




Industry	Building Materials
Bloomberg	SRCM IN
BSE CODE	500387

Depreciation on new plant erodes gain out of volume growth and margins

RATING **NEUTRAL**

CMP	20407
Price Target	21824
Potential Upside	7%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	20656/13100
Mkt Capital (Rs Cr)	70834
Free float (%)	35%
Avg. Vol 1M (,000)	27
No. of Shares (Cr)	3.5
Promoters Pledged %	0%

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4QFY19 Result Update

- ❑ Shree Cement reported revenue growth of 17% YoY to Rs.3285 Cr mainly on account of higher infrastructure activities, traction in affordable housing and lower pricing policy of the company.
- ❑ Revenue from cement sector grows by 15% YoY to Rs.3084 Cr. led by the 13% YoY volume growth and 2% growth in realization on YoY.
- ❑ Revenue from power sector has grown by 29% YoY to Rs. 529 Cr. due to higher realization. In the last quarter 380mn units were sold as compared to 451mn units sold in 4QFY18.
- ❑ EBITDA margin of the company has come in line with our estimates and has shown improvement of 340bps YoY to 25.8% on account of lower power and freight cost.
- ❑ Company has reported higher depreciation of Rs. 421 Cr vs Rs. 233 Cr in the same quarter of previous year. This is because company has commissioned 3 MTPA clinker units at integrated Cement Plant at Kodla in Kalaburagi (erstwhile Gulbarga) District of Karnataka on 25th December, 2018.
- ❑ Company has declared final dividend at the rate of Rs. 35/- per equity share of Rs. 10 each for the FY19.

View and Valuation

In the last quarter, Shree Cement has prioritized volume growth and gaining market share at the cost of lower pricing. This has resulted in volume growth of 13% YoY to 7.3 MT where as the realization has grown marginally by 2% on YoY basis and dips on QoQ basis. Going forward, cement demand in June quarter will remain lower due to standstill of government spending during elections. Post elections cement demand in country is expected to grow in the range of 7-8%. Further the management has retained its earlier guidance of 10% volume growth in FY20. Also, the recently commissioned 3MT Kondla (Karnataka) grinding unit will help to attain volume growth in upcoming quarters. On the margin front, management has guided that there is some price hike in North of Rs. 30-35/bag in April. Further the power and fuel cost has remained in the level of the last quarter. This will help the company to maintain its margins in upcoming quarter. Considering volume growth visibility with stable margins we remain positive on the stock, but recent rally in the stock prices restricts potential upside. Hence we recommend Neutral rating in stock.

We value the stock at 24x FY20e EV/EBITDA to arrive at target price of Rs. 21,824/share

Key Risks to our rating and target

- ❑ Slow down in pick of volume demand.
- ❑ Price rise of pet coke, coal, and diesel.

KEY FINANCIAL/VALUATIONS	FY16*	FY17	FY18	FY19	FY20E
Net Sales	5514	8594	9833	11722	12954
EBITDA	1407	2513	2473	2653	3235
EBIT	579	1298	1573	1261	1717
PAT	1143	1339	1384	951	1457
EPS (Rs)	328	384	397	273	418
EPS growth (%)	168%	17%	3%	-31%	53%
ROE (%)	17%	17%	16%	10%	13%
ROCE (%)	8%	14%	13%	10%	13%
BV	1965	2210	2554	2755	3140
P/B (X)	6	8	6	7	6
P/E (x)	38	44	41	68	44

* Figure for 9 months

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4QFY19 Results

PAT below expectation

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2811	3070	2587	2781	3285	16.9%	18.1%	9833	11722	19%
Other Income	105	94	51	55	45	-57.0%	-18.5%	389	245	-37%
COGS	229	241	168	205	250	9.0%	22.0%	770	864	12%
Gross Margin	92%	92%	93%	93%	92%	0.6%	-0.2%	92%	93%	0%
Employee Cost	149	171	170	167	170	14.5%	2.3%	588	678	15%
Other Expenses	431	523	528	389	479	11.2%	23.1%	1497	1918	28%
EBITDA	629	575	520	710	848	34.7%	19.4%	2473	2653	7%
EBITDA%	22%	19%	20%	26%	26%	3.4%	0.3%	25%	23%	-3%
Depreciation	233	306	329	336	421	80.5%	25.1%	899	1392	55%
EBIT	396	270	190	374	427	7.8%	14.3%	1573	1261	-20%
Interest	44	56	62	59	70	59.6%	17.6%	135	247	83%
PBT	458	307	180	370	403	-12.0%	8.8%	1827	1260	-31%
Exceptional	-	-	178.1	0	-			0	178	
Tax	58	28	-48	69	82	39.9%	19%	443	130	-71%
PAT	399	279	49	301	321	-19.6%	6.5%	1384	951	-31%
PAT Margin	14%	9%	2%	11%	10%	-4.4%	-1.1%	14%	8%	-6%

Strong Volume growth post elections:

Cement volumes of the company has grown by 13% YoY to 7.3 Million Tons mainly on account of higher infrastructure activities, traction in affordable housing and lower pricing policy of the company. Going forward, there is some standstill in the government spending on infrastructure activities where the company has ~30% exposure. Post this election, cement demand is expected to grow to the tune of 7-8% and the volume of the company is expected to grow to the tune of 9-10% YoY in FY20e. Higher volume growth for the Shree cement is attributed to the new capacities coming on-stream in South, which is a new market for the company. Further in order to cater growing demand of cement in East region, company is expanding capacities in Cuttack and Jharkhand. These expanded capacities will help the company to gain market share in East region of the country. Capacity expansion gives us volume strong volume growth visibility in upcoming quarters.

Change in marketing strategy to improve margins:

The company is continuously shifting is sales mix from non-trade to trade. In Q4 FY19, Trade sales mix goes to 73% in the last quarter from 67% in Q4 FY18. The cost for non-trade is lower over the trade segment by INR 7-8/bag (INR140-160/t) on account of no packaging cost and low dealer commissions. Further pickup in demand will help the company to improve its capacity utilization and will the company to take price hike in upcoming quarters.

Lower power and fuel cost led improvement in Margin:

In the last quarter, Power and fuel cost has improved by 6% YoY to Rs. 1046/Ton on lower pet coke and coal prices. On the other hand, freight cost has declined by almost 3% YoY to Rs. 1061/Ton on lower diesel prices, improvement in lead distance and full benefit of increased axle norms reflected in books. Going forward, these prices are expected to remain at current levels as pet coke price is now hovering in the price range of 95-100 USD/Ton.

New capacities in the pipeline:

Company is expanding its grinding capacities in East region of the country with of 3 MT of cement at a capex of 423 Cr in Cuttack & 2.5mt in Jharkhand at a capex of 480 Cr in Cuttack. These capacity expansion plans are running on schedule and is expected to come on Steam by Sept-19 and Jharkhand at Jun-19. Further a new 2MT Pune grinding unit is expected to be commissioned by FY21 (government approval is expected in 3-4 months post which it will take 18-19 months to get commissioned).

UAE business update:

Company's recently acquired Union Cement (UAE) has sold 11.3 lakh Ton of cement and 16.14 lakh Ton of cement from the date of acquisition (11 July 2018) to March 2019. Turnover during the same period was Rs.800 Cr and EBITDA was Rs. 132 Cr. With some de-bottlenecking, the company has increased the production capacity of the unit to 12k TPD from 10k TPD at the time of acquisition. This acquisition will help to company to improve its margins on the back of better pricing power in UAE.

Concall Highlights:**➤ Market outlook:**

- In 2-3 years, cement demand will be quite strong on various infra activities and affordable housing.
- Cement demand declined in April –May 2019, as government spending is standstill during election time. But this should stabilize as new government starts working.

➤ Volume outlook:

- Cement sales were up by 13% YoY to 7.3 MT on higher infrastructure spending by the government and traction in affordable housing.
- Company has launched 2 new products Roof on and Power in Feb 2019. Roof On is launched in both North and East and power is currently launched in North. Going forward, these brands will be available in other markets as well. These 2 brands have higher margins.
- Total volume from North is 50 Lakh, East is 23 lakh Ton and South it is 2.3 lakh Ton in Q4 FY19.
- Total clinker produced in Q4 was 50.2 Lakh Ton.
- Market growth is about 7-8% and management has guided for 10-11% growth in FY20e.
- In South, the company has started production in Dec 2018, capacity utilization is at 30-35%. It will take to 3-4 quarters to ramp up to the industry average of 55-60%.
- Total clinker capacity of the company is around 25.6 MT.
- Clinker utilization in North market is 78% and in East is 100%. Overall rate is 78-80%.

➤ Union Cement(UAE operations):

- Union Cement(UAE) has sold 11.3 lakh Ton of cement and 16.14 lakh Ton of cement from the date of acquisition(11 July 2018) to March 2019. Turnover during the same period was Rs.800 Cr and EBITDA was Rs. 132 Cr.
- Management sees the margin to be sustained in UAE regions despite price fall in UAE from the last one year as the Union Cement exports about 50% of its total volume
- Power and fuel cost:
- Petcoke price was ~95-100 USD/Ton in Q4 FY19 and currently it is in the same range.
- Lead distance is almost same to 464 Km in March 2019 vs 463 Km in Dec 2018 and 470 km in March 2018.

➤ Expansion plans:

- Orissa grinding unit will be commissioned in Sep 2019.
- Board has also approved setting up cement grinding unit of 3 MT in Pune. Clinker for the facility could be bought from Gulbarga. Necessary approval for the project has already been received.
- Company is working on 3 projects:
- Jharkhand 2.5 MT Grinding unit to be commissioned in 1 month (June 2019) at a cost of Rs. 480Cr.
- Orissa 3 Mt grinding unit to be commissioned in Sep 2019 at a cost of Rs. 425Cr.
- Pune 3 Mt grinding unit to be commissioned in Dec 2020 at a cost of Rs. 525Cr.
- Capex for FY20e Rs. 1500 -1600 Cr. for 3 grinding units and same amount for FY21e also.

➤ Other updates:

- Now company strategy is to focus on hike in price realization even if it comes at the cost of volumes. Earlier strategy was to increase volumes and gain market share.
- All capex plans are on track. Jharkhand grinding units is expected to be commissioned in next 20-30 days.
- Company focus is to focus on trade sales. Trade sales mix goes to 73% in the last quarter from 67% in Q4 FY18.
- Cement prices are higher by Rs. 30-35 than Q3 FY19.
- All loans were already hedged in Dec Quarter 2018.
- EBITDA of power business was Rs. 43 Cr. in Q4 FY19.
- Higher depreciation in Q4 FY19 was due to commissioning of Kodla(Karnataka) Clinkerization unit in 25 Dec 2018, the entire depreciation was charged in last quarter. Current year depreciation could be same as the last year.
- Receivables have increased in the last year due to tight liquidity issues.
- Current investment has come down due to the acquisition.
- In April 2019, there are some price hike in North and East. There was one hike of 20-25/bag in April in beginning of the month and another hike in April end. Total hike of around Rs. 30-32/bag in April. As per the management, it is difficult to say whether these hike is sustainable.
- In South, there has been some price hike in Feb but company does not have meaningful exposure in South. Company has sold only 1.6 lakh Ton of cement in South in Q4 FY19.
- Tax rate guidance for FY20e is 26-27%.

Exhibit: Cement Volume trend

Cement volumes has improved on higher infra activities and affordable housing

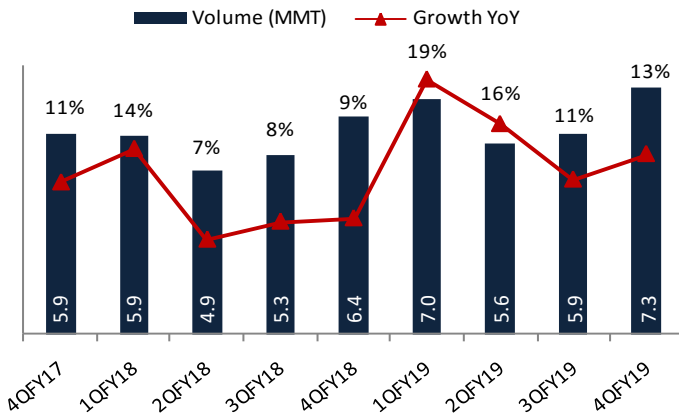


Exhibit: Cement realization trend

Marginal increase in realization as the company focuses on increasing volumes

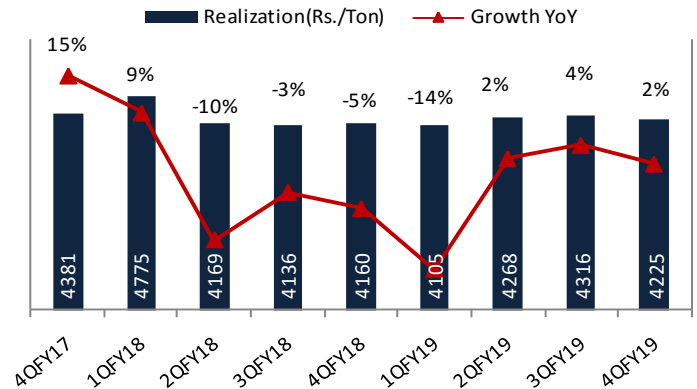


Exhibit: Revenue and revenue growth trend

Revenue has increased on account of higher volumes and realizations

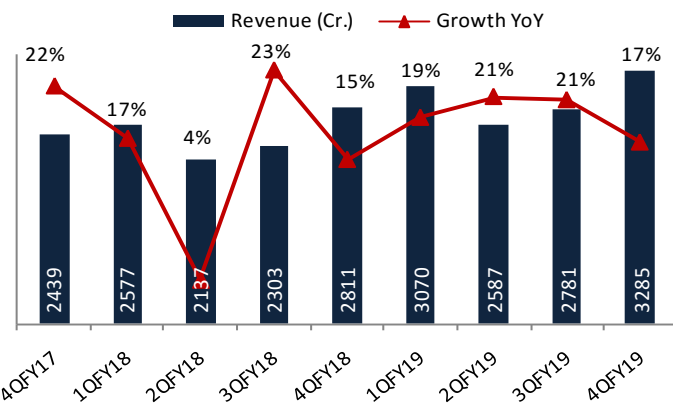


Exhibit: PAT and PAT growth trend

PAT has improved in account of improvement in both revenue and margins

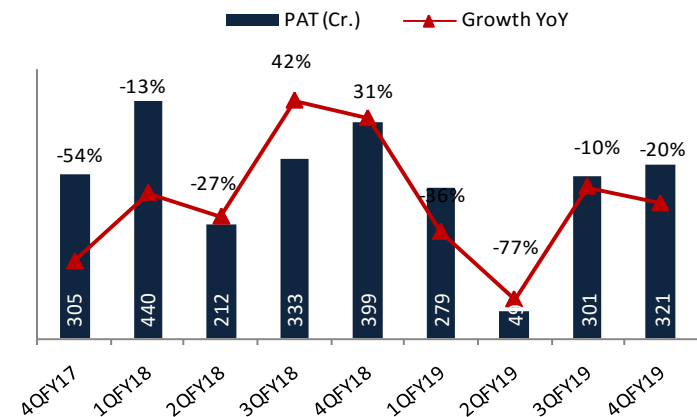


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Margins have improved on account of lower power and freight cost

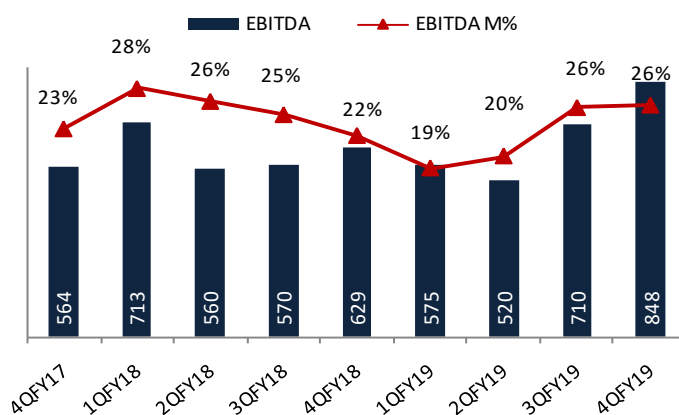
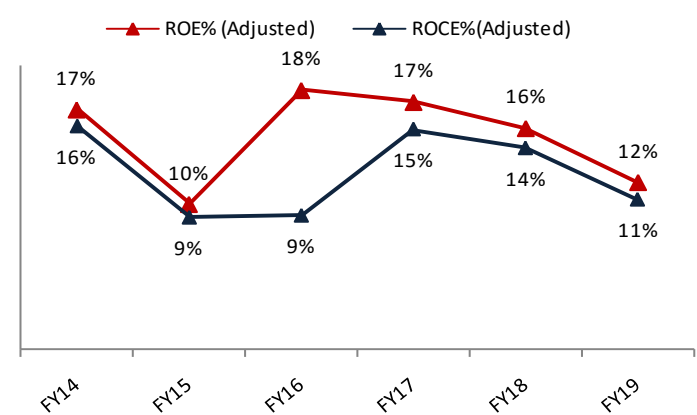


Exhibit: Return ratios

Return ratios have declined in last fiscal due to margin pressure



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	35	35	35	35	35	35	35	35
Reserves	3809	4676	5828	6811	7663	8862	9563	10905
Networth	3844	4711	5863	6846	7698	8897	9597	10940
Debt	977	1078	604	726	1292	3394	2777	2191
Total Capital Employed	4287	5158	6271	7376	8217	11105	11906	12763
Net Fixed Assets (incl CWIP)	1915	2952	3432	3315	3310	5016	5597	6008
Non Current Investments	1501	1519	2069	2950	3388	3123	4411	4411
Other Non Current Assets	0	0	426	769	414	440	396	396
Non Current Assets	3888	4999	6515	7655	7884	9442	11202	11613
Inventory	530	810	919	815	1315	1569	1589	1756
Debtors	315	297	476	329	335	459	732	809
Cash & Bank	379	159	99	83	111	121	308	218
Other Current Assets	29	34	291	312	775	1139	1219	1347
Current Assets	2272	2330	2040	1809	3282	5700	3992	4307
Creditors	81	188	311	257	352	727	451	426
Provisions	90	100	4	1	1	1	22	25
Other Current Liabilities	712	581	243	230	475	619	622	583
Curr Liabilities	883	868	1225	966	1215	1781	1519	1488
Net Current Assets	1389	1462	815	843	2067	3919	2473	2819
Total Assets	6160	7329	8555	9463	11166	15142	15193	15920

Income Statement

Y/E March	FY13	FY14	FY15	FY16*	FY17	FY18	FY19	FY20E
Revenue from Operation	5590	5887	6454	5514	8594	9833	11722	12954
Change (%)	-4%	5%	10%	-15%	56%	14%	19%	11%
Other Income	188	185	138	673	362	389	245	258
EBITDA	1561	1390	1344	1407	2513	2473	2653	3235
Change (%)	-5%	-11%	-3%	5%	79%	-2%	7%	22%
Margin (%)	28%	24%	21%	26%	29%	25%	23%	25%
Depr & Amor.	436	550	925	828	1215	899	1392	1518
EBIT	1125	840	419	579	1298	1573	1261	1717
Int. & other fin. Cost	193	129	121	76	129	135	247	153
EBT	1120	896	436	1176	1531	1827	1260	1821
Exp Item	1	81	35	0	0	0	178	0
Tax	115	28	-26	33	192	443	130	364
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1004	787	426	1143	1339	1384	951	1457
Adjusted PAT	1003	709	389	1143	1339	1384	791	1457
Change (%)	62%	-22%	-46%	168%	17%	3%	-31%	53%
Margin(%)	18%	12%	6%	21%	16%	14%	7%	11%

* Figure for 9 months

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	26%	17%	7%	17%	17%	16%	10%	13%
ROCE	23%	15%	6%	8%	14%	13%	10%	13%
Asset Turnover	0.9	0.8	0.8	0.6	0.8	0.6	0.8	0.8
Debtor Days	21	18	27	22	14	17	23	23
Inv Days	35	50	52	54	56	58	49	49
Payable Days	5	12	18	17	15	27	14	12
Int Coverage	5.8	6.5	3.5	7.6	10.0	11.6	5.1	11.2
P/E	25	32	93	38	44	41	68	44
Price / Book Value	6.6	5.4	6.7	6.3	7.7	6.3	6.7	5.9
EV/EBITDA	17	19	30	31	24	24	25	21
FCF per Share	108.9	45.7	28.3	23.8	31.9	34.7	88.3	62.6
Div Yield	0%	0%	0%	0%	1%	0%	0%	0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16*	FY17	FY18	FY19E	FY20E
PBT	1119	815	401	1176	1531	1827	1260	1821
(inc)/Dec in Working Capital	-64	119	-22	-175	-51	-113	1530	-436
Non Cash Op Exp	436	550	925	828	1215	899	1392	1518
Int Paid (+)	193	129	121	76	129	135	247	153
Tax Paid	-241	-56	-91	-143	-289	-507	-130	-364
others	-183	-157	-95	-196	-333	-363	263	0
CF from Op. Activities	1260	1401	1239	1566	2202	1879	4561	2693
(inc)/Dec in FA & CWIP	-893	-1583	-1124	-737	-1295	-2526	-1972	-1929
Free Cashflow	366	-182	115	829	907	-648	2589	763
(Pur)/Sale of Inv	454	9	572	-659	-1125	-1833	-1288	0
others	170	340	-439	131	372	764	0	0
CF from Inv. Activities	-270	-1234	-990	-1265	-2048	-3595	-3260	-1929
inc/(dec) in NW								
inc/(dec) in Debt	-876	-89	-283	-22	445	2039	-617	-586
Int. Paid	-224	-147	-125	-89	-128	-125	-247	-153
Div Paid (inc tax)	-69	-89	-89	-159	-485	-184	-144	-221
others	187	170	239	0	0	0	0	0
CF from Fin. Activities	-982	-156	-259	-271	-167	1730	-1008	-960
Inc(Dec) in Cash	8	11	-10	31	-13	14	293	-197
Add: Opening Balance	22	30	41	6	36	23	121	308
Closing Balance	30	41	31	36	23	37	414	111

* Figure for 9 months

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