

# Shree Cement | HOLD

## Realisation led beat; power segment continues to disappoint

Shree reported 22% YoY growth in cement revenues primarily on FY17 capacity addition and 7.5% realisation increase. While cement revenue beat our estimates by 5%, power segment continued to remain weak during the quarter. Overall, revenues were in line with the estimates. While EBITDA/t declined by 8.3% YoY (on increase in Power/Fuel and freight cost), it was ahead of estimates primarily on higher than expected realisation improvement. Power segment reported negative operating profit as the ban on the usage of petcoke in CPP and rising international coal prices impacted profitability, in our view. Key monitorables for Shree will be sustainability of realisation and improvement in cement demand going forward. We are rolling forward the TP, valuing the stock at 12x EVE to arrive at a TP of 15,800 (Sep'18). Maintain HOLD.

- Cement volumes/realisation drive revenues partially offset by decline in Power sales:** Revenue, at Rs25.4bn; grew by 14%/6.6% on YoY/QoQ basis, was in-line with the expectations. Cement revenues for the quarter grew by 22% YoY on the back of 14%/7.5% volume/realisation growth. Cement volumes grew primarily on account of higher capacity vs the base quarter (2.1MTPA de-bottlenecking and 1.6MTPA capacity addition). Cement segment revenues beat JMFe by 5% primarily on better than expected realisations (4% above JMFe). Realisation for the quarter by was up 10% QoQ. Revenue beat on cement was offset by the lower than expected power revenues (at Rs958mn vs JMFe of Rs1.9bn; -54% YoY). Power unit sales declined to 284mn units (-53% YoY).
- EBITDA beats estimates on higher realisation:** EBITDA stood at Rs6.8bn; -10.2%/+33% on YoY/QoQ basis, was in line with the estimates. However, cement EBITDA beat the estimates by 8.5% primarily on better than expected realisations, partially offset by higher than expected raw material and power and fuel costs. Company reported 8% decline in EBITDA/t (Rs1,157/t); cement realisation growth (Rs290/t positive impact) and lower other expenses (Rs77/t positive impact) was more than offset by higher power and fuel costs (-Rs225/t impact), and freight costs (-Rs216/t impact). Power and fuel costs for the quarter grew on account of higher petcoke/coal costs and ban on usage of petcoke in CPP. Freight cost growth was due to increase in diesel prices and busy season surcharge from railways applicable during the quarter. We believe, power segment margins were impacted on petcoke/coal price increase and petcoke usage ban in CPP.
- Maintain HOLD:** While Shree beat estimates on higher realisation, sustainability of the same will be key to drive earnings surprise. Shree's expansion plans in North, East and South India is expected to result in 17% volume CAGR (FY17-20E). In addition SRCM is cost leader having substantial advantage vs. peers. Despite factoring in these positives (resulting in 26% EBITDA CAGR FY17-20E), we find the current valuations (at 15.5x/12.8x FY19/20E EVE) offering limited upside potential. With demand uncertainty we would wait for better valuations to enter the stock. We roll forward our multiple, valuing stock at 12x EVE to arrive at a Sep-18 TP of Rs15,800. Maintain HOLD.



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### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	15,800
Upside/(Downside)	-15.1%
Previous Price Target	14,700
Change	7.5%

### Key Data – SRCM IN

Current Market Price	Rs18,602
Market cap (bn)	Rs648.0/US\$10.1
Free Float	49%
Shares in issue (mn)	34.8
Diluted share (mn)	34.8
3-mon avg daily val (mn)	Rs304.1/US\$0.3
52-week range	20,560/12,477
Sensex/Nifty	32,515/10,077
Rs/US\$	64.2

### Price Performance

%	1M	6M	12M
Absolute	9.7	21.1	16.2
Relative*	4.3	3.0	0.2

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters  
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

### Financial Summary

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	55,136	84,291	98,481	135,880	159,038
Sales Growth (%)	-14.4	52.9	16.8	38.0	17.0
EBITDA	14,069	23,672	26,704	39,652	47,302
EBITDA Margin (%)	25.5	28.1	27.0	29.1	29.6
Adjusted Net Profit	11,431	13,391	14,956	20,591	22,582
Diluted EPS (Rs.)	328.1	384.4	429.3	591.0	648.2
Diluted EPS Growth (%)	147.5	17.1	11.7	37.7	9.7
ROIC (%)	12.7	21.3	19.9	24.2	23.3
ROE (%)	18.9	18.4	17.3	19.0	16.9
P/E (x)	56.7	48.4	43.3	31.5	28.7
P/B (x)	9.5	8.4	6.8	5.4	4.4
EV/EBITDA (x)	44.7	26.3	23.7	15.5	12.8
Dividend Yield (%)	0.1	0.8	0.1	0.1	0.1

Source: Company data, JM Financial. Note: Valuations as of 31/Jul/2017

## Exhibit 1. Results in brief

	(Rs mn)							
	1QFY18	1QFY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
Sales	25,363	21,987	15.4	23,803	6.6	98,481	84,291	16.8
Other Operating Income	0	264		0		320	264	
<b>Total Revenues</b>	<b>25,363</b>	<b>22,250</b>	<b>14.0</b>	<b>23,803</b>	<b>6.6</b>	<b>98,801</b>	<b>84,555</b>	<b>16.8</b>
Total Expenditure	18,563	14,678	26.5	18,691	-0.7	72,097	60,619	18.9
<b>EBITDA</b>	<b>6,800</b>	<b>7,572</b>	<b>-10.2</b>	<b>5,112</b>	<b>33.0</b>	<b>26,704</b>	<b>23,936</b>	<b>11.6</b>
EBITDA margin (%)	26.8	34.0		21.5		27.0	28.3	
Other income	1,307	715	82.8	1,510	-13.5	4,500	4,814	-6.5
Interest	329	276	19.2	314	4.6	1,460	1,294	12.8
Depreciation	2,312	1,540	50.1	3,109	-25.6	11,505	12,147	-5.3
<b>PBT</b>	<b>5,466</b>	<b>6,471</b>	<b>-15.5</b>	<b>3,199</b>	<b>70.9</b>	<b>18,239</b>	<b>15,308</b>	<b>19.1</b>
Total Tax	1,065	1,394	-23.6	154	592.8	3,648	1,917	90.3
% tax rate	19.5	21.5		4.8		20.0	12.5	
<b>PAT (Adjusted)</b>	<b>4,401</b>	<b>5,077</b>	<b>-13.3</b>	<b>3,045</b>	<b>44.5</b>	<b>14,592</b>	<b>13,391</b>	<b>9.0</b>
Extraordinary Inc/Exp	0	0		0		2,500	0	
<b>PAT (Reported)</b>	<b>4,401</b>	<b>5,077</b>	<b>-13.3</b>	<b>3,045</b>	<b>44.5</b>	<b>17,092</b>	<b>13,391</b>	<b>27.6</b>
<b>EPS (Rs)</b>	<b>125.7</b>	<b>145.7</b>	<b>-13.7</b>	<b>87.4</b>	<b>43.9</b>	<b>417.7</b>	<b>384.4</b>	<b>8.7</b>
<b>Shree Operational Metrics</b>	<b>1QFY18</b>	<b>1QFY17</b>	<b>%YoY</b>	<b>4Q FY17</b>	<b>%QoQ</b>	<b>FY18E</b>	<b>FY17</b>	<b>%YoY</b>
Cement Sales (mn tonnes)	5.89	5.17	13.9	5.93	-0.7	22.60	20.6	9.8
Realisation (Rs/tonne)	4,146	3,855	7.5	3,771	9.9	4,120	3,818	7.9
EBITDA Rs/ tonne	1,157	1,262	-8.3	818	41.5	1,142	1,074	6.3

Source: Company, JM Financial

## Exhibit 2. Expenses breakdown

	(Rs mn)							
	1QFY18	1QFY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
Raw material	2,122	1,612	31.6	2,028	4.6	7,699	6,807	13.1
Rs/tonne	360	312	15.5	342	5.4	341	331	3.0
Inc/(dec) in stock	137	170	-19.3	136	0.5	68	-535	-112.7
Rs/tonne	23	33	-29.2	23	1.2	3	-26	-111.5
Power/fuel	3,602	2,001	80.0	3,417	5.4	12,991	10,284	26.3
Rs/tonne	612	387	58.0	576	6.2	575	500	15.0
Freight	6,288	4,402	42.8	6,068	3.6	22,924	18,740	22.3
Rs/tonne	1,068	852	25.4	1,023	4.4	1,014	911	11.4
Staff cost	1,472	1,331	10.6	1,351	8.9	5,840	5,372	8.7
Rs/tonne	250	258	-2.9	228	9.7	258	261	-1.0
Other expenditure	3,971	3,885	2.2	4,508	-11.9	17,773	15,793	12.5
Rs/tonne	675	752	-10.3	760	-11.3	786	768	2.5
Cost of power for external sales	971	1,278	-24.0	1,183	-17.9	4,802	4,159	15.4
Rs/unit	3.4	2.1	62.3	3	25.3	3.2	2.5	27.6
<b>Total expenditure</b>	<b>18,563</b>	<b>14,678</b>	<b>26.5</b>	<b>18,691</b>	<b>-0.7</b>	<b>72,097</b>	<b>60,619</b>	<b>18.9</b>
Cost per tonne (excluding excise)	2,988	2,593	15.2	2,952	1.2	2,978	2,946	1.1

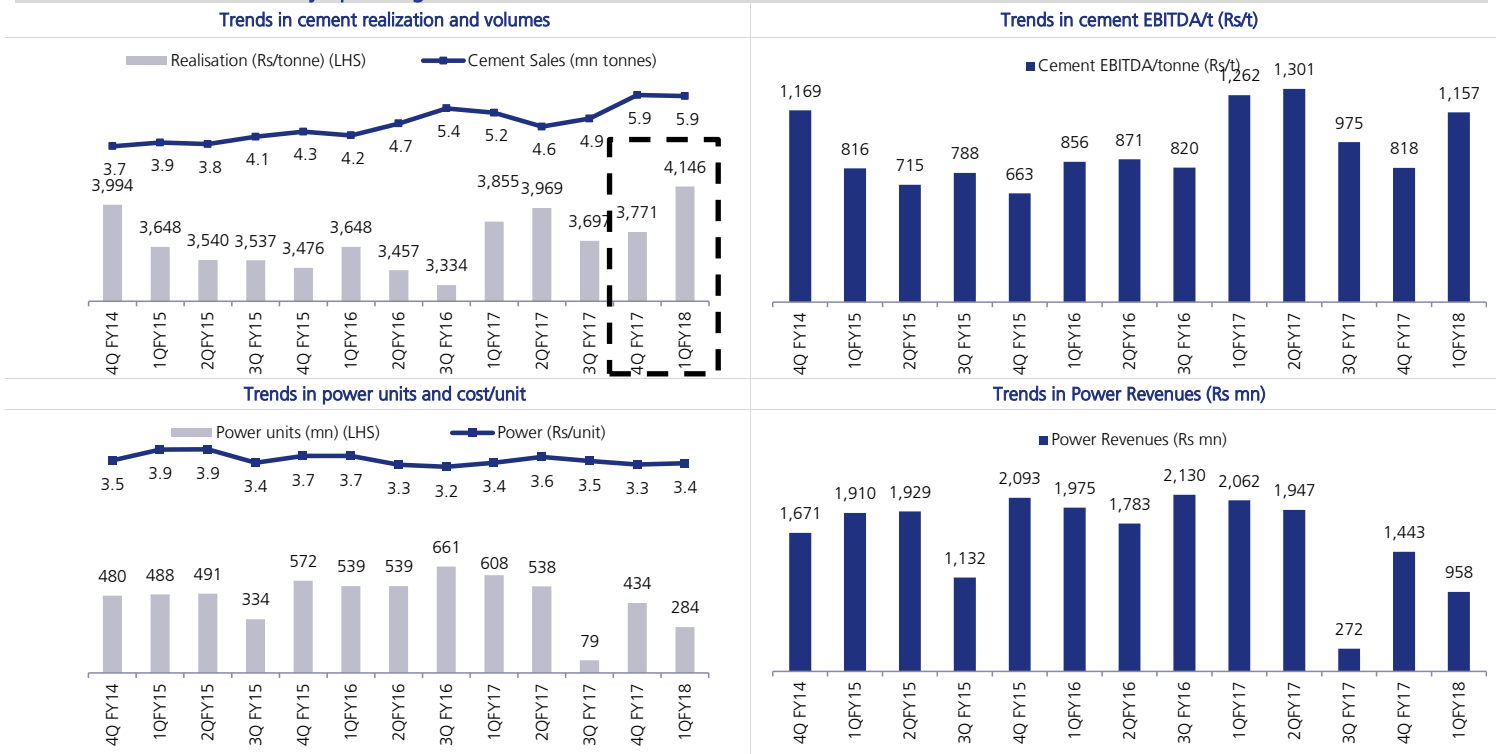
Source: Company, JM Financial

## Exhibit 3. Segmental break up

	1QFY18	1QFY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
<b>Cement Business</b>								
Sales (Rs mn)	24,405	19,924	22.5	22,359	9.2	93,104	78,567	18.5
EBITDA (Rs mn)	6,813	6,788	0.4	4,852	40.4	26,128	22,371	16.8
Cement Volumes (mn tonnes)	5.9	5.17	13.9	5.93	-0.7	22.6	20.58	9.8
Realisation (Rs per tonne)	4,146	3,855	7.5	3,771	9.9	4,120	3,818	7.9
Cement EBITDA Rs/tonne	1,157	1,262	-8.3	818	41.5	1,142	1,087	5.0
<b>Power Business</b>								
Sales (Rs mn)	958	2,062	-53.6	1,443	-33.7	5,377	5,724	-6.1
EBITDA (Rs mn)	-14	784	-101.7	260	-105.2	576	1,565	-63.2
Power units (mn)	284	608	-53.2	434	-34.5	1,500	1,658	-9.5
Realisation (price/unit)	3.37	3.39	-0.8	3.32	1.3	3.58	3.45	3.9

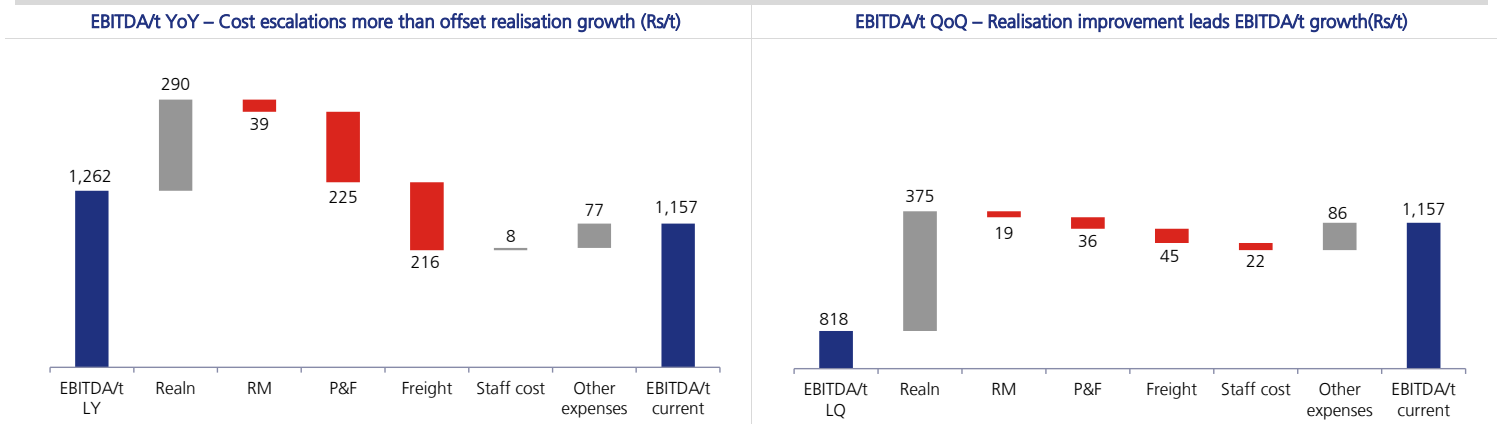
Source: Company, JM Financial

Exhibit 4. Shree cement - Key operating metrics



Source: Company, JM Financial

Exhibit 5. EBITDA/t flow



Source: Company, JM Financial

## Company background

- Shree Cement, the market leader in North India has single largest plant with an installed capacity of 13.5MT. It is strategically located in central Rajasthan from where it can cater to the entire Rajasthan market and Delhi and Haryana, with economic logistics cost. The company entered the lesser penetrated eastern markets through integrated unit at Chattisgarh and a grinding unit at Bihar. Shree is in process to enter highly profitable southern market through a green-field expansion at Gulbarga, Karnataka. The company has a sizable capacity of 13MTPA under expansion which is expected to be completed by FY19. It has established its reputation as one of the world's most efficient cement manufacturers.

## Key investment arguments:

- Market share of c.21% in the relatively stable northern market and expected to increase further to c.22.0% over the next few years.
- Aggressively pursuing capacity expansion – has nearly doubled its capacity from 13.5 MTPA in FY13 to 29.3 MTPA in FY17. Plans to add another 13MTPA of incremental capacity, strengthening its position in Northern, Eastern and Southern markets
- Company has healthy operating cash flow which is expected to support its capacity expansion programs. It is expected to generate cumulative operating cash flows of c.Rs8.6bn over FY17-20E
- The company is a cost leader based on the JM Cost index. The operating efficiency gives the company a significant advantage vs peers in the environment of subdued demand, lower utilisations and rising costs.

## Valuation:

- SRCM is trading at 15.5x/12.8x EV/EBITDA based on FY19/20E. On an EV/t basis, SRCM is trading at US\$230/US\$204 on FY19/20E.

## Key risks to our call:

- (1) Any adverse movement in the petcoke/imported coal prices may impact profitability;
- (2) Planned expansion in the newer markets (East and Central) to present its own challenges;
- (3) Regulatory risk- Sector has been under the radar of Competition Commission of India with few judgements against cement companies

### Exhibit 6. Volumes, realisations and cost outlook

	FY16	FY17E	FY18E	FY19E	FY20E
Cement Sales (mn tonnes)	14.2	20.6	22.6	29.1	33.0
YoY Growth (%)	17.5	8.4	9.8	28.7	13.4
Cement Realisations (Rs/tonne)	3,463	3,819	4,120	4,376	4,555
YoY change (%)	-2.4	10.3	7.9	6.2	4.1
Power & Fuel (/tonne)	522	500	575	598	622
Freight (/tonne)	568	637	732	761	792
Raw Material (/tonne)	315	331	341	351	361
Cement EBITDA (Rs/tonne)	848	1,074	1,142	1,292	1,362
Power Units (mn)	1,739	1,658	1,500	2,200	2,200
Merchant Tariff (Rs/unit)	3.3	3.4	3.6	3.9	4.0
Power Revenue (Rs mn)	5,810	5,714	5,333	8,604	8,862
Power EBITDA (Rs mn)	1,996	1,565	576	1,651	1,906
Cement EV/tonne (₹)	370	345	284	230	204

Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement					
	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	55,136	84,291	98,481	135,880	159,038
Sales Growth	-14.4%	52.9%	16.8%	38.0%	17.0%
Other Operating Income	0	1	320	442	517
<b>Total Revenue</b>	<b>55,136</b>	<b>84,292</b>	<b>98,801</b>	<b>136,322</b>	<b>159,555</b>
Cost of Goods Sold/Op. Exp	4,526	6,272	7,767	10,293	12,020
Personnel Cost	3,699	5,372	5,840	7,739	9,037
Other Expenses	32,843	48,976	58,490	78,638	91,196
<b>EBITDA</b>	<b>14,069</b>	<b>23,672</b>	<b>26,704</b>	<b>39,652</b>	<b>47,302</b>
EBITDA Margin	25.5%	28.1%	27.0%	29.1%	29.6%
EBITDA Growth	4.7%	68.3%	12.8%	48.5%	19.3%
Depn. & Amort.	8,276	12,147	11,505	16,943	22,365
EBIT	5,793	11,525	15,199	22,709	24,938
Other Income	6,727	5,077	4,500	3,044	3,136
Finance Cost	758	1,294	1,460	1,527	1,507
PBT before Excep. & Forex	11,763	15,308	18,239	24,225	26,567
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	11,763	15,308	18,239	24,225	26,567
Taxes	331	1,917	3,283	3,634	3,985
Extraordinary Inc./Loss(-)	0	0	2,500	2,500	2,500
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	11,431	13,391	17,456	23,091	25,082
<b>Adjusted Net Profit</b>	<b>11,431</b>	<b>13,391</b>	<b>14,956</b>	<b>20,591</b>	<b>22,582</b>
Net Margin	20.7%	15.9%	15.1%	15.1%	14.2%
Diluted Share Cap. (mn)	34.8	34.8	34.8	34.8	34.8
<b>Diluted EPS (Rs.)</b>	<b>328.1</b>	<b>384.4</b>	<b>429.3</b>	<b>591.0</b>	<b>648.2</b>
Diluted EPS Growth	147.5%	17.1%	11.7%	37.7%	9.7%
Total Dividend + Tax	1,006	5,871	1,007	1,007	1,007
Dividend Per Share (Rs)	24.0	140.0	24.0	24.0	24.0

Source: Company, JM Financial

Cash Flow Statement					
	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	11,763	15,308	18,239	24,225	26,567
Depn. & Amort.	8,276	12,147	11,505	16,943	22,365
Net Interest Exp. / Inc. (-)	758	1,294	1,460	1,527	1,507
Inc (-) / Dec in WCap.	-1,748	-509	-1,147	1,530	948
Others	-1,956	-3,333	-2,000	-544	-636
Taxes Paid	-1,431	-2,891	-3,283	-3,634	-3,985
<b>Operating Cash Flow</b>	<b>15,662</b>	<b>22,017</b>	<b>24,774</b>	<b>40,048</b>	<b>46,765</b>
Capex	-7,371	-12,947	-39,000	-24,000	-40,000
Free Cash Flow	8,291	9,070	-14,226	16,048	6,765
Inc (-) / Dec in Investments	-7,048	-11,867	10,000	0	0
Others	1,773	4,334	4,500	3,044	3,136
<b>Investing Cash Flow</b>	<b>-12,646</b>	<b>-20,479</b>	<b>-24,500</b>	<b>-20,956</b>	<b>-36,864</b>
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-1,592	-4,846	-1,007	-1,007	-1,007
Inc / Dec (-) in Loans	-224	4,455	0	-1,000	-1,000
Others	-892	-1,278	1,918	973	993
<b>Financing Cash Flow</b>	<b>-2,708</b>	<b>-1,669</b>	<b>911</b>	<b>-1,035</b>	<b>-1,014</b>
<b>Inc / Dec (-) in Cash</b>	<b>308</b>	<b>-132</b>	<b>1,184</b>	<b>18,057</b>	<b>8,887</b>
Opening Cash Balance	3,075	830	1,110	1,416	19,474
Closing Cash Balance	3,383	699	2,294	19,474	28,361

Source: Company, JM Financial

Balance Sheet					
	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	68,455	76,981	95,930	120,514	147,089
Share Capital	348	348	348	348	348
Reserves & Surplus	68,107	76,633	95,582	120,166	146,741
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	8,805	12,925	12,925	11,925	10,925
Def. Tax Liab. / Assets (-)	-3,718	-5,077	-5,077	-5,077	-5,077
<b>Total - Equity &amp; Liab.</b>	<b>73,543</b>	<b>84,829</b>	<b>103,778</b>	<b>127,362</b>	<b>152,937</b>
Net Fixed Assets	33,147	33,096	60,591	67,648	85,283
Gross Fixed Assets	38,720	46,354	51,354	101,354	151,354
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	8,218	20,363	31,868	48,811	71,175
Capital WIP	2,645	7,104	41,104	15,104	5,104
Investments	30,305	40,426	30,426	30,426	30,426
Current Assets	27,464	33,063	34,428	59,152	72,167
Inventories	8,152	13,145	12,142	16,752	19,607
Sundry Debtors	3,286	3,351	5,414	7,470	8,743
Cash & Bank Balances	830	1,110	1,416	19,474	28,361
Loans & Advances	449	516	516	516	516
Other Current Assets	14,746	14,940	14,940	14,940	14,940
Current Liab. & Prov.	17,372	21,754	21,666	29,863	34,939
Current Liabilities	6,159	5,874	5,874	5,874	5,874
Provisions & Others	11,213	15,881	15,793	23,990	29,065
Net Current Assets	10,091	11,308	12,762	29,289	37,228
<b>Total - Assets</b>	<b>73,543</b>	<b>84,830</b>	<b>103,778</b>	<b>127,362</b>	<b>152,937</b>

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	20.7%	15.9%	15.1%	15.1%	14.2%
Asset Turnover (x)	0.7	1.0	1.0	1.1	1.1
Leverage Factor (x)	1.2	1.2	1.2	1.1	1.1
RoE	18.9%	18.4%	17.3%	19.0%	16.9%

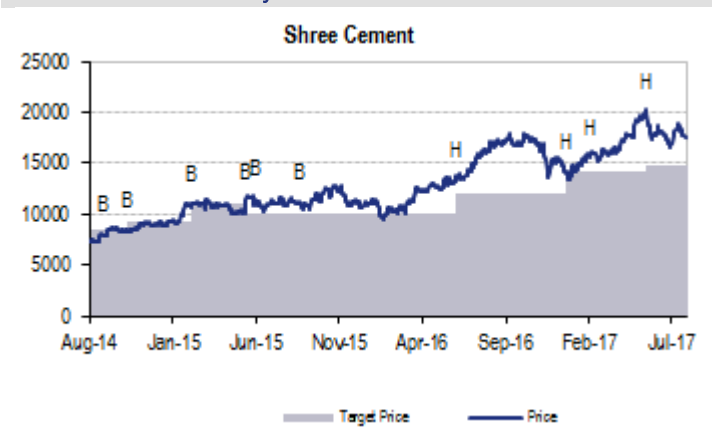
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (Rs.)	1,964.8	2,209.6	2,753.5	3,459.1	4,221.8
ROIC	12.7%	21.3%	19.9%	24.2%	23.3%
ROE	18.9%	18.4%	17.3%	19.0%	16.9%
Net Debt/Equity (x)	-0.3	-0.4	-0.2	-0.3	-0.3
P/E (x)	56.7	48.4	43.3	31.5	28.7
P/B (x)	9.5	8.4	6.8	5.4	4.4
EV/EBITDA (x)	44.7	26.3	23.7	15.5	12.8
EV/Sales (x)	11.4	7.4	6.4	4.5	3.8
Debtor days	22	15	20	20	20
Inventory days	54	57	45	45	45
Creditor days	0	0	0	0	0

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
4-Mar-14					5,400	
29-Apr-14					6,700	24.1
18-Jul-14					8,500	26.9
27-Aug-14					8,500	0.0
10-Oct-14					9,300	9.4
3-Feb-15					11,000	18.3
13-May-15					10,000	-9.1
1-Jun-15					10,000	0.0
19-Aug-15	505.8				10,000	0.0
1-Jun-16	535.0	5.8			12,000	20.0
19-Dec-16	401.5	-25.0	552.6		14,150	17.9
31-Jan-17	473.2	17.9	624.4	13.0	14,150	0.0
16-May-17	484.9	2.5	660.9	5.8	14,700	3.9

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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