

Shree Cement Ltd.



RESULT UPDATE

29th July 2023

Shree Cement Ltd.

Margins to improve owing to cost reduction, capacity addition plan as per schedule

CMP INR 24,054	Target INR 29,250	Potential Upside ~ 21.6%	Market Cap (INR Mn) INR 8,67,880	Recommendation BUY	Sector Cement
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Result Highlights

- Shree Cement Ltd revenue for Q1FY24 stood at INR 50,648 mn, registering a growth of 14.72% on a YoY basis from INR 44,149 mn and on a sequential basis it declined marginally by 0.69% from INR 51,002 mn.
- EBITDA for the quarter came at INR 9,449 mn, registering a growth of 17.97% on a YoY basis from INR 8,010 and on a QoQ basis it improved by 6.24% from INR 8,894 mn.
- PAT for Q1FY24 stood at INR 5,719 mn, which improved by 105.06% YoY from INR 2,789 mn and on a sequential basis it grew by 8.85% from INR 5,252 mn. PAT margin stood at 11.29%, which improved by 497 bps o a YoY basis and 99 bps sequential basis.
- EPS for the quarter came at INR 158.62 as against INR 77.47 YoY and 145.72 QoQ.

MARKET DATA

Shares outs (Mn)	36.1
Mkt Cap (INR Mn)	8,67,880
52 Wk H/L (INR)	27,049/20,039
Volume Avg (3m K)	96
Face Value (INR)	10
Bloomberg Code	SRCM IN

KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,34,763	1,50,096	1,78,523	2,06,465	2,43,220
EBITDA	40,514	37,079	29,602	38,155	49,158
PAT	22,859	23,319	12,714	18,241	24,236
Adj PAT	22,859	23,319	12,714	18,241	24,236
EPS (INR)	634	646	352	506	675
Adj. EPS (INR)	634	646	352	506	672
EBITDA Margin (%)	30.1%	24.7%	16.6%	18.5%	20.2%
NPM (%)	17%	15.5%	7.1%	8.8%	10.0%

Source: Company, KRChoksey Research

Volume growth along with stable realization aided revenue growth

In Q1FY24, Shree Cement reported volume growth of 19% on a YoY basis. The growth was mainly driven by Government's continued focus on infrastructure and housing activities, higher spending owing to elections and healthy rainfall. The company has announced an investment of INR 70,000 mn to increase its capacity by 12MTPA and has an ambitious goal to increase capacity beyond 80 MTPA in the coming years. The sale of premium-grade cement has risen to 8.8% in Q1FY24 and management expects it to increase to 15% by FY24 and 30% by FY25. The company plans to set up 5 units for ready-mix concrete as part of its diversification strategy. Management expects to grow ahead of the industry with a focus on organic growth, sharpening operational efficiencies & improving special product sales

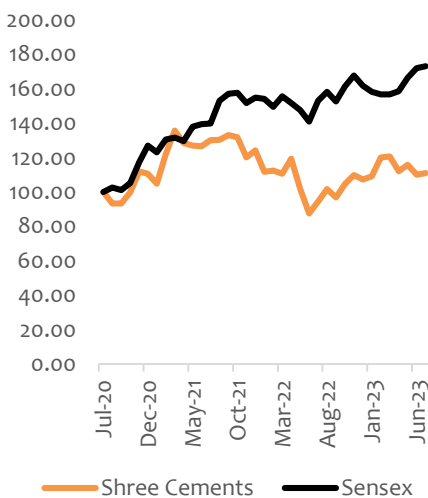
Margins to improve sequentially

Margins for the quarter stood at 18.7%, which improved by 51 bps on a YoY basis and 122 bps on a sequential basis. The improvement in margin was mainly led by lower pet coke prices, a decline in logistic costs and an improvement in operating efficiency. Utilization for the quarter stood at 80%, management guided that it will improve going ahead. The green power share in power consumption has increased to 56% in Q1FY24, and the company expects to increase it further. We expect that margin will see improvement on a sequential basis owing to an increase in EBITDA/Ton, softening of crude prices, logistic costs, increase in the share of renewables, and by improving utilization.

Valuation and view:

Operating leverage and better realization have helped the company in the current quarter. Management has guided double-digit volume growth for FY24. We believe in the coming year the company will benefit from cost tailwinds as input costs including fuel prices will continue to have correction. **At CMP 24,054, the stock is trading at FY25E EV/EBITDA multiple of 18.5x. We continue to value the stock at an EV/EBITDA multiple of 21x on FY25E estimates, which yield a target price of INR 29,250, giving an upside potential of 21.6% from the CMP.**

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,021
NIFTY	19,606

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	62.55	62.55	62.55
FIIIs	12.62	12.82	12.5
DIIIs	12.0	11.74	11.95
Others	12.83	12.89	13.00
Total	100.00	100.00	100.00

16.8%

Revenue CAGR over FY23 and FY25E

38.1%

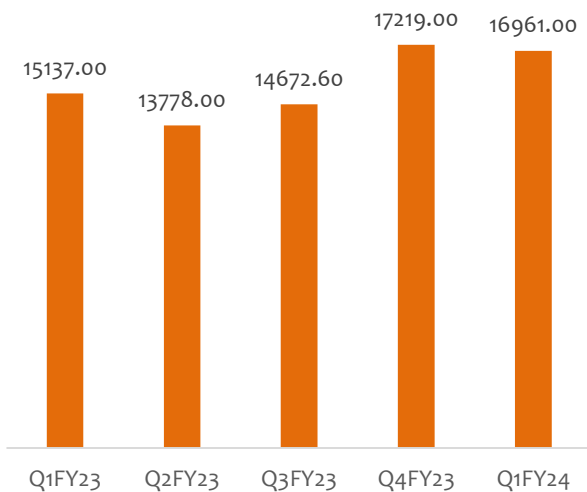
PAT CAGR over FY23 and FY25E

Shree Cement Ltd.

Concall highlights

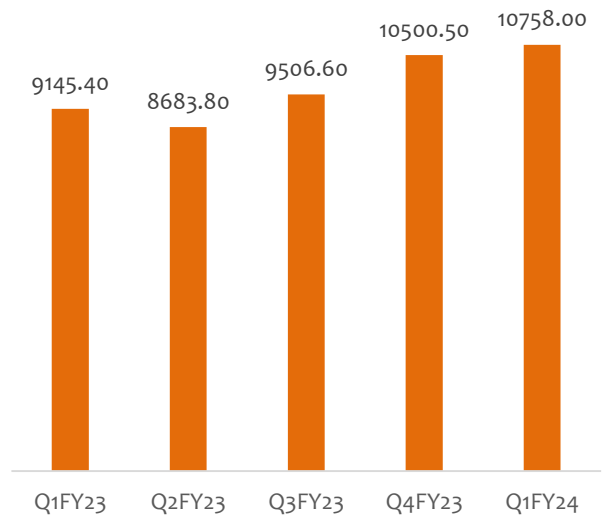
(i) Q1FY24 was a challenging quarter for Shree Cement not from the operational front, but from a legal standpoint. The company remains fully committed to tax complaints (ii) Shree Cement recently commissioned its trial production in West Bengal and **takes the total capacity to 49.9 MTPA** (iii) Management guided that the current macro environment is supportive for cement companies owing to strong demand from infrastructure activities, housing demand, and good rainfall. (iv) The company expects strong volume growth ahead and expects to grow in double digits (v) The Company is making strategic diversification into ready mix concrete and expects to start with 5 ready mix units by FY24 (vi) Nawalgarh unit is going as per schedule and expected to be commissioned by Q3FY24 (v) The company will increase the share of renewables in power consumption (vi) Management anticipates that Softening of crude price and logistics costs is expected to increase margins going ahead (vii) Sale of premium products has risen to 8.8% in Q1FY24 from 6.3% YoY, the company expects to increase share of premium products to 15% by FY24. (viii) The company expects to increase the capacity beyond 80 MTPA going ahead and has taken aggressive plans to implement. (ix) Green power consumption stood at 56% in Q1FY24, which is the highest in the industry.

Power and fuel cost (in mn)



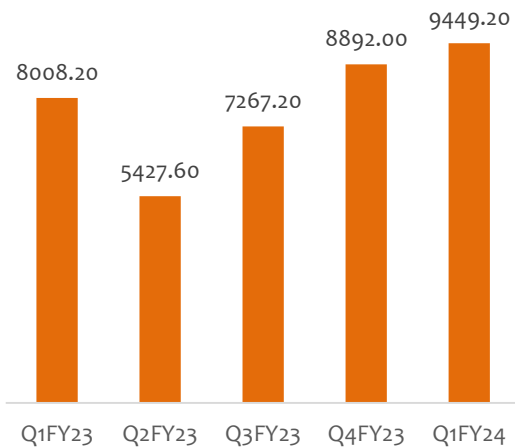
Source: Company, KRChoksey Research

Freight & forward expense (in mn)



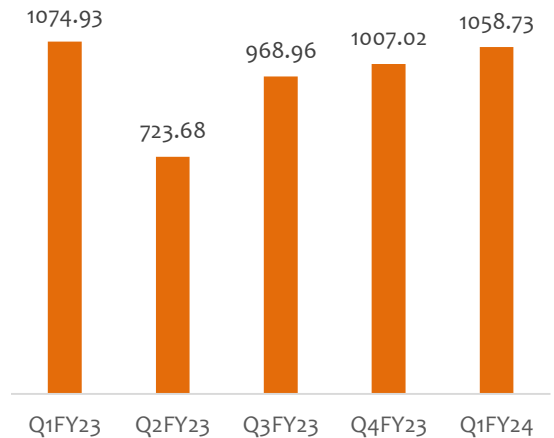
Source: Company, KRChoksey Research

EBITDA



Source: Company, KRChoksey Research

Blended EBITDA/T (INR)



Source: Company, KRChoksey Research

Shree Cement Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenues	1,34,763	1,50,096	1,78,523	2,06,465	2,43,220
COGS	10,696	10,382	14,317	16,510	19,774
Gross profit	1,24,067	1,39,714	1,64,206	1,89,954	2,23,447
Employee cost	8,692	9,135	9,778	11,975	14,107
Power & Fuel	23,488	36,202	60,807	67,304	75,884
Freight and Forwarding Expense	31,102	32,990	37,836	43,202	50,247
Other expenses	20,271	24,308	26,183	29,318	34,051
EBITDA	40,514	37,079	29,602	38,155	49,158
EBITDA Margin	30.1%	24.7%	16.6%	18.5%	20.2%
Depreciation & amortization	12,623	11,459	16,607	18,673	21,998
EBIT	27,890	25,621	12,995	19,481	27,160
Interest expense	2,513	2,161	2,629	2,532	3,096
PBT	30,041	28,918	14,957	22,245	29,556
Tax	7,145	5,552	2,259	4,004	5,320
Minority interest	37	47	-16	0	0
PAT	22,859	23,319	12,714	18,241	24,236
Adj. PAT	22,859	23,319	12,714	18,241	24,236
EPS (INR)	634	646	352	506	672
Adj. EPS	634	646	352	506	672

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	42,538	26,680	25,694	25,908	41,836
Net Cash Flow from/(used in) Investing Activities	(26,450)	(21,514)	(24,145)	(27,336)	(31,714)
Net Cash Flow from Financing Activities	(12,326)	(8,494)	(2,458)	1,549	(9,948)
Net Inc/Dec in cash equivalents	3,761	(3,328)	(909)	121	174
Opening Balance	1,142	4,523	1,280	461	673
Closing Balance Cash and Cash Equivalents	4,523	1,280	461	673	936

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	30.1%	24.7%	16.6%	18.5%	20.2%
Tax rate (%)	23.8%	19.2%	15.1%	18.0%	18.0%
Net Profit Margin (%)	17.0%	15.5%	7.1%	8.8%	10.0%
RoE (%)	14.8%	13.3%	6.8%	9.1%	11.0%
RoCE (%)	16.1%	13.1%	6.1%	8.3%	10.8%
EPS (INR)	634	646	352	506	672

Source: Company, KRChoksey Research

Shree Cement Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Non-current assets					
Property, plant and equipment	57,145	67,242	67,937	82,264	95,266
Capital work-in-progress	9,965	10,535	27,966	27,966	27,966
Intangible assets	603	573	747	747	747
Financial assets					
Investments	46,990	55,063	52,853	52,853	52,853
Loans	621	44	37	37	37
Other financial assets	724	1,375	1,433	1,433	1,433
Deferred Tax Assets	7,861	6,744	6,823	6,823	6,823
Non-current Tax Assets (Net)	1,020	274	1,731	1,731	1,731
Other non-current assets	12,795	10,936	14,134	14,453	17,025
Total non-current assets	1,37,725	1,52,786	1,73,660	1,88,305	2,03,880
Current assets					
Inventories	17,157	24,970	27,597	30,545	33,318
Financial assets					
Investments	38,015	35,263	33,979	33,979	33,979
Trade receivables	6,859	7,883	12,116	13,010	13,327
Cash and cash equivalents	4,721	1,486	462	673	936
Other Balances with Banks	2,362	1,411	1,148	1,148	1,148
Loans	252	253	69	69	69
Other financial assets	1,599	2,363	3,159	3,159	3,159
Other current assets	10,908	11,075	11,151	14,453	17,025
Total current assets	81,873	84,703	89,679	97,035	1,02,961
TOTAL ASSETS	2,19,598	2,37,489	2,63,339	2,85,340	3,06,842
EQUITY AND LIABILITIES					
Equity					
Equity share capital	361	361	361	361	361
Other equity	1,53,613	1,74,242	1,86,003	1,99,914	2,19,387
Equity attributable to the equity shareholders	1,53,974	1,74,603	1,86,364	2,00,275	2,19,748
Non-controlling interests	512	503	406	406	406
Total equity	1,54,486	1,75,106	1,86,770	2,00,681	2,20,154
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Borrowings	13,316	12,983	5,809	19,590	23,590
Other financial liabilities	10,005	1,362	1,724	1,724	1,724
Provisions	318	297	339	339	339
Other Non-Current Liabilities	10,005	876	1,377	2,065	2,432
Total non-current liabilities	33,643	15,519	9,249	23,718	28,086
Current liabilities					
Financial liabilities					
Borrowings	5,087	7,158	19,590	14,308	8,308
Trade payables	8,830	8,904	11,960	12,444	13,327
Other financial liabilities	8,177	14,192	18,586	18,586	18,586
Other current liabilities	8,610	13,385	13,941	12,388	14,593
Provisions	83	84	103	119	140
Current Tax liabilities (Net)	681	3,142	3,142	3,097	3,648
Total current liabilities	31,468	46,864	67,321	60,942	58,603
Total liabilities	65,111	62,383	76,570	84,660	86,688
TOTAL EQUITY AND LIABILITIES	2,19,597	2,37,489	2,63,339	2,85,340	3,06,842

Source: Company, KRChoksey Research

Shree Cement Ltd.

Shree Cement Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Reco	Our Rating	Upside
28- July-23	24,054	29,250	BUY	Buy	More than 15%
26- May-23	24,848	27,821	ACCUMULATE		
18-Oct-22	20,831	22,888	ACCUMULATE	Accumulate	5% – 15%
29-Jul-22	20,415	22,888	ACCUMULATE		
23-May-22	21,942	25,085	ACCUMULATE	Hold	0 – 5%
09-Feb-22	24,764	27,978	ACCUMULATE		
02-Nov-21	29,146	30,602	ACCUMULATE	Reduce	-5% – 0
11-Aug-21	26,548	30,321	ACCUMULATE		
30-Jun-21	28,134	30,321	ACCUMULATE	Sell	Less than – 5%

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