

May 24, 2023

## EBITDA/t reverts to ₹ 1000+ territory in Q4FY23...

**About the stock:** Shree Cement is the third largest cement group in India with domestic cement capacity of 46.4 MT as of FY23. In past four years, it has diversified itself from being 100% north player to a player with capacity now in Rajasthan, Uttarakhand, Bihar, Chhattisgarh, Haryana, Uttar Pradesh, Karnataka and Odisha.

- It also has a presence in UAE with integrated cement capacity of 4 MT and clinker capacity of 3.3 MT (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

**Q4FY23 Results:** A sequential improvement on the profitability front aided by higher blended realisation (including power).

- Overall revenue grew 17% YoY to ₹ 4785 crore (I-direct estimate: ₹ 4512 crore). Volumes grew 10% YoY to 8.83 MT (I-direct estimate: 8.90 MT)
- As guided by the management, the company clocked EBITDA of ₹ 1011/t (I-direct estimate: ₹ 1062/t, Q3FY23: ₹ 882/t, Q4FY22: ₹ 1134/t)
- Absolute EBITDA declined 2% YoY (up 26% QoQ) to ₹ 892.5 crore (I-direct estimate: ₹ 948.4 crore)
- Board of directors of the company have declared a second interim dividend of ₹ 55 per share FY23. Total dividend for FY23 works out to ₹ 100 per share

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

- While healthy fundamentals of the company remain intact (expected revenue CAGR of 12% and RoIC of ~20%), ripe valuations warrant we ascribe **HOLD** rating to the stock.

**Target Price & Valuation:** We value Shree at ₹ 27,370 i.e. ~19x FY25E EV/EBITDA.

### Key triggers for future price performance:

- Upcoming capacities include 1) new integrated unit with 3.5 MT GU and 3.8 MT clinker unit in Rajasthan by Q3FY24E, 2) 3 MT grinding unit in West Bengal by Q1FY24E, 3) 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 capex of ₹ 6500 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 a strong brand in the retail segment
- BUY with a target price of ₹ 9000/share



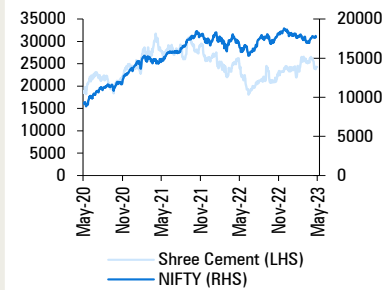
### Particulars

Particular	Amount
Mcap	₹ 86600 crore
Debt (FY23)	₹ 2539 crore
Cash & equivalents(FY23)	₹ 8276 crore
EV	₹ 80864 crore
52 week H/L	₹ 27049 / 17865
Equity cap	₹ 36.1 crore
Face value	₹ 10

### Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	62.55	62.55	62.55	62.55
FII	12.20	12.37	12.50	12.82
DII	11.22	11.13	11.97	11.76
Others	14.03	13.95	12.98	12.87

### Price Chart



### Key risks

- Volatility in prices of imported coal/pet coke
- Higher than anticipated realisations

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23	4 Year CAGR (%)	FY24E	FY25E	2 Year CAGR (%)
Net Sales	11722	11904	12653	14306	16837	9.5	18799	20984	11.6
EBITDA	2653	3675	3979	3648	2942	2.6	4178	4924	29.4
EBITDA (%)	22.6	30.9	31.4	25.5	17.5		22.2	23.5	
PAT	1108	1570	2312	2377	1328	4.6	2025	2376	33.8
EPS (₹)	318	435	641	659	368		561	658	
EV/EBITDA	32.7	22.4	20.1	21.9	27.5		19.4	16.3	
EV/Tonne (\$)	289	212	206	210	212		187	175	
RoNW	11.5	12.1	15.2	13.8	7.3		10.1	10.8	
RoCE	12.2	14.7	18.8	16.3	8.8		13.2	14.0	

## Key performance highlights & conference call takeaways

- Volumes for the quarter grew 10% YoY to 8.83 MT, broadly in line with our expectations (I-direct estimate: 8.9 MT). Capacity utilisation rate improved by 700 bps YoY to 78% in Q4FY23. Utilisation rates were healthy across regions (North: 80%, East: 82%, South: 65%). Blended realisations grew 7% QoQ (₹ 350/t) to ₹ 5419/t (I-direct estimate: ₹ 5052/t). Cement realisations (ex-power) remained flattish QoQ at ₹ 4850/t (up 2% YoY). Overall revenue grew 17% YoY to ₹ 4785 crore (I-direct estimate: ₹ 4512 crore). Going forward, with the commissioning of capacities in North & East, the management has guided for 13% volume growth to 36 MT in FY24E (vs. industry growth of 7-8%). We expect cement demand to remain healthy in FY24E given the government's focus on infrastructure spending
- Positive benefit of higher realisations was negated by an increase in cost of production (increased by ₹ 223/t QoQ to ₹ 4408/t). Power cost increased by ₹ 159/t while RM expense increased ₹ 136/t. Fuel prices remained flattish QoQ at ₹ 2.53/Kcal as the company continued to carry high-cost inventory. Going forward, the management expects fuel cost to soften to ₹ 2.3/Kcal in Q1FY24 and ₹ 1.8 Kcal by Q2FY24. The management indicated that current spot pet coke prices are hovering in the range of ₹ 1.8/Kcal while thermal coke is at ₹ 2.0/kcal. Pet coke constituted 76% of the fuel mix
- Shree has been investing in brand equity to perk up sales of premium products and fetch higher realisations (current share: 7.5%, target: 15% in the next three to four quarters.). The company expects profitability to improve by ₹ 50/t owing to higher share of premium cement. It has launched premium cement (Rockstrong) in the coastal market of Odisha and is planning to launch new premium cement brands in North India
- The company is well on track to increase its current capacity of 46.4 MT to 55.9 MT by FY25E. Shree has reiterated its mission to reach 80 MT by FY30 (CAGR: 7%). The company incurred a capex of ₹ 2800 crore in FY23 and has given a capex guidance of ₹ 3300-3500 crore. Shree continues to have healthy net cash & investment of ₹ 5700 crore (as on FY23)
- Share of green power was at industry best 54% in Q4FY23 (vs. 50% YoY). At the exit of FY23, total green power generation capacity was at 385.5 MW. Another 93 MW of green power capacity is expected to be completed in FY24 and FY25 along with commissioning of new project sites. The aim is to increase the share of green energy in total energy consumption to >55% in the next two years. It is also stepping up its efforts to increase use of agriculture and industrial waste to improve thermal substitution rate (TSR) from current 4.3% to 15% over the next couple of years. It will be installing state-of-the-art facilities by Q4FY23. This would significantly reduce fuel cost as the management indicated that the price for TSR is ~₹ 1.5/kcal

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 80 MT capacity. With commissioning of new capacities and the company maintaining steady utilisation rates (70%+), we bake in volume CAGR of 12% in FY23-25E. We anticipate EBITDA/t to improve from ₹ 924/t in FY23 to ₹ 1240+ by FY25E driven by softening of fuel prices and the company's continuous efforts of striving to be the lowest cost producer. While healthy fundamentals of the company remain intact, ripe valuations warrant us to ascribe HOLD rating to the stock with a revised target price of ₹ 27370 (19.0x EV/EBITDA, Target EV/t: US\$231/t).

Shree Cement - ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	48.3	45.7	54.3
Social	41.8	38.6	46.6
Governance	84.9	84.9	84.9
Overall ESG Score	58.3	56.4	62.0

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

**Exhibit 1: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	4785.1	4,512.3	4098.8	16.7	4068.8	17.6	Volumes grew 10% YoY
Other Income	135.3	145.0	138.0	-2.0	161.2	-16.1	
Raw Material Consumed	431.2	366.2	353.0	22.2	283.1	52.3	
Employee Expense	220.9	223.3	196.7	12.3	217.9	1.4	
Power, Oil & Fuel	1572.9	1,357.7	1072.8	46.6	1302.7	20.7	Fuel cost remained stubborn at ₹ 2.53/Kcal owing to high cost of inventory
Freight cost	1030.8	982.5	941.3	9.5	942.9	9.3	Lead distance increased from 453 km to 463 km (QoQ)
Other Expenses	636.9	634.2	624.5	2.0	614.3	3.7	
EBITDA	892.4	948.4	910.6	-2.0	707.9	26.1	
EBITDA Margin (%)	18.7	21.0	22.2	-357 bps	17.4	125 bps	
Interest	72.6	73.0	53.6	35.6	71.4	1.7	
Depreciation	441.9	413.0	301.3	46.6	413.6	6.9	
PBT	513.2	607.4	693.7	-26.0	384.2	33.6	
Total Tax	-33.0	164.0	48.6	-167.9	107.4	-130.7	
PAT	546.2	443.4	645.1	-15.3	276.7	97.4	
<b>Key Metrics</b>							
Volume (MT)	8.8	8.9	8.0	10.0	8.0	10.0	Capacity utilisation rate at 78% vs. 71% in Q4FY22
Blended Realisation/t (₹)	5,419	5,053	5,105	6.2	5,067	7.0	Cement realisation remained flattish QoQ to ₹ 4850/t
Blended EBITDA/Tonne	1,011	1,062	1,134	-10.9	882	14.6	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY24E			FY25E Introduced
	Old	New	% Change	
Net revenues	19,168.1	18,799.4	-1.9	20,983.6
EBITDA	4,540.5	4,178.3	-8.0	4,924.2
EBITDA Margin (%)	23.7	22.2	-146 bps	23.5

Source: Company, ICICI Direct Research

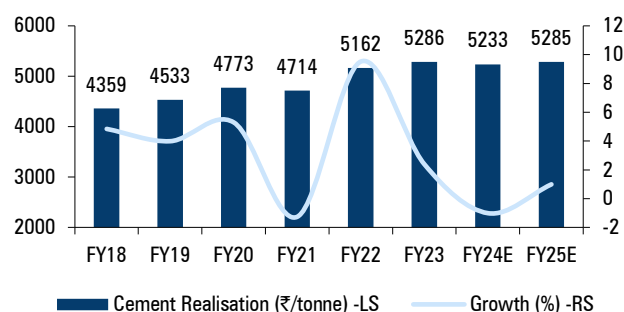
## Financial story in charts

Exhibit 3: 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>

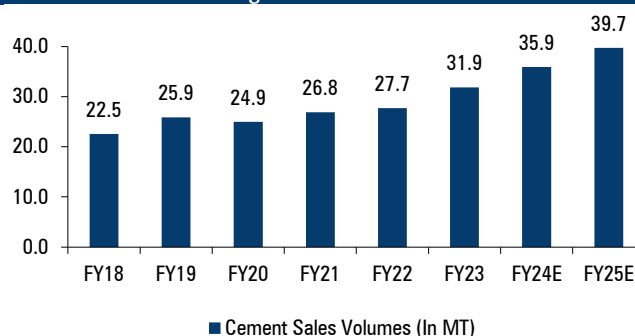
Source: Company, ICICI Direct Research

Exhibit 4: Realisations to broadly remain stable



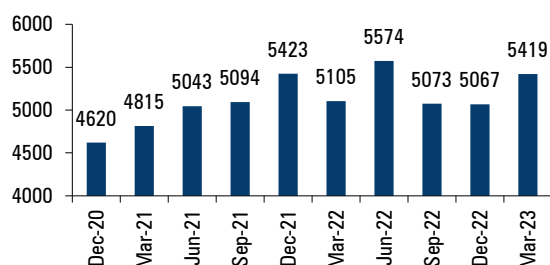
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 12% CAGR over FY23-25E



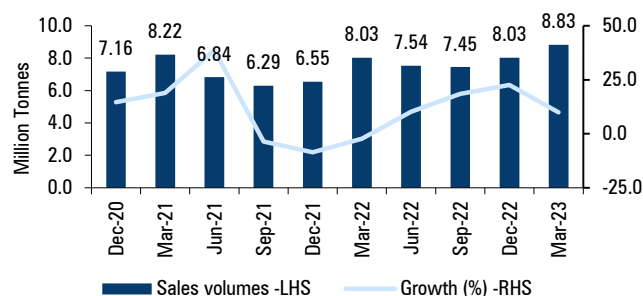
Source: Company, ICICI Direct Research

Exhibit 6: Cement realisations remain flattish QoQ



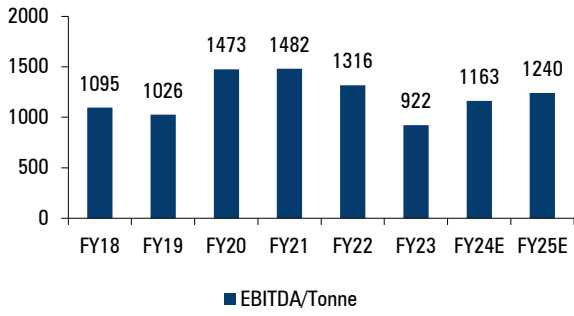
Source: Company, ICICI Direct Research

Exhibit 7: Cement volumes increase 10% YoY



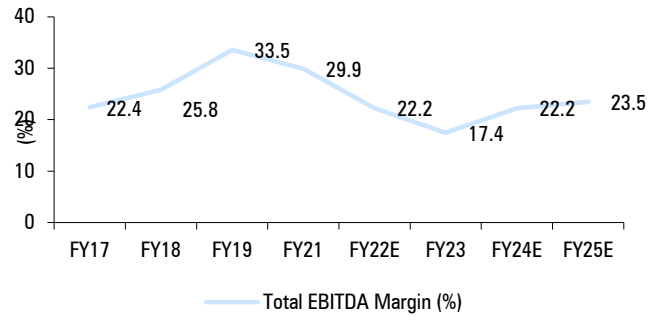
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA/t to improve, going forward



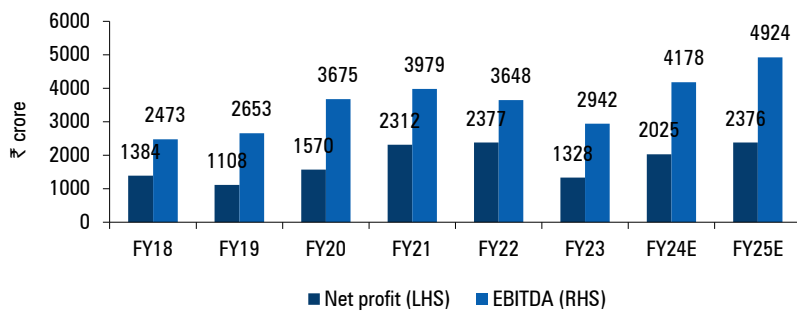
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margins to stabilise around 22-24%, going forward



Source: Company, ICICI Direct Research

Exhibit 10: EBITDA, PAT growth to see sharp rebound from FY24 onwards



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 11: Profit & Loss Account

(Year-end March)	FY21	FY22	FY23P	FY24E	FY25E
<b>Operating Income</b>	<b>12,652.9</b>	<b>14,305.9</b>	<b>16,837.5</b>	<b>18,799.4</b>	<b>20,983.6</b>
Growth (%)	6.3	13.1	17.7	11.7	11.6
Total Operating Exp.	8,673.6	10,658.1	13,895.2	14,621.0	16,059.3
<b>EBITDA</b>	<b>3,979.3</b>	<b>3,647.8</b>	<b>2,942.3</b>	<b>4,178.3</b>	<b>4,924.2</b>
Growth (%)	8.3	-8.3	-19.3	42.0	17.9
Depreciation	1,139.9	1,036.5	1,546.2	1,639.2	1,954.2
Interest	247.1	217.8	268.9	272.2	248.7
Other Income	433.4	537.3	431.4	440.0	448.8
PBT	3,025.7	2,930.8	1,558.5	2,707.0	3,170.2
Others	0.0	0.0	0.0	0.0	0.0
Total Tax	713.8	554.3	230.5	682.1	794.5
<b>PAT</b>	<b>2,311.9</b>	<b>2,376.5</b>	<b>1,328.0</b>	<b>2,024.9</b>	<b>2,375.7</b>
<b>Adjusted PAT</b>	<b>2,311.9</b>	<b>2,376.5</b>	<b>1,328.0</b>	<b>2,024.9</b>	<b>2,375.7</b>
Growth (%)	47.2	2.8	-44.1	52.5	17.3
<b>Adjusted EPS (₹)</b>	<b>640.7</b>	<b>658.6</b>	<b>368.0</b>	<b>561.2</b>	<b>658.4</b>

Source: Company, ICICI Direct Research

### Exhibit 13: Balance Sheet summary

(Year-end March)	FY21	FY22	FY23P	FY24E	FY25E
<b>Liabilities</b>					
Equity Capital	36.1	36.1	36.1	36.1	36.1
Reserve and Surplus	15,214.0	17,234.8	18,252.4	19,916.4	21,967.4
Total Shareholders funds	15,250.1	17,270.9	18,288.4	19,952.5	22,003.5
Total Debt	2,133.2	2,014.2	2,539.2	2,617.5	2,486.6
Minority Interest / Others	197.0	330.6	431.3	435.6	440.0
<b>Total Liabilities</b>	<b>17,580.3</b>	<b>19,615.6</b>	<b>21,258.9</b>	<b>23,005.6</b>	<b>24,930.1</b>
<b>Assets</b>					
Gross Block	10,885.7	12,787.3	14,213.3	18,213.3	21,713.3
Less: Acc Depreciation	7,095.0	8,076.0	9,622.2	11,261.4	13,215.6
Net Block	3,790.7	4,711.3	4,591.1	6,951.9	8,497.7
Capital WIP	971.0	972.9	2,320.3	1,800.0	980.0
Intangible Assets	27.0	26.7	46.3	46.3	46.3
Total Fixed Assets	4,788.7	5,710.9	6,957.6	8,798.2	9,524.0
Investments	11,050.6	11,546.0	11,650.6	11,161.2	11,927.9
Inventory	1,477.2	2,161.4	2,422.6	2,678.3	3,161.9
Debtors	479.4	595.7	906.1	1,011.6	1,129.2
Loans and Advances	2,659.3	2,699.8	3,067.3	3,240.2	3,430.5
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Cash	209.8	118.3	119.3	283.2	249.8
Total Current Assets	4,825.7	5,575.1	6,515.2	7,213.4	7,971.4
Creditors	785.8	803.9	1,128.7	1,260.2	1,406.6
Provisions	12.5	14.4	15.5	15.8	16.1
Other Current Liab	2,660.2	2,981.0	3,415.7	3,586.4	3,765.8
Total Current Liabilities	3,458.4	3,799.3	4,559.8	4,862.4	5,188.5
Net Current Assets	1,367.2	1,775.8	1,955.4	2,350.9	2,782.9
Other NCA	373.8	583.0	695.3	695.3	695.3
<b>Application of Funds</b>	<b>17,580.3</b>	<b>19,615.6</b>	<b>21,258.9</b>	<b>23,005.6</b>	<b>24,930.1</b>

Source: Company, ICICI Direct Research

### Exhibit 12: Cash flow statement

(Year-end March)	FY21	FY22	FY23P	FY24E	FY25E
Profit after Tax	2,311.9	2,376.5	1,328.0	2,024.9	2,375.7
Add: Depreciation	1,139.9	1,036.5	1,546.2	1,639.2	1,954.2
(Inc)/dec in Current Assets	417.4	-840.9	-939.1	-534.2	-791.4
Inc/(dec) in CL and Provision	957.0	340.9	760.5	302.6	326.1
<b>CF from operating activities</b>	<b>4,826.2</b>	<b>2,913.0</b>	<b>2,695.6</b>	<b>3,432.5</b>	<b>3,864.5</b>
(Inc)/dec in Investments	-2,135.2	-495.3	-104.6	489.4	-766.7
(Inc)/dec in Fixed Assets	-987.8	-1,958.7	-2,793.0	-3,479.8	-2,680.0
Others	-33.6	-209.2	-112.3	0.0	0.0
<b>CF from investing activities</b>	<b>-3,156.5</b>	<b>-2,663.2</b>	<b>-3,009.9</b>	<b>-2,990.4</b>	<b>-3,446.7</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-214.2	-119.1	525.0	78.3	-130.9
Dividend paid & others	1.7	-355.7	-310.5	-360.8	-324.8
Others	-1,355.5	133.5	100.8	4.3	4.4
<b>CF from financing activities</b>	<b>-1,568.0</b>	<b>-341.2</b>	<b>315.3</b>	<b>-278.2</b>	<b>-451.3</b>
Net Cash flow	101.6	-91.5	1.0	163.9	-33.4
Opening Cash	108.2	209.8	118.3	119.3	283.2
<b>Closing Cash</b>	<b>209.8</b>	<b>118.3</b>	<b>119.3</b>	<b>283.2</b>	<b>249.8</b>

Source: Company, ICICI Direct Research

### Exhibit 14: Ratio sheet

(Year-end March)	FY21	FY22	FY23P	FY24E	FY25E
<b>Per share data (₹)</b>					
EPS	640.7	658.6	368.0	561.2	658.4
Cash EPS	956.6	945.9	796.5	1,015.4	1,200.0
BV	4,226.3	4,786.4	5,068.4	5,529.5	6,097.9
DPS	60.0	90.0	100.0	90.0	90.0
Cash Per Share	58.1	32.8	33.1	78.5	69.2
<b>Operating Ratios (%)</b>					
EBITDA Margin	22.4	18.3	8.3	13.5	14.2
PAT Margin	18.3	16.6	7.9	10.8	11.3
Inventory days	42.6	55.1	52.5	52.0	55.0
Debtor days	13.8	15.2	19.6	19.6	19.6
Creditor days	22.7	20.5	24.5	24.5	24.5
<b>Return Ratios (%)</b>					
RoE	15.2	13.8	7.3	10.1	10.8
RoCE	18.8	16.3	8.8	13.2	14.0
RoIC	37.2	29.8	14.6	20.4	21.6
<b>Valuation Ratios (x)</b>					
P/E	37.5	36.4	65.2	42.8	36.5
EV / EBITDA	20.1	21.9	27.5	19.4	16.3
EV / Net Sales	6.3	5.6	4.8	4.3	3.8
Market Cap / Sales	6.8	6.1	5.1	4.6	4.1
Price to Book Value	5.7	5.0	4.7	4.3	3.9
<b>Solvency Ratios</b>					
Debt/EBITDA	0.5	0.6	0.9	0.6	0.5
Debt / Equity	0.1	0.1	0.1	0.1	0.1
Current Ratio	1.3	1.4	1.4	1.4	1.5
Quick Ratio	0.9	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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