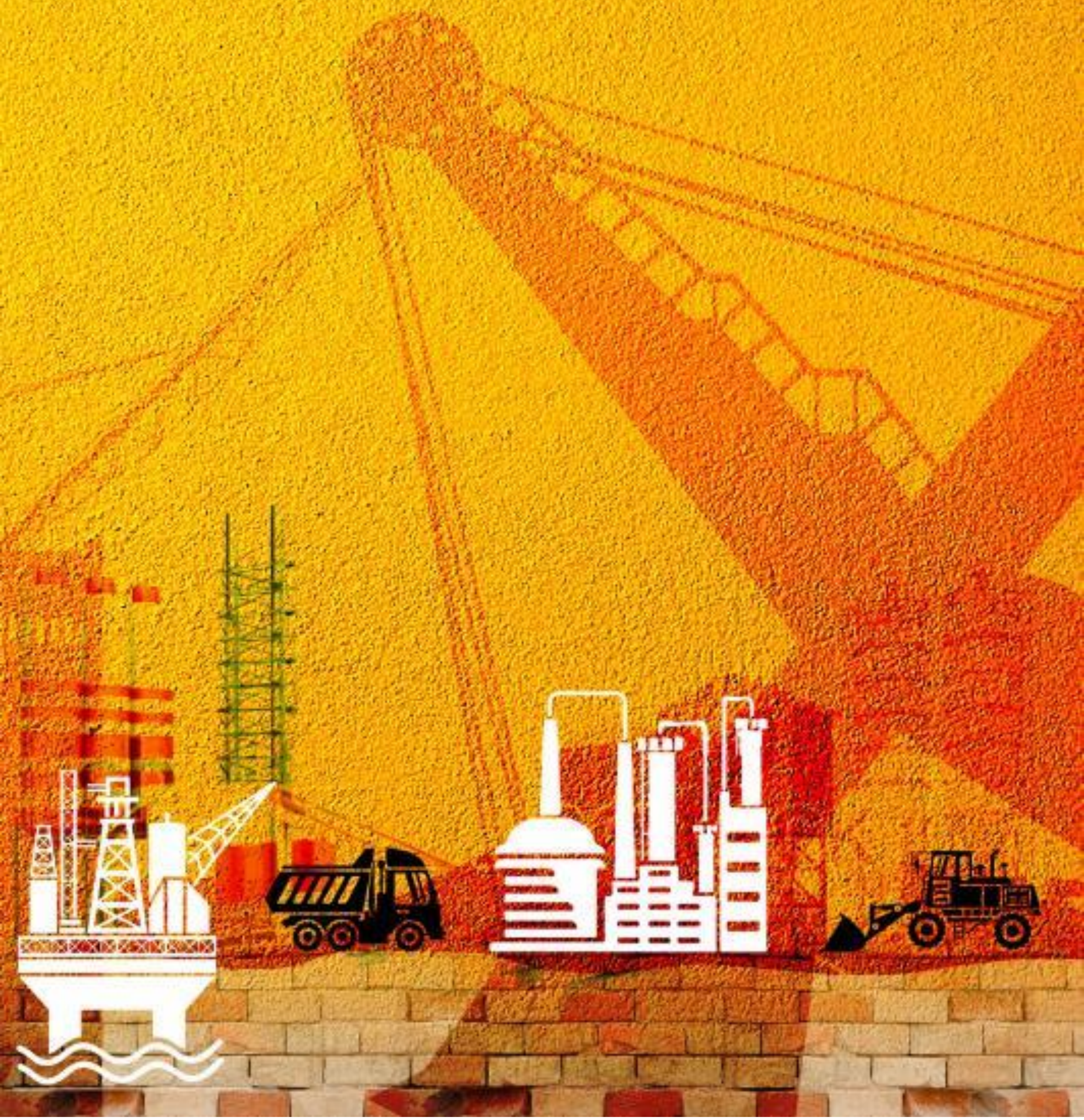
Q1FY25
Shree Cement Ltd



Result Update | **09th Aug, 2024**

Shree Cement Ltd

Weaker realization and higher opex outweigh volume growth

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 24,297*	**INR 26,083**	**7.4%**	**INR 8,77,303**	**ACCUMULATE**	**Cement**

Result Highlights

- Shree Cement's Q1FY25 result missed our projections despite revenue in line with our estimates.
- Despite falling cement prices, revenue increased 1.8% YoY (-5.1% QoQ) to INR 51,240 Mn led by strong volume growth.
- EBITDA declined 1.9% YoY to INR 9,272 Mn; missing our estimate, primarily due to higher-than-expected operating expenses. EBITDA margin stood at 18.1% (-67bps YoY/-823bps QoQ).
- PAT declined 51.3% YoY to INR 2,786 Mn, missing our expectations because of weak operating performance and higher depreciation partially offset by lower tax rates. PAT margin contracted to 5.4%, down 593bps YoY (-706bps QoQ).
- **We lower our multiple to 16.5x (previously: 17.5x) and reduce our FY26E EBITDA to INR 54,594 (previously: INR 61,089), reflecting the weaker Q1FY25 results, declined realization, and weaker demand. Accordingly, we reduce our target price to INR 26,083 (previously: INR 30,662) and downgrade our rating to "ACCUMULATE" from "BUY" on Shree Cement Ltd.**

MARKET DATA

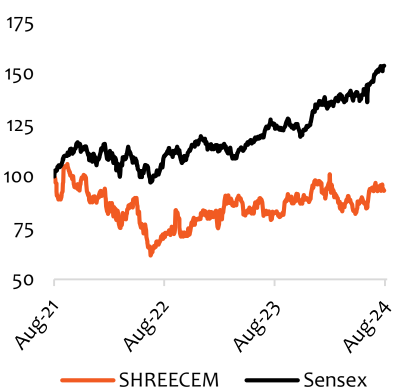
Shares outs (Mn)	36
Mkt Cap (INR Mn)	8,77,303
52 Wk H/L (INR)	30,710/23,431
Volume Avg (3m K)	57
Face Value (INR)	10.0
Bloomberg Code	SRCM IN

KEY FINANCIALS

INR Millions	Q1FY25	Q4FY24	Q1FY24	QoQ	YoY
Revenue	51,240	54,010	50,357	-5.1%	1.8%
EBITDA	9,272	14,218	9,449	-34.8%	-1.9%
PAT	2,786	6,749	5,723	-58.7%	-51.3%
OPM (%)	18.1%	26.3%	18.8%	-823 bps	-67 bps
NPM (%)	5.4%	12.5%	11.4%	-706 bps	-593 bps

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Realization declined despite strong volume growth as company focuses on market share gain

- In Q1FY25, volume increased by 9.64 MT, up 8.1% YoY (+1.2% QoQ).
- Despite strong volume growth, cement prices dragged realization to INR 5,315/Ton, down 6.2% YoY (-5.8% QoQ), on account of the general election, heat wave, and company's focus on market share gain over margin.
- The company's EBITDA/Ton fell to INR 962/Ton in Q1FY25 from INR 1,492/Ton in Q4FY24 largely due to lack of competitive advantage in northern market and lower prices in the easter region.
- Premium products accounted for 7.6% of the total trade sales volume.
- Regional mix stood at 55.0%/35.0%/10.0% for North/East/Southeast. On a sequential basis, growth in the north declined 3.0%, East up 11.0%, South down 4.0%.

Installed power capacity increases with continued focus on capacity expansion

- In June 2024, the Company marked a significant milestone by reaching 1 GW (1,000 MW) of installed power capacity with the launch of a 19.5 MW solar power plant at its Andhra Pradesh manufacturing unit. This addition raised the Company's total power capacity to 1,003 MW.
- The Company has guided a capex of INR 40,000 Mn for FY25E and FY26E each.
- During the quarter, the Company commissioned an integrated cement unit in Guntur district, Andhra Pradesh, with a production capacity of 3.0 MTPA, taking the total capacity to 56.4 MTPA.

MARKET INFO

SENSEX	79,706
NIFTY	24,368

SHARE HOLDING PATTERN (%)

Particulars (%)	Jun-24	Mar-24	Dec-23
Promoters	62.5	62.5	62.5
FIIs	11.9	12.5	12.3
DIIs	12.8	12.3	12.6
Others	12.8	12.7	12.6
Total	100	100	100

*Based on today's closing

6.9%

Revenue CAGR between FY24 and FY26E

4.0%

Adj. PAT CAGR between FY24 and FY26E

RESEARCH ANALYST
Unnati Jadhav, research5@krchoksey.com, +91-22-6696 5420

Shree Cement Ltd

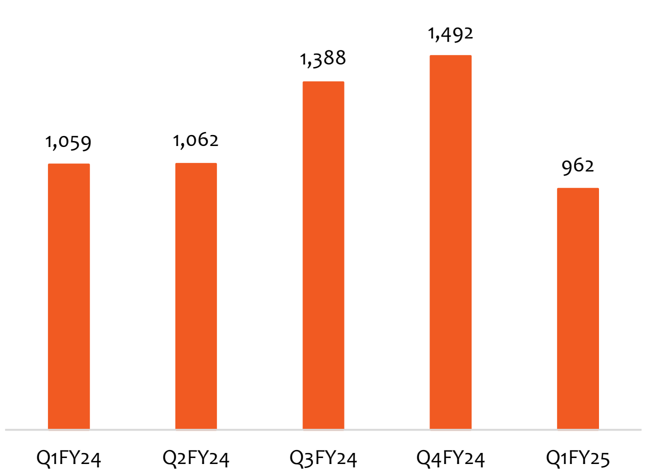
Key Concall Highlights:

- **EBITDA/Ton fell to INR 962/Ton**, down 35.5% YoY (-9.2% QoQ).
- The management highlighted **a shift in sales from north to east**, due to constraints in the North region (including intense competition) to handle the extra volume generated from newer capacity.
- **Extra volumes generated were sold in the East, wherein the prices were comparatively lower**, leading to a reduced weighted average realization, thus impacting EBITDA.
- Other expenses rose due to higher stabilization costs associated with the commissioning of the two new plants.
- Logistics costs rose due to a 21-kilometer increase in lead distance, which also affected margins.
- During the quarter, the Company commissioned an integrated cement unit in Guntur district, Andhra Pradesh, with a production capacity of 3.0 MTPA
- Additionally, the Company's ongoing expansion projects are progressing well. These include, i) Jatra in Rajasthan, with a capacity of 6.0 MT, ii) Korla in Karnataka, with a capacity of 3.0 MT, iii) Baloda Bazar in Chhattisgarh, with a capacity of 3.4 MT, iv) Eta in Uttar Pradesh, with a capacity of 3.0 MT. In total, these projects **represent an additional 15.0 MT of production capacity, taking the total capacity to 71.8 MTPA by FY26E.**
- The Company has achieved a major milestone by **reaching a total installed power capacity of 1 GW**, following the commissioning of a 19.5-MW solar power plant in Andhra Pradesh on June 24. This brings their total power capacity to 1,003MW, with a focus on renewable energy sources.
- SHREECEM is also **expanding solar power capacity by 135.0 MW** across several locations and is set to launch a new ready-mixed concrete plant in Hyderabad in Q1FY25.
- As of June 30, 2024, the RMC business **operates seven plants** with a combined capacity of 624 cubic meters per hour.
- Bangur concrete units are fully equipped to produce all types of special concrete, featuring advanced testing facilities, top technical expertise, and digitized solutions.
- The Company plans to establish **nearly 100 Bangur concrete plants over the next three to five years**, with operations in more than 50 cities.
- The Company is also making steady investments to increase usage of alternate fuels.

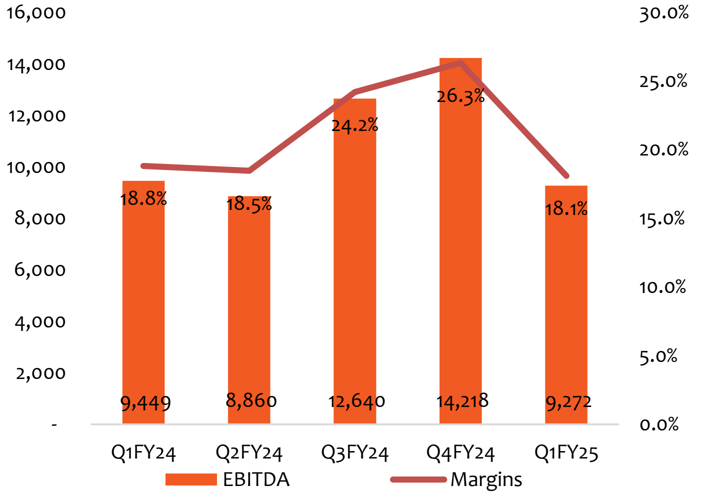
Valuation and View:

Shree Cement Ltd posted a weaker Q1FY25, missing our estimates due to weaker realization and increased operating expenses. Logistics costs jumped due to an increase in lead distance. In Q1FY25, the Company shifted sales from the North to the East region, where cement prices are lower, another factor leading to a declined EBITDA. **We lower our EV/EBITDA multiple to 16.5x (previously: 17.5x) and reduce our FY26E EBITDA to INR 54,594 (previously: INR 61,089) due to weaker Q1FY25 performance, higher depreciation, ongoing pressure on cement prices, and anticipated lower demand in Q2FY25E and Q3FY25E. Accordingly, we reduce our target price to INR 26,083 (previously: INR 30,662). Consequently, we downgrade our rating to "ACCUMULATE" from "BUY" on the shares of Shree Cement Ltd.**

Blended EBITDA/Ton (in INR) declined



EBITDA declined due to higher opex



Shree Cement Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenues	**150,096**	**178,523**	**205,210**	**208,320**	**234,500**
COGS	10,382	14,324	15,698	17,834	20,237
Gross profit	**139,714**	**164,199**	**189,512**	**190,486**	**214,263**
Employee cost	9,135	9,778	10,644	9,374	10,553
Power & Fuel	36,202	60,807	63,452	64,815	70,042
Freight and Forwarding Expense	32,990	37,836	41,505	45,046	46,245
Other expenses	24,591	26,814	28,743	27,082	32,830
EBITDA	**37,079**	**29,595**	**45,167**	**44,168**	**54,594**
EBITDA Margin	***24.7%***	***16.6%***	***22.0%***	***21.2%***	***23.3%***
Depreciation & amortization	11,459	16,607	18,973	23,008	25,899
EBIT	**25,621**	**12,988**	**26,194**	**21,161**	**28,695**
Interest expense	2,161	2,629	2,583	1,402	1,050
PBT	**28,918**	**14,950**	**29,592**	**24,902**	**32,393**
Tax	5,552	2,259	5,630	4,731	6,479
Minority interest	47	(16)	5	(16)	(16)
PAT	**23,319**	**12,707**	**23,957**	**20,186**	**25,930**
Adj. PAT	**23,319**	**12,707**	**23,957**	**20,186**	**25,930**
Diluted EPS (INR)	**646**	**352**	**664**	**559**	**719**
Adj. EPS (INR)	**646**	**352**	**664**	**559**	**719**

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	26,680	25,687	33,475	42,480	47,104
Net Cash Flow from/(used in) Investing Activities	(21,514)	(24,145)	(14,185)	(34,046)	(37,260)
Net Cash Flow from Financing Activities	(8,494)	(2,767)	(17,101)	(10,165)	(9,813)
Net Inc/Dec in cash equivalents	(3,328)	(1,225)	2,190	(1,732)	31
Opening Balance	4,520	1,277	144	2,339	613
Closing Balance Cash and Cash Equivalents	1,277	144	2,339	613	651

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	24.7%	16.6%	22.0%	21.2%	23.3%
Tax rate (%)	19.2%	15.1%	19.0%	19.0%	20.0%
Net Profit Margin (%)	15.5%	7.1%	11.7%	9.7%	11.1%
RoE (%)	13.3%	6.8%	11.5%	9.1%	10.6%
RoCE (%)	13.1%	6.1%	11.8%	9.1%	11.4%
EPS (INR)	646	352	664	559	719

Source: Company, KRChoksey Research

Shree Cement Ltd

Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Property, plant and equipment	67,242	67,937	88,350	106,589	122,431
Capital work-in-progress	10,535	27,966	19,297	19,297	19,297
Intangible assets	573	747	1,235	1,235	1,235
Investments	55,063	52,853	22,918	22,918	22,918
Loans	44	37	34	34	34
Other financial assets	1,375	1,433	1,138	1,138	1,138
Deffered Tax Assets	6,744	6,823	6,582	6,582	6,582
Non-current Tax Assets (Net)	274	1,731	2,005	2,005	2,005
Other non-current assets	10,936	14,134	15,855	13,541	14,070
Total non-current assets	**152,786**	**173,660**	**157,413**	**173,338**	**189,709**
Inventories	24,970	27,597	35,551	27,396	29,553
Investments	35,263	33,979	52,640	52,640	52,640
Trade receivables	7,883	12,116	12,865	10,844	11,564
Cash and cash equivalents	1,486	462	2,624	907	954
Other Balances with Banks	1,411	1,148	1,595	1,595	1,595
Loans	253	69	36	36	36
Other financial assets	2,363	3,159	2,369	2,369	2,369
Other current assets	11,075	11,151	14,442	14,582	16,415
Total current assets	**84,703**	**89,679**	**122,122**	**110,370**	**115,127**
TOTAL ASSETS	**237,489**	**263,339**	**279,535**	**283,707**	**304,836**
Equity share capital	361	361	361	361	361
Other equity	174,242	186,003	206,668	222,092	243,259
Equity attributable to the equity shareholders	174,603	186,364	207,029	222,453	243,620
Non-controlling interests	503	406	411	411	411
Total equity	**175,106**	**186,770**	**207,440**	**222,864**	**244,031**
Borrowings	12,983	19,590	7,618	7,618	7,618
Other financial liabilities	1,362	1,724	1,427	1,427	1,427
Provisions	297	339	307	307	307
Deferred Tax Liabilities (Net)	0	0	289	0	0
Other Non-Current Liabilities	876	1,377	2,052	2,083	2,345
Total non-current liabilities	**15,519**	**23,030**	**11,693**	**11,436**	**11,698**
Borrowings	7,158	5,808	7,131	3,131	-869
Trade payables	8,904	11,960	12,142	13,698	15,419
Other financial liabilities	14,192	18,586	16,835	16,835	16,835
Other current liabilities	13,385	13,941	20,201	12,499	14,070
Provisions	84	103	117	120	135
Current Tax liabilities (Net)	3,142	3,142	3,975	3,125	3,518
Total current liabilities	**46,864**	**53,540**	**60,401**	**49,407**	**49,107**
Total liabilities	**62,383**	**76,570**	**72,094**	**60,843**	**60,805**
TOTAL EQUITY AND LIABILITIES	**237,489**	**263,339**	**279,535**	**283,707**	**304,836**

Source: Company, KRChoksey Research

Shree Cement Ltd

Shree Cement Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
09-Aug-24	24,297	26,083	ACCUMULATE
17-May-24	25,669	30,662	BUY
02-Feb-24	28,454	30,686	ACCUMULATE
15-Nov-23	26,363	28,163	ACCUMULATE
28-Jul-23	24,052	29,250	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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•KRChoksey Shares and Securities Pvt. Ltd.

•CIN-U67120MH1997PTC108958

•Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

•Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

•Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

•Phone: 91-22-66535000

•Compliance Officer: Varsha Shinde

•Email: varsha.shinde@krchoksey.com

UNNATI SACHIN JADHAV

Digitally signed by UNNATI SACHIN JADHAV
Date: 2024.08.09 16:25:13 +05'30'