

February 6, 2022

RESULT REPORT Q3 FY22 | Sector: Cement

Shree Cements

Cost Pressure softened the EBITDA, but continued to remain best in Industry

Result Highlights

- Volume improved by 5% sequentially however, due to the higher base and demand slowdown (unseasonal rains, labour & sand shortage) led the volume declined by 8% y/y to 6.6MT (YSEC est. 6.9MT) in 3QFY22.
- While the healthy blended NSR stood at Rs5,370/te (+6% q/q and +16% y/y) aided the reported revenue to Rs35.5bn (in line with YSEC est.) up by +11% q/q and +7% y/y in 3QFY22.
- EBITDA decline by 8% q/q and 24% y/y to Rs8.3bn v/s YSEC est. Rs10.1bn in 3QFY22 because of increase in Opex/te by 13% q/q and 33% y/y to Rs4,122/te v/s YSEC est. of Rs3,702/te in 3QFY22.
- The unitary RM/power/freight cost increase by +77/23/3% q/q and +122/57/1% y/y respectively, resulted in EBITDA/te decline to Rs1,248/te (v/s YSEC est. of Rs1,472/te) by 12% q/q and 18% y/y in 3QFY22.
- Decline in EBITDA resulted in a fall in PAT by 15% q/q and 21% y/y to Rs4.9bn v/s YSEC est. Rs6.2bn in 3QFY22.

Our view

The unseasonal rains and labour/sand shortage during 2Q-3QFY22 had softened the demand. Therefore, we have lowered our volume est. by ~6/3% for FY22/23E respectively, leading the revenue correction by ~9/7% in FY22/23E. However, we believe the volume would grow by ~2/12/10% in FY22/23/24E. The inflating fuel/diesel and RM cost were the major reason for margin erosion for FY22E. Hence, we have reduced our EBITDA est. by 18/13% for FY22/23E, respectively. We believe EBITDA/te should bottom out at ~Rs1,350/te (previously Rs1,560/te) for FY22E, still it remains best in Industry. Also, we expect SRCM to maintain its cost leadership and optimize its EBITDA to +Rs1400/te in FY23/24E on the back of normalizing cost and sustainable NSR. As SRCM is a net cash entity, it would manage CAPEX of Rs70.5bn over FY22-24E through internal accruals. We expect a free cash flow generation of Rs23.5bn over FY22-24E. At CMP, the stock trades at 23/19/16x of EV/EBITDA on FY22/23/24E. Thus, we retain our BUY recommendation with a TP of Rs32,000 (previously Rs34,000), valuing the stock at 21.2x EV/EBITDA on the FY24E estimate.

Exhibit 1: Result table

Particulars (Rs mn)	3QFY22	2QFY22	QoQ (%)	3QFY21	YoY (%)
Net Revenue	35,518	32,059	10.8	33,094	7.3
Total Expenses	27,262	23,077	18.1	22,205	22.8
EBITDA	8,255	8,982	(8.1)	10,890	(24.2)
EBITDA Margin (%)	23.2	28.0	(478 bps)	32.9	(967 bps)
EBT	6,284	7,420	(15.3)	8,466	(25.8)
APAT	4,920	5,777	(14.8)	6,262	(21.4)
APAT Margin (%)	13.9	18.0	(417 bps)	18.9	(508 bps)
EPS (Rs.)	136	160	(14.8)	174	(21.4)

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 24,724
Target Price	: Rs 32,000
Potential Return	: 29%

Stock data (as on February 4, 2022)

Nifty	17,516
52 Week h/l (Rs)	32048 / 23500
Market cap (Rs/USD mn)	892062 / 11943
Outstanding Shares (mn)	36
6m Avg t/o (Rs mn):	1,122
Div yield (%):	0.2
Bloomberg code:	SRCEM IN
NSE code:	SHREECEM

Stock performance



Shareholding pattern (As of Dec'21 end)

Promoter	62.6%
FII+DII	23.6%
Others	13.9%

Δ in earnings estimates

	FY22e	FY23e
EPS (New)	647	786
EPS (Old)	799	930
% change	-19%	-15%

Financial Summary

(Rs mn)	FY21	FY22E	FY23E
Revenue	125,884	140,346	156,583
YoY Growth	5.7	11.5	11.6
EBITDA	39,547	37,024	43,700
Margin	31.4	26.4	27.9
PAT	23,119	23,359	28,361
Margin	18.4	16.6	18.1
EPS	641	647	786
NDebt/EBITDA	(135.2)	(153.8)	(140.8)
ROE	14.4	13.1	14.1
ROCE	15.2	13.6	14.5
EV/EBITDA	19.4	22.5	19.0

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Exhibit 2: Per Tonne Analysis – Standalone

Per tonne (in Rs)	3QFY22	2QFY22	QoQ (%)	3QFY21	YoY (%)
Cement Volumes (MT)	6.6	6.3	4.7	7.2	(7.7)
Net Realization - (Blended)	5,370	5,073	5.9	4,620	16.2
Raw Material cost	583	330	76.7	263	121.9
Employee cost	297	321	(7.3)	236	25.8
Power and fuel cost	1,221	994	22.9	777	57.3
Freight cost	1,151	1,118	3.0	1,137	1.2
Other expenses	869	889	(2.3)	687	26.5
Total Operating Cost	4,122	3,651	12.9	3,099	33.0
EBITDA – (Blended)	1,248	1,421	(12.2)	1,520	(17.9)

Source: Company, YES Sec

Capacity Update

- SRCM has commenced commercial production at its GU capacity of 3.0 MTPA set-up at Patas in Pune District of Maharashtra.
- This would take SRCM's total cement capacity to 46.4MTPA and the upcoming Grinding capacity of 3MTPA at Purulia WB and the Integrated capacity of 3.5MTPA in Rajasthan would take the total capacity to 52.9MTPA by FY24E.

Exhibit 3: Estimate Change

Particulars (Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Volumes (MTPA)	27.4	30.6	29.2	31.6	(6.2)	(3.1)
NSR/te - Blended (Rs/te)	5,007	5,012	5,303	5,360	(5.6)	(6.5)
Revenue	140,346	156,583	154,921	169,110	(9.4)	(7.4)
EBITDA	37,024	43,700	45,582	50,028	(18.8)	(12.6)
PAT	23,359	28,361	28,838	33,544	(19.0)	(15.5)
EPS	647	786	799	930	(19.0)	(15.5)

FINANCIALS

Exhibit 5: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Worth	129,364	152,501	171,517	195,102	219,730
Deferred Tax	-	-	-	-	-
Total Debt	23,474	18,396	16,396	13,896	8,896
Other Liabilities & Provisions	9,541	9,418	9,620	9,130	8,640
Total Net worth & Liabilities	162,380	180,315	197,533	218,128	237,266
Total Net Block	39,787	38,177	37,233	43,243	62,598
CWIP	9,621	9,710	20,710	30,710	18,710
Right of Use Assets/Other Assets	3,403	3,738	3,738	3,738	3,738
Investments	58,292	72,713	73,000	75,000	82,000
Other Non-Current Assets	14,021	14,055	14,586	15,216	15,546
Cash & Bank Balances	1,082	2,098	2,353	2,443	4,082
Net Non-Cash Working Capital	36,175	39,824	45,912	47,779	50,592
Total Assets	162,380	180,315	197,533	218,128	237,266

Source: Company, YES Sec

Exhibit 6: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total Volumes (MT)	25.1	26.8	27.4	30.6	33.7
Net Revenue	119,040	125,884	140,346	156,583	173,517
EBITDA	36,745	39,547	37,024	43,700	49,746
EBITDA (%)	30.9	31.4	26.4	27.9	28.7
D&A	16,994	11,399	9,969	11,516	15,670
EBIT	19,751	28,148	27,055	32,185	34,076
Interest Expense	2,865	2,471	1,986	1,715	1,390
Exceptional/EO items	-	-	-	-	-
Other Income	2,716	4,580	5,502	6,647	8,070
PBT	19,602	30,257	30,571	37,117	40,756
Tax	3,900	7,138	7,212	8,756	9,615
APAT	15,702	23,119	23,359	28,361	31,142
PAT (%)	13.2	18.4	16.6	18.1	17.9

Source: Company, YES Sec

Exhibit 7: Cash Flow

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
CFO (Pre-tax)	41,414	48,074	30,936	41,834	46,932
CFO (Post-tax)	37,514	40,936	23,724	33,078	37,317
CAPEX	(16,847)	(9,924)	(20,025)	(27,525)	(23,025)
FCF	20,667	31,012	3,699	5,553	14,292
FCF (Post Interest Costs)	23,532	33,483	5,685	7,268	15,682
CF Investing	(53,733)	(28,679)	(20,843)	(30,155)	(30,355)
CF Financing	15,910	(12,146)	(2,624)	(2,834)	(5,323)
Net Increase/(Decrease)	(309)	112	256	89	1,639
Cash at End	1,082	2,098	2,353	2,443	4,082
Total Cash & Liquid Investments	59,373	74,810	75,353	77,443	86,082

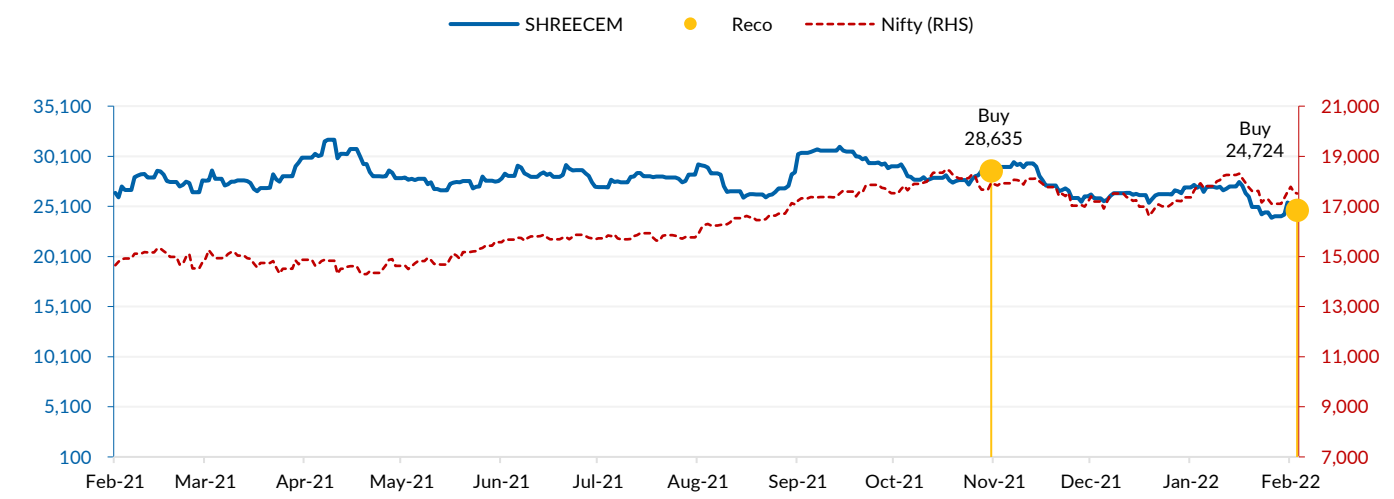
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
GROWTH (%)					
Revenue	1.6	5.7	11.5	11.6	10.8
EBITDA	38.5	7.6	(6.4)	18.0	13.8
PAT	65.1	47.2	1.0	21.4	9.8
Return Ratios (%)					
ROCE	11.2	14.4	13.1	14.1	13.9
ROE	12.1	15.2	13.6	14.5	14.2
ROIC	26.0	41.7	37.0	37.9	29.3
Solvency ratios					
Net D/E	(21.6)	(35.1)	(33.2)	(31.5)	(33.8)
Net Debt/EBITDA	(76.0)	(135.2)	(153.8)	(140.8)	(149.1)
Per Share Data (Rs.)					
EPS	435	641	647	786	863
Cash EPS	906	957	924	1,105	1,297
BVPS	3,585	4,227	4,754	5,407	6,090
Valuations					
P/E	46.7	35.6	38.2	31.5	28.6
EV/EBITDA	19.0	19.4	22.5	19.0	16.4
EV/Sales	5.9	6.1	5.9	5.3	4.7
EV/te (\$)	221	220	222	209	193
Turnover Days					
Operating Cycle	135	113	105	105	105
Cash Conversion Cycle	100	66	58	58	58
Net working Capital Cycle	111	115	119	111	106
Dupont Analysis					
PAT (%)	13.2	18.4	16.6	18.1	17.9
Asset Turnover	1.0	0.9	0.9	0.9	1.0
Equity Multiplier	1.0	0.9	0.9	0.9	0.8

Source: Company, YES Sec

Recommendation Tracker



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