

Retail Equity Research

Shree Cement Limited

Construction Materials

BSE CODE: 500387

NSE CODE: SHREECEM

Bloomberg CODE: SRCM:IN

SENSEX: 37,350

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs 19,444 **TARGET** Rs 20,687 **RETURN** 6% 

(Closing: 16-08-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Robust growth in bottom-line

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 41.9mtpa of which 37.9mtpa is located in India. Total power capacity for the company stood at 659 MW with 646MT located domestically.

- Standalone revenue declined 1.1% YoY to Rs. 3,036cr (missing the street estimates by 2.0%) primarily on lower revenue from Power division (-9.1% YoY)
- However, EBITDA grew 56.8% YoY to Rs. 902cr on improved margins (+1,100bps YoY to 29.7%) aided by better realization and lower costs.
- Resultantly, PAT was up 29.9% to Rs. 363cr and EPS came in at Rs. 104.2 (+29.9% YoY).
- While there are ongoing improvements in profitability and capacity additions in pipeline, valuation at current prices are demanding. We assign HOLD rating to the stock with a target price of Rs. 20,687 based on valuation multiple of 16x FY21E EV/EBITDA.

Revenue miss led by weaker Power operations

Q1FY20 topline contracted to Rs. 3,036cr (-1.1% YoY) as revenue from Cement business (the primary operation for the company contributing ~85% to total revenue) remained largely stable (-0.7% YoY to Rs. 2,849cr), while the performance in power business was weak as revenues dropped 9.1% YoY to Rs. 464cr.

Margins expanded on lower costs

Despite weaker revenue, EBITDA surged 56.8% YoY to Rs. 902cr as EBITDA margins improved to 29.7% (vs. 18.7% in Q1FY19) owing to better realizations and lower raw material and freight costs. EBITDA from cement business jumped 481.9% YoY to Rs. 349cr with margin at 12.3% (2.0% in Q1FY19) which more-than-offset lower EBITDA from power operations (-27.6% to Rs. 153cr) with margin declining to 32.9% from 41.3% in Q1FY19.

Key highlights

- Commercial production at 2.5mtpa new cement grinding unit at Seraikela-Kharsawan District in Jharkhand commenced in June. Additionally, company targets to commission 3.0mtpa new grinding unit at Odisha in September.
- No material impact for lease accounting changes from IND AS17 to IND AS116.
- The company acquired majority stake in Union Cement Company on 11th July 2019. Company expects acquisition synergies to improve the overall consolidated performance in coming quarters.
- FII in real estate investment trusts (REITs) and Infrastructure investment trust (INVITs) might indirectly add value to the cement industry.
- A move in Union budget 2019 for infrastructure could benefit the real estate industry, which may, in turn, increase cement demand.

Valuation

We expect earnings to grow at healthy 35.8% CAGR over FY19-21E and EBITDA margin to improve to 30.7% by FY21E with continuing improvements in realization, cost efficiency measures and capacity additions. However, the stock is currently trading at a demanding 19x FY20E EV/EBITDA. We roll forward by one year and assign HOLD rating with a target price of Rs. 20,687 based on 16x FY21E EV/EBITDA.

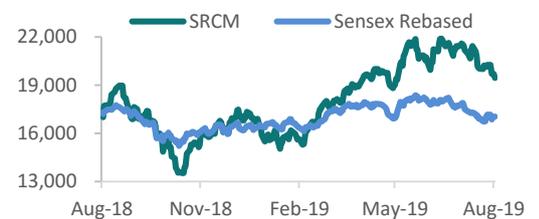
Company Data

Market Cap (cr)	Rs. 67,623
Enterprise Value (cr)	Rs. 70,092
Outstanding Shares (cr)	3.5
Free Float	35.0%
Dividend Yield	0.3%
52 week high	Rs. 22,200
52 week low	Rs. 13,125
6m average volume	1,159
Beta	1.1
Face value	Rs. 10

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	64.8	64.8	64.8
FII's	13.1	13.0	12.2
MFs/Insti	16.6	6.2	6.9
Public	3.0	3.0	3.0
Others	2.5	13.1	13.2
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	0.2%	24.4%	14.3%
Absolute Sensex	-0.1%	4.3%	-0.8%
Relative Return*	0.3%	20.1%	15.2%

*over or under performance to benchmark index



Standalone (Rs. cr)	FY19A	FY20E	FY21E
Sales	11,722	12,916	14,387
Growth (%)	15.4	10.2	11.4
EBITDA	2,653	3,673	4,410
EBITDA Margin (%)	22.6	28.4	30.7
Adj. PAT	1,129	1,564	2,068
Growth (%)	-18.4	38.5	32.2
Adj. EPS	324.4	449.5	594.4
Growth (%)	-18.4	38.5	32.2
P/E	57.5	43.3	32.7
P/B	6.8	6.2	5.3
EV/EBITDA	25.4	19.0	15.7
ROE (%)	9.9	14.3	16.3
D/E	0.3	0.2	0.2

Quarterly Financials (Standalone)

Profit & Loss Account

Rs. cr	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	3,036	3,070	(1.1)	3,285	(7.6)
EBITDA	902	575	56.8	848	6.4
EBITDA margins	29.7	18.7	1,100bps	25.8	390bps
Depreciation	403	306	31.8	421	(4.3)
EBIT	500	270	85.2	427	16.9
Interest	68	56	21.1	70	(2.4)
Other Income	51	94	(45.4)	45	13.4
Exceptional Items	-	-	-	-	-
PBT	483	307	57.1	403	19.9
Tax	120	28	332.6	82	46.4
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	363	279	29.9	321	13.1
Adjustments	-	-	-	-	-
Adjusted PAT	363	279	29.9	321	13.1
No. of shares	3.5	3.5	-	3.5	-
EPS (Rs)	104.2	80.2	29.9	92.1	13.1

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	-	-	12,916	14,387	-	-
EBITDA	-	-	3,673	4,410	-	-
Margins (%)	-	-	28.4	30.7	-	-
Adj. PAT	-	-	1,564	2,068	-	-
EPS	-	-	449.5	594.4	-	-



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	9,497	10,160	11,722	12,916	14,387
% change	-	7.0	15.4	10.2	11.4
EBITDA	2,367	2,473	2,653	3,673	4,410
% change	-	4.5	7.3	38.5	20.1
Depreciation	1,215	899	1,392	1,623	1,758
EBIT	1,152	1,573	1,261	2,050	2,652
Interest	129	135	247	296	254
Other Income	508	389	67	245	245
PBT	1,531	1,827	1,081	1,999	2,643
% change	-	19.4	(40.8)	84.8	32.2
Tax	192	443	130	435	575
Tax Rate (%)	12.5	24.2	12.1	21.8	21.8
Reported PAT	1,339	1,384	951	1,564	2,068
Adj*	-	-	178	-	-
Adj PAT	1,339	1,384	1,129	1,564	2,068
% change	-	3.4	(18.4)	38.5	32.2
No. of shares (cr)	3.5	3.5	3.5	3.5	3.5
Adj EPS (Rs)	384.8	397.7	324.4	449.5	594.4
% change	-	3.4	(18.4)	38.5	32.2
DPS (Rs)	140.0	50.0	60.0	70.0	80.0
CEPS (Rs)	733.8	656.2	724.3	915.9	1099.6

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	2,554	2,284	2,343	3,187	3,827
Non-cash adj.	(301)	(292)	247	150	144
Changes in W.C	(51)	(113)	(530)	(107)	(225)
C.F. Operation	2,202	1,879	2,060	3,230	3,746
Capital exp.	(1,295)	(2,526)	(1,885)	(2,089)	(2,327)
Change in inv.	(1,156)	(1,836)	824	(441)	(485)
Other invest.CF	403	768	249	196	168
C.F - Investment	(2,048)	(3,595)	(813)	(2,334)	(2,645)
Issue of equity	-	-	-	-	-
Issue/repay debt	445	2,039	(758)	(346)	(294)
Dividends paid	(485)	(184)	(231)	(244)	(278)
Other finance.CF	(128)	(129)	(277)	(296)	(254)
C.F - Finance	(167)	1,726	(1,265)	(886)	(826)
Chg. in cash	(13)	10	(18)	10	275
Closing cash	111	121	308	317	592

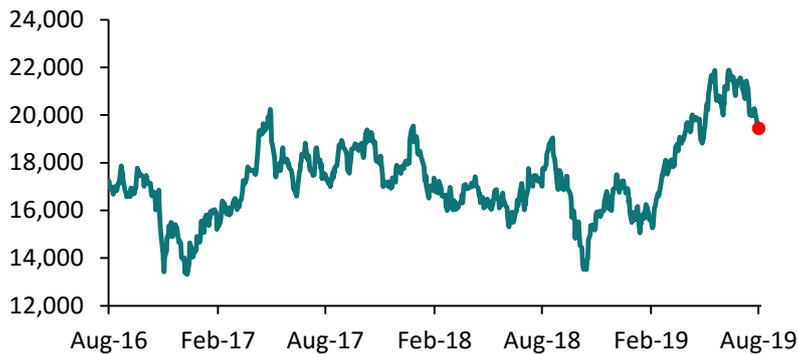
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	111	121	308	317	592
Accounts Receivable	335	459	732	807	899
Inventories	1,315	1,569	1,589	1,634	1,820
Other Cur. Assets	1,521	3,551	1,362	1,374	1,388
Investments	3,388	3,123	4,411	4,852	5,337
Gross Fixed Assets	4,617	6,527	8,813	10,903	13,230
Net Fixed Assets	2,586	3,577	4,465	4,988	5,612
CWIP	710	1,427	1,121	1,065	1,012
Intangible Assets	13	12	11	10	9
Def. Tax (Net)	508	513	613	674	741
Other Assets	678	789	581	587	592
Total Assets	11,166	15,142	15,193	16,308	18,002
Current Liabilities	1,215	1,781	1,519	1,595	1,726
Provisions	7	8	8	8	8
Debt Funds	1,292	3,394	2,777	2,431	2,136
Other Liabilities	953	1,062	1,292	1,357	1,424
Equity Capital	35	35	35	35	35
Reserves & Surplus	7,663	8,862	9,563	10,883	12,673
Shareholder's Fund	7,698	8,897	9,597	10,918	12,708
Minority Interest	-	-	-	-	-
Total Liabilities	11,166	15,142	15,193	16,308	18,002
BVPS (Rs)	2,212	2,557	2,758	3,137	3,652

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	24.9	24.3	22.6	28.4	30.7
EBIT margin (%)	12.1	15.5	10.8	15.9	18.4
Net profit mgn. (%)	14.1	13.6	8.1	12.1	14.4
ROE (%)	17.4	15.6	9.9	14.3	16.3
ROCE (%)	12.8	12.8	10.2	15.4	17.9
W.C & Liquidity					
Receivables (days)	12.9	16.5	22.8	22.8	22.8
Inventory (days)	152.9	186.2	160.7	160.7	160.7
Payables (days)	40.9	86.3	45.6	45.6	45.6
Current ratio (x)	1.7	1.9	2.0	2.0	2.1
Quick ratio (x)	0.6	1.0	0.5	0.6	0.7
Turnover & Leverage					
Gross asset T.O (x)	2.1	1.8	1.5	1.3	1.2
Total asset T.O (x)	0.9	0.8	0.8	0.8	0.8
Int. covge. ratio (x)	8.9	11.6	5.1	6.9	10.5
Adj. debt/equity (x)	0.2	0.4	0.3	0.2	0.2
Valuation					
EV/Sales (x)	6.4	6.0	5.8	5.4	4.8
EV/EBITDA (x)	25.6	24.7	25.4	19.0	15.7
P/E (x)	44.4	41.8	57.5	43.3	32.7
P/BV (x)	7.7	6.5	6.8	6.2	5.3

Recommendation Summary



Dates	Rating	Target
19-Aug-19	HOLD	20,687

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0%- 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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

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Neutral - The analyst has no investment opinion on the stock under review.

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