

Shree Cements Ltd.

11 May 2020

Reuters: SHCM.NS; Bloomberg: SRCM:IN

Highest EBITDA/mt in over a decade

Shree Cements Ltd (SRCM) has reported extremely good set of numbers for 4QFY20, reporting highest EBITDA/mt in over a decade at Rs1,562/mt. Better than expected pricing and volume resulted in this outperformance. EBITDA at Rs10.8bn was 9% above consensus and 20% above our estimate. Despite loss of production days in March'20, volume decline was restricted to 5.4% only at 6.9mn mt (including clinker). Pricing growth was extremely good, improving by 2.1% QoQ (6.8% YoY) against our expectation of a 3% decline. Higher exposure to Northern region resulted in better-than-expected pricing growth. Total operating cost at Rs3,097/mt was marginally lower than our estimate. Raw material and power & fuel costs were down substantially by 23.2% YoY and 13.9% YoY, respectively. Total operating cost/mt was also at multi year lows. Lower tax rate and higher other income resulted in massive 83% YoY growth in PAT. We have marginally tweaked our estimates to factor in slightly better cost structure in FY21 and FY22, coupled with slightly higher volume. As a result, our FY21 and FY22 EBITDA estimates have increased by 6% each. Our revised target price now stands at Rs22,438 against Rs21,177 earlier. We maintain our Buy rating on the stock. We believe that recovery in volume and return to normalcy of economic activity will take time even after lockdown is lifted completely, during which time weak volume is likely to impact pricing negatively. Given the strong balance sheet, low cost structure and high concentration of volume in North, we expect SRCM to do better than peers in the current uncertain times. SRCM is one of our top picks in the cement space.

Maintaining cost leadership: SRCM reported extremely low operating cost/mt at Rs3,097, down 7.2% YoY and 3.3% QoQ. The decline in operating cost was driven by low raw material and power & fuel costs. Barring employee costs, which increased by 4.8% YoY, all other cost items reported YoY decline. SRCM once again proved its cost leadership, resulting in much better EBITDA/mt.

Lower tax rate results in better PAT: SRCM reported PAT of Rs5.9bn, which is up 83% YoY. Lower tax rate of only 11.9% and higher other income (up 117% YoY) resulted in better PAT growth. Net profit margin at 18.3% is the highest in four years.

SRCM is our top pick in cement space: Given the slowdown in the economy and expected weak demand, we advise sticking to companies with superior cost structure and lean balance sheet. SRCM not only ticks both the boxes, it is a leader in cost efficiency and low leverage despite adding massive capacity in the past. We maintain our positive stance on the stock despite premium valuation.

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	32,849	28,483	32,175	-2.0	13.0
Operating Expenses	24,370	19,990	21,387	-12.2	7.0
EBITDA	8,478	8,493	10,789	27.3	27.0
EBITDA Margin (%)	25.8	29.8	33.5	772bps	371bps
Other Income	451	649	978	116.9	50.6
Interest Costs	697	741	726	4.2	-2.1
Depreciation	4,206	4,322	4,362	3.7	0.9
PBT	4,026	4,079	6,678	65.9	63.7
Tax	817	980	797	-2.5	-18.7
Reported PAT	3,209	3,100	5,882	83.3	89.8
Exceptional Items	-	-	-	-	-
Adjusted PAT	3,209	3,100	5,882	83.3	89.8
NPM (%)	9.8	10.9	18.3	851bps	740bps
EPS (Rs.)	88.9	85.9	163.0	83.3	89.8

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Cement

CMP: Rs18,740

Target Price: Rs22,438

Upside: 20%

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Key Data

Current Shares O/S (man)	36.1
Mkt Cap (Rsbn/US\$bn)	675.9/8.9
52 Wk H / L (Rs)	25,313/15,410
Daily Vol. (3M NSE Avg.)	67,372

Price Performance (%)

	1 M	6 M	1 Yr
Shree Cements	10.6	(5.2)	(1.2)
Nifty Index	1.5	(22.3)	(18.0)

Source: Bloomberg

Exhibit 1: Detailed quarterly financials

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	32,849	28,483	32,175	-2.0%	13.0%
Expenditure					
Chg in stock	135	697	(181)	-234.1%	-126.0%
RM consumption	2,366	1,806	1,997	-15.6%	10.6%
Purchase of traded goods	-	-	-	0.0%	0.0%
Employee cost	1,705	1,856	1,691	-0.8%	-8.9%
Freight, packing etc	7,747	6,438	7,144	-7.8%	11.0%
Power and fuel	7,633	4,793	6,217	-18.6%	29.7%
Other exp	4,786	4,400	4,519	-5.6%	2.7%
Operating Expenses	24,370	19,990	21,387	-12.2%	7.0%
EBITDA	8,478	8,493	10,789	27.3%	27.0%
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Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational data

Operational Data	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Volume (mn mt)	7.30	6.25	6.91	-5.4%	10.6%
Cement Realisation (Rs/mt)	4,500	4,561	4,659	3.5%	2.1%
Operating Costs (Rs/mt)	3,338	3,201	3,097	-7.2%	-3.3%
EBITDA (Rs/mt)	1,161	1,360	1,562	34.5%	14.9%

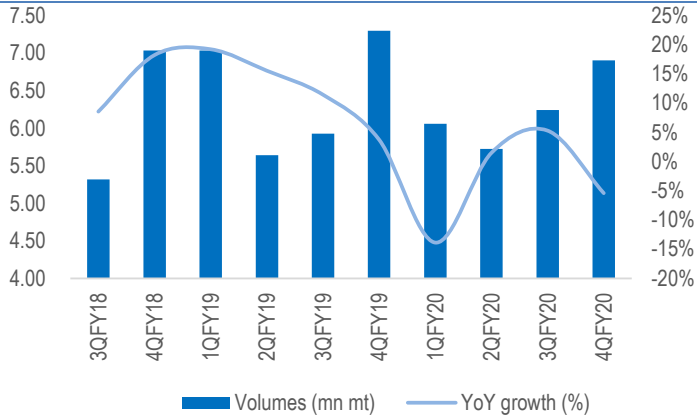
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs

Costs/mt (Rs)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	YoY (%)	QoQ (%)
RM consumption	326	342	298	346	343	306	263	401	263	-23.2%	-34.4%
Employee cost	212	243	301	281	234	316	323	297	245	4.8%	-17.6%
Freight cost	1,091	1,211	1,039	1,098	1,061	1,103	1,013	1,031	1,034	-2.5%	0.3%
Power and fuel	860	1,007	1,089	1,111	1,046	1,070	1,045	768	900	-13.9%	17.3%
Other expenses	612	743	936	655	656	728	775	705	654	-0.2%	-7.1%
Operating costs/mt	3,101	3,546	3,665	3,492	3,338	3,522	3,419	3,201	3,097	-7.2%	-3.3%
EBITDA/mt	895	818	922	1,197	1,161	1,489	1,474	1,360	1,562	34.5%	14.9%

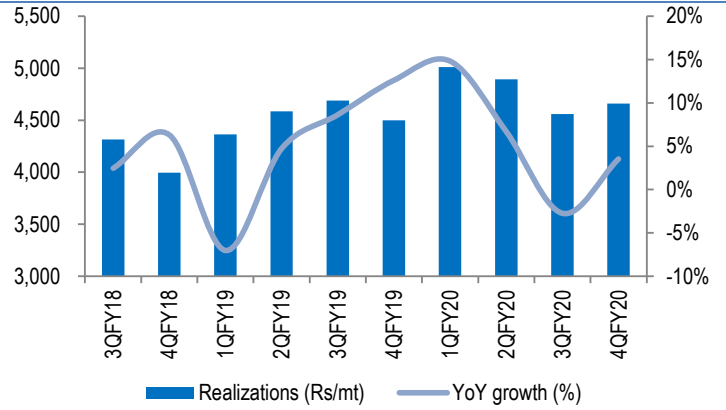
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Volumes down by 5.4% YoY



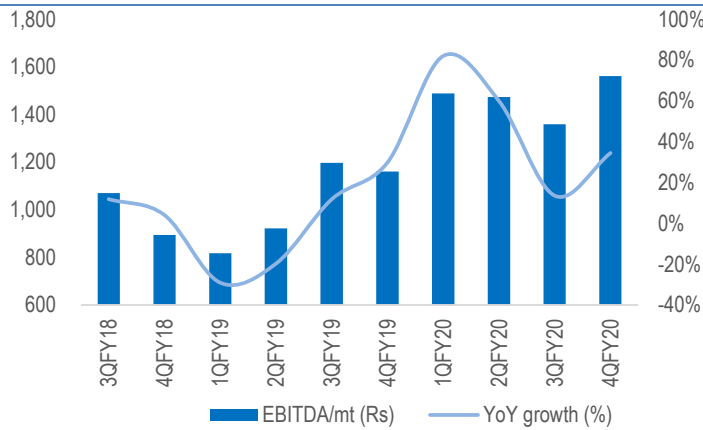
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Realisations steady with 2.1% QoQ growth



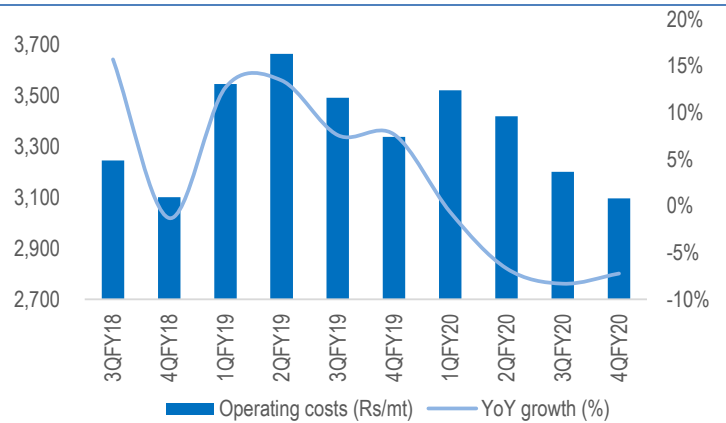
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Highest EBITDA/mt in 10 years



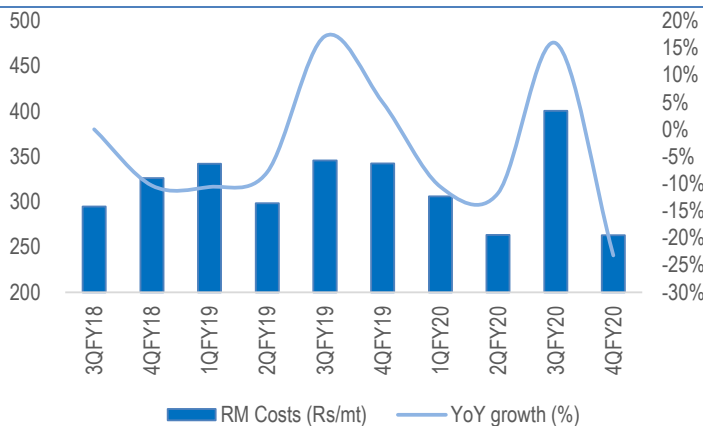
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Operating costs decline sharply



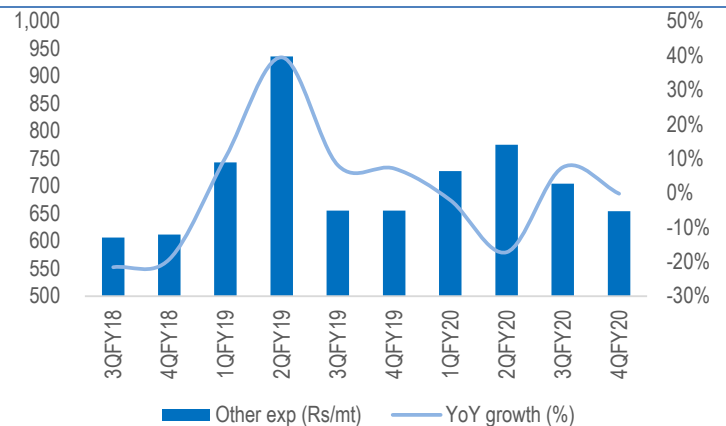
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: RM costs down sharply on YoY basis

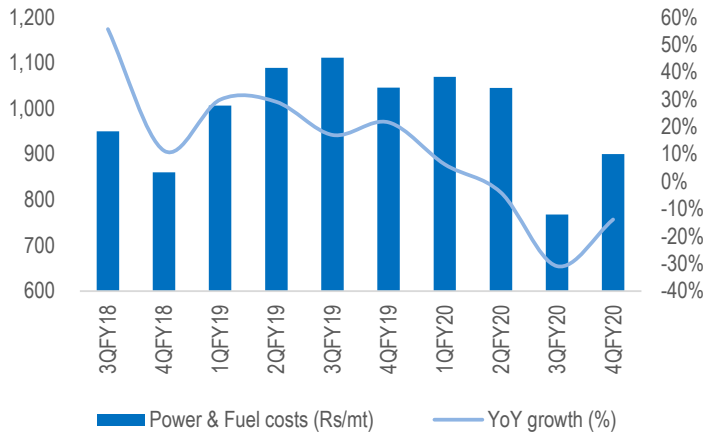


Source: Company, Nirmal Bang Institutional Equities Research

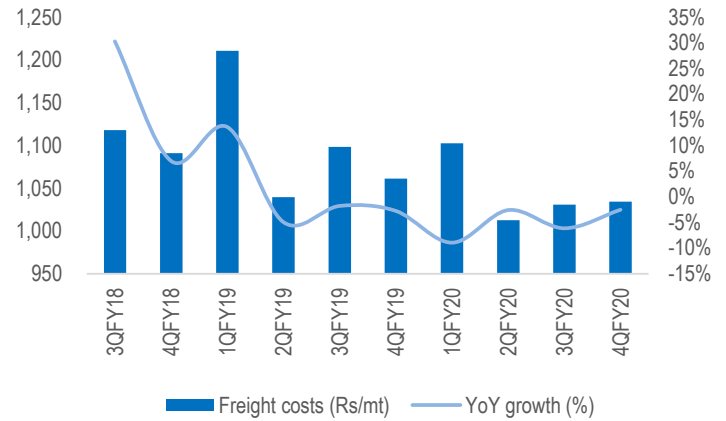
Exhibit 9: Other expenses flat YoY



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Power & Fuel costs down 13.9% YoY


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Freight costs down 2.5% YoY


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: SRCM - Key changes to our assumptions

Particulars (Rs)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Volumes (mn mt)	23.6	23.9	2%	26.6	27.1	2%
Realisation	4,522	4,393	-3%	4,771	4,656	-2%
Op exp / mt	3,545	3,339	-6%	3,648	3,435	-6%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: SRCM: Key changes to our estimates

Particulars (Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	1,14,046	1,11,899	-2%	1,34,778	1,32,966	-1%
EBITDA	30,466	31,959	5%	37,611	40,032	6%
PAT	9,826	11,317	15%	13,640	15,701	15%
EPS	272	314	15%	378	435	15%
TP (Rs)				21,177	22,438	6%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Valuation summary

Particulars	(Rs)
Sep 21 EBITDA	35,996
Target multiple (x)	21.0
Enterprise value	7,55,906
Less: Net debt	(53,706)
Equity value	8,09,612
No of shares (mn)	36.1
Value per share (Rs)	22,438
CMP (Rs)	18,740
Upside / (downside) %	20%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 15: Income statement

YE March, Rsmn	FY18	FY19	FY20	FY21E	FY22E
Net Sales	98,331	1,17,220	1,19,203	1,11,899	1,32,966
Raw Material Consumed	7,141	8,263	7,682	7,154	8,569
Power & Fuel Cost	19,797	27,450	23,476	21,861	25,938
Employee Cost	5,881	6,778	7,310	7,674	8,056
Freight and Forwarding	25,249	28,641	26,061	24,518	29,091
Other expenses	15,536	19,560	18,862	18,733	21,280
Total Expenditure	73,603	90,692	83,392	79,940	92,934
Operating profit	24,728	26,528	35,811	31,959	40,032
Operating profit margin (%)	25%	23%	30%	29%	30%
Other Income	3,891	2,454	2,716	2,287	2,329
Interest	1,353	2,470	1,909	1,472	1,067
Depreciation	8,994	13,917	16,994	17,480	20,076
PBT	18,272	12,596	19,624	15,294	21,217
Exceptional items	-	(1,781)	-	-	-
PBT post exc items	18,272	10,814	19,624	15,294	21,217
Tax	4,430	1,304	3,900	3,976	5,516
Tax rate (%)	24.2%	12.1%	19.9%	26.0%	26.0%
PAT	13,842	9,511	15,724	11,317	15,701
EPS (Rs)	397.3	273.0	435.8	313.7	435.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

YE March	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
Sales	14.4	19.2	1.7	(6.1)	18.8
Operating Profits	(1.7)	7.3	35.0	(10.8)	25.3
Net Profits	3.1	(31.3)	65.3	(28.0)	38.7
Leverage (x)					
Net Debt: Equity	0.11	0.25	(0.10)	(0.16)	(0.27)
Interest Cover(x)	18.28	10.74	18.76	21.71	37.51
Total Debt/EBITDA	1.37	1.05	0.63	0.57	0.34
Profitability (%)					
OPM	25.1	22.6	30.0	28.6	30.1
NPM	14.1	8.1	13.2	10.1	11.8
ROE	16.7	10.3	14.0	8.5	11.0
ROCE	25.5	20.9	25.1	20.3	24.6
Turnover ratios (x)					
GFAT	1.8	1.5	1.2	1.0	1.0
Debtors Turnover(x)	25	20	15	15	18
WC days	42	44	50	50	43
Valuation (x)					
P/E	44.9	60.7	40.3	59.7	43.1
P/B	7.0	6.0	4.9	4.9	4.5
EV/EBIDTA	23.9	20.9	17.8	20.1	15.8
EV/mt (\$)	262.9	209.1	194.6	182.9	180.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Balance Sheet

YE March, Rsmn	FY18	FY19	FY20	FY21E	FY22E
Equity Capital	348	348	361	361	361
Reserves and Surplus	88,620	95,626	1,29,003	1,36,925	1,48,805
Networth	88,968	95,974	1,29,364	1,37,286	1,49,165
Total Debt	33,940	27,770	22,567	18,067	13,567
Deferred tax liability	-	-	-	-	-
Other non-current liabilities	10,697	13,002	14,062	13,587	14,660
Trade Payables	7,273	4,508	5,026	4,818	5,602
Other Current Liabilities	10,540	10,679	10,836	11,212	12,398
Total Current Liabilities	29,671	19,867	22,042	21,710	23,179
Total liabilities	1,51,418	1,51,933	1,81,855	1,84,969	1,95,392
Net Block	35,892	44,757	45,351	49,490	42,411
CWIP	14,272	11,211	7,500	3,000	2,500
Investment	31,233	44,111	43,958	44,158	44,358
Other non-current assets	13,021	11,936	12,965	12,477	12,259
Inventories	15,690	15,891	14,279	14,912	16,510
Sundry Debtors	4,593	7,324	8,285	6,745	8,014
Cash and Bank	1,209	3,078	4,414	8,269	19,415
Other current assets	35,510	13,625	45,105	45,919	49,924
Total Current Assets	57,002	39,917	72,082	75,845	93,864
Total Assets	1,51,418	1,51,933	1,81,855	1,84,969	1,95,392

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Cash flow statement

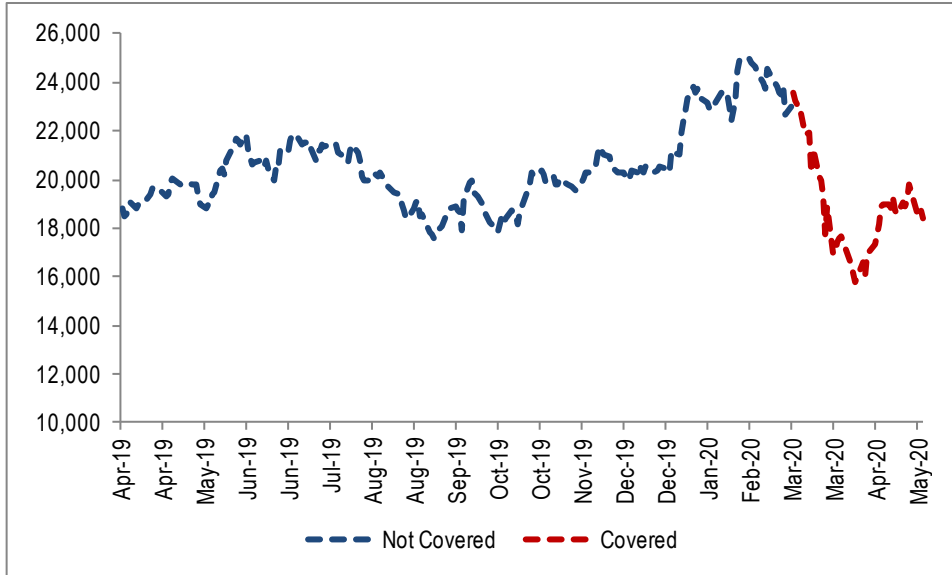
YE March, Rsmn	FY18	FY19	FY20	FY21E	FY22E
Profit before tax	18,272	10,814	19,624	15,294	21,217
Add: Depreciation	8,994	13,917	16,994	17,480	20,076
Add: Interest Exp	1,353	2,470	1,909	1,472	1,067
CFO b4 WC	28,618	27,201	38,528	34,246	42,361
Net change in Working capital	(1,853)	(6,455)	382	1,803	(3,284)
Tax paid	(4,430)	(1,304)	(3,900)	(3,976)	(5,516)
Net cash from operations	22,336	19,442	35,009	32,073	33,560
Capital expenditure	(26,062)	(19,721)	(13,877)	(17,119)	(12,498)
Sale of investments	(13,917)	9,905	(30,382)	(1,743)	(1,820)
Net cash from investing	(41,034)	(7,706)	(43,923)	(18,318)	(14,037)
Issue of shares	-	-	23,990	-	-
Increase in debt	21,015	(6,170)	(5,203)	(4,500)	(4,500)
Dividends paid incl. tax	(1,843)	(2,308)	(2,972)	(3,396)	(3,821)
Interest paid	(1,353)	(2,470)	(1,909)	(1,472)	(1,067)
Net cash from financing	18,797	(9,867)	10,251	(9,900)	(8,378)
Net Cash	99	1,869	1,336	3,855	11,145
Opening Cash	1,110	1,209	3,078	4,414	8,269
Closing Cash	1,209	3,078	4,414	8,269	19,415

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 March 2020	BUY	22,671	29,470
11 May 2020	BUY	18,740	22,438

Rating track graph



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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