

Sector: Cement
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 24,031	
Price Target: Rs. 26,000	↑

↑ Upgrade ↔ No change ↓ Downgrade

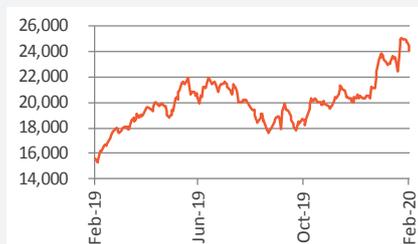
Company details

Market cap:	Rs. 86,704 cr
52-week high/low:	Rs. 25,341/15,055
NSE volume: (No of shares)	0.3 lakh
BSE code:	500387
NSE code:	SHREECEM
Sharekhan code:	SHREECEM
Free float: (No of shares)	1.4 cr

Shareholding (%)

Promoters	62.6
FII	13.2
DII	9.9
Others	14.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	24.2	24.2	56.8
Relative to Sensex	5.4	21.3	12.1	34.9

Sharekhan Research, Bloomberg

Shree Cement Limited (Shree Cement) posted lower-than-expected standalone performance mainly led by weak power division's performance. The company's overall standalone revenue increased by 2.4% y-o-y, led by higher cement revenue (up 10% y-o-y) due to increased cement sales volume (up 5.3% y-o-y) and realisations (up 4.6% y-o-y). The power division reported net revenue decline of 86% y-o-y and operating loss of Rs. 3 crore, led by lower realisation. Cement division's EBITDA/tonne grew 28% y-o-y to Rs. 1,365, led by higher realisation, lower power and fuel cost (down 14.5% y-o-y on per tonne basis), and lower freight costs (down 6.1% y-o-y). Hence, overall operating profit grew by 23% y-o-y to Rs. 849 crore. Further, higher interest, depreciation and ETR led to standalone adjusted net profit growth of 10% y-o-y to Rs. 310 crore. 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 it recently raised Rs. 2,400 crore through a Qualified Institutional Placement (QIP). We have cut our net earnings estimate for FY2020-FY2021, factoring lower volume offtake. We have also introduced FY2022E earnings in this note. We expect Shree Cement's continuous expansion plan with nil increase in leverage to lead to healthy net earnings growth over the next two years. Hence, we have maintained our Buy rating on the stock with a revised PT of Rs. 26,000 (rolling forward our valuation multiple to FY2022E).

Key positives

- Healthy growth in cement revenue y-o-y led equally by rise in cement volume and realisation.
- Domestic capacity plan to reach 60MTPA from 40MTPA currently over four years' time period.

Key negatives

- Power division reports operating loss led by weak realisations.
- Volume offtake to be lower in FY2020 due to weak 9MFY2020.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 26,000: Shree Cement has given ~23% return since we upgraded the rating on the stock to Buy with our report dated October 22, 2019, benefitting from the rise in cement prices and lower power and fuel costs and freight costs. 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 it has recently raised Rs. 2,400 crore through a QIP. We have cut our net earnings estimate for FY2020-FY2021, factoring lower volume offtake. We have also introduced FY2022E earnings in this note. We expect Shree Cement's continuous expansion plan with nil increase in leverage to lead to healthy net earnings growth over the next two years. Hence, we have maintained our Buy rating on the stock with a revised PT of Rs. 26,000 (rolling forward our valuation multiple to FY2022E).

Key Risks

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

Valuation (Standalone)

Particulars	Rs cr			
	FY19	FY20E	FY21E	FY22E
Revenue	11,722.0	12,618.1	14,587.3	16,843.9
OPM (%)	22.7	28.8	28.9	29.1
Adjusted PAT	1,138.7	1,410.8	1,667.6	1,985.0
% YoY growth	(20.1)	23.9	18.2	19.0
Adjusted EPS (Rs.)	326.8	391.0	462.2	550.1
P/E (x)	73.5	61.5	52.0	43.7
P/B (x)	8.7	6.6	7.1	6.2
EV/EBITDA (x)	30.7	22.6	20.2	17.1
RoNW (%)	12.3	12.4	13.1	15.1
RoCE (%)	10.7	11.5	12.2	13.8

Source: Company; Sharekhan estimates

Cement continues to show healthy profitability; Power posts operating loss: Shree Cement reported 2.4% y-o-y growth in standalone net revenue to Rs. 2,848 crore for Q3FY2020, which was below our estimate. The cement division reported 10.1% y-o-y growth in revenue, led by 5.3% y-o-y rise in volume and 4.6% y-o-y rise in realisation. The power division reported dismal performance with an 86% y-o-y decline in revenue on account of fall in realisation per unit (Rs. 0.5 in Q3FY2020 vs. Rs. 5 in Q3FY2019), while volume grew by 52.4% y-o-y to 68 crore units. On the operational front, cement EBITDA/tonne rose by 27.9% y-o-y, led by increased realisation and lower power and fuel cost (down 14.5% y-o-y on per tonne basis) and freight cost (down 6.1% y-o-y). The power division reported EBITDA loss of Rs. 3 crore as against Rs. 57 crore EBITDA profit in Q3FY2019. Hence, overall operating profit grew by 23.1% y-o-y to Rs. 849 crore. Rise in interest expense (up 25% y-o-y), depreciation (up 28.6% y-o-y), and higher ETR (24.0% vs. 19.6% in Q3FY2019) led to standalone adjusted net profit growth of 10.2% y-o-y to Rs. 310 crore.

Capacity expansion plan to reach 60MT in four years on track: Shree Cement's standalone installed capacity stands at 40.4MTPA as of December 2019. The company will be further adding 3MT Odisha grinding unit (at a cost of Rs. 423 crore, expected to commission in H2FY2020) and 3MT Maharashtra grinding unit (at a cost of Rs. 525 crore in 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 the inorganic as well as organic growth. Consequently, Shree Cement has raised Rs. 2,400 crore through QIP, allotting 12.4 lakh shares at a price of Rs. 19,300 on November 23, 2019. The continuous expansion plan is likely to aid in reporting at least double-digit volume growth during FY2020-FY2021.

Results (Standalone)

Particulars	Q3FY2020	Q3FY2019	YoY %	Q2FY2020	Rs cr QoQ %
Segment Revenue					
Cement	2817.6	2559.4	10.1%	2662.3	5.8%
Power	300.3	502.6	-40.3%	420.2	-28.5%
Total	3117.8	3062.0	1.8%	3082.5	1.1%
Less: Inter Segmental revenue	269.5	281.4	-4.2%	280.7	-4.0%
Net Segment Revenue	2848.3	2780.6	2.4%	2801.7	1.7%
Segment Results					
Cement	311.4	172.0	81.1%	279.4	11.5%
Power	106.0	202.5	-47.7%	138.9	-23.7%
Total	417.4	374.4	11.5%	418.3	-0.2%
PBIT Margins (%)					
Cement	11.1%	6.7%	433	10.5%	56
Power	35.3%	40.3%	-499	33.1%	224

Source: Company; Sharekhan Research

Per-tonne analysis of the cement business (Standalone)

Particulars	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	y-o-y (%)	q-o-q (%)
Volume	5,930,000	7,300,000	6,060,000	5,722,000	6,244,000	5.3%	9.1%
Realisation	4,316	4,225	4,701	4,653	4,512	4.6%	-3.0%
Cost break-up							
RM cost	346	343	306	264	401	15.9%	52.1%
Employee expenses	281	234	316	323	297	5.8%	-8.0%
Power and fuel	834	830	806	825	714	-14.5%	-13.5%
Transportation and handling	1,098	1,061	1,103	1,013	1,031	-6.1%	1.8%
Other expenses	689	656	728	775	705	2.3%	-9.1%
Total expenditure per tonne	3,248	3,122	3,258	3,200	3,147	-3.1%	-1.7%
EBITDA per tonne	1,068	1,103	1,443	1,452	1,365	27.9%	-6.0%

Source: Company; Sharekhan Research

Per-unit analysis of power (Standalone)

Particulars	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	y-o-y (%)	q-o-q (%)
Volume (cr units)	44.6	38.0	38.8	36.6	68.0	52.4%	85.9%
Realisation (Rs./unit)	5.0	5.3	4.8	3.8	0.5	-90.9%	-88.1%
Revenue (Rs. cr)	221.3	200.6	187.7	139.5	30.8	-86.1%	-77.9%
Cost per unit	3.68	4.15	4.12	3.45	0.50	-86.5%	-85.6%
Cost of generation (Rs. cr)	164.3	157.6	159.7	126.3	33.8	-79.4%	-73.2%
EBDITA (Rs. cr)	57.0	43.0	28.0	13.2	(3.0)	-	-
EBDITA p.u.	1.28	1.13	0.72	0.36	(0.04)	-	-

Source: Company; Sharekhan Research

Financials (Standalone)

Particulars	Q3FY2020	Q3FY2019	YoY %	Q2FY2020	Rs cr QoQ %
Net Sales	2848.3	2780.6	2.4	2801.7	1.7
Total Expenditure	1999.0	2090.6	-4.4	1957.6	2.1
Operating profits	849.3	690.1	23.1	844.2	0.6
Other Income	64.9	55.3	17.4	57.8	12.5
EBIDTA	914.3	745.4	22.7	901.9	1.4
Interest	74.1	59.3	25.0	71.7	3.3
PBDT	840.1	686.1	22.5	830.2	1.2
Depreciation	432.2	336.1	28.6	428.3	0.9
PBT	407.9	350.0	16.6	401.8	1.5
Tax	98.0	68.7	42.7	92.8	5.6
Extraordinary items	0.0	-20.0	-	0.0	-
Reported Profit After Tax	310.0	301.3	2.9	309.1	0.3
Adjusted PAT	310.0	281.3	10.2	309.1	0.3
Margins					
OPM	29.8%	24.8%	500	30.1%	(31)
PAT	10.9%	10.1%	77	11.0%	(15)
Tax rate	24.0%	19.6%	440	23.1%	93

Source: Company; Sharekhan Research

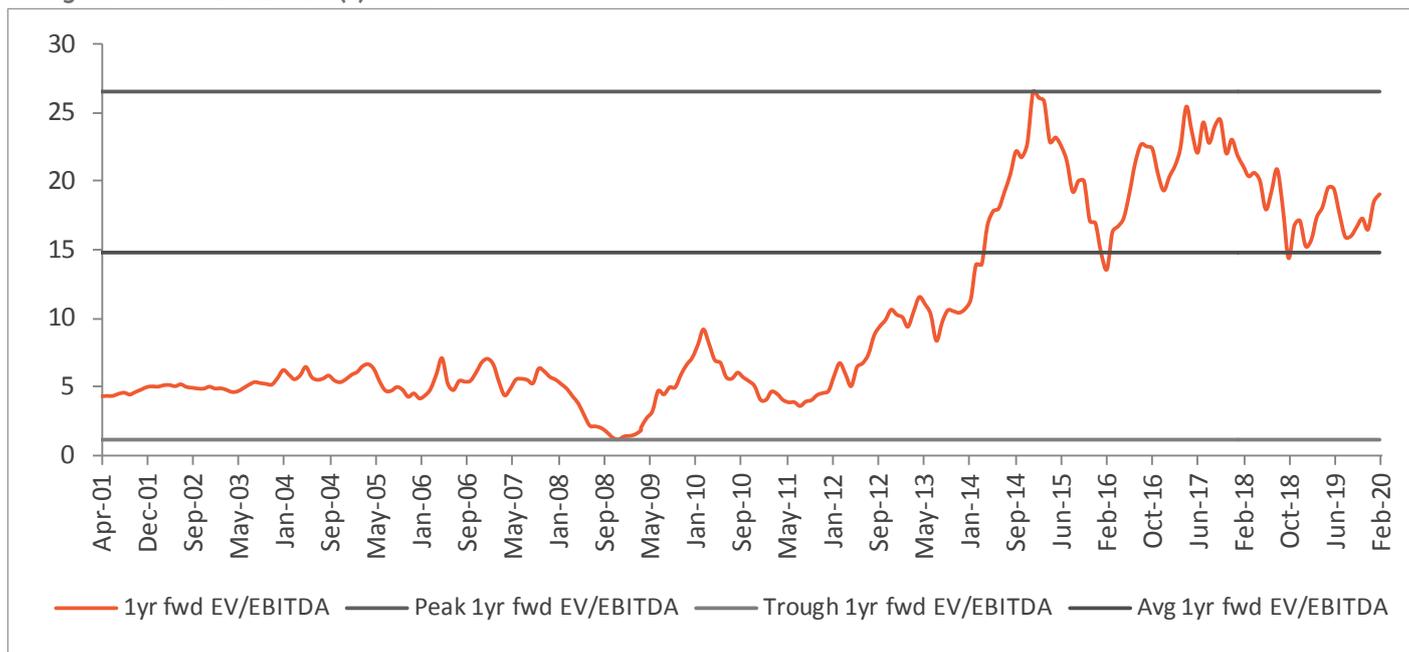
Outlook

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-FY2022E.

Valuation

Retain Buy with a revised PT of Rs. 26,000: Shree Cement has given ~23% return since we upgraded our rating on the stock to Buy with our report dated October 22, 2019, benefitting from the rise in cement prices and lower power and fuel costs and freight costs. 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 it has recently raised Rs. 2,400 crore through a QIP. We have cut our net earnings estimate for FY2020-FY2021, factoring lower volume offtake. We have also introduced FY2022E earnings in this note. We expect Shree Cement's continuous expansion plan with nil increase in leverage to lead to healthy net earnings growth over the next two years. Hence, we have maintained our Buy rating on the stock with a revised PT of Rs. 26,000 (rolling forward our valuation multiple to FY2022E).

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	61.5	52.0	22.6	20.2	6.6	7.1	12.4	13.1
UltraTech Cement	33.5	29.7	15.3	13.5	4.1	3.6	12.9	12.9
The Ramco Cement	32.4	27.3	18.3	15.9	3.8	3.3	12.2	13.0
JK Lakshmi Cement	15.5	14.2	6.9	6.6	2.2	1.9	15.4	14.6
India Cements	14.9	11.5	5.9	5.4	0.4	0.4	2.9	3.6

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) along with increasing its geographical footprint in the eastern and southern regions is 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-FY2022E.

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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