

BSE SENSEX
74,602

S&P CNX
22,548

CMP: INR28,197 TP: INR27,000 (-4%) Neutral



Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	1017.4 / 11.7
52-Week Range (INR)	28900 / 23500
1, 6, 12 Rel. Per (%)	12/23/5
12M Avg. Val (INR M)	1056
Free float (%)	37.5

Financial Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	177.7	198.3	219.7
EBITDA	36.7	43.4	51.3
Adj. PAT	10.4	10.9	16.0
EBITDA Margin (%)	20.6	21.9	23.3
Adj. EPS (INR)	287	303	443
EPS Gr. (%)	-58.0	5.4	46.4
BV/Sh. (INR)	5,837	6,030	6,333

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	5.0	5.1	7.2
RoCE (%)	5.5	5.5	7.4
Payout (%)	34.8	36.3	31.6

Valuations

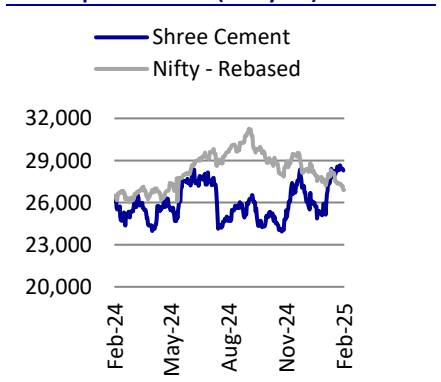
P/E (x)	98.0	93.0	63.5
P/BV (x)	4.8	4.7	4.4
EV/EBITDA(x)	25.8	22.0	18.2
EV/ton (USD)	193	153	150
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	-1.0	-0.6	1.1

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	62.6	62.6	62.6
DII	14.5	14.5	12.6
FII	10.4	10.4	12.3
Others	12.6	12.6	12.6

FII Includes depository receipts

Stock's performance (one year)



Earnings growth and superior profitability priced in Capacity-led re-rating unlikely

- Shree Cement (SRCM) has outperformed the broader indices and other large players (UTCEM and ACEM) in the last one month, primarily aided by industry-leading profitability in 3QFY25 supported by better cost controls. However, the company disappointed the market with a muted volume growth in 9MFY25 vs. strong volume growth posted by other large players.
- Earlier, during FY14-21, SRCM experienced capacity-led re-rating given its entry into newer geographies, higher capacity utilization, low-cost capacity expansions, market share gain, and a balanced distribution between integrated cement plants and split location grinding units.
- SRCM is anticipated to commission 7.3mtpa (clinker) and 15.4mtpa (cement) capacities in 1QFY26, which will lead to 21%/27% clinker/cement capacity growth. Unlike previously, we do not expect capacity-led rerating this time given the lower capacity utilization, mounting industry supply, lack of geographical distribution, and disproportionate mix of split grinding units and integrated cement plants.
- We estimate SRCM's EBITDA to clock ~18% CAGR over FY25-27, driven by ~10% volume growth and ~7% improvement in EBITDA/t. We estimate its blended EBITDA/t at INR1,093/INR1,174 for FY26/FY27 vs. INR1,017 for FY25E (average EBITDA/t was INR1,283 over FY20-24). The stock trades at 22x/18x FY26E/FY27E EV/EBITDA (vs. its 10-year average one-year forward EV/EBITDA of 20x). **We reiterate our Neutral rating and value SRCM at 17x FY27E EV/EBITDA to arrive at our TP of INR27,000.**

Increasing clinker/cement capacities by 7.3mtpa/15.4mtpa in 1QFY26

- SRCM scaled up its capacity expansion plans post-FY22, as its capacity CAGR stood at ~16% over FY23-26E vs. ~5% during FY20-23. The company added 9.3mtpa (clinker) and 10.0mtpa (cement) capacities during FY23-25E. In 1QFY26, the company is expected to further increase clinker/cement capacity by 7.3mtpa/15.4mtpa to 42.2mtpa/71.8mtpa.
- It is setting up the following plants: 1) brownfield expansion of 3.7mtpa (clinker) and 6.0mtpa (cement) at Pali, Rajasthan (North); 2) brownfield expansion of 3.7mtpa (clinker) and 3.0mtpa (cement) at Kodla, Karnataka (South); 3) brownfield expansion of 3.4mtpa (cement) at Balodabazar, Chhattisgarh (East); and 4) Greenfield grinding unit at Etah, Western UP (Central).
- SRCM's expansion plans (up to 75mtpa) are largely focused on existing locations (North, East, and part of South). However, a significant part of the Central and West regions will remain untapped until FY27E. Historically, the company also has a higher share of split grinding unit addition in overall expansions (of the total ~42.9mtpa cement capacity, it added ~25.8mtpa through split GU during FY14-25E). However, this time, out of 15.4mtpa, it will add only 3.0mtpa (~19%) through split GU, while the rest 12.4mtpa is likely to be added at integrated cement plants.

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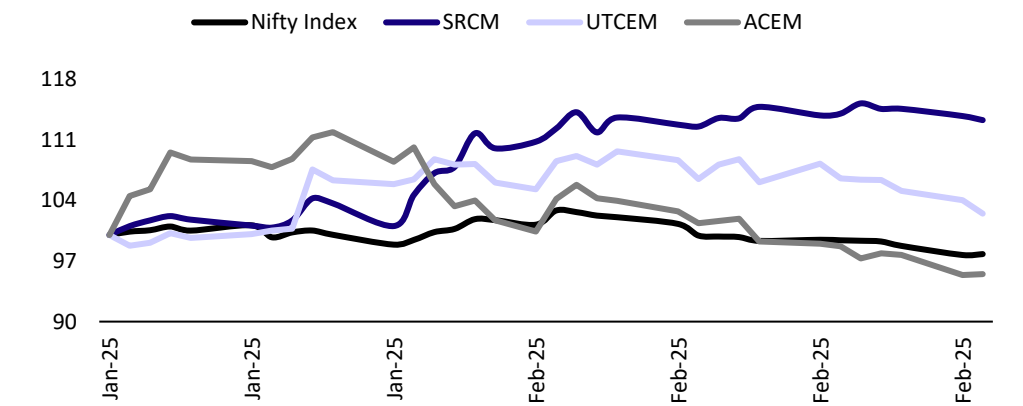
Research analyst - Mudit Agarwal (Mudit.Agarwal@MotilalOswal.com) | Abhishek Sheth (Abhishek.Sheth@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Valuations expensive; reiterate Neutral

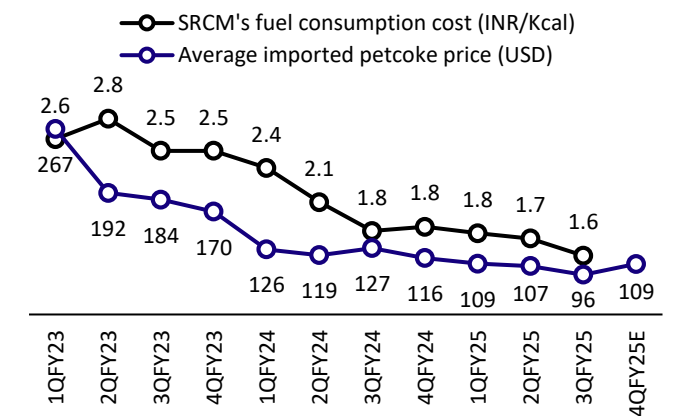
- SRCM is among the least-cost cement producers in the industry, supported by: 1) a higher share of green power (WHRS, solar, and wind power), which meets 55%+ of its power requirements; 2) higher alternative raw material consumption; and 3) lower specific power consumption (68Kwh/t of cement). However, we believe its cost leadership and operational efficiency benefits are already factored into current valuations. Additionally, low capacity utilization, limited regional diversification into newer capacity addition, and rising industry supply (expect ~50mtpa capacity addition in FY26) may constrain any capacity-led re-rating in the stock.
- The stock trades at 22x/18x FY26E/FY27E EV/EBITDA (vs. its 10-year average one-year forward EV/EBITDA of 20x). **We reiterate our Neutral rating and value SRCM at 17x FY27E EV/EBITDA to arrive at our TP of INR27,000.**

Exhibit 1: SRCM has outperformed the Nifty and other large players over the last one month



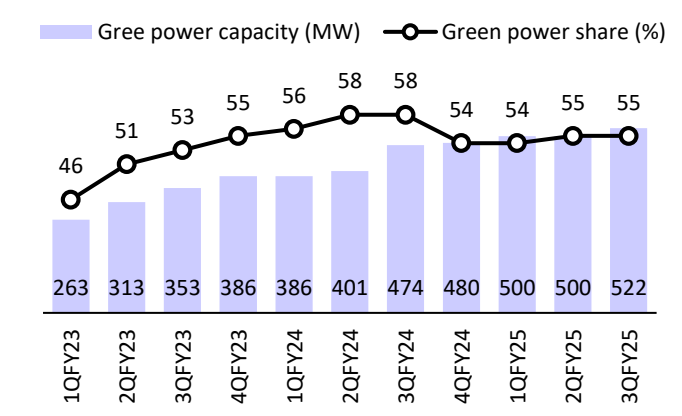
Source: MOFSL, Bloomberg; Note: Chart rebased to 100

Exhibit 2: SRCM’s fuel consumption cost vs. average imported petcoke price



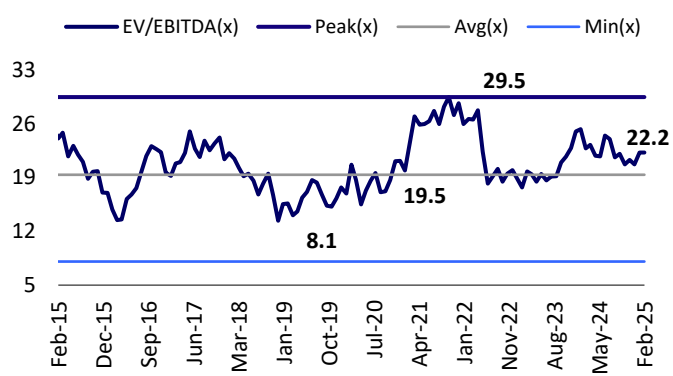
Source: MOFSL, Company

Exhibit 3: SRCM’s green power capacity and green power share



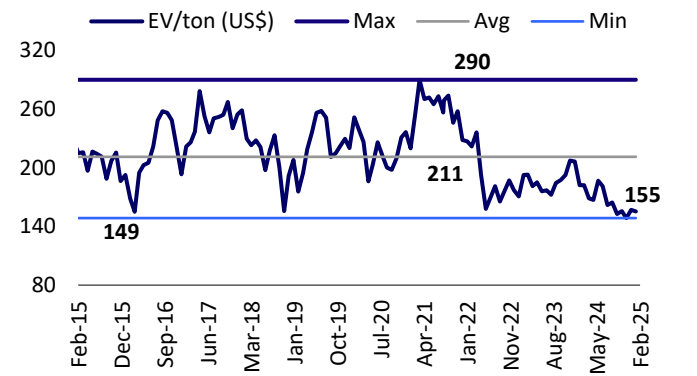
Source: MOFSL, Company

Exhibit 4: One-year forward EV/EBITDA ratio chart



Source: Company, MOFSL

Exhibit 5: One-year forward EV/t chart



Source: Company, MOFSL

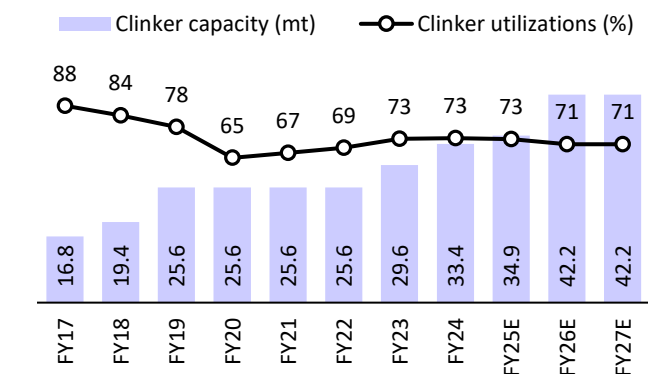
Story in charts

Exhibit 6: SRCM’s capacity expansion plans to be commissioned in 1QFY26

Location	State	Cement plant type	Clinker (mtpa)	Cement (mtpa)	Region	Mode of expansion
Pali	Rajasthan	Integrated	3.7	6.0	North	Brownfield
Kodla	Karnataka	Integrated	3.7	3.0	South	Brownfield
Baloda Bazar	Chhattisgarh	Integrated	-	3.4	East	Brownfield
Etah	Western U.P.	Grinding Unit	-	3.0	Central	Greenfield
Total			7.4	15.4		

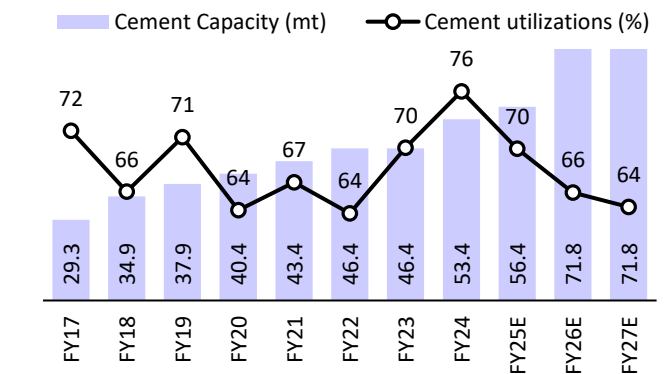
Source: MOFSL, Company; Note: USD1 is equal to INR79

Exhibit 7: SRCM’s clinker capacity and utilizations



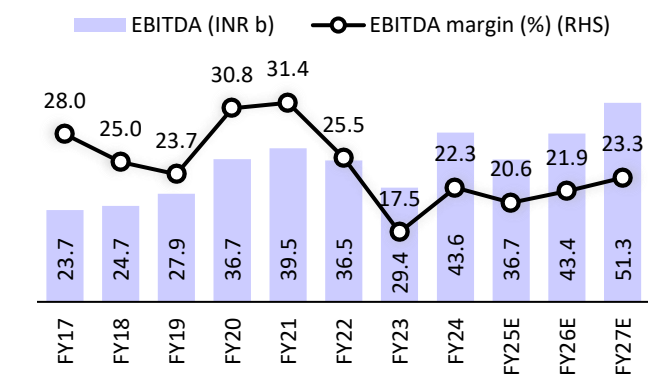
Source: MOFSL, Company

Exhibit 8: Grinding capacity and utilizations



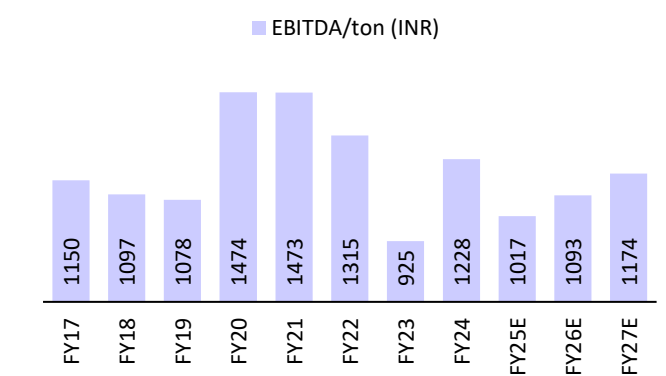
Source: MOFSL, Industry, Company

Exhibit 9: EBITDA to register a CAGR of 18% over FY25-27E



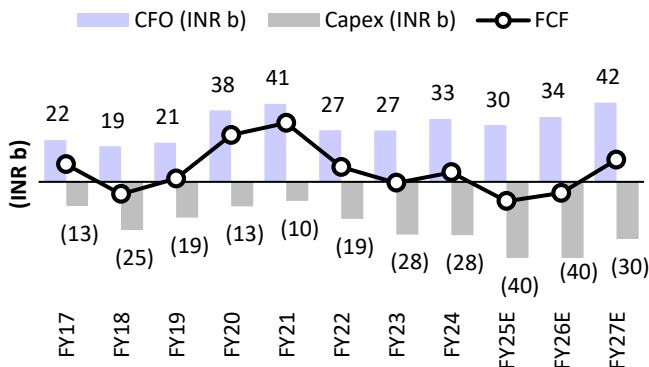
Source: MOFSL, Company

Exhibit 10: Blended EBITDA/t trend



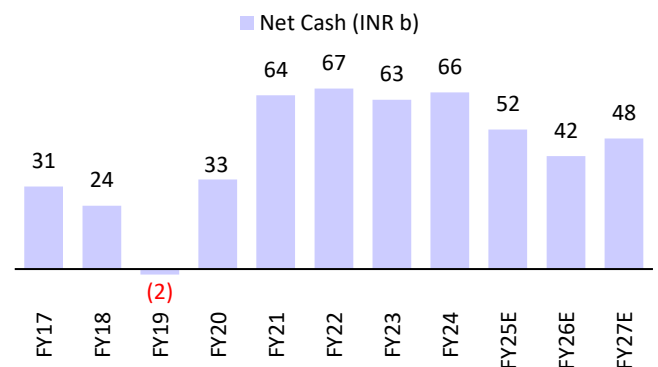
Source: MOFSL, Company

Exhibit 11: Capex stepped up



Source: MOFSL, Company

Exhibit 12: Remains a net cash company

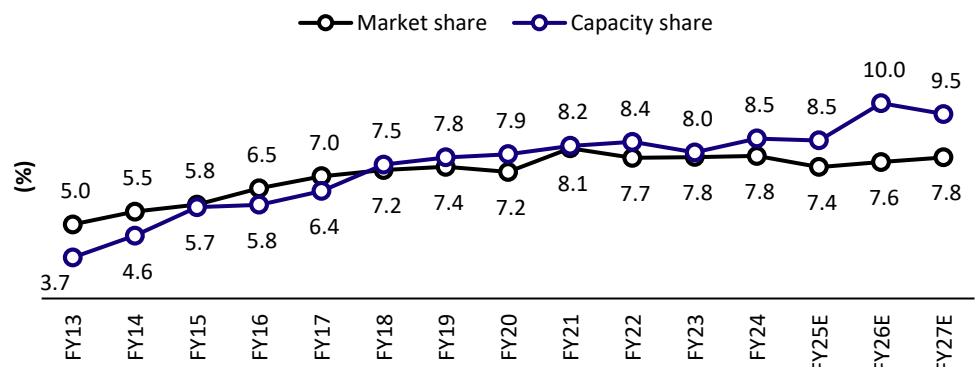


Source: MOFSL, Company

Growth stagnation: Capacity addition, not the answer

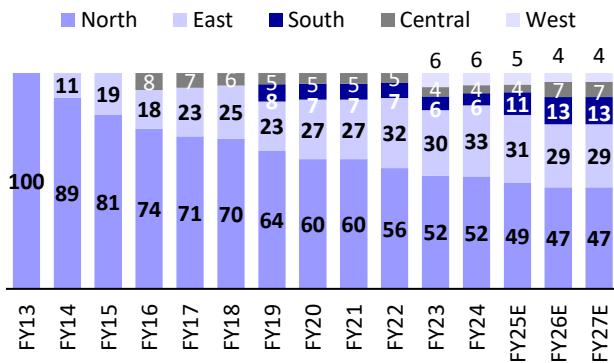
- During FY13-19, SRCM posted a volume CAGR of ~13% vs. the industry volume CAGR of ~5% during the same period supported by robust capacity growth (~19% CAGR), regional diversification (diversified into east and south regions), and strong execution capabilities. However, the company’s volume CAGR moderated to ~6% over FY19-25E vs. the industry volume CAGR at ~5% during the same period due to modest capacity growth (~6% CAGR), lack of regional diversification, and changes in its marketing strategies (focus on brand equity and product premiumization).
- Now, despite a higher capacity addition of ~10.0mtpa (~22% growth) between Jul’23 and Apr’24, the company’s sales volume in 9MFY25 remained flat YoY as compared to the industry volume growth of ~3-5% YoY during the same period. The company’s capacity utilization has declined to ~60% in 9MFY25 from ~67%/68% in FY23/FY24.
- Going forward, the company is expected to commission grinding capacities of 15.4mtpa (+27%) in 1QFY26 at its existing markets – North (6mtpa), Western UP (3.0mtpa), South (3mtpa), and East (3.4mtpa). However, we believe these expansions have a limited scope for a full-scale ramp-up in the near to medium term given the lack of regional diversification, mounting industry supply (anticipate ~50mtpa capacity addition in FY26) and an expected cement demand growth of only ~6-7% in FY26.

Exhibit 13: SRCM’s capacity share is increasing, however, market share remains constant



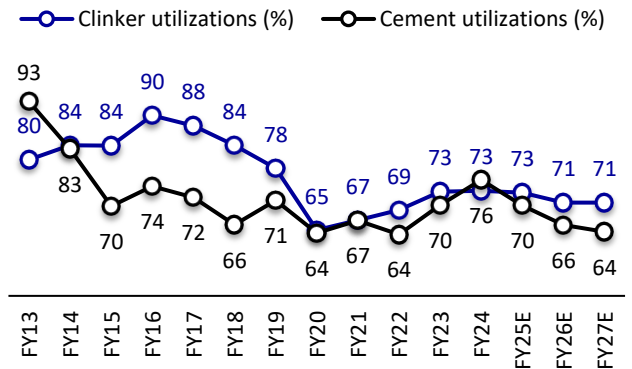
Source: Company, MOFSL

Exhibit 14: SRCM’s regional distribution



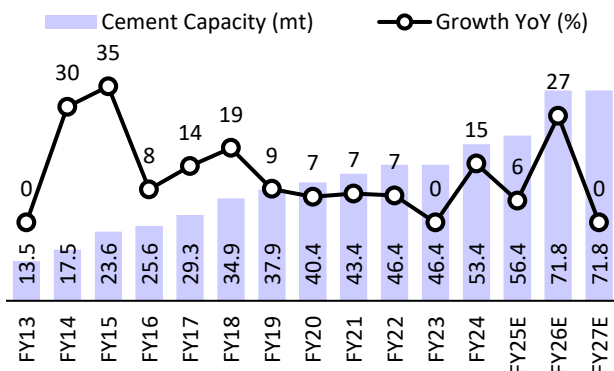
Source: MOFSL, Company;

Exhibit 15: Cement and clinker utilization declining



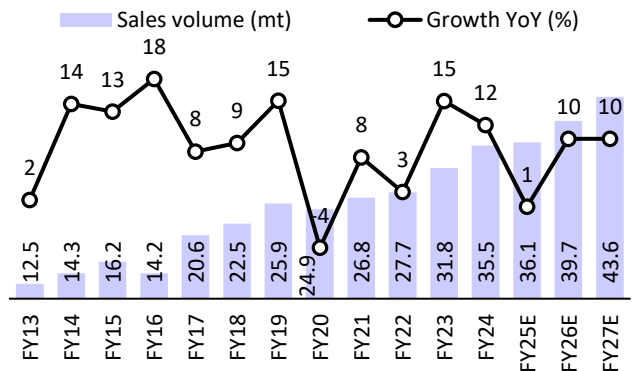
Source: MOFSL, Industry, Company

Exhibit 16: Grinding capacity and growth



Source: MOFSL, Company

Exhibit 17: Sales volume and growth

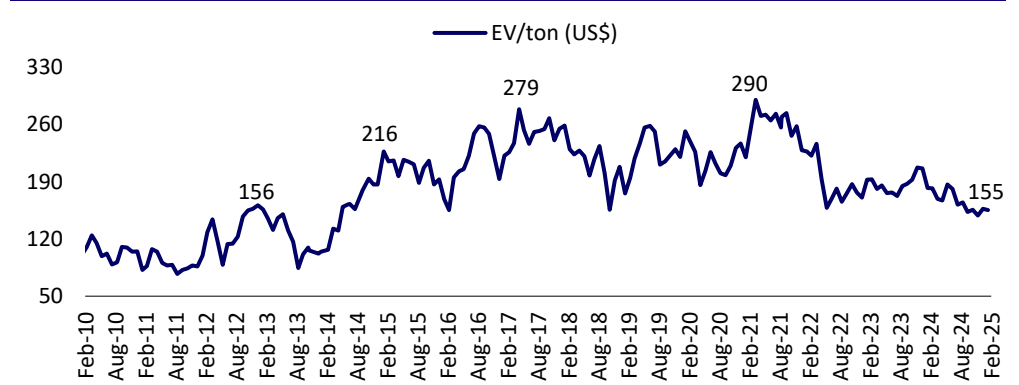


Source: MOFSL, Industry, Company

Execution risks loom; capacity-led re-rating unlikely

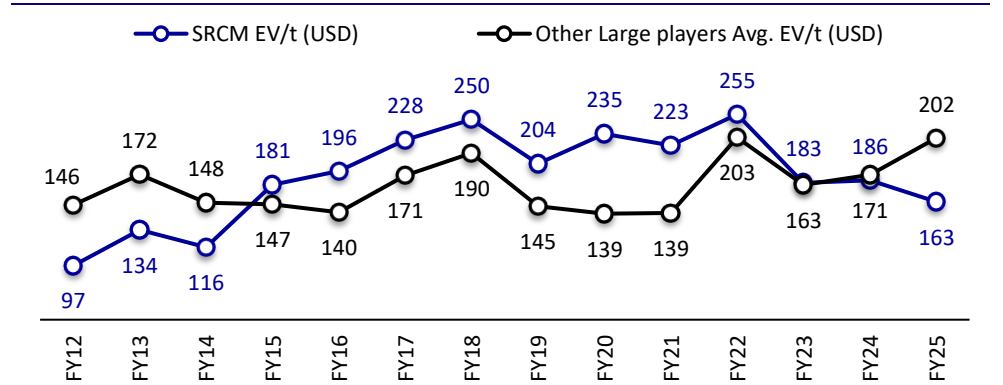
- SRCM witnessed a capacity-led re-rating over FY14-FY21 and trades at a premium valuation to most other large-cap players given its entry into newer geographies, higher capacity utilization, low-cost capacity expansions, market share gain, and a balanced distribution between integrated cement plants and split location grinding units.
- Based on an FY26E capacity of ~72mtpa, SRCM trades at an EV/tonne of USD156, which is at a 20%+ discount to its long-term average as well as to UTCM’s current valuation. We believe capacity-led rerating is unlikely given the lower capacity utilization, increasing industry supply, lack of geographical distribution, and disproportionate mix of split grinding units and integrated cement plant (that was also due to delaying land acquisitions and other regulatory approvals).
- We continue to believe SRCM’s expansion plans (up to 75mtpa) are largely focused on existing locations (North, East, and parts of South). However, a large part of the Central and West regions will remain untapped till FY27E.
- Further, SRCM’s superiority in profitability and ROCE is narrowing as peers improve capital efficiency, carry out cost-saving initiatives, and leverage synergies from their large scale of operations.

Exhibit 18: SRCM's capacity-led re-rating unlikely



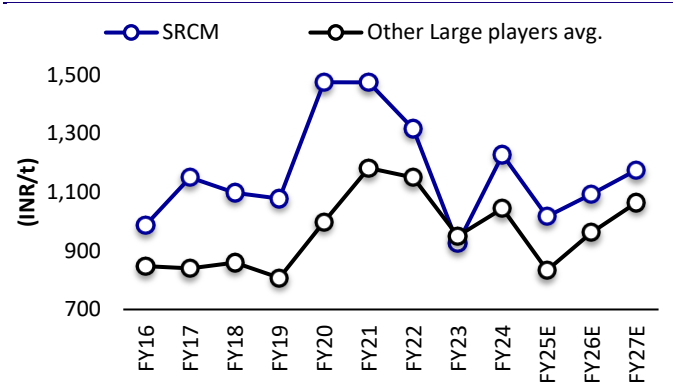
Source: Company, MOFSL

Exhibit 19: SRCM's average valuation (EV/t) vs. other large peers' average valuation



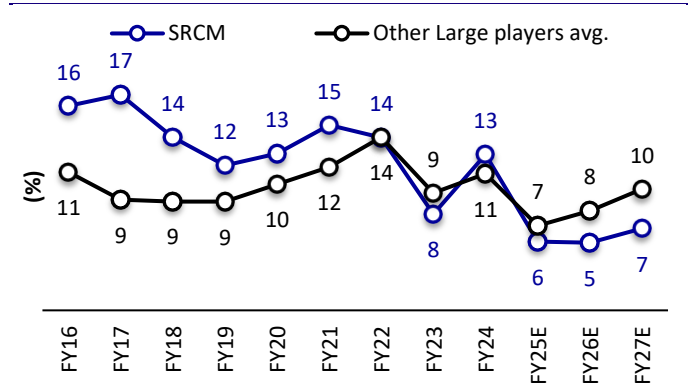
Source: Company, MOFSL; Note: Other large players are UTCEM and ACEM; FY25 average is YT9

Exhibit 20: EBITDA/t gap narrowing vs. other large peers



Source: MOFSL, Company; Note: Other large players are UTCEM and ACEM

Exhibit 21: ROCE – SRCM vs. other large peers' average



Source: MOFSL, Company; Note: Other large players are UTCEM and ACEM

Standalone financials and valuations

Income Statement								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	1,19,301	1,26,037	1,43,297	1,68,375	1,95,855	1,77,673	1,98,251	2,19,740
Change (%)	1.4	5.6	13.7	17.5	16.3	-9.3	11.6	10.8
EBITDA	36,745	39,547	36,478	29,423	43,635	36,674	43,387	51,263
Margin (%)	30.8	31.4	25.5	17.5	22.3	20.6	21.9	23.3
Depreciation	16,994	11,399	10,365	15,462	16,147	28,441	33,022	34,830
EBIT	19,751	28,148	26,114	13,961	27,489	8,233	10,365	16,433
Int. and Finance Charges	2,865	2,471	2,178	2,689	2,643	2,240	2,243	2,124
Other Income – Rec.	2,716	4,580	5,373	4,315	5,611	5,530	5,370	5,442
PBT before EO Expense	19,602	30,257	29,309	15,586	30,456	11,522	13,492	19,751
EO Expense/(Income)	0	0	0	0	0	0	0	0
PBT after EO Expense	19,602	30,257	29,309	15,586	30,456	11,522	13,492	19,751
Tax	5,248	7,536	4,382	937	5,098	1,152	2,564	3,753
Deferred Tax	-1,348	-398	1,161	1,368	674	0	0	0
Tax Rate (%)	19.9	23.6	18.9	14.8	19.0	10.0	19.0	19.0
Reported PAT	15,702	23,119	23,766	13,281	24,684	10,370	10,929	15,998
Tax adjustment prior period	0	-103	-1,045	-1,543	0	0	0	0
Adj. PAT for EO items	15,702	23,017	22,721	11,739	24,684	10,370	10,929	15,998
Change (%)	46.0	46.6	-1.3	-48.3	110.3	-58.0	5.4	46.4
Margin (%)	13.2	18.3	15.9	7.0	12.6	5.8	5.5	7.3

Balance Sheet								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	361	361	361	361	361	361	361	361
Other Reserves	1,29,003	1,52,140	1,72,348	1,82,524	2,03,484	2,10,246	2,17,206	2,28,153
Total Reserves	1,29,003	1,52,140	1,72,348	1,82,525	2,03,486	2,10,248	2,17,208	2,28,155
Net Worth	1,29,364	1,52,501	1,72,709	1,82,885	2,03,847	2,10,609	2,17,569	2,28,516
Deferred Liabilities	-7438	-7855	-6695	-6686	-5992	-5992	-5992	-5992
Secured Loan	31,042	21,332	20,142	25,392	14,737	19,508	17,161	16,016
Unsecured Loan	400	0	0	0	0	0	0	0
Total Loans	31,442	21,332	20,142	25,392	14,737	19,508	17,161	16,016
Capital Employed	1,53,368	1,65,978	1,86,155	2,01,592	2,12,591	2,24,125	2,28,738	2,38,540
Gross Block	1,03,634	1,13,644	1,35,229	1,50,803	1,84,610	2,24,610	2,64,610	2,79,610
Less: Accum. Deprn.	60,445	71,729	82,014	97,476	1,13,623	1,42,064	1,75,086	2,09,916
Net Fixed Assets	43,189	41,916	53,215	53,327	70,987	82,546	89,524	69,694
Capital WIP	12,576	12,836	9,729	23,203	18,328	18,328	18,328	33,328
<i>Financial investments</i>	63,575	83,712	86,014	87,060	77,307	67,307	55,307	50,307
<i>Strategic Investment</i>	25,579	26,794	29,445	29,445	29,445	29,445	29,445	29,445
Curr. Assets	41,022	37,275	49,056	58,467	72,131	76,527	84,879	1,03,776
Inventory	14,279	14,772	21,614	24,226	31,462	29,206	32,589	36,122
Account Receivables	8,285	4,859	5,957	9,061	9,298	10,709	11,949	13,245
Cash and Bank Balance	1,082	2,098	1,183	1,193	2,971	3,951	3,761	14,173
Others	17,378	15,547	20,303	23,987	28,400	32,660	36,579	40,237
Curr. Liability and Prov.	32,574	36,555	41,304	49,911	55,610	50,030	48,747	48,013
Account Payables	32,470	36,430	41,160	49,756	55,454	49,874	48,591	47,857
Provisions	104	125	144	155	156	156	156	156
Net Current Assets	8,449	721	7,752	8,556	16,522	26,497	36,131	55,764
Appl. of Funds	1,53,368	1,65,978	1,86,155	2,01,592	2,12,591	2,24,125	2,28,738	2,38,540

Source: Company, MOFSL

Standalone financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	435	638	630	325	684	287	303	443
Cash EPS	471	316	287	429	448	788	915	965
BV/Share	3,585	4,227	4,787	5,069	5,650	5,837	6,030	6,333
DPS	110.0	60.0	90.0	100.0	105.0	100.0	110.0	140.0
Payout (%)	25.3	9.4	13.7	27.2	15.3	34.8	36.3	31.6
Valuation (x)								
P/E	64.7	44.2	44.7	86.6	41.2	98.0	93.0	63.5
Cash P/E	59.8	89.2	98.1	65.7	62.9	35.7	30.8	29.2
P/BV	7.9	6.7	5.9	5.6	5.0	4.8	4.7	4.4
EV/Sales	8.1	7.5	6.6	5.5	4.8	5.3	4.8	4.3
EV/EBITDA	26.4	23.7	25.8	31.6	21.4	25.8	22.0	18.2
EV/t (USD-Cap)	276	249	233	231	201	193	153	150
Dividend Yield (%)	0.4	0.2	0.3	0.4	0.4	0.4	0.4	0.5
Return Ratios (%)								
RoIC	25.8	39.2	33.4	15.6	26.9	6.6	7.3	11.3
RoE	13.9	16.3	14.0	6.6	12.8	5.0	5.1	7.2
RoCE	12.6	14.9	13.9	7.8	12.6	5.5	5.5	7.4
Working Capital Ratios								
Inventory (Days)	44	43	55	53	59	60	60	60
Debtor (Days)	25	14	15	20	17	22	22	22
Creditor (Days)	99	106	105	108	103	102	89	79
Working Capital Turnover (Days)	26	2	20	19	31	54	67	93
Leverage Ratio (x)								
Current Ratio	1.3	1.0	1.2	1.2	1.3	1.5	1.7	2.2
Net Debt/Equity ratio	-0.3	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2

Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	19,602	30,257	29,309	15,586	30,456	11,522	13,492	19,751
Depreciation	16,994	11,399	10,365	15,462	16,147	28,441	33,022	34,830
Interest and Finance Charges	1,132	220	-849	-165	139	0	0	0
Direct Taxes Paid	-4,859	-7,439	-1,959	-3,287	-4,400	-1,152	-2,564	-3,753
(Inc.)/Dec. in WC	5,591	8,762	-7,321	967	-6,238	-8,995	-9,825	-9,220
CF from Operations	38,460	43,200	29,546	28,563	36,104	29,816	34,126	41,608
Others	-947	-2,264	-2,317	-1,520	-3,068	0	0	0
CF from Operations incl. EO	37,513	40,936	27,229	27,043	33,036	29,816	34,126	41,608
(Inc.)/Dec. in FA	-12,941	-9,984	-19,483	-27,619	-28,057	-40,000	-40,000	-30,000
Free Cash Flow	24,572	30,953	7,746	-576	4,979	-10,184	-5,874	11,608
(Pur.)/Sale of Investments	-42,478	-17,791	-77	3,737	14,555	10,000	12,000	5,000
Others	0	0	0	0	0	0	0	0
CF from Investments	-55,419	-27,774	-19,559	-23,882	-13,503	-30,000	-28,000	-25,000
Issue of Shares	23,833	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	1,175	-9,610	-2,707	2,669	-11,961	4,772	-2,348	-1,145
Interest Paid	-2,868	-2,514	-2,088	-2,574	-2,186	0	0	0
Dividend Paid	-6,231	-22	-3,789	-3,245	-3,790	-3,608	-3,969	-5,051
CF from Fin. Activity	15,910	-12,146	-8,584	-3,151	-17,937	1,164	-6,316	-6,196
Inc./Dec. in Cash	-1,997	1,016	-915	11	1,597	980	-190	10,412
Opening Balance	3,078	1,081	2,097	1,182	1,374	2,971	3,951	3,761
Closing Balance	1,081	2,097	1,183	1,193	2,971	3,951	3,761	14,173

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Explanation of Investment Rating	
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SELL	< - 10%
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