

# Shree Cement Ltd.



# Shree Cement Ltd.

**Margin pressure continues to dent bottomline despite robust volume growth**

CMP <b>INR 20,831</b>	Target <b>INR 22,888</b>	Potential Upside <b>9.9%</b>	Market Cap (INR Mn) <b>INR 7,51,586</b>	Recommendation <b>ACCUMULATE</b>	Sector <b>Cement</b>
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## Result Highlights

- In Q2FY23, Shree Cement's revenue grew 19.7% YoY to INR 40,380 mn, beating our estimate of INR 38,012 mn. However, on sequential basis revenue declined by 8.5% QoQ. The company reported strong volume growth of 19% YoY/0.7% QoQ at 7.5 MT for the quarter ahead of our estimate of 6.8 MT.
- EBITDA has seen a decline of 41.1.7% YoY/32.2% QoQ to INR 5,428 mn. The drop in EBITDA was due to steep rise in power and fuel costs, which grew by 89.6% YoY to INR 13,778 mn. Freight & forwarding costs also saw a jump of 21.6% YoY, which further dented the EBITDA. EBITDA margin suffered contraction to the tune of 1386 bps YoY and 470 bps QoQ to 13.4%.
- Reported PAT has seen a decline of 67.4% YoY/34.4% QoQ to INR 1,834 mn. PAT margin contracted by 1214 bps YoY/179 bps QoQ to 4.5%. Utilisation level stood at 64% for the quarter.

## MARKET DATA

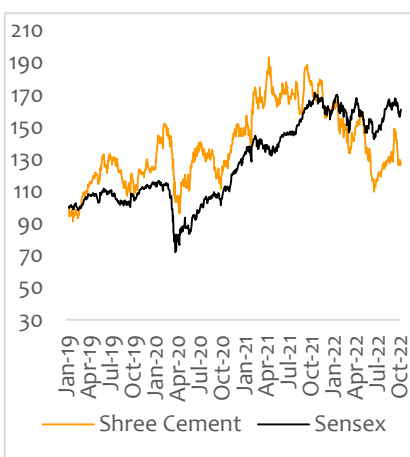
Shares outs (Mn)	36.1
Mkt Cap (INR Mn)	7,51,586
52 Wk H/L (INR)	29,819/17,865
Volume Avg (3m K)	96
Face Value (INR)	10
Bloomberg Code	SRCM IN

## 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



## Robust volume along with stable realization aided revenue growth

Shree Cement reported 19% YoY growth in its sales volume at 7.5 MT for the quarter. Realisation was stable on YoY basis (+0.6% YoY) at INR 5,384/ton as against INR 5,926/ton in Q1FY23 and INR 5,355/ton in Q2FY22. Though sequentially realization declined 9.1% due to monsoon as well as higher non-trade sales during the quarter. Strong volume along with stable realisation aided revenue growth which has beaten our estimate by 6.2%. The company's current utilization level stands at ~64% giving ample room for future growth by increasing its utilization level in subsequent quarters.

## Steep hike in power & fuel costs dented margin

For Q2FY23, EBITDA has seen a decline of 41.1% YoY/32.2% QoQ to INR 5,428 mn. EBITDA margin contracted to the tune of 1,386 bps YoY and 470 bps QoQ to 13.4%. The decline in EBITDA was due to steep rise in power and fuel costs, which grew by 89.6% YoY to INR 13,778 mn. As a result of higher input costs, blended EBITDA on a per ton basis was down by 50.5% YoY/32.7% QoQ to INR 724.

## Valuation and view

Shree Cement has posted dismal result for second quarter in a row in aftermath of severe contraction in margins due to steep rise in power and fuel costs and other input costs. The saving grace for the quarter was the surprise volume growth, which was achieved due to ramp up in capacity utilization. We believe, with input prices coming off from their peak, Shree Cement will be able to hold on to its margins from next quarter onwards. The Board of the company has appointed Neeraj Akhoury (erstwhile MD & CEO of Ambuja Cement) as the MD of the company w.e.f. 14<sup>th</sup> October 2022 for a period of five years. **At CMP of INR 20,831, the stock is trading at FY23E/FY24E EV/EBITDA of 17.1x/14.4x. We continue to value the stock at EV/EBITDA multiple of 14.5x on FY24 estimates, which yields a target price of INR 22,888 (unchanged), giving an upside potential of 9.9% from the CMP. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Shree Cement.**

## MARKET INFO

SENSEX	58,411
NIFTY	17,312

## 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

# 13.0%

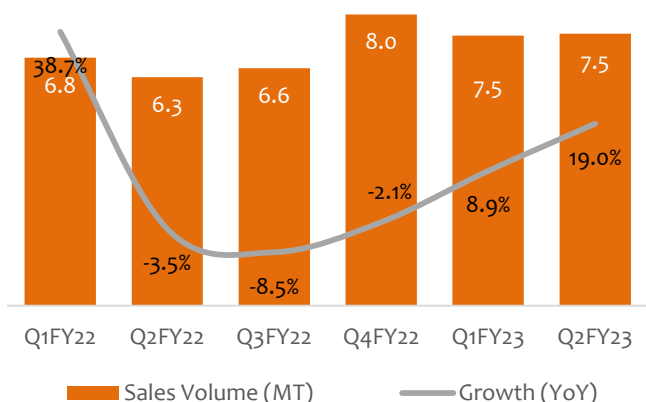
Revenue CAGR over FY22 and FY24E

# 13.9%

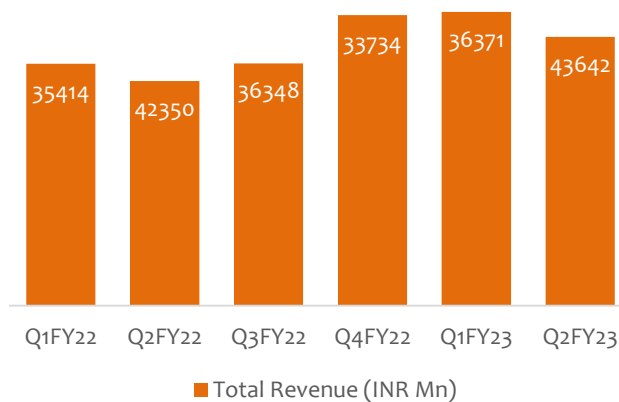
PAT CAGR over FY22 and FY24E

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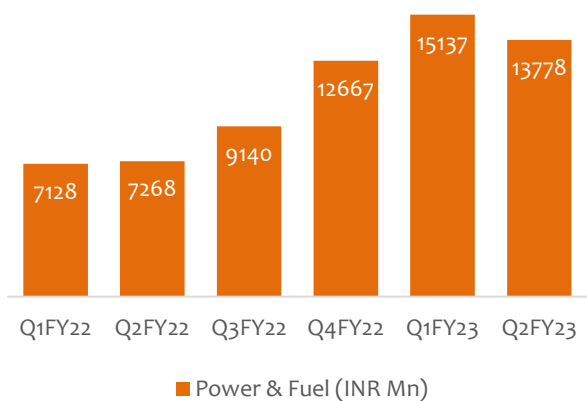
Sales volume remains steady across quarters



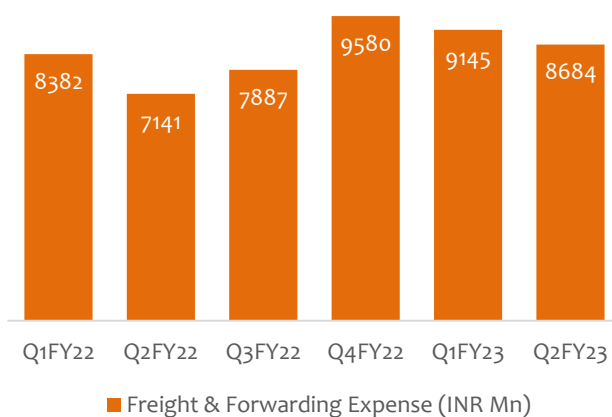
Quarterly revenue trends



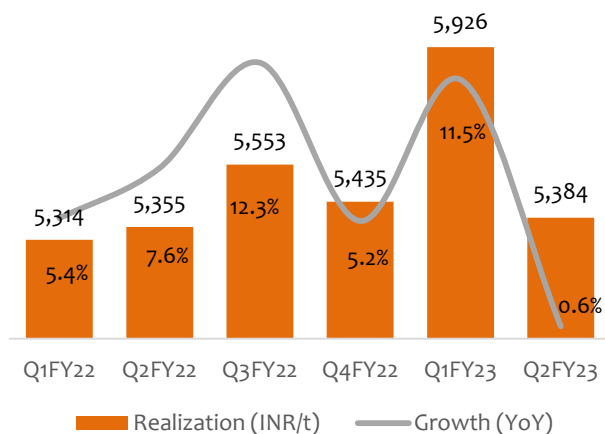
Power & Fuel cost has seen steep increase in recent quarters



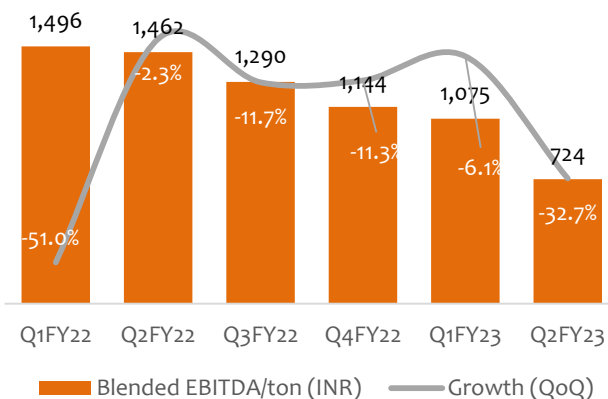
Freight & Forwarding Expense trend over the quarters



Realisation trend over the quarters



Sequential rise in cost puts pressure on EBITDA/ton



Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Mn	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>1,25,547</b>	<b>1,28,684</b>	<b>1,34,763</b>	<b>1,50,096</b>	<b>1,69,287</b>	<b>1,91,537</b>
COGS	10,154	9,905	10,696	10,382	13,337	15,351
<b>Gross profit</b>	<b>1,15,392</b>	<b>1,18,779</b>	<b>1,24,067</b>	<b>1,39,714</b>	<b>1,55,950</b>	<b>1,76,186</b>
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
<b>EBITDA</b>	<b>27,937</b>	<b>37,591</b>	<b>40,514</b>	<b>37,079</b>	<b>44,520</b>	<b>52,839</b>
<b>EBITDA Margin</b>	<b>22.3%</b>	<b>29.2%</b>	<b>30.1%</b>	<b>24.7%</b>	<b>26.3%</b>	<b>27.6%</b>
Depreciation & amortization	14,718	18,078	12,623	11,459	15,311	17,323
<b>EBIT</b>	<b>13,219</b>	<b>19,513</b>	<b>27,890</b>	<b>25,621</b>	<b>29,209</b>	<b>35,515</b>
Interest expense	2,479	2,914	2,513	2,161	2,113	1,878
<b>PBT</b>	<b>11,456</b>	<b>19,343</b>	<b>30,041</b>	<b>28,918</b>	<b>32,874</b>	<b>39,765</b>
Tax	1,306	3,902	7,145	5,552	7,819	9,458
Minority interest	87	82	37	47	47	47
<b>PAT</b>	<b>10,064</b>	<b>15,359</b>	<b>22,859</b>	<b>23,319</b>	<b>25,009</b>	<b>30,261</b>
<b>Adj. PAT</b>	<b>11,845</b>	<b>15,359</b>	<b>22,859</b>	<b>23,319</b>	<b>25,009</b>	<b>30,261</b>
<b>EPS (INR)</b>	<b>289</b>	<b>426</b>	<b>634</b>	<b>646</b>	<b>693</b>	<b>839</b>
<b>Adj. EPS</b>	<b>340</b>	<b>426</b>	<b>634</b>	<b>646</b>	<b>693</b>	<b>839</b>

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
<b>Non-current assets</b>						
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
<b>Total non-current assets</b>	<b>1,07,738</b>	<b>1,20,503</b>	<b>1,37,725</b>	<b>1,52,786</b>	<b>1,60,193</b>	<b>1,69,591</b>
<b>Current assets</b>						
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
<b>Total current assets</b>	<b>47,192</b>	<b>78,938</b>	<b>81,873</b>	<b>84,703</b>	<b>1,00,201</b>	<b>1,17,358</b>
<b>TOTAL ASSETS</b>	<b>1,54,931</b>	<b>1,99,442</b>	<b>2,19,598</b>	<b>2,37,489</b>	<b>2,60,394</b>	<b>2,86,948</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Equity</b>						
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
<b>Total equity</b>	<b>97,332</b>	<b>1,32,382</b>	<b>1,54,486</b>	<b>1,75,106</b>	<b>1,95,832</b>	<b>2,20,944</b>
<b>LIABILITIES</b>						
<b>Non-current liabilities</b>						
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
<b>Total non-current liabilities</b>	<b>36,332</b>	<b>32,980</b>	<b>33,643</b>	<b>15,519</b>	<b>20,925</b>	<b>20,925</b>
<b>Current liabilities</b>						
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
<b>Total current liabilities</b>	<b>21,266</b>	<b>34,079</b>	<b>31,468</b>	<b>46,864</b>	<b>43,637</b>	<b>45,080</b>
<b>Total liabilities</b>	<b>57,598</b>	<b>67,059</b>	<b>65,111</b>	<b>62,383</b>	<b>64,562</b>	<b>66,005</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,54,931</b>	<b>1,99,442</b>	<b>2,19,597</b>	<b>2,37,489</b>	<b>2,60,394</b>	<b>2,86,948</b>

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
18-Oct-22	20,831	22,888	ACCUMULATE	<b>Buy</b>	More than 15%
29-Jul-22	20,415	22,888	ACCUMULATE		
23-May-22	21,942	25,085	ACCUMULATE	<b>Accumulate</b>	5% – 15%
09-Feb-22	24,764	27,978	ACCUMULATE		
02-Nov-21	29,146	30,602	ACCUMULATE	<b>Hold</b>	0 – 5%
11-Aug-21	26,548	30,321	ACCUMULATE		
30-Jun-21	28,134	30,321	ACCUMULATE	<b>Reduce</b>	-5% – 0
				<b>Sell</b>	Less than – 5%

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