

Institutional Equity Research

Shree Cement

Cement | India

2QFY20 Result Update | October 21, 2019

CMP* (Rs)	18,680
Upside/ (Downside) (%)	12
Bloomberg Ticker	SRCM IN
Market Cap. (Rs bn)	651
Free Float (%)	35
Shares O/S (mn)	35

BUY 

Target Price: Rs20,900

Stellar Performance on all Counts

Completely defying the realisation challenges witnessed in 2QFY20, Shree Cement (SRCM) has reported a super performance in 2QFY20. While EBITDA zoomed by a stellar 62% YoY (-6% QoQ) to Rs8.4bn (vs. our estimate of Rs6.7bn), cement EBITDA/tonne stood at strong Rs1,451 (Rs314 higher than our estimate) as against Rs946 in 2QFY19 and Rs1,443 in 1QFY20. Higher than expected EBITDA/tonne is attributable to: (a) Rs100 lower opex/tonne than estimated; and (b) Rs213/tonne higher realisation than estimated. Sales volume remained soft as per expectations at 5.72mnT (+1.5% QoQ and -5.5% QoQ), while average cement realisation improved by 9% YoY (-1.1% QoQ) to Rs4,356/tonne despite having significant presence in Eastern region. Cement opex/tonne declined by 2% YoY and 1.8% QoQ to Rs3,202. Whilst APAT stood at Rs3bn (+53% YoY and -15% QoQ) higher than estimates, power division's profitability deteriorated sharply with average tariff declining by 15% YoY and 21% QoQ to Rs3.81/unit and EBITDA declining by 65% YoY and 50% QoQ to Rs140mn. Further, its Board has approved of the proposal to raise funds up to Rs30bn through QIP, in-line with our expectation. Notably, it has repaid Rs1.4bn debt and generated FCF ~Rs11bn in 1HFY20, which was heartening, in our view. Going forward, with strong capacities in pipeline and likely recovery in demand with benign cost environment, we foresee SRCM to report sustained growth in the ensuing quarters. **Upgrading our EBITDA estimates by 8%/11% for FY20E/FY21E mainly to factor in higher realisation and lower cost, we upgrade our recommendation on the stock to BUY from HOLD with a revised Target Price of Rs20,900 (from Rs19000 earlier).**

Dismal Volume Offset by Steady Realisation

A visible demand pressure across the regions impacted SRCM's quarterly sales volume and witnessed a moderate 1.5% YoY growth to 5.72mnT. However, a strong 9% YoY improvement in cement average realisation aided SRCM to report better-than-estimated revenue of Rs28bn (+8% YoY). Captive power volume stood at 366mn units (-8.5% YoY and -5.7% QoQ). Looking ahead, we expect SRCM's sales volume to grow by mere 1% in FY20E and 13% in FY21E.

Robust Operating Performance on Superior Realisation & Benign Opex

A higher-than-expected average realisation aided SRCM to report higher-than-estimated operating performance, as EBITDA grew by a stellar 62% YoY to Rs8.4bn and EBITDA/tonne once again stood at multi-year high of Rs1,451. Going forward, in light of the likely pricing recovery especially in the Eastern region and benign fuel cost, we believe its operating performance is likely to remain strong in the ensuing period as well. We expect its cement EBITDA/tonne at Rs1,340 and Rs1,326 for FY20E and FY21E, respectively.

Outlook & Valuation

We believe SRCM has been moving in the right direction in its pursuit to dominate the markets by adding capacity at regular intervals, which we expect to aid the Company in growing its market share with strong profitability without much stress on balance sheet. Hence, its premium multiple is expected to sustain, going forward which can be supported by thin liquidity and meagre non-institutional holdings. **Upgrading our EBITDA estimates by 8%/11% for FY20E/FY21E mainly to factor in higher realisation and lower cost, we upgrade our recommendation on the stock to BUY from HOLD with a revised Target Price of Rs20,900.**

Quarterly Performance

Rs mn	2QFY20	2QFY19	% yoy	1QFY20	% qoq
Net Sales	28,017	25,866	8.3	30,364	(7.7)
Total Expenditures	19,576	20,669	(5.3)	21,342	(8.3)
EBITDA	8,442	5,197	62.4	9,022	(6.4)
EBITDA per tone- Cement (Rs)	1,451	946	53.4	1,443	0.5
PBT	4,018	17	23,399.4	4,826	(16.7)
PAT	3,091	493	526.5	3,630	(14.9)
Adjusted PAT	3,091	2,022	52.9	3,630	(14.9)

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(0.1)	(12.9)	28.2
Relative to Nifty	(7.2)	(12.0)	17.4

Shareholding Pattern (%)	Jun-19	Mar-19
Promoter	64.8	64.8
Public	35.2	35.2

Key Financials			
(Rs mn)	FY19E	FY20E	FY21E
Sales	117,599	128,153	143,895
EBITDA	26,528	36,223	40,541
Net Profit	10,685	14,306	16,973
P/E (x)	68.4	45.5	38.3
P/B (x)	6.8	6.0	5.3
EV/EBITDA	25.5	18.6	16.4
RoE (%)	10.3	14.0	14.8

Change of Estimates	FY20E	FY21E
(% change)		
Revenue	2.1	3.0
EBITDA	7.8	11.0
EBITDA/tonne (Rs)	11.0	13.9
PAT	14.0	20.6

1 Year Stock Price Performance



Note: * CMP as on October 18, 2019

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Risks to the View

- A substantial increase in operating cost and reversal in price trend.

Exhibit 1: Result Summary

Rs mn	2QFY20	2QFY19	% yoy	1QFY20	% qoq	1HFY20	1HFY19	% yoy
Net Sales	28,017	25,866	8.3	30,364	(7.7)	58,381	56,565	3.2
(Increase)/ Decrease in Stock in Trade	-294	-291	1.3	-172	71.4	-466	-376	24.2
Consumption of RM	1,802	1,974	(8.7)	2,027	(11.1)	3,830	4,467	(14.3)
% sales	5.4	6.5		6.1		5.8	7.2	
Employee Cost	1,850	1,700	8.8	1,914	(3.4)	3,763	3,408	10.4
% sales	6.6	6.6		6.3		6.4	6.0	
Power and Fuel	5,984	6,143	(2.6)	6,482	(7.7)	12,466	13,227	(5.8)
% sales	21.4	23.8		21.3		21.4	23.4	
Freight and Selling Expenses	5,797	5,863	(1.1)	6,682	(13.2)	12,479	14,382	(13.2)
% sales	20.7	22.7		22.0		21.4	25.4	
Other Expenses	4,437	5,279	(16.0)	4,409	0.6	8,846	10,508	(15.8)
% sales	15.8	20.4		14.5		15.2	18.6	
Total Expenditures	19,576	20,669	(5.3)	21,342	(8.3)	40,918	45,616	(10.3)
EBIDTA	8,442	5,197	62.4	9,022	(6.4)	17,463	10,949	59.5
Adjusted EBIDTA	8,442	5,733	47.2	9,022	(6.4)	17,463	11,485	52.1
EBIDTA per tone- Cement (Rs)	1,451	946	53.4	1,443	0.5	1,447	845	71.3
Margin	30.1	22.2		29.7		29.9	20.3	
Depreciation	4,283	3,295	30.0	4,027	6.4	8,310	6,350	30.9
Interest (net)	717	618	16.1	680	5.4	1,398	1,180	18.5
Other income	578	514	12.4	511	12.9	1,089	1,450	(24.9)
Exceptional Items	0	1,781		0		0	1,781	
PBT	4,018	17	23,399.4	4,826	(16.7)	8,844	3,088	186.4
Tax	928	-476	(294.8)	1,196	(22.4)	2,124	-200	(1,162.8)
% tax	23.1			24.8		24.0		
PAT	3,091	493	526.5	3,630	(14.9)	6,721	3,288	104.4
Adjusted PAT	3,091	2,022	52.9	3,630	(14.9)	6,721	4,816	39.5

Source: Company, RSec Research

Exhibit 2: Revenue Break Up

	2QFY20E	2QFY19	% yoy	1QFY20	% qoq	1HFY20	1HFY19	% yoy
Cement	26,623	24,071	10.6	28,487	(6.5)	55,110	52,765	4.4
% of total	86.4%	84.5%		86.0%		86.2%	84.7%	
Power	4,202	4,424	(5.0)	4,640	(9.4)	8,842	9,529	(7.2)
Less: Intersegment Sales	2,807.4	2,628.8	6.8	2,762.6	1.6	5,570	5,729	(2.8)
Net Power Sales	1,395	1,795	(22.3)	1,877	(25.7)	3,272	3,800	(13.9)

Source: Company, RSec Research

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Exhibit 3: Cost per tonne

Cement- Rs/tonne	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Sales Volume (mnT)	5.93	5.89	4.88	5.33	6.44	6.99	5.64	5.93	7.30	6.06	5.72
Raw materials	365	384	324	295	356	345	298	346	343	306	264
Staff cost	228	250	298	275	231	203	301	281	234	316	323
Power & Fuel	576	612	650	746	753	1,148	896	834	830	806	827
Freight and Selling Expenses	1,023	1,068	1,094	1,117	1,191	1,011	1,039	1,098	1,061	1,103	1,013
Other Expenditure	760	678	671	618	668	537	787	689	656	728	775
Total expenses	2,952	2,991	3,037	3,052	3,199	3,244	3,322	3,247	3,122	3,260	3,202
Net Realization (Cement)	3,771	4,205	4,170	4,132	4,157	4,107	4,268	4,315	4,225	4,703	4,653
EBIDTA/tonne	818	1,214	1,133	1,080	958	863	946	1,067	1,103	1,443	1,451

Source: Company, RSec Research

Exhibit 4: Revised vs. Old Estimates

	FY20E			FY21E		
	Old	Revised	% change	Old	Revised	% change
Sales Volume - Cement (mnT)	26.46	26.16	(1.1)	29.81	29.47	(1.1)
Realizations-Cement (Rs/tonne)	4,459	4,613	3.4	4,413	4,597	4.2
Sales Volume - Power (mn units)	1,642	1,666	1.4	1,800	1,831	1.7
Sales (Rs mn)	125,542	128,153	2.1	139,675	143,895	3.0
EBIDTA (Rs mn)	33,602	36,223	7.8	36,519	40,541	11.0
Cement EBITDA/tonne (Rs)	1,208	1,340	11.0	1,165	1,326	13.9
Depreciation	15,818	16,313	3.1	17,090	17,680	3.4
EBIDTA margins (%)	26.8	28.3		26.1	28.2	
PAT (Rs mn)	12,546	14,306	14.0	14,073	16,973	20.6
Cash Profit (Rs mn)	28,364	30,619	8.0	31,164	34,653	11.2

Source: RSec Research

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Profit & Loss Statement

Y/E Mar (Rsmn)	FY18	FY19	FY20E	FY21E
Revenue	98,894	117,599	128,153	143,895
% yoy growth	14.7	18.9	9.0	12.3
Total Cost	74,166	91,072	91,930	103,354
Raw Materials Consumed	7,704	8,642	8,414	9,153
Employee Costs	5,881	6,779	7,817	8,778
Power & Fuel	19,797	27,450	27,202	31,264
Freight and Forwarding	19,871	23,025	22,591	25,964
Other Expenditures	20,915	25,175	25,904	28,195
EBIDTA	24,728	26,528	36,223	40,541
EBIDTA Margin (%)	25.0	22.6	28.3	28.2
Depreciation and Amortisation	8,994	13,917	16,313	17,680
Interest & Fin. Charges	1,353	2,470	2,431	2,058
Other Income	3,891	2,454	2,118	2,447
Profit before Tax	18,272	10,814	19,598	23,251
Tax	4,430	1,304	5,291	6,278
Net Profit (Reported)	13,842	9,510	14,306	16,973
YoY Growth (%)	3.4	(31.3)	50.4	18.6
Net Profit Margin (%)	14.0	8.1	11.2	11.8
Net Profit (Adjusted)	13,842	10,685	14,306	16,973

Balance Sheet

Y/E Mar (Rsmn)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Share Capital	348	348	348	348
Reserves & Surplus	88,620	95,625	107,412	121,655
Total Shareholder's funds	88,968	95,974	107,761	122,004
Secured Loans	34,030	27,980	25,189	21,189
Unsecured Loans	-	-	500	(1,500)
Total Debt	34,030	27,980	25,689	19,689
TOTAL LIABILITIES	122,998	123,953	133,450	141,693
APPLICATION OF FUNDS				
Gross Block	65,478	88,365	109,365	126,365
Less: Accumulated Depreciation	29,586	43,608	59,921	77,600
Net Block	35,892	44,757	49,444	48,764
CWIP	14,272	11,211	5,211	2,211
Investments	54,343	44,439	41,639	47,639
Deferred Tax Assets (net)	5,131	6,126	6,126	6,126
Inventories	15,690	15,891	17,317	19,444
Sundry Debtors	4,593	7,324	7,981	8,962
Cash & Bank	1,209	3,078	3,348	6,113
Loans & Advances	8,621	6,921	7,542	8,469
Other Current Assets	11,392	12,186	13,833	15,313
Total Current Assets	41,504	45,400	50,021	58,300
Current Liabilities	28,058	27,886	18,890	21,237
Provisions	86	93	102	111
Net Current Assets	13,361	17,420	31,029	36,952
Total Assets	122,998	123,953	133,450	141,693

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Cash Flow Statement

Y/E Mar (Rsmn)	FY18	FY19	FY20E	FY21E
PBT	18,272	10,814	19,598	23,251
Depreciation	8,994	13,917	16,313	17,680
Interest Expenses	1,353	2,470	2,431	2,058
Others	(3,632)	(784)	0	0
Operating profit before WC changes	24,986	26,417	38,341	42,988
Trade and Other Receivables	(5,099)	(4,007)	(2,925)	(3,387)
Inventories	(2,545)	(200)	(1,426)	(2,127)
Trade Payables and Other Liabilities	6,514	(1,094)	(8,988)	2,357
Cash Generated from Operation	23,855	21,115	25,002	39,831
Direct Taxes and Others	(5,068)	(2,300)	(5,291)	(6,278)
Net Cash from Operating Activities	18,788	18,815	19,711	33,553
Purchase of Fixed Assets	(25,278)	(18,993)	(15,000)	(14,000)
Others	(10,669)	10,867	2,800	(6,000)
Net Cash used in Investment activities	(35,947)	(8,126)	(12,200)	(20,000)
Proceeds from Borrowings	20,353	(7,591)	(2,290)	(6,000)
Interest Paid	(1,248)	(2,753)	(2,431)	(2,058)
Dividend and Tax thereon	(1,843)	(2,308)	(2,520)	(2,730)
Net Cash from Financing Activities	17,262	(12,653)	(7,241)	(10,788)
Net Increase / (Decrease) in Cash	102	(1,963)	270	2,765
Opening Cash	1,110	1,209	3,078	3,348
Closing Cash	1,209	3,078	3,348	6,113

Key Ratio

Y/E Mar	FY18	FY19	FY20E	FY21E
Valuation Ratio (x)				
P/E	47.0	68.4	45.5	38.3
P/CEPS	28.5	27.8	21.3	18.8
P/BV	7.3	6.8	6.0	5.3
EV/EBIDTA	26.7	25.5	18.6	16.4
EV/Sales	6.7	5.7	5.2	4.6
EV/tonne (USD)	270	255	221	204
Dividend Payout (%)	11.1	20.1	14.6	13.3
Dividend Yield (%)	0.002	0.003	0.003	0.003
Adj. OCF Yield	2.7	2.5	2.7	4.8
Per Share Data (Rs)				
EPS (Basic)	397	273	411	487
EPS (Diluted)	397	273	411	487
CEPS	655	672	879	995
DPS	44	55	60	65
Book Value	2,554	2,755	3,093	3,502
EBIDTA/tonne	1,091	955	1,340	1,326
Returns (%)				
RoCE	15.9	10.3	16.0	17.9
RoE	16.7	10.3	14.0	14.8
Turnover ratios (x)				
Asset Turnover	1.5	1.3	1.2	1.1
Inventory (days)	58	49	49	49
Receivables (days)	17	23	23	23
Payables (days)	54	34	34	34
WCC (days)	21	38	38	38

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Rating History

Date	Reco	CMP	TP
12-Aug-19	HOLD	20,270	20,200
20-May-19	HOLD	20,346	21,000
22-Jan-19	BUY	15,918	19,600
13-Nov-18	BUY	15,127	17,200
30-Jul-18	BUY	17,177	19,500
30-Apr-18	BUY	17,019	21,500
12-Jan-18	BUY	18,872	22,000
9-Nov-17	BUY	18,110	20,600

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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