

Shree Cement

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	892.9 / 10.8
52-Week Range (INR)	27013 / 17900
1, 6, 12 Rel. Per (%)	0/6/0
12M Avg Val (INR M)	1283

Financial Snapshot (INR b)

Y/E Mar	2023	2024E	2025E
Sales	168.4	183.8	200.7
EBITDA	29.4	40.6	47.4
Adj. PAT	11.7	18.4	22.0
EBITDA Margin (%)	17.5	22.1	23.6
Cons. Adj. EPS (INR)	325	510	610
EPS Gr. (%)	-48.3	56.7	19.5
BV/Sh. (INR)	5,069	5,479	5,938

Ratios

Net D:E	-0.3	-0.3	-0.3
RoE (%)	6.6	9.7	10.7
RoCE (%)	7.8	9.7	10.6
Payout (%)	27.2	19.6	24.6

Valuations

P/E (x)	76.1	48.5	40.6
P/BV (x)	4.9	4.5	4.2
EV/EBITDA(x)	27.4	20.3	17.4
EV/ton (USD)	210	186	176
Div. Yield (%)	0.4	0.4	0.6
FCF Yield (%)	-0.1	-0.2	0.4

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	62.6	62.6	62.6
DII	11.7	12.0	11.2
FII	12.8	12.5	12.2
Others	12.9	13.0	14.1

FII Includes depository receipts

CMP: INR24,748 TP: INR23,710 (-4%) Neutral

Lower volume leads to earnings miss; EBITDA/t in line

Expects volume growth of ~13% YoY in FY24, ahead of the industry

- Shree Cement (SRCM)'s 4QFY23 earnings were below our estimate due to lower-than-estimated volume (5% miss). EBITDA was at INR8.9b (v/s est. INR9.5b); EBITDA/t stood at INR1,011 (v/s est. INR1,022). Adj. Profit came in at INR3.9b (v/s est. INR4.8b) during the quarter.
- SRCM's strategic priorities are to become one of the largest cement manufacturer in the country, extract more value for shareholders from current operations and reach 80mtpa capacity through organic routes. It is also investing in technology to simplify workflow and processes.
- We largely maintain our FY24/FY25 estimates and believe [SRCM's cost benefits over peers are narrowing](#). The stock's valuation at 20.3x FY24E EV/EBITDA appears rich and hence, we maintain our **Neutral** rating.

Capacity utilization stood at 78% in 4QFY23 v/s 71% in 4QFY22

- SRCM's Revenue/EBITDA/Adj. Profit stood at INR47.9b/INR8.9b/INR3.9b (+17%/-2%/-28% YoY and +2%/-6%/-18% v/s our estimates). Sales volume rose 10% YoY in 4QFY23. Cement realization was up 2% YoY (flat QoQ).
- Average fuel consumption cost remained flat QoQ to INR2.53/Kcal as the company was carrying high-cost inventory. Other expenses/t declined 7% YoY, while employee costs increased 12% YoY. OPM contracted 3.6pp YoY to 18.7% and EBITDA/t declined 11% YoY.
- In FY23, revenue rose 18% YoY to INR168b led by volume growth/improved realization of 15%/3%. However, EBITDA declined 19% YoY to INR29b due to a spike in Opex/t (up 14% YoY). OPM contracted 8pp YoY to 17.5%. Adj. PAT declined 48% YoY to INR11.7b during the period.

Highlights from the management commentary

- Cement demand is expected to remain healthy and volume should be at 36mt in FY24, implying a 13% YoY growth. The current petcoke price has declined to INR1.8/Kcal (thermal cost at INR2/Kcal) and the benefit of the same will reflect in the next two quarters. It expects fuel cost to come down to INR2.4-2.3/Kcal in 1QFY24 and further decline is expected in 2Q.
- The GU in Purulia, West Bengal (capacity of 3mtpa) will be commissioned in Jun'23. The integrated plants in Nawalgarh, Rajasthan and Guntur, Andhra Pradesh will be commissioned in 3QFY24 and early-FY25, respectively. Capex is pegged at INR33b-INR35b for FY24E and will be funded through internal accruals (the company has net cash of INR57b).

Valuation expensive; maintain Neutral

- SRCM has been trading at premium valuations due to cost leadership, efficient capital deployment, and higher capacity/volume CAGR than the industry. We continue to believe that SRCM's cost benefits over its peers are narrowing.
- The stock trades at 20.3x FY24E EV/EBITDA (v/s its 10-year average one-year forward EV/EBITDA of 19.5x), which appears rich. We maintain our **Neutral** rating and value the stock at 16x FY25E EV/EBITDA to arrive at our TP of INR23,710.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone quarterly performance

(INR b)

Y/E March	FY22				FY23				FY22	FY23	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	34.5	32.1	35.5	41.0	42.0	37.8	40.7	47.9	143.3	168.4	47.0	2
YoY Change (%)	48.3	6.1	7.3	4.3	21.8	17.9	14.6	16.7	13.7	17.5	14.6	
Total Expenditure	24.4	23.1	27.3	31.9	33.8	32.6	33.6	38.9	106.8	139.0	37.5	4
EBITDA	10.1	9.0	8.3	9.1	8.2	5.2	7.1	8.9	36.5	29.4	9.5	-6
Margin (%)	29.4	28.0	23.2	22.2	19.5	13.8	17.4	18.7	25.5	17.5	20.2	
Depreciation	2.3	2.5	2.5	3.0	3.3	3.6	4.1	4.4	10.4	15.5	4.2	6
Interest	0.5	0.6	0.6	0.5	0.6	0.7	0.7	0.7	2.2	2.7	0.7	3
Other Income	1.4	1.5	1.1	1.4	-0.2	1.6	1.6	1.4	5.4	4.3	1.7	-19
PBT before EO Exp.	8.7	7.4	6.3	6.9	4.1	2.5	3.8	5.1	29.3	15.6	6.3	-19
Extra-Ord. Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	8.7	7.4	6.3	6.9	4.1	2.5	3.8	5.1	29.3	15.6	6.3	-19
Tax	2.0	1.6	1.4	0.5	1.0	0.6	1.1	-0.3	5.5	2.3	1.5	
Rate (%)	23.6	22.1	21.7	7.0	23.4	23.9	28.0	-6.4	18.9	14.8	24.2	
Reported PAT	6.6	5.8	4.9	6.5	3.2	1.9	2.8	5.5	23.8	13.3	4.8	14
Tax adjustment prior period	0.0	0.0	0.0	-1.0	0.0	0.0	0.0	-1.5	-1.0	-1.5	0.0	
Adj. PAT	6.6	5.7	4.9	5.5	3.2	1.9	2.8	3.9	22.7	11.7	4.8	-18
YoY Change (%)	78.5	6.8	-21.4	-29.0	-52.3	-66.9	-43.7	-28.1	-1.3	-48.3	-12.3	

Quarterly performance

Sales Dispat. (mt)	6.84	6.32	6.55	8.03	7.50	7.46	8.03	8.83	27.74	31.82	9.30	-5
YoY Change (%)	38.7	-3.2	-8.6	-2.3	9.7	18.0	22.6	10.0	3.3	14.7	15.8	
Realization	5,043	5,073	5,422	5,105	5,602	5,071	5,065	5,420	5,166	5,292	5,052	7
YoY Change (%)	6.9	9.6	17.4	6.7	11.1	0.0	-6.6	6.2	10.0	2.4	-1.0	
Expenditure												
RM Cost	280	330	589	440	234	496	352	488	410	396	395	24
Staff Cost	309	321	300	245	290	281	271	250	291	272	240	4
Power and Fuel	954	994	1,233	1,336	1,923	1,646	1,622	1,782	1,140	1,743	1,496	19
Freight	1,217	1,118	1,162	1,172	1,204	1,148	1,174	1,168	1,169	1,173	1,192	-2
Other Expenses	802	889	877	778	859	799	765	721	841	783	707	2
Total Op. cost	3,561	3,651	4,162	3,971	4,511	4,369	4,184	4,409	3,851	4,367	4,030	9
EBITDA	1,482	1,421	1,260	1,134	1,091	701	881	1,011	1,315	925	1,022	-1

Source: Company, MOFSL Estimates



Highlights from the management commentary

Cement demand and pricing

- Cement demand is expected to remain healthy led by the government's thrust on infrastructure development (will be the main demand driver), improving demand in both commercial and industrial segments as well as housing segment given the expectations of normal monsoon. Volume guidance at 36mt implies 13% YoY growth in FY24. Capacity utilization was 78% v/s 71%/72% in 4QFY22/3QFY23. Capacity utilization stood at ~80% in North, 82% in East and ~65% in the South region. Capacity utilization in FY23 was 70% v/s 64% in FY22.
- Cement realization rose 2% YoY (flat QoQ) in 4QFY22; realization improved 3% YoY in FY23.

Operational highlights

- Average fuel consumption cost was flat QoQ at INR2.53/Kcal (INR2.62/kcal in FY23 v/s INR1.69 in FY22). The spot petcoke price has declined to INR1.8/Kcal (thermal cost at INR2/Kcal) and the benefit of the same will reflect in the next two quarters. It expects fuel cost to come down to INR2.4-2.3/Kcal in 1QFY24 and further decline is expected in 2Q. The company consumed 76% petcoke in 4QFY23 v/s 50%/58% in 4QFY22/3QFY23. As petcoke is becoming cheaper, it is increasing the use of petcoke.

- Green power share stood at 54.6% v/s 50.1% in 4QFY22 and 53% in 3QFY23. It has added 122MW solar and wind power in different states in FY23 and its total RE capacity rose to 385.5MW in FY23. It plans to add another 93MW of green power in FY24-25. The company aims to increase green power share to >55% over FY24-25.
- Thermal substitution rate has improved to 4.35% from 4.20% in 4QFY22. It targets to increase TSR % to ~15% by end-FY24.
- Trade sales were at 80%. Sales of premium products stood at 7.5% in 4QFY23 v/s 7.2% in 3QFY23. SRCM targets to increase this to 15% in the next one year. Recently, the company launched a new product in the coastal markets of Orissa by the brand name of ROCKSTRONG Concrete Special.
- SRCM's average lead distance was at 463km v/s 473km in 4QFY22 and 450km in 3QFY23.

Strategic priorities

- In terms of strategic priorities the company aims to become one of the biggest cement manufacturers in the country. Secondly, from current operations it targets to extract more value for shareholders. This will be in two parts: 1) by offering better products at better pricing and 2) brand building, as the company initiated the process of strengthening brand equity by engaging with experts to advise in its future strategy. And thirdly, SRCM continues to expand capacity. It targets to reach 80mtpa capacity through organic routes in the coming years, which will make it a pan-India player.
- The company is also migrating from Oracle to advance IT tools like SAP HANA, which will simplify workflow and processes. In manufacturing operations, SRCM implemented a planned data management system (known as BPM), to capture data from IoT sensors and generate automated KPI reports to bring overall efficiency in the operations. It is also digitizing HR operations by implementing a tool known as Urban Box.

Capacity expansion and Capex update

- The company increased grinding capacity at Saraikela, Jharkhand unit to 3mtpa from 2.5mtps by process optimization, de-bottlenecking and productivity enhancement initiatives. Its total grinding capacity has increased to 46.9mtpa.
- SRCM targets to increase domestic grinding capacity to 80mtpa by 2030, largely through organic route (mix of brownfield and Greenfield expansions).
- The grinding unit in Purulia, West Bengal (3mtpa capacity) will be commissioned by Jun'23. The integrated plants in Nawalgarh, Rajasthan (clinker/cement capacity of 3.8mtpa/3.5mtpa) and Guntur, Andhra Pradesh (clinker/cement capacity of 1.5mtpa/3mtpa) will be commissioned in 3QFY24 and early-FY25, respectively.
- Capex stood at INR33b in FY23. Capex is pegged at INR33b-INR35b for FY24E and will be funded through internal accruals (SRCM has net cash of INR57b).

Story in charts

Exhibit 1: Sales volume grew 10% YoY and QoQ

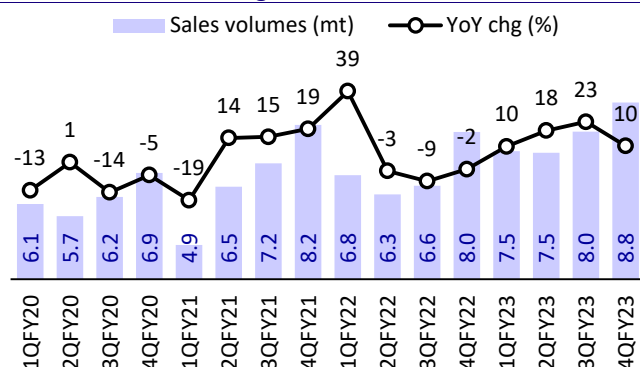


Exhibit 2: Blended realization up 6% YoY

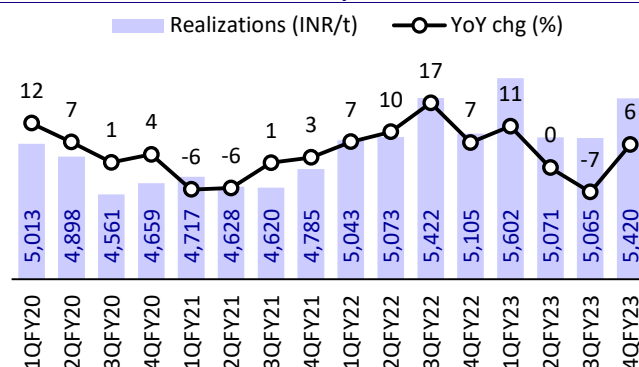
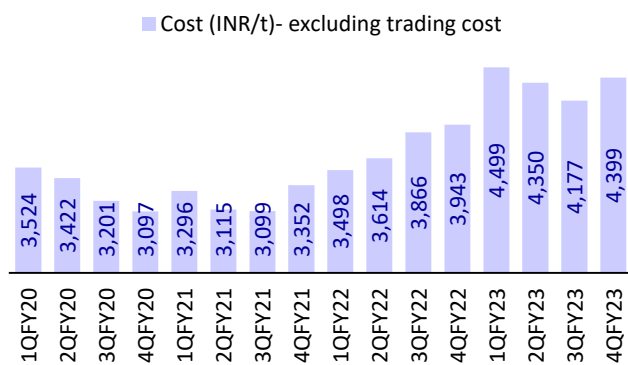
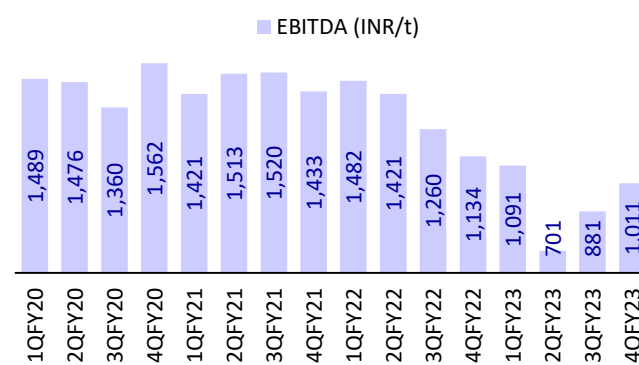


Exhibit 3: OPEX/t (excluding trading cost) up 12% YoY



Source: Company, MOFSL

Exhibit 4: EBITDA/t dropped 11% YoY



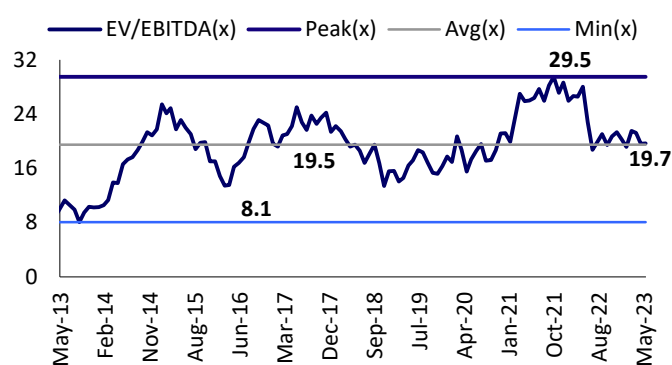
Source: Company, MOFSL

Exhibit 5: Key performance indicators – per tonne analysis

INR/t	4QFY23	4QFY22	YoY (%)	3QFY23	QoQ(%)
Net realization	5,420	5,105	6	5,065	7
RM Cost	488	440	11	352	39
Employee Expenses	250	245	2	271	-8
Power, Oil, and Fuel	1,782	1,336	33	1,622	10
Freight and Handling	1,168	1,172	-0	1,174	-1
Other Expenses	721	778	-7	765	-6
Total Expenses	4,409	3,971	11	4,184	5
EBITDA	1,011	1,134	-11	881	15

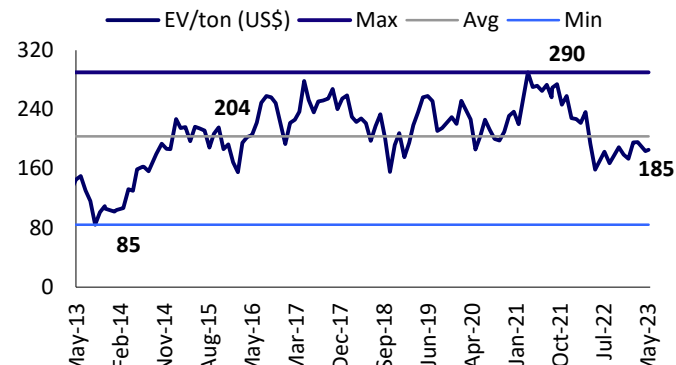
Source: Company, MOFSL

Exhibit 6: One-year forward EV/EBITDA ratio chart



Source: Company, MOFSL

Exhibit 7: One-year forward EV/t chart



Source: Company, MOFSL

Standalone financials and valuations

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	98,894	1,17,599	1,19,301	1,26,037	1,43,297	1,68,375	1,83,786	2,00,678
Change (%)	17.0	18.9	1.4	5.6	13.7	17.5	9.2	9.2
EBITDA	24,728	27,869	36,745	39,547	36,478	29,423	40,574	47,443
Margin (%)	25.0	23.7	30.8	31.4	25.5	17.5	22.1	23.6
Depreciation	8,994	13,917	16,994	11,399	10,365	15,462	17,230	19,836
EBIT	15,734	13,952	19,751	28,148	26,114	13,961	23,344	27,606
Int. and Finance Charges	1,353	3,810	2,865	2,471	2,178	2,689	2,979	2,437
Other Income – Rec.	3,891	2,454	2,716	4,580	5,373	4,315	4,164	4,155
PBT before EO Expense	18,272	12,596	19,602	30,257	29,309	15,586	24,530	29,324
EO Expense/(Income)	0	1,781	0	0	0	0	0	0
PBT after EO Expense	18,272	10,814	19,602	30,257	29,309	15,586	24,530	29,324
Tax	4,466	2,177	5,248	7,536	4,382	937	6,132	7,331
Deferred Tax	-36	-873	-1,348	-398	1,161	1,368	0	0
Tax Rate (%)	24.2	12.1	19.9	23.6	18.9	14.8	25.0	25.0
Reported PAT	13,842	9,510	15,702	23,119	23,766	13,281	18,397	21,993
Tax adjustment prior period	0	0	0	-103	-1,045	-1,543	0	0
Adj. PAT for EO items	13,842	10,754	15,702	23,017	22,721	11,739	18,397	21,993
Change (%)	3.4	-22.3	46.0	46.6	-1.3	-48.3	56.7	19.5
Margin (%)	14.0	9.1	13.2	18.3	15.9	7.0	10.0	11.0

Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	348	348	361	361	361	361	361	361
Other Reserves	88,620	95,626	1,29,003	1,52,140	1,72,348	1,82,524	1,97,313	2,13,894
Total Reserves	88,620	95,626	1,29,003	1,52,140	1,72,348	1,82,525	1,97,315	2,13,896
Net Worth	88,968	95,974	1,29,364	1,52,501	1,72,709	1,82,885	1,97,676	2,14,257
Deferred Liabilities	-5131	-6126	-7438	-7855	-6695	-6686	-6686	-6686
Secured Loan	23,761	27,980	31,042	21,332	20,142	25,392	20,433	17,052
Unsecured Loan	10,269	0	400	0	0	0	0	0
Total Loans	34,030	27,980	31,442	21,332	20,142	25,392	20,433	17,052
Capital Employed	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	2,01,592	2,11,424	2,24,623
Gross Block	65,480	88,365	1,03,634	1,13,644	1,35,229	1,50,803	1,93,803	2,23,803
Less: Accum. Deprn.	29,586	43,608	60,445	71,729	82,014	97,476	1,14,706	1,34,543
Net Fixed Assets	35,895	44,757	43,189	41,916	53,215	53,327	79,097	89,260
Capital WIP	18,303	14,725	12,576	12,836	9,729	23,203	13,203	13,203
Financial investments	54,341	22,856	63,575	83,712	86,014	87,060	76,060	71,060
Strategic Investment	3	21,583	25,579	26,794	29,445	29,445	29,445	29,445
Curr. Assets	37,749	41,886	41,022	37,275	49,056	58,467	64,619	71,950
Inventory	15,690	15,891	14,279	14,772	21,614	24,226	25,176	27,490
Account Receivables	4,593	7,324	8,285	4,859	5,957	9,061	10,070	10,996
Cash and Bank Balance	3,209	3,078	1,082	2,098	1,183	1,193	1,788	1,741
Others	14,258	15,593	17,378	15,547	20,303	23,987	27,585	31,723
Curr. Liability and Prov.	28,422	27,980	32,574	36,555	41,304	49,911	51,002	50,297
Account Payables	28,338	27,886	32,470	36,430	41,160	49,756	50,848	50,142
Provisions	85	93	104	125	144	155	155	155
Net Current Assets	9,327	13,907	8,449	721	7,752	8,556	13,617	21,653
Appl. of Funds	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	2,01,592	2,11,424	2,24,623

Source: Company, MOFSL

Standalone financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	396.3	308.7	435.2	637.9	629.7	368.1	509.9	609.6
Cash EPS	776.7	399.5	471.0	315.9	287.3	428.5	477.6	549.8
BV/Share	2,554	2,755	3,585	4,227	4,787	5,069	5,479	5,938
DPS	50.0	60.0	110.0	60.0	90.0	100.0	100.0	150.0
Payout (%)	12.6	22.0	25.3	9.4	13.7	27.2	19.6	24.6
Valuation (x)								
P/E		80.2	56.9	38.8	39.3	67.2	48.5	40.6
Cash P/E		62.0	52.5	78.3	86.1	57.7	51.8	45.0
P/BV		9.0	6.9	5.9	5.2	4.9	4.5	4.2
EV/Sales		7.5	7.1	6.5	5.7	4.8	4.5	4.1
EV/EBITDA		31.6	23.1	20.6	22.4	27.4	20.3	17.4
EV/t (USD-Cap)		280	253	227	212	210	186	176
Dividend Yield (%)		0.2	0.4	0.2	0.4	0.4	0.4	0.6
Return Ratios (%)								
RoIC	43.5	23.4	25.8	39.2	33.4	15.6	22.2	21.3
RoE	16.7	11.6	13.9	16.3	14.0	7.5	9.7	10.7
RoCE	14.0	11.7	12.6	14.9	13.9	7.8	9.7	10.6
Working Capital Ratios								
Inventory (Days)	58	49	44	43	55	53	50	50
Debtor (Days)	16	23	25	14	15	20	20	20
Creditor (Days)	105	87	99	106	105	108	101	91
Working Capital Turnover (Days)	34	43	26	2	20	19	27	39
Leverage Ratio (x)								
Current Ratio	1.3	1.5	1.3	1.0	1.2	1.2	1.3	1.4
Net Debt/Equity ratio	-0.3	0.0	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	18,272	10,814	19,602	30,257	29,309	15,586	24,530	29,324
Depreciation	8,994	13,916	16,994	11,399	10,365	15,462	17,230	19,836
Interest and Finance Charges	-740	833	1,132	220	-849	-165	0	0
Direct Taxes Paid	-5,068	-2,300	-4,859	-7,439	-1,959	-3,287	-6,132	-7,331
(Inc.)/Dec. in WC	-1,131	-5,302	5,591	8,762	-7,321	967	-4,466	-8,083
CF from Operations	20,327	17,962	38,460	43,200	29,546	28,563	31,161	33,747
Others	-1,540	2,635	-947	-2,264	-2,317	-1,520	0	0
CF from Operations incl. EO	18,788	20,597	37,513	40,936	27,229	27,043	31,161	33,747
(Inc.)/Dec. in FA	-25,263	-18,853	-12,941	-9,984	-19,483	-27,619	-33,000	-30,000
Free Cash Flow	-6,475	1,744	24,572	30,953	7,746	-576	-1,839	3,747
(Pur.)/Sale of Investments	-10,685	10,727	-42,478	-17,791	-77	3,737	11,000	5,000
Others	-3	51	0	0	0	0	0	0
CF from Investments	-35,950	-8,075	-55,419	-27,774	-19,559	-23,882	-22,000	-25,000
Issue of Shares	0	0	23,833	0	0	0	0	0
Inc./(Dec.) in Debt	20,353	-7,591	1,175	-9,610	-2,707	2,669	-4,958	-3,381
Interest Paid	-1,248	-2,753	-2,868	-2,514	-2,088	-2,574	0	0
Dividend Paid	-1,843	-2,308	-6,231	-22	-3,789	-3,245	-3,608	-5,412
CF from Fin. Activity	17,262	-12,653	15,910	-12,146	-8,584	-3,151	-8,566	-8,793
Inc./Dec. in Cash	99	-131	-1,997	1,016	-915	11	595	-47
Opening Balance	3,110	3,209	3,078	1,081	2,097	1,183	1,193	1,788
Closing Balance	3,209	3,078	1,081	2,097	1,183	1,193	1,788	1,742

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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