

Shree Cement

Refer to important disclosures at the end of this report

Focus on branding and cost optimization

- Shree Cement's (Shree) key focus over the next few years is likely to be on: 1) lowering pricing gap with peers through branding, marketing initiatives, and increasing share of premium products; 2) cost-optimization initiatives to maintain its cost-leadership position; 3) higher-than-industry volume growth to gain market share and better operating leverage.
 - Management intends to focus on building brands to narrow down the pricing gap (Rs20-25/bag) with peers by creating separate teams for sales and marketing functions, formation of technical services team, digitization initiatives including mobile app, increasing share of premium products to 15% of trade sales (vs. 7-8% currently) in the next 3-4 quarters, and higher A&P spends.
 - Shree is also likely to maintain its cost-leadership position with an increasing share of rail mix and lowering lead distance, rising share of green power, higher usage of AFR, and better operating leverage. We estimate a sustainable cost-savings potential of Rs60-80/ton over the next few years.
 - Management targets volume growth at 1.2-1.3x the industry's over the next few years (6-8% CAGR for the industry), led by capacity additions. Management has reiterated its capacity guidance of 80mt by FY30 (8% CAGR) and thus become a pan-India player.
 - We maintain our positive stance on the company; however, given only a modest upside on the TP, we maintain our HOLD rating with TP of Rs25,000, based on 15x FY25E EV/E.
- Targets narrowing the pricing gap with peers:** Shree's average price stands Rs20-25/bag, lower than peers. Accordingly, to improve branding and bridging this gap, the company has taken various initiatives, such as: i) creating separate teams for the sales and marketing functions; ii) formation of technical services teams for increasing sales, via close interaction with end-users; iii) digitization initiatives such as mapping of influencers with network through mobile applications; iv) pushing up premium-product sales (higher by Rs20-25/bag) to increase its overall share, from 7-8% of trade sales to 15% in the next 3-4 quarters; v) focus on pushing direct sales; and vi) higher A&P spends (~3% of sales in FY22), supported by a strong balance sheet.
 - Focus on cost optimization for maintaining leadership position:** Shree has always been a cost leader (opex/ton was 10-15% lower than the industry's), given its various proactive measures to improve efficiencies. To maintain its leadership position, the company is working on: i) logistics cost optimization by setting up railway sidings at new project sites as well as at existing locations (e.g. Panipat, Kodla, and Baloda Bazar) for increasing the cheaper mode of rail share (12% in Q3) to 25-30% over the next 2-3 years. Additionally, commissioning of new projects will help to reduce lead distance (~450km in Q3) over coming years; ii) increasing its green power share to 55-60% (53% in Q3) in the next two years, through new renewable capacity additions; iii) enhancing AFR usage to 15% by FY24 (average cost of Rs1.2-1.3/Kcal vs. Rs2-2.5/Kcal for other fuels); and iv) better operating leverage led by higher-than-industry volume growth. **Accordingly, we estimate sustainable cost-savings potential of Rs60-80/ton over the next few years.**
 - Aims for volume growth at 1.2-1.3x the industry's, over the next few years:** Management expects industry demand to report a 6-8% CAGR, while Shree's volumes are likely to grow at 1.2-1.3x the industry's (~1.5x growth in the past decade) over the next few years, owing to strong volume push and capacity additions. The company has current capacity of 46.4mt and capacity under construction of 9.5mt; thus, its capacity should increase to 56mt by Q2FY25. Management has reiterated its capacity guidance of 80mt (8% CAGR), which likely includes greenfield capacity additions at Rajasthan (Jaisalmer) and Gujarat as well as brownfield potential at Nawalgarh, Raipur, Guntur, and Karnataka.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	134,763	150,096	178,663	204,671	244,218
EBITDA	40,514	37,079	30,730	42,859	54,945
EBITDA Margin (%)	30.1	24.7	17.2	20.9	22.5
APAT	22,859	23,319	13,783	22,218	29,465
EPS (Rs)	633.6	646.3	382.0	615.8	816.7
EPS (% chg.)	48.8	2.0	(40.9)	61.2	32.6
ROE (%)	16.0	14.2	7.7	11.4	13.7
P/E (x)	39.6	38.8	65.6	40.7	30.7
EV/EBITDA (x)	21.4	22.6	27.1	19.5	15.1
P/BV (x)	5.9	5.2	4.9	4.4	4.0

Source: Company, Emkay Research. am.emkay@whitemarquesolutions.com use and downloaded at 03/21/2023 01:39 PM

CMP	Target Price
Rs 25,076	Rs 25,000 (■)
as of (March 20, 2023)	12 months
Rating	Upside
HOLD (■)	(0.3) %

Change in Estimates

EPS Chg. FY23E/FY24E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs. Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	382.0	615.8
Consensus	444.9	703.6
Mean Consensus TP (12M)	Rs 23,497	

Stock Details

Bloomberg Code	SRCM IN
Face Value (Rs)	10
Shares outstanding (mn)	36
52-Week H/L	27,049 / 17,865
M Cap (Rs bn/USD bn)	905 / 10.95
Daily Avg. Volume (nos.)	54,944
Daily Avg. Turnover (USD mn)	16.4

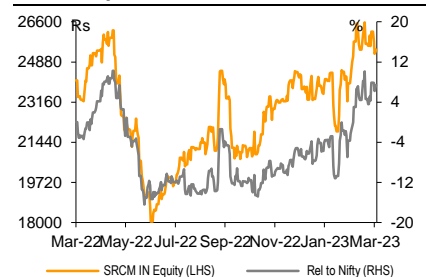
Shareholding Pattern Dec-22

Promoters	62.6%
FIIIs	12.5%
DIIIs	12.0%
Public and Others	13.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	6	8	4
Rel. to Nifty	(1)	14	13	6

Relative price trend



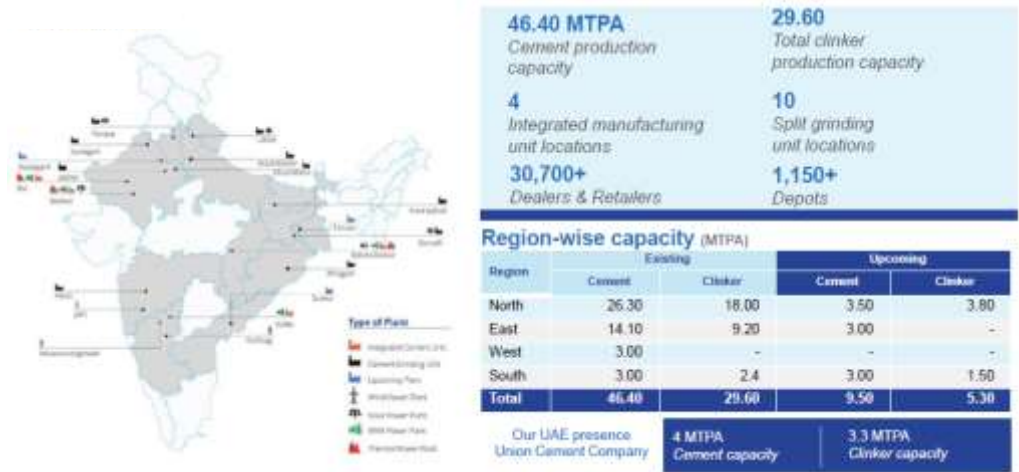
Source: Bloomberg

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Exhibit 1: Ongoing projects to increase cement capacity to 56mt (from 46.4mt) by Q2FY25

Source: Company, Emkay Research

Exhibit 2: Targets increasing the share of green power to 55-60% in the next two years

Source: Company, Emkay Research

Exhibit 3: Focus on branding, to narrow the pricing gap with peers; also confident of achieving double-digit volume growth by FY24

Source: Company, Emkay Research

Exhibit 4: Aiming for 80mt capacity (8% CAGR) by FY30

46.4 MTPA
Current capacity



55.9 MTPA
By FY2025



80 MTPA
By FY2030

9.5 MTPA of cement project across the country in different phases of implementation

<u>Projects</u>	<u>Cement capacity</u>	<u>Clinker capacity</u>
Purulia, West Bengal (Scheduled commissioning in Q1 of FY 2023-24)	3.0 MTPA	-
Nawalgarh, Rajasthan (Targeted commissioning in Q3 of FY 2023-24)	3.5 MTPA	3.8 MTPA
Guntur, Andhra Pradesh (Targeted commissioning in Q2 of FY 2024-25)	3.0 MTPA	1.5 MTPA
TOTAL	9.5 MTPA	5.3 MTPA

₹ 6500 crore capex to be funded through internal accruals

Source: Company, Emkay Research

Exhibit 5: We maintain HOLD with a TP of Rs25,000/share, based on Mar-25E EV/E**EV/E method, backed by DCF analysis**

Mar-25E EBITDA (Rs bn)	55
EV/E (x)	15
Enterprise Value (Rs bn)	825
Net cash (Mar-24E; Rs bn)	77
Equity value (Rs bn)	902
No. of shares (mn)	36
Mar-24E Target Price (Rs/share)	25,000

Source: Emkay Research

Annual analysis

Exhibit 6: Key assumptions (Consolidated)

Operational details	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR% FY18-22	CAGR% FY22-25E
Capacity (mt)	35	42	44	45.4	49.4	53	58	64	9.1	9.0
Volumes (mt)	23	29	28	30	31	36	40	47	8.7	13.9
Utilization (%)	76	75	65	66	66	67	69	73		
Blended Realization (Rs/ton)	4,364	4,368	4,609	4,523	4,765	4,985	5,115	5,248	2.2	3.3
EBITDA/ton (Rs/ton)	1,074	1,008	1,346	1,360	1,177	857	1,071	1,181	2.3	0.1
P&L (Rs bn)										
Revenue	98	126	129	135	150	179	205	244	11.2	17.6
EBITDA	24	29	38	41	37	31	43	55	11.2	14.0
PAT	13	12	15	23	23	14	22	29	15.0	8.1
Balance Sheet (Rs bn)										
Equity	89	97	132	154	175	186	203	227		
Net Cash	24	(1)	37	67	73	70	74	85		
Cash Flow (Rs bn)										
OCF before WC change	26	27	32	33	39	30	42	53		
Change in WC	(1)	(7)	7	9	(8)	(1)	(1)	(1)		
Capex	(25)	(19)	(15)	(11)	(22)	(30)	(33)	(36)		
FCF	(0)	1	23	31	8	(1)	8	16		
Return ratios (%) - Post tax										
RoE	16.1	12.4	13.4	16.0	14.2	7.7	11.4	13.7		
RoCE	14.1	12.8	12.8	15.2	14.0	8.3	11.6	13.8		
RoIC	31.6	20.9	20.1	29.8	27.1	13.3	18.7	22.3		
Valuations (x)										
P/E						65.6	40.7	30.7		
EV/EBITDA						27.1	19.5	15.1		
EV/ton (USD)						197	179	162		

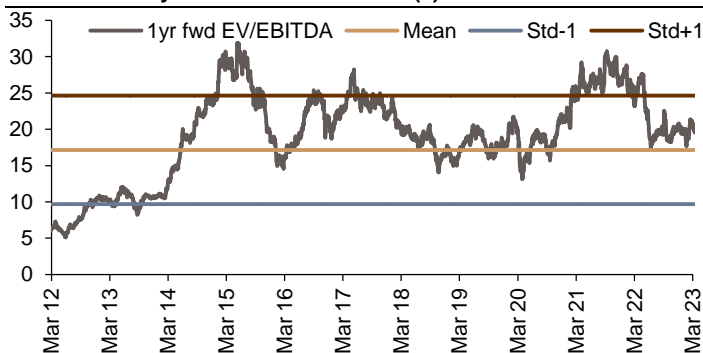
Source: Company, Emkay Research

Exhibit 7: Annual analysis on per ton basis (Consolidated)

Rs/ton (Consol.)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Blended realization	4,364	4,368	4,609	4,523	4,765	4,985	5,115	5,248
% YoY	4.8	0.1	5.5	(1.8)	5.3	4.6	2.6	2.6
Raw materials consumed	342	354	355	359	330	417	434	443
Power & fuel costs	879	1,076	968	788	1,149	1,616	1,518	1,514
Freight costs	1,120	1,020	953	1,044	1,047	1,091	1,088	1,125
Staff costs	261	267	306	292	290	284	277	249
Other expenses	688	643	680	680	772	720	726	736
Operating costs	3,289	3,360	3,262	3,164	3,588	4,128	4,044	4,067
% YoY	11.5	2.1	(2.9)	(3.0)	13.4	15.0	(2.0)	0.6
Blended EBITDA	1,074	1,008	1,346	1,360	1,177	857	1,071	1,181
% YoY	(11.5)	(6.2)	33.6	1.0	(13.4)	(27.2)	24.9	10.2

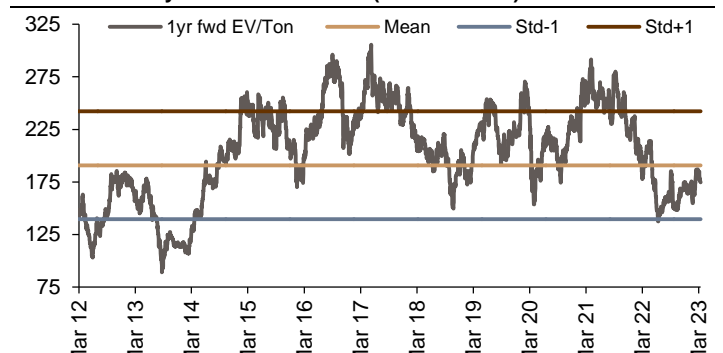
Source: Company, Emkay Research

Exhibit 8: One-year forward EV/EBITDA (x)



Source: Bloomberg, Emkay Research

Exhibit 9: One-year forward EV/ton (in USD terms)



Source: Bloomberg, Emkay Research

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Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	134,763	150,096	178,663	204,671	244,218
Expenditure	94,250	113,016	147,933	161,811	189,273
EBITDA	40,514	37,079	30,730	42,859	54,945
Depreciation	12,623	11,459	16,544	19,510	23,518
EBIT	27,890	25,621	14,186	23,349	31,428
Other Income	4,663	5,459	4,509	4,877	5,140
Interest expenses	2,513	2,161	2,736	2,234	2,114
PBT	30,041	28,918	15,959	25,993	34,454
Tax	7,145	5,552	2,128	3,726	4,938
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(37)	(47)	(48)	(49)	(50)
Reported Net Income	22,859	23,319	13,783	22,218	29,465
Adjusted PAT	22,859	23,319	13,783	22,218	29,465

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	361	361	361	361	361
Reserves & surplus	153,613	174,242	185,269	203,043	226,615
Net worth	153,974	174,603	185,629	203,404	226,976
Minority Interest	512	503	513	523	534
Loan Funds	23,403	20,142	20,142	18,142	16,142
Net deferred tax liability	(7,861)	(6,744)	(6,406)	(5,869)	(5,163)
Total Liabilities	170,027	188,504	199,878	216,200	238,489
Net block	62,163	72,822	86,837	100,147	112,684
Investment	85,005	90,326	88,326	88,326	88,326
Current Assets	50,138	57,061	59,239	64,515	76,650
Cash & bank balance	7,084	2,897	1,508	3,800	12,805
Other Current Assets	519	519	519	519	519
Current liabilities & Provision	37,244	42,241	44,392	46,655	49,038
Net current assets	12,895	14,820	14,848	17,861	27,612
Misc. exp	0	0	0	0	0
Total Assets	170,027	188,504	199,878	216,200	238,489

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	30,041	23,413	11,402	21,067	29,264
Other Non-Cash items	(4,396)	1,118	(319)	(260)	(345)
Chg in working cap	9,208	(6,112)	(1,417)	(721)	(746)
Operating Cashflow	42,538	26,487	26,819	38,104	48,866
Capital expenditure	(11,291)	(22,689)	(29,890)	(32,820)	(36,055)
Free Cash Flow	31,247	3,798	(3,072)	5,284	12,811
Investments	(20,227)	(5,321)	2,000	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(29,335)	(22,551)	(23,381)	(27,943)	(30,915)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(9,610)	(3,261)	0	(2,000)	(2,000)
Dividend paid (incl tax)	(111)	(1,624)	(2,757)	(4,444)	(5,893)
Other Financing Cash Flow	0	(1,077)	667	808	1,061
Financing Cashflow	(12,261)	(8,122)	(4,826)	(7,869)	(8,946)
Net chg in cash	941	(4,187)	(1,388)	2,292	9,005
Opening cash position	6,142	7,084	2,897	1,508	3,800
Closing cash position	7,084	2,897	1,508	3,800	12,805

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	30.1	24.7	17.2	20.9	22.5
EBIT Margin	20.7	17.1	7.9	11.4	12.9
Effective Tax Rate	23.8	19.2	13.3	14.3	14.3
Net Margin	17.0	15.6	7.7	10.9	12.1
ROCE	19.9	17.3	9.6	13.6	16.1
ROE	16.0	14.2	7.7	11.4	13.7
RoIC	29.8	27.1	13.3	18.7	22.3

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	633.6	646.3	382.0	615.8	816.7
CEPS	983.4	963.9	840.6	1,156.6	1,468.5
BVPS	4,267.6	4,839.3	5,144.9	5,637.6	6,290.9
DPS	60.0	45.0	76.4	123.2	163.3

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	39.6	38.8	65.6	40.7	30.7
P/CEPS	25.5	26.0	29.8	21.7	17.1
P/BV	5.9	5.2	4.9	4.4	4.0
EV / Sales	6.2	5.5	4.7	4.1	3.4
EV / EBITDA	21.4	22.6	27.1	19.5	15.1
Dividend Yield (%)	0.2	0.2	0.3	0.5	0.7

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt/EBIDTA	(1.7)	(1.9)	(2.2)	(1.7)	(1.5)
Working Cap Cycle (days)	15.7	29.0	27.3	25.1	22.1

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4.7	11.4	19.0	14.6	19.3
EBITDA	7.8	(8.5)	(17.1)	39.5	28.2
EBIT	42.9	(8.1)	(44.6)	64.6	34.6
PAT	48.8	2.0	(40.9)	61.2	32.6

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	35,518	40,988	42,027	37,809	40,688
EBITDA	8,255	9,106	8,188	5,230	7,080
EBITDA Margin (%)	23.2	22.2	19.5	13.8	17.4
PAT	4,920	6,452	3,156	1,896	2,768
EPS (Rs)	136.4	178.8	87.5	52.5	76.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	62.6	62.6	62.6	62.6	62.6
FIs	13.1	12.2	11.9	12.4	12.5
DIs	10.5	11.2	11.2	11.1	12.0
Public and Others	13.9	14.1	14.4	14.0	13.0

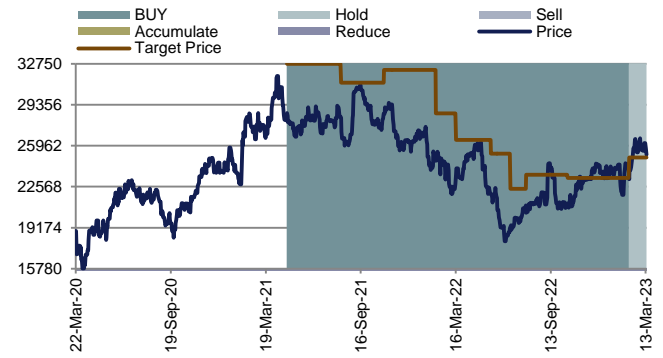
Source: Capitaline

RECOMMENDATION HISTORY - Details

Date	CMP (Rs/sh)	TP (Rs/sh)	Period	Rating	Analyst
2-Mar-23	26,577	25,000	12m	Hold	Dharmesh Shah
9-Feb-23	23,200	25,000	12m	Hold	Dharmesh Shah
5-Feb-23	24,468	23,300	12m	Buy	Dharmesh Shah
29-Dec-22	23,257	23,300	12m	Buy	Dharmesh Shah
5-Dec-22	23,756	23,300	12m	Buy	Dharmesh Shah
5-Nov-22	22,964	23,300	12m	Buy	Dharmesh Shah
15-Oct-22	21,189	23,300	12m	Buy	Dharmesh Shah
4-Oct-22	21,010	23,550	12m	Buy	Dharmesh Shah
4-Sep-22	21,088	23,550	12m	Buy	Dharmesh Shah
28-Jul-22	20,415	23,550	12m	Buy	Dharmesh Shah
12-Jul-22	19,962	22,400	12m	Buy	Dharmesh Shah
4-Jul-22	19,292	22,400	12m	Buy	Dharmesh Shah
28-Jun-22	19,237	22,400	12m	Buy	Dharmesh Shah
22-May-22	22,001	25,300	12m	Buy	Dharmesh Shah
16-Mar-22	23,595	26,450	12m	Buy	Dharmesh Shah
6-Feb-22	24,724	28,650	12m	Buy	Dharmesh Shah
31-Dec-21	26,987	32,250	12m	Buy	Dharmesh Shah
2-Dec-21	26,290	32,250	12m	Buy	Dharmesh Shah
30-Oct-21	28,635	32,250	12m	Buy	Dharmesh Shah
15-Sep-21	31,040	31,200	12m	Buy	Dharmesh Shah
5-Sep-21	30,441	31,200	12m	Buy	Dharmesh Shah
9-Aug-21	28,273	31,200	12m	Buy	Dharmesh Shah
6-Aug-21	28,387	32,750	12m	Buy	Dharmesh Shah
6-Jun-21	28,154	32,750	12m	Buy	Dharmesh Shah
22-May-21	27,623	32,750	12m	Buy	Dharmesh Shah
28-Apr-21	28,688	32,750	12m	Buy	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY - Trend



Source: Bloomberg, Company, Emkay Research

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