

HOLD
 TP: Rs 27,836 | ▼ 2%

SHREE CEMENT

Cement

03 February 2024

Healthy quarter, expensive valuations

- Q3 revenue growth of 20% YoY backed by sharp 11% volume uptick to 8.9mt
- EBITDA margin expansion of 780bps YoY to 25.2% buoyed by operating cost savings
- Our TP rises to Rs 27,836 (vs. Rs 24,792) on rollover; current valuations look overdone at 16x FY26E EV/EBITDA – maintain HOLD

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Volume-led revenue growth: SRCM’s revenue grew 20% YoY (+7% QoQ) to Rs 49bn in Q3FY24 backed by sharp volume growth of 11% (+8.5% QoQ) to 8.9mn tonnes, while realisations increased 9% YoY (-1.5% QoQ) to Rs 5,513/t. Higher volumes were aided by better capacity utilisation at 77% (from 71% in Q2FY24).

Cost savings push up EBITDA: SRCM’s EBITDA margin expanded 780bps YoY (+620bps QoQ) to 25.2% and EBITDA/t increased 53% YoY (+31% QoQ) to Rs 1,348/t owing to energy and logistics cost savings. Energy costs declined 14% YoY (-17% QoQ) to Rs 1,393/t due to a 28% YoY reduction in fuel cost to Rs 1.78/kcal, whereas logistics cost fell 7% YoY (-6% QoQ) to Rs 1,095/t following a reduction in lead distance. Total operating cost dipped 1% YoY (-9% QoQ) to Rs 4,125/t. Power EBITDA stood at Rs 350mn.

Capacity expansion plans on schedule: The 3.5mt Nawalgarh (Rajasthan) unit was commissioned in Jan’24 and the 3mt integrated cement unit in Guntur (Andhra Pradesh) is scheduled to become operational by Q4FY24. This will take SRCM’s total capacity to 56mt by FY24, which is expected to rise further to 62mt in FY25.

Earnings raised: We increase our FY24 EPS estimate by 10% to account for the robust Q3 print and broadly maintain FY25 numbers. We also introduce FY26 assumptions for SRCM, pencilling in a revenue/EBITDA/PAT CAGR of 15%/30%/32% over FY23-FY26.

Maintain HOLD on expensive valuations: SRCM’s capacity expansion drive continues, but the headroom between low dispatches and high rated capacity is yet to narrow. We maintain HOLD as current valuations of 16x FY26E EV/EBITDA appear unjustified given the company’s inconsistent focus on brand versus growth, capacity expansion well ahead of delivered volumes, and presence in the less remunerative southern and eastern regions. Our TP stands revised to Rs 27,836 (from Rs 24,792) as we roll valuations over to FY26E, while valuing the stock at an unchanged 15x EV/EBITDA multiple – 2.25x over the industry replacement cost.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SRCM IN/Rs 28,454
Market cap	US\$ 12.5bn
Free float	37%
3M ADV	US\$ 9.1mn
52wk high/low	Rs 30,738/Rs 22,606
Promoter/FPI/DII	63%/13%/12%

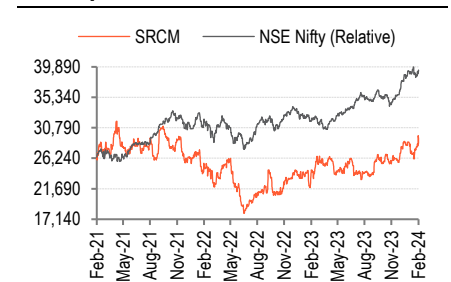
Source: NSE | Price as of 2 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,64,961	1,94,236	2,23,703
EBITDA (Rs mn)	25,504	42,341	51,497
Adj. net profit (Rs mn)	13,281	22,491	26,618
Adj. EPS (Rs)	368.1	623.4	737.7
Consensus EPS (Rs)	368.1	628.0	738.0
Adj. ROAE (%)	7.5	11.7	12.4
Adj. P/E (x)	77.3	45.6	38.6
EV/EBITDA (x)	36.7	22.1	17.8
Adj. EPS growth (%)	(43.9)	69.4	18.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Volumes and Realisations	<p>Capacity utilisation was at 77% in Q3FY24, and management expects a further increase.</p> <p>Power sales during Q3 stood at Rs 3.5bn with a ~10% EBITDA margin.</p> <p>Blended cement formed 72% of volumes sold in Q3. Trade sales made up 76% of the mix.</p>	<p>Q2FY24 capacity utilisation was at 71%, with that in the eastern region declining to 74% from 92% in Q1 due to heavy rainfall in a few operating areas and capacity additions.</p> <p>Power sales during Q2 stood at Rs 3.4bn (880mn units generated, of which 400mn units were sold and 440mn units were consumed captively).</p> <p>Blended cement formed 75% of the volumes sold in Q2FY24 (76% in Q2FY23) and trade sales formed 80% of the mix (80%).</p>	<p>The return to volume growth is a welcome change, though improving capacity utilisation without denting realisations will be a key challenge for SRCM.</p>
Margins	<p>Fuel and power costs stood at Rs 1.78/kcal (vs. Rs 2.46/kcal in Q3FY23), and management expects a lower figure of Rs 1.76/kcal in Q4FY24. Lead distance decreased to 448km from 472km in Q2FY24.</p> <p>In terms of fuel mix, pet coke and coal constituted ~88% while AFR constituted ~11%.</p>	<p>Fuel and power costs stood at Rs 2.05/kcal (vs. Rs 2.8/kcal in Q2FY23), and management expects a rate of ~Rs 1.9/kcal in Q3FY24. Lead distance increased to 472km from 456km in Q1FY24.</p> <p>In terms of fuel mix, pet coke and coal constituted ~90% while AFR constituted ~10%.</p>	<p>Margin levers backed by cost efficiencies are limited. Consistent high pricing will be the key performance driver.</p>
Capacity expansion	<p>Management has maintained its guidance of reaching 56mt by Mar'24, 62mt by Mar'25, 65mt by Sep'25, 75mt by Mar'26 and 80mt by Mar'28.</p> <p>The Nawalgarh plant at Rajasthan has been commissioned in Jan'24 and the Guntur plant at Andhra Pradesh is expected to be commissioned by Q4FY24.</p> <p>SRCM has ordered one more 3mt cement mill at Pali plant, Rajasthan.</p>	<p>Management expects total capacity to increase to 56mt by FY24 and is on schedule to reach 80mt by FY28.</p> <p>The Guntur plant at Andhra Pradesh is expected to be commissioned by Q4FY24/ Q1FY25, and the Nawalgarh plant at Rajasthan by Q4FY24 (delay of ~3 months).</p> <p>SRCM has received the required permissions to set up a grinding unit at Uttar Pradesh. The grinding unit at Baloda Bazar, Chhattisgarh, is expected to come online within 18 months.</p>	<p>Capex remains elevated. SRCM needs to sustain a strong volume-driven performance, else the capacity and dispatch gap will remain high.</p>
Green energy	<p>The share of green power remained at 58% in Q3FY24, and management aims to increase the same to ~65% by FY25.</p>	<p>The share of green power increased to 58% in Q2FY24 (from 51% in Q2FY23), and management aims to increase the same to 62% by Q1FY25.</p>	<p>SRCM's focus on renewable energy continues.</p>
Other key points	<p>Capex guidance (excluding Guntur expansion) is at ~Rs 125bn till FY27. Capex for the Ras Al Khaimah (UAE) brownfield expansion of 3mt is estimated at ~Rs 6bn.</p> <p>SRCM announced a new brand identity with <i>Bangur</i> as a master brand in Jan'24 with a revamped product line and the launch of premium brand <i>Bangur Magna</i>.</p>	<p>Union Cement dispatches to India are currently at a halt due to higher handling cost at Indian ports of ~Rs 150/bag (Rs 3,000/t).</p> <p>Management indicated that tax payment will be higher for 2-3 years till refunds are credited as SRCM has a policy of conservatively paying higher taxes.</p>	<p>Slowing capex will help SRCM sweat assets better and improve return ratios.</p>

Source: Company, BOBCAPS Research | AFR: Alternate Fuel Resource; WHRS: Waste Heat Recovery System

Fig 2 – Key metrics

(Rs)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Volumes (mt)	8.9	8.0	10.7	8.2	8.5
Cement realisations (Rs/t)	5,513	5,065	8.8	5,594	(1.5)
Operating costs (Rs/t)*	4,125	4,184	(1.4)	4,533	(9.0)
EBITDA (Rs/t)	1,348	881	53.0	1,025	31.5

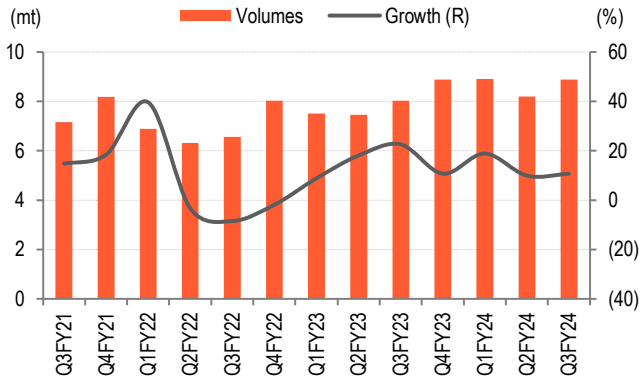
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	49,008	40,688	20.4	45,846	6.9
Expenditure					
Change in stock	205	(326)	NA	(289)	NA
Raw material	3,649	3,100	17.7	3,216	13.4
purchased products	539	57	845.1	1,630	(67.0)
Power & fuel	12,381	13,027	(5.0)	13,696	(9.6)
Freight	9,732	9,429	3.2	9,508	2.3
Employee costs	2,347	2,179	7.7	2,332	0.6
Other exp	7,819	6,143	27.3	7,053	10.9
Total Operating Expenses	36,671	33,608	9.1	37,146	(1.3)
EBITDA	12,337	7,080	74.3	8,701	41.8
EBITDA margin (%)	25.2	17.4	777bps	19.0	620bps
Other Income	1,354	1,612	(16.0)	1,261	7.4
Interest	561	714	(21.4)	681	(17.6)
Depreciation	3,466	4,136	(16.2)	3,315	4.6
PBT	9,664	3,842	151.5	5,965	62.0
Non-recurring items	0	0	-	0	-
PBT (after non-recurring items)	9,664	3,842	151.5	5,965	62.0
Tax	2,322	1,074	116.1	1,052	120.7
Reported PAT	7,342	2,768	165.3	4,913	49.4
Adjusted PAT	7,342	2,768	165.3	4,913	49.4
NPM (%)	15.0	6.8	818bps	10.7	426bps
Adjusted EPS (Rs)	203.5	76.7	165.3	136.2	49.4

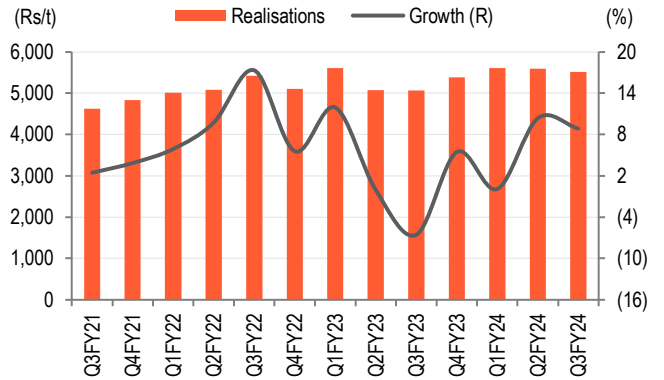
Source: Company, BOBCAPS Research

Fig 4 – Volume growth of 11% YoY a highlight of the quarter



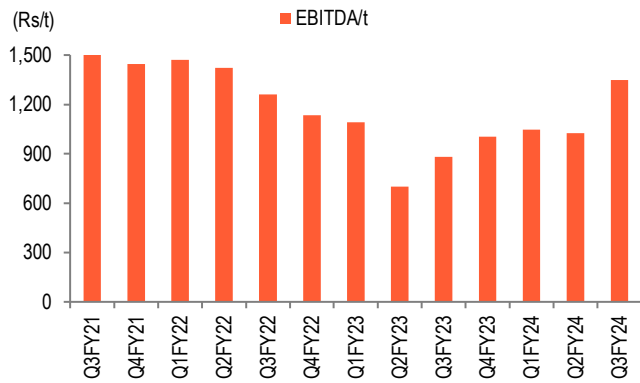
Source: Company, BOBCAPS Research

Fig 5 – Healthy realisations backed by higher volumes in northern region



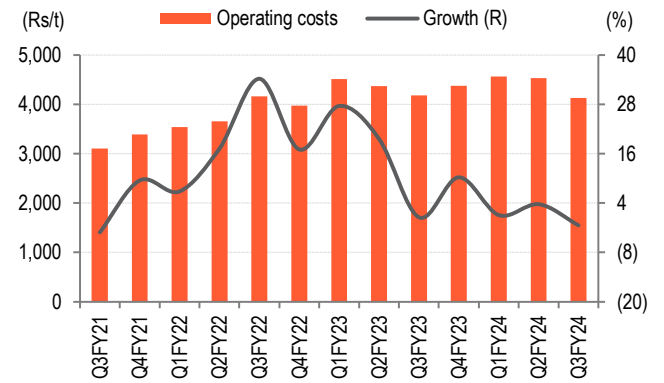
Source: Company, BOBCAPS Research

Fig 6 – Sustaining higher EBITDA/t a key challenge



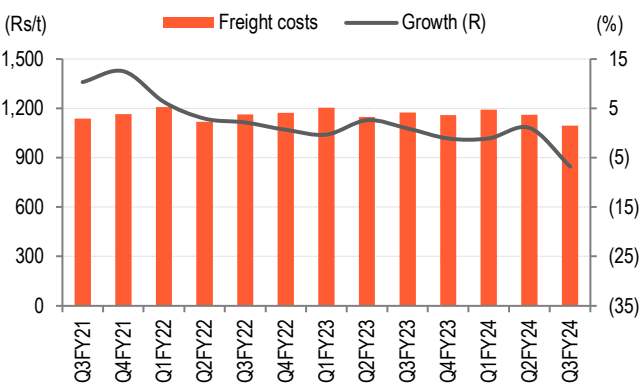
Source: Company, BOBCAPS Research

Fig 7 – Cost efficiencies commendable



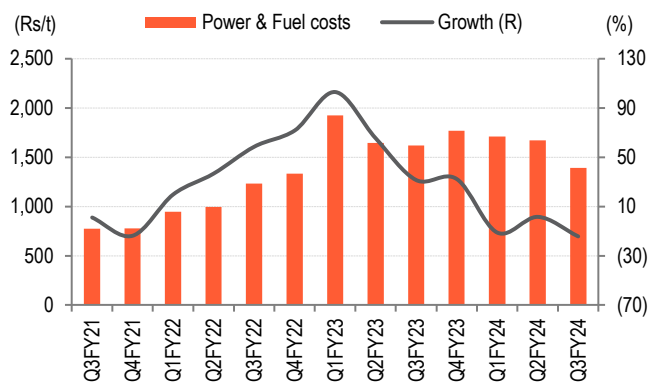
Source: Company, BOBCAPS Research

Fig 8 – Sharp drop in lead distance a positive surprise



Source: Company, BOBCAPS Research

Fig 9 – Power cost savings remains a focus area



Source: Company, BOBCAPS Research

Valuation methodology

We increase our FY24 EPS estimate by 10% to account for the robust December quarter print and broadly maintain FY25 numbers. We also introduce FY26 assumptions for SRCM, now pencilling in a revenue/EBITDA/PAT CAGR of 15%/30%/32% over FY23-FY26.

The company's capacity expansion drive continues, but the headroom between low dispatches and high rated capacity is yet to narrow. We maintain our HOLD rating as current valuations of 16x FY26E EV/EBITDA appear unjustified given SRCM's inconsistent focus on brand versus growth, capacity expansion well ahead of delivered volumes, and presence in the less remunerative southern and eastern regions. Our TP stands revised to Rs 27,836 (from Rs 24,792) as we roll valuations over to FY26E, while valuing the stock at an unchanged 15x EV/EBITDA multiple – 2.25x over the industry replacement cost.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	194,236	223,703	249,515	186,384	216,732	NA	4.2	3.2	NA
EBITDA	42,341	51,497	56,647	40,431	50,928	NA	4.7	1.1	NA
Adj PAT	22,491	26,618	30,234	20,404	26,851	NA	10.2	(0.9)	NA
Adj EPS (Rs)	623.4	737.7	838	565.5	744	NA	10.2	(0.9)	NA

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	31.2	35.9	39.5	44.2
Realisations (Rs/t)	5,009	5,310	5,416	5,524
Operating costs (Rs/t)	4,299	4,136	4,152	4,248
EBITDA/t (Rs)	1,182	1,174	1,264	1,276

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	FY26E
Target EV/EBITDA (x)	15
EBITDA	56,647
Target EV	8,74,629
Total EV	8,74,629
Net debt	(1,30,810)
Target market capitalisation	10,05,440
Target price (Rs/sh)	27,836
Weighted average shares (mn)	36

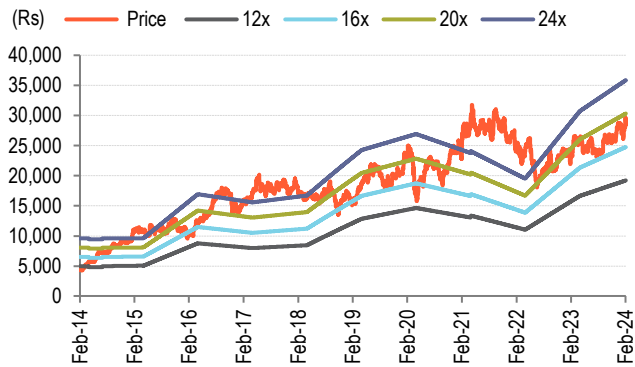
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
SRCM IN	HOLD	27,836	36.7	22.1	17.8	208	207	202	7.5	11.7	12.4	9.4	15.3	16.6
DALBHARA IN	HOLD	2,443	17.9	16.0	13.0	130	109	105	4.7	5.5	8.2	5.4	6.6	9.1
ACC IN	HOLD	2,542	24.4	14.6	11.5	161	142	134	7.9	12.8	14.7	7.9	17.5	19.2

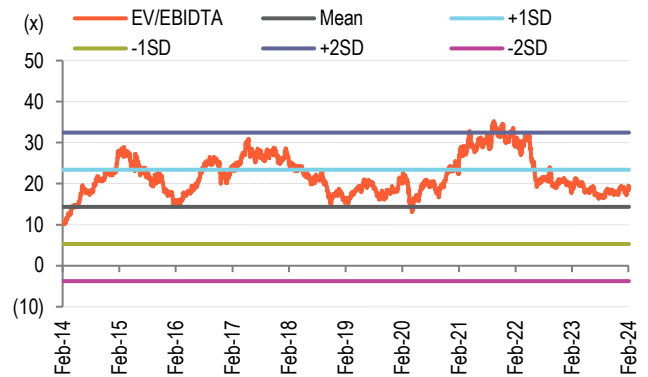
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: SRCM continues to trade at a higher premium



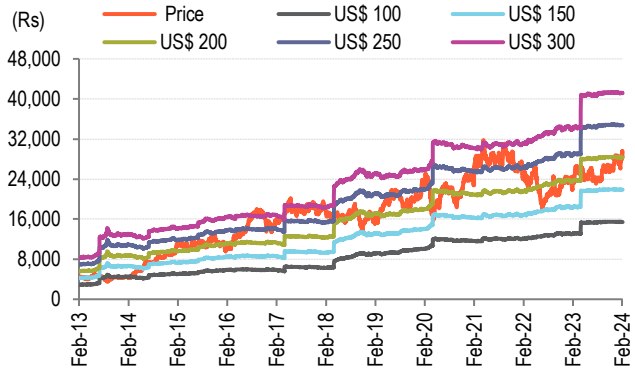
Source: Company, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: We value SRCM at 15x EV/EBITDA, FY26 earnings



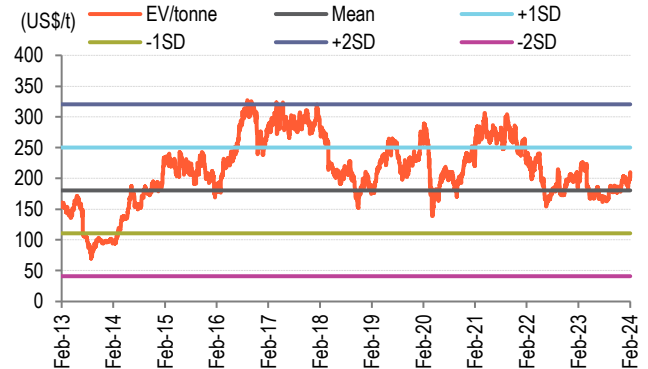
Source: Company, BOBCAPS Research

Fig 16 – Replacement cost band: Replacement cost remains elevated...



Source: Company, BOBCAPS Research

Fig 17 – Replacement cost band 1-Year fwd...expect reversal to mean



Source: Company, BOBCAPS Research

Key risks

- A faster volume push than estimated along with better realisations represents a key upside risk to our estimates.
- Severe competition in the northern region that can add pricing pressure and a shift in focus back to brand building that can dent volume growth are key downside risks.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.7	2,499	2,542	HOLD
Dalmia Bharat	DALBHARA IN	5.1	2,259	2,443	HOLD
JK Cement	JKCE IN	4.1	4,366	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.3	920	551	SELL
Orient Cement	ORCMNT IN	0.7	280	128	SELL
Shree Cement	SRCM IN	12.5	28,454	27,836	HOLD
The Ramco Cements	TRCL IN	2.8	993	661	SELL
Ultratech Cement	UTCEN IN	35.5	10,099	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,39,118	1,64,961	1,94,236	2,23,703	2,48,515
EBITDA	32,201	25,504	42,341	51,497	56,647
Depreciation	(10,365)	(15,462)	(15,290)	(19,635)	(21,042)
EBIT	31,389	18,275	32,575	38,986	44,277
Net interest inc./(exp.)	(2,178)	(2,689)	(2,666)	(3,269)	(3,673)
Other inc./(exp.)	9,553	8,233	5,524	7,124	8,672
Exceptional items	0	0	0	0	0
EBT	29,211	15,586	29,909	35,717	40,604
Income taxes	(5,543)	(2,305)	(7,418)	(9,100)	(10,370)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	23,668	13,281	22,491	26,618	30,234
Adjustments	0	0	0	0	0
Adjusted net profit	23,668	13,281	22,491	26,618	30,234

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	17,853	20,968	15,218	17,532	19,482
Other current liabilities	23,307	28,789	33,437	36,179	39,414
Provisions	57	61	57	57	57
Debt funds	20,142	25,392	28,065	29,715	33,391
Other liabilities	(6,609)	(6,591)	(7,138)	(7,736)	(8,398)
Equity capital	361	361	361	361	361
Reserves & surplus	1,72,357	1,82,532	2,01,966	2,25,527	2,52,703
Shareholders' fund	1,72,709	1,82,883	2,02,324	2,25,885	2,53,074
Total liab. and equities	2,27,458	2,51,502	2,71,964	3,01,633	3,37,019
Cash and cash eq.	1,16,642	1,17,698	1,20,623	1,39,330	1,64,202
Accounts receivables	5,957	9,061	11,045	13,152	15,088
Inventories	21,614	24,226	28,917	33,758	38,009
Other current assets	20,303	23,987	24,539	25,103	25,680
Investments	0	0	0	0	0
Net fixed assets	46,887	45,651	46,041	38,086	28,724
CWIP	15,559	30,155	40,033	51,393	64,457
Intangible assets	497	722	765	811	859
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,27,458	2,51,500	2,71,964	3,01,633	3,37,019

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	35,924	27,274	28,494	43,198	49,034
Capital expenditures	(21,154)	(28,261)	(25,601)	(23,086)	(24,792)
Change in investments	(4,953)	(1,046)	(3,315)	(18,769)	(22,962)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(26,108)	(29,307)	(28,917)	(41,855)	(47,754)
Equities issued/Others	(9)	0	7	0	12
Debt raised/repaid	(7,420)	5,250	2,673	1,651	3,676
Interest expenses	0	0	0	0	0
Dividends paid	(3,788)	(3,247)	(2,649)	(3,057)	(3,057)
Other financing cash flows	486	41	2	0	(1)
Cash flow from financing	(10,731)	2,044	33	(1,406)	630
Chg in cash & cash eq.	(915)	10	(390)	(63)	1,910
Closing cash & cash eq.	1,16,642	1,17,698	1,20,624	1,39,330	1,64,201

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	656.0	368.1	623.4	737.7	838.0
Adjusted EPS	656.0	368.1	623.4	737.7	838.0
Dividend per share	105.0	90.0	72.4	72.4	72.4
Book value per share	4,786.8	5,068.8	5,607.6	6,260.6	7,014.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.7	5.7	4.8	4.1	4.5
EV/EBITDA	28.9	36.7	22.1	17.8	19.9
Adjusted P/E	43.4	77.3	45.6	38.6	34.0
P/BV	5.9	5.6	5.1	4.5	4.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	81.0	85.2	75.2	74.5	74.5
Interest burden (PBT/EBIT)	93.1	85.3	91.8	91.6	91.7
EBIT margin (EBIT/Revenue)	22.6	11.1	16.8	17.4	17.8
Asset turnover (Rev./Avg TA)	64.7	68.9	74.2	78.0	77.8
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.4	1.3	1.3
Adjusted ROAE	14.6	7.5	11.7	12.4	12.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	13.0	18.6	17.7	15.2	11.1
EBITDA	(12.8)	(20.8)	66.0	21.6	10.0
Adjusted EPS	2.4	(43.9)	69.4	18.3	13.6
Profitability & Return ratios (%)					
EBITDA margin	23.1	15.5	21.8	23.0	22.8
EBIT margin	22.6	11.1	16.8	17.4	17.8
Adjusted profit margin	17.0	8.1	11.6	11.9	12.2
Adjusted ROAE	14.6	7.5	11.7	12.4	12.6
ROCE	17.5	9.4	15.3	16.6	16.8
Working capital days (days)					
Receivables	16	20	21	21	22
Inventory	57	54	54	55	56
Payables	61	55	37	37	37
Ratios (x)					
Gross asset turnover	1.1	1.2	1.2	1.3	1.4
Current ratio	4.0	3.5	3.8	3.9	4.1
Net interest coverage ratio	14.4	6.8	12.2	11.9	12.1
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: **INH0000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

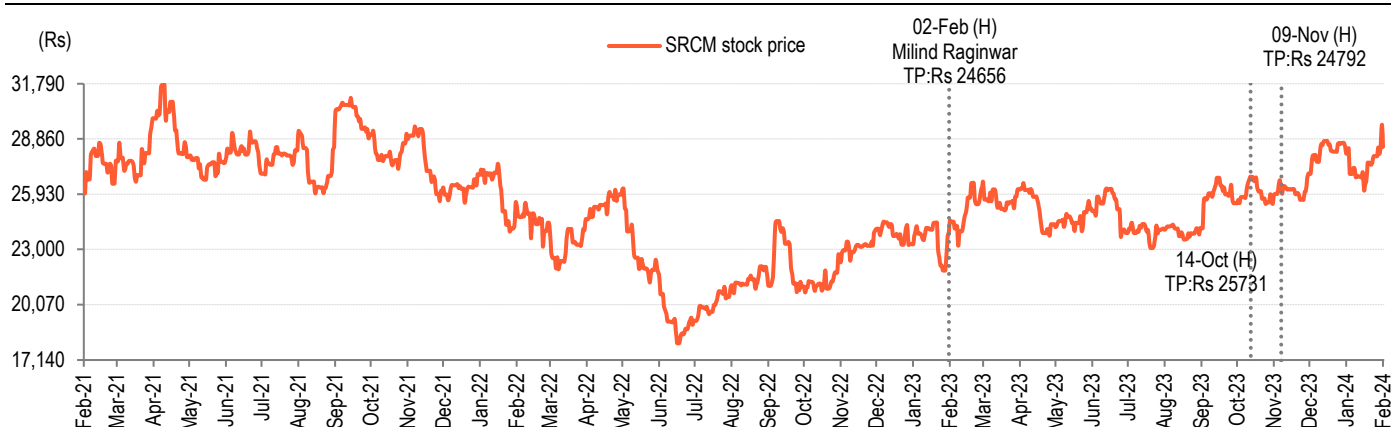
HOLD – Expected return from -6% to +15%

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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