

HOLD

TP: Rs 24,140 | ▼ 1%

SHREE CEMENT

| Cement

| 12 November 2024

Relatively better placed to face tough challenges; retain HOLD

- Realisation dent drags revenue growth by a steep 19%/23% in Q2FY25, partially offset by relatively lower volume decline of 7% YoY
- Cost savings of ~9% YoY offer limited protection to EBITDA margin, falling ~300bps YoY/QoQ to ~16%, EBITDA falls 32% YoY to Rs 9.2bn
- We cut FY25E/FY26E/FY27E EBITDA by 9%/6%/2%, and assume 10-11% 3Y CAGR growth. Maintain HOLD with TP of Rs 24,140 (from Rs 25,422)

Milind Raginwar

research@bobcaps.in

Dent in realisations drag revenue: SRCM's revenue fell steeply by ~19%/23% YoY/QoQ to Rs 37.3bn in Q2FY25, driven by the fall in realisations. Volume fell by 7% YoY (~21% QoQ) to ~7.6mnt vs 8.4mnt in Q2FY24. Realisations fell to Rs 4,904/t, falling 12% YoY but only 2% over Q1FY25. SRCM's QoQ volume drop will be watched very keenly and is expected to be only for the short term.

Cost savings efforts offer limited protection to margins: The overall operating cost dropped by 9% YoY (+2% QoQ) to Rs 4,124/t. Raw material-adjusted energy costs declined 17% YoY (flat QoQ) to Rs 1,857/t, owing to a 17% YoY reduction in fuel cost to Rs 1.71/kcal (from Rs 2.05/kcal in Q2FY24). Logistics cost was flat YoY/QoQ to Rs 1,173/t following a rationalisation of lead distance YoY. Other expenditure fell sharply by 18%/22% YoY/QoQ to Rs 5.8bn and was commendable. EBITDA fell 31%/35% YoY/QoQ to ~Rs 5.9bn and EBITDA margin was at ~16% (-300bps YoY/QoQ). EBITDA/t fell 24%/18% YoY/QoQ to Rs 780/t in Q2FY25. Adj PAT was Rs 931mn, a drop of 81% 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 spent Rs 18.60bn in H1FY25 and roughly Rs 40bn every year for the next four years. SRCM's ongoing expansion projects in Jaitaran (Rajasthan), Kodla (Karnataka), Baloda Bazar (Chhattisgarh), Etah (UP) are on track, and expected to be completed by Q1FY26.

Earnings estimates cut; maintain HOLD: We cut our EBITDA estimates for FY25/FY26/FY27 by ~9%/6%/2% 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 revenue/EBITDA/PAT CAGR estimates are now 10%/11%/7% 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 maintains margins. We lower our TP to Rs 24,140 (from Rs 25,422) 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 24,418
Market cap	US\$ 10.4bn
Free float	37%
3M ADV	US\$ 9.1mn
52wk high/low	Rs 30,738/Rs 23,700
Promoter/FPI/DII	63%/13%/12%

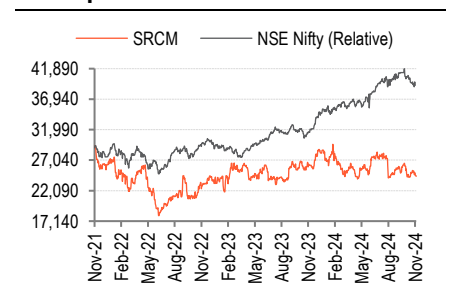
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,92,372	1,86,577	2,17,473
EBITDA (Rs mn)	39,859	35,144	45,329
Adj. net profit (Rs mn)	24,684	13,900	22,221
Adj. EPS (Rs)	684.2	385.3	615.9
Consensus EPS (Rs)	684.2	539.1	692.0
Adj. ROAE (%)	12.8	6.7	10.2
Adj. P/E (x)	35.7	63.4	39.6
EV/EBITDA (x)	19.7	22.3	21.6
Adj. EPS growth (%)	85.9	(43.7)	59.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Volumes and realisations	<p>The overall capacity utilisation went down to 56%, it was 58% in North India, 63% in East and 40% in South. Cement realisation was Rs 4,447/t.</p> <p>Regional sales mix was 58% for the North, 31% for the East and 11% for the South, and Q2FY25 volumes dropped by 6% in the North, 8% in the East and 10% for the South.</p>	<p>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.</p>	<p>The strategy shift between chasing volumes and realisations is very inconsistent. Regaining market share in a changed and very competitive market conditions could be challenging.</p>
Margins	<p>Fuel and power costs was at Rs 1.71/kcal in Q2FY25 (Rs 2.05/kcal in Q2FY24), logistics cost improved slightly as lead distance for Q2FY25 improved to Rs 433 vs Rs 475 YoY. Road share was 88% vs rail's 12%.</p>	<p>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.</p>	<p>Spot pet coke prices may bring some relief in the subsequent two quarters. Shift to green energy will further reduce energy cost, but fuel cost savings levers are increasingly limited.</p>
Capacity expansion	<p>Rs 18.60bn spent in H1FY25 and roughly Rs 40bn every year for the next four years.</p> <p>SRCM's ongoing expansion projects in Jaitaran (Rajasthan), Kodla (Karnataka), Baloda Bazar (Chhattisgarh), Etah (UP) are running on track, and are all expected to be completed by Q1FY26.</p>	<p>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.</p>	<p>Capex remains elevated. Bridging the headroom between volume delivery and capacity addition will be determined by the pickup in demand in the next four to six quarters. However, capacity addition will continue due to limited investment avenues (of cash generated). SRCM has to walk a tight rope between brand building and volume-driven growth.</p>
Green energy	<p>The share of green power remained at 54.8% in Q2FY25 and will reach 60% by Jun'25. Further work on adding 90MW of green power capacity is ongoing, and management expects to complete the same by Mar'25.</p>	<p>The share of green power remained at 54% in Q1FY25, and management aims to increase the same to ~62% by Q1FY26.</p>	<p>SRCM's focus on renewable energy continues with more addition of solar, WHRS and AFR.</p>
Other key points	<p>SRCM's business of ready-mix concrete (RMC) has seven plants – five in Mumbai and two in Hyderabad.</p> <p>The unit in the Middle East is making cash profits now.</p>	<p>SRCM's business of ready-mix concrete has seven plants with a total capacity of 624 cubic metre per hour.</p> <p>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.</p>	<p>Its foray into RMC business collaborates well with the cement business in more than four regions across the country.</p>

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

Fig 2 – Key metrics

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1QFY25E	Deviation (%)
Volumes (mn mt)	7.6	8.2	(7.3)	9.6	(21.2)	7.5	1.3
Cement realisations (Rs/t)	4,904	5,594	(12.3)	5,015	(2.2)	5,068	(3.2)
Operating costs (Rs/t)	4,124	4,533	(9.0)	4,065	1.5	4,222	(2.3)
EBITDA/t (Rs)	780	1,025	(23.9)	951	(18.0)	1,032	(24.4)

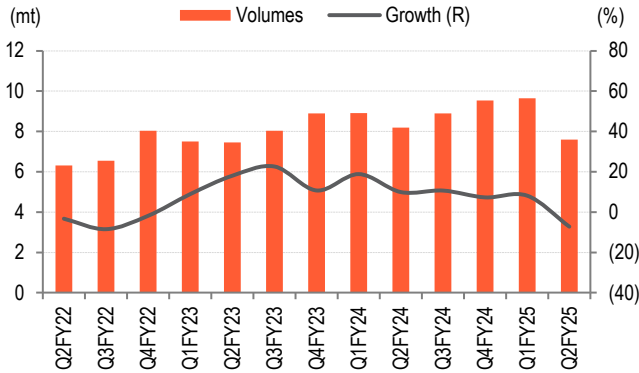
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1QFY25E	Deviation (%)
Net Sales	37,270	45,846	(18.7)	48,347	(22.9)	39,398	(5.4)
Expenditure							
Change in stock	171	(289)	NA	(349)	NA	(488)	(135.1)
Raw material	3,400	3,216	5.7	3,723	(8.7)	3,105	9.5
purchased products	528	1,630	(67.6)	691	(23.6)	101	-
Power & fuel	10,012	13,696	(26.9)	14,052	(28.7)	11,235	(10.9)
Freight	8,918	9,508	(6.2)	11,151	(20.0)	8,813	1.2
Employee costs	2,495	2,332	7.0	2,446	2.0	2,415	3.3
Other exp	5,820	7,053	(17.5)	7,469	(22.1)	6,481	(10.2)
Total Operating Expenses	31,345	37,146	(15.6)	39,183	(20.0)	31,662	(1.0)
EBITDA	5,925	8,701	(31.9)	9,164	(35.3)	7,737	(23.4)
EBITDA margin (%)	16	19	(308bps)	19	(306bps)	20	(374bps)
Other Income	1,776	1,261	40.8	1,346	31.9	1,540	15.3
Interest	567	681	(16.8)	573	(1.0)	581	(2.4)
Depreciation	6,687	3,315	101.7	6,428	4.0	6,214	7.6
PBT	448	5,965	(92.5)	3,508	(87.2)	2,482	(82.0)
Non-recurring items	0	0	-	0	-	0	-
PBT (after non recurring items)	448	5,965	(92.5)	3,508	(87.2)	2,482	(82.0)
Tax	484	(1,052)	(146.0)	(331)	(246.0)	(447)	(208.3)
Reported PAT	931	4,913	(81.0)	3,177	(70.7)	2,035	(54.2)
Adjusted PAT	931	4,913	(81.0)	3,177	(70.7)	2,035	(54.2)
NPM (%)	2.5	10.7	(822bps)	6.6	(407bps)	5.2	(267bps)
Adjusted EPS (Rs)	25.1	132.4	(81.0)	85.6	(70.7)	54.9	(54.2)

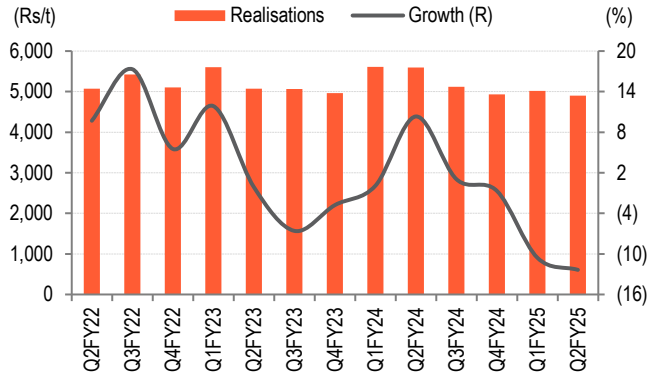
Source: Company, BOBCAPS Research

Fig 4 – Volume decline is against SRCM’s core policy of growth



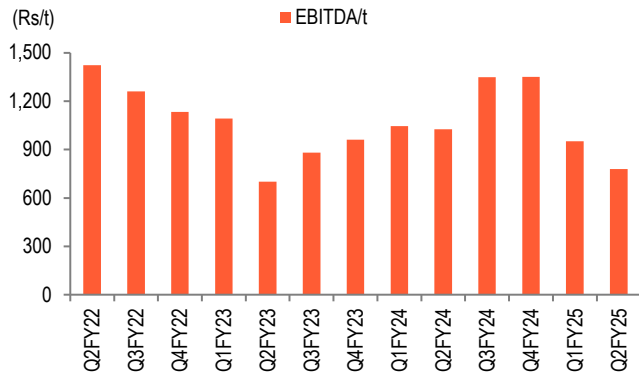
Source: Company, BOBCAPS Research

Fig 5 – Despite volume fall, realisations continue to move southwards



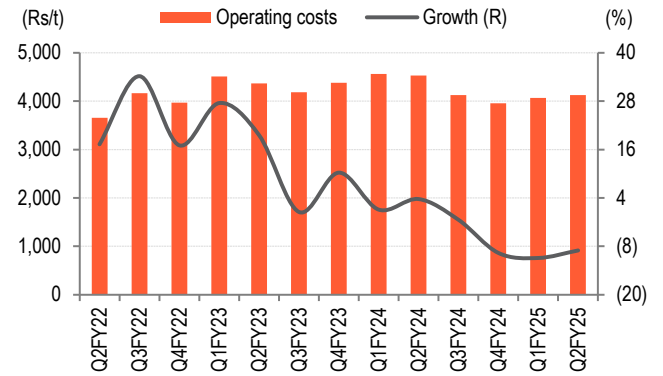
Source: Company, BOBCAPS Research

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



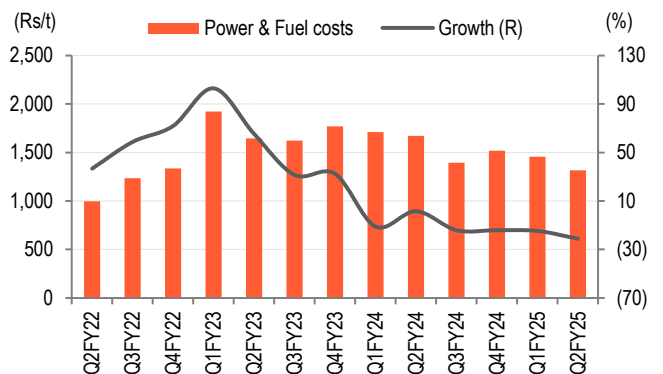
Source: Company, BOBCAPS Research

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 cut our EBITDA estimates for FY25/FY26/FY27 by ~9%/6%/2% 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.

We feel SRCM will save logistics cost and maintain margins as it gains size (~80mnt), improves operating efficiencies, and railways sidings stay operational in most of the clinker and grinding units. Further, incentives are available for certain plants including the 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. Adding the ready-mix cement (RMC) business only increases better earning avenues.

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 24,140 (from Rs 25,422) 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	1,86,577	2,17,473	2,52,901	1,92,321	2,21,624	2,57,513	(3.0)	(1.9)	(1.8)
EBITDA	35,144	45,329	55,205	38,702	47,987	56,413	(9.2)	(5.5)	(2.1)
Adj PAT	13,900	22,221	30,479	16,800	24,347	31,446	(17.3)	(8.7)	(3.1)
Adj EPS (Rs)	385.3	615.9	844.8	465.6	674.8	871.6	(17.3)	(8.7)	(3.1)

Source: BOBCAPS Research

Fig 11 – Key assumptions

	FY24	FY25E	FY26E	FY27E
Volumes (mt)	35.50	37.28	40.63	45.91
Realisations (Rs/t)	5,310	5,257	5,257	5,415
Operating costs (Rs/t)	4,146	4,253	4,146	4,216
EBITDA/t (Rs)	1,105	1,004	1,111	1,198

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	FY27E
Target EV/EBITDA (x)	15
EBITDA	55,205
Target EV	8,38,558
Total EV	8,38,558
Net debt	(1,16,820)
Target market capitalisation	9,55,377
Target price (Rs/sh)	24,140
Weighted average shares (mn)	36

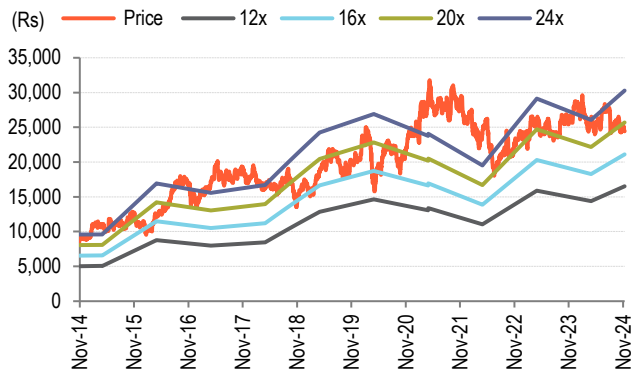
Source: BOBCAPS Research | 1-year forward earnings, includes FY27 partial earnings

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	24,140	22.3	21.6	17.8	182	179	172	6.7	10.2	12.8	8.8	13.1	16.1
DALBHARA IN	HOLD	1,816	13.2	15.2	10.0	82.0	87.0	86.0	4.1	6.7	8.6	5.6	8.0	9.5
ACC IN	HOLD	2,398	13.2	11.5	9.5	126.0	115.9	104.8	12.0	13.0	13.0	14.0	15.4	15.2

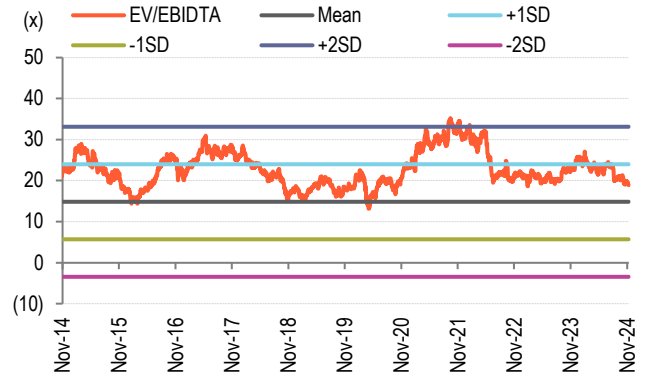
Source: BOBCAPS Research

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



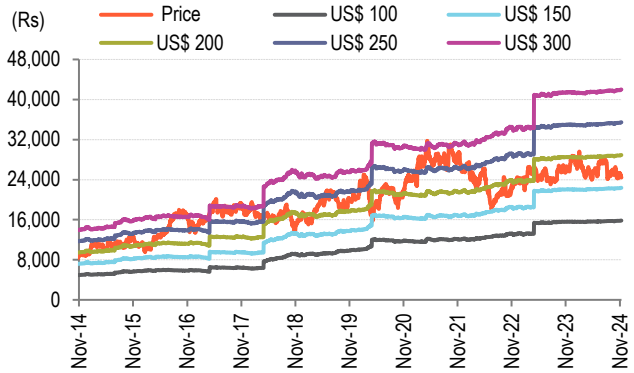
Source: Company, Bloomberg, BOBCAPS Research

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



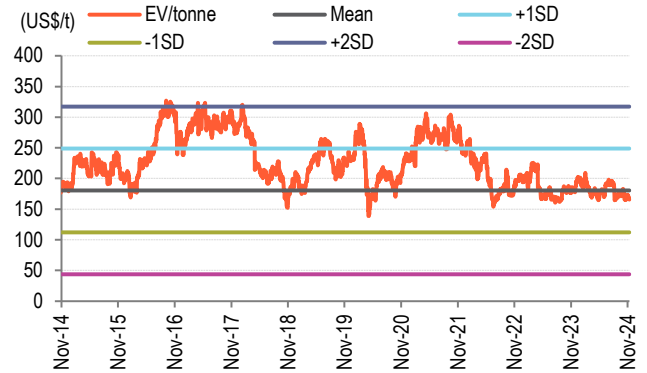
Source: Company, Bloomberg, BOBCAPS Research

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



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
Total revenue	1,64,961	1,92,372	1,86,577	2,17,473	2,52,901
EBITDA	25,504	39,859	35,144	45,329	55,205
Depreciation	(15,462)	(16,147)	(23,236)	(24,178)	(24,981)
EBIT	18,275	33,100	19,026	29,829	40,174
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	16,826	27,542	37,865
Income taxes	(2,305)	(5,772)	(2,926)	(5,321)	(7,386)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	13,281	24,684	13,900	22,221	30,479
Adjustments	0	0	0	0	0
Adjusted net profit	13,281	24,684	13,900	22,221	30,479

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	20,968	12,122	14,616	17,037	19,820
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	2,10,303	2,25,442	2,48,839
Shareholders' fund	1,82,882	2,03,834	2,10,652	2,25,802	2,49,210
Total liab. and equities	2,51,501	2,68,199	2,86,237	3,12,751	3,48,670
Cash and cash eq.	1,17,698	1,09,725	1,11,575	1,17,548	1,37,811
Accounts receivables	9,061	9,298	9,395	11,385	13,743
Inventories	24,226	31,462	30,843	35,741	41,339
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	2,86,237	3,12,751	3,48,670

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	27,274	34,027	44,337	46,807	53,642
Capital expenditures	(28,261)	(27,613)	(39,292)	(37,163)	(29,709)
Change in investments	(1,046)	9,753	(3,044)	(5,727)	(19,241)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(29,307)	(17,861)	(42,336)	(42,889)	(48,950)
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	(1,194)	246	1,021
Closing cash & cash eq.	1,17,698	1,09,724	1,11,575	1,17,548	1,37,811

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	368.1	684.2	385.3	615.9	844.8
Adjusted EPS	368.1	684.2	385.3	615.9	844.8
Dividend per share	90.0	105.0	167.8	167.8	167.8
Book value per share	5,068.8	5,649.5	5,838.4	6,258.3	6,907.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.8	4.1	4.2	4.5	3.9
EV/EBITDA	30.9	19.7	22.3	21.6	17.8
Adjusted P/E	66.3	35.7	63.4	39.6	28.9
P/BV	4.8	4.3	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	82.6	80.7	80.5
Interest burden (PBT/EBIT)	85.3	92.0	88.4	92.3	94.3
EBIT margin (EBIT/Revenue)	11.1	17.2	10.2	13.7	15.9
Asset turnover (Rev./Avg TA)	68.9	74.0	67.3	72.6	76.5
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.4	1.4
Adjusted ROAE	7.5	12.8	6.7	10.2	12.8

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	18.6	16.6	(3.0)	16.6	16.3
EBITDA	(20.8)	56.3	(11.8)	29.0	21.8
Adjusted EPS	(43.9)	85.9	(43.7)	59.9	37.2
Profitability & Return ratios (%)					
EBITDA margin	15.5	20.7	18.8	20.8	21.8
EBIT margin	11.1	17.2	10.2	13.7	15.9
Adjusted profit margin	8.1	12.8	7.5	10.2	12.1
Adjusted ROAE	7.5	12.8	6.7	10.2	12.8
ROCE	9.4	16.0	8.8	13.1	16.1
Working capital days (days)					
Receivables	20	18	18	19	20
Inventory	54	60	60	60	60
Payables	55	29	35	36	37
Ratios (x)					
Gross asset turnover	1.2	1.1	1.0	1.1	1.2
Current ratio	3.5	3.2	2.7	2.5	2.6
Net interest coverage ratio	6.8	12.5	8.6	13.0	17.4
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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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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%

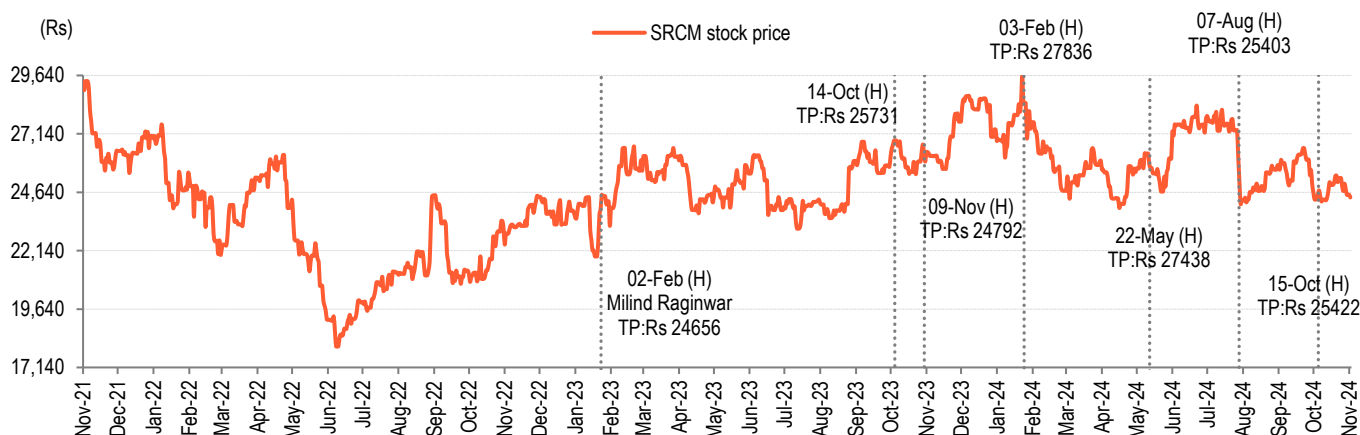
HOLD – Expected return from -6% to +15%

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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