

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)

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.

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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%

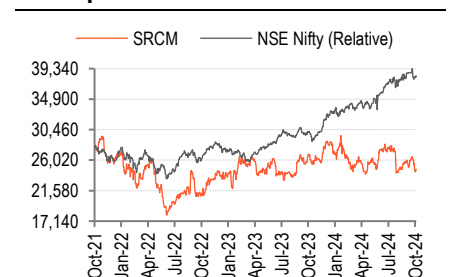
Source: NSE | Price as of 15 Oct 2024

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

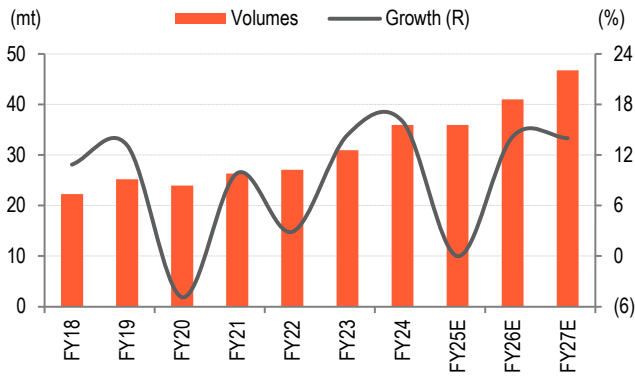
Stock performance



Source: NSE

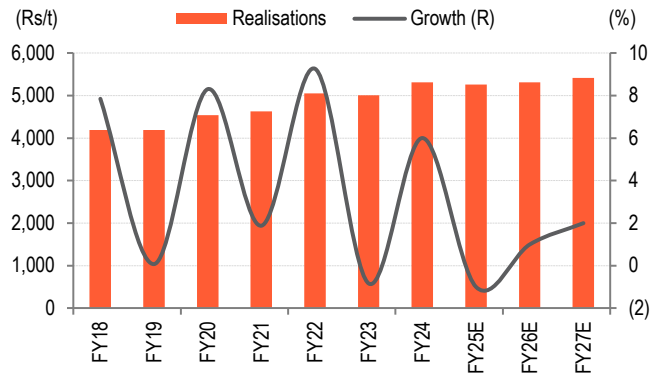


Fig 1 – Volume growth to be ahead of industry



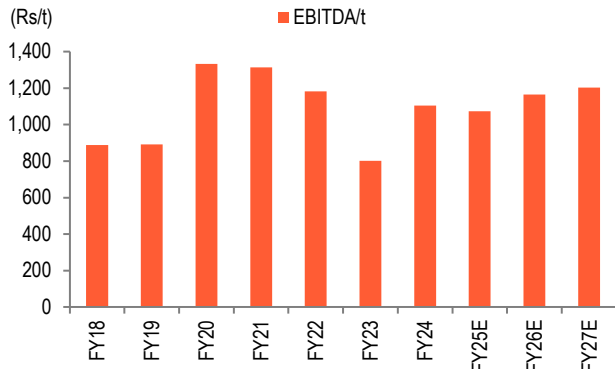
Source: Company, BOBCAPS Research

Fig 2 – Realisations likely to stay range bound



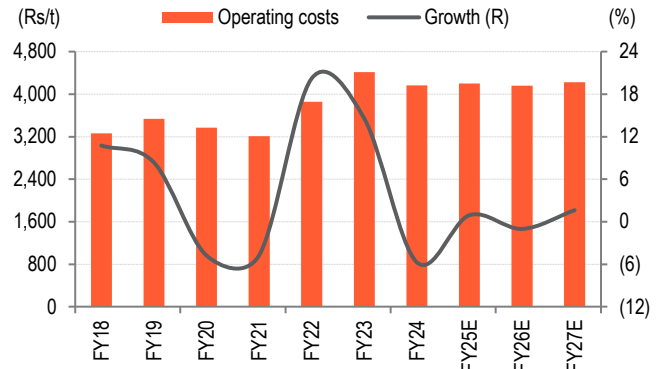
Source: Company, BOBCAPS Research

Fig 3 – Upside for EBITDA/t hinges beyond cost savings on demand revival



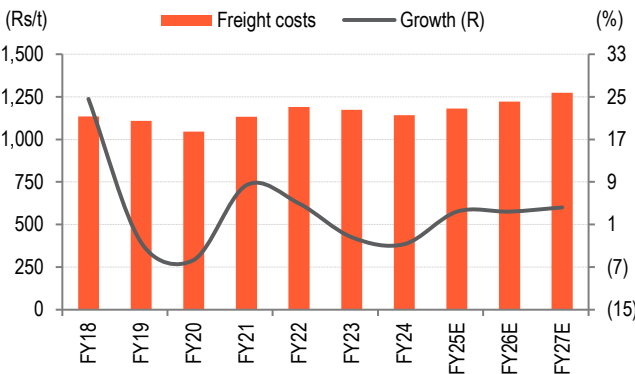
Source: Company, BOBCAPS Research

Fig 4 – Cost efficiencies will continue to drive the show



Source: Company, BOBCAPS Research

Fig 5 – Logistic cost savings to be contributed by railway sidings



Valuation methodology

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. We slash our EPS estimates too with greater intensity due to higher depreciation provision (owing to higher capex) by SRCM in FY25/FY26/FY27. Our revised revenue/EBITDA/PAT CAGRs are 8%/12%/10% over FY24-FY27E.

We maintain a HOLD rating on SRCM despite lowering our earnings estimates as SRCM gains size (~80mnt) and we feel operating efficiencies will improve with railways sidings being operational in most of the clinker and grinding units helping to save logistics cost and maintain margins. Further, incentives are available for certain plants including Etah GU, though the Guntur facility does not have any incentives. However, with the availability of the Guntur clinker unit, increased clinker will now be available for Patas GU (Maharashtra) from Karnataka. Operating efficiencies and a healthy balance sheet continue to be SRCM's strengths and are unlikely to change majorly in the medium term. The focus back on volume gains offers additional comfort. Adding the ready mix cement (RMC) business only increases better earning avenues. We raise our TP to Rs 25,422 (from Rs 25,403), while valuing the stock at 15x (unchanged) one-year forward EV/EBITDA – 2.0x over the industry replacement cost.

Fig 7 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,92,321	2,21,624	2,57,513	2,13,384	2,39,553	2,73,487	(9.9)	(7.5)	(5.8)
EBITDA	38,702	47,987	56,413	44,048	50,515	57,403	(12.1)	(5.0)	(1.7)
Adj PAT	16,800	24,347	31,446	24,240	28,826	32,238	(30.7)	(15.5)	(2.5)
Adj EPS (Rs)	465.6	674.8	871.6	671.8	798.9	893.5	(30.7)	(15.5)	(2.5)

Source: BOBCAPS Research

Fig 8 – Key assumptions

	FY24	FY25E	FY26E	FY27E
Volumes (mt)	35.50	37.28	41.00	46.74
Realisations (Rs/t)	5,310	5,257	5,309	5,416
Operating costs (Rs/t)	4,146	4,184	4,144	4,213
EBITDA/t (Rs)	1,105	1,073	1,166	1,203

Source: Company, BOBCAPS Research

Fig 9 – Valuation summary

(Rs mn)	1-year forward
Target EV/EBITDA (x)	15.0
EBITDA	56,413
Target EV	8,71,013
Total EV	8,71,013
Net debt	(1,20,780)
Target market capitalisation	9,91,793
Target price (Rs/sh)	25,422
Weighted average shares (mn)	36.1

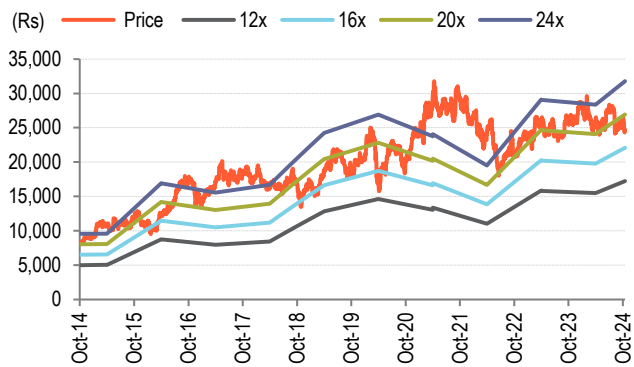
Source: BOBCAPS Research

Fig 10 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
SRCM IN	HOLD	25,422	21.8	22.4	18.0	182	179	172	8.1	11.0	12.9	10.4	14.0	16.2
DALBHARA IN	HOLD	2,062	12.9	12.5	8.5	82	87	86	6	8.5	8.9	7.3	9.5	9.7
ACC IN	HOLD	2,569	14.5	11.8	9.9	140	126	113	13.2	13.3	12.9	17.3	17.2	16.7

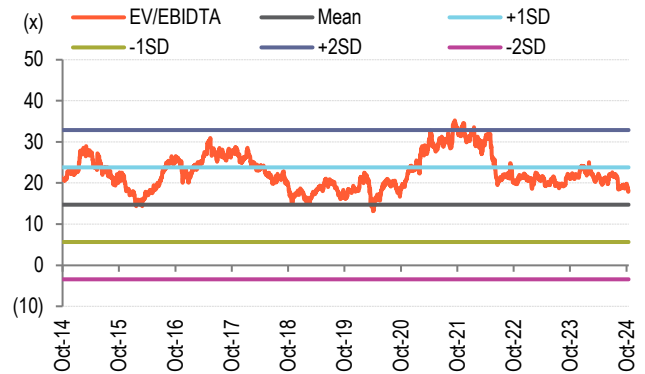
Source: BOBCAPS Research

Fig 11 – EV/EBITDA band: SRCM valuation moderates to align with earnings



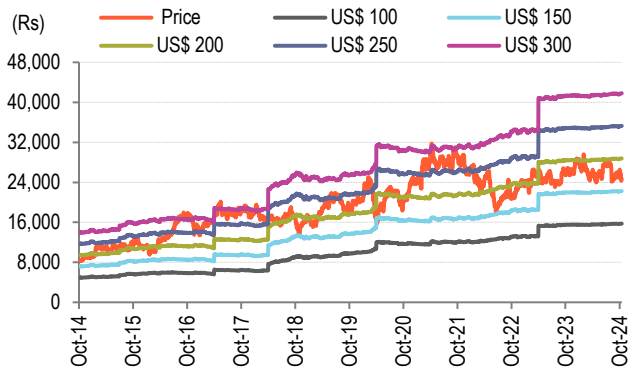
Source: Company, Bloomberg, BOBCAPS Research

Fig 12 – We continue to value SRCM at 15x EV/EBITDA, 1Y forward earnings at about its mean valuation



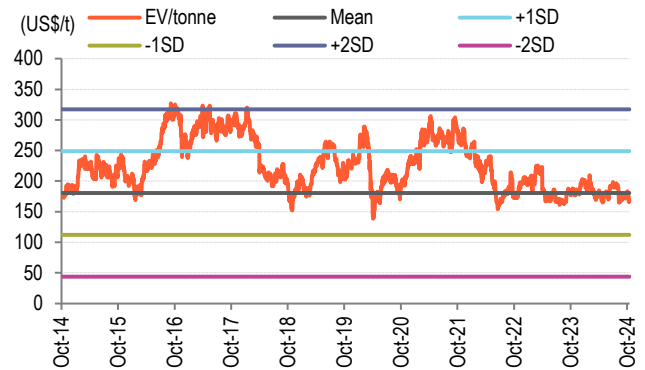
Source: Company, Bloomberg, BOBCAPS Research

Fig 13 – Replacement cost band: Earnings getting reflected in replacement cost



Source: Company, Bloomberg, BOBCAPS Research

Fig 14 – Replacement cost band 1Y fwd reverses to mean chasing earnings



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key risks to our estimates are:

- Severe competition in northern India can add pricing pressure, and a shift in focus back to brand building that can dent volume growth are key downside risks.
- Faster-than-expected volume push and better realisations represent key upside risks to our estimates.
- Faster reversal in fuel prices can inflate costs posing a downward risk to our earnings estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.1	2,295	2,569	HOLD
Ambuja Cements	ACEM IN	13.9	590	667	HOLD
Dalmia Bharat	DALBHARA IN	4.2	1,886	2,062	HOLD
JK Cement	JKCE IN	4.0	4,324	4,431	HOLD
JK Lakshmi Cement	JKLC IN	1.1	810	687	SELL
Orient Cement	ORCMNT IN	0.7	301	177	SELL
Shree Cement	SRCM IN	10.6	24,719	25,422	HOLD
Star Cement	STRCEM IN	1.1	211	205	HOLD
The Ramco Cements	TRCL IN	2.4	870	737	SELL
Ultratech Cement	UTCEN IN	39.2	11,417	12,972	BUY

Source: BOBCAPS Research, NSE | Price as of 15 Oct 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	1,64,961	1,92,372	1,92,321	2,21,624	2,57,513
EBITDA	25,504	39,859	38,702	47,987	56,413
Depreciation	(15,462)	(16,147)	(23,236)	(24,178)	(24,981)
EBIT	18,275	33,100	22,584	32,487	41,383
Net interest inc./(exp.)	(2,689)	(2,643)	(2,200)	(2,287)	(2,309)
Other inc./(exp.)	8,233	9,388	7,118	8,678	9,951
Exceptional items	0	0	0	0	0
EBT	15,586	30,456	20,384	30,200	39,073
Income taxes	(2,305)	(5,772)	(3,584)	(5,853)	(7,628)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	13,281	24,684	16,800	24,347	31,446
Adjustments	0	0	0	0	0
Adjusted net profit	13,281	24,684	16,800	24,347	31,446

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	20,968	12,122	15,066	17,364	20,181
Other current liabilities	28,789	43,332	53,078	59,144	66,039
Provisions	61	62	57	57	57
Debt funds	25,392	14,737	14,192	17,592	20,992
Other liabilities	(6,591)	(5,887)	(6,357)	(6,880)	(7,448)
Equity capital	361	361	361	361	361
Reserves & surplus	1,82,532	2,03,485	2,13,203	2,30,469	2,54,832
Shareholders' fund	1,82,882	2,03,834	2,13,552	2,30,828	2,55,203
Total liab. and equities	2,51,501	2,68,199	2,89,587	3,18,105	3,55,024
Cash and cash eq.	1,17,698	1,09,725	1,13,686	1,21,398	1,41,772
Accounts receivables	9,061	9,298	9,685	11,604	13,996
Inventories	24,226	31,462	31,793	37,027	43,481
Other current assets	23,987	28,400	29,053	29,722	32,694
Investments	0	0	0	0	0
Net fixed assets	45,651	62,429	50,873	38,376	34,124
CWIP	30,155	25,564	53,097	78,495	87,385
Intangible assets	722	1,321	1,400	1,484	1,573
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,51,500	2,68,199	2,89,587	3,18,105	3,55,025

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	27,274	34,027	46,448	48,545	53,753
Capital expenditures	(28,261)	(27,613)	(39,292)	(37,163)	(29,709)
Change in investments	(1,046)	9,753	(5,915)	(7,611)	(20,430)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(29,307)	(17,861)	(45,206)	(44,774)	(50,139)
Equities issued/Others	(1)	(1)	(1)	11	11
Debt raised/repaid	5,250	(10,655)	(545)	3,400	3,400
Interest expenses	0	0	0	0	0
Dividends paid	(3,247)	(4,433)	(2,649)	(7,082)	(7,082)
Other financing cash flows	42	701	0	(1)	0
Cash flow from financing	2,044	(14,388)	(3,195)	(3,672)	(3,671)
Chg in cash & cash eq.	10	1,778	(1,953)	100	(56)
Closing cash & cash eq.	1,17,698	1,09,724	1,13,686	1,21,397	1,41,771

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	368.1	684.2	465.6	674.8	871.6
Adjusted EPS	368.1	684.2	465.6	674.8	871.6
Dividend per share	90.0	105.0	167.8	167.8	167.8
Book value per share	5,068.8	5,649.5	5,918.8	6,397.6	7,073.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.8	4.1	4.1	4.5	3.9
EV/EBITDA	31.4	20.0	20.5	20.6	17.6
Adjusted P/E	67.2	36.1	53.1	36.6	28.4
P/BV	4.9	4.4	4.2	3.9	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	85.2	81.0	82.4	80.6	80.5
Interest burden (PBT/EBIT)	85.3	92.0	90.3	93.0	94.4
EBIT margin (EBIT/Revenue)	11.1	17.2	11.7	14.7	16.1
Asset turnover (Rev./Avg TA)	68.9	74.0	69.0	72.9	76.5
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.4	1.4
Adjusted ROAE	7.5	12.8	8.1	11.0	12.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	18.6	16.6	0.0	15.2	16.2
EBITDA	(20.8)	56.3	(2.9)	24.0	17.6
Adjusted EPS	(43.9)	85.9	(31.9)	44.9	29.2
Profitability & Return ratios (%)					
EBITDA margin	15.5	20.7	20.1	21.7	21.9
EBIT margin	11.1	17.2	11.7	14.7	16.1
Adjusted profit margin	8.1	12.8	8.7	11.0	12.2
Adjusted ROAE	7.5	12.8	8.1	11.0	12.9
ROCE	9.4	16.0	10.4	14.0	16.2
Working capital days (days)					
Receivables	20	18	18	19	20
Inventory	54	60	60	61	62
Payables	55	29	36	37	37
Ratios (x)					
Gross asset turnover	1.2	1.1	1.0	1.1	1.2
Current ratio	3.5	3.2	2.7	2.6	2.7
Net interest coverage ratio	6.8	12.5	10.3	14.2	17.9
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

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

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BUY – Expected return >+15%

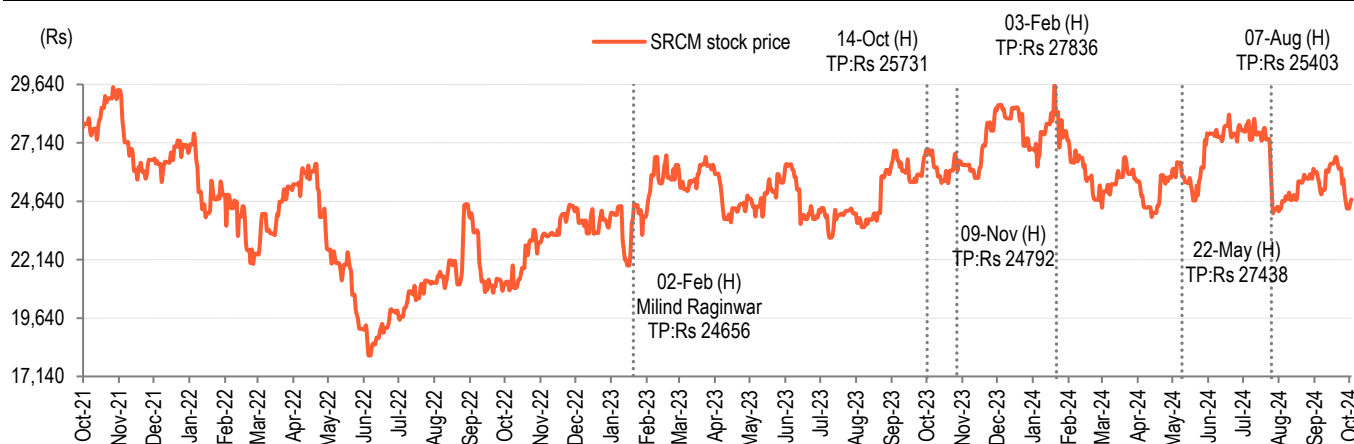
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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