

India

REDUCE (no change)

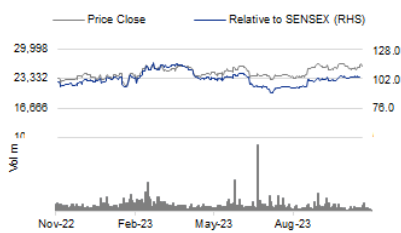
Consensus ratings*: Buy 12 Hold 14 Sell 17

Current price:	Rs26,271
Target price:	Rs24,200 ▲
Previous target:	Rs22,900
Up/downside:	-7.9%
InCred Research / Consensus:	1.4%
Reuters:	SHCM.NS
Bloomberg:	SRCM IN
Market cap:	US\$11,382m Rs947,859m
Average daily turnover:	US\$11.6m Rs966.7m
Current shares o/s:	36.1m
Free float:	73.7%

*Source: Bloomberg

Key changes in this note

- Raise EBITDA by 2-4% for FY24F-26F.
- Raise target price to Rs24,200 from Rs22,900 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.9	8.2	12.2
Relative (%)	2.7	9.9	5.4

Major shareholders	% held
Promoter & Promoter Group	62.6
SBI Mutual Fund	3.9
Axis Mutual Fund	2.0

Analyst(s)

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Shree Cement Ltd

Capacity addition announcements galore

- 2Q consolidated EBITDA stood at Rs8.86bn (Incred est.: Rs8.4bn), up 63% yoy. Volume grew ~10% yoy/fell by 8% qoq to 8.2mt, in line with Incred estimate.
- SRCM has announced a further 3.4mtpa brownfield grinding capacity addition at its existing Baloda Bazar plant in Chhattisgarh at a capex of Rs5.5bn.
- Retain REDUCE rating due to rich valuation with a higher TP of Rs24,200.

In-line 2Q volume performance while cement realization up ~2% qoq

Shree Cement or SRCM's 2QFY24 cement volume rose by ~10% yoy (vs. 16%/7% for UTCEM/Dalmia Bharat) to 8.2mt. Capacity utilization was at ~71% vs. 65% yoy on a pan-India basis where East India utilization stood at 74% vs. 91% qoq due to heavy rains and commissioning of new capacity. Grey cement realization (adj. for power sales of Rs3.4bn in 2Q & Rs8.2bn in 1H) was up 2% qoq & 1% yoy. Our channel check & management interaction also indicates that prices have seen an improvement in Oct 2023, which led to realization for the month to be higher by ~5% vs. the 2Q average. SRCM has given FY24F volume growth guidance of ~12% and it expects a strong medium-term demand growth. We factor in FY24F/25F volume growth of 12%/9%, respectively

Profitability likely to improve further in 2HFY24F

Blended EBITDA/t improved by Rs21/t qoq to Rs1,081 (vs. our estimate of Rs1,024/t). Consumption of fuel on a Kcal basis was at Rs2.05 vs. Rs2.37 qoq and Rs2.84 yoy while management expects it to fall to Rs1.9 in 2HFY24F. Fuel mix (combination of pet-coke & coal) in 2Q was ~90% and the remaining was alternate fuel. The share of green power rose to 58.6% in 2Q (vs. 56% qoq/51% yoy) & SRCM targets ~63% in the coming quarters.

Yet another capacity addition; on track to achieve 80mtpa by 2028F

During 2QFY24, the company announced a new brownfield expansion of 3.4mt cement capacity in Chhattisgarh at a capex of Rs5.5bn (~US\$20/t), to be commissioned by Sep 2025F. Currently, the company is set to commission 3.5mtpa capacity in Rajasthan by 4QFY24F (earlier 3Q), and 3mtpa in Andhra Pradesh by 1QFY25F. The next phase of expansion of 12mt cement and 7.3mt clinker at a capex of Rs70bn (US\$70/t), spread over Rajasthan, Karnataka and Uttar Pradesh, will take the total capacity to 72mt by FY26F from 50mt currently. SRCM is actively working on achieving its goal of having ~80mtpa or beyond capacity by 2028F, with an aim to become a pan-India player. Acceleration in capacity expansion is owing to strong demand likely in the coming years.

See better opportunities compared to peers; retain REDUCE rating

SRCM trades at an EV/EBITDA of 20x & EV/t of US\$170 in FY25F, still at a premium to most of its peers, which should narrow as the profitability premium fell and there is limited room for an upside. We retain REDUCE rating on SRCM with a Sep 2024F TP of Rs24,200, set at one-year forward EV/EBITDA of 16x (unchanged). We find a better risk-reward ratio among peers. **Upside risks:** Better pricing growth & better-than-expected cost control.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	150,096	178,523	205,599	225,689	252,928
Operating EBITDA (Rsm)	37,079	29,595	41,218	47,213	53,247
Net Profit (Rsm)	23,319	12,707	20,199	22,764	26,213
Core EPS (Rs)	646.3	352.2	559.8	630.9	726.5
Core EPS Growth	2.0%	(45.5%)	59.0%	12.7%	15.1%
FD Core P/E (x)	40.65	74.59	46.92	41.64	36.16
DPS (Rs)	90.0	100.0	123.2	138.8	159.8
Dividend Yield	0.34%	0.38%	0.57%	0.64%	0.74%
EV/EBITDA (x)	25.09	31.70	22.92	20.04	17.48
P/FCFE (x)	362.56	205.39	(339.70)	198.11	38.42
Net Gearing	(10.3%)	(5.5%)	(1.8%)	(0.9%)	(7.4%)
P/BV (x)	5.43	5.09	4.71	4.35	4.00
ROE	14.2%	7.0%	10.4%	10.9%	11.5%
% Change In Core EPS Estimates			(0.47%)	(0.48%)	(0.47%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Capacity addition announcements galore

Figure 1: Consolidated quarterly performance

Particulars (Rs m)	2QFY24	2QFY24F	1QFY24	2QFY23	% Change		
					2QFY24F	1QFY24	2QFY23
Net Sales	48,002	46,997	50,648	40,380	2%	-5%	19%
Raw Materials Consumed	3,973	3,974	3,697	3,804	0%	7%	4%
Freight and Forwarding Expenses	9,824	9,989	10,759	8,684	-2%	-9%	13%
Power and Fuel Costs	15,369	15,234	16,982	13,778	1%	-9%	12%
Employee Costs	2,664	2,584	2,659	2,382	3%	0%	12%
Other Expenses	7,312	6,756	7,102	6,305	8%	3%	16%
Total Expenditure	39,141	38,537	41,199	34,953	2%	-5%	12%
EBITDA	8,860	8,460	9,449	5,428	5%	-6%	63%
Depreciation	4,117	4,080	3,395	3,956	1%	21%	4%
EBIT	4,743	4,380	6,055	1,471	8%	-22%	222%
Interest	671	772	743	660	-13%	-10%	2%
Other Income	1,320	1,792	1,691	1,593	-26%	-22%	-17%
PBT	5,392	5,400	7,002	2,405	0%	-23%	124%
Tax	926	1,080	1,283	572	-14%	-28%	62%
PAT before MI & Associates	4,466	4,320	5,719	1,832	3%	-22%	144%
Minority Interest	0	-4	-4	-1	-97%	-97%	-92%
Profit from Assoc.	0	0	0	0			
Recurring PAT	4,466	4,324	5,723	1,834	3%	-22%	144%
Extraordinary Items	0	0	0	0			
Reported PAT	4,466	4,324	5,723	1,834	3%	-22%	144%
EPS (Rs)	123.8	119.8	158.6	50.8	3%	-22%	144%
Gross Margin	39%	38%	38%	35%	137 bp	131 bp	429 bp
EBITDA Margin	18.5%	18.0%	18.7%	13.4%	46 bp	-20 bp	502 bp
EBIT Margin	10%	9%	12%	4%	56 bp	-207 bp	624 bp
PBT Margin	11%	11%	14%	6%	-26 bp	-259 bp	528 bp
PAT Margin	9%	9%	11%	5%	10 bp	-200 bp	476 bp
Tax Rate	17%	20%	18%	24%	-282 bp	-115 bp	-662 bp
Cost Items as a % of Sales							
Raw Material Costs	8%	8%	7%	9%	-18 bp	98 bp	-114 bp
Freight Costs	20%	21%	21%	22%	-79 bp	-78 bp	-104 bp
Power & Fuel Costs	32%	32%	34%	34%	-40 bp	-151 bp	-210 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

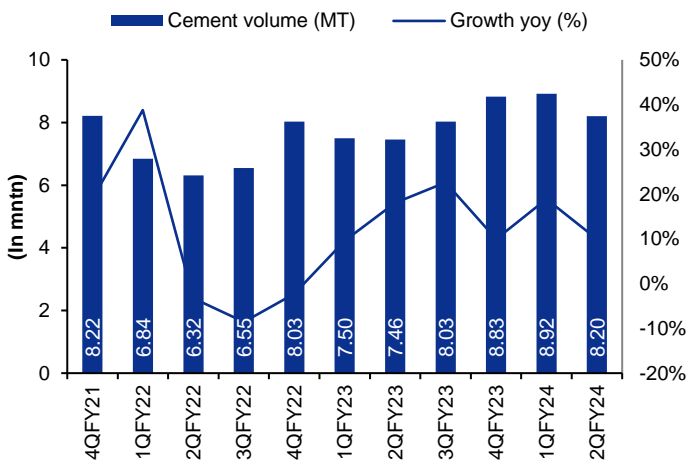
Figure 2: 2QFY24 results: Per tonne analysis

Per tonne analysis	2QFY24	2QFY24F	1QFY24	2QFY23	% Change		
					2QFY24F	1QFY24	2QFY23
Sales Volume (Cement + Clinker)	8.20	8.26	8.92	7.46	-0.7%	-8.1%	10.0%
Realization	5,854	5,689	5,678	5,416	2.9%	3.1%	8.1%
EBITDA/t	1,081	1,024	1,059	728	6%	2.0%	48.4%
Raw Material Costs/t	484	481	414	510	1%	17%	-5%
Power & Fuel Costs/t	1,874	1,844	1,904	1,848	2%	-2%	1%
Freight Costs/t	1,198	1,209	1,206	1,165	-1%	-1%	3%
Employee Costs/t	325	313	298	319	4%	9%	2%
Other Expenses/t	892	818	796	846	9%	12%	5%
Total Cost/t	4,773	4,665	4,619	4,688	2.3%	3.3%	1.8%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

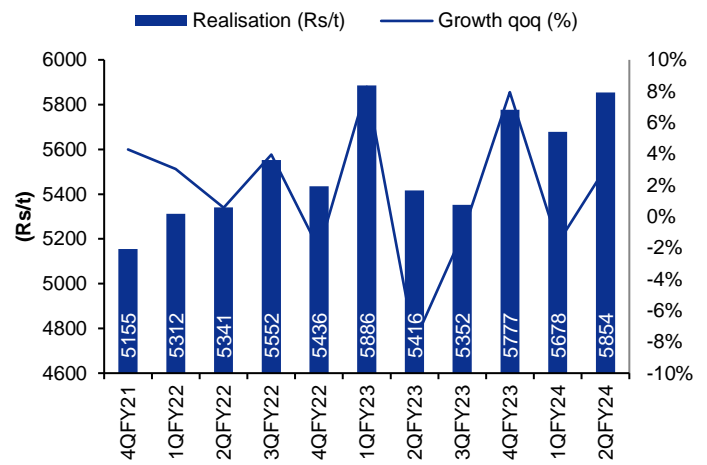
Key charts ▶

Figure 3: Cement sales volume, including clinker, increased by ~10% yoy to 8.2mt



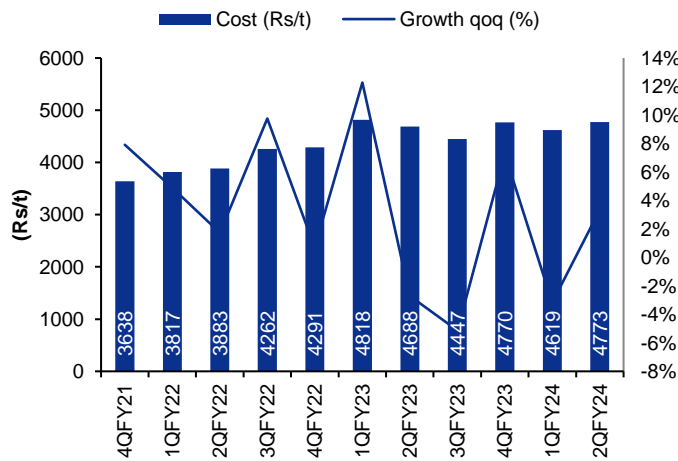
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Blended realization improved by ~3% qoq



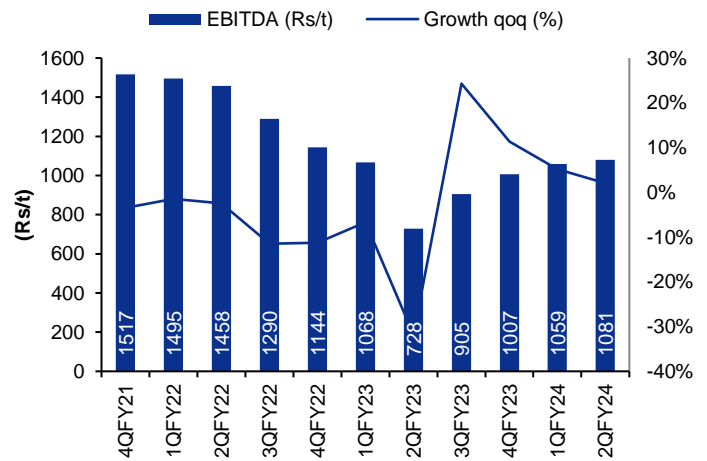
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Total operating blended costs/t up by ~3% qoq and ~2% yoy



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Blended unit EBITDA stood at Rs1,081, an improvement by Rs21 qoq and Rs353 yoy



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	New			Old			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Sales	2,05,599	2,25,689	2,52,928	2,01,695	2,20,516	2,42,953	2%	2%	4%
EBITDA	41,218	47,213	53,247	40,438	45,853	51,287	2%	3%	4%
PAT	20,199	22,764	26,213	17,981	21,137	24,672	11%	7%	6%
EPS (Rs.)	559.8	630.9	726.5	498	585	675	11%	7%	7%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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

Rs. m	Incred			Consensus			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Sales	2,05,599	2,25,689	2,52,928	2,04,327	2,27,717	2,57,741	1%	-1%	-2%
EBITDA	41,218	47,213	53,247	42,663	50,378	58,884	-3%	-6%	-10%
PAT	20,199	22,764	26,213	20,577	25,152	27,408	-2%	-9%	-4%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 9: Key assumptions

	FY22	FY23	FY24F	FY25F	FY26F
Volume (mtpa)	27.7	31.8	35.6	38.9	43.1
yoy	3%	15%	12%	9%	11%
Blended Realisation (per t)	5,411	5,611	5,779	5,803	5,872
yoy	7%	4%	3%	0%	1%
Cost (per t)	4,075	4,681	4,621	4,589	4,636
yoy	15%	15%	-1%	-1%	1%
EBITDA (per t)	1,337	930	1,159	1,214	1,236
yoy	-12%	-30%	25%	5%	2%
EBITDA (Rs m)	37,079	29,595	41,218	47,213	53,247
yoy	-9%	-20%	39%	15%	13%

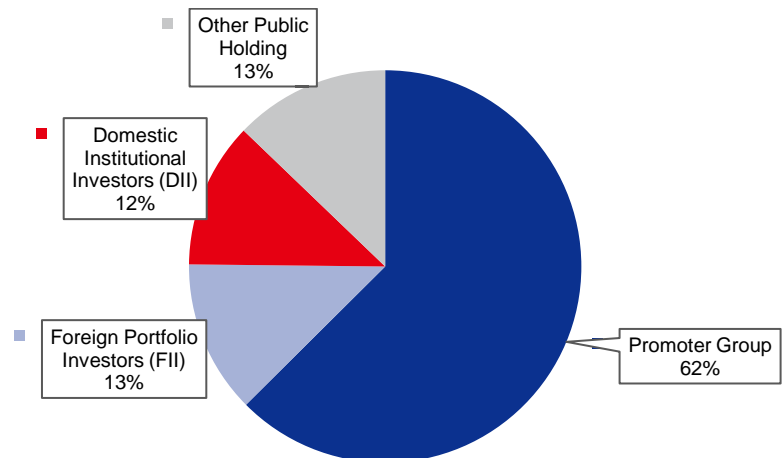
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Maintain REDUCE rating with a Sep 2024F target price of Rs24,200, set at a one-year forward EV/EBITDA of 16x

Valuation	TP
Target EV/EBITDA multiple (x)	16.0
Target EV (Rs m)	8,51,956
Net debt (Rs m)	(55,896)
No. of shares (m)	36
UAE plant @ book value	20,000
Value per share	554
Target price per share (Rs)	24,200

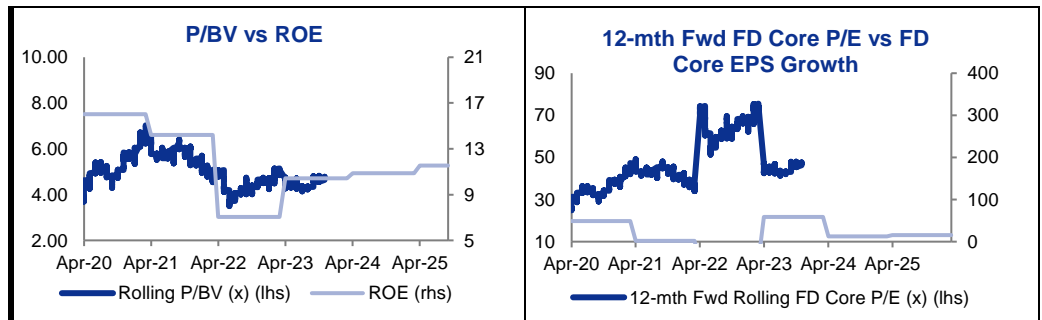
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	150,096	178,523	205,599	225,689	252,928
Gross Profit	150,096	178,523	205,599	225,689	252,928
Operating EBITDA	37,079	29,595	41,218	47,213	53,247
Depreciation And Amortisation	(11,459)	(16,607)	(17,769)	(20,968)	(23,064)
Operating EBIT	25,621	12,988	23,448	26,245	30,183
Financial Income/(Expense)	(2,161)	(2,629)	(2,997)	(2,907)	(2,834)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,459	4,591	6,106	6,594	7,122
Profit Before Tax (pre-EI)	28,918	14,950	26,557	29,933	34,471
Exceptional Items					
Pre-tax Profit	28,918	14,950	26,557	29,933	34,471
Taxation	(5,552)	(2,259)	(6,374)	(7,184)	(8,273)
Exceptional Income - post-tax					
Profit After Tax	23,366	12,691	20,184	22,749	26,198
Minority Interests	(47)	16	16	16	16
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,319	12,707	20,199	22,764	26,213
Recurring Net Profit	23,319	12,707	20,199	22,764	26,213
Fully Diluted Recurring Net Profit	23,319	12,707	20,199	22,764	26,213

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	37,079	29,595	41,218	47,213	53,247
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,984	(478)	2,923	(3,799)	(960)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	5,459	4,591	6,106	6,594	7,122
Other Operating Cashflow	(10,129)	(3,133)	(1,633)	(133)	1,368
Net Interest (Paid)/Received	(2,161)	(2,629)	(2,997)	(2,907)	(2,834)
Tax Paid	(5,552)	(2,259)	(6,374)	(7,184)	(8,273)
Cashflow From Operations	26,680	25,687	39,244	39,784	49,670
Capex	(22,094)	(32,791)	(35,500)	(35,500)	(30,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	581	8,646	(7,534)	(500)	4,500
Cash Flow From Investing	(21,514)	(24,145)	(43,034)	(36,000)	(26,000)
Debt Raised/(repaid)	(2,552)	3,072	1,000	1,000	1,000
Proceeds From Issue Of Shares	(8)	(9)	31	31	31
Shares Repurchased					
Dividends Paid	(3,247)	(3,608)	(5,377)	(6,060)	(6,978)
Preferred Dividends					
Other Financing Cashflow	(2,687)	(2,223)	2,617	617	(1,183)
Cash Flow From Financing	(8,494)	(2,767)	(1,729)	(4,412)	(7,130)
Total Cash Generated	(3,328)	(1,225)	(5,519)	(627)	16,540
Free Cashflow To Equity	2,614	4,615	(2,790)	4,784	24,670
Free Cashflow To Firm	7,327	4,171	(793)	6,691	26,504

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	38,160	35,588	30,069	29,442	45,982
Total Debtors	7,883	12,116	11,829	12,985	14,552
Inventories	24,970	27,597	28,164	32,153	36,034
Total Other Current Assets	13,691	14,379	15,214	18,055	20,234
Total Current Assets	84,703	89,679	85,277	92,635	116,802
Fixed Assets	72,822	74,809	92,040	106,072	113,008
Total Investments	55,063	52,853	53,353	53,853	54,353
Intangible Assets	10,535	27,966	35,000	35,000	30,000
Total Other Non-Current Assets	14,365	18,033	18,533	19,033	19,533
Total Non-current Assets	152,786	173,660	198,925	213,957	216,893
Short-term Debt	7,158	19,590	20,090	20,590	21,090
Current Portion of Long-Term Debt					
Total Creditors	8,904	11,960	13,530	14,205	15,833
Other Current Liabilities	30,802	35,772	38,241	41,753	46,792
Total Current Liabilities	46,864	67,321	71,861	76,547	83,714
Total Long-term Debt	12,983	5,809	6,309	6,809	7,309
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,535	3,440	4,440	4,940	5,140
Total Non-current Liabilities	15,519	9,249	10,749	11,749	12,449
Total Provisions					
Total Liabilities	62,383	76,570	82,610	88,296	96,163
Shareholders Equity	174,603	186,364	201,186	217,891	237,126
Minority Interests	503	406	406	406	406
Total Equity	175,106	186,770	201,592	218,296	237,532

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	10.7%	18.9%	15.2%	9.8%	12.1%
Operating EBITDA Growth	(9.1%)	(20.2%)	39.3%	14.5%	12.8%
Operating EBITDA Margin	24.7%	16.6%	20.0%	20.9%	21.1%
Net Cash Per Share (Rs)	499.38	282.42	101.74	56.63	487.34
BVPS (Rs)	4,839.32	5,165.30	5,576.11	6,039.10	6,572.23
Gross Interest Cover	11.85	4.94	7.82	9.03	10.65
Effective Tax Rate	19.2%	15.1%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	13.9%	28.4%	26.6%	26.6%	26.6%
Accounts Receivables Days	17.92	20.44	21.25	20.07	19.87
Inventory Days	51.22	53.74	49.50	48.77	49.20
Accounts Payables Days	28.64	25.57	28.30	28.36	27.45
ROIC (%)	24.5%	10.2%	15.7%	15.7%	17.7%
ROCE (%)	13.9%	6.4%	10.7%	11.1%	11.8%
Return On Average Assets	11.3%	6.1%	8.5%	8.7%	9.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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