

CMP: ₹ 24,000 Target: ₹ 28,500 (19%) Target Period: 12 months

February 10, 2023

BUY

## Efficiency measures to help bring down cost further...

**About the stock:** Shree 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 being a 100% north player to a player with capacities now in Rajasthan, Uttarakhand, Bihar, Chhattisgarh, Haryana, Uttar Pradesh, Karnataka and Odisha.

- It also has a presence in the 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.

**Q3FY23 Results:** Shree Cements' operational results broadly remained in line. However, its net profit missed estimates due to higher depreciation charge.

- Net revenues were up 14.6% YoY to ₹ 4068.8 crore (vs. I-direct estimate: ₹ 4167.2 crore)
- EBITDA/tonne came in at ₹ 882/t (down 30% YoY, up 25.6% QoQ), in line with I-direct estimate of EBITDA/t ₹ 864/t
- Further, higher depreciation led to PAT de-growth of 43.7% YoY to ₹ 276.7 crore vs. I-direct estimated profit of ₹ 308 crore

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

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

**Target Price and Valuation:** We value Shree at ₹ 28,500 i.e. 22x FY24E EV/EBITDA.

### Key triggers for future price performance:

- With commissioning of 3 MT grinding unit in Maharashtra, domestic capacity has reached to 46.4 MT in FY22. The clinker unit in Chhattisgarh (capacity of 12000t/day) has also got commissioned (capex ₹ 1000 crore)
- Other new capex includes 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) 106 MW solar power (₹ 4.7 crore per MW), 4) 1.5 MT clinker and 3 MT greenfield cement capacities in Andhra Pradesh by FY25E with target 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
- The company to continue to maintain its cost leadership & market share due to structural advantage it has in terms of accessing raw materials, 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 ₹ 8,050/share



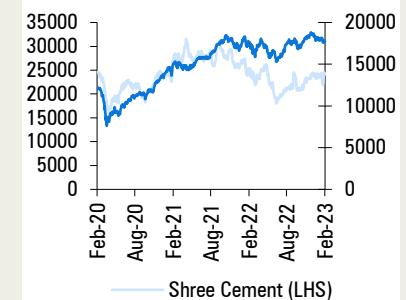
### Particulars

Particular	Amount
Mcap	₹ 86600 crore
Debt (FY22)	₹ 2345 crore
Cash & equivalents(FY22)	₹ 3603 crore
EV	₹ 85342 crore
52 week H/L	₹ 31400 / 21600
Equity cap	₹ 36.1 crore
Face value	₹ 10

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	62.55	62.55	62.56	62.56
FII	13.05	12.20	12.37	12.50
DII	10.50	11.16	10.96	11.79
Others	13.90	14.09	14.11	13.15

### Price Chart



### Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in 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	16300	19168	15.8
EBITDA	2653	3675	3979	3648	11.2	2953	4541	11.6
EBITDA (%)	22.6	30.9	31.4	25.5		18.1	23.7	
PAT	1108	1570	2312	2377	29.0	1239	2463	1.8
EPS (₹)	318	435	641	659		344	682	
EV/EBITDA	33.8	23.5	21.4	23.4		28.8	18.6	
EV/Tonne (\$)	299	254	251	256		210	209	
RoNW	11.5	12.1	15.2	13.8		6.9	12.2	
RoCE	11.5	13.8	18.2	16.1		9.4	15.8	

Source: Company, ICICI Direct Research

## Key performance highlights

- Domestic sales volumes were at 8.05 MT (up 22.6% YoY, 7.7% QoQ). Blended realisations broadly remained flat QoQ.
- Contrary to our expectations, cost of production declined further by 4.2% QoQ to ₹ 4,185/tonne
- EBITDA/t was down 30% YoY to ₹ 882/t, mainly on account of weak realisations. However, it broadly remained in line with our estimated EBITDA/t of ₹ 864/t
- PAT was down 43.7% YoY to ₹ 276.7 crore on higher depreciation. It remained lower than I-direct estimated profit of ₹ 308 crore

**Exhibit 1: Variance Analysis**

	Q3FY23E	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Total Operating Income	4068.8	4,167.2	3,551.8	14.6	3,780.9	7.6
Other Income	161.2	67.5	110.1	46.4	156.5	3.0
Raw Material Consumed	315.7	365.4	476.5	-33.7	300.4	5.1
Stock Adjustment	-32.6	0.0	-90.8	-64.0	69.1	NA
Employee Expense	217.9	218.0	196.5	10.9	209.7	3.9
Power, Oil & Fuel	1,302.7	1,258.6	807.9	61.3	1,227.0	6.2
Freight cost	942.9	893.2	761.6	23.8	856.1	10.1
Other Expenses	614.3	730.8	574.5	6.9	595.5	3.1
EBITDA	707.9	701.3	825.5	-14.2	523.1	35.3
EBITDA Margin (%)	17.4	16.8	23.2	-584 bps	13.8	356 bps
Interest	71.4	58.0	55.1	29.5	67.6	5.7
Depreciation	413.6	299.5	252.1	64.0	362.8	14.0
PBT	384.2	411.2	628.4	-38.9	249.2	NA
Total Tax	107.4	103.2	136.4	-21.3	59.7	80.0
PAT	276.7	308.0	492.0	-43.7	189.6	46.0
<b>Key Metrics</b>						
Volume (MT)	8.0	8.1	6.6	22.6	7.5	7.7
Cement Realisation/t (₹)	5,067	5,132	5,423	-6.6	5,073	-0.1
Blended EBITDA/Tonne (₹)	882	864	1,260	-30.0	702	25.6

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Net revenues	16,318.1	16,300.2	-0.1	19,168.1	19,168.1	NA	
EBITDA	2,924.3	2,819.5	-3.6	4,540.5	4,540.5	NA	
EBITDA Margin (%)	17.9	17.3	-62 bps	23.7	23.7	NA	

Source: Company, ICICI Direct Research

## Q3FY23 Conference call highlights:

- The company witnessed healthy demand during the quarter with capacity utilisation increasing from 61% to 72% (YoY) in Q3FY23. Average realisations for cement (excluding power) grew 2% YoY to ₹ 4854/t (Q2FY22: ₹ 4805). Among regions, north and east operated at 73% while south was at 62%
- Fuel prices declined from ₹ 2.83/Kcal to ₹ 2.53/Kcal on a sequential basis. However, it continued to remain elevated on a YoY basis (Q3FY22: ₹ 1.69/Kcal). Fuel prices are expected to decline further in Q4FY23 (currently hovering at ₹ 2.35/Kcal). Expects EBITDA/t to be close to ~₹ 1000 in Q4FY23
- The company expects to exit FY23E with volumes to the tune of 32 million tonnes (implying ~ 9 MT in Q4FY23). Prices in January have been flattish compared to Q3 exit rates
- Expect cement demand to remain healthy in FY24E given the government's focus on infrastructure spending. Over the medium term, the company expects demand (6-8% CAGR) to outstrip supply (3-4% CAGR)
- The company is well on track to increase its current capacity of 46.4 MT to 55.9 MT by FY25E. It has reiterated its mission to reach 80 MT by FY30 (CAGR: 7%). The company incurred a capex of ₹ 2200 crore in YTD FY23 and is expected to spend another ₹ 700-800 crore in Q4FY23 (FY23 capex: ₹ 2900 crore). For FY24E, it has given capex guidance of ₹ 3300-3500 crore
- The vision to achieve 80 MT by 20230 is currently expected to be driven through the organic route with focus on existing markets (currently not looking at the central region). The company indicated it has enough limestone reserves for its envisaged targets. In addition, it has acquired new limestone reserves in Gujarat (awaiting statutory approvals). The management indicated it is not looking to aggressively expand its capacities in tandem with other players and will only grow at a gradual pace
- **The company would strive to continue being the low cost producer and has embarked on the following steps:-**
  - Increase proportion of rail dispatches from current 12% by developing railway sidings at new project sites as well at existing locations
  - Stepping up its efforts to increase use of agriculture and industrial waste to improve thermal substitution rate (TSR) from current 3.9% to 15% over the next couple of years. It will be installing state-of-the-art facilities by Q4FY23. This would significantly reduce the fuel cost as the management indicated that the price for TSR is ₹ 1.5/kcal compared to pet coke, which is ₹ 2.35/Kcal
  - Aims to increase the share of green energy in total energy consumption to >55% in the next two years from current 53% through higher installation of WHRS
  - Investing in brand equity to perk up sales of premium products and fetch higher realisations (current share: 7%, target: 15% in next three to four quarters)

## Key triggers for future price performance

### Stronghold over high growth markets of north, east regions

SCL is one of the strongest players in the northern region with operating units in Rajasthan, Haryana, Uttar Pradesh and Uttarakhand. Apart from a stronghold in north, which accounts for ~66% of revenues, the company also has increased its share in the east and south markets with operating units in Chhattisgarh, Jharkhand and Bihar as well as operating units in Karnataka. The share of eastern region increased from 21% in FY17 to 25% as of FY20. 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 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
<b>Total</b>	<b>3810</b>	<b>3745</b>	<b>3837</b>	<b>3875</b>	<b>3820</b>

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 throughout this period. We believe the same is going to be maintained while achieving the aim of doubling the capacity in every years. With surplus liquidity of over ₹ 8000 crore the company is in the strong position to fund its new expansion involving capex of ₹ 6,800 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
Andhra Pradesh	3.0	1.5	2050	88	FY25E
<b>Total Cement Capacity</b>	<b>9.5</b>	<b>5.3</b>	<b>6300</b>	<b>85</b>	
<b>Power</b>				<b>Per MW (₹ crore)</b>	
Solar Power Plants (106MW)			500	4.7	Q2FY23E
<b>Total Capex for FY22-24E</b>			<b>6800</b>		

Source: Company, ICICI Direct Research

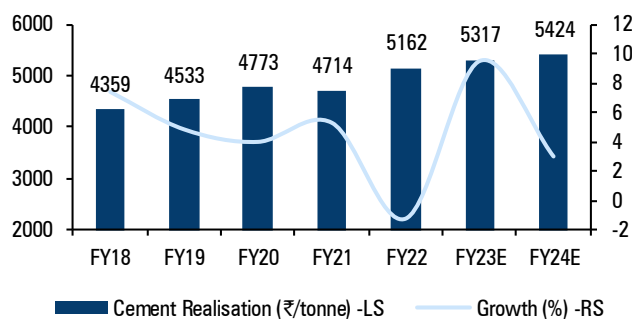
## Financial story in charts

Exhibit 5: Region-wise capacity details

Particulars	Cement	Clinker
<b>Current installed capacity</b>		
North	24.3	18.0
East	14.1	9.5
Central	2.0	
South	3.0	2.4
West	3.0	
<b>Total Domestic Capacity</b>	<b>46.4</b>	<b>29.9</b>
Overseas Capacity	4.0	3.3
<b>Ongoing Expansions</b>		
North	3.5	3.8
East	3.0	
South	3.0	
<b>Total Capacity post expansion in FY25E</b>	<b>59.9</b>	<b>37.0</b>

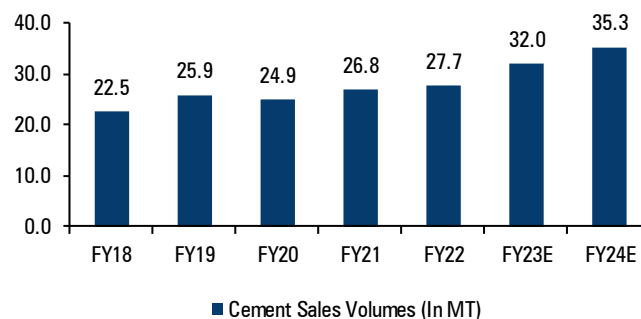
Source: Company, ICICI Direct Research

Exhibit 6: Realisations to broadly remain stable



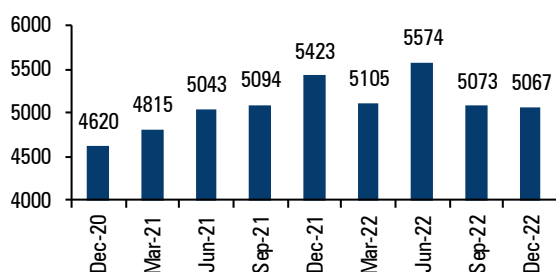
Source: Company, ICICI Direct Research

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



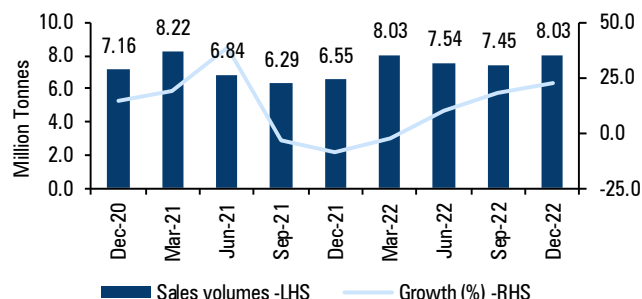
Source: Company, ICICI Direct Research

Exhibit 8: Realisations/tonne broadly remain flat QoQ



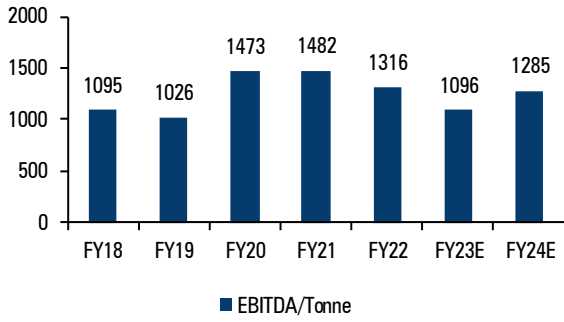
Source: Company, ICICI Direct Research

Exhibit 9: Cement volumes increase 22.6% YoY



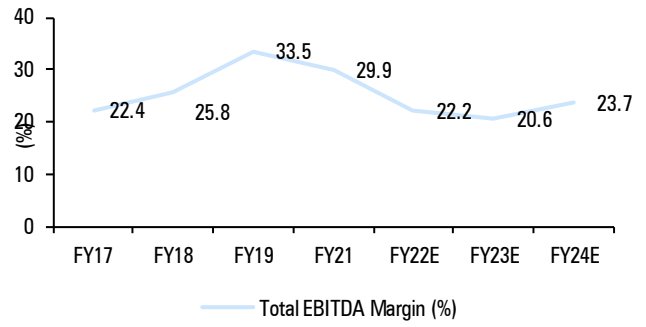
Source: Company, ICICI Direct Research

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



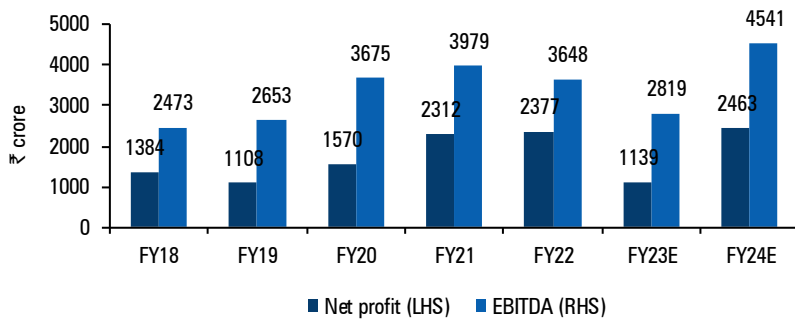
Source: Company, ICICI Direct Research

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
<b>Operating Income</b>	<b>11,904.0</b>	<b>12,652.9</b>	<b>14,305.9</b>	<b>16,300.2</b>	<b>19,168.1</b>
Growth (%)	1.6	6.3	13.1	13.9	17.6
Raw material cost	768.2	875.6	1138.6	1230.5	1590.4
Power & Fuel cost	2347.6	2067.9	3161.4	4972.5	4636.2
Freight cost	2606.1	3037.2	3241.5	3756.5	4233.5
Employees cost	731.0	759.7	807.2	862.9	941.6
Others	1776.5	1933.2	2309.4	2658.4	3225.9
Total Operating Exp.	8,229.5	8,673.6	10,658.1	13,480.7	14,627.6
<b>EBITDA</b>	<b>3,674.5</b>	<b>3,979.3</b>	<b>3,647.8</b>	<b>2,819.5</b>	<b>4,540.5</b>
Growth (%)	38.5	8.3	-8.3	-22.7	61.0
Depreciation	1,699.4	1,139.9	1,036.5	1,435.3	1,463.3
Interest	286.5	247.1	217.8	266.0	192.2
Other Income	271.6	433.4	537.3	394.9	402.8
PBT	1,960.2	3,025.7	2,930.8	1,513.1	3,287.8
Others	0.0	0.0	0.0	0.0	0.0
Total Tax	390.0	713.8	554.3	373.9	825.2
<b>PAT</b>	<b>1,570.2</b>	<b>2,311.9</b>	<b>2,376.5</b>	<b>1,139.1</b>	<b>2,462.6</b>
<b>Adjusted PAT</b>	<b>1,570.2</b>	<b>2,311.9</b>	<b>2,376.5</b>	<b>1,139.1</b>	<b>2,462.6</b>
Growth (%)	41.8	47.2	2.8	-52.1	116.2
<b>Adjusted EPS (₹)</b>	<b>435.2</b>	<b>640.7</b>	<b>658.6</b>	<b>315.7</b>	<b>682.5</b>

Source: Company, ICICI Direct Research

### Exhibit 15: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	36.1	36.1	36.1	37.3	37.3
Reserve and Surplus	12,900.3	15,214.4	17,234.9	18,039.6	20,067.3
Total Shareholders funds	12,936.4	15,250.5	17,271.0	18,076.9	20,104.6
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
<b>Total Liabilities</b>	<b>15,548.4</b>	<b>17,304.8</b>	<b>19,233.3</b>	<b>19,681.2</b>	<b>21,309.0</b>
<b>Assets</b>					
Gross Block	16,009.8	16,965.8	18,579.1	21,852.0	25,352.0
Less: Acc Depreciation	11,690.9	12,830.8	13,867.2	15,302.5	16,765.9
Net Block	4,318.9	4,135.0	4,711.8	6,549.4	8,586.1
Capital WIP	962.1	971.0	972.9	600.0	500.0
Total Fixed Assets	5,281.0	5,106.0	5,684.7	7,149.4	9,086.1
Investments	9,119.6	11,200.1	11,546.0	11,050.1	10,450.1
Inventory	1,427.9	1,477.2	2,161.4	1,697.0	1,995.6
Debtors	828.5	485.9	595.7	714.5	840.2
Loans and Advances	60.3	85.7	29.7	163.0	191.7
Other Current Assets	1,768.7	1,690.1	2,583.1	1,793.0	2,108.5
Cash	107.0	209.7	118.4	329.6	417.9
Total Current Assets	4,192.3	3,948.5	5,488.2	4,697.1	5,553.9
Creditors	1,816.6	1,538.8	2,138.8	1,786.3	2,100.6
Provisions	1,228.0	1,411.0	1,346.9	1,429.1	1,680.5
Total Current Liabilities	3,044.6	2,949.8	3,485.6	3,215.4	3,781.1
Net Current Assets	1,147.8	998.8	2,002.6	1,481.7	1,772.8
<b>Application of Funds</b>	<b>15,548.4</b>	<b>17,304.8</b>	<b>19,233.3</b>	<b>19,681.2</b>	<b>21,309.0</b>

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	1,239.5	2,462.6
Add: Depreciation	1,699.4	1,139.9	1,036.5	1,435.3	1,463.3
Add: Interest	286.5	247.1	217.8	266.0	192.2
(Inc)/dec in Current Assets	45.4	346.5	-1,631.1	1,002.3	-768.4
Inc/(dec) in CL and Provision	982.2	-94.8	535.9	-270.3	565.7
<b>CF from operating activ</b>	<b>4,583.7</b>	<b>3,950.6</b>	<b>2,535.6</b>	<b>3,672.8</b>	<b>3,915.3</b>
(Inc)/dec in Investments	-4,574.3	-2,080.4	-345.9	495.9	600.0
(Inc)/dec in Fixed Assets	-1,384.3	-964.8	-1,615.2	-2,900.0	-3,400.0
Others	-90.0	-37.0	335.0	-335.0	0.0
<b>CF from investing activ</b>	<b>-6,048.6</b>	<b>-3,082.3</b>	<b>-1,626.2</b>	<b>-2,739.1</b>	<b>-2,800.0</b>
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	-266.0	-192.2
<b>CF from financing activ</b>	<b>1,263.6</b>	<b>-765.6</b>	<b>-1,000.8</b>	<b>-722.5</b>	<b>-1,027.0</b>
Net Cash flow	-201.3	102.7	-91.4	211.2	88.4
Opening Cash	308.3	107.0	209.7	118.4	329.6
<b>Closing Cash</b>	<b>107.0</b>	<b>209.7</b>	<b>118.4</b>	<b>329.6</b>	<b>417.9</b>

Source: Company, ICICI Direct Research

### Exhibit 16: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
EPS	435.2	640.7	658.6	343.5	682.5
Cash EPS	906.1	956.6	945.9	741.3	1,088.0
BV	3,585.1	4,226.4	4,786.4	5,009.7	5,571.7
DPS	110.0	60.0	90.0	70.0	70.0
Cash Per Share	29.7	58.1	32.8	91.3	115.8
<b>Operating Ratios (%)</b>					
EBITDA Margin	30.9	31.4	25.5	18.1	23.7
PAT Margin	13.2	18.3	16.6	7.6	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
<b>Return Ratios (%)</b>					
RoE	12.1	15.2	13.8	6.9	12.2
RoCE	13.8	18.2	16.1	9.4	15.8
RoIC	16.6	22.0	17.4	9.6	17.7
<b>Valuation Ratios (x)</b>					
P/E	55.2	37.5	36.4	69.9	35.2
EV / EBITDA	23.5	21.4	23.4	28.8	18.6
EV / Net Sales	7.3	6.7	6.0	5.2	4.4
Market Cap / Sales	7.3	6.8	6.1	5.3	4.5
Price to Book Value	6.7	5.7	5.0	4.8	4.3
<b>Solvency Ratios</b>					
Debt/EBITDA	0.9	0.7	0.6	0.8	0.4
Debt / Equity	0.3	0.2	0.1	0.1	0.1
Current Ratio	1.4	1.3	1.6	1.5	1.5
Quick Ratio	0.9	0.8	1.0	0.9	0.9

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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