

Retail Equity Research

Shree Cement Limited

Construction Materials

BSE CODE: 500387

NSE CODE: SHREECEM

Bloomberg CODE: SRCM:IN

SENSEX: 44,180

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 24,058 TARGET Rs. 25,750 RETURN 7% ↑
(Closing: 18-11-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Better-than-expected results; Cautious outlook

Shree Cement Limited provides building materials. The company manufactures and sells cement and cement products in India. The company currently operates with a total cement capacity of 44.4mtpa of which 40.4mtpa is located in India. Total domestic power capacity for the company stands at 742 MW.

- Standalone sales grew 7.9% YoY to Rs. 3,022cr in Q2FY21 (+29.9% on QOQ basis) mainly driven by increase in sales volume backed by resumption in construction activity post-lifting of lockdown.
- EBITDA margin improved by 260bps YoY/QoQ to 32.7% due to improved product mix and lower power costs. As a result, PAT rose 77.1% YoY to Rs. 547cr (+47.6% QoQ).
- Considering gradual pick-up in volumes and robust utilization with recent price correction, we upgrade our rating on the stock to HOLD with a revised target price of Rs. 25,750 based on 21x FY22E EV/EBITDA.

Good show in Q2FY21

Growth in domestic sales volume demand of Shree cements exceeded the Industry growth which resulted in 29.9% QoQ growth in standalone revenue. Company sold cement volume of 6.5MT (+14.0% YoY) primarily driven by tier 2, 3, 4 cities. Shree Cements posted solid performance in North (65% of total sales volume), followed by East (25%) and rest of contribution from South. However, the utilization in South is improving at a good phase from 30% in June to around 65% in September. We expect the rising demand momentum to continue in Q3FY21 with resumption of all the existing projects and new construction activity post lockdown months. In Q2FY21, Debt to Equity stood at 0.14x; Debt service coverage ratio at 2.7x and Interest service coverage ratio at 14.4x.

Bottom-line improves on margin expansion

Fuel cost reduced drastically in Q2FY21 on account of various cost optimization efforts. EBITDA reported at Rs. 988cr (+17.0% YoY; +41.0% QoQ) with 260bps margin expansion both yearly and sequentially. Also, the Company generated higher other income (+77.3% YoY) and lower interest costs (-12.5% YoY), which led to 77.1% YoY growth in PAT of Rs. 547cr (+47.6% QoQ).

Key concall highlights

- The management has announced adding a 3rd clinker unit (capacity of 12,000 TPD) in Chattisgarh, which is expected to get commissioned in next 2 years.
- Pune and Odisha grinding units are nearing completion and expected to be commissioned by December 2020.
- UAE operations are not performing well on account of lower cement demand in Q2FY21. However, the board is planning to expand capacity.
- The company expects consumption of pet coke to reduce and imported coal to increase in coming quarters.

Valuation

We expect PAT to grow at 22.3% CAGR over FY20-22E as the disruptions on the supply side are easing out with improvements seen in economic activity, further supported by demand recovery owing to various government's initiatives. Hence, we upgrade our rating on the stock to HOLD with a revised target price of Rs. 25,750 based on 21x FY22E EV/EBITDA.

Company Data

Market Cap (cr)	Rs. 86,570
Enterprise Value (cr)	Rs. 87,742
Outstanding Shares (cr)	3.6
Free Float	35.0%
Dividend Yield	0.5%
52 week high	Rs. 25,341
52 week low	Rs. 15,500
6m average volume	1,835
Beta	1.1
Face value	Rs. 10

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	62.6	62.6	62.6
FII's	11.9	11.6	11.4
MFs/Insti	11.2	11.7	11.5
Public	2.9	2.9	3.1
Others	11.5	11.4	11.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	10.2%	18.5%	18.6%
Absolute Sensex	13.4%	35.7%	8.3%
Relative Return*	-3.2%	-17.3%	10.3%

*over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	11,904	12,047	14,360
Growth (%)	1.6	1.2	19.2
EBITDA	3,675	3,607	4,272
EBITDA Margin (%)	30.9	29.9	29.8
Adj. PAT	1,570	1,815	2,349
Growth (%)	39.1	15.6	29.4
Adj. EPS	445.1	503.2	651.0
Growth (%)	37.3	13.0	29.4
P/E	39.5	47.7	36.9
P/B	4.8	6.0	5.2
EV/EBITDA	17.5	24.3	20.4
ROE (%)	12.1	12.5	14.2
D/E	0.2	0.1	0.1

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	3,022	2,802	7.9	2,326	29.9	5,348	5,838	(8.4)
EBITDA	988	844	17.0	701	41.0	1,689	1,746	(3.3)
EBITDA margins	32.7	30.1	260bps	30.1	260bps	31.6	29.9	170bps
Depreciation	279	428	(34.9)	271	2.7	550	831	(33.8)
EBIT	709	416	70.6	429	65.3	1,139	915	24.4
Interest	63	72	(12.5)	71	(11.1)	133	140	(4.6)
Other Income	102	58	77.3	124	(17.7)	227	109	108.3
Exceptional Items	-	-	-	-	-	-	-	-
PBT	749	402	86.4	483	55.0	1,232	884	39.3
Tax	202	93	117.5	112	79.6	314	212	47.9
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	547	309	77.1	371	47.6	918	672	36.6
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	547	309	77.1	371	47.6	918	672	36.6
No. of shares	3.6	3.5	3.6	3.6	0.0	3.6	3.5	3.6
Adj. EPS (Rs.)	151.7	88.7	71.0	102.8	47.6	254.4	192.9	31.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	11,493	13,519	12,047	14,360	4.8	6.2
EBITDA	3,270	3,923	3,607	4,272	10.3	8.9
Margins (%)	28.5	29.0	29.9	29.8	140bps	80bps
Adj. PAT	1,234	1,840	1,815	2,349	47.1	27.7
Adj. EPS (Rs.)	342.1	509.9	503.2	651.0	47.1	27.7

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	10,160	11,722	11,904	12,047	14,360
% change	7.0	15.4	1.6	1.2	19.2
EBITDA	2,473	2,653	3,675	3,607	4,272
% change	4.5	7.3	38.5	(1.8)	18.4
Depreciation	899	1,392	1,699	1,294	1,443
EBIT	1,573	1,261	1,975	2,313	2,829
Interest	135	247	287	258	191
Other Income	389	67	272	398	418
PBT	1,827	1,081	1,960	2,453	3,056
% change	19.4	(40.8)	81.3	25.2	24.6
Tax	443	130	390	638	708
Tax Rate (%)	24.2	12.1	19.9	26.0	23.2
Reported PAT	1,384	951	1,570	1,815	2,349
Adj*	-	178	-	-	-
Adj PAT	1,384	1,129	1,570	1,815	2,349
% change	3.4	(18.4)	39.1	15.6	29.4
No. of shares (cr)	3.5	3.5	3.5	3.6	3.6
Adj EPS (Rs.)	397.7	324.1	445.1	503.2	651.0
% change	3.4	(18.5)	37.3	13.0	29.4
DPS (Rs.)	50.0	60.0	110.0	75.0	90.0
CEPS (Rs.)	656.2	723.6	926.8	861.8	1051.0

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	2,284	2,343	3,270	3,109	3,792
Non-cash adj.	(292)	247	(77)	392	(500)
Changes in W.C	(113)	(530)	559	(163)	(282)
C.F. Operation	1,879	2,060	3,751	3,338	3,011
Capital exp.	(2,526)	(1,885)	(1,294)	(990)	(1,539)
Change in inv.	(1,836)	824	(4,267)	(909)	(641)
Other invest.CF	768	249	188	156	116
C.F - Investment	(3,595)	(813)	(5,373)	(1,742)	(2,064)
Issue of equity	-	-	-	-	-
Issue/repay debt	2,039	(758)	162	(611)	(66)
Dividends paid	(184)	(231)	(623)	(271)	(325)
Other finance.CF	(129)	(277)	2,052	(258)	(191)
C.F - Finance	1,726	(1,265)	1,591	(1,140)	(581)
Chg. in cash	10	(18)	(31)	456	365
Closing cash	121	308	108	564	930

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	121	308	108	564	930
Accounts Receivable	459	732	828	904	1,005
Inventories	1,569	1,589	1,428	1,560	1,747
Other Cur. Assets	3,551	1,362	4,461	4,442	5,054
Investments	3,123	4,411	5,829	6,412	7,053
Gross Fixed Assets	6,527	8,813	10,107	11,097	12,636
Net Fixed Assets	3,577	4,465	4,300	4,042	4,181
CWIP	1,427	1,121	962	914	868
Intangible Assets	12	11	19	21	23
Def. Tax (Net)	513	613	744	878	1,036
Other Assets	789	581	658	664	670
Total Assets	15,142	15,193	19,338	20,400	22,566
Current Liabilities	1,781	1,519	2,492	2,544	2,670
Provisions	8	8	9	9	9
Debt Funds	3,394	2,777	2,347	1,736	1,671
Other Liabilities	1,062	1,292	1,553	1,630	1,712
Equity Capital	35	35	36	37	37
Reserves & Surplus	8,862	9,563	12,900	14,444	16,468
Shareholder's Fund	8,897	9,597	12,936	14,481	16,505
Minority Interest	-	-	-	-	-
Total Liabilities	15,142	15,193	19,338	20,400	22,566
BVPS (Rs.)	2,557	2,755	3,667	4,014	4,575

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	24.3	22.6	30.9	29.9	29.8
EBIT margin (%)	15.5	10.8	16.6	19.2	19.7
Net profit mgn.(%)	13.6	8.1	13.2	15.1	16.4
ROE (%)	15.6	9.9	12.1	12.5	14.2
ROCE (%)	12.8	10.2	12.9	14.3	15.6
W.C & Liquidity					
Receivables (days)	16.5	22.8	25.4	27.4	25.6
Inventory (days)	186.2	160.7	167.3	211.7	198.9
Payables (days)	86.3	45.6	61.9	77.6	66.0
Current ratio (x)	1.9	2.0	2.1	2.5	2.8
Quick ratio (x)	1.0	0.5	1.3	1.6	1.7
Turnover & Leverage					
Gross asset T.O (x)	1.8	1.5	1.3	1.1	1.2
Total asset T.O (x)	0.8	0.8	0.7	0.6	0.7
Int. coverage ratio (x)	11.6	5.1	6.9	9.0	14.8
Adj. debt/equity (x)	0.4	0.3	0.2	0.1	0.1
Valuation					
EV/Sales (x)	6.0	5.8	5.4	7.3	6.1
EV/EBITDA (x)	24.7	25.4	17.5	24.3	20.4
P/E (x)	41.8	57.6	39.5	47.7	36.9
P/BV (x)	6.5	6.8	4.8	6.0	5.2

Recommendation Summary



Dates	Rating	Target
19-Aug-19	HOLD	20,687
27-Feb-20	REDUCE	20,770
18-May-20	SELL	16,110
19-Nov-20	HOLD	25,750

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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