

08 August 2024

India | Equity Research | Q1FY25 results review

Shree Cement

Cement

Volume focus sines margin

Shree Cement's (SRCM) volume focus in Q1FY25 was exceptional given it stood flat QoQ (up 8% YoY) as against 5-20% drop reported by industry majors. However, implied gain in market share came at the cost of margin, which slipped ~700bps QoQ (flat YoY). As blended realisation plunged >6% QoQ while cost/ton rose 2.6%, EBIDTA at INR 9.2bn (down 2% YoY; 31% QoQ) stood 18% below estimates. Calibrating for management's guidance of a weak Q2/Q3FY25, we chop FY25/26E EBIDTA by 21%/11%. Continued weakness in cement prices poses a risk to our revised estimates even as SRCM appeared optimistic on recovery H2FY25 onwards. Keeping faith, we continue to value SRCM at 16x FY26E EV/EBITDA and maintain **HOLD** with a revised TP of INR 24,184 (vs INR 27,085 earlier).

Prioritising volume over value

SRCM's volume at 9.64mn tonnes rose 1.2% QoQ (up 8% YoY; being broadly in line with our expectation) in Q1 wherein majority of its peers reported a sequential decline. Quest for market share led to blended realisation tripping 6.3% QoQ (in our view, core cement realisation is likely to have slipped ~8% QoQ vs our 2.5% drop estimate). If the revenue miss was not enough, costs disappointed too – with freight cost/t racing 5.5% QoQ and 'other expenses' rising 9% QoQ – leading to 2.6% rise in overall cost/t. Blended EBITDA/t at INR 951 (down 9% YoY; 32% QoQ) stood 19% below estimates. Despite effective tax rate stooping down to a low of 9%, PAT at INR 3.2bn was down 45% YoY/52% QoQ, being 25% below expectations.

Sectoral pangs hurt profitability; maintain HOLD

Even as SRCM believes Q2/ Q3 of FY25 may likely remain in the soft lane (citing weak prices and low demand), its focus on capacity expansion (ongoing projects to increase capacity at 19% CAGR over FY25-26) and efficiency enhancement (pursuing increase in green power and rail-freight mix) remains undeterred. Balance sheet, too, remains strong with net cash of ~INR 60bn for FY24. With an uncertain cement price outlook posing an earnings risk, we see limited scope to argue for an upward revision to our valuation multiple. We continue to value SRCM at 16x FY26E EV/EBIDTA (at par with industry leader UltraTech Cement) and maintain **HOLD** with a revised TP of INR 24,184 (INR 27,085 earlier).

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,68,375	1,95,855	1,89,607	2,17,129
EBITDA	29,423	43,635	36,397	51,237
EBITDA (%)	17.5	22.3	19.2	23.6
Net Profit	11,739	24,684	18,673	28,552
EPS (INR)	325.3	684.2	517.5	791.4
EPS % Chg YoY	(48.3)	110.3	(24.4)	52.9
P/E (x)	77.1	36.7	48.5	31.7
EV/EBITDA (x)	28.8	19.4	23.7	16.9
RoCE (%) (post-tax)	5.4	10.4	7.2	10.8
RoE (%)	6.6	12.8	8.8	12.3

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Market Data

Market Cap (INR)	906bn
Market Cap (USD)	10,788mn
Bloomberg Code	SRCM IN
Reuters Code	SHCM.BO
52-week Range (INR)	30,738 /23,432
Free Float (%)	37.0
ADTV-3M (mn) (USD)	15.8

Price Performance (%)	3m	6m	12m
Absolute	(1.2)	(10.7)	3.5
Relative to Sensex	(9.3)	(22.0)	(17.2)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(5.8)	(4.9)
EBITDA	(20.9)	(11.1)
EPS	(30.9)	(17.3)

Previous Reports

16-05-2024: [Q4FY24 results review](#)
01-02-2024: [Q3FY24 results review](#)

Conference call takeaways

Demand/volume

- Demand in Q1FY25 was sluggish owing to 1) extreme weather conditions (heatwave) and 2) slowdown in construction activities due to general elections.
- Management expects the sluggish demand situation to continue in Q2FY25 as well, given budgetary fund allocation to respective ministries will occur only by Sep'24.
- Further, it expects slow demand acceleration in Q3FY25 owing to festive season.
- In view of the dull demand scenario in H1FY25, SRCM has toned down its full year (FY25) volume growth guidance. It now expects to align with industry growth rate vs earlier guidance of ~11% YoY growth.
- In Q1FY25, cement capacity utilisation stood at 76% vs 79% in Q4FY24. SRCM witnessed intense competitive pressures in its core market viz. north India from the top-2 players of the industry.
- In Q1FY25, region-wise dispatch mix stood as 55% in north, 35% in east and 10% in south India.
- Cement and clinker volumes were 92.4LT and ~4LT, respectively.
- Region-wise growth in Q1FY25 stood as below:

Region	YoY basis	QoQ basis
North India	+7%	-3%
South India	-5%	-4%
East India	+15%	+11%
Overall	+8%	+1%

Pricing

- Intense competitive pressures in north India (core market) compelled SRCM to sell materials in other regions. As a result, the adverse geo-mix resulted in weighted average realisation being down by ~6% YoY and ~5% QoQ in Q1FY25.
- Q1FY25 average cement realisation stood at INR 4,469/t vs INR 4,771/t in Q1FY24 and INR 4,721/t in Q4FY24.
- Region-wise cement realisation in Q1FY25 stood as below:

Region	INR/t
North India	4,641
East India	4,154
South India	4,620

- SRCM plans for higher volume offtake from Nawalgarh plant in Rajasthan, in order to receive state incentive benefits. Further, inter-region material supply from Nawalgarh unit will increase post Etah GU commissioning in Q4FY25.
- The company accounts incentives on cash accrual basis.

Cost

- Other expenses/t were higher sequentially due to (1) higher brand building/advertisement expenses and (2) stabilisation (high stores and spares) expenditure of INR 520mn at new plants of Nawalgarh (Rajasthan) and Guntur (AP).
- Q1FY25 fuel consumption cost: INR 1.76/'000kcal vs INR 1.82/'000kcal QoQ and INR 2.34/'000kcal YoY. Going ahead, SRCM expects fuel cost to marginally decline to INR 1.74/'000kcal in Q2FY25.
- Share of green power consumption in total power consumption stood at 54% in Q1FY25 which was flat QoQ. SRCM aims to achieve 62% of green power consumption by Q1FY26.
- Sequential inflation in logistics cost/t in Q1FY25 was attributed to higher lead distance (up 21kms QoQ).
- Q1FY25: Lead distance increased to 456kms vs 435kms QoQ.

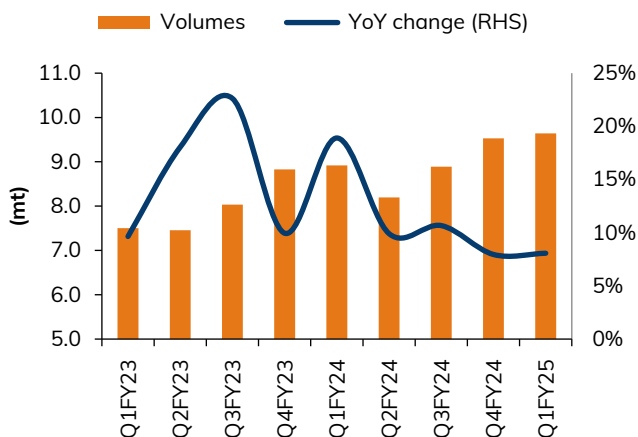
Capex

- SRCM maintains its capex guidance of ~INR 40-45bn/annum in FY25.
- SRCM's ongoing expansion projects in Jaitaran, Rajasthan (6mtpa), Kodla, Karnataka (3mtpa), Baloda Bazar, Chhattisgarh (3.4mtpa), and Etah, Uttar Pradesh (3mtpa) are on track.
- It is increasing its solar power capacity by ~135MW across manufacturing locations in Rajasthan, Panipat, Jharkhand, Uttarakhand and Uttar Pradesh.

Others

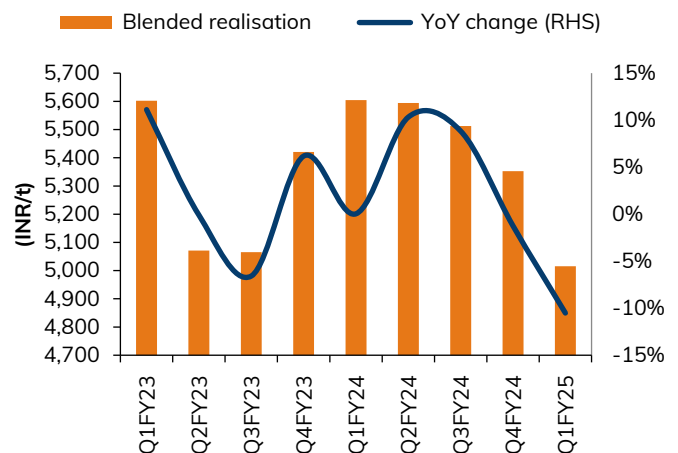
- The company guided for depreciation expenses at ~INR 26bn in FY25. Depreciation was higher in Q1FY25 due to commissioning of Nawalgarh, Rajasthan (Jan'24) and Guntur, AP plants (Apr'24).
- The company currently has 7 RMC plants with total capacity of 624cu.mt/hr. It aims for 100 RMC plants in next 3-5 years, spread across 50 cities.

Exhibit 1: Quarterly volumes trend

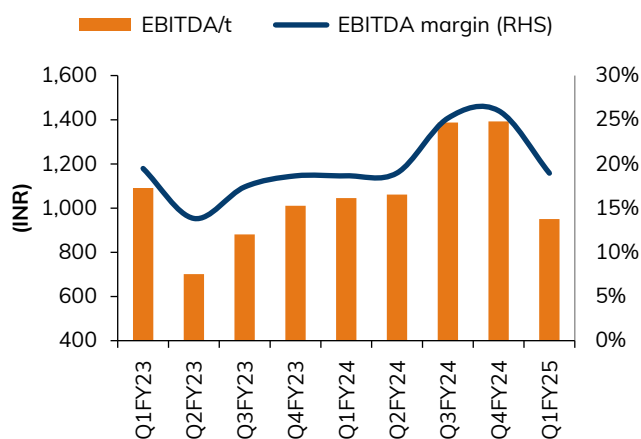


Source: I-Sec research, Company data

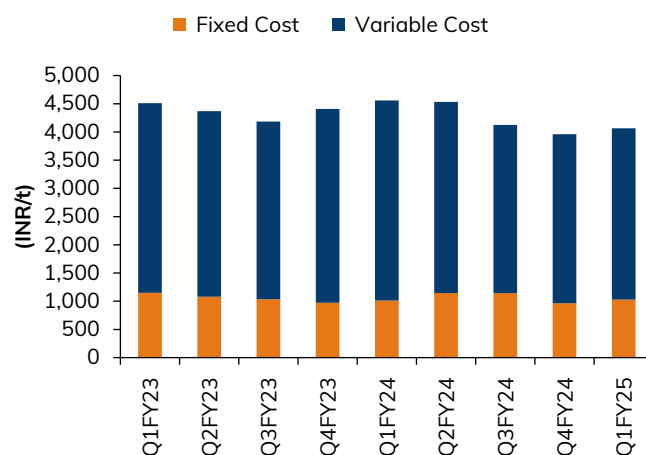
Exhibit 2: Quarterly realisation trend



Source: I-Sec research, Company data

Exhibit 3: Quarterly margin trend - Standalone


Source: I-Sec research, Company data

Exhibit 4: Break-up of total cost - Standalone


Source: I-Sec research, Company data

Exhibit 5: Q1FY25 earnings review (standalone)

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Q1FY25E	% Variance
Net Sales	48,347	49,991	(3.3)	51,010	(5.2)	49,408	(2.1)
Net Volumes (mt)	9.64	8.92	8.1	9.53	1.2	9.56	0.8
Blended realisations (INR/t)	5,015	5,604	(10.5)	5,353	(6.30)	5,166	(2.9)
Raw Materials	4,065	5,759	(29.4)	3,608	12.7	3,635	11.9
Personnel Cost	2,446	2,349	4.1	2,352	4.0	2,537	(3.6)
Power and Fuel	14,052	15,240	(7.8)	14,490	(3.0)	14,250	(1.4)
Freight and forwarding	11,151	10,630	4.9	10,451	6.7	10,489	6.3
Other Expenses	7,469	6,688	11.7	6,838	9.2	7,289	2.5
Total Expenses	39,183	40,665	(3.6)	37,738	3.8	38,199	2.6
EBITDA	9,164	9,326	(1.7)	13,272	(31.0)	11,209	(18.2)
EBITDA/t (INR)	951	1,045	(9.1)	1,393	(31.7)	1,172	(18.9)
Interest	573	753	(23.9)	648	(11.5)	648	(11.5)
Depreciation	6,428	3,085	108.4	6,281	2.3	6,291	2.2
Other Income	1,346	1,617	(16.8)	1,379	(2.4)	1,394	(3.4)
Recurring pre-tax income	3,508	7,105	(50.6)	7,722	(54.6)	5,664	(38.1)
Extraordinary income/(expense)	-	-	-	-	-	-	-
Taxation	331	1,294	(74.4)	1,105	(70.0)	1,416	(76.6)
Reported Net Income	3,177	5,811	(45.3)	6,618	(52.0)	4,248	(25.2)
Recurring Net Income	3,177	5,811	(45.3)	6,618	(52.0)	4,248	(25.2)
% Margins			bps		bps		bps
EBITDA	19.0	18.7	30	26.0	-707	22.7	-373
PAT	6.6	11.6	-505	13.0	-640	8.6	-203

Source: I-Sec research, Company data

Exhibit 6: Historical quarterly analysis on per-tonne basis (standalone)

Per tonne (INR/t)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Blended Realisation*	5,604	5,594	5,513	5,353	5,015
Raw materials consumed	635	561	500	380	422
Power & fuel	1,708	1,671	1,393	1,520	1,458
Freight cost	1,192	1,160	1,095	1,097	1,157
Staff cost	263	285	264	247	254
Other expenses	750	861	880	717	775
Total cost	4,559	4,533	4,125	3,960	4,065
Blended EBITDA	1,045	1,062	1,388	1,393	951

Source: I-Sec research, Company data; * including power

Exhibit 7: Per tonne estimate – annual (standalone)

(INR/t)	FY22	FY23	FY24	FY25E	FY26E
Cement realisation	5,004	4,986	5,058	4,582	4,797
Raw material consumed	410	396	515	423	430
Staff costs	291	272	264	258	255
Power & fuel	1,011	1,467	1,160	1,095	1,068
Freight	1,169	1,173	1,135	1,115	1,119
Others	833	783	799	790	763
Total operating expenses	3,842	4,367	4,284	3,959	3,850
Cement EBITDA	1,290	894	1,185	902	1,162

Source: I-Sec research, Company data

Exhibit 8: Performance trend and key assumptions (standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Cement capacity (mtpa)	46.4	46.4	53.4	56.4	71.8
Cement sales volumes (mt)	27.7	31.8	35.5	38.7	43.1
Capacity utilisation (%)	59.8	68.6	66.5	68.6	60.0
Volume growth (%)	3.3%	14.7%	11.7%	8.9%	11.3%
Cement realisation blended (INR/t)	5,004	4,986	5,058	4,582	4,797
Growth (%)	7.9%	-0.4%	1.5%	-9.4%	4.7%

Source: I-Sec research, Company data

Exhibit 9: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	1,89,607	2,01,378	(5.8)	2,17,129	2,28,382	(4.9)
EBITDA	36,397	46,034	(20.9)	51,237	57,608	(11.1)
PAT	18,673	27,039	(30.9)	28,552	34,520	(17.3)

Source: I-Sec research, Company data

Exhibit 10: Valuation based on 16x Mar'26E EV/E

Particulars (INR mn)	Mar'26E
EV/EBITDA multiple (x)	16.0
EBITDA	51,737
Enterprise Value (EV)	8,27,793
Less: Net Debt	(44,758)
Derived M-cap	8,72,551
Shares o/s (mn)	36.1
Value per share (INR)	24,184

Source: I-Sec research, Company data

Key risks

- Sharp increase in cement prices and/or sharp fuel cost decline are key upside risks.
- Sharp fall in cement prices and/or major surge in fuel prices are key downside risks.

Exhibit 11: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	62.6	62.6	62.6
Institutional investors	24.9	24.8	24.9
MFs and others	7.7	7.6	8.3
FIs/Banks, Insurance	4.4	4.4	4.7
FIIIs	12.7	12.9	11.9
Others	12.6	12.6	12.5

Source: Bloomberg, I-Sec research

Exhibit 12: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,68,375	1,95,855	1,89,607	2,17,129
Operating Expenses	1,26,354	1,33,903	1,36,844	1,47,350
EBITDA	29,423	43,635	36,397	51,237
EBITDA Margin (%)	17.5	22.3	19.2	23.6
Depreciation & Amortization	15,462	16,147	16,095	18,033
EBIT	13,961	27,489	20,303	33,205
Interest expenditure	2,689	2,643	1,916	1,857
Other Non-operating Income	4,315	5,611	4,954	4,343
Recurring PBT	17,129	30,456	23,341	35,690
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,848	5,772	4,668	7,138
PAT	13,281	24,684	18,673	28,552
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(1,543)	-	-	-
Net Income (Reported)	13,281	24,684	18,673	28,552
Net Income (Adjusted)	11,739	24,684	18,673	28,552

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	86,466	1,17,151	1,03,097	1,01,692
of which cash & cash eqv.	34,700	55,166	42,049	38,866
Total Current Liabilities & Provisions	46,514	52,639	52,426	53,043
Net Current Assets	39,952	64,512	50,672	48,649
Investments	82,999	54,558	54,558	54,558
Net Fixed Assets	53,327	70,987	1,11,893	1,41,360
ROU Assets	-	-	-	-
Capital Work-in-Progress	28,709	25,502	13,502	11,002
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	2,04,987	2,15,560	2,30,625	2,55,569
Liabilities				
Borrowings	25,392	14,737	14,737	14,737
Deferred Tax Liability	(6,686)	(5,992)	(5,992)	(5,992)
provisions	-	-	-	-
other Liabilities	3,396	2,971	2,971	2,971
Equity Share Capital	361	361	361	361
Reserves & Surplus	1,82,524	2,03,484	2,18,549	2,43,493
Total Net Worth	1,82,884	2,03,845	2,18,910	2,43,854
Minority Interest	-	-	-	-
Total Liabilities	2,04,987	2,15,560	2,30,625	2,55,569

Source Company data, I-Sec research

Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	45,846	49,008	51,010	48,347
% growth (YoY)	21.3	20.4	6.6	(3.3)
EBITDA	8,701	12,337	13,272	9,164
Margin %	19.0	25.2	26.0	19.0
Other Income	1,261	1,354	1,379	1,346
Extraordinaries	-	-	-	-
Adjusted Net Profit	4,913	7,342	6,618	3,177

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	29,363	43,674	39,140	53,641
Working Capital Changes	(2,320)	(10,638)	(3,944)	(8,298)
Capital Commitments	(27,619)	(28,057)	(45,000)	(45,000)
Free Cashflow	-576	-7,226	-10,276	64
Other investing cashflow	3,530	14,555	54,406	1,939
Cashflow from Investing Activities	(24,089)	(13,503)	9,406	(43,061)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(3,245)	(3,790)	(3,608)	(3,608)
Others	94	(14,147)	(1,916)	(1,857)
Cash flow from Financing Activities	(3,151)	(17,937)	(5,524)	(5,465)
Chg. in Cash & Bank balance	(196)	1,597	39,078	(3,183)
Closing cash & balance	1,193	2,971	42,049	38,866

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	325.3	684.2	517.5	791.4
Adjusted EPS (Diluted)	325.3	684.2	517.5	791.4
Cash EPS	753.9	1,131.7	963.6	1,291.2
Dividend per share (DPS)	100.0	105.0	100.0	100.0
Book Value per share (BV)	5,068.9	5,649.8	6,067.3	6,758.7
Dividend Payout (%)	30.7	15.3	19.3	12.6
Growth (%)				
Net Sales	17.7	16.3	(3.2)	14.5
EBITDA	(19.3)	48.3	(16.6)	40.8
EPS (INR)	(48.3)	110.3	(24.4)	52.9
Valuation Ratios (x)				
P/E	77.1	36.7	48.5	31.7
P/CEPS	33.3	22.2	26.0	19.4
P/BV	5.0	4.4	4.1	3.7
EV / EBITDA	28.8	19.4	23.7	16.9
EV / t (USD)	221.1	192.1	195.7	152.3
Dividend Yield (%)	0.4	0.4	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	92.5	90.6	91.4	91.5
EBITDA Margins (%)	17.5	22.3	19.2	23.6
Effective Tax Rate (%)	22.5	19.0	20.0	20.0
Net Profit Margins (%)	7.9	12.6	9.8	13.1
NWC / Total Assets (%)	19.5	29.9	22.0	19.0
Net Debt / Equity (x)	(0.5)	(0.5)	(0.4)	(0.3)
Net Debt / EBITDA (x)	(3.1)	(2.2)	(2.2)	(1.5)
Profitability Ratios				
RoCE (%) (Post Tax)	5.4	10.4	7.2	10.8
RoE (%)	6.6	12.8	8.8	12.3
RoC (%)	8.6	15.9	11.4	14.6
Fixed Asset Turnover (x)	3.2	3.2	2.1	1.7
Inventory Turnover Days	72	79	73	73
Receivables Days	21	19	17	17
Payables Days	34	27	25	25

Source Company data, I-Sec research

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