Shree Cement BUY

Robust Q2 FY26 Margins Despite Volume Softness

Summary

Shree Cement reported a resilient performance in Q2FY26 despite seasonal headwinds, supported by premiumization and cost discipline. Revenue rose 15% YoY to Rs43bn down 12% QoQ driven by stronger realizations and an improved product mix, while EBITDA increased 46% YoY to Rs8.5bn, translating to Rs1,049/t up 44% YoY. PAT surged 198% YoY to Rs2.8bn, underscoring robust margin recovery. Cement volumes grew 6.8% YoY to 7.9mn tonnes, though sequentially lower due to extended monsoons and softer North India demand. Realizations improved to Rs4,840/t, aided by the premium segment's share rising to 21% from 15% last year, validating the "value-over-volume" strategy. Sustainability initiatives continued to strengthen, with green power capacity reaching 612 MW, covering 60% of total needs, while AFR use rose to 2.3% and rail logistics share increased to 11% with a 20% target. We reiterate our rating to BUY, awaiting better demand traction and revised the target price to Rs35,697.

Key Highlights and Investment Rationale

- **Capacity Expansion:** The company commissioned a 3.65 MTPA clinker line at Jaitaran (Rajasthan), with a 3 MTPA cement mill to follow soon, and expects to commission the 3 MTPA Kodla (Karnataka) integrated project in Q3, taking total capacity to 72–75 MTPA by FY27 and >80 MTPA by FY29. The UAE operations posted their best-ever quarter, with volumes up 34% YoY to 1.31 mn tonnes and EBITDA up 158%.

- **Management Guidance:** Management reaffirmed its annual CapEx guidance of Rs30bn and reiterated a net-debt-free balance sheet. A one-off expense of Rs237mn related to a power transmission asset transfer marginally impacted EBITDA by around Rs30/t

TP	Rs35,697
CMP	**Rs28,680**
Potential upside/downside	25%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.1)	(6.8)	14.0
Rel to Sensex	(6.53)	(11.4)	8.2

V/s Consensus

EPS (Rs)	FY26E	FY27E
IDBI Capital	634	863
Consensus	538	684
% difference	*17.8*	*26.2*

Key Stock Data

Bloomberg/Reuters	SRCM IN/SHCM.BO
Sector	Cement
Shares o/s (mn)	36
Market cap. (Rs mn)	1,031,682
3-m daily avgTrd value (Rs mn)	26.0
52-week high / low	Rs32,508 / 23,500
Sensex / Nifty	84,628 / 25,936

Shareholding Pattern (%)

Promoters	62.6
FII	10.3
DII	13.9
Public	13.2

Financial snapshot (Rs mn)

Year	FY23	FY24	FY25	FY26E	FY27E
Revenue	1,68,375	1,95,855	1,79,640	214,299	246,443
Change (yoy, %)	*18*	*16*	*(8)*	*-*	*15*
EBITDA	29,423	43,635	39,306	58,421	71,759
Change (yoy, %)	*(19)*	*48*	*(10)*	*-*	*23*
EBITDA Margin(%)	*17.5*	*22.3*	*21.9*	*27.3*	*29.1*
Adj.PAT	13,281	24,684	14,830	22,892	31,122
EPS (Rs)	368	684	411	634	863
Change (yoy, %)	*(44.1)*	*86*	*(40)*	*-*	*36*
PE(x)	74.7	40	67	43	32
Dividend Yield (%)	0.4	0	0	0	0
EV/EBITDA (x)	32.8	21.6	23.8	15.7	12.4
RoE (%)	7.5	13	7	10	13
RoCE (%)	7	14	6	12	14

Source: IDBI Capital Research

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Concall Highlights

- **UAE operations shine:** UAE business delivered record performance with 34% volume growth and 158% jump in EBITDA; new 3 MTPA mill and debottlenecking projects underway, funded fully through internal UAE cash
- **Volume momentum steady:** Cement volumes grew 6.8% YoY to 7.9 MT, outperforming industry growth of 3–5%; management continues to pursue a "value over volume" strategy rather than aggressive market share gains
- **Capacity expansion on track:** New 3.65 MTPA clinker unit at Jaitaran (Rajasthan) commissioned; Kodla (Karnataka) integrated plant nearing completion. Target capacity of 72–75 MTPA by FY27; 80 MTPA may shift to FY29.
- **Efficiency push:** Rail share in logistics to rise from 11% to 20%, expected to save Rs100/t; AFR (alternative fuel) usage up to 2.3% from 1.5% YoY, targeting further increase.
- **Green and RMC growth:** Green power capacity now 612 MW; first solar-powered RMC plant commissioned in Jaipur. RMC network expanding rapidly to 24 plants operational, targeting 40 by FY28.
- **Demand outlook cautiously optimistic:** Management expects the recent GST rate cut on cement to be a "transformational" long-term boost, though short-term demand remains muted post-festive season due to labor shortages and monsoon impact.
- **Dividend and cash policy shifting:** Declared highest-ever interim dividend of Rs80/share; management hinted at a more generous payout policy amid strong cash reserves, though maintains large liquidity for strategic flexibility.
- **Financial discipline intact:** FY26 depreciation guided at Rs24.5bn; CapEx for FY26–27 pegged around Rs30bn, with strong balance sheet capacity to fund growth internally while maintaining industry-leading profitability.

Exhibit 1: Financial snapshot

(Rs mn)

	Q2FY26	Q1FY26	*QoQ % Chg*	Q2FY25	*YoY (%)*
Net Sales	**43,032**	**49,480**	***(13)***	**37,270**	***15***
EBIDTA	**8,513**	**12,291**	***(31)***	**5,925**	***44***
EBIDTA margin (%)	*19.8*	*24.8*	*-506bps*	*15.9*	*389bps*
Other income	1,570	2,011	*(22)*	1,776	*(188)*
PBIDT	**10,083**	**14,301**	***(29)***	**7,701**	***31***
Depreciation	5,549	5,524	*0*	6,687	*(17)*
Interest	507	446	*14*	567	*(11)*
Pre-tax profit	**4,027**	**8,331**	***(52)***	**448**	***800***
Tax	1256	2146	*(41)*	(484)	*(360)*
Adjusted PAT	**2,771**	**6,185**	***(55)***	**931**	***198***
EPS	**76.8**	**171.4**	***(55)***	**25.8**	***198***

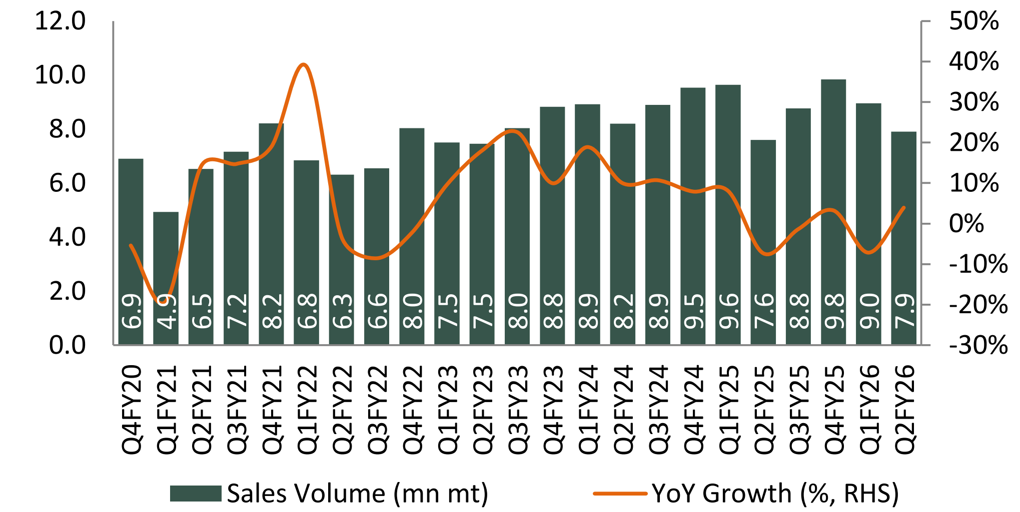
Source: Company

Exhibit 2: Operational data

	Q2FY26	Q1FY26	*QoQ % Chg*	Q2FY25	*YoY (%)*
Sales (mn tonnes)	7.9	9.0	*-12%*	7.6	*4%*
Net realization per tonne	5,447	5,528	*-1%*	4,904	*11%*
Expenditure per tonne	4,283	4,155	*3%*	4,124	*4%*
Composite raw materials per tonne	597	626	*-5%*	539	*11%*
Employees Cost per tonne	325	284	*14%*	328	*-1%*
Power & Fuel Cost per tonne	1,316	1,281	*3%*	1,317	*0%*
Freight & Handling Expenses Cost per tonne	1,193	1,211	*-2%*	1,173	*2%*
Other Expenditure per tonne	852	753	*13%*	766	*11%*
EBITDA per tonne	1,164	1,373	*-15%*	780	*49%*

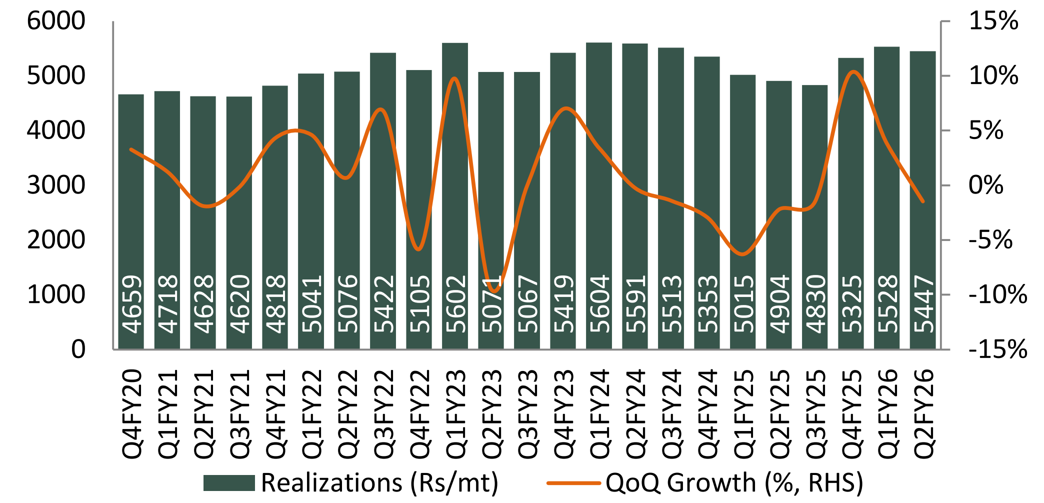
Source: Company; IDBI Capital Research

Exhibit 3: Q2FY26 volumes up 7% YoY



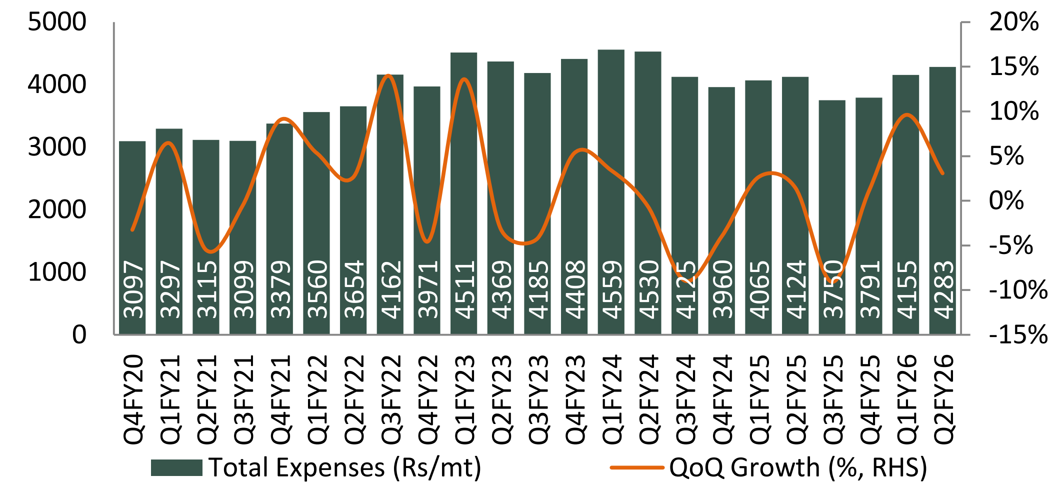
Source : Company

Exhibit 4: Q2FY26 Realization down 1% QoQ



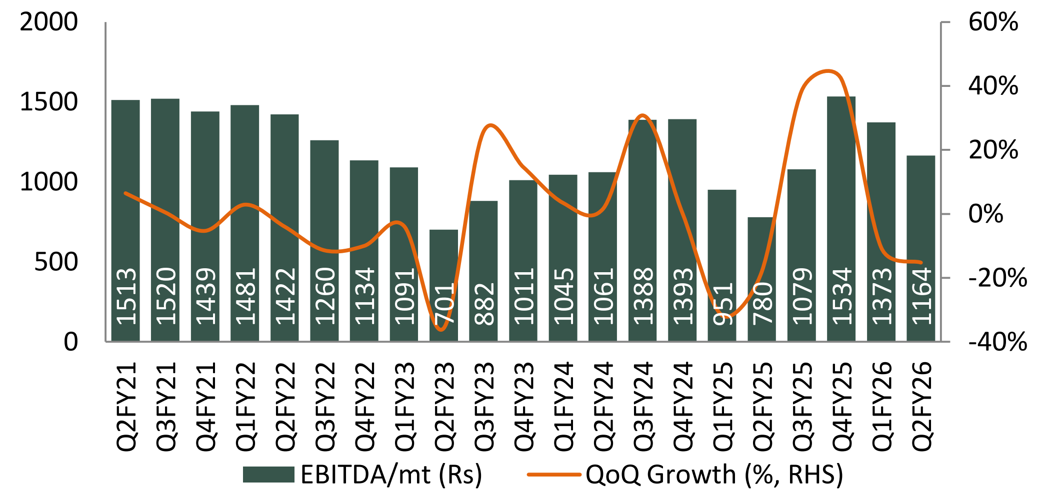
Source : Company

Exhibit 5: Q2FY26 Opex/t down by 3% QoQ



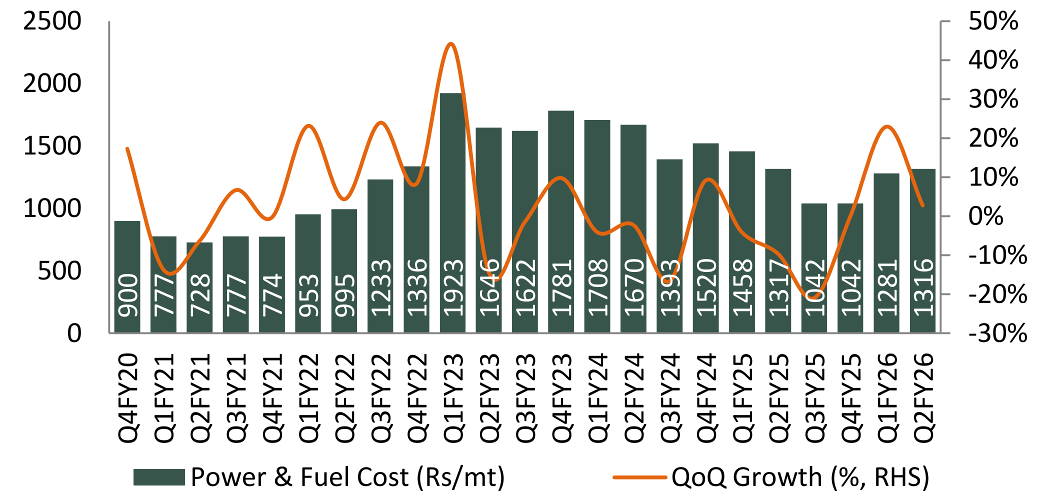
Source : Company

Exhibit 6: EBITDA/t down 15% QoQ



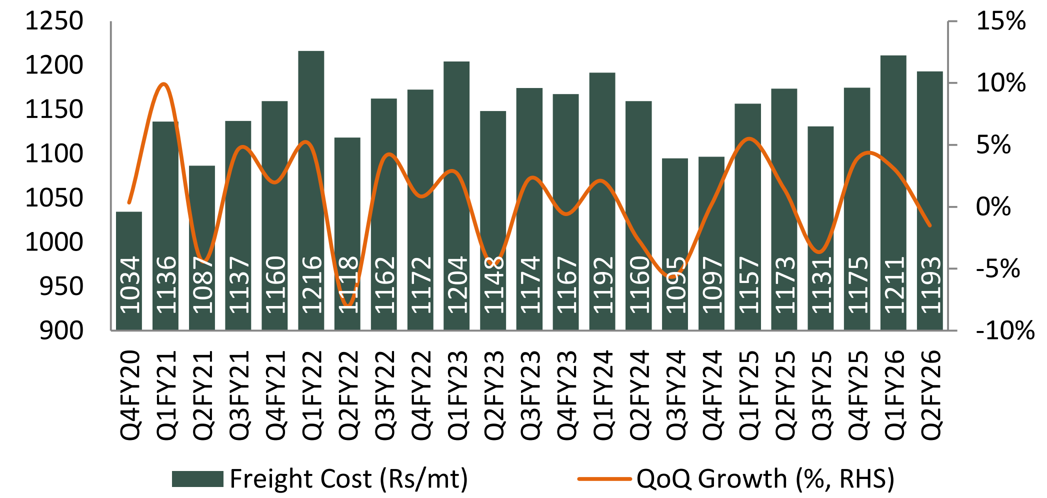
Source : Company

Exhibit 7: Power & Fuel Cost up 3% QoQ



Source : Company

Exhibit 8: Freight Cost up 1% QoQ



Source : Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Net sales	**1,43,059**	**1,68,375**	**1,94,767**	**1,80,373**	**2,09,189**	**2,40,567**
Change (yoy, %)	*13*	*18*	*16*	*(7)*	*16*	*15*
Operating expenses	**(1,06,580)**	**(1,38,952)**	**(1,51,131)**	**(1,42,006)**	**(1,55,455)**	**(1,74,292)**
EBITDA	**36,478**	**29,423**	**43,635**	**38,368**	**53,734**	**66,275**
Change (yoy, %)	*(8)*	*(19)*	*48*	*(12)*	*40*	*23*
Margin (%)	*25.5*	*17.5*	*22.4*	*21.3*	*25.7*	*27.5*
Depreciation	(10,365)	(15,462)	(16,147)	(28,080)	(31,449)	(35,223)
EBIT	**26,114**	**13,961**	**27,489**	**10,288**	**22,284**	**31,052**
Interest paid	(2,178)	(2,689)	(2,643)	(2,086)	(2,124)	(2,124)
Other income	5,373	4,315	5,611	5,772	6,309	6,625
Pre-tax profit	**29,309**	**15,586**	**30,456**	**13,974**	**26,469**	**35,552**
Tax	(5,543)	(2,305)	**(5,772)**	**(2,011)**	**(9,112)**	**(8,888)**
Effective tax rate (%)	*18.9*	*14.8*	**19.0**	**14.4**	**34.4**	**25.0**
Minority Interest	-	-	-	-	-	-
Net profit	**23,766**	**13,281**	**24,684**	**11,962**	**17,357**	**26,664**
Exceptional items	-	-	-	-	-	-
Adjusted net profit	**23,766**	**13,281**	**24,684**	**11,962**	**17,357**	**26,664**
Change (yoy, %)	*3*	*(44)*	*86*	*(52)*	*45*	*54*
EPS	658.7	368.1	684.2	331.5	481.1	739.0
Dividend per sh	90.0	100.0	105.0	110.0	144.3	221.7
Dividend Payout (%)	*13.7*	*27*	*15*	*33*	*30*	*30*

Balance Sheet

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Shareholders' funds	**1,72,709**	**1,82,884**	**2,03,845**	**2,12,114**	**2,24,264**	**2,42,929**
Share capital	361	361	361	361	361	361
Reserves & surplus	1,72,348	1,82,524	2,03,484	2,11,753	2,23,903	2,42,568
Total Debt	**14,384**	**7,612**	**7,131**	**7,266**	**7,266**	**7,266**
Other liabilities	1,475	1,723	3,093	3,124	3,124	3,124
Curr Liab & prov	**45,587**	**65,967**	**60,122**	**55,055**	**55,411**	**62,985**
Current liabilities	45,561	65,943	60,089	55,005	55,362	62,935
Provisions	26	25	33	49	49	49
Total liabilities	**61,446**	**75,302**	**70,346**	**65,445**	**65,802**	**73,375**
Total equity & liabilities	**2,34,154**	**2,58,187**	**2,74,191**	**2,77,559**	**2,90,066**	**3,16,304**
Net fixed assets	62,944	76,529	89,315	1,00,095	1,04,645	1,05,422
Investments	80,610	82,999	54,558	52,862	52,862	55,505
Other non-curr assets	13,689	17,298	18,005	17,597	17,597	17,805
Current assets	**76,912**	**81,361**	**1,12,313**	**1,07,006**	**1,14,962**	**1,37,573**
Inventories	21,614	24,226	31,462	20,754	25,790	29,659
Sundry Debtors	5,957	9,061	9,298	7,805	7,907	9,094
Cash and Bank	36,033	34,700	55,166	65,411	67,968	85,259
Loans and advances	13,309	13,375	16,387	13,036	13,297	13,562
Total assets	**2,34,154**	**2,58,187**	**2,74,191**	**2,77,559**	**2,90,066**	**3,16,304**

Cash Flow Statement

(Rs mn)

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Pre-tax profit	29,309	15,586	30,456	13,974	26,469	35,552
Depreciation	10,365	15,462	16,147	28,080	31,449	35,223
Tax paid	(1,959)	(3,287)	(4,400)	(4,282)	(9,112)	(8,888)
Chg in working capital	(7,321)	967	(6,238)	16,392	(5,042)	2,046
Other operating activities	(3,166)	(1,685)	(2,929)	(3,533)	(4,185)	(4,501)
Cash flow from operations (a)	**27,229**	**27,043**	**33,036**	**50,630**	**39,579**	**59,433**
Capital expenditure	(19,460)	(27,394)	(27,458)	(34,543)	(36,000)	(36,000)
Chg in investments	(309)	5,281	14,779	10,371	-	(2,643)
Other investing activities	1,115	(1,975)	(823)	(12,208)	6,309	6,625
Cash flow from investing (b)	**(18,653)**	**(24,089)**	**(13,503)**	**(36,379)**	**(29,691)**	**(32,018)**
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(4,795)	94	(14,147)	(10,833)	(2,124)	(2,124)
Dividend (incl. tax)	(3,789)	(3,245)	(3,790)	(3,799)	(5,207)	(7,999)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	**(8,584)**	**(3,151)**	**(17,937)**	**(14,632)**	**(7,332)**	**(10,124)**
Net chg in cash (a+b+c)	**(9)**	**(196)**	**1,597**	**(381)**	**2,557**	**17,291**

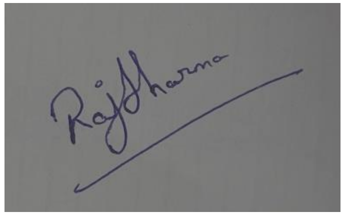
Financial Ratios

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (Rs)	4,787	5,069	5,650	5,879	6,216	6,733
Adj EPS (Rs)	*658.7*	*368.1*	*684.2*	*331.5*	*481.1*	*739.0*
Adj EPS growth (%)	*3*	*-44*	*86*	*-52*	*45*	*54*
EBITDA margin (%)	*25.5*	*17.5*	*22.4*	*21.3*	*25.7*	*27.5*
Pre-tax margin (%)	*20.5*	*9.3*	*15.6*	*7.7*	*12.7*	*14.8*
Net Debt/Equity (x)	*-0.1*	*-0.1*	*-0.2*	*-0.3*	*-0.3*	*-0.3*
ROCE (%)	*15*	*7*	*14*	*5*	*10*	*13*
ROE (%)	*15*	*7*	*13*	*6*	*8*	*11*
DuPont Analysis						
Asset turnover (x)	0.6	0.7	0.7	0.7	0.7	0.8
Leverage factor (x)	1.4	1.4	1.4	1.3	1.3	1.3
Net margin (%)	*16.6*	*7.9*	*12.7*	*6.6*	*8.3*	*11.1*
Working Capital & Liquidity ratio						
Inventory days	55	53	59	42	45	45
Receivable days	15	20	17	16	14	14
Payable days	28	30	26	31	28	29

Valuations

Year-end: March	FY22	FY23	FY24	FY25	FY26E	FY27E
PER (x)	43.2	77.4	41.6	85.9	59.2	38.5
Price/Book value (x)	5.9	5.6	5.0	4.8	4.6	4.2
EV/Net sales (x)	7.0	5.9	5.0	5.4	4.6	3.9
EV/EBITDA (x)	27.6	34.0	22.4	25.3	18.0	14.3
Dividend Yield (%)	*0.3*	*0.4*	*0.4*	*0.4*	*0.5*	*0.8*

Source: Company; IDBI Capital Research



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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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