

India

REDUCE (no change)

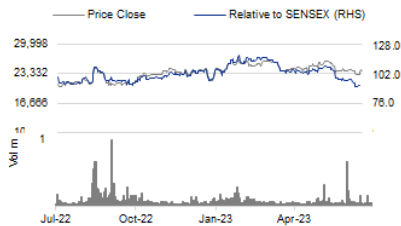
Consensus ratings*: Buy 10 Hold 18 Sell 16

Current price:	Rs23,870
Target price:	Rs22,900 ▲
Previous target:	Rs22,390
Up/downside:	-4.1%
InCred Research / Consensus:	-5.5%
Reuters:	SHCM.NS
Bloomberg:	SRCM IN
Market cap:	US\$11,860m Rs861,231m
Average daily turnover:	US\$17.5m Rs1273.2m
Current shares o/s:	36.1m
Free float:	73.8%

*Source: Bloomberg

Key changes in this note

- Net sales maintained for FY24F-25F.
- EBITDA broadly maintained for FY24F-25F.
- Introduce FY26F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.6)	0.5	13.5
Relative (%)	(4.1)	(7.3)	(2.6)

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

In-line 1Q; details new expansion phase

- 1QFY24 consolidated EBITDA stood at Rs9.44bn (our estimate: Rs9.5bn), up 18% yoy and 6% qoq. Volume grew 19% yoy to 8.92mt, in line with our estimate.
- SRCM has announced the next phase of expansion (12mtpa cement & 7.3mt clinker) at a cost of US\$71/t, taking its total capacity to 68mtpa by FY26F.
- We broadly maintain our EBITDA estimates. Retain REDUCE rating on the stock due to rich valuation and the ongoing non-operational issues.

In-line 1Q volume performance while cement realization down 2%qoq

Shree Cement or SRCM's 1QFY24 cement volume, including clinker, rose by ~19% yoy (in line with UTCEM and ahead of the industry) to 8.92mt. Capacity utilization was at ~79%. Region-wise, North India stood at 80%, East at 92% and South at ~70% in 1QFY24. Grey cement realization (adj. for power sales - figures not disclosed) was down 2% qoq and 4% yoy, in line with estimate. Our recent channel check and mgmt. interaction also indicates that current prices have been under pressure but saw some improvement in Jul 2023. SRCM retained its ~13% volume growth guidance for FY24F (36mt) and it expects double-digit industry growth in FY24F. We factor in FY24F/25F volume growth of 13%/8%, respectively.

Profitability broadly in line; cost tailwinds to aid margins

Blended EBITDA/t improved by Rs52 qoq to Rs1,059 (vs. our estimate of Rs1,063). Consumption of fuel on a Kcal basis was at Rs2.37 vs. Rs2.53 qoq and Rs2.64 yoy while spot pet-coke prices stood at Rs1.8. The pet-coke mix in 1QFY24 stood at ~81% vs. 76% qoq and 60% yoy. SRCM expects its fuel cost to decline in the coming quarters.

Expansion plan on track; new capex announced at attractive cost

During 1Q, SRCM started trial production of its 3mtpa clinker grinding facility in West Bengal. Currently, it is on track of commissioning 3.5mtpa capacity in Rajasthan by 3QFY24F, and 3mtpa in Andhra Pradesh by 2QFY25F. SRCM announced the next phase of expansion of 12mt cement and 7.3mt clinker at a capex of Rs70bn (US\$70/t). The new capacity is spread over Rajasthan, Karnataka and Uttar Pradesh and will take total capacity to 68mt by FY26F from 50mt currently. SRCM is actively working on achieving its goal of having 80mtpa or beyond capacity by 2030F, with an aim to become a pan-India player. The acceleration in capacity expansion is because of strong demand expectations in the coming years. The company have capex guidance of Rs35bn for FY24F/25F.

See better opportunities among peers; maintain REDUCE rating

SRCM trades at EV/EBITDA of 18.7x FY25F, still ~15% premium to UTCEM, which should narrow as the profitability premium fell in the past couple years. We retain REDUCE rating on it with a Sep 2024F target price of Rs22,900, set at one-year forward EV/EBITDA of 16x (unchanged). We find a better risk-reward ratio among peers. **Upside risks:** Better-pricing growth, value-accretive acquisition, and better-than-expected cost control.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	150,096	178,523	201,695	220,516	238,953
Operating EBITDA (Rsm)	37,079	29,595	40,438	45,853	50,287
Net Profit (Rsm)	23,319	12,707	17,981	20,537	22,672
Core EPS (Rs)	646.3	352.2	498.4	569.2	628.4
Core EPS Growth	2.0%	(45.5%)	41.5%	14.2%	10.4%
FD Core P/E (x)	36.93	67.77	47.90	41.93	37.99
DPS (Rs)	90.0	100.0	109.6	125.2	138.2
Dividend Yield	0.38%	0.42%	0.56%	0.63%	0.70%
EV/EBITDA (x)	22.75	28.77	21.22	18.77	16.85
P/FCFE (x)	329.42	186.62	(252.90)	277.16	40.27
Net Gearing	(10.3%)	(5.5%)	(1.8%)	(0.4%)	(6.1%)
P/BV (x)	4.93	4.62	4.32	4.01	3.72
ROE	14.2%	7.0%	9.3%	9.9%	10.2%
% Change In Core EPS Estimates			(0.52%)	(0.51%)	(0.50%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

In-line 1Q; details new expansion phase

Figure 1: Consolidated quarterly performance

Particulars (Rs m)	1QFY24	1QFY24F	4QFY23	1QFY23	% Change		
					1QFY24F	4QFY23	1QFY23
Net Sales	50,648	51,449	51,002	44,149	-2%	-1%	15%
Raw Materials Consumed	3,697	4,419	5,322	2,499	-16%	-31%	48%
Freight and Forwarding Expenses	10,759	10,553	10,501	9,145	2%	2%	18%
Power and Fuel Costs	16,982	16,403	17,219	15,137	4%	-1%	12%
Employee Costs	2,659	2,746	2,482	2,434	-3%	7%	9%
Other Expenses	7,102	7,726	6,586	6,925	-8%	8%	3%
Total Expenditure	41,199	41,848	42,110	36,140	-2%	-2%	14%
EBITDA	9,449	9,602	8,892	8,008	-2%	6%	18%
Depreciation	3,395	4,750	4,728	3,497	-29%	-28%	-3%
EBIT	6,055	4,852	4,164	4,512	25%	45%	34%
Interest	743	752	713	554	-1%	4%	34%
Other Income	1,691	1,373	1,457	-201	23%	16%	-941%
PBT	7,002	5,473	4,908	3,756	28%	43%	86%
Tax	1,283	1,095	-344	968	17%	-473%	33%
PAT before MI & Associates	5,719	4,378	5,252	2,789	31%	9%	105%
Minority Interest	-4	-4	-6	-6	-8%	-36%	-44%
Profit from Assoc.	0	0	0	0			
Recurring PAT	5,723	4,382	5,258	2,795	31%	9%	105%
Extraordinary Items	0	0	0	0			
Reported PAT	5,723	4,382	5,258	2,795	31%	9%	105%
EPS (Rs)	158.6	121.5	145.7	77.5	31%	9%	105%
Gross Margin	38%	39%	35%	39%	-109 bp	271 bp	-141 bp
EBITDA Margin	18.7%	18.7%	17.4%	18.1%	-1 bp	122 bp	52 bp
EBIT Margin	12%	9%	8%	10%	252 bp	379 bp	174 bp
PBT Margin	14%	11%	10%	9%	319 bp	420 bp	532 bp
PAT Margin	11%	9%	10%	6%	278 bp	99 bp	497 bp
Tax Rate	18%	20%	-7%	26%	-168 bp	2,533 bp	-744 bp
Cost Items as % of Sales							
Raw Material Costs	7%	9%	10%	6%	-129 bp	-313 bp	164 bp
Freight Cost	21%	21%	21%	21%	73 bp	65 bp	53 bp
P&F Costs	34%	32%	34%	34%	165 bp	-23 bp	-76 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

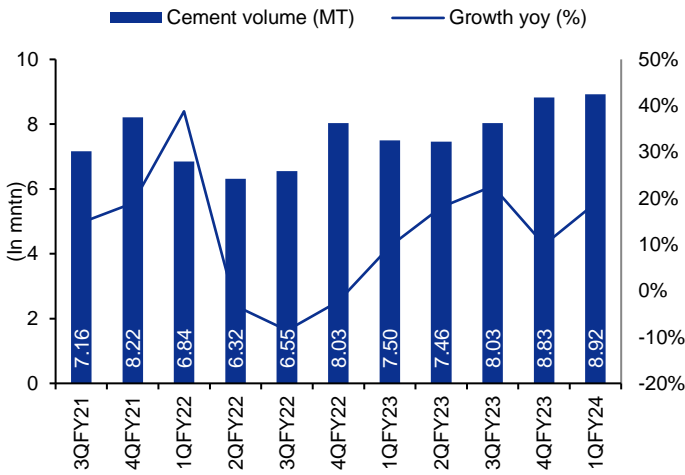
Figure 2: 1QFY24 results: Per tonne analysis

Per tonne analysis	1QFY24	1QFY24F	4QFY23	1QFY23	% Change		
					1QFY24F	4QFY23	1QFY23
Sales volume (cement + clinker)	8.92	9.03	8.83	7.50	-1.2%	1.0%	18.9%
Realization	5,678	5,696	5,777	5,886	-0.3%	-1.7%	-3.5%
EBITDA/t	1,059	1,063	1,007	1,068	0%	5.2%	-0.8%
Raw material cost/t	414	489	603	333	-15%	-31%	24%
P&F costs/t	1,904	1,816	1,950	2,018	5%	-2%	-6%
Freight cost/t	1,206	1,168	1,189	1,219	3%	1%	-1%
Employee cost/t	298	304	281	324	-2%	6%	-8%
Other expenses/t	796	855	746	923	-7%	7%	-14%
Total cost/t	4,619	4,633	4,770	4,818	-0.3%	-3.2%	-4.1%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

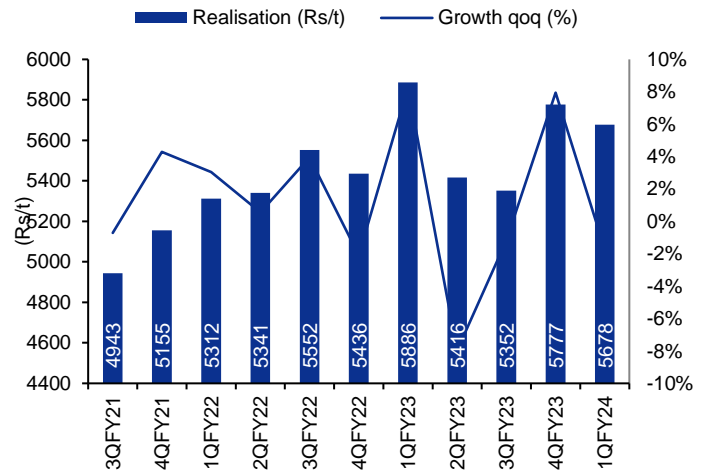
Key charts ➔

Figure 3: Cement sales volume, including clinker, increased by ~19% yoy to 8.92mnt



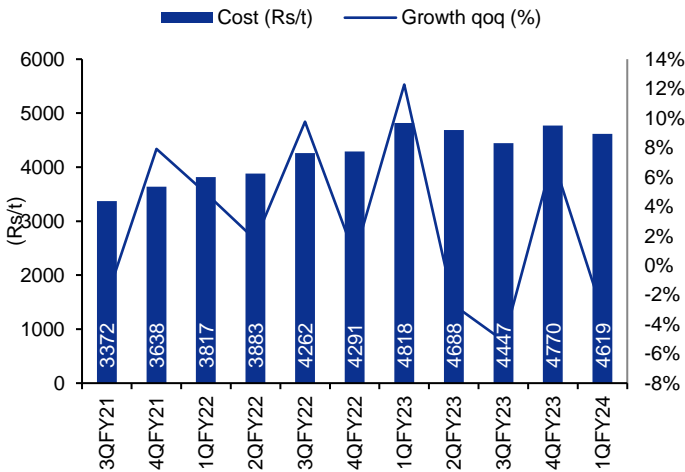
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Blended realization declined by ~1.7% qoq and ~3.5% yoy while grey cement realization remains flat qoq



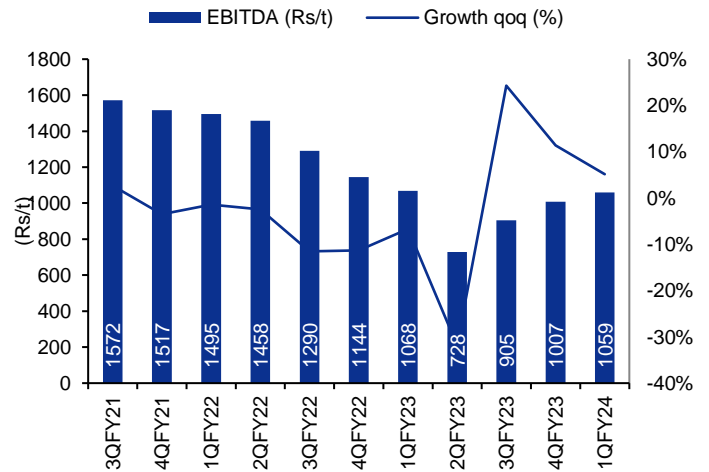
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Total operating blended cost/t was down by ~3% qoq and ~4% yoy



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Blended unit EBITDA stood at Rs1,059, improving by Rs52 qoq and remaining flat yoy



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	New		Old		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	2,01,695	2,20,516	1,99,610	2,18,244	1%	1%
EBITDA	40,438	45,853	40,020	45,602	1%	1%
Recurring PAT	17,981	20,537	18,362	22,254	-2%	-8%
EPS (Rs.)	498.4	569.2	509	617	-2%	-8%

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	2,01,695	2,20,516	2,00,377	2,22,838	1%	-1%
EBITDA	40,438	45,853	41,793	49,900	-3%	-8%
PAT	17,981	20,537	21,515	27,066	-16%	-24%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 9: Key assumptions

	FY22	FY23	FY24F	FY25F	FY26F
Volume (mtpa)	27.7	31.8	35.9	38.9	41.8
yoy	3%	15%	13%	8%	7%
Blended Realisation (per t)	5,411	5,611	5,611	5,662	5,718
yoy	7%	4%	0%	1%	1%
Cost (per t)	4,075	4,681	4,486	4,484	4,515
yoy	15%	15%	-4%	0%	1%
EBITDA (per t)	1,337	930	1,125	1,177	1,203
yoy	-12%	-30%	21%	5%	2%
EBITDA (Rs m)	37,079	29,595	40,438	45,853	50,287
yoy	-9%	-20%	37%	13%	10%

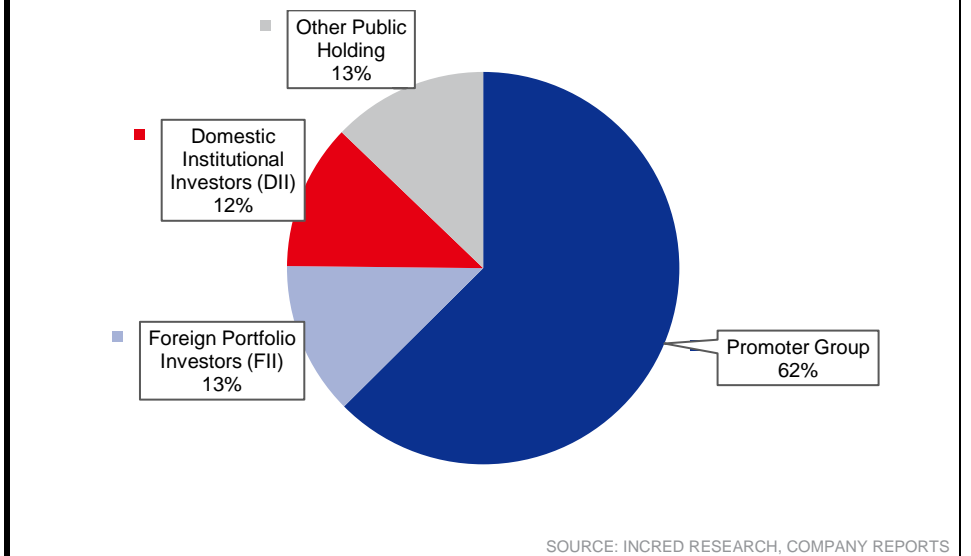
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Maintain REDUCE rating with a Sep 2024F target price of Rs22,900, set at a one-year forward EV/EBITDA of 16x

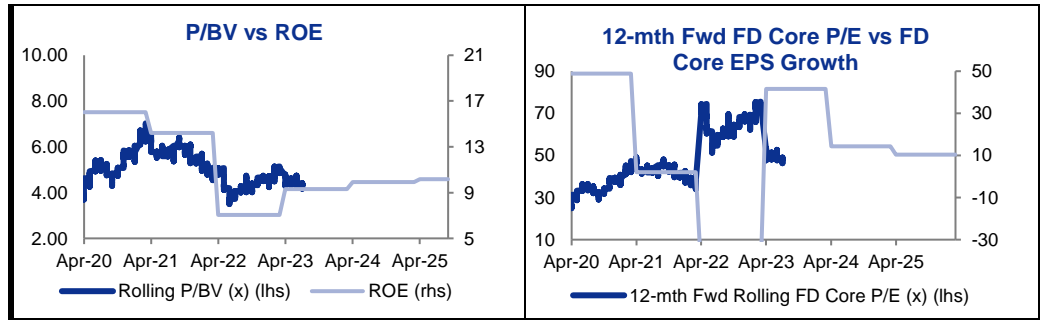
Valuation	TP
Target EV/EBITDA multiple (x)	16.0
Target EV (Rs m)	8,04,593
Net debt (Rs m)	(54,787)
No. of shares (m)	36
UAE plant @ book value	20,000
Value per share	554
Target price per share (Rs)	22,900

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	150,096	178,523	201,695	220,516	238,953
Gross Profit	150,096	178,523	201,695	220,516	238,953
Operating EBITDA	37,079	29,595	40,438	45,853	50,287
Depreciation And Amortisation	(11,459)	(16,607)	(19,430)	(21,373)	(23,083)
Operating EBIT	25,621	12,988	21,008	24,480	27,204
Financial Income/(Expense)	(2,161)	(2,629)	(2,970)	(2,911)	(2,853)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,459	4,591	5,601	5,433	5,460
Profit Before Tax (pre-EI)	28,918	14,950	23,638	27,002	29,812
Exceptional Items					
Pre-tax Profit	28,918	14,950	23,638	27,002	29,812
Taxation	(5,552)	(2,259)	(5,673)	(6,480)	(7,155)
Exceptional Income - post-tax					
Profit After Tax	23,366	12,691	17,965	20,521	22,657
Minority Interests	(47)	16	16	16	16
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,319	12,707	17,981	20,537	22,672
Recurring Net Profit	23,319	12,707	17,981	20,537	22,672
Fully Diluted Recurring Net Profit	23,319	12,707	17,981	20,537	22,672

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	37,079	29,595	40,438	45,853	50,287
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,984	(478)	2,866	(3,654)	(721)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	5,459	4,591	5,601	5,433	5,460
Other Operating Cashflow	(10,129)	(3,133)	(1,633)	(133)	1,368
Net Interest (Paid)/Received	(2,161)	(2,629)	(2,970)	(2,911)	(2,853)
Tax Paid	(5,552)	(2,259)	(5,673)	(6,480)	(7,155)
Cashflow From Operations	26,680	25,687	38,629	38,107	46,386
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)	(4,787)	(5,467)	(6,035)
Preferred Dividends					
Other Financing Cashflow	(2,687)	(2,223)	2,617	617	(1,183)
Cash Flow From Financing	(8,494)	(2,767)	(1,138)	(3,819)	(6,187)
Total Cash Generated	(3,328)	(1,225)	(5,544)	(1,712)	14,199
Free Cashflow To Equity	2,614	4,615	(3,405)	3,107	21,386
Free Cashflow To Firm	7,327	4,171	(1,435)	5,018	23,239

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	30,044	28,333	42,531
Total Debtors	7,883	12,116	11,604	12,687	13,748
Inventories	24,970	27,597	27,629	31,416	34,043
Total Other Current Assets	13,691	14,379	14,925	17,641	19,116
Total Current Assets	84,703	89,679	84,204	90,077	109,438
Fixed Assets	72,822	74,809	90,379	104,006	110,923
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	197,264	211,891	214,809
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	13,150	13,801	14,831
Other Current Liabilities	30,802	35,772	37,515	40,795	44,206
Total Current Liabilities	46,864	67,321	70,755	75,186	80,127
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	81,504	86,935	92,576
Shareholders Equity	174,603	186,364	199,558	214,628	231,265
Minority Interests	503	406	406	406	406
Total Equity	175,106	186,770	199,964	215,034	231,671

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	10.7%	18.9%	13.0%	9.3%	8.4%
Operating EBITDA Growth	(9.1%)	(20.2%)	36.6%	13.4%	9.7%
Operating EBITDA Margin	24.7%	16.6%	20.0%	20.8%	21.0%
Net Cash Per Share (Rs)	499.38	282.42	101.06	25.90	391.71
BVPS (Rs)	4,839.32	5,165.30	5,531.00	5,948.68	6,409.79
Gross Interest Cover	11.85	4.94	7.07	8.41	9.54
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	21.46	20.10	20.19
Inventory Days	51.22	53.74	49.97	48.87	49.99
Accounts Payables Days	28.64	25.57	28.42	28.16	27.70
ROIC (%)	24.5%	10.2%	14.3%	14.8%	16.2%
ROCE (%)	13.9%	6.4%	9.6%	10.4%	10.8%
Return On Average Assets	11.3%	6.1%	7.7%	8.0%	8.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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