

Shree Cement

Margin recovers QoQ on fuel cost reduction

We maintain our **REDUCE** rating on Shree Cement (SRCM), with an unchanged SOTP target price of INR 22,600/share. In Q3FY23, Shree reported strong 23% volume growth (low base effect). However, unitary EBITDA came in 30% lower YoY to INR 881/MT, owing to subdued pricing while fuel prices remained elevated (despite a 10% fall QoQ). Thus, EBITDA/APAT fell 14/44% Unitary EBITDA recovered INR 180/MT QoQ in Q3 and is expected to recover further in Q4, driven by falling fuel prices and op-lev gains. SRCM would be expanding its capacity to 55/80mn MT by FY25/2030E (vs 46mn MT in FY22).

- **Q3FY23 performance:** Shree's standalone EBITDA came in line with ours and consensus estimates. Cement volume rose 8% QoQ to 8mn MT (+23% YoY on a low base due to transporters' strike). Utilisation improved to 69% vs 64/61% QoQ/YoY. Shree continues to sell 78-80% in the trade segment. While it reported flat blended NSR QoQ, grey NSR improved by 1% QoQ. Opex reduced 4% QoQ, driven by input costs reduction by ~INR 170/MT (fuel costs down 10% QoQ, green power share increased to 53% vs 47% YoY). Unit EBITDA recovered ~INR 180/MT QoQ to INR 881/MT. Depreciation went up 14% QoQ on account of solar power plants' capitalization.
- **Capex update and outlook:** During 9MFY23, SRCM added 84MW of solar power. Another 44MW will be added in Q4. Shree's cement expansions are on track: SGU in WB (3mn MT) expected in Q1FY24, IUs in Rajasthan (3.5mn MT) and Guntur (3mn MT) expected by Q3FY24 and Q2FY25 respectively. It spent INR 22bn in Capex during 9MFY23, and another INR 7bn will be spent in Q4FY23. Shree would spend INR 33-35bn in FY24E. The ongoing expansions will increase capacity to 55mn MT in FY25 and Shree is targeting 80mn MT by 2030. Shree is already using >50% low-cost green power (mainly WHRS). By FY24 end, it will also expand its thermal substitution rate to 15% from 3% in FY22. We maintain our estimates for FY23/24/25. We maintain our **REDUCE** rating on Shree, with an unchanged SOTP target price of INR 22,600/share, valuing its standalone cement business at 16.5x Mar-25E EBITDA and the UAE business at 1x BV.

Quarterly/annual financial summary (standalone)

YE Mar (INR bn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Sales Vol (mn MT)	8.0	6.6	22.6	7.5	7.7	26.8	27.7	31.3	33.9	36.8
NSR (INR/MT)	5,065	5,132	(1.3)	5,071	(0.1)	4,720	5,089	5,292	5,278	5,376
EBITDA (INR/MT)	881	1,260	(30.1)	701	25.6	1,483	1,315	974	1,149	1,174
Net Sales	40.69	33.62	21.0	37.81	7.6	126.69	141.16	165.89	178.73	197.90
EBITDA	7.08	8.26	(14.2)	5.23	35.4	39.80	36.48	30.54	38.91	43.22
APAT	2.77	4.92	(43.7)	1.90	46.0	23.12	23.77	14.17	19.11	18.57
AEPS (INR)	76.7	136.4	(43.7)	52.5	46.0	640.8	658.7	392.4	529.2	514.3
EV/EBITDA (x)						23.1	25.1	26.9	21.2	19.1
EV/MT (INR bn)						21.2	19.8	16.6	15.6	14.8
P/E (x)						42.5	41.3	61.9	45.9	47.2
RoE (%)						16.4	14.6	7.9	10.0	9.0

Source: Company, HSIE Research

REDUCE

CMP (as on 08 Feb 2023))	INR 24,300
Target Price	INR 22,600
NIFTY	17,872

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 22,600	INR 22,600
EBITDA revision %	FY23E	FY24E
	-	-

KEY STOCK DATA

Bloomberg code	SRCM IN
No. of Shares (mn)	36
MCap (INR bn) / (\$ mn)	877/10,623
6m avg traded value (INR mn)	1,547
52 Week high / low	INR 26,340/17,865

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.8	14.6	(1.9)
Relative (%)	4.7	11.6	(6.8)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	62.55	62.55
FIs & Local MFs	11.12	11.96
FPIs	12.37	12.50
Public & Others	13.96	12.99
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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