



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

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

Medium Risk

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

Source: Morningstar

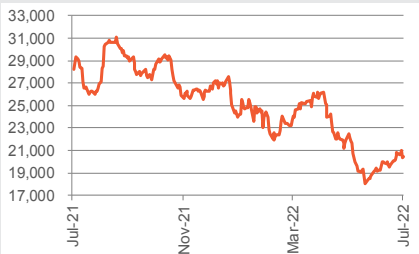
Company details

Market cap:	Rs. 73,904 cr
52-week high/low:	Rs. 31,441/17,900
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	11.9
DII	11.2
Others	14.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	-21.9	-15.6	-27.5
Relative to Sensex	-1.5	-22.9	-14.9	-37.0

Sharekhan Research, Bloomberg

Shree Cement Ltd

Operationally in-line Q1; Retain Buy

Cement	Sharekhan code: SHREECEM		
Reco/View: Buy	↔	CMP: Rs. 20,483	Price Target: Rs. 24,000 ↓
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- In Q1FY2023, standalone operational numbers were in line with estimates, while net earnings lagged owing to loss on fair value of investments and higher-than-estimated depreciation.
- The management expects an 8-10% y-o-y rise in sales volume along with 3-4% y-o-y increase in cement prices for FY2023. Power & fuel costs are likely to inch higher during Q2FY2023 before tapering downwards.
- The company is expanding capacity to drive up its total domestic cement capacity to 56 mtpa by FY2025 along with 46.4 mtpa.
- We retain a Buy on Shree Cement with a revised PT of Rs. 24,000, factoring in downwardly revised estimates.

Shree Cement Limited (Shree Cement) reported in-line standalone operational performance for Q1FY2023 while net earnings lagged on account of loss on fair value of investments and higher-than-estimated depreciation. Standalone revenues grew by 21.8% y-o-y led by a rise in blended realisations (up 11% y-o-y), while volumes grew by 9.7% y-o-y. Blended EBITDA/tonne at Rs. 1091 (-26% y-o-y) was in-line with our estimate of Rs. 1,099. Overall cost of production rose 27% y-o-y to Rs. 4511/tonne mainly led by higher power & fuel costs (up 102% y-o-y). Hence, standalone operating profit was down 19% y-o-y at Rs. 819 crore. Further, fair value loss on investments of Rs. 96 crore and higher depreciation (up 41% y-o-y) led to lower-than-estimated standalone net profit of Rs. 315.6 crore (down 52% y-o-y). In a media interview, the management highlighted that it expects sales volumes to rise 8-10% y-o-y for FY2023 along with a 3-4% y-o-y rise in cement prices. Shree Cement's current standalone cement capacity stands at 46.4 mtpa which is expected to increase to 56 mtpa by FY2025.

Key positives

- Blended realisations rose 11% y-o-y and 10% q-o-q to Rs. 5602/tonne.
- Blended EBITDA/tonne stayed in-line at Rs. 1091 as surge in cost of production especially power & fuel costs was partly offset by higher realisations.

Key negatives

- Sales volume grew 9.7% y-o-y at 7.5 million tonnes although was lower than estimate.
- Loss on fair value of investment and higher than estimated depreciation led to miss on standalone net profit.

Revision in estimates – We have materially lowered our net earnings estimates for FY2023-FY2024 factoring surge in power & fuel costs, while we factor in marginally higher revenues during the same period.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 24,000: 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. We expect Shree Cement to outperform industry growth over FY2023E-FY2024E led by improving capacity utilisation and addition of newer capacities. The stock is currently trading at an EV/EBITDA of 14.5x its FY2024E earnings which we believe provides further room for upside. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 24,000 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	16,452.8	18,251.1
OPM (%)	31.4	25.4	19.0	23.5
Adjusted PAT	2,311.9	2,251.3	1,530.4	2,353.8
% YoY growth	47.2	(2.6)	(32.0)	53.8
Adjusted EPS (Rs.)	640.8	624.0	424.2	652.4
P/E (x)	32.0	32.8	48.3	31.4
P/B (x)	4.8	4.3	4.0	3.6
EV/EBITDA (x)	16.2	17.6	20.1	14.5
RoNW (%)	16.4%	13.8%	8.6%	12.1%
RoCE (%)	15.3%	13.2%	8.6%	11.8%

Source: Company Data; Sharekhan estimates

An operationally in-line quarter

Shree Cement reported 21.8% y-o-y growth in standalone revenue to Rs. 4203 crore which was in-line with our estimate. Cement volumes rose by 9.7% y-o-y (down 6.6% q-o-q) to 7.5 million tonnes, while blended realization rose by 11.1% y-o-y (up 9.8% q-o-q). The company's blended EBITDA/tonnes at Rs. 1091 (down 25.8% y-o-y, down 3.1% q-o-q) which was in-line with our estimate of Rs. 1099 per tonne. On the opex front, Power & fuel cost stood at Rs. 1923/tonnes (up 102% y-o-y, up 44% q-o-q), freight expense at Rs. 1204/tonnes (down 1% y-o-y, up 2.7% q-o-q) while other expense at Rs. 859/tonnes (up 7.1% y-o-y, up 10.5% q-o-q). Hence, operating profit for the quarter declined by 19% y-o-y to Rs. 819 crore which was 6% lower than our expectation. Further, other income stood at –Rs. 22 crore owing to fair value loss on investments of Rs. 96.08 crore as against fair value gain of Rs. 64.77 crore during Q1FY2022. Depreciation rose 41% y-o-y (up 8.8% q-o-q) to Rs. 328 crore. Consequently, standalone net profit declined 52% y-o-y (down 42% q-o-q) at Rs. 316 crore which was much lower than our estimate.

Capacity expansions to aid sustainable growth

The company had in the near past announced Rs. 6,250 crore capex to be incurred over the next two to three years. 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 integrated unit at Rajasthan is expected to 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). It is also setting up a 3-mtpa greenfield cement unit at Guntur, Andhra Pradesh at a capex of Rs. 1500 crore and is expected to complete in the next two years. 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).

Per-tonne analysis (blended)

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	y-o-y (%)	q-o-q (%)
Volume	68,40,000	63,20,000	65,50,000	80,30,000	75,02,000	9.7%	-6.6%
Realisations	5,043	5,073	5,423	5,104	5,602	11.1%	9.8%
Cost break-up							
RM cost	280	330	589	440	234	-16.2%	-46.7%
Employee expenses	309	321	300	245	290	-6.3%	18.3%
Power and fuel	954	994	1,233	1,336	1,923	101.6%	43.9%
Transportation and handling	1,217	1,118	1,163	1,172	1,204	-1.0%	2.7%
Other expenses	802	889	877	778	859	7.1%	10.5%
Total expenditure per tonne	3,561	3,651	4,162	3,970	4,511	26.7%	13.6%
EBITDA per tonne	1,482	1,421	1,260	1,134	1,091	-26.3%	-3.8%

Source: Company, Sharekhan Research

Results (Standalone)

Particulars	Q1FY2023	Q1FY2022	% y-o-y	Q4FY2022	% q-o-q
Net Sales	4202.7	3449.5	21.8%	4098.8	2.5%
Total Expenditure	3383.9	2436.0	38.9%	3188.2	6.1%
Operating profit	818.8	1013.5	-19.2%	910.6	-10.1%
Other Income	-21.6	139.2	-	138.1	-
EBIDTA	797.2	1152.7	-30.8%	1048.7	-24.0%
Interest	57.3	53.5	7.1%	53.6	7.1%
PBDT	739.9	1099.2	-32.7%	995.1	-25.6%
Depreciation	327.9	232.5	41.0%	301.3	8.8%
PBT	412.0	866.7	-52.5%	693.8	-40.6%
Tax	96.4	204.9	-53.0%	148.8	-35.2%
Extraordinary items	0.0	0.0	-	-100.2	-
Reported Profit After Tax	315.6	661.7	-52.3%	645.2	-51.1%
Adjusted PAT	315.6	661.7	-52.3%	545.0	-42.1%
Margins			BPS		BPS
OPM	19.5%	29.4%	-990	22.2%	(273)
PAT	7.5%	19.2%	-1167	13.3%	(579)
Tax rate	23.4%	23.6%	-24	21.4%	196

Source: Company Data, 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.

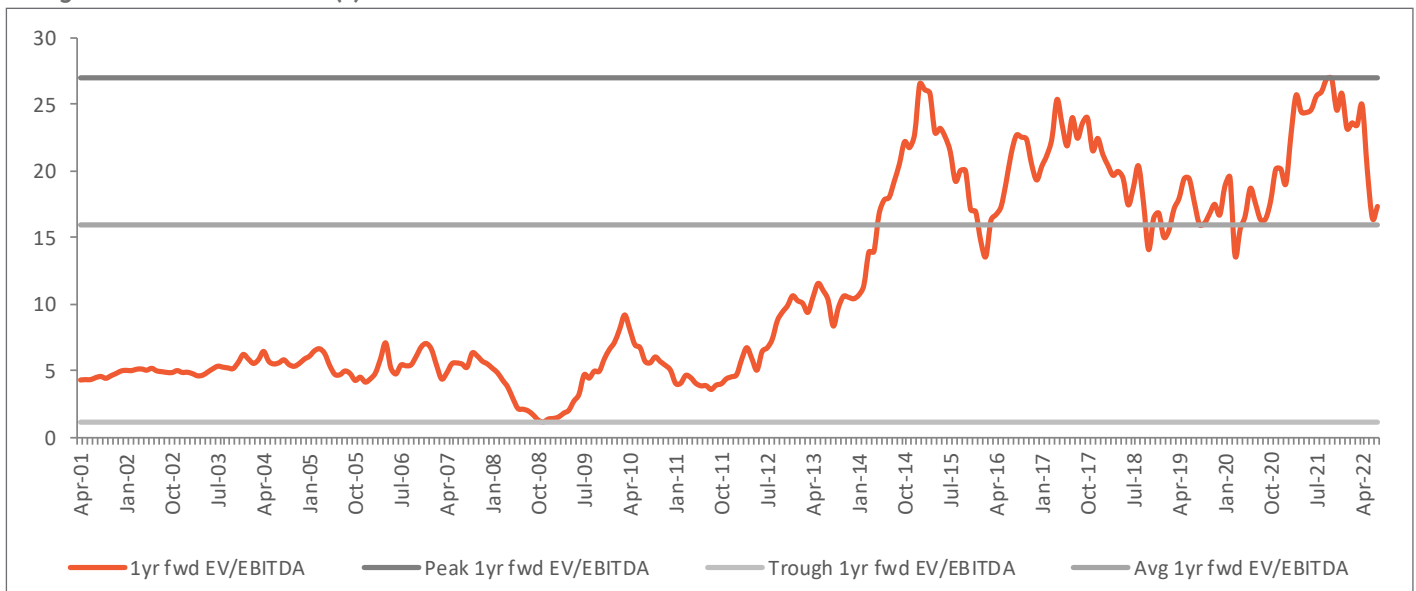
■ Company outlook – Expect Shree cement to outperform industry on volume offtake during FY2023E-FY2024E

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 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. 24,000

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. We expect Shree Cement to outperform industry growth over FY2023E-FY2024E led by improving capacity utilisation and addition of newer capacities. The stock is currently trading at an EV/EBITDA of 14.5x its FY2024E earnings which we believe provides further room for upside. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 24,000 as we factor in downwardly revised estimates.

One-year forward EV/EBITDA (x) band



Source: Company Data; Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech	30.8	27.1	15.6	13.9	3.4	3.1	11.8	11.9
Shree Cement	48.3	31.4	20.1	14.5	4.0	3.6	8.6	12.1
Dalmia Bharat	40.7	33.2	11.4	9.9	1.8	1.7	4.5	5.3
The Ramco Cement	23.0	19.1	13.6	11.7	2.4	2.2	11.0	12.0

Source: Company; Sharekhan Research

About the 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.	24.9
2	Digvijay Finlease Ltd.	11.7
3	FLT Ltd.	10.0
4	Mannakrishna Investments Pvt. Ltd.	5.7
5	Newa Investments Pvt. Ltd.	3.8
6	Ragini Finance Ltd.	3.5
7	Didu Investments Pvt. Ltd.	3.3
8	SBI Funds Management Pvt. Ltd.	2.5
9	NBI Industrial Finance Co. Ltd.	2.4
10	FMR LLC	1.7

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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