

August 10, 2021

## Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	28,400		28,625	
Sales (Rs. m)	1,61,834	1,87,349	1,57,865	1,78,569
% Chng.	2.5	4.9		
EBITDA (Rs. m)	44,363	51,157	44,883	51,538
% Chng.	(1.2)	(0.7)		
EPS (Rs.)	714.5	813.5	704.5	802.1
% Chng.	1.4	1.4		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	1,28,661	1,34,650	1,61,834	1,87,349
EBITDA (Rs. m)	37,541	40,377	44,363	51,157
Margin (%)	29.2	30.0	27.4	27.3
PAT (Rs. m)	15,309	22,756	25,779	29,352
EPS (Rs.)	424.3	630.7	714.5	813.5
Gr. (%)	27.3	48.6	13.3	13.9
DPS (Rs.)	110.0	58.7	78.2	88.0
Yield (%)	0.4	0.2	0.3	0.3
RoE (%)	13.4	15.9	15.5	15.4
RoCE (%)	13.5	16.5	16.7	16.7
EV/Sales (x)	7.9	7.4	6.0	5.1
EV/EBITDA (x)	27.0	24.6	22.0	18.8
PE (x)	66.6	44.8	39.5	34.7
P/BV (x)	7.7	6.6	5.7	5.0

### Key Data

SHCM.BO | SRCM IN

52-W High / Low	Rs.32,050 / Rs.18,184
Sensex / Nifty	54,403 / 16,258
Market Cap	Rs.1,019bn / \$ 13,724m
Shares Outstanding	36m
3M Avg. Daily Value	Rs.2682.71m

### Shareholding Pattern (%)

Promoter's	62.55
Foreign	13.02
Domestic Institution	10.48
Public & Others	13.95
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	2.7	0.3	28.9
Relative	(1.1)	(5.4)	(9.8)

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## Higher costs and lower volumes led the miss

### Quick Pointers:

- Differential in margins over its peers (Ambuja and Ultratech) shrinks to lows
- Exploring organic/inorganic opportunities to achieve 80mtpa capacity by 2030

**Shree cement's (SRCM) reported Q1FY22 earnings below our/consensus estimate by 7%/2% due to higher than expected costs and lower volumes. EBITDA/t expanded 3% QoQ/4% YoY to Rs1,480 (PL:Rs1,555).**

**SRCM maintained meaningful differential in EBITDA margins over its peers (Ambuja and Ultratech) on back of higher share of cheaper renewable power, indirect tax incentives and logistics advantage. However, the gap has contracted significantly over last one year due to optimisation of realisations and extensive work on rationalisation of freight cost done by the peers. We believe that gap would further narrow down with multi-fold increase in share of renewable power and further reduction in lead distance coupled with commissioning of new plants. Stock has underperformed its peers by a wide margin over last couple of years due to expensive valuations (EV/EBITDA of 21.0x FY22e/17.8x FY23e), limited levers for margin improvement and strong performance by peers. We maintain Hold rating with TP of Rs28,400 (earlier Rs28,625), EV/EBITDA of 17.5x FY23e.**

- Higher than expected costs led the miss:** Volumes grew 39% YoY to 6.84mnt (PL:7.0mnt). Realisations increased 4.6% QoQ/Rs225 (+6.6% YoY/Rs310) at Rs5,040 (PL:Rs5,045). Due to higher than expected energy cost (+21% YoY/Rs165 against our estimate of +Rs80) and other expense (up 14% YoY/Rs95 as against our estimate of +Rs60) partially offset by lower RM costs, cost/t came above our estimates at Rs3,560 (PL:Rs3,490), up 7.6% YoY (Rs250)/5.4% QoQ (Rs180). Hence, EBITDA came below our estimates at Rs10.1bn (PL:Rs11.1bn, CE:Rs10.3bn), up 45% YoY. Aided by lower interest cost (↓24% YoY) and fall in depreciation (↓14% YoY), PAT grew 78% YoY to Rs6.6bn (PL:Rs6.9bn, CE:Rs6.0bn).
- UAE operation's EBITDA at four quarter low:** Based on derived figures, EBITDA of UAE cement operations fell 85% QoQ to Rs95mn due to weak realisations and higher fuel cost.
- Target to become 80mtpa player by 2030:** Based on its FY21 Annual Report, company targets to increase its capacity to 80mtpa (current 46.4mtpa including 3mtpa unit in Pune, scheduled for commissioning in Sep-21) by 2030. Contrary to earlier policy of focusing on organic expansion, company is actively exploring inorganic opportunities to meet the targeted capacity. On the organic side, we expect two greenfield plants of 3.5-4.0mtpa each in Rajasthan and Andhra Pradesh over next 2-3 years. In the similar timeline, we expect brownfield expansion of clinker capacity by 2.8-3.0mnt in Karnataka. Based on media reports, company is going to commence work on greenfield 3mtpa grinding unit in West Bengal. We continue to maintain that majority of growth would be led by greenfield expansions.

**Exhibit 1: Q1FY22 Result Overview (Rs mn)**

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY22E	FY21	YoY gr. (%)
<b>Net Sales</b>	<b>34,495</b>	<b>23,324</b>	<b>47.9</b>	<b>39,580</b>	<b>1,51,559</b>	<b>1,26,221</b>	<b>20.1</b>
Raw Material	1,913	1,612	18.7	3,280	9,764	8,756	11.5
<i>% of Net Sales</i>	<i>5.5</i>	<i>6.9</i>		<i>8.3</i>	<i>6.4</i>	<i>6.9</i>	
Staff Costs	2,115	1,731	22.2	2,442	8,205	7,597	8.0
<i>% of Net Sales</i>	<i>6.1</i>	<i>7.4</i>		<i>6.2</i>	<i>5.4</i>	<i>6.0</i>	
Power & Fuel	6,524	3,895	67.5	6,360	32,143	20,572	56.2
<i>% of Net Sales</i>	<i>18.9</i>	<i>16.7</i>		<i>16.1</i>	<i>21.2</i>	<i>16.3</i>	
Freight and selling expenses	8,322	5,602	48.5	9,527	35,753	30,372	17.7
<i>% of Net Sales</i>	<i>24.1</i>	<i>24.0</i>		<i>24.1</i>	<i>23.6</i>	<i>24.1</i>	
Other Expenses	5,486	3,479	57.7	6,146	22,509	19,324	16.5
<i>% of Net Sales</i>	<i>15.9</i>	<i>14.9</i>		<i>15.5</i>	<i>14.9</i>	<i>15.3</i>	
Total Expenditure	24,360	16,319	49.3	27,755	1,08,374	86,622	25.1
<b>EBITDA</b>	<b>10,135</b>	<b>7,005</b>	<b>44.7</b>	<b>11,825</b>	<b>43,185</b>	<b>39,600</b>	<b>9.1</b>
<i>Margin (%)</i>	<i>29.4</i>	<i>30.0</i>		<i>29.9</i>	<i>28.5</i>	<i>31.4</i>	
Depreciation	2,325	2,714	(14.3)	2,993	12,459	11,399	9.3
Other income	1,392	1,245	11.8	1,191	5,456	4,528	20.5
<b>EBIT</b>	<b>9,202</b>	<b>5,537</b>	<b>66.2</b>	<b>10,022</b>	<b>36,182</b>	<b>32,728</b>	<b>10.6</b>
Interest	535	706	(24.1)	553	2,142	2,471	(13.3)
<b>PBT</b>	<b>8,667</b>	<b>4,831</b>	<b>79.4</b>	<b>9,469</b>	<b>34,040</b>	<b>30,257</b>	<b>12.5</b>
Extraordinary income/(expense)	-	-		-	-	-	
<b>PBT (After EO)</b>	<b>8,667</b>	<b>4,831</b>	<b>79.4</b>	<b>9,469</b>	<b>34,040</b>	<b>30,257</b>	<b>12.5</b>
Tax	2,049	1,123	82.4	1,793	8,221	7,138	15.2
<i>% PBT</i>	<i>23.6</i>	<i>23.3</i>		<i>18.9</i>	<i>24.2</i>	<i>23.6</i>	
<b>Reported PAT</b>	<b>6,617</b>	<b>3,708</b>	<b>78.5</b>	<b>7,677</b>	<b>25,820</b>	<b>23,119</b>	<b>11.7</b>
<b>Adjusted PAT</b>	<b>6,617</b>	<b>3,708</b>	<b>78.5</b>	<b>7,677</b>	<b>25,820</b>	<b>23,119</b>	<b>11.7</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY22E	FY21	YoY gr. (%)
Volume (mnt)	6.8	4.9	38.8	8.2	30.1	26.8	12.2
Net Realisations (Rs/te)	5,041	4,730	6.6	4,818	5,033	4,702	7.0
EBITDA/t	1,481	1,421	4.3	1,439	1,444	1,475	(2.1)

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>1,28,661</b>	<b>1,34,650</b>	<b>1,61,834</b>	<b>1,87,349</b>
YoY gr. (%)	2.5	4.7	20.2	15.8
Cost of Goods Sold	16,943	18,702	21,609	24,648
Gross Profit	1,11,718	1,15,947	1,40,225	1,62,701
Margin (%)	86.8	86.1	86.6	86.8
Employee Cost	8,540	8,692	9,463	10,226
Other Expenses	16,495	17,293	19,995	22,549
<b>EBITDA</b>	<b>37,541</b>	<b>40,377</b>	<b>44,363</b>	<b>51,157</b>
YoY gr. (%)	34.6	7.6	9.9	15.3
Margin (%)	29.2	30.0	27.4	27.3
Depreciation and Amortization	18,078	12,623	13,729	16,894
<b>EBIT</b>	<b>19,462</b>	<b>27,753</b>	<b>30,634</b>	<b>34,263</b>
Margin (%)	15.1	20.6	18.9	18.3
Net Interest	2,887	2,490	2,182	1,980
Other Income	2,770	4,777	5,546	6,434
<b>Profit Before Tax</b>	<b>19,346</b>	<b>30,041</b>	<b>33,999</b>	<b>38,718</b>
Margin (%)	15.0	22.3	21.0	20.7
Total Tax	3,902	7,145	8,221	9,365
Effective tax rate (%)	20.2	23.8	24.2	24.2
<b>Profit after tax</b>	<b>15,444</b>	<b>22,896</b>	<b>25,778</b>	<b>29,353</b>
Minority interest	82	37	(1)	0
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>15,309</b>	<b>22,756</b>	<b>25,779</b>	<b>29,352</b>
YoY gr. (%)	31.8	48.6	13.3	13.9
Margin (%)	11.9	16.9	15.9	15.7
Extra Ord. Income / (Exp)	53	103	-	-
<b>Reported PAT</b>	<b>15,362</b>	<b>22,859</b>	<b>25,779</b>	<b>29,352</b>
YoY gr. (%)	52.6	48.8	12.8	13.9
Margin (%)	11.9	17.0	15.9	15.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	15,362	22,859	25,779	29,352
<b>Equity Shares O/s (m)</b>	<b>36</b>	<b>36</b>	<b>36</b>	<b>36</b>
<b>EPS (Rs)</b>	<b>424.3</b>	<b>630.7</b>	<b>714.5</b>	<b>813.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>1,24,074</b>	<b>1,37,230</b>	<b>1,56,356</b>	<b>1,60,656</b>
Tangibles	1,24,074	1,37,230	1,56,356	1,60,656
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>62,444</b>	<b>75,067</b>	<b>88,622</b>	<b>1,05,517</b>
Tangibles	62,444	75,067	88,622	1,05,517
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>61,630</b>	<b>62,163</b>	<b>67,734</b>	<b>55,139</b>
Tangibles	61,630	62,163	67,734	55,139
Intangibles	-	-	-	-
Capital Work In Progress	15,036	9,965	8,224	29,494
Goodwill	-	-	-	-
Non-Current Investments	34,856	48,336	48,347	48,359
Net Deferred tax assets	7,436	7,861	8,201	8,588
Other Non-Current Assets	1,543	4,934	1,875	1,975
<b>Current Assets</b>				
Investments	30,863	38,015	38,015	38,015
Inventories	17,135	17,157	20,839	24,124
Trade receivables	10,805	6,859	8,868	10,266
Cash & Bank Balance	6,142	7,084	20,970	33,069
Other Current Assets	11,805	10,908	12,083	13,352
<b>Total Assets</b>	<b>1,99,442</b>	<b>2,15,132</b>	<b>2,37,032</b>	<b>2,64,286</b>
<b>Equity</b>				
Equity Share Capital	361	361	361	361
Other Equity	1,31,334	1,53,613	1,77,275	2,03,805
<b>Total Network</b>	<b>1,31,694</b>	<b>1,53,974</b>	<b>1,77,636</b>	<b>2,04,166</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	31,602	18,403	16,459	11,459
Provisions	351	318	318	318
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,577	8,830	9,093	10,509
Other current liabilities	18,364	23,091	23,152	26,107
<b>Total Equity &amp; Liabilities</b>	<b>1,99,442</b>	<b>2,15,132</b>	<b>2,37,032</b>	<b>2,64,287</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	19,343	30,041	33,999	38,718
Add. Depreciation	18,078	12,623	13,729	16,894
Add. Interest	2,914	2,513	2,182	1,980
Less Financial Other Income	2,770	4,777	5,546	6,434
Add. Other	(2,668)	(4,396)	(5,546)	(6,434)
Op. profit before WC changes	37,667	40,781	44,363	51,157
Net Changes-WC	6,927	9,208	(3,763)	(368)
Direct tax	(4,862)	(7,451)	(8,561)	(9,752)
<b>Net cash from Op. activities</b>	<b>39,732</b>	<b>42,538</b>	<b>32,039</b>	<b>41,037</b>
Capital expenditures	(15,403)	(11,159)	(14,400)	(25,570)
Interest / Dividend Income	1,934	2,143	-	-
Others	(42,518)	(17,434)	5,546	6,434
<b>Net Cash from Inv. activities</b>	<b>(55,987)</b>	<b>(26,450)</b>	<b>(8,854)</b>	<b>(19,136)</b>
Issue of share cap. / premium	23,833	-	-	-
Debt changes	1,154	(9,675)	(5,000)	(5,000)
Dividend paid	(6,284)	(111)	(2,117)	(2,822)
Interest paid	(2,893)	(2,540)	(2,182)	(1,980)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>15,811</b>	<b>(12,326)</b>	<b>(9,299)</b>	<b>(9,802)</b>
<b>Net change in cash</b>	<b>(445)</b>	<b>3,761</b>	<b>13,886</b>	<b>12,099</b>
Free Cash Flow	24,284	31,324	17,639	15,467

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>30,224</b>	<b>33,094</b>	<b>39,580</b>	<b>34,495</b>
YoY gr. (%)	7.9	16.2	23.0	47.9
Raw Material Expenses	1,981	1,883	3,280	1,913
Gross Profit	28,243	31,211	36,299	32,582
Margin (%)	93.4	94.3	91.7	94.5
<b>EBITDA</b>	<b>9,880</b>	<b>10,890</b>	<b>11,825</b>	<b>10,135</b>
YoY gr. (%)	17.0	28.2	9.6	44.7
Margin (%)	32.7	32.9	29.9	29.4
Depreciation / Depletion	2,786	2,906	2,993	2,325
<b>EBIT</b>	<b>7,094</b>	<b>7,983</b>	<b>8,832</b>	<b>7,810</b>
Margin (%)	23.5	24.1	22.3	22.6
Net Interest	627	585	553	535
Other Income	1,024	1,068	1,191	1,392
<b>Profit before Tax</b>	<b>7,490</b>	<b>8,466</b>	<b>9,469</b>	<b>8,667</b>
Margin (%)	24.8	25.6	23.9	25.1
Total Tax	2,018	2,204	1,793	2,049
Effective tax rate (%)	26.9	26.0	18.9	23.6
<b>Profit after Tax</b>	<b>5,473</b>	<b>6,262</b>	<b>7,677</b>	<b>6,617</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>5,473</b>	<b>6,262</b>	<b>7,677</b>	<b>6,617</b>
YoY gr. (%)	77.1	105.6	30.5	78.5
Margin (%)	18.1	18.9	19.4	19.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,473</b>	<b>6,262</b>	<b>7,677</b>	<b>6,617</b>
YoY gr. (%)	77.1	102.0	30.5	78.5
Margin (%)	18.1	18.9	19.4	19.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>5,473</b>	<b>6,262</b>	<b>7,677</b>	<b>6,617</b>
Avg. Shares O/s (m)	35	35	35	35
<b>EPS (Rs)</b>	<b>155.1</b>	<b>177.5</b>	<b>217.6</b>	<b>187.6</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	424.3	630.7	714.5	813.5
CEPS	925.4	980.6	1,095.0	1,281.8
BVPS	3,650.1	4,267.6	4,923.4	5,658.7
FCF	673.1	868.2	488.9	428.7
DPS	110.0	58.7	78.2	88.0
<b>Return Ratio(%)</b>				
RoCE	13.5	16.5	16.7	16.7
ROIC	14.5	17.2	18.7	19.4
RoE	13.4	15.9	15.5	15.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	61	41	46	47
<b>Valuation(x)</b>				
PER	66.6	44.8	39.5	34.7
P/B	7.7	6.6	5.7	5.0
P/CEPS	30.5	28.8	25.8	22.0
EV/EBITDA	27.0	24.6	22.0	18.8
EV/Sales	7.9	7.4	6.0	5.1
Dividend Yield (%)	0.4	0.2	0.3	0.3

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Volume (mn te)-Cement Domestic	25	27	30	34
Volume (mn units)-Power	1,142			
Net Realisations (Rs/te)	4,558	4,639	5,033	5,184
Realised rate (Rs/unit)	5	4	4	4
Cement EBITDA (Rs/te)	1,488	1,447	1,444	1,477
Raw material cost (Rs/te)	326	317	330	337
Power & Fuel cost (Rs/te)	830	758	1,067	1,181
Freight cost (Rs/te)	1,046	1,132	1,187	1,192
Volume (mn te)- Cement Overseas	3	3	3	3
Net Realisations (Rs/te) - Overseas	2,817	3,367	3,535	3,606
Cement EBITDA (Rs/te) - Overseas	265	322	403	403

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-21	Hold	28,625	27,000
2	01-Jul-21	Hold	28,625	27,505
3	22-May-21	Hold	28,070	27,615
4	07-Apr-21	Hold	26,545	30,150
5	03-Mar-21	Hold	23,400	27,755
6	31-Jan-21	Hold	23,400	22,550
7	09-Jan-21	Reduce	23,401	25,813
8	12-Nov-20	Reduce	20,550	23,485
9	06-Oct-20	Reduce	19,100	20,297
10	21-Aug-20	Reduce	19,100	22,080

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,460	2,152
2	Ambuja Cement	BUY	460	402
3	Coal India	Hold	160	146
4	Dalmia Bharat	Accumulate	2,300	2,148
5	Heidelberg Cement India	Reduce	225	261
6	Hindalco Industries	BUY	500	442
7	Hindustan Zinc	Reduce	271	331
8	Jindal Steel & Power	Accumulate	500	387
9	JK Lakshmi Cement	Hold	690	692
10	JSW Steel	Accumulate	810	718
11	NMDC	Accumulate	175	167
12	Shree Cement	Hold	28,625	27,000
13	Steel Authority of India	Accumulate	155	123
14	Tata Steel	Accumulate	1,400	1,190
15	The Ramco Cements	Reduce	980	1,060
16	Ultratech Cement	BUY	8,600	7,459

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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