

**HOLD**  
 TP: Rs 25,403 | ▲ 1%

**SHREE CEMENT**

Cement

07 August 2024

**Performance weak though current valuations capture the same**

- Realisation dent drags revenue growth by 3%/5% in Q1FY25, partially offset by healthy volume growth of 8%/1% YoY/QoQ
- Cost savings of ~11% YoY help guard EBITDA margin at ~19% (+30bps YoY) with flat EBITDA at Rs 9.2bn
- We cut FY25E/FY26E EBITDA by 15%/11%, introduce FY27 earnings, and assume 12-13% 3Y CAGR growth. Maintain HOLD with TP of Rs 25,403

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**Revenue decline driven by dent in realisations:** SRCM's revenue fell 3.3%/5.2% YoY/QoQ to Rs 48.3bn in Q1FY25, driven by the fall in realisations. Volume rose by 8.1% YoY (~1.1% QoQ) to ~9.6mnt vs 8.9mnt in Q1FY24. Realisations fell to Rs 5,015/t, falling 10.6% YoY but recovering from Rs 4,930/t in Q4FY24. SRCM's QoQ volume increase was the bright spot as Q4 is the busiest quarter seasonally.

**Cost savings efforts guard margins:** The overall operating cost dropped by 10.9% YoY (+2.7% QoQ) to Rs 4,065/t. Raw material-adjusted energy costs declined 20% YoY (flat QoQ) to Rs 1,879/t, owing to a 25% YoY reduction in fuel cost to Rs 1.76/kcal (from Rs 2.34/kcal in Q1FY24). Logistics cost fell 3% YoY to Rs 1,157/t following a rationalisation of lead distance YoY. Other expenditure rose 11%/9% YoY/QoQ to Rs 7.5bn owing to higher spares and promotional expenses (new plant commissioning). EBITDA fell 1.7%/31% YoY/QoQ to ~Rs 9.2bn and EBITDA margin was at ~19% (+30bps YoY). EBITDA/t dropped 9.1%/29.6% YoY/QoQ to Rs 951/t in Q1FY25. Adj PAT came at Rs 3.2bn, a drop of 45.3% YoY due to higher depreciation provision.

**Capex plans:** SRCM's ongoing expansion projects include Jatra in Rajasthan with 6mn tonnes, Karnataka and Uttar Pradesh ~3mn tonnes and Baloda Bazar (Chhattisgarh) ~3.4mn tonnes. SRCM has installed 1GW of power capacity and commissioned 19.5MW of solar power plant in Andhra Pradesh in Jun'24.

**Earnings estimates cut; maintain HOLD:** We cut our EBITDA estimates for FY25/FY26 by ~15%/11% owing to weak 1HFY25 expectations and strong leg of capacity addition by cement companies, including SRCM, leading to excess supply in FY26 and keeping price hikes at bay. Our EPS estimates too are slashed due to SRCM's higher depreciation provision. We introduce FY27 estimates, penciling in a revenue/EBITDA/PAT CAGR of 12%/13%/9% over FY24-FY27E. We maintain a HOLD rating valuing SRCM at 15x (unchanged) 1-year forward EV/EBITDA as SRCM gains size (79mnt) without any meaningful dent in operating efficiencies and maintaining margins. We lower our TP to Rs 25,403 (from Rs 27,438) while valuing the stock at 15x FY26E EV/EBITDA – 2.0x over the industry replacement cost.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	SRCM IN/Rs 25,099
Market cap	US\$ 10.8bn
Free float	37%
3M ADV	US\$ 16.8mn
52wk high/low	Rs 30,738/Rs 23,451
Promoter/FPI/DII	63%/13%/12%

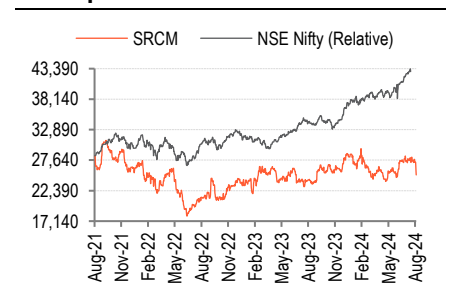
Source: NSE | Price as of 7 Aug 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,92,372	2,13,384	2,39,553
EBITDA (Rs mn)	39,859	44,048	50,515
Adj. net profit (Rs mn)	24,684	24,240	28,826
Adj. EPS (Rs)	684.2	671.8	798.9
Consensus EPS (Rs)	684.2	739.0	841.0
Adj. ROAE (%)	12.8	11.4	12.4
Adj. P/E (x)	36.7	37.4	31.4
EV/EBITDA (x)	20.3	18.3	19.9
Adj. EPS growth (%)	85.9	(1.8)	18.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q1FY25	Q4FY24	Our view
Volumes and realisations	Capacity utilisation was at ~76% in Q1FY25. Realisation fell by 10.6% YoY to Rs 5,015/t, because of moderate demand conditions and change in regional mix. Average realisation in North India was Rs 4,641/t, East Rs 4,154/t and South Rs 4,620/t.	Capacity utilisation was 79% in Q4FY24, and could have crossed 80% if all the days were operational (loss of days due to SAP migration).  Power sales in Q4 was Rs 4.0bn with ~10% EBITDA margin.	The return to volume growth is a welcome change, though improving capacity utilisation without denting realisations will be a key challenge for SRCM in the medium term.
Margins	Fuel and power costs stood at Rs 1.76/kcal in Q1FY25 (Rs 2.34/kcal in Q1FY24), fuel prices remained stable QoQ. Lead distance increased to 449km in Q1FY25 from 428km in Q4FY24. SRCM was unable to get better pricing owing to additional volume that affected margins.	Fuel and power costs stood at Rs 1.82/kcal (Rs 2.52/kcal in Q4FY23). However, this has reversed QoQ from Rs 1.78/kcal in Q3FY24 indicating some hardening of fuel cost. Lead distance decreased to 428km from 448km in Q3FY24.  Green energy capacity was 480MW in FY24 vs 386MW in FY23 and SRCM is expected to add 188MW of new green capacity in FY25.	Shift to green energy will further reduce energy cost, but fuel cost savings levers are increasingly limited.
Capacity expansion	SRCM's ongoing expansion projects include 6mn tonnes in Jatra, Rajasthan, 3mn tonnes in Karnataka and Uttar Pradesh, and ~3.4mn tonnes in Baloda Bazar, Chhattisgarh. SRCM has installed 1GW of power capacity with the commissioning of the 19.5MW solar power plant in Andhra Pradesh in Jun'24. SRCM is further adding 135MW to its solar power capacity across different locations. SRCM will launch a greenfield ready mixed concrete plant in Hyderabad in Q1FY25.	Management maintained its guidance of reaching 56mnt by Mar'24, 62mnt by Mar'25, 65mnt by Sep'25, 75mnt by Mar'26 and 80mnt by Mar'28.  The Guntur plant in Andhra Pradesh was commissioned in Apr'24.  SRCM has ordered one more 3mnt cement mill at the Pali plant, Rajasthan, and is expected to add 9mn/10mn tonnes of cement capacity in FY25.	Capex remains elevated. How SRCM narrows the gap between volume delivery and capacity addition will be determined by the pickup in demand in the next four to six quarters.
Green energy	The share of green power remained at 54% in Q1FY25, and management aims to increase the same to ~62% by Q1FY26.	The share of green power remained at 56% in Q4FY24, and management aims to increase the same to ~60% by FY25.	SRCM's focus on renewable energy continues with more addition of solar, WHRS and AFR.
Other key points	SRCM's business of ready-mix concrete (RMC) has seven plants with total capacity of 624 cubic meter per hour.  Other expenditure rose 11%/9% YoY/QoQ to Rs 7.5bn due to increased stabilisation expenses following the commissioning of the two new plants. Advertisement expenses also increased with the launch of the new brand identity.	No major change in capex addition. Most of the capex in FY25 will be back-ended and the full effect of the same will be reflected in FY26.  SRCM indicated good support for its brand-building exercise.  SRCM has forayed into the ready-mix concrete business with five plants in Mumbai at an investment of Rs 335mn.	SRCM has to walk a tight rope between brand building and volume-driven growth.  Its foray into RMC business continues to be a surprise.

Source: Company, BOBCAPS Research | WHRS: Waste heat recovery systems, AFR: Alternative Fuel and Raw Material

**Fig 2 – Key metrics**

	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	Q1FY25E	Deviation (%)
Volumes (mn mt)	9.6	8.9	8.1	9.5	1.1	9.5	2.0
Cement realisations (Rs/t)	5,015	5,607	(10.6)	4,930	1.7	4,840	3.6
Operating costs (Rs/t)	4,065	4,561	(10.9)	3,958	2.7	3,897	4.3
EBITDA/t (Rs)	951	1,046	(9.1)	1,350	(29.6)	1,164	(18.3)

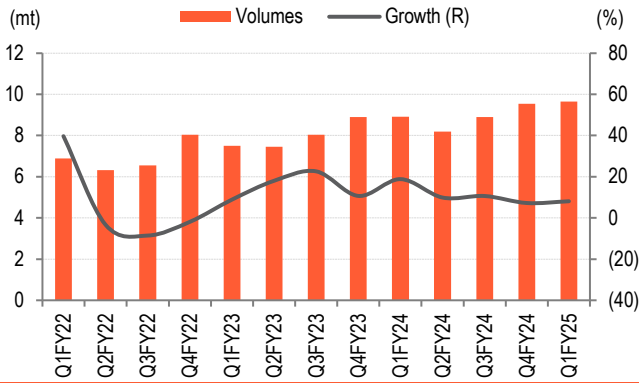
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	Q1FY25E	Deviation (%)
<b>Net Sales</b>	<b>48,347</b>	<b>49,991</b>	<b>(3.3)</b>	<b>51,010</b>	<b>(5.2)</b>	<b>47,832</b>	<b>1.1</b>
<b>Expenditure</b>							
Change in stock	(349)	489	NA	(1,072)	NA	111	(414.2)
Raw material	3,723	3,614	3.0	4,176	(10.8)	4,196	(11.3)
purchased products	691	1,656	(58.3)	504	37.2	251	-
Power & fuel	14,052	15,240	(7.8)	14,490	(3.0)	13,430	4.6
Freight	11,151	10,630	4.9	10,451	6.7	10,500	6.2
Employee costs	2,446	2,349	4.1	2,352	4.0	2,331	4.9
Other exp	7,469	6,688	11.7	6,838	9.2	6,010	24.3
Total Operating Expenses	39,183	40,665	(3.6)	37,738	3.8	36,829	6.4
<b>EBITDA</b>	<b>9,164</b>	<b>9,326</b>	<b>(1.7)</b>	<b>13,272</b>	<b>(31.0)</b>	<b>11,002</b>	<b>(16.7)</b>
<b>EBITDA margin (%)</b>	<b>19</b>	<b>19</b>	<b>30bps</b>	<b>26</b>	<b>(707bps)</b>	<b>23</b>	<b>(405bps)</b>
Other Income	1,346	1,617	(16.8)	1,379	(2.4)	1,217	10.6
Interest	573	753	(23.9)	648	(11.5)	651	(12.0)
Depreciation	6,428	3,085	108.4	6,281	2.3	6,310	1.9
PBT	3,508	7,105	(50.6)	7,722	(54.6)	5,258	(33.3)
Non-recurring items	0	0	-	0	-	0	-
PBT (after non recurring items)	3,508	7,105	(50.6)	7,722	(54.6)	5,258	(33.3)
Tax	331	1,294	(74.4)	1,105	(70.0)	947	(65.0)
<b>Reported PAT</b>	<b>3,177</b>	<b>5,811</b>	<b>(45.3)</b>	<b>6,618</b>	<b>(52.0)</b>	<b>4,312</b>	<b>(26.3)</b>
Adjusted PAT	3,177	5,811	(45.3)	6,618	(52.0)	4,312	(26.3)
NPM (%)	6.6	11.6	(505bps)	13.0	(640bps)	9.0	(244bps)
<b>Adjusted EPS (Rs)</b>	<b>85.6</b>	<b>156.6</b>	<b>(45.3)</b>	<b>178</b>	<b>-52.0</b>	<b>116</b>	<b>(26.3)</b>

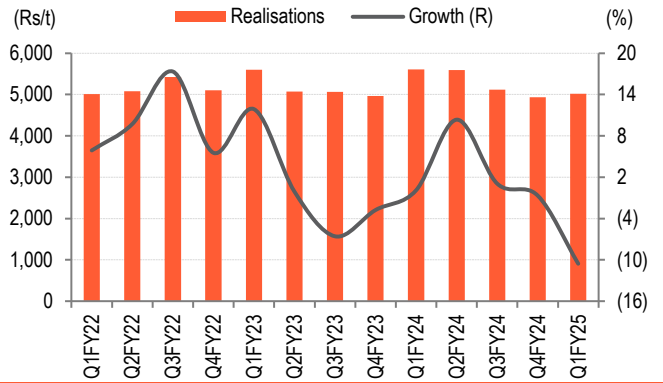
Source: Company, BOBCAPS Research

**Fig 4 – Volume growth healthy in a challenging quarter**



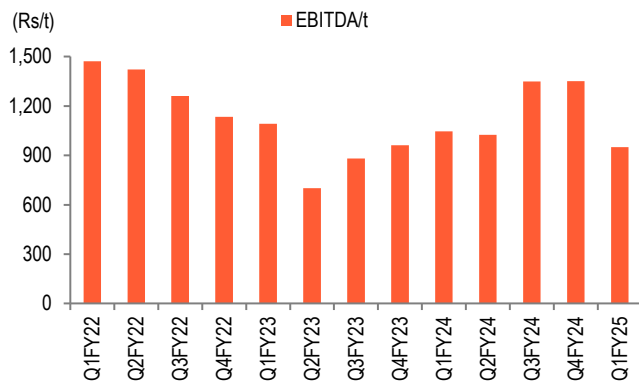
Source: Company, BOBCAPS Research

**Fig 5 – Realisations fell sharply due to demand weakness**



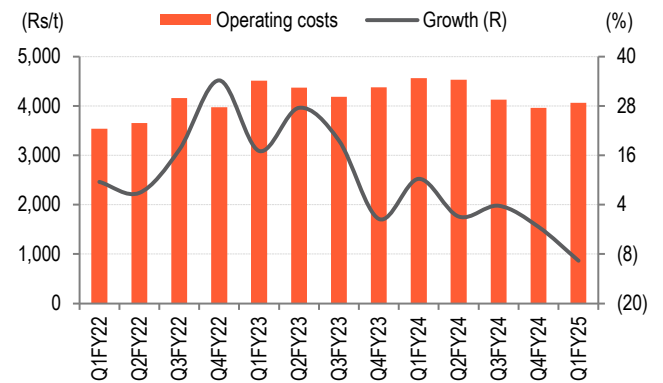
Source: Company, BOBCAPS Research

**Fig 6 – Upside for EBITDA/t hinges on demand revival**



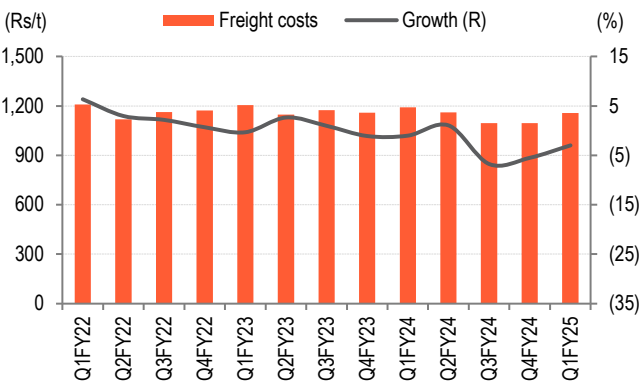
Source: Company, BOBCAPS Research

**Fig 7 – Cost efficiencies continue to drive the show in Q1**



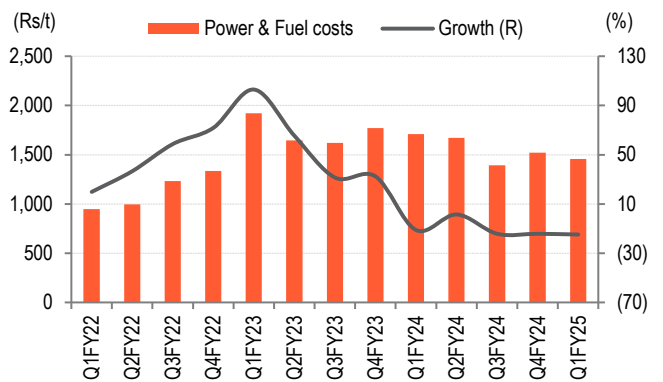
Source: Company, BOBCAPS Research

**Fig 8 – No major respite in cost despite rationalisation in lead distance**



Source: Company, BOBCAPS Research

**Fig 9 – Power cost savings remain a focus area and major lever of efficiency improvement**



Source: Company, BOBCAPS Research

## Valuation methodology

We reduce our EBITDA estimates for FY25/FY26 by ~15%/11% owing to weak 1HFY25 expectations and strong leg of capacity addition by cement companies, including SRCM, leading to excess supply in FY26 keeping price hikes at bay. Our EPS estimates too are slashed due to higher depreciation provision by SRCM in FY25/FY26. We introduce FY27 estimates, penciling in revenue/EBITDA/PAT CAGR of 12%/13%/9% over FY24-FY27E.

We maintain a HOLD rating valuing SRCM at 15x (unchanged) 1-year forward EV/EBITDA despite downward earnings revision as SRCM gains size (79mnt) without any meaningful dent in operating efficiencies and maintaining margins. With regional expansion the revenue diversification will help to lessen volatility in earnings. Operating efficiencies and healthy balance sheet continue to support SRCM's strengths and are unlikely to change majorly in the medium term. Focus back on volume gains adds additional comfort. Adding the RMC business only increases better earning avenues. We lower our TP to Rs 25,403 (from Rs 27,438), while valuing the stock at 15x FY26E EV/EBITDA – 2.0x over the industry replacement cost.

**Fig 10 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,13,384	2,39,553	2,73,487	2,23,703	2,48,515	NA	(4.6)	(3.6)	NA
EBITDA	44,048	50,515	57,403	51,497	56,647	NA	(14.5)	(10.8)	NA
Adj PAT	24,240	28,826	32,238	26,618	30,234	NA	(8.9)	(4.7)	NA
Adj EPS (Rs)	671.8	798.9	893.5	737.7	838	NA	(8.9)	(4.7)	NA

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

	FY24	FY25E	FY26E	FY27E
Volumes (mt)	35.90	39.49	44.22	49.53
Realisations (Rs/t)	5,310	5,257	5,323	5,429
Operating costs (Rs/t)	4,146	4,156	4,184	4,274
EBITDA/t (Rs)	1,105	1,101	1,138	1,155

Source: Company, BOBCAPS Research

**Fig 12 – Valuation summary**

(Rs mn)	FY26E
Target EV/EBITDA (x)	15
EBITDA	50,515
Target EV	7,79,945
Total EV	7,79,945
Net debt	(1,06,521)
Target market capitalisation	8,86,466
<b>Target price (Rs/sh)</b>	<b>25,403</b>
Weighted average shares (mn)	36

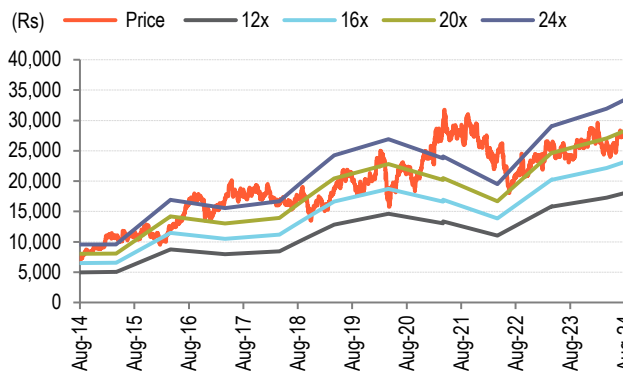
Source: BOBCAPS Research | 1-year forward earnings, includes FY27 partial earnings

**Fig 13 – 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	25,403	20.3	18.3	19.9	182	179	172	12.8	11.4	12.4	16	14.3	15.8
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

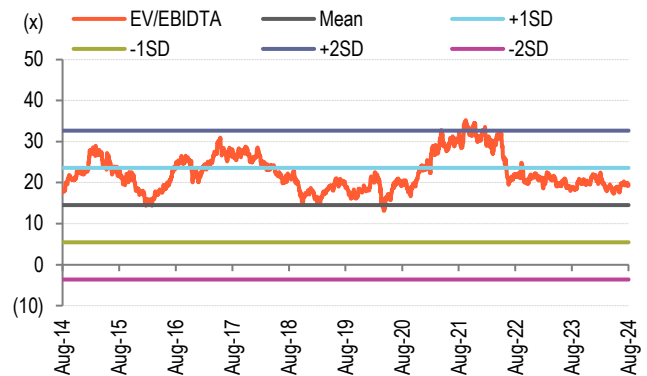
Source: BOBCAPS Research

**Fig 14 – EV/EBITDA band: SRCM valuation moderates to align with earnings**



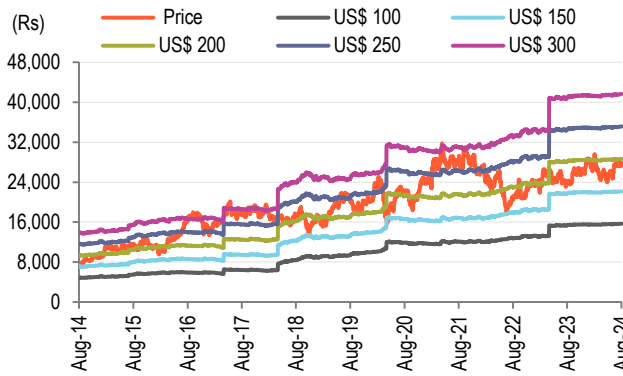
Source: Company, Bloomberg, BOBCAPS Research

**Fig 15 – EV/EBITDA 1Y fwd: We continue to value SRCM at 15x EV/EBITDA, FY26 earnings near its mean valuation**



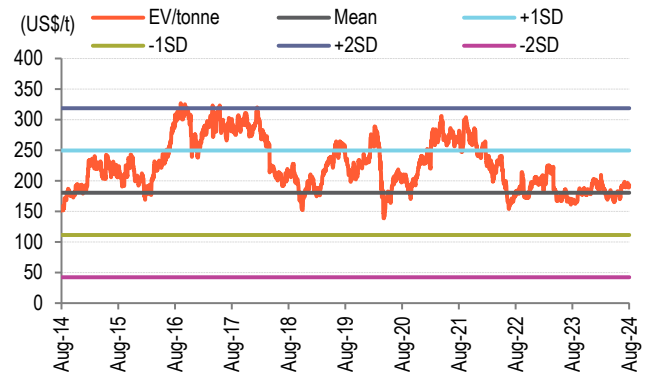
Source: Company, Bloomberg, BOBCAPS Research

**Fig 16 – Replacement cost band: Earnings getting reflected in replacement cost**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 17 – 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 the fuel prices can inflate costs posing a downward risk to our earnings estimates.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>1,64,961</b>	<b>1,92,372</b>	<b>2,13,384</b>	<b>2,39,553</b>	<b>2,73,487</b>
EBITDA	25,504	39,859	44,048	50,515	57,403
Depreciation	(15,462)	(16,147)	(19,634)	(21,107)	(24,981)
EBIT	18,275	33,100	31,533	38,085	42,372
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	29,333	35,798	40,063
Income taxes	(2,305)	(5,772)	(5,093)	(6,973)	(7,826)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>13,281</b>	<b>24,684</b>	<b>24,240</b>	<b>28,826</b>	<b>32,238</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>13,281</b>	<b>24,684</b>	<b>24,240</b>	<b>28,826</b>	<b>32,238</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	20,968	12,122	16,716	18,769	21,434
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	2,20,643	2,42,386	2,67,542
Shareholders' fund	1,82,882	2,03,834	2,20,991	2,42,746	2,67,913
<b>Total liab. and equities</b>	<b>2,51,501</b>	<b>2,68,199</b>	<b>2,98,677</b>	<b>3,31,428</b>	<b>3,68,987</b>
Cash and cash eq.	1,17,698	1,09,725	1,14,631	1,24,113	1,45,493
Accounts receivables	9,061	9,298	10,745	12,543	14,865
Inventories	24,226	31,462	35,275	40,023	46,181
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	54,476	45,048	40,797
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
<b>Total assets</b>	<b>2,51,500</b>	<b>2,68,199</b>	<b>2,98,677</b>	<b>3,31,428</b>	<b>3,68,987</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>27,274</b>	<b>34,027</b>	<b>47,393</b>	<b>50,316</b>	<b>54,759</b>
Capital expenditures	(28,261)	(27,613)	(39,292)	(37,163)	(29,709)
Change in investments	(1,046)	9,753	(5,915)	(8,733)	(20,711)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(29,307)</b>	<b>(17,861)</b>	<b>(45,206)</b>	<b>(45,896)</b>	<b>(50,419)</b>
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
<b>Cash flow from financing</b>	<b>2,044</b>	<b>(14,388)</b>	<b>(3,195)</b>	<b>(3,672)</b>	<b>(3,671)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>10</b>	<b>1,778</b>	<b>(1,008)</b>	<b>748</b>	<b>669</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,17,698</b>	<b>1,09,724</b>	<b>1,14,631</b>	<b>1,24,112</b>	<b>1,45,492</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	368.1	684.2	671.8	798.9	893.5
Adjusted EPS	368.1	684.2	671.8	798.9	893.5
Dividend per share	90.0	105.0	167.8	167.8	167.8
Book value per share	5,068.8	5,649.5	6,125.0	6,728.0	7,425.5

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.9	4.2	3.8	4.2	3.7
EV/EBITDA	31.9	20.3	18.3	19.9	17.6
Adjusted P/E	68.2	36.7	37.4	31.4	28.1
P/BV	5.0	4.4	4.1	3.7	3.4

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	85.2	81.0	82.6	80.5	80.5
Interest burden (PBT/EBIT)	85.3	92.0	93.0	94.0	94.6
EBIT margin (EBIT/Revenue)	11.1	17.2	14.8	15.9	15.5
Asset turnover (Rev./Avg TA)	68.9	74.0	75.3	76.0	78.1
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.4	1.4
Adjusted ROAE	7.5	12.8	11.4	12.4	12.6

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	18.6	16.6	10.9	12.3	14.2
EBITDA	(20.8)	56.3	10.5	14.7	13.6
Adjusted EPS	(43.9)	85.9	(1.8)	18.9	11.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.5	20.7	20.6	21.1	21.0
EBIT margin	11.1	17.2	14.8	15.9	15.5
Adjusted profit margin	8.1	12.8	11.4	12.0	11.8
Adjusted ROAE	7.5	12.8	11.4	12.4	12.6
ROCE	9.4	16.0	14.3	15.8	15.8
<b>Working capital days (days)</b>					
Receivables	20	18	18	19	20
Inventory	54	60	60	61	62
Payables	55	29	36	36	36
<b>Ratios (x)</b>					
Gross asset turnover	1.2	1.1	1.1	1.2	1.3
Current ratio	3.5	3.2	2.7	2.6	2.7
Net interest coverage ratio	6.8	12.5	14.3	16.7	18.4
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%

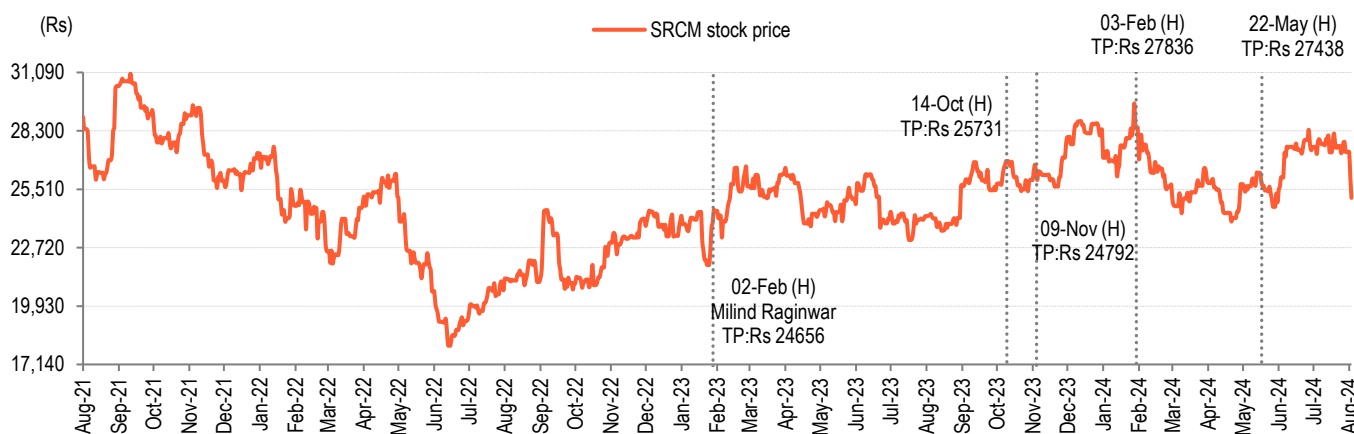
**HOLD** – Expected return from -6% to +15%

**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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