

HOLD

TP: Rs 24,656 | ▼ 0%

SHREE CEMENT

| Cement

| 24 May 2023

High-cost fuel inventory weighs on margins

- **Healthy Q4 revenue gains driven by both volumes (+10% YoY) and realisations (+6%)**
- **Expensive fuel inventory hurt EBITDA margin (18.7% vs. 22.2% in Q4FY22)**
- **Maintain HOLD with an unchanged TP of Rs 24,656, based on 15x FY25E EV/EBITDA**

Strong topline growth: SRCM's revenue grew 17%/18% YoY/QoQ to Rs 47.8bn in Q4FY23, aided by volume growth of 10% YoY/QoQ to 8.8mn tonnes (clinker sales of 0.2mt). Realisations grew 6%/7% YoY/QoQ to Rs 5,420/t. Higher volumes were helped by the eastern (82% capacity utilisation) and northern (80%) regions.

Energy expenses rise due to high-cost inventory: Operating cost increased 11%/5% YoY/QoQ to Rs 4,409/t as energy cost grew 33%/10% YoY/QoQ to Rs 1,782/t. While pet coke prices softened QoQ, SRCM's fuel cost stayed flat at Rs 2.5/kcal owing to high-cost inventory. Raw material cost (adj. for inventory) increased 16%/38% YoY/QoQ to Rs 478/t. Logistic cost was flat YoY/QoQ at Rs 1,168/t. Other expenditure was well controlled, rising just 2%/4% YoY/QoQ to Rs 6.4bn despite double-digit volume gains.

EBITDA falls despite strong sales: Q4 EBITDA dipped 2% YoY (+26% QoQ) to Rs 8.9bn with steep YoY margin contraction from 22.2% to 18.7% (17.4% in Q3FY23). EBITDA/t declined 11% YoY (+15% QoQ) to Rs 1,011/t (SRCM does not share segment data hence EBITDA/t is aggregated). PAT fell 15% YoY (+97% QoQ) to Rs 5.5bn but showed a decline of 39% YoY (+42% QoQ) to Rs 3.9bn after considering reversal of a Rs 1.5bn tax provision of earlier years.

Capacity expansion plans: Commissioning of the Purulia (West Bengal) grinding unit with 3mtpa capacity is scheduled by end-Q1FY24 and the 3.5mtpa Nawalgarh (Rajasthan) unit by Q3. The 3mtpa integrated cement unit in Guntur, Andhra Pradesh, is to be commissioned by FY25.

Maintain HOLD: SRCM's drive to add capacity continues unabated. Healthy cash flows should help fuel this growth and preserve financial and operational levers in the medium term. Opex too is relatively better than industry and we forecast healthy ROE/ROCE of ~14% in FY25. However, current valuations of 16x FY25E EV/EBITDA offer little upside potential. We retain our TP of Rs 24,656, set at an unchanged 15x FY25E EV/EBITDA – 2.25x over the industry replacement cost. HOLD.

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Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SRCM IN/Rs 24,766
Market cap	US\$ 10.9bn
Free float	37%
3M ADV	US\$ 10.7mn
52wk high/low	Rs 27,049/Rs 17,865
Promoter/FPI/DII	63%/13%/12%

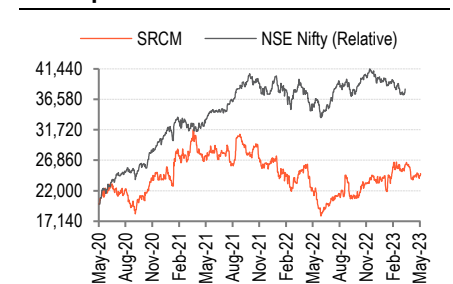
Source: NSE | Price as of 23 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,68,375	1,91,300	2,18,529
EBITDA (Rs mn)	29,423	40,321	50,638
Adj. net profit (Rs mn)	11,739	20,460	28,829
Adj. EPS (Rs)	325.0	566.5	798.2
Consensus EPS (Rs)	325.0	605.0	735.0
Adj. ROAE (%)	6.7	10.7	13.5
Adj. P/E (x)	76.2	43.7	31.0
EV/EBITDA (x)	27.3	19.9	15.5
Adj. EPS growth (%)	(50.4)	74.3	40.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY23	Q3FY23	Our view
Volume and Realisation	<p>Management targets FY24 volume growth of 12-13% against estimated market growth of 7-8% at 36mt.</p> <p>Capacity utilisation was at 78% in Q4FY23 vs. 71% in Q4FY22. In the northern region, it was 80%, east 82% and south 65% due to SRCM's new unit.</p> <p>Spot realisations (1QFY24) have come down slightly as compared to Q4FY23.</p> <p>Premium product share stood at 7.5% vs. 6.5% in Q4FY22; management targets 15% share by FY24 which is guided to contributed Rs 50 to EBITDA/t.</p> <p>Trade share was at 80%.</p>	<p>Capacity utilisation in Q3FY23 improved to 72% from 61% in Q3FY22.</p> <p>Management indicated that the current prices are equal to Q3FY23 exit prices.</p> <p>Premium product share stood at 7% of total sales. SRCM expects this to increase to ~15% over 3-4 quarters.</p> <p>Trade mix has been stable at 78-80% over the past three quarters.</p>	<p>SRCM's basic USP off late has been volume-driven growth. We note a strategic shift towards brand focus. This may impact revenue growth unless fully compensated for by realisation gains.</p>
Margins	<p>Fuel cost was at Rs 2.53/kcal in Q4FY23, the same as in Q3FY23 because SRCM is still carrying high-cost inventory. However, management indicated that pet coke prices are currently at ~Rs 1.8/kcal and thermal coal at Rs 2/kcal. It thus expects cost to reduce to Rs 2.35/kcal in Q1FY24 and to decline further in Q2.</p> <p>In terms of fuel mix, pet coke constituted 76% vs. 50% in Q4FY22 as its prices are lower than coal.</p> <p>SRCM's thermal coal substitution rate was 4.35% against 4.20% in Q4FY22.</p>	<p>Fuel cost was at Rs 2.53/kcal in Q3FY23, which has now come down to Rs 2.35/kcal, per management. SRCM expects cost to reduce further in Q4FY23.</p> <p>The fuel mix was 58% pet coke, 28% coal and ~14% alternate fuel.</p> <p>Management expects Q4 EBITDA/t to improve to Rs 1,000/t.</p> <p>SRCM intends to improve the thermal coal substitution rate from 3% (FY22) to 15% (FY24).</p>	<p>A rare slip in inventory management elevated the cost structure in Q4. Quick course correction is necessary to support margins.</p>
Capex	<p>Capex in FY23 was Rs 33bn.</p> <p>SRCM expects to spend Rs 33bn-35bn in FY24 (includes capex for new projects to be announced).</p>	<p>9MFY23 capex was Rs 22bn, including that of subsidiaries.</p> <p>In Q4FY23, management expects to spend close to Rs 7bn-8bn, taking the total capex to ~Rs 29bn in FY23.</p> <p>For FY24, management guides for a range of Rs 33bn-35bn.</p>	<p>Capex remains elevated. SRCM needs to sustain a strong volume-driven performance, else the capacity and dispatch gap will remain high.</p>
Other key points	<p>Capacity expansion is to be funded through internal accruals only and SRCM aims to reach 30mt of organic capacity by 2030.</p> <p>Net cash as of Q4 stood at Rs 57bn.</p>	<p>Gross debt at end-Q4 was ~Rs 83bn and net cash at Rs 57bn.</p>	<p>Balance sheet concerns remain low.</p>

Source: Company, BOBCAPS Research

Fig 2 – Key metrics

(Rs)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Volumes (mn mt)	8.8	8.0	10.0	8.0	9.9
Cement realisations (Rs/mt)	5,420	5,105	6.2	5,065	7.0
Operating costs (Rs/mt)*	4,409	3,971	11.0	4,184	5.4
EBITDA (Rs/mt)	1,011	1,134	(10.9)	881	14.7

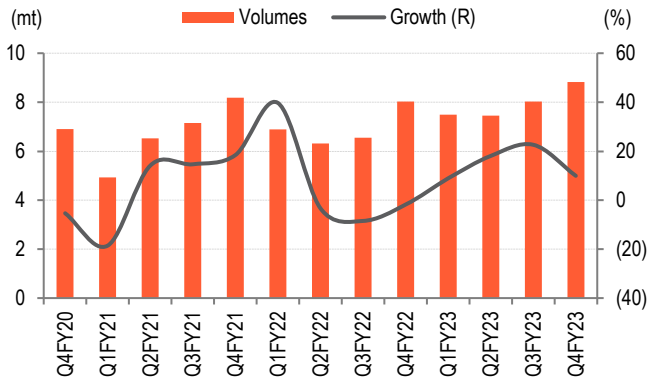
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net Sales	47,851	40,988	16.7	40,688	17.6
Expenditure					
Change in stock	209	589	(64.5)	(326)	(164.1)
Raw material	4,008	2,720	47.4	3,100	29.3
purchased products	95	221	(56.8)	57	-
Power & fuel	15,729	10,728	46.6	13,027	20.7
Freight	10,308	9,413	9.5	9,429	9.3
Employee costs	2,209	1,967	12.3	2,179	1.4
Other exp	6,369	6,245	2.0	6,143	3.7
Total Operating Expenses	38,927	31,882	22.1	33,608	15.8
EBITDA	8,925	9,106	(2.0)	7,080	26.1
EBITDA margin (%)	18.7	22.2	(357bps)	17.4	125bps
Other Income	1,353	1,381	(2.0)	1,612	(16.1)
Interest	726	536	35.6	714	1.7
Depreciation	4,419	3,013	46.6	4,136	6.9
PBT	5,132	6,938	(26.0)	3,842	33.6
Non-recurring items	1,543	0	-	0	-
PBT (after non-recurring items)	6,675	6,938	(3.8)	3,842	73.7
Tax	1,213	486	149.6	1,074	12.9
Reported PAT	5,462	6,452	(15.3)	2,768	97.4
Adjusted PAT	3,919	6,452	(39.3)	2,768	41.6
NPM (%)	8.2	15.7	(755bps)	6.8	139bps
Adjusted EPS (Rs)	109	179	(39.3)	77	41.6

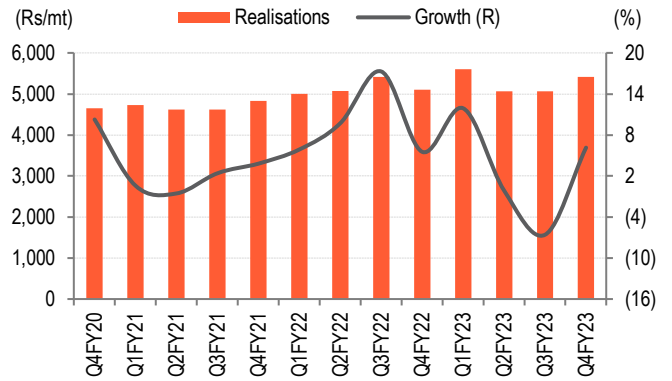
Source: Company, BOBCAPS Research

Fig 4 – Shift towards branding impacts volume growth



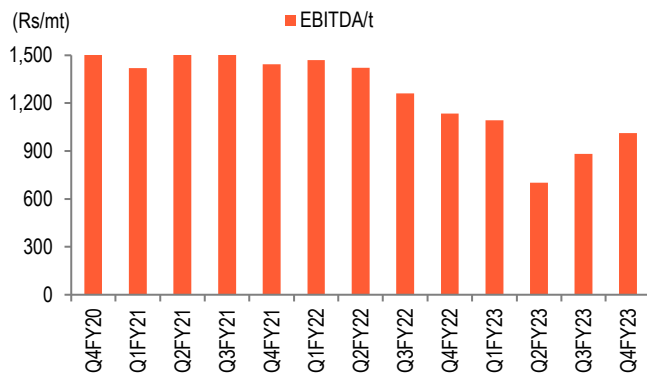
Source: Company, BOBCAPS Research

Fig 5 – Realisations have further headroom to grow



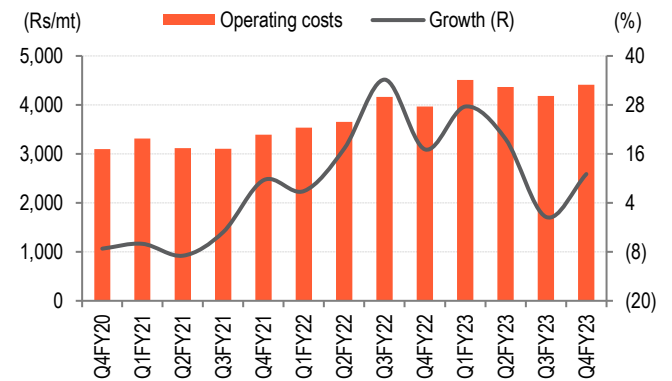
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t continues to be impacted by higher cost



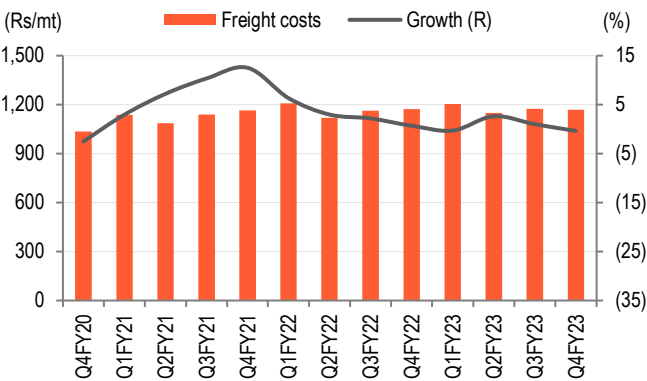
Source: Company, BOBCAPS Research

Fig 7 – Expensive fuel inventory kept overall cost elevated



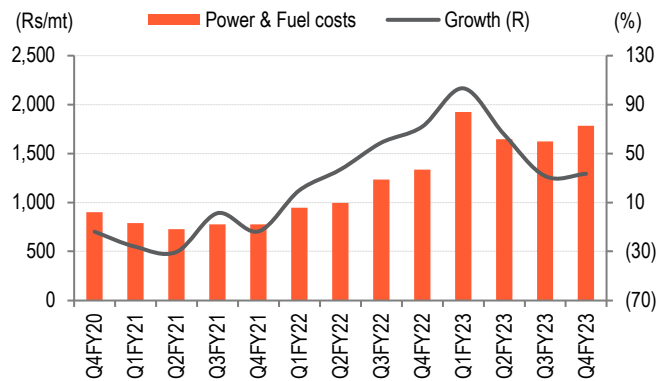
Source: Company, BOBCAPS Research

Fig 8 – Higher lead distance and fuel cost raised logistics expense



Source: Company, BOBCAPS Research

Fig 9 – Softening input cost to be reflected from Q1FY24



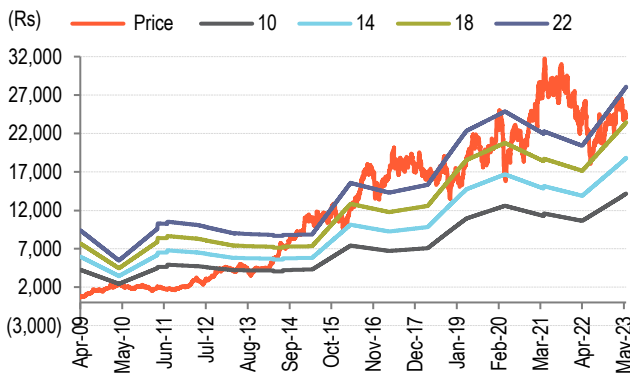
Source: Company, BOBCAPS Research

Valuation methodology

SRCM's drive to add capacity continues unabated. Healthy cash flows should help fuel this growth and preserve financial and operational levers in the medium term. Opex too is relatively better than industry and we forecast healthy ROE/ROCE of ~14% in FY25. The company's USP remains volume-led growth and opex management, aiding margin gains. However, its recent shift towards brand focus over volume gains has yielded limited results thus far. Further, a lack of disclosures on its other segments restricts clarity on pure cement performance. We expect SRCM to address this in the near term.

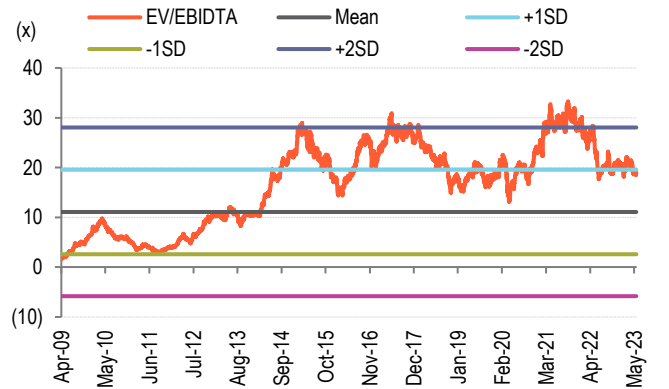
On the whole, stock price upsides look capped at current valuations of 16x FY25E EV/EBITDA. We retain HOLD with an unchanged TP of Rs 24,656, set at 15x FY25E EV/EBITDA, implying a replacement cost of Rs 16.8bn/mt (2.25x over the industry average).

Fig 10 – EV/EBITDA Chart: Valuations running ahead of earnings



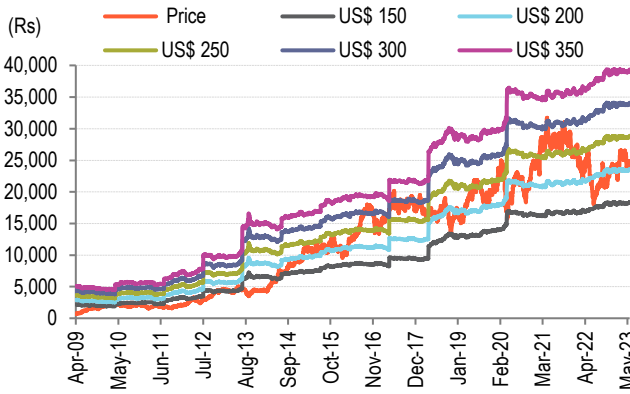
Source: Company, BOBCAPS Research

Fig 11 – EV/EBITDA SD Band: Recent correction reflects performance



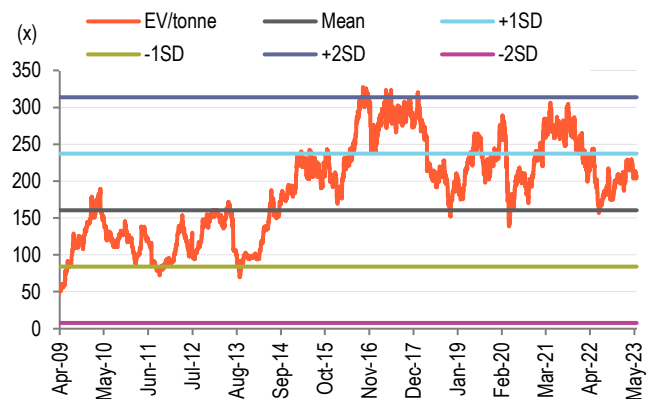
Source: Company, BOBCAPS Research

Fig 12 – EV/Tn Valuation looks high on replacement cost basis as well



Source: Company, BOBCAPS Research

Fig 13 – Replacement cost valuations premium continues



Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	27.1	31.8	35.6	39.6
Realisations (Rs/mt)	5,052	5,292	5,268	5,426
Operating costs (Rs/mt)	3,856	4,367	4,161	4,168
EBITDA/mt (Rs)	1,182	925	1,126	1,275

Source: Company, BOBCAPS Research

Fig 15 – Valuation summary

(Rs mn)	FY25E
Target EV/EBITDA (x)	15
EBITDA	50,638
Target EV	781,849
Total EV	781,849
Net debt	(109,247)
Target market capitalisation	891,096
Target price (Rs/sh)	24,656
Weighted average shares (mn)	36

Source: BOBCAPS Research

Fig 16 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
SRCM IN	HOLD	24,656	27.4	19.9	15.5	208	207	202	6.7	10.7	13.5	8.6	14.3	17.9
DALBHARA IN	HOLD	1,917	17.8	14.7	11.6	129	130	128	4.5	7.1	10.5	5.3	7.6	10.4
ACC IN	HOLD	1,964	17.1	12.9	8.6	118	95	87	7.9	7.9	11.2	7.9	10.8	14.5

Source: BOBCAPS Research

Key risks

- SRCM is trying to diversify into new regions that have higher supply pressure. Hence, pricing pressure may impact its performance more than estimated.
- Aggressive capacity addition can severely impact earnings in the event of an economic slowdown.
- Faster-than-expected easing of key raw material cost is an upside risk to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.2	1,819	1,964	HOLD
Ambuja Cements	ACEM IN	10.3	427	375	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,074	1,917	HOLD
JK Cement	JKCE IN	2.8	2,937	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.0	706	551	SELL
Orient Cement	ORCMNT IN	0.3	125	140	HOLD
Shree Cement	SRCM IN	10.9	24,766	24,656	HOLD
Star Cement	STRCEM IN	0.6	125	138	BUY
The Ramco Cements	TRCL IN	2.5	884	585	SELL
Ultratech Cement	UTCEM IN	26.9	7,654	8,678	BUY

Source: BOBCAPS Research, NSE | Price as of 23 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,23,160	1,39,118	1,68,375	1,91,300	2,18,529
EBITDA	36,943	32,201	29,423	40,321	50,638
Depreciation	(11,399)	(10,365)	(17,005)	(15,374)	(16,813)
EBIT	32,728	31,389	16,733	30,148	41,593
Net interest inc./(exp.)	(2,471)	(2,178)	(2,689)	(2,864)	(3,148)
Other inc./(exp.)	7,184	9,553	4,315	5,200	7,769
Exceptional items	0	0	1,543	0	0
EBT	30,257	29,211	15,587	27,284	38,445
Income taxes	(7,138)	(5,543)	(2,305)	(6,823)	(9,617)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	23,119	23,668	13,281	20,460	28,829
Adjustments	0	0	(1,543)	0	0
Adjusted net profit	23,119	23,668	11,739	20,460	28,829

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	7,858	17,853	13,378	14,987	17,127
Other current liabilities	22,343	23,307	34,066	34,256	37,145
Provisions	43	57	(349)	57	57
Debt funds	27,562	20,142	28,111	26,037	28,618
Other liabilities	(7,773)	(6,609)	(6,591)	(7,770)	(8,431)
Equity capital	361	361	361	361	361
Reserves & surplus	1,52,140	1,72,348	1,82,524	1,99,927	2,25,699
Shareholders' fund	1,52,501	1,72,709	1,82,885	2,00,288	2,26,060
Total liab. and equities	2,02,533	2,27,459	2,51,500	2,67,855	3,00,576
Cash and cash eq.	1,12,604	1,16,642	1,17,698	1,18,162	1,37,865
Accounts receivables	4,859	5,957	9,061	10,667	12,610
Inventories	14,772	21,614	24,226	27,915	32,341
Other current assets	18,673	20,303	16,496	16,876	17,264
Investments	0	0	0	0	0
Net fixed assets	37,702	46,887	41,580	41,886	36,753
CWIP	13,448	15,559	41,913	51,791	63,151
Intangible assets	475	497	527	558	592
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,02,533	2,27,458	2,51,501	2,67,855	3,00,576

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	43,507	35,924	32,322	31,185	43,252
Capital expenditures	(9,928)	(21,154)	(36,539)	(25,590)	(23,073)
Change in investments	(21,352)	(4,953)	(1,046)	(3,660)	(10,466)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(31,279)	(26,108)	(37,585)	(29,250)	(33,539)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(11,228)	(7,420)	7,969	(2,074)	2,581
Interest expenses	0	0	0	0	0
Dividends paid	0	(3,788)	(2,649)	(3,057)	(3,057)
Other financing cash flows	17	477	(47)	0	0
Cash flow from financing	(11,211)	(10,731)	5,273	(5,131)	(476)
Chg in cash & cash eq.	1,016	(915)	10	(3,196)	9,237
Closing cash & cash eq.	1,12,604	1,16,642	1,17,698	1,18,163	1,37,864

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	640.1	655.3	367.7	566.5	798.2
Adjusted EPS	640.1	655.3	325.0	566.5	798.2
Dividend per share	0.0	104.9	72.3	72.3	72.3
Book value per share	4,222.4	4,781.9	5,063.7	5,545.5	6,259.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	6.6	5.7	4.8	4.2	3.6
EV/EBITDA	21.9	24.8	27.3	19.9	15.5
Adjusted P/E	38.7	37.8	76.2	43.7	31.0
P/BV	5.9	5.2	4.9	4.5	4.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	76.4	81.0	85.2	75.0	75.0
Interest burden (PBT/EBIT)	92.4	93.1	83.9	90.5	92.4
EBIT margin (EBIT/Revenue)	26.6	22.6	9.9	15.8	19.0
Asset turnover (Rev./Avg TA)	63.4	64.7	70.3	73.7	76.9
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.4	1.3
Adjusted ROAE	16.4	14.6	6.7	10.7	13.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	5.6	13.0	21.0	13.6	14.2
EBITDA	7.6	(12.8)	(8.6)	37.0	25.6
Adjusted EPS	47.3	2.4	(50.4)	74.3	40.9
Profitability & Return ratios (%)					
EBITDA margin	30.0	23.1	17.5	21.1	23.2
EBIT margin	26.6	22.6	9.9	15.8	19.0
Adjusted profit margin	18.8	17.0	7.0	10.7	13.2
Adjusted ROAE	16.4	14.6	6.7	10.7	13.5
ROCE	19.7	17.5	8.6	14.3	17.9
Working capital days (days)					
Receivables	14	16	20	20	21
Inventory	44	57	53	53	54
Payables	33	61	35	36	37
Ratios (x)					
Gross asset turnover	1.1	1.1	1.2	1.2	1.3
Current ratio	5.0	4.0	3.6	3.5	3.7
Net interest coverage ratio	13.2	14.4	6.2	10.5	13.2
Adjusted debt/equity	0.2	0.1	0.2	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SHREE CEMENT (SRCM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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