

Sector: Cement  
Result Update

	Change
Reco: <b>Buy</b>	↑
CMP: <b>Rs. 19,501</b>	
Price Target: <b>Rs. 22,500</b>	↑

↑ Upgrade   ↔ No change   ↓ Downgrade

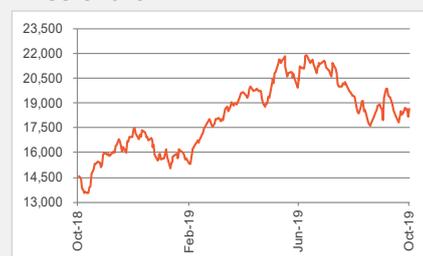
## Company details

Market cap:	Rs. 67,937 cr
52-week high/low:	Rs. 22200/13125
NSE volume: (No of shares)	28,726
BSE code:	500387
NSE code:	SHREECEM
Sharekhan code:	SHREECEM
Free float: (No of shares)	1.2 cr

## Shareholding (%)

Promoters	64.8
FII	11.9
DII	8.6
Others	14.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	0.0	-12.6	-5.0	23.9
Relative to Sensex	-7.0	-13.8	-6.1	8.3

Sharekhan Research, Bloomberg

Shree Cement posted better-than-expected standalone net profit for Q2FY2020 at Rs. 309 crore (up 10% y-o-y on adjusted Q2FY2019 PAT). Net earnings were boosted by better-than-expected operational performance, aided by 9% y-o-y rise in cement realisation and 3.7% y-o-y decline in cement opex. Consequently, cement EBITDA/tonne grew by 54% y-o-y to Rs. 1,452. The power division posted a 64% y-o-y decline in EBITDA/unit at Rs. 0.36, led by 9% and 15% decline in volume and realisation, respectively. Strong operating leverage led to a 10% y-o-y increase in net earnings (adjusted for Rs. 232 crore exceptional items in Q2FY2019). Shree Cement is slated to increase its standalone cement capacity from 40MTPA currently to 60MTPA over four years through both inorganic and organic routes, for which its board has approved fund-raising plan through a Qualified Institutional Placement (QIP) up to Rs. 3,000 crore. We increase our net earnings estimate for FY2020-FY2021, penciling higher realisation and lower opex. Consequently, our price target (PT) stands revised to Rs. 22,500. We upgrade the stock to Buy.

## Key positives

- Strong 9% y-o-y surge in cement realisation along with lower opex leads to 54% y-o-y rise in EBITDA/tonne.
- Domestic capacity plan to reach 60MTPA from 40MTPA currently over four years' time period.

## Key negatives

- Power division reports a 64% y-o-y decline in EBITDA/unit due to dip in both volume and realisation.

## Our Call

**Valuation – Upgrade to Buy with a revised PT of Rs. 22,500:** We have increased our net earnings estimate for FY2020-FY2021, factoring improvement in OPM, led by higher realisation and lower opex. Shree Cement is expected to benefit from favourable demand and pricing outlook, especially in its northern operations. Further, the company's continuous capacity expansion plans and muted opex would bring incremental volume growth with better profitability for the company going ahead. We expect standalone net earnings to register a 27% CAGR in net earnings during FY2019-FY2021E. On account of upward revision in estimates along with favourable regional dynamics, we upgrade the stock to Buy with a revised PT of Rs. 22,500.

## Key Risks

Weak demand and pricing environment in north and east regions in India affect profitability negatively.

## Valuation (Standalone)

Particulars	Rs cr			
	FY18	FY19	FY20E	FY21E
Revenue	9,833.1	11,722.0	13,096.9	14,935.0
OPM (%)	25.6	22.7	27.7	28.0
Adjusted PAT	1,425.6	1,138.7	1,484.1	1,842.4
% YoY growth	6.5	(20.1)	30.3	24.1
Adjusted EPS (Rs.)	409.2	326.8	426.0	528.8
P/E (x)	47.7	59.7	45.8	36.9
P/B (x)	7.6	7.1	6.2	5.4
EV/EBITDA (x)	26.2	24.8	18.0	15.5
RoNW (%)	17.2	12.3	14.5	15.8
RoCE (%)	14.4	10.7	12.8	13.8

Source: Company; Sharekhan estimates

### **Strong realisation and decline in opex boost operational profitability**

Shree Cement reported 8.3% y-o-y growth in standalone net revenue to Rs. 2,802 crore for Q2FY2020, which was in-line with our estimate. Shree Cement reported 1.5% y-o-y growth in cement volume, while strong pricing environment in the regions led to a 9% y-o-y increase in cement realisations. Lower non-trade sales (28% in Q2FY2020 versus 35% in Q2FY2019) and higher share of premium products (5% of sales volume, Rs. 25-30 per bag premium) led to strong growth in realisation for the quarter. Overall, the cement division reported 10.6% y-o-y rise in revenue. The power division reported a 22% y-o-y decline in revenue to Rs. 139.5 crore, led by weak volume (down 8.6% y-o-y) and lower realisation (down 15% y-o-y). The cement division reported strong rise of 53.6% y-o-y (up 0.7% q-o-q) in EBITDA/tonne of Rs. 1,452 for the quarter. Strong growth in realisation along with a decline in opex (down 3.7% y-o-y) led to rise in EBITDA/tonne. On the other hand, the power division reported EBITDA per unit of Rs. 0.36 (down 64% y-o-y, down 50% q-o-q) owing to weak power prices. Shree Cement reported 10% y-o-y rise in standalone net profit (Rs. 232 crore exceptional item adjusted in Q2FY2019) to Rs. 309 crore, which was higher than our estimate.

### **Capacity expansion plan to reach 60MT in four years**

Shree Cement's standalone installed capacity stands at 40.4MTPA as of September 2019. The company will be further adding 3MT Odisha grinding unit (at a cost of Rs. 423 crore, expected to commission in Q3FY2020) and 3MT Maharashtra grinding unit (at a cost of Rs. 525 crore, Q3FY2021), which is expected to take its standalone capacity to 46.4MTPA by FY2021 end. Management plans to increase Shree Cement's capacity to 60MT in four years, both through inorganic as well as organic growth. Consequently, Shree Cement is expected to raise capital worth Rs. 3,000 crore through QIP within a year's time to fund its aggressive capacity expansion plans. The continuous expansion plan is likely to aid in reporting at least 10% y-o-y volume growth in FY2021 post muted volume growth expectations during FY2020 (on account of a steep decline in volume offtake during Q1FY2020).

**Results (Standalone)**

Particulars	Rs cr				
	Q2FY20	Q2FY19	YoY %	Q1FY20	QoQ %
<b>Segment Revenue</b>					
Cement	2662.3	2407.1	10.6%	2848.7	-6.5%
Power	420.2	442.4	-5.0%	464.0	-9.4%
<b>Total</b>	<b>3082.5</b>	<b>2849.5</b>	<b>8.2%</b>	<b>3312.7</b>	<b>-6.9%</b>
Less: Inter Segmental revenue	280.7	262.9	6.8%	276.3	1.6%
<b>Net Segment Revenue</b>	<b>2801.7</b>	<b>2586.6</b>	<b>8.3%</b>	<b>3036.4</b>	<b>-7.7%</b>
<b>Segment Results</b>					
Cement	279.4	23.5	1087.9%	349.3	-20.0%
Power	138.9	168.1	-17.4%	152.6	-9.0%
<b>Total</b>	<b>418.3</b>	<b>191.6</b>	<b>118.3%</b>	<b>501.9</b>	<b>-16.7%</b>
<b>PBIT Margins (%)</b>					
Cement	10.5%	1.0%	952	12.3%	-177
Power	33.1%	38.0%	-494	32.9%	16

Source: Company; Sharekhan Research

**Per-tonne analysis of the cement business (Standalone)**

Particulars	Rs cr						y-o-y (%)	q-o-q (%)
	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q1FY20	Q2FY20		
Volume	5,640,000	5,930,000	7,300,000	6,060,000	5,722,000	5,722,000	1.5%	-5.6%
Realisation	4,268	4,316	4,225	4,701	4,653	4,653	9.0%	-1.0%
<b>Cost break-up</b>								
RM cost	298	346	343	306	264	264	-11.7%	-13.9%
Employee expenses	301	281	234	316	323	323	7.2%	2.3%
Power and fuel	842	834	830	806	825	825	-2.0%	2.4%
Transportation and handling	1,093	1,098	1,061	1,103	1,013	1,013	-7.3%	-8.1%
Other expenses	787	689	656	728	775	775	-1.5%	6.6%
Total expenditure per tonne	3,322	3,248	3,122	3,258	3,200	3,200	-3.7%	-1.8%
EBITDA per tonne	946	1,068	1,103	1,443	1,452	1,452	53.6%	0.7%

Source: Company; Sharekhan Research

**Per-unit analysis of power (Standalone)**

Particulars	Rs cr						% yoy	% qoq
	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q2FY20		
Volume (cr units)	40.0	44.6	38.0	38.8	36.6	36.6	-8.6%	-5.7%
Realisation (Rs./unit)	4.5	5.0	5.3	4.8	3.8	3.8	-15.1%	-21.2%
<b>Revenue (Rs. cr)</b>	<b>179.5</b>	<b>221.3</b>	<b>200.6</b>	<b>187.7</b>	<b>139.5</b>	<b>139.5</b>	<b>-22.3%</b>	<b>-25.7%</b>
Cost per unit	3.49	3.68	4.15	4.12	3.45	3.45	-1.1%	-16.1%
Cost of generation (Rs.cr)	139.5	164.3	157.6	159.7	126.3	126.3	-9.5%	-20.9%
EBDITA (Rs.cr)	40.0	57.0	43.0	28.0	13.2	13.2	-67.0%	-52.9%
EBDITA p.u	1.00	1.28	1.13	0.72	0.36	0.36	-63.9%	-50.0%

Source: Company; Sharekhan Research

**Financials (Standalone)**

Particulars	Rs cr				
	Q2FY20	Q2FY19	YoY %	Q1FY20	QoQ %
Net Sales	2801.7	2586.6	8.3%	3036.4	-7.7%
Total Expenditure	1957.6	2013.3	-2.8%	2134.2	-8.3%
Operating profits	844.2	573.3	47.2%	902.2	-6.4%
Other Income	57.8	51.4	12.4%	51.1	12.9%
EBIDTA	901.9	624.7	44.4%	953.3	-5.4%
Interest	71.7	61.8	16.1%	68.0	5.4%
PBDT	830.2	562.9	47.5%	885.3	-6.2%
Depreciation	428.3	329.5	30.0%	402.7	6.4%
PBT	401.8	233.4	72.1%	482.6	-16.7%
Tax	92.8	-47.6	-	119.6	-22.4%
Extraordinary items	0.0	231.7	-	0.0	-
Reported Profit After Tax	309.1	49.3	-	363.0	-14.9%
Adjusted PAT	309.1	281.1	10.0%	363.0	-14.9%
<b>Margins</b>					
OPMs	30.1%	22.2%	796	29.7%	42
PAT	11.0%	10.9%	16	12.0%	(93)
Tax rate	23.1%	-20.4%	4349	24.8%	(169)

Source: Company; Sharekhan Research

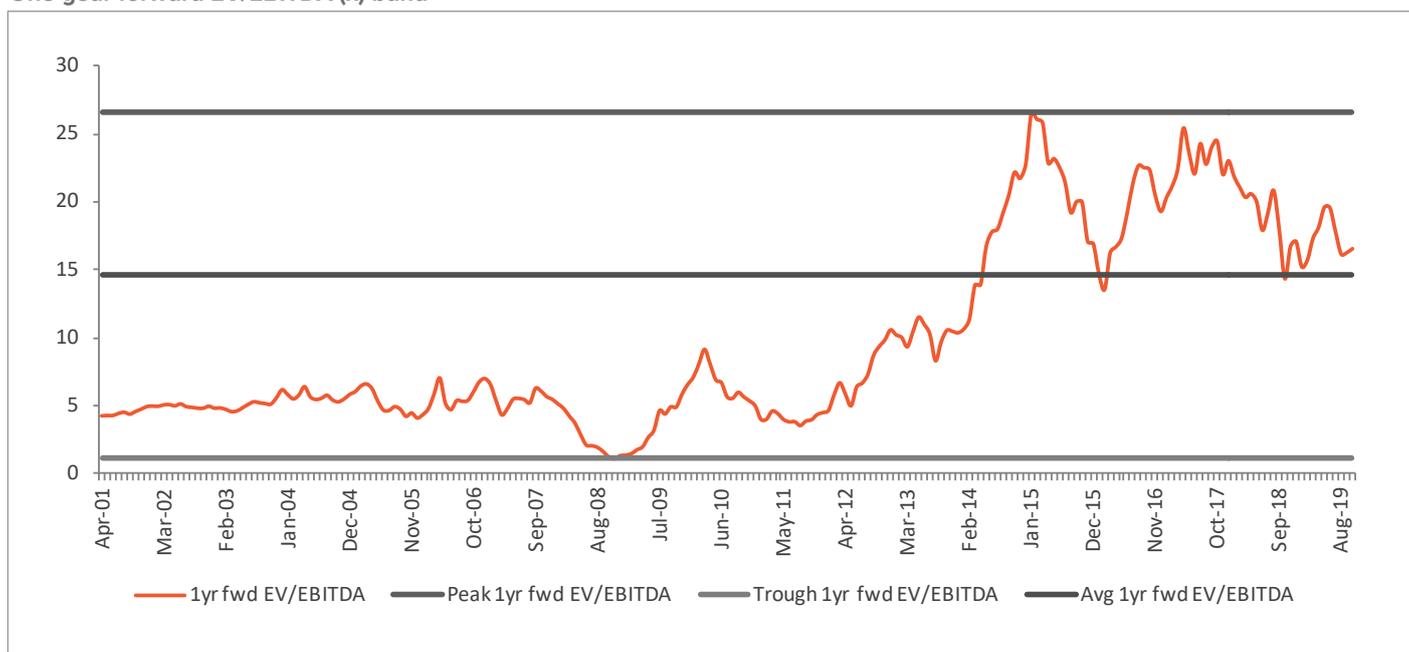
## Outlook

**Expect healthy performance backed by improving operational performance:** Shree Cement is expected to benefit from its increasing trade sales mix and higher premium product sales. Further, its continuous capacity expansion plan is likely to aid in sustaining healthy volume growth. Higher realisation along with muted operating costs is expected to improve upon Shree Cement's profitability going ahead. Although FY2020 is expected to be soft for the cement industry's demand, North India is better placed in terms of cement demand and pricing, which should benefit players such as Shree Cement. On a positive note, realisations have remained firm, while key costs such as power and fuel and freight costs have been favourable, which should aid in improvement in operating margin, leading to healthy net earnings growth during FY2019-FY2021E.

## Valuation

**Upgrade to Buy with a revised PT of Rs. 22,500:** We have increased our net earnings estimates for FY2020-FY2021, factoring improvement in OPM, led by higher realisation and lower opex. Shree Cement is expected to benefit from favourable demand and pricing outlook, especially in its northern operations. Further, its continuous capacity expansion plans and muted opex would bring incremental volume growth with better profitability for the company going ahead. We expect standalone net earnings to register a 27% CAGR during FY2019-FY2021E. On account of upward revision in estimates along with favourable regional dynamics, we upgrade the stock to Buy with a revised PT of Rs. 22,500.

### One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

### Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Shree Cement	45.8	36.9	18.0	15.5	6.2	5.4	14.5	15.8
Ultratech Cement	32.9	27.9	15.3	13.0	3.9	3.5	12.6	13.2
The Ramco Cement	27.0	21.7	15.8	13.0	3.5	3.1	13.8	15.1
JK Lakshmi Cement	17.7	12.2	7.6	5.7	2.0	1.8	12.1	15.4
India Cements	13.1	10.4	5.8	5.3	0.5	0.4	3.5	4.3

Source: Company, Sharekhan research

## About company

Shree Cement, incorporated in 1979 by Kolkata-based Bangur family, was listed in 1984. The company has a consolidated installed cement capacity of 44.4MTPA and power capacity of 711MW. Of the total cement capacity, 40.4MTPA is in India and 4MTPA in UAE through subsidiaries. Domestically, the company's presence is predominately in the northern region, with installed capacity of 26.3MTPA followed by east at 11.1MTPA and south at 3.0MTPA. Shree Cement is among the top three cement groups in India in terms of cement capacity.

## Investment theme

The expansion plan of Shree Cement to reach 60MTPA over the next four years (currently 40.4MTPA) and increasing geographical footprint in the eastern and southern regions are likely to aid in better volume growth going ahead. The company's focus to increase share of trade sales and premium products should help improve realisation. Further, benign cost environment should improve upon its operational profitability, leading to healthy net earnings growth over FY2019-FY2021E.

## Key Risks

- ◆ Slowdown in cement demand especially north, east and south affects overall volume growth for the company.
- ◆ Increased pet coke price and diesel price affect profitability.
- ◆ Decline in cement prices especially in its region of operations affects profitability.

## Additional Data

### Key management personnel

Mr. Benu Gopal Bangur	Chairman
Shri H. M. Bangur	Managing Director
Shri Prashant Bangur	Joint Managing Director
Subhash Jajoo	Chief Finance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Shree Capital Services Ltd	25.79
2	Digvijay Finlease Ltd	12.16
3	FLT LTD	10.33
4	Mannakrishna Investments Pvt Ltd	5.86
5	Newa Investments Pvt Ltd	3.95
6	Ragini Finance Ltd	3.64
7	Didu Investments Pvt Ltd	3.36
8	NBI Industrial Finance Co Ltd	2.44
9	PineBridge Investments LP	1.54
10	SBI Funds Management Pvt Ltd	1.41

Source: Bloomberg

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