

**HOLD**

TP: Rs 25,755 | ▼ 4%

**SHREE CEMENT**

| Cement

| 31 January 2025

**Well placed for challenging times; retain HOLD**

- Revenue growth stays soft with a fall of 13% YoY as realisations stay weak. Healthy recovery of 13% QoQ backed by ~15% volume gains
- Cost savings of ~9% each YoY/QoQ boosts EBITDA margin to 22%, sharp recovery QoQ from ~16%; EBITDA falls 23% YoY to Rs 9.4bn
- Retain FY25E/FY26E/FY27E EBITDA, cut PAT estimates for higher depreciation provision. Maintain HOLD with TP of Rs 25,755 (Rs 24,140)

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**Dent in realisations drag revenue:** SRCM’s revenue fell steeply by ~13% YoY (+13.6% QoQ) to Rs 42.35bn in Q3FY25, driven by the fall in realisations. Blended realisations fell to Rs 4,830/t, down ~6%/2% YoY/QoQ. However, cement realisations rose 3% QoQ to Rs 4,574/t despite healthy double-digit volume gains QoQ. Cement volumes rose 15% QoQ from 7.6mnt to ~8.78mnt (slipped 2% YoY). Sales of premium products stood at 15.0% of trade sale volume, flat vs Q2FY25.

**Cost savings efforts offer limited protection to margins:** The overall operating cost fell by 9% each YoY/QoQ to Rs 3,750. Raw material-adjusted energy costs declined 12%/11% YoY/QoQ to Rs 1,658/t, owing to a 13% YoY reduction in fuel cost to Rs 1.55/kcal from Rs1.78/kcal (Rs 1.71/kcal in Q2FY25). Logistics cost fall of 4% QoQ to Rs 1,131/t was a key positive. Other expenditure was under control and down 22% YoY, with only 4% QoQ rise despite 15% volume gains to Rs 6.0bn. EBITDA margin rose to 22% after falling to ~16% QoQ (-300bps YoY). EBITDA/t fell 20% YoY, but reversed 38% QoQ to Rs 1,079/t in Q2FY25.

**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 will spend roughly Rs 40bn every year for the next four years. SRCM’s ongoing expansion projects in Jaitaran (Rajasthan), Kodla (Karnataka), Baloda Bazar (Chhattisgarh), Etah (Uttar Pradesh) are on track, and expected to be completed by Q1FY26.

**Earnings estimates cut; maintain HOLD:** We maintain our EBITDA estimates for FY25/FY26/FY27 but cut PAT estimates by ~28%/24%/22% owing to higher depreciation provisions. Strong leg of capacity addition by cement companies, including SRCM, leading to excess supply in FY26 may keep price hikes at bay. Our revenue/EBITDA CAGR estimates are 10%/11% 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 revise our TP to Rs 25,755 (from Rs 24,140) while valuing the stock at 15x FY26E EV/EBITDA and Rs10.5bn/mnt replacement cost.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	SRCM IN/Rs 26,831
Market cap	US\$ 11.2bn
Free float	37%
3M ADV	US\$ 9.1mn
52wk high/low	Rs 30,738/Rs 23,500
Promoter/FPI/DII	63%/13%/12%

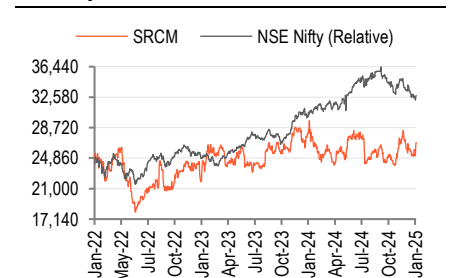
Source: NSE | Price as of 30 Jan 2025

**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	10,083	17,001
Adj. EPS (Rs)	684.2	279.5	471.2
Consensus EPS (Rs)	684.2	388.6	575.5
Adj. ROAE (%)	12.8	4.9	8.0
Adj. P/E (x)	39.2	96.0	56.9
EV/EBITDA (x)	21.9	24.8	23.5
Adj. EPS growth (%)	85.9	(59.2)	68.6

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Key metrics**

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	1QFY25E	Deviation (%)
Volumes (mn mt)	8.8	8.9	(1.3)	7.6	15.4	8.7	0.8
Cement realisations (Rs/t)	4,830	5,119	(5.7)	4,904	(1.5)	4,929	(2.0)
Operating costs (Rs/t)	3,750	4,125	(9.1)	4,124	(9.1)	4,052	(7.4)
EBITDA/t (Rs)	1,079	1,348	(20.0)	780	38.4	1,045	3.3

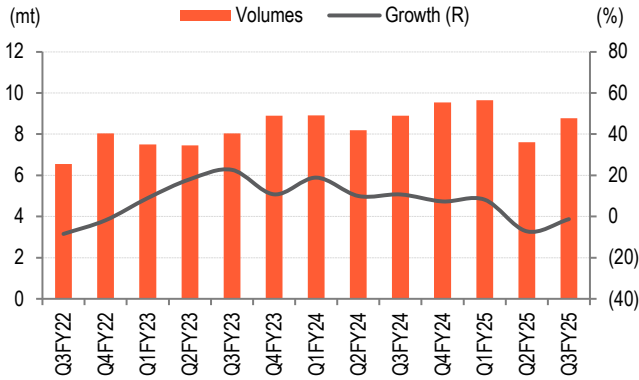
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	1QFY25E	Deviation (%)
<b>Net Sales</b>	<b>42,355</b>	<b>49,008</b>	<b>(13.6)</b>	<b>37,270</b>	<b>13.6</b>	<b>44,341</b>	<b>(4.5)</b>
<b>Expenditure</b>							
Change in stock	1,023	205	397.8	171	497.6	(85)	
Raw material	3,713	3,649	1.7	3,400	9.2	3,924	(5.4)
purchased products	669	539	24.2	528	26.6	734	-
Power & fuel	9,134	12,381	(26.2)	10,012	(8.8)	11,284	(19.1)
Freight	9,918	9,732	1.9	8,918	11.2	10,014	(1.0)
Employee costs	2,371	2,347	1.0	2,495	(5.0)	2,515	(5.7)
Other exp	6,062	7,819	(22.5)	5,820	4.2	6,867	(11.7)
Total Operating Expenses	32,889	36,671	(10.3)	31,345	4.9	35,253	(6.7)
<b>EBITDA</b>	<b>9,466</b>	<b>12,337</b>	<b>(23.3)</b>	<b>5,925</b>	<b>59.8</b>	<b>9,088</b>	<b>4.2</b>
<b>EBITDA margin (%)</b>	<b>22.3</b>	<b>25.2</b>	<b>(282bps)</b>	<b>15.9</b>	<b>645bps</b>	<b>20.5</b>	<b>185bps</b>
Other Income	1,149	1,354	(15.2)	1,776	(35.3)	1,710	(32.8)
Interest	529	561	(5.8)	567	(6.8)	566	(6.6)
Depreciation	7,496	3,466	116.3	6,687	12.1	6,715	11.6
PBT	2,590	9,664	(73.2)	448	478.6	3,517	(26.4)
Non-recurring items	0	0	-	0	-	0	-
PBT (after non recurring items)	2,590	9,664	(73.2)	448	478.6	3,517	(26.4)
Tax	(296)	(2,322)	(87.3)	484	(161.2)	(703)	(57.9)
<b>Reported PAT</b>	<b>2,294</b>	<b>7,342</b>	<b>(68.8)</b>	<b>931</b>	<b>146.3</b>	<b>2,814</b>	<b>(18.5)</b>
Adjusted PAT	2,294	7,342	(68.8)	931	146.3	2,814	(18.5)
NPM (%)	5.4	15.0	(957bps)	2.5	292bps	6.3	(93bps)
<b>Adjusted EPS (Rs)</b>	<b>61.8</b>	<b>197.9</b>	<b>(68.8)</b>	<b>25.1</b>	<b>146.3</b>	<b>75.8</b>	<b>(18.5)</b>

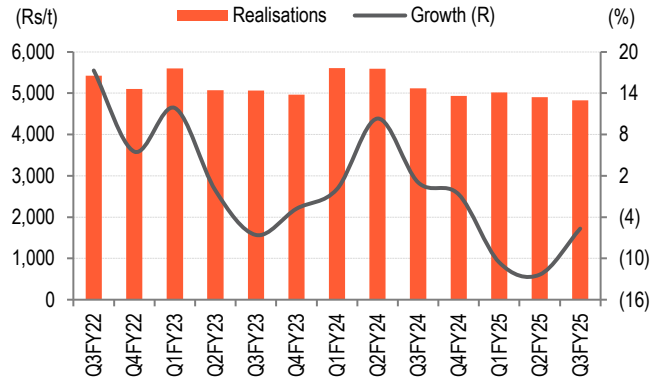
Source: Company, BOBCAPS Research

**Fig 3 – Healthy bounce back QoQ, momentum likely to continue**



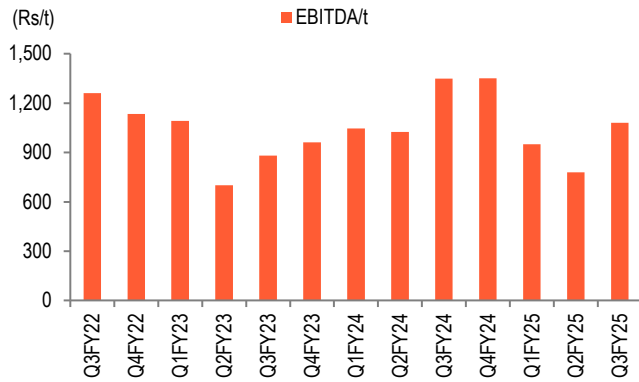
Source: Company, BOBCAPS Research

**Fig 4 – Despite volume gains, realisations shocks are limited**



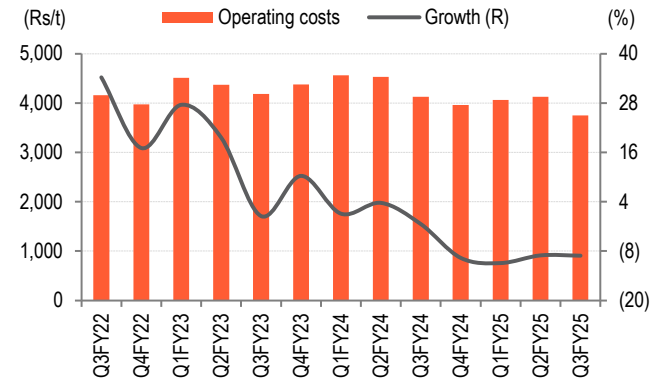
Source: Company, BOBCAPS Research

**Fig 5 – Strong jump in EBITDA/t despite listless realisations; remains the highlight of Q3FY25**



Source: Company, BOBCAPS Research

**Fig 6 – Cost efficiencies continue to drive the show in Q3**



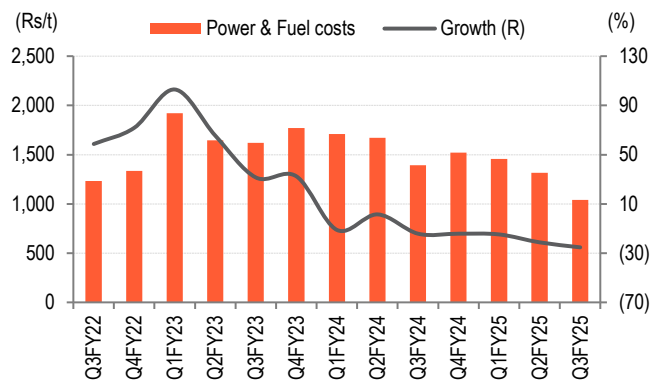
Source: Company, BOBCAPS Research

**Fig 7 – QoQ cost savings bring in positive surprise**



Source: Company, BOBCAPS Research

**Fig 8 – Power cost savings aided by further penetration of alternative cost saving sources**



Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our EBITDA estimates for FY25/FY26/FY27 but cut PAT estimates by ~28%/24%/22% due to higher depreciation provisions. The strong leg of capacity addition by cement companies, including SRCM, leading to excess supply in FY26 may keep price hikes at bay, in our view. Our revenue/EBITDA CAGR estimates are 10%/11% over FY24-FY27E.

In such a scenario we feel SRCM's focus will stay on cost savings. The Q3FY25 highlight was achieving higher EBITDA/tonne only through cost savings as realisations were listless. SRCM will save logistics cost as new railways sidings becoming 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 earnings 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 maintains margins. We revise our TP to Rs 25,755 (from Rs 24,140) while valuing the stock at 15x FY26E EV/EBITDA and Rs10.5bn/mnt replacement cost.

**Fig 9 – 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	1,86,577	2,17,473	2,52,901	0.0	0.0	0.0
EBITDA	35,144	45,329	55,205	35,144	45,329	55,205	0.0	0.0	0.0
Adj PAT	10,083	17,001	23,818	13,900	22,221	30,479	(27.5)	(23.5)	(21.9)
Adj EPS (Rs)	279.5	471.2	660.1	385.3	615.9	844.8	(27.5)	(23.5)	(21.9)

Source: BOBCAPS Research

**Fig 10 – 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 11 – Valuation summary**

(Rs mn)	FY27E
Target EV/EBITDA (x)	15
EBITDA	55,205
Target EV	8,52,359
Total EV	8,52,359
Net debt	(1,20,656)
Target market capitalisation	9,73,015
<b>Target price (Rs/sh)</b>	<b>25,755</b>
Weighted average shares (mn)	36

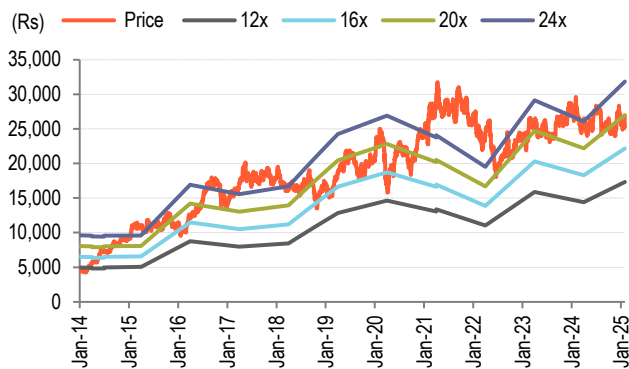
Source: BOBCAPS Research | 1-year forward earnings, rolled forward to December 2026

**Fig 12 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
SRCM IN	HOLD	25,755	24.8	23.5	19.4	140.6	140.0	121.6	4.9	8.0	10.6	6.7	10.5	13.4
DALBHARA IN	SELL	1,689	15.4	11.0	8.8	97.0	97.0	99.0	3.6	5.1	6.6	5.0	6.3	7.6
ACC IN	HOLD	2,282	11.3	8.2	7.7	110.6	101.2	90.9	12.0	13.0	13.0	14.0	15.4	15.2

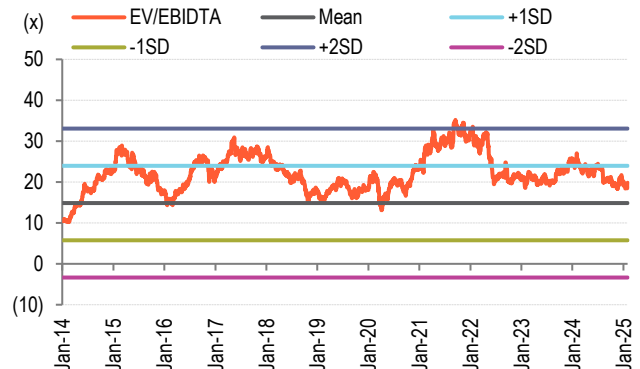
Source: BOBCAPS Research

**Fig 13 – EV/EBITDA band: SRCM valuation moderates to align with earnings**



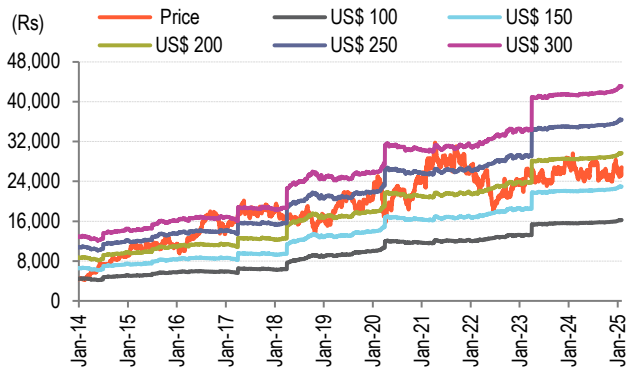
Source: Company, Bloomberg, BOBCAPS Research

**Fig 14 – EV/EBITDA 1Y fwd: We continue to value SRCM at 15x EV/EBITDA, near its mean valuation**



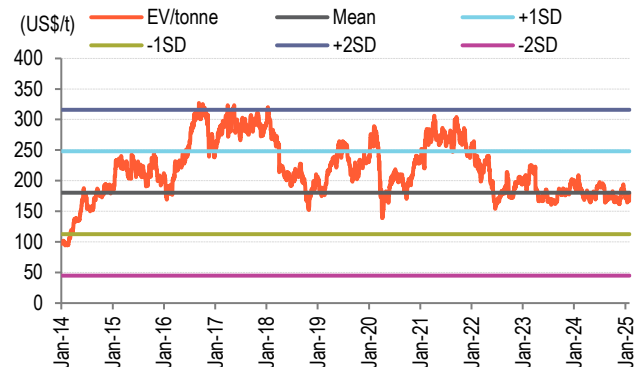
Source: Company, Bloomberg, BOBCAPS Research

**Fig 15 – Replacement cost band: Earnings reflect in replacement cost valuations**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 16 – 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 reversal in fuel prices can inflate costs posing a downward risk to our earnings estimates.
- Faster-than-expected volume push and better realisations represent key upside risks to our 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>1,86,577</b>	<b>2,17,473</b>	<b>2,52,901</b>
EBITDA	25,504	39,859	35,144	45,329	55,205
Depreciation	(15,462)	(16,147)	(27,919)	(30,702)	(33,308)
EBIT	18,275	33,100	14,343	23,305	31,847
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	12,143	21,018	29,538
Income taxes	(2,305)	(5,772)	(2,059)	(4,017)	(5,721)
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>10,083</b>	<b>17,001</b>	<b>23,818</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>13,281</b>	<b>24,684</b>	<b>10,083</b>	<b>17,001</b>	<b>23,818</b>

### 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	2,06,486	2,16,406	2,33,141
Shareholders' fund	1,82,882	2,03,834	2,06,835	2,16,765	2,33,512
<b>Total liab. and equities</b>	<b>2,51,501</b>	<b>2,68,199</b>	<b>2,82,420</b>	<b>3,03,715</b>	<b>3,32,972</b>
Cash and cash eq.	1,17,698	1,09,725	1,12,442	1,19,719	1,41,648
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	46,190	27,168	14,590
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>2,82,421</b>	<b>3,03,715</b>	<b>3,32,972</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>45,204</b>	<b>48,112</b>	<b>55,308</b>
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
<b>Cash flow from investing</b>	<b>(29,307)</b>	<b>(17,861)</b>	<b>(42,336)</b>	<b>(42,889)</b>	<b>(48,950)</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>(327)</b>	<b>1,551</b>	<b>2,687</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,17,698</b>	<b>1,09,724</b>	<b>1,12,441</b>	<b>1,19,719</b>	<b>1,41,648</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	368.1	684.2	279.5	471.2	660.1
Adjusted EPS	368.1	684.2	279.5	471.2	660.1
Dividend per share	90.0	105.0	167.8	167.8	167.8
Book value per share	5,068.8	5,649.5	5,732.6	6,007.9	6,472.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.3	4.5	4.7	4.9	4.2
EV/EBITDA	34.4	21.9	24.8	23.5	19.4
Adjusted P/E	72.9	39.2	96.0	56.9	40.6
P/BV	5.3	4.7	4.7	4.5	4.1

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	85.2	81.0	83.0	80.9	80.6
Interest burden (PBT/EBIT)	85.3	92.0	84.7	90.2	92.7
EBIT margin (EBIT/Revenue)	11.1	17.2	7.7	10.7	12.6
Asset turnover (Rev./Avg TA)	68.9	74.0	67.8	74.2	79.4
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.4	1.4
Adjusted ROAE	7.5	12.8	4.9	8.0	10.6

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
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	(59.2)	68.6	40.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.5	20.7	18.8	20.8	21.8
EBIT margin	11.1	17.2	7.7	10.7	12.6
Adjusted profit margin	8.1	12.8	5.4	7.8	9.4
Adjusted ROAE	7.5	12.8	4.9	8.0	10.6
ROCE	9.4	16.0	6.7	10.5	13.4
<b>Working capital days (days)</b>					
Receivables	20	18	18	19	20
Inventory	54	60	60	60	60
Payables	55	29	35	36	37
<b>Ratios (x)</b>					
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	6.5	10.2	13.8
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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## Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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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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%

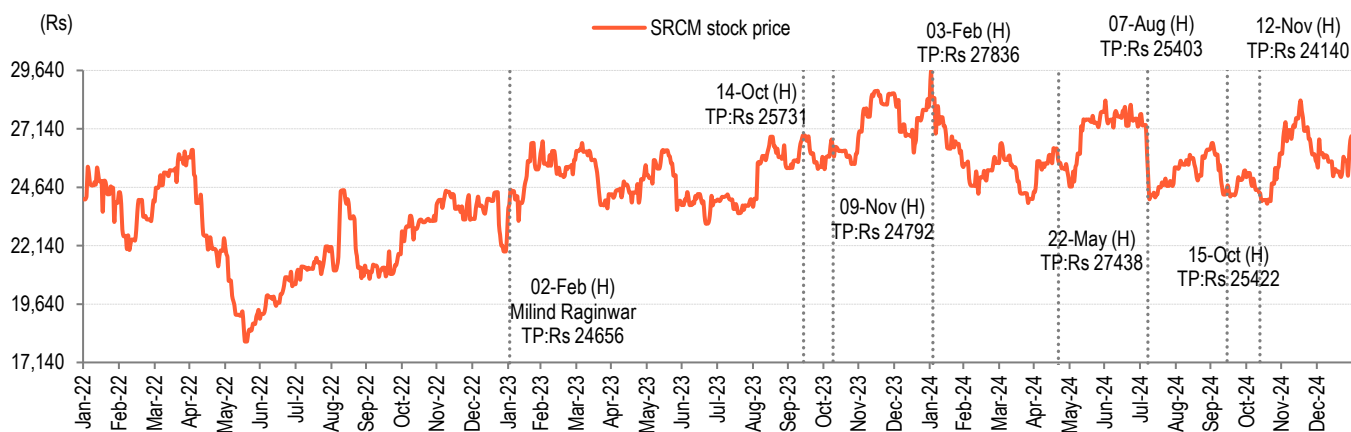
**HOLD** – Expected return from -6% to +15%

**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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