

India

REDUCE (no change)

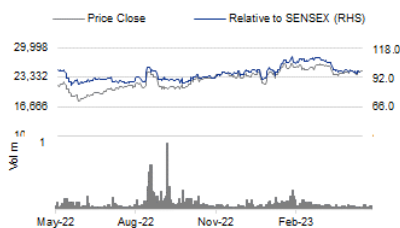
Consensus ratings*: Buy 10 Hold 20 Sell 14

Current price:	Rs24,766
Target price:	Rs22,390
Previous target:	Rs22,390
Up/downside:	-9.6%
InCred Research / Consensus:	-4.1%
Reuters:	SHCM.NS
Bloomberg:	SRCM IN
Market cap:	US\$12,306m
	Rs893,569m
Average daily turnover:	US\$14.6m
	Rs1061.4m
Current shares o/s:	36.1m
Free float:	73.8%

*Source: Bloomberg

Key changes in this note

- Net sales raised by 2-3% for FY24F-25F.
- EBITDA broadly maintained for FY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.8	(2.5)	14.4
Relative (%)	0.5	(6.5)	(0.2)

Major shareholders	% held
Promoter & Promoter Group	62.6
SBI Mutual Fund	3.1
Axis Mutual Fund	2.0

Analyst(s)



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Shree Cement Ltd

4Q - Muted performance, focus is on volume

- 4QFY23 consolidated EBITDA stood at Rs8.9bn (Incred est.: Rs9.3bn), down 3% yoy while up 22% qoq, on higher cost but offset by higher power biz revenue.
- Actively working on its goal of ~80mtpa capacity by 2030F. The top priority is to maintain capacity growth momentum. Expects ~13% volume growth in FY24F.
- We broadly maintain our EBITDA estimates. Retain REDUCE on rich valuation.

In-line 4QFY23 volume performance while cement realization flat qoq

Shree Cement or SCRM's 4QFY23 cement volume, including clinker, rose by ~10% yoy and qoq (in line, but lower vs. UTCEM and DALBHARA) to 8.83mt. Capacity utilization rose from 72% qoq to 78%. Region-wise, North India stood at 80%, East at 82% and South at ~65% in 4Q. Blended realization was up ~8% qoq and ~6% yoy due to a higher share from merchant power sales (figs. not given). Grey cement realization (adj. for power sales) was flat qoq and up 2% yoy, in line with estimate. Our recent channel check and mgmt. interaction also indicates that current prices are lower vs. Mar 2023 quarter. SCRM expects ~13% volume growth in FY24F and aims to double its premium share to ~15% (EBITDA/t rise of Rs50) by FY24F. We factor in FY24F/25F volume growth of 12%/8%, respectively.

Capacity expansion plan on track to cross 80mtpa by 2030F

Currently, SCRM is in the process of commissioning 6.5mtpa cement capacity (3.5mtpa in Rajasthan by 4QFY24F, and 3mtpa in Andhra Pradesh by 2QFY25F), and a 3mtpa clinker grinding facility in West Bengal (in 1QFY24F, slight delay). SCRM is actively working on achieving its goal of having a capacity of 80mtpa or above by 2030F. The roadmap from 56mtpa to 80mtpa is largely based on organic growth. SCRM is open for inorganic growth, but it should be value-accretive and fit strategically. The company retained its capex guidance of Rs33-35bn for FY24F, which includes capex for ongoing projects and also new projects that may be announced in the coming quarters.

Cement EBITDA/t (ex-power business) well below peers

Blended EBITDA/t improved by Rs103 qoq to Rs1,007 (vs. our estimate of Rs1,054). Blended cost/t was up by ~7% qoq due to higher power purchases. Consumption of fuel on a Kcal basis was at Rs2.53, flat qoq, due to expensive inventory in 4Q. SCRM expects fuel cost to decline to Rs2.35 in 1QFY24F and to fall further in 2Q. Pet-coke mix in 4QFY23 stood at ~76% vs. 58% qoq and 50% yoy. Current consumption (spot) cost is ~Rs1.8/Kcal.

See better opportunities among peers; maintain REDUCE rating

SRCM trades at EV/EBITDA of 19x FY25F, ~20% premium to UTCEM, which should narrow as the profitability premium fell in the past couple years. We retain REDUCE rating on SCRM. Our target price of Rs22,390 is based on 16x (unchanged) FY25F EV/EBITDA. The EPS cut is more on account of a higher assumption on depreciation. We find a better risk-reward ratio among peers. **Upside risks:** Better-than-expected demand recovery, pricing growth, value-accretive acquisition, and better-than-expected cost control.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	135,598	150,096	178,523	199,610	218,244
Operating EBITDA (Rsm)	40,795	37,079	29,595	40,020	45,602
Net Profit (Rsm)	22,859	23,319	12,707	18,362	22,254
Core EPS (Rs)	633.6	646.3	352.2	508.9	616.8
Core EPS Growth	48.8%	2.0%	(45.5%)	44.5%	21.2%
FD Core P/E (x)	39.09	38.32	70.32	48.66	40.15
DPS (Rs)	60.0	90.0	100.0	112.0	135.7
Dividend Yield	0.24%	0.36%	0.40%	0.55%	0.66%
EV/EBITDA (x)	21.26	23.63	29.86	22.22	19.22
P/FCFE (x)	137.95	341.79	(84.48)	(125.03)	63.36
Net Gearing	(17.3%)	(10.3%)	(5.5%)	(2.4%)	(8.1%)
P/BV (x)	5.80	5.12	4.79	4.47	4.13
ROE	16.0%	14.2%	7.0%	9.5%	10.7%
% Change In Core EPS Estimates				(0.50%)	(0.46%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

4Q - Muted performance, focus is on volume

4QFY23 results review

Key takeaways from Shree Cement's 4QFY23 results con-call ►

Shree Cement's management hosted a post-results conference-call. Key takeaways include:

Demand and pricing outlook

- Management gave guidance of ~36mt sales (including clinker) for FY24F, implying ~13% yoy growth in FY24F vs. industry growth likely in the range of 7-8%. SCRM expects the cement demand growth momentum to continue in FY24F.
- Capacity utilization improved from 72% qoq to 78% in 4QFY23 (vs. 71% in 4QFY22). In FY23, capacity utilization stood at 70% vs. 64% yoy. Region-wise utilization: North India stood at 80%, East India at 82% and a tad lower at ~65% in South India. Management aims to bridge the gap in capacity utilization between SRCM and the industry.
- **Grey cement realization:** Management highlighted that during 4QFY23, grey cement realization remained flat qoq and stood at Rs4,850/t vs Rs4,743 in 4QFY22. In FY23, it was at Rs4,872 vs. Rs4,732 in FY22.
- **Premium products:** SCRM expects the share of premium products to increase from 7.5% in 4QFY23 to ~15% by FY24F, thereby helping in boosting realization. Recently, SCRM launched a new product called Rockstrong in Odisha. The 15% premium share is expected to improve EBITDA/t by Rs50. SCRM has two existing premium brands (RoofOn and Bangur Power), which are largely priced in line with A-category player pricing. One more premium brand is likely to get launched in North India in FY24F.
- Shree Cement indicated that there was no material change in the pricing so far in 1QFY24 vs. 4Q average.

Cost trend

- On Kcal basis, fuel cost remained flat qoq at Rs2.53 owing to high-cost inventory and expects 1QFY24F cost at Rs2.35. Blended fuel cost stood at Rs2.62 in FY23 vs. Rs1.69 in FY22, on per Kcal basis.
- SCRM expects major benefits of fuel cost reduction to come in from 2QFY24F. Spot prices stood at Rs1.8 for pet-coke and Rs2 for thermal coal, on a Kcal basis.
- Fuel mix: 76% in 4QFY23 vs. 58% qoq and 50% yoy pet-coke.
- Management is focused on maintaining its cost leadership and is working on several initiatives toward this – increasing the share of rail despatches, increasing the share of thermal substitution rate or TSR (targeting a 15% share in FY24F vs. 4.35% in 4QFY23), increasing the share of renewable/alternate fuels (54.6% of the energy requirement came from green sources in 4QFY23 vs. 50.1% yoy), and digitalization efforts to improve efficiency.
- SCRM is targeting to increase its rail despatch mix - setting up rail siding across all units which will improve the rail freight mix of the operations.
- SCRM achieved 122MW of solar and wind power capacity during FY23F, and with this the green power capacity touched 386MW. Another 93MW of green power capacity is likely to be added in FY24F-25F along with the commissioning of new projects.
- During the quarter, the share of green power in total power consumption stood at 54.6% vs. ~53% qoq and 50.1% yoy; targeting to reach >55% in the next two years.

- During 4QFY23, fossil fuel substitution was at 4.35% vs. 3.91% qoq and 4.2% yoy. For this purpose, the company has undertaken initiatives to strengthen its waste utilization capabilities by installing state-of-the-art facilities.
- Trade mix stood 80% for SCRM, flat qoq. Lead distance increased to 463km vs. 450km qoq and 473km yoy.

Capex

- SCRM retain its capex guidance of Rs33-35bn for FY24F, which includes capex for Nawalgarh and Guntur units and capex for new projects that may be announced in the next quarter or so. Post Nawalgarh expansion, the company expects to announce four-to-five new projects subject to regulatory clearance.
- **The company had earlier announced its medium-term expansion plan to touch ~56mtpa capacity by FY25F.**
- SCRM is setting up a 3mtpa unit at village Digha & Parbatpur in Purulia district of West Bengal at a cost of Rs7.5bn, which is nearing completion, and the mode of financing is mainly by way of equity contribution. Considering the progress of the project, the completion is likely in 1QFY24F.
- SCRM to set up an integrated cement plant of 3.5mtpa capacity along with a 3.8mtpa clinker unit at village Gothra in Nawalgarh tehsil of Rajasthan at a cost of Rs35bn. The work is in full swing and is progressing well. It will be commissioned by 3QFY24F, and the mode of financing is through internal accruals and debt.
- The work on 1.5mtpa clinker and 3mtpa cement capacities at Guntur in Andhra Pradesh has also picked up pace. The capex is Rs25bn by 1Q or 2QFY25F.
- SCRM is actively working on achieving its goal of having more than 80mtpa capacity by 2030F. The roadmap from 56mtpa to 80mtpa is largely based on organic growth. Certain sites have been identified and the company is awaiting regulatory clearance, after which the announcement will be made (may be by 1QFY24F).
- Management believes the valuation for M&A should be profitable to the shareholders; it is difficult to suggest the target valuation for M&A.
- SCRM is sitting on a net cash of Rs57bn. Regarding capital allocation, management said most of its cash (and internal accruals) will be used to achieve target capacity level and any excess cash beyond that could be returned to the shareholders.

Others

- Clinker production stood at ~20.2mt in FY23.
- Standalone cash flow suggests an investment of Rs5.2bn in a subsidiary which is an investment for capacity expansion in the eastern region.
- **Union Cement (UCC)** – No new investment has been made in the UAE. UCC's performance in FY23 was poor and management expects some recovery in FY24F.
- **Some strategic priorities for SCRM are** a) Extract more value for shareholders by improving product offerings and meeting customer requirements, b) maintain capacity growth and focus on market share gains, and c) digitalization initiatives.

Figure 1: Consolidated quarterly performance

Particulars (Rs m)	4QFY23	4QFY23F	3QFY23	4QFY22	% Change		
					4QFY23F	3QFY23	4QFY22
Net Sales	51,002	47,639	42,993	43,642	7%	19%	17%
Raw Materials Consumed	5,322	3,208	2,699	3,622	66%	97%	47%
Freight and Forwarding Expenses	10,501	10,330	9,507	9,580	2%	10%	10%
Power and Fuel Cost	17,219	14,902	14,673	12,667	16%	17%	36%
Employee Cost	2,482	2,788	2,479	2,212	-11%	0%	12%
Other Expenses	6,586	7,097	6,368	6,374	-7%	3%	3%
Total Expenditure	42,110	38,326	35,725	34,454	10%	18%	22%
EBITDA	8,892	9,313	7,267	9,188	-5%	22%	-3%
Depreciation	4,728	4,393	4,426	2,967	8%	7%	59%
EBIT	4,164	4,920	2,841	6,221	-15%	47%	-33%
Interest	713	721	702	522	-1%	2%	37%
Other Income	1,457	1,807	1,741	1,374	-19%	-16%	6%
PBT	4,908	6,006	3,881	7,073	-18%	26%	-31%
Tax	-344	1,622	1,063	482	-121%	-132%	-171%
PAT before MI & Associates	5,252	4,385	2,818	6,591	20%	86%	-20%
Minority Interest	-6	21	-2	18	-127%	133%	-130%
Profit from Associates	0	0	0	0			
Recurring PAT	5,258	4,364	2,821	6,572	20%	86%	-20%
Extraordinary Items	0	0	0	0			
Reported PAT	5,258	4,364	2,821	6,572	20%	86%	-20%
EPS (Rs)	145.7	121.0	78.2	182.2	20%	86%	-20%
Gross Margin	35%	40%	37%	41%	-508 bp	-227 bp	-551 bp
EBITDA Margin	17.4%	19.5%	16.9%	21.1%	-212 bp	53 bp	-362 bp
EBIT Margin	8%	10%	7%	14%	-216 bp	155 bp	-609 bp
PBT Margin	10%	13%	9%	16%	-298 bp	60 bp	-658 bp
PAT Margin	10%	9%	7%	15%	115 bp	375 bp	-475 bp
Tax Rate	-7%	27%	27%	7%			
Cost items as % of Sales							
Raw Material Cost	10%	7%	6%	8%	370 bp	416 bp	214 bp
Freight Cost	21%	22%	22%	22%	-110 bp	-152 bp	-136 bp
Power & Fuel Cost	34%	31%	34%	29%	248 bp	-37 bp	474 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

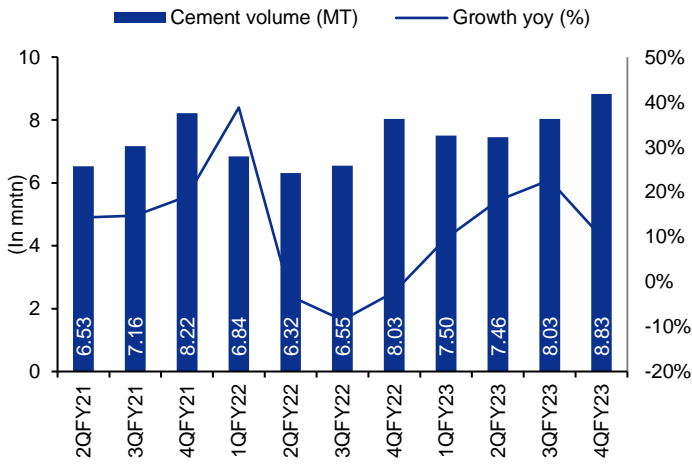
Figure 2: 4QFY23 results: Per tonne analysis

Per tonne analysis	4QFY23	4QFY23F	3QFY23	4QFY22	% Change		
					4QFY23F	3QFY23	4QFY22
Sales volume (Cement + Clinker)	8.83	8.84	8.03	8.03	-0.1%	9.9%	10.0%
Realization	5,777	5,390	5,352	5,436	7.2%	7.9%	6.3%
EBITDA/t	1,007	1,054	905	1,144	-4%	11.3%	-12.0%
Raw Material Cost/t	603	363	336	451	66%	79%	34%
Power & Fuel Cost/t	1,950	1,686	1,827	1,578	16%	7%	24%
Freight Cost/t	1,189	1,169	1,183	1,193	2%	1%	0%
Employee Cost/t	281	315	309	276	-11%	-9%	2%
Other Expenses/t	746	803	793	794	-7%	-6%	-6%
Total Cost/t	4,770	4,337	4,447	4,291	10.0%	7.3%	11.2%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

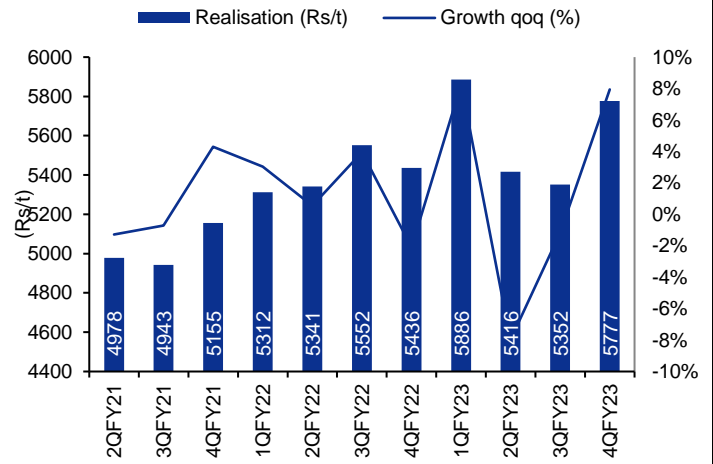
Key charts ➤

Figure 3: Cement sales volume, including clinker, increased by ~10% yoy and qoq



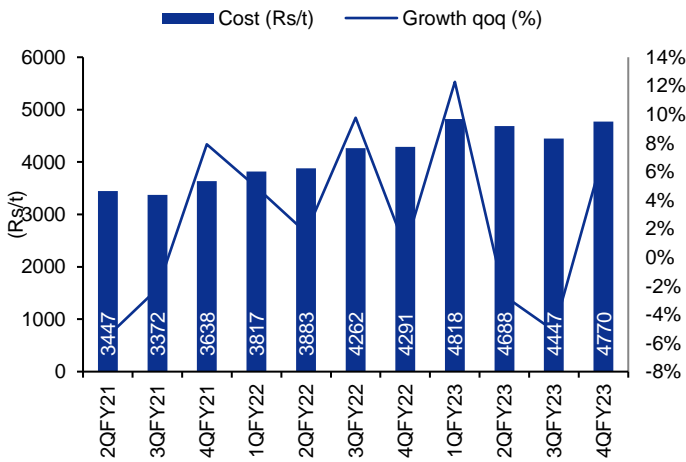
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Blended realization improved by ~6% yoy and ~8% qoq while grey cement realization remained flat qoq



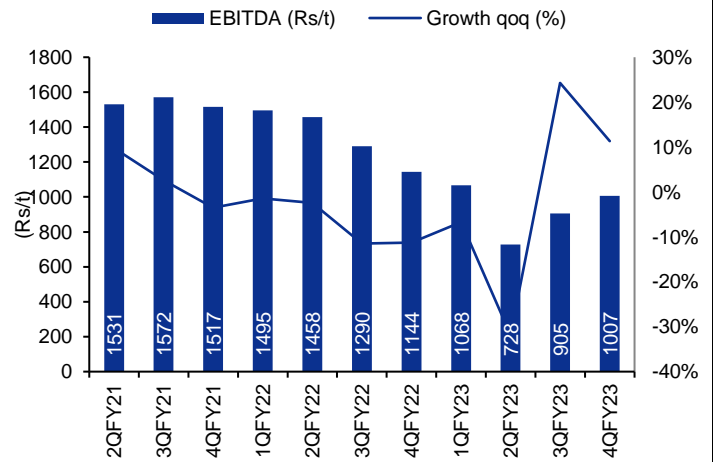
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Total operating blended cost/t was up by ~7% qoq and by ~11% yoy



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Unit EBITDA fell 12% yoy while it improved by 11% qoq to Rs1,007



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	New		Old		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	1,99,610	2,18,244	1,94,462	2,12,839	3%	2%
EBITDA	40,020	45,602	39,825	45,419	0.5%	0.4%
Recurring PAT	18,362	22,254	18,872	22,639	-3%	-2%
EPS (Rs.)	508.9	616.8	523	630	-3%	-2%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Changes in our estimates vs. Bloomberg consensus estimates

Rs. m	Incred		Consensus		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	1,99,610	2,18,244	1,95,928	2,22,449	2%	-2%
EBITDA	40,020	45,602	42,532	50,865	-6%	-10%
PAT	18,362	22,254	21,635	27,801	-15%	-20%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 9: Key assumptions

	FY21	FY22	FY23F	FY24F	FY25F
Volume (mtpa)	26.8	27.7	31.8	35.6	38.5
yoy	8%	3%	15%	12%	8%
Blended Realisation (per t)	5,052	5,411	5,611	5,611	5,662
yoy	-2%	7%	4%	0%	1%
Cost (per t)	3,532	4,075	4,681	4,486	4,479
yoy	-3%	15%	15%	-4%	0%
EBITDA (per t)	1,520	1,337	930	1,125	1,183
yoy	1%	-12%	-30%	21%	5%
EBITDA (Rs m)	40,795	37,079	29,595	40,020	45,602
yoy	9%	-9%	-20%	35%	14%

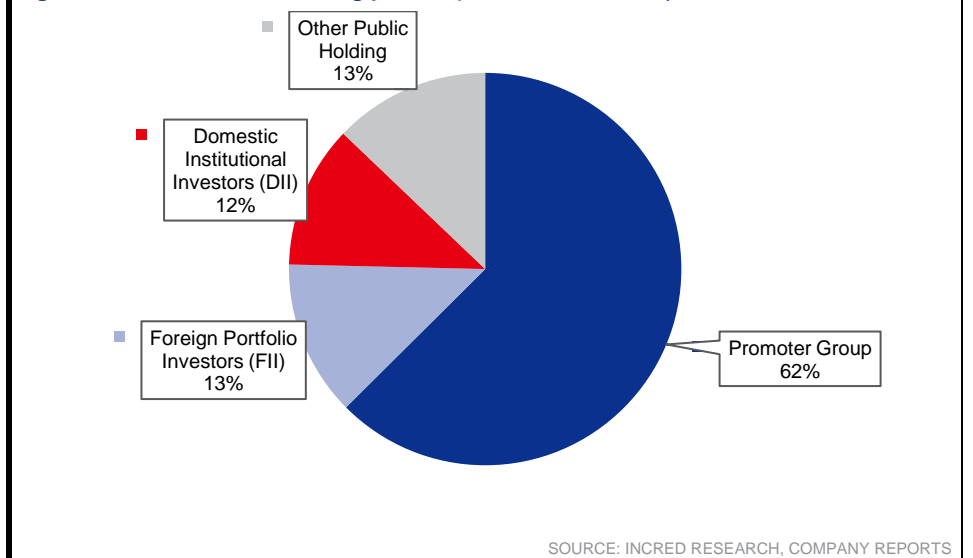
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Our target price of Rs22,390 is based on 16x FY25F EV/EBITDA

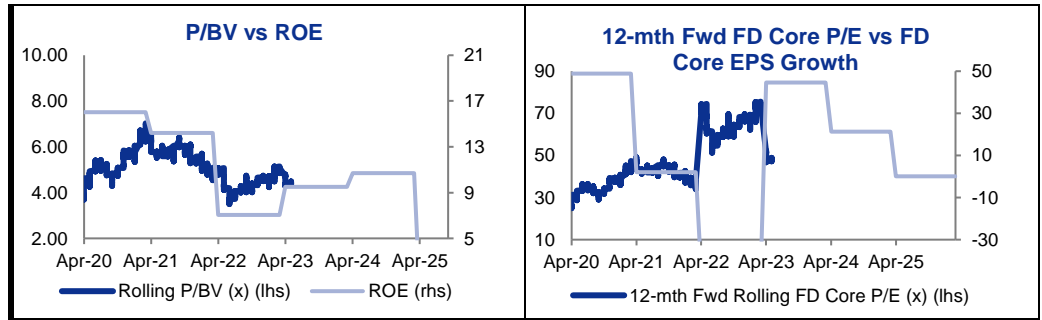
Valuation	TP
Target EV/EBITDA multiple (x)	16.0
Target EV (Rs m)	7,29,631
Net debt (Rs m)	(58,152)
No. of shares (m)	36
UAE plant @ book value	20,000
Value per share	554
Target price per share (Rs)	22,390

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: SRCM's shareholding pattern (as of end-Mar 2023)



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	135,598	150,096	178,523	199,610	218,244
Gross Profit	135,598	150,096	178,523	199,610	218,244
Operating EBITDA	40,795	37,079	29,595	40,020	45,602
Depreciation And Amortisation	(12,623)	(11,459)	(16,607)	(18,267)	(18,633)
Operating EBIT	28,171	25,621	12,988	21,753	26,969
Financial Income/(Expense)	(2,513)	(2,161)	(2,629)	(2,892)	(2,776)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	4,383	5,459	4,591	5,279	5,068
Profit Before Tax (pre-EI)	30,041	28,918	14,950	24,141	29,262
Exceptional Items					
Pre-tax Profit	30,041	28,918	14,950	24,141	29,262
Taxation	(7,145)	(5,552)	(2,259)	(5,794)	(7,023)
Exceptional Income - post-tax					
Profit After Tax	22,896	23,366	12,691	18,347	22,239
Minority Interests	(37)	(47)	16	16	16
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	22,859	23,319	12,707	18,362	22,254
Recurring Net Profit	22,859	23,319	12,707	18,362	22,254
Fully Diluted Recurring Net Profit	22,859	23,319	12,707	18,362	22,254

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	40,795	37,079	29,595	40,020	45,602
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(10,102)	1,984	478	2,902	(3,641)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	4,383	5,459	4,591	5,279	5,068
Other Operating Cashflow	17,121	(10,129)	(8,129)	(6,629)	(5,129)
Net Interest (Paid)/Received	(2,513)	(2,161)	(2,629)	(2,892)	(2,776)
Tax Paid	(7,145)	(5,552)	(2,259)	(5,794)	(7,023)
Cashflow From Operations	42,538	26,680	21,647	32,887	32,102
Capex	(11,291)	(22,094)	(22,261)	(34,500)	(26,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(15,159)	581	(15,220)	(6,534)	7,500
Cash Flow From Investing	(26,450)	(21,514)	(37,481)	(41,034)	(19,000)
Debt Raised/(repaid)	(9,610)	(2,552)	5,257	1,000	1,000
Proceeds From Issue Of Shares	(65)	(8)	2,693	31	31
Shares Repurchased					
Dividends Paid	(2,165)	(3,247)	(3,608)	(4,888)	(5,924)
Preferred Dividends					
Other Financing Cashflow	(486)	(2,687)	8,921	7,613	5,613
Cash Flow From Financing	(12,326)	(8,494)	13,263	3,756	720
Total Cash Generated	3,761	(3,328)	(2,571)	(4,390)	13,822
Free Cashflow To Equity	6,478	2,614	(10,577)	(7,147)	14,102
Free Cashflow To Firm	18,600	7,327	(13,205)	(5,255)	15,878

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	45,098	38,160	35,588	31,198	45,021
Total Debtors	6,859	7,883	12,116	11,484	12,557
Inventories	17,157	24,970	27,597	27,344	31,092
Total Other Current Assets	12,759	13,691	14,379	14,771	17,460
Total Current Assets	81,873	84,703	89,679	84,798	106,129
Fixed Assets	62,163	72,822	74,809	90,541	97,909
Total Investments	46,990	55,063	52,853	53,353	53,853
Intangible Assets	9,965	10,535	27,966	34,000	26,000
Total Other Non-Current Assets	14,140	14,365	18,033	18,533	19,033
Total Non-current Assets	133,258	152,786	173,660	196,427	196,794
Short-term Debt	5,087	7,158	19,590	20,090	20,590
Current Portion of Long-Term Debt					
Total Creditors	8,830	8,904	11,960	13,014	13,635
Other Current Liabilities	23,091	30,802	35,772	37,128	40,375
Total Current Liabilities	37,008	46,864	67,321	70,232	74,600
Total Long-term Debt	13,316	12,983	5,809	6,309	6,809
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10,322	2,535	3,440	4,440	4,940
Total Non-current Liabilities	23,638	15,519	9,249	10,749	11,749
Total Provisions					
Total Liabilities	60,646	62,383	76,570	80,980	86,349
Shareholders Equity	153,974	174,603	186,364	199,838	216,169
Minority Interests	512	503	406	406	406
Total Equity	154,486	175,106	186,770	200,244	216,574

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	5.4%	10.7%	18.9%	11.8%	9.3%
Operating EBITDA Growth	8.5%	(9.1%)	(20.2%)	35.2%	13.9%
Operating EBITDA Margin	30.1%	24.7%	16.6%	20.0%	20.9%
Net Cash Per Share (Rs)	739.90	499.38	282.42	133.03	488.42
BVPS (Rs)	4,267.57	4,839.32	5,165.30	5,538.76	5,991.37
Gross Interest Cover	11.21	11.85	4.94	7.52	9.72
Effective Tax Rate	23.8%	19.2%	15.1%	24.0%	24.0%
Net Dividend Payout Ratio	9.5%	13.9%	28.4%	26.6%	26.6%
Accounts Receivables Days	23.77	17.92	20.44	21.58	20.10
Inventory Days	46.15	51.22	53.74	50.23	48.87
Accounts Payables Days	29.66	28.64	25.57	28.56	28.17
ROIC (%)	30.9%	24.5%	10.2%	14.8%	18.0%
ROCE (%)	17.1%	13.9%	6.4%	9.9%	11.5%
Return On Average Assets	12.3%	11.3%	6.1%	7.8%	8.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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