

## Margin takes a lead, volume to follow

31 January 2025

Shree Cement's (SRCM IN) Q3FY25 EBITDA at ~INR 9.5bn was ~7% ahead of our/Consensus estimates, driven by lower-than-expected operating cost. While SRCM lagged peers, UltraTech Cement (UTCEM IN) and Ambuja Cements (ACEM IN) in terms of volume performance, reporting ~1% YoY drop, its QoQ EBITDA/tonne growth of ~INR 300 outpaced UTCEM's INR 226 rise and ACEM's INR 243 dip. SRCM has re-emerged as a margin leader in the cement industry with EBITDA/tonne of INR 1,079, due to higher exposure to North India and lower power and fuel cost. With new capacity expected to come on stream in Q1FY26 and base turning favorable from Q2FY26, we believe volume underperformance by SRCM is unlikely to continue in the long term. Further, most of the capex cost continues to be lower than the acquisition cost for peers, which should enable it to earn better ROCE than peers with lean balance sheet. Also, SRCM's capacity is likely to remain more skewed to North India, where utilization is expected to be higher than pan-India average. So, we reiterate **Buy** with TP unchanged at INR 32,740.

**Set for volume comeback:** Key expansions likely to be completed by Q1FY26 include: 1) 6.0mn tonnes at Jaitaran (Rajasthan), 2) 3.0mn tonnes at Kodla (Karnataka), 3) 3.4mn tonnes at Baloda Bazaar (Chhattisgarh), and 4) 3.0mn tonnes at Etah (Uttar Pradesh). While we expect SRCM to underperform industry growth in FY25, with modest volume growth of ~1% YoY, the completion of these expansion projects should help SRCM regain its market position, driving volume outperformance in FY26-27E.

**Cement realization up ~3% QoQ:** Cement realization declined ~9% YoY but rose ~3% QoQ, versus UTCEM's ~2% rise and ACEM's ~2% fall. Operating costs dropped ~8% YoY/9% QoQ to INR 3,750/tonne, ~7% below our estimates, primarily driven by ~26% YoY/21% QoQ reduction in power and fuel cost, aided by lower fuel prices due to reduced power sale and a decline in fuel cost. Fuel cost fell from INR 1.71 per kcal to INR 1.55 per kcal due to the purchase of low-value petcoke. Sales volume declined ~1% YoY but grew ~15% QoQ to 8.8mn tonnes, mostly as estimated. So, EBITDA/tonne contracted ~22% YoY but jumped ~38% QoQ to INR 1,079, showing a QoQ recovery of ~INR 300.

**Reiterate Buy; TP unchanged at INR 32,740:** We believe the expected completion of the ongoing expansion projects in Q1FY26 and improving demand scenario are key triggers for healthy volume growth beyond FY25. Also, lower fuel prices, increased green energy use and other cost saving measures should lift margin. Further, SRCM's capacity is likely to remain more skewed to North India, where utilization is expected to be higher than pan-India average.

We raise our EBITDA estimate ~3% for FY25E but largely retain it for FY26E-27E. We reiterate **Buy** with TP unchanged at INR 32,740, based on 18x (unchanged) March 2027E EV/EBITDA. Sub-par demand, weak cement price and a sharp rise in fuel price are key risks to our call.

### Key Financials

| YE March          | FY23    | FY24    | FY25E   | FY26E   | FY27E   |
|-------------------|---------|---------|---------|---------|---------|
| Revenue (INR mn)  | 175,042 | 201,260 | 186,066 | 213,656 | 242,112 |
| YoY (%)           | 19.8    | 15.0    | (7.5)   | 14.8    | 13.3    |
| EBITDA (INR mn)   | 29,595  | 45,167  | 36,936  | 47,958  | 57,955  |
| EBITDA margin (%) | 16.9    | 22.4    | 19.9    | 22.4    | 23.9    |
| Adj PAT (INR mn)  | 13,516  | 23,957  | 8,707   | 20,725  | 27,020  |
| YoY (%)           | (40.7)  | 77.2    | (63.7)  | 138.0   | 30.4    |
| Adj EPS (INR)     | 374.6   | 664.0   | 241.3   | 574.4   | 748.9   |
| ROE (%)           | 7.5     | 12.2    | 4.2     | 9.8     | 11.7    |
| P/E (x)           | 71.6    | 40.4    | 111.2   | 46.7    | 35.8    |
| EV/tonne (USD)    | 208     | 182     | 174     | 140     | 134     |
| EV/EBITDA (x)     | 30.6    | 20.0    | 24.3    | 18.8    | 15.4    |

Note: Pricing as on 30 January 2025; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 32,740**

Upside: **22%**

CMP: **INR 26,831**

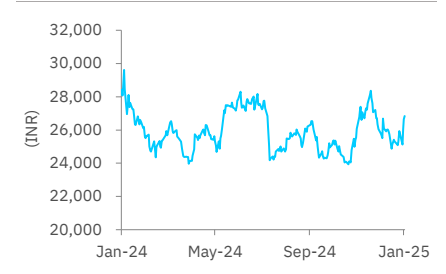
As on 30 January 2025

### Key data

|                                     |               |
|-------------------------------------|---------------|
| Bloomberg                           | SRCM IN       |
| Reuters Code                        | SHCM.NS       |
| Shares outstanding (mn)             | 36            |
| Market cap (INR bn/USD mn)          | 968/11,173    |
| Enterprise Value (INR bn/USD mn)    | 928/10,717    |
| Avg daily volume 3M (INR mn/USD mn) | 814/9         |
| 52 week high/low                    | 30,738/23,500 |
| Free float (%)                      | 37            |

Note: as on 30 January 2025; Source: Bloomberg

### Price chart



Source: Bloomberg

| Shareholding (%) | Q4   | Q1   | Q2   | Q3   |
|------------------|------|------|------|------|
|                  | FY24 | FY25 | FY25 | FY25 |
| Promoter         | 62.6 | 62.6 | 62.6 | 62.6 |
| % Pledged        | -    | -    | -    | -    |
| FII              | 22.5 | 21.8 | 20.4 | 19.9 |
| DII              | 12.3 | 13.0 | 14.5 | 15.3 |
| Others           | 2.6  | 2.6  | 2.5  | 2.2  |

Source: BSE

| Price performance (%) | 3M     | 6M     | 12M   |
|-----------------------|--------|--------|-------|
| Nifty                 | (4.5)  | (6.5)  | 8.0   |
| Shree Cement          | 5.8    | (1.8)  | (4.4) |
| NSE Mid-cap           | (6.4)  | (10.1) | 10.3  |
| NSE Small-cap         | (10.0) | (13.8) | 5.7   |

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## Financials (YE March)

| <b>Income Statement (INR mn)</b>                       | <b>FY23</b>    | <b>FY24</b>     | <b>FY25E</b>    | <b>FY26E</b>   | <b>FY27E</b>    |
|--|----------------|-----------------|-----------------|----------------|-----------------|
| Net Revenue  | 175,042        | 201,260         | 186,066         | 213,656        | 242,112         |
| <b>Operating profit</b>                                | <b>25,482</b>  | <b>40,874</b>   | <b>33,369</b>   | <b>44,198</b>  | <b>54,035</b>   |
| Add:- Other operating Income                           | 4,113          | 4,293           | 3,566           | 3,760          | 3,920           |
| <b>EBITDA</b>  | <b>29,595</b>  | <b>45,167</b>   | <b>36,936</b>   | <b>47,958</b>  | <b>57,955</b>   |
| Less :- Depreciation                                   | 16,607         | 18,973          | 29,132          | 24,163         | 25,915          |
| Add: Other income                                      | 5,602          | 5,981           | 5,890           | 6,178          | 6,239           |
| <b>EBIT</b>  | <b>18,590</b>  | <b>32,175</b>   | <b>13,694</b>   | <b>29,972</b>  | <b>38,280</b>   |
| Less:- Interest Expenses                               | 2,629          | 2,583           | 2,128           | 2,305          | 2,188           |
| <b>PBT</b>   | <b>14,950</b>  | <b>29,592</b>   | <b>11,566</b>   | <b>27,668</b>  | <b>36,091</b>   |
| Less :- Taxes  | 2,259          | 5,630           | 2,854           | 6,938          | 9,066           |
| <b>Reported PAT</b>                                    | <b>12,691</b>  | <b>23,962</b>   | <b>8,712</b>    | <b>20,730</b>  | <b>27,025</b>   |
| Minority Interest/share of profits of JV and associate | 16             | (5)             | (5)             | (5)            | (5)             |
| <b>Reported PAT after Minority Interest</b>            | <b>12,707</b>  | <b>23,957</b>   | <b>8,707</b>    | <b>20,725</b>  | <b>27,020</b>   |
| <b>Adjusted PAT</b>                                    | <b>13,516</b>  | <b>23,957</b>   | <b>8,707</b>    | <b>20,725</b>  | <b>27,020</b>   |
| <b>Balance Sheet (INR mn)</b>                          | <b>FY23</b>    | <b>FY24</b>     | <b>FY25E</b>    | <b>FY26E</b>   | <b>FY27E</b>    |
| Share Capital  | 361            | 361             | 361             | 361            | 361             |
| Reserves & others                                      | 186,003        | 206,668         | 203,599         | 219,879        | 240,131         |
| Minority Interest                                      | 406            | 411             | 416             | 421            | 426             |
| Borrowings   | 25,398         | 14,749          | 16,989          | 17,304         | 15,304          |
| Deferred Tax (Net)                                     | (6,823)        | (6,293)         | (6,587)         | (6,342)        | (6,061)         |
| Other liabilities                                      | 3,440          | 3,396           | 3,553           | 3,717          | 3,890           |
| <b>Total Liabilities</b>                               | <b>208,785</b> | <b>219,293</b>  | <b>218,330</b>  | <b>235,341</b> | <b>254,051</b>  |
| Gross Block  | 178,195        | 217,858         | 266,958         | 288,058        | 294,558         |
| Less:- Accumulated Depreciation                        | 103,387        | 121,949         | 151,081         | 175,244        | 201,158         |
| <b>Net Block</b>                                       | <b>74,809</b>  | <b>95,909</b>   | <b>115,878</b>  | <b>112,815</b> | <b>93,400</b>   |
| Add:- Capital work in progress                         | 27,966         | 19,297          | 11,097          | 30,897         | 64,897          |
| Non current investments                                | 52,853         | 22,918          | 22,918          | 22,918         | 22,918          |
| Net Working Capital                                    | 6,360          | 11,604          | 3,943           | 5,288          | 6,451           |
| Cash & current investments                             | 35,588         | 56,859          | 63,732          | 62,623         | 65,547          |
| Other assets   | 11,210         | 12,707          | 763             | 800            | 839             |
| <b>Total Assets</b>                                    | <b>208,785</b> | <b>219,293</b>  | <b>218,330</b>  | <b>235,341</b> | <b>254,051</b>  |
| <b>Cash Flow Statement (INR mn)</b>                    | <b>FY23</b>    | <b>FY24</b>     | <b>FY25E</b>    | <b>FY26E</b>   | <b>FY27E</b>    |
| Cash profit adjusted for non cash items                | 26,203         | 40,728          | 33,787          | 41,266         | 49,170          |
| Add/Less : Working Capital Changes                     | (516)          | (7,253)         | 7,660           | (1,344)        | (1,163)         |
| <b>Operating Cash Flow</b>                             | <b>25,687</b>  | <b>33,475</b>   | <b>41,448</b>   | <b>39,921</b>  | <b>48,007</b>   |
| Less:- Capex   | (32,560)       | (31,095)        | (40,900)        | (40,900)       | (40,500)        |
| Free Cash Flow   | (6,873)        | 2,380           | 548             | (979)          | 7,507           |
| <b>Financing Cash Flow</b>                             | <b>(2,767)</b> | <b>(17,101)</b> | <b>(11,508)</b> | <b>(6,270)</b> | <b>(10,784)</b> |
| Investing Cash Flow                                    | 8,416          | 16,910          | 27,834          | 14,141         | 6,201           |
| <b>Net change in Cash</b>                              | <b>(1,225)</b> | <b>2,190</b>    | <b>16,873</b>   | <b>6,892</b>   | <b>2,924</b>    |
| <b>Ratio Analysis</b>                                  | <b>FY23</b>    | <b>FY24</b>     | <b>FY25E</b>    | <b>FY26E</b>   | <b>FY27E</b>    |
| <b>Income Statement Ratios (%)</b>                     |                |                 |                 |                |                 |
| Revenue Growth   | 19.8           | 15.0            | (7.5)           | 14.8           | 13.3            |
| EBITDA Growth  | (20.2)         | 52.6            | (18.2)          | 29.8           | 20.8            |
| Adj. PAT Growth  | (40.7)         | 77.2            | (63.7)          | 138.0          | 30.4            |
| EBITDA Margin  | 16.9           | 22.4            | 19.9            | 22.4           | 23.9            |
| Adj. Net Margin  | 7.7            | 11.9            | 4.7             | 9.7            | 11.2            |
| <b>Return &amp; Liquidity Ratios (%)</b>               |                |                 |                 |                |                 |
| Net Debt/Equity (x)                                    | (0.1)          | (0.2)           | (0.2)           | (0.2)          | (0.2)           |
| ROE  | 7.5            | 12.2            | 4.2             | 9.8            | 11.7            |
| ROCE   | 9.0            | 14.6            | 6.1             | 12.8           | 15.3            |
| <b>Per Share data &amp; Valuation Ratios</b>           |                |                 |                 |                |                 |
| Diluted EPS (INR)                                      | 374.6          | 664.0           | 241.3           | 574.4          | 748.9           |
| EPS Growth (%)   | (40.7)         | 77.2            | (63.7)          | 138.0          | 30.4            |
| DPS (INR)  | 100.0          | 105.0           | 120.0           | 120.0          | 120.0           |
| BVPS (INR)   | 5,002          | 5,452           | 5,696           | 5,879          | 6,385           |
| P/E Ratio (x)  | 71.6           | 40.4            | 111.2           | 46.7           | 35.8            |
| EV/EBITDA (x)  | 30.6           | 20.0            | 24.3            | 18.8           | 15.4            |
| EV/Sales (x)   | 5.2            | 4.5             | 4.8             | 4.2            | 3.7             |
| P/BV (x)   | 5.4            | 4.9             | 4.7             | 4.6            | 4.2             |
| EV per tonne (USD)                                     | 208            | 182             | 174             | 140            | 134             |
| Dividend Yield (%)                                     | 0.4            | 0.4             | 0.4             | 0.4            | 0.4             |

Weak prices to dampen FY25 revenue

Balance sheet to remain healthy

Note: Pricing as on 30 January 2025; Source: Company, Elara Securities Estimate

**Quarterly financials**

| YE March (INR mn)  | Q3FY25 | Q3FY24 | YoY(%) | Q2FY25 | QoQ(%)  | Q3FY25E | Variance (%) |
|--------------------|--------|--------|--------|--------|---------|---------|--------------|
| Net sale           | 42,355 | 48,731 | (13.1) | 37,270 | 13.6    | 44,026  | (3.8)        |
| Operating expenses | 32,889 | 36,394 | (9.6)  | 31,345 | 4.9     | 35,205  | (6.6)        |
| % of sales         | 77.7   | 74.7   |        | 84.1   |         | 80.0    |              |
| EBITDA             | 9,466  | 12,337 | (23.3) | 5,925  | 59.8    | 8,821   | 7.3          |
| EBITDA margins (%) | 22.3   | 25.3   |        | 15.9   |         | 20.0    |              |
| Other income       | 1,149  | 1,354  | (15.2) | 1,776  | (35.3)  | 1,794   | (36.0)       |
| Interest           | 529    | 561    | (5.8)  | 567    | (6.8)   | 561     | (5.8)        |
| Depreciation       | 7,496  | 3,466  | 116.3  | 6,687  | 12.1    | 6,753   | 11.0         |
| PBT                | 2,590  | 9,664  | (73.2) | 448    | 478.6   | 3,300   | (21.5)       |
| Tax                | 296    | 2,322  | (87.3) | (484)  | (161.2) | 660     | (55.2)       |
| Adjusted PAT       | 2,294  | 7,342  | (68.8) | 931    | 146.3   | 2,640   | (13.1)       |
| Reported PAT       | 2,294  | 7,342  | (68.8) | 931    | 146.3   | 2,640   | (13.1)       |

Note: Quarterly numbers are standalone; Source: Company, Elara Securities Estimate

**Exhibit 1: Variable cost of production down ~18% YoY/11% QoQ**

| Per tonne analysis (INR)    | Q3FY25       | Q3FY24       | YoY(%)         | Q2FY25       | QoQ(%)         |
|-----------------------------|--------------|--------------|----------------|--------------|----------------|
| Sales volume (mn tonnes)    | 8.8          | 8.9          | (1.4)          | 7.6          | 15.4           |
| <b>Blended realization</b>  | <b>4,830</b> | <b>5,479</b> | <b>(11.9)</b>  | <b>4,904</b> | <b>(1.5)</b>   |
| Raw material cost           | 616          | 593          | 3.9            | 539          | 14.3           |
| Employee cost               | 270          | 264          | 2.5            | 328          | (17.7)         |
| Power & fuel cost           | 1,042        | 1,417        | (26.5)         | 1,317        | (20.9)         |
| Freight cost                | 1,131        | 1,094        | 3.4            | 1,173        | (3.6)          |
| Other expenses              | 691          | 724          | (4.5)          | 766          | (9.7)          |
| <b>Total operating cost</b> | <b>3,750</b> | <b>4,092</b> | <b>(8.4)</b>   | <b>4,124</b> | <b>(9.1)</b>   |
| <b>EBITDA</b>               | <b>1,079</b> | <b>1,387</b> | <b>(22.2)</b>  | <b>780</b>   | <b>38.4</b>    |
| % Sale analysis             | Q3FY25       | Q3FY24       | YoY(bp)        | Q2FY25       | QoQ(bp)        |
| Raw material cost           | 12.8         | 10.8         | 193.6          | 11.0         | 176.1          |
| Employee cost               | 5.6          | 4.8          | 78.2           | 6.7          | (109.8)        |
| Power & fuel cost           | 21.6         | 25.9         | (429.2)        | 26.9         | (529.9)        |
| Freight cost                | 23.4         | 20.0         | 344.6          | 23.9         | (51.2)         |
| Other expenses              | 14.3         | 13.2         | 109.7          | 15.6         | (130.3)        |
| <b>Total operating cost</b> | <b>77.7</b>  | <b>74.7</b>  | <b>296.8</b>   | <b>84.1</b>  | <b>(645.0)</b> |
| <b>EBITDA</b>               | <b>22.3</b>  | <b>25.3</b>  | <b>(296.8)</b> | <b>15.9</b>  | <b>645.0</b>   |

Source: Company, Elara Securities Research

**Exhibit 2: Valuation summary**

| (INR mn)                 | March-27E        |
|--------------------------|------------------|
| EBITDA                   | 57,955           |
| Target multiple (x)      | 18.0             |
| <b>Target EV</b>         | <b>1,043,187</b> |
| Add: CWIP                | 64,897           |
| Less: Net debt           | (73,161)         |
| <b>Target market cap</b> | <b>1,181,245</b> |
| Shares (mn)              | 36               |
| <b>TP (INR)</b>          | <b>32,740</b>    |
| CMP (INR)                | 26,831           |
| Upside (%)               | 22.0             |

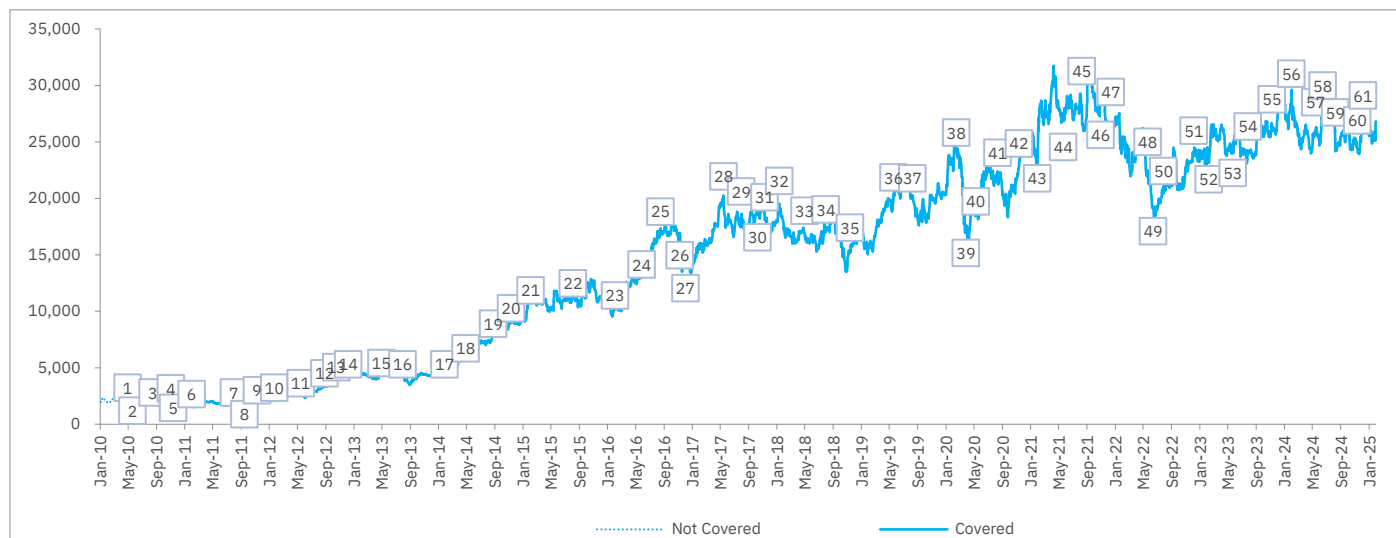
Note: Pricing as on 30 January 2025; Source: Elara Securities Estimate

**Exhibit 3: Change in estimates**

| (INR mn)     | Earlier |         |         | Revised |         |         | % Change |       |       |
|--------------|---------|---------|---------|---------|---------|---------|----------|-------|-------|
|              | FY25E   | FY26E   | FY27E   | FY25E   | FY26E   | FY27E   | FY25E    | FY26E | FY27E |
| Net revenues | 196,836 | 225,673 | 255,288 | 186,066 | 213,656 | 242,112 | (5.5)    | (5.3) | (5.2) |
| EBITDA       | 35,857  | 48,304  | 58,118  | 36,936  | 47,958  | 57,955  | 3.0      | (0.7) | (0.3) |
| PAT          | 8,452   | 21,121  | 27,243  | 8,707   | 20,725  | 27,020  | 3.0      | (1.9) | (0.8) |

Source: Elara Securities Estimate

## Coverage History



| Date | Rating      | Target Price | Closing Price |            |
|------|-------------|--------------|---------------|------------|
| 48   | 20-May-2022 | Accumulate   | INR 26,066    | INR 22,001 |
| 49   | 16-Jun-2022 | Buy          | INR 23,310    | INR 18,712 |
| 50   | 28-Jul-2022 | Accumulate   | INR 23,310    | INR 20,415 |
| 51   | 6-Dec-2022  | Accumulate   | INR 25,117    | INR 24,010 |
| 52   | 8-Feb-2023  | Accumulate   | INR 26,099    | INR 24,300 |
| 53   | 23-May-2023 | Accumulate   | INR 28,073    | INR 24,766 |
| 54   | 27-Jul-2023 | Accumulate   | INR 27,311    | INR 23,870 |
| 55   | 8-Nov-2023  | Accumulate   | INR 28,150    | INR 26,271 |
| 56   | 31-Jan-2024 | Accumulate   | INR 31,840    | INR 28,556 |
| 57   | 14-May-2024 | Buy          | INR 31,840    | INR 26,025 |
| 58   | 14-Jun-2024 | Buy          | INR 33,219    | INR 27,538 |
| 59   | 7-Aug-2024  | Buy          | INR 30,459    | INR 25,099 |
| 60   | 11-Nov-2024 | Buy          | INR 29,350    | INR 24,424 |
| 61   | 5-Dec-2024  | Buy          | INR 32,740    | INR 26,608 |

### Guide to Research Rating

|                   |                             |
|-------------------|-----------------------------|
| <b>BUY</b>        | Absolute Return >+20%       |
| <b>ACCUMULATE</b> | Absolute Return +5% to +20% |
| <b>REDUCE</b>     | Absolute Return -5% to +5%  |
| <b>SELL</b>       | Absolute Return < -5%       |

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