

Shree Cement

Margin cools off as volumes fall sharply

Shree Cement's (SRCM) standalone revenue/EBITDA fell 23/22% YoY to Rs 23.26/7.01bn, and APAT grew 2% YoY to Rs 3.71bn. It reported lower-than-estimated EBITDA in 1QFY21, on slower NSR gain QoQ. Unitary EBITDA cooled off 9% QoQ (-1% YoY) to Rs 1,421/MT. The COVID impact also led to an EBITDA loss at the UAE subsidiary. Despite the volume decline in FY21E, we expect SRCM's standalone margin to expand on stable realisation and lower input costs. We maintain our REDUCE rating with an unchanged target price of Rs 20,900.

- 1QFY21 margin cools off QoQ/YoY:** Sales volume fell 19/29% YoY/QoQ on sales loss mainly in April, while it picked up in May/June. Reported NSR rose 1% QoQ (down 1% YoY). However, adjusted for higher incentive realised in 4QFY20, cement NSR rose 3% QoQ. Unitary operating expense inflated 6% QoQ on higher freight costs (increased road-based sales and an increase in sales in the eastern region) and negative operating leverage. Input cost cooled off 1% on lower fuel cost. These moderated YoY operating expense decline at 1%, and unitary EBITDA fell 2% YoY (also -9% QoQ) to Rs 1,421/MT. While EBITDA fell 22%, higher treasury income (+143%) and lower depreciation (-33%, accelerated method) drove up APAT by 2% YoY. The UAE subsidiary is also hit hard in 1Q as revenue fell 42% YoY to Rs 1.54bn, leading to an EBITDA loss of Rs 127mn vs +Rs 453 mn YoY.
- Outlook:** We expect SRCM's volume to decline 12% in FY21E, followed by 15% rebound in FY22E. Despite lower sales, we expect unitary EBITDA to expand during FY21E, on stable realisation and lower pet coke/coal prices. We maintain our estimates and our REDUCE rating on the stock. Our target price of Rs 20,900/share is SOTP-based. We value SRCM's standalone cement/power businesses at 16.5/5x Jun'22E respectively and its UAE subsidiary at 1x BV.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	4.9	6.1	(18.6)	6.9	(28.6)	25.9	24.9	21.9	25.3	29.0
NSR (Rs/T)	4,644	4,703	(1.3)	4,600	0.9	4,223	4,615	4,712	4,752	4,858
Opex (Rs/T)	3,223	3,260	(1.1)	3,038	6.1	3,223	3,157	3,183	3,199	3,256
EBITDA(Rs/T)	1,421	1,443	(1.6)	1,562	(9.1)	1,000	1,458	1,529	1,553	1,602
Net Sales	23,258	30,364	(23.4)	32,175	(27.7)	117,221	119,040	107,118	123,378	144,490
EBITDA	7,006	9,022	(22.3)	10,789	(35.1)	27,694	36,745	33,835	39,484	46,751
APAT	3,708	3,630	2.1	5,882	(37.0)	12,457	15,702	12,262	14,436	19,302
AEPS (Rs)	102.8	104.2	(1.4)	163.0	(37.0)	357.6	435.2	339.9	400.1	535.0
EV/EBITDA (x)						29.2	20.9	22.6	19.3	16.3
EV/MT (Rs bn)						19.60	17.78	17.33	15.90	15.95
P/E (x)						64.8	51.4	65.9	56.0	41.9
RoE (%)						13.5	13.9	9.2	10.1	12.4

Source: Company, HSIE Research

REDUCE

CMP (as on 10 Aug 2020) Rs 22,396

Target Price Rs 20,900

NIFTY 11,270

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 20,900	Rs 20,900
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	SRCMIN
No. of Shares (mn)	36
MCap (Rs bn) / (\$ mn)	808/10,786
6m avg traded value (Rs mn)	1,376
52 Week high / low	Rs 25,313/15,410

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.6	(10.1)	10.7
Relative (%)	(1.1)	(3.3)	9.1

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	62.55	62.55
FIs & Local MFs	11.22	11.65
FPIs	11.90	11.55
Public & Others	14.33	14.25
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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