

Shree Cement

BSE SENSEX	S&P CNX
39,298	11,662
Bloomberg	SRCM IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	650.1 / 9.1
52-Week Range (INR)	22200 / 13125
1, 6, 12 Rel. Per (%)	-8/-5/10
12M Avg Val (INR M)	524
Free float (%)	35.2

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	117.6	125.7	140.4
EBITDA	27.9	37.7	43.3
PAT	11.3	15.4	21.1
EPS (INR)	324.1	443.1	606.5
Gr. (%)	-18.2	36.7	36.9
BV/Sh (INR)	2,755	3,120	3,630
RoE (%)	12.2	15.1	18.0
RoCE (%)	11.7	13.5	16.0
P/E (x)	57.4	42.0	30.7
P/BV (x)	6.8	6.0	5.1
EV/EBITDA (x)	22.8	16.5	13.9
EV/Ton (USD)	233	200	180

Estimate change



TP change



Rating change


CMP: INR18,661 TP: INR21,000 (+13%)
Neutral

Better realization drives earnings; equity raise on cards

- **Muted volume growth, strong realization:** Volumes grew by a muted ~1.5% YoY to 5.72mt. Realization was up ~9% YoY (-1% QoQ) to INR4,654/t (our estimate: INR4,533/t). While cement revenue grew 11% YoY to INR26b (in-line), power revenue was down 22% YoY to INR1.4b (26% miss). As a result, total revenue of INR28b (+8% YoY) came in line with our estimate.
- **Cost savings also supported EBITDA growth:** Total cost/t of INR3,201/t (-2% YoY/QoQ) was below our estimate of INR3,277/t due to lower freight cost (down 8% QoQ to INR1,013/t). Cement EBITDA/t thus came in 16% above our estimate at INR1,453/t (+46% YoY) – and the highest in the last 10 years. Power EBITDA, however, was weaker than expected at INR130m (-68% YoY, -54% QoQ) due to lower realized tariff. Total EBITDA thus grew 40% YoY to INR8.4b (our estimate: INR7.5b), with the margin at 30% (+7pp YoY). Tax rate stood at 23% for the quarter. Adj. PAT was up 36% YoY to INR3.1b (our estimate: INR2.5b). The SRCM board has also approved an equity raise of up to INR30b (5% dilution at CMP).
- **1HFY20 performance:** Performance was strong with revenue/EBITDA/PAT up 3%/40%/33% YoY to INR58b/INR17.5b/INR6.7b. We expect revenue/EBITDA/PAT to increase 11%/31%/40% YoY in 2HFY20.
- **Valuation and View:** We believe that the stock – currently trading at 14x FY21E EV/EBITDA – has factored in the strong cement price hikes this year. Moreover, we await clarity on SRCM's bidding strategy and the IRR threshold for its new inorganic growth strategy. We raise our EBITDA/PAT estimates by 2% (due to higher realization) for FY20 but maintain those for FY21. Our target price remains unchanged. We value standalone operations at 15x FY21E EV/EBITDA and UCC operations at USD70/t to arrive at a target price of INR21,000 (implied EV/t of USD190). Maintain **Neutral**.

Quarterly Performance (S/A)

									(INR Million)			
	FY19				FY20				FY19	FY20E	FY20	Var.
Y/E March	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales Dispat. (m ton)	6.99	5.64	5.93	7.30	6.06	5.72	6.29	7.91	25.86	25.97	5.75	0
YoY Change (%)	18.7	15.6	11.4	13.3	-13.3	1.4	6.0	8.3	14.8	0.4	1.9	
Cement Realization (INR/Ton)	4,107	4,267	4,315	4,225	4,703	4,654	4,554	4,468	4,237	4,585	4,533	3
YoY Change (%)	-0.9	2.3	4.7	1.6	14.5	9.1	5.6	5.8	1.0	8.2	6.2	
QoQ Change (%)	-1.2	3.9	1.1	-2.1	11.3	-1.0	-2.1	-1.9			-3.6	
Net Sales	30,699	25,866	27,806	32,849	30,364	28,017	30,237	37,040	117,599	125,658	27,937	0
YoY Change (%)	21.0	21.0	21.1	16.9	-1.1	8.3	8.7	12.8	18.9	6.9	8.0	
EBITDA	6,452	6,037	6,901	8,478	9,022	8,442	8,992	11,201	27,868	37,656	7,516	12
Margins (%)	21.0	23.3	24.8	25.8	29.7	30.1	29.7	30.2	23.7	30.0	26.9	
Depreciation	3,055	3,295	3,361	4,206	4,027	4,283	4,350	4,381	13,917	17,041	4,127	
Interest	1,262	1,458	393	697	680	717	680	643	3,810	2,721	650	
Other Income	936	514	553	451	511	578	580	485	2,454	2,154	540	
PBT before EO Exp	3,071	1,798	3,700	4,026	4,826	4,018	4,542	6,662	12,596	20,048	3,280	23
Extra-Ord Expense	0	1,781	0	0	0	0	0	0	1,781	0	0	
PBT	3,071	17	3,700	4,026	4,826	4,018	4,542	6,662	10,814	20,048	3,280	23
Tax Rate (%)	9.0	-2,784.8	18.6	20.3	24.8	23.1	23.0	21.7	12.1	23.0	23.0	
Reported PAT	2,795	493	3,013	3,210	3,630	3,091	3,497	5,219	9,510	15,437	2,525	22
Adj PAT	2,795	2,275	3,013	3,210	3,630	3,091	3,497	5,219	11,292	15,437	2,525	22
YoY Change (%)	-36.5	7.5	-9.6	-19.6	29.9	35.9	16.1	62.6	-18.4	36.7	11.0	

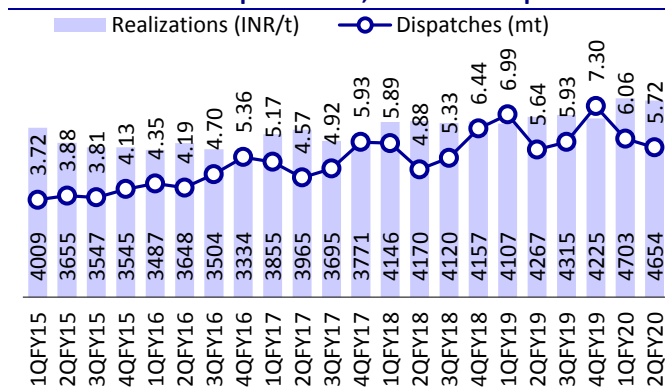
E:MOFSL Estimates

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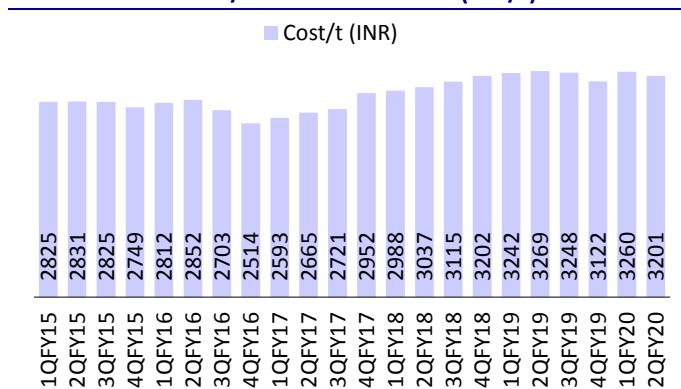
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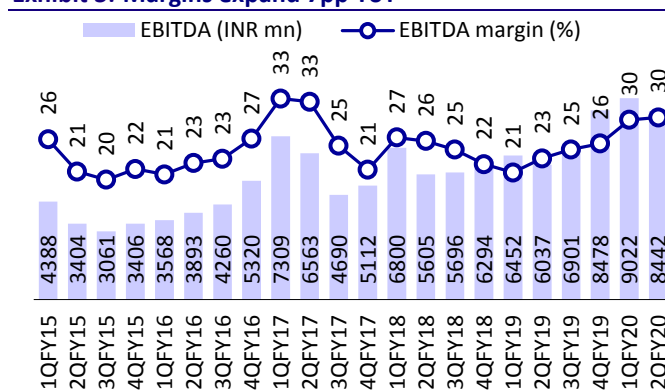
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Exhibit 1: Volumes up 1.4% YoY; realizations up 9% YoY

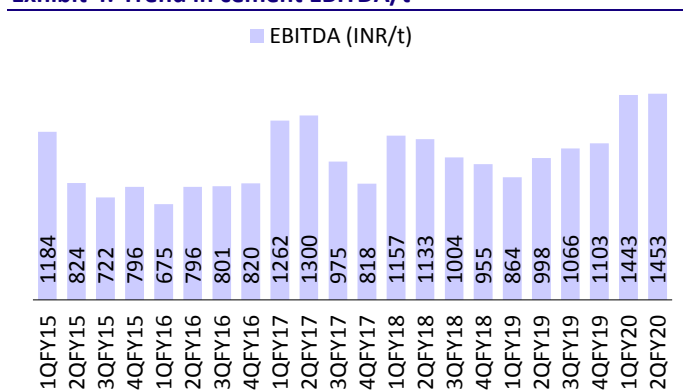
Source: Company, MOFSL

Exhibit 2: Total cost/t decreases 2% YoY (INR/t)

Source: Company, MOFSL

Exhibit 3: Margins expand 7pp YoY

Source: Company, MOFSL

Exhibit 4: Trend in cement EBITDA/t

Source: Company, MOFSL

Exhibit 5: Key performance indicators

INR/t	2QFY20	2QFY19	YoY (%)	1QFY19	QoQ(%)
Net Realization	4,654	4,267	9%	4,703	-1%
Raw Material Cost	264	298	-12%	306	-14%
Staff Cost	323	301	7%	316	2%
Power & fuel	825	843	-2%	806	2%
Freight & selling Exp	1,013	1,039	-2%	1,103	-8%
Other Exp	776	787	-1%	728	7%
Total Exp	3,201	3,269	-2%	3,260	-2%
EBITDA	1,453	998	46%	1,443	1%

Source: Company, MOFSL

- Operating cash flow for 1HFY20 was up 208% YoY to INR17.7b and free cash flow (FCF) stood at INR10.6b (with 3.3% annualized FCF yield).

Exhibit 6: Cash flow statement (INR m)

	1HFY19	1HFY20
Operating cash flows before working capital and taxes	13040.9	18254.7
change in working capital	-6422.7	3010.6
Taxes paid	-1161.9	-2942.6
Operating cash flows post working capital and taxes	5456.3	18322.7
Capex	-9940.6	-7700.1
Payment for Acquisition of UCC	-20081	0
FCFF	-24565.3	10622.6
Inc/(Dec) in Debt	-530.7	-831
Interest Paid	-1137.2	-1439.6
Dividend Paid	-1260	-1522.7
FCF yield	-7.6%	3.3%

Source: MOFSL, Company

Valuation and view

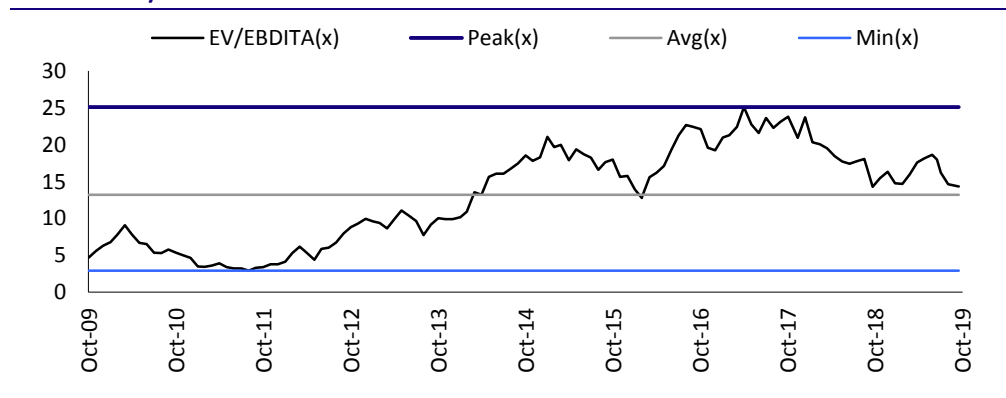
- **Capacity update:** SRCM's east expansion plan by ~60% is now coming to fruition with its 2.50MTPA Jamshedpur (Jharkhand) grinding unit (GU), which has started commercial production on 28th Jun'19. Another 3MTPA GU at Cuttack (Odisha) is expected to be commissioned by Jan'20. Moreover, it is planning to enter the western region by starting its 2.2MTPA Pune GU by Sep'20.
- We believe that the stock – currently trading at 14x FY21E EV/EBITDA – has factored in the strong cement price hikes this year. Moreover, we await clarity on SRCM's bidding strategy and the IRR threshold for its new inorganic growth strategy. We raise our EBITDA/PAT estimates by 2% (due to higher realization) for FY20 but maintain those for FY21. Our target price remains unchanged. We value standalone operations at 15x FY21E EV/EBITDA and UCC operations at USD70/t to arrive at a target price of INR21,000 (implied EV/t of USD190). Maintain **Neutral**.

Exhibit 7: Change in estimates

(INR B)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	126	129	-3	140	149	-6
EBITDA	38	36	3	43	43	0
Net Profit	15	15	2	21	21	1
EPS (INR)	443	433	2	607	603	1

Source: Company, MOFSL

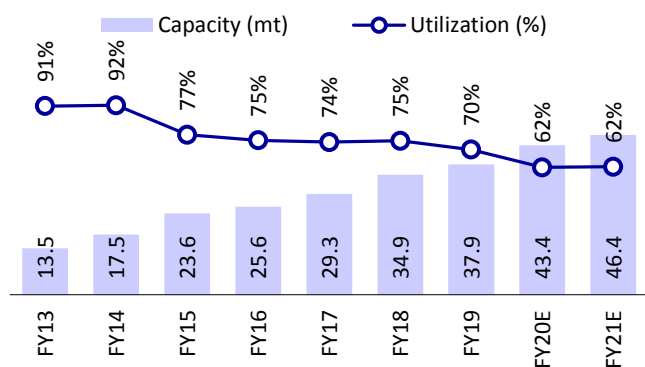
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company

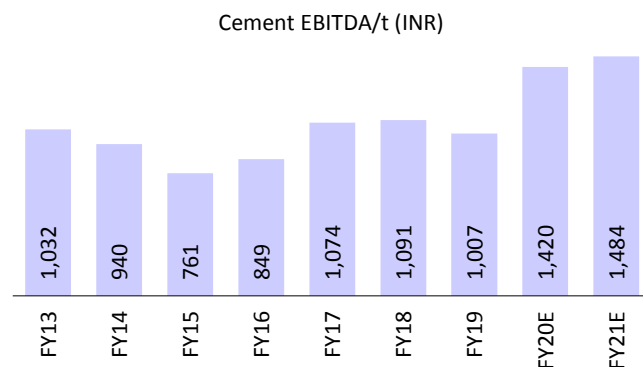
Story in charts

Exhibit 9: Steady growth in capacity to aid volume



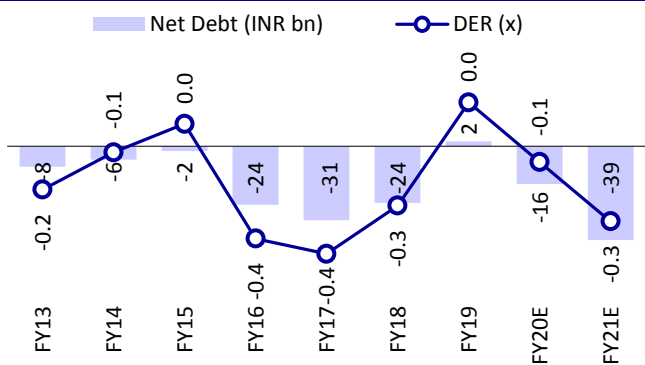
Source: Company, MOFSL

Exhibit 10: Operating profitability to improve (INR/t)



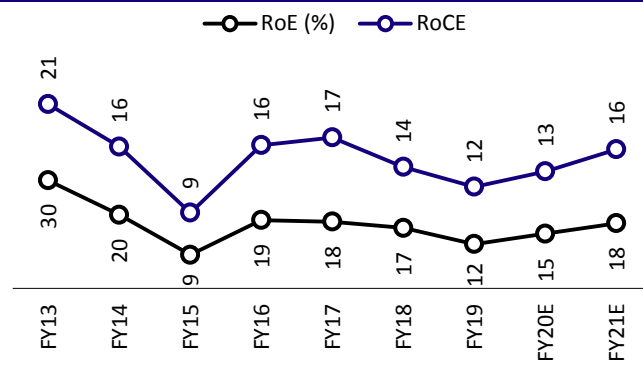
Source: Company, MOFSL

Exhibit 11: Strong balance sheet to drive consistent growth from internal accruals



Source: MOFSL, Company

Exhibit 12: Return ratios to improve



Source: MOFSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2014*	2015*	2016	2017	2018	2019	2020E	2021E
Gross Sales	65,713	72,036	62,029	95,215	102,158	117,599	125,658	140,392
Less: Excise Duty	6,823	7,536	6,763	10,674	3,264	0	0	0
Net Sales	58,890	64,500	55,266	84,541	98,894	117,599	125,658	140,392
Change (%)	5.5	9.5	-14.3	53.0	17.0	18.9	6.9	11.7
EBITDA	14,058	13,439	14,069	23,672	24,728	27,868	37,656	43,267
Margin (%)	23.9	20.8	25.5	28.0	25.0	23.7	30.0	30.8
Depreciation	5,499	9,248	8,276	12,147	8,994	13,917	17,041	15,169
EBIT	8,559	4,191	5,793	11,525	15,734	13,951	20,615	28,098
Int. and Finance Charges	1,292	1,206	758	1,294	1,353	3,810	2,721	2,795
Other Income - Rec.	1,690	1,379	6,727	5,077	3,891	2,454	2,154	2,503
PBT before EO Expense	8,957	4,363	11,763	15,308	18,272	12,596	20,048	27,805
EO Expense/(Income)	805	355	0	0	0	1,781	0	0
PBT after EO Expense	8,152	4,008	11,763	15,308	18,272	10,814	20,048	27,805
Tax	770	268	668	3,263	4,466	2,177	4,611	6,673
Deferred Tax	-491	-523	-337	-1,346	-36	-873	0	0
Tax Rate (%)	3.4	-6.4	2.8	12.5	24.2	12.1	23.0	24.0
Reported PAT	7,872	4,263	11,431	13,391	13,842	9,510	15,437	21,132
Adj PAT for EO items	8,678	4,618	11,431	13,391	13,842	11,292	15,437	21,132
Change (%)	-11.5	-46.8	147.5	17.1	3.4	-18.4	36.7	36.9
Margin (%)	14.7	7.2	20.7	15.8	14.0	9.6	12.3	15.1

*Y/E June

Balance Sheet							(INR Million)	
Y/E March	2014*	2015*	2016	2017	2018	2019	2020E	2021E
Equity Share Capital	348	348	348	348	348	348	348	348
Other Reserves	46,760	52,416	68,107	76,633	88,620	95,626	108,337	126,114
Total Reserves	46,760	52,416	68,107	76,633	88,620	95,626	108,337	126,114
Net Worth	47,109	52,764	68,455	76,981	88,968	95,974	108,685	126,463
Deferred Liabilities	-1429	-1952	-3718	-5077	-5131	-6126	-6126	-6126
Secured Loan	11,999	9,166	8,350	6,854	23,761	27,770	27,770	27,770
Unsecured Loan	6,529	8,523	455	6,072	10,269	210	0	0
Total Loans	18,528	17,690	8,805	12,925	34,030	27,980	27,770	27,770
Capital Employed	64,208	68,502	73,542	84,830	117,868	117,827	130,329	148,106
Gross Block	69,076	86,496	38,720	46,354	65,480	88,259	105,470	114,720
Less: Accum. Deprn.	47,138	56,453	8,218	20,363	29,586	43,503	60,544	75,713
Net Fixed Assets	21,938	30,043	30,501	25,991	35,895	44,757	44,927	39,007
Capital WIP	11,009	8,307	6,140	11,035	18,303	14,725	9,514	8,514
Financial investments	22,444	16,625	30,305	40,424	54,341	22,856	32,856	47,856
Strategic Investment	0	1	1	3	3	21,583	21,583	21,583
Curr. Assets	16,468	23,051	23,968	29,132	37,749	41,886	52,543	65,423
Inventory	8,098	9,189	8,152	13,145	15,690	15,891	16,980	18,971
Account Receivables	2,966	4,764	3,286	3,351	4,593	7,324	7,826	8,743
Cash and Bank Balance	1,593	3,075	2,830	3,110	3,209	3,078	10,585	18,841
Others	3,811	6,023	9,700	9,526	14,258	15,593	17,153	18,868
Curr. Liability & Prov.	7,651	9,525	17,373	21,754	28,420	27,979	31,093	34,277
Account Payables	6,465	8,645	17,283	21,660	28,335	27,886	31,001	34,184
Provisions	1,186	880	91	95	86	93	93	93
Net Current Assets	8,817	13,526	6,595	7,378	9,329	13,907	21,450	31,147
Appl. of Funds	64,208	68,502	73,542	84,830	117,870	117,828	130,329	148,107

*Y/E June

Financials and Valuations

Ratios

Y/E March	2014*	2015*	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	235.0	117.5	318.5	345.7	396.3	324.1	443.1	606.5
Cash EPS	435.6	505.7	678.4	911.1	776.7	958.4	1,180.4	1,228.8
BV/Share	1,352.3	1,514.6	1,965.0	2,209.6	2,553.6	2,754.7	3,119.6	3,629.8
DPS	22.0	24.0	24.0	140.0	50.0	60.0	35.0	40.0
Payout (%)	9.7	19.6	7.3	36.4	12.6	22.0	7.9	6.6
Valuation (x)								
P/E						57.4	42.0	30.7
Cash P/E						19.4	15.8	15.1
P/BV						6.8	6.0	5.1
EV/Sales						5.4	5.0	4.3
EV/EBITDA						23	17	14
EV/ton (USD-Cap)						233	200	180
Dividend Yield (%)						0.3	0.2	0.2
Return Ratios (%)								
RoIC	16.9	8.2	9.3	14.9	14.3	14.0	19.0	22.7
RoE	20.3	9.2	18.9	18.4	16.7	12.2	15.1	18.0
RoCE	16.3	8.7	16.5	17.4	14.0	11.7	13.5	16.0
Working Capital Ratios								
Inventory (Days)	50	52	54	57	58	49	49	49
Debtor (Days)	16	24	19	13	16	23	23	23
Creditor (Days)	40	49	114	94	105	87	90	89
Working Capital Turnover (Days)	55	77	44	32	34	43	62	81
Leverage Ratio (x)								
Current Ratio	2.2	2.4	1.4	1.3	1.3	1.5	1.7	1.9
Net Debt/Equity	-0.1	0.0	-0.4	-0.4	-0.3	0.0	-0.1	-0.3

Cash Flow Statement

	2014*	2015*	2016	2017	2018	2019	(INR Million)	
OP/(Loss) before Tax	8,152	4,008	11,763	15,308	18,272	10,814	20,048	27,805
Depreciation	5,555	9,315	8,276	12,147	8,994	13,916	17,041	15,169
Interest & Finance Charges	495	654	-754	-1,210	-740	833	0	0
Direct Taxes Paid	-556	-906	-1,431	-2,891	-5,068	-2,300	-4,611	-6,673
(Inc)/Dec in WC	-850	-2,920	-1,748	-509	-1,131	-5,302	-36	-1,441
CF from Operations	12,795	10,150	16,105	22,845	20,327	17,962	32,442	34,861
Others	1,212	2,236	-444	-829	-1,540	2,635	0	0
CF from Operating incl EO	14,007	12,386	15,662	22,017	18,788	20,597	32,442	34,861
(Inc)/Dec in FA	-15,829	-11,236	-7,339	-12,793	-25,263	-18,853	-12,000	-8,250
Free Cash Flow	-1,822	1,150	8,322	9,223	-6,475	1,744	20,442	26,611
(Pur)/Sale of Investments	3,490	1,334	-5,306	-7,686	-10,685	10,727	-10,000	-15,000
Others	-2,210	1,583	-553	411	-3	51	0	0
CF from Investments	-14,549	-8,318	-13,199	-20,068	-35,950	-8,075	-22,000	-23,250
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	802	-446	-224	4,455	20,353	-7,591	-210	0
Interest Paid	-1,465	-1,246	-892	-1,278	-1,248	-2,753	0	0
Dividend Paid	-895	-893	-1,592	-4,846	-1,843	-2,308	-2,725	-3,354
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	-1,558	-2,586	-2,708	-1,669	17,262	-12,653	-2,935	-3,354
Inc/Dec of Cash	-2,100	1,482	-245	279	99	-131	7,507	8,256
Opening Balance	3,693	1,593	3,075	2,830	3,110	3,209	3,078	10,585
Closing Balance	1,593	3,075	2,830	3,110	3,209	3,078	10,585	18,841

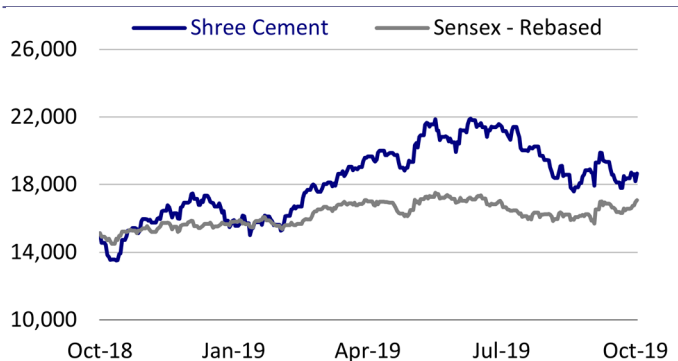
*Y/E June

Corporate profile

Company description

Shree Cement is one of the leading cement manufacturers in India with a total capacity of 40.3mt. Over the years, the company has diversified its presence from being a north-based company to East and is also venturing into south. The company has 646MW of power generation capacity.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-19	Mar-19	Jun-18
Promoter	64.8	64.8	64.8
DII	6.9	6.2	17.0
FII	12.2	13.0	12.8
Others	16.1	16.0	5.5

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
FLT LIMITED	10.3
SBI Mutual Fund	1.1
UTI Mutual Fund	1.1
Kotak Mahindra Mutual Fund	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
B G Bangur	Chairman
H M Bangur	Managing Director
Prashant Bangur	Joint Managing Director
S S Khandelwal	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Leena Srivastava	Sanjiv Krishnaji Shelgikar
Nitin Desai	Shreekant Somany
O P Setia	Y K Alagh
R L Gaggar	

*Independent

Exhibit 6: Auditors

Name	Type
Gupta & Dua	Statutory
K G Goyal & Associates	Cost Auditor
P K Ajmera & Co	Internal
P Pincha & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	443.1	461.0	-3.9
FY21	606.5	599.7	1.1

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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