

Shree Cement

BSE SENSEX
60,131

S&P CNX
17,769



Bloomberg	SRCM IN
Equity Shares (m)	36
M.Cap.(INRb)/(USDb)	868.7 / 10.6
52-Week Range (INR)	27013 / 17900
1, 6, 12 Rel. Per (%)	-10/12/-11
12M Avg Val (INR M)	1304

Financial Snapshot (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	167.5	183.8	200.7
EBITDA	30.0	40.5	47.5
Adj. PAT	12.6	18.5	22.3
EBITDA Margin (%)	17.9	22.1	23.7
Adj. EPS (INR)	349	512	619
EPS Gr. (%)	-44.5	46.6	20.9
BV/Sh. (INR)	5,076	5,508	5,977

Ratios

Net D:E	-0.3	-0.3	-0.3
RoE (%)	7.1	9.7	10.8
RoCE (%)	7.4	9.7	10.7
Payout (%)	17.2	15.6	24.2

Valuations

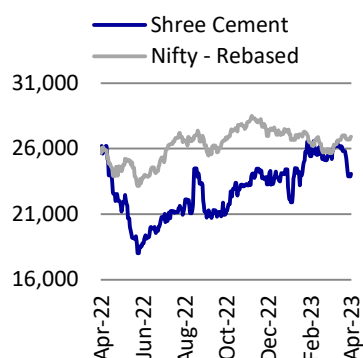
P/E (x)	68.9	47.0	38.9
P/BV (x)	4.7	4.4	4.0
EV/EBITDA(x)	26.3	19.7	16.9
EV/ton (USD)	207	183	173
Div. Yield (%)	0.2	0.3	0.6
FCF Yield (%)	-0.5	0.6	1.0

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	62.6	62.6	62.6
DII	11.7	12.0	11.2
FII	12.8	12.5	12.2
Others	12.9	13.0	14.1

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR24,078 TP: INR23,710 (-2%) Neutral

Limited scope for cost reduction; valuation expensive

Higher capex results in lower FCF generation and yield

- Shree Cement (SRCM) is one of the most cost-efficient producers in the industry, owing to its various cost reduction measures such as higher use of green energy, in-house innovation to improve plant efficiency, and a freight cost policy that involves auction for better rates.
- However, while other players have also caught up on cost-reduction measures, the cost/t gap between SRCM and its peers has declined to INR572/t in FY22 (INR529/t in 9MFY23) from INR838/t in FY18. We believe the company's cost curve currently positions the company above its peers, leaving little room for significant cost reduction.
- SRCM is expanding its clinker/cement capacity by 5.3mtpa/9.5mtpa spread over North, East, and South regions. SRCM is estimated to deploy ~90% of OCF for Capex in FY23-25 as compared to the past three/five-year average at ~40%/~60%, which will result in lower FCF yield.
- The stock trades at 19.7x/16.9x FY24E/FY25E EV/EBITDA (v/s its 10-year average one-year forward EV/EBITDA of 19.4x), limiting any material upside potential. We reiterate our **Neutral** rating and value SRCM at 16x FY25E EV/EBITDA (earlier 16x Sep'24) to arrive at our TP of INR23,710 (earlier 22,960).

Cost curve is continuing to flatten

- The gap in cost efficiency is narrowing with peers catching up with cost-reduction measures. However, SRCM has limited opportunities for cost reduction due to several reasons. 1) All of its kilns are equipped with WHRS, leaving limited scope for further additions. This has resulted in SRCM's green power share at 53%, much higher than the peer in the range of 4-43%; 2) During the peak construction period (i.e. 4Q), SRCM's grinding capacity utilization is lower than UTCM's; as a result, SRCM is unable to benefit from operating leverage; and 3) petcoke prices are currently elevated compared to historical levels, putting further pressure on SRCM's cost reduction measures.
- SRCM's peers are investing in green energy (mainly WHRS), helping them reduce their overall cost; on the other hand, SRCM's other cost reduction measures are broadly in line with peers' actions. The company is setting up solar power plants to increase its green energy share from its current 53% (~48% in FY22) to more than 55% in the next two years. The incremental saving in power cost v/s peers will be limited. It is setting up railway siding for most of the plants to optimize logistics cost. It is also focusing on increasing thermal substitution rate (3.91% in 3QFY23 v/s 2.41% in FY22).

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

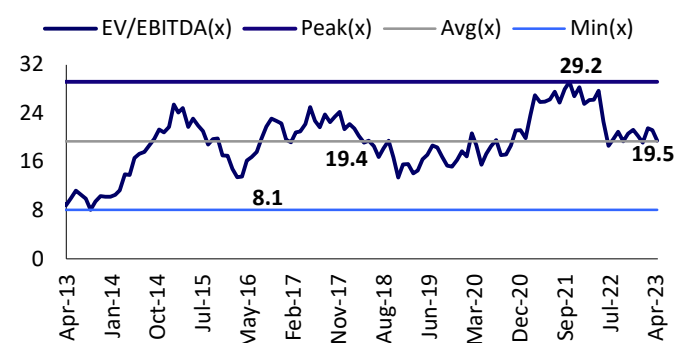
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Expanding capacity to 56mtpa by FY25; aims to reach 80mtpa by FY30

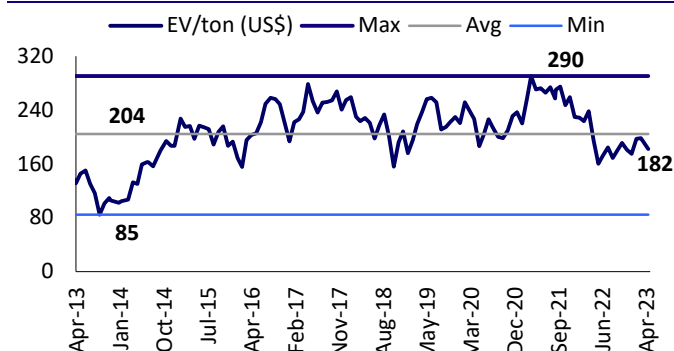
- SRCM is setting up – 1) a Greenfield grinding unit (GU) of 3.0mtpa at Purulia, West Bengal (East), which is expected to be commissioned in 1QFY24; 2) a Greenfield integrated cement plant having clinker/cement capacity of 3.8mtpa/3.50mtpa at Nawalgarh, Rajasthan (North), which is likely to be commissioned by 3QFY24; and 3) a Greenfield integrated cement plant having clinker/cement capacity of 1.8mtpa/3mtpa in Guntur, Andhra Pradesh (South), which is likely to be commissioned by 2QFY25.
- Recently, the company has increased its Saraikela, Jharkhand GU capacity by 0.5mtpa to 3mtpa by process optimization, de-bottlenecking, and productivity enhancement initiatives. Domestic grinding capacity currently stood at 46.9mtpa.
- Post completion of the on-going expansions, SRCM's clinker/cement capacity will rise 18%/22% to 35.2mtpa/56.4mtpa. It aims to reach a cement capacity of 80mtpa by FY30. We believe, going forward, the company will expand capacity across regions – North (Rajasthan, Haryana, and Punjab), West (Gujarat), Central (Uttar Pradesh), East (West Bengal), and South (Karnataka and Tamil Nadu), through a mix of Greenfield and brownfield.
- We estimate SRCM to generate cumulative OCF/FCF of INR93b/INR9b over FY23-25 v/s INR106b/INR63b over FY20-22. SRCM is estimated to deploy ~90% of OCF for Capex in FY23-25 compared to the past three/five-year average of ~40%/~60%, resulting in lower FCF yield.

Valuation appears rich; reiterate Neutral

- We estimate SRCM's volume to report ~9% CAGR over FY23-25 v/s ~6% CAGR over FY19-23, partly aided by capacity expansion. We further estimate its EBITDA/t at INR1,166/INR1,227 in FY24/FY25 v/s an estimated EBITDA/t of INR946 in FY23 (EBITDA/t was at INR1,247 in FY22).
- SRCM's net cash is estimated at INR65.5b v/s INR60.3b/INR67b in FY23E/FY22, given the expansion plan, entailing a higher capex.
- SRCM has been trading at premium valuations due to cost leadership, efficient capital deployment, and higher capacity/volume CAGR than the industry. We continue to believe that SRCM's cost benefits over its peers are narrowing.
- The stock trades at 19.7x/16.9x FY24E/FY25E EV/EBITDA (v/s its 10-year average one-year forward EV/EBITDA of 19.4x), limiting any material upside potential. We reiterate our **Neutral** rating and value SRCM at 16x FY25 EV/EBITDA (earlier Sep'24E) to arrive at our TP of INR23,710 (INR22,960).

Exhibit 1: One-year forward EV/EBITDA ratio trend

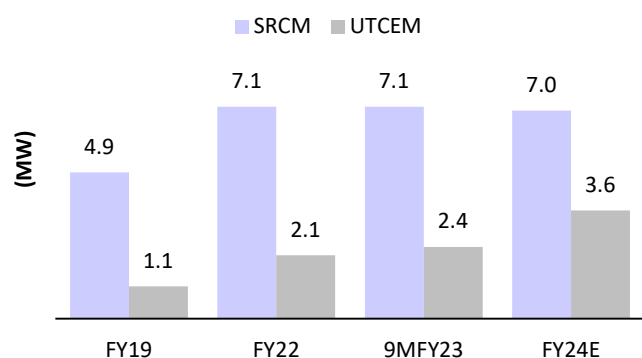
Source: Company, MOFSL

Exhibit 2: One-year forward EV/t trend

Source: Company, MOFSL

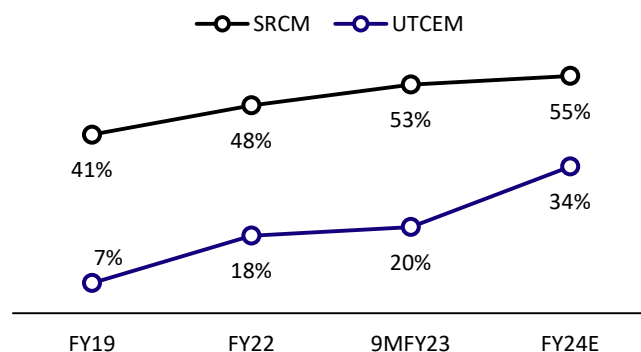
Story in charts

Exhibit 3: SRCM's WHRS capacity (in MW) per mt of clinker will remain flat, while UTCCEM's will increase



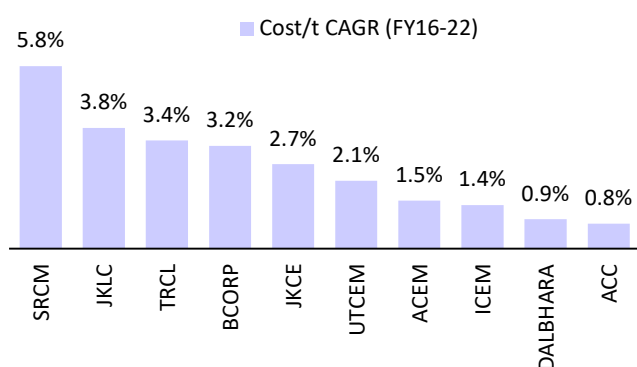
Source: MOFSL, Company

Exhibit 4: SRCM's incremental benefit from green power (WHRS, Solar, and Wind) should be lower than UTCCEM's



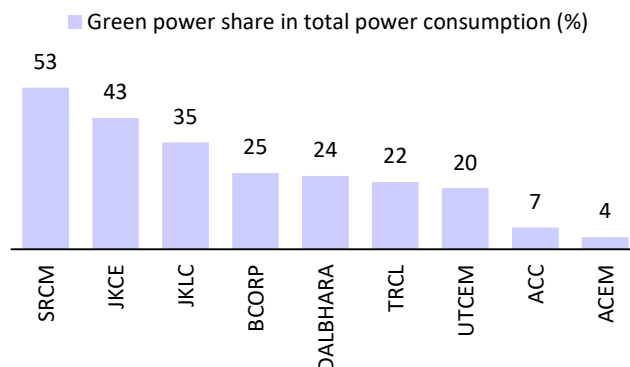
Source: MOFSL, Company

Exhibit 5: SRCM exhibited the highest cost/t CAGR in MOFSL coverage over FY16-22



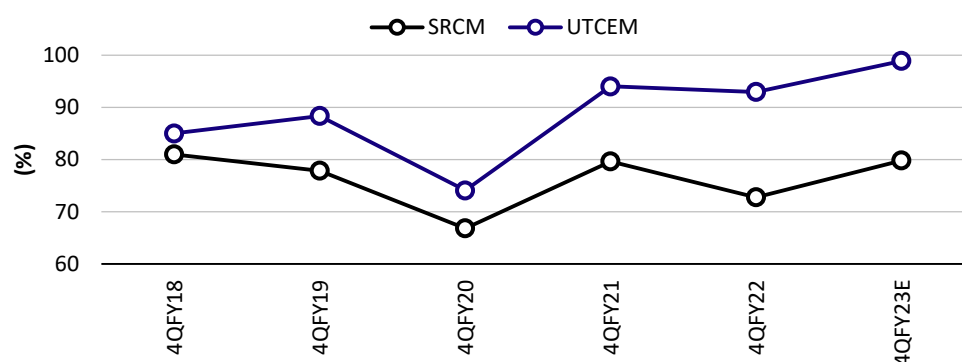
Source: MOFSL, Company; Note: We have not considered FY23 due to exceptionally high fuel prices

Exhibit 6: SRCM's higher green power share leaves limited scope for further improvement

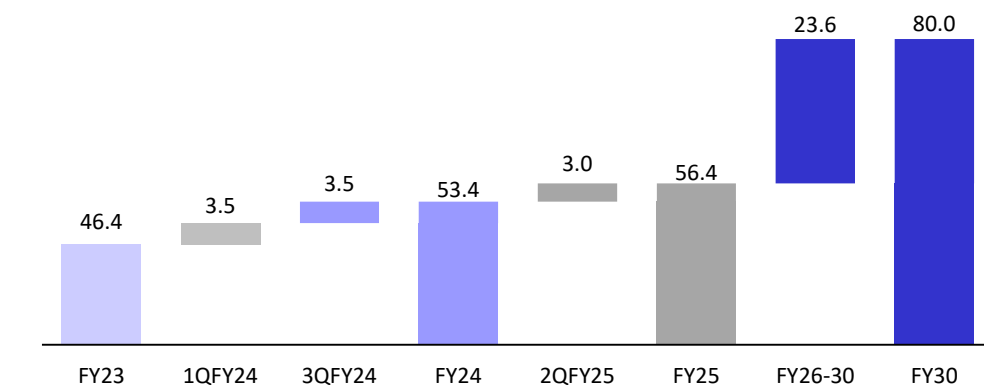


Source: MOFSL, Company

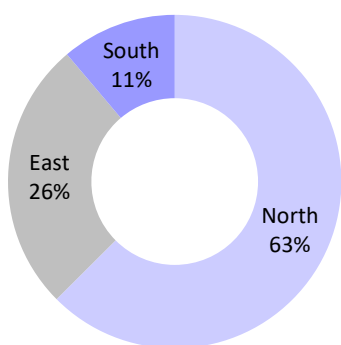
Exhibit 7: Lower grinding capacity utilization during peak construction periods, resulting in a lower operating leverage benefit for SRCM than UTCCEM



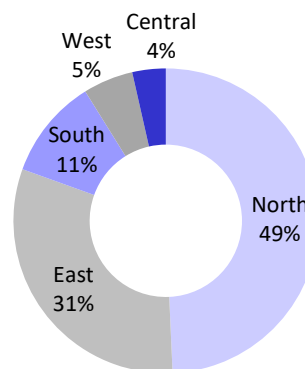
Source: MOFSL, Company; Note: capacity utilization is of domestic gray cement capacity

Exhibit 8: SRCM's capacity is estimated to report 10% CAGR over FY23-25

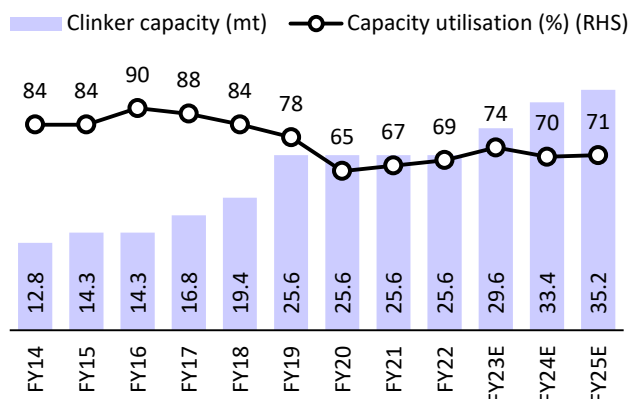
Source: MOFSL, Company; Note: capacity shown is domestic Gray cement capacity

Exhibit 9: SRCM's regional clinker capacity share in FY25E*

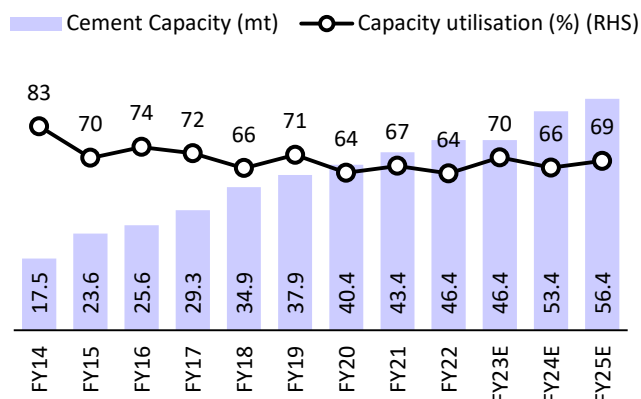
Source: MOFSL, Company; *based on expansion plans announced

Exhibit 10: SRCM's regional cement capacity share in FY25E*

Source: MOFSL, Company; *based on expansion plans announced

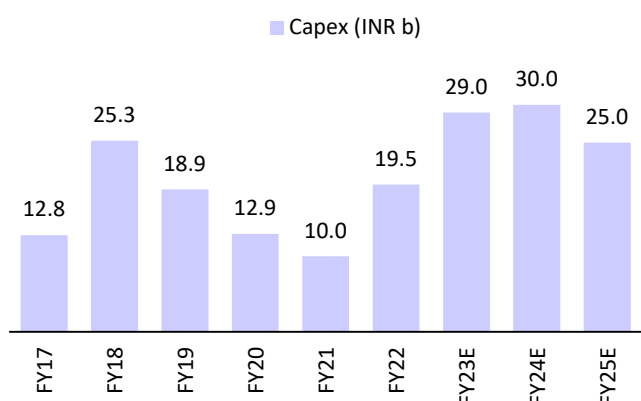
Exhibit 11: Clinker utilization at SRCM is estimated to continue below pre-covid levels...

Source: MOFSL, Company

Exhibit 12: ...so will be the case with cement capacity utilization

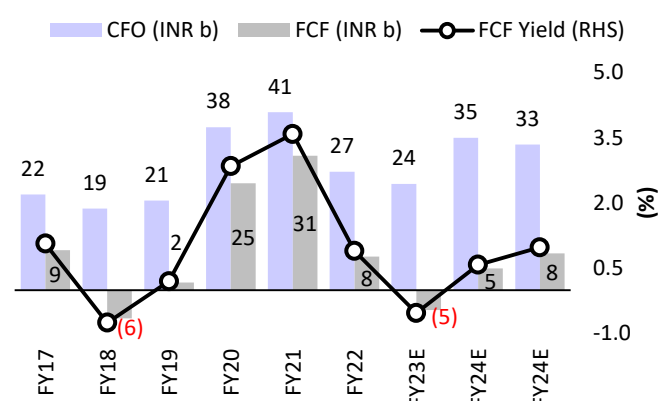
Source: MOFSL, Company

Exhibit 13: Capex should be high, given the growth plans...



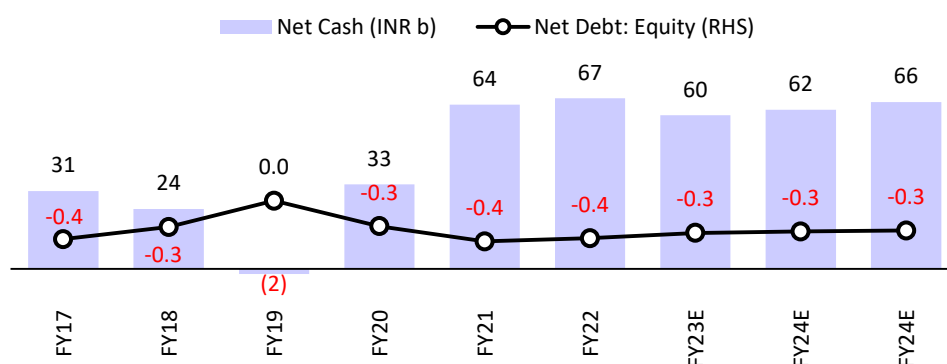
Source: Company, MOFSL

Exhibit 14: ...resulting in low FCF generation and yield



Source: Company, MOFSL

Exhibit 15: SRCM net cash is estimated to be INR66b in FY25, at similar levels of FY22



Source: MOFSL, Company

Exhibit 16: EBITDA/t is estimated at INR1,116/INR1,227 in FY24E/FY25E, below UTCM

Blended EBITDA/t (INR)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY19-FY23E CAGR (%)	FY23-FY25E CAGR (%)
UTCEM	858	1,139	1,339	1,225	1,003	1,177	1,250	4.0	11.6
SRCM	1,007	1,448	1,514	1,247	946	1,166	1,227	-1.6	13.9
ACEM	779	891	1,158	1,180	842	1,085	1,170	2.0	17.9
ACC	721	834	972	1,039	511	799	896	-8.2	32.4
DALBHARA	1,040	1,092	1,334	1,056	884	1,008	1,100	-4.0	11.5
TRCL	910	992	1,552	1,162	741	981	1,085	-5.0	21.0
JKCE	822	1,209	1,301	1,108	848	1,034	1,112	0.8	14.5
BCORP	695	979	1,023	781	475	734	807	-9.1	30.4
ICEM	513	531	906	508	(199)	553	703	n/a	n/a
JKLC	430	732	799	758	686	797	864	12.4	12.2
MOFSL Coverage	833	1,057	1,256	1,123	811	1,041	1,125	-0.7	17.8

Source: MOFSL, Company

Standalone financials and valuations

Income Statement								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	98,894	1,17,599	1,19,301	1,26,037	1,43,297	1,67,501	1,83,809	2,00,703
Change (%)	17.0	18.9	1.4	5.6	13.7	16.9	9.7	9.2
EBITDA	24,728	27,869	36,745	39,547	36,478	29,998	40,544	47,493
Margin (%)	25.0	23.7	30.8	31.4	25.5	17.9	22.1	23.7
Depreciation	8,994	13,917	16,994	11,399	10,365	15,216	17,473	20,067
EBIT	15,734	13,952	19,751	28,148	26,114	14,781	23,071	27,427
Int. and Finance Charges	1,353	3,810	2,865	2,471	2,178	2,665	2,465	2,034
Other Income – Rec.	3,891	2,454	2,716	4,580	5,373	4,643	4,031	4,393
PBT before EO Expense	18,272	12,596	19,602	30,257	29,309	16,759	24,636	29,786
EO Expense/(Income)	0	1,781	0	0	0	0	0	0
PBT after EO Expense	18,272	10,814	19,602	30,257	29,309	16,759	24,636	29,786
Tax	4,466	2,177	5,248	7,536	4,382	4,441	6,159	7,446
Deferred Tax	-36	-873	-1,348	-398	1,161	-282	0	0
Tax Rate (%)	24.2	12.1	19.9	23.6	18.9	24.8	25.0	25.0
Reported PAT	13,842	9,510	15,702	23,119	23,766	12,600	18,477	22,339
Adj. PAT for EO items	13,842	10,754	15,702	23,017	22,721	12,600	18,477	22,339
Change (%)	3.4	-22.3	46.0	46.6	-1.3	-44.5	46.6	20.9
Margin (%)	14.0	9.1	13.2	18.3	15.9	7.5	10.1	11.1

Balance Sheet								(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	348	348	361	361	361	361	361	361
Other Reserves	88,620	95,626	1,29,003	1,52,140	1,72,348	1,82,783	1,98,373	2,15,301
Total Reserves	88,620	95,626	1,29,003	1,52,140	1,72,348	1,82,784	1,98,375	2,15,303
Net Worth	88,968	95,974	1,29,364	1,52,501	1,72,709	1,83,145	1,98,736	2,15,664
Deferred Liabilities	-5131	-6126	-7438	-7855	-6695	-6695	-6695	-6695
Secured Loan	23,761	27,980	31,042	21,332	20,142	20,858	17,070	14,216
Unsecured Loan	10,269	0	400	0	0	0	0	0
Total Loans	34,030	27,980	31,442	21,332	20,142	20,858	17,070	14,216
Capital Employed	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	1,97,307	2,09,111	2,23,184
Gross Block	65,480	88,365	1,03,634	1,13,644	1,35,229	1,53,229	1,96,229	2,26,229
Less: Accum. Deprn.	29,586	43,608	60,445	71,729	82,014	97,230	1,14,703	1,34,770
Net Fixed Assets	35,895	44,757	43,189	41,916	53,215	55,999	81,526	91,459
Capital WIP	18,303	14,725	12,576	12,836	9,729	20,729	7,729	2,729
Financial investments	54,341	22,856	63,575	83,712	86,014	81,014	78,014	77,014
Strategic Investment	3	21,583	25,579	26,794	29,445	29,445	29,445	29,445
Curr. Assets	37,749	41,886	41,022	37,275	49,056	52,917	59,520	67,498
Inventory	15,690	15,891	14,279	14,772	21,614	22,945	24,172	26,394
Account Receivables	4,593	7,324	8,285	4,859	5,957	8,260	9,065	9,898
Cash and Bank Balance	3,209	3,078	1,082	2,098	1,183	191	1,535	2,745
Others	14,258	15,593	17,378	15,547	20,303	21,521	24,749	28,461
Curr. Liability and Prov.	28,422	27,980	32,574	36,555	41,304	42,798	47,125	44,963
Account Payables	28,338	27,886	32,470	36,430	41,160	42,654	46,982	44,819
Provisions	85	93	104	125	144	144	144	144
Net Current Assets	9,327	13,907	8,449	721	7,752	10,119	12,395	22,535
Appl. of Funds	1,17,868	1,17,827	1,53,368	1,65,978	1,86,155	1,97,307	2,09,111	2,23,184

Source: Company, MOFSL

Standalone financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	396.3	308.7	435.2	637.9	629.7	349.2	512.1	619.2
Cash EPS	776.7	399.5	471.0	315.9	287.3	421.7	484.3	556.2
BV/Share	2,554	2,755	3,585	4,227	4,787	5,076	5,508	5,977
DPS	50.0	60.0	110.0	60.0	90.0	60.0	80.0	150.0
Payout (%)	12.6	22.0	25.3	9.4	13.7	17.2	15.6	24.2
Valuation (x)								
P/E		78.0	55.3	37.7	38.2	68.9	47.0	38.9
Cash P/E		60.3	51.1	76.2	83.8	57.1	49.7	43.3
P/BV		8.7	6.7	5.7	5.0	4.7	4.4	4.0
EV/Sales		7.3	6.9	6.3	5.5	4.7	4.3	4.0
EV/EBITDA		30.7	22.4	20.0	21.7	26.3	19.7	16.9
EV/t (USD-Cap)		276	249	223	208	207	183	173
Dividend Yield (%)		0.2	0.5	0.2	0.4	0.2	0.3	0.6
Return Ratios (%)								
RoIC	43.5	23.4	25.8	39.2	33.4	16.0	21.2	20.9
RoE	16.7	11.6	13.9	16.3	14.0	7.1	9.7	10.8
RoCE	14.0	11.7	12.6	14.9	13.9	7.4	9.7	10.7
Working Capital Ratios								
Inventory (Days)	58	49	44	43	55	50	48	48
Debtor (Days)	16	23	25	14	15	18	18	18
Creditor (Days)	105	87	99	106	105	93	93	82
Working Capital Turnover (Days)	34	43	26	2	20	22	25	41
Leverage Ratio (x)								
Current Ratio	1.3	1.5	1.3	1.0	1.2	1.2	1.3	1.5
Net Debt/Equity ratio	-0.3	0.0	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
(INR m)								
OP/(Loss) before Tax	18,272	10,814	19,602	30,257	29,309	16,759	24,636	29,786
Depreciation	8,994	13,916	16,994	11,399	10,365	15,216	17,473	20,067
Interest and Finance Charges	-740	833	1,132	220	-849	0	0	0
Direct Taxes Paid	-5,068	-2,300	-4,859	-7,439	-1,959	-4,160	-6,159	-7,446
(Inc.)/Dec. in WC	-1,131	-5,302	5,591	8,762	-7,321	-3,359	-932	-8,930
CF from Operations	20,327	17,962	38,460	43,200	29,546	24,457	35,018	33,476
Others	-1,540	2,635	-947	-2,264	-2,317	0	0	0
CF from Operations incl. EO	18,788	20,597	37,513	40,936	27,229	24,457	35,018	33,476
(Inc.)/Dec. in FA	-25,263	-18,853	-12,941	-9,984	-19,483	-29,000	-30,000	-25,000
Free Cash Flow	-6,475	1,744	24,572	30,953	7,746	-4,543	5,018	8,476
(Pur.)/Sale of Investments	-10,685	10,727	-42,478	-17,791	-77	5,000	3,000	1,000
Others	-3	51	0	0	0	0	0	0
CF from Investments	-35,950	-8,075	-55,419	-27,774	-19,559	-24,000	-27,000	-24,000
Issue of Shares	0	0	23,833	0	0	0	0	0
Inc./(Dec.) in Debt	20,353	-7,591	1,175	-9,610	-2,707	716	-3,787	-2,854
Interest Paid	-1,248	-2,753	-2,868	-2,514	-2,088	0	0	0
Dividend Paid	-1,843	-2,308	-6,231	-22	-3,789	-2,165	-2,886	-5,412
CF from Fin. Activity	17,262	-12,653	15,910	-12,146	-8,584	-1,449	-6,674	-8,266
Inc./Dec. in Cash	99	-131	-1,997	1,016	-915	-992	1,344	1,210
Opening Balance	3,110	3,209	3,078	1,081	2,097	1,183	191	1,535
Closing Balance	3,209	3,078	1,081	2,097	1,183	191	1,535	2,745

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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