

Stable performance in challenging environment...

Shree Cement's operational performance in Q1FY21 broadly remained in line with our estimates while beating our estimates at the PAT level due to higher other income. On the operational front, volumes fell 18.6% YoY to 4.9 MT (vs. I-direct estimate of 4.8 MT) as volume sales were affected from end of March to April 2020 due to lockdown. Blended realisations also remained weak, declining 5.8% YoY to ₹ 4,718/t (vs. I-direct estimate of ₹ 4,782/t). EBITDA for the quarter fell 22.3% YoY to ₹ 700.7 crore, driven by lower sales volumes and realisations. However, it remained above our estimated EBITDA of ₹ 652 crore. Blended EBITDA/t for Q1FY21 was at ₹ 1,421/t, down 4.5% YoY (vs. I-direct estimate of ₹ 1,361/t). Other income was up 143% to ₹ 124 crore led by interest income from recent fund raising through QIP (₹ 2400 crore) that has not been deployed towards any capex yet. This, along with a sharp fall in depreciation charge (down 32.6% YoY to ₹ 271 crore) led the company to report better than estimated net profit of ₹ 370.8 crore (up 2.1% YoY) vs. I-direct estimated PAT of ₹ 155.6 crore.

Stronghold in operating markets...

Shree Cement has a strong presence in the north, eastern markets. Historically, every time sales dip in a particular year, it has bounced back strongly and delivered robust volume growth in coming years despite a setback. This is also been reflected in the company's current quarter performance where volume decline has stayed lowest (down 18.6% YoY vs. industry (down ~33% YoY). While current scenario poses near term headwinds, we expect the company to rebound in a strong manner. Expectations of normal monsoons would provide some respite to the industry as it would boost rural demand, which forms 30-35% of cement consumption. We model a 6.4% dip, 18.2% growth in cement volumes for FY21, FY22, respectively. Expecting stabilisation in realisation, revenues are expected to grow at 6.2% CGAR vs. volume CAGR of 5.2% in FY20-22E.

Credible record of low leverage, healthy return ratios

Tracking the data since FY07, Shree Cement has always reported double-digit RoE, thus speaking strongly of the management's efficient capital allocation. These healthy returns have been generated with net debt/EBITDA remaining below 1x all throughout this period. While FY21E could see return ratios getting weak, we expect the same to stage a healthy recovery from FY22E with RoE of over 12% and RoCE of 14%.

Valuation & Outlook

Shree Cement has added capacities by entering non-core regions without jeopardising its profitability and return ratios. We expect the company to continue its leadership in costs. This would, in turn, help it to consistently gain the market share with improved profitability and return matrix. Thus, it remains a long term structural play. Hence, we maintain our **BUY** rating on the stock with a revised TP of ₹ 25,000/share (21.5x FY22E EV/EBITDA).

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	9833	11722	11904	10665	13436	6.2%
EBITDA	2473	2653	3675	3257	4161	6.4%
EBITDA (%)	25.1	22.6	30.9	30.5	31.0	
PAT	1384	1108	1570	1131	1881	9.5%
EPS (₹)	398	318	435	313	521	
EV/EBITDA	37.1	35.2	24.5	27.8	21.5	
EV/Tonne (\$)	401	311	265	251	248	
RoNW	15.6	11.5	12.1	8.2	12.3	
RoCE	15.3	11.5	13.8	10.5	14.7	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Mcap	₹ 77038 crore
Debt (FY20)	₹ 3292 crore
Cash & Invest (FY20)	₹ 107 crore
EV	₹ 80224 crore
52 week H/L	₹ 15046 / 25355
Equity cap	₹ 36.1 crore
Face value	₹ 10

Key Highlights

- Expect revenue CAGR of 6.2% in FY20-22E, volume CAGR of 5.2%
- EBITDA margin of 30.1% remains best in industry considering 5.8% YoY fall in realisations
- Expect cost and profitability leadership to continue
- Maintain BUY with revised target price of ₹ 25,000

Research Analyst

Rashesh Shah
rashesh.shah@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	2325.8	2,385.8	3,036.4	-23.4	3,217.5	-27.7	Topline lower on account of 18.6% decline in volumes
Other Income	124.3	64.5	51.1	143.1	97.8	27.1	Increase in short term investments led by deployment of QIP proceeds
Raw Material Consumed	145.5	162.9	202.7	-28.2	199.7	-27.1	
Stock Adjustment	15.7	0.0	-17.2	-191.3	-18.1	NA	
Employee Expense	173.0	169.4	191.4	-9.6	169.1	2.3	
Power, Oil & Fuel	383.1	527.3	648.2	-40.9	621.7	-38.4	P&F costs per tonne decline 27% YoY
Freight cost	560.2	517.4	668.2	-16.2	714.4	-21.6	
Other Expenses	347.6	356.9	440.9	-21.2	451.9	-23.1	
EBITDA	700.7	651.9	902.2	-22.3	1,078.9	-35.1	
EBITDA Margin (%)	30.1	27.3	29.7	41 bps	33.5	-340 bps	
Interest	70.6	62.8	68.0	3.7	72.6	-2.8	
Depreciation	271.4	459.0	402.7	-32.6	436.2	-37.8	
PBT	483.1	194.5	482.6	0.1	667.8	NA	
Total Tax	112.3	38.9	119.6	-6.1	79.7	NA	
PAT	370.8	155.6	363.0	2.1	588.2	-37.0	Lower production cost and higher other income led to growth in profitability
Key Metrics							
Volume (MT)	4.9	4.8	6.1	-18.6	6.9	-28.7	
Cement Realisation/t (₹)	4,718	4,882	5,011	-5.8	4,656	1.3	
Blended EBITDA/Tonne (₹)	1,421	1,361	1,489	-4.5	1,561	-9.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Net revenues	10,093.0	10,665.2	5.7	13,190.0	13,436.0	1.9	
EBITDA	2,910.3	3,257.1	11.9	3,915.4	4,161.3	6.3	
EBITDA Margin (%)	28.8	30.5	171 bps	29.7	31.0	129 bps	Expect company to maintain profitability leadership

Source: Company, ICICI Direct Research

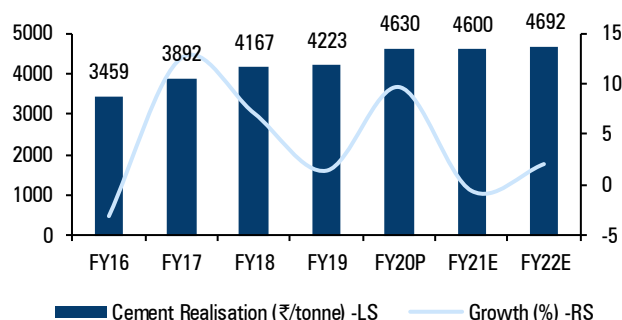
Financial story in charts

Exhibit 3: Region-wise capacity details

Region	Plant Location	Region/ Location	Cement Capacity (MTPA)*	Clinker Capacity (MTPA)*
North India	Ras#	Rajasthan	7.0	15.0
North India	Khushkhhera	Rajasthan	3.5	-
North India	Beawar#	Rajasthan	3.6	3.0
North India	Jobner	Rajasthan	1.5	-
North India	Suratgarh	Rajasthan	5.4	-
North India	Laksar	Uttarakhand	1.8	-
North India	Panipat	Haryana	1.5	-
Total Capacity in North India			24.3	18.0
Central India	Bulandshahr##	UP	2.0	-
Total Capacity in Central India			2.0	-
East India	Baloda Bazar#	Chhattisgarh	3.0	5.2
East India	Burudih	Jharkhand	2.5	-
East India	Aurangabad	Bihar	5.6	-
Total Capacity in East India			11.1	5.2
South India	Kodla#	Karnataka	3.0	2.4
Total Capacity in South India			3.0	2.4
Total Capacity in India			40.4	25.6
Overseas				
Middle East	Ras Al Khaimah	UAE	4.0	3.3
Total Current Capacity			44.4	28.9
Expected Capacity Additions				
East India**	Athagarh	Odisha	3.0	-
West India^	Patas	Maharashtra	3.0	-
Expected Capacity by FY21			50.4	28.9

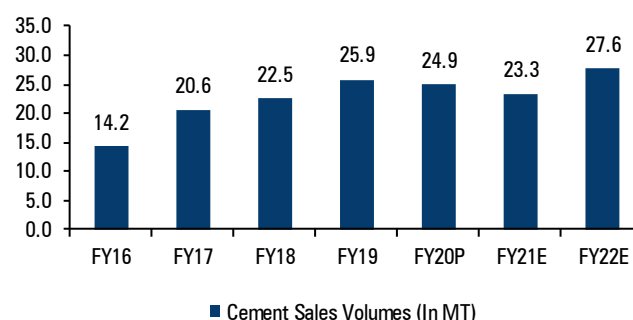
Source: Company, ICICI Direct Research

Exhibit 4: Realisations to see recovery in FY22E



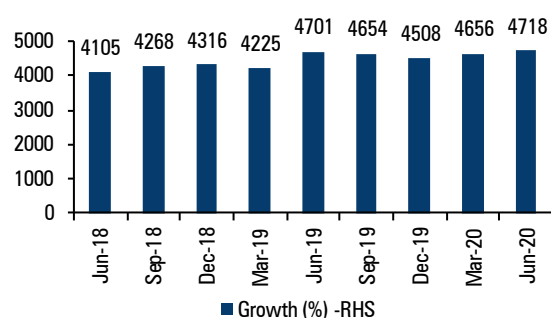
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 5.2% CAGR over FY20-22E



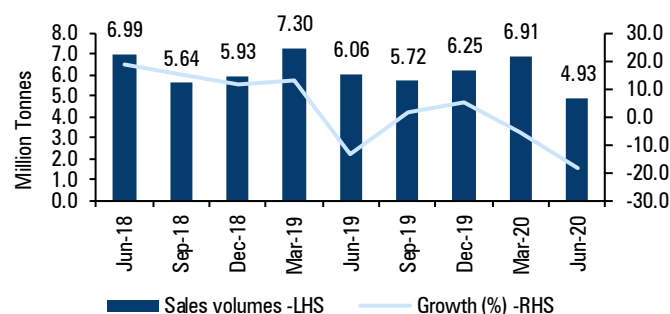
Source: Company, ICICI Direct Research

Exhibit 6: Realisations/tonne down 5.8% YoY



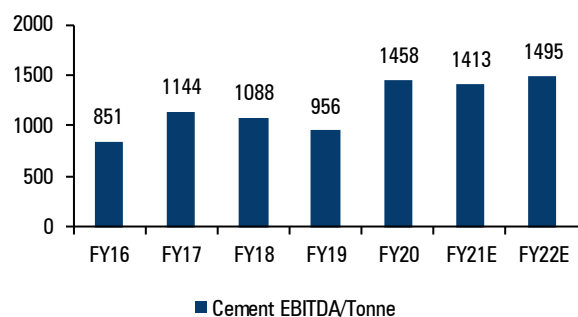
Source: Company, ICICI Direct Research

Exhibit 7: Cement volumes also decline 18.6% YoY



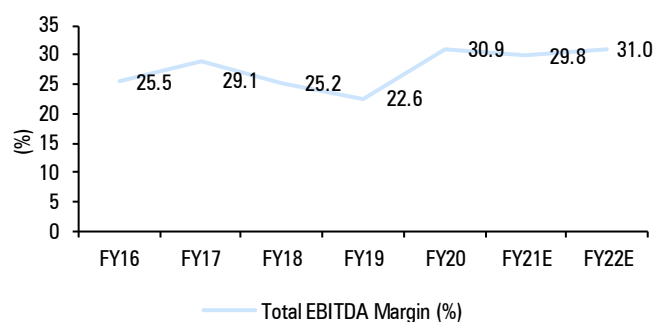
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA/t to remain healthy vs. industry



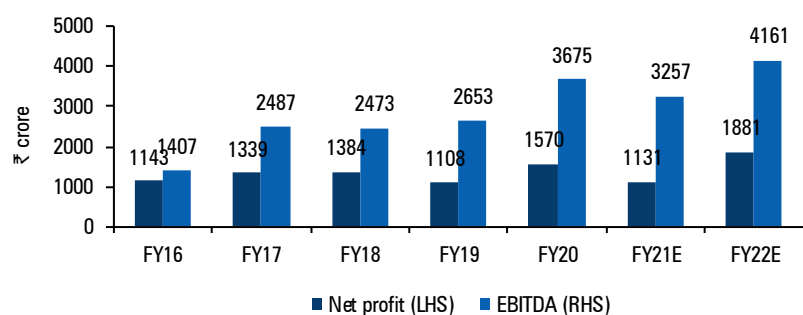
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margins to stabilise around 30% in FY21E; improve to 31% by FY22E

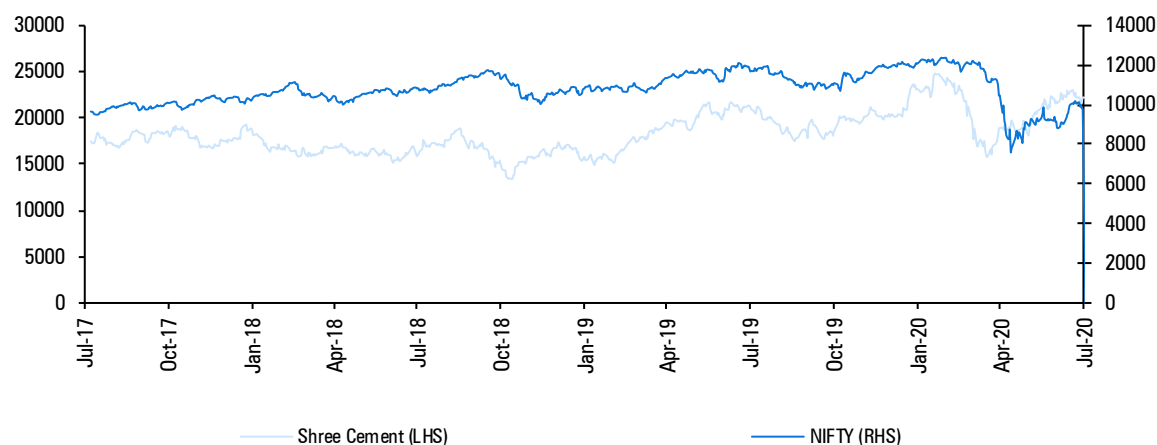


Source: Company, ICICI Direct Research

Exhibit 10: EBITDA, PAT to grow at 6.4% & 9.5% CAGR in FY20-22E respectively



Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	%O/S	Position (m)	Change (m)
1	Shree Capital Servic	31-Dec-19	24.9	9.0	0.0
2	Digvijay Finlease Lt	31-Dec-19	11.7	4.2	0.0
3	Flt Ltd	31-Dec-19	10.0	3.6	0.0
4	Mannakrishna Invs Pv	31-Dec-19	5.7	2.0	0.0
5	Newa Investments Pvt	31-Dec-19	3.8	1.4	0.0
6	Ragini Finance Ltd	31-Dec-19	3.5	1.3	0.0
7	Didu Investments Pvt	31-Dec-19	3.3	1.2	0.0
8	Sbi Funds Management	31-Mar-20	2.5	0.9	0.2
9	Nbi Industrial Finan	31-Dec-19	2.4	0.8	0.0
10	Fmr Llc	31-Mar-20	1.3	0.5	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 13: Shareholding Pattern

(in %)	Sep-19	Nov-19	Dec-19	Mar-20	Jun-20
Promoter	64.79	62.55	62.55	62.55	62.55
FII	11.88	12.90	13.20	11.90	11.90
DII	8.57	10.27	9.89	11.22	12.22
Others	14.76	14.28	14.36	14.33	13.33

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 14: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Incon	11,722.0	11,904.0	10,665.2	13,436.0
Growth (%)	19.2	1.6	-10.4	26.0
Raw material cost	864.2	768.2	733.7	993.9
Power & Fuel cost	2745.0	2347.6	1903.2	2545.5
Freight cost	2864.1	2606.1	2381.4	2914.3
Employees cost	677.8	731.0	737.7	805.6
Others	1918.0	1776.5	1652.1	2015.4
Total Operating Exp.	9,069.2	8,229.5	7,408.1	9,274.7
EBITDA	2,652.8	3,674.5	3,257.1	4,161.3
Growth (%)	7.3	38.5	-11.4	27.8
Depreciation	1,391.7	1,699.4	1,836.0	1,947.4
Interest	247.0	286.5	259.0	199.2
Other Income	245.4	271.6	317.8	336.9
PBT	1,259.6	1,960.2	1,479.9	2,351.6
Others	178.1	0.0	0.0	0.0
Total Tax	130.4	390.0	349.2	470.3
PAT	951.0	1,570.2	1,130.7	1,881.3
Adjusted PAT	1,107.7	1,570.2	1,130.7	1,881.3
Growth (%)	-20.0	41.8	-28.0	66.4
Adjusted EPS (₹)	307.0	435.2	313.4	521.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	34.8	36.1	36.1	36.1
Reserve and Surplus	9,562.5	12,900.3	13,726.7	15,303.6
Total Shareholders funds	9,597.3	12,936.4	13,762.8	15,339.7
Total Debt	3,511.2	3,292.4	2,792.4	1,992.4
Deferred Tax Liability	-590.4	-680.4	-680.4	-680.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	12,518.1	15,548.4	15,874.8	16,651.7
Assets				
Gross Block	14,466.5	16,009.8	17,371.9	19,721.9
Less: Acc Depreciation	9,991.4	11,690.9	13,526.8	15,474.3
Net Block	4,475.0	4,318.9	3,845.0	4,247.6
Capital WIP	1,121.1	962.1	1,300.0	750.0
Total Fixed Assets	5,596.2	5,281.0	5,145.0	4,997.6
Investments	4,545.3	9,119.6	7,719.6	7,819.6
Inventory	1,589.1	1,427.9	1,285.7	1,656.5
Debtors	732.4	828.5	701.3	809.8
Loans and Advances	61.5	60.3	106.7	134.4
Other Current Assets	1,747.8	1,768.7	1,919.7	2,418.5
Cash	308.3	107.0	399.3	655.8
Total Current Assets	4,439.0	4,192.3	4,412.7	5,675.0
Creditors	873.8	1,816.6	701.3	920.3
Provisions	1,188.6	1,228.0	701.3	920.3
Total Current Liabilities	2,062.4	3,044.6	1,402.5	1,840.5
Net Current Assets	2,376.6	1,147.8	3,010.1	3,834.4
Application of Funds	12,518.1	15,548.4	15,874.8	16,651.6

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	951.0	1,570.2	1,130.7	1,881.3
Add: Depreciation	1,391.7	1,699.4	1,836.0	1,947.4
Add: Interest	247.0	286.5	259.0	199.2
(Inc)/dec in Current Assets	-73.5	45.4	72.0	-1,005.9
Inc/(dec) in CL and Provision	-263.1	982.2	-1,642.0	438.0
CF from operating activ	2,253.1	4,583.7	1,655.7	3,460.1
(Inc)/dec in Investments	889.0	-4,574.3	1,400.0	-100.0
(Inc)/dec in Fixed Assets	-1,971.5	-1,384.3	-1,700.0	-1,800.0
Others	-77.3	-90.0	0.0	0.0
CF from investing activ	-1,159.8	-6,048.6	-300.0	-1,900.0
Issue/(Buy back) of Equity	0.0	1.2	0.0	0.0
Inc/(dec) in loan funds	-408.4	-218.8	-500.0	-800.0
Dividend paid & dividend tax	-251.6	-478.3	-304.4	-304.4
Inc/(dec) in Sec. premium	1.0	2,246.0	0.0	0.0
Others	-247.0	-286.5	-259.0	-199.2
CF from financing activ	-905.9	1,263.6	-1,063.4	-1,303.6
Net Cash flow	187.4	-201.3	292.3	256.5
Opening Cash	120.9	308.3	107.0	399.3
Closing Cash	308.3	107.0	399.3	655.8

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	307.0	435.2	313.4	521.4
Cash EPS	649.2	906.1	822.2	1,061.1
BV	2,659.7	3,585.1	3,814.1	4,251.2
DPS	60.0	110.0	70.0	70.0
Cash Per Share	85.4	29.7	110.7	181.7
Operating Ratios (%)				
EBITDA Margin	22.6	30.9	30.5	31.0
PAT Margin	8.1	13.2	10.6	14.0
Inventory days	49.5	43.8	44.0	45.0
Debtor days	22.8	25.4	24.0	22.0
Creditor days	27.2	55.7	24.0	25.0
Return Ratios (%)				
RoE	11.5	12.1	8.2	12.3
RoCE	11.5	13.8	10.5	14.7
RoIC	10.9	16.6	11.0	15.8
Valuation Ratios (x)				
P/E	78.9	49.5	68.8	41.3
EV / EBITDA	30.5	21.1	24.0	18.5
EV / Net Sales	6.9	6.5	7.3	5.7
Market Cap / Sales	6.6	6.5	7.3	5.8
Price to Book Value	7.8	6.0	5.7	5.1
Solvency Ratios				
Debt/EBITDA	1.3	0.9	0.9	0.5
Debt / Equity	0.4	0.3	0.2	0.1
Current Ratio	2.2	1.4	3.1	3.1
Quick Ratio	1.4	0.9	2.2	2.2

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Cement)

Company	CMP		M Cap		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	(₹ Cr)		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,411	HOLD	26,124		73	64	82	10.2	11.1	9.0	92	95	81	17.4	14.0	16.4	11.9	9.7	11.2
Ambuja Cem*	222	HOLD	39,912		7.7	7.8	9.1	11.0	10.9	8.8	109	114	100	13.2	13.4	15.4	10.0	9.4	10.9
UltraTech Cem	3,970	BUY	121,489		189	132	181	15.4	15.8	12.1	168	168	158	11.4	10.6	13.8	14.2	9.2	11.3
Shree Cement	21,551	BUY	77,764		435	313	521	21.1	24.0	18.5	228	216	213	13.8	10.5	14.7	12.1	8.2	12.3
Heidelberg Cem	182	BUY	4,079		11.8	9.6	13.7	8.2	9.6	7.2	110	98	92	22.3	19.6	26.3	20.4	18.0	23.1
JK Cement	1,525	HOLD	10,910		74.9	19.9	49.5	11.2	19.4	12.4	122	117	114	16.2	7.7	12.6	18.5	4.8	11.0
JK Lakshmi Cem	285	BUY	3,366		22.6	19.1	25.4	6.4	6.4	5.2	46	45	43	17.1	15.7	18.8	15.5	11.7	13.9
Star Cement	90	BUY	3,605		6.9	4.3	8.7	7.9	9.4	5.7	117	117	80	17.1	10.3	18.9	15.4	9.0	16.4
Ramco Cement	699	BUY	15,237		25.7	12.1	22.1	15.9	19.9	13.4	140	131	125	7.5	4.7	7.3	12.3	5.6	9.2
Sagar Cement	462	BUY	1,163		17.1	43.3	51.4	8.9	6.4	5.9	41	43	33	7.2	10.7	11.1	4.2	8.9	9.6

Source: Company, ICICI Direct Research

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ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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