Axis Annual Analysis 2021

Shree Cement Ltd

AXIS SECURITIES

Shree Cement Ltd
Cement

HOLD
Target Price
29000

Capacity Expansion, Product Mix and New Markets To Drive Growth

Summary

- Shree Cement Ltd (SCL) commissioned a new 3 million tonnes per annum (mtpa) cement unit in Cuttack, taking the total capacity to 43.4 mtpa. Its 3 mtpa new grinding capacity is coming up in Patas, near Pune and is expected to be operational in Q2FY22. With this capacity addition, SCL's total cement grinding capacity will increase to 46.4 mtpa on a standalone basis.
- The company continues to strengthen its market reach and focus on premium product sales. During the year, the company undertook several cost optimization measures resulting in higher EBITDA margins.
- SCL aims to expand its total cement grinding capacity to 80 mtpa by 2030. The company continues to explore newer geographies across the country and intends to undertake both organic as well as inorganic ways for expanding its capacity.

Key Highlights

- In FY21, SCL reported an 8% YoY growth in cement sales volume at 26.84 (mtpa). Better demand in its key market of North and East supported the volume growth during the year.
- The company adopted several cost optimization measures during the year to improve efficiencies and leverage input cost levers across the value chain.
- The company's margin expansion was driven by product mix optimization, prudent market mix, cost-efficiency initiatives.
- The premium cement brand Bangur Power and Roofon gained encouraging traction during the year. The sale of Bangur Power increased by 72% YoY while it achieved an encouraging sales of 1 mtpa in its niche cement category - Roofon.
- The company continued to focus on the production and promotion of blended cement in line with its commitment to environmental sustainability.

Key competitive strengths

a) Lowest cost producer of cement in India, b) Robust sales and distribution network,c) Robust financial position, d) Experienced and competent management bandwidth, and e) A higher proportion of trade and blended cement sale.

Strategies implemented during FY21

a) Undertook several efficiency improvement initiatives, rationalised routes and lead distances, enhancing direct dispatches and better use of technical tools in supply management b) Continued optimization in mining operations and higher in-house production of gypsum, c) Planned expansion to increase capacity to capitalize on growing markets d) Strengthened market reach by expanding distribution network and increasing retail sales with a focus on growing smaller towns and rural areas, and e) Sustainable leadership practice through waste, water, energy, and emission management.

Growth drivers

a) Housing for All, b) Real Estate Growth, c) The government's keen focus on infrastructure development including roads, highways, metros, airports, and irrigation and water projects, d) Increasing rural Income, and e) the government's supporting policies.

Key focus areas for the company in FY22 include: a) Increasing market share by expanding capacities in new markets b) Increasing sales of premium cement, c) Enhancing cost leadership, and d) Practicing sustainable growth.

Outlook & Recommendation

The company is expected to deliver strong volume and revenue growth on account of favourable attributes such as upcoming capacities, better monitoring of cost drivers, focus on increasing sales of premium cement, and penetration into newer markets. The stock is currently trading at 23x and 20x FY22E and FY23E EV/EBITDA. **We value SCL at 19x FY23E EV/EBITDA and assign a HOLD rating to the company.**

Key Financials

(Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	11904	12588	15271	16903
EBITDA	3675	3955	4513	5144
Net Profit	1570	2312	2714	3158
EPS (Rs)	435	640	752	875.
PER (x)	40	47	40	35
EV/EBITDA (x)	17	25	23	20
P/BV (x)	4.9	7.1	6.2	5.4
ROE (%)	14.0	16.4	16.5	16.6

Source: Capitaline, Axis Securities

(CMP as of Sept 2, 2021)

CMP (Rs)	30323
Upside /(Downside (%))	(4%)
High/Low (Rs)	32048/18183
Market cap (Cr)	108891
Avg. daily vol. (6m) Shrs.	56165
No. of shares (Cr)	20.5

Shareholding (%)

	Dec-20	Mar-21	June-21
Promoter	62.55	62.55	62.55
FIIs	12.18	12.51	13.02
MFs / UTI	8.41	8.3	7.92
Banks / FIs	0.02	0.02	0.04
Others	16.84	16.62	16.47

Financial & Valuations

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Change in Estimates (%)

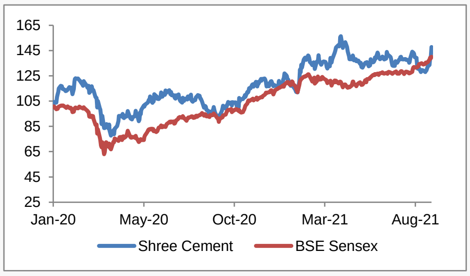
Y/E Mar	FY22E	FY23E
Sales	6	4
EBITDA	4	1
PAT	8	3

ESG disclosure Score**

Environmental Disclosure Score	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Company Overview

Shree Cement Limited (SCL) - incorporated in 1979, belongs to Mr. B.G.Bangur - H. M. Bangur faction of the Bangur family of Kolkata. SCL has a consolidated cement production Capacity of 47.4 mntpa (including overseas) and a power generation capacity of 742 MW. The company's operations span across India as well as in the UAE through its 4 integrated plants in India, 1 in UAE, and 9 grinding Units. Shree cement is also among the industry pioneers to use alternate fuel resources in cement production and today, it has the highest installed capacity of Waste Heat Recover Power plants in the world, second only to China.

Product and Brand Portfolio

SCL's brand portfolio comprises an ordinary and premium range of products assuring superior quality for general construction as well as for specialized applications and environments. The company produces all three variants of cement mainly OPC/PPC/PSC. At present, it sells cement under five brands Roofon, Bangur Power, Shree Jung Rodhak, Bangur cement, and Rock strong. The company launched Roofon and Bangur Power brands under the premium cement category in 2019 to further strengthen its portfolio. It produces Autoclaved Aerated Concrete (AAC) Blocks – a lightweight, precast building material with high insulating capacities, in its plant in Uttar Pradesh.

SCL also has an installed commercial power capacity of 300 Mega Watts along with a Captive and Green Power Capacity of 442 Mega Watts.

FY21 Performance Round-up

The company reported revenue of Rs 12.588 Cr, up 6% YoY owing to better demand in its key markets of North and East. While the blended realization for the year was down by 1.8% at Rs 4691/tonne owing to lower prices in the East region, prices in the North remained firm. The cement volume growth was higher by 8% YoY (FY21– 26.8 mtpa vs FY20 – 24.9 mtpa) as demand picked up sharply in H2FY21 in its operating region both from trade and non-trade segments. However, the cement sales from the Kodla unit in Southern India went up significantly from 1.5 mtpa to 2.2 mtpa.

The company reported a higher EBITDA margin of 31.4% in FY21 against 30.9% in FY20. This was driven by various cost optimization measures undertaken during the year and a superior product mix. Moreover, the share of a premium product in trade sales, too, increased in FY21 resulting in a superior margin profile. The company's continued focus on raising the share of premium products and positioning its brands correctly enabled it to maintain superior price realization. it also enhanced the sale of blended cement in its efforts to achieve and promote environmental sustainability. The company's FY21 capacity utilization stood healthy at 61% and it also declared a dividend of Rs 60/share for FY21.

In Nov'19, the company raised Rs 2,400 Cr through QIP at Rs 19,300/share. The company has utilised Rs 710 Cr to date towards future growth opportunities, strategic acquisitions, general corporate requirements, working capital requirements, prepayment of the loan, and other purposes as permissible under law. The total unutilized fund stood at Rs 1,673 Cr as of 31st March 2021. Due to the pandemic, ongoing projects are delayed and new expansion projects are not announced leading to non-utilization of QIP proceeds.

Related Party Transactions Analysis

There were no material related party transactions during the FY21 which may have a conflict with the interest of the company as provided under Section 188 of the Companies Act, 2013 and Regulation 23 of the Listing Regulations. All related party transactions have been approved by the Audit and Risk Management Committee.

Particulars (Rs Cr)	FY20	FY21	Change	Comments/Analysis
Various Subsidiaries	399.58	121.51	-70%	Equity contribution under normal course of business.
Various Subsidiaries	10.31	27.05	162%	Sales of goods/ material at arm's length.
Entities controlled/influenced by KMP	0.00	0.05	-	Sale of land.
Various Subsidiaries	0.17	0.00	-100%	Purchase of goods/material
Various Subsidiaries	34.71	1.92	944%	Services received.
Entities controlled/influenced by KMP	0.93	0.80	14%	Services received.
Various Subsidiaries	0.12	0.04	67%	Services rendered
Entities controlled/influenced by KMP	2.69	2.77	3%	Payment of office rent
Entities controlled/influenced by KMP	1.84	3.45	86%	Contribution towards social activities
Various Subsidiaries	0.00	0.20	100%	Interest income on loan
Various Subsidiaries	0.00	16.75	100%	Loan given

Source: Company; Axis Securities

Cost Optimization Measures

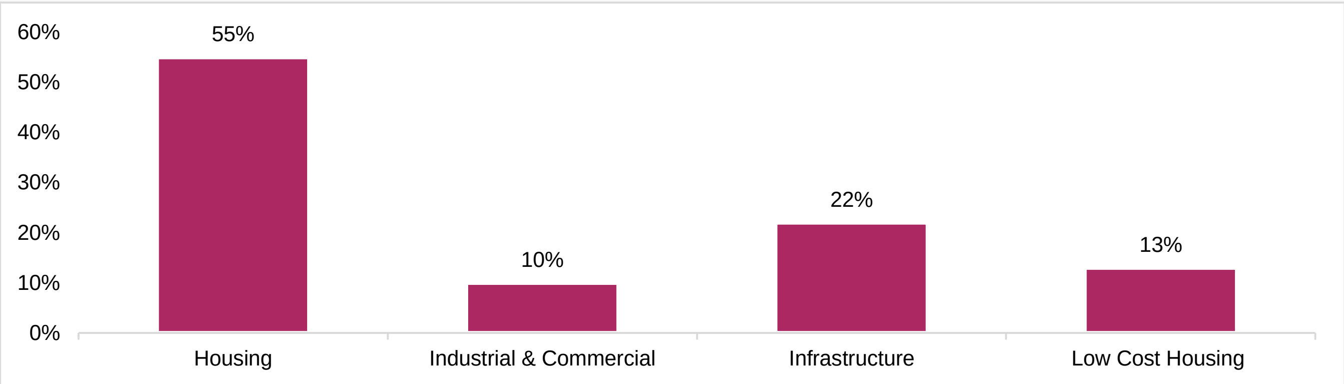
The company's timely and proactive decision-making resulted in a cost/tonne declining by 2.6% during the year despite the rise in the input costs in the latter half of the year.

- **Power/Fuel Cost**: In FY21, Power & Fuel costs dropped by 19.5% per tonne on a YoY basis on account of an increase in the share of low-cost renewable energy and efficient energy management practices. The company's pro-active procurement strategy and use of multiple fuels coupled with the higher use of alternative fuels helped it keep fuel costs lower despite increasing prices of coal/pet coke in the international markets.
- **Freight/Forwarding Cost**: Freight & forwarding cost per tonne was higher by 8.3% on account of the increase in diesel prices. The company continues to work on efficiency improvement initiatives, rationalizing routes and lead distances, enhancing direct dispatches and raising the use of technological tools in supply management etc. to keep the cost under check.
- **Raw Material Cost:** Continued optimization in limestone mining operations and higher in-house production of gypsum helped the company mitigate the increase in the cost of fly ash and other materials. As a result, raw material cost remained at the same level as the previous year on a tonne basis.

Key growth drivers

- **Housing for all:** The Pradhan Mantri Awas Yojana (PMAY) was launched in 2015 to provide 'Housing for All' by 2022. Under the scheme, 10 Mn urban houses have been sanctioned, out of which construction of 4.2 Mn houses has already been completed (as of January 25, 2021). India continues to be the second-largest cement market both in terms of production and consumption. However, its per capita cement consumption stands significantly lower at 235 kg vis-à-vis the global average of over Rs 500 kg, providing significant growth headroom for the industry moving forward.
- **Real-Estate:** Real Estate market is projected to reach $1 Tn by 2023 and attracted a massive estimated investment of Rs 46,000 Cr ($6.5 Bn) in FY20. Furthermore, a reduction in home loan interest rates has considerably improved the affordability of urban housing. This coupled with the increasing adoption of work-from-home, the real estate market in the Tier-1 cities is likely to gain encouraging traction moving ahead. Rural and affordable housing, too, is expected to continue supporting the demand and boost the cement industry going forward.
- **Infrastructure:** The infrastructure sector is a pivotal contributor to the construction sector's order book and an ambitious National Infrastructure Project (NIP) launched by the government is expected to provide a significant boost to construction in India. Projects such as Bharatmala Pipeline, Metro railway projects in key cities such as Mumbai, Bangalore, Chennai, and Ahmedabad, and National Airport projects are likely to add to the construction activities. On a positive note, these have resumed in recent months post disruptions led by the Covid-19 and are now providing thrust to the cement demand.
- **National Infrastructure Pipeline**: The governments focus on developing infra and housing has gained momentum in the last few years with the infrastructure sector receiving a significant boost in the Union Budget 2021-22. The National Infrastructure Pipeline aims to invest 111 Lc Cr by 2025 in multiple projects spanning Transport, Energy, Social &Commercial infrastructure, Communication, and Water & Sanitation, among others, providing a significant boost to the cement demand in the country.
- **Rural Income:** Higher Minimum Support Price (MSP) coupled with increasing allocation to various agricultural projects are improving farming income and thereby the rural economy. Moreover, higher fund allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is supporting enhanced rural income.

Exhibit 3: Cement consumption trend segment-wise: Housing remains the largest cement consumer



Source: Company, Axis Securities

Key operational activities during the year

Capacity expansion

During Q4FY21, the company commissioned a grinding unit of 3 mntpa in Athagarh, Odisha. It is also setting up a grinding unit of 3 mntpa in Patas near Pune. Though it was supposed to get operational in Q1FY22, it was delayed due to Covid-19 related lockdowns. The facility will now get operational in Q2FY22 and will take the company's total cement manufacturing capacity to 46.3 mntpa from the current 43.3 mntpa on a standalone basis. The company is also expanding its clinkerization capacity by 4 mntpa at its existing plant in Chhatisgarh which will get operational in FY23. The company aims to significantly expand its grinding capacity to 80 mtpa by 2030.

The company commissioned a Wind Power Plant of 8 MW capacity in Karnataka taking the total installed wind power generation capacity to 29 MW. It set up a 16.5 MW Waste Heat Recovery plant at Union cement in Ras-Al-Khaimah, UAE.

Higher sale of blended cement

In line with the company's commitment to environmental sustainability, it continues to focus on producing and promoting blended cement. Total blended cement sales increased to 80% in FY21 vs. 78% in FY20.

Premium cement

Premium brand offerings Roofon and Bangur Power racked up the growth of 72% YoY helping the company to sustain its margins.

Capacity Utilization

The overall capacity utilization for FY21 stood at 61% while Q4 FY21 utilization reached over 90%.

Safety of the people

The company was at the forefront in supporting and alleviating the disruptive impact of the Covid-19 by providing oxygen cylinders, concentrators, medical equipment and other required materials including financial contribution. It raised awareness for vaccination, immunization, wearing of a mask and social distancing. The company also critically examined the various activities to arrange and provide facilities to the people in and around the plan and provided cement to the dependent of martyrs for the construction of houses as well.

Manufacturing

In the manufacturing space, the company took multiple initiatives to improve efficiency. A few notable activities included commissioning of wagon tippler for auto wagon loading, commissioning of cement mill at Cuttack, and increasing the height of preheater cyclone, among others.

Sales and Distribution

- Over the years, the company has introduced several brands in the market to cater to diverse customer requirements. Brands such as 'Shree Ultra Jung Rodhak', 'Bangur cement' and 'Rockstrong' have established a firm presence in the minds of people as a qualitative product with easy availability. Furthermore, its two premier offering Bangur Power and Roofon have also received an amazing response from targeted customers and have been able to fill the gaps in customer needs.
- The company has built a strong network of dealers and distributors to reach target markets helping it to emerge as a strong brand to reckon with and it continues to remain focused on further strengthening its network of dealers. Transparency with channel partners continued to help it maintain a healthy relationship with them. Opening new depots, increasing catchment areas, thrust on leveraging the transport network to improve efficiencies, and grow sales are some of the initiatives that have helped the company maintain its competitive edge in the markets.
- The company strengthened its presence in the digital channel through a focused approach and initiated dealer meetings on virtual platforms which helped it streamline its customer engagement and servicing plans and achieve more traction from dealers. The company set up its marketing network in Central UP to catch a higher market share.
- Premiumization witnessed strong traction in FY21 as the sales volume of premium grade cement - Bangur Power, increased by 72% YoY and Roofon, which is a niche category cement, notched up 1 million tonnes in volume last year.

Supply Chain & Logistics

Improvement in Turn Around Time (TAT)

The company successfully implemented a completely automated RPA (Robotic Process Automation) driven process to reduce the lag time during the loading and unloading process, resulting in considerably reducing manpower requirement and Turn Around Time (TAT). The company uses RFID tags to track vehicles for their smooth navigation within the factory premises. The company has also automated the loading process using automated chute while multipliers are used for unloading at locations.

Automated Bidding System

The company has created an innovative bidding system for competitive freight discovery for dispatch. It has checks and balances like the penalty for unduly driving prices up, and so on, in place. The completely digital hourly biding system provides a robust and seamless mechanism for both the company and transporters and helps in optimizing logistics costs.

Route Optimization

While route optimizing is a regular exercise, the company optimally used the lockdown period to thoroughly rework and review our route mechanism across several locations. The least distance between two places and the lowest freight for the same in the recent past was identified. This was further fine-tuned which resulted in significant savings in the freight cost.

Relay Trucking Model

The company has implemented an innovative relay operating model where the lead driver changes over the major city pit -stop from where another local driver takeover without any stoppage gap. This is helping the company to optimise time.

Proactive Fleet Upgradation

The company is encouraging its supply chain partners to shift towards upgraded fleets in tune with the government move to allow one-tonne extra load capacity for each axle for the vehicle with pneumatic suspension. These vehicles with better suspension lead to considerable savings in terms of fuel, especially on good roads. This will help the transporters save considerable diesel and reduce environmental impact while achieving gain through reduced freight.

Key strategies moving forward

Expanding and Upgrading Capacities

- Aims to upgrade existing facilities with contemporary technology and new processes and increase capacity through planned expansion to capitalize on the growing markets
- To expand its capacities to 80 mtpa by 2030.

Market Consolidation:

- Strengthening market reach by expanding distribution network and increasing retail sales by focusing on growing smaller towns and rural areas.
- Continue to enhance existing brands and introduce new brands as per changing customer needs.

Cost leadership

- Be amongst the lowest cost manufacturer in the industry in terms of logistics costs, energy costs, and raw material costs.
- Continue exploring digital transformation and innovation for cost optimization across logistics.

Sustainable Growth

- Be amongst the sustainable leaders in the industry with strong practices for waste, water, energy, and emission management.
- Conscious use and management of mines and raw materials.

Business Outlook

The cement demand is closely linked to the overall economic growth, particularly of the housing and infrastructure sector. The cement industry is also expected to achieve healthy growth in line with the country's rising GDP which is pegged to grow at a higher single-digit rate in FY22. Moreover, the accommodative stance of the RBI to push economic growth is incentivizing businesses with higher credit offtake and business activities. A benign interest rate policy coupled with the "work from home" practice adopted by businesses has led to an increased housing construction activities. Also, focus on the infrastructure sector and housing for all schemes shall be the drivers of the demand. While there are continued uncertainties in terms of impact and duration of the Covid-19 induced restrictions, economic activities will start returning to normalcy as infection rate peaks out soon making us foresee a cautiously optimistic outlook for the cement industry.

Risks and Mitigation

The company's risk management process is designed to identify and mitigate risks that have the potential to materially impact its business objectives and maintains a balance between managing risk and making most of the opportunities.

Key risks identified, assessed, and mitigated during the year under review include:

1. **Overcapacity in the Industry:** Continued overcapacity in the industry poses a risk of under-utilization of production capacities, loss of market share and output prices falling to non-remunerative levels.

   Mitigation: The company has invested in building customer loyalty through consistent high-quality products, faster delivery to consumers, focus on the premium segment and continued customer engagement. It has also been continuously adding capacity in markets where demand-supply conditions are considered to be relatively favourable to increase overall market share.
2. **Availability of limestone and other natural resources:** Limestone is the principal raw material for cement production and its consistent availability at optimum cost is essential for existing and future plant requirements. With depleting reserves at existing mines and the acquisition of new limestone mines getting uncertain due to regulatory and competition issues, conservation of limestone has become paramount. Water is an essential component of the environment, human life and economy.

   Mitigation: The company has been making all efforts to optimize its usage, thereby, conserving the deposits and enhancing their life. These include the use of additives in clinker production without compromising the quality, enhanced production of blended cement, deployment of latest mining techniques to reduce overburden and wastage, etc. The company's plants in Rajasthan are located in water-deficient areas with continuously depleting water tables and as such, conserving water becomes very important. In power generation, the company installed Air Cooled Condensers (ACC) in all its thermal power plants which though involve additional capital expenditure, have helped the company reduce water consumption significantly. Additionally, the company has installed Waste Heat Recovery Systems in all its clinker units thereby, eliminating the need for cooling of waste hot gases and thus, saving water. Water harvesting reservoirs have also been constructed within plant and mines areas.
3. **Fuel Cost:** The company meets its fuel requirement by sourcing from the open market and hence is exposed to the volatility of market prices of the fuel.

   Mitigation: The company has deployed a multi-fuel usage strategy as well as state-of-the-art technology in its operations, which allows it to use different fuels and most economical fuel among a basket of different fuels as per prevailing trends in the market. the company also participates in an auction for securing coal linkage as and when organized by relevant authorities. It has secured coal linkages for its Baloda Bazar cement plant(s), Additionally, to reduce reliance on conventional fuel for power generation, the company has extensively invested in Waste Heat Recovery Power Plants which do not entail usage of any fuel and thereby, cushioning itself from fuel price volatility to that extent. It has also been continuously investing in expanding its renewable portfolio (wind, solar) for meeting its energy requirements,
4. **Economic Slowdown:** The Covid-19 pandemic has impacted the business and economy across the world. Restrictions and lockdown imposed in India to contain the spread of the virus have brought the business activities to a standstill and inducing economic slowdown all across.

   Mitigation: The company has taken the risks of such external factors into its business strategy and have taken necessary steps in terms of devising plans for mitigating such risk
5. **Cyber Security risk:** Owing to the increasing importance of digitization, the majority of business activities of the company have been witnessing digital transformation including logistics, marketing and manufacturing. Digitisation is, however, fraught with the risk of misuse of hardware and software, cyber-attacks, unauthorised access, data loss, etc. which can impact business operations

   Mitigation: The company has been taking necessary measures like systematic backup procedures, firewall systems, better monitoring & control mechanism to mitigate any risks arising due to digitization
6. **Health and safety of employees:** Health and safety of employees and workers remain utmost priority especially during the pandemic time.

   Mitigation: The company has formed Safety Committees to oversee safety-related issues and implementing best safety practices. To mitigate Covid-19 related challenges, required protocols and practices have been stringently implemented and compliance is ensured.
7. **Regulatory changes:** Non-compliance with applicable regulations may lead to the imposition of penalties, suspension of operations, among others apart from reputational damage.

   Mitigation: The company keeps a strict vigil and regularly tracks the regulatory environment and take necessary actions. Wherever required, it amends/upgrades its operational practices and incur Capex to ensure compliance.

Progress on sustainability

The company is mindful of using the right proportion of resources and caring sustainably. It has adopted the triple bottom line approach, which includes environment and social responsibility, to evaluate performance and value creation.

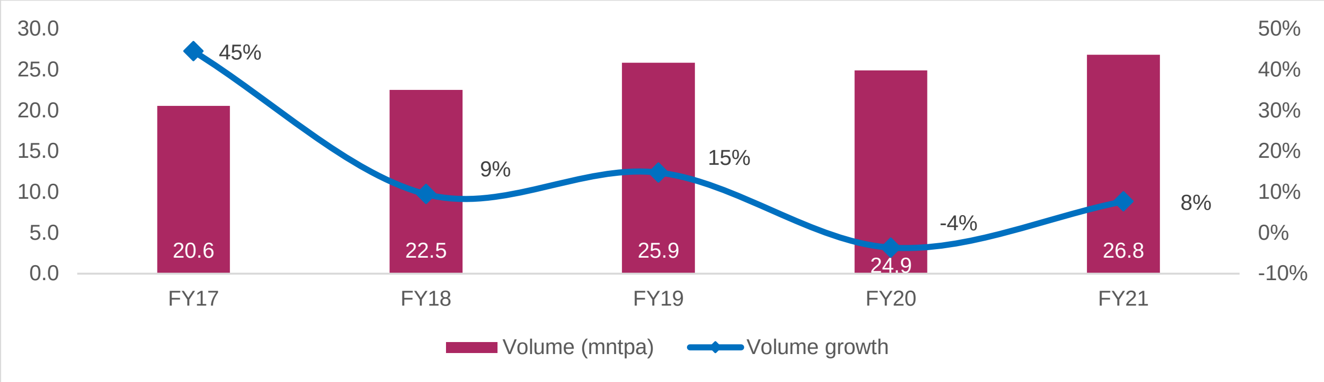
- **Energy management:** The company has over the years laid our focus on expanding our renewable energy generation portfolio. Because of pioneering initiatives and consistent ramp up, its waste heat recovery-based power generation capacity has the distinction of being the highest in the world cement industry outside China. It has also expanded its focus and is working on building capacity in wind and solar energy space across the country. Its proportion of consumption of clean energy to total energy consumption is one of the highest in the industry. This is helping to reduce carbon footprint. The total renewable energy capacity of the company stands at 244 MW and the share of renewable energy in total energy consumption in FY21 was 48%.
- **Water and Nature:** The company continually strives towards reducing its water consumption while taking proactive steps towards water conservation. Various initiatives such as rainwater harvesting pits, check dams, water storage in mined-out pits were undertaken to augment water tables and support the local biodiversity. Sustainable water harvesting capacities were created across mines in the year gone by.
- **Recycle of products and waste:** The company endeavours to conserve natural resources and use alternative resources wherever possible. It has used waste generated by other industries as well as its waste as inputs in the manufacturing process. The company is a pioneer in replacing natural gypsum with synthetic gypsum.
- **Response to the pandemic:** As a responsible corporate citizen, it took various measures during the spread of the pandemic including Contributed 4.78 Crore to the PM CARES Fund and CM Relief Funds, provided around 18,000 refilled oxygen cylinders to the administration from its cement plants in FY 2020-21. Also procured oxygen cylinders from market to supply to local administration, provided Covid-19 testing machines and advanced medical equipment to nearby Govt. Hospitals for Covid-19-19 screening assistance. Also contributed to the construction of beds for Covid-19 patients in a nearby hospital, provided sanitisers, spray bottles, dry ration, immunity booster medicine, hand gloves, masks, and other PPE's to local administration/panchayat, health workers.

Profitability Analysis (Rs Cr)

Particulars	FY20	FY21	Change	Comments/Analysis
Sales	11904	12588	6%	Revenue increased owing to better volume pick-up during H2FY21 as demand in its primary operating region North and East seen better traction.
Raw Materials/Others	7472	8756	17%	Raw material costs were higher owing to higher volume and cost escalation during the year.
Gross Profits	6208	6642	7%	Gross Profits was higher due to cost optimization measures undertaken during the year.
Operating Expenses	2533	2687	6%	Operating expenses were higher owing to an increase in packing material cost and higher expenditure on the advertisement, publicity and sales promotion during the year,
Interest	286	247	-14%	Interest cost was lower on account of the lower rate and repayment of debt.
EBIT	2246	3272	46%	EBIT was higher due to better volume, cost savings, and lower depreciation during the year.
PAT	1570	2311	47%	PAT was higher as collective impact of above-mentioned reasons and lower interest costs.
EPS	436	642	47%	EPS increased in line with PAT growth

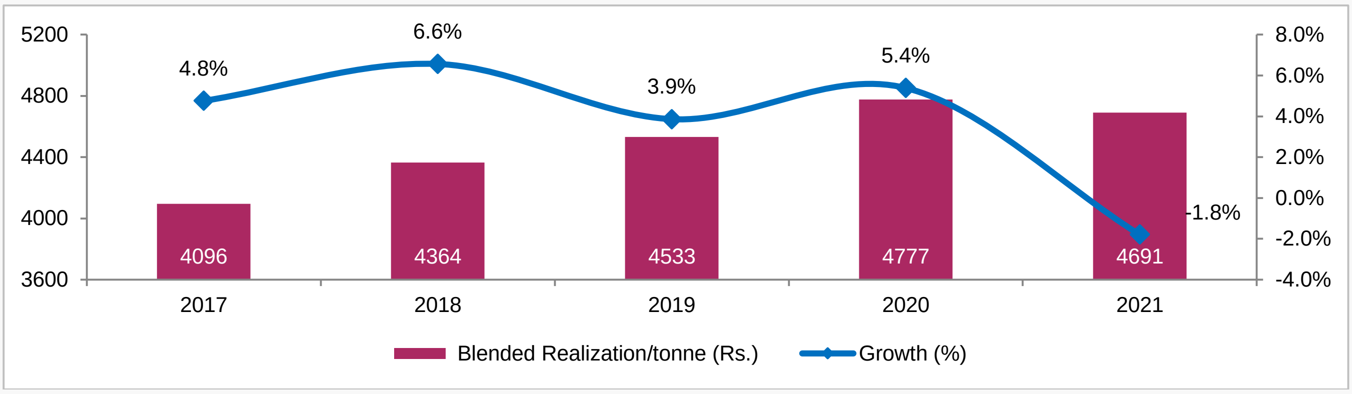
Source: the company; Axis Securities

Exhibit 5: Volume and Growth trend



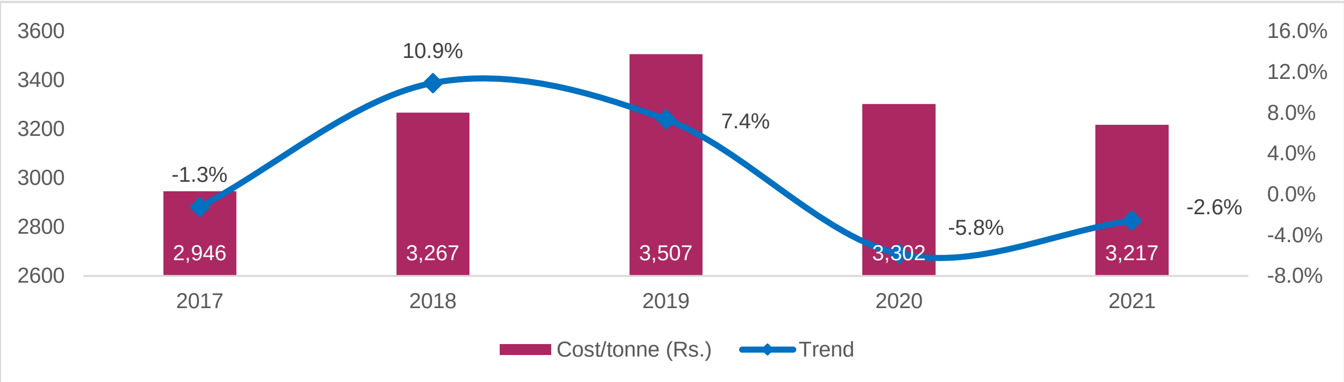
Source: Company, Axis Securities

Exhibit 6: Realization/tonne and Growth Trend



Source: Company, Axis Securities

Exhibit 7: Cost/tonne Trend



Source: Company, Axis Securities

Growth Indicators (Rs Cr)

Particulars	FY20	FY21	Change	Comments/Analysis
Revenue	11904	12588	6%	Revenue increased owing to better volume pick-up during H2FY21 as demand in its primary operating region North and East seen better traction.
EBITDA	3674	3954	8%	EBITDA improved on account of higher volume and savings in a variable as well as fixed cost as various cost-containment measures paid off well. Cost/tonne was lower by 2% YoY.
PAT	1570	2311	47%	PAT was higher due to healthy operating performance and lower depreciation and interest cost during the year.
EPS	436	642	47%	EPS increased in line with PAT growth
Volume	24.94	26.84	8%	Volumes (mtpa) were higher owing to better demand in its operating regions.

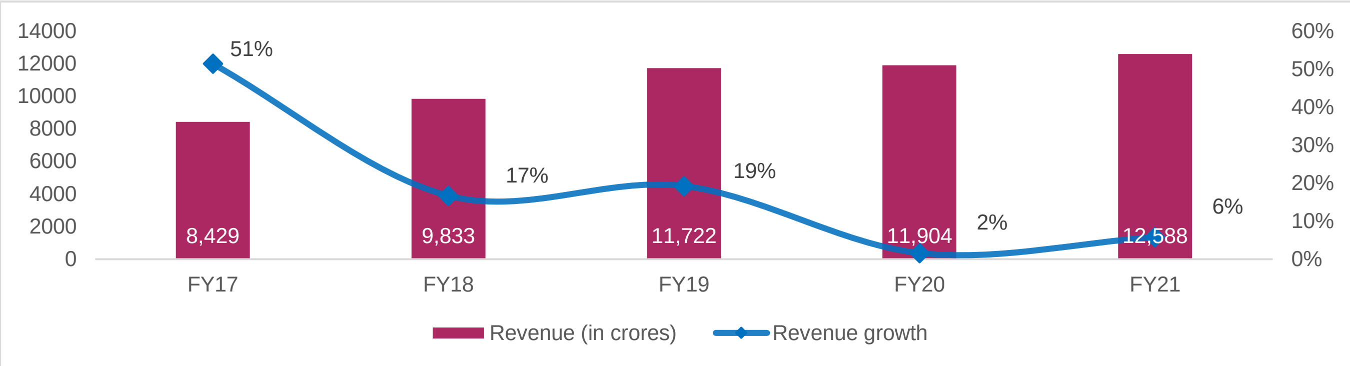
Source: the company; Axis Securities

Profitability Margins

Particulars	FY20	FY21	Change	Comments/Analysis
GPM	52.2%	52.8%	60 bps	GPM was higher due to cost optimization measures.
EBITDAM	30.9%	31.4%	50 bps	EBITDAM improved due to higher revenue and savings in fixed and variable costs.
PATM	13.2%	18.4%	520 bps	PATM was higher owing to better operating performance and lower depreciation and interest costs.

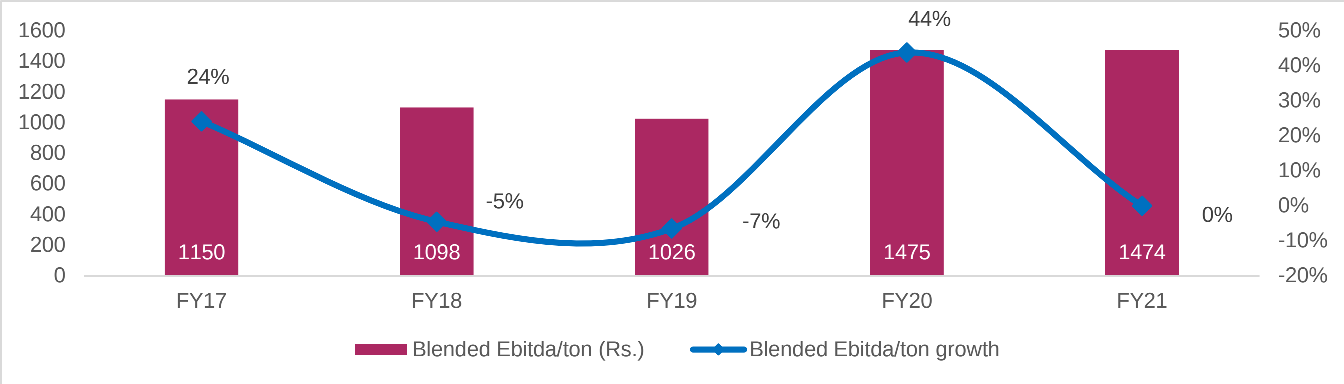
Source: the company; Axis Securities

Exhibit 8: Revenue and Revenue Growth Trend



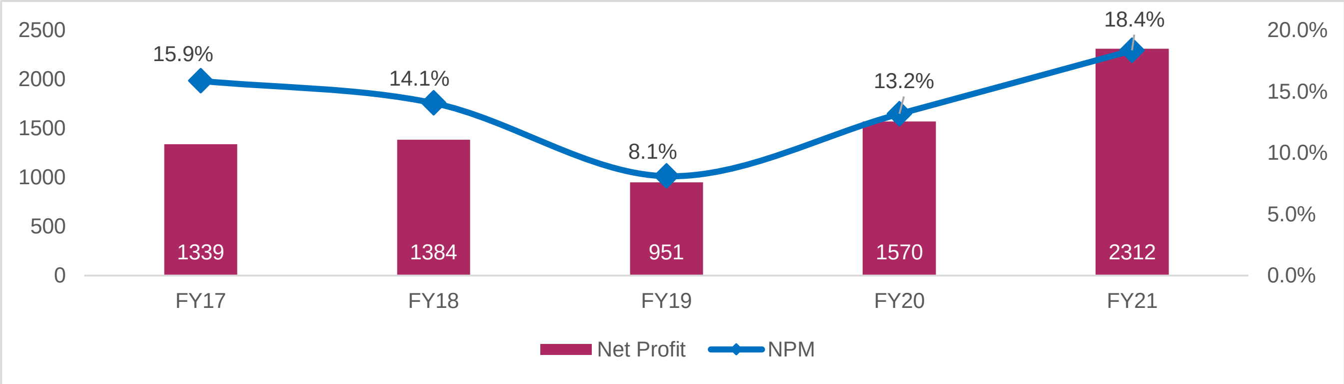
Source: Company, Axis Securities

Exhibit 9: Blended Ebitda/tonne Trend



Source: Company, Axis Securities

Exhibit 10: Net Profit and NPM Trend



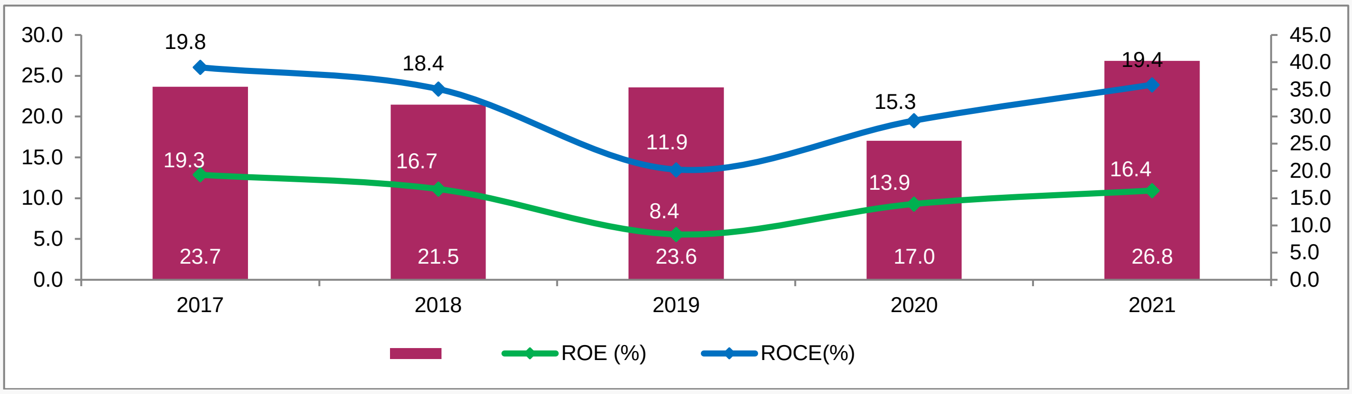
Source: Company, Axis Securities

Financial Ratios

Particulars	FY20	FY21	Change	Comments/Analysis
ROE	14%	16%	200bps	ROE improved due to better profitability, boosted by higher volume, stringent cost control measures, and lower depreciation and interest costs.
ROCE	15%	19%	400bps	ROCE was higher as better operating performance improved EBIT margin to 26% from 19% in the previous year.
Asset Turn	1.30x	1.20x	-0.10x	Asset-turn was lower as new capacity was added in Q4FY21.
Net Debt/Equity	-0.1x	-0.1x	0.00	Net-debt remained stable
EV/EBITDA	17x	27x	-0.4x	EV/EBITDA was higher as price appreciation was sharper at 71% YoY.

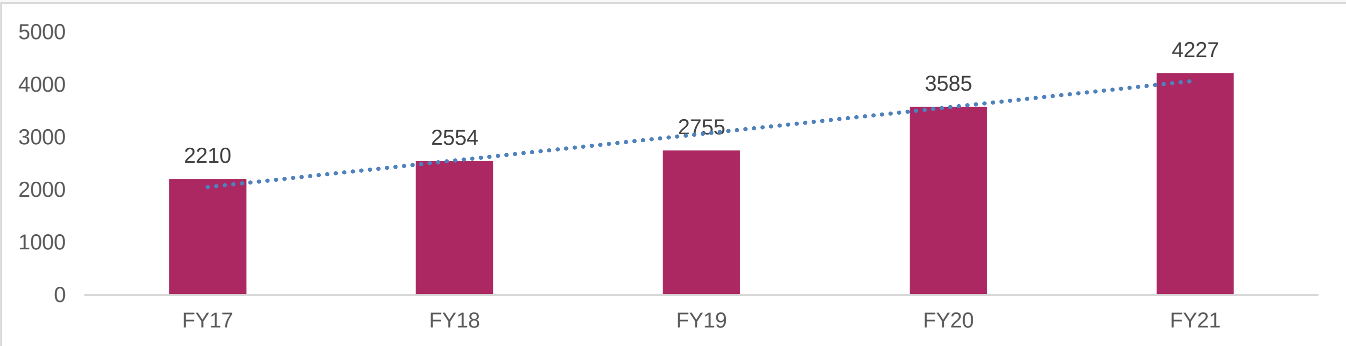
Source: the company; Axis Securities

Exhibit 11: EV/EBITDA, ROE & ROCE Trend



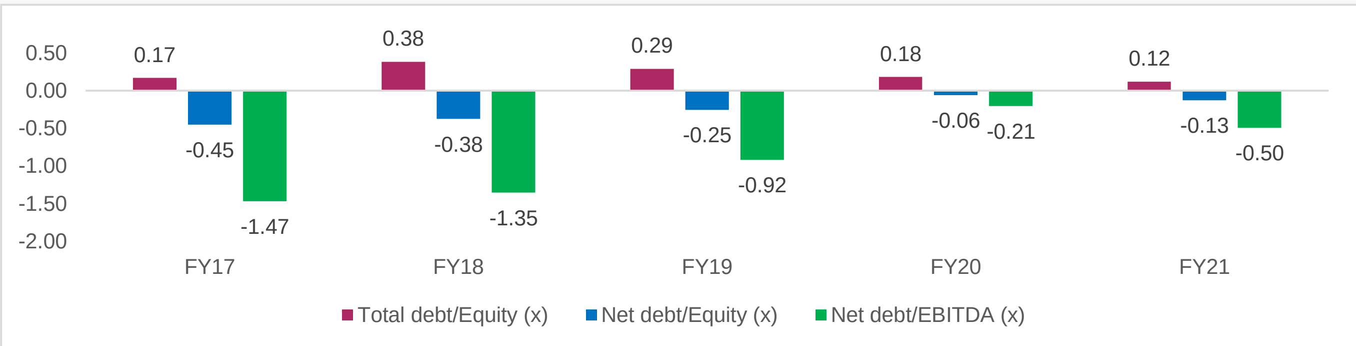
Source: Company, Axis Securities

Exhibit 12: Book Value (Rs)



Source: Company, Axis Securities

Exhibit 13: Leverage Ratio



Source: Company, Axis Securities

Key Balance Sheet Takeaways

Working Capital Management

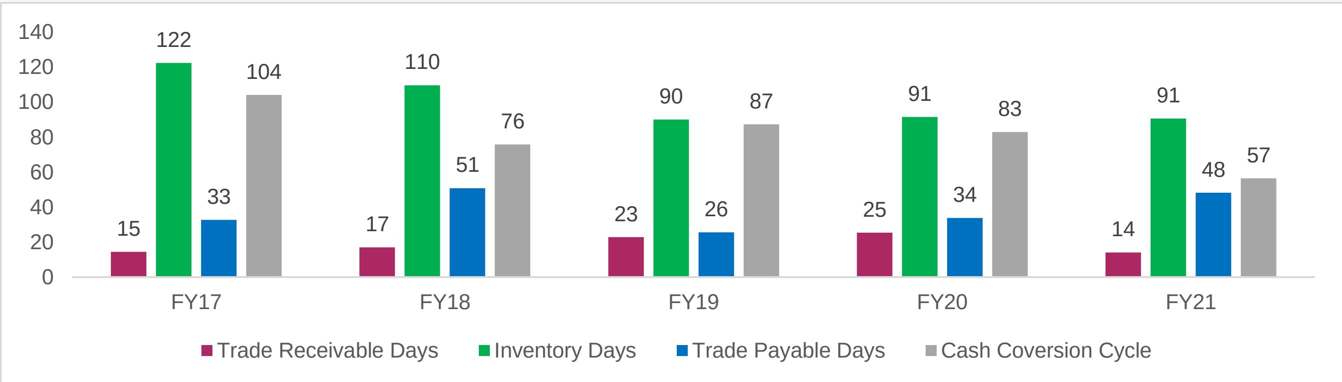
- Working capital intensity decreased in FY21 as the cash conversion cycle improved to 57 days in FY21 from 83 days in FY20. This was on account of lower debtors and higher payable days. There was no change in inventory days. During the year, OCF to EBITDA increased to 104% as against 102% in FY20 owing to better cash realization on working capital management.
- From FY16-FY21, the company generated a total OCF of Rs 15,018 Cr and 58% of total OCF (Rs 8,717 Cr) was utilized towards the company's Capex program. This indicates normal Capex intensity. While CFO remained the major source of funding for the company, during FY16-FY21, it generated an FCF of Rs 6,301 Cr.

Cash Conversion Cycle

Particulars	FY20	FY21	Change	Comments/Analysis
Inventory Days	91	91	0	Inventory days remained unchanged.
Trade Receivables	25	14	-11	Receivable days decreased due to better collection and strict credit terms.
Trade Payables	34	48	+14	Trade payable days increased due to better credit terms with the supplier.
Cash Conversion Cycle	83	57		Overall CCC decreased to 25 days due to better WC management during the year.

Source: the company; Axis Securities

Exhibit 14: Cash Conversion Cycle

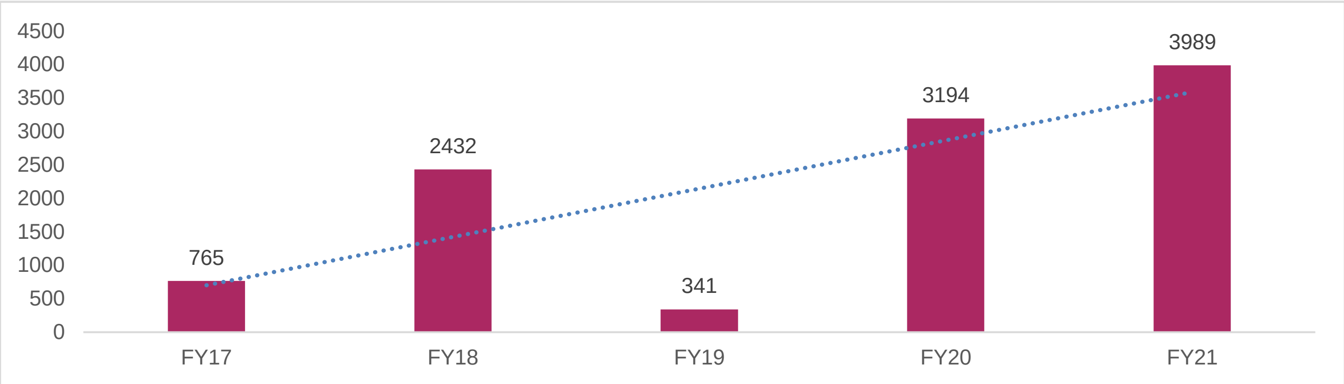


Source: Company, Axis Securities

Key Balance Sheet Takeaways (Contd...)

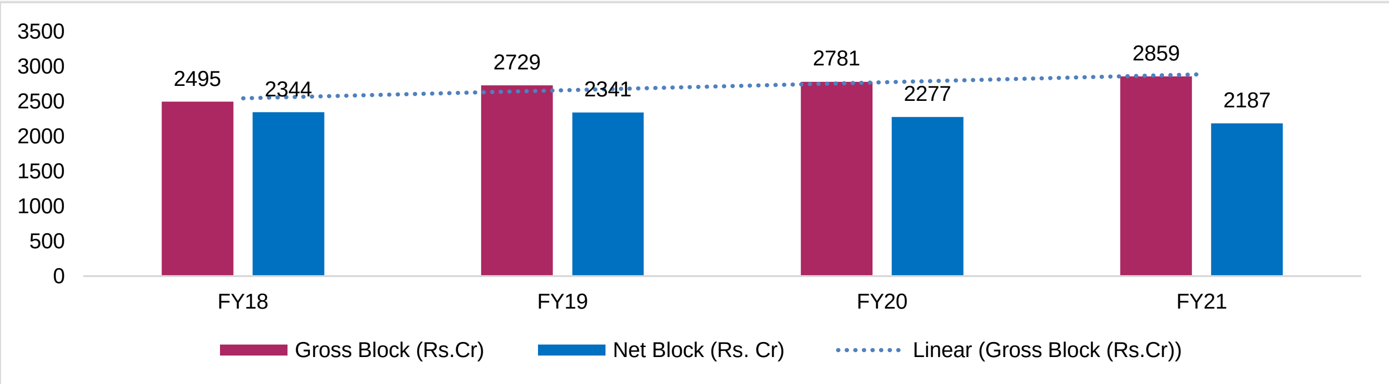
- **Debt Levels**: The company reduced its long-term debt by 19% from Rs 1,638 Cr to Rs 1,331 Cr during the year.
- **Fixed capital formation**: Gross fixed capital formation improved from Rs 9,946 Cr in FY20 to Rs 10,917 Cr in FY21, an improvement of 10% as the company is expanding its current capacity to sustain growth by increasing its market share.
- **Capex plans**: During the year, the company expanded its grinding capacity from 40.3 mtpa to 43.3 mtpa. It is also coming up with a 3 mtpa grinding unit at Pune and expanding its clinkerization capacity by 4 mtpa in CG. All these expansions are expected to cost the company Rs 2,500 Cr.
- **Cash and liquidity position**: The company's liquidity position has improved due to superior profitability and working capital management in FY21. The cash/cash equivalent stood at Rs 3,989 Cr as of 31st Mar'21 compared to Rs 3,194 Cr in FY20, an increase of 25%. The high cash balance needs to be utilized for a better return on equity.

Exhibit 15: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 16: Gross & Net Block



Source: Company, Axis Securities

Forex Analysis

- The company's foreign exchange risk emanates from forex borrowings and the import of fuel and other raw materials. For all forex loans, the company maintains 100% forward cover against foreign exchange risk. As regards the import of fuel and other raw materials, the company decides about the hedging based on prevailing market conditions, period of exposure, the amount involved etc. The company does not have any exposure hedged through Commodity derivatives.
- The gain/ (loss) due to fluctuation in foreign currency exchange rates on derivative contract, recognised in the statement of profit and loss is (0.51) Cr for the year ended March 31, 2021 (1.38)Cr for the year ended March 31, 2020

Contingent Liability Analysis

Particulars (Rs Cr)	FY20	FY21	Change	Comments/Analysis
Custom duty	66.93	69.35	2.42	No provision has been made based on the legal opinion gathered by the company.
CCI Penalty	0.00	0.00		The penalty of Rs 397.51 Cr was imposed in 2016 against which the company had appealed and authority granted stay subject to a deposit of 10% of the penalty amount. The matter is currently being heard by NCLAT.In other cases, CCI imposed a penalty of Rs18.44 Cr in connection with the cement supply tender of the Govt of Haryana. The company has filed an appeal against the order and is being heard by NCLAT. In both the above case based on legal counsel advisory, no provision has been made.
Sales Tax/VAT	0.00	0.00		The appeal is pending with Rajasthan high court regarding a sales tax matter wherein the department has sought to reduce the subsidy benefit from 75% to 50%. The company based on legal opinion has not provided any provision in the accounts.
Total	**66.93**	**69.35**	**2.42**	***Any adverse decision in the above cases may impact the profitability of the company*.**

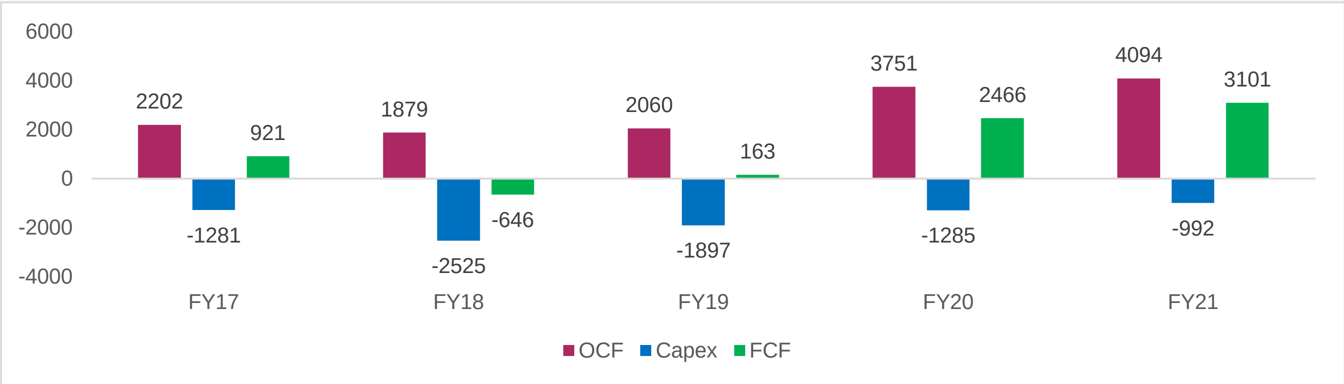
Source: the company, Axis Securities

Key Cash Flow Takeaways

Particulars (Rs Cr)	FY20	FY21	Change	Comments/Analysis
PBT	1960	3025	54%	PBT was higher due to better operating performance, lower depreciation and interest cost during the year.
Non-cash expenses				
Depreciation	1699	1139	-33%	Depreciation is as per the depreciation policy of the company.
Finance Cost	286	247	-23%	Finance cost was lower owing to the repayment of debt and lower interest cost.
Others	-268	-451	68%	Higher owing to fair value gain on financial assets.
Working Capital Adjustments	559	876	57%	Strict management of working capital improved the capital flow during the year.
CFO	3751	4093	9%	Higher YoY owing to better operating performance and efficient WC management.
CFI	-5373	-2868	-47%	Lower owing to lower Capex and investments in the mutual funds and other interest-bearing instrument.
CFF	1591	-1214	-24%	Lower as during previous year the company raised money through QIP.
Capex	-1285	-992	-23%	Lower owing to delay in project completion owing to Covid-19.
Free Cash Flow Generation	2466	3101	26%	Higher YoY owing to better CFO and lower Capex during the year

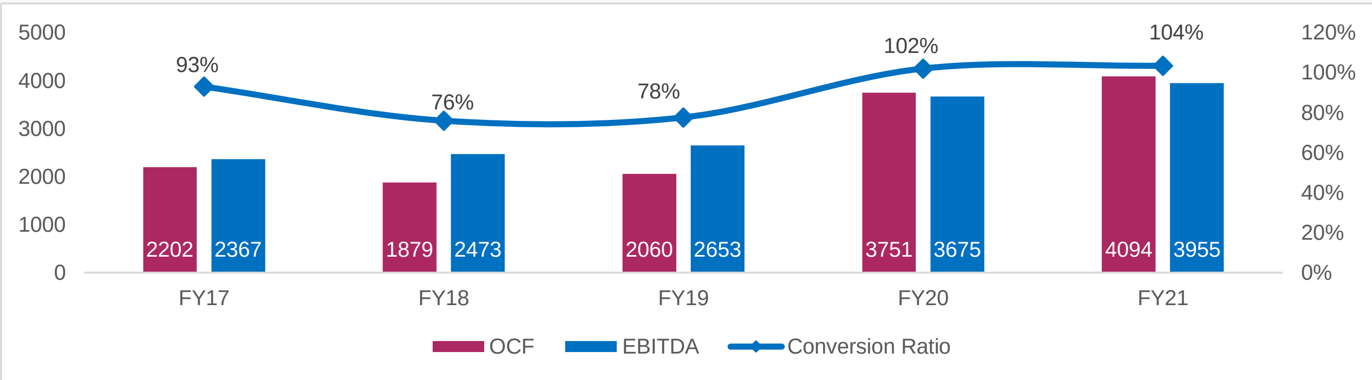
Source: the company; Axis Securities

Exhibit 17: OCF, Capex, FCF Trend (in Cr)



Source: Company, Axis Securities

Exhibit 18: OCF, EBITDA & Conversion ratio trend (Cr)



Source: Company, Axis Securities

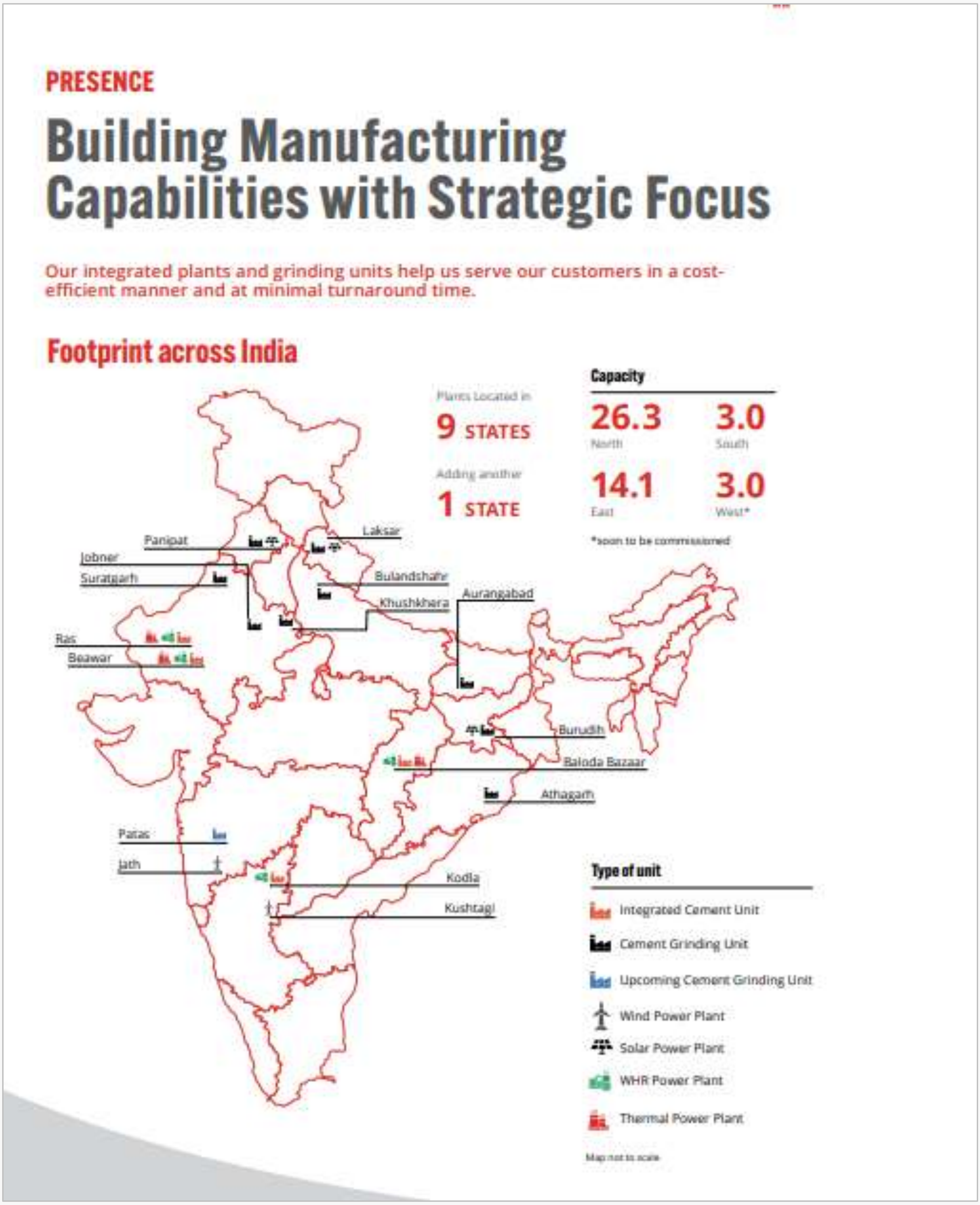
Corporate Social Responsibility

- As part of its triple bottom-line approach to its business, the company has always considered the community as its key stakeholder. It believes that the community around its operations should also grow and prosper in the same manner as does its own business. Accordingly, Corporate Social Responsibility is an integral part of the company's business philosophy. During the year under review, the company spent
- The major thrust areas of the company include healthcare, education, women empowerment, infrastructure support, integrated rural development, etc. which are aligned to the areas specified under Schedule VII to the Companies Act, 2013.
- During the year the company spent Rs 45.73 Cr against Rs40.47 Cr spent last year on Corporate Social Responsibility.

Corporate Governance Philosophy

- Corporate Governance is considered as one of the most important elements that catalysis the growth cycle. Corporate Governance philosophy is aimed at creating and nurturing a valuable bond with stakeholders and create maximum value for them.
- It constantly reviews and benchmarks its corporate governance practices against global best practices. The company maintain high levels of governance standards backed by values, ethics and policies and measure accomplishment in terms of ability to meet shareholders' aspirations.
- Custodian of funds, transparency and ethical conduct are the three pillars of its corporate governance philosophy.

Exhibit 19: Company's manufacturing location



Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY20	FY21	FY22E	FY23E
Net sales	11904	12588	15271	16903
Other operating income	0	0	0	0
Total income	11904	12588	15271	16903
Raw Material	742	876	949	1034
Power & Fuel	2348	2033	2928	3191
Freight &Forwarding	2606	3037	3734	4070
Employee benefit expenses	731	760	891	980
Other Expenses	1803	1928	2257	2483
EBITDA	3675	3955	4513	5144
Other income	272	458	518	592
PBIDT	3946	4413	5031	5736
Depreciation	1699	1140	1223	1342
Interest & Fin Chg.	287	247	205	183
E/o income / (Expense)	0	0	0	0
Pre-tax profit	1960	3026	3603	4210
Tax provision	390	714	889	1053
RPAT	1570	2312	2714	3158
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	1570	2312	2714	3158

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY20	FY21	FY22E	FY23E
Total assets	19338	21039	23078	25764
Net Block	5281	5163	5467	5139
CWIP	962	971	300	300
Investments	8915	11051	12143	14870
Wkg. cap. (excl cash)	1728	1177	1587	1741
Cash / Bank balance	108	210	249	293
Misc. Assets	2343	2468	3333	3421
Capital employed	19338	21039	23078	25764
Equity capital	36	36	36	36
Reserves	12900	15214	17567	20364
Minority Interests	0	0	0	0
Borrowings	3147	2540	1832	1632
Def tax Liabilities	0	0	0	0
Other Liabilities and Provision	3254	3249	3643	3731

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar, Rs Cr	FY20	FY21	FY22E	FY23E
Profit before tax	1960	3026	3603	4210
Depreciation	1699	1140	1223	1342
Interest Expenses	287	247	205	183
Non operating/ EO item	-268	-452	-518	-592
Change in W/C	559	876	-410	-154
Income Tax	486	744	889	1053
Operating Cash Flow	3751	4093	3214	3938
Capital Expenditure	-1285	-992	-2198	-1014
Investments	-4267	-1948	-1092	-2727
Others	179	72	518	592
Investing Cash Flow	-5373	-2868	-2101	-3150
Borrowings	2501	-961	-508	-200
Interest Expenses	-287	-251	-205	-183
Dividend paid	-623	-2	-361	-361
Others	0	0	0	0
Financing Cash Flow	1591	-1215	-1074	-744
Change in Cash	-31	11	39	44
Opening Cash	46	15	15	54
Closing Cash	15	15	54	98

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	FY20	FY21	FY22E	FY23E
Operational Ratios				
Gross profit margin	2%	6%	21%	11%
EBITDA margin	31%	31.4%	29.5%	30.4%
PAT margin	39%	8%	14%	14%
COGS / Net sales	48%	47%	50%	49%
Overheads/Net sales	21%	21%	21%	20%
Depreciation / G. block	16.9%	10.4%	9.3%	9.5%
Growth Indicators				
Sales growth	1.2	1.2	1.2	1.2
EBITDA growth	1.2	1.1	1.1	1.2
PAT growth	2.2	2.4	2.9	3.2
	0.1	0.1	0.1	0.1
Efficiency Ratios				
Total Asset turnover (x)				
Sales/Gross block (x)	40	47	40	35
Sales/Net block(x)	4.9	7.1	6.2	5.4
Working capital/Sales (%)	17.0	26.8	23.4	20.0
	5.3	8.4	6.9	6.1
Valuation Ratios				
PE (x)				
P/BV (x)	13.9	16.4	16.5	16.6
EV/Ebitda (x)	15.3	19.4	20.5	21.0
EV/Sales (x)	18.1	25.5	28.4	33.8
Return Ratios				
ROE	13.9	16.4	16.5	16.6
ROCE	15.3	19.4	20.5	21.0
ROIC	18.1	25.5	28.4	33.8
Leverage Ratios				
Debt / equity (x)	0.2	0.1	0.1	0.1
Net debt/ Equity (x)	-0.1	-0.1	-0.2	-0.3
Debt service coverage ratio (x)	0.9	1.6	2.5	3.3
Interest Coverage ratio (x)	7.8	13.2	18.6	24.0
Payout ratio (Div/NP)	40	16	13	11
AEPS (Rs.)	435	641	752	875
AEPS Growth (%)	96%	40%	22%	11%
CEPS (Rs.)	906	957	1091	1247
DPS (Rs.)	144	100	100	100

Source: Company, Axis Securities

Shree Cement Price Chart and Recommendation History

Date	Reco	TP	Research
19-Mar-21	BUY	29,500	Initiating Coverage
24-May-21	HOLD	29,000	Result Update
09-Aug-21	HOLD	29,000	Result Update
02-Sep-21	HOLD	29,000	AAA

Source: Axis Securities

About the analyst

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Sector: cement/Infra

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Sector: Cement/Infra

Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

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