



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✗

ESG Disclosure Score NEW

ESG RISK RATING
Updated Feb 08, 2022 **28.18**

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 79,417 cr
52-week high/low:	Rs. 31441/21668
NSE volume: (No of shares)	0.3 lakh
BSE code:	500387
NSE code:	SHREECEM
Free float: (No of shares)	1.4 cr

Shareholding (%)

Promoters	62.6
FII	12.2
DII	11.2
Others	14.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-15.5	-10.9	-17.2	-20.3
Relative to Sensex	-9.4	-5.0	-10.2	-27.8

Sharekhan Research, Bloomberg

Shree Cement Ltd

Lower realisations mar Q4; Retain Buy

Cement	Sharekhan code: SHREECEM		
Reco/View: Buy	↔	CMP: Rs. 22,011	Price Target: Rs. 26,000 ↓
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- In Q4FY2022, operational performance lagged estimates owing to lower-than-expected realisations. However, volume offtake and overall cost of production was better than estimates.
- The company started commercial production at 3 MTPA Pune grinding unit in February 2022 and 4 MTPA Chattisgarh clinker unit in March 2022.
- It is undertaking capacity expansion plans to increase domestic capacity to 53 mtpa by FY2024 along with solar capacity additions of 106 MW by Q2FY2023.
- We retain a Buy on Shree Cement with a revised PT of Rs. 26,000, factoring in downwardly revised estimates.

Shree Cement Limited (Shree Cement) reported lower than expected operational performance for Q4FY2022 mainly led by lower-than-expected realisations. Standalone revenues grew by 3.6% y-o-y led by a rise in blended realization (up 6% y-o-y, but lagging expectations), while volumes declined by 2% y-o-y (better than estimate). Blended EBITDA/tonne at Rs. 1,134 (-21% y-o-y) was lower than our estimate of Rs. 1330. Overall cost of production rose 18% y-o-y to Rs. 3970/tonne (although lower than our expectation) mainly led by higher power & fuel costs (up 73% y-o-y). Hence, standalone operating profit was down 23% y-o-y at Rs. 911 crore. Further, adjusting for Rs. 100 crore tax expense related to prior period, adjusted net profit declined by 29% y-o-y to Rs. 545 crore. It started commercial operations at 3MTPA clinker grinding unit at Pune on 1st February 2022 and a 4 MTPA clinker unit at Baloda Bazar, Chattisgarh on March 28, 2022. It is undertaking standalone capacity expansion to 53 MTPA by FY2024 in Northern and Eastern regions and targets to achieve an 80 MTPA capacity by 2030 exploring new geographies through both organic and inorganic routes. The company is also setting up a 106-MW solar power plants at various locations, which will be completed by Q2FY2023.

Key positives

- Volumes declined by 2% y-o-y versus expectation of 4.5% y-o-y decline for Q4FY2022.
- Other income rose 16% y-o-y and 25% q-o-q at Rs. 138 crore.

Key negatives

- Blended realizations declined by 6% q-o-q.
- Depreciation rose 20% q-o-q to Rs. 301 crore.

Revision in estimates – We have revised our estimates downwards for FY2023-FY2024 factoring lower realizations and increased power & fuel costs.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 26,000: Shree Cement is expected to benefit from the strong demand traction in regional markets (Northern and Eastern India) aided by continuous capacity expansion. However, high energy costs remain a key near term headwind for the sector and the company. The cement industry had taken price hike during April 2022, which has sustained in May 2022, although further price hikes would have to be taken in lieu of elevated energy costs to sustain operational profitability. We expect Shree Cement to outperform industry growth over FY2023E-FY2024E led by improving capacity utilisation and addition of newer capacities. We retain Buy on the stock with a revised price target (PT) of Rs. 26,000 as we factor in downwardly revised estimates.

Key Risks

Weak demand and pricing environment in North and East India can negatively affect profitability.

Valuation (Standalone)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	12,668.9	14,305.9	16,048.1	17,901.8
OPM (%)	31.4	25.4	25.2	26.2
Adjusted PAT	2,311.9	2,251.3	2,446.4	2,891.9
% YoY growth	47.2	(2.6)	8.7	18.2
Adjusted EPS (Rs.)	640.8	624.0	678.1	801.5
P/E (x)	34.4	35.3	32.5	27.5
P/B (x)	5.2	4.6	4.1	3.6
EV/EBITDA (x)	17.6	19.1	16.8	14.3
RoNW (%)	16.4%	13.8%	13.4%	14.0%
RoCE (%)	15.3%	13.2%	12.9%	13.5%

Source: Company; Sharekhan estimates

Operational performance lower than expected

Shree Cement Limited (Shree Cement) reported lower than expected operational performance for Q4FY2022 mainly led by lower than expected realisations. Standalone revenues grew by 3.6% y-o-y led by a rise in blended realization (up 6% y-o-y, lower than expected) while volumes declined by 2% y-o-y (better than estimates). Blended EBITDA/tonne at Rs. 1,134 (-21% y-o-y) was lower than our estimate of Rs. 1330. The overall cost of production rose 18% y-o-y to Rs. 3970/tonne (although lower than our expectation) mainly led by higher power & fuel costs (up 73% y-o-y). Hence, standalone operating profit was down 23% y-o-y at Rs. 911 crore. Further, adjusting for Rs. 100 crore tax expense related to prior period, adjusted net profit declined by 29% y-o-y to Rs. 545 crore.

Capacity expansions to aid sustainable growth

The company had in near past announced Rs. 4,750 crore capex to be incurred till FY2024. It would be setting up an integrated Cement Plant at Gothra in Nawalgarh Tehsil of Rajasthan, having a clinker capacity of 3.8 mtpa and a cement capacity of up to 3.5 mtpa at a capex of Rs. 3,500 crore (\$136/tonne). The company would be adding grinding units in the North which will be announced over next 2-3 quarters which would lead to an overall lower cost per tonne of ~\$100/tonne. The integrated unit at Rajasthan is expected to commission by Q4FY2024 and will be finance through internal accruals & debt. The company also announced setting up 3 mtpa clinker grinding unit at Village Digha & Parbatpur, in Purulia district of West Bengal at a capex of Rs. 750 crore (\$34/tonne). The same would be completed by Q4FY2023 and is expected to be funded through internal accruals. Further, it will be setting up solar power plants of 106MW at various locations at a capex of Rs. 500 crore (Rs. 4.7 crore per MW) which will be completed by Q2FY2023.

Per-tonne analysis (blended)

Particulars	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	y-o-y (%)	q-o-q (%)
Volume	82,20,000	68,40,000	63,20,000	65,50,000	80,30,000	-2.3%	22.6%
Realisations	4,815	5,043	5,073	5,423	5,104	6.0%	-5.9%
Cost break-up							
RM cost	399	280	330	589	440	10.2%	-25.4%
Employee expenses	297	309	321	300	245	-17.6%	-18.4%
Power and fuel	774	954	994	1,233	1,336	72.7%	8.3%
Transportation and handling	1,159	1,217	1,118	1,163	1,172	1.1%	0.8%
Other expenses	748	802	889	877	778	4.0%	-11.3%
Total expenditure per tonne	3,377	3,561	3,651	4,162	3,970	17.6%	-4.6%
EBITDA per tonne	1,439	1,482	1,421	1,260	1,134	-21.2%	-10.0%

Source: Company, Sharekhan Research

Results (Standalone)

Particulars	Q4FY2022	Q4FY2021	% y-o-y	Q3FY2022	% q-o-q
Net Sales	4098.8	3958.0	3.6%	3551.8	15.4%
Total Expenditure	3188.2	2775.5	14.9%	2726.2	16.9%
Operating profit	910.6	1182.5	-23.0%	825.5	10.3%
Other Income	138.1	119.1	16.0%	110.1	25.4%
EBIDTA	1048.7	1301.5	-19.4%	935.7	12.1%
Interest	53.6	55.3	-3.1%	55.1	-2.9%
PBDT	995.1	1246.2	-20.1%	880.5	13.0%
Depreciation	301.3	299.3	0.7%	252.1	19.5%
PBT	693.8	946.9	-26.7%	628.4	10.4%
Tax	148.8	179.3	-17.0%	136.4	9.0%
Extraordinary items	-100.2	0.0	-	0.0	-
Reported Profit After Tax	645.2	767.7	-15.9%	492.0	31.1%
Adjusted PAT	545.0	767.7	-29.0%	492.0	10.8%
Margins			BPS		BPS
OPM	22.2%	29.9%	-766	23.2%	(103)
PAT	13.3%	19.4%	-610	13.9%	(55)
Tax rate	21.4%	18.9%	251	21.7%	(27)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens outlook

The cement industry has seen sustained improvement in demand in the past fifteen years, barring a couple of years, while regional cement prices have been rising over the past five years. The cement industry is expected to witness an improvement in demand as situation normalises from second wave of COVID-19 led by infrastructure and rural demand. The strong pick-up in the residential real estate sector is expected to sustain after the second wave of COVID-19. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

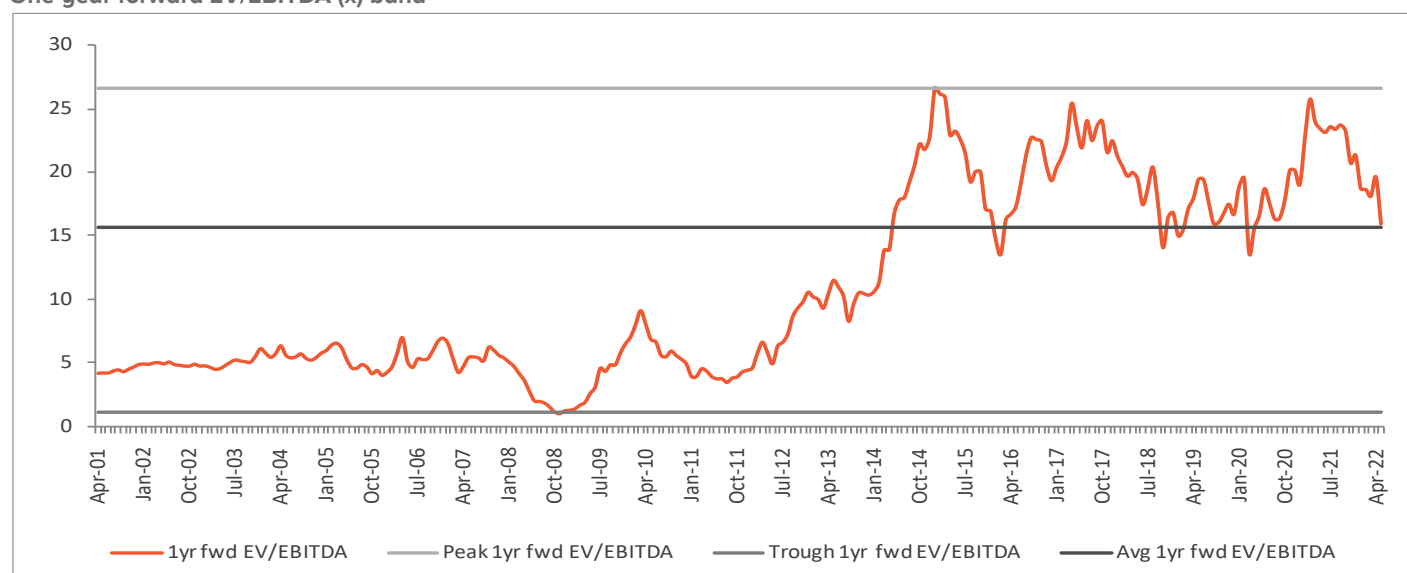
■ Company outlook - Expect Shree cement to outperform industry on volume offtake during FY2022E-FY2024E

The cement industry, which had been affected by the disruption led by COVID-19, is seeing strong demand traction in key regional markets viz. Northern and Eastern India. Shree Cement has been outpacing industry volume offtake over most of the past four quarters and is further expected to outperform over FY2023E-FY2024E led by improving capacity utilisation and addition of newer capacities. The company is utilising the Rs. 2,400 crore funds raised through a QIP during Q3FY2020 for further capacity expansion. Firm cement demand has led the management to re-visit its capex plans of increasing capacity from 40 MTPA to 57 MTPA over three years and to 80 MTPA over 6-7 years.

■ Valuation - Retain Buy with a revised PT of Rs. 26,000

Shree Cement is expected to benefit from the strong demand traction in regional markets (Northern and Eastern India) aided by continuous capacity expansion. However, high energy costs remain a key near term headwind for the sector and the company. The cement industry had taken price hike during April 2022, which has sustained in May 2022, although further price hikes would have to be taken in lieu of elevated energy costs to sustain operational profitability. We expect Shree Cement to outperform industry growth over FY2023E-FY2024E led by improving capacity utilisation and addition of newer capacities. We retain Buy on the stock with a revised price target (PT) of Rs. 26,000 as we factor in downwardly revised estimates.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech	25.3	20.9	12.9	10.7	3.2	2.8	13.3	14.1
Shree Cement	32.5	27.5	16.8	14.3	4.1	3.6	13.4	14.0
Dalmia Bharat	35.6	29.1	9.8	8.6	1.6	1.5	4.5	5.3
The Ramco Cement	19.4	17.5	12.1	11.0	2.3	2.0	12.2	12.2

Source: Company; Sharekhan Research

About company

Shree Cement, incorporated in 1979 by Kolkata-based Bangur Family, was listed in 1984. The company has a consolidated installed cement capacity of 47.4MTPA and power capacity of 711MW. Of the total cement capacity, 43.4MTPA is in India and 4MTPA is in UAE through subsidiaries. Domestically, the company's presence is predominately in the northern region, with installed capacity of 26.3MTPA, followed by east at 14.1MTPA and south at 3.0MTPA. Shree Cement is among the top three cement groups in India in terms of cement capacity.

Investment theme

Shree Cement is seeing strong traction in demand from its key regional markets viz. North and East. It has been outpacing industry volume offtake over most of the trailing four quarters and is further expected to outperform over FY2023E-FY2024E led by improving capacity utilization and addition of newer capacities. The company is utilizing the Rs. 2,400 crore funds raised through a QIP during Q3FY2020 for further capacity expansion. The firm cement demand has led to the management re-visiting its capex plans of increasing capacity from 40MTPA to 57MTPA over three years period and to 80MTPA over six to seven years.

Key Risks

- ♦ Slowdown in cement demand especially north, east and south affects overall volume growth of the company.
- ♦ Increased pet coke price and diesel price affect profitability.
- ♦ Decline in cement prices especially in its region of operations affects profitability.

Additional Data

Key management personnel

Mr. Benu Gopal Bangur	Chairman
Shri H. M. Bangur	Managing Director
Shri Prashant Bangur	Joint Managing Director
Subhash Jajoo	Chief Finance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Shree Capital Services Ltd.	24.90
2	Digvijay Finlease Ltd.	11.74
3	FLT Ltd.	9.98
4	Mannakrishna Investments Pvt. Ltd.	5.66
5	Newa Investments Pvt. Ltd.	3.81
6	Ragini Finance Ltd.	3.52
7	Didu Investments Pvt. Ltd.	3.25
8	SBI Funds Management Pvt. Ltd.	2.47
9	NBI Industrial Finance Co. Ltd.	2.35
10	FMR LLC	1.65

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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