

# SHREE CEMENT LTD.

BSE Code: **500387** | CMP : ₹**19263.15** | Face Value : ₹**10** | Target price: ₹**27030** | HP\* : **Two years**

## About the company

Our Pearl Pick for the month of May is Shree Cement. It is the third-largest cement group in India, with an operational capacity of 40.4 MTPA. Domestically, the company's presence is predominately in the northern region, with an installed capacity of 26.3 MTPA, followed by East (11.1 MTPA) and South (3.0 MTPA). The company's brands include Shree Jung Rodhak, Bangur and Rockstrong.

## Outperformer amidst tough scenario

Despite COVID-19-led challenges, Shree Cement reported the highest-ever profitability in its mainstay cement business. An improvement in the profitability also helped in offsetting the fall in volumes, which was led by higher realisations and cost leadership. Realisations improved as the prices in North and Central India, where Shree has high exposure, were better than in other regions.

## Strong operating profitability, led by cost efficiency

Shree Cement is among those companies, which deliver significant operational performance constantly. This strong operational profitability is supported by a sharp focus on operations, low power ingestion and majority sale of blended cement, resulting in reduced consumption of energy and raw material per tonne of cement. Also, selling expense is low because of the proximity to end-user markets and use of split-grinding units. All of these efforts are resulting into the highest operating profit per tonne of cement in the industry.

## Strong presence in North & East markets

The company is having around 65 per cent of its cement capacity in North India and around 27 per cent in East India. Besides, by looking at the price trend, it can be observed that the cement prices across India have jumped by 10.6 per cent on MoM basis in May 2020. Meanwhile, Eastern region has registered a price hike of 15.4 per cent and Northern region has registered 5.7 per cent this month, on MoM basis.

Going ahead, the expectation of normal monsoon would provide some relief to the industry as it would lift rural demand, which contributes 30-35 per cent of the total cement consumption.

## Postponement of capacity expansion

The company has recently completed 3 MT Odisha grinding unit (Rs 423 crore) and is expected to complete 3 MT Maharashtra grinding unit (Rs 525 crore) in Q3FY21E. The company has also raised Rs 2,400 crore via QIP for capacity expansion. However, due to COVID-19, the demand is likely to get affected so, the company has decided to put a hold on new capacity expansions. On a positive note, the postponement of capacity expansion plans in the industry should support in maintaining healthy pricing discipline, limiting the impact on the net profit in the near to medium future.

## Financial performance

The total income from operation declined two per cent to Rs 3,415.14 crore for the fourth quarter, ending March 2020. Operating margin increased to 530 bps to 30.9 per cent. This was supported by a drop in raw material costs by 120

\* HP : Holding Period

Continued On PG 2...

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bps to 6.8 per cent, freight & forwarding cost by 120 bps to 21.3 per cent and power & fuel cost by 450 bps to 20.4 per cent, as percentage to sales and net of stock adjustments. As a result, operating profit rose 18 per cent to Rs 1,056.73 crore. PAT surged by 57 per cent to Rs 535.93 crore, aided by an improved operational performance. Historically, the company has posted revenue growth of 13 per cent CAGR over the last five years and PAT growth of 30 per cent CAGR in the same duration.

## Investing in the stock

The company has a share capital of Rs. 36.08 crore, with promoters' holdings at 62.55 per cent. Therefore, the available free float comes to 2.34 crore shares. The two-week average traded quantity comes to around 957 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given.

Price	Accumulation
17500-19000	40 per cent
16000-17500	40 per cent
<16000	20 per cent

## Outlook

The company is trading at TTM P/E of 45.88x with TTM EPS of Rs 425.67. On the liquidity front, expected net cash accrual of over Rs 3,000 crore per annum should suffice to cover the working capital and capex requirement in the medium term. Moreover, the company has surplus liquid investments of more than Rs 1,200 crore. Also, it has healthy dividend payout ratio of 20.7 per cent. Going ahead, the company's earnings are likely to improve on the account of higher capacity utilisations from existing facilities, demand recovery in infra and real estate sector and penetration in new geographies. Owing to all these factors, we see an upside of 41 per cent with a target price of Rs 27,030 over the next two years.

Inc/Exp Statement (Consolidated)					
Description	202003	201903	201803	201703	201603
Net Sales	12868.39	12554.65	9833.17	8486.95	5689.95
Total Income	13142.79	12804.41	10222.22	8994.66	6362.63
Total Expenditure	9109.29	9760.97	7360.42	6119.75	4283.07
PBIDT	4033.50	3043.44	2861.80	2874.91	2079.56
PAT	1544.06	1015.05	1384.15	1339.08	1143.10
Dividend %	0.00	600.00	500.00	1400.00	240.00
Adj. EPS(Rs)	425.68	288.86	397.29	384.35	328.10

Quarter On Quarter (Consolidated)					
Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	3415.14	3146.01	8.55	3489.35	-2.13
Total Expenditure	2358.41	2266.42	4.06	2595.83	-9.15
PBIDT (Excl OI)	1056.73	879.59	20.14	893.52	18.27
PAT	536.65	311.83	72.1	342.09	56.87
PBIDTM% (Excl OI)	30.94	27.96	10.66	25.61	20.81
PBIDTM%	33.82	30.05	12.55	27	25.26
PATM%	15.71	9.91	58.53	9.8	60.31
Adj. EPS(Rs)	148.54	85.82	73.08	97.6	52.19

Continued On PG 3...

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