

CMP: ₹ 20,800 Target: ₹ 24,300 (17%) Target Period: 12 months

BUY

October 17, 2022

Cost declines QoQ; margin falls on weak realisations...

About the stock: Shree Cement is the third largest cement group in India with domestic cement capacity of 46.4 MT as of FY22. In the past four years, it has diversified itself from a 100% North player to a player with capacities now in Rajasthan, Uttarakhand, Bihar, Chhattisgarh, Haryana, UP, Karnataka and Odisha.

- It also has a presence in UAE with integrated cement capacity of 4 MT and 3.3 MT clinker (located near port in Ras-Al-Khaimah)
- Proximity to end user market, use of split grinding units and power capacity of 742 MW (Including 211 MW WHRS) makes it most efficient player in the Industry

Q2FY23 Results: Operational performance for Q2FY23 was weak.

- Revenues of ₹ 3781 crore (up 17.9% YoY) were lower than our estimated revenue of ₹ 4018 crore due to weak realisations, down 9% QoQ (flat YoY) while sales volume broadly remained in line with our estimates
- Margins declined 565 bps QoQ to 13.8% (down 1418 bps YoY), lower than our estimated margin of 14.4% mainly due to weak realisations
- PAT was down 67.2% YoY, 39.9% QoQ to ₹ 189.6 crore vs. I-direct estimated profit of ₹ 249.2 crore

What should investors do? Cost leadership, strong presence in North & East along with robust balance sheet has provided an edge over its competitors.

- With expected revenue CAGR of 15.8% and RoIC of 18%, we remain positive on company and maintain **BUY** rating on the stock

Target Price & Valuation: We value Shree at ₹ 24,300 i.e. 18.5x FY24E EV/EBITDA

Key triggers for future price performance:

- With commissioning of 3 MT grinding unit in Maharashtra, domestic capacity has reached 46.4 MT in FY22. The clinker unit in Chhattisgarh (capacity of 12000t/day) has also got commissioned (capex ₹ 1000 crore)
- Other new capex include 1) New integrated unit with 3.5 MT GU and 3.8 MT clinker unit in Rajasthan by Q4FY24E at \$135/t 2) 3 MT grinding unit in West Bengal by Q4FY23E at \$34/t 3) 1.5 MT clinker and 3 MT greenfield cement capacities in AP by FY25E. Shree aims to reach 80 MT capacity by 2030
- The entire total capex of ~₹ 6800 crore till FY25E will be funded via internal accruals. Total domestic capacity to reach ~56 MT post these expansions
- Shree to continue to maintain its cost leadership & market share due to structural advantage it has in terms of accessing raw materials and markets

Alternate Stock Idea: Apart from Shree, in our cement sector coverage we also like UltraTech.

- It is a market leader with strong brand in the retail segment
- BUY with a target price of ₹ 7,600/share



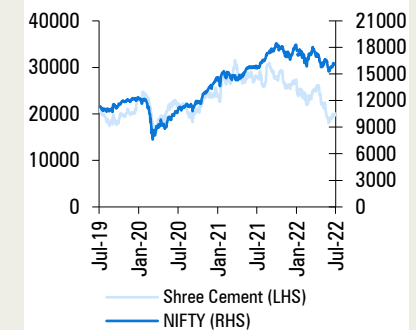
Particulars

Particular	Amount
Mcap	₹ 75054 crore
Debt (FY22)	₹ 2345 crore
Cash & equivalents(FY2)	₹ 3603 crore
EV	₹ 73795 crore
52 week H/L	₹ 31400 / 21600
Equity cap	₹ 36.1 crore
Face value	₹ 10

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	62.55	62.55	62.55	62.55
FII	13.53	13.05	12.20	11.85
DII	10.11	10.50	11.16	11.23
Others	13.81	13.90	14.09	14.37

Price Chart



Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in the prices of imported coal/petcoke

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	11722	11904	12653	14306	6.9	16318	19168	15.8
EBITDA	2653	3675	3979	3648	11.2	3124	4541	11.6
EBITDA (%)	22.6	30.9	31.4	25.5		19.1	23.7	
PAT	1108	1570	2312	2377	29.0	1497	2452	1.6
EPS (₹)	318	435	641	659		415	679	
EV/EBITDA	29.4	20.4	18.5	20.2		23.3	15.9	
EV/Tonne (\$)	259	220	216	221		179	177	
RoNW	11.5	12.1	15.2	13.8		8.2	12.0	
RoCE	11.5	13.8	18.2	16.1		10.6	15.6	

Source: Company, ICICI Direct Research

Key performance highlights

- Domestic sales volumes were at 7.45 MT (up 18.4% YoY, down 1.2% QoQ). Blended realisations were up 10.5% YoY, 9.2% QoQ.
- Capacity utilisation was at **64.3%** vs. 58% last year, 65% in the last quarter
- Contrary to our expectations, cost of production declined 2.6% QoQ to 4,371/tonne
- EBITDA/t was lower 50.8% YoY to ₹ 702/t, mainly on account of weak realisations. It also remained below our estimated EBITDA/t of ₹ 770/t
- PAT was down 67.2% YoY, 39.9% QoQ to ₹ 189.6 crore vs. I-direct estimated profit of ₹ 249.2 crore
- The company has appointed Neeraj Akhoury (ex MD & CEO of ACC and Ambuja Cement) as its MD for five years. Hari Mohan Bangur & Prashant Bangur have been appointed as Chairman and Vice-Chairman, respectively

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Total Operating Income	3780.9	4,017.8	3,205.9	17.9	4,202.7	-10.0
Other Income	156.5	110.0	150.0	4.4	-21.6	-825.2
Raw Material Consumed	300.4	339.3	239.6	25.4	311.9	-3.7
Stock Adjustment	69.1	0.0	-31.0	-323.0	-135.9	NA
Employee Expense	209.7	218.0	202.6	3.5	217.4	-3.6
Power, Oil & Fuel	1,227.0	1,229.0	628.3	95.3	1,442.4	-14.9
Freight cost	856.1	980.2	706.4	21.2	903.5	-5.2
Other Expenses	595.5	671.1	561.8	6.0	644.7	-7.6
EBITDA	523.1	580.2	898.2	-41.8	818.8	-36.1
EBITDA Margin (%)	13.8	14.4	28.0	-1418 bps	19.5	-565 bps
Interest	67.6	58.0	55.6	21.6	57.3	17.8
Depreciation	362.8	299.5	250.5	44.8	327.9	10.6
PBT	249.2	332.7	742.0	-66.4	411.9	NA
Total Tax	59.7	83.5	164.3	-63.7	96.4	-38.1
PAT	189.6	249.2	577.7	-67.2	315.5	-39.9
Key Metrics						
Volume (MT)	7.5	7.5	6.3	18.4	7.5	-1.2
Cement Realisation/t (₹)	5,073	5,329	5,094	-0.4	5,574	-9.0
Blended EBITDA/Tonne (₹)	702	770	1,427	-50.8	1,086	-35.4

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Net revenues	16,600.3	16,318.1	-1.7	18,632.2	19,168.1	2.9	
EBITDA	3,620.1	3,124.3	-13.7	4,409.8	4,540.5	3.0	
EBITDA Margin (%)	21.8	19.1	-266 bps	23.7	23.7	2 bps	Expect company to maintain profitability leadership

Source: Company, ICICI Direct Research

Key triggers for future price performance

Stronghold over high growth markets of North and East regions

Shree Cement (SCL) is one of the strongest players in the northern region with operating units at Rajasthan, Haryana, Uttar Pradesh and Uttarakhand. Apart from a stronghold in the North, which accounts for ~66% of revenues, the company also has increased its share in east and south markets with operating units at Chhattisgarh, Jharkhand and Bihar as well as operating unit in Karnataka. The share of eastern region increased from 21% in FY17 to 25% at present. The company's strategy to adopt split grinding units close to user markets has also provided efficiency in terms of logistics cost.

Operating efficiency remains best in industry

Being a pioneer in many cost initiatives, SCL enjoys strong operating efficiency which makes it one of the low cost producer in India. The strong efficiency arises on account of being 1) 85% consumption of power from captive power plants including usage of WHRS, 2) higher sale of blended cement, 3) use of split-grinding units and 4) adequate limestone reserves.

Exhibit 3: Cost of production on per tonne basis of top cement players

Total cost/tonne	FY17	FY18	FY19	FY20	FY21
Shree Cement	2,949	3,264	3,507	3,300	3,227
Ramco	3,322	3,551	3,679	3,786	3,732
Ambuja ^	3,564	3,708	3,915	3,965	3,856
UltraTech Cement	3,867	4,012	4,062	4,092	3,903
JK Cement	3,871	4,097	4,235	4,380	4,136
ACC ^	4,138	4,337	4,495	4,583	4,479
Total	3810	3745	3837	3875	3820

Source: Company, ICICI Direct Research

Credible record of low leverage and healthy return ratios

Tracking the data since FY07, Shree Cement has always reported double-digit RoE; thus speaking strongly of the management's efficient capital allocation. These healthy returns have been generated with net debt/EBITDA remaining below 1x all throughout this period. We believe the same is going to be maintained while achieving the aim of doubling the capacity in every year. With surplus liquidity of over ₹ 8000 crore the company is in a strong position to fund its new expansion involving capex of ₹ 6,750 crore.

Exhibit 4: Details of ongoing capex

Ongoing Expansion	Cement (MT)	Clinker (MT)	₹ crore	\$/tonne	Commissioning
Gothra, Rajasthan	3.5	3.8	3500	128	Q4FY24E
Purulia, West Bengal	3.0		750	32	Q4FY23E
Guntur, Andhra Pradesh	3.0	1.5	2500	107	Q3FY25E
Total Capex & Cement Capacity	9.5	5.3	6750	91	

Source: Company, ICICI Direct Research

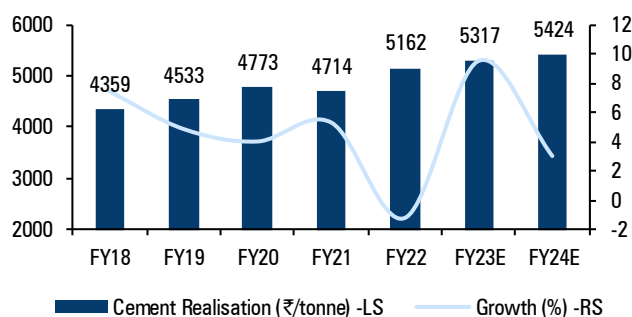
Financial story in charts

Exhibit 5: Region-wise capacity details

Particulars	Cement	Clinker
Current installed capacity		
North	24.3	18.0
East	14.1	9.5
Central	2.0	
South	3.0	2.4
West	3.0	
Total Domestic Capacity	46.4	29.9
Overseas Capacity	4.0	3.3
Ongoing Expansions		
North	3.5	3.8
East	3.0	
South	3.0	
Total Capacity post expansion in FY24E	59.9	37.0

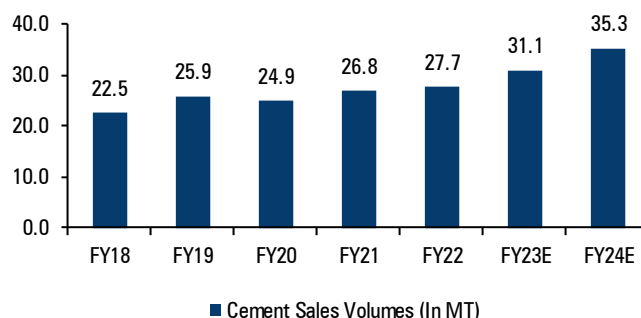
Source: Company, ICICI Direct Research

Exhibit 6: Cost pressure to keep realisations firm in FY23E; to stabilise thereafter



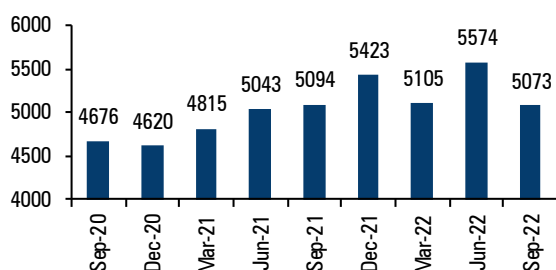
Source: Company, ICICI Direct Research

Exhibit 7: Volumes to grow at 12.9% CAGR over FY22-24E



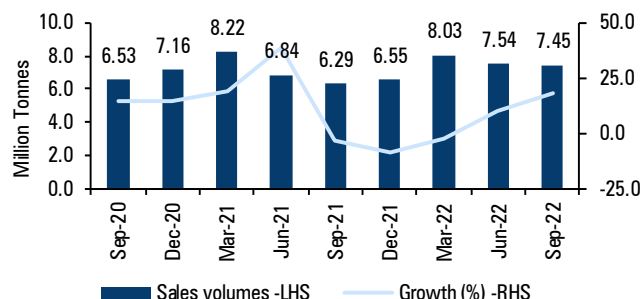
Source: Company, ICICI Direct Research

Exhibit 8: Realisations/tonne decline 9% QoQ due to monsoon



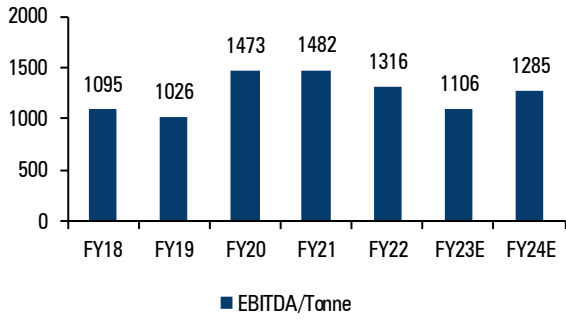
Source: Company, ICICI Direct Research

Exhibit 9: Cement volumes increase 18.4% YoY during Q2FY23 (down 1.2% QoQ)



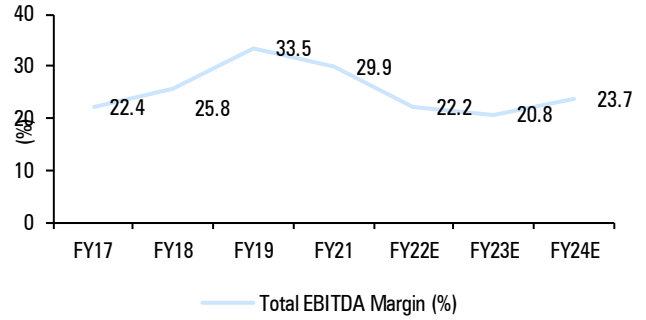
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t to remain healthy vs. industry



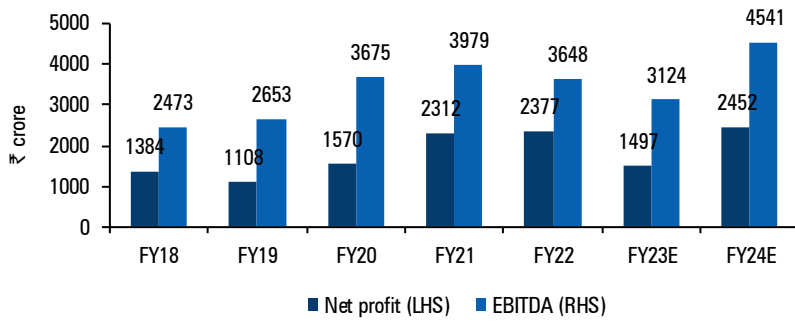
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA margins to stabilise around 24% in FY24E;



Source: Company, ICICI Direct Research

Exhibit 12: EBITDA, PAT growth to see sharp rebound from FY24 onwards



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Operating Income	11,904.0	12,652.9	14,305.9	16,318.1	19,168.1
Growth (%)	1.6	6.3	13.1	14.1	17.5
Raw material cost	768.2	875.6	1138.6	1281.5	1590.4
Power & Fuel cost	2347.6	2067.9	3161.4	4647.4	4636.2
Freight cost	2606.1	3037.2	3241.5	3689.6	4233.5
Employees cost	731.0	759.7	807.2	863.0	941.6
Others	1776.5	1933.2	2309.4	2712.3	3225.9
Total Operating Exp.	8,229.5	8,673.6	10,658.1	13,193.7	14,627.6
EBITDA	3,674.5	3,979.3	3,647.8	3,124.3	4,540.5
Growth (%)	38.5	8.3	-8.3	-14.4	45.3
Depreciation	1,699.4	1,139.9	1,036.5	1,197.9	1,350.1
Interest	286.5	247.1	217.8	241.0	192.2
Other Income	271.6	433.4	537.3	269.8	275.2
PBT	1,960.2	3,025.7	2,930.8	1,955.3	3,273.5
Others	0.0	0.0	0.0	0.0	0.0
Total Tax	390.0	713.8	554.3	457.9	821.6
PAT	1,570.2	2,311.9	2,376.5	1,497.4	2,451.8
Adjusted PAT	1,570.2	2,311.9	2,376.5	1,497.4	2,451.8
Growth (%)	41.8	47.2	2.8	-37.0	63.7
Adjusted EPS (₹)	435.2	640.7	658.6	415.0	679.5

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	36.1	36.1	36.1	37.3	37.3
Reserve and Surplus	12,900.3	15,214.4	17,234.9	18,297.5	20,314.5
Total Shareholders funds	12,936.4	15,250.5	17,271.0	18,334.8	20,351.8
Total Debt	3,292.4	2,771.8	2,344.7	2,321.8	1,921.8
Deferred Tax Liability	-680.4	-717.4	-382.4	-717.4	-717.4
Minority Interest / Others	0.0	0.0	0.0	0.0	0.0
Total Liabilities	15,548.4	17,304.8	19,233.3	19,939.1	21,556.2
Assets					
Gross Block	16,009.8	16,965.8	18,579.1	21,352.0	23,652.0
Less: Acc Depreciation	11,690.9	12,830.8	13,867.2	15,065.2	16,415.3
Net Block	4,318.9	4,135.0	4,711.8	6,286.8	7,236.7
Capital WIP	962.1	971.0	972.9	600.0	500.0
Total Fixed Assets	5,281.0	5,106.0	5,684.7	6,886.8	7,736.7
Investments	9,119.6	11,200.1	11,546.0	11,750.1	11,850.1
Inventory	1,427.9	1,477.2	2,161.4	1,698.9	1,995.6
Debtors	828.5	485.9	595.7	715.3	840.2
Loans and Advances	60.3	85.7	29.7	163.2	191.7
Other Current Assets	1,768.7	1,690.1	2,583.1	1,795.0	2,108.5
Cash	107.0	209.7	118.4	148.8	614.5
Total Current Assets	4,192.3	3,948.5	5,488.2	4,521.2	5,750.5
Creditors	1,816.6	1,538.8	2,138.8	1,788.3	2,100.6
Provisions	1,228.0	1,411.0	1,346.9	1,430.6	1,680.5
Total Current Liabilities	3,044.6	2,949.8	3,485.6	3,218.9	3,781.1
Net Current Assets	1,147.8	998.8	2,002.6	1,302.3	1,969.4
Application of Funds	15,548.4	17,304.8	19,233.3	19,939.1	21,556.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	1,570.2	2,311.9	2,376.5	1,497.4	2,451.8
Add: Depreciation	1,699.4	1,139.9	1,036.5	1,197.9	1,350.1
Add: Interest	286.5	247.1	217.8	241.0	192.2
(Inc)/dec in Current Assets	45.4	346.5	-1,631.1	997.5	-763.7
Inc/(dec) in CL and Provision	982.2	-94.8	535.9	-266.7	562.2
CF from operating activ	4,583.7	3,950.6	2,535.6	3,667.1	3,792.7
(Inc)/dec in Investments	-4,574.3	-2,080.4	-345.9	-204.1	-100.0
(Inc)/dec in Fixed Assets	-1,384.3	-964.8	-1,615.2	-2,400.0	-2,200.0
Others	-90.0	-37.0	335.0	-335.0	0.0
CF from investing activ	-6,048.6	-3,082.3	-1,626.2	-2,939.1	-2,300.0
Issue/(Buy back) of Equity	1.2	0.0	0.0	1.2	0.0
Inc/(dec) in loan funds	-218.8	-520.6	-427.0	-23.0	-400.0
Dividend paid & dividend tax	-478.3	-260.9	-391.3	-434.8	-434.8
Inc/(dec) in Sec. premium	2,246.0	263.0	35.3	0.0	0.0
Others	-286.5	-247.1	-217.8	-241.0	-192.2
CF from financing activ	1,263.6	-765.6	-1,000.8	-697.5	-1,027.0
Net Cash flow	-201.3	102.7	-91.4	30.5	465.7
Opening Cash	308.3	107.0	209.7	118.4	148.8
Closing Cash	107.0	209.7	118.4	148.8	614.5

Source: Company, ICICI Direct Research

Exhibit 16: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
EPS	435.2	640.7	658.6	415.0	679.5
Cash EPS	906.1	956.6	945.9	747.0	1,053.7
BV	3,585.1	4,226.4	4,786.4	5,081.2	5,640.2
DPS	110.0	60.0	90.0	70.0	70.0
Cash Per Share	29.7	58.1	32.8	41.3	170.3
Operating Ratios (%)					
EBITDA Margin	30.9	31.4	25.5	19.1	23.7
PAT Margin	13.2	18.3	16.6	9.2	12.8
Inventory days	43.8	42.6	41.0	38.0	38.0
Debtor days	25.4	14.0	15.0	16.0	16.0
Creditor days	55.7	44.4	42.0	40.0	40.0
Return Ratios (%)					
RoE	12.1	15.2	13.8	8.2	12.0
RoCE	13.8	18.2	16.1	10.6	15.6
RoIC	16.6	22.0	17.4	12.3	18.9
Valuation Ratios (x)					
P/E	47.8	32.5	31.6	50.1	30.6
EV / EBITDA	20.4	18.5	20.2	23.3	15.9
EV / Net Sales	6.3	5.8	5.2	4.5	3.8
Market Cap / Sales	6.3	5.9	5.2	4.6	3.9
Price to Book Value	5.8	4.9	4.3	4.1	3.7
Solvency Ratios					
Debt/EBITDA	0.9	0.7	0.6	0.7	0.4
Debt / Equity	0.3	0.2	0.1	0.1	0.1
Current Ratio	1.4	1.3	1.6	1.4	1.5
Quick Ratio	0.9	0.8	1.0	0.9	1.0

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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