

**SHREE CEMENT LTD.****REDUCE****Choice****Growth to resume from H2FY25 driven by volume**

Shree Cement Ltd Q4FY24 volumes came at INR9.5mnt, up 7.1% QoQ and 7.9% YoY, leading to INR51,010mn in revenues, up 4.1% QoQ and 6.6% YoY. For the full year FY24 consolidated volume came at INR35.5mnt, up 11.5% YoY. Company reported full year revenue at INR195.8bn, up 16.3% YoY. Shree Cement Ltd had achieved 77% utilization for FY24 vs 70% in FY23. EBITDA/t for the quarter came at INR1,393/t, up 0.5% QoQ and 37.8% YoY. The YoY spike in EBITDA/t was mainly led by lower power and fuel cost. PAT for FY24 stood at INR24,684mn, up 88.9% YoY. EPS for the full year was INR684.2. The company is committed to using 100 percent renewable electricity by 2050.

- **Expansion plans on track:** Shree Cement Ltd. is actively pursuing an increase in its current capacity to 80mnt by the end of FY28E. The company has earmarked a capex budget of INR120bn to be utilized by the end of FY27E. Of this amount, INR60,000mn will be sourced from existing cash reserves, with the remainder to be accrued internally. For the FY25E, the company plans to spend INR45,000mn. On April 2nd, 2024, the Company inaugurated its Integrated Cement Plant in the Guntur district of Andhra Pradesh, boasting a cement capacity of 3.0mtpa. The ongoing capacity expansion projects of 18mnt are progressing as per schedule, with an expected completion of 9-10mnt expansion in FY25E. The management aims to achieve a capacity expansion of 62mnt by March 2025E, followed by 65mnt by September 2025E, and ultimately targeting 75mnt by March 2027E.
- **Focus on cost optimization:** In Q4FY24, the total cost/t stood at INR3,960/t, marking a 3.9% decrease on QoQ and a 10.2% decrease on a YoY basis. Power and fuel costs/t amounted to INR1,520/t, showing a 9.3% increase QoQ but a 14.6% decrease YoY, primarily driven by lower petcoke prices. Currently, fuel costs are at INR 1.82/kcal, compared to INR2.53/kcal in the previous quarter. Management intends to further reduce power and fuel costs by enhancing the utilization of alternative fuels. Moreover, the company has boosted its contribution of green power energy to 56%, with plans to raise it to 60% through the addition of new renewable plants. Presently, the company's green power capacity stands at 480MW compared to 386MW in FY23, with plans to add an additional 188MW of green power capacity at various locations. Freight expenses/t for the quarter amounted to INR1,097/t, showing a marginal 0.3% increase QoQ but a 6.1% decrease YoY. The lead distance for the quarter was 435km, compared to 457km in the previous quarter. Furthermore, the company aims to increase the share of rail transportation to 25% in the next 3-4 years from the current 12%, which is expected to significantly reduce freight expenses.

**Outlook and Valuation:** The management anticipates that cement demand in India will continue to be strong, propelled by various factors such as the government's significant emphasis on infrastructure development, ongoing real estate activities, and optimistic projections for a favourable monsoon season. Management is committed to cost optimization efforts and is actively pursuing strategies to expand its market share. Additionally, Shree Cement aims to enhance the proportion of premium cement in its total sales, targeting a range of 12-15% in the near term. We expect Revenue/EBITDA/PAT to grow at a CAGR of 6.7%/12.4%/9.3% respectively over FY24-FY26E. Our target EV/EBITDA multiple is 18x (unchanged) on FY26E EBITDA, hence we ascribe a target price of INR27,055, downgrading our rating to **REDUCE**.

**Financial Snapshot**

Shree Cement Ltd.	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn)	1,43,059	1,68,375	1,95,856	2,04,941	2,22,856
EBITDA (INR Mn)	36,451	29,366	43,639	49,661	55,166
EBITDA Margins (%)	25.5	17.4	22.3	24.2	24.8
PAT	23,766	13,281	24,684	27,305	29,498
PAT Margins (%)	16.6	7.9	12.6	13.3	13.2
EPS	658.7	368.1	684.2	756.8	817.6

Source: Company, CEBPL

May 15th, 2024

CMP (Rs.)	25,850
Target Price (Rs.)	27,055
Potential upside (%)	4.7

**Company Info**

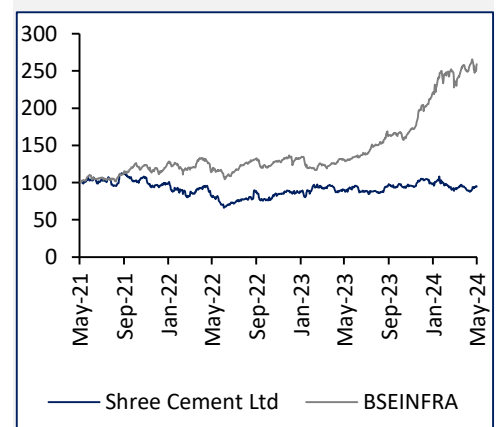
BB Code	SRCM IN EQUITY
ISIN	INE070A01015
Face Value (Rs.)	10.0
52 Week High (Rs.)	30,710.2
52 Week Low (Rs.)	22,601.3
Mkt Cap (Rs. bn)	931.4
Mkt Cap (\$ bn)	11.2
Shares o/s (Mn)/F.Float	36.1/37
FY24 EPS (Rs.)	684.2
FY26E EPS (Rs.)	817.6

**Shareholding Pattern (%)**

	Mar-24	Dec-23	Sep-23
Promoters	62.56	62.56	62.56
FII's	12.47	12.31	12.22
DII's	12.14	12.37	12.37
Public	12.83	12.76	12.85

**Relative Performance (%)**

YTD	3Y	2Y	1Y
BSE INFRA	159.2	127.7	97.9
SHREE CEMENT	(5.4)	14.6	4.9

**Rebased Price Performance****Ashutosh Murarka, Associate**

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## Sequential Operating Performance

Operating Metrics INR/t	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Blended Realisation	5,067	5,419	5,617	5,591	5,507	5,353
Raw Material Cost	386	454	406	392	410	438
Employee Cost	271	250	264	284	264	247
Power & Fuel Cost	1,622	1,781	1,712	1,670	1,391	1,520
Freight & Handling Expense	1,174	1,167	1,194	1,160	1,093	1,097
Other Expenses	765	721	751	860	879	717
Total Costs	4,185	4,408	4,569	4,530	4,120	3,960
EBITDA	882	1,011	1,048	1,062	1,386	1,393

Source: Company, CEBPL

## CEBPL Estimates vs Actual for Q4FY24

Shree Cement Ltd. (INR Mn.)	Q4FY24	Q4FY23	YoY(%)	Q3FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Volumes	9.53	8.83	7.9	8.90	7.1	9.41	1.3
Revenues	51,010	47,851	6.6	49,008	4.1	49,833	2.4
RM Cost	4,176	4,008	4.2	3,649	14.4		
Power and Fuel Cost	14,490	15,729	(7.9)	12,381	17.0		
Freight Exp	10,451	10,308	1.4	9,732	7.4		
EBITDA (INR Mn.)	13,272	8,925	48.7	12,337	7.6	11,422	16.2
EBITDA Margin (%)	26.0	18.7	737 bps	25.2	85 bps	22.9	310 bps
Depreciation	6,281	4,419	42.1	3,466	81.2		
EBIT (INR Mn.)	8,370	5,858	42.9	10,225	(18.1)	8,253	1.4
EBIT Margin (%)	16.4	12.2	417 bps	20.9	(446)bps	16.6	(15)bps
Other Income	1379	1353	1.9	1354	1.8		
Interest	648	726	(10.8)	561	15.4		
PBT	7,722	5,132	50.5	9,664	(20.1)		
Tax	1,105	(330.1)	NA	2,322	(52.4)		
PAT (INR Mn.)	6,618	5,462	21.2	7,342	(9.9)	5,685	16.4
Basic EPS (INR)	183.4	151.4	21.2	203.5	(9.9)	157.6	16.4

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
NSR /t	5,353	5,419	(1.2)	5,507	(2.8)
Cement Cost /t	3,960	4,408	(10.2)	4,120	(3.9)
EBITDA/t	1,393	1,011	37.8	1,386	0.5

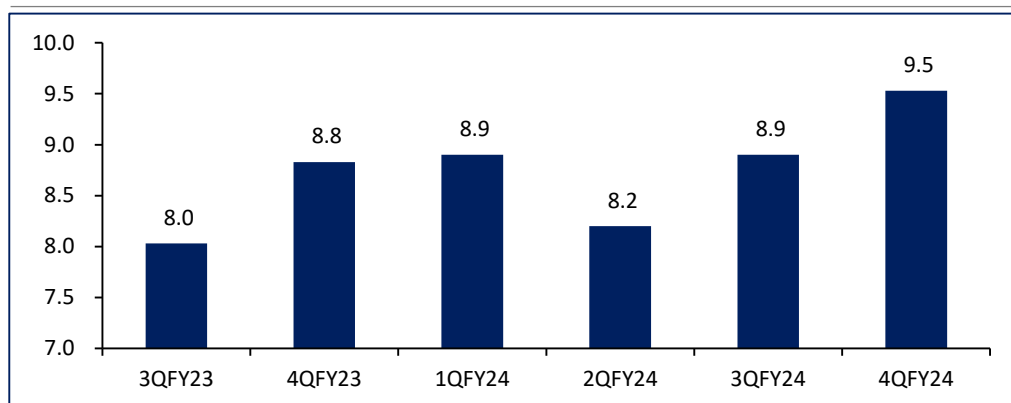
Source: Company, CEBPL

## Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	2,03,537	2,04,941	0.7	2,17,589	2,22,856	2.4
Gross Profit Margin (%)	90.4	91.0	58 bps	91.0	90.8	(17)bps
EBIT	38,832	37,003	(4.7)	41,598	38,974	(6.3)
EBIT Margin (%)	19.1	18.1	(102)bps	19.1	17.5	(163)bps
EPS	764.5	756.8	(1.0)	822.1	817.6	(0.6)

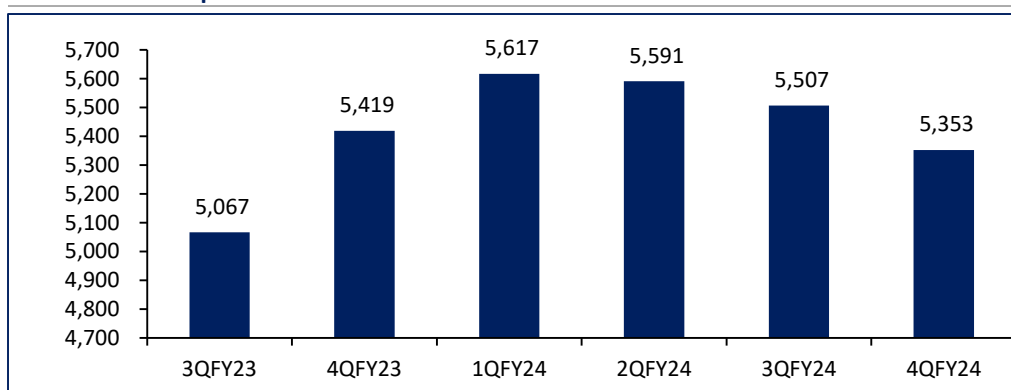
Source: Company, CEBPL

### Quarterly Sales Volume



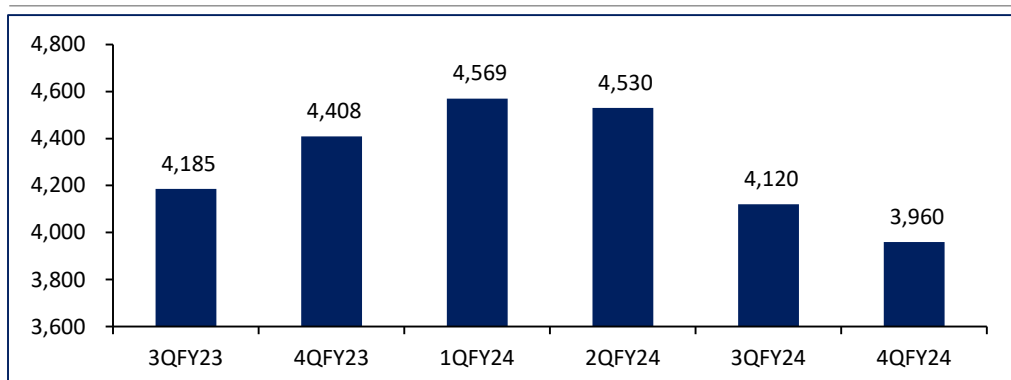
Source: Company, CEBPL

### Sales Realisation per Tonne declined



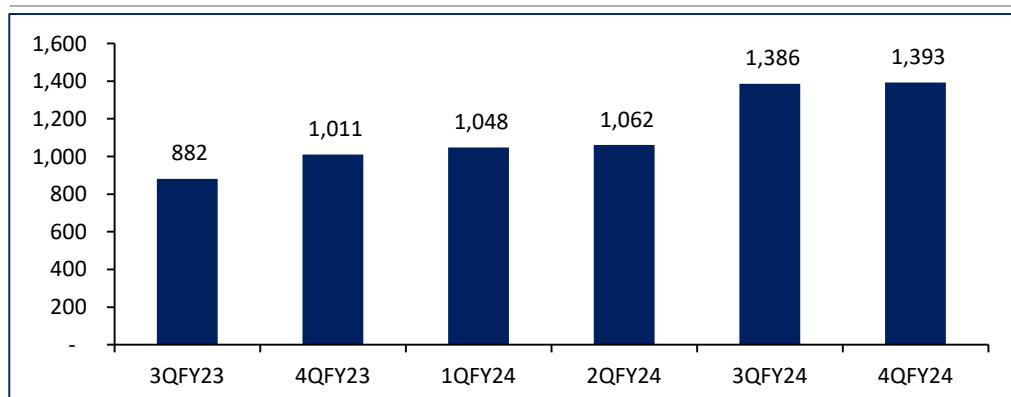
Source: Company, CEBPL

### Total Cost per tonne dipped



Source: Company, CEBPL

### EBITDA per Tonne



Source: Company, CEBPL

## Management Call Highlights

- Shree Cement management expresses confidence in managing total costs. The company is actively pursuing cost reduction strategies, including increasing the utilization of alternative fuels to lower power and fuel costs, and optimizing freight expenses by minimizing lead distances.
- Shree Cement aims to achieve a total capacity of 65.8mmt by the end of FY25E and plans to invest INR 45,000mn in capital expenditure during FY25E. Furthermore, company have plan to invest INR120bn towards capex in next 3 years.
- Shree Cement is focused on boosting the share of rail transport in its logistics operations. The company aims to increase the transportation of materials via rail to 25% within the next 2-3 years, up from the current figure of approximately 11-12%. This strategic shift is expected to result in a notable decrease in freight expenses for the company.
- Shree Cement successfully commissioned its 3mmt Guntur plant in April. Additionally, the company aims to complete the expansion of 9-10mmt of cement capacity in FY25E as part of its larger 18mmt capacity expansion plans.
- The company has finalized agreements to acquire 5 Ready-Mix Concrete (RMC) plants in Mumbai. Moreover, it has also successfully launched its inaugural greenfield RMC facility with a capacity of 90 cubic meters per hour in Hyderabad, Telangana, operating under the brand name Bangur Concrete.
- The company has ambitious plans to establish around 100 Bangur Concrete plants within the next three years. These plants will be operational in approximately 50 cities, contributing to the creation of around 3000 direct and indirect employment opportunities.
- In the quarter, depreciation expenses were elevated primarily due to the commissioning of the Nawalgarh unit. Management has provided guidance that depreciation is expected to align with INR 15,000mn for FY25E.
- The company's management is striving to become the most cost-effective player in the industry. Presently, Shree Cement maintains inventory levels equivalent to four months of its operations.

## Financial Summary (Standalone in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,43,059	1,68,375	1,95,856	2,04,941	2,22,856
Gross profit	1,31,912	1,56,279	1,77,539	1,86,433	2,02,367
<b>EBITDA</b>	<b>36,451</b>	<b>29,366</b>	<b>43,639</b>	<b>49,661</b>	<b>55,166</b>
Depreciation	10,365	15,462	16,146	16,757	19,757
<b>EBIT</b>	<b>31,487</b>	<b>18,276</b>	<b>33,103</b>	<b>37,003</b>	<b>38,974</b>
Other income	5,400	4,372	5,610	4,099	3,566
Interest expense	2,178	2,689	2,648	1,997	2,109
<b>PAT</b>	<b>23,766</b>	<b>13,276</b>	<b>24,684</b>	<b>27,305</b>	<b>29,498</b>
EPS (INR)	658.7	368.1	684.2	756.8	817.6

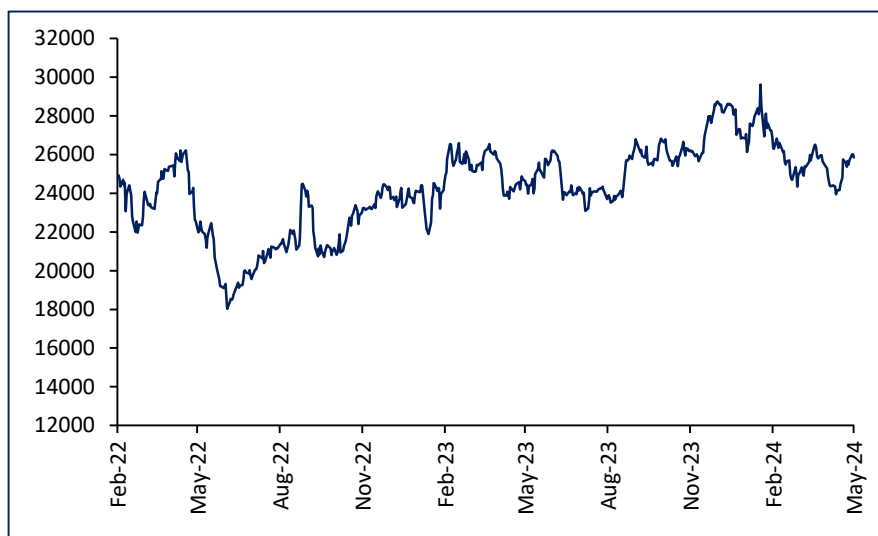
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	53,215	53,327	70,987	93,101	1,13,344
Capital Work in Progress	9,729	23,203	18,328	17,411	16,541
Investments	1,15,460	1,16,505	1,06,753	1,10,374	1,20,342
Cash & Cash equivalents	1,183	1,193	2,971	2,019	2,517
Loans & Advances and Other Assets	20,303	23,987	34,392	37,320	43,480
Net Working Capital	19,532	22,000	30,120	33,432	37,521
<b>Total assets</b>	<b>2,19,420</b>	<b>2,40,214</b>	<b>2,63,551</b>	<b>2,93,657</b>	<b>3,33,744</b>
Shareholder's funds	1,72,709	1,82,884	2,03,845	2,31,150	2,60,647
Borrowings	16,188	15,518	14,737	14,346	19,388
Deffered Tax	(6,695)	(6,686)	1,359	2,049	3,343
Other Liabilities & Provisions	37,218	48,497	43,611	46,112	50,365
<b>Total equity &amp; liabilities</b>	<b>2,19,420</b>	<b>2,40,214</b>	<b>2,63,551</b>	<b>2,93,657</b>	<b>3,33,744</b>
Capital Employed	1,78,793	1,93,315	2,08,101	2,31,843	2,65,287
Invested Capital	1,67,881	1,68,919	1,86,803	2,12,413	2,46,230

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	27,229	27,043	33,036	50,097	51,277
Cash flows from Investing	(18,653)	(24,089)	(13,503)	(40,832)	(40,512)
Cash flows from financing	(8,584)	(3,151)	(17,937)	(2,387)	2,934

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Revenues	12.9	17.7	16.3	4.6	8.7
Gross Profit	11.7	18.4	13.6	5.0	8.6
EBITDA	(8.4)	(19.4)	48.6	13.8	11.1
EBIT	(3.7)	(41.9)	81.1	11.8	5.3
<b>Margin Ratios (%)</b>					
Gross Profit Margin	92.2	92.8	90.6	91.0	90.8
EBITDA Margin	25.5	17.4	22.3	24.2	24.8
EBIT Margin	22.0	10.9	16.9	18.1	17.5
<b>Profitability (%)</b>					
Return on equity	13.8	7.3	12.1	11.8	11.3
Return on invested capital	15.5	9.5	15.9	16.0	14.7
Return on capital employed	17.6	9.5	15.9	16.0	14.7
<b>Valuation</b>					
OCF / IC (%)	16.2	16.0	17.7	23.6	20.8
EV / EBITDA (x)	22.0	26.8	19.2	16.8	15.0
EV/IC (x)	4.8	4.7	4.5	3.9	3.4

Source: Company, CEBPL

## Historical recommendations and target price: Shree Cement Ltd.



### Shree Cement Ltd.

1.	07-02-2022	ADD,	Target Price, 28,426
2.	23-05-2022	OUTPERFORM,	Target Price, 25,244
3.	29-07-2022	NEUTRAL,	Target Price, 20,787
4.	17-10-2022	NEUTRAL,	Target Price, 22,189
5.	10-02-2023	NEUTRAL,	Target Price, 23,007
6.	24-05-2023	NEUTRAL,	Target Price, 24,958
7.	28-07-2023	NEUTRAL,	Target Price 24,986
8.	09-11-2023	NEUTRAL,	Target Price 27,490
9.	01-02-2024	ADD,	Target Price 30,920
10.	15-05-2024	REDUCE,	Target Price 27,055

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<b>BUY</b>	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
<b>REDUCE</b>	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
<b>SELL</b>	The security expected to show Below 0% next 12 months

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