MOTILAL OSWAL

10 August 2021

1QFY22 Results Update | Sector: Cement

Shree Cement

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	1020.6 / 13.7
52-Week Range (INR)	32050 / 18214
1, 6, 12 Rel. Per (%)	-1/-6/-14
12M Avg Val (INR M)	1616

Financial Snapshot (INR b)

Y/E Mar	2021	2022E	2023E
Sales	125.9	150.3	174.3
EBITDA	39.5	42.4	50.2
Adj. PAT	23.1	27.1	30.7
EBITDA Margin (%)	31.4	28.2	28.8
Cons. Adj. EPS (INR)	640.8	750.3	850.8
EPS Gr. (%)	47.2	17.1	13.4
BV/Sh. (INR)	4,226.7	4,897.0	5,652.8
Ratios			
Net D:E	-0.4	-0.5	-0.5
RoE (%)	16.4	16.4	16.1
RoCE (%)	14.9	15.5	15.4
Payout (%)	10.9	10.7	11.2
Valuations			
P/E (x)	44.1	37.7	33.2
P/BV (x)	6.7	5.8	5.0
EV/EBITDA(x)	23.9	21.7	18.0
EV/ton (USD)	303.4	277.2	249.9
Div. Yield (%)	0.2	0.3	0.3
FCF Yield (%)	3.0	1.9	2.7

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	62.6	62.6	62.6
DII	10.5	10.8	11.7
FII	13.0	12.5	11.6
Others	14.0	14.1	14.3

FII Includes depository receipts

CMP: INR28,287 TP: INR28,550 (+1%) Neutral

EBITDA in-line; lags peers in volume growth

Faster volume growth needed to improve ROE and drive upside

- Shree Cement (SRCM)'s 1QFY22 result was in-line, with EBITDA up 45% YoY – as higher realization was offset by disappointment on cost, leading to weaker EBITDA/t of INR1,482 (v/s our est. of INR1,552/t). Volume growth at 39% YoY, weighed by lower clinker sales, was also weaker v/s peers.
- We broadly maintain our FY22E/FY23E estimates and expect a 13%/13% volume/EBITDA CAGR over FY21–23E. We maintain **Neutral** as the valuation (18x FY23E EV/EBITDA) prices in earnings growth.

Cost disappointment offset by higher realization

- 1QFY22 rev / EBITDA / adj. PAT was up 48%/45%/78% YoY to INR34.5b/10.1b/6.6b (+1%/-4%/+7% v/s our estimate).
- Cement volumes grew 41% YoY to 6.79mt, while lower clinker sales (-62% YoY) led to overall volume growth of 39% YoY to 6.84mt (in-line). SRCM lags behind peers in terms of volume growth, with UltraTech/Ambuja/ACC delivering 47%/53%/44%.
- Blended realization was up 7% YoY (and 5% QoQ) to INR5,043/t (v/s our est. of INR4,985/t). On the other hand, EBITDA/t missed our est. by 5% and came in at INR1,482/t (+4% YoY / +3% QoQ) on the back of higher-than-expected cost of INR3,561/t (+8%YoY / +6%QoQ).
- Depreciation fell 14% YoY to INR2.3b (on lower capitalization in the past 18M), driving 78% YoY growth in PAT to INR6.6b (v/s our est. of INR6.2b).

Valuation and view

- The management had raised equity (QIP) at end-CY19 to double capacity to 80mtpa by FY27E. However, the execution has been slower than anticipated, with only one expansion (of 4mpta in East) having been announced to date. Coupled with low dividends (only an 11% payout), we expect this to result in an increase in cash piles to INR126b in FY23 (from INR85b in FY21) – which would keep RoE subdued, in our view.
- While the outlook for the Cement market in North India remains strong, SRCM's increasing exposure in East (with new capacities) would likely keep margins in check – due to the muted pricing outlook in this region. East is likely to see ~25% capacity expansion by various players over the next two years, which is likely to result in a fight for market share.
- We value SRCM at 16x Sep'23E EV/EBITDA and add the value of its UAE operations (USD70/t) to arrive at TP of INR28,550. We expect a 13% EBITDA CAGR over FY21–23, in line with other large-cap peers, on a 13% CAGR in cement sales volumes. We assign a Neutral rating to the stock as it trades at 18.0x FY23E EV/EBITDA, limiting any upside.

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Quarterly Performance (S/A) (INR m)

Y/E March	FY21 1Q	FY21 2Q	FY21 3Q	FY21 4Q	FY22 1Q	FY22 2QE	FY22 3QE	FY22 4QE	FY21	FY22E	FY22 1QE	Var. (%)
Net Sales	**23,258**	**30,224**	**33,094**	**39,308**	**34,495**	**34,538**	**37,626**	**43,630**	**125,884**	**150,289**	**33,989**	1
YoY Change (%)	-23.4	7.9	16.2	22.2	48.3	14.3	13.7	11.0	5.7	19.4	46.1	
Total Expenditure	16,252	20,344	22,205	27,537	24,360	25,359	27,571	30,565	86,337	107,855	23,408	4
EBITDA	**7,006**	**9,880**	**10,890**	**11,772**	**10,135**	**9,179**	**10,055**	**13,064**	**39,547**	**42,434**	**10,582**	-4
Margins (%)	30.1	32.7	32.9	29.9	29.4	26.6	26.7	29.9	31.4	28.2	31.1	
Depreciation	2,714	2,786	2,906	2,993	2,325	2,500	2,700	2,858	11,399	10,383	3,100	-25
Interest	706	627	585	553	535	500	475	427	2,471	1,937	550	-3
Other Income	1,244	1,024	1,068	1,244	1,392	1,450	1,550	1,588	4,580	5,980	1,300	7
PBT before EO Exp	**4,831**	**7,490**	**8,466**	**9,469**	**8,667**	**7,629**	**8,430**	**11,368**	**30,257**	**36,094**	**8,232**	5
Extra-Ord Expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	**4,831**	**7,490**	**8,466**	**9,469**	**8,667**	**7,629**	**8,430**	**11,368**	**30,257**	**36,094**	**8,232**	5
Tax	1,123	2,018	2,204	1,793	2,049	1,907	2,108	2,959	7,536	9,024	2,058	
Rate (%)	23.3	26.9	26.0	18.9	23.6	25.0	25.0	26.0	23.6	25.0	25.0	
Reported PAT	**3,708**	**5,473**	**6,262**	**7,677**	**6,617**	**5,722**	**6,323**	**8,409**	**23,119**	**27,071**	**6,174**	7
Adj PAT	**3,708**	**5,473**	**6,262**	**7,677**	**6,617**	**5,722**	**6,323**	**8,409**	**23,119**	**27,071**	**6,174**	7
YoY Change (%)	2.1	77.1	102.0	30.5	78.5	4.6	1.0	9.5	47.2	17.1	66.5	

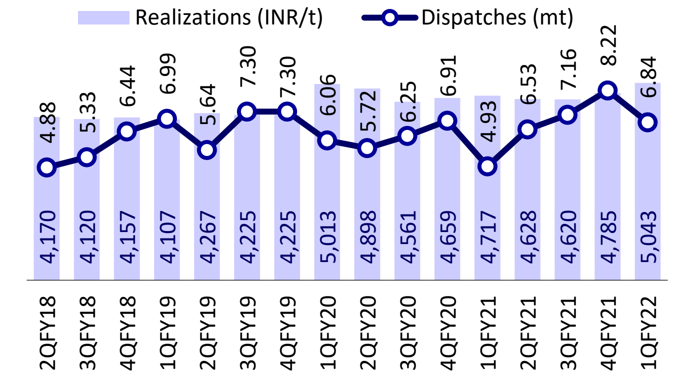
E:MOFSL Estimates

Key operating summary (INR/t)

Y/E March	FY21 1Q	FY21 2Q	FY21 3Q	FY21 4Q	FY22 1Q	FY22 2QE	FY22 3QE	FY22 4QE	FY21	FY22E	FY22 1QE	Var. (%)
Sales volume (m ton)	**4.93**	**6.53**	**7.16**	**8.22**	**6.84**	**6.99**	**7.74**	**8.72**	**26.84**	**30.29**	**6.82**	0
YoY Change (%)	-18.6	14.2	14.7	19.0	38.7	7.0	8.0	6.2	7.7	12.8	38.3	
Blended Realization	**4,717**	**4,628**	**4,620**	**4,785**	**5,043**	**4,943**	**4,863**	**5,001**	**4,677**	**4,947**	**4,985**	1
YoY Change (%)	-5.9	-5.5	1.3	2.7	6.9	6.8	5.3	4.5	2.4	5.8	5.7	
Expenditure												
RM Cost	327	303	263	399	280	350	350	356	326	349	325	-14
Staff Cost	351	265	236	297	309	301	275	249	265	281	293	5
Power & Fuel	777	728	777	753	954	950	960	951	752	941	903	6
Freight	1,136	1,087	1,137	1,160	1,217	1,229	1,229	1,235	1,132	1,228	1,191	2
Other Expenses	705	732	687	743	802	800	750	714	688	763	720	11
Total Op cost	**3,296**	**3,115**	**3,099**	**3,352**	**3,561**	**3,629**	**3,563**	**3,504**	**3,164**	**3,561**	**3,433**	4
EBITDA	**1,421**	**1,513**	**1,520**	**1,433**	**1,482**	**1,314**	**1,300**	**1,498**	**1,514**	**1,386**	**1,552**	-5
YoY Change (%)	-4.6	2.5	11.8	-8.3	4.3	-13.2	-14.5	4.5	4.5	-8.4	9.2	

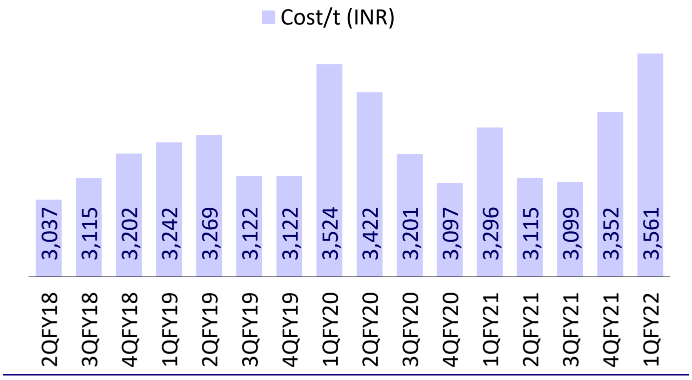
Key exhibits

Exhibit 1: Volumes/Realization up 39%/7% YoY



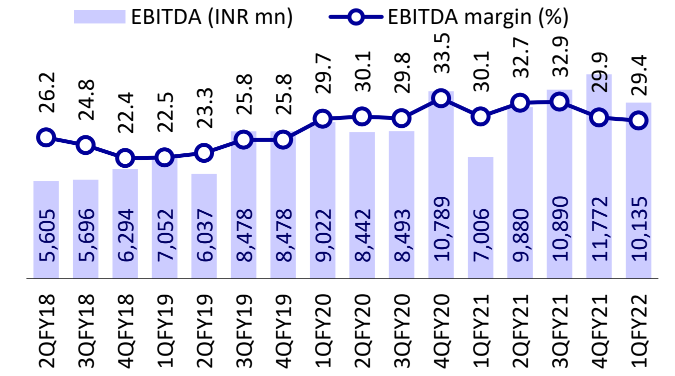
Source: Company, MOFSL

Exhibit 2: Total cost/t up 8% YoY (INR/t)



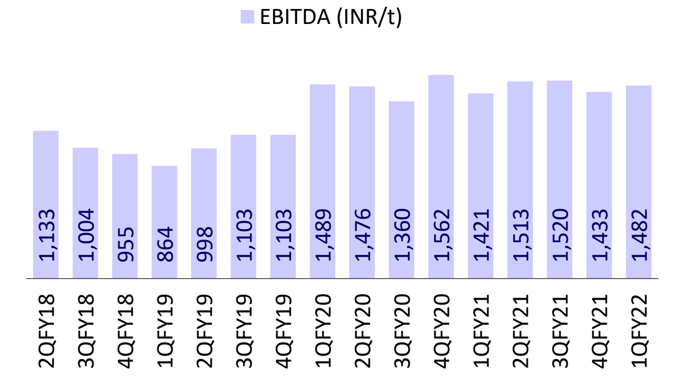
Source: Company, MOFSL

Exhibit 3: EBITDA margin down 74bps YoY



Source: Company, MOFSL

Exhibit 4: Trend in blended EBITDA/t



Source: Company, MOFSL

Exhibit 5: Key performance indicators

INR/t	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)
Net Blended Realization	**5,043**	**4,717**	**7%**	**4,785**	**5%**
Raw Material Cost	280	327	-14%	399	-30%
Staff Cost	309	351	-12%	297	4%
Power & fuel	954	777	23%	753	27%
Freight & selling Exp	1,217	1,136	7%	1,160	5%
Other Exp	802	705	14%	743	8%
Total Exp	**3,561**	**3,296**	**8%**	**3,352**	**6%**
EBITDA	**1,482**	**1,421**	**4%**	**1,433**	**3%**

Source: Company, MOFSL

Valuation and view

Size limiting market share gains: SRCM has the advantage of being the largest player in North, contributing ~60% to volumes. However, this is also disadvantageous as high penetration in North (25% market share) and key operating states in East (Bihar, Chhattisgarh, etc.) have slowed market share gains for the company – key drivers of its premium valuations. While SRCM's all-India market share expanded to 7.5% in FY17 (from 3% in FY07), it has since improved only marginally.

Pace of capacity expansion slows: Despite strong OCF, SRCM has announced only one clinker capacity expansion in the past three years. Also, the commissioning of some of the announced expansions has been delayed for the past 18M. In our view, this is likely due to a slower-than-expected ramp-up in capacities commissioned over the past three years as well as execution challenges (land acquisition, labor availability, etc.) related to setting up new projects. We believe these factors have impacted RoCE and increased the payback period for setting up new capacities for Shree.

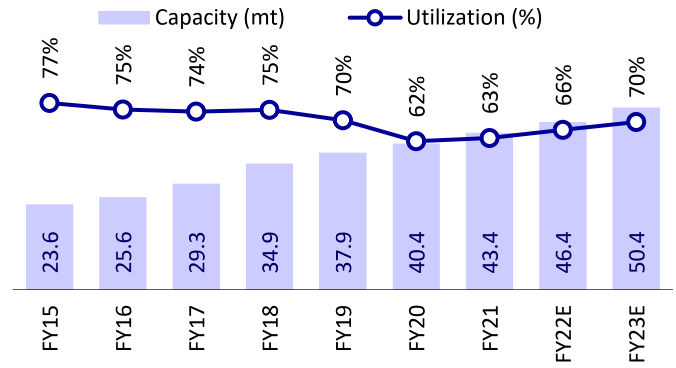
Rising cash pile to keep RoE in check: The management had raised INR24b in equity (QIP) at end-CY19 to double capacity to 80mtpa by FY27E. However, the execution has been slower than anticipated, with only one expansion (of 4mpta in East) having been announced to date. We expect this slow execution to result in an increase in cash piles to INR126b in FY23 (from INR85b in FY21). This raises questions on whether the equity raise in FY20 – when Shree already had a net cash balance sheet – was needed. On the other hand, coupled with low dividends (only 11% payout), a high cash pile would also keep RoE subdued, in our view.

Increasing exposure to East to be margin-dilutive: The outlook for SRCM's home market of North India continues to be strong (owing to a consolidated market structure and lower capacity additions). However, its increasing exposure to East (with new capacities) would likely moderate gains in margins due to the muted pricing outlook in this region. East is likely to see ~25% capacity expansion by various players (including SRCM) over the next 24M. This would lead to a battle for market share in a weak demand environment.

Valuation: We value SRCM at 16x Sep'23E EV/EBITDA and add the value of its UAE operations (USD70/t) to arrive at TP of INR28,550. We expect a 13% EBITDA CAGR over FY21–23E, in line with large-cap peers, on a 13% CAGR for cement sales volumes. We assign a **Neutral** rating to the stock, as it trades at 18.0x FY23E EV/EBITDA, above its past five-year average.

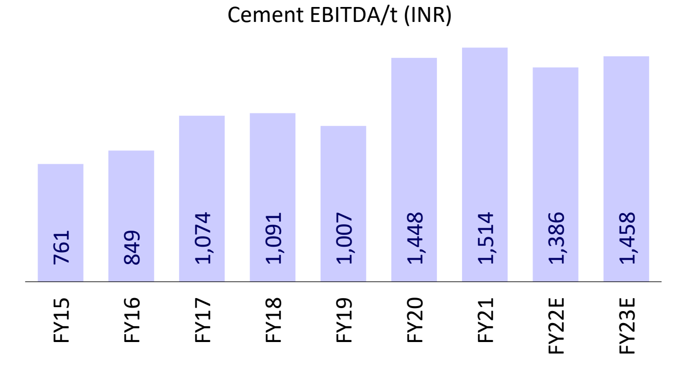
Story in charts

Exhibit 6: Utilization to remain weak



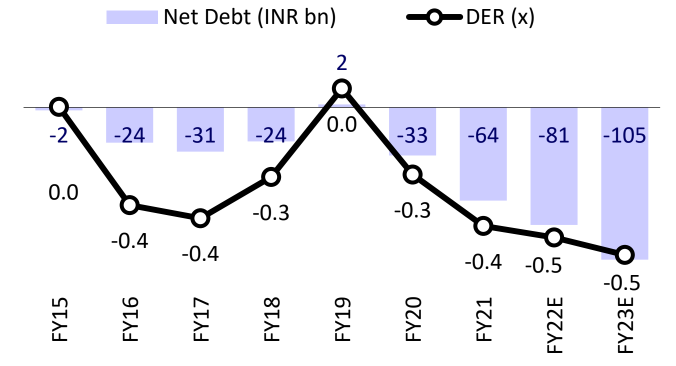
Source: Company, MOFSL

Exhibit 7: EBITDA/t to decline in FY22



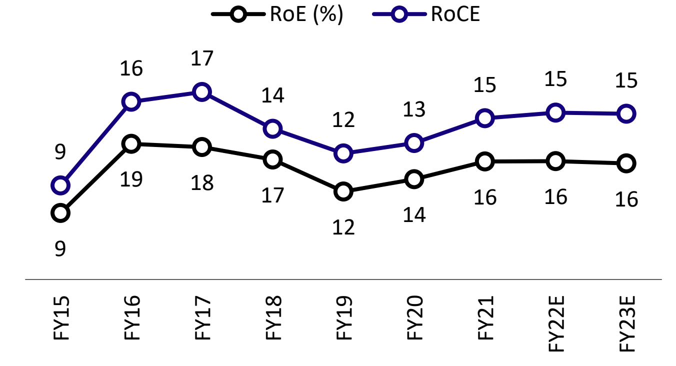
Source: Company, MOFSL

Exhibit 8: Cash pile to rise further on limited capex



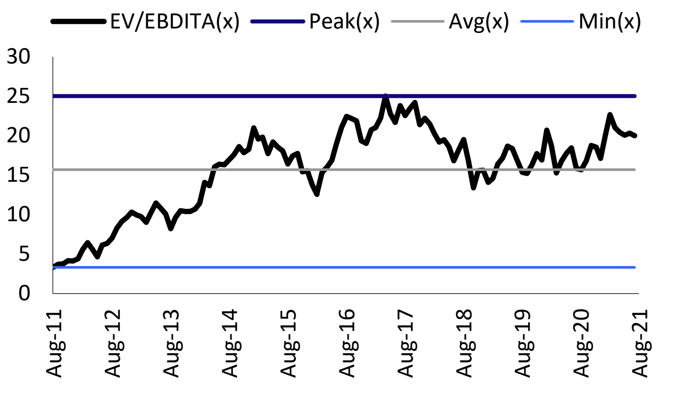
Source: MOFSL, Company

Exhibit 9: Return ratios to remain stable



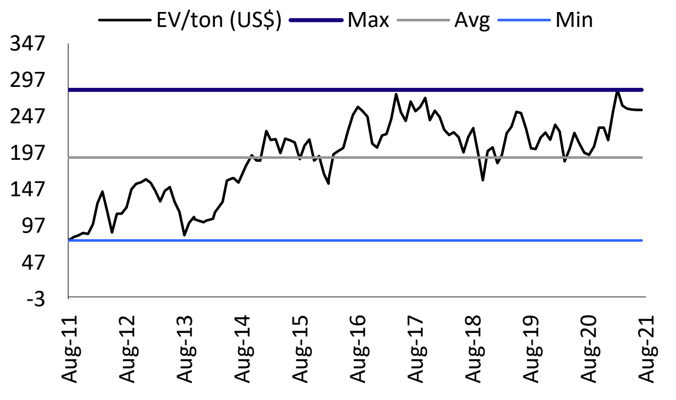
Source: MOFSL, Company

Exhibit 10: SRCM EV/EBITDA trend



Source: MOFSL, Company

Exhibit 11: SRCM EV/t trend



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Gross Sales	**62,029**	**95,215**	**102,158**	**117,599**	**119,040**	**125,884**	**150,289**	**174,322**
Less: Excise Duty	6,763	10,674	3,264	0	0	0	0	0
Net Sales	**55,266**	**84,541**	**98,894**	**117,599**	**119,040**	**125,884**	**150,289**	**174,322**
Change (%)	-14.3	53.0	17.0	18.9	1.2	5.7	19.4	16.0
EBITDA	**14,069**	**23,672**	**24,728**	**27,869**	**36,745**	**39,547**	**42,434**	**50,188**
Margin (%)	25.5	28.0	25.0	23.7	30.9	31.4	28.2	28.8
Depreciation	8,276	12,147	8,994	13,917	16,994	11,399	10,383	13,537
EBIT	**5,793**	**11,525**	**15,734**	**13,952**	**19,751**	**28,148**	**32,051**	**36,651**
Int. and Finance Charges	758	1,294	1,353	3,810	2,865	2,471	1,937	1,794
Other Income - Rec.	6,727	5,077	3,891	2,454	2,716	4,580	5,980	6,070
PBT before EO Expense	**11,763**	**15,308**	**18,272**	**12,596**	**19,602**	**30,257**	**36,094**	**40,927**
EO Expense/(Income)	0	0	0	1,781	0	0	0	0
PBT after EO Expense	11,763	15,308	18,272	10,814	19,602	30,257	36,094	40,927
Tax	668	3,263	4,466	2,177	5,248	7,536	9,024	10,232
Deferred Tax	-337	-1,346	-36	-873	-1,348	-398	0	0
Tax Rate (%)	2.8	12.5	24.2	12.1	19.9	23.6	25.0	25.0
Reported PAT	**11,431**	**13,391**	**13,842**	**9,510**	**15,702**	**23,119**	**27,071**	**30,695**
Adj PAT for EO items	**11,431**	**13,391**	**13,842**	**11,292**	**15,702**	**23,119**	**27,071**	**30,695**
Change (%)	147.5	17.1	3.4	-18.4	39.1	47.2	17.1	13.4
Margin (%)	20.7	15.8	14.0	9.6	13.2	18.4	18.0	17.6

Balance Sheet								(INR m)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Equity Share Capital	348	348	348	348	361	361	361	361
Other Reserves	68,107	76,633	88,620	95,626	129,003	152,140	176,324	203,592
Total Reserves	68,107	76,633	88,620	95,626	129,003	152,140	176,324	203,593
Net Worth	**68,455**	**76,981**	**88,968**	**95,974**	**129,364**	**152,501**	**176,685**	**203,954**
Deferred Liabilities	-3718	-5077	-5131	-6126	-7438	-7855	-7855	-7855
Secured Loan	8,350	6,854	23,761	27,980	31,042	21,332	18,396	18,396
Unsecured Loan	455	6,072	10,269	0	400	0	0	0
Total Loans	8,805	12,925	34,030	27,980	31,442	21,332	18,396	18,396
Capital Employed	**73,542**	**84,830**	**117,868**	**117,827**	**153,368**	**165,978**	**187,226**	**214,495**
Gross Block	38,720	46,354	65,480	88,365	103,231	113,070	123,070	143,070
Less: Accum. Deprn.	8,218	20,363	29,586	43,608	60,042	71,155	81,538	95,075
Net Fixed Assets	**30,501**	**25,991**	**35,895**	**44,757**	**43,189**	**41,916**	**41,532**	**47,995**
Capital WIP	6,140	11,035	18,303	14,725	12,576	12,836	17,836	12,836
Financial investments	30,305	40,424	54,341	22,856	63,575	83,712	95,712	120,712
Strategic Investment	1	3	3	21,583	25,579	26,794	26,794	26,794
Curr. Assets	**23,968**	**29,132**	**37,749**	**41,886**	**41,022**	**37,275**	**43,713**	**47,334**
Inventory	8,152	13,145	15,690	15,891	14,279	14,772	17,294	20,059
Account Receivables	3,286	3,351	4,593	7,324	8,285	4,859	6,176	7,164
Cash and Bank Balance	2,830	3,110	3,209	3,078	1,082	2,098	3,918	2,971
Others	9,700	9,526	14,258	15,593	17,378	15,547	16,325	17,141
Curr. Liability & Prov.	**17,373**	**21,754**	**28,420**	**27,979**	**32,573**	**36,555**	**38,360**	**41,177**
Account Payables	17,283	21,660	28,335	27,886	32,470	36,430	38,236	41,053
Provisions	91	95	86	93	103	125	125	125
Net Current Assets	**6,595**	**7,378**	**9,329**	**13,907**	**8,450**	**721**	**5,352**	**6,157**
Appl. of Funds	**73,542**	**84,830**	**117,868**	**117,827**	**153,368**	**165,978**	**187,226**	**214,495**

Financials and valuations

Ratios								
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Basic (INR)								
EPS	**318.5**	**345.7**	**396.3**	**324.1**	**435.2**	**640.8**	**750.3**	**850.8**
Cash EPS	678.4	911.1	776.7	958.3	1,155.9	1,060.7	1,106.7	1,341.4
BV/Share	1,965.0	2,209.6	2,553.6	2,754.7	3,585.5	4,226.7	4,897.0	5,652.8
DPS	24.0	140.0	50.0	60.0	110.0	70.0	80.0	95.0
Payout (%)	7.3	36.4	12.6	22.0	25.3	10.9	10.7	11.2
Valuation (x)								
P/E						44.1	37.7	33.2
Cash P/E						26.7	25.6	21.1
P/BV						6.7	5.8	5.0
EV/Sales						7.5	6.1	5.2
EV/EBITDA						24	22	18
EV/ton (USD-Cap)						303	277	250
Dividend Yield (%)						0.2	0.3	0.3
Return Ratios (%)								
RoIC	9.3	14.9	14.3	14.0	16.4	18.0	18.3	17.7
RoE	18.9	18.4	16.7	12.2	13.9	16.4	16.4	16.1
RoCE	16.5	17.4	14.0	11.7	12.6	14.9	15.5	15.4
Working Capital Ratios								
Inventory (Days)	54	57	58	49	44	43	42	42
Debtor (Days)	19	13	16	23	25	14	15	15
Creditor (Days)	114	94	105	87	100	106	93	86
Working Capital Turnover (Days)	44	32	34	43	26	2	13	13
Leverage Ratio (x)								
Current Ratio	1.4	1.3	1.3	1.5	1.3	1.0	1.1	1.1
Net Debt/Equity	-0.4	-0.4	-0.3	0.0	-0.3	-0.4	-0.5	-0.5

Cash Flow Statement								(INR m)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
OP/(Loss) before Tax	11,763	15,308	18,272	10,814	19,602	30,257	36,094	40,927
Depreciation	8,276	12,147	8,994	13,916	16,994	11,399	10,383	13,537
Interest & Finance Charges	-754	-1,210	-740	833	1,132	220	0	0
Direct Taxes Paid	-1,431	-2,891	-5,068	-2,300	-4,859	-7,439	-9,024	-10,232
(Inc)/Dec in WC	-1,748	-509	-1,131	-5,302	5,591	8,762	-2,811	-1,752
CF from Operations	**16,105**	**22,845**	**20,327**	**17,962**	**38,460**	**43,200**	**34,643**	**42,480**
Others	-444	-829	-1,540	2,635	-947	-2,264	0	0
CF from Operating incl EO	**15,662**	**22,017**	**18,788**	**20,597**	**37,513**	**40,936**	**34,643**	**42,480**
(Inc)/Dec in FA	-7,339	-12,793	-25,263	-18,853	-12,941	-9,984	-15,000	-15,000
Free Cash Flow	**8,322**	**9,223**	**-6,475**	**1,744**	**24,572**	**30,953**	**19,643**	**27,480**
(Pur)/Sale of Investments	-5,306	-7,686	-10,685	10,727	-42,478	-17,791	-12,000	-25,000
Others	-553	411	-3	51	0	0	0	0
CF from Investments	**-13,199**	**-20,068**	**-35,950**	**-8,075**	**-55,419**	**-27,774**	**-27,000**	**-40,000**
Issue of Shares	0	0	0	0	23,833	0	0	0
Inc/(Dec) in Debt	-224	4,455	20,353	-7,591	1,175	-9,610	-2,936	0
Interest Paid	-892	-1,278	-1,248	-2,753	-2,868	-2,514	0	0
Dividend Paid	-1,592	-4,846	-1,843	-2,308	-6,231	-22	-2,886	-3,428
CF from Fin. Activity	**-2,708**	**-1,669**	**17,262**	**-12,653**	**15,910**	**-12,146**	**-5,822**	**-3,428**
Inc/Dec of Cash	**-245**	**279**	**99**	**-131**	**-1,996**	**1,016**	**1,821**	**-947**
Opening Balance	3,075	2,830	3,110	3,209	3,078	1,082	2,098	3,918
Closing Balance	**2,830**	**3,110**	**3,209**	**3,078**	**1,082**	**2,098**	**3,918**	**2,971**

*Y/E June

NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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