

CMP Rs 26,629

Target Rs 30,670

Result Update – ACCUMULATE

Key Share Data

Face Value (INR)	10.0
Equity Capital (INR Mn)	360.8
Market Cap (INR Mn)	9,60,790.6
52 Week High/Low (INR)	32,050/18,214
6 months Avg. Daily Volume (NSE)	53,631.7
BSE Code	500387
NSE Code	SHREECEM
Reuters Code	SHCM.NS
Bloomberg Code	SRCM:IN

Company Background

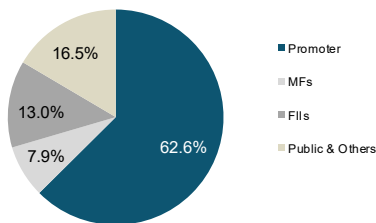
Shree Cement Ltd. (Shree), promoted by Mr. H M Bangur, Managing Director, is India's third largest cement manufacturer, with ~8% market share, sold under "Shree Jung Rodhak, Bangur, Rockstrong, Roofon and Bangur Power" brands. It has total cement manufacturing capacity of 47.4 mn tpa (mtpa) spread across North (~51%), East (~30%), Central (~4%) and South (~6%) India and UAE (~8%) and co-generation power capacity of ~750 MW including ~242 MW from waste heat recovery system (WHRS), solar power plants and wind power plants. Shree is the largest cement producer in North India, with a capacity of 24.3 MTPA, enjoying ~24% market share. The Company also started commercial sale of power in FY09, contributing ~4.5% to sales in FY20.

Investment Rationale

Healthy volumes and better realization ensured better performance

- ▶ During Q1FY22, net sales of Shree rose by ~47.9% y-o-y to ~Rs 34.5 bn. Volumes dispatched increased by ~38.7% y-o-y to ~6.84 million tons (mn tn) on a lower base driven by sustained demand momentum in East and North India. Blended realization witnessed an increase of ~6.6% y-o-y and ~4.7% q-o-q to ~Rs 5,043/tn, as a result of price hike undertaken by the Company. However, owing to Covid-19 second wave induced lockdown restrictions, Shree witnessed a drop in volumes dispatched by ~16.8% q-o-q, resulting in a sequential top line de-growth by ~12.8%. Capacity utilization for the quarter was ~63% against ~49% and ~81% reported in Q1FY21 and Q4FY21 respectively.
- ▶ During the quarter, UAE operations y-o-y delivered better results with an EBITDA of ~Rs 94.5 mn as compared to negative ~Rs 126.5 mn in Q1FY21. However, q-o-q the performance remained subdued with a top line de-growth of ~33%.
- ▶ We expect Shree to report strong volumes going forward, benefitting from sustained cement demand from rural and semi-urban sectors in its key operating markets in Northern and Eastern regions along with pick up in infrastructure activities with Government's continued thrust on infrastructure investment. However, near term uncertainty remains. We expect an uptick in Shree sales volume by ~12% to ~29.5 mn tn and ~33.1 mn tn in FY22E and FY23E respectively. Currently cement prices have softened owing to the monsoon impact. However, once the monsoon recedes, it is expected to remain elevated in order to maintain profitability given the rise in pet coke/coal prices, freight and packaging costs.
- ▶ Muted prices in East due to intense competition and supply glut can act as a deterrent for the Company with its expansion plans concentrated in the Eastern Region. Going forward from FY22, a disciplined pricing policy in East is imperative to maintain current EBITDA levels, in the wake of rising key input costs.

Shareholding Pattern (as on June 2021)



Source: Company

Key Financials (INR Million)

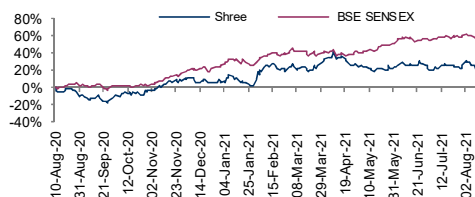
Particulars	FY20	FY21	FY22E	FY23E
Net Sales	1,19,040.0	1,25,883.9	1,44,244.5	1,66,508.2
Growth (%)	1.6%	5.7%	14.6%	15.4%
EBITDA	36,745.3	39,547.2	42,364.6	49,502.9
PAT	15,701.8	23,119.3	25,176.5	29,343.2
Growth (%)	65.1%	47.2%	8.9%	16.5%
EPS (INR)	36.1	36.1	36.1	36.1
BVPS (INR)	4,226.7	4,226.7	4,724.4	5,337.7

Key Financials Ratios

Particulars	FY20	FY21	FY22E	FY23E
P/E (x)	41.6	41.6	38.2	32.7
P/BVPS (x)	6.3	6.3	5.6	5.0
Mcap/Sales (x)	7.6	7.6	6.7	5.8
EV/EBITDA (x)	23.8	23.8	22.1	18.7
ROCE (%)	16.2%	16.2%	16.4%	17.5%
ROE (%)	16.4%	16.4%	15.6%	16.2%
EBITDA Mar (%)	30.9%	31.4%	29.4%	29.7%
PAT Mar (%)	13.2%	18.4%	17.5%	17.6%
Debt - Equity (x)	0.1	0.1	0.1	0.1

Source: Company, SKP Research

1 Yr price performance Shree; vis-à-vis BSE SENSEX



EBITDA moderated with elevation in costs

- ▶ During Q1FY22, the Company reported a mere ~4.3% y-o-y increase in blended EBITDA/tn at ~Rs 1,482/tn on account of higher other expenses which increased by ~14% to ~Rs 802/tn. Power & fuel cost per ton and freight cost per ton increased y-o-y by ~21% to ~Rs 953.8/tn and ~7% to ~Rs 1,216.7/tn respectively as a result of sharp increase in pet coke and diesel prices. This was partially offset by savings in cost of goods sold and employee cost. Raw material cost per ton fell by ~14% to ~Rs 279.7/tn on account of higher inventory. As a result of unabated increase in costs, Cost/tn increased y-o-y by ~7.6% to ~Rs 3,561/tn. However, in absolute terms, EBITDA grew by ~44.7% y-o-y to ~Rs 10.14 bn.
- ▶ Further, higher other income and lower interest and depreciation cost resulted in ~78.5% y-o-y growth of PAT to ~Rs 6.6 bn.
- ▶ Going forward, cost pressure is likely to continue with increase in pet coke and diesel prices along with resurfacing of fixed costs. Also, with increasing exposure to Eastern markets, margin is likely to get diluted owing to intense competition in the region thus, resulting in muted pricing outlook. As a result, we expect Shree's EBITDA margin at ~29.7% with EBITDA/tn nearing ~ Rs 1,500/tn by FY23E.

Strong expansion plans in pipeline to drive growth

- ▶ Shree is setting up a ~3 mtpa grinding unit in Patas, Pune which is expected to start commercial operations in Q2FY22. Further, Shree has announced a ~4 mtpa clinker unit at Raipur in Chhattisgarh which is expected to be commissioned by Q2FY23.
- ▶ Shree aspires to achieve a capacity of ~57 mtpa over 3 years and ~80 mtpa in 6-7 years driven by strong demand visibility. Capacity increase from 40 mtpa to 57 mtpa will primarily be in the North and East regions and from 57 mtpa to 80 mtpa will be in other regions too. Consequently, it has applied for mining approvals at various locations in Rajasthan, Gujarat and Andhra Pradesh.

Valuation

With Government's focus on infrastructure development, Shree is expected to deliver robust performance driven by resilient demand, premiumization coupled with robust distribution network, retail-centric business model and improved market share with new capex underway. We have valued the stock on basis of EV/EBITDA of 20x of FY23E EBITDA method of relative valuation and recommend an 'Accumulate' on the stock with a target price of ~Rs 30,670.

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Q1FY22 Result Update

Exhibit: Q1FY22 Standalone Result Review

Figures in Rs Million

Particulars	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %	FY21	FY20	YoY%
Total Income	34,494.9	23,323.9	47.9%	39,579.6	-12.8%	1,26,688.7	1,19,040.0	6.4%
Expenditure	24,359.8	16,318.6	49.3%	27,755.0	-12.2%	86,890.4	82,294.7	5.6%
Total Material Consumed	1,912.9	1,611.9	18.7%	3,280.2	-41.7%	8,756.4	7,682.4	14.0%
<i>(as a % of Total Income)</i>	5.5%	6.9%	(137)Bps	8.3%	(274)Bps	6.9%	6.5%	46 Bps
Employees Cost	2,114.6	1,730.6	22.2%	2,442.4	-13.4%	7,597.2	7,310.1	3.9%
<i>(as a % of Total Income)</i>	6.1%	7.4%	(129)Bps	6.2%	(4)Bps	6.0%	6.1%	(14)Bps
Power & Fuel	6,524.2	3,895.2	67.5%	6,360.1	2.6%	20,824.2	23,476.2	-11.3%
<i>(as a % of Total Income)</i>	18.9%	16.7%	221 Bps	16.1%	284 Bps	16.4%	19.7%	(328)Bps
Freight & Forwarding Expenses	8,322.0	5,602.4	48.5%	9,526.8	-12.6%	30,372.4	26,061.3	16.5%
<i>(as a % of Total Income)</i>	24.1%	24.0%	11 Bps	24.1%	6 Bps	24.0%	21.9%	208 Bps
Other Expenses	5,486.1	3,478.5	57.7%	6,145.5	-10.7%	19,340.2	17,764.7	8.9%
<i>(as a % of Total Income)</i>	15.9%	14.9%	99 Bps	15.5%	38 Bps	15.3%	14.9%	34 Bps
EBITDA	10,135.1	7,005.3	44.7%	11,824.6	-14.3%	39,798.3	36,745.3	8.3%
<i>EBITDA Margin (%)</i>	29.4%	30.0%	(65)Bps	29.9%	(49)Bps	31.4%	30.9%	55 Bps
Depreciation	2,325.0	2,713.5	-14.3%	2,992.9	-22.3%	11,399.0	16,994.2	-32.9%
EBIT	7,810.1	4,291.8	82.0%	8,831.7	-11.6%	28,399.3	19,751.1	43.8%
Other Income	1,391.7	1,245.1	11.8%	1,190.5	16.9%	4,328.9	2,716.2	59.4%
Interest Expense	535.2	705.6	-24.1%	552.8	-3.2%	2,471.0	2,865.2	-13.8%
Profit Before Tax	8,666.6	4,831.3	79.4%	9,469.4	-8.5%	30,257.2	19,602.1	54.4%
Income Tax	2,049.4	1,123.3	82.4%	1,792.9	14.3%	7,137.9	3,900.3	83.0%
Effective Tax Rate (%)	23.6%	23.3%		18.9%		23.6%	19.9%	
Profit After Tax (PAT)	6,617.2	3,708.0	78.5%	7,676.5	-13.8%	23,119.3	15,701.8	47.2%
<i>PAT Margins (%)</i>	19.2%	15.90%	329 Bps	19.4%	(21)Bps	18.2%	13.2%	506 Bps
Diluted EPS	183.4	102.8	78.5%	212.8	-13.8%	640.8	445.1	44.0%

Source: Company Data, SKP Research

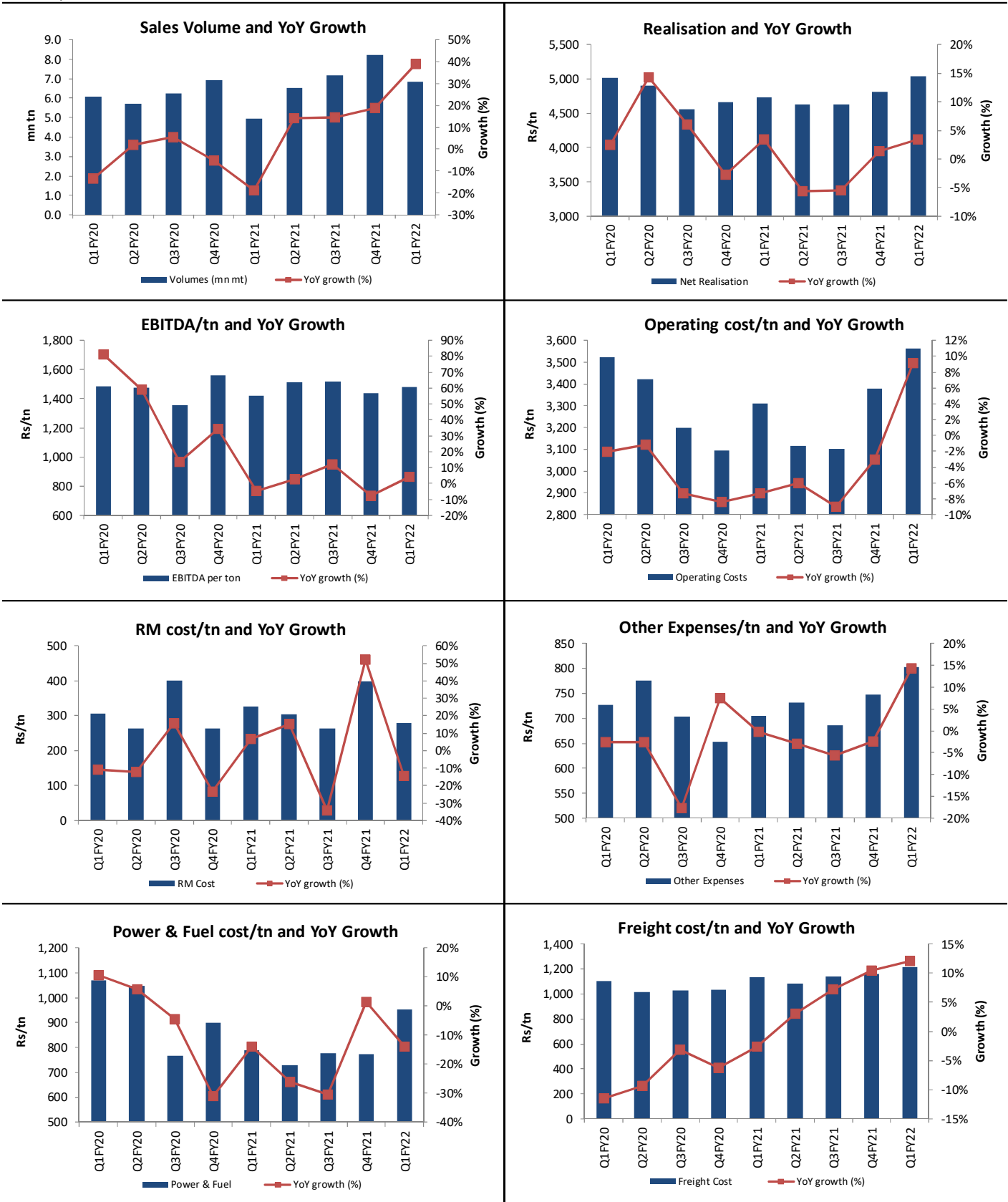
Exhibit: Operational Data

Particulars	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %	FY21	FY20	YoY%
Dispatches (mn tn)	6.8	4.9	38.7%	8.2	-16.8%	26.8	24.9	7.7%
Realisation (Rs/tn)	5,043.1	4,731.0	6.6%	4,815.0	4.7%	4,720.1	4,776.1	-1.2%
EBITDA (Rs/tn)	1,481.7	1,421.0	4.3%	1,438.5	3.0%	1,482.8	1,474.3	0.6%

Source: Company Data, SKP Research

Segmental Result & Operational Matrix

Exhibit: Operational Matrix



Source: Company, SKP Research

Risks & Concerns

Cyclicality of the cement industry

- ▶ Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realisations.

Availability of limestone and other resources

- ▶ Conservation of limestone which is a key input for cement production is quite important. While company has adequate limestone deposits at its existing operational sites, it has been making all efforts to optimize its usage thereby conserving the deposits and enhancing their life.

Fuel Cost

- ▶ Company sources from the open market and hence, is exposed to the volatility of the market prices of market prices of fuel.

Power prices

- ▶ Company sells its surplus power under short term contracts. This is because; it does not have any long term contract for coal. This exposes it to price volatility in this segment. Coal is one of the major raw materials needed by the industry both in the manufacturing of cement and also for generating power. In the last couple of years, there has been a steep drop in the supply of linked coal to the cement industry mainly due to diversion of coal to the power sector.

Transportation

- ▶ Rail is the ideal mode of transportation for cement industry. However, it has always been plagued by the short supply of wagons, particularly during the peak period. In addition to this, infrastructure constraints and not factoring the points of view of the cement industry, which is one of its largest consumers, in the policies of the railways, have been hampering the planned movement of cement to the consumption centres. This adversely impacts production schedule and increases overall transportation cost of cement.

Extensive Taxes

- ▶ Cement is highly taxed. Although cement is a high volume low value product, it is one of the highly taxed commodities, even more than luxury goods. The levies and taxes on cement in India are far higher compared to those in the countries of Asia-Pacific region or even compared to developing economies like Pakistan and Sri Lanka.

Exhibit: Recommendation-History Table and Chart

Date	Rating	Issue Price	Target Price	Upside Potential	Period (months)
9-Apr-19	NEUTRAL	18,846	-	-	-
6-Jun-19	NEUTRAL	21,211	-	-	-
7-Dec-20	ACCUMULATE	24,951	27,389	10%	12
5-Feb-21	ACCUMULATE	28,100	30,406	8%	18
27-May-21	ACCUMULATE	27,743	30,116	9%	18
12-Aug-21	ACCUMULATE	26,629	30,670	15%	18



Source: SKP Research

Exhibit: Income Statement

Figures in INR Million

Particulars	FY20	FY21	FY22E	FY23E
Total Income	1,19,040.0	1,25,883.9	1,44,244.5	1,66,508.2
<i>Growth (%)</i>	1.6%	5.7%	14.6%	15.4%
Expenditure	82,294.7	86,336.7	1,01,879.9	1,17,005.3
Material Cost	7,682.4	8,756.4	10,962.6	13,154.1
Employee Cost	7,310.1	7,597.2	7,933.4	8,408.7
Power and Fuel Cost	23,476.2	20,333.2	24,521.6	28,639.4
Freight Cost	26,061.3	30,372.4	35,772.6	40,877.8
Admin & Other Exp.	18,025.4	19,277.5	22,761.8	26,008.6
EBITDA	36,745.3	39,547.2	42,364.6	49,502.9
Depreciation	16,994.2	11,399.0	11,472.4	13,545.3
EBIT	19,751.1	28,148.2	30,892.2	35,957.6
Other Income	2,716.2	4,580.0	4,641.5	4,717.7
Interest Expense	2,865.2	2,471.0	1,739.7	1,288.5
Profit Before Tax (PBT)	19,602.1	30,257.2	33,794.0	39,386.8
Income Tax	-3,900.3	-7,137.9	-8,617.5	-10,043.6
Profit After Tax (PAT)	15,701.8	23,119.3	25,176.5	29,343.2
<i>Growth (%)</i>	65.1%	47.2%	8.9%	16.5%
Diluted EPS	435.2	640.8	697.8	813.3
Shares in Mn	36.1	36.1	36.1	36.1

Exhibit: Cash Flow Statement

Figures in INR Million

Particulars	FY20	FY21	FY22E	FY23E
Profit Before Tax (PBT)	19,602.1	30,257.2	33,794.0	39,386.8
Depreciation	16,994.2	11,399.0	11,472.4	13,545.3
Finance Costs	2,865.2	2,471.0	1,739.7	1,288.5
Chg. in Working Capital	5,591.3	8,762.1	(3,497.3)	(5,295.9)
Direct Taxes Paid	(4,859.0)	(7,438.5)	(8,617.5)	(10,043.6)
Other Charges	(1,733.7)	(2,250.7)	(4,641.5)	(4,717.7)
Operating Cash Flows	37,513.8	40,936.1	30,249.8	34,163.4
Capital Expenditure	(44,646.9)	(9,923.7)	(15,500.0)	(15,500.0)
Change in Investments	(3,995.8)	(1,026.3)	(7,000.0)	(10,000.0)
Others	(6,906.2)	(11,919.2)	(7,000.0)	(10,000.0)
Investing Cash Flows	(53,733.2)	(28,678.8)	(17,873.5)	(20,797.3)
Inc / (Dec) in Debt	1,175.4	(9,609.6)	(3,250.0)	(4,750.0)
Dividend Paid (inc tax)	(6,230.6)	(21.9)	(7,216.1)	(7,216.1)
Others	20,965.1	(2,514.3)	(1,739.7)	(1,288.5)
Financing Cash Flows	15,909.9	(12,145.8)	(12,205.9)	(13,254.6)
Net Cashflow	(309.5)	111.5	170.4	111.5
Opening Cash Balance	152.4	(157.1)	149.7	320.1
CF during the year	(309.5)	111.5	170.4	111.5
Closing Cash Balance	1,081.6	2,097.6	2,268.0	2,379.5

Source: SKP Research

Exhibit: Balance Sheet

Figures in INR Million

Particulars	FY20	FY21	FY22E	FY23E
Share Capital	360.8	360.8	360.8	360.8
Reserve & Surplus	1,29,003.4	1,52,139.9	1,70,100.3	1,92,227.3
Shareholders Funds	1,29,364.2	1,52,500.7	1,70,461.1	1,92,588.1
Total Debt	31,441.9	21,332.3	18,082.3	13,332.3
Current Tax Liabilities	634.1	680.9	680.9	680.9
Current Liabilities & Prov	31,938.5	35,873.8	37,169.5	38,130.1
Total Liabilities	1,93,378.7	2,10,387.7	2,26,393.8	2,44,731.4
Net Block	43,189.2	41,915.5	41,458.1	48,927.8
Capital WIP	9,621.1	9,709.6	14,209.6	8,709.6
Current Assets	68,782.7	72,601.3	81,776.4	92,665.2
Inventories	14,278.5	14,771.7	16,588.1	19,315.0
Sundry Debtors	8,284.5	4,858.9	6,491.0	8,325.4
Cash & Bank Balance	1,081.6	2,097.6	2,268.0	2,379.5
Investments	30,862.6	37,793.3	42,293.3	47,293.3
Other CA and L&A	14,275.5	13,079.8	14,136.0	15,352.1
Deferred tax assets (net)	7,437.8	7,855.0	7,855.0	7,855.0
Other non-current assets	6,056.2	5,593.5	5,881.8	6,361.0
Non Current Investment	58,291.7	72,712.8	75,212.8	80,212.8
Total Assets	1,93,378.7	2,10,387.7	2,26,393.8	2,44,731.4

Exhibit: Ratio Analysis

Particulars	FY20	FY21	FY22E	FY23E
Earning Ratios (%)				
EBITDA Margin (%)	30.9%	31.4%	29.4%	29.7%
PAT Margins (%)	13.2%	18.4%	17.5%	17.6%
ROCE (%)	16.2%	16.2%	16.4%	17.5%
ROE (%)	16.4%	16.4%	15.6%	16.2%
Per Share Data (INR)				
Diluted EPS	36.1	36.1	36.1	36.1
Cash EPS (CEPS)	956.7	956.7	1015.7	1188.7
BVPS	4,226.7	4,226.7	4,724.4	5,337.7
Valuation Ratios (x)				
P/E	41.6	41.6	38.2	32.7
Price/BVPS	6.3	6.3	5.6	5.0
EV/Sales	7.5	7.5	6.5	5.6
EV/EBITDA	23.8	23.8	22.1	18.7
Mcap/Sales	7.6	7.6	6.7	5.8
Balance Sheet Ratios				
Debt - Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	1.8	2.2	2.4
Asset Turn. Ratios	0.6	0.6	0.7	0.7

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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