



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	✗	↔	✗

Company details

Market cap:	Rs. 90,587 cr
52-week high/low:	Rs. 30,710/23,432
NSE volume: (No of shares)	27,083
BSE code:	500387
NSE code:	SHREECEM
Free float: (No of shares)	1.4 cr

Shareholding (%)

Promoters	62.6
FII	11.9
DII	13.0
Others	12.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.7	-2.2	-8.3	3.5
Relative to Sensex	-7.1	-10.4	-19.5	-17.0

Sharekhan Research, Bloomberg

Shree Cement

Operationally weak Q1; Retain Buy

Cement	Sharekhan code: SHREECEM		
Reco/View: Buy	↔	CMP: Rs. 25,107	Price Target: Rs. 28,000
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on Shree Cement with a revised PT of Rs. 28,000, factoring downwardly revised estimates that were partially offset by roll-forward of valuations to H1FY2027E.
- Standalone revenues marginally lagged, while volumes stayed in line for Q1FY2025. EBITDA/tonne surprised negatively, on weak realisations and higher opex.
- Management views FY2025 volume growth to be at par with the industry rate versus earlier expectations of a 10-12% y-o-y growth. It expects softer demand to persist till Q3FY2025.
- Capacity expansion plans remain on track to add 15.4 mtpa capacities from 56 mtpa currently at an overall capex of Rs. 12,000 crore over three years.

Standalone revenues marginally lagged estimates at Rs. 4835 crore (down 2.7% y-o-y) as lower than estimated realisations (down 10% y-o-y, on higher sales in the Eastern region which has lower realisations) more than in-line volume growth (up 8% y-o-y). However, EBITDA/tonne surprised negatively at Rs. 951 (down 9% y-o-y) as against our estimate of Rs. 1222. Weak realisations, higher freight costs (increased lead distance to supply Eastern markets) and higher other expenses (Rs. 52 crore of costs for stabilization of new units) led to mis on EBITDA/tonne. Overall, standalone operating profit and net profit declined by 2% y-o-y and 45% y-o-y to Rs. 916 crore and Rs. 318 crore, respectively (both below our estimates). Weak demand during Q1FY2025 and Q2FY2025 till date and an expected loss in volumes during the festive quarter of Q3FY2025 has led to management trimming down FY2025 volume guidance to in line with industry growth versus earlier expectation of 10-12% y-o-y growth. Capacity expansion plans remain on track to add 15.4 mtpa capacities from current 56 mtpa at an overall capex of Rs. 12,000 crore over a three-year period (to be financed by its cash and internal accruals).

Key positives

- Cement volumes grew by 8% y-o-y led by 15% y-o-y growth in East and 7% y-o-y growth in North.
- Commissions 3 mtpa capacity at Guntur, Andhra Pradesh, while it remains on track to add 15.4 mtpa of capacities.

Key negatives

- Lower-than-estimated realisations due to higher sales in Eastern region owing to weak pricing environment in North led by competitive pressures from larger players.
- EBITDA/tonne surprised negatively owing to weak realisations, increased freight costs and higher other expense.

Management Commentary

- Management lowered its sales volume growth guidance for FY2025. It expects to growth in line with industry growth rate as against earlier expectation of 10-12% y-o-y growth. Cement demand in July and August till date remained weak.
- Ongoing expansion projects in Jaitaran, Rajasthan (6.0 MTPA), Kodla, Karnataka (3.00 MTPA), Baloda Bazar, Chhattisgarh (3.40 MTPA), and Etah, Uttar Pradesh (3.00 MTPA) are progressing satisfactorily as per schedule.
- Consolidation in the industry is keeping cement prices low. However, it does not expect excess supply-led disruptions to impact demand over the next two years.

Revision in estimates – We have lowered our net earnings estimates materially for FY2025-FY2026 factoring lower volumes, weaker realisations and a higher depreciation run-rate.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 28,000: Shree Cement is on a healthy volume growth trajectory over the next two years, aided by sustained healthy demand and capacity additions. However, operational profitability is expected to remain under pressure in the near term owing to increased competitive environment in its key Northern Indian markets. The company's robust expansion plans remain on track and are expected to be funded through internal accruals, maintaining balance sheet strength. We introduce our FY2027E earnings in this note. Stock currently trades at an EV/EBITDA of 17.5x/14.2x its FY2026E/FY2027E earnings, which provides room for upside considering its discount to the industry leader. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 28,000, owing to downwardly revised estimates partially getting offset by roll forward of valuation to H1FY2027.

Key Risks

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

Valuation (Standalone)

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	19,585.5	19,345.4	22,376.3	26,309.2
OPM (%)	22.3	19.6	20.6	21.5
Adjusted PAT	2,468.4	1,604.6	2,096.4	2,805.5
% YoY growth	110.3	(35.0)	30.7	33.8
Adjusted EPS (Rs.)	684.2	444.7	581.1	777.6
P/E (x)	36.7	56.5	43.2	32.3
P/B (x)	4.4	4.2	3.9	3.6
EV/EBITDA (x)	18.4	21.2	17.5	14.2
RoNW (%)	12.8%	7.7%	9.4%	11.5%
RoCE (%)	12.6%	7.9%	9.5%	11.5%

Source: Company; Sharekhan estimates

Conference Call Key Takeaways

- ♦ **Outlook:** The management lowered its sales volume growth guidance for FY2025. It expects to growth in line with industry growth rate as against earlier expectation of 10-12% y-o-y growth. Cement demand in July and August till date remained weak. The central budget resources are expected to be allocated by September end after presidential approval, which is expected during mid-August. Hence, Q2FY2025 may be weak on demand front. Further, it does not expect major demand in Q3FY2025 as about ten days would be lost in festivities. Further consolidation in the industry is expected to happen keeping cement prices low. However, it does not expect excess supply led disruptions to impact demand over the next two years.
- ♦ **Capacity expansion:** During the quarter, the Company commissioned its integrated cement unit in Guntur district of Andhra Pradesh with cement production capacity of 3.0 MTPA. Besides this, its ongoing expansion projects in Jaitaran, Rajasthan (6.0 MTPA), Kodla, Karnataka (3.00 MTPA), Baloda Bazar, Chhattisgarh (3.40 MTPA), and Etah, Uttar Pradesh (3.00 MTPA) are progressing satisfactorily as per schedule.
- ♦ **Power generation:** It achieved a significant milestone of 1 GW (1,000 MW) of installed power capacity with the commissioning of a 19.5 MW solar power plant at its manufacturing unit in Andhra Pradesh in June 2024, taking its total power capacity to 1003 MW. The Company's 1 GW+ capacity includes a mix of solar, wind, thermal and waste heat recovery power plants. It is further increasing its solar power capacity by ~ 135 MW across its manufacturing locations in Rajasthan, Panipat, Jharkhand, Uttarakhand and Uttar Pradesh.
- ♦ **Green Power:** The Company's share of green electricity in total electricity consumption stood at 54% in Q1'FY25 which is one of the highest in the Indian cement industry.
- ♦ **Q1FY25 highlights:** Q1FY2025 was tough for industry as well for the company owing to sluggish demand environment led by election period and weather conditions. Cement volumes were up 8% y-o-y to 9.64 million tonnes and capacity utilisation stood at 76%. Realisations were lower 6% y-o-y at Rs. 4469. EBITDA/tonne stood at Rs. 950 as against Rs. 1046 in Q1FY2024. Stabilisation of Guntur and Nawalgarh units led to Rs. 52 crore expense on stores and spares leading to rise in other expense in Q1FY2025.
- ♦ **Low realisations & EBITDA:** It shifted volumes to East from North (high competitive intensity led by major players) which yielded lower realisations. Further lead distance increased by 21 kms q-o-q. Additional stabilisation costs for Guntur and Nawalgarh. The above led to lower realisations and profitability during Q1FY2025.
- ♦ **Volume growth region-wise:** Overall 8% y-o-y volume growth was contributed by 7% y-o-y growth in North, 15% y-o-y growth in East while South witnessed 5% y-o-y decline. Overall 1% q-o-q volume growth was contributed by 11% q-o-q growth in East while North and South reported decline of 3% q-o-q and 4% q-o-q respectively. Region-wise sales mix was North – 55%, East – 35% and South – 10%. Region-wise average realisations were North – Rs. 4641/tonne, East – Rs. 4154/tonne and South – Rs. 4600/tonne.
- ♦ **Fuel cost:** Average fuel consumption cost stood at Rs. 1.76 per Kcal as against Rs. 2.34 per Kcal last year.
- ♦ **Depreciation:** Depreciation for FY2025 is estimated at Rs. 3600 crore.
- ♦ **Capex:** It would be incurring Rs. 4000 crore capex per annum.

Per-tonne analysis (blended)

							Rs cr
Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y-o-y (%)	q-o-q (%)
Volume	89,20,000	82,00,000	88,90,000	95,30,000	96,40,000	8.1%	1.2%
Realisations	5,573	5,591	5,513	5,323	5,015	-10.0%	-5.8%
Cost break-up							
RM cost	638	556	494	372	422	-33.9%	13.5%
Employee expenses	263	284	264	247	254	-3.6%	2.8%
Power and fuel	1,700	1,670	1,441	1,498	1,458	-14.2%	-2.7%
Transportation and handling	1,192	1,160	1,095	1,097	1,157	-2.9%	5.5%
Other expenses	735	860	831	717	775	5.4%	8.0%
Total expenditure per tonne	4,527	4,530	4,125	3,930	4,065	-10.2%	3.4%
EBITDA per tonne	1,045	1,061	1,388	1,393	951	-9.1%	-31.7%

Source: Company, Sharekhan Research

Results (Standalone)

						Rs cr
Particulars	Q1FY2025	Q1FY2024	% y-o-y	Q4FY2024	% q-o-q	
Net Sales	4834.7	4971.0	-2.7%	5072.7	-4.7%	
Total Expenditure	3918.3	4038.4	-3.0%	3745.5	4.6%	
Operating profit	916.3	932.6	-1.7%	1327.2	-31.0%	
Other Income	134.6	161.7	-16.8%	137.9	-2.4%	
EBIDTA	1050.9	1094.3	-4.0%	1465.1	-28.3%	
Interest	57.3	75.3	-23.9%	64.8	-11.5%	
PBDT	993.6	1019.0	-2.5%	1400.3	-29.0%	
Depreciation	642.8	308.5	108.4%	628.1	2.3%	
PBT	350.8	710.5	-50.6%	772.2	-54.6%	
Tax	33.1	129.4	-74.4%	110.5	-70.0%	
Extraordinary items	0.0	0.0	-	0.0	-	
Reported Profit After Tax	317.7	581.1	-45.3%	661.8	-52.0%	
Adjusted PAT	317.7	581.1	-45.3%	661.8	-52.0%	
Margins			BPS		BPS	
OPM	19.0%	18.8%	19	26.2%	(721)	
PAT	6.6%	11.7%	-512	13.0%	(647)	
Tax rate	9.4%	18.2%	-877	14.3%	(486)	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens the 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 normalised from the second wave of COVID-19, led by infrastructure and rural demand. The strong pick-up in residential real estate sector is expected to be sustained 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 healthy demand.

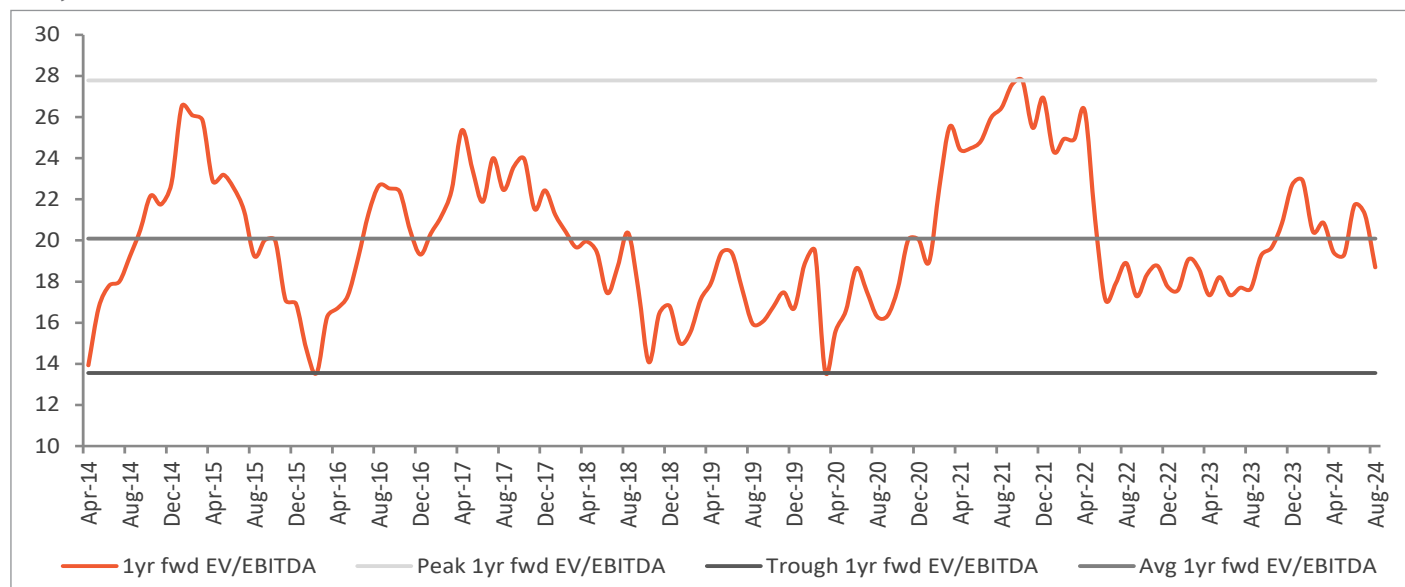
■ Company outlook - Company to outperform industry on volume offtake during FY2023-FY2026E

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-FY2026E, led by improving capacity utilisation and the adding newer capacities. However, it continues to focus on improvement in operational profitability, which historically had been higher than peers, leading to a premium valuation. Firm cement demand has led the management venture to increase capacity from 56 MTPA in FY2024 to 75 MTPA by FY2027.

■ Valuation - Retain Buy with a revised PT of Rs. 28,000

Shree Cement is on a healthy volume growth trajectory over the next two years, aided by sustained healthy demand and capacity additions. However, operational profitability is expected to remain under pressure in the near term owing to increased competitive environment in its key Northern Indian markets. The company's robust expansion plans remain on track and are expected to be funded through internal accruals, maintaining balance sheet strength. We introduce our FY2027E earnings estimates in this note. Stock currently trades at an EV/EBITDA of 17.5x/14.2x its FY2026E/FY2027E earnings, which provides room for upside considering its discount to the industry leader. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 28,000, owing to downwardly revised estimates partially getting offset by roll forward of valuation to H1FY2027.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
UltraTech	49.3	37.1	26.3	20.6	5.2	4.6	10.9	13.2
Shree Cement	56.5	43.2	21.2	17.5	4.2	3.9	7.7	9.4
Dalmia Bharat	36.5	29.7	12.6	10.7	2.0	1.9	5.5	6.4
The Ramco Cement	65.3	34.9	16.3	13.2	2.6	2.5	4.1	7.3

Source: Company; 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 regarding 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-FY2026E led by improving capacity utilisation and adding newer capacities. Further, operational profitability is expected to improve, led by declining power & fuel costs and operational efficiencies derived from increased utilization levels. The firm cement demand has led to the management venturing in increasing capacity from 56MTPA in FY2024 to 75MTPA by FY2027. The company's strong expansion plans remain on track and is expected to be funded through internal accruals maintaining balance sheet strength.

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

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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