




Shree Cement

Estimate change 
TP change 
Rating change 

Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	874.7 / 10.6
52-Week Range (INR)	26333 / 17900
1, 6, 12 Rel. Per (%)	2/12/-6
12M Avg Val (INR M)	1289

Financial Snapshot (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	164.8	181.4	198.0
EBITDA	29.6	39.5	46.3
Adj. PAT	12.3	17.7	21.4
EBITDA Margin (%)	18.0	21.8	23.4
Cons. Adj. EPS (INR)	340	490	593
EPS Gr. (%)	-45.9	43.9	21.1
BV/Sh. (INR)	5,067	5,477	5,920

Ratios

Net D:E	-0.3	-0.3	-0.3
RoE (%)	6.9	9.3	10.4
RoCE (%)	7.2	9.3	10.4
Payout (%)	17.6	16.3	25.3

Valuations

P/E (x)	71.2	49.5	40.9
P/BV (x)	4.8	4.4	4.1
EV/EBITDA(x)	26.8	20.4	17.4
EV/ton (USD)	207	184	175
Div. Yield (%)	0.2	0.3	0.6
FCF Yield (%)	-0.5	0.5	0.9

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	62.6	62.6	62.6
DII	11.8	11.1	10.5
FII	12.7	12.4	13.1
Others	13.0	14.0	13.9

FII Includes depository receipts

CMP: INR24,242 TP: INR22,410 (-8%) Neutral

Strong volumes but lower realization led to earnings miss

Capacity to be expanded to 80mtpa by 2030 from 46.4mtpa at present

- Shree Cement (SRCM)'s 3QFY23 performance was below our estimates led by lower realization (up 1% QoQ v/s est. 3% growth). EBITDA was at INR7.1b v/s est. INR7.5b and EBITDA/t was at INR881 (v/s est. INR940). Profit stood at INR2.8b v/s est. INR3.6b, on higher depreciation and ETR.
- The management's key focus areas will be on ESG, brand building, new investments and initiatives as well as digitization. The target is to achieve a capacity of 80mtpa (9.5mtpa under execution) by 2030 v/s 46.4mtpa now.
- We reduce our FY23E EPS by 7.5% on weak 3QFY23 performance, while keeping our FY24/FY25 estimates intact. We expect SRCM's cost benefits over peers to narrow gradually. The stock's valuation at 20.4x FY24E EV/EBITDA appears rich and hence, we maintain our **Neutral** rating.

Sales volume up 23% YoY; OPM stood at 17.4%

- SRCM's Revenue/EBITDA/Profit stood at INR40.7b/INR7.1b/INR2.8b; +15%/-14%/-44% YoY and 2%/5%/22% below our estimates, respectively. Sales volume rose 23% YoY. Cement realization was up 2% YoY and 1% QoQ.
- Average fuel consumption cost stood at INR2.53/Kcal v/s INR1.69 in 3QFY22 and INR2.83 in 2QFY23. Employee costs/other expenses per tonne declined 10%/13% YoY, benefited by higher volumes. EBITDA/t declined 30% YoY and OPM contracted 5.8pp YoY.
- In 9MFY23, revenue rose 18% YoY to INR121b led by volume/realization growth of 17%/1%, respectively. However, EBITDA declined 25% YoY to INR20.5b due to a sharp increase in Opex/t (up 15% YoY). OPM contracted 9.8pp YoY to 17%. PAT declined 55% YoY to INR7.8b during the period.

Highlights from the management commentary

- Cost reduction/profit improvement levers: 1) building on brand equity – the entire sales team has been reorganized and a new marketing vertical has been created; 2) increase in rail dispatches; 3) usage of agricultural and industrial waste (cost will be INR1.5/kcal) and 4) new solar power units – 43MW addition in the next few months that will further be increased.
- The grinding unit in Purulia, West Bengal (3mtpa capacity) will be commissioned by Jun'23. The integrated plant in Nawalgarh, Rajasthan (clinker/cement capacity of 3.8mtpa/3.5mtpa) and Guntur, Andhra Pradesh (clinker/cement capacity of 1.5mtpa/3mtpa) will be commissioned in 3QFY24 and 2QFY25, respectively.

Valuation expensive; maintain Neutral

- SRCM is expanding its domestic grinding capacity by 9.5mtpa by FY25E. Its capex in FY23/FY24 is pegged at INR29b/INR33-35b, respectively. It targets to raise the domestic grinding capacity to 80mtpa (v/s 46mtpa currently) by 2030, largely via organic route (mix of brownfield/Greenfield expansions).
- The stock trades at 20.4x FY24E EV/EBITDA (v/s its 10-year average one-year forward EV/EBITDA of 19x), which appears rich. We maintain our **Neutral** rating and value the stock at 16x Sep'24E EV/EBITDA to arrive at our revised TP of INR22,410 (v/s earlier TP of INR21,500).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone quarterly performance

(INR b)

	FY22				FY23				FY22	FY23E	FY23	Var.
Y/E March	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net Sales	34.5	32.1	35.5	41.0	42.0	37.8	40.7	44.3	143.3	164.8	41.4	-2
YoY Change (%)	48.3	6.1	7.3	4.3	21.8	17.9	14.6	8.0	13.7	15.0	16.6	
Total Expenditure	24.4	23.1	27.3	31.9	33.8	32.6	33.6	35.2	106.8	135.2	33.9	-1
EBITDA	10.1	9.0	8.3	9.1	8.2	5.2	7.1	9.1	36.5	29.6	7.5	-5
Margin (%)	29.4	28.0	23.2	22.2	19.5	13.8	17.4	20.5	25.5	18.0	18.1	
Depreciation	2.3	2.5	2.5	3.0	3.3	3.6	4.1	4.2	10.4	15.2	3.8	10
Interest	0.5	0.6	0.6	0.5	0.6	0.7	0.7	0.7	2.2	2.7	0.7	10
Other Income	1.4	1.5	1.1	1.4	-0.2	1.6	1.6	1.7	5.4	4.6	1.6	4
PBT before EO Exp.	8.7	7.4	6.3	6.9	4.1	2.5	3.8	5.9	29.3	16.3	4.6	-17
Extra-Ord. Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	8.7	7.4	6.3	6.9	4.1	2.5	3.8	5.9	29.3	16.3	4.6	-17
Tax	2.0	1.6	1.4	0.5	1.0	0.6	1.1	1.4	5.5	4.0	1.1	
Rate (%)	23.6	22.1	21.7	7.0	23.4	23.9	28.0	24.0	18.9	24.8	23.0	
Reported PAT	6.6	5.8	4.9	6.5	3.2	1.9	2.8	4.5	23.8	12.3	3.6	-22
Adj. PAT	6.6	5.7	4.9	5.5	3.2	1.9	2.8	4.5	22.7	12.3	3.6	-22
YoY Change (%)	78.5	6.8	-21.4	-29.0	-52.3	-66.9	-43.7	-18.1	-1.3	-45.9	-27.4	

Quarterly performance

Sales Dispat. (mt)	6.84	6.32	6.55	8.03	7.50	7.46	8.03	8.70	27.74	31.69	7.96	1
YoY Change (%)	38.7	-3.2	-8.6	-2.3	9.7	18.0	22.6	8.4	3.3	14.3	21.5	
Realization	5,043	5,073	5,422	5,105	5,602	5,071	5,065	5,088	5,166	5,058	5,203	-3
YoY Change (%)	6.9	9.6	17.4	6.7	11.1	0.0	-6.6	-0.3	10.0	-2.1	-4.0	
Expenditure												
RM Cost	280	330	589	440	234	496	352	397	410	370	433	-19
Staff Cost	309	321	300	245	290	281	271	256	291	274	274	-1
Power and Fuel	954	994	1,233	1,336	1,923	1,646	1,622	1,463	1,140	1,516	1,596	2
Freight	1,217	1,118	1,162	1,172	1,204	1,148	1,174	1,193	1,169	1,180	1,160	1
Other Expenses	802	889	877	778	859	799	765	734	841	769	800	-4
Total Op. cost	3,561	3,651	4,162	3,971	4,511	4,369	4,184	4,042	3,851	4,110	4,262	-2
EBITDA	1,482	1,421	1,260	1,134	1,091	701	881	1,045	1,315	948	940	-6

Source: Company, MOFSL Estimates



Highlights from the management commentary

Future strategies and recent trends

- Volume guidance of 32mt implies 15% YoY growth in FY23 and 12% YoY/QoQ growth for 4QFY23. Capacity utilization stood at 72% v/s 61% in 3QFY22. Capacity utilization was at ~73% in North and East regions and ~62% in the South region. Improvement in capacity utilization was led by rise in construction activities across regions.
- Cement realization was up 2% YoY/ 1% QoQ to INR4,854 (v/s INR4,739 in 3QFY22 and INR4,805 in 2QFY23). Cement prices remained largely flat in Jan-Feb'23 v/s Dec'22-exit price.
- The management's key focus areas will be on: 1) ESG – it aims to be the greenest cement company in the country, 2) brand building – better positioning of existing brands and launch of a few new brands, 3) new investments and initiatives – capacity expansion and investment in renewable power and 4) increased digitization – technology adoption, CRM, SAP, etc.
- Cost reduction/profit improvement levers: 1) building on brand equity – the entire sales team has been reorganized and a new marketing vertical has been created; 2) increase in rail dispatches; 3) usage of agricultural and industrial waste (cost will be INR1.5/kcal) and 4) new solar power units – 43MW addition in the next few months that will further be increased.

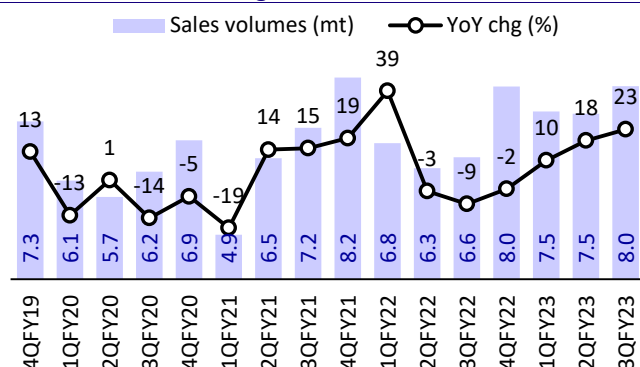
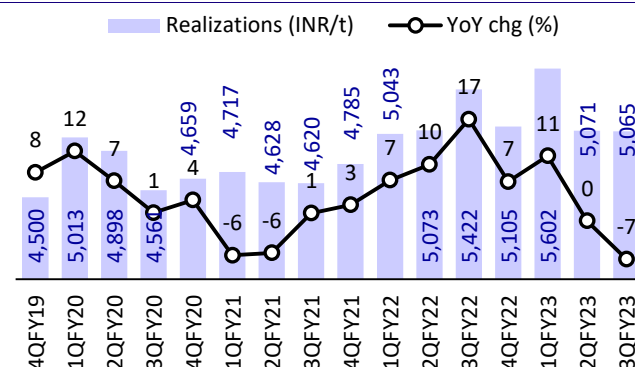
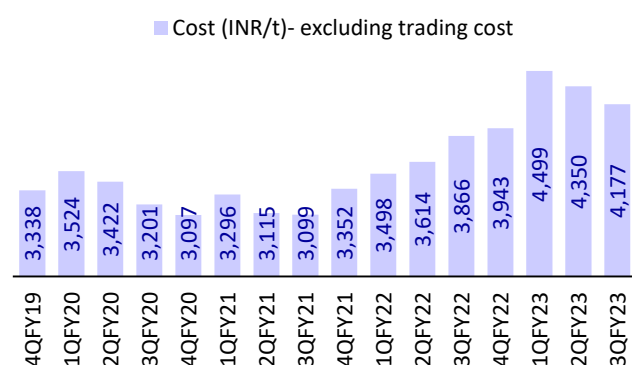
Operational highlights

- Average fuel consumption cost stood at INR2.53/Kcal v/s INR1.69 in 3QFY22 and INR2.83 in 2QFY23. Current fuel consumption cost stands at INR2.35/Kcal. The company used 58% petcoke and 28% coal in 3Q (balance was alternate fuels).
- Green power share stood at ~53% v/s ~47% in 3QFY22. It has added 84MW solar power plants in different states in FY23YTD and another 44MW solar power capacity is expected to be completed in FY23. The company aims to increase green power share to >55% in next two years. It will also commission WHRS capacity of 45MW (combined capacity) at Nawalgarh, Rajasthan and Guntur, Andhra Pradesh plants. Its current WHRS capacity in India stands at 242MW.
- Thermal Substitution rate has improved to 3.9% v/s 3.4% in 3QFY22. The company is stepping up its efforts to increase usage of agriculture and industrial waste to improve Thermal Substitution Rate (TSR). For this purpose, it has undertaken initiatives to strengthen its waste utilization capabilities by installing (likely by Mar'23) state-of-the-art facilities. This will help to improve usage of AFR. It targets to increase AFR share to 15% in next one year. The AFR (agricultural waste) will cost ~INR1.5/Kcal v/s current fuel cost of INR2.35/Kcal.
- Alternative raw material consumption was at 27% during the quarter. The company continues to focus on increased use of different waste materials including fly ash, sludge, etc.
- Trade sales were at 78-80%. Sales of premium products were at 7% for last few quarters and the target is to increase it to 15% in next one year.
- Average lead distance was at 450kms v/s 455kms in 3QFY22 and 441kms in 2QFY23.

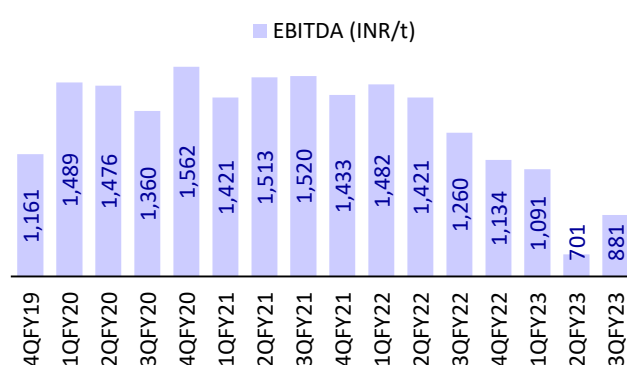
Capacity expansion and Capex update

- SRCM targets to increase domestic grinding capacity to 80mtpa (v/s 46mtpa currently) by 2030, largely through organic route (mix of brownfield and Greenfield expansions).
- The grinding unit in Purulia, West Bengal (3mtpa capacity) will be commissioned by Jun'23. The integrated plant in Nawalgarh, Rajasthan (clinker/cement capacity of 3.8mtpa/3.5mtpa) and Guntur, Andhra Pradesh (clinker/cement capacity of 1.5mtpa/3mtpa) will be commissioned in 3QFY24 and 2QFY25, respectively. Clinker/Grinding capacities will be at 34.9mtpa/55.9mtpa post-commissioning of these plants, respectively.
- The company has limestone reserve in Jaisalmer, Rajasthan and Kutch, Gujarat. At Kutch, the company has applied for environmental clearance. Further, the company has sufficient limestone reserves to explore brownfield expansions at all plants.
- Capex pegged at INR29b/INR33-35b for FY23/FY24. Capex stood at INR22b in 9MFY23.

Story in charts

Exhibit 1: Sales volume grew 28% YoY and 8% QoQ

Exhibit 2: Blended realization flat QoQ

Exhibit 3: OPEX/t (excluding trading cost) up 8% YoY but down 4% QoQ


Source: Company, MOFSL

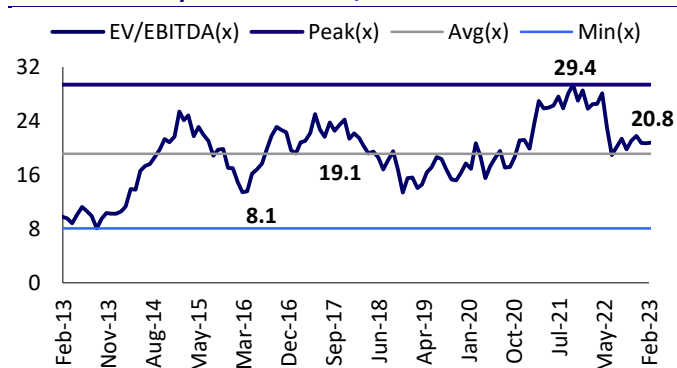
Exhibit 4: EBITDA/t fell 30% YoY but increased 26% QoQ to INR881 (est. INR940)


Source: Company, MOFSL

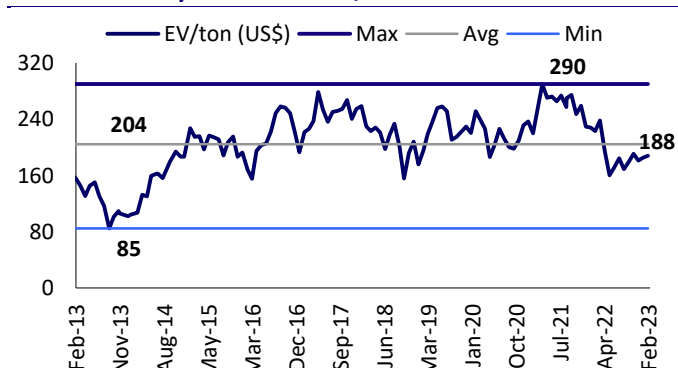
Exhibit 5: Key performance indicators – per tonne analysis

INR/t	3QFY23	3QFY22	YoY (%)	2QFY23	QoQ(%)
Net realization	5,065	5,422	-7	5,071	-0
RM Cost	352	589	-40	496	-29
Employee Expenses	271	300	-10	281	-4
Power, Oil, and Fuel	1,622	1,233	32	1,646	-1
Freight and Handling	1,174	1,162	1	1,148	2
Other Expenses	765	877	-13	799	-4
Total Expenses	4,184	4,162	1	4,369	-4
EBITDA	881	1,260	-30	701	26

Source: Company, MOFSL

Exhibit 6: One-year forward EV/EBITDA ratio chart


Source: Company, MOFSL

Exhibit 7: One-year forward EV/t chart


Source: Company, MOFSL

Standalone financials and valuations

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	98,894	1,17,599	1,19,301	1,26,037	1,43,297	1,64,791	1,81,358	1,98,020
Change (%)	17.0	18.9	1.4	5.6	13.7	15.0	10.1	9.2
EBITDA	24,728	27,869	36,745	39,547	36,478	29,592	39,488	46,309
Margin (%)	25.0	23.7	30.8	31.4	25.5	18.0	21.8	23.4
Depreciation	8,994	13,917	16,994	11,399	10,365	15,245	17,473	20,067
EBIT	15,734	13,952	19,751	28,148	26,114	14,347	22,015	26,242
Int. and Finance Charges	1,353	3,810	2,865	2,471	2,178	2,665	2,465	2,034
Other Income – Rec.	3,891	2,454	2,716	4,580	5,373	4,646	4,014	4,326
PBT before EO Expense	18,272	12,596	19,602	30,257	29,309	16,328	23,564	28,535
EO Expense/(Income)	0	1,781	0	0	0	0	0	0
PBT after EO Expense	18,272	10,814	19,602	30,257	29,309	16,328	23,564	28,535
Tax	4,466	2,177	5,248	7,536	4,382	4,327	5,891	7,134
Deferred Tax	-36	-873	-1,348	-398	1,161	-282	0	0
Tax Rate (%)	24.2	12.1	19.9	23.6	18.9	24.8	25.0	25.0
Reported PAT	13,842	9,510	15,702	23,119	23,766	12,283	17,673	21,401
Adj. PAT for EO items	13,842	10,754	15,702	23,017	22,721	12,283	17,673	21,401
Change (%)	3.4	-22.3	46.0	46.6	-1.3	-45.9	43.9	21.1
Margin (%)	14.0	9.1	13.2	18.3	15.9	7.5	9.7	10.8

Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	348	348	361	361	361	361	361	361
Other Reserves	88,620	95,626	1,29,003	1,52,140	1,72,348	1,82,466	1,97,252	2,13,241
Total Reserves	88,620	95,626	1,29,003	1,52,140	1,72,348	1,82,467	1,97,254	2,13,243
Net Worth	88,968	95,974	1,29,364	1,52,501	1,72,709	1,82,827	1,97,615	2,13,604
Deferred Liabilities	-5131	-6126	-7438	-7855	-6695	-6695	-6695	-6695
Secured Loan	23,761	27,980	31,042	21,332	20,142	20,858	17,070	14,216
Unsecured Loan	10,269	0	400	0	0	0	0	0
Total Loans	34,030	27,980	31,442	21,332	20,142	20,858	17,070	14,216
Capital Employed	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	1,96,990	2,07,990	2,21,124
Gross Block	65,480	88,365	1,03,634	1,13,644	1,35,229	1,53,229	1,96,229	2,26,229
Less: Accum. Deprn.	29,586	43,608	60,445	71,729	82,014	97,259	1,14,732	1,34,799
Net Fixed Assets	35,895	44,757	43,189	41,916	53,215	55,970	81,497	91,430
Capital WIP	18,303	14,725	12,576	12,836	9,729	20,729	7,729	2,729
Financial investments	54,341	22,856	63,575	83,712	86,014	81,014	78,014	77,014
Strategic Investment	3	21,583	25,579	26,794	29,445	29,445	29,445	29,445
Curr. Assets	37,749	41,886	41,022	37,275	49,056	52,517	58,307	65,349
Inventory	15,690	15,891	14,279	14,772	21,614	22,574	23,850	26,041
Account Receivables	4,593	7,324	8,285	4,859	5,957	8,127	8,944	9,765
Cash and Bank Balance	3,209	3,078	1,082	2,098	1,183	296	764	1,081
Others	14,258	15,593	17,378	15,547	20,303	21,521	24,749	28,461
Curr. Liability and Prov.	28,422	27,980	32,574	36,555	41,304	42,687	47,005	44,845
Account Payables	28,338	27,886	32,470	36,430	41,160	42,543	46,861	44,702
Provisions	85	93	104	125	144	144	144	144
Net Current Assets	9,327	13,907	8,449	721	7,752	9,830	11,302	20,503
Appl. of Funds	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	1,96,990	2,07,990	2,21,124

Source: Company, MOFSL

Standalone financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	396.3	308.7	435.2	637.9	629.7	340.4	489.8	593.2
Cash EPS	776.7	399.5	471.0	315.9	287.3	422.5	484.3	556.2
BV/Share	2,553.6	2,754.7	3,585.5	4,226.7	4,786.8	5,067.2	5,477.0	5,920.2
DPS	50.0	60.0	110.0	60.0	90.0	60.0	80.0	150.0
Payout (%)	12.6	22.0	25.3	9.4	13.7	17.6	16.3	25.3
Valuation (x)								
P/E		78.5	55.7	38.0	38.5	71.2	49.5	40.9
Cash P/E		60.7	51.5	76.7	84.4	57.4	50.1	43.6
P/BV		8.8	6.8	5.7	5.1	4.8	4.4	4.1
EV/Sales		7.3	6.9	6.3	5.6	4.8	4.4	4.1
EV/EBITDA		30.9	22.6	20.2	21.9	26.8	20.4	17.4
EV/t (USD-Cap)		276	249	223	208	207	185	175
Dividend Yield (%)		0.2	0.5	0.2	0.4	0.2	0.3	0.6
Return Ratios (%)								
RoIC	43.5	23.4	25.8	39.2	33.4	15.6	20.3	20.0
RoE	16.7	11.6	13.9	16.3	14.0	6.9	9.3	10.4
RoCE	14.0	11.7	12.6	14.9	13.9	7.2	9.3	10.4
Working Capital Ratios								
Inventory (Days)	58	49	44	43	55	50	48	48
Debtor (Days)	16	23	25	14	15	18	18	18
Creditor (Days)	105	87	99	106	105	94	94	82
Working Capital Turnover (Days)	34	43	26	2	20	22	23	38
Leverage Ratio (x)								
Current Ratio	1.3	1.5	1.3	1.0	1.2	1.2	1.2	1.5
Net Debt/Equity ratio	-0.3	0.0	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	18,272	10,814	19,602	30,257	29,309	16,328	23,564	28,535
Depreciation	8,994	13,916	16,994	11,399	10,365	15,245	17,473	20,067
Interest and Finance Charges	-740	833	1,132	220	-849	0	0	0
Direct Taxes Paid	-5,068	-2,300	-4,859	-7,439	-1,959	-4,045	-5,891	-7,134
(Inc.)/Dec. in WC	-1,131	-5,302	5,591	8,762	-7,321	-2,965	-1,003	-8,884
CF from Operations	20,327	17,962	38,460	43,200	29,546	24,562	34,142	32,583
Others	-1,540	2,635	-947	-2,264	-2,317	0	0	0
CF from Operations incl. EO	18,788	20,597	37,513	40,936	27,229	24,562	34,142	32,583
(Inc.)/Dec. in FA	-25,263	-18,853	-12,941	-9,984	-19,483	-29,000	-30,000	-25,000
Free Cash Flow	-6,475	1,744	24,572	30,953	7,746	-4,438	4,142	7,583
(Pur.)/Sale of Investments	-10,685	10,727	-42,478	-17,791	-77	5,000	3,000	1,000
Others	-3	51	0	0	0	0	0	0
CF from Investments	-35,950	-8,075	-55,419	-27,774	-19,559	-24,000	-27,000	-24,000
Issue of Shares	0	0	23,833	0	0	0	0	0
Inc./(Dec.) in Debt	20,353	-7,591	1,175	-9,610	-2,707	716	-3,787	-2,854
Interest Paid	-1,248	-2,753	-2,868	-2,514	-2,088	0	0	0
Dividend Paid	-1,843	-2,308	-6,231	-22	-3,789	-2,165	-2,886	-5,412
CF from Fin. Activity	17,262	-12,653	15,910	-12,146	-8,584	-1,449	-6,674	-8,266
Inc./Dec. in Cash	99	-131	-1,997	1,016	-915	-887	469	317
Opening Balance	3,110	3,209	3,078	1,081	2,097	1,183	296	764
Closing Balance	3,209	3,078	1,081	2,097	1,183	296	764	1,081

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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