

SHREE CEMENT LTD.**NEUTRAL****Choice**

Major focus on improving price and premiumization

Shree Cement Ltd. Q2FY24 sales volume came at INR8.2mnt, down 7.9% QoQ but up 9.3% YoY. The company has an aspiration to achieve the installed cement capacity to 80mnt by FY28E. Q2FY24 revenue came at INR45,847 mn, down 8.3% QoQ but up 21.3% YoY. EBITDA/t for the quarter came at INR1,062, up 1.3% QoQ and 52.2% YoY, led by a decline in RM Cost (11.0%) on a sequential basis. Consequently, blended realization during Q2 came at INR5,591, down 0.5% QoQ but up 10.9% YoY. PAT for the quarter came at INR4,913 mn, down 15.5% QoQ but up 159.1% YoY. EPS for Q2FY24 stood at INR136.2. The company's share of green power in total power consumption increased to 58.6% in Q2FY24 vs 50.8% in Q1FY24, however, management is targeting 62% by Q1FY25. Blended cement for the quarter came at 75% vs 76% in Q2FY23.

Expansion plans on track: Shree Cement Ltd. is aggressively aiming to exceed its current capacity to 80 mn tonnes. The company has budgeted INR70,000 mn in capital expenditure by the end of FY25. Because of the high demand for housing, infrastructure, and commercial buildings, the corporation has accelerated its capex plan. Shree Cement is starting a strategic expansion into ready-mix concrete, with a goal of establishing 5 plants by the end of the current fiscal year. The company intends to build a brownfield cement grinding capacity of 3.4 mtpa in the Baloda Bazar district of Chhattisgarh with a capex plan of INR 5,500 mn during the next 18 months. However, the Guntur plant in Andhra Pradesh is projected to be completed in Q4FY24. Furthermore, the Nawalgarh plant is three months behind schedule and is projected to be completed in Q4FY24. Shree cement is also constructing an integrated unit in Pali district, aiming 56 mn tonnes or more, expected to achieve by Q4FY24.

Total cost declined to Rs. 4,530/t for Q2FY24: During Q2FY24, power and fuel costs came in at INR13,695 mn, down 10.1% QoQ but up 11.6% YoY, with power coal tariffs leading the way. Currently, fuel costs INR2.05 per kcal, compared to INR2.80 per kcal in September. However, the company is aiming at 1.90 kcal in Q3FY24. Furthermore, the company intends to increase its renewable energy contribution from 58% to 62% in the next 6-8 months. The company's green power proportion of total power consumption climbed to 58.6% in Q2FY24 from 50.8% in Q1FY24, with management aiming for 62% by Q1FY25. Freight expenses for the quarter was INR9,508 mn, a 10.6% decrease from the previous quarter but an 11.1% increase year on year. Because of the shorter lead distance, freight costs have decreased.

Outlook and Valuation: The company is optimistic about the growth in cement demand due to the Government's ongoing emphasis on infrastructure and housing development. Additionally, higher spending by the central government in preparation for the 2024 general elections is expected to further boost cement demand in the current financial year. These factors collectively contribute to a favorable outlook for the cement industry in the coming year. Management has guided a healthy volume growth of double digits for FY24 and management is focused on pricing and improving the share of premium products. We have introduced FY26E and are expecting Revenue/EBITDA to grow at a CAGR of 23.6%/24.8% respectively over FY23-FY26E. Our target EV/EBITDA multiple is 18x on SeptFY26E EBITDA, hence we ascribe a target price of INR27,490, maintaining our rating to **NEUTRAL**.

Financial Snapshot

Shree Cement Ltd.	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR Mn)	1,43,059	1,68,375	1,98,341	2,17,294	2,32,295
EBITDA (INR Mn)	36,451	29,366	39,398	51,206	57,059
EBITDA Margins (%)	25.5	17.4	19.9	23.6	24.6
PAT	23,766	13,276	20,581	27,239	30,381
PAT Margins (%)	16.6	7.9	10.4	12.5	13.1
EPS	658.7	368.1	570.4	755.0	842.0
EV/EBITDA	22.0	26.8	21.2	16.0	14.0
EV/Tonne (\$)	226	192	181	168	165
ROIC (%)	15.5	9.5	12.2	13.7	13.1
EV/IC	4.8	4.7	4.5	3.8	3.3

Source: Company, CEBPL

Nov 09, 2023

CMP (Rs.)	26,251
Target Price (Rs.)	27,490
Potential upside (%)	4.7

Company Info

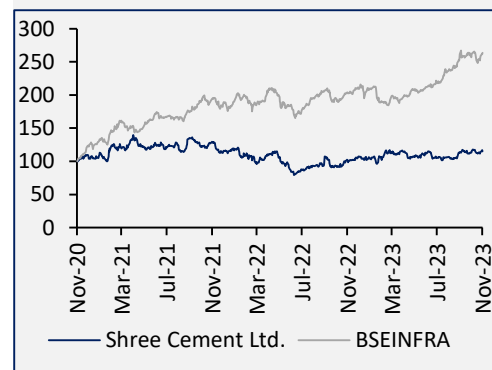
BB Code	SRCM IN EQUITY
ISIN	INE070A01015
Face Value (Rs.)	10.0
52 Week High (Rs.)	27,284.8
52 Week Low (Rs.)	21,433.2
Mkt Cap (Rs. bn)	947.1
Mkt Cap (\$ bn)	11.5
Shares o/s (Mn)/F.Float	36.1/37
FY23 EPS (Rs.)	368.1
FY26E EPS (Rs.)	842.0

Shareholding Pattern (%)

	Sep-23	Jun-23	Mar-23
Promoters	62.56	62.56	62.56
FII's	12.22	12.62	12.82
DII's	12.37	11.82	11.58
Public	12.85	13.00	13.04

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE INFRA	163.5	35.6	29.3
SHREE CEMENT	15.2	(11.1)	12.2

Rebased Price Performance

Sequential Operating Performance

Operating Metrics INR/t	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Blended Realisation	5,604	5,041	5,067	5,419	5,617	5,591
Raw Material Cost	404	381	386	454	406	392
Employee Cost	290	280	271	250	264	284
Power & Fuel Cost	1,923	1,636	1,622	1,781	1,712	1,670
Freight & Handling Expense	1,205	1,141	1,174	1,167	1,194	1,160
Other Expenses	860	794	765	721	751	860
Total Costs	4,512	4,344	4,185	4,408	4,569	4,530
EBITDA	1,092	697	882	1,011	1,048	1,062

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q2FY24

Shree Cement Ltd. (INR Mn.)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Volumes	8.20	7.50	9.3	8.90	(7.9)	8.50	(3.5)
Revenues	45,847	37,809	21.3	49,991	(8.3)	48,457	(5.4)
RM Cost	3,216	2,859	12.5	3,614	(11.0)	3,693	
Power and Fuel Cost	13,695	12,270	11.6	15,240	(10.1)	14,263	
Freight Exp	9,508	8,561	11.1	10,630	(10.6)	10,354	
EBITDA (INR Mn.)	8,704	5,230	66.4	9,326	(6.7)	9,023	(3.5)
EBITDA Margin (%)	19.0	13.8	515.2	18.7	33 bps	18.6	37 bps
Depreciation	3,314	3,628	(8.7)	3,085	7.4	3,815	
EBIT (INR Mn.)	6,650	3,168	109.9	7,858	(15.4)	6,080	9.4
EBIT Margin (%)	14.5	8.4	612.6	15.7	(121)bps	13	196 bps
Other Income	1260	1566	(19.5)	1617	(22.1)	872	
Interest	686	676	1.5	753	(8.9)	375	
PBT	5,964	2,493	139.3	7,105	(16.1)	5,705	
Tax	1,051	597	76.1	1,294	(18.8)	1,455	
PAT (INR Mn.)	4,913	1,896	159.1	5,811	(15.5)	4,250	15.6
Basic EPS (INR)	136.2	52.5	159.1	161.1	(15.5)	117.8	15.6

	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
NSR /t	5,591	5,041	10.9	5,617	(0.5)
Cement Cost /t	4,530	4,344	4.3	4,569	(0.9)
EBITDA/t	1,062	697	52.2	1,048	1.3

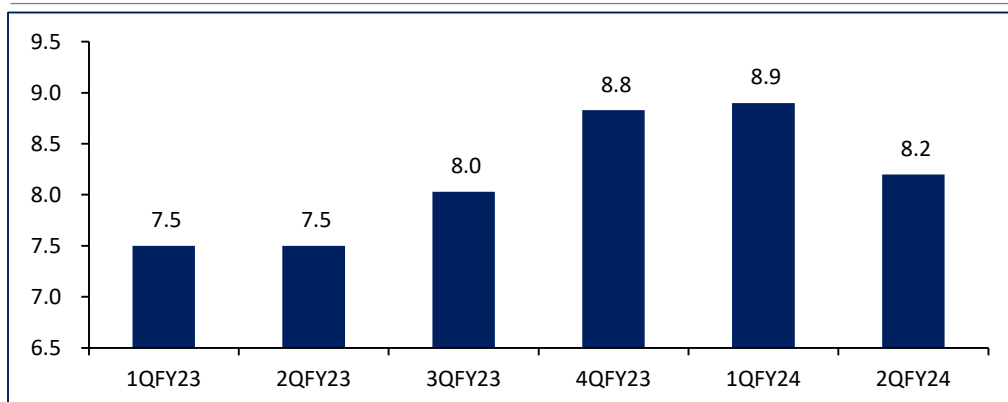
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY24E			FY25E			FY26E
	Old	New	Dev. (%)	Old	New	Dev. (%)	New
Revenues	1,97,428	1,98,341	0.5	2,22,737	2,17,294	(2.4)	2,32,295
Gross Profit Margin (%)	88.7	89.7	98 bps	87.5	89.4	190 bps	90.1
EBIT	26,653	28,860	8.3	36,210	38,257	5.7	42,380
EBIT Margin (%)	13.5	14.6	105 bps	16.3	17.6	135 bps	18.2
EPS	523.2	570.4	9.0	708.8	755.0	6.5	842.0

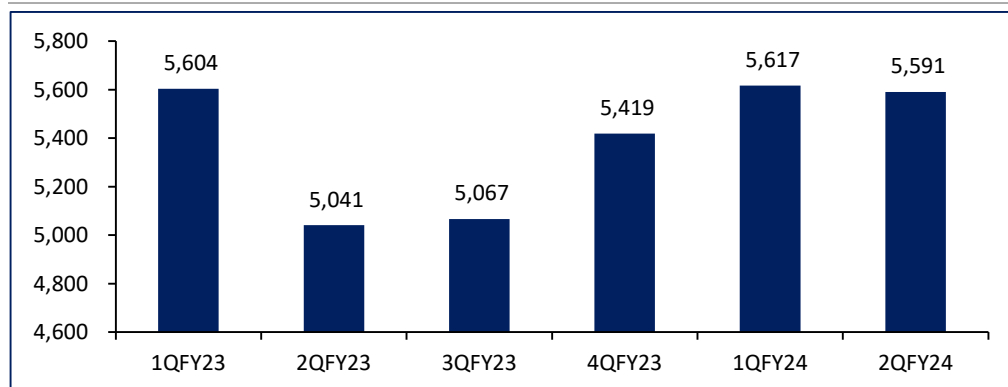
Source: Company, CEBPL

Quarterly Sales Volume dipped



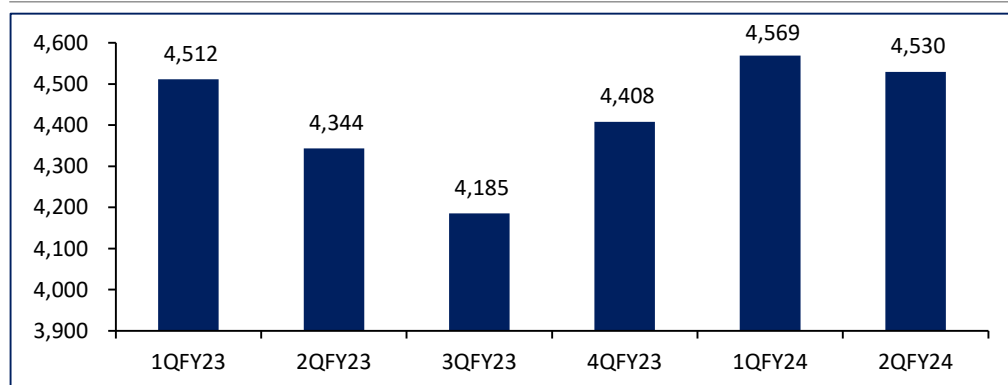
Source: Company, CEBPL

Sales Realisation per Tonne declined



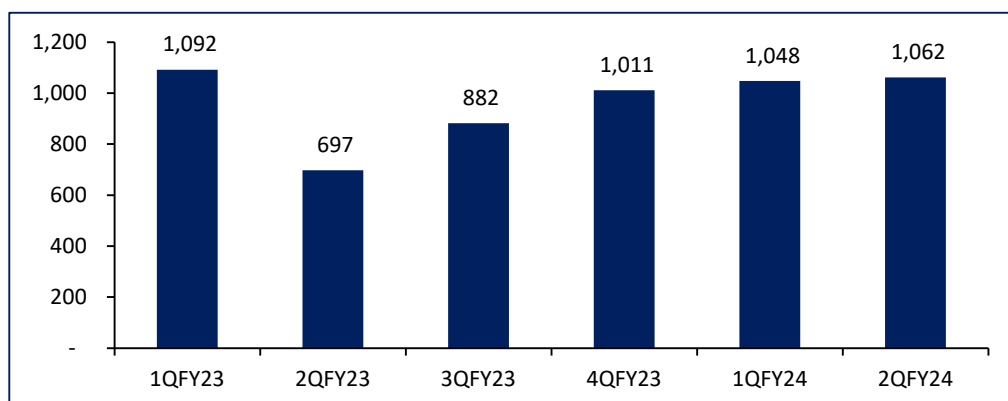
Source: Company, CEBPL

Total Cost per tonne dipped slightly



Source: Company, CEBPL

EBITDA per Tonne



Source: Company, CEBPL

Financial Summary (Standalone in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,43,059	1,68,375	1,98,341	2,17,294	2,32,295
Gross profit	1,31,912	1,56,279	1,77,951	1,94,346	2,09,251
EBITDA	36,451	29,366	39,398	51,206	57,059
Depreciation	10,365	15,462	15,260	16,860	18,860
EBIT	31,487	18,276	28,860	38,257	42,380
Other income	5,400	4,372	4,722	3,911	4,181
Interest expense	2,178	2,689	2,139	1,939	1,848
PAT	23,766	13,276	20,581	27,239	30,381
EPS (INR)	658.7	368.1	570.4	755.0	842.0

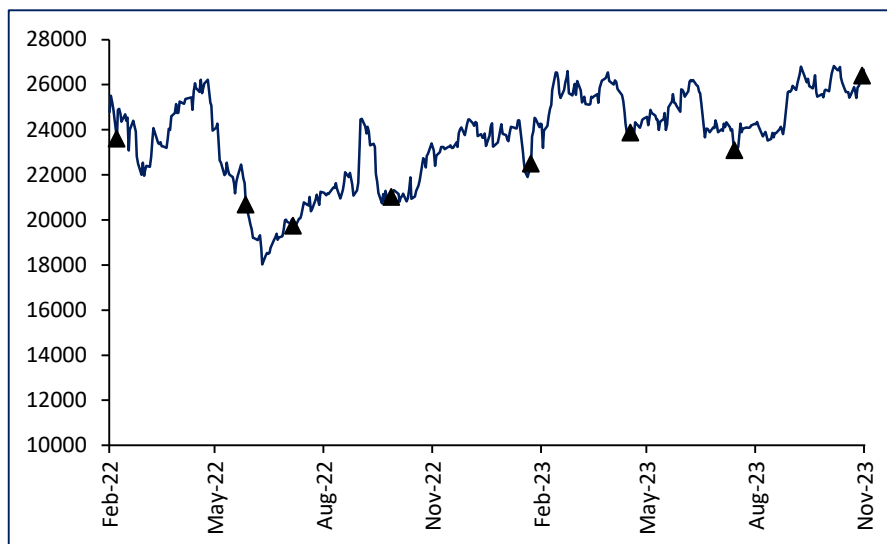
Balance Sheet (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Tangible fixed assets	53,215	53,327	78,067	81,206	87,346
Capital Work in Progress	9,729	23,203	20,882	18,794	16,915
Investments	1,15,460	1,16,505	1,24,955	1,43,414	1,62,606
Cash & Cash equivalents	1,183	1,193	2,834	2,595	2,146
Loans & Advances and Other Assets	20,303	23,987	18,049	23,468	25,785
Net Working Capital	19,532	22,000	27,703	34,673	39,229
Total assets	2,19,420	2,40,214	2,72,488	3,04,150	3,34,026
Shareholder's funds	1,72,709	1,82,884	2,03,466	2,30,705	2,61,086
Borrowings	16,188	15,518	16,264	17,818	19,048
Deffered Tax	(6,695)	(6,686)	(3,967)	(4,346)	(4,646)
Other Liabilities & Provisions	37,218	48,497	56,725	59,973	58,538
Total equity & liabilities	2,19,420	2,40,214	2,72,488	3,04,150	3,34,026
Capital Employed	1,78,793	1,93,315	2,09,439	2,34,903	2,64,943
Invested Capital	1,67,881	1,68,919	1,85,723	2,13,514	2,45,883

Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Cash flows from Operations	27,229	27,043	44,534	49,011	59,070
Cash flows from Investing	(18,653)	(24,089)	(30,643)	(27,769)	(26,892)
Cash flows from financing	(8,584)	(3,151)	(1,393)	(385)	(618)

Ratio Analysis 8	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratios (%)					
Revenues	12.9	17.7	17.8	9.5	6.9
Gross Profit	11.7	18.4	13.8	9.2	7.6
EBITDA	(8.4)	(19.4)	34.1	29.9	11.4
EBIT	(3.7)	(41.9)	57.9	32.5	10.7
Margin Ratios (%)					
Gross Profit Margin	92.2	92.8	89.7	89.4	90.1
EBITDA Margin	25.5	17.4	19.9	23.6	24.6
EBIT Margin	22.0	10.9	14.6	17.6	18.2
Profitability (%)					
Return on equity	13.8	7.3	10.1	11.8	11.6
Return on invested capital	15.5	9.5	12.2	13.7	13.1
Return on capital employed	17.6	9.5	13.8	16.3	16.0
Valuation					
OCF / IC (%)	16.2	16.0	24.0	23.0	24.0
EV / EBITDA (x)	22.0	26.8	21.2	16.0	14.0
EV/IC (x)	4.8	4.7	4.5	3.8	3.3

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	NUETRAL,	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

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OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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