

SHREE CEMENT LTD.

SELL

Choice

Weak guidance amidst slowdown in demand and pricing

Shree Cement Ltd reported Q1FY25 volumes of 9.6mnt, marking an increase of 1.2% QoQ and 8.3% YoY. Despite weak demand due to the general election and monsoon, the company achieved positive volume growth, resulting in revenues of INR48,347mn, a decline of 4.7% QoQ and 2.7% YoY. The revenue drop was primarily due to weak pricing. Shree Cement Ltd. capacity utilization for Q1FY25 stood at 76%. The EBITDA/t for the quarter was INR951/t, down 31.7% QoQ and 9.3% YoY, largely driven by higher freight expenses. The PAT for the quarter was INR3,177mn, a decrease of 52.0% QoQ and 45.3% YoY. EPS for Q1FY25 were INR88.1. Sale of premium products stood at 7.6% of total trade sale volume.

- **Expansion plans on track:** Shree Cement Ltd. is actively working to expand its capacity to 80mnt by the end of FY28E. For FY25E, the company plans to invest INR40,000mn. In the recent quarter, the company commissioned a new integrated cement unit in Guntur district, Andhra Pradesh, with a production capacity of 3.0MTPA. Additionally, ongoing expansion projects in Jaitaran, Rajasthan (6.0 MTPA), Kodla, Karnataka (3.0 MTPA), Baloda Bazar, Chhattisgarh (3.4 MTPA), and Etah, Uttar Pradesh (3.0 MTPA) are progressing well according to schedule. The company is also focused on further expanding its capacities across different regions to meet its targets ahead of schedule. The management aims to reach a capacity of 62mnt by March 2025E, 65mnt by September 2025E, and ultimately 75mnt by March 2027E.
- **EBITDA/t dropped to INR951/t:** During the quarter, EBITDA/t was significantly impacted by three key factors: First, there was a shift in the company's geographical mix, with a marginal reallocation of business focus from the North region to the East region. The East region, known for its lower realizations, pulled down the weighted average realization across the company's operations. This shift in mix consequently had a negative effect on EBITDA. Second, freight expenses/t for the quarter came in at INR1,157/t, representing a 5.5% increase QoQ but a 3.1% decrease YoY. The QoQ increase in freight costs was primarily driven by an increase in lead distance, which rose by 21km compared to the previous quarter. The longer transportation distances directly contributed to the higher freight expenses. Third, other expenses/t for the quarter were INR775/t, up 8.0% QoQ and 5.2% YoY. This increase was largely attributed to the higher stabilization costs incurred following the commissioning of two new plants in Nawalgarh and Guntur. Additionally, advertising expenses also saw a rise due to the launch of the company's new brand identity. Moreover, the Guntur and Nawalgarh plants specifically incurred an additional INR520mn in fares during Q1FY25, further contributing to the increase in other expenses. These combined factors collectively exerted downward pressure on the company's EBITDA/t for the quarter.
- **Reduced guidance for FY25E:** The company is revising its guidance, now indicating that it will grow in line with the market, as opposed to its earlier projection of achieving 40mnt in sales volume for FY25E. Management anticipates that both Q2 and Q3 will likely remain weak due to lower demand and reduced pricing power within the industry.

Outlook and Valuation: The company expects demand for cement and other building materials to be driven by the Indian government's commitment to modernizing the country's infrastructure, supported by the 11 lakh crore capital expenditure announced in the Indian Budget 2024 and various related projects and allocations. However, despite this positive outlook, the company has reduced its guidance due to weaker-than-anticipated demand. We expect Revenue/EBITDA to grow at a CAGR of 5.3%/7.5% respectively over FY24-FY26E. Our target EV/EBITDA multiple is 18x (unchanged) on FY26E EBITDA, hence we ascribe a target price of INR24,765 downgrading our rating to SELL.

Financial Snapshot

Shree Cement Ltd.	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn)	1,43,059	1,68,375	1,94,767	1,95,863	2,15,820
EBITDA (INR Mn)	36,451	29,366	43,636	41,434	50,452
EBITDA Margins (%)	25.5	17.4	22.4	21.2	23.4
PAT	23,766	13,281	24,684	22,266	24,894
PAT Margins (%)	16.6	7.9	12.7	11.4	11.5
EPS	658.7	368.1	684.1	617.1	690.0

Source: Company, CEBPL

Aug 8th, 2024

CMP (Rs.)	25,107
Target Price (Rs.)	24,765
Potential downside (%)	(1.4)

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.)	23,431.9
Mkt Cap (Rs. bn)	903.4
Mkt Cap (\$ bn)	10.8
Shares o/s (Mn)/F.Float	36.1/37
FY24 EPS (Rs.)	684.1
FY26E EPS (Rs.)	690.0

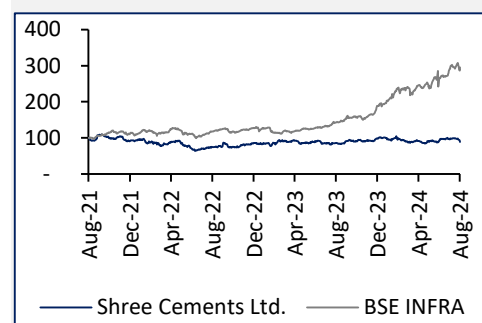
Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	62.56	62.56	62.56
FII's	11.85	12.47	12.31
DII's	12.78	12.14	12.37
Public	12.81	12.83	12.76

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE INFRA	194.8	150.9	106.4
SHREE CEMENT	(11.5)	17.8	3.2

Rebased Price Performance



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Sequential Operating Performance

Operating Metrics INR/t	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Blended Realisation	5,419	5,585	5,591	5,507	5,323	5,015
Raw Material Cost	454	398	392	410	431	386
Employee Cost	250	264	284	264	247	254
Power & Fuel Cost	1,781	1,703	1,670	1,391	1,498	1,458
Freight & Handling Expense	1,167	1,194	1,160	1,093	1,097	1,157
Other Expenses	721	737	860	879	717	775
Total Costs	4,408	4,538	4,530	4,120	3,930	4,065
EBITDA	1,011	1,048	1,062	1,386	1,393	951

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q1FY25

Shree Cement Ltd. (INR Mn.)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Volumes	9.64	8.90	8.3	9.53	1.2	9.45	2.0
Revenues	48,347	49,710	(2.7)	50,727	(4.7)	49,539	(2.4)
RM Cost	3,723	3,545	5.0	4,108	(9.4)		
Power and Fuel Cost	14,052	15,160	(7.3)	14,274	(1.6)		
Freight Exp	11,151	10,630	4.9	10,451	6.7		
EBITDA (INR Mn.)	9,164	9,326	(1.7)	13,272	(31.0)	11,657	(21.4)
EBITDA Margin (%)	19.0	18.8	19 bps	26.2	(721)bps	23.5	(458)bps
Depreciation	6,428	3,085	108.4	6,281	2.3		
EBIT (INR Mn.)	4,081	7,858	(48.1)	8,370	(51.2)	8,558	
EBIT Margin (%)	8.4	15.8	(737)bps	16.5	(806)bps	17.3	
Other Income	1346	1617	(16.8)	1379	(2.4)		
Interest	573	753	(23.9)	648	(11.5)		
PBT	3,508	7,105	(50.6)	7,722	(54.6)		
Tax	331	1,293.7	(74.4)	1,105	(70.0)		
PAT (INR Mn.)	3,177	5,811	(45.3)	6,618	(52.0)	6,490	(51.0)
Basic EPS (INR)	88.1	161.1	(45.3)	183.4	(52.0)	179.9	(51.0)
	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)		
NSR /t	5,015	5,585	(10.2)	5,323	(5.8)		
Cement Cost /t	4,065	4,538	(10.4)	3,930	3.4		
EBITDA/t	951	1,048	(9.3)	1,393	(31.7)		

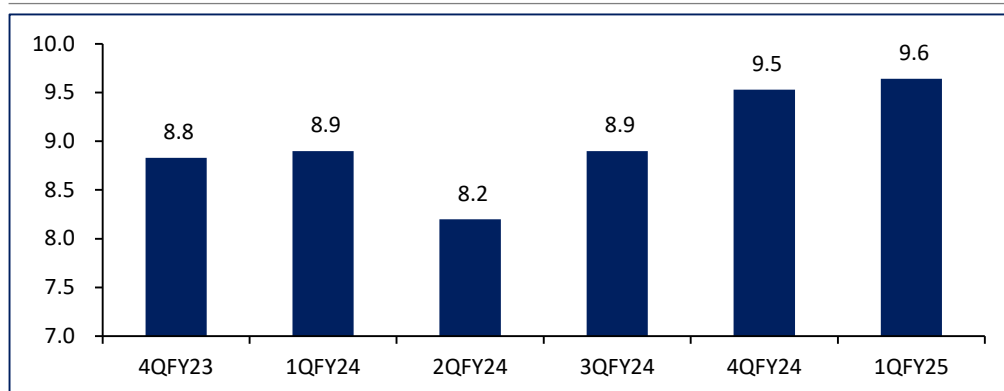
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	2,04,104	1,95,863	(4.0)	2,21,946	2,15,820	(2.8)
Gross Profit Margin (%)	90.9	92.3	135 bps	90.7	92.3	153 bps
EBIT	33,916	28,811	(15.1)	35,551	35,495	(0.2)
EBIT Margin (%)	16.6	14.7	(191)bps	16.0	16.4	43 bps
EPS	725.6	617.1	(15.0)	746.7	690.0	(7.6)

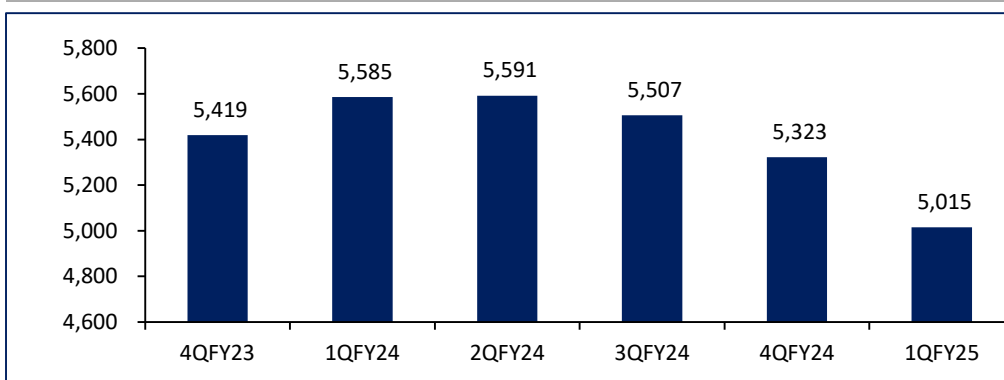
Source: Company, CEBPL

Quarterly Sales Volume



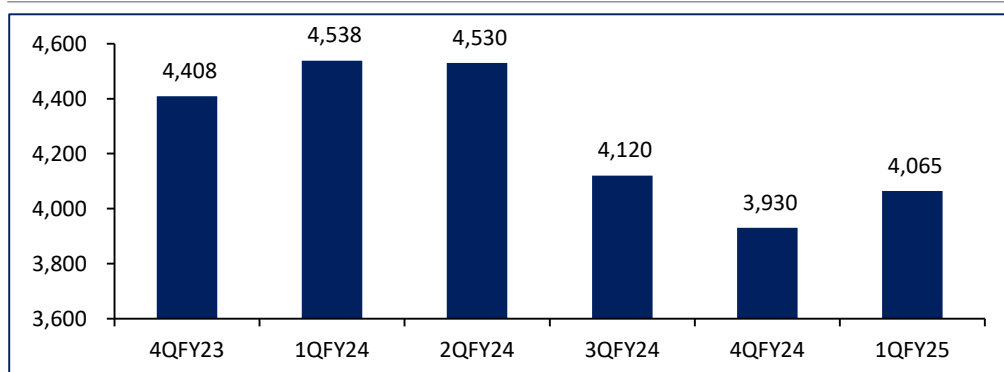
Source: Company, CEBPL

Sales Realisation per Tonne continued on declining trend



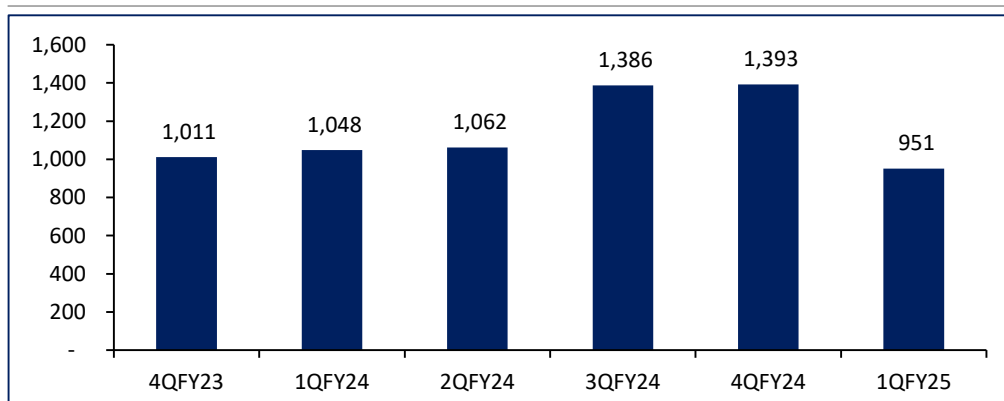
Source: Company, CEBPL

Total Cost per Tonne



Source: Company, CEBPL

EBITDA per Tonne declined due to lower realization



Source: Company, CEBPL

Management Call Highlights

- The company is launching a new greenfield ready-mixed concrete plant in Hyderabad in Q1FY25, which will also increase its solar power capacity by 135 megawatts across its manufacturing locations.
- The company's ready-mixed concrete (RMC) business has established 7 plants with a combined capacity of 624 cubic meters per hour. These plants feature advanced testing facilities, highly skilled technical personnel, and digitized solutions to enhance efficiency and quality.
- The company has introduced a new brand identity, which has been well-received in the market. Sales under the new brand have surpassed those of the previous quarter.
- The average fuel cost has decreased to 1.76 kcal this quarter, down from 2.34 kcal in the same quarter of the previous year. This reduction has led to lower power and fuel costs.
- The company reached a significant milestone by achieving a total installed power capacity of one gigawatt. This accomplishment was marked by the commissioning of a 19.5 megawatt solar power plant at its manufacturing facility in Andhra Pradesh in June 2024, bringing its total power capacity to 1,003 megawatts.
- The company's 1 GW+ capacity comprises a combination of solar, wind, thermal, and waste heat recovery power plants, with a strong emphasis on renewable energy to fulfill the electricity needs for cement production. Additionally, the company is expanding its solar power capacity by approximately 135 MW across its manufacturing sites in Rajasthan, Panipat, Jharkhand, Uttarakhand, and Uttar Pradesh.
- The company plans to establish nearly 100 Bangar concrete plants over the next three to five years, expanding its operations to over 50 cities. Its commitment to decarbonization and renewable energy remains a central focus.
- In Q1FY25, the company's share of green electricity in total electricity consumption reached 54%, one of the highest percentages in the Indian cement industry. With planned investments to further expand renewable energy generation capacity, this proportion is expected to increase even further.
- On a YoY basis, total volume growth was 8%. Regionally, the growth was 7% in the North, 15% in the East, and around -5% in the South. On a QoQ basis, growth was -3% in the North, +11% in the East, and -4% in the South.
- The company has been raising its dividends, with a pay-out of INR 100 last year and INR 105 this year, reflecting a positive trend in dividend payments.

Financial Summary (Standalone in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,43,059	1,68,375	1,94,767	1,95,863	2,15,820
Gross profit	1,31,912	1,56,279	1,76,715	1,80,706	1,99,159
EBITDA	36,451	29,366	43,636	41,434	50,452
Depreciation	10,365	15,462	16,147	17,475	19,382
EBIT	31,487	18,276	33,100	28,811	35,495
Other income	5,400	4,372	5,611	4,851	4,425
Interest expense	2,178	2,689	2,646	2,023	2,303
PAT	23,766	13,281	24,684	22,266	24,894
EPS (INR)	658.7	368.1	684.1	617.1	690.0

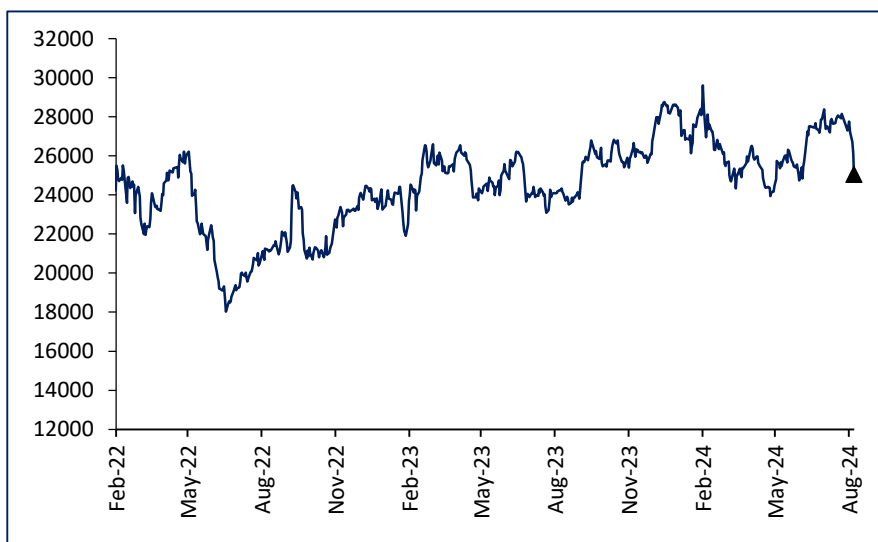
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	53,215	53,327	70,987	87,383	1,08,001
Capital Work in Progress	9,729	23,203	18,328	17,411	16,541
Investments	1,15,460	1,16,505	1,06,753	1,11,642	1,14,385
Cash & Cash equivalents	1,183	1,193	2,971	1,573	1,647
Loans & Advances and Other Assets	20,303	23,987	34,392	39,204	43,199
Net Working Capital	19,532	22,000	30,120	30,007	34,784
Total assets	2,19,420	2,40,214	2,63,551	2,87,220	3,18,556
Shareholder's funds	1,72,709	1,82,884	2,03,845	2,26,111	2,51,004
Borrowings	16,188	15,518	14,737	15,669	16,187
Deffered Tax	(6,695)	(6,686)	1,359	1,371	2,158
Other Liabilities & Provisions	37,218	48,497	43,611	44,069	49,207
Total equity & liabilities	2,19,420	2,40,214	2,63,551	2,87,220	3,18,556
Capital Employed	1,78,793	1,93,315	2,08,101	2,30,647	2,54,744
Invested Capital	1,67,881	1,68,919	1,86,803	2,11,663	2,36,557

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	27,229	27,043	33,036	44,695	52,320
Cash flows from Investing	(18,653)	(24,089)	(13,503)	(38,585)	(36,072)
Cash flows from financing	(8,584)	(3,151)	(17,937)	(1,091)	(1,786)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenues	12.9	17.7	15.7	0.6	10.2
Gross Profit	11.7	18.5	13.1	2.3	10.2
EBITDA	(8.4)	(19.4)	48.6	(5.1)	21.8
EBIT	(3.7)	(41.9)	81.1	(12.9)	23.2
Margin Ratios (%)					
Gross Profit Margin	92.2	92.8	90.7	92.3	92.3
EBITDA Margin	25.5	17.4	22.4	21.2	23.4
EBIT Margin	22.0	10.9	17.0	14.7	16.4
Profitability (%)					
Return on equity	13.8	7.3	12.1	9.8	9.9
Return on invested capital	15.5	9.5	14.6	11.5	11.5
Return on capital employed	17.6	9.5	15.9	12.5	13.9
Valuation					
OCF / IC (%)	16.2	16.0	17.7	21.1	22.1
EV / EBITDA (x)	22.1	27.4	18.6	19.5	16.0
EV/IC (x)	4.8	4.8	4.3	3.8	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
11.	08-08-2024	SELL,	Target Price 24,765

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

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