



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↑	✗

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jul 08, 2023

28.15

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

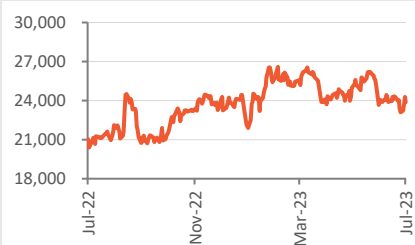
Company details

Market cap:	Rs. 86,182 cr
52-week high/low:	Rs. 27,013 / 20,062
NSE volume: (No of shares)	0.3 lakh
BSE code:	500387
NSE code:	SHREECEM
Free float: (No of shares)	1.4 cr

Shareholding (%)

Promoters	62.6
FII	12.6
DII	12.0
Others	12.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.7	0.7	9.0	13.6
Relative to Sensex	-5.1	-8.6	-2.6	-5.1

Sharekhan Research, Bloomberg

Shree Cement Ltd

Valuation premium narrows; Upgrade to Hold

Cement	Sharekhan code: SHREECEM		
Reco/View: Hold	↑	CMP: Rs. 23,886	Price Target: Rs. 26,400 ↑
↑ Upgrade ↔ Maintain ↓ Downgrade			

Summary

- In Q1FY2024, standalone operational performance met estimates while net profit beat was led by lower than estimated depreciation.
- Management remains optimistic on the near as well as long-term demand environment leading to accelerated capacity addition plans of 12 MTPA by FY2025 end at a capex of Rs. 7000 crore. It ventures into the RMC business too.
- Income Tax survey followed by the Ministry of Corporate Affairs notice remains a key hangover on the stock.
- We upgrade Shree Cement to Hold with a revised PT of Rs. 26,400, assigning a higher valuation multiple in-line with the industry major. Valuation premium vis-à-vis key peers has narrowed down as per our expectations.

Shree Cement Limited reported an operationally in-line standalone performance for Q1FY2024, while net profit beat was mainly led by lower-than-expected depreciation. Standalone revenues stood at Rs. 4,999 crore (up 18.9% y-o-y) driven by strong volume growth (up 18.9% y-o-y, growth across regions) while blended realisations remained flat y-o-y (cement realisations were lower 4% y-o-y). Blended EBITDA/tonne at Rs. 1045 (down 4% y-o-y) was in line with our expectations of Rs. 1057 led by lower power & fuel costs (down 11% y-o-y on per tonne basis) and lower other expenses (down 13% y-o-y). Further, higher other income, lower depreciation and lower effective tax rate aided in 84% y-o-y growth in standalone net profit at Rs. 581 crore (much higher than our estimate). The management remains optimistic on the near as well as long-term demand environment leading to acceleration of capacity expansion plans to reach 72.4 MTPA cement capacity by FY2025 end and beyond 80 MTPA (to be announced under the next phase of expansion). Its existing capacity additions projects remain on track.

Key positives

- Strong volume growth of 19% y-o-y aided by double-digit volume growth across North, South and East regions.
- Announcement of accelerated capacity addition plans to capture strong cement demand growth outlook over the next few years.

Key negatives

- Income tax survey followed by Ministry of Corporate affairs notice remains a key hangover.
- Revenues from the power division are yet to be disclosed by the company, which is expected from Q2FY2024 onwards, providing better clarity on the cement division's performance.

Management Commentary

- The company expects cement demand to grow at double digits in FY2024, led by solid infrastructure and housing-led demand which has led to the next phase of capacity additions of 12 MTPA by FY2025 end.
- The petcoke consumption cost for Q1FY2024 was Rs. 237 per Kcal., currently at Rs. 1.8-1.85 per Kcal. The same is expected to lead to a further decline in power & fuel costs in Q2FY2024.
- It has started trial commissioning of its 3 MT Purulia grinding unit. The 3.5 MT Nawalgarh capacity is expected by Q3FY2024. The Guntur project in A.P. is expected by Q2FY2025.

Revision in estimates – We have increased our earnings estimates for FY2024-FY2025 factoring in higher volume growth.

Our Call

Valuation – Upgrade to Hold with a revised PT of Rs. 26,400: Shree Cement is on a strong volume growth trajectory over the next two years, aided by sustained healthy demand and new capacity additions. Further, operational profitability is expected to improve, led by declining power & fuel costs. However, we expect it to largely remain at par with the sector's leader. The recent IT survey and Ministry of Corporate Affairs notice remain a key hangover on the stock. The stock has corrected ~9% from the peak of little over a month. It is currently trades at an EV/EBITDA of 15.6x its FY2025E earnings. We upgrade the stock to Hold with a revised price target (PT) of Rs. 26,400 assigning higher valuation multiple in-line with industry major.

Key Risks

Weak demand and pricing environment in North and East India can negatively affect profitability.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	14,305.9	16,837.5	20,300.0	22,932.3
OPM (%)	24.6	17.8	19.3	21.1
Adjusted PAT	2,136.6	1,234.7	1,728.7	2,162.0
% YoY growth	(7.6)	(42.2)	40.0	25.1
Adjusted EPS (Rs.)	592.2	352.4	479.1	599.2
P/E (x)	40.5	68.0	50.0	40.0
P/B (x)	5.0	4.7	4.4	4.1
EV/EBITDA (x)	21.7	25.5	19.5	15.7
RoNW (%)	13.1%	7.2%	9.1%	10.6%
RoCE (%)	12.6%	7.2%	8.9%	10.1%

Source: Company; Sharekhan estimates

Operationally in-line performance

Shree cement reported 18.9% y-o-y growth in standalone revenue to Rs. 4999 crore, 5% higher than our estimate. Cement volume for the quarter rose by 19% y-o-y (up 1% q-o-q) to 8.92 million tones, while blended realisation rose by 3.4% y-o-y (flat q-o-q). The company's blended EBITDA/tone at Rs. 1045 (down 4.2% y-o-y, up 3.4% q-o-q) aligned with our estimate of Rs. 1057 per tonne. On the opex front, Power & fuel cost stood at Rs. 1708/tone (down 11% y-o-y, down 4% q-o-q), freight expense at Rs. 1192/tone (down 1% y-o-y, up 2% q-o-q) while other expense at Rs. 750/tone (down 13% y-o-y, up 4% q-o-q). Hence, operating profit for the quarter grew by 13.9% y-o-y to Rs. 932.6 crore, which was in line with our expectations. Further, high other income (Rs. 162 crore vs -Rs. 22 crore in Q1FY2023), lower depreciation (down 6% y-o-y and 30% q-o-q) and lower effective tax rate (18.2% Vs 23.4% in Q1FY2024) led to 84% y-o-y jump in standalone net profit at Rs. 581 crore (much higher than our estimate).

Conference Call Key Takeaways

- ♦ **Outlook:** The company expects cement demand to grow at double digits in FY2024, led by strong infrastructure and housing-led demand. The petcoke consumption cost for Q1FY2024 was Rs. 237 per Kcal, currently at Rs. 1.8-1.85 per Kcal. The same is expected to lead to a further decline in power & fuel costs in Q2FY2024. The share of premium cement is targeted to be closer to 15% by FY2025 from 9% in Q1FY2024.
- ♦ **Q1FY2024 performance:** The company achieved 19% y-o-y volume growth led by strong growth across regions (North – 12% y-o-y, East – 25%+ and South – 20%). Premium product growth has been strong in Q1. Overall capacity utilisation for Q1 stood at 92%, with East operating near full utilisation (Vs 66% last year), North at 80% and South at 68-70%. Cement realisations were lower 4% y-o-y and 2% q-o-q.
- ♦ **IT survey:** The Income Tax survey was conducted at a few locations from June 21st to June 26th in which no laptops/hardware was seized or scanned. The company has supplied all information. It has received notice from the Ministry of Corporate Affairs. The same is under the enquiry stage and hence cannot share further details.
- ♦ **Capacity expansion:** It announced an accelerated growth plan with a capex of Rs. 7000 crores for 1) 3.65 MTPA clinker plant at Pali, Rajasthan and cement capacity of 6 MTPA in Pali, Rajasthan and Etah, U.P. 2) 3.65 MTPA clinker unit at Kodla and cement capacity of 6 MTPA at Kodla and Bangalore in Karnataka. Both expansions are expected to get completed by FY2025 end and would have WHRS capacities of 40-50 MW each. The new capacity expansions would take its overall group's cement capacity to 72.4 MTPA while chalking out further expansion plans to achieve cement capacities beyond 80 MTPA. It also diversifies in Ready Mix Concrete (RMC) by setting up 5 RMC plants in FY2024.
- ♦ **Ongoing expansion status:** It has started trial commissioning of its 3 MT Purulia grinding unit. The 3.5 MT Nawalgarh capacity is expected by Q3FY2024. The Guntur project in A.P. is expected by Q2FY2025.
- ♦ **Fuel mix:** The fuel mix for Q1FY2024 was 81% pet coke and balance alternate fuel. Last year the fuel mix was 60% pet coke, 30% coal and balance alternate fuel.

Results (Standalone)

					Rs cr
Particulars	Q1FY2024	Q1FY2023	Y-o-Y %	Q4FY2023	Q-o-Q %
Net Sales	4999.1	4202.7	18.9%	4785.1	4.5%
Total Expenditure	4066.5	3383.9	20.2%	3892.7	4.5%
Operating profit	932.6	818.8	13.9%	892.5	4.5%
Other Income	161.7	-21.6	-	135.3	19.5%
EBIDTA	1094.3	797.2	37.3%	1027.7	6.5%
Interest	75.3	57.3	31.4%	72.6	3.7%
PBDT	1019.0	739.9	37.7%	955.1	6.7%
Depreciation	308.5	327.9	-5.9%	441.9	-30.2%
PBT	710.5	412.0	72.5%	513.2	38.4%
Tax	129.4	96.4	34.2%	-33.0	-491.9%
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	581.1	315.6	84.2%	546.2	6.4%
Adjusted PAT	581.1	315.6	84.2%	546.2	6.4%
Margins			BPS		BPS
OPM	18.7%	19.5%	-83	18.7%	0
PAT	11.6%	7.5%	412	11.4%	21
Tax rate	18.2%	23.4%	-520	-6.4%	2,464

Source: Company; Sharekhan Research

Per-tonne analysis (blended)

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Y-o-Y %	Q-o-Q %
Volume	75,01,000	74,56,000	80,30,000	88,30,000	89,20,000	18.9%	1.0%
Realisations	5,603	5,071	5,067	5,419	5,604	0.0%	3.4%
Cost break-up							
RM cost	235	496	352	488	646	175.3%	32.2%
Employee expenses	290	281	271	250	263	-9.1%	5.3%
Power and fuel	1,923	1,646	1,622	1,781	1,708	-11.2%	-4.1%
Transportation and handling	1,204	1,148	1,174	1,167	1,192	-1.1%	2.1%
Other expenses	859	799	765	721	750	-12.8%	3.9%
Total expenditure per tonne	4,511	4,369	4,185	4,408	4,559	1.1%	3.4%
EBITDA per tonne	1,092	701	882	1,011	1,045	-4.2%	3.4%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Improving demand brightens outlook

The cement industry has seen sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been rising over the past five years. The cement industry is expected to see higher demand as the situation normalises from the second wave of COVID-19 led by infrastructure and rural demand. The strong pick-up in the residential real estate sector is expected to sustain after the second wave of COVID-19. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. The government's Rs. 111-lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

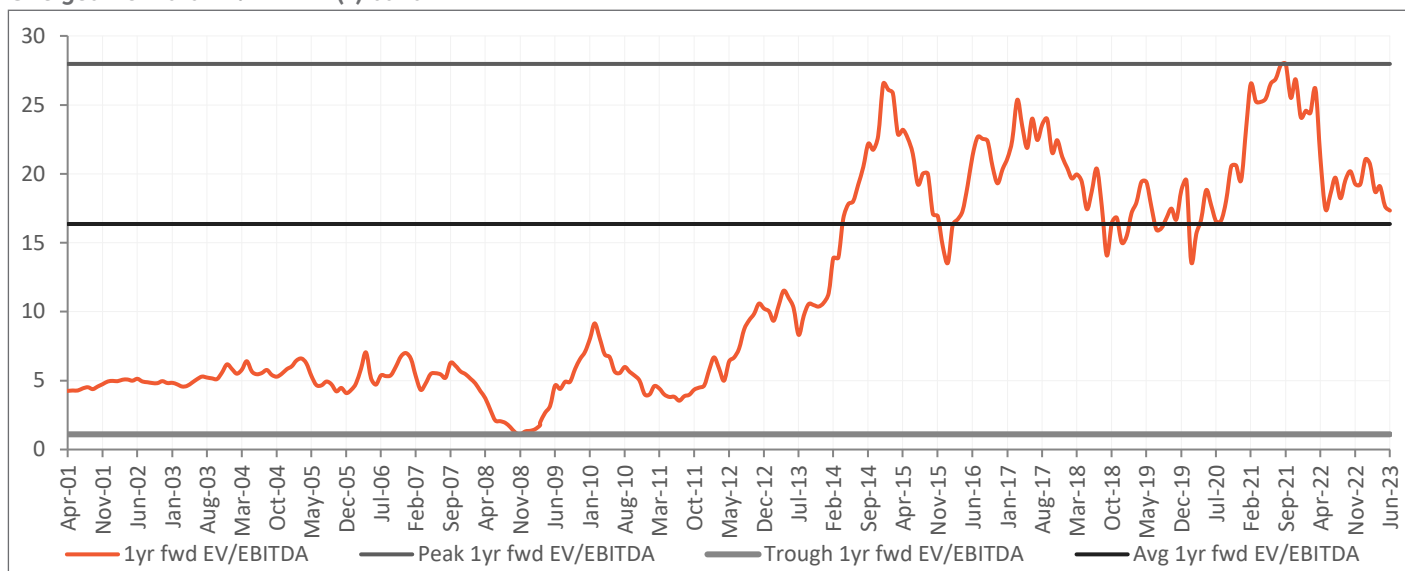
■ Company Outlook – Company to outperform industry on volume offtake during FY2023-FY2025E

Shree Cement is seeing strong demand traction in key regional markets viz. Northern and Eastern India. Shree Cement has been outpacing industry volume offtake over most of the past four quarters and is further expected to outperform over FY2023-FY2025E, led by improving capacity utilisation and addition of newer capacities. However, it continues to focus on improvement in operational profitability which historically had been higher than industry peers leading to premium valuation. Firm cement demand has led the management venture on increasing capacity from 47.4 MTPA to 57 MTPA over three years and to 80 MTPA by 2030.

■ Valuation – Upgrade to Hold with a revised PT of Rs. 26,400

Shree Cement is on a strong volume growth trajectory over the next two years, aided by sustained healthy demand and new capacity additions. Further, operational profitability is expected to improve led by declining power & fuel costs. However, we expect it to largely remain at par with the sector's leader. The recent IT survey and notice from Ministry of Corporate Affairs remain a key hangover on the stock. The stock has corrected ~9% from the peak of little over a month. It is currently trades at an EV/EBITDA of 15.6x its FY2025E earnings. We upgrade the stock to Hold with a revised price target (PT) of Rs. 26,400 assigning higher valuation multiple in-line with industry major.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech	35.4	27.9	19.8	16.0	4.1	3.6	12.1	13.8
Shree Cement	49.9	39.9	19.4	15.6	4.4	4.0	9.1	10.6
Dalmia Bharat	49.8	44.0	13.9	12.5	2.2	2.1	4.5	4.9
The Ramco Cement	33.5	27.8	15.1	13.3	2.8	2.6	8.8	9.8

Source: Sharekhan Research

About company

Shree Cement, incorporated in 1979 by Kolkata-based Bangur Family, was listed in 1984. The company has a consolidated installed cement capacity of 47.4MTPA and a power capacity of 711MW. Of the total cement capacity, 43.4MTPA is in India, and 4MTPA is in UAE through subsidiaries. Domestically, the company's presence predominates in the northern region, with an installed capacity of 26.3MTPA, followed by east at 14.1MTPA and south at 3.0MTPA. Shree Cement is among India's top three cement groups in terms of cement capacity.

Investment theme

Shree Cement is seeing strong traction in demand from its key regional markets viz. North and East. It has been outpacing industry volume offtake over most of the trailing four quarters. It is further expected to outperform over FY2023-FY2025E led by improving capacity utilisation and adding newer capacities. However, operational profitability is expected to improve at a gradual pace than earlier expected. The firm cement demand has led to the management venturing in increasing capacity from 47MTPA to 57MTPA over three years period and to 80MTPA by 2030. However, major peers in the industry has taken a faster route of capacity additions along with improvement in operational efficiencies. The same may lead to market share loss for the company going ahead.

Key Risks

- ♦ Slowdown in cement demand, especially north, east and south, affects the overall volume growth of the company.
- ♦ Increased pet coke price and diesel prices affect profitability.
- ♦ Decline in cement prices, especially in its region of operations, affects profitability.

Additional Data

Key management personnel

Mr. Hari Mohan Bangur	Chairman
Mr. Prashant Bangur	Vice Chairman
Mr. Neeraj Akhoury	Managing Director
Mr. Subhash Jajoo	Chief Finance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Shree Capital Services Ltd	24.9
2	Digvijay Finlease Ltd	11.74
3	FLT LTD	9.98
4	Mannakrishna Investments Pvt Ltd	5.66
5	Newa Investments Pvt Ltd	3.81
6	Life Insurance Corp of India	3.68
7	Ragini Finance Ltd	3.52
8	Didu Investments Pvt Ltd	3.25
9	SBI Funds Management Ltd	3.00
10	NBI Industrial Finance Co Ltd	2.35

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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