

HOLD
 TP: Rs 27,438 | ▲ 7%

SHREE CEMENT

Cement

22 May 2024

Cost savings key driver of performance; valuations pricey

- Q4 revenue growth of 7% YoY backed entirely by steady 7% volume as realisations stay listless
- Operating cost savings of ~10% YoY boost EBITDA margin by 730bps YoY to 26.0%
- Current valuations at 15x FY26E EV/EBITDA prices in performance; maintain earnings and HOLD rating with revised TP of Rs 27,438

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Volume-led revenue growth: SRCM’s revenue grew 7% YoY (+4% QoQ) to Rs 51bn in Q4FY24 backed entirely by steady volume growth of 7% YoY/QoQ to 9.5mn tonnes, while realisations stayed listless at Rs 4,930/t. Higher volumes were aided by better capacity utilisation at 79% (from 77% in Q4FY23/Q3FY24).

Cost savings drive EBITDA: SRCM’s EBITDA margin expanded 730bps/80bps YoY/QoQ to 26.0% and EBITDA/t rose 40% YoY on a weak base (flat QoQ) to Rs 1,340/t driven by energy and logistics cost savings. Energy costs declined 14% YoY (+9% QoQ) to Rs 1,520/t due to a 28% YoY reduction in fuel cost to Rs 1.82/kcal (from Rs2.53/kcal in 4QFY24), whereas logistics cost fell 5% YoY (flat QoQ) to Rs 1,096/t following a reduction in lead distance of ~20km. Total operating cost dipped 10%/4% YoY/QoQ to Rs 3,958/t. Power EBITDA came in at Rs 400mn.

Capacity expansion plans on schedule: The 3mt integrated cement unit in Guntur (Andhra Pradesh) was operational in Apr’24 taking SRCM’s total capacity to 56mt by 1QFY25, which management expects to rise further to 62mt in FY25. SRCM expects to add ~9mt of capacity by FY25-end.

Earnings retained: We maintain our EBITDA estimates for FY25 despite weak 1HFY25 expectations owing to capacity addition by SRCM in FY24 going into full effect. We retain our FY26 EBITDA estimate as there is another strong leg of capacity addition in FY25. Our EPS estimates remain unchanged. We now pencil in a revenue/EBITDA/PAT CAGR of 15%/30%/32% over FY23-FY26E.

Maintain HOLD on expensive valuations: We maintain a HOLD rating as current valuations of 15x FY26E EV/EBITDA appear pricey given SRCM’s inconsistent focus on brand vs growth, presence in the less remunerative southern and eastern regions of India and limited cost savings levers till FY26. We lower our TP to Rs 27,438 (Rs27,836) while valuing the stock at 15x FY26E EV/EBITDA – 2.25x over the industry replacement cost. Focus back on volume growth in Q4FY26 is a positive as pushing volume growth may be challenging in the regions of operations.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SRCM IN/Rs 25,679
Market cap	US\$ 11.3bn
Free float	37%
3M ADV	US\$ 13.7mn
52wk high/low	Rs 30,738/Rs 22,606
Promoter/FPI/DII	63%/13%/12%

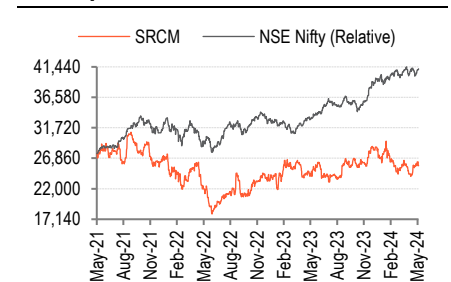
Source: NSE | Price as of 22 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,95,855	2,23,703	2,48,515
EBITDA (Rs mn)	43,635	51,497	56,647
Adj. net profit (Rs mn)	24,684	26,618	30,234
Adj. EPS (Rs)	684.2	737.7	838.0
Consensus EPS (Rs)	684.2	733.0	840.0
Adj. ROAE (%)	12.8	12.5	12.9
Adj. P/E (x)	37.5	34.8	30.6
EV/EBITDA (x)	19.1	16.1	18.1
Adj. EPS growth (%)	85.9	7.8	13.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our view
Volumes and realisations	<p>Capacity utilisation was at 79% in Q4FY24, and could have crossed 80% if all the days were operational (loss of days due to SAP migration).</p> <p>Power sales in Q4 was Rs 4.0bn with ~10% EBITDA margin.</p>	<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 ~10% EBITDA margin.</p> <p>Blended cement formed 72% of volumes sold in Q3. Trade sales made up 76% of the mix.</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 1.82/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.</p> <p>Green energy capacity was 480MW in FY24 vs 386MW in FY23 and SRCM is expected to add 188MW of new green capacity in FY25.</p>	<p>Fuel and power costs stood at Rs 1.78/kcal (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>Shift to green energy will further reduce energy cost, but fuel cost savings levers are increasingly limited.</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 Guntur plant in Andhra Pradesh was commissioned in Apr'24.</p> <p>SRCM has ordered one more 3mt cement mill at the Pali plant, Rajasthan, and is expected to add 9mn/10mn tonnes of cement capacity in FY25.</p>	<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 was 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 the Pali plant, Rajasthan.</p>	<p>Capex remains elevated. How SRCM narrows the gap between volume and capacity will be determined by the pickup in demand in the next 4-6 quarters.</p>
Green energy	<p>The share of green power remained at 56% in Q4FY24, and management aims to increase the same to ~60% by FY25.</p>	<p>The share of green power remained at 58% in Q3FY24, and management aims to increase the same to ~65% by FY25.</p>	<p>SRCM's focus on renewable energy continues with more addition of solar, WHRS and AFR.</p>
Other key points	<p>No major change in the capex addition. Most of the capex in FY25 will be back-ended and the full effect of the same will be reflected in FY26.</p> <p>SRCM indicated good support for its brand building exercise.</p> <p>SRCM has forayed into the ready-mix concrete business with five plants in Mumbai at an investment of Rs 335mn.</p>	<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 the premium brand <i>Bangur Magna</i>.</p>	<p>SRCM has to walk a tight rope between brand building and volume-driven growth.</p> <p>Additionally, its foray into RMC business was a surprise.</p>

Source: Company, BOBCAPS Research | AFR: Alternate Fuel Resource; WHRS: Waste Heat Recovery System; RMC: Ready-mix concrete

Fig 2 – Key metrics

(Rs)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Volumes (mt)	9.5	8.9	7.3	8.9	7.3
Cement realisations (Rs/t)	4,930	4,964	(0.7)	5,119	(3.7)
Operating costs (Rs/t)*	3,958	4,379	(9.6)	4,125	(4.1)
EBITDA (Rs/t)	1,350	962	40.3	1,348	0.1

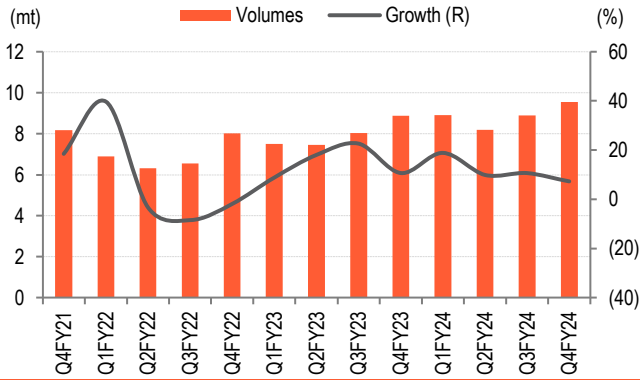
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net Sales	51,010	47,851	6.6	49,008	4.1
Expenditure					
Change in stock	(1,072)	209	NA	205	NA
Raw material	4,176	4,008	4.2	3,649	14.4
purchased products	504	95	428.0	539	(6.5)
Power & fuel	14,490	15,729	(7.9)	12,381	17.0
Freight	10,451	10,308	1.4	9,732	7.4
Employee costs	2,352	2,209	6.5	2,347	0.2
Other exp	6,838	6,369	7.4	7,819	(12.6)
Total Operating Expenses	37,738	38,927	(3.1)	36,671	2.9
EBITDA	13,272	8,925	48.7	12,337	7.6
EBITDA margin (%)	26.0	18.7	737bps	25.2	85bps
Other Income	1,379	1,353	1.9	1,354	1.8
Interest	648	726	(10.8)	561	15.4
Depreciation	6,281	4,419	42.1	3,466	81.2
PBT	7,722	5,132	50.5	9,664	(20.1)
Non-recurring items	0	0	-	0	-
PBT (after non-recurring items)	7,722	5,132	50.5	9,664	(20.1)
Tax	1,105	1,213	(8.9)	2,322	(52.4)
Reported PAT	6,618	3,919	68.8	7,342	(9.9)
Adjusted PAT	6,618	3,919	68.8	7,342	(9.9)
NPM (%)	13.0	8.2	478bps	15.0	(201bps)
Adjusted EPS (Rs)	178.4	105.6	68.8	197.9	(9.9)

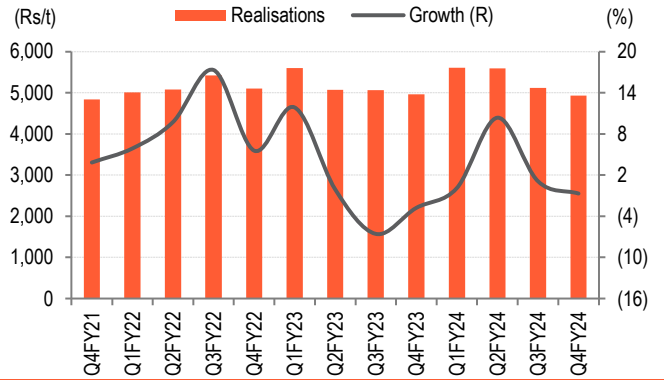
Source: Company, BOBCAPS Research

Fig 4 – Volume growth healthy in a challenging quarter



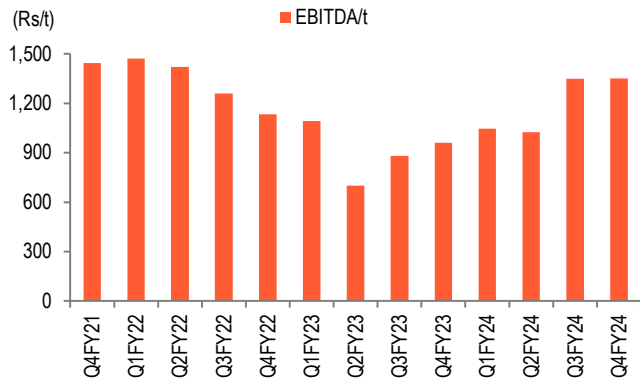
Source: Company, BOBCAPS Research

Fig 5 – Realisations stay listless as northern/western India offset by volume in eastern and southern regions



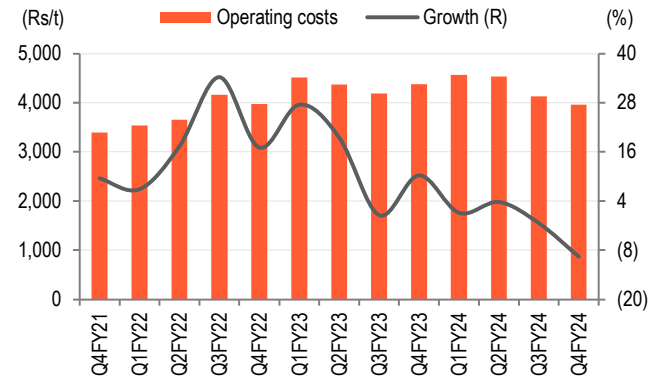
Source: Company, BOBCAPS Research

Fig 6 – Limited upside for EBITDA/t, downside risk higher



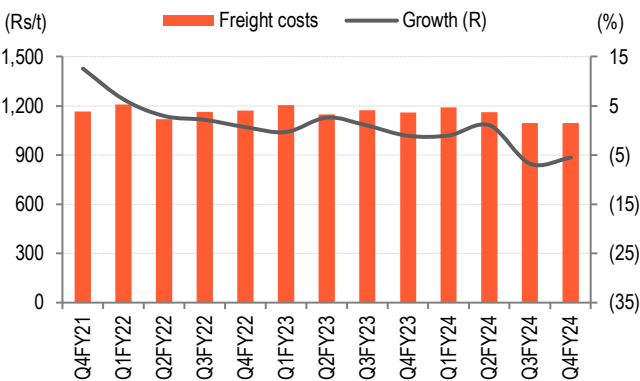
Source: Company, BOBCAPS Research

Fig 7 – Cost efficiencies drive performance in Q4



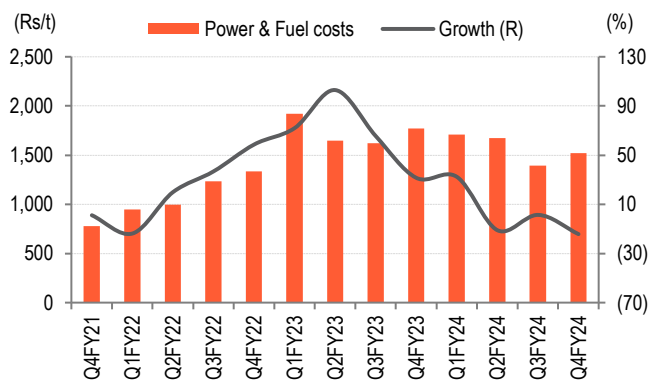
Source: Company, BOBCAPS Research

Fig 8 – No respite in cost despite sharp drop in lead distance



Source: Company, BOBCAPS Research

Fig 9 – Power cost savings remain a focus area



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our EBITDA estimates for FY25 despite weak 1HFY25 expectations owing to capacity addition by SRCM in FY24 going into full effect. We retain FY26 EBITDA estimates due to another strong phase of capacity addition in FY25. Our EPS estimates remain unchanged. We now pencil in a revenue/EBITDA/PAT CAGR of 15%/30%/32% over FY23-FY26E.

We maintain a HOLD rating as current valuations of 15x FY26E EV/EBITDA appear pricey given SRCM's inconsistent focus on brand vs growth, presence in the less remunerative southern and eastern regions and limited cost savings levers till FY26E. We lower our TP to Rs 27,438 (Rs 27,836) while valuing the stock at 15x FY26E EV/EBITDA – 2.25x over the industry replacement cost. Focus back on volume growth in Q4FY26 is a positive as pushing volume growth may be challenging in the regions of operations.

Fig 10 – Key assumptions

Parameter	FY23	FY24P	FY25E	FY26E
Volumes (mt)	31.2	35.5	39.5	44.2
Realisations (Rs/t)	5,009	5,313	5,416	5,524
Operating costs (Rs/t)	4,299	4,294	4,152	4,248
EBITDA/t (Rs)	1,182	1,192	1,264	1,276

Source: Company, BOBCAPS Research

Fig 11 – 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	(1,16,435)
Target market capitalisation	9,91,064
Target price (Rs/sh)	27,438
Weighted average shares (mn)	36

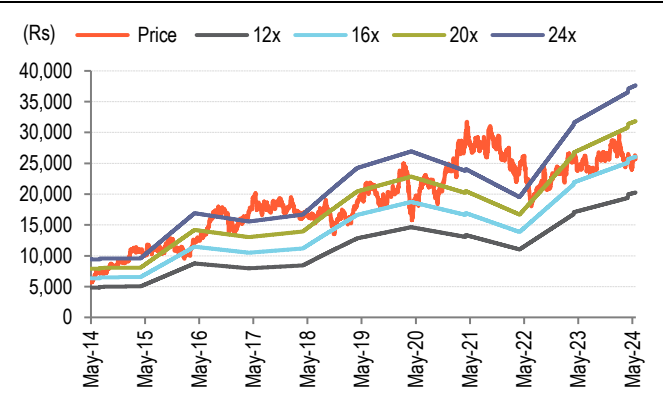
Source: Bloomberg, BOBCAPS Research

Fig 12 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E
SRCM IN	HOLD	27,438	19.1	16.1	18.1	208	207	202	12.8	12.5	12.9	15.9	16.9	17.1
DALBHARA IN	BUY	2,346	12.8	11.8	8.1	82.0	87.0	86.0	5.3	6.6	9.5	6.6	7.7	10.8
ACC IN	HOLD	2,657	13.2	11.5	9.5	140	126	113	14.0	14.2	14.3	17.3	18.2	18.6

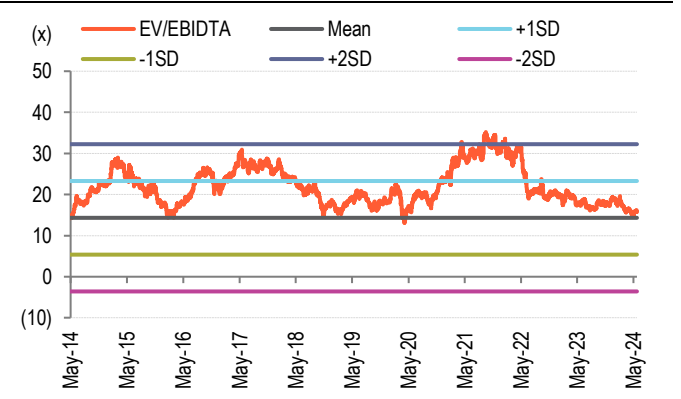
Source: BOBCAPS Research

Fig 13 – EV/EBITDA band: SRCM valuation corrects to align with performance



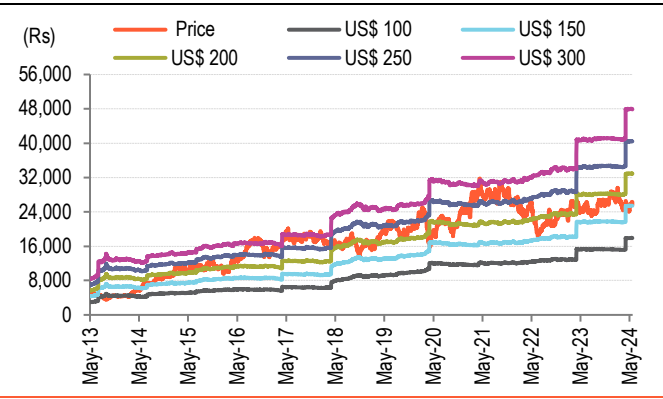
Source: Company, BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: We value SRCM at 15x EV/EBITDA, FY26 earnings



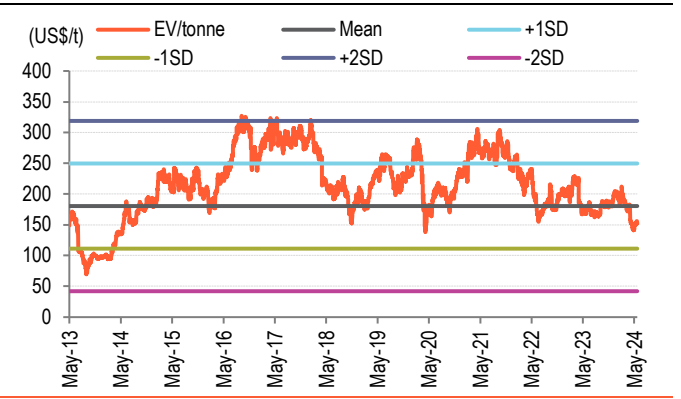
Source: Company, BOBCAPS Research

Fig 15 – Replacement cost band: Earnings getting reflected in replacement cost



Source: Company, BOBCAPS Research

Fig 16 – Replacement cost band 1Y fwd reverses to mean chasing earnings



Source: Company, BOBCAPS Research

Key risks

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.8	2,543	2,657	HOLD
Ambuja Cements	ACEM IN	15.3	633	580	HOLD
Dalmia Bharat	DALBHARA IN	4.2	1,847	2,346	BUY
JK Cement	JKCE IN	3.7	3,967	4,538	BUY
JK Lakshmi Cement	JKLC IN	1.1	796	637	SELL
Orient Cement	ORCMNT IN	0.5	217	147	SELL
Shree Cement	SRCM IN	11.3	25,679	27,438	HOLD
Star Cement	STRCEM IN	1.2	236	193	HOLD
The Ramco Cements	TRCL IN	2.2	774	728	SELL
Ultratech Cement	UTCEM IN	34.8	9,895	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 22 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	1,39,118	1,64,961	1,95,855	2,23,703	2,48,515
EBITDA	32,201	25,504	43,635	51,497	56,647
Depreciation	(10,365)	(15,462)	(16,147)	(19,635)	(21,042)
EBIT	31,389	18,275	33,100	38,986	44,277
Net interest inc./(exp.)	(2,178)	(2,689)	(2,643)	(3,269)	(3,673)
Other inc./(exp.)	9,553	8,233	5,611	7,124	8,672
Exceptional items	0	0	0	0	0
EBT	29,211	15,586	30,456	35,717	40,604
Income taxes	(5,543)	(2,305)	(5,772)	(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	24,684	26,618	30,234
Adjustments	0	0	0	0	0
Adjusted net profit	23,668	13,281	24,684	26,618	30,234

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	17,853	20,968	15,561	17,532	19,482
Other current liabilities	23,307	28,789	37,106	40,204	43,438
Provisions	57	61	53	57	57
Debt funds	20,142	25,392	17,523	29,715	33,391
Other liabilities	(6,609)	(6,591)	(5,887)	(7,736)	(8,398)
Equity capital	361	361	361	361	361
Reserves & surplus	1,72,357	1,82,532	2,03,484	2,23,020	2,46,172
Shareholders' fund	1,72,709	1,82,883	2,03,843	2,23,379	2,46,543
Total liab. and equities	2,27,458	2,51,502	2,68,198	3,03,151	3,34,513
Cash and cash eq.	1,16,642	1,17,698	1,09,724	1,30,068	1,49,823
Accounts receivables	5,957	9,061	9,298	11,080	12,816
Inventories	21,614	24,226	31,462	36,354	40,855
Other current assets	20,303	23,987	28,400	29,053	29,721
Investments	0	0	0	0	0
Net fixed assets	46,887	45,651	45,185	37,230	27,867
CWIP	15,559	30,155	43,365	58,557	72,571
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	2,68,199	3,03,152	3,34,513

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	35,924	27,274	32,551	37,718	48,893
Capital expenditures	(21,154)	(28,261)	(28,933)	(26,917)	(25,743)
Change in investments	(4,953)	(1,046)	9,753	(15,049)	(18,311)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(26,108)	(29,307)	(19,181)	(41,966)	(44,054)
Equities issued/Others	(9)	0	7	0	12
Debt raised/repaid	(7,420)	5,250	(7,869)	12,193	3,676
Interest expenses	0	0	0	0	0
Dividends paid	(3,788)	(3,247)	(7,082)	(2,649)	(7,082)
Other financing cash flows	486	41	3,351	0	(1)
Cash flow from financing	(10,731)	2,044	(11,593)	9,543	(3,395)
Chg in cash & cash eq.	(915)	10	1,778	5,295	1,444
Closing cash & cash eq.	1,16,642	1,17,698	1,09,723	1,30,068	1,49,823

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	656.0	368.1	684.2	737.7	838.0
Adjusted EPS	656.0	368.1	684.2	737.7	838.0
Dividend per share	105.0	90.0	167.8	167.8	167.8
Book value per share	4,786.8	5,068.8	5,649.7	6,191.2	6,833.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	6.0	5.1	4.3	3.7	4.1
EV/EBITDA	25.8	32.7	19.1	16.1	18.1
Adjusted P/E	39.1	69.8	37.5	34.8	30.6
P/BV	5.4	5.1	4.5	4.1	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	81.0	85.2	81.0	74.5	74.5
Interest burden (PBT/EBIT)	93.1	85.3	92.0	91.6	91.7
EBIT margin (EBIT/Revenue)	22.6	11.1	16.9	17.4	17.8
Asset turnover (Rev./Avg TA)	64.7	68.9	75.4	78.3	77.9
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.4
Adjusted ROAE	14.6	7.5	12.8	12.5	12.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	13.0	18.6	18.7	14.2	11.1
EBITDA	(12.8)	(20.8)	71.1	18.0	10.0
Adjusted EPS	2.4	(43.9)	85.9	7.8	13.6
Profitability & Return ratios (%)					
EBITDA margin	23.1	15.5	22.3	23.0	22.8
EBIT margin	22.6	11.1	16.9	17.4	17.8
Adjusted profit margin	17.0	8.1	12.6	11.9	12.2
Adjusted ROAE	14.6	7.5	12.8	12.5	12.9
ROCE	17.5	9.4	15.9	16.9	17.1
Working capital days (days)					
Receivables	16	20	17	18	19
Inventory	57	54	59	59	60
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	3.4	3.6	3.7
Net interest coverage ratio	14.4	6.8	12.5	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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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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Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

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%

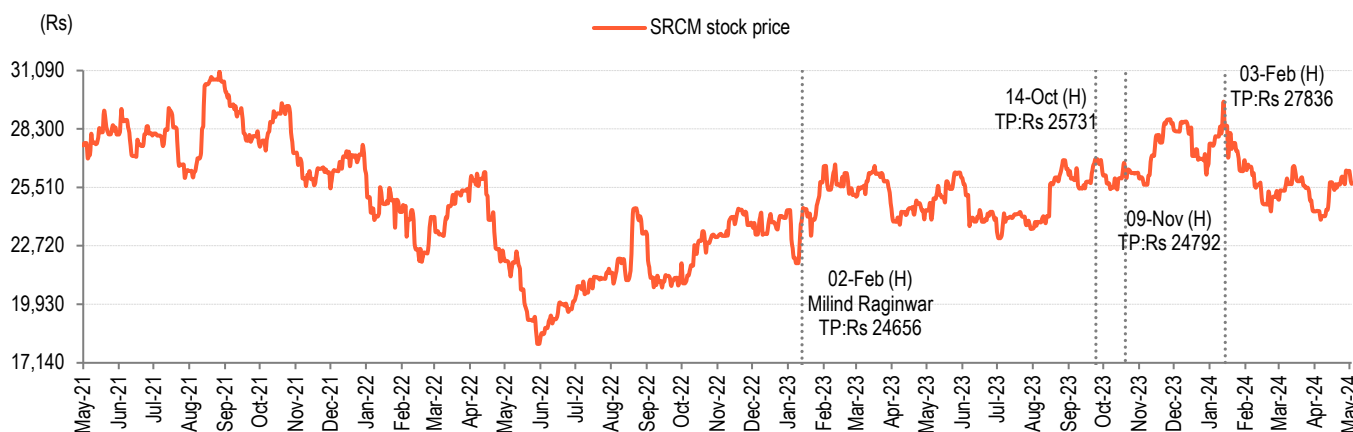
HOLD – Expected return from -6% to +15%

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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