

RESEARCH
SHREE CEMENT | TARGET: Rs 24,656 | -0% | HOLD

High-cost fuel inventory weighs on margins

SUMMARY
SHREE CEMENT

- 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

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Daily macro indicators

Ticker	22-May	23-May	Chg (%)
US 10Y yield (%)	3.71	3.69	(2bps)
India 10Y yield (%)	6.99	7.01	3bps
USD/INR	82.83	82.81	0.0
Brent Crude (US\$/bbl)	76.0	76.8	1.1
Dow	33,287	33,056	(0.7)
Hang Seng	19,678	19,431	(1.3)
Sensex	61,964	61,982	0.0
India FII (US\$ mn)	19-May	22-May	Chg (\$ mn)
FII-D	(36.9)	32.2	69.2
FII-E	91.0	155.8	64.7

Source: Bank of Baroda Economics Research



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%

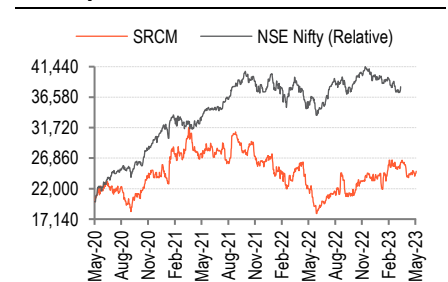
Source: NSE | Price as of 23 May 2023

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



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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

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