

January 11, 2018

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Rating	Accumulate
Price	Rs19,512
Target Price	Rs21,760
Implied Upside	11.5%
Sensex	34,503
Nifty	10,651

(Prices as on January 11, 2018)

Trading data

Market Cap. (Rs bn)	679.7
Shares o/s (m)	34.8
3M Avg. Daily value (Rs m)	519.4

Major shareholders

Promoters	64.79%
Foreign	14.72%
Domestic Inst.	14.75%
Public & Other	5.74%

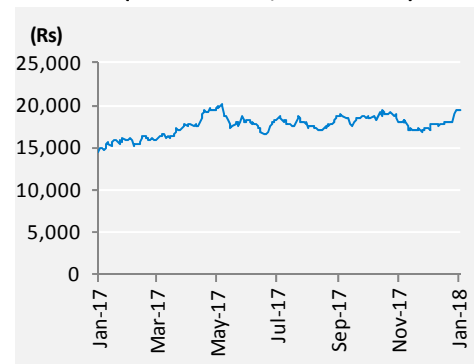
Stock Performance

(%)	1M	6M	12M
Absolute	13.5	6.0	30.6
Relative	10.4	(2.7)	3.5

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	515.8	560.8	(8.0)
2020	773.1	744.7	3.8

Price Perf. (RIC: SHCM.BO, BB: SRCM IN)



Source: Bloomberg

Shree Cement (SRCM) reported Q2FY18 earnings below our estimates due to higher than expected costs. It maintained Rs1000 EBITDA/t level despite steep increase in pet coke prices and subdued prices. Driven by strong demand outlook and slowing pace of capacity, we expect margin trajectory to improve to Rs1,150/Rs1,250. Though valuations remained stretched; quality operations, strong volume growth (50% increase in capacity by FY19 with exit capacity at 45m t) and robust B/S (Net cash at Rs30bn), would continue to support the valuations. We maintain 'Accumulate' with PT of Rs21,760.

■ **Higher costs drove the miss in Cement operations:** Volumes grew 8% YoY at 5.3mn (PLe: 5.3mn) t on the back of 6.7%/14% growth in its North/East region's volumes. Realisations rose 10%/Rs380 YoY (↓1%/Rs50 QoQ) at Rs4,120 (PLe:Rs4,115). Impacted by 30%/29% YoY increase in fuel/freight cost, Costs/t rose 14.4% YoY/Rs390 at Rs3,115, higher than our estimate of Rs3,070. EBITDA/t fell 1% YoY to Rs1,005, below our estimate of Rs1,044. EBITDA rose 7% YoY at Rs5.4bn (PLe:Rs5.5bn).

■ **High fuel cost drags earnings in Power biz:** Volumes rose 2.5x YoY to 73mn units, above our estimate of 200mn. Realisations rose 9% YoY at Rs3.74 (PLe:Rs3.4)/kwh. Due to higher fuel cost, biz reported EBITDA loss of Rs57mn (PLe:loss Rs20mn).

■ **On track to become 45mtpa (current 29mtpa) player by FY19:** With an aim to double its market share in East to ~15% by FY20, SRCM is adding 4m/2m/2m t in Bihar/Odisha/Jharkhand. It is also adding 4m tonnes of capacity in Rajasthan to maintain its market leadership in Northern region. Work is on advanced stage at its 4m tonnes Greenfield plant in Karnataka, backed by one of the best logistics.

Key financials (Y/e March)

	2017	2018E	2019E	2020E
Revenues (Rs m)	84,292	99,609	121,744	146,064
Growth (%)	52.9	18.2	22.2	20.0
EBITDA (Rs m)	23,672	25,262	30,887	38,919
PAT (Rs m)	13,391	13,128	16,335	24,487
EPS (Rs)	384.4	376.8	515.8	773.1
Growth (%)	23.1	(2.0)	36.9	49.9
Net DPS (Rs)	116.0	150.0	187.0	187.0

Profitability & Valuation

	2017	2018E	2019E	2020E
EBITDA margin (%)	28.1	25.4	25.4	26.6
RoE (%)	18.4	16.3	18.5	24.1
RoCE (%)	15.4	14.1	16.1	21.0
EV / EBITDA (x)	27.5	25.6	18.7	14.4
EV / Tonne (\$)	336.7	281.5	226.9	17,993.9
PE (x)	50.8	51.8	37.8	25.2
P / BV (x)	8.8	8.1	6.6	5.6
Net dividend yield (%)	0.6	0.8	1.0	1.0

Source: Company Data; PL Research

Exhibit 1: Q3FY18 Result Overview (Rs m)

Y/e June	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	22,962	18,646	23.1	21,368	70,045	61,416	14.1
Raw Material	1,569	1,445	8.6	1,581	5,409	4,108	31.7
<i>% of Net Sales</i>	<i>6.8</i>	<i>7.7</i>		<i>7.4</i>	<i>7.7</i>	<i>6.7</i>	
Staff Costs	1,466	1,313	11.7	1,454	4,392	4,021	9.2
<i>% of Net Sales</i>	<i>6.4</i>	<i>7.0</i>		<i>6.8</i>	<i>6.3</i>	<i>6.5</i>	
Power & Fuel	5,055	2,991	69.0	4,118	13,746	9,842	39.7
<i>% of Net Sales</i>	<i>22.0</i>	<i>16.0</i>		<i>19.3</i>	<i>19.6</i>	<i>16.0</i>	
Freight and selling expenses	5,948	4,204	41.5	5,336	17,572	12,673	38.7
<i>% of Net Sales</i>	<i>25.9</i>	<i>22.5</i>		<i>25.0</i>	<i>25.1</i>	<i>20.6</i>	
Other Expenses	3,631	3,791	(4.2)	3,275	10,896	11,285	(3.4)
<i>% of Net Sales</i>	<i>15.8</i>	<i>20.3</i>		<i>15.3</i>	<i>15.6</i>	<i>18.4</i>	
Total Expenditure	17,669	13,744	28.6	15,764	52,015	41,928	24.1
EBITDA	5,293	4,902	8.0	5,605	18,030	19,487	(7.5)
<i>Margin (%)</i>	<i>23.1</i>	<i>26.3</i>		<i>26.2</i>	<i>25.7</i>	<i>31.7</i>	
Depreciation	2,100	3,176	(33.9)	2,253	6,664	9,039	(26.3)
Other income	873	1,144	(23.7)	995	2,842	2,640	7.6
EBIT	4,066	2,869	41.7	4,347	14,208	13,089	8.5
Interest	207	411	(49.5)	380	916	980	(6.5)
PBT	3,858	2,459	56.9	3,968	13,292	12,109	9.8
Extraordinary income/(expense)	403	-		-	403	-	
PBT (After EO)	4,262	2,459	73.3	3,968	13,696	12,109	13.1
Tax	928	105	787.6	1,853	3,846	1,763	118.1
<i>% PBT</i>	<i>21.8</i>	<i>4.3</i>		<i>46.7</i>	<i>28.1</i>	<i>14.6</i>	
Reported PAT	3,333	2,354	41.6	2,115	9,849	10,346	(4.8)
Adjusted PAT	3,018	2,376	27.0	2,118	9,537	10,367	(8.0)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e June	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Volume (m te)-Cement	5.3	4.9	8.4	4.9	16.1	14.6	9.9
Volume (m units)-Power	273	79	247.3	295	852	1,224	(30.4)
Net Realisations (Rs/te)	4,120	3,740	10.1	4,170	4,166	3,901	6.8
Realised rate (Rs/unit)	3.74	3.43	9.0	3.44	3.49	3.45	1.2
Cement EBITDA (Rs m)	5,350	5,003	6.9	5,527	17,690	18,182	(2.7)
Power EBITDA (Rs m)	(57)	(101)	-	78	7	1,305	(99.4)
Cement EBITDA/ te (Rs/te)	1,005	1,018	(1.3)	1,133	1,099	1,241	(11.4)
Power EBITDA/Kwh (Rs)	(0.21)	(1.28)	-	0.27	0.01	1.07	(99.2)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018E	2019E	2020E
Net Revenue	84,292	99,609	121,744	146,064
Raw Material Expenses	6,272	14,924	17,888	21,690
Gross Profit	78,020	84,685	103,856	124,373
Employee Cost	5,372	5,909	6,618	7,280
Other Expenses	48,976	53,514	66,351	78,175
EBITDA	23,672	25,262	30,887	38,919
Depr. & Amortization	12,147	12,075	15,089	14,660
Net Interest	1,294	2,030	2,251	2,495
Other Income	5,077	3,984	4,870	5,843
Profit before Tax	15,308	15,142	18,416	27,607
Total Tax	1,917	2,014	2,081	3,120
Profit after Tax	13,391	13,128	16,335	24,487
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	13,391	13,128	16,335	24,487
Avg. Shares O/S (m)	34.8	34.8	31.7	31.7
EPS (Rs.)	384.4	376.8	515.8	773.1

Cash Flow Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	22,017	23,345	24,762	30,647
C/F from Investing	(20,102)	(11,216)	(9,830)	(2,557)
C/F from Financing	(1,669)	(7,593)	(9,190)	(9,412)
Inc. / Dec. in Cash	245	4,536	5,741	18,678
Opening Cash	364	232	4,768	10,510
Closing Cash	232	4,768	10,510	29,188
FCFF	17,205	13,831	6,008	32,563
FCFE	21,325	13,831	6,008	32,563

Key Financial Metrics

Y/e March	2017	2018E	2019E	2020E
Growth				
Revenue (%)	52.9	18.2	22.2	20.0
EBITDA (%)	68.4	6.7	22.3	26.0
PAT (%)	23.1	(2.0)	24.4	49.9
EPS (%)	23.1	(2.0)	36.9	49.9
Profitability				
EBITDA Margin (%)	28.1	25.4	25.4	26.6
PAT Margin (%)	15.9	13.2	13.4	16.8
RoCE (%)	15.4	14.1	16.1	21.0
RoE (%)	18.4	16.3	18.5	24.1

Balance Sheet

Net Debt : Equity	(0.4)	(0.4)	(0.4)	(0.5)
Net Wrkng Cap. (days)	63	(60)	(44)	(31)

Valuation

PER (x)	50.8	51.8	37.8	25.2
P / B (x)	8.8	8.1	6.6	5.6
EV / EBITDA (x)	27.5	25.6	18.7	14.4
EV / Sales (x)	7.7	6.5	4.8	3.8

Earnings Quality

Eff. Tax Rate	12.5	13.3	11.3	11.3
Other Inc / PBT	33.2	26.3	26.4	21.2
Eff. Depr. Rate (%)	26.2	20.3	18.2	16.9
FCFE / PAT	159.2	105.4	36.8	133.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	76,981	83,791	92,967	110,294
Total Debt	12,925	12,925	12,925	12,925
Other Liabilities	9,347	9,582	9,817	10,052
Total Liabilities	99,254	106,299	115,709	133,272
Net Fixed Assets	37,026	40,151	39,763	33,503
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	57,151	59,859	67,817	88,878
Cash & Equivalents	41,536	46,072	51,814	70,492
Other Current Assets	28,022	25,899	30,013	34,422
Current Liabilities	12,407	12,112	14,010	16,035
Other Assets	5,077	6,288	8,130	10,891
Total Assets	99,254	106,299	115,709	133,272

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	23,273	25,714	21,368	22,962
EBITDA	4,582	7,133	5,605	5,293
% of revenue	19.7	27.7	26.2	23.1
Depr. & Amortization	3,109	2,312	2,253	2,100
Net Interest	314	329	380	207
Other Income	980	974	995	873
Profit before Tax	2,139	5,466	3,968	4,262
Total Tax	154	1,065	1,853	928
Profit after Tax	1,985	4,401	2,115	3,333
Adj. PAT	1,985	4,401	2,115	3,018

Key Operating Metrics

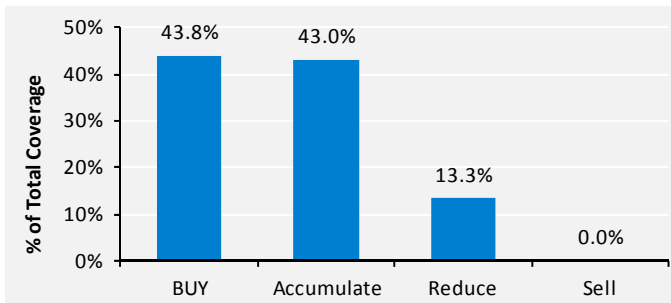
Y/e March	2017	2018E	2019E	2020E
Volume (mn te)-Cement	20.6	22.9	26.9	31.1
Volume (mn units)-Power	1,658.0	1,089.5	1,065.9	1,099.4
Net Realisations (Rs/te)	3,887.4	4,186.8	4,390.3	4,550.9
Realised rate (Rs/unit)	3.4	3.4	3.6	3.9
Cement EBITDA (Rs/te)	1,143.9	1,103.8	1,149.9	1,249.6
Raw material cost (Rs/te)	335.5	356.1	376.2	393.5
Power & Fuel cost (Rs/te)	574.8	661.4	740.9	758.3
Freight cost (Rs/te)	652.6	783.1	822.3	838.7

Source: Company Data, PL Research.

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