

# Shree Cement Limited

Industry Building Materials  
Bloomberg SRCM IN  
BSE CODE 500387

## Mixed result; Margin expansion led by sharp decline in logistics cost

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>18661</b>
<b>Price Target</b>	<b>22000</b>
<b>Potential Upside</b>	<b>18%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	20527/16795
Mkt Capital (Rs Cr)	65010
Free float (%)	35%
Avg. Vol 1M (,000)	1
No. of Shares (Cr)	3
Promoters Pledged %	NA

### 2QFY20 Result Update

- Shree Cement reported mixed set of number wherein revenue grew by 8.3% YoY to Rs. 2802 cr. (vs. expect. of Rs. 2991 cr.) led by higher realization.
- Revenue from cement sector grew by 11% YoY to Rs.2662.25 cr. led by realization growth on YoY while revenue from power sector declined by 5% YoY to Rs. 420 cr.
- Gross margin improved by 112 bps to 94.6% YoY led by benign raw material prices while EBITDA margin grew sharply by 1004 bps to 30.1% YoY led by decline in Power & fuel and logistics cost.
- The Company's Power & Fuel and Logistics cost declined by 239 bps/457 bps to 21.4% and 15.8% YoY respectively led by supply chain efficiency.
- The Company's PAT remained better than our expectation at Rs.309 cr.(vs. expect. of Rs. 301 cr) with PAT margin at 11%.

### View and Valuation

SHREECEM reported mixed numbers in 2QFY20 wherein the company's cement business performed better than expectation led by realization despite subdued cement demand across regions, extended monsoon and lower government spends in infrastructure activities. While the other business i.e. Power business in which the company operates remained subdued which may be due to lower volumes and lower realization. Going forward, we expect the economic slowdown to be temporary and cement demand to pick up in coming quarters while capacity addition in various regions will support volumes. On Realization front, we expect the cement prices to remain more or less at the same level in Rajasthan (where the company has high exposure) will drive value growth. On Margin front we expect lower margin expansion because of the company's focus on driving volumes. Thus, considering volume growth visibility with stable margins we remain positive on the stock and have retained our BUY rating.

**The stock is currently trading at EV/EBITDA of 16.1 times and we retain our BUY rating on this stock.**

### Key Risks to our rating and target

- Further slow down in pick of volume demand.
- Steep increase in prices of pet coke, coal, and diesel.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8594	9833	11722	12863	13972
EBITDA	2513	2473	2653	3619	3745
EBIT	1298	1573	1261	2101	2335
PAT	1339	1384	951	1652	2075
EPS (Rs)	384	397	273	474	596
EPS growth (%)	17%	3%	-31%	74%	26%
ROE (%)	17%	16%	10%	15%	16%
ROCE (%)	14%	13%	10%	16%	16%
EV/EBITDA	24.1	24.1	25.3	18.3	16.1
P/B (X)	7.7	6.3	6.7	5.9	5.1
P/E (x)	44	41	68	39	31

### Research Analyst

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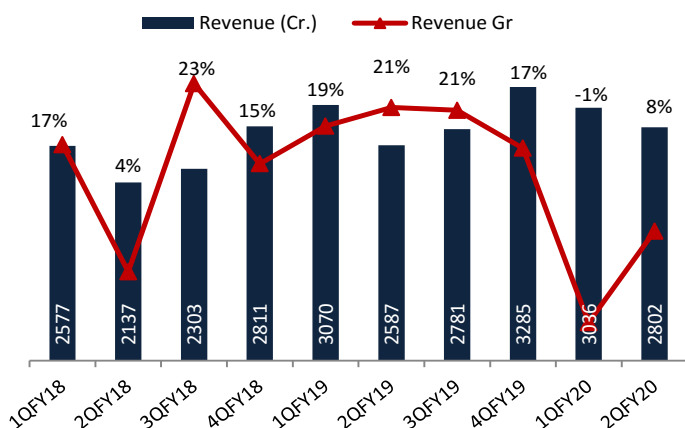
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## 2QFY20 Results Mixed Numbers

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Net Sales	2587	2781	3285	3036	2802	8.3%	-7.7%	9833	11722	19%
Other Income	51	55	45	51	58	12.4%	12.9%	389	245	-37%
COGS	168	205	250	186	151	-10.4%	-18.7%	770	864	12%
Gross Margin	93%	93%	92%	94%	95%	1.1%	0.7%	92%	93%	0%
Employee Cost	170	167	170	191	185	8.8%	-3.4%	588	678	15%
Other Expenses	528	389	479	441	444	-16.0%	0.6%	1497	1918	28%
EBITDA	520	710	848	902	844	62.4%	-6.4%	2473	2653	7%
EBITDA%	20%	26%	26%	30%	30%	10.0%	0.4%	25%	23%	-3%
Depreciation	329	336	421	403	428	30.0%	6.4%	899	1392	55%
EBIT	190	374	427	500	416	118.6%	-16.8%	1573	1261	-20%
Interest	62	59	70	68	72	16.1%	5.4%	135	247	83%
PBT	180	370	403	483	402	123.4%	-16.7%	1827	1260	-31%
Exceptional	178	0	-	-	-	-	-	-	178	-
Tax	-48	69	82	120	93	-295%	-22%	443	130	-71%
PAT	49	301	321	363	309	526.5%	-14.9%	1384	951	-31%
PAT Margin	2%	11%	10%	12%	11%	9.1%	-0.9%	14%	8%	-6%

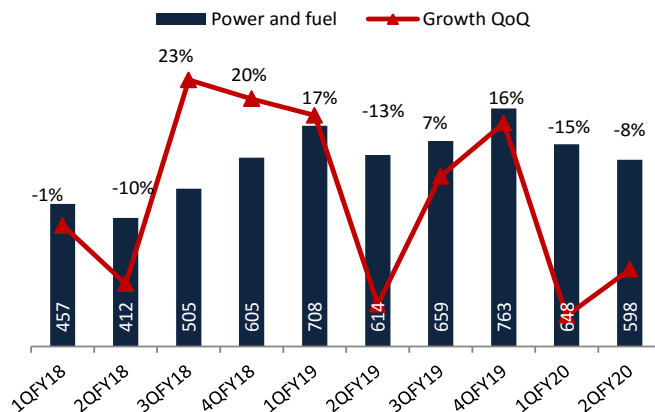
## Exhibit: Revenue and revenue growth trend

Revenue remained impacted on account of monsoon and lower infrastructure activities.



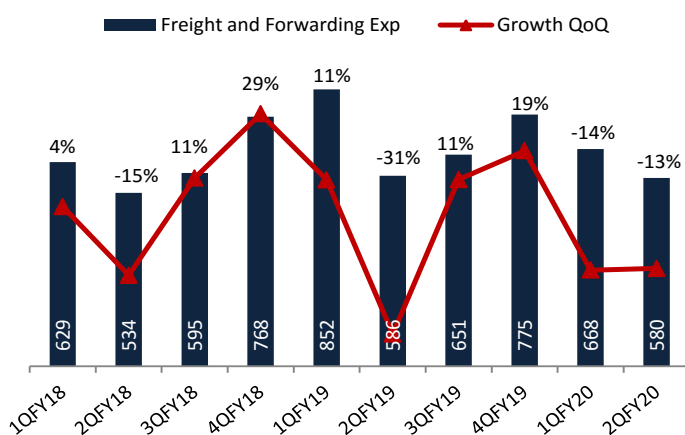
## Exhibit: Power & Fuel cost

Power and Fuel cost reduced sequentially both QoQ as well as on YoY basis.



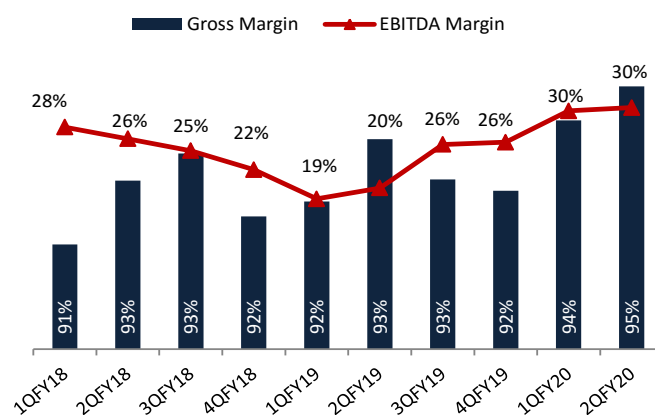
## Exhibit: Freight cost

Freight cost rationalization on both QoQ as well as YoY basis led by supply chain efficiency.



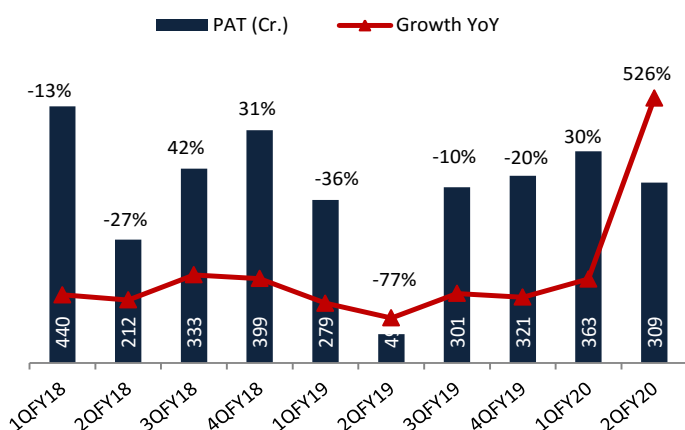
## Exhibit: Gross margin & EBITDA margin trend

EBITDA improvement led by higher realization, lower freight cost and power & fuel cost.



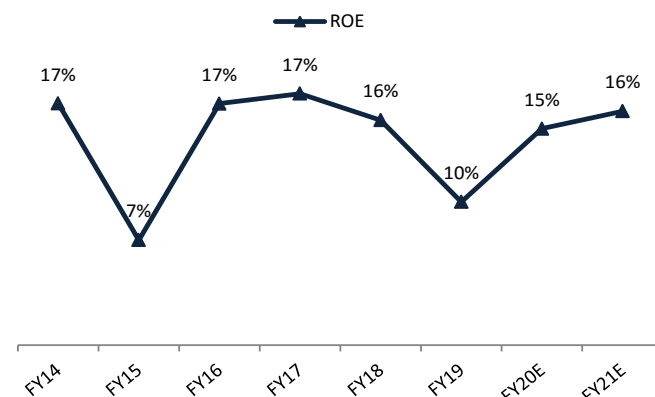
## Exhibit: PAT and PAT growth trend

PAT remained high on account of higher realization and EBITDA expansion.



## Exhibit: Return On Equity

ROE is expected to be at 16% for FY21.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY21E	FY20E
Share Capital	35	35	35	35	35	35	35	35
Reserves	4676	5828	6811	7663	8862	9563	10995	12795
<b>Networth</b>	<b>4711</b>	<b>5863</b>	<b>6846</b>	<b>7698</b>	<b>8897</b>	<b>9597</b>	<b>11030</b>	<b>12830</b>
Debt	1078	604	726	1292	3394	2777	2377	1977
Total Capital Employed	5158	6271	7376	8217	11105	11906	13039	14539
<b>Net Fixed Assets (incl CWIP)</b>	<b>2952</b>	<b>3432</b>	<b>3315</b>	<b>3310</b>	<b>5016</b>	<b>5597</b>	<b>5207</b>	<b>1050</b>
Non Current Investments	1519	2069	2950	3388	3123	4411	4411	4411
Other Non Current Assets	0	426	769	414	440	396	396	396
Non Current Assets	4999	6515	7655	7884	9442	11202	10812	6655
<b>Inventory</b>	<b>810</b>	<b>919</b>	<b>815</b>	<b>1315</b>	<b>1569</b>	<b>1589</b>	<b>1744</b>	<b>1894</b>
Debtors	297	476	329	335	459	732	804	873
Cash & Bank	159	99	83	111	121	308	1311	6685
Other Current Assets	34	291	312	775	1139	1219	1337	1337
Current Assets	2330	2040	1809	3282	5700	3992	5373	10966
<b>Creditors</b>	<b>188</b>	<b>311</b>	<b>257</b>	<b>352</b>	<b>727</b>	<b>451</b>	<b>423</b>	<b>459</b>
Provisions	100	4	1	1	1	22	24	24
Other Current Liabilities	581	243	230	475	619	622	579	579
Curr Liabilities	868	1225	966	1215	1781	1519	1477	1514
<b>Net Current Assets</b>	<b>1462</b>	<b>815</b>	<b>843</b>	<b>2067</b>	<b>3919</b>	<b>2473</b>	<b>3895</b>	<b>9452</b>
<b>Total Assets</b>	<b>7329</b>	<b>8555</b>	<b>9463</b>	<b>11166</b>	<b>15142</b>	<b>15193</b>	<b>16185</b>	<b>17621</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY21E	FY20E
<b>Revenue from Operation</b>	<b>5887</b>	<b>6454</b>	<b>5514</b>	<b>8594</b>	<b>9833</b>	<b>11722</b>	<b>12863</b>	<b>13972</b>
Change (%)	5%	10%	-15%	56%	14%	19%	10%	9%
Other Income	185	138	673	362	389	245	318	614
<b>EBITDA</b>	<b>1390</b>	<b>1344</b>	<b>1407</b>	<b>2513</b>	<b>2473</b>	<b>2653</b>	<b>3619</b>	<b>3745</b>
Change (%)	-11%	-3%	5%	79%	-2%	7%	36%	3%
Margin (%)	24%	21%	26%	29%	25%	23%	28%	27%
Depr & Amor.	550	925	828	1215	899	1392	1518	1410
<b>EBIT</b>	<b>840</b>	<b>419</b>	<b>579</b>	<b>1298</b>	<b>1573</b>	<b>1261</b>	<b>2101</b>	<b>2335</b>
Int. & other fin. Cost	129	121	76	129	135	247	211	176
<b>EBT</b>	<b>896</b>	<b>436</b>	<b>1176</b>	<b>1531</b>	<b>1827</b>	<b>1260</b>	<b>2207</b>	<b>2773</b>
Exp Item	81	35	0	0	0	178	0	0
Tax	<b>28</b>	<b>-26</b>	<b>33</b>	<b>192</b>	<b>443</b>	<b>130</b>	<b>556</b>	<b>698</b>
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	787	426	1143	1339	1384	951	1652	2075
<b>Adjusted PAT</b>	<b>709</b>	<b>389</b>	<b>1143</b>	<b>1339</b>	<b>1384</b>	<b>791</b>	<b>1652</b>	<b>2075</b>
Change (%)	<b>-22%</b>	<b>-46%</b>	<b>168%</b>	<b>17%</b>	<b>3%</b>	<b>-31%</b>	<b>74%</b>	<b>26%</b>
Margin(%)	12%	6%	21%	16%	14%	7%	13%	15%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY21E	FY20E
ROE	17%	7%	17%	17%	16%	10%	15%	16%
ROCE	15%	6%	8%	14%	13%	10%	16%	16%
Asset Turnover	0.8	0.8	0.6	0.8	0.6	0.8	0.8	0.8
Debtor Days	18	27	22	14	17	23	23	23
Inv Days	50	52	54	56	58	49	49	49
Payable Days	12	18	17	15	27	14	12	12
Int Coverage	6.5	3.5	7.6	10.0	11.6	5.1	9.9	13.3
P/E	32	93	38	44	41	68	39	31
Price / Book Value	5.4	6.7	6.3	7.7	6.3	6.7	5.9	5.1
EV/EBITDA	19	30	31	24	24	25	18	16
FCF per Share	45.7	28.3	23.8	31.9	34.7	88.3	376.4	1,919
Div Yield	0%	0%	0%	1%	0%	0%	0%	0%

## Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY21E	FY20E
PBT	815	401	1176	1531	1827	1260	2207	2773
(inc)/Dec in Working Capital	119	-22	-175	-51	-113	-530	-418	-183
Non Cash Op Exp	550	925	828	1215	899	1392	1518	1410
Int Paid (+)	129	121	76	129	135	247	211	176
Tax Paid	-56	-91	-143	-289	-507	-230	-556	-698
others	-157	-95	-196	-333	-363	-78	0	0
<b>CF from Op. Activities</b>	<b>1401</b>	<b>1239</b>	<b>1566</b>	<b>2202</b>	<b>1879</b>	<b>2060</b>	<b>2963</b>	<b>3477</b>
(inc)/Dec in FA & CWIP	-1583	-1124	-737	-1295	-2526	-1885	-1129	2748
Free Cashflow	-182	115	829	907	-648	174	1834	6225
(Pur)/Sale of Inv	9	572	-659	-1125	-1833	886	0	0
others	340	-439	131	372	764	187	0	0
<b>CF from Inv. Activities</b>	<b>-1234</b>	<b>-990</b>	<b>-1265</b>	<b>-2048</b>	<b>-3595</b>	<b>-813</b>	<b>-1129</b>	<b>2748</b>
inc/(dec) in NW								
inc/(dec) in Debt	-89	-283	-22	445	2039	-758	-400	-400
Int. Paid	-147	-125	-89	-128	-125	-275	-211	-176
Div Paid (inc tax)	-89	-89	-159	-485	-184	-231	-219	-275
others	170	239	0	0	0	0	0	0
<b>CF from Fin. Activities</b>	<b>-156</b>	<b>-259</b>	<b>-271</b>	<b>-167</b>	<b>1730</b>	<b>-1264</b>	<b>-830</b>	<b>-851</b>
Inc(Dec) in Cash	11	-10	31	-13	14	-17	1004	5374
<b>Add: Opening Balance</b>	<b>30</b>	<b>41</b>	<b>6</b>	<b>36</b>	<b>23</b>	<b>33</b>	<b>308</b>	<b>1311</b>
Closing Balance	41	31	36	23	37	17	1311	6686

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