

01 February 2024

India | Equity Research | Q3FY24 results review

Shree Cement

Cement

Industry leading performance

Shree Cement (SRCM) has yet again posted a strong performance in Q3FY24. EBITDA stood 18% ahead of estimates (surging 74% YoY/42% QoQ). Notably, cement EBITDA/t at INR 1,348 stood the highest in the industry, riding on the benefits of: 1) ~11% volume jump (up 8% QoQ); 2) blended realisations rising ~2% QoQ; 3) freight cost/t slipping ~6% QoQ; and 4) easing fuel cost. While the cost benefits (both freight and energy) appear sustainable, the odds of industry demand likely to trend weak in the near-term (impact of elections) and a muted cement price outlook (given elevated competitive intensity) offer little scope to increase our earnings estimates. We continue to value SRCM at a rich 17x EV/EBITDA (highest in our coverage) and rolling valuations to Q4FY26E, maintain **HOLD** with a revised target price of INR 29,489 (INR 27,177 earlier).

Sustained supremacy

SRCM's merchant power revenue stood at ~INR 3.5bn while segment EBITDA stood ~INR 350mn. Adjusted for the same, SRCM's core cement EBITDA/t of INR 1,348 stood the highest in the industry riding on the benefits of: 1) ~2% QoQ uptick in blended realisation (benefit of price hikes in Oct'23; 2) freight cost/t easing ~6% QoQ; 3) gains from consumption of low cost fuel inventory; and 4) volume jump of ~11% YoY. While the savings in freight cost (owing to lead distance optimisation) appear sustainable, current fuel rates too suggest scope for further cost decline (mainly in Q1FY25 due to inventory-lag impact, as guided by SRCM). However, the odds of demand likely to trend weaker in the near-term (due to impact of general elections) and muted price outlook (due to high competitive intensity; current prices being ~2% lower vs. Q3FY24), offer limited scope for further earnings upgrade. We assume cement volumes growing at ~11% CAGR over FY25-FY26 while our EBITDA/t forecast stands at a rich INR 1,289/ INR 1,358 for FY25E/FY26E (vs. INR 1,155 for FY24E).

Valuations appear full; maintain HOLD

SRCM's focus on capacity expansion (announcement of another 3mtpa capacity in north India) and efficiency enhancement is heartening. Balance sheet too remains strong with net cash estimated at ~INR 40bn for FY24E. Yet the current valuations of ~20x FY25E and ~17x FY26E EV/EBITDA leave little scope for re-rating. Hence, we retain **HOLD** with a revised TP of INR 29,489.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	1,68,375	1,93,703	2,07,458	2,35,169
EBITDA	29,423	41,940	51,144	60,190
EBITDA (%)	17.5	21.7	24.7	25.6
Net Profit	11,739	23,583	27,767	32,727
EPS (Rs)	325.3	653.6	769.6	907.1
EPS % Chg YoY	(48.3)	100.9	17.7	17.9
P/E (x)	87.8	43.7	37.1	31.5
EV/EBITDA (x)	33.1	23.6	19.7	16.8
RoCE (%) (post-tax)	5.4	9.8	11.0	12.0
RoE (%)	6.6	12.2	12.9	13.5

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Market Data

Market Cap (INR)	1,030bn
Market Cap (USD)	12,406mn
Bloomberg Code	SRCM IN
Reuters Code	SHCM.BO
52-week Range (INR)	29,250 /22,601
Free Float (%)	37.0
ADTV-3M (mn) (USD)	8.0

Price Performance (%)	3m	6m	12m
Absolute	11.3	18.4	20.6
Relative to Sensex	(1.0)	10.6	0.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	-6.1	-5.9
EBITDA	1.3	1.9
EPS	3.0	2.3

Previous Reports

 09-11-2023: [Q2FY24 results review](#)

 28-07-2023: [Q1FY24 results review](#)

Conference call takeaways

Demand/volume

- ~35mt/~40mt volume guidance for FY24/FY25.
- SRCM expects industry to grow at 8-10% in FY25.
- Capacity utilisation improved from 72% to 77% on a YoY-basis.
- Regional growth for SRCM in Q3FY24 stood as below:

Region	YoY basis	QoQ basis
North India	12-13%	10%
West + South India	12-13%	10%
East India	7-8%	2-3%

- Q3FY24: Trade mix stood at 76% and blended cement was 72%.
- Q3FY24 regional sales mix – north: 60%; east: 28-29%; and south + west: 12%.

Pricing

- Q3FY24 cement realisation stood at INR 5,006/t vs. INR 4,852/t in Q3FY23 and INR 4,843/t in Q2FY24.
- As per management, SRCM aims to improve volumes of its recently introduced premium brand Magna, before narrowing the gap with competitive premium products.
- Initial market response to Magna brand has been encouraging.
- Sale of premium products rose to 9.5% vs. 7.2% of total trade sales on YoY-basis.

Cost

- Q3FY24 fuel consumption cost: INR 1.76/'000kcal vs. INR 2.05/'000kcal QoQ and INR 2.46/'000kcal YoY. SRCM expects consumption cost to remain flat QoQ in Q4FY24. Benefits of recent fall in fuel prices will accrue in Q1FY25.

Power segment EBITDA is usually 9-10% of power turnover

Power segment (INR mn)	Q3FY24	9MFY24
Revenue	3,500	11,730
EBITDA	~350	~1,110

Source: Company data

- Q3FY24 – fuel mix: 73% pet coke, 15% coal and AFR 11%.
- SRCM expects power costs to decline on the back of 73MW of green power capacity commissioning in Jan'24; benefits of the same shall accrue in 2 months.
- SRCM aims to commission 133MW of green power capacity (52MW: solar and 33MW: WHRS) in FY25. 6MW of wind power is to be commissioned in Maharashtra in Q4FY24.
- It aims to achieve green power share of 65% of total power consumption in medium term (61% currently).
- During Q3, purchases of traded goods (~INR540mn) were on account of clinker purchase.
- Q3FY24: Lead distance dropped to 448kms vs 472kms QoQ and SRCM expects it to decrease with commissioning of multiple of split grinding units.

Capex

- Capex cash outflow in 9MFY24 was ~INR 26bn; guidance for Q4FY24: INR 6-7bn.
- SRCM shall be spending ~INR125bn as capex on cumulative basis till FY27; it is evenly spread out over FY25-27. (~INR 40-45bn/annum)
- SRCM announced fresh capacity expansion of 3mtpa cement mill at Ras, Rajasthan requiring capex of ~INR 6bn.
- Installed capacity timelines: FY24: 56mtpa+, FY25: 62mtpa, Sep'25: 65mtpa, FY27: 75mtpa and FY28: 80mtpa; 3mtpa Guntur plant is expected by Q4FY24-end.
- SRCM has INR 60bn as cash in hand, as on 31 December, 2023.

Exhibit 1: Q3FY24 earnings review (standalone)

INR mn	Q3FY24	Q3FY23	YoY(%)	Q2FY24	QoQ(%)	Q3FY24E	% Variance
Net Sales	49,008	40,688	20.4	45,846	6.9	47,179	3.9
Net Volumes (mn-te)	8.89	8.03	10.7	8.20	8.5	8.85	0.4
Blended realisations (INR/te)	5,513	5,065	8.8	5,594	(1.46)	5,330	3.4
Raw Materials	4,393	2,830	55.2	4,558	(3.6)	4,868	(9.8)
Personnel Cost	2,347	2,179	7.7	2,332	0.6	2,331	0.7
Power and Fuel	12,381	13,027	(5.0)	13,696	(9.6)	12,310	0.6
Freight and Selling	9,732	9,429	3.2	9,508	2.3	10,488	(7.2)
Other Expenses	7,819	6,143	27.3	7,053	10.9	6,742	16.0
Total Expenses	36,671	33,608	9.1	37,146	(1.3)	36,739	(0.2)
EBITDA	12,337	7,080	74.3	8,701	41.8	10,439	18.2
EBITDA/te (INR)	1,388	881	57.5	1,062	30.7	1,179	17.7
Interest	561	714	(21.4)	681	(17.6)	681	(17.6)
Depreciation	3,466	4,136	(16.2)	3,315	4.6	3,325	4.3
Other Income	1,354	1,612	(16.0)	1,261	7.4	1,439	(5.9)
Recurring pre-tax income	9,664	3,842	151.5	5,965	62.0	7,872	22.8
Extraordinary income/(expense)	-	-	-	-	-	-	-
Taxation	2,322	1,074	116.1	1,052	120.7	1,968	18.0
Reported Net Income	7,342	2,768	165.3	4,913	49.4	5,904	24.4
Recurring Net Income	7,342	2,768	165.3	4,913	49.4	5,904	24.4
% Margins			bps		bps		bps
EBITDA	25.2	17.4	777	19.0	620	22.1	305
PAT	15.0	6.8	818	10.7	426	12.5	247

Source: I-Sec research, Company data

Exhibit 2: Historical quarterly analysis on per-tonne basis (standalone)

Per tonne (INR/te)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Blended Realisation*	5,065	5,420	5,604	5,594	5,513
Raw materials consumed	349	488	646	556	494
Power & fuel	1,622	1,782	1,708	1,671	1,393
Freight cost	1,174	1,168	1,192	1,160	1,095
Staff cost	271	250	263	285	264
Other expenses	765	721	750	861	880
Total cost/te	4,184	4,409	4,559	4,533	4,125
Blended EBITDA/te	881	1,011	1,045	1,062	1,388

Source: I-Sec research, Company data.* including power

Exhibit 3: Per tonne estimate – annual (standalone)

(INR/te)	FY22	FY23	FY24E	FY25E	FY26E
Cement realisation	5,004	4,986	5,103	5,078	5,173
Raw material consumed	410	396	547	499	509
Staff costs	291	272	269	269	264
Power & fuel	1,011	1,467	1,164	1,082	1,090
Freight	1,169	1,173	1,135	1,103	1,123
Others	833	783	834	836	829
Total operating expenses	3,842	4,367	4,321	4,045	4,043
Cement EBITDA/te	1,290	894	1,155	1,289	1,358

Source: I-Sec research, Company data

Exhibit 4: Performance trend and key assumptions (standalone)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Cement capacity (mtpa)	46.4	46.4	53.4	56.4	71.8
Cement sales volumes (mnste)	27.7	31.8	35.1	38.6	43.2
Capacity utilisation (%)	59.8	68.6	65.8	68.5	60.3
Volume growth (%)	3.3%	14.7%	10.4%	10.0%	12.0%
Cement realisation blended (INR/te)	5,004	4,986	5,103	5,078	5,173
Growth (%)	7.9%	-0.4%	2.4%	-0.5%	1.9%

Source: I-Sec research, Company data

Exhibit 5: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	2,07,458	2,20,959	(6.1)	2,35,169	2,50,025	(5.9)
EBITDA	51,144	50,465	1.3	60,190	59,067	1.9
PAT	27,767	26,957	3.0	32,727	31,989	2.3

Source: I-Sec research, Company data

Exhibit 6: Valuation based on 17x Mar'26E EV/E

Particulars (INR mn)	Mar'26E
EV/EBITDA multiple (x)	17.0
EBITDA	61,190
Enterprise Value (EV)	10,40,226
Less: Net Debt	(23,722)
Derived Mcap	10,63,948
Shares o/s (mn)	36.1
Value per share (INR)	29,489

Source: I-Sec research, Company data

Key risks:

- Sharp increase in cement prices and/or sharp fuel cost decline are key upside earnings risk.
- Sharp fall/reversal in recent hikes of cement prices and/or major surge in fuel prices are key downside risks.

Exhibit 7: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	62.6	62.6	62.6
Institutional investors	24.6	24.8	24.9
MFs and others	7.1	7.7	7.7
FIs/Banks, Insurance	4.5	4.5	4.4
FIIIs	13.0	12.6	12.8
Others	12.8	12.7	12.5

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	1,68,375	1,93,703	2,07,458	2,35,169
Operating Expenses	1,26,354	1,32,548	1,37,021	1,52,937
EBITDA	29,423	41,940	51,144	60,190
EBITDA Margin (%)	17.5	21.7	24.7	25.6
Depreciation & Amortization	15,462	13,379	15,783	17,419
EBIT	13,961	28,561	35,361	42,771
Interest expenditure	2,689	2,666	2,615	2,641
Other Non-operating Income	4,315	5,548	4,277	3,506
Recurring PBT	17,129	31,443	37,023	43,636
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,848	7,861	9,256	10,909
PAT	13,281	23,583	27,767	32,727
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(1,543)	-	-	-
Net Income (Reported)	13,281	23,583	27,767	32,727
Net Income (Adjusted)	11,739	23,583	27,767	32,727

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	86,466	70,383	65,829	73,136
of which cash & cash eqv.	34,700	16,640	10,808	16,074
Total Current Liabilities & Provisions	46,514	47,077	47,581	48,350
Net Current Assets	39,952	23,306	18,248	24,786
Investments	82,999	82,999	72,999	62,999
Net Fixed Assets	53,327	84,448	1,25,665	1,55,746
ROU Assets	-	-	-	-
Capital Work-in-Progress	28,709	34,209	32,209	34,709
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	2,04,987	2,24,961	2,49,120	2,78,239
Liabilities				
Borrowings	25,392	25,392	25,392	25,392
Deferred Tax Liability	(6,686)	(6,686)	(6,686)	(6,686)
provisions	-	-	-	-
other Liabilities	3,396	3,396	3,396	3,396
Equity Share Capital	361	361	361	361
Reserves & Surplus	1,82,524	2,02,498	2,26,657	2,55,776
Total Net Worth	1,82,884	2,02,859	2,27,018	2,56,137
Minority Interest	-	-	-	-
Total Liabilities	2,04,987	2,24,961	2,49,120	2,78,239

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	47,851	49,991	45,846	49,008
% growth (YoY)	16.7	18.9	21.3	20.4
EBITDA	8,925	9,326	8,701	12,337
Margin %	18.7	18.7	19.0	25.2
Other Income	1,353	1,617	1,261	1,354
Extraordinaries	-	-	-	-
Adjusted Net Profit	5,462	5,811	4,913	7,342

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	29,363	43,818	52,592	61,376
Working Capital Changes	(2,320)	(9,274)	(10,030)	(12,181)
Capital Commitments	(27,619)	(50,000)	(55,000)	(50,000)
Free Cashflow	-	-	-	-
Other investing cashflow	3,530	28,177	21,829	12,319
Cashflow from Investing Activities	(24,089)	(21,823)	(33,171)	(37,681)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(3,245)	(3,608)	(3,608)	(3,608)
Others	94	(2,666)	(2,615)	(2,641)
Cash flow from Financing Activities	(3,151)	(6,274)	(6,223)	(6,249)
Chg. in Cash & Bank balance	(196)	6,447	3,168	5,266
Closing cash & balance	1,193	7,640	10,808	16,074

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	325.3	653.6	769.6	907.1
Adjusted EPS (Diluted)	325.3	653.6	769.6	907.1
Cash EPS	753.9	1,024.4	1,207.0	1,389.9
Dividend per share (DPS)	100.0	100.0	100.0	100.0
Book Value per share (BV)	5,068.9	5,622.5	6,292.1	7,099.1
Dividend Payout (%)	30.7	15.3	13.0	11.0
Growth (%)				
Net Sales	17.7	15.0	7.1	13.4
EBITDA	(19.3)	42.5	21.9	17.7
EPS (INR)	(48.3)	100.9	17.7	17.9
Valuation Ratios (x)				
P/E	87.8	43.7	37.1	31.5
P/CEPS	37.9	27.9	23.7	20.5
P/BV	5.6	5.1	4.5	4.0
EV / EBITDA	33.1	23.6	19.7	16.8
EV / te (USD)	253.6	224.5	228.8	178.3
Dividend Yield (%)	0.4	0.4	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	92.5	90.1	90.7	90.6
EBITDA Margins (%)	17.5	21.7	24.7	25.6
Effective Tax Rate (%)	22.5	25.0	25.0	25.0
Net Profit Margins (%)	7.9	12.2	13.4	13.9
NWC / Total Assets (%)	19.5	10.4	7.3	8.9
Net Debt / Equity (x)	(0.5)	(0.4)	(0.3)	(0.2)
Net Debt / EBITDA (x)	(3.1)	(1.8)	(1.1)	(0.9)
Profitability Ratios				
RoCE (%) (Post Tax)	5.4	9.8	11.0	12.0
RoE (%)	6.6	12.2	12.9	13.5
RoC (%)	8.6	13.3	13.1	13.7
Fixed Asset Turnover (x)	3.2	2.8	2.0	1.7
Inventory Turnover Days	72	65	63	62
Receivables Days	21	19	18	17
Payables Days	34	30	29	29

Source Company data, I-Sec research

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