

HOLD**TP: Rs 24,656 | ▲ 3%****SHREE CEMENT**

Cement

11 February 2023

Cost efficiencies to aid performance

- **Volume-led (+23%) revenue growth of 15% YoY in Q3 as realisations fell due to weak pricing in key regions**
- **Cost control commendable (+1% YoY); efforts to improve efficiencies likely to yield results in the short/medium term**
- **Current valuations fair at 14x FY25E EV/EBITDA; maintain HOLD with an unchanged TP of Rs 24,656**

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Volume-driven growth: SRCM reported 15% YoY and 8% QoQ revenue growth to Rs 40.7bn in Q3FY23, fully attributed to cement revenue (no segmental income). Volumes grew 23% YoY and 8% QoQ to 8.03mt, including clinker sales of 0.3mt. Realisations fell 7% YoY (flat QoQ) to Rs 5,065/t due to weak pricing in key regions.

Cost control commendable: Operating cost increased only 1% YoY to Rs 4,184/t. Energy cost including raw materials grew 29% YoY (-7% QoQ) to Rs 1,967/t due to higher fuel cost (imported coal and pet-coke) which rose 32% YoY (-2% QoQ). Logistics cost was flattish (+1% YoY, +2% QoQ) at Rs 1,174/t despite the busy-season surcharge. SRCM intends to increase rail share to rationalise costs further. Other expenditure grew only 7% YoY to Rs 6.1bn despite the strong volume gains.

EBITDA contracts: EBITDA fell 14% YoY to Rs 7.1bn (+35% QoQ) and operating margin dropped sharply by 585bps YoY to 17% (+360bps QoQ) due to volume driven growth hit by realisations. Cement EBITDA/t contracted 30% YoY to Rs 881/t (+26% QoQ) and PAT declined 44% YoY to Rs 2.8bn (+46% QoQ).

Aggressive capex plans for FY24/FY25: Commissioning of the 3mt grinding unit in Purulia, West Bengal, is targeted by Jun'24; the 3mt integrated cement unit at Nawalgarh, Rajasthan, by Q3FY24; and the 3mt integrated cement unit in Guntur, Andhra Pradesh, by Q2FY25. The goal is to have 80mt of capacity (organic) by 2030 from 46mt now.

Maintain HOLD with a positive bias: SRCM has quadrupled its capacity to 40mtpa over FY11-FY20 and further to 46mtpa in FY23 YTD, gaining a multi-regional presence. Strong cash flows have helped fund growth and preserve financial and operational levers over the long term. Opex too is better than industry and we forecast healthy ROE/ROCE of ~14% in FY25. However, current valuations of 14x FY25E EV/EBITDA fully factor in the performance. We retain our TP of Rs 24,656, set at 15x FY25E – 2.25x over the industry replacement cost. Maintain HOLD.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SRCM IN/Rs 23,971
Market cap	US\$ 10.5bn
Free float	37%
3M ADV	US\$ 11.4mn
52wk high/low	Rs 26,340/Rs 17,865
Promoter/FPI/DII	63%/13%/12%

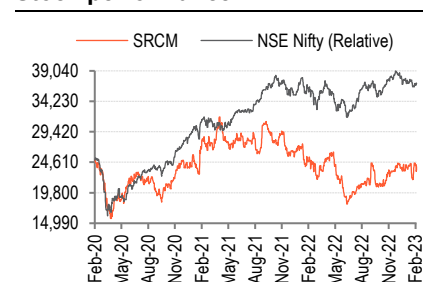
Source: NSE | Price as of 10 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	139,118	162,446	191,300
EBITDA (Rs mn)	32,201	28,227	40,321
Adj. net profit (Rs mn)	23,668	11,356	20,460
Adj. EPS (Rs)	655.3	314.4	566.5
Consensus EPS (Rs)	655.3	436.0	681.0
Adj. ROAE (%)	14.6	6.4	10.8
Adj. P/E (x)	36.6	76.2	42.3
EV/EBITDA (x)	23.9	27.6	19.2
Adj. EPS growth (%)	2.4	(52.0)	80.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- Capacity utilisation improved to 72% in Q3FY23 from 61% in the year-ago quarter.
- In terms of pricing, management indicated that current cement prices are equal to Q3FY23 exit prices.
- Premium product share was at 7% of total sales in Q3 – unchanged for the last few quarters. SRCM expects this proportion to rise to ~15% over the next 3-4 quarters. The company will focus on strengthening its position in the existing portfolio and on introducing new brands to the market.
- Management indicated that fuel cost has reduced from Rs 2.83/kcal in Q2FY23 to Rs 2.53/kcal in Q3FY23 and is currently at ~Rs 2.35/kcal. Management expects a further reduction, aiding improvement in EBITDA/t to Rs 1,000/t in Q4.
- The fuel mix in Q3 was 58% pet coke, 28% coal and ~14% alternate fuel. The trade mix has been stable at 78%-80% over the past three quarters, and lead distance stood at ~450km (+5km YoY, +9km QoQ). Management intends to increase rail dispatches from the current 12%.
- Commissioning of the 3mt grinding unit in Purulia, West Bengal, is targeted by Jun'24; the 3mt integrated cement unit at Nawalgarh, Rajasthan, by Q3FY24; and the 3mt integrated cement unit in Guntur, Andhra Pradesh, by Q2FY25.
- SRCM aims to reach 80mt of capacity by 2030 (organically). Any potential inorganic opportunity would add to this plan.
- The company added 84MW of solar power plants in FY23. Another 42MW is to be added in the next two quarters. The share of green energy in total power consumption increased to 53% in Q3 against 47% in the year-ago period. SRCM intends to raise the use of agricultural and industrial waste in its plants and also improve its thermal substitution rate from 3% (FY22) to 15% (FY24).
- Capex in 9MFY23 was Rs 22bn, including subsidiaries. In Q4FY23, management expect to spend close to Rs 7bn-8bn, taking the total to ~Rs 29bn in FY23. For FY24, spends are envisaged to be in the range of Rs 33bn-35bn.
- Gross debt stood at ~Rs 83bn and net debt at Rs 57bn end 3QFY23.

Fig 1 – Key metrics

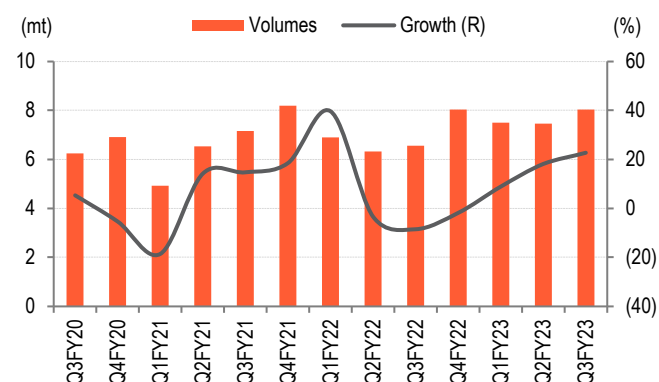
(Rs)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Volumes (mt)	8.0	6.6	22.6	7.5	7.7
Cement realisations (Rs/mt)	5,065	5,422	(6.6)	5,071	(0.1)
Operating costs (Rs/mt)	4,184	4,162	0.5	4,369	(4.2)
EBITDA (Rs/mt)	881	1,260	(30.1)	701	25.7

Source: Company, BOBCAPS Research |

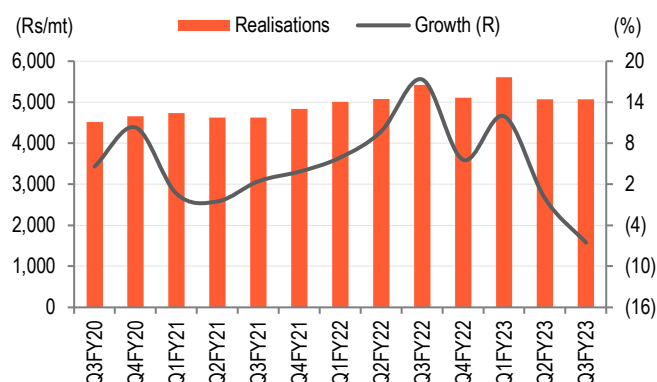
Fig 2 – Quarterly performance

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Net Sales	40,688	35,518	14.6	37,806	7.6
Expenditure					
Change in stock	(326)	(908)	(64.0)	691	(147.2)
Raw material	3,100	2,831	9.5	2,859	8.4
Purchased products	57	1,934	(97.1)	146	-
Power & fuel	13,027	8,079	61.3	12,270	6.2
Freight	9,429	7,616	23.8	8,561	10.1
Employee costs	2,179	1,965	10.9	2,097	3.9
Other expenditure	6,143	5,745	6.9	5,955	3.1
Total Operating Expenses	33,608	27,263	23.3	32,579	3.2
EBITDA	7,080	8,255	(14.2)	5,227	35.4
EBITDA margin (%)	17.4	23.2	(584bps)	13.8	357bps
Other Income	1,612	1,101	46.4	1,569	2.8
Interest	714	551	29.5	676	5.7
Depreciation	4,136	2,521	64.0	3,628	14.0
PBU	3,842	6,284	(38.9)	2,493	54.1
Non-recurring items	0	0	-	0	-
PBU (after non-recurring items)	3,842	6,284	(38.9)	2,493	54.1
Tax	1,074	1,364	(21.3)	597	80.0
Reported PAT	2,768	4,920	(43.7)	1,896	46.0
Adjusted PAT	2,768	4,920	(43.7)	1,896	46.0
NPM (%)	6.8	13.9	(705bps)	5.0	179bps
Adjusted EPS (Rs)	77	136	(43.7)	53	46.0

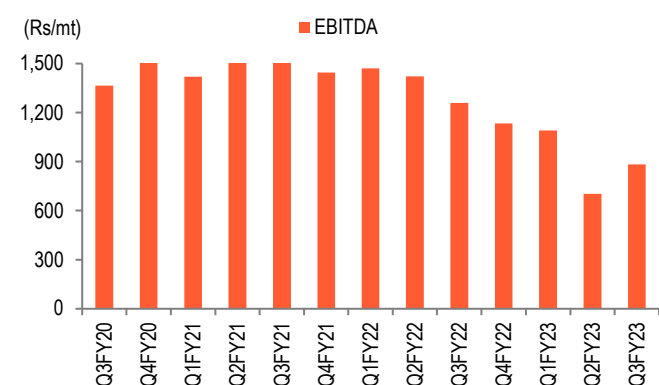
Source: Company, BOBCAPS Research

Fig 3 – New capacities to ensure sustained volume gains

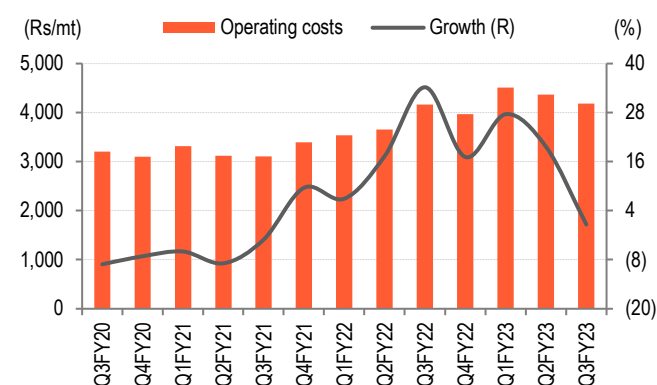
Source: Company, BOBCAPS Research

Fig 4 – Realisations to remain volatile

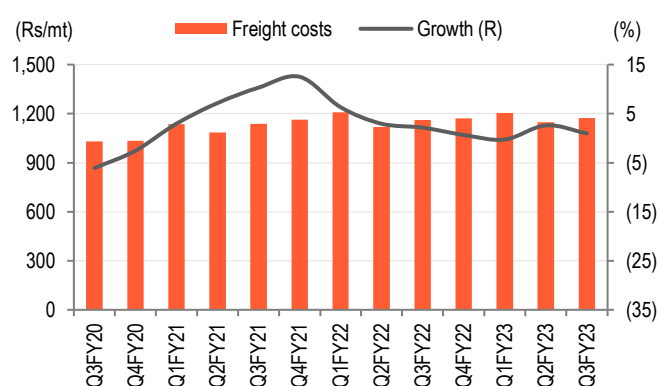
Source: Company, BOBCAPS Research

Fig 5 – Strong cost control to aid EBITDA/t gains

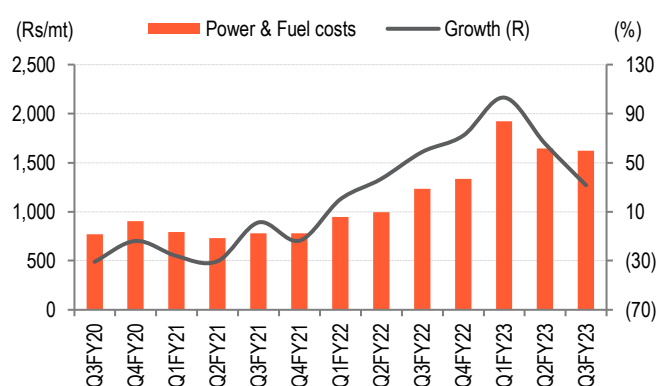
Source: Company, BOBCAPS Research

Fig 6 – Operating cost control commendable

Source: Company, BOBCAPS Research

Fig 7 – Flattish logistics cost a key positive surprise

Source: Company, BOBCAPS Research

Fig 8 – Energy cost expected to soften further

Source: Company, BOBCAPS Research

Valuation methodology

SRCM has quadrupled its capacity to 40mtpa over FY11-FY20 and further to 46mtpa in FY23 YTD, gaining a multi-regional presence, with volume growth keeping abreast of capacity addition. Strong cash flows have helped fund its expansion drive and preserve balance sheet health over the long term. Opex too is currently better than peers and we forecast healthy ROE/ROCE of ~14% in FY25.

However, current valuations of 14x FY25E EV/EBITDA fully factor in these positives. We continue to value the stock at 15x FY25E EV/EBITDA for an unchanged TP of Rs 24,656, implying a replacement cost of Rs 16.8bn/mt (2.25x the industry average). Despite the high premium, our TP carries only 3% upside Maintain HOLD.

Fig 9 – Key assumptions

Parameter	FY22	FY23E	FY24E	FY25E
Volumes (mt)	27.1	31.1	35.6	39.6
Realisations (Rs/mt)	5,052	5,115	5,268	5,426
Operating costs (Rs/mt)	3,856	4,239	4,161	4,168
EBITDA/mt (Rs)	1,182	901	1,126	1,275

Source: Company, BOBCAPS Research

Fig 10 – Valuation summary

(Rs mn)	FY25E
Target EV/EBITDA (x)	15
EBITDA	50,638
Target EV	7,81,849
Total EV	7,81,849
Net debt	(1,08,718)
Target market capitalisation	8,90,567
Target price (Rs/sh)	24,656
Weighted average shares (mn)	36

Source: BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
SRCM IN	HOLD	24,656	26.6	18.5	14.4	199	197	193	6.4	10.8	13.6	9.2	14.6	18.0
DALBHARA IN	HOLD	1,835	17.7	14.6	11.5	134	141	138	4.4	7.0	10.4	5.3	7.6	10.4
ACC IN	HOLD	2,090	20.8	14.9	8.9	102	102	94	5.3	7.0	11.3	7.0	9.4	14.9

Source: BOBCAPS Research

Key risks

- SRCM is trying to diversify into new regions that have higher supply pressure. Hence, pricing pressure may impact its performance more than estimated.
- Aggressive capacity addition can be detrimental in the event of an economic slowdown.
- Faster-than-expected easing of key raw material cost is an upside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.3	1,880	2,090	HOLD
Ambuja Cement	ACEM IN	8.7	361	387	HOLD
Dalmia Bharat	DALBHARA IN	4.6	1,939	1,835	HOLD
JK Cement	JKCE IN	2.6	2,803	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	758	551	SELL
Orient Cement	ORCMNT IN	0.3	123	140	HOLD
Shree Cement	SRCM IN	10.5	23,971	24,656	HOLD
Star Cement	STRCEM IN	0.6	113	138	BUY
The Ramco Cements	TRCL IN	2.1	734	534	SELL
Ultratech Cement	UTCEN IN	25.2	7,206	8,310	BUY

Source: BOBCAPS Research, NSE | Price as of 10 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	123,160	139,118	162,446	191,300	218,529
EBITDA	36,943	32,201	28,227	40,321	50,638
Depreciation	(11,399)	(10,365)	(14,014)	(15,374)	(16,813)
EBIT	32,728	31,389	17,701	30,148	41,593
Net interest inc./(exp.)	(2,471)	(2,178)	(2,592)	(2,864)	(3,148)
Other inc./(exp.)	7,184	9,553	3,488	5,200	7,769
Exceptional items	0	0	0	0	0
EBT	30,257	29,211	15,109	27,284	38,445
Income taxes	(7,138)	(5,543)	(3,753)	(6,823)	(9,617)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	23,119	23,668	11,356	20,460	28,829
Adjustments	0	0	0	0	0
Adjusted net profit	23,119	23,668	11,356	20,460	28,829

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	7,858	17,853	12,726	14,987	17,127
Other current liabilities	22,343	23,307	30,808	34,256	37,145
Provisions	43	57	57	57	57
Debt funds	27,562	20,142	23,563	26,037	28,618
Other liabilities	(7,773)	(6,609)	(7,164)	(7,770)	(8,431)
Equity capital	361	361	361	361	361
Reserves & surplus	152,140	172,348	180,647	198,050	223,822
Shareholders' fund	152,501	172,709	181,008	198,411	224,183
Total liab. and equities	202,533	227,459	240,998	265,978	298,698
Cash and cash eq.	112,604	116,642	110,211	117,877	137,336
Accounts receivables	4,859	5,957	7,297	8,990	10,720
Inventories	14,772	21,614	25,544	30,435	35,181
Other current assets	18,673	20,303	22,333	22,847	23,372
Investments	0	0	0	0	0
Net fixed assets	37,702	46,887	43,028	43,334	38,201
CWIP	13,448	15,559	32,059	41,937	53,297
Intangible assets	475	497	527	558	592
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	202,533	227,458	240,998	265,978	298,699

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	43,507	35,924	19,481	33,839	43,008
Capital expenditures	(9,928)	(21,154)	(26,685)	(25,590)	(23,073)
Change in investments	(21,352)	(4,953)	7,888	(9,707)	(10,478)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(31,279)	(26,108)	(18,797)	(35,297)	(33,551)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(11,228)	(7,420)	3,421	2,474	2,581
Interest expenses	0	0	0	0	0
Dividends paid	0	(3,788)	(2,649)	(3,057)	(3,057)
Other financing cash flows	17	477	0	0	0
Cash flow from financing	(11,211)	(10,731)	772	(583)	(476)
Chg in cash & cash eq.	1,016	(915)	1,456	(2,041)	8,981
Closing cash & cash eq.	112,604	116,642	110,210	117,877	137,335

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	640.1	655.3	314.4	566.5	798.2
Adjusted EPS	640.1	655.3	314.4	566.5	798.2
Dividend per share	0.0	104.9	72.3	72.3	72.3
Book value per share	4,222.4	4,781.9	5,011.7	5,493.5	6,207.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	6.3	5.5	4.8	4.0	3.5
EV/EBITDA	21.1	23.9	27.6	19.2	14.9
Adjusted P/E	37.4	36.6	76.2	42.3	30.0
P/BV	5.7	5.0	4.8	4.4	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	76.4	81.0	75.2	75.0	75.0
Interest burden (PBT/EBIT)	92.4	93.1	85.4	90.5	92.4
EBIT margin (EBIT/Revenue)	26.6	22.6	10.9	15.8	19.0
Asset turnover (Rev./Avg TA)	63.4	64.7	69.4	75.5	77.4
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
Adjusted ROAE	16.4	14.6	6.4	10.8	13.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	5.6	13.0	16.8	17.8	14.2
EBITDA	7.6	(12.8)	(12.3)	42.8	25.6
Adjusted EPS	47.3	2.4	(52.0)	80.2	40.9
Profitability & Return ratios (%)					
EBITDA margin	30.0	23.1	17.4	21.1	23.2
EBIT margin	26.6	22.6	10.9	15.8	19.0
Adjusted profit margin	18.8	17.0	7.0	10.7	13.2
Adjusted ROAE	16.4	14.6	6.4	10.8	13.6
ROCE	19.7	17.5	9.2	14.6	18.0
Working capital days (days)					
Receivables	14	16	16	17	18
Inventory	44	57	57	58	59
Payables	33	61	35	36	37
Ratios (x)					
Gross asset turnover	1.1	1.1	1.2	1.2	1.3
Current ratio	5.0	4.0	3.8	3.7	3.8
Net interest coverage ratio	13.2	14.4	6.8	10.5	13.2
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

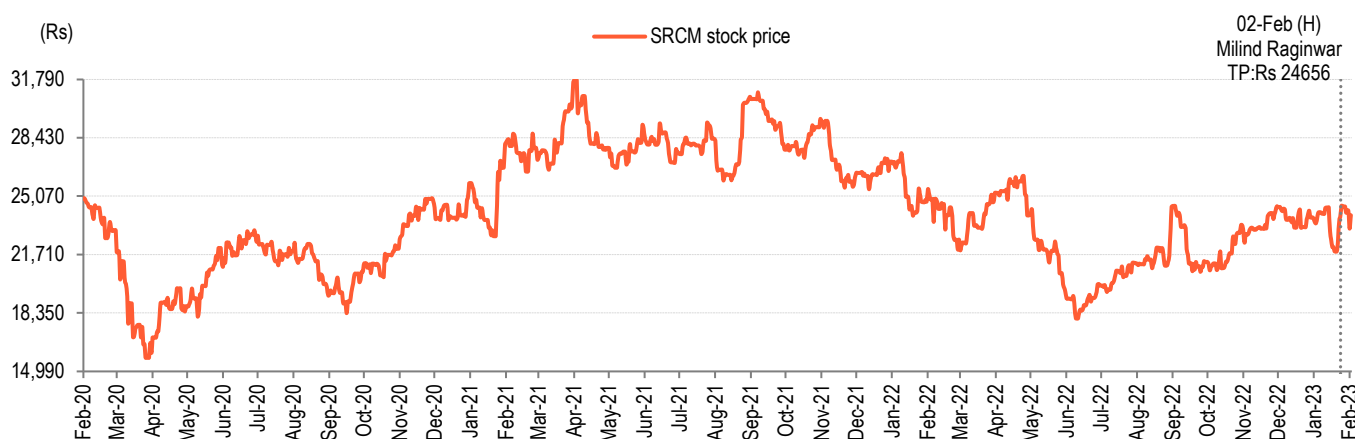
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SHREE CEMENT (SRCM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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