

# Shree Cements Ltd.

24 May 2021

Reuters: SHCM.NS; Bloomberg: SRCM:IN

## Realistic increase in costs compared to peers

Shree Cements Ltd (SRCM) reported a marginally weak set of numbers for 4QFY21 with an EBITDA of Rs11.7bn that was 4% below our forecast. The reason we say it's a marginally weak performance is that most of the other cement companies have given a sharp positive surprise. Nevertheless, we believe that operating cost reported by SRCM (with 8% YoY and QoQ growth each) are more realistic when compared to its peers. For 4QFY21, it has reported revenue of Rs39.3bn, up 22.2% YoY, primarily driven by higher volume, while realisation was up by 2.7% YoY. EBITDA increased by 9.1% YoY to Rs11.8bn and, the EBITDA margin stood at 29.9% (down by 358bps YoY). Volume increased by 19% YoY to 8.2mn mt (highest quarterly volumes in the company's history). The key negative surprise was operating cost/mt, which increased by 8.2% YoY to Rs3,352, primarily due to higher raw material cost, employee cost (increment given in 4QFY21), freight costs and other expenses, partially offset by lower power & fuel costs. As a result, EBITDA/mt decreased by 8.3% YoY to Rs1,433. Adj. Profit increased by 30.5% YoY to Rs7.7bn primarily due to higher EBITDA and other income and lower finance and depreciation expenses. We have tweaked our estimates for the company slightly. As a result, our FY22 and FY23 EBITDA estimates are marginally down by ~1% each. Our revised target price (TP) now stands at Rs25,407 against Rs25,631 earlier. We maintain our Sell rating on the stock given rich valuations and increasing exposure to the eastern region.

**FY21 Performance:** For FY21, the volumes increased by 7.7% to 26.8mn mt, whereas the realisation/mt decreased by 1.8% to Rs.4,690. The net sales increased by 5.7% to Rs.125.9bn. The total operating costs/mt declined by 2.6% to Rs.3,217 primarily due to lower power & fuel costs, employee costs and other expenses partially offset by higher freight and raw material costs. EBITDA/mt remained flat at Rs.1,473 and, absolute EBITDA increased by 7.6% to Rs.39.5bn. Adjusted PAT increased by 47.2% to Rs.23.1bn due to higher EBITDA and higher other income.

**Operating cost inch up:** SRCM reported an operating cost/mt of Rs3,352 against our expectation of Rs3,200. The costs are up by 8% on both QoQ and YoY basis and give a more realistic picture of cost inflation compared to declines reported by various other companies, in our view. Given the upward pressure on petcoke and imported coal costs, we expect a further increase in operating costs for the company in FY22.

**Non-North exposure to increase further:** The northern region is profitable for SRCM compared to its presence in eastern and other markets. In FY19, SRCM's exposure to North (Rajasthan, Haryana, Punjab, Delhi and Uttar Pradesh) was close to 70% that declined to ~60% in the current year and may fall further as new capacity commissions in states of Jharkhand, Odisha, West Bengal and Maharashtra. We expect further moderation in the EBITDA/mt of the company as a result.

Y/E March (Rsmm)	4QFY20	3QFY21	4QFY21	YoY (%)	QoQ (%)
<b>Net Sales</b>	<b>32,175</b>	<b>33,094</b>	<b>39,308</b>	<b>22.2</b>	<b>18.8</b>
Operating Expenses	21,387	22,205	27,537	28.8	24.0
<b>EBITDA</b>	<b>10,789</b>	<b>10,890</b>	<b>11,772</b>	<b>9.1</b>	<b>8.1</b>
<b>EBITDA Margin (%)</b>	<b>33.5%</b>	<b>32.9%</b>	<b>29.9%</b>	<b>(358)bps</b>	<b>(296)bps</b>
Other Income	978	1,068	1,244	27.2	16.4
Interest Costs	726	585	553	(23.9)	(5.5)
Depreciation	4,362	2,906	2,993	(31.4)	3.0
PBT	6,678	8,466	9,469	41.8	11.8
Tax	797	2,204	1,793	125.0	(18.6)
<b>Reported PAT</b>	<b>5,882</b>	<b>6,262</b>	<b>7,677</b>	<b>30.5</b>	<b>22.6</b>
Exceptional Items	-	-	-	-	-
<b>Adjusted PAT</b>	<b>5,882</b>	<b>6,262</b>	<b>7,677</b>	<b>30.5</b>	<b>22.6</b>
<b>NPM (%)</b>	<b>18.3%</b>	<b>18.9%</b>	<b>19.5%</b>	<b>125bps</b>	<b>61bps</b>
<b>EPS (Rs.)</b>	<b>163.0</b>	<b>173.6</b>	<b>212.7</b>	<b>30.5</b>	<b>22.6</b>

Source: Company, Nirmal Bang Institutional Equities Research

## SELL

Sector: Cement

CMP: Rs27,615

Target Price: Rs25,407

Downside: 8%

**Mangesh Bhadang**

Research Analyst

mangesh.bhadang@nirmalbang.com

+91-22-6273 8068

**Ash Shah**

Research Associate

ash.shah@nirmalbang.com

+91-22-6273 8138

### Key Data

Current Shares O/S (man)	36.1
Mkt Cap (Rsb/US\$bn)	694.6/9.5
52 Wk H / L (Rs)	32,050/18,184
Daily Vol. (3M NSE Avg.)	60,283

### Price Performance (%)

	1 M	6 M	1 Yr
Shree Cements	(31.5)	(20.6)	(3.3)
Nifty Index	5.8	16.2	67.9

Source: Bloomberg

**Exhibit 1: Detailed financials (Standalone)**

Y/E March (Rsmm)	4QFY20	3QFY21	4QFY21	YoY (%)	QoQ (%)	Estimates	Variance (%)	FY20	FY21	YoY (%)
<b>Net Sales</b>	<b>32,175</b>	<b>33,094</b>	<b>39,308</b>	<b>22.2</b>	<b>18.8</b>	<b>38,783</b>	<b>1.4</b>	<b>119,040</b>	<b>125,884</b>	<b>5.7</b>
Expenditure										
Chg. in stock	(181)	(398)	691	(482.4)	(273.9)	-	-	50	421	NA
RM consumption	1,997	2,281	2,589	29.6	13.5	-	-	7,633	8,336	9.2
Purchase of traded goods	-	-	-	-	-	-	-	-	-	0.0
Employee cost	1,691	1,693	2,442	44.5	44.3	-	-	7,310	7,597	3.9
Freight, packing etc.	7,144	8,147	9,527	33.4	16.9	-	-	26,061	30,372	16.5
Power and fuel	6,217	5,563	6,185	(0.5)	11.2	-	-	23,476	20,333	(13.4)
Other exp	4,519	4,918	6,102	35.0	24.1	-	-	17,765	19,278	8.5
Total Operating Expenses	21,387	22,205	27,537	28.8	24.0	26,522	3.8	82,295	86,337	4.9
<b>EBITDA</b>	<b>10,789</b>	<b>10,890</b>	<b>11,772</b>	<b>9.1</b>	<b>8.1</b>	<b>12,261</b>	<b>(4.0)</b>	<b>36,745</b>	<b>39,547</b>	<b>7.6</b>
<b>EBITDA Margin (%)</b>	<b>33.5%</b>	<b>32.9%</b>	<b>29.9%</b>	<b>(358)bps</b>	<b>(296)bps</b>	<b>31.6%</b>	<b>(167)bps</b>	<b>30.9%</b>	<b>31.4%</b>	<b>55bps</b>
Other Income	978	1,068	1,244	27.2	16.4	-	-	2,716	4,580	68.6
Interest Costs	726	585	553	(23.9)	(5.5)	-	-	2,865	2,471	(13.8)
Depreciation	4,362	2,906	2,993	(31.4)	3.0	-	-	16,994	11,399	(32.9)
PBT	6,678	8,466	9,469	41.8	11.8	-	-	19,602	30,257	54.4
Exceptional Items	797	2,204	1,793	125.0	(18.6)	-	-	3,900	7,138	83.0
Tax	-	-	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>5,882</b>	<b>6,262</b>	<b>7,677</b>	<b>30.5</b>	<b>22.6</b>	<b>7,149</b>	<b>7.4</b>	<b>15,702</b>	<b>23,119</b>	<b>47.2</b>
<b>Adjusted PAT</b>	<b>5,882</b>	<b>6,262</b>	<b>7,677</b>	<b>30.5</b>	<b>22.6</b>	<b>-</b>	<b>-</b>	<b>15,702</b>	<b>23,119</b>	<b>47.2</b>
<b>NPM (%)</b>	<b>18.3%</b>	<b>18.9%</b>	<b>19.5%</b>	<b>125bps</b>	<b>61bps</b>	<b>18.4%</b>	<b>110bps</b>	<b>13.2%</b>	<b>18.4%</b>	<b>518bps</b>
<b>EPS (Rs.)</b>	<b>163.0</b>	<b>173.6</b>	<b>212.7</b>	<b>30.5</b>	<b>22.6</b>	<b>198.1</b>	<b>7.4</b>	<b>435.2</b>	<b>640.7</b>	<b>47.2</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Operational data**

Operational Data	4QFY20	3QFY21	4QFY21	YoY (%)	QoQ (%)	Estimates	Variance (%)	FY20	FY21	YoY (%)
Volume (mn mt)	6.91	7.16	8.22	19.0	14.7	8.29	(0.9)	24.93	26.84	7.7
Cement Realisation (Rs/mt)	4,659	4,620	4,785	2.7	3.6	4,620	3.6	4,775	4,690	(1.8)
Operating Costs (Rs/mt)	3,097	3,099	3,352	8.2	8.1	3,200	4.7	3,301	3,217	(2.6)
<b>EBITDA (Rs/mt)</b>	<b>1,562</b>	<b>1,520</b>	<b>1,433</b>	<b>(8.3)</b>	<b>(5.7)</b>	<b>1,480</b>	<b>(3.1)</b>	<b>1,474</b>	<b>1,473</b>	<b>(0.0)</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Trend in operating costs**

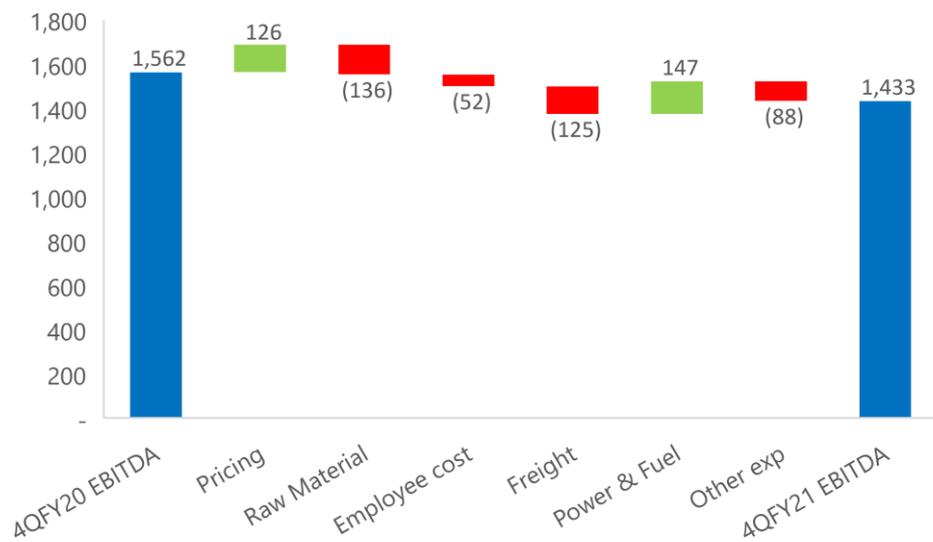
Costs/mt (Rs)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	YoY (%)	QoQ (%)
RM consumption	343	306	264	401	263	327	303	263	399	51.8	51.9
Employee cost	234	316	323	297	245	351	265	236	297	21.4	25.8
Freight cost	1,061	1,103	1,013	1,031	1,034	1,136	1,087	1,137	1,160	12.1	2.0
Power and fuel	1,046	1,070	1,046	768	900	777	728	777	753	(16.4)	(3.0)
Other expenses	656	728	776	705	654	705	732	687	743	13.5	8.2
<b>Operating costs/mt</b>	<b>3,338</b>	<b>3,522</b>	<b>3,422</b>	<b>3,201</b>	<b>3,097</b>	<b>3,296</b>	<b>3,115</b>	<b>3,099</b>	<b>3,352</b>	<b>8.2</b>	<b>8.1</b>
<b>EBITDA/mt</b>	<b>1,161</b>	<b>1,489</b>	<b>1,476</b>	<b>1,360</b>	<b>1,562</b>	<b>1,421</b>	<b>1,513</b>	<b>1,520</b>	<b>1,433</b>	<b>(8.3)</b>	<b>(5.7)</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Key Financial Summary**

Y/E March (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	1,17,220	1,19,040	1,25,884	1,39,946	1,62,458
YoY (%)	19.2	1.6	5.7	11.2	16.1
EBITDA	26,528	36,745	39,547	39,980	47,575
EBITDA (%)	22.6	30.9	31.4	28.6	29.3
Adj. PAT	8,715	15,654	23,119	21,457	26,255
YoY (%)	(36.9)	79.6	47.7	(7.2)	22.4
FDEPS (Rs)	250.2	433.8	640.7	594.7	727.6
ROE (%)	9.4	13.9	16.4	13.4	14.9
EV/EBITDA	36.6	27.8	25.0	24.4	20.0
EV/mt (\$)	366.9	356.0	281.7	278.0	271.9
P/E (x)	110.4	63.7	43.1	46.4	38.0

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: YoY Movement in EBITDA/mt**


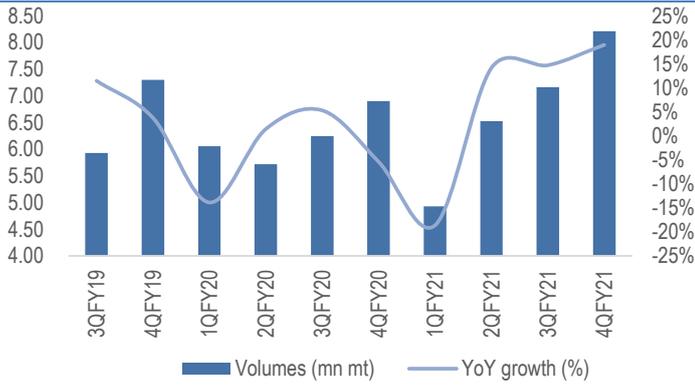
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: SRCM - Key changes to our estimates**

Particulars (Rs)	FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	1,38,132	1,39,946	1.3	1,60,323	1,62,458	1.3
EBITDA	40,271	39,980	(0.7)	47,847	47,575	(0.6)
PAT	19,099	21,457	12.3	23,914	26,255	9.8
EPS	529	595	12.3	663	728	9.8
TP (Rs)				25,631	25,407	(0.9)

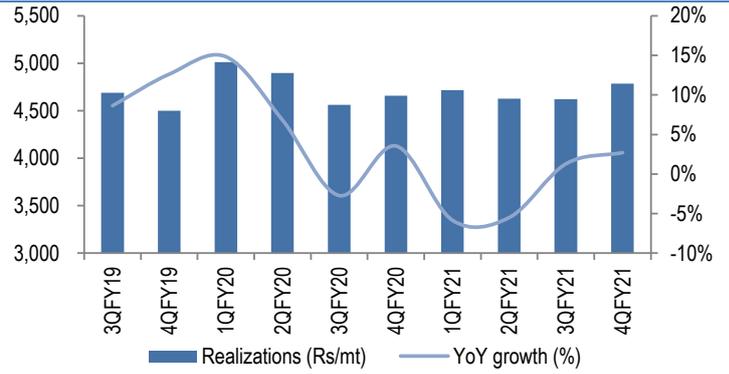
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Highest ever volumes**



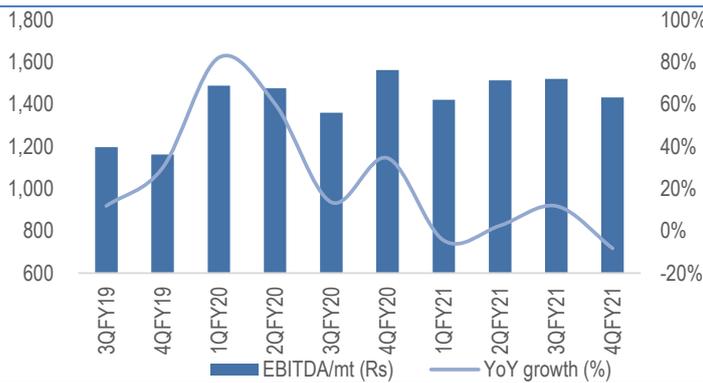
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Realizations up by 3.6% QoQ**



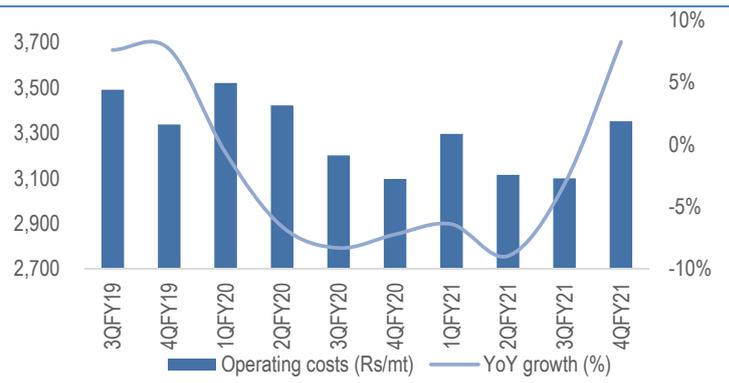
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: EBITDA/mt decreased by 8.3% YoY**



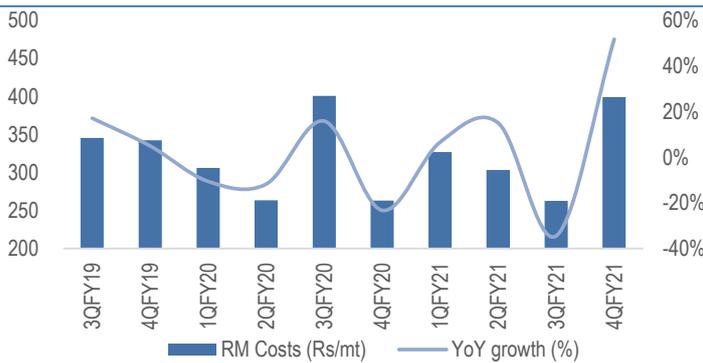
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Operating costs up by 8.2% YoY**



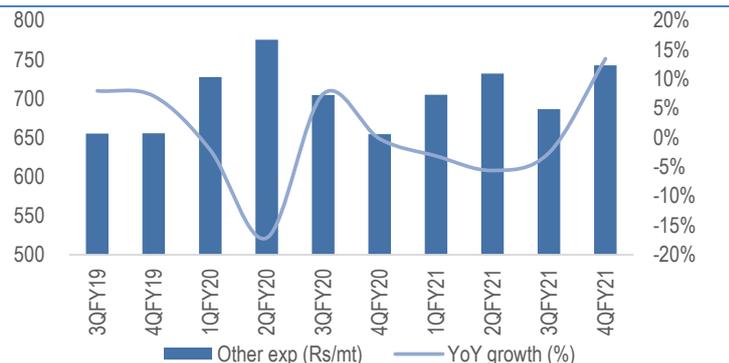
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: RM costs higher**



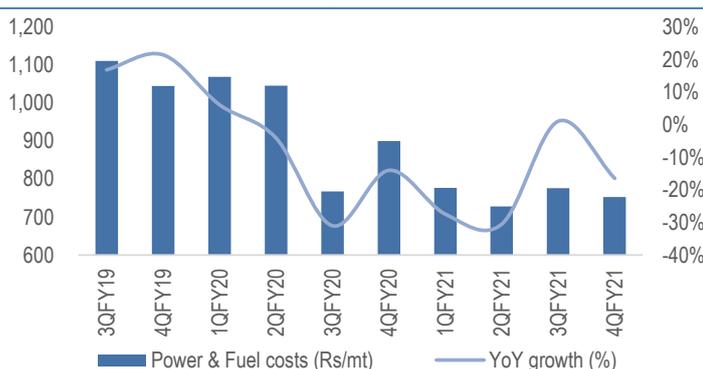
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Other expenses were up by 13.5% YoY**



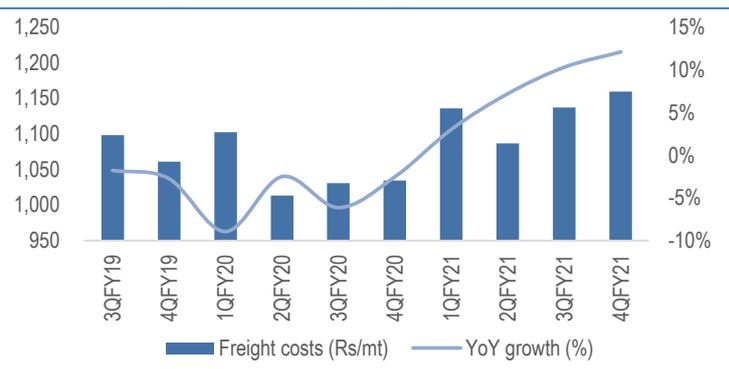
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: P&F costs down by 16.4% YoY**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: Freight costs were up by 12.1% YoY**

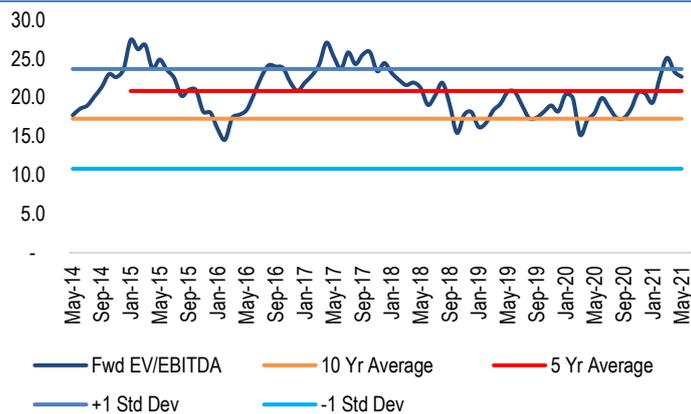


Source: Company, Nirmal Bang Institutional Equities Research

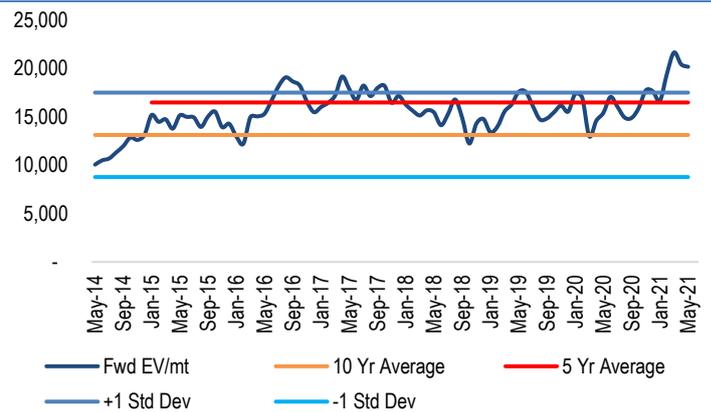
**Exhibit 15: Valuation summary**

Particulars	(Rs)
FY23 EBITDA	47,575
Target multiple (x)	18.0
Enterprise value	8,56,343
Less: Net debt	(60,411)
Equity value	9,16,753
No of shares (mn)	36.1
<b>Value per share (Rs)</b>	<b>25,407</b>
CMP (Rs)	27,615
<b>Upside / (downside) %</b>	<b>(8)%</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: Rolling valuation charts**


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

## Financial statement

### Exhibit 17: Income statement

YE March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>1,17,220</b>	<b>1,19,040</b>	<b>1,25,884</b>	<b>1,39,946</b>	<b>1,62,458</b>
Raw Material Consumed	8,263	7,422	8,756	10,276	12,067
Power & Fuel Cost	27,450	23,476	20,333	24,815	29,137
Employee Cost	6,778	7,310	7,597	7,975	8,441
Freight and Forwarding	28,641	26,061	30,372	35,694	41,911
Other expenses	19,560	18,025	19,278	21,207	23,327
Total Expenditure	90,692	82,295	86,337	99,967	1,14,883
<b>Operating profit</b>	<b>26,528</b>	<b>36,745</b>	<b>39,547</b>	<b>39,980</b>	<b>47,575</b>
Operating profit margin (%)	23%	31%	31%	29%	29%
Other Income	2,454	2,716	4,580	4,751	4,986
Interest	3,265	2,913	2,471	1,705	1,120
Depreciation	13,917	16,994	11,399	13,223	14,974
PBT	11,801	19,555	30,257	29,802	36,466
Exceptional items	(1,781)	-	-	-	-
PBT post exc items	10,019	19,555	30,257	29,802	36,466
Tax	1,304	3,900	7,138	8,344	10,210
Tax rate (%)	13.0%	19.9%	23.6%	28.0%	28.0%
<b>PAT</b>	<b>8,715</b>	<b>15,654</b>	<b>23,119</b>	<b>21,457</b>	<b>26,255</b>
<b>EPS (Rs)</b>	<b>250.2</b>	<b>433.8</b>	<b>640.7</b>	<b>594.7</b>	<b>727.6</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 19: Key ratios

YE March	FY19	FY20	FY21E	FY22E	FY23E
<b>Growth (%)</b>					
Sales	19.2	1.6	5.7	11.2	16.1
Operating Profits	7.3	38.5	7.6	1.1	19.0
Net Profits	(36.9)	79.6	47.7	(7.2)	22.4
<b>Leverage (x)</b>					
Net Debt: Equity	0.25	(0.07)	(0.14)	(0.26)	(0.33)
Interest Cover(x)	8.13	12.62	16.00	23.45	42.47
Total Debt/EBITDA	1.05	0.64	0.47	0.35	0.20
<b>Profitability (%)</b>					
OPM	22.6	30.9	31.4	28.6	29.3
NPM	7.4	13.2	18.4	15.3	16.2
ROE	9.4	13.9	16.4	13.4	14.9
ROCE	20.3	24.9	24.8	23.8	26.4
<b>Turnover ratios (x)</b>					
GFAT	1.5	1.2	1.2	1.1	1.1
Debtors Turnover(x)	20	15	19	21	18
WC days	44	49	34	35	42
<b>Valuation (x)</b>					
P/E	110.4	63.7	43.1	46.4	38.0
P/B	10.0	7.7	6.5	6.0	5.4
EV/EBIDTA	36.6	27.8	25.0	24.4	20.0
EV/mt (\$)	366.9	356.0	281.7	278.0	271.9

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 18: Balance Sheet

YE March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Equity Capital	348	361	361	361	361
Reserves and Surplus	95,626	1,29,003	1,52,140	1,66,743	1,85,460
Networth	95,974	1,29,364	1,52,501	1,67,104	1,85,821
Total Debt	27,770	23,474	18,396	13,896	9,396
Deferred tax liability	-	-	-	-	-
Other non-current liabilities	13,002	15,617	9,418	10,107	11,391
Trade Payables	4,508	5,280	7,858	6,025	6,924
Other Current Liabilities	10,679	19,643	22,215	24,523	27,032
Total Current Liabilities	19,867	32,010	35,154	35,129	38,037
<b>Total liabilities</b>	<b>1,51,933</b>	<b>1,93,379</b>	<b>2,10,388</b>	<b>2,21,656</b>	<b>2,40,565</b>
Net Block	44,757	43,191	38,177	53,686	50,210
CWIP	11,211	9,621	9,710	2,500	5,000
Investment	44,111	58,292	72,713	51,925	52,125
Other non-current assets	11,936	14,019	14,055	13,908	14,026
Inventories	15,891	14,279	14,772	17,321	19,832
Sundry Debtors	7,324	8,285	4,859	8,435	9,792
Cash and Bank	3,078	1,082	2,098	3,897	2,014
Other current assets	13,625	44,611	50,266	69,984	87,567
Total Current Assets	39,917	68,256	71,995	99,637	1,19,204
<b>Total Assets</b>	<b>1,51,933</b>	<b>1,93,379</b>	<b>2,06,649</b>	<b>2,21,656</b>	<b>2,40,565</b>

Source: Company, Nirmal Bang Institutional Equities Research

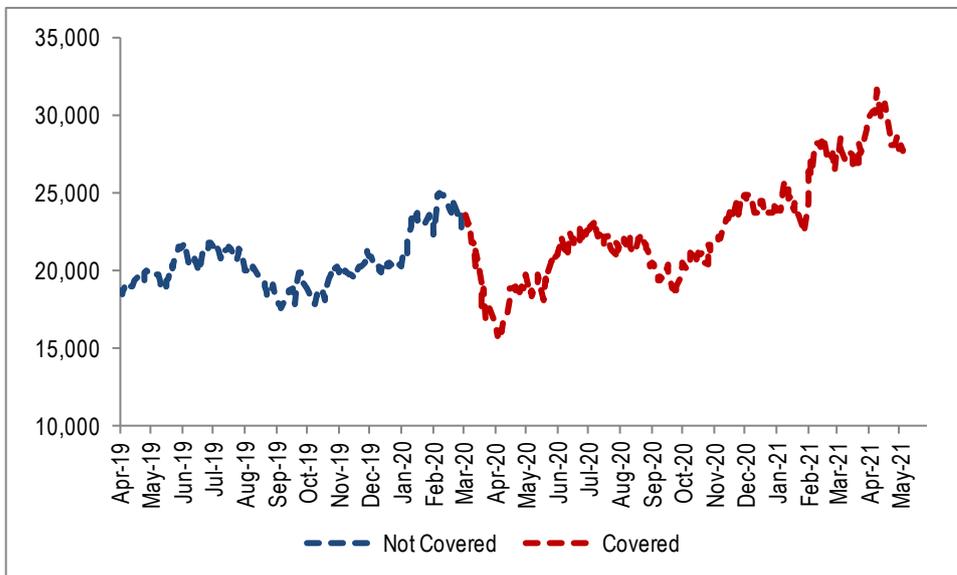
### Exhibit 20: Cash flow statement

YE March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Profit before tax	10,019	19,555	30,257	29,802	36,466
Add: Depreciation	13,917	16,994	11,399	13,223	14,974
Add: Interest Exp	3,265	2,913	2,471	1,705	1,120
CFO b4 WC	27,201	39,462	44,127	44,730	52,560
Net change in Working capital	(6,455)	9,936	9,358	(10,368)	(3,042)
Tax paid	(1,304)	(3,900)	(7,138)	(8,344)	(10,210)
<b>Net cash from operations</b>	<b>19,442</b>	<b>45,497</b>	<b>46,347</b>	<b>26,018</b>	<b>39,308</b>
Capital expenditure	(19,721)	(13,839)	(10,212)	(17,784)	(13,998)
Sale of investments	9,905	(44,716)	(21,352)	5,788	(15,200)
<b>Net cash from investing</b>	<b>(7,706)</b>	<b>(59,317)</b>	<b>(31,103)</b>	<b>(11,789)</b>	<b>(29,249)</b>
Issue of shares	-	23,990	-	-	-
Increase in debt	(6,170)	(4,296)	(5,078)	(4,500)	(4,500)
Dividends paid incl. tax	(2,308)	(6,231)	(6,231)	(6,854)	(7,539)
Interest paid	(3,265)	(2,913)	(2,471)	(1,705)	(1,120)
<b>Net cash from financing</b>	<b>(9,867)</b>	<b>11,824</b>	<b>(14,228)</b>	<b>(12,430)</b>	<b>(11,942)</b>
Net Cash	1,869	(1,996)	1,016	1,799	(1,883)
Opening Cash	1,209	3,078	1,082	2,098	3,897
<b>Closing Cash</b>	<b>3,078</b>	<b>1,082</b>	<b>2,098</b>	<b>3,897</b>	<b>2,014</b>

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
13 April 2020	BUY	16,935	21,177
11 May 2020	BUY	18,740	22,438
17 July 2020	SELL	27,731	18,189
11 August 2020	SELL	22,389	18,659
21 August 2020	SELL	22,080	18,659
23 September 2020	ACCUMULATE	18,982	20,906
16 October 2020	ACCUMULATE	20,642	20,906
13 November 2020	ACCUMULATE	23,485	23,357
7 January 2021	ACCUMULATE	24,699	25,520
31 January 2021	ACCUMULATE	22,550	25,631
12 March 2021	SELL	27,556	25,631
8 April 2021	SELL	31,645	25,631
24 May 2021	SELL	27,615	25,407

**Rating track graph**


**DISCLOSURES**

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## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.

Board No.: 91 22 6273 8000/1; Fax.: 022 6273 8010