FIRST LIGHT

16 October 2024

RESEARCH

BOB ECONOMICS RESEARCH | CURRENCY UPDATE

Fortnightly forex review

SHREE CEMENT | TARGET: Rs 25,422 | +3% | HOLD

Focus on growth to continue; maintain HOLD

BUILDING MATERIALS

Tiles channel check: Stable pricing environment

SUMMARY

INDIA ECONOMICS: CURRENCY UPDATE

INR depreciated by 0.3% in the first fortnight of Oct'24. This is led by a concomitant of factors at play. Dollar firmed up in the same period led by anticipation of staggered monetary policy easing as major macro fundamentals in the US bears the testimony of the same. FPI flows in the equity segment have exhibited aberration led by risk off sentiment. Volatility in oil prices was also an added headwind. However, in terms of depreciation observed in major EM peers, INR was largely capped. This may be attributable to RBI's continued intervention amid favourable domestic liquidity conditions.

Click here **for the full report.**

SHREE CEMENT

- Maintaining market share will be the key priority in the supply glut market situation, though capacity utilisation may hover ~70%
- Capex to continue with focus on attaining 80mnt by FY28, more priority to organic growth over inorganic for prudent capital allocation
- Maintain our HOLD rating and value SRCM at 15x (unchanged) 1-year forward EV/EBITDA with revised TP of Rs 25,422 (Rs 25,403)

Click here **for the full report.**

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BUILDING MATERIALS

- Demand conditions were mixed in Q2FY25 as healthy demand was observed in West/East/Central and weak in North/South regions
- Pricing environment for top brands remains stable in Q2FY25, despite rise in competitive intensity from Morbi
- Kajaria continues to be the leading tiles brand, followed by Somany; Simpolo and Varmora are the fastest-growing brands on a low base

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CURRENCY UPDATE

15 October 2024

Fortnightly forex review

Dipanwita Mazumdar
Economist

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On external front, some moderation in export cycle is likely to continue with weakening demand from China, import may also face some risks of higher commodity prices. However, RBI will ensure volatility of rupee to be largely contained. We expect rupee to remain range bound at 83.9-84.1/USD in Oct'24, with a depreciating bias.

Movement in global currencies in Oct'24

In the 1st fortnight of Oct'24, major global currencies depreciated against the dollar. The rhetoric of 'too far or too fast' about monetary policy easing globally have impinged on dollar. DXY firmed up by 2.5% amidst repricing of a staggered neutral policy stance by Fed, going forward. This comes in the wake of recent macro prints in the US which hinted at economic resilience. Labour market conditions remained stable with JOLTS data, ADP employment change and the official BLS employment summary, reflecting the same, barring some seasonal fluctuations witnessed lately. US CPI continued to overwhelm especially sticky services inflation, which is also reflected in the firming up of wage data. Some de-anchoring of inflation expectation for the near term (1-year ahead) is also seen in the data. Fed officials have also called for modest cut moving at a deliberate pace. Investors are gradually paring down expectations of larger cut by Fed going ahead. We believe it would be more of a cautious data dependent approach without pushing the pedal of monetary easing too hard. This is likely to keep currency pairs of major EMs to trade with a depreciating bias.

Asian currencies likely to remain bearish triggered by risk off sentiment with more alignment towards sovereign debt assets. Further, weaker China data (trade and inflation data) would also contribute towards tight range of currency pairs. Earlier stimulus response from both fiscal and monetary authorities of China has not been reflected much in terms of improvement in macro numbers. However, in the past few announcements, a more holistic policy response has been incorporated.

HOLD
TP: Rs 25,422 | ⮝ 3%

SHREE CEMENT | Cement | 15 October 2024

Focus on growth to continue; maintain HOLD

- **Maintaining market share will be the key priority in the supply glut market situation, though capacity utilisation may hover ~70%**
- **Capex to continue with focus on attaining 80mnt by FY28, more priority to organic growth over inorganic for prudent capital allocation**
- **Maintain our HOLD rating and value SRCM at 15x (unchanged) 1-year forward EV/EBITDA with revised TP of Rs 25,422 (Rs 25,403)**

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We recently interacted with SRCM management, below are key takeaways.

Focus on retaining market share to continue: SRCM's focus on pushing higher volume (SRCM's core competency) will continue and be reflected from 2HFY25. The capacity utilisation currently hovers at ~70% and with added capacity it may stay in the same range, however, market share will be retained and remain a key priority.

Optimisation of clinker availability to ensure smooth growth: Clinker shortage is more optical than real. Regional spread can be attained faster by setting up grinding units (GUs) by keeping a tight clinker conversion ratio. Additionally, prudent clinker management can aid better growth with limited clinker availability by focusing on catering to pricey pockets within regions. Also, it is cost effective and faster as investments in grinding units is at lower cost (~Rs 2bn). SRCM's clinker availability in the northern region is optimal, eastern region with higher slag use elevates clinker cement ratio, while it is an entrant in the southern region and will optimally arrange logistics between Guntur (1.5mnt clinker) and Kodla, Karnataka (6.0mnt clinker).

Preference for organic growth over inorganic growth as capital allocation to stay prudent: SRCM's focus will stay on organic growth, which will be executed at lower replacement cost (cost/tonne) over inorganic growth. This is with the exception of cement assets available at prudent cost.

Capex to continue with target of 80mn tonnes by FY28: Capital expenditure will continue in the cement business with a target of 80mnt by FY28. The capex will be Rs 160bn till FY28, with Rs 40bn spread over the next four years.

Valuation outlook: We cut our EBITDA estimates for FY25/FY26/FY27 by ~12%/ 5%/2% due to weak 1HFY25 expectations and strong leg of capacity addition by cement companies leading to excess supply in FY26 and keeping price hikes at bay. Our new revenue/EBITDA/PAT CAGR is 8%/12%/10% over FY24-FY27E. We maintain HOLD, valuing SRCM at 15x (unchanged) 1-year forward EV/EBITDA with TP of Rs 25,422 (from Rs 25,403) – ~2.0x over the industry replacement cost.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SRCM IN/Rs 24,719
Market cap	US$ 10.6bn
Free float	37%
3M ADV	US$ 14.7mn
52wk high/low	Rs 30,738/Rs 23,700
Promoter/FPI/DII	63%/13%/12%

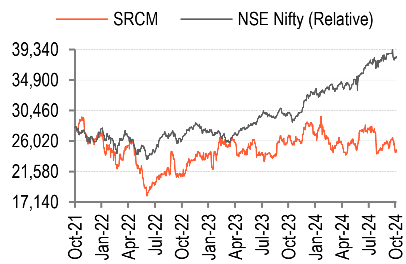
Source: NSE | Price as of 15 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,92,372	1,92,321	2,21,624
EBITDA (Rs mn)	39,859	38,702	47,987
Adj. net profit (Rs mn)	24,684	16,800	24,347
Adj. EPS (Rs)	684.2	465.6	674.8
Consensus EPS (Rs)	684.2	539.1	697.0
Adj. ROAE (%)	12.8	8.1	11.0
Adj. P/E (x)	36.1	53.1	36.6
EV/EBITDA (x)	20.0	20.5	20.6
Adj. EPS growth (%)	85.9	(31.9)	44.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BOBCAPS
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BUILDING MATERIALS

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Tiles channel check: Stable pricing environment

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We recently interacted with 15 bathware dealers pan-India (South: 4; East: 4; North/Central: 4; West: 3) to gauge the demand and pricing scenarios in the tiles sector in Q2FY25, the near-term outlook and the industry competitive landscape.

Demand conditions: According to our channel check, tile demand was mixed in Q2FY25 on a YoY basis as West/East/Central India observed healthy demand, whereas North/South saw muted demand due to the slow pace of construction activity and delay in regulatory approvals (especially in Telangana and Andhra Pradesh). Going ahead, few dealers expect a recovery in demand in H2FY25 due to near-completion of ongoing real estate projects, but some believe demand will remain slow in the near term.

Pricing scenario: The competitive intensity from Morbi players has gone up in the past few months as they are dumping goods at heavy discounts in the market (especially in the project segment) due to weak exports. However, the established brand has not been much impacted in the retail segment as most customers are brand centric. Despite the rise in competition from Morbi players, tiles prices for top brands were relatively stable on a QoQ basis in Q2FY25.

Competitive landscape: Our tiles universe revenue grew at 7.8% CAGR over the last five years (FY19-FY24). Among the top brands, Simpolo's revenue grew at the fastest pace (+16.8% CAGR), followed by Varmora (+13.8%), Johnson Tiles (+8.5% on a low base), Somany (+8.2%) and Kajaria (+8.1%).

Segment performance: GVT is the best-selling product for most dealers, followed by CWT. Demand for large slab tiles is growing gradually in both the retail and projects segments. Dealers expect the market size of large slab tiles to grow sharply in the next few years as the top brands are making consistent efforts to push the large slab tile product in the market due to improved margins.

Recommendation snapshot

Ticker	Price	Target	Rating
KJC IN	1,406	1,450	HOLD
SOMC IN	703	900	BUY

Price & Target in Rupees | Price as of 15 Oct 2024

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