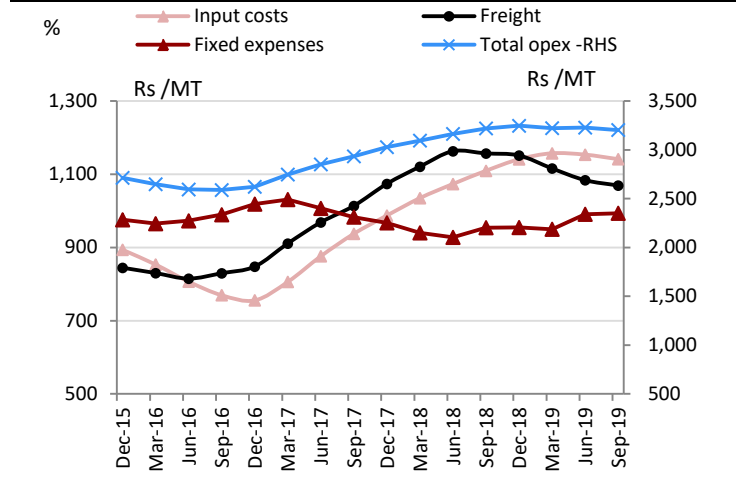
Source: Company, HDFC Sec Inst Research

**Cost control remains one of SRCM's core strengths as the co has steadily moderated its cost inflation**



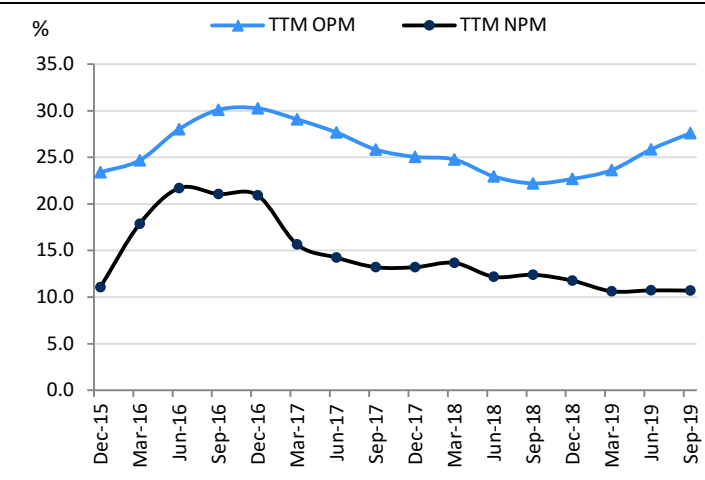
Source: Company, HDFC Sec Inst Research

**After reducing its fixed costs, Shree has lowered its freight cost; Falling fuel costs adds to cost reduction**



Source: Company, HDFC Sec Inst Research

**While its OPM has been strong and rising, lower utilization has drove down PAT margin**



Source: Company, HDFC Sec Inst Research

### Change in Estimates

Rs bn (Standalone)	FY20E Old	FY20E Revised	Change %	FY21E Old	FY21E Revised	Change %
Net Revenues	124.42	125.11	0.6	143.68	142.43	(0.9)
EBITDA	36.42	37.83	3.9	41.96	42.25	0.7
APAT	17.85	17.43	(2.3)	20.43	19.53	(4.4)
AEPS	512.4	500.4	(2.3)	586.4	560.7	(4.4)

Source: HDFC sec Inst Research

### Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA (x)			EV/MT (USD)			Net D:E (x)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
UltraTech Cement	1,179.6	4,295	BUY	5,330	20.2	14.9	12.3	214	185	179	0.7	0.4	0.3	8.9	12.8	13.6
<b>Shree Cement</b>	<b>650.8</b>	<b>18,680</b>	<b>NEU</b>	<b>20,000</b>	<b>23.6</b>	<b>16.9</b>	<b>14.7</b>	<b>241</b>	<b>226</b>	<b>210</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>13.5</b>	<b>16.9</b>	<b>16.4</b>
Ambuja Cements	412.3	208	BUY	230	13.8	12.3	11.2	136	132	122	(0.7)	(0.7)	(0.7)	5.9	6.6	6.5
ACC	291.6	1,553	BUY	1,940	12.3	10.5	9.2	126	122	120	(0.3)	(0.4)	(0.4)	11.0	13.1	13.7
Ramco Cements	177.8	755	BUY	800	18.6	14.1	12.4	198	179	161	0.3	0.4	0.4	12.1	16.7	16.2
Dalmia Bharat	157.5	817	BUY	1,470	9.8	8.0	7.1	111	110	84	0.3	0.3	0.2	2.8	5.9	5.6
JK Cements	87.3	1,130	BUY	1,321	12.9	10.2	9.2	113	93	95	0.8	0.9	0.8	10.5	15.1	15.7
Star Cement	39.6	94	BUY	138	8.6	8.1	6.6	162	130	116	(0.1)	(0.2)	(0.3)	17.9	16.5	17.4
JK Lakshmi	33.9	288	BUY	376	11.1	7.6	7.2	65	64	65	0.8	0.7	0.6	5.3	13.6	14.5
Orient Cement	18.3	89	BUY	150	9.9	6.1	5.7	59	57	59	1.2	0.9	0.9	4.6	16.0	16.9
Deccan Cement	4.7	337	BUY	670	4.1	3.3	3.6	27	31	36	(0.2)	(0.0)	0.1	11.9	19.5	16.2

Source: Company, HDFC sec Inst Research, For ACC and Ambuja, the financial year is CY18/CY19E/CY20E resp

**We increase our FY20E EBITDA estimate by 4% after factoring in strong 1H performance**  
**We broadly maintain FY21E EBITDA estimates**  
**In this report, we also introduce FY22E estimates**

**SRM trades at the highest valuations multiples among all cement companies**

**Despite ascribing premium valuations of 15x FY21 EBITDA for its industry leading growth, superior cost leadership and profitability ratios along with strong capex management, the stock price still offers limited upside**

**Standalone Income Statement**

(Rs Mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenues</b>	<b>98,331</b>	<b>117,221</b>	<b>125,112</b>	<b>142,425</b>	<b>159,138</b>
<b>Growth %</b>	<b>14.4</b>	<b>19.2</b>	<b>6.7</b>	<b>13.8</b>	<b>11.7</b>
Raw Material	7,704	8,642	7,688	10,045	11,529
Power & Fuel	19,797	27,450	25,799	28,512	32,055
Freight Expense	25,249	28,869	26,910	31,038	36,001
Employee cost	5,881	6,778	7,942	8,719	9,764
Other Expenses	15,377	17,787	18,946	21,859	24,403
<b>EBITDA</b>	<b>24,324</b>	<b>27,694</b>	<b>37,826</b>	<b>42,253</b>	<b>45,386</b>
<b>EBITDA Margin (%)</b>	<b>24.7</b>	<b>23.6</b>	<b>30.2</b>	<b>29.7</b>	<b>28.5</b>
<b>EBITDA Growth %</b>	<b>(3.2)</b>	<b>13.9</b>	<b>36.6</b>	<b>11.7</b>	<b>7.4</b>
Depreciation	8,994	13,917	16,977	19,613	20,830
<b>EBIT</b>	<b>15,330</b>	<b>13,777</b>	<b>20,849</b>	<b>22,640</b>	<b>24,556</b>
Other Income (Including EO Items)	4,294	(493)	2,440	2,780	3,171
Interest	1,353	2,470	2,778	2,438	2,438
<b>PBT</b>	<b>18,271</b>	<b>10,814</b>	<b>20,511</b>	<b>22,982</b>	<b>25,289</b>
Tax	4,430	1,304	3,077	3,447	3,793
Minority Int	-	-	-	-	-
<b>RPAT</b>	<b>13,841</b>	<b>9,510</b>	<b>17,434</b>	<b>19,535</b>	<b>21,495</b>
EO (Loss) / Profit (Net Of Tax)	403	(2,947)	-	-	-
<b>APAT</b>	<b>13,438</b>	<b>12,457</b>	<b>17,434</b>	<b>19,535</b>	<b>21,495</b>
<b>APAT Growth (%)</b>	<b>0.4</b>	<b>(7.3)</b>	<b>40.0</b>	<b>12.0</b>	<b>10.0</b>
<b>AEPS</b>	<b>385.7</b>	<b>357.6</b>	<b>500.4</b>	<b>560.7</b>	<b>617.0</b>
<b>AEPS Growth %</b>	<b>0.4</b>	<b>(7.3)</b>	<b>40.0</b>	<b>12.0</b>	<b>10.0</b>

Source: Company, HDFC sec Inst Research

**Standalone Balance Sheet**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital	348	348	348	348	348
Reserves And Surplus	88,620	95,626	110,206	126,684	144,919
<b>Total Equity</b>	<b>88,968</b>	<b>95,974</b>	<b>110,555</b>	<b>127,033</b>	<b>145,267</b>
<b>Minority Interest</b>	-	-	-	-	-
Long-term Debt	22,171	23,300	23,300	23,300	23,300
Short-term Debt	11,859	4,680	4,680	4,680	4,680
<b>Total Debt</b>	<b>34,030</b>	<b>27,980</b>	<b>27,980</b>	<b>27,980</b>	<b>27,980</b>
Deferred Tax Liability	(5,131)	(6,126)	(6,126)	(6,126)	(6,126)
Long-term Liab+ Provisions	10,697	13,002	14,944	16,113	17,383
<b>TOTAL SOURCES OF FUNDS</b>	<b>128,565</b>	<b>130,829</b>	<b>147,352</b>	<b>164,999</b>	<b>184,503</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	35,892	44,757	50,780	46,167	50,337
Capital WIP	14,272	11,211	6,211	8,211	8,211
Goodwill	-	-	-	-	-
Other Non-current Assets	7,890	5,810	6,391	6,812	7,265
Total Non-current Investments	-	21,583	21,583	21,583	21,583
<b>Total Non-current Assets</b>	<b>58,053</b>	<b>83,361</b>	<b>84,965</b>	<b>82,774</b>	<b>87,397</b>
Inventories	15,690	15,891	18,412	21,786	24,396
Debtors	4,593	7,324	7,030	8,026	8,988
Cash and Cash Equivalents	55,552	25,934	40,164	56,248	67,273
Other Current Assets (& Loans/adv)	12,400	13,297	14,627	15,419	16,258
<b>Total Current Assets</b>	<b>88,235</b>	<b>62,445</b>	<b>80,234</b>	<b>101,479</b>	<b>116,914</b>
Creditors	7,273	4,508	5,691	6,497	6,420
Other Current Liabilities & Provns	10,450	10,470	12,156	12,757	13,388
<b>Total Current Liabilities</b>	<b>17,723</b>	<b>14,978</b>	<b>17,847</b>	<b>19,254</b>	<b>19,807</b>
<b>Net Current Assets</b>	<b>70,512</b>	<b>47,468</b>	<b>62,387</b>	<b>82,225</b>	<b>97,107</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>128,565</b>	<b>130,829</b>	<b>147,352</b>	<b>164,999</b>	<b>184,503</b>

Source: Company, HDFC sec Inst Research



**Standalone Cash Flow**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	18,272	12,596	20,511	22,982	25,289
Non-operating & EO Items	(3,632)	(784)	(2,440)	(2,780)	(3,171)
Interest Expenses	1,353	2,470	2,778	2,438	2,438
Depreciation	8,994	13,917	16,977	19,613	20,830
Working Capital Change	(1,131)	(5,302)	673	(3,007)	(3,039)
Tax Paid	(5,068)	(2,300)	(3,077)	(3,447)	(3,793)
<b>OPERATING CASH FLOW ( a )</b>	<b>18,788</b>	<b>20,597</b>	<b>35,422</b>	<b>35,798</b>	<b>38,553</b>
Capex	(25,263)	(18,853)	(18,000)	(17,000)	(25,000)
Free Cash Flow (FCF)	(6,475)	1,744	17,422	18,798	13,553
Investments	(18,365)	8,234	-	-	-
Non-operating Income	7,680	2,493	2,440	2,780	3,171
Others					
<b>INVESTING CASH FLOW ( b )</b>	<b>(35,947)</b>	<b>(8,126)</b>	<b>(15,560)</b>	<b>(14,220)</b>	<b>(21,829)</b>
Debt Issuance/(Repaid)	20,353	(7,591)	-	-	-
Interest Expenses	(1,248)	(2,753)	(2,778)	(2,438)	(2,438)
FCFE	12,631	(8,600)	14,644	16,360	11,115
Share Capital Issuance	-	-	-	-	-
Dividend	(1,843)	(2,308)	(2,853)	(3,057)	(3,261)
<b>FINANCING CASH FLOW ( c )</b>	<b>17,262</b>	<b>(12,653)</b>	<b>(5,631)</b>	<b>(5,495)</b>	<b>(5,699)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>102</b>	<b>(182)</b>	<b>14,231</b>	<b>16,083</b>	<b>11,025</b>
EO Items, Others					
<b>Closing Cash &amp; Equivalents</b>	<b>41,638</b>	<b>55,370</b>	<b>40,164</b>	<b>56,248</b>	<b>67,273</b>

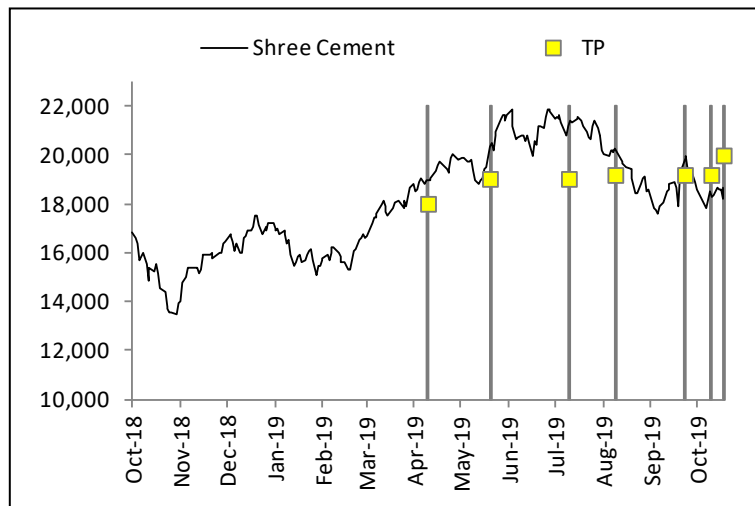
Source: Company, HDFC sec Inst Research

**Standalone Key Ratios & Valuations**

	FY18	FY19	FY20E	FY21E	FY22E
<b>PROFITABILITY %</b>					
EBITDA Margin	24.7	23.6	30.2	29.7	28.5
EBIT Margin	15.6	11.8	16.7	15.9	15.4
APAT Margin	13.7	10.6	13.9	13.7	13.5
RoE	16.2	13.5	16.9	16.4	15.8
RoIC	18.4	13.6	16.7	17.8	18.5
RoCE	13.1	11.0	14.2	13.8	13.5
<b>EFFICIENCY</b>					
Tax Rate %	24.2	12.1	15.0	15.0	15.0
Fixed Asset Turnover (x)	1.8	1.5	1.3	1.2	1.1
Inventory (days)	58	49	54	56	56
Debtors (days)	17	23	21	21	21
Other Current Assets (days)	46	41	43	40	37
Payables (days)	27	14	17	17	15
Other Current Liab & Provns (days)	39	33	35	33	31
Cash Conversion Cycle (days)	56	67	65	67	68
Net Debt/EBITDA (x)	(0.9)	0.1	(0.3)	(0.7)	(0.9)
Net D/E (x)	(0.2)	0.0	(0.1)	(0.2)	(0.3)
Interest Coverage (x)	11.3	5.6	7.5	9.3	10.1
<b>PER SHARE DATA (Rs)</b>					
EPS	385.7	357.6	500.4	560.7	617.0
CEPS	643.9	757.1	987.8	1,123.7	1,214.9
Dividend	50.0	60.0	70.0	75.0	80.0
Book Value	2,553.8	2,754.9	3,173.5	3,646.5	4,169.9
<b>VALUATION</b>					
P/E (x)	48.4	52.2	37.3	33.3	30.3
P/Cash EPS (x)	28.5	27.8	18.9	16.6	15.4
P/BV (x)	7.3	6.8	5.9	5.1	4.5
EV/EBITDA (x)	25.9	23.6	16.9	14.7	13.5
EV/MT(USD)	284	249	233	217	3.8
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.4
OCF/EV (%)	3.0	3.2	5.5	5.8	6.3
FCFF/EV (%)	(1.0)	0.3	2.7	3.0	2.2
FCFE/M Cap (%)	(1.0)	0.3	2.7	2.9	2.1

Source: Company, HDFC sec Inst Research,

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
10-Apr-19	18,953	NEU	18,020
20-May-19	20,346	NEU	19,040
10-Jul-19	21,206	NEU	19,040
10-Aug-19	20,270	NEU	19,200
22-Sep-19	19,250	NEU	19,200
10-Oct-19	18,486	NEU	19,200
22-Oct-19	18,680	NEU	20,000

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- 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

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