

Company update

Cement

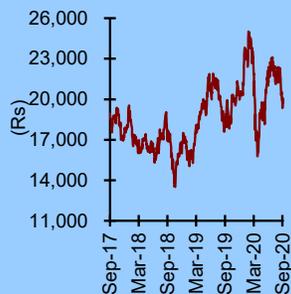
Target price: Rs25,800

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	62.6	62.6	62.6
Institutional investors	23.0	23.1	23.1
MFs and other	7.4	8.3	8.7
FIS/Insurance	1.0	1.3	1.2
FII	14.6	13.5	13.2
Others	14.4	14.3	14.3

Source: NSE

Price chart



INDIA

Shree Cement

BUY

Maintained
Rs20,095

Higher volumes to offset lower prices

Shree Cement (SRCM) is likely to sustain its consistent track record of market share gains coupled with industry-leading margins, justifying its premium valuation. Its volume decline over the past two quarters has been lower vs industry average, while sustaining high profitability. With likely demand recovery post monsoons, SRCM may continue to gain market share backed by non-trade volume push in North, strong demand in East and higher YoY utilisation in South. This may offset the impact of the recent seasonal price fall and costs increases on overall EBITDA. Risk-reward is favorable post the recent stock price correction, in our view. We maintain our FY21E-FY22E EBITDA (~15% ahead of consensus) with unchanged target price at Rs25,800/share (17x FY22E EV/E). Maintain BUY.

- Higher volumes to offset lower prices:** SRCM's volume decline was lower at 5% YoY in Q4FY20 and 19% YoY in Q1FY21 vs industry average decline of ~10% and ~34%, respectively, also aided by favourable market mix. With likely demand recovery post monsoons, SRCM (with lower utilisation vs. peers) may continue to gain market share backed by non-trade volume push in North, strong demand in East and higher YoY utilisation in South. This may offset the impact of recent seasonal price correction and cost increases on overall EBITDA. We model standalone volume CAGR at 11% over FY20-FY22E.
- Prices in North could recover latest by Jan'21:** Fight for market share in North resulting from ramp-up of few newer capacities has put North prices especially non-trade prices under pressure for the past couple of months. With improving demand (also aided by low base of Q3FY20 due to construction ban in NCR) and higher utilisation (>80%), North prices should recover latest by Jan'21, in our view. Prices in East may not correct further substantially, given the already weak prices over the past 2-3 years and cost escalations (some price increases recently announced).
- SRCM can double the capacity organically over next 6-7 years:** SRCM has more than doubled its domestic capacity to ~40mnte in the past six years and has grown volumes at 10% CAGR vs industry average of ~5.5%. 3mnte (assuming 100% PSC) grinding unit (GU) in Odisha and 2mnte GU in Pune are likely to commission by Q3FY21E. The company may add line 3 clinkerisation in East region followed by a greenfield expansion in North region over the next 3 years, in our view. SRCM's net cash would further increase to Rs79bn by FY22 from the current Rs37bn even after factoring-in capex of Rs28bn for organic expansions over FY20E-FY22E.
- SRCM to sustain industry-leading profitability as well,** given it enjoys lowest cost structure in the industry. Profitability can improve further by increasing the share of premium products, fixed costs rationalisation, optimising logistic costs (via additional GUs and increasing share of rail mix) and better operating leverage. During FY18-19, SRCM had increased the share of trade sales significantly and cushioned margin fall.

Market Cap	Rs724bn/US\$9.9bn	Year to March*	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	SHCM.BO/SRCM IN	Revenue (Rsmn)	125,547	128,684	129,586	157,728
Shares Outstanding (mn)	36.1	EBITDA (Rs mn)	28,973	37,591	38,877	50,071
52-week Range (Rs)	25013/15784	Net Income (Rs mn)	11,541	15,359	20,612	27,931
Free Float (%)	37.4	% Chg YoY	(13.4)	33.1	34.2	35.5
FII (%)	13.2	P/E (x)	56.3	47.2	35.2	26.0
Daily Volume (US\$'000)	19,484	CEPS (Rs)	754	927	957	1,248
Absolute Return 3m (%)	(9.3)	EV/E (x)	22.4	18.3	17.2	12.9
Absolute Return 12m (%)	7.3	Dividend Yield	0.3	0.5	0.3	0.5
Sensex Return 3m (%)	18.2	RoCE (%)	12.8	12.8	13.9	16.4
Sensex Return 12m (%)	5.6	RoE (%)	12.4	13.4	14.6	17.2

*consolidated

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Table 1: Historical quarterly analysis on per-tonne basis (standalone)

<i>(Rs/te)</i>					
Per tonne (including power)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Blended Realisation	5,013	4,896	4,561	4,659	4,717
Raw materials consumed	306	264	401	263	327
Power & fuel	1,070	1,046	768	900	777
Freight cost	1,103	1,013	1,031	1,034	1,136
Staff cost	316	323	297	245	351
Other expenses	728	775	705	654	705
Total costs/te	3,524	3,421	3,201	3,097	3,296
EBITDA/te	1,489	1,475	1,360	1,562	1,421

Source: Company data, I-Sec research

Table 2: Per-tonne analysis (standalone)

<i>(Rs/te)</i>					
	FY18	FY19	FY20	FY21E	FY22E
Blended realisation / te	4,364	4,533	4,776	4,636	4,801
% growth YoY	4.8	3.9	5.4	(2.9)	3.6
Raw material consumed	342	334	308	321	326
Power & Fuel	762	885	826	789	758
Freight	1,120	1,118	1,046	1,088	1,110
Others	1,066	1,135	1,122	966	1,009
Total operating expenses	3,289	3,473	3,302	3,164	3,203
% growth YoY	11.5	5.6	(4.9)	(4.2)	1.2
EBITDA/te – Cement and power	1,074	1,060	1,474	1,473	1,598
% growth YoY	(11.5)	(1.4)	39.1	(0.1)	8.5

Source: Company data, I-Sec research

Table 3: Performance trend and key assumptions (standalone)

<i>('000 te)</i>					
	FY18	FY19	FY20	FY21E	FY22E
Capacity ('000 te)	34,900	37,900	40,400	45,400	49,900
Production ('000 te)	22,202	25,063	24,115	26,044	30,732
Capacity utilisation (%)	75%	71%	59%	57%	64%
Sales ('000 te)	22,534	25,861	24,924	26,044	30,732
Growth (%)	9.5%	14.8%	-3.6%	4.5%	18%
Realisation (Rs/te)	4,364	4,533	4,776	4,636	4,801
Growth (%)	4.8	3.9	5.4	(2.9)	3.6

Source: I-Sec research

Table 4: Our FY21-FY22 EBITDA estimates are ~15% ahead of consensus

	I-Sec		Consensus		% chg	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	1,29,586	1,57,728	1,21,105	1,45,175	7.0	8.6
EBITDA	38,877	50,071	34,083	42,662	14.1	17.4
PAT	20,612	27,931	14,090	19,193	46.3	45.5

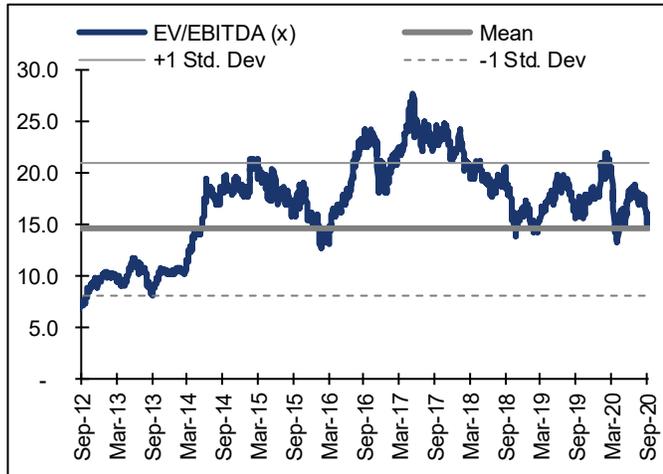
Source: Bloomberg, I-Sec research

Table 5: Valuations based on 17x FY22E EV/E

<i>(Rs.mn)</i>	
Target EV/ EBITDA multiple (x)	17
Target EV (Rs mn)	851,199
Net debt / (cash) (Rs mn)	(79,646)
Target value (Rs mn)	930,844
No. of shares (mn)	36
Target price per share Rs)	25,800

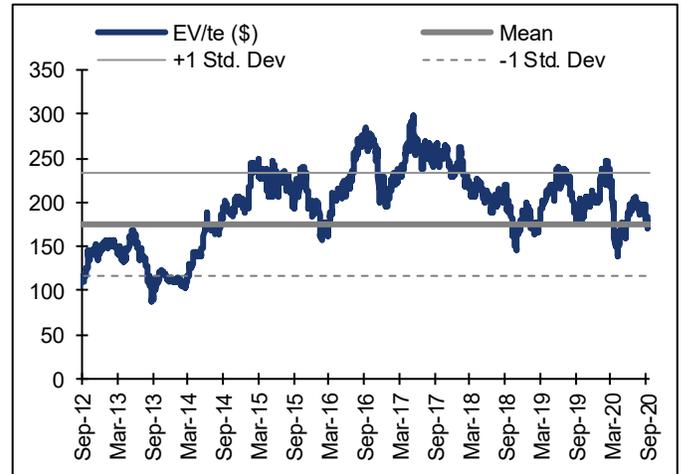
Source: I-Sec research

Chart 1: Rolling EV/EBITDA



Source: I-Sec research

Chart 2: Rolling EV/te



Financial summary (standalone)

Table 6: Profit and loss statement

(Rs mn)	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	1,17,220	1,19,040	1,20,748	1,47,550
Operating Expenses	89,815	82,295	82,395	98,429
EBITDA	27,405	36,745	38,353	49,121
% margin	23.4	30.9	31.8	33.3
Depreciation & Amortisation	13,917	16,994	12,746	15,932
Gross Interest	4,010	2,865	2,855	2,425
Other Income	2,654	2,716	5,134	6,343
Recurring PBT	12,133	19,602	27,887	37,107
Add: Extra ordinaries	(1,477)	-	-	-
Less: Taxes	1,304	3,900	6,693	8,906
- Current tax	2,177	5,248	7,251	9,648
- Deferred tax	(873)	(1,348)	(558)	(742)
Net Income (Reported)	9,352	15,702	21,194	28,201
Recurring Net Income	10,829	15,702	21,194	28,201

Source: Company data, I-Sec research,

Table 7: Balance sheet

(Rs mn)	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	45,400	43,976	59,185	74,902
Current Liab. & Prov.	27,979	32,469	33,653	35,347
Net Current Assets	17,420	11,507	25,532	39,555
Investments of which	44,439	89,154	94,154	99,154
Marketable	22,856	63,575	68,575	73,575
Net Fixed Assets*	44,757	43,189	46,444	48,511
of which				
Capital Work-in-Progress	11,211	9,621	3,621	1,621
Goodwill	-	-	-	-
Total Assets	1,17,827	1,53,472	1,69,751	1,88,842
of which Cash & cash equiv.	25,934	64,657	82,033	99,183
Liabilities				
Borrowings	27,980	31,546	28,546	22,046
Deferred Tax Liability	(6,126)	(7,438)	(6,880)	(6,138)
Minority Interest				
Equity Share Capital	348	361	361	361
Face value per share (Rs)	10	10	10	10
Reserves & Surplus*	95,626	1,29,003	1,47,724	1,72,574
Net Worth	95,974	1,29,364	1,48,085	1,72,934
Total Liabilities	1,17,827	1,53,472	1,69,751	1,88,842

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending Mar 31)	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	28,017	28,483	32,175	23,258
% growth (YoY)	8.3	2.4	(2.0)	(23.4)
Recurring EBITDA	8,442	8,493	10,789	7,006
Margin (%)	30.1	29.8	33.5	30.1
Other income	578	649	978	1,244
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	3,091	3,100	5,882	3,708

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn)	FY19	FY20	FY21E	FY22E
Operating Cashflow	25,639	30,960	28,264	37,066
Working Capital changes	(5,302)	5,591	(1,664)	(1,891)
Capital Commitments	(18,853)	(12,941)	(10,000)	(16,000)
Net Operating FCF	1,484	23,610	16,599	19,175
Investing Activities	8,234	(42,698)	134	1,343
Issue of Share Capital	-	23,833	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(7,591)	1,175	(3,000)	(6,500)
Dividend paid	(2,308)	(6,231)	(2,473)	(3,352)
Chg. in Cash & Bank	(182)	(309)	12,376	12,150

Source: Company data, I-Sec research

Table 10: Key ratios

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	268	435	587	782
Diluted Recurring EPS	311	435	587	782
Diluted Recurring CEPS	710	906	941	1,223
Dividend per share	60	110	69	93
Book Value	2,755	3,585	4,104	4,793
Growth Ratios (% YoY)				
Operating Income	19.2	1.6	1.4	22.2
EBITDA	13.2	34.1	4.4	28.1
Recurring Net Income	(18.7)	45.0	35.0	33.1
Diluted Recurring EPS	(18.7)	40.0	35.0	33.1
Diluted Recurring CEPS	10.9	27.6	3.8	30.0
Valuation Ratios (x)				
P/E	64.7	46.2	34.2	25.7
P/CEPS	28.3	22.2	21.4	16.4
P/BV	7.3	5.6	4.9	4.2
EV / EBITDA	25.6	18.8	17.5	13.2
EV / Operating Income	6.0	5.8	5.6	4.4
EV / Operating FCF	53.6	21.6	25.2	18.4
EV/te (cement)	265	245	212	186
Operating Ratios (%)				
Operating Expenses / Sales	77	69	68	67
Other Income / PBT	22	14	18	17
Effective Tax Rate	10	20	24	24
NWC / Total Assets	12	7	7	7
Inventory turnover (x)	3.9	3.9	3.6	4.0
Receivables (days)	19	24	26	23
Payable (days)	24	22	25	23
D/E Ratio (x)	(0.0)	(0.3)	(0.4)	(0.5)
Profitability Ratios (%)				
Rec. Net Income Margins	9.0	12.9	16.8	18.3
RoCE	12.2	13.3	14.5	16.8
RoNW	11.7	13.9	15.3	17.6
Dividend Payout	19.3	25.3	11.7	11.9

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 11: Profit and loss statement

(Rs mn)	FY19	FY20	FY21E	FY22E
Operating Income	125,547	128,684	129,586	157,728
Operating Expenses	96,574	91,093	90,709	1,07,657
EBITDA	28,973	37,591	38,877	50,071
% margin	23.1	29.2	30.0	33.3
Depreciation & Amortisation	14,718	18,078	13,903	17,101
Gross Interest	4,019	2,914	2,906	2,477
Other Income	2,698	2,744	5,164	6,372
Recurring PBT	12,933	19,343	27,231	36,865
Add: Extra ordinaries	(1,477)	-	-	-
Less: Taxes	1,306	3,902	6,536	8,848
- Current tax	2,179	5,251	7,080	9,585
- Deferred tax	(873)	(1,349)	(545)	(737)
Net Income (Reported)	10,064	15,359	20,612	27,931
Recurring Net Income	11,541	15,359	20,612	27,931

Source: Company data, I-Sec research,

Table 12: Balance sheet

(Rs mn)	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	52,661	54,830	68,809	85,041
Current Liab. & Prov.	29,572	35,456	36,922	38,817
Net Current Assets	23,090	19,375	31,887	46,224
Investments of which	22,856	63,576	68,876	74,176
<i>Marketable</i>	22,856	62,255	67,555	72,855
Net Fixed Assets*	61,817	61,630	65,527	66,727
of which				
<i>Capital Work-in-Progress</i>	11,295	11,967	5,967	3,967
Goodwill	-	-	-	-
Total Assets	1,19,057	1,56,548	1,72,258	1,91,094
of which Cash & cash equiv.	27,249	68,397	84,411	1,01,748
Liabilities				
Borrowings	27,851	31,602	28,602	22,102
Deferred Tax Liability	(6,126)	(7,436)	(6,878)	(6,136)
Minority Interest	625	688	702	716
Equity Share Capital	348	361	361	361
Face value per share (Rs)	10	10	10	10
Reserves & Surplus*	96,359	1,31,334	1,49,472	1,74,051
Net Worth	96,708	1,31,694	1,49,833	1,74,412
Total Liabilities	1,19,057	1,56,548	1,72,258	1,91,094

Source: Company data, I-Sec research

Table 13: Cashflow statement

(Rs mn)	FY19	FY20	FY21E	FY22E
Operating Cashflow	11,845	31,847	28,870	37,996
Working Capital changes	(6,423)	6,927	(1,863)	(2,373)
Capital Commitments	(9,940)	(15,403)	(11,800)	(16,300)
Net Operating FCF	(4,518)	23,370	15,207	19,323
Investing Activities	6,888	(42,518)	(136)	1,072
Issue of Share Capital	-	23,833	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(531)	1,154	(3,000)	(6,500)
Dividend paid	(1,260)	(6,284)	(2,473)	(3,352)
Chg. in Cash & Bank	579	(445)	10,714	12,037

Source: Company data, I-Sec research

Table 14: Key ratios

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	289	426	571	774
Diluted Recurring EPS	331	426	571	774
Diluted Recurring CEPS	754	927	957	1,248
Dividend per share	60	110	69	93
Book Value	2,776	3,650	4,153	4,834
Growth Ratios (% YoY)				
Operating Income	27.7	2.5	0.7	21.7
EBITDA	19.7	29.7	3.4	28.8
Recurring Net Income	(13.4)	33.1	34.2	35.5
Diluted Recurring EPS	(13.4)	28.5	34.2	35.5
Diluted Recurring CEPS	17.7	23.0	3.2	30.5
Valuation Ratios (x)				
P/E	56.3	47.2	35.2	26.0
P/CEPS	26.7	21.7	21.0	16.1
P/BV	7.2	5.5	4.8	4.2
EV / EBITDA	22.4	18.3	17.2	12.9
EV / Operating Income	5.2	5.3	5.2	4.1
EV / Operating FCF	63.7	20.0	24.8	18.1
EV/te (cement)	201	202	176	163
Operating Ratios (%)				
Operating Expenses / Sales	77	71	70	67
Other Income / PBT	21	14	19	17
Effective Tax Rate	10	20	24	24
NWC / Total Assets	15.7	8.5	8.7	9
Inventory turnover (x)	3.9	3.7	3.4	3.7
Receivables (days)	22	30	33	30
Payable (days)	24	24	29	27
D/E Ratio (x)	(0.1)	(0.3)	(0.4)	(0.5)
Profitability Ratios (%)				
Rec. Net Income Margins	9.0	11.7	15.3	17.0
RoCE	12.8	12.8	13.9	16.4
RoNW	12.4	13.4	14.6	17.2
Dividend Payout	18.1	25.8	12.0	12.0

Source: Company data, I-Sec research

*We have incorporated UCC financials from Q2FY19 onwards

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