

May 25, 2022

## Cost to stay higher in medium term; rich valuation limits upside...

**About the stock:** Shree is the third largest cement group in India with domestic cement capacity of 46.4 MT as of FY22. In the past four years, it has diversified itself from a 100% north player to a player with capacities now in Rajasthan, Uttarakhand, Bihar, Chhattisgarh, Haryana, Uttar Pradesh, Karnataka and Odisha.

- It also has a presence in UAE with integrated cement capacity of 4 MT and 3.3 MT clinker (located near port in Ras-Al-Khaimah)
- Proximity to end user market, use of split grinding units and power capacity of 742MW (Including 211MW WHRS) makes it most efficient player in the industry

**Q4FY22 Results:** The performance was below our estimates.

- Revenue was up 3.6% YoY to ₹ 4098.7 crore. Sales volumes were down 2.3% YoY to 8.0 MT while realisation were up 6.0% YoY to ₹ 5105/t. However, QoQ, it declined 5.8%. This came in as a negative surprise
- Margins declined 103 bps QoQ to 22.2% (down 766 bps YoY). However, it remained in line with our estimates due to controlled expenses
- Reported PAT of ₹ 645 crore (down 16% YoY, up 31.1% QoQ) were higher than estimates due to tax adjustment (credit) of ₹ 100 crore

**What should investors do?** Cost leadership, strong presence in North & East along with robust balance sheet has provided an edge over its competitors.

- With expected revenue CAGR of 14% and RoIC of 18%, we remain positive on the company. However, we maintain **HOLD** due to rich valuations

**Target Price and Valuation:** We value Shree at ₹ 24,300 i.e. 19x FY24E EV/EBITDA.

**Key triggers for future price performance:**

- With commissioning of 3 MT grinding unit in Maharashtra, domestic capacity has reached to 46.4 MT in FY22. The clinker unit in Chhattisgarh (capacity of 12000t/day) has also got commissioned (capex ₹ 1000 crore)
- Other new capex includes 1) setting up of new integrated unit with 3.5 MT GU and 3.8 MT clinker unit in Rajasthan by Q4FY24E at capex of \$135/t 2) 3 MT grinding unit in West Bengal by Q4FY23E at capex of \$34/t 3) 106MW solar power at capex of ₹ 4.7crore per MW
- The entire capex of ₹ 4750 crore till FY24E will be funded via internal accruals. Total domestic capacity to reach ~53 MT post these expansions
- Shree to continue to maintain its cost leadership & market share due to structural advantage it has in terms of accessing raw materials and markets

**Alternate Stock Idea:** In our cement sector coverage we also like Ultratech.

- It is a market leader with strong brand in the retail segment.
- BUY with a target price of ₹ 8,000/share

### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	11722	11904	12653	14306	6.9	16530	18632	14.1
EBITDA	2653	3675	3979	3648	11.2	3624	4410	9.9
EBITDA (%)	22.6	30.9	31.4	25.5		21.9	23.7	
PAT	1108	1570	2312	2376	29.0	2054	2566	3.9
EPS (₹)	318	435	641	659		569	711	
EV/EBITDA	30.3	21.0	19.1	20.9		20.6	16.7	
EV/Tonne (\$)	267	227	223	228		184	181	
RoNW	11.5	12.1	15.2	13.8		10.9	12.2	
RoCE	11.5	13.8	18.2	16.1		14.0	15.8	

Source: Company, ICICI Direct Research



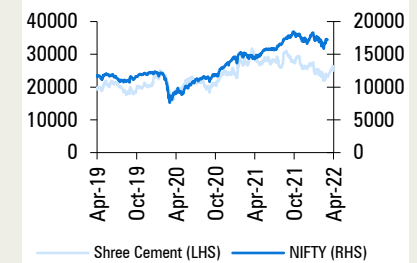
### Particulars

Particular	Amount
Mcap	₹ 76497 crore
Debt (FY22)	₹ 2345 crore
Cash & equivalents(FY2)	₹ 3603 crore
EV	₹ 75239 crore
52 week H/L	₹ 31400 / 21600
Equity cap	₹ 36.1 crore
Face value	₹ 10

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	62.55	62.55	62.55	62.55
FII	13.02	13.53	13.05	12.51
DII	10.48	10.11	10.50	10.80
Others	13.95	13.81	13.90	14.14

### Price Chart



### Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Fall in prices of imported coal/petcoke may lead to margin expansion

### Research Analyst

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## Key performance highlights

- Domestic sales volumes were at 8.03 MT (down 2.3% YoY, up 22.6% QoQ). Blended realisations were higher by 6% YoY while it declined 5.9% QoQ.
- Capacity utilisation was at **74%** vs. 60.4% in Q3FY22 and 81.4% Q4 last year
- Cost of production was up 17.6% YoY to ₹ 3,971/t led by sharp rise in the power & fuel expenses (up 72.7% YoY, 8.3% QoQ)
- EBITDA/t declined 21.2% YoY to ₹ 1,134/t, it remained lower than our estimated EBITDA/t of ₹ 1,227/t
- The board has announced a final dividend of ₹ 45/share

### Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Total Operating Income	4098.8	4,510.2	3,958.0	3.6	3,551.8	15.4
Other Income	138.0	110.5	119.1	15.9	110.1	25.3
Raw Material Consumed	294.1	447.6	258.9	13.6	476.5	-38.3
Stock Adjustment	58.9	0.0	69.1	-14.8	-90.8	NA
Employee Expense	196.7	232.7	244.2	-19.5	196.5	0.1
Power, Oil & Fuel	1,072.8	1,123.0	636.0	68.7	807.9	32.8
Freight cost	941.3	976.5	952.7	-1.2	761.6	23.6
Other Expenses	624.5	732.4	614.6	1.6	574.5	8.7
EBITDA	910.6	998.2	1,182.5	-23.0	825.5	10.3
EBITDA Margin (%)	22.2	22.1	29.9	-766 bps	23.2	-103 bps
Interest	53.6	59.3	55.3	-3.1	55.1	-2.9
Depreciation	301.3	314.6	299.3	0.7	252.1	19.5
PBT	693.7	734.8	946.9	-26.7	628.4	NA
Total Tax	48.7	161.7	179.3	-72.8	136.4	-64.3
PAT	645.0	573.1	767.7	-16.0	492.0	31.1
<b>Key Metrics</b>						
Volume (MT)	8.03	8.1	8.2	-2.3	6.6	22.6
Cement Realisation/t (₹)	5,105	5,545	4,815	6.0	5,423	-5.9
Blended EBITDA/Tonne (₹)	1,134	1,227	1,439	-21.2	1,260	-10.0

Source: Company, ICICI Direct Research

### Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Net revenues	16,839.0	16,530.2	-1.8	NA	18,632.2	NA	
EBITDA	3,644.7	3,624.4	-0.6	NA	4,409.8	NA	
EBITDA Margin (%)	21.6	21.9	28 bps	NA	23.7	NA	Expect company to maintain profitability leadership

Source: Company, ICICI Direct Research

## Key triggers for future price performance

### Stronghold over high growth markets of North and East regions

SCL is one of the strongest players in the northern region with operating units at Rajasthan, Haryana, Uttar Pradesh and Uttarakhand. Apart from stronghold in North which accounts for ~66% of revenues, the company also has increased its share in East and South markets with operating units at Chhattisgarh, Jharkhand and Bihar as well as operating unit in Karnataka. The share of eastern region increased from 21% in FY17 to 25% as of FY20. The company's strategy to adopt split grinding units close to user markets has also provided efficiency in terms of logistics cost.

### Operating efficiency remains best in industry

Being pioneer in many cost initiatives, SCL enjoys strong operating efficiency, which makes it one of the low cost producers in India. The strong efficiency arises on account of being 1) 85% consumption of power from captive power plants including usage of WHRS 2) Higher sale of blended cement 3) use of split-grinding units and 5) adequate limestone reserves.

Exhibit 3: Cost of production on per tonne basis of top cement players

Total cost/tonne	FY17	FY18	FY19	FY20	FY21
Shree Cement	2,949	3,264	3,507	3,300	3,227
Ramco	3,322	3,551	3,679	3,786	3,732
Ambuja ^	3,564	3,708	3,915	3,965	3,856
UltraTech Cement	3,867	4,012	4,062	4,092	3,903
JK Cement	3,871	4,097	4,235	4,380	4,136
ACC ^	4,138	4,337	4,495	4,583	4,479
<b>Total</b>	<b>3810</b>	<b>3745</b>	<b>3837</b>	<b>3875</b>	<b>3820</b>

Source: Company, ICICI Direct Research

### Credible record of low leverage and healthy return ratios

Tracking the data since FY07, Shree Cement has always reported double-digit RoE; thus speaking strongly of the management's efficient capital allocation. These healthy returns have been generated with net debt/EBITDA remaining below 1x all throughout this period. We believe, the same is going to be maintained while achieving the aim of doubling the capacity in every years. With surplus liquidity of over ₹ 8000 crore the company is in the strong position to fund its new expansion involving capex of ₹4750 crore.

Ongoing Expansion	Cement (MT)	Clinker (MT)	₹ crore	\$/tonne	Commissioning
Gothra, Rajasthan	3.5	3.8	3500	135	Q4FY24E
Purulia, West Bengal	3.0		750	34	Q4FY23E
Total Cement Capacity	6.5	3.8	4250	88	
<b>Power</b>				<b>Per MW (₹ crore)</b>	
Solar Power Plants (106MW)			500	4.7	Q2FY23E
<b>Total Capex for FY22-24E</b>			<b>4750</b>		

Source: Company, ICICI Direct Research

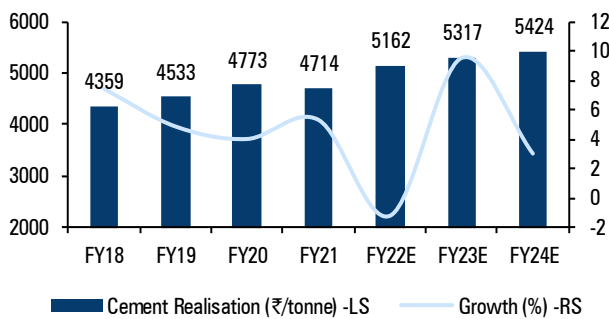
## Financial story in charts

Exhibit 4: Region-wise capacity details

Particulars	Cement	Clinker
<b>Current installed capacity</b>		
North	24.3	18.0
East	14.1	9.5
Central	2.0	
South	3.0	2.4
West	3.0	
<b>Total Domestic Capacity</b>	<b>46.4</b>	<b>29.9</b>
Overseas Capacity	4.0	3.3
<b>Ongoing Expansions</b>		
North	3.5	3.8
East	3.0	
<b>Total Capacity post expansion in FY24E</b>	<b>56.9</b>	<b>37.0</b>

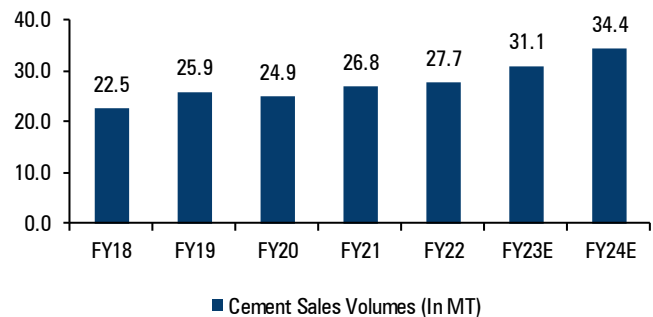
Source: Company, ICICI Direct Research

Exhibit 5: Cost pressure to keep realisations firm in FY23E; to stabilise thereafter



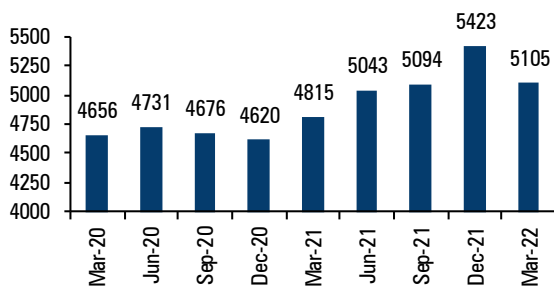
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 11.3% CAGR over FY22-24E



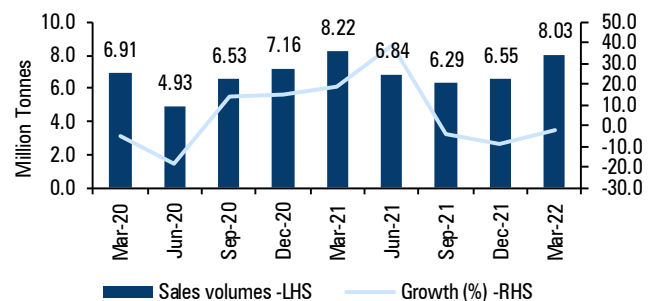
Source: Company, ICICI Direct Research

Exhibit 7: Realisations/tonne decline 5.9% QoQ (up 6% YoY)



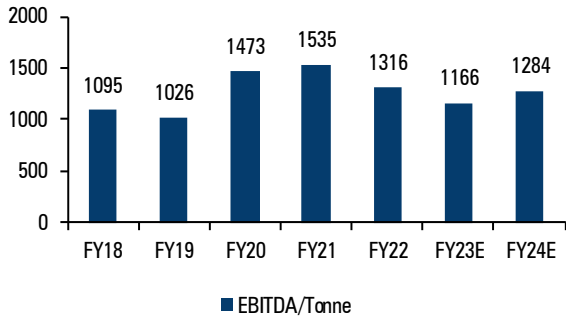
Source: Company, ICICI Direct Research

Exhibit 8: Cement volumes decline 2.3% YoY on high base



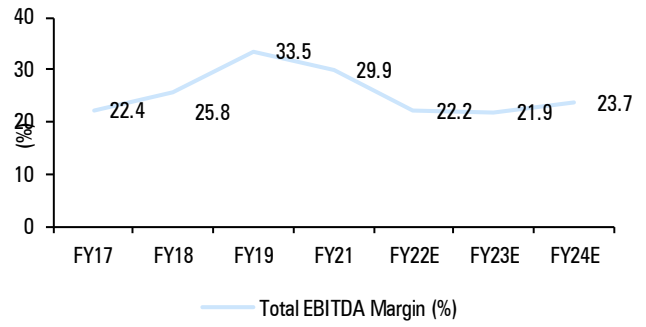
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t to remain healthy vs Industry



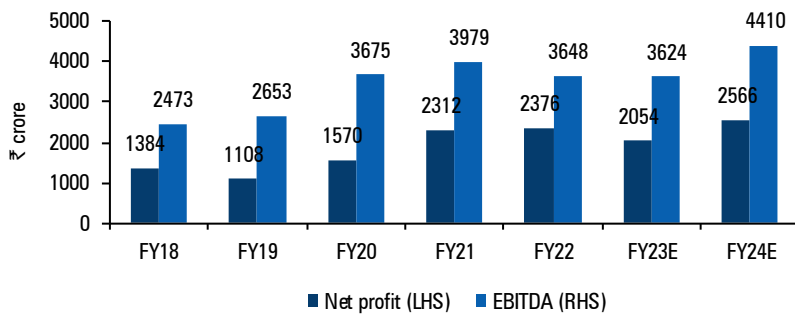
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins to stabilise around ~24% in FY24E;



Source: Company, ICICI Direct Research

Exhibit 11: EBITDA, PAT to grow at 9.9% & 3.9% CAGR over FY22-24E, respectively



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 12: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Operating Income</b>	<b>11,904.0</b>	<b>12,652.9</b>	<b>14,305.9</b>	<b>16,530.2</b>	<b>18,632.2</b>
Growth (%)	1.6	6.3	13.1	15.5	12.7
Raw material cost	768.2	875.6	1138.6	1399.0	1545.9
Power & Fuel cost	2347.6	2067.9	3161.4	4078.2	4493.0
Freight cost	2606.1	3037.2	3241.5	3721.2	4110.0
Employees cost	731.0	759.7	807.2	871.8	941.6
Others	1776.5	1933.2	2309.4	2835.6	3132.0
Total Operating Exp.	8,229.5	8,673.6	10,658.1	12,905.8	14,222.5
<b>EBITDA</b>	<b>3,674.5</b>	<b>3,979.3</b>	<b>3,647.8</b>	<b>3,624.4</b>	<b>4,409.8</b>
Growth (%)	38.5	8.3	-8.3	-0.6	21.7
Depreciation	1,699.4	1,139.9	1,036.5	1,197.9	1,350.1
Interest	286.5	247.1	217.8	232.2	192.2
Other Income	271.6	433.4	537.3	548.0	559.0
PBT	1,960.2	3,025.7	2,930.8	2,742.3	3,426.4
Others	0.0	0.0	0.0	0.0	0.0
Total Tax	390.0	713.8	554.4	688.3	860.0
<b>PAT</b>	<b>1,570.2</b>	<b>2,311.9</b>	<b>2,376.4</b>	<b>2,054.0</b>	<b>2,566.4</b>
<b>Adjusted PAT</b>	<b>1,570.2</b>	<b>2,311.9</b>	<b>2,376.4</b>	<b>2,054.0</b>	<b>2,566.4</b>
Growth (%)	41.8	47.2	2.8	-13.6	24.9
<b>Adjusted EPS (₹)</b>	<b>435.2</b>	<b>640.7</b>	<b>658.6</b>	<b>569.2</b>	<b>711.2</b>

Source: Company, ICICI Direct Research

### Exhibit 14: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	36.1	36.1	36.1	37.3	37.3
Reserve and Surplus	12,900.3	15,214.4	17,234.8	18,854.0	20,985.6
Total Shareholders funds	12,936.4	15,250.5	17,270.9	18,891.3	21,022.9
Total Debt	3,292.4	2,771.8	2,344.7	2,321.8	1,921.8
Deferred Tax Liability	-680.4	-717.4	-382.4	-717.4	-717.4
Minority Interest / Others	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>15,548.4</b>	<b>17,304.8</b>	<b>19,233.2</b>	<b>20,495.6</b>	<b>22,227.2</b>
<b>Assets</b>					
Gross Block	16,009.8	16,965.8	18,579.1	21,352.0	23,652.0
Less: Acc Depreciation	11,690.9	12,830.8	13,867.2	15,065.2	16,415.3
Net Block	4,318.9	4,135.0	4,711.8	6,286.8	7,236.7
Capital WIP	962.1	971.0	972.9	600.0	500.0
Total Fixed Assets	5,281.0	5,106.0	5,684.7	6,886.8	7,736.7
Investments	9,119.6	11,200.1	11,546.0	12,300.1	12,900.1
Inventory	1,427.9	1,477.2	2,161.4	1,720.9	1,939.8
Debtors	828.5	485.9	595.7	724.6	816.8
Loans and Advances	60.3	85.7	29.7	165.3	186.3
Other Current Assets	1,768.7	1,690.1	2,583.1	1,818.3	2,049.5
Cash	107.0	209.7	118.3	140.3	273.5
Total Current Assets	4,192.3	3,948.5	5,488.1	4,569.5	5,265.9
Creditors	1,816.6	1,538.8	2,138.8	1,811.5	2,041.9
Provisions	1,228.0	1,411.0	1,346.9	1,449.2	1,633.5
Total Current Liabilities	3,044.6	2,949.8	3,485.6	3,260.7	3,675.4
Net Current Assets	1,147.8	998.8	2,002.5	1,308.8	1,590.5
<b>Application of Funds</b>	<b>15,548.4</b>	<b>17,304.8</b>	<b>19,233.2</b>	<b>20,495.6</b>	<b>22,227.2</b>

Source: Company, ICICI Direct Research

### Exhibit 13: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	1,570.2	2,311.9	2,376.4	2,054.0	2,566.4
Add: Depreciation	1,699.4	1,139.9	1,036.5	1,197.9	1,350.1
Add: Interest	286.5	247.1	217.8	232.2	192.2
(Inc)/dec in Current Assets	45.4	346.5	-1,631.1	940.7	-563.2
Inc/(dec) in CL and Provision	982.2	-94.8	535.9	-224.9	414.7
<b>CF from operating activ</b>	<b>4,583.7</b>	<b>3,950.6</b>	<b>2,535.5</b>	<b>4,199.9</b>	<b>3,960.1</b>
(Inc)/dec in Investments	-4,574.3	-2,080.4	-345.9	-754.1	-600.0
(Inc)/dec in Fixed Assets	-1,384.3	-964.8	-1,615.2	-2,400.0	-2,200.0
Others	-90.0	-37.0	335.0	-335.0	0.0
<b>CF from investing activ</b>	<b>-6,048.6</b>	<b>-3,082.3</b>	<b>-1,626.2</b>	<b>-3,489.1</b>	<b>-2,800.0</b>
Issue/(Buy back) of Equity	1.2	0.0	0.0	1.2	0.0
Inc/(dec) in loan funds	-218.8	-520.6	-427.0	-23.0	-400.0
Dividend paid & dividend tax	-478.3	-260.9	-391.3	-434.8	-434.8
Inc/(dec) in Sec. premium	2,246.0	263.0	35.3	0.0	0.0
Others	-286.5	-247.1	-217.8	-232.2	-192.2
<b>CF from financing activ</b>	<b>1,263.6</b>	<b>-765.6</b>	<b>-1,000.8</b>	<b>-688.7</b>	<b>-1,027.0</b>
Net Cash flow	-201.3	102.7	-91.5	22.1	133.1
Opening Cash	308.3	107.0	209.7	118.3	140.3
<b>Closing Cash</b>	<b>107.0</b>	<b>209.7</b>	<b>118.3</b>	<b>140.3</b>	<b>273.5</b>

Source: Company, ICICI Direct Research

### Exhibit 15: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
EPS	435.2	640.7	658.6	569.2	711.2
Cash EPS	906.1	956.6	945.8	901.2	1,085.4
BV	3,585.1	4,226.4	4,786.4	5,235.4	5,826.2
DPS	110.0	60.0	90.0	70.0	70.0
Cash Per Share	29.7	58.1	32.8	38.9	75.8
<b>Operating Ratios (%)</b>					
EBITDA Margin	30.9	31.4	25.5	21.9	23.7
PAT Margin	13.2	18.3	16.6	12.4	13.8
Inventory days	43.8	42.6	41.0	38.0	38.0
Debtor days	25.4	14.0	15.0	16.0	16.0
Creditor days	55.7	44.4	42.0	40.0	40.0
<b>Return Ratios (%)</b>					
RoE	12.1	15.2	13.8	10.9	12.2
RoCE	13.8	18.2	16.1	14.0	15.8
RoIC	16.6	22.0	17.4	15.5	18.2
<b>Valuation Ratios (x)</b>					
P/E	49.3	33.5	32.6	37.7	30.2
EV / EBITDA	21.0	19.1	20.9	20.6	16.7
EV / Net Sales	6.5	6.0	5.3	4.5	4.0
Market Cap / Sales	6.5	6.1	5.4	4.7	4.2
Price to Book Value	6.0	5.1	4.5	4.1	3.7
<b>Solvency Ratios</b>					
Debt/EBITDA	0.9	0.7	0.6	0.6	0.4
Debt / Equity	0.3	0.2	0.1	0.1	0.1
Current Ratio	1.4	1.3	1.6	1.4	1.4
Quick Ratio	0.9	0.8	1.0	0.9	0.9

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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