

Retail Equity Research

Shree Cement Limited

Construction Materials

BSE CODE: 500387

NSE CODE: SHREECEM

Bloomberg CODE: SRCM:IN

SENSEX: 58,351

HOLD

12 Months Investment period Rating as per Large Cap
CMP Rs. 20,928 TARGET Rs. 22,010 RETURN 5%
(Closing: 03-08-22) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Mixed quarterly performance

Shree Cement Limited (SCL) provides building materials. The company manufactures cement and cement products. Shree Cement sells its products in India under its own brand names. The company currently operates with a total cement capacity of 46.4mtpa of which 40.4mtpa is located in India.

- Company reported standalone net revenue from operations of Rs. 4,203cr up 21.84% YoY aided by higher volumes and better realisations.
- EBITDA for the Q1FY23 declined by 19.2% YoY (-10.8% QoQ) to Rs. 819cr as EBITDA margins contracted to 19.5% a decline of 990bps YoY, due to sharp spike in the input costs.
- Company's robust business model is backed by completion of capacity expansions within scheduled time frame, optimising production costs and providing the best-in-class products thereby gaining market share. Nevertheless, with the input cost inflation pressure in the short term and stock's high valuation we remain cautious and thus reiterate our HOLD rating on the stock with a revised target price of Rs. 22,010 based on 18x FY24E EV/EBITDA.

Higher power and fuel costs dents margins

For Q1FY23 standalone revenue grew by 21.8% YoY to Rs. 4,203cr (+2.5% QoQ) as a result of increased sales volume on the back of rise in demand. However, EBITDA margin ended at 19.5% with a decline of 990 bps YoY, primarily due to the sharp spike in cost of pet coke, coal and diesel on account of supply chain disruptions. Power and fuel costs shot up by 121% YoY (+34% QoQ) to Rs. 1,442cr making it up to ~35% of the turnover. Consequently, the effect percolated to the PAT, recording at Rs. 316cr down by 52% YoY and with a net margin of 7.5% compared to 19.2% in Q1FY22.

Key performance indicators

As per as study conducted by the Confederation of Indian Industry, the demand of cement industry is expected to reach ~550-600mn tonnes per annum (MTPA) constantly by 2025 because of the expanding requests of housing, commercial and industrial construction. To seize the rising opportunities the company plans three new projects with a capex of approximately Rs. 4,750cr which spread over the next two years and will be funded via internal accruals. Of this, Rs. 3,500cr is being used to establish an integrated cement plant of clinker capacity 3.8mtpa and cement capacity of up to 3.5mtpa in Rajasthan, while the remaining amount is being spent on establishing a grinding plant of 3mtpa in West Bengal and installing solar power plants at various locations across the country that are valued at Rs. 750cr and Rs. 500cr, respectively. Post these expansions, the overall cement capacity will increase to ~53mtpa.

Valuation

Looking forward, as demand in cement industry is expected to be strong, the prospect of SCL looks promising as the company being a pioneer in cost initiatives with 1) 48.2% share of green power in total power consumption 2) able to use multi fuel kilns and 3) use of synthetic gypsum, further with a strong brand name it has created through its quality products and its healthy return ratios. The management expects some respite from input cost inflation in second half of FY23. However, in the short term we believe on-going geopolitical conflict may constrain fuel supply and thus put rising pressure on input prices impacting its margins. Hence, we reiterate our HOLD rating on the stock with a revised target price of Rs. 22,010 based on 18x FY24E EV/EBITDA.

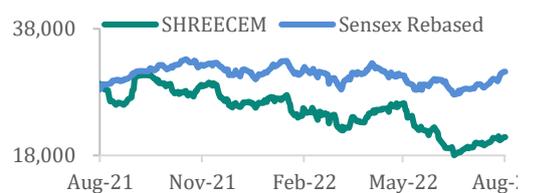
Company Data

Market Cap (cr)	Rs. 75,497
Enterprise Value (cr)	Rs. 86,895
Outstanding Shares (cr)	3.6
Free Float	37.0%
Dividend Yield	0.2%
52 week high	Rs. 31,441
52 week low	Rs. 17,900
6m average volume	1,662
Beta	0.9
Face value	Rs. 10

Shareholding %	Q3FY22	Q4FY22	Q1FY23
Promoters	62.6	62.6	62.6
FII's	13.1	12.2	11.9
MFs/Insti	10.5	11.2	11.2
Public	2.9	3.1	3.1
Others	11.0	11.0	11.3
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	-19.7%	-18.0%	-26.0%
Absolute Sensex	1.8%	-1.3%	10.5%
Relative Return*	-21.6%	-16.7%	-36.5%

*over or under performance to benchmark index



Standalone (cr)	FY22A	FY23E	FY24E
Sales	14,306	17,310	19,387
Growth (%)	13.6	21.0	12.0
EBITDA	3,648	3,792	4,498
EBITDA Margin (%)	25.5	21.9	23.2
Adj. PAT	2,377	2,251	2,651
Growth (%)	2.8	(5.3)	17.8
Adj. EPS	668.7	633.4	745.9
Growth (%)	4.4	(5.3)	17.8
P/E	35.8	37.8	32.1
P/B	4.9	4.5	4.0
EV/EBITDA	23.8	22.9	19.2
ROE (%)	13.8	11.8	12.5
D/E	0.1	0.1	0.1

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY23	Q1FY22	YoY Growth %	Q4FY22	QoQ Growth %
Revenue	4,203	3,449	21.8	4,099	2.5
EBITDA	819	1,014	<i>(19.2)</i>	911	<i>(10.1)</i>
EBITDA margins	19.5	29.4	(990bps)	22.2	(270bps)
Depreciation	328	233	41.0	301	8.8
EBIT	491	781	<i>(37.1)</i>	609	<i>(19.4)</i>
Interest	57	54	7.1	54	7.1
Other Income	(22)	139	(115.5)	138	(115.6)
Exceptional Items	-	-	<i>n.m.</i>	-	<i>n.m.</i>
PBT	412	867	<i>(52.5)</i>	694	<i>(40.6)</i>
Tax	96	205	(53.0)	49	98.4
Share of profit from Associate	-	-	<i>n.m.</i>	-	<i>n.m.</i>
Minority Interest	-	-	<i>n.m.</i>	-	<i>n.m.</i>
Reported PAT	316	662	<i>(52.3)</i>	645	<i>(51.1)</i>
Adjustments	-	-	<i>n.m.</i>	-	<i>n.m.</i>
Adj. PAT	316	662	<i>(52.3)</i>	645	<i>(51.1)</i>
No. of shares	3.6	3.6	0.3	3.6	-
Adj. EPS (Rs.)	87.4	183.8	<i>(52.4)</i>	178.7	<i>(51.1)</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	17,221	19,287	17,310	19,387	0.5	0.5
EBITDA	4,843	5,420	3,792	4,498	(21.7)	(17)
Margins (%)	28.1	28.1	21.9	23.2	(620bps)	(490bps)
Adj. PAT	3,073	3,429	2,251	2,651	(26.8)	(22.7)
Adj. EPS	852.1	950.7	633.4	745.9	(25.7)	(21.5)

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	11,904	12,588	14,306	17,310	19,387
% change	1.6	5.7	13.6	21.0	12.0
EBITDA	3,675	3,955	3,648	3,792	4,498
% change	38.5	7.6	(7.8)	4.0	18.6
Depreciation	1,699	1,140	1,036	1,196	1,396
EBIT	1,975	2,815	2,611	2,597	3,102
Interest	287	247	218	201	181
Other Income	272	458	537	564	564
PBT	1,960	3,026	2,931	2,959	3,485
% change	81.3	54.4	(3.1)	1.0	17.8
Tax	390	714	554	708	834
Tax Rate (%)	19.9	23.6	18.9	23.9	23.9
Reported PAT	1,570	2,312	2,377	2,251	2,651
Adj*	-	-	-	-	-
Adj PAT	1,570	2,312	2,377	2,251	2,651
% change	39.1	47.2	2.8	(5.3)	17.8
No. of shares (cr)	3.5	3.6	3.6	3.6	3.6
Adj EPS (Rs.)	445.1	640.8	668.7	633.4	745.9
% change	37.3	44.0	4.4	(5.3)	17.8
DPS (Rs.)	110.0	60.0	45.0	90.0	90.0
CEPS (Rs.)	926.8	956.7	960.3	969.9	1138.8

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	3,270	3,452	3,413	3,447	4,047
Non-cash adj.	(77)	(234)	42	(12)	(97)
Changes in W.C	559	876	(732)	(495)	(297)
C.F. Operation	3,751	4,094	2,723	2,941	3,654
Capital exp.	(1,294)	(998)	(1,948)	(2,250)	(2,908)
Change in inv.	(4,267)	(2,086)	(225)	(215)	(41)
Other invest.CF	188	217	308	280	252
C.F - Investment	(5,373)	(2,868)	(1,865)	(2,185)	(2,697)
Issue of equity	-	-	-	-	-
Issue/repay debt	162	(899)	(157)	(65)	(62)
Dividends paid	(623)	(2)	(379)	(470)	(470)
Other finance.CF	2,052	(313)	(323)	(201)	(181)
C.F - Finance	1,591	(1,215)	(858)	(736)	(713)
Chg. in cash	(31)	11	(1)	19	244
Closing cash	108	210	118	138	382

BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	108	210	118	138	382
Accounts Receivable	828	486	596	1,073	1,202
Inventories	1,428	1,477	2,161	2,203	2,407
Other Cur. Assets	4,461	5,027	4,816	5,584	5,783
Investments	5,829	7,271	8,061	8,101	8,142
Gross Fixed Assets	10,107	11,106	13,054	15,304	18,212
Net Fixed Assets	4,300	4,222	4,816	5,914	7,467
CWIP	962	914	868	825	784
Intangible Assets	19	27	610	610	610
Def. Tax (Net)	744	786	670	106	125
Other Assets	658	620	699	699	699
Total Assets	19,338	21,039	23,415	25,254	27,601
Current Liabilities	3,100	3,007	3,843	3,951	4,164
Provisions	9	11	12	12	12
Debt Funds	2,347	1,840	2,014	1,949	1,888
Other Liabilities	945	931	276	289	304
Equity Capital	36	36	36	36	36
Reserves & Surplus	12,900	15,214	17,235	19,016	21,197
Shareholder's Fund	12,936	15,250	17,271	19,052	21,233
Minority Interest	-	-	-	-	-
Total Liabilities	19,338	21,039	23,415	25,254	27,601
BVPS (Rs.)	3,667	4,227	4,859	5,361	5,974

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	30.9	31.4	25.5	21.9	23.2
EBIT margin (%)	16.6	22.4	18.3	15.0	16.0
Net profit mgn.(%)	13.2	18.4	16.6	13.0	13.7
ROE (%)	12.1	15.2	13.8	11.8	12.5
ROCE (%)	12.9	16.5	13.5	12.4	13.4
W.C & Liquidity					
Receivables (days)	25.4	14.1	15.2	22.6	22.6
Inventory (days)	167.3	185.3	196.4	157.0	164.3
Payables (days)	61.9	98.6	73.0	59.0	59.0
Current ratio (x)	1.8	2.0	1.7	1.9	2.0
Quick ratio (x)	1.1	1.3	0.9	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	1.3	1.2	1.2	1.2	1.2
Total asset T.O (x)	0.7	0.6	0.6	0.7	0.7
Int. coverage ratio (x)	6.9	11.4	12.0	12.9	17.1
Adj. debt/equity (x)	0.2	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	5.4	8.6	6.1	5.0	4.5
EV/EBITDA (x)	17.5	27.3	23.8	22.9	19.2
P/E (x)	39.5	46.0	35.8	37.8	32.1
P/BV (x)	4.8	7.0	4.9	4.5	4.0

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
27-Feb-20	REDUCE	20,770
18-May-20	SELL	16,110
19-Nov-20	HOLD	25,750
4-Feb-21	HOLD	28,450
25-May-21	HOLD	28,810
9-Nov-21	HOLD	31,180
8-Feb-22	HOLD	26,030
4-Aug-22	HOLD	22,010

Source: Bloomberg, Geojit research

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/Neutral			

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.

Sell: Exit from the stock.

Not rated/Neutral: 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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