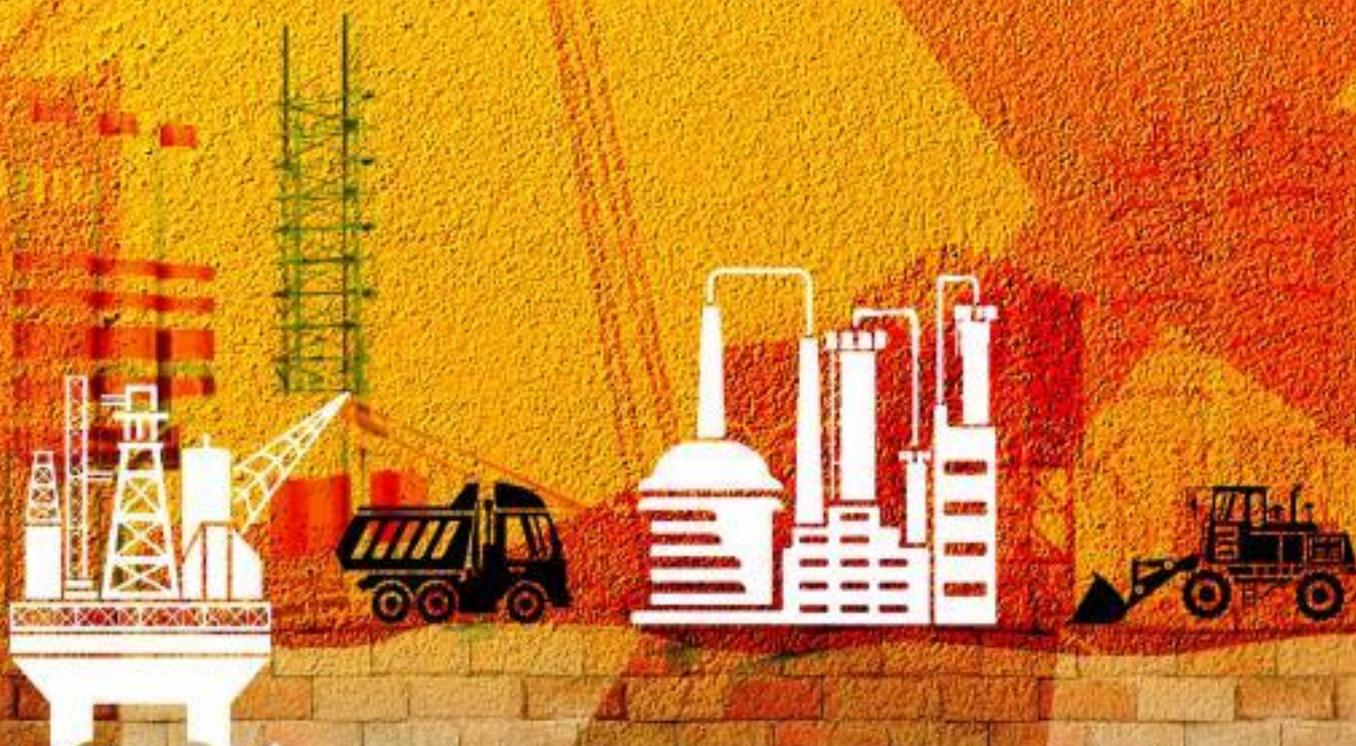


Shree Cement Ltd.



Shree Cement Ltd.

Higher input costs dented margin; capacity expansion to drive future growth

CMP INR 20,415	Target INR 22,888	Potential Upside 12.1%	Market Cap (INR Mn) INR 7,36,589	Recommendation ACCUMULATE	Sector Cement
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Result Highlights

- In Q1FY23, Shree Cement's revenue grew 21.5% YoY/1.2% QoQ to INR 44,149 mn, surpassing our estimate by 8.5%. Cement sales volume for the quarter stood at 7.5 MT, exhibiting a growth of 8.9% YoY, though sequentially volume declined by 7.2%.
- EBITDA has seen a drop of 21.7% YoY/12.8% QoQ to INR 8,008 mn. EBITDA margin suffered contraction to the tune of 1000 bps YoY and 291 bps QoQ to 18.1%. The drop in EBITDA was due to steep rise in power and fuel costs, which grew by 112.4% YoY/19.5% QoQ to INR 15,137 mn for the quarter.
- Reported PAT has seen a decline of 55.6% YoY/57.5% QoQ to INR 2,795 mn. PAT margin contracted by 1100 bps YoY/873 bps QoQ to 6.3%. Other than fall in EBITDA, which had impacted the decline in PAT, lower other income for the quarter also contributed to the steep fall in PAT.

MARKET DATA

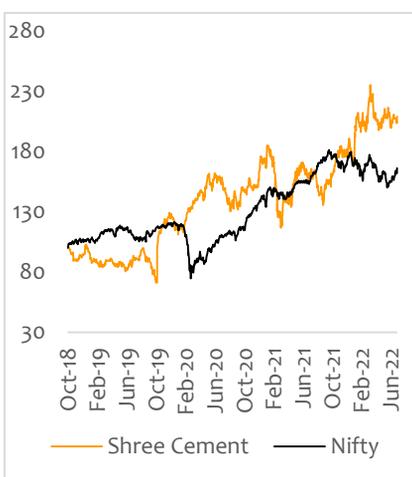
Shares outs (Mn)	36.1
Mkt Cap (INR Mn)	7,36,589
52 Wk H/L (INR)	31,470/17,865
Volume Avg (3m K)	36
Face Value (INR)	10
Bloomberg Code	SRCM IN

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,28,684	1,34,763	1,50,096	1,69,287	1,91,537
EBITDA	37,591	40,514	37,079	44,520	52,840
PAT	15,359	22,859	23,319	25,009	30,261
Adj PAT	15,359	22,859	23,319	25,009	30,261
EPS (INR)	426	634	646	693	839
Adj. EPS (INR)	426	634	646	693	839
EBITDA Margin (%)	29.2%	30.1%	24.7%	26.3%	27.6%
NPM (%)	11.9%	17.0%	15.5%	14.8%	15.8%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	56,858
NIFTY	16,930

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	62.6	62.6	62.6
FIIIs	11.9	12.2	13.1
DIIIs	11.2	11.2	10.5
Others	14.3	14.0	13.8
Total	100	100	100

Steady volume along with improved realization aided revenue growth

Shree Cement reported 8.9% YoY growth in its sales volume at 7.5 MT for the quarter. Realisation improved by 11.5% YoY/9.0% QoQ to INR 5,926/ton as against INR 5,435/ton in Q4FY22 and INR 5,314/ton in Q1FY22. Higher trade sales as well as front ended price hikes helped to improve realisation for the quarter. Steady volume along with improved realisation aided revenue growth which has beaten our estimate by 8.5%. The company's current utilization level stands at ~60% giving ample room for future growth by increasing its utilization level in subsequent quarters. Shree Cement is on track to achieve its target of 57 mtpa of capacity from the current 46.4 mtpa in next three years time.

Steep hike in power & fuel costs dented margin

For Q1FY23, EBITDA has seen a decline of 21.7% YoY/12.8% QoQ to INR 8,008 mn. EBITDA margin contracted to the tune of 1,000 bps YoY and 291 bps QoQ to 18.1%. The decline in EBITDA was due to steep rise in power and fuel costs, which grew by 112.4% YoY/19.5% QoQ to INR 15,137 mn. As a result of higher input costs, blended EBITDA on a per ton basis was down by 28.1% YoY/6.1% QoQ to INR 1,075.

Valuation and view

In the past one month, pet coke prices have corrected ~18% from their peak, which along with lower diesel prices will help to reduce energy costs for the company in coming quarters. We remain positive on Shree Cement from longer term perspective as we believe capacity expansion will drive its next leg of growth. **At CMP of INR 20,415, the stock is trading at FY23E/FY24E EV/EBITDA of 16.7x/14.1x. After factoring in a mixed performance for the quarter, we have lowered our target multiple and now value the stock at 14.5x (vs 16x earlier) its FY24E EV/EBITDA, which yields a target price of INR 22,888 (previous TP of INR 25,085), giving an upside potential of 12.3% from the CMP. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Shree Cement.**

13.0%

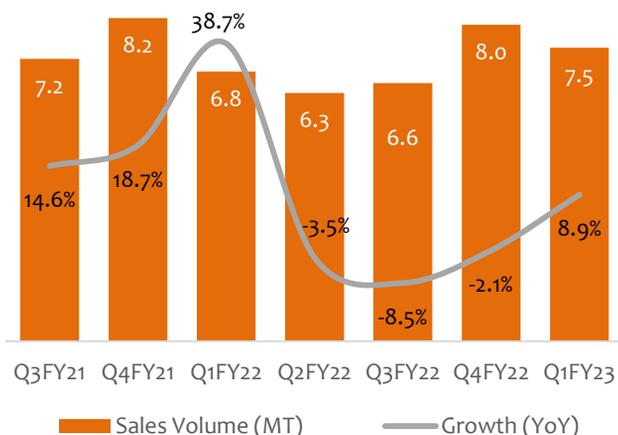
Revenue CAGR between FY22 and FY24E

13.9%

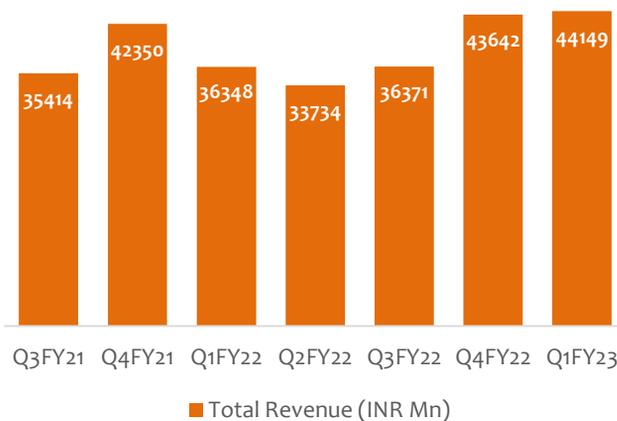
PAT CAGR between FY22 and FY24E

Shree Cement Ltd.

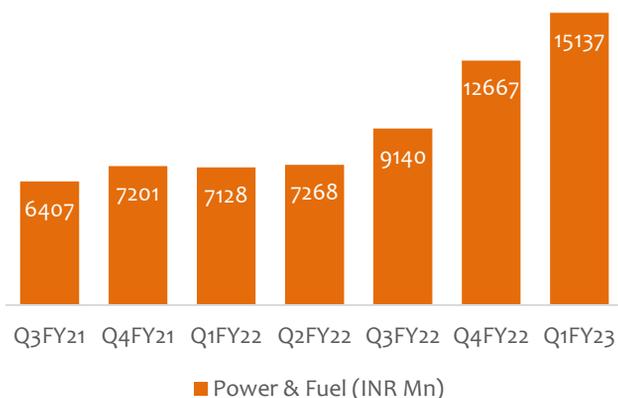
Sales volume remains steady across quarters



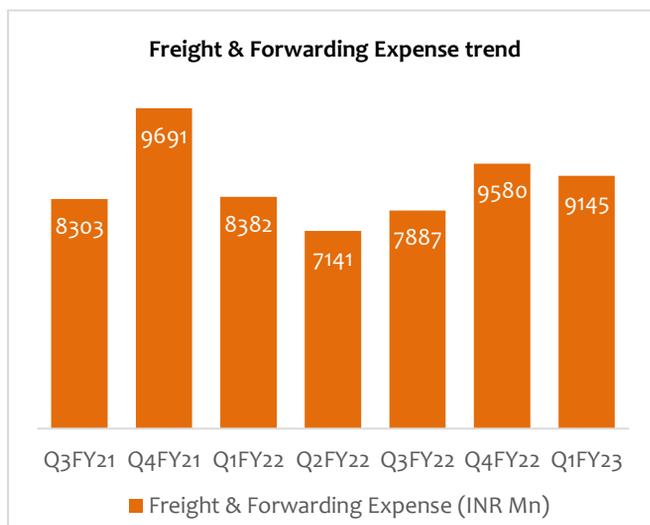
Quarterly revenue trends



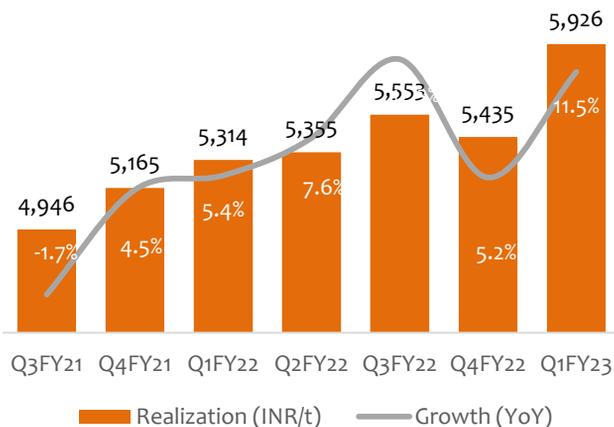
Power & Fuel cost has seen steep increase in recent quarters



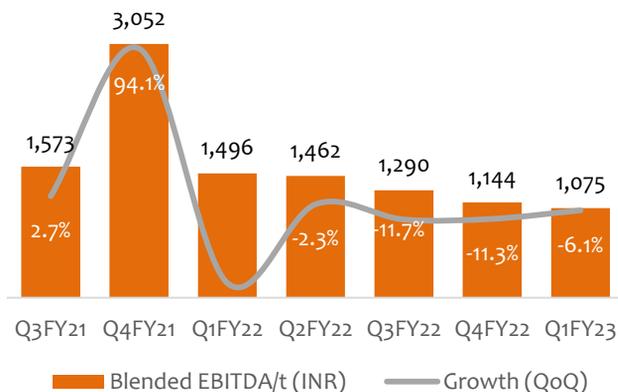
Freight & Forwarding Expense trend



Realisation trend over the quarters



Sequential rise in cost puts pressure on EBITDA/ton



Source: Company, KRChoksey Research

Shree Cement Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenues	1,25,547	1,28,684	1,34,763	1,50,096	1,69,287	1,91,537
COGS	10,154	9,905	10,696	10,382	13,337	15,351
Gross profit	1,15,392	1,18,779	1,24,067	1,39,714	1,55,950	1,76,186
Employee cost	7,672	8,540	8,692	9,135	9,480	11,109
Power & Fuel	30,926	27,027	23,488	36,202	40,019	43,365
Freight and Forwarding Expense	29,034	26,621	31,102	32,990	36,537	41,675
Other expenses	20,203	19,001	20,271	24,308	25,393	27,198
EBITDA	27,937	37,591	40,514	37,079	44,520	52,839
EBITDA Margin	22.3%	29.2%	30.1%	24.7%	26.3%	27.6%
Depreciation & amortization	14,718	18,078	12,623	11,459	15,311	17,323
EBIT	13,219	19,513	27,890	25,621	29,209	35,515
Interest expense	2,479	2,914	2,513	2,161	2,113	1,878
PBT	11,456	19,343	30,041	28,918	32,874	39,765
Tax	1,306	3,902	7,145	5,552	7,819	9,458
Minority interest	87	82	37	47	47	47
PAT	10,064	15,359	22,859	23,319	25,009	30,261
Adj. PAT	11,845	15,359	22,859	23,319	25,009	30,261
EPS (INR)	289	426	634	646	693	839
Adj. EPS	340	426	634	646	693	839

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	20,800	39,732	42,538	26,680	29,883	31,328
Net Cash Flow from/(used in) Investing Activities	(7,215)	(55,987)	(26,450)	(21,514)	(16,939)	(20,593)
Net Cash Flow from Financing Activities	(12,760)	15,811	(12,326)	(8,494)	(3,063)	(7,027)
Net Inc/Dec in cash equivalents	825	(445)	3,761	(3,328)	9,881	3,708
Opening Balance	335	1,177	1,142	4,723	1,486	11,366
Closing Balance Cash and Cash Equivalents	1,422	1,142	4,723	1,486	11,366	15,075

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	22.3%	29.2%	30.1%	24.7%	26.3%	27.6%
Tax rate (%)	11.4%	20.2%	23.8%	23.8%	23.8%	23.8%
Net Profit Margin (%)	8.0%	11.9%	17.0%	15.5%	14.8%	15.8%
RoE (%)	10.3%	11.6%	14.8%	13.3%	12.8%	13.7%
RoCE (%)	10.6%	12.5%	16.1%	13.1%	13.3%	14.5%
EPS (INR)	289	426	634	646	693	839

Source: Company, KRChoksey Research

Shree Cement Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
Non-current assets						
Property, plant and equipment	61,352	56,974	57,145	67,242	68,860	70,690
Capital work-in-progress	11,295	11,967	9,965	10,535	10,535	10,535
Intangible assets	465	532	603	573	573	573
Financial assets						
Investments	22,529	32,713	46,990	55,063	60,570	66,627
Loans	531	540	621	44	44	44
Other financial assets	279	1,604	724	1,375	1,375	1,375
Deferred Tax Assets	6,126	7,438	7,861	6,744	6,744	6,744
Non-current Tax Assets (Net)	1,110	1,110	1,020	274	1,461	1,653
Other non-current assets	4,052	7,626	12,795	10,936	10,032	11,351
Total non-current assets	1,07,738	1,20,503	1,37,725	1,52,786	1,60,193	1,69,591
Current assets						
Inventories	18,703	17,135	17,157	24,970	28,163	31,864
Financial assets						
Investments	327	30,863	38,015	35,263	35,263	35,263
Trade receivables	10,237	10,805	6,859	7,883	8,891	10,059
Cash and cash equivalents	1,422	1,142	4,721	1,486	11,366	15,075
Other Balances with Banks	2,971	5,000	2,362	1,411	1,411	1,411
Loans	98	79	252	253	253	253
Other financial assets	1,068	2,110	1,599	2,363	2,363	2,363
Other current assets	12,366	11,805	10,908	11,075	12,491	21,069
Total current assets	47,192	78,938	81,873	84,703	1,00,201	1,17,358
TOTAL ASSETS	1,54,931	1,99,442	2,19,598	2,37,489	2,60,394	2,86,948
EQUITY AND LIABILITIES						
Equity						
Equity share capital	348	361	361	361	361	361
Other equity	96,359	1,31,334	1,53,613	1,74,242	1,94,921	2,19,986
Equity attributable to the equity shareholders	96,708	1,31,694	1,53,974	1,74,603	1,95,282	2,20,347
Non-controlling interests	625	688	512	503	550	596
Total equity	97,332	1,32,382	1,54,486	1,75,106	1,95,832	2,20,944
LIABILITIES						
Non-current liabilities						
Financial liabilities						
Borrowings	23,090	16,387	13,316	12,983	18,387	18,387
Other financial liabilities	7,342	10,163	10,005	1,362	1,362	1,362
Provisions	320	351	318	297	297	297
Deferred Tax Liabilities (Net)	3	2	0	0	2	3
Other Non-Current Liabilities	5,577	6,076	10,005	876	876	876
Total non-current liabilities	36,332	32,980	33,643	15,519	20,925	20,925
Current liabilities						
Financial liabilities						
Borrowings	4,727	7,102	5,087	7,158	5,087	5,087
Trade payables	5,382	6,577	8,830	8,904	10,042	11,362
Other financial liabilities	4,625	13,547	8,177	14,192	14,192	14,192
Other current liabilities	6,250	6,145	8,610	13,385	13,385	13,385
Provisions	60	74	83	84	98	111
Current Tax liabilities (Net)	223	634	681	3,142	834	944
Total current liabilities	21,266	34,079	31,468	46,864	43,637	45,080
Total liabilities	57,598	67,059	65,111	62,383	64,562	66,005
TOTAL EQUITY AND LIABILITIES	1,54,931	1,99,442	2,19,597	2,37,489	2,60,394	2,86,948

Source: Company, KRChoksey Research

Shree Cement Ltd.

Shree Cement Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Reco	Our Rating	Upside
29-Jul-22	20,415	22,888	ACCUMULATE	Buy	More than 15%
23-May-22	21,942	25,085	ACCUMULATE	Accumulate	5% – 15%
09-Feb-22	24,764	27,978	ACCUMULATE		
02-Nov-21	29,146	30,602	ACCUMULATE	Hold	0 – 5%
11-Aug-21	26,548	30,321	ACCUMULATE	Reduce	-5% – 0
30-Jun-21	28,134	30,321	ACCUMULATE		
25-May-21	26,909	30,321	ACCUMULATE	Sell	Less than – 5%

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