



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Company revenue for Q1FY24 stood at Rs5065 mn, registering a growth of 14.72% on YoY basis and decline by 0.69% on QoQ basis.
- EBITDA came in at Rs 945 cr, registering a growth of 17.98% on YoY basis and 6.3% on QoQ basis.
- PAT came in at Rs 572 cr, registering a growth of 105% on YoY basis and 8.95% on QoQ basis.
- EPS for the quarter came at Rs.158.62 as against Rs.77.47 YoY and 145.72 QoQ.

2. MANAGEMENT COMMENTARY:

- Company aims to reach volume of 36mnte in FY24 (implying ~13% YoY growth).
- Company aims to expand its cement capacity to >80mtpa by FY30 as management expects demand to remain robust in coming years.
- Company aims to be a pan-India player and the upcoming capex will be largely focused in West India (Gujarat) and Central India (MP, UP).
- Capex guidance for new projects: FY24: INR 35bn; FY25: INR 35bn.
- The company is focusing on increasing the share of green power. Its green power generation capacity increased to 306 MW by the end of FY23. Another 93 MW of green power capacity would be added over the span of next two years. The share of green power consumption in Q4FY23 was 55% compared with 50% in Q4FY22.

3. PRICE PERFORMANCE (%)

Particulars	6 M	1 Y
Shree Cement	-1.46%	+1.06%
Nifty Commodities	+2.45%	+4.0%
Nifty 50	+0.63%	+6.65%

4. CONCALL SUMMARY:

- Q1 FY24 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.
- Shree cement recently commissioned its trial production in west Bengal and takes the total capacity to 49.9 MTPA.
- Overall cement utilisation stood at 79% in Q1FY24.
- Blending ratio in south India is estimated to be ~1.4x.
- Trade mix stood at 79% in Q1FY24.
- Cement revenues for Q1FY24 stood at INR 47.7bn vs INR 49.9bn YoY.
- The incentive run-rate for FY24 shall be in the range of INR 1.3bn-1.4bn.
- July pricing: Company has taken price hikes in certain markets, yet, due to monsoon period, prices will likely remain under pressure.
- Premium segment share stood at ~9% in Q1FY24 vs 6% YoY and the aim is to take it to 15% by FY24.
- Q1FY24 fuel mix: 81% petcoke, 19% AFR; FY23: 60% petcoke, 30% coal, 10% AFR.
- Carbon emission was at 502kg per ton of cement implying 4% YoY reduction.
- SRCM is steadily increasing AFR usage and aims to achieve 15% by FY24 (3.5% in FY23).
- Lead distance in Q1FY24 decreased by 7-8km YoY and 14km QoQ.
- Current specific heat consumption stood at 740kcal/kg of clinker.
- Dip in the specific heat consumption (from FY19 to FY23) could be due to higher usage of alternate fuels.
- As a standard practice, the company will aim to commission 3 mtpa of grinding capacity at each location.
- Depreciation is likely to be Rs.20bn in FY24.
- The upcoming capacities at Pali (Rajasthan), Etah (UP), Bangalore and Kodla (Karnataka) will have WHR systems.

5. VALUATION AND OUTLOOK:

- Management has guided double digit volume growth for FY24.
- Operating leverage and better realization have helped the company in the current quarter.
- In the coming year the company will benefit from cost tailwinds as input costs including fuel prices will continue to have correction. Major infrastructure projects by the government are expected to be the key growth driver. This, along with demand from the housing segment, expectation of normal monsoon and government schemes such as Pradhan Mantri Awas Yojana, are expected to boost growth.
- We have maintained BUY rating on stock and value the stock at 46x FY25 earnings to arrive at the target of Rs.27615.2.

RECOMMENDATION – Buy

CMP –23537.25

TARGET – 27615.2 (17.33%)

Industry	Cement Materials
NSE CODE	SHREECEM
BSE CODE	500387
Market Cap (₹ Cr)	84847.13
Shares outstanding (in Cr)	3.61
52 wk High/Low (₹)	27049 / 20150
P/E	54.18
P/BV	4.41
Face Value (₹)	10.00
Book Value (₹)	5323.71
EPS (₹)	352.19
Dividend Yield (%)	0.38
Debt / Equity	0.14
Interest coverage	6.69

SHAREHOLDING PATTERN

	June 23	Mar 23	Dec 22
Promoters	62.55	62.55	62.55
Mutual Funds	7.15	6.88	6.88
FII/FPI	12.62	12.82	12.50
Non-Institutions	12.83	12.89	13.00
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

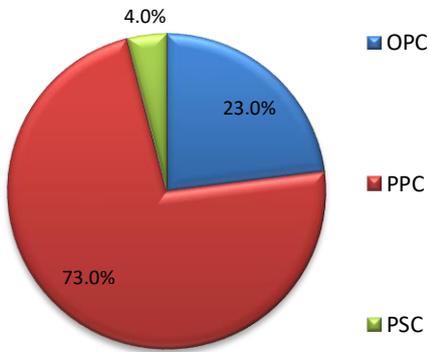
Y/E March	2023A	2024E	2025E
Core			
Sales	17852.3	19581	23121
Sales Gr. (%)	18.9	9.69	18.08
EBITDA	2953.3	3513	4514
EBITDA mrg. (%)	25.7	17.94	19.52
PAT	1269.1	1528.82	2167.18
EPS (₹)	352.2	423.49	600.33
EPS Gr. (%)	-45.5	20.24	41.76
Ratios			
RoE (%)	7.03	9.5	10.9
RoCE (%)	8.7	9.1	10.1
Valuation			
P/E (x)	74.3	52	46
Div. Yield	0.42	0.42	0.40

Particulars	TTM	5 Yr Avg
Historical P/E :	54.2	52.8
Industry P/E :	46.9	
Historical P/B :	4.4	5.7
Industry P/B :	3.7	

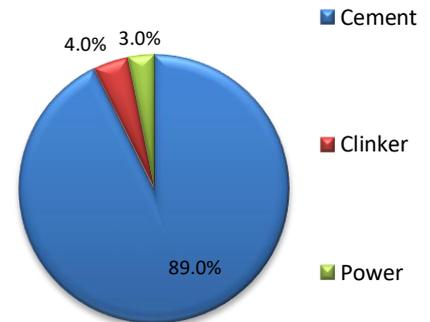


YEARLY PERFORMANCE (FY23)

Cement Production (FY23)



Revenue Mix (FY23)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22			FY23			FY24			FY23	FY24E*
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2QE*		
Net sales	3,373	3,637	4,364	4,415	4,038	4,299	5,100	5,065	6253	17,852	19581
YoY change (%)	2.82	2.25	3.05	21.46	19.70	18.21	16.86	14.72	54.85	18.94	9.69
Total Expenditure	2,452	2,792	3,445	3,614	3,495	3,573	4,211	4,120	5230	14,893	16068
EBITDA	921	845	919	801	543	727	889	945	1023	2,960	3513
Margins (%)	-9.63	-24.97	-26.26	-21.72	-41.07	-14.02	-3.22	17.99	16.36	17	17.94
Depreciation	290	285	297	350	396	443	473	339	451	1,661	1867.2
Interest	56	54	52	55	66	70	71	74	63	263	251
Other income	154	114	137	-20	159	174	146	169	141	459	512.22
PBT	729	620	707	376	240	388	491	700	650	1,495	1907.02
Tax	165	137	48	97	57	106	-34	128	91	226	378.2
Rate (%)	23	22	7	26	24	27	-7	18	14	15	19.83
Adjusted PAT	564	483	659	279	183	282	525	572	636	1,269	1528.82
YoY change (%)	6.83	-23.57	-17.59	-55.80	-67.51	-41.61	-20.31	105.1	247.5	-45.70	20.47
Key Performance Indicators											
RM Cost (% of Sales)	5.47	7.26	8.30	5.66	9.42	6.28	10.43	7.30		8.02	
Staff Cost (% of Sales)	6.80	6.14	5.07	5.51	5.90	5.77	4.87	5.25		42.25	
Other Costs (% of Sales)	87.7	86.6	86.6	88.8	84.7	87.9	84.7	87.5		49.7	
EBITDA Margin (%)	22	19	17	14	11	13	14	15	16.4	17	17.94
PAT Margin (%)	13	11	12	5	4	5	8	9	10.1	7.11	7.81

Source: Company, Hem Securities Research.

*Insights into the assumptions:

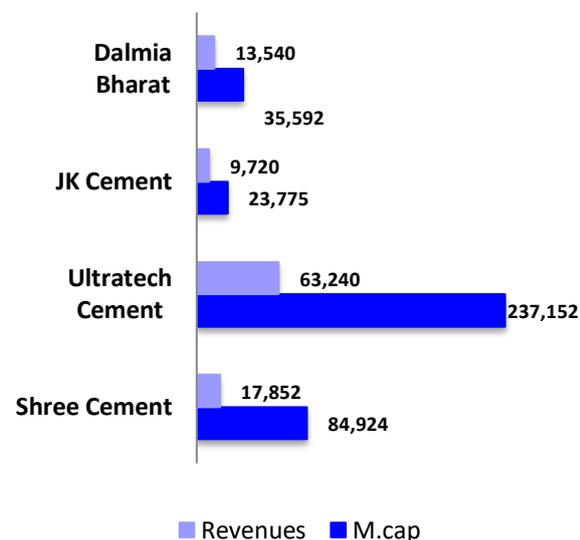
- 1> Expected to see sharp growth in FY24 on the back of Owing to the improving demand dynamics and a strong sales performance in 1QFY24.
- 2> Near term focus of company is to de leverage the balance sheet.
- 3> We expect EBITDA and PAT margins to improve supported by favorable pricing and a boost in cement industry led by infrastructure growth in the country.



INDUSTRY OVERVIEW

- Increased steel demand from sectors including infrastructure, oil and gas, and automotive will drive the growth of the industry.
- At present, the installed capacity of cement in India is 500 MTPA with production of 298 MTPA.
- India's domestic cement production was nearly 294.4 million tonnes (MT) in FY21 and accounted for over 7% of the global installed capacity in FY21.
- India's overall cement production accounted for 262 million tonnes (MT) in FY21. In FY 2027, cement demand is expected to reach 419.92 MT.
- 210 large cement plants account for a cumulative installed capacity of over 410 MT, while over 350 mini cement plants have an estimated production capacity of nearly 11.10 MT. Of the total 210 large cement plants in India, 77 are situated in the states of Andhra Pradesh.
- As per the Union Budget 2022-23, the government approved an outlay of Rs. 199,107 crore (US\$ 26.74 billion) for the Ministry of Road Transport and Highways.
- Cement production in India increased by 19.4% in June 2022 compared to June 2021.
- India's cement production is expected to increase at a CAGR of 5.65% between FY16-22, driven by demands in roads, urban infrastructure and commercial real estate. The consumption of cement in India is expected grow to at a CAGR of 5.68% from FY16 to FY22.

KEY PLAYERS



PEER PERFORMANCE

(₹ Cr)

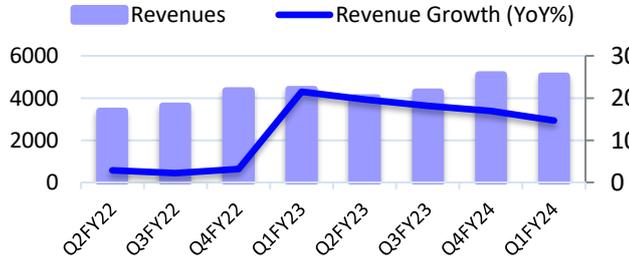
Particulars	Shree Cement	Ultratech Cement	JK Cement	Dalmia Bharat Ltd
Market Cap	84,924	2,37,152	23,775	35,592
Net Sales	17852.33	63239.98	9720.20	13540.00
EBITDA	2953.25	10619.85	1314.30	2297.00
PAT	1269.14	5073.40	419.08	1083.00
EPS (Rs)	352.19	175.41	55.17	55.95
EBITDA MARGIN %	25.69	15.56	12.62	15.79
PAT MARGIN %	9.54	7.10	3.77	6.97
ROCE %	8.65	13.20	10.56	8.09
ROE %	7.03	9.70	9.30	6.84
P/E	54.18	45.85	62.80	36.77
P/B	433.33	179.03	48.96	51.67
EV/EBITDA	4.41	4.24	4.95	2.26
Dividend Yield %	0.43	0.46	0.49	0.47
MCap/ Sales	4.59	3.61	2.33	2.57

Source: Company, Hem Securities Research.

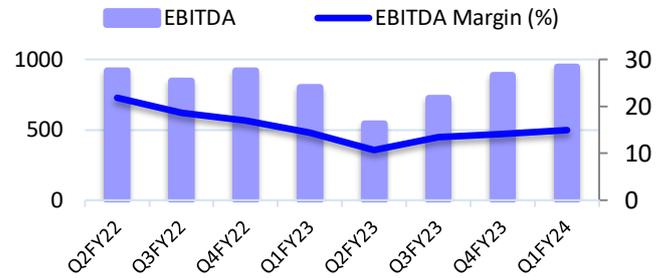


STORY IN CHARTS

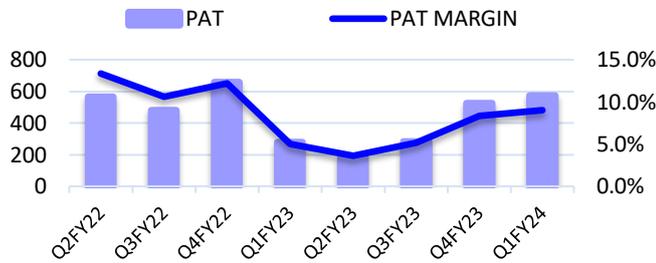
Revenues and Revenues Growth



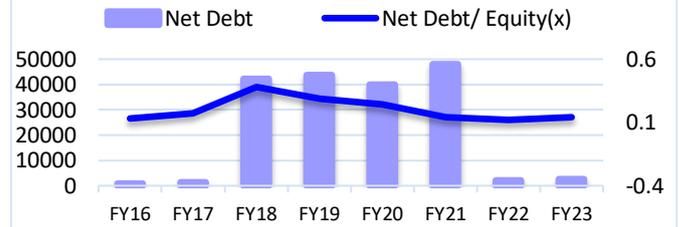
EBITDA & EBITDA Margin



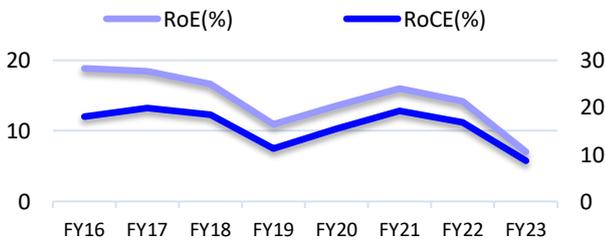
PAT & PAT Margin



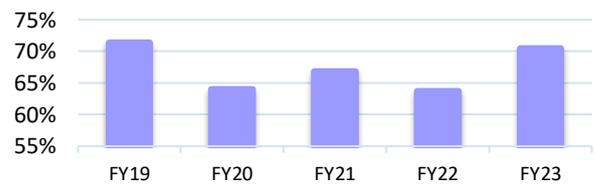
Trend in Net Debt



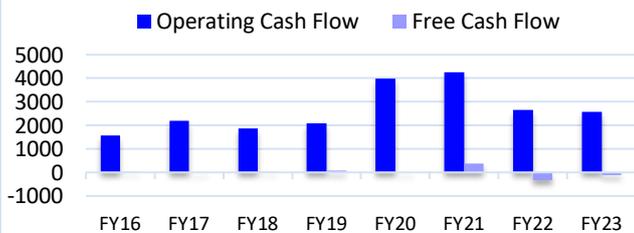
Trend in Return Profile



Capacity Utilisation Over the Years



Trend in Cash Flow



Shree cement Vs Nifty 500





INVESTMENT RATIONALE:

- **Robust Volume growth:** The company's reported volume grew by 19% to 8.92 mtpa, driven by higher demand. The said growth resulted in the company gaining market share. Moreover, the company's capacity expansion plan is progressing well and these capacities would commence operations in phases over Q3FY24-Q2FY25, under its wholly owned subsidiaries. The said capacities coming on stream would drive the company's volume growth moving.
- **New Capacity announced:** The company has announced the setting up of a 12 mtpa grinding unit and a 7.3 mtpa clinker unit at a capital cost of Rs 7,000 Cr, at 70 USD/Tonne. This seems reasonable. It also announced to set up 5 RMC units in FY24. We believe these are positive moves and will allow the company to catch up with its larger peers and strengthen its footprint.
- **Lowering EBITDA margin:** The company's EBITDA margin was lower owing to higher costs. However, the full benefit of lower fuel costs will get reflected in the ensuing quarter and other cost optimization initiatives will drive company's margins higher.
- The company expects cement demand to **remain robust and drive its volume growth**. It is optimistic about cement demand **growth due to the government's keen and continued focus on infrastructure and housing development**. Higher spending by the central government ahead of the general elections in the year 2024 is also expected to boost the cement demand in this financial year.
- **Volume:** The company forecasts double-digit volume growth in FY24, driven by improved demand in its operating regions. During the quarter, the company reported 19% volume growth. The mix of trade and non-trade was 79%/21% during the quarter. Premium products sold accounted for 8.8% of total trade cement sales in Q1FY24 compared to 7.2%/6.3% in Q4/Q1FY23, and the company expects premium cement sales to grow by 15% over the next three to four quarters. Capacity utilization was 77% in the quarter. Capacity utilization by region: East 92%, North 80% and South 70%.
- **Share of green power consumption in total power consumption increased:** As part of its decarbonization efforts, the company has increased the share of green power in total power consumption to 56% in Q1FY24 from 54% in Q4FY23, which is the highest in the Indian cement industry. The company has planned significant investments to further increase its green power consumption. It is also steadily increasing its use of alternative fuels, with a target to increase the share of substitution to 15%.

RISK FACTORS:

- Lower realization and demand in its key market and delay in capacity expansion.
- Higher input costs may impact margins.

COMPANY RECAP

- Shree Cement is engaged in manufacturing and selling of cement and cement related products and is one of the lowest cost producers in **the country. It is the 3rd largest cement producer in India with an installed capacity of 46.4 MTPA.**
- The company sells cement under the brand **name Roofon, Bangur Power, Shree Jung Rodhak, Bangur Cement, and Rock strong.**
- Product Mix : Portland Pozzolana Cement, Ordinary Portland Cement, Portland Slag Cement, AAC Blocks.
- **Revenue Mix**
Cement- 89%
Clinker- 4%
Power- 3%
- **Geographical Revenue**
Within India- 94%
Outside India- 6%
- **Manufacturing Facilities**
The Co. has 4 fully integrated cement manufacturing plants and 10 grinding units across 10 states in India. It has a cement production capacity of 46.40 MTPA and a power generation capacity of 771 MW. The capacity utilization during FY23 was 70%, FY22 was 63.7% against 65% in FY21.
- The Co. is one of the lowest-cost cement producers in India on account of being one of the lowest consumers of **fuel per tonne, majority of consumption of power from captive power plants (80%-85%) including usage of waste heat recovery power (WHRS) and renewable plants resulting in low power cost.**
- The Co is targeting to achieve **80 MTPA capacity by 2030** by exploring newer geographies across the country and adopting both organic and inorganic ways.
- Capacity utilization by region: **East 92%, North 80% and South 70%.**
- Total capex in **FY24/FY25 would be in the range of Rs 3,300 – Rs 3,500 Cr each.**



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

	(₹ Cr)						
Y/ E March	2019	2020	2021	2022	2023	2024E	2025E
Net sales	12554.6	12868.3	13559	15009	17852	19581	23,121
Growth YoY (%)	27.68%	2.50%	5.37%	10.69%	18.94%	9.69%	18.08
Total Expenditure	9760.97	9112.72	9480.3	11304.25	14899	16068	18607
(%) of sales	77.75%	70.81%	69.92%	75.31%	83.46%	82.06	80.48
EBITDA	2793.68	3755.67	4079.4	3705.31	2953.25	3513	4514
EBITDA margin (%)	22.25%	29.19%	30.08%	24.69%	16.54%	17.94	19.52
Growth YoY (%)	12.98%	34.43%	8.62%	-9.17%	-20.30%	18.95	28.49
Other Income	249.76	277.83	438.26	548.51	465.33	512.22	545.18
Operating profit	3043.44	4033.50	4517.7	4253.82	3418.58	4025.22	5059.18
Operating Profit Growth (%)	6.35%	32.53%	12.00%	-5.84%	-19.64%	17.75	25.69
Interest Expenses	247.86	291.43	251.29	216.12	262.87	251	294
Depreciation	1471.81	1807.81	1262.3	1145.88	1660.67	1867.2	2079
Exceptional Items	-178.13					-	-
Earnings before Taxes	1145.64	1934.26	3004.0	2891.82	1495.04	1907.02	2686.18
EBT Growth (%)	9.1%	15.0%	22.2%	19.3%	8.4%	27.56	40.86
EBT Margin (%)	-37.3%	68.8%	55.3%	-3.7%	-48.3%	9.74	11.62
Tax-Total	130.59	390.20	714.49	555.21	225.90	378.2	519
Rate of tax (%)	11.4%	20.2%	23.8%	19.2%	15.1%	19.83	19.32
Net Profit	1015.05	1544.06	2289.5	2336.61	1269.14	1528.82	2167.18
NP Growth (%)	-26.67%	52.12%	48.28%	2.05%	-45.68%	20.46	41.76
PAT Margin (%)	8.09%	12.00%	16.89%	15.57%	7.11%	7.81	9.37
Minority Interest	-8.66	-8.21	-3.72	-4.67	1.56	-	-
EPS	288.86	425.68	633.56	646.32	352.19	423.49	600.33
EPS Growth (%)	-27.29%	47.36%	48.83%	2.02%	-45.51%	20.24	41.76

Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Equity Share Capital	35.0	36.0	36.0	36.0	36.0
Reserves & Surplus	9636.0	13133.0	15361	17,424	18600
Total Shareholder's Funds (A)	9671	13169	15397	17460	18636
Long Term Borrowings	2309	1639	1332	1298	581
Minority Interest	0	0	0	0	0
Total Non-Current Liabilities (B)	2309	1639	1332	1298	581
Trade Payables	538	658	883	890	1196
Advances From Customer	136	208	210	237	271
Other Financial Liabilities	2838	4270	3691	3863	5650
Total Current Liabilities (C)	3512	5136	4784	4990	7117
Total Equity and Liabilities (A+B+C)	15493	19944	21513	23749	26334
Property, Plant & Equipment	6182	6163	6216	7282	7481
Capital Work in progress	1129	1197	997	1054	2797
Investments	2286	6358	8500	9033	8683
Total Non-Current Assets (A)	9597	137186	15713	17369	18961
Inventory	1870	1713	1716	2497	2760
Debtors	1024	1080	679	788	1212
Cash and Bank Balance	439	614	708	290	161
Loans and advances	9	9	7	6	7
Other Current Assets	2554	2809	2689	2800	3234
Total Current Assets (B)	5896	6225	5799	6380	7373
Total Assets(A+B)	15493	19944	21513	23749	26334

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2019	2020	2021	2022	2023
Profitability and return ratios					
Net profit margin (%)	8.09	12.00	13.44	20.76	9.54
EBITDA margin (%)	24.24	31.34	26.52	37.79	25.69
EBIT margin (%)	11.10	17.30	19.11	27.61	13.21
ROE (%)	10.93	13.52	16.03	14.22	7.03
ROCE (%)	11.25	15.46	19.24	16.80	8.65
Working Capital & liquidity ratios					
Payables (Days)	236.26	226.29	266.67	320.46	278.06
Inventory (Days)	50.00	50.83	36.74	68.31	72.09
Receivables (Days)	21.56	29.84	18.85	23.80	27.42
Current Ratio (x)	2.22	1.97	1.84	1.81	1.33
Valuations Ratios					
EV/sales (x)	5.36	5.12	7.95	5.88	5.42
EV/EBITDA (x)	22.11	16.35	23.86	20.76	28.32
P/E (x)	64.51	6.00	46.52	37.12	74.33
P/BV (x)	6.71	4.81	6.91	4.96	5.07
Dividend Yield (%)	0.32	0.63	0.20	0.38	0.38
Return on Assets (%)	6.88	9.06	11.47	10.67	5.21
Leverage Ratio					
Debt/Equity (x)	0.29	0.24	0.14	0.12	0.14

Cash Flow Statement					
Y/E March	2019	2020	2021	2022	2023
Profit Before tax	1,324	1,934	3,004	2,892	1,495
Adjustment	1,637	1,832	1,102	825	1,459
Changes in working capital	-650	693	893	-848	-52
Taxes Paid	2,080	3,973	4,254	2,668	2,569
CF from Operating activities (A)	-722	-5,599	-2,645	-2,151	-2414.49
Inc/(Dec) in Investing Activities	-1,276	1,581	-1,233	-849	-277
CF from Investing Activities (B)	82.51	-44.47	376.11	-332.77	-122
Inc/(Dec) in Financing Activities	34	118	82	452	128
CF from Financing Activities (C)	118	82	452	128	14
Incr/Decr of Cash (A+B+C)	1,324	1,934	3,004	2,892	1,495
Add: Opening Bal.	1,637	1,832	1,102	825	1,459
Effect of Foreign Exchange Fluctuations	-650	693	893	-848	-52
Closing Balance	2,080	3,973	4,254	2,668	2,569

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
18 th Aug 2023	Buy	27615.2

DISCLAIMER

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