

Shree Cement

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	861.8 / 10.5
52-Week Range (INR)	27013 / 20062
1, 6, 12 Rel. Per (%)	-5/-3/-4
12M Avg Val (INR M)	1395

Financial Snapshot (INR b)

Y/E Mar	FY23	FY24E	FY25E
Sales	168.4	189.0	205.4
EBITDA	29.4	40.7	48.4
Adj. PAT	11.7	17.9	20.7
EBITDA Margin (%)	17.5	21.5	23.6
Cons. Adj. EPS (INR)	325	496	574
EPS Gr. (%)	-48.3	52.5	15.7
BV/Sh. (INR)	5,069	5,465	5,889

Ratios

Net D:E	-0.3	-0.3	-0.2
RoE (%)	6.6	9.4	10.1
RoCE (%)	7.8	9.5	10.0
Payout (%)	27.2	20.2	26.1

Valuations

P/E (x)	73.3	48.1	41.5
P/BV (x)	4.7	4.4	4.1
EV/EBITDA(x)	26.3	19.4	16.3
EV/ton (USD)	203	180	171
Div. Yield (%)	0.4	0.4	0.6
FCF Yield (%)	-0.1	-0.4	-0.6

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	62.6	62.6	62.6
DII	12.0	11.7	11.2
FII	12.6	12.8	11.9
Others	12.8	12.9	14.4

FII Includes depository receipts

CMP: INR23,886 TP: INR24,200 (+1%) Neutral

Accelerated growth plans; announced fresh capex of INR70b

Maintains volume target of 36mt in FY24, up 13% YoY

- Shree Cement (SRCM) reported 1QFY24 EBITDA of INR9.3b vs. our estimate of INR9.6b. EBITDA/t stood at INR1,046 vs. our estimate of INR1,069. OPM declined 80bp YoY to 18.7% (est. 20%). However, adjusted PAT stood at INR5.8b, above our estimate of INR4.2b, led by lower depreciation.
- SRCM has accelerated its growth plans and outlined expansion plans of 12mtpa (capex: INR70b; capex/t of ~INR71), which, along with ongoing plans, will increase its capacity to 72.4mt (consolidated). It plans to achieve a capacity of 80mtpa in the next few years.
- We maintain our FY24/FY25 estimates and continue to believe that SRCM's cost benefits over peers are narrowing. The stock's valuation at 19.4x FY24E EV/EBITDA appears rich; hence, we maintain our **Neutral** rating.

Capacity utilization at 80% in 1Q; cement realization down 2% QoQ

- Revenue/EBITDA/Adj. profit stood at INR50b/INR9.3b/INR5.8b (+19%/+14%/+84% YoY and +4%/-3%/+37% vs. our estimates). Sales volume rose 19% YoY. The company generated additional revenue from the sale of a coal shipment, which drove blended realization higher (up 3% QoQ). But cement realization was down 4% YoY/2% QoQ.
- Average fuel consumption cost stood at INR2.37/Kcal vs. INR2.64/INR2.53 in 1QFY23/4QFY23. Freight costs/other expenses/employee cost per tonne declined 1%/13%/9% YoY. OPM contracted 80bp YoY to 18.7% and EBITDA/t declined 4% YoY to INR1,046.
- Depreciation declined 6% YoY/30% QoQ. Accelerated depreciation was provided in previous quarters due to higher capitalization. Depreciation in FY24 is estimated to be INR20b vs. INR3.1b in 1QFY24, as new capacities will be commissioned in the coming quarters.

Highlights from the management commentary

- Cement demand is expected to remain strong given the government's focus on infrastructure development, higher spending by the government ahead of general elections and demand from the housing segment. Volume growth should be in double digits in FY24.
- Volume grew in double digits YoY across key markets: ~25% in East, ~20% in South, and ~12% in the North region.
- A grinding unit of 3mtpa was commissioned in Purulia, West Bengal, which helped SRCM expand its presence in all key markets in the East region.

Valuation expensive; maintain Neutral

- SRCM has been trading at premium valuations due to cost leadership, efficient capital deployment, and higher capacity/volume CAGRs than the industry. We continue to believe that SRCM's cost benefits over its peers are narrowing.
- The stock trades at 19.4x FY24E EV/EBITDA (in line with 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 INR24,200.

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Standalone quarterly performance

(INR b)

	FY23				FY24E				FY23	FY24E	FY24	Var. (%)
Y/E March	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Net Sales	42.0	37.8	40.7	47.9	50.0	43.3	45.9	49.9	168.4	189.0	48.1	4
YoY Change (%)	21.8	17.9	14.6	16.7	18.9	14.6	12.7	4.3	17.5	12.3	14.6	
Total Expenditure	33.8	32.6	33.6	38.9	40.7	34.9	35.7	37.1	139.0	148.4	38.5	6
EBITDA	8.2	5.2	7.1	8.9	9.3	8.4	10.1	12.7	29.4	40.7	9.6	-3
Margin (%)	19.5	13.8	17.4	18.7	18.7	19.5	22.1	25.6	17.5	21.5	20.0	
Depreciation	3.3	3.6	4.1	4.4	3.1	3.6	4.3	8.0	15.5	19.0	4.6	-32
Interest	0.6	0.7	0.7	0.7	0.8	0.8	0.8	1.0	2.7	3.3	0.7	12
Other Income	-0.2	1.6	1.6	1.4	1.6	1.3	1.3	1.2	4.3	5.5	1.3	29
PBT before EO Exp.	4.1	2.5	3.8	5.1	7.1	5.4	6.4	5.0	15.6	23.9	5.6	26
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	4.1	2.5	3.8	5.1	7.1	5.4	6.4	5.0	15.6	23.9	5.6	26
Tax	1.0	0.6	1.1	-0.3	1.3	1.4	1.6	1.7	2.3	6.0	1.4	
Rate (%)	23.4	23.9	28.0	-6.4	18.2	25.0	25.0	34.7	14.8	25.0	25.0	
Reported PAT	3.2	1.9	2.8	5.5	5.8	4.1	4.8	3.3	13.3	17.9	4.2	37
Tax adjustment prior period	0.0	0.0	0.0	-1.5	0.0	0.0	0.0	0.0	-1.5	0.0	0.0	
Adj. PAT	3.2	1.9	2.8	3.9	5.8	4.1	4.8	3.3	11.7	17.9	4.2	37
YoY Change (%)	-52.3	-66.9	-43.7	-28.1	84.2	114.3	72.6	-17.1	-48.3	52.5	34.0	

Quarterly performance

Sales Dispat. (mt)	7.50	7.46	8.03	8.83	8.92	8.10	8.82	9.93	31.82	35.57	9.01	-1
YoY Change (%)	9.7	18.0	22.6	10.0	18.8	8.6	9.9	12.5	14.7	11.8	20.1	
Realization	5,602	5,071	5,065	5,420	5,607	5,347	5,197	5,022	5,292	5,315	5,345	5
YoY Change (%)	11.1	0.0	-6.6	6.2	0.1	5.4	2.6	-7.3	2.4	0.4	-4.6	
Expenditure												
RM Cost	234	496	352	488	646	418	368	411	396	463	399	62
Staff Cost	290	281	271	250	263	278	266	246	272	264	256	3
Power and Fuel	1,923	1,646	1,622	1,782	1,709	1,609	1,449	1,113	1,743	1,465	1,682	2
Freight	1,204	1,148	1,174	1,168	1,192	1,167	1,162	1,190	1,173	1,185	1,183	1
Other Expenses	859	799	765	721	750	831	803	779	783	794	758	-1
Total Op. cost	4,511	4,369	4,184	4,409	4,561	4,304	4,049	3,739	4,367	4,172	4,276	7
EBITDA	1,091	701	881	1,011	1,046	1,043	1,148	1,284	925	1,143	1,069	-2

Source: Company, MOFSL Estimates



Highlights from the management commentary

Cement demand and pricing

- Cement demand is expected to remain strong given the government's focus on infrastructure development, higher spending by the government ahead of general elections and demand from the housing segment. A better monsoon season will lead to improvement in rural demand, and volume growth should be in double digits in FY24. Capacity utilization was ~80% in 1QFY24: ~92% in East, 80% in North and ~68-70% in the South region.
- Blended realization was up 3% YoY (5% above estimates) as the company generated additional revenues from the sale of a coal shipment. However, cement realization was down 4% YoY (and 2% QoQ) in 1QFY24.

Operational highlights

- Average fuel consumption cost was at INR2.37/Kcal vs. INR2.56/INR2.64 in 1Q/4QFY23. The spot petcoke price is around INR1.8-INR1.85/Kcal (thermal cost at INR2/Kcal) and the benefit of the same will reflect in the next two quarters. The company consumed 81% of petcoke vs. 76% in 4QFY23.
- Green power share stood at 56% vs. 46%/54.6% in 1QFY23/4QFY23. It is adding a significant capacity of green power in the next 12 months, which will further increase green power share.

- The company is also steadily increasing the usage of alternative fuels, with an aim to increase the thermal substitution rate (TSR %) to ~15%.
- Trade sales stood at 79% in 1QFY24. Sales of premium products stood at 8.8% vs. 6.3%/7.5% in 1Q/4QFY23. SRCM targets to increase this to 15% by FY24-25.
- Lead distance declined by 14Kms YoY during the quarter.

Capacity expansion and strategic diversification

- The company accelerated its growth plans and has announced a fresh capacity expansion of clinker/cement capacity by 7.3mtpa/12mtpa spread across North, Central and South regions. The estimated capex is INR70b (cost of USD70/t) and projects are likely to be completed by 4QFY25. Clinker capacity will also have waste heat recovery (WHRs) of ~44MW (22MW each).
- Apart from that, current ongoing expansions greenfield integrated plants at Nawalgarh (Rajasthan) and Guntur (Andhra Pradesh) are likely to be commissioned by 3QFY24/2QFY25, respectively.
- After the completion of the expansion, SRCM's domestic cement capacity will increase to 68.4mtpa by end-FY25 from 49.9mtpa currently.
- SRCM targets to increase domestic grinding capacity to 80mtpa by 2030, largely through the organic route (mix of brownfield and Greenfield expansions).
- Capex is pegged at INR35b for FY24E/FY25E each and will be funded through a mix of internal accruals and debt.
- SRCM announced strategic diversification with the entry into the ready mix concrete (RMC) business by setting up of five RMC plants in FY24. It will focus on high-performance concrete as there are not many suppliers, and hence the competition is limited in this segment.

Story in charts

Exhibit 1: Sales volume grew 19% YoY

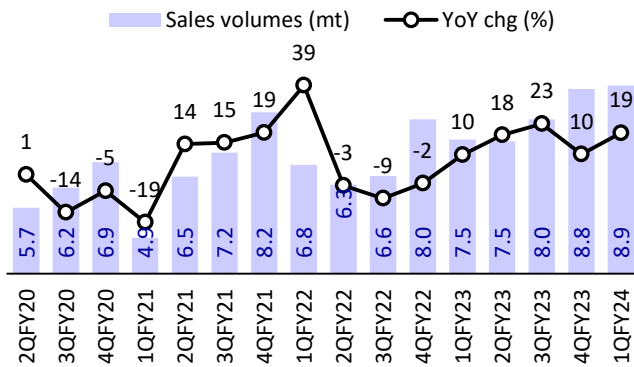


Exhibit 2: Blended realization was flat YoY

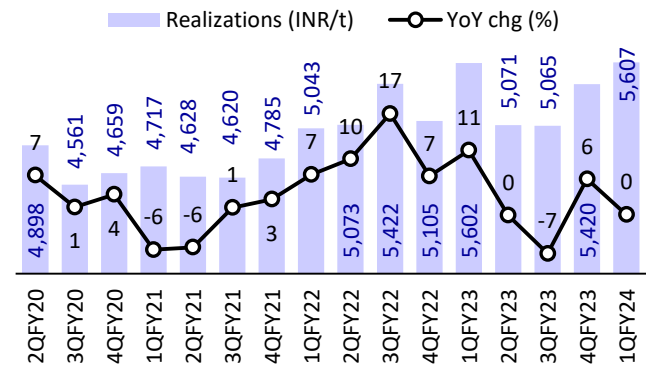
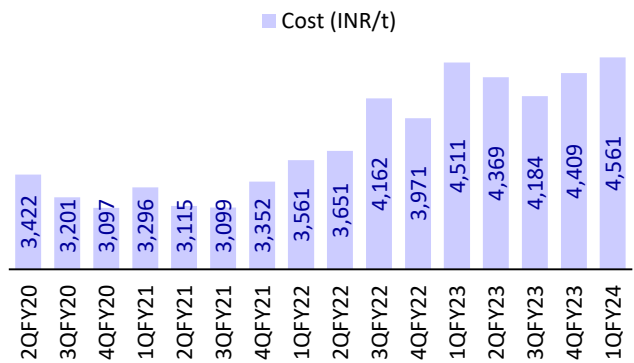
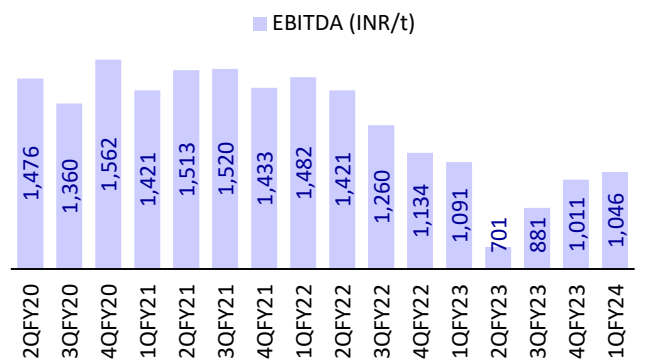


Exhibit 3: OPEX/t was up 1% YoY



Source: Company, MOFSL

Exhibit 4: EBITDA/t declined 4% YoY



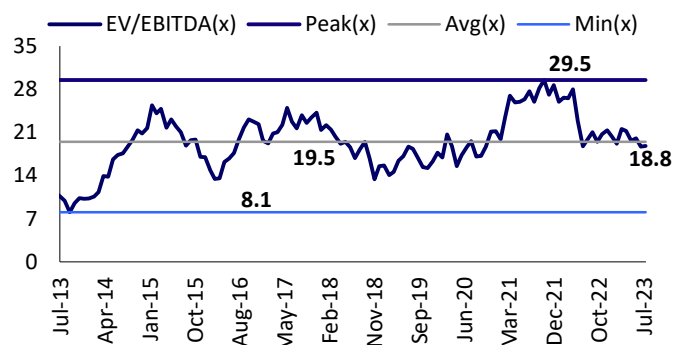
Source: Company, MOFSL

Exhibit 5: Key performance indicators – per tonne analysis

INR/t	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ(%)
Net realization	5,607	5,602	0	5,420	3
RM Cost	646	234	175	488	32
Employee Expenses	263	290	-9	250	5
Power, Oil, and Fuel	1,709	1,923	-11	1,782	-4
Freight and Handling	1,192	1,204	-1	1,168	2
Other Expenses	750	859	-13	721	4
Total Expenses	4,561	4,511	1	4,409	3
EBITDA	1,046	1,091	-4	1,011	3

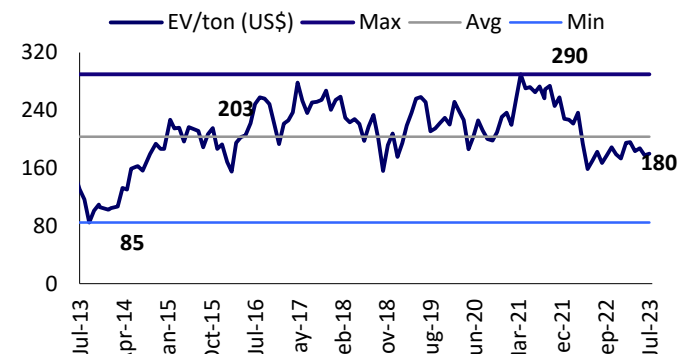
Source: Company, MOFSL

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	1,89,047	2,05,439
Change (%)	17.0	18.9	1.4	5.6	13.7	17.5	12.3	8.7
EBITDA	24,728	27,869	36,745	39,547	36,478	29,423	40,657	48,432
Margin (%)	25.0	23.7	30.8	31.4	25.5	17.5	21.5	23.6
Depreciation	8,994	13,917	16,994	11,399	10,365	15,462	18,953	21,924
EBIT	15,734	13,952	19,751	28,148	26,114	13,961	21,704	26,507
Int. and Finance Charges	1,353	3,810	2,865	2,471	2,178	2,689	3,310	3,649
Other Income – Rec.	3,891	2,454	2,716	4,580	5,373	4,315	5,477	4,766
PBT before EO Expense	18,272	12,596	19,602	30,257	29,309	15,586	23,871	27,625
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	23,871	27,625
Tax	4,466	2,177	5,248	7,536	4,382	937	5,968	6,906
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	17,903	20,718
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	17,903	20,718
Change (%)	3.4	-22.3	46.0	46.6	-1.3	-48.3	52.5	15.7
Margin (%)	14.0	9.1	13.2	18.3	15.9	7.0	9.5	10.1

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	1,96,819	2,12,125
Total Reserves	88,620	95,626	1,29,003	1,52,140	1,72,348	1,82,525	1,96,821	2,12,127
Net Worth	88,968	95,974	1,29,364	1,52,501	1,72,709	1,82,885	1,97,181	2,12,488
Deferred Liabilities	-5131	-6126	-7438	-7855	-6695	-6686	-6686	-6686
Secured Loan	23,761	27,980	31,042	21,332	20,142	25,392	24,000	33,424
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	24,000	33,424
Capital Employed	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	2,01,592	2,14,496	2,39,226
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	1,16,429	1,38,354
Net Fixed Assets	35,895	44,757	43,189	41,916	53,215	53,327	77,374	85,449
Capital WIP	18,303	14,725	12,576	12,836	9,729	23,203	15,203	25,203
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	67,703	78,625
Inventory	15,690	15,891	14,279	14,772	21,614	24,226	25,897	28,142
Account Receivables	4,593	7,324	8,285	4,859	5,957	9,061	10,359	11,257
Cash and Bank Balance	3,209	3,078	1,082	2,098	1,183	1,193	3,863	7,504
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	51,291	50,558
Account Payables	28,338	27,886	32,470	36,430	41,160	49,756	51,136	50,403
Provisions	85	93	104	125	144	155	155	155
Net Current Assets	9,327	13,907	8,449	721	7,752	8,556	16,412	28,067
Appl. of Funds	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	2,01,592	2,14,496	2,39,226

Source: Company, MOFSL

Standalone financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	396	309	435	638	630	325	496	574
Cash EPS	777	399	471	316	287	429	525	608
BV/Share	2,554	2,755	3,585	4,227	4,787	5,069	5,465	5,889
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	20.2	26.1
Valuation (x)								
P/E		77.3	54.8	37.4	37.9	73.3	48.1	41.5
Cash P/E		59.7	50.6	75.5	83.0	55.7	45.4	39.3
P/BV		8.7	6.7	5.6	5.0	4.7	4.4	4.1
EV/Sales		7.2	6.8	6.2	5.5	4.6	4.2	3.8
EV/EBITDA		30.4	22.2	19.8	21.5	26.3	19.4	16.3
EV/t (USD-Cap)		273	246	220	206	203	180	171
Dividend Yield (%)		0.3	0.5	0.3	0.4	0.4	0.4	0.6
Return Ratios (%)								
RoIC	43.5	23.4	25.8	39.2	33.4	15.6	20.7	20.8
RoE	16.7	11.6	13.9	16.3	14.0	6.6	9.4	10.1
RoCE	14.0	11.7	12.6	14.9	13.9	7.8	9.5	10.0
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	99	90
Working Capital Turnover (Days)	34	43	26	2	20	19	32	50
Leverage Ratio (x)								
Current Ratio	1.3	1.5	1.3	1.0	1.2	1.2	1.3	1.6
Net Debt/Equity ratio	-0.3	0.0	-0.3	-0.4	-0.4	-0.3	-0.3	-0.2

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	23,871	27,625
Depreciation	8,994	13,916	16,994	11,399	10,365	15,462	18,953	21,924
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	-5,968	-6,906
(Inc.)/Dec. in WC	-1,131	-5,302	5,591	8,762	-7,321	967	-5,187	-8,014
CF from Operations	20,327	17,962	38,460	43,200	29,546	28,563	31,669	34,628
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	31,669	34,628
(Inc.)/Dec. in FA	-25,263	-18,853	-12,941	-9,984	-19,483	-27,619	-35,000	-40,000
Free Cash Flow	-6,475	1,744	24,572	30,953	7,746	-576	-3,331	-5,372
(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	-24,000	-35,000
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	-1,392	9,424
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	-5,000	4,012
Inc./Dec. in Cash	99	-131	-1,997	1,016	-915	11	2,669	3,641
Opening Balance	3,110	3,209	3,078	1,081	2,097	1,183	1,193	3,863
Closing Balance	3,209	3,078	1,081	2,097	1,183	1,193	3,863	7,504

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
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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