Cement
Initiating coverage

India I Equities
8 May 2024

Shree Cements

In expansion mode; debt-averse balance sheet to persist

Rating: Buy
Target Price: Rs.30,100
Current market price: Rs.25,367

Key data	SRCM IN / SHCM.BO
52-week high / low	Rs.30,738 / 22,601
Sensex / Nifty	73512 / 22303
3-m average volume	$11.8m
Market cap	Rs.916bn / $10,973.5m
Shares outstanding	36m

Shareholding (%)	Mar'24	Dec'23	Sep'23
Promoters	62.6	62.6	62.6
- of which, Pledged			
Free float	37.5	37.5	37.5
- Foreign institutions	12.5	12.3	12.2
- Domestic institution	12.3	12.6	12.6
- Public	12.6	12.6	12.7

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Investment summary

ANANDRATHI

Summary

The third largest and least-cost cement producer in India, Shree Cement's focus has been on greater operating efficiency, making it the leader in power efficiency in the cement sector. Brand re-vamping would address its lower realisations than peers. Further, its focus on improving operational parameters through continuous investment in green energy and rationalizing freight parameters would help improve profitability. Its low-geared balance sheet would persist despite expansion capex

Targets 80m-tonne capacity by FY28, with all-India operations

Aiming to be an all-India company, Shree Cements is set to expand capacity to 80m tonnes by FY28, a 9% CAGR over FY24-28. Its periodic expansions kept its capacity market share at 8-9% over FY19-24. It has diversified operations from operating purely in the north to moving into other regions, thus safeguarding itself from regional demand-supply issues

Least-cost producer; rising brand focus

Being one of the lowest-cost producers, the company maintains cost efficiency by using different fuels, increasing power generation from its WHR plant and rationalising the lead distance by setting up a split GU and building railway sidings. The revamping of its corporate brand identity with the launch of `Bangur' as an umbrella brand would aid profitability

Continues to be debt-averse

The company has expanded periodically through smaller capacities added, with a high degree of reliance on internal accruals without loading its balance sheet with debt. Its net-debt-to-equity ratio has been below 0.3x since FY12 and it has been net cash since FY20. We expect similar levels despite huge capex plans

Investment summary

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Valuation

Given the cost advantages and consequent high returns, the stock has traded at a premium to peers. We expect 13%/17%/12% revenue/EBITDA/volumes growth over FY24-26. At present valuations, the stock quotes at an EV/EBITDA of 15.5x and an EV/tonne of $160 on FY26e. We initiate coverage on it with a Buy rating and a TP of Rs30,100, valuing the domestic business at 18x FY26e EV/EBITDA and the UAE subsidiary at 1x FY23 P/BV

Key risks

Rising petcoke and diesel prices, demand slowdown, the pending outcome of the income-tax survey

Financial Summary

Particulars Y/E Mar	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	1,43,059	1,68,375	1,95,906	2,19,033	2,50,383
Net profit (Rs m)	23,766	13,281	23,483	26,553	30,293
EPS (Rs)	658.7	368.1	650.9	735.9	839.6
PE (x)	36.4	71.1	39.5	34.5	30.2
EV / EBITDA (x)	23.3	31.8	21.4	18.2	15.5
EV / tonne ($)	220.7	242.8	207.3	176.9	160.1
RoE (%)	14.6	7.5	12.1	12.2	12.4
RoCE (%)	12.0	6.1	10.1	10.3	10.5
Dividend yield (%)	0.4	0.4	0.2	0.2	0.2
Net debt / equity (x)	-0.1	-0.1	-0.0	0.0	-0.0

Sum-of-parts valuation

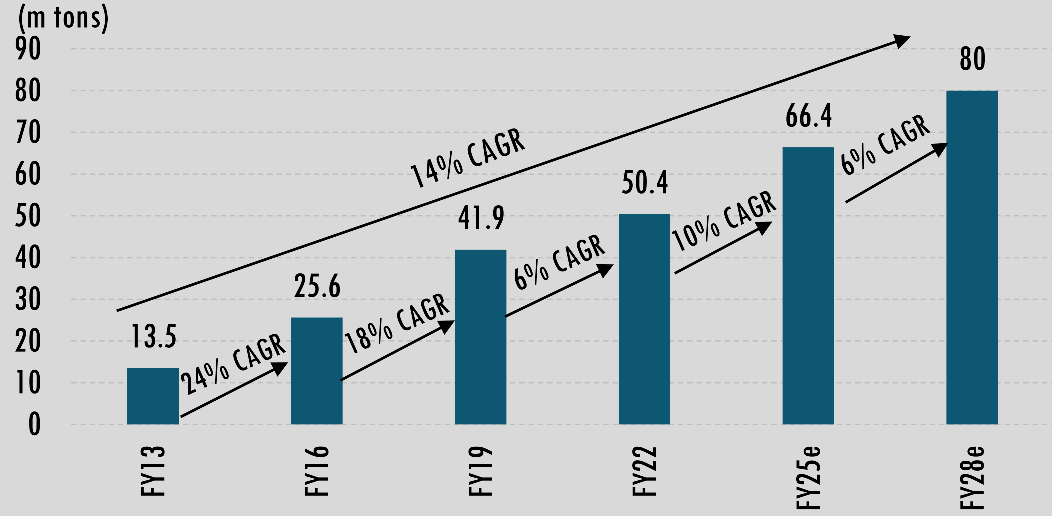
Particulars	Methodology	EBITDA/Book Value (Rs m)	Multiple	Value (Rs m)	Value (Rs / sh)
Cement, domestic	18x FY26e EV/EBITDA	58,706	18x	1,059,472	29,365
Cement, UAE	1x FY23 P/BV	20,337	1x	20,337	564
Less: Net debt (Mar'26)				-6,199	-172
Equity value				**1,086,008**	**30,100**
No. of shares (m)	36.1				

Source: Company, Anand Rathi Research

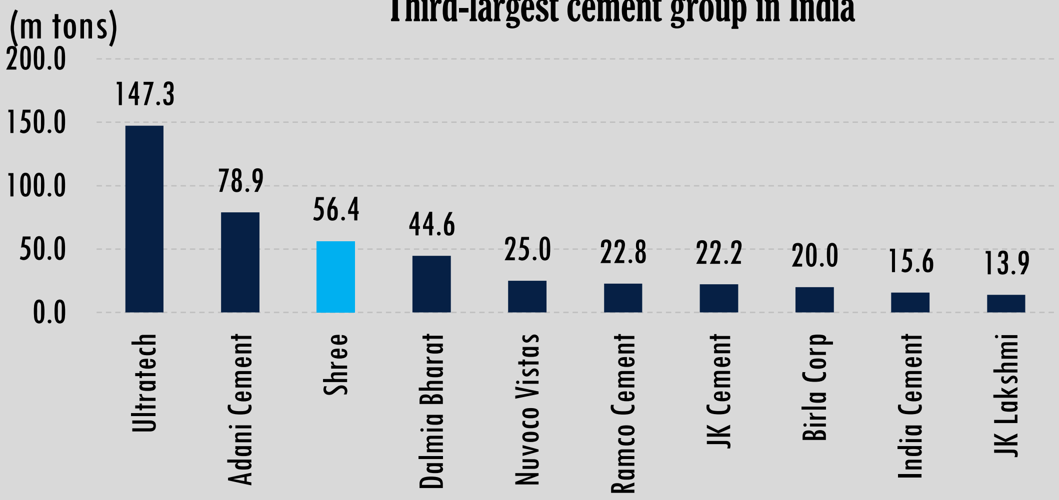
Targets an 80m-tonne capacity by FY28

- Shree Cements is the third largest cement group in India with 53.4m-tonne capacity in FY24 (consolidated ~57.4m). The 3m-ton Guntur IU expansion in Apr'24 expanded capacity to 56.4m tons (consolidated ~ 60.4m) as on date
- While the sector clocked a 6% CAGR in capacity over FY10-24, the company registered an 11% CAGR in capacity. Periodic expansions helped it maintain an ~8-9% market share in capacity over the past several years
- It aims at 80m tonnes by FY28, a ~9% CAGR over FY24-28, where the ongoing expansion (18.4m tonnes) would take standalone capacity to 62m tonnes by FY25, 68m by FY25 and 75m by FY27 and consolidated capacity to 66.4m, 72.4m and 78.8m tonnes respectively.
- Further, aiming to be an all-India company, it is exploring expansion opportunities in Gujarat and MP. It is also in the process of acquiring limestone mines in Rajasthan, Gujarat, AP and Chhattisgarh to support the expansions
- With the minimum benchmark of 50 years' limestone reserves to set up a plant, the company has adequate reserves for its announced expansions

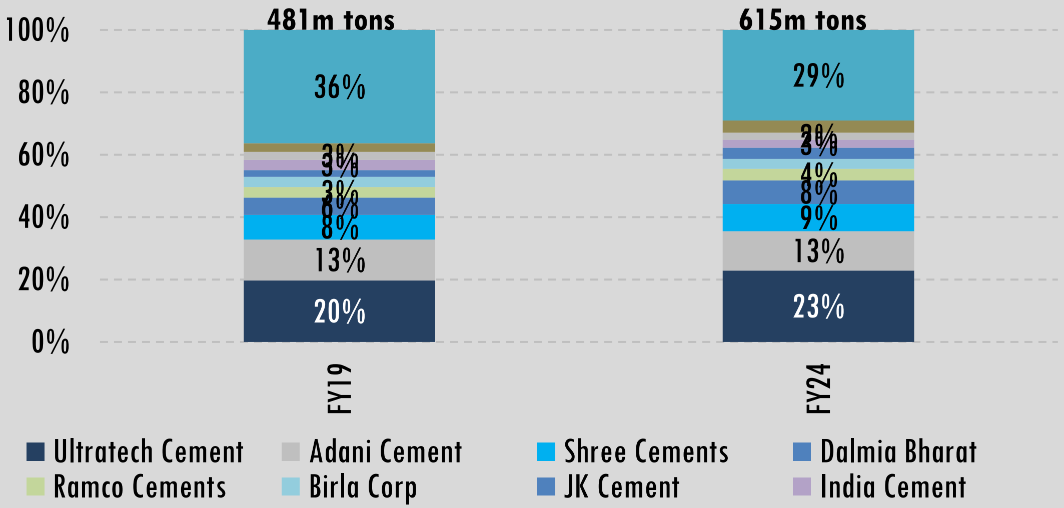
Capacity growth trend, to 80m tonnes by FY28 (consolidated)



Third-largest cement group in India



Capacity market share of key peers



Source: Company, Anand Rathi Research Note: Grey cement capacity as on date

Cement capacity details

Plant locations (m tonnes)	States	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25e	FY26e	FY27e
Suratgarh GU	Rajasthan	1.2	1.2	1.2	1.2	1.8	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Jobner GU	Rajasthan	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Khuskhera GU	Rajasthan	3	3	3	3	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Beawar IU	Rajasthan	3	3	3	3	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Ras IU	Rajasthan	3	5	7	7	7	7	7	7	7	7	7	7	7	7	10
Panipat GU	Haryana			1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Roorkee GU	Uttarakhand	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Nawalgarh IU	Rajasthan												3.5	3.5	3.5	3.5
Pali IU	Rajasthan													3	3	3
Capacity, North India		**13.5**	**15.5**	**19**	**19**	**20.7**	**24.3**	**24.3**	**24.3**	**24.3**	**24.3**	**24.3**	**27.8**	**30.8**	**30.8**	**33.8**
Bulandsahr GU	UP				2	2	2	2	2	2	2	2	2	2	2	2
Etah GU	UP														3	3
Capacity, Central India					**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**5**	**5**
Aurangabad GU	Bihar		2	2	2	3.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Baloda Bazzar, Raipur IU	Chhattisgarh			2.6	2.6	3	3	3	3	3	3	3	3	3	3	6.4
Cuttak GU	Odisha								3	3	3	3	3	3	3	3
Burudih GU	Jharkhand								2.5	2.5	2.5	2.5	3	3	3	3
Purulia GU	WB												3	3	3	3
Capacity, East India			**2**	**4.6**	**4.6**	**6.6**	**8.6**	**8.6**	**14.1**	**14.1**	**14.1**	**14.1**	**17.6**	**17.6**	**17.6**	**21**
Kodla IU	Karnataka							3	3	3	3	3	3	3	3	3
Guntur IU	AP													3	3	3
Kodla & Bangalore	Karnataka													3	6	6
Capacity, South India								**3**	**3**	**3**	**3**	**3**	**3**	**9**	**12**	**12**
Patas GU, Pune	Maharashtra									3	3	3	3	3	3	3
Capacity, West India										**3**	**3**	**3**	**3**	**3**	**3**	**3**
Capacity, India		**13.5**	**17.5**	**23.6**	**25.6**	**29.3**	**34.9**	**37.9**	**43.4**	**46.4**	**46.4**	**46.4**	**53.4**	**62.4**	**68.4**	**74.8**
Overseas																
Ras Al Khaimah	UAE							4	4	4	4	4	4	4	4	4
Current capacity		**13.5**	**17.5**	**23.6**	**25.6**	**29.3**	**34.9**	**41.9**	**47.4**	**50.4**	**50.4**	**50.4**	**57.4**	**66.4**	**72.4**	**78.8**

Source: Company, Anand Rathi Research

Clinker capacity details

- Clinker capacity: 38.2m tonnes. north India (21.8m), east India (9.2m), south India (3.9m), the UAE (3.3m)
- Overall clinker-conversion factor: ~1.6x, where the east has the highest ratio of 1.91x as more slag is available there owing to proximity to steel plants
- Clinker factor being reduced by using an alternative raw material to produce cement. This condensed the clinker-cement ratio in FY23 to 62.1%, from 64.9% in FY20
- In FY22, one kiln added (brownfield) in Chhattisgarh to augment clinker supplies for eastern markets (Jharkhand/Odisha). Further, the coming 7.3m-tonne clinker-capacity expansion (Pali ~3.65 tonnes, Kodla ~3.65m) would take the total to 45.5m tonnes

Clinker capacity

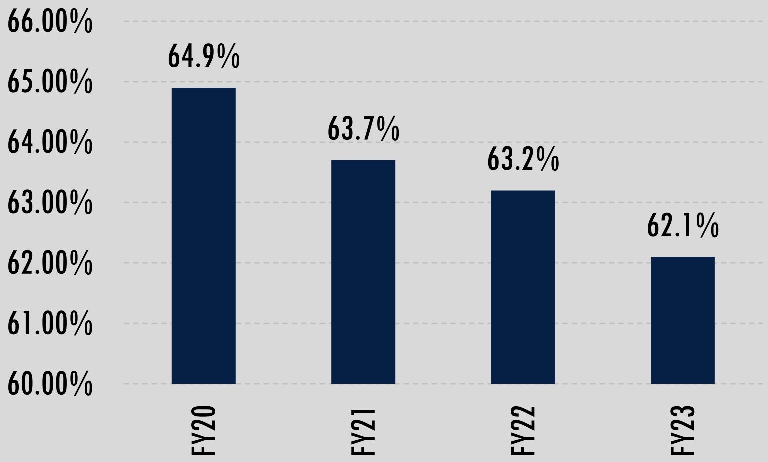
Plant location	States	Capacity (m tonnes)	
Beawar IU,	Rajasthan	3	
Ras IU	Rajasthan	15	
Nawalgarh IU	Rajasthan	3.8	
Capacity, North India			**21.8**
Baloda Bazar, Raipur IU	Chhattisgarh	9.2	
Capacity, East India			**9.2**
Kodla IU,	Karnataka	2.4	
Guntur IU	AP	1.5	
Capacity, South India			**3.9**
Capacity, All-India			**34.9**
Overseas			
Ras Al Khaimah	UAE		3.3
Total capacity			**38.2**

CC ratio region-wise

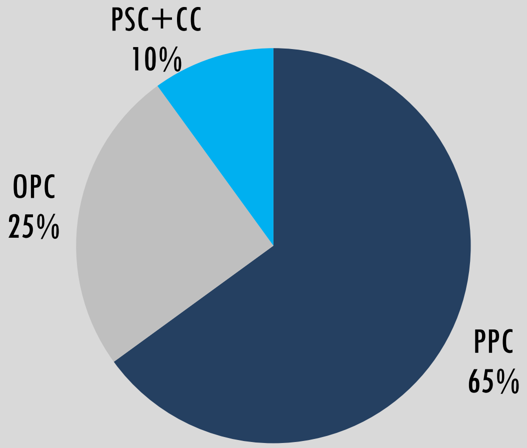
Region	Capacity and CC ratio		
	Cement	Clinker	CCRatio (x)
North	27.8	21.8	1.28
East	17.6	9.2	1.91
West	3	-	
South	6	3.9	1.54
Central	2	-	
Total	**56.4**	**34.9**	**1.62**
UAE	4	3.3	1.21

Source: Company, Anand Rathi Research

Clinker-cement ratio



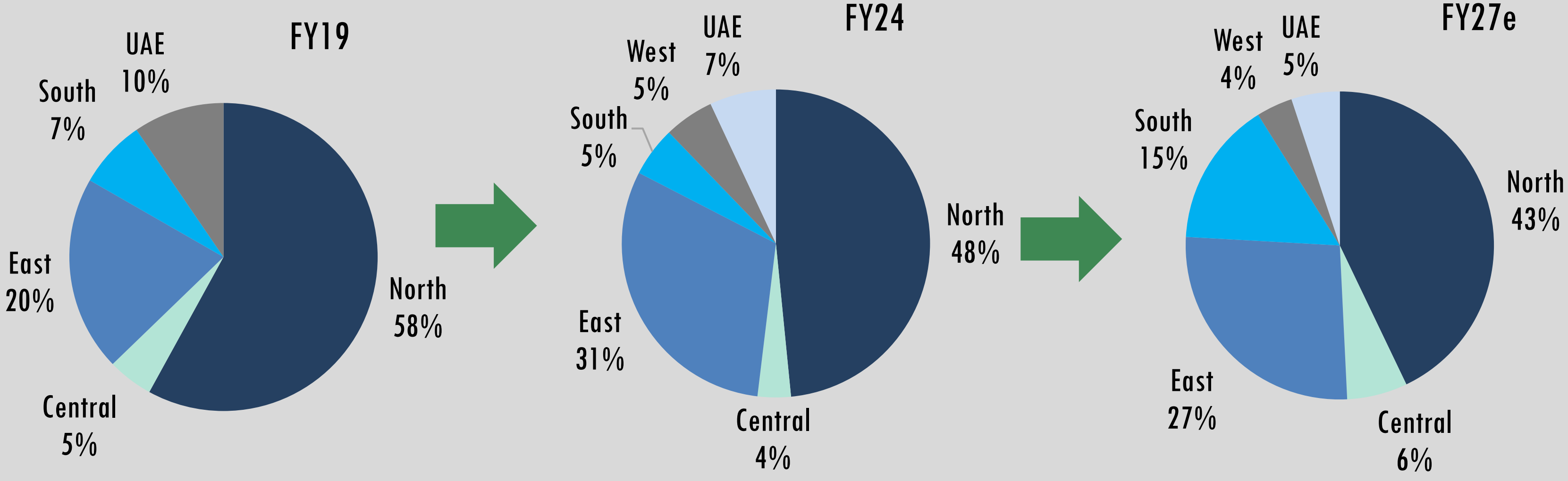
Product mix



All-India goal: Broadening operations to newer areas

- With plants strategically located near raw material sources and key markets covered, operations span across 17 locations in India, along with its UAE subsidiary catering to the Mid-East, southeast Asia and nearby markets
- Aiming at all-India operations, the company has diversified from purely operating in the north to the east (Bihar, WB, Odisha, Chhattisgarh, Jharkhand), the south (Karnataka), the central region (UP) and the west (Maharashtra)
- Thus, its concentration in FY24 fell to 48% in the north (consolidated). The expansion would further reduce its north India capacity share to 43% by FY27. Its capacity share in east India would slip to 27% (from 31% in FY24), whereas that in the south would climb to 15% (from 5% in FY24) and in the Central to 6% (from 3% in FY24)
- This regional diversification would help it cater to high-growth markets and insulate it from regional demand-supply issues

Widening operations



Region-wise capacity (m tonnes)

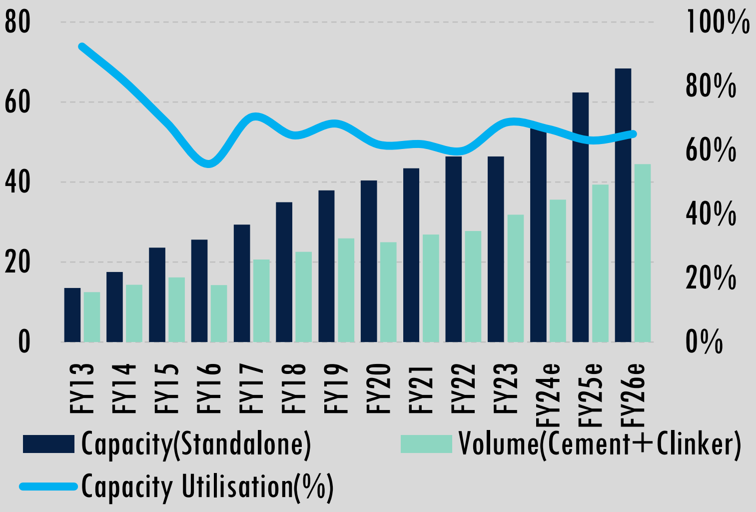
Region	Existing		Coming	
	Cement	Clinker	Cement	Clinker
North	27.8	21.8	3	3.65
East	17.6	9.2	3.4	-
West	3	-	-	-
South	6	3.9	6	3.65
Central	2	-	3	-
Total	**56.4**	**34.9**	**18.4**	**7.3**
UAE	4	3.3		

Source: Company, Anand Rathi Research

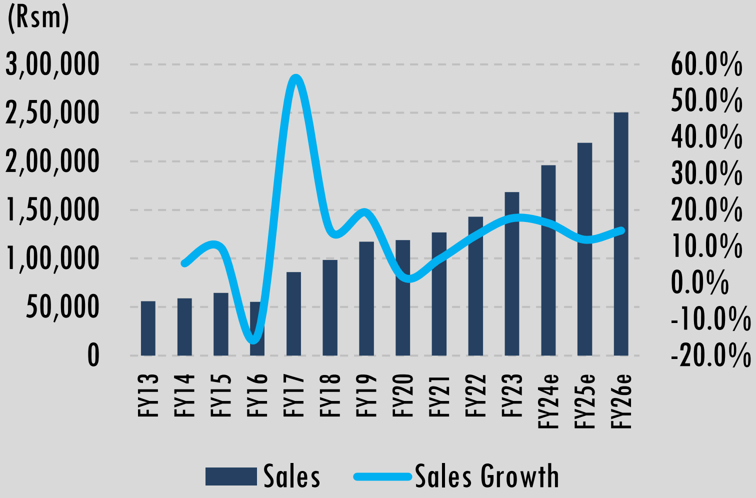
Volume growth to outstrip industry growth

- One of the market leaders in north India, the company, with periodic expansions, diversified operations to other regions (Q3 FY24 mix: north/east/south ~60:28:12), which insulated it from regional demand-supply issues
- Aiming at all-India operations, the ongoing and announced expansions would help the company's volume growth to outstrip demand growth in the sector. Further, the sharper focus on branding, premiumisation and greater trade share would improve realisations
- The company's strong operations in the north and its expanding regional operations resulted in sales volumes registering a 9% CAGR over FY15-23 (vs. the sector's 5%).
- Operating at 77% capacity (~70% in FY23), FY24/FY25 sales volumes are guided to be 35m/40m tonnes, implying 10%/14% y/y volume growth
- With growth in the sector anticipated at 8-10%, we expect the company's revenue to record a 13% CAGR over FY24-26, backed by a 12% volume CAGR and the ramping up of recent capacity additions and the ongoing expansions

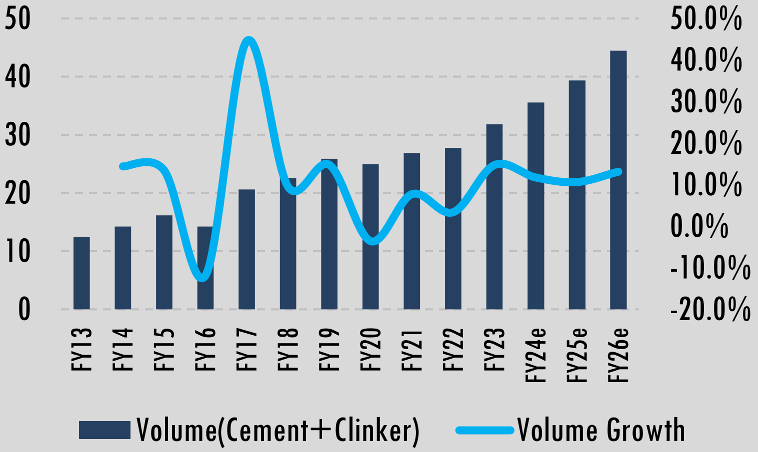
Capacity and utilisation



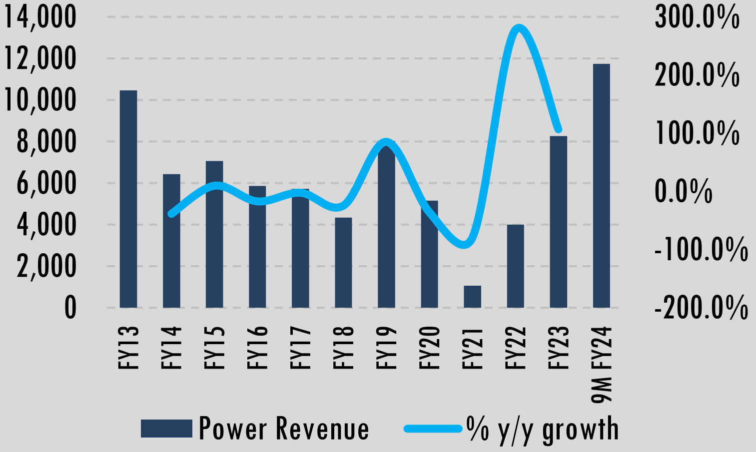
Revenue and revenue growth



Sales volume and growth



Power revenue and revenue growth

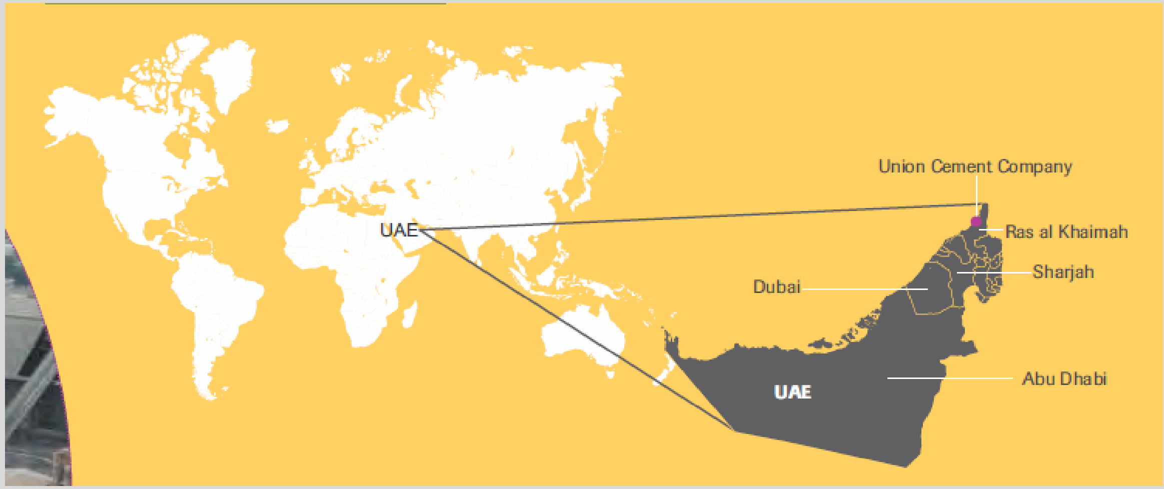


Source: Company, Anand Rathi Research

UCC acquisition to aid in growing the company's global footprint

- On 11th Jul'18, the company's wholly-owned UAE-incorporated subsidiary, Shree International Holdings, acquired a majority stake (97.61%) in the Ras Al Khaimah-based Union Cement Co. at an enterprise value of $305.24m (~Rs20.87bn). The stake has since (Mar'23) increased to 98.33%
- Based on the transaction, UCC's valuation worked out to an EV/tonne of ~$76, 37% lower than the present replacement cost of $120
- Established in 1972, UCC is one of the leading cement manufacturers in the UAE (clinker capacity: 3.3m tonnes; cement: 4m; a 29.5MW WHRS) manufacturing OPC, sulphate-resistant cement and oil-well cement
- UCC has a 100% subsidiary, UCN (earlier UCC Norcem), which markets oil-well cement
- Being mostly export-oriented (from the UAE), UCC caters to a market that has gone bad due to deterioration in trade relations with other Mid-Eastern countries. Therefore, Shree is seeking out other markets

Strategically-located. The plant is strategically located within 1km of the Saqr port in Ras al Khaimah, giving it easy access to key export destinations such as GCC countries, Africa and south Asia



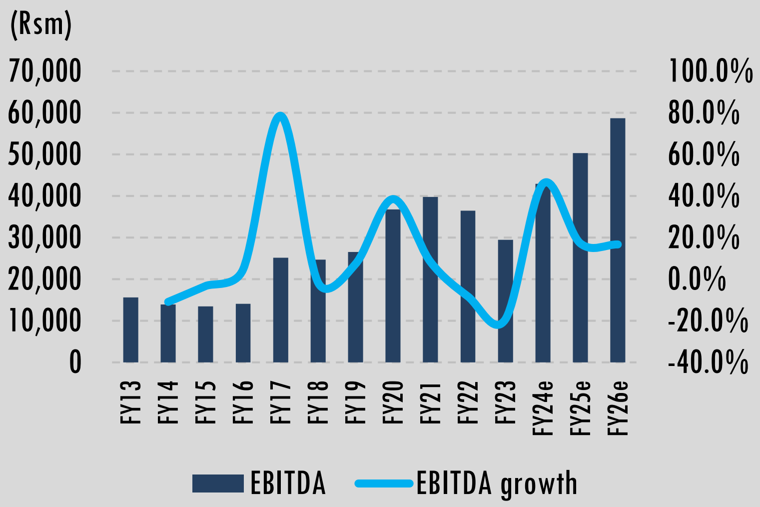
Union Cement (Rs m)	11Jul'18 to 31 Mar'19	FY20	FY21	FY22	FY23
Share capital	12,609	13,742	13,399	13,818	14,987
Reserves	5,751	6,086	5,899	5,607	5,350
Assets	19,910	22,783	21,965	22,255	23,470
Liabilities	1,551	2,955	2,668	2,830	3,133
Investments	28	31	30	260	280
Turnover	7,810	8,877	85,70	8,724	10,086
PBT	585	-190	-68	-483	-713
PAT	585	-190	-68	-483	-713
% shareholding	97.6	97.7	98.2	98.3	98.3

Source: Company, Anand Rathi Research

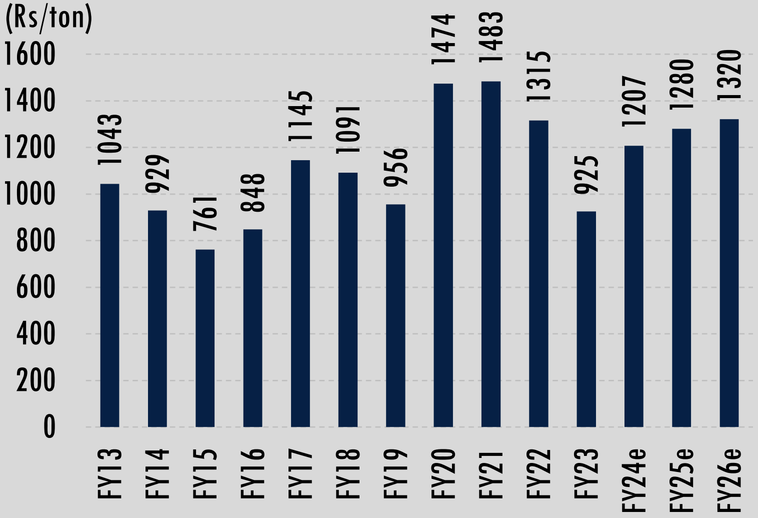
Efficient cement producer

- The company's continuous focus on improving operational efficiency made it a low-cost producer, giving it an edge over others. Its average cost to produce a tonne of cement is ~Rs3,250, compared with Rs3,500–4,100 for most peers
- Various cost optimisation measures such as alternative fuels, rail sidings, reducing fuel costs, building larger warehouses, increasing the share of green energy, etc., would boost its operating performance
- Though it has operations in power, since most of the power consumed is for cement operations, segmental reporting is not done and is considered as part of the cement business. In 9M FY24, revenue from power was Rs11.7bn with a 10% EBITDA margin
- Its operations in key growth markets, industry-beating volume growth and lower cost of production resulted in EBITDA coming at a 10% CAGR over FY15-23, and a higher EBITDA/tonne than large-cap operators
- Following the company's focus shifting to value and low-cost production we expect EBITDA to clock a 17% CAGR over FY24-26, and EBITDA/tonne to improve from Rs925 to Rs1,320

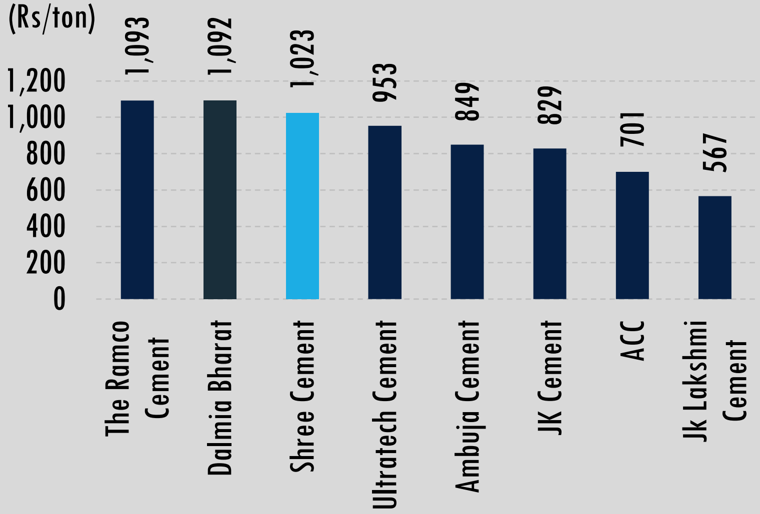
EBITDA growth trend



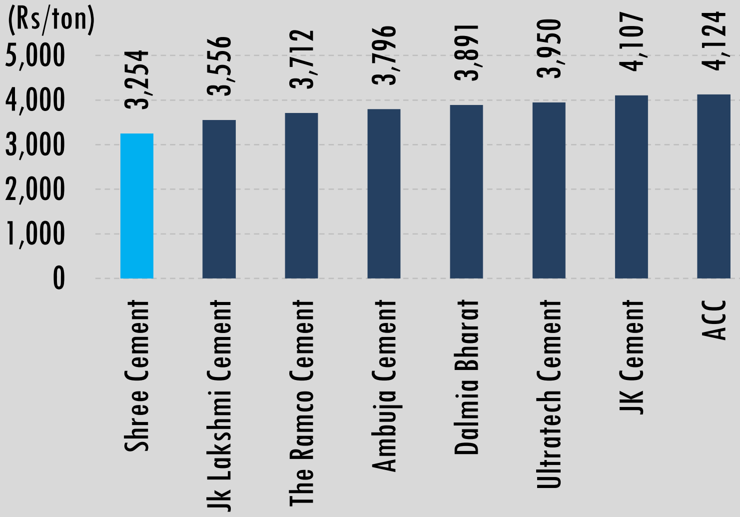
EBITDA/tonne



EBITDA/tonne vs. peers (median of the last 10 years)



Cost/tonne vs. peers (median of the last 10 years)

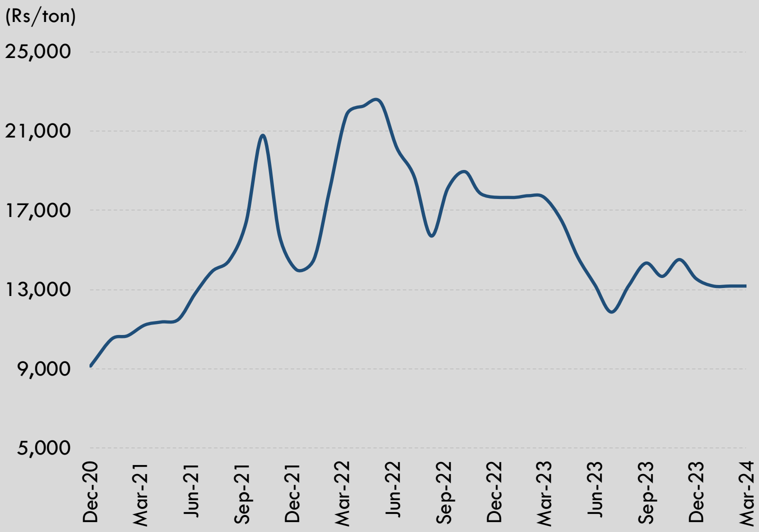


Source: Company, Anand Rathi Research Note: EBITDA/ton till FY19 is excluding Power EBITDA

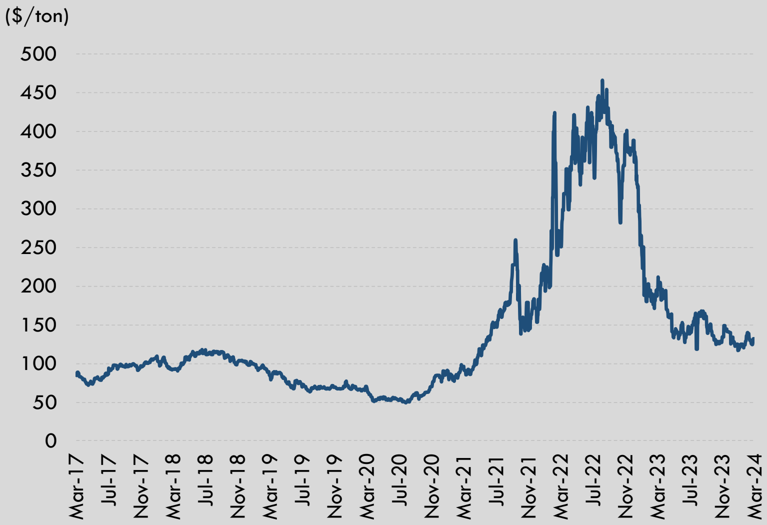
Softening fuel cost would boost performance

- Power & fuel and freight account for ~55-60% of costs of cement companies, thus largely affecting operating performances
- After touching the lowest point in FY21, international coal/petcoke and diesel prices have been trending up, followed by higher prices of crude oil and ocean freight, and shortages and heightened international tension (the Russo-Ukraine war), etc., and had peaked in H2 FY23
- Fuel cost has since been on a declining trend. Petcoke has been stable at ~$120–130/tonne in the last 6-7 months
- While further fuel cost drops depend on geo-political issues easing, Q4 FY24 fuel-consumed cost is guided to be Rs1.76/kcal (Rs1.78 the quarter prior, Rs2.62 in FY23)
- Further, South Africa, because of the Red Sea turmoil, is unable to ship to Europe. So, like Russia, the country has started offering coal to Indian consumers at a discount to international prices. This may also play out, resulting in lower fuel cost from Q1
- With the company's ramped-up capacity and healthy demand, regional diversification and better realisations, we expect PAT to register a 14% CAGR over FY24-26, and the net profit margin to improve to 12% (from 7.9% in FY23)

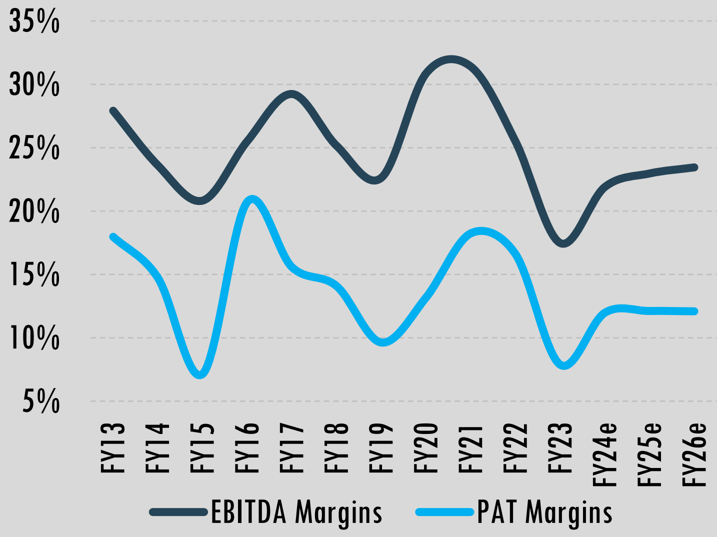
Petcoke cost trend



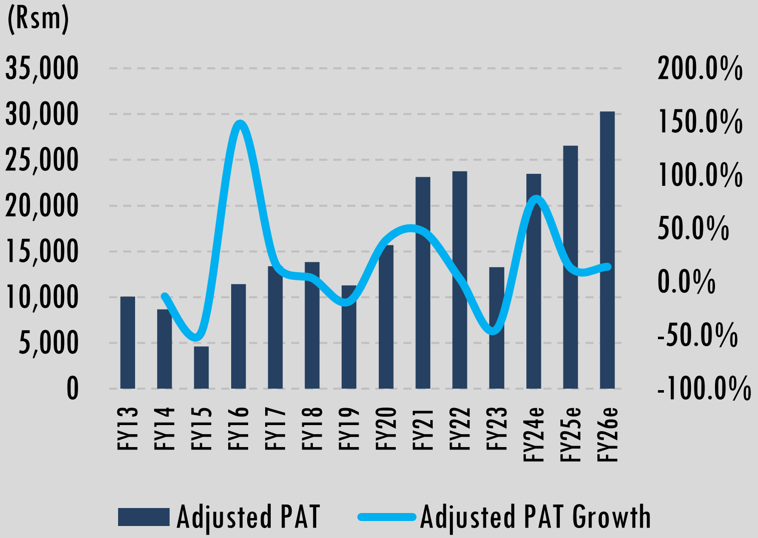
Coal cost trend



EBITDA and PAT margins



PAT growth trend



Source: Company, Industry, Anand Rathi Research

Category-B operator, but on the way to a value play

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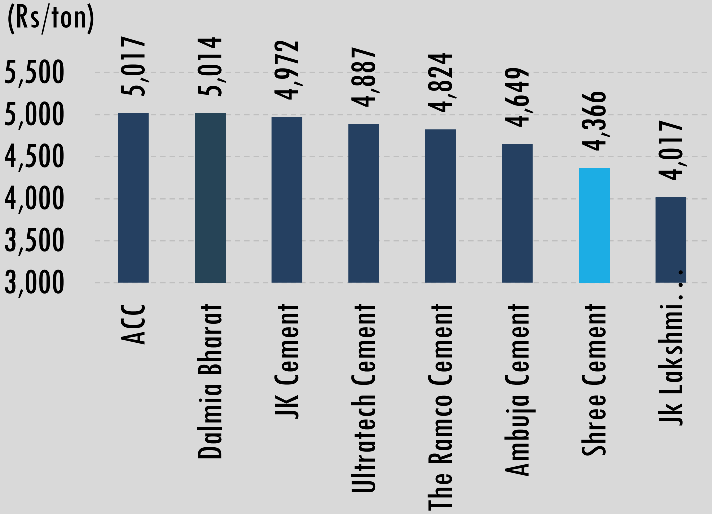
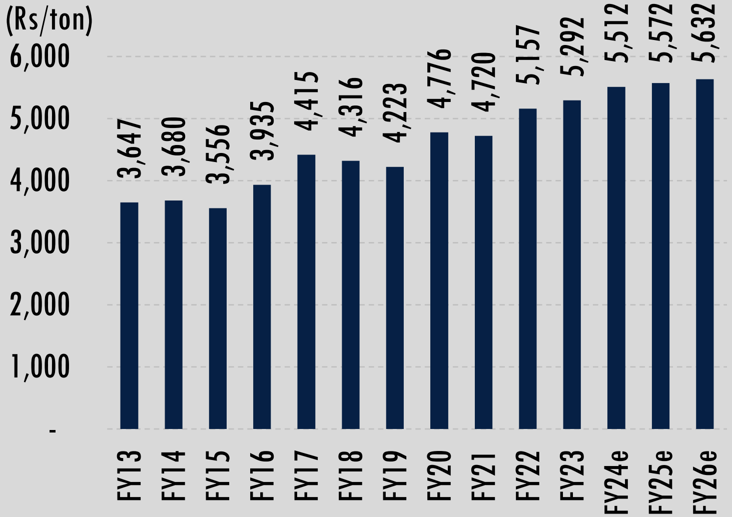
- Being a category-B operator, Shree Cement's realisations have been lower than peers
- To revamp its corporate brand identity, it launched various offerings in Jan'24, with 'Bangur' as the master brand. The intent is to position 'Bangur' as an umbrella brand with a refreshed and discernible identity, which provides customers with unique experiences and differentiated products
- It is now focusing on attracting customers, establishing a stronger position in Individual house building (IHB) as well as growing its premium products business: launch of `Bangur Magna', a premium product with a better formulation and a unique package design
- It now has three variants at one price: Jungrodhak (protection against rust), Powermax (made with Powergrind technology for more power) and Rockstrong (delivering instant rock-like strength). Magna, a premium brand, commands a Rs50/bag higher price thanbase products
- With a sharper focus on brand-building, the rising share of premium cement (9.5% the prior quarter, 7.2% a year back) and trade share would help bolster realisations

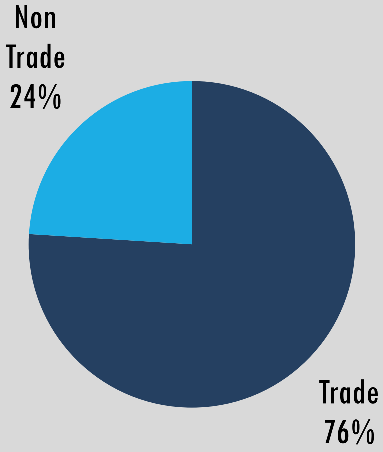
Realisation vs. peers (median of the past 10 years)



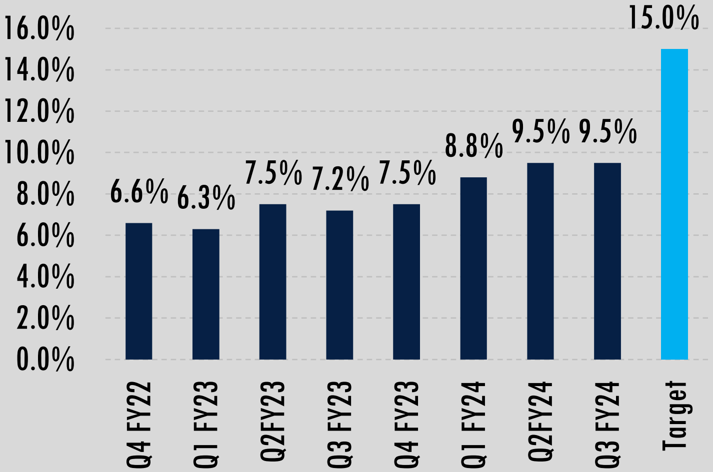
Realisation per-tonne



Trade-nontrade mix (Q3 FY24)



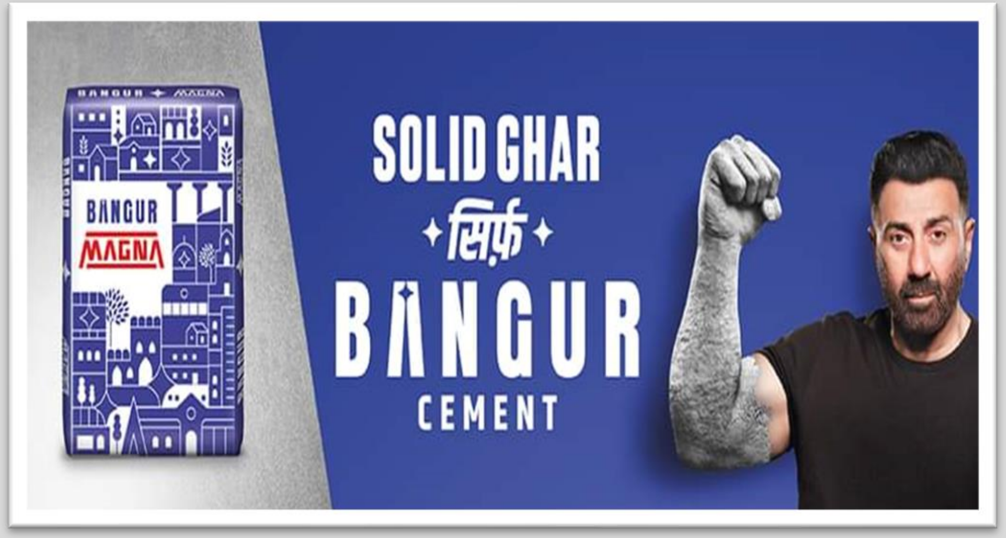
Share of premium cement (as % of trade sales)



Source: Company, Anand Rathi Research Note: Realisation/ton till FY19 is excluding Power revenue

Re-vamping its corporate brand identity

A new multimedia advertising campaign has been launched across television, outdoor, print, digital and retail touchpoints with Sunny Deol as brand ambassador

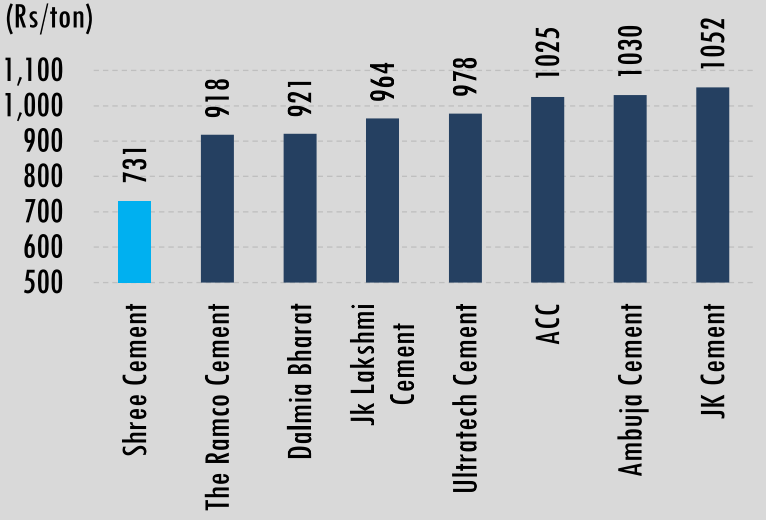


Source: Company, Industry, Anand Rathi Research

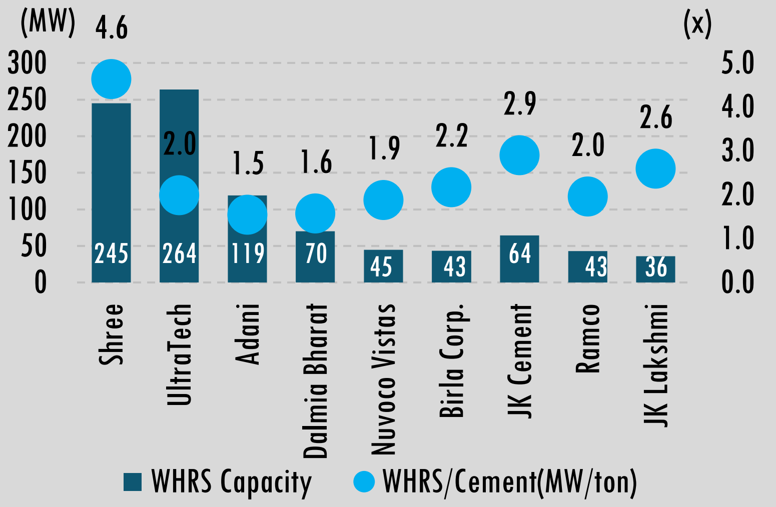
Leader in using green power

- The company enjoys the lowest power & fuel cost in the industry, led by strong captive power generation capacity of 977MW at 31st Dec'23 incl.474MW in green energy
- Excl. Chinese counterparts, it has the second largest waste-heat-recovery power (WHRP) plant capacity globally
- Its announced 133MW capacity (solar ~94MW, WHRS ~33MW, wind ~6MW) would take power capacity to 1,110MW and green energy to 607MW
- With an industry-leading 58% share of green energy of total power consumption, it aims to take it to 62% by FY25 and 65% by FY26
- To reduce dependence on conventional fuels, it is steadily increasing its use of alternative fuels, aiming to take it to a 15% substitution level. The share of alternative fuels was 12% in Q3 FY24 (vs. 14.01% in FY23)
- The deployment of a multi-fuel-use strategy at its cement plants allows it to use the most economical fuel

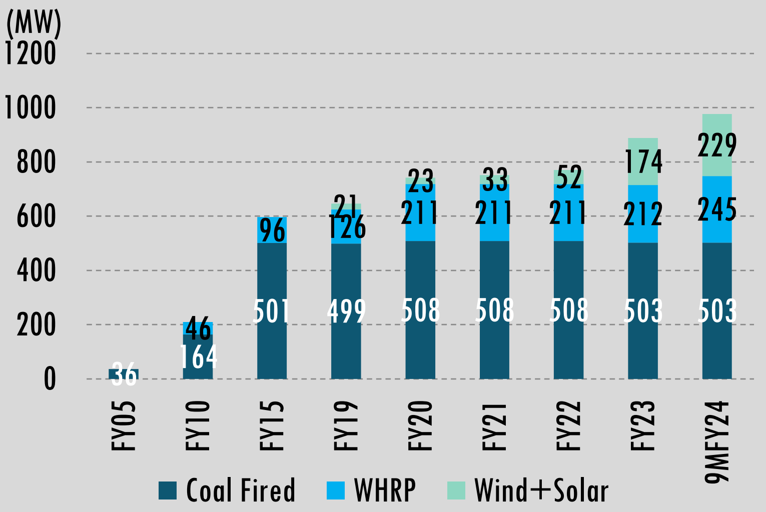
Peer comparison: P&F cost/tonne (median of the past 10 years)



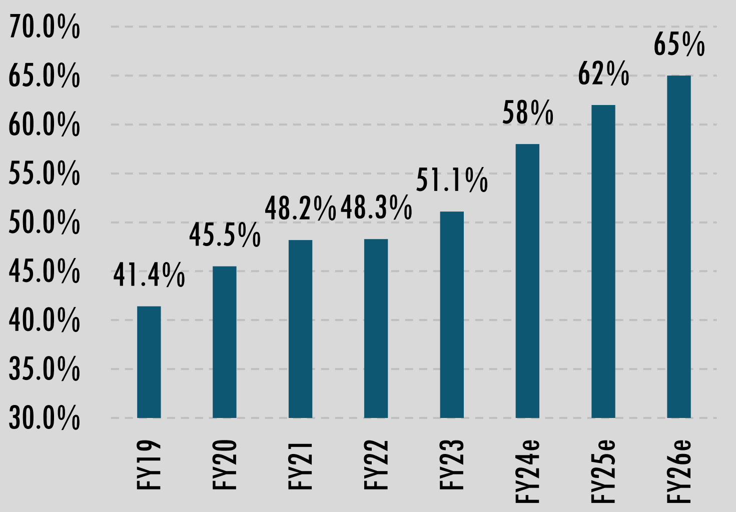
Leader in terms of Power efficiency (MW/ton-Q3 FY24)



Low energy cost due to rising proportion of renewable energy



Green proportion of power consumption

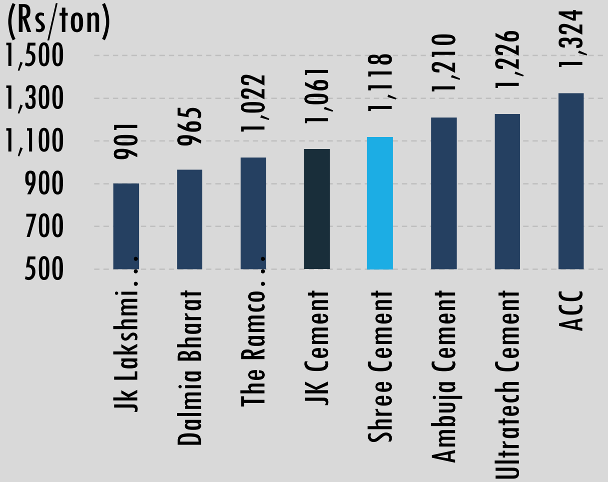


Source: Company, Anand Rathi Research

Focus on more rail connectivity

- The considerable emphasis on setting up split-grinding units (the hub-and-spoke model) at main consumption centers ensured lower freight costs. This led to less freight cost/tonne vs. several peers
- As rail is a less expensive mode of transport, the company is focusing on building rail sidings at its plants in coming years.
- While the Purulia rail siding would be complete by Sep'24, the rail contribution at its plants is set to rise from 10% to 25-30% over next 3 years.
- Also, it is reviewing storge required, aimed at larger warehouses
- Further, digitilisation, an online performance-monitoring platform (logistics control towers) and automating operations, installing GPS in vehicles for route- and distance-monitoring at its eastern operations, developing a mobile app for transporters to participate in the bidding process would help
- The lead distance fell to 448km in Q3 FY24 vs. 472km the previous quarter. We believe there is more room for it to improve the lead distance.

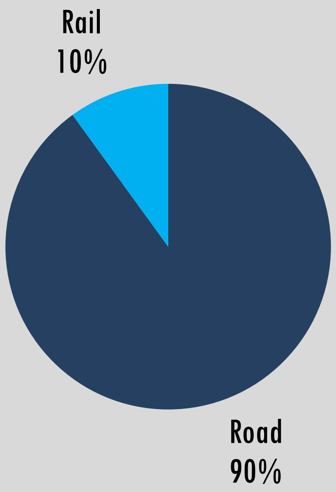
Peer comparison: freight cost/tonne(median of the last 10 years)



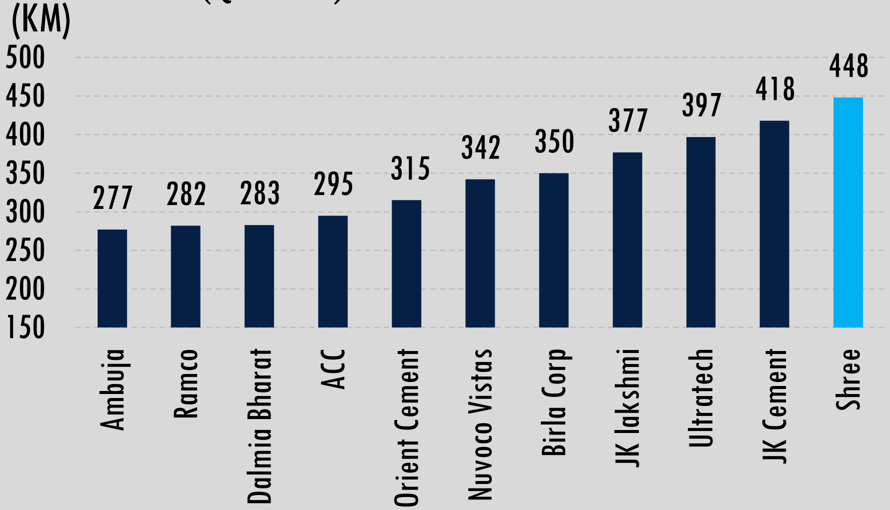
Railway siding data(FY23)

Railway sidings at	State	Cement Loading	Clinker loading/unloading	Siding
Beawar	Rajasthan	Mechanised	Mechanised Loading	Own
Ras	Rajasthan	Mechanised	Mechanised Loading	Own
Burudih	Jharkhand	Mechanised	Mechanised Unloading	Own
Panipat	Haryana	Manual	Manual Unloading	Public
Kodla	Karnataka	Manual	Mechanised Loading	Own
Baloda Bazar	Chhattisgarh	Manual	Mechanised Loading	Own
Patas	Maharashtra	-	Mechanised Unloading	Own
Aurangabad	Bihar	Manual	Manual Unloading	Public
Bulandshahar	UP	-	Manual Unloading	Public

Rail-road mix



Lead distance (Q3 FY24)



Source: Company, AR 23, Anand Rathi Research

Net-cash balance sheet to persist

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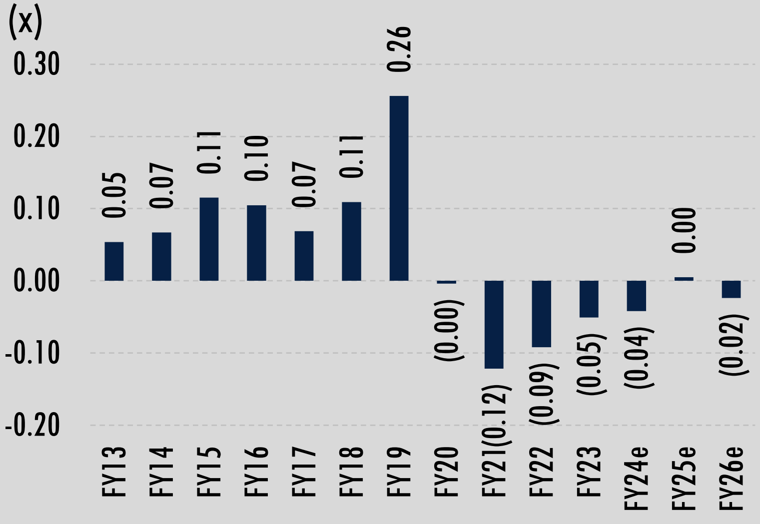
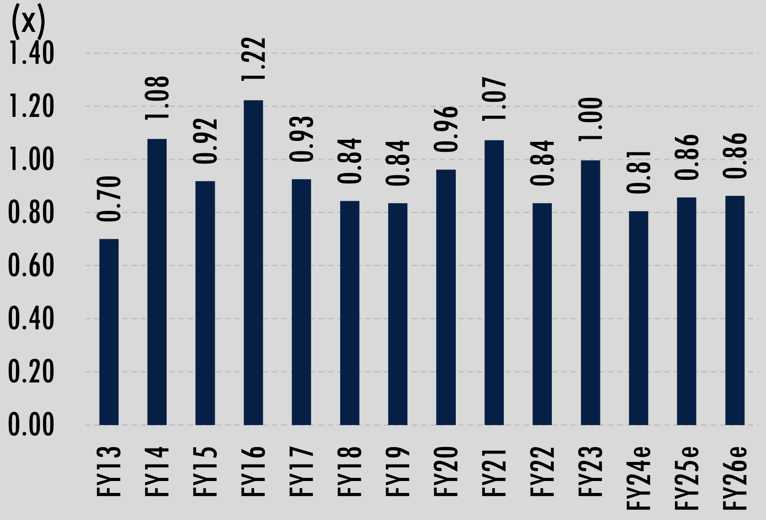
- Shree Cements' strategy of continuously adding capacity and re-investing internal accruals, along with expansions at lower capex, led it to gain and diversify its markets without loading its balance sheet with debt
- Its net-D/E ratio has been below 0.3x since FY12 and it has been net-cash since FY20. On 23rd Nov'19, through a QIP, it allotted 1.24m equity shares worth ~Rs24bn, expanding its paid-up equity share capital to ~Rs361m
- It has generated strong operating cash-flows over the years. At 31st Dec'23 it had Rs60bn cash on its books. The expected operating cash-flow of Rs128bn would match the expansion capex over FY24-26. Hence the entire capex would be funded by internal accruals.
- The continuous capex programme for the next 3-4 years may restrict cash allocation for dividends as cash would be used for expansions. Despite the expansion capex, the company's net D/E would be minimal
- Against an assessment order under Sec143(3) of the IT Act, 1961, where certain additions/disallowances have been made pertaining to AY22, the company would avail of the recourse provided in the Income Tax statute against the Rs2.6bn demand

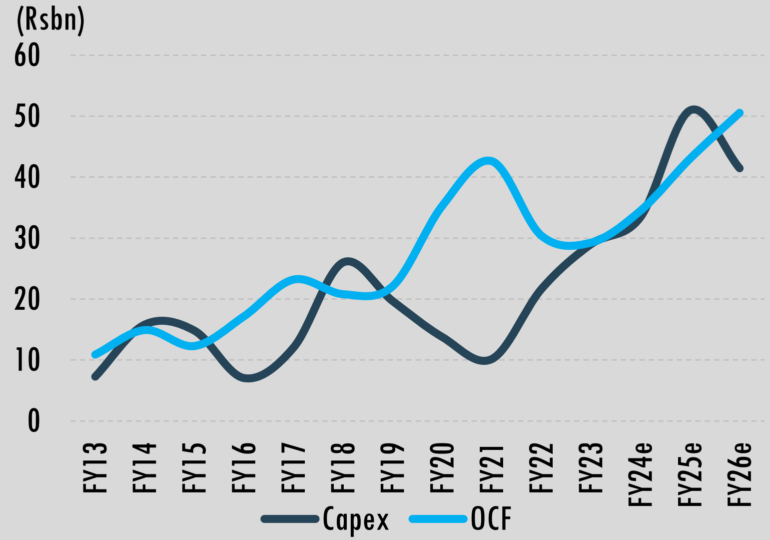
Net debt/equity



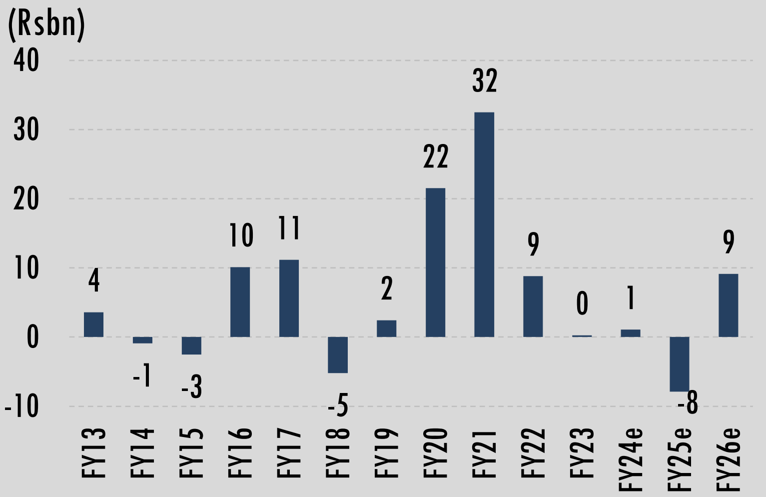
OCF/EBITDA



OCF and capex



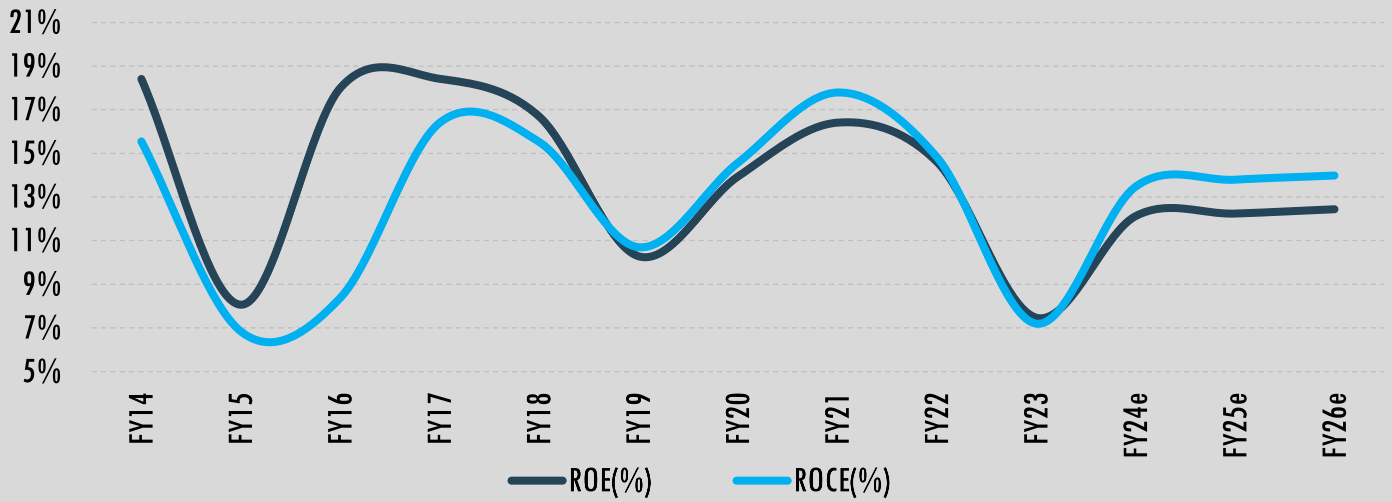
FCF generation



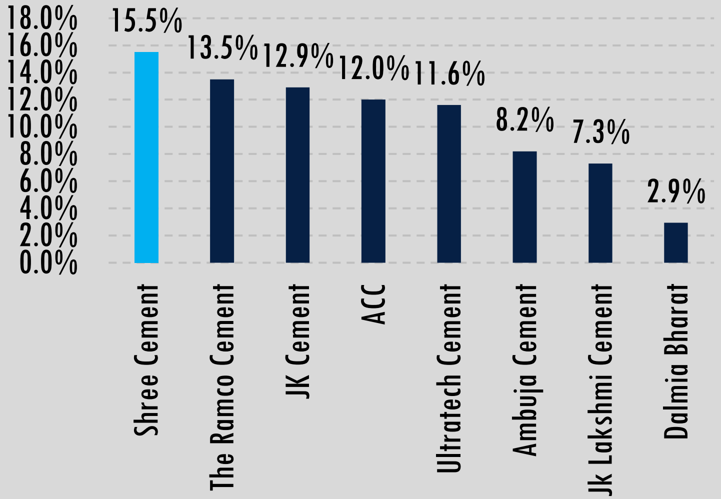
Industry-leading return ratios

- Lean capital employed and low-cost producing ability kept return ratios healthier, where the median RoE (~15.5%) and RoCE (~14.7%) for the last 10 years were the highest of peers
- In FY19, the high-cost context and booking a fair-value loss (Rs1.8bn) on exposure to the IL&FS Group piled pressure on the performance
- With greater profitability, backed by its sharper focus on realisations and cost rationalisation, return ratios improved post-FY19 to 16.4% (RoE) and 17.8% (RoCE) in FY21. However, they were hit by high commodity costs in FY23 (RoE ~7.5%, RoCE ~7.2%)
- We expect a gradual improvement in return ratios. Huge capex and pricing pressure from keener competition, however, would keep ratios below the median

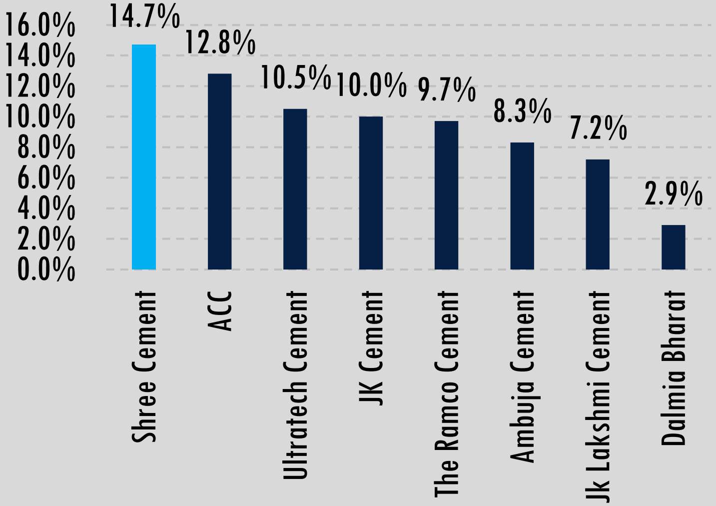
Return ratios to improve



RoE vs. peers (median over 10 years)



RoCE (pre tax) vs. peers (median over 10 years)



Source: Company, Anand Rathi Research

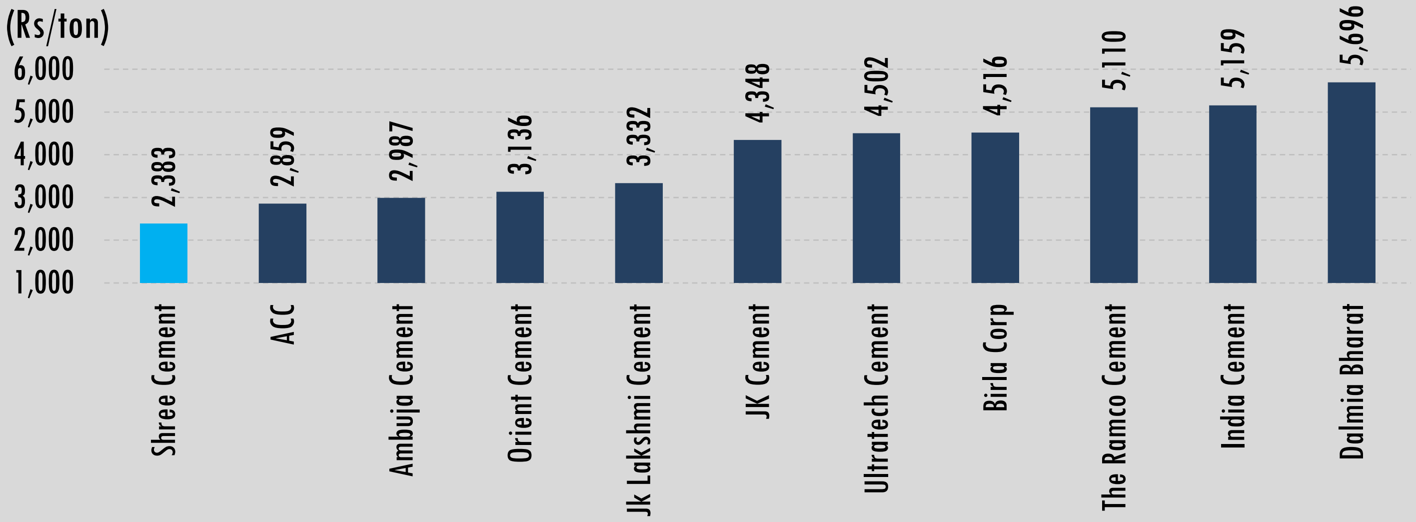
Lower capex cost

Shree Cements has a proven track record of efficient capital costs, timely project execution and lower capex cost/tonne than peers due to

- Over three decades' project-management experience
- Efficient deployment of equipment, with an in-house team
- Regular and smaller capacities added
- Organic growth mainly funded by internal accruals

Its capex/tonne, the lowest of its peers, averaged ~Rs.5,880 ($71) from FY14 to FY23 vs. ~Rs.8,997 ($108) for peers

Gross block/tonne (average of the last 10 years), the lowest of its peers



Lower average capex/tonne than peers (FY14-FY23)

Operator	Capex (Rs bn)	Capacity addition (m tonnes)	Average capex (Rs / tonne)	Average capex ($/ tonne)
Shree Cements	170	29	5,880	71
Industry peers	1458	162	8,997	108

Note: Industry peers: ACC, Ambuja, Ultratech, Birla Corp, Ramco, Dalmia, Deccan Cements, India Cements, J.K. Lakshmi, J.K. Cement, Orient, Heidelberg, Mangalam, Sagar, Sanghi Industries, NCL Industries, Star Cements, Prism Johnson

Source: Company, Anand Rathi Research

Valuation & Risks

- Given its low-cost, higher returns and stress-free balance sheet, the stock has quoted at a premium to peers
- Over the last five years it traded at an average EV/EBITDA of ~25x and 19x over last 15 years. At present valuations, it quotes at an EV/EBITDA of 15.5x and an EV/tonne of $160 on FY26e, and below the mean
- We initiate coverage on Shree Cements, with a Buy rating and a Target price of Rs.30,100, valuing its domestic business at 18x FY26e EV/EBITDA and its UAE subsidiary at 1x FY23 P/BV

Sum-of-parts valuation

Particulars	Methodology	EBITDA/Book Value (Rs m)	Multiple	Value (Rs m)	Value (Rs / sh)
Cement, domestic	18x FY26e EV/EBITDA	58,706	18x	1,059,472	29,365
Cement, UAE	1x FY23 P/BV	20,337	1x	20,337	564
Less: Net debt (Mar'26)				-6,199	-172
Equity value				**1,086,008**	**30,100**
No. of shares (m)	36.1				

Comparative-returns matrix (%)

	Absolute price performance (%)			
	1-month	3-month	6-month	12-month
Shree	**(1.6)**	**(9.7)**	**(4.8)**	**3.6**
ACC	(5.4)	(2.8)	30.9	38.1
Ambuja	(5.3)	4.5	41.6	48.3
Ultratech	(1.4)	(5.3)	11.5	26.9
Dalmia Bharat	(11.2)	(18.6)	(15.5)	(12.3)
Ramco	(9.9)	(23.9)	(24.4)	(0.6)
Birla Corp	2.6	1.1	20.0	57.7
JK Lakshmi	(6.0)	(14.2)	2.7	3.2
JK Cement	(10.3)	(9.9)	16.2	30.2

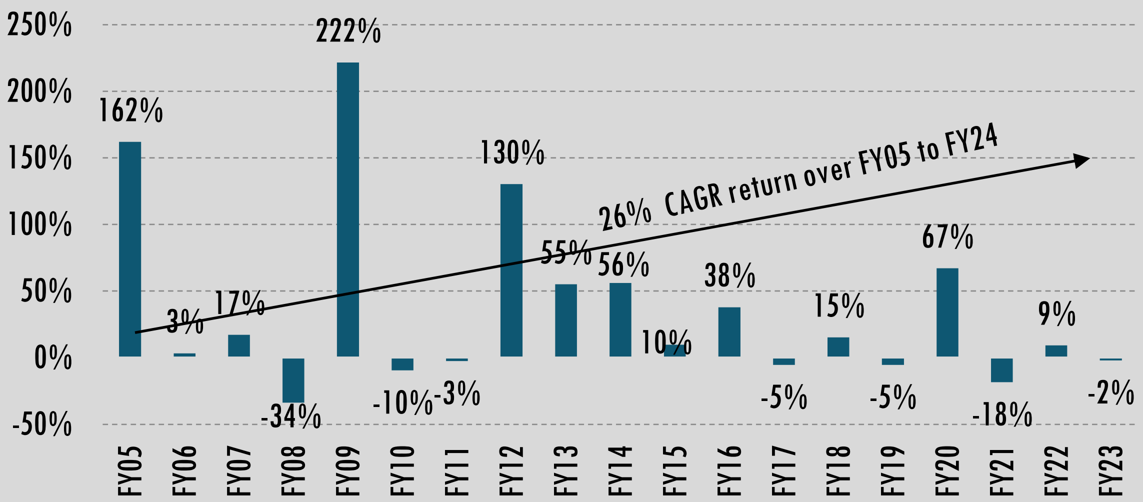
	Relative price performance (%)			
	1-month	3-month	6-month	12-month
Shree	**(0.7)**	**(11.4)**	**(19.7)**	**(19.8)**
ACC	(4.4)	(4.5)	16.0	14.6
Ambuja	(4.4)	2.8	26.6	24.9
Ultratech	(0.5)	(7.0)	(3.4)	3.5
Dalmia Bharat	(10.3)	(20.3)	(30.4)	(35.7)
Ramco	(8.9)	(25.6)	(39.3)	(24.0)
Birla Corp	3.5	(0.6)	5.1	34.3
JK Lakshmi	(5.0)	(15.9)	(12.3)	(20.2)
JK Cement	(9.3)	(11.6)	1.3	6.8

Source: Bloomberg, Anand Rathi Research

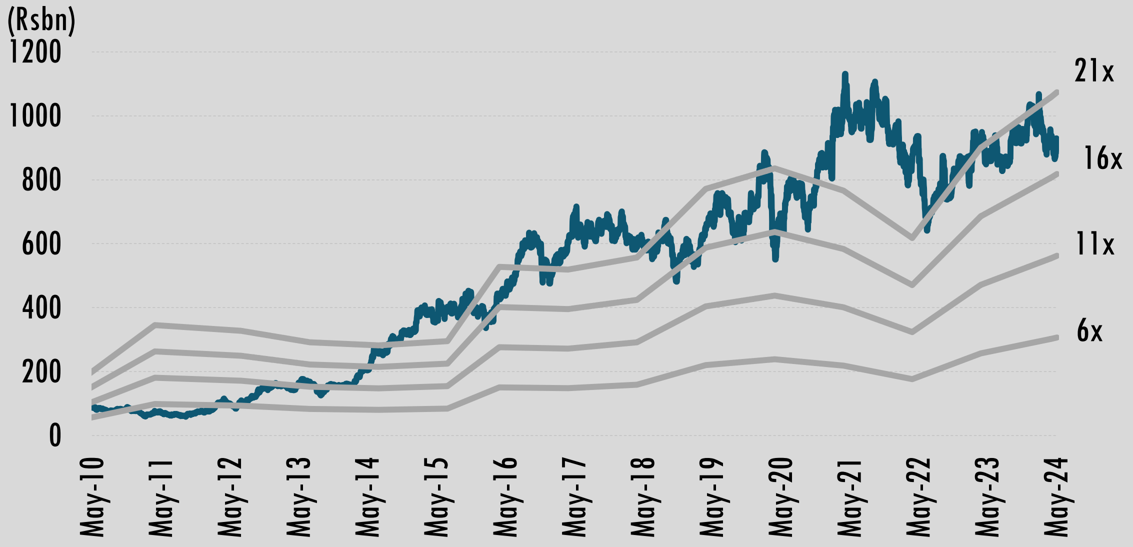
Valuation & Risks

- The company's share-price returns (including dividends) have averaged 26% over the years. With more capacity added and the recent share-price drop, we expect a strong upswing
- **Risks:**
  - The pending outcome of the income-tax survey.
  - Rising petcoke and diesel prices
  - Demand slowdown

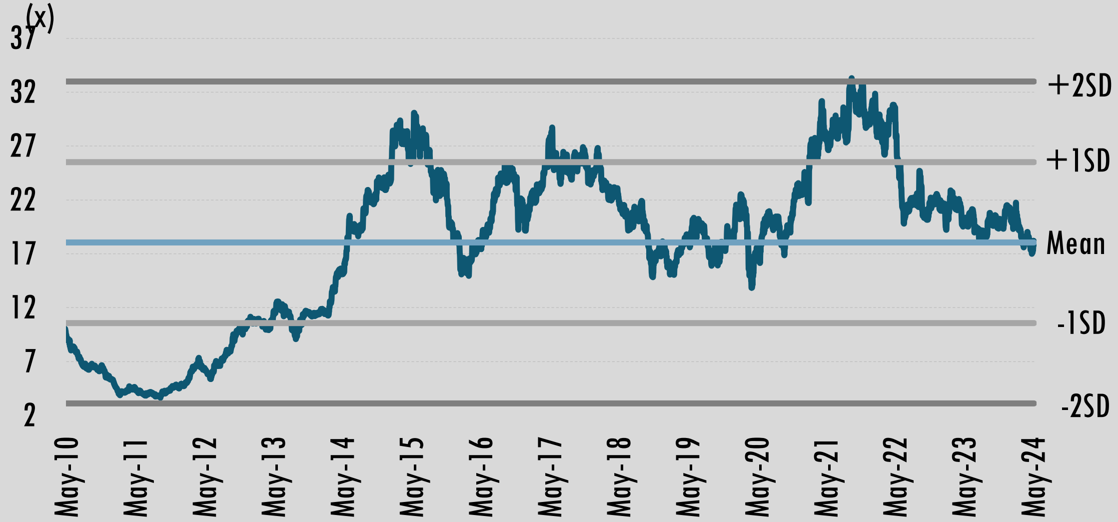
Share price returns(including dividend)



EV/EBITDA band, one-year-forward



EV/EBITDA: Standard deviation, one year-forward



Source: Company, Anand Rathi Research

Income Tax Survey – A sub-judice matter

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- The IT Department conducted search operations under Sec 133A of The Income-Tax Act at select premises of the company from 21st to 26th Jun'23
- Subsequently, the Department has sought the company's response to its queries related to the search, to which the company duly responded
- In continuation of the proceedings, a show-cause notice was issued in Jan'24 to the company asking it to sum-up and summarize its response to the inquiries made. The notice has no demand for tax deposition
- Media reports in Feb'24 say the IT Department claimed Rs40bn from Shree Cement for tax evasion, including tax due, interest and penalty for wrongful claims and deductions
- We believe this is risk to our target price. If this goes against the company, its net worth (Rs.202bn) and cash (Rs.60bn) as on 31st Dec'23 would be significantly eroded.

Peer comparison: Long-term median

	Median EV / EBITDA (x)		Median EV / tonne ($)		Median RoE (%)		Median RoCE (%)		Median EBITDA / tonne (Rs)	
years	5	10	5	10	5	10	5	10	5	10
ACC	11.4	14.0	91	93	12.3%	12.0%	14.6%	12.8%	834	701
Ambuja	15.6	15.6	141	121	8.4%	8.2%	9.3%	8.3%	897	849
Ultratech	18.1	19.4	203	169	13.5%	11.6%	11.3%	10.5%	1115	953
Shree	**25.4**	**24.6**	**221**	**203**	**13.9%**	**15.5%**	**14.6%**	**14.7%**	**1315**	**1023**
Ramco	18.3	16.9	136	124	12.8%	13.5%	9.3%	9.7%	1093	1015
Dalmia Bharat	16.9	18.4	145	124	5.7%	2.9%	3.5%	2.9%	1092	1092
JK Cement	16.4	14.2	151	94	19.1%	12.9%	13.0%	10.0%	829	1089
Orient	5.5	8.2	40	44	8.0%	7.9%	10.0%	9.9%	659	582
India	10.1	9.5	63	55	0.7%	1.1%	3.6%	4.6%	513	578
Birla Corp	10.3	11.7	59	51	7.5%	7.0%	4.7%	3.1%	625	439
Heidelberg	10.7	10.8	77	70	19.9%	10.7%	19.1%	10.8%	938	638
Mangalam	6.6	12.4	35	37	11.0%	5.4%	11.4%	5.0%	651	381
Sagar	13.1	14.5	46	42	3.0%	2.5%	6.2%	5.9%	543	508
JK Lakshmi	7.4	13.2	60	71	14.5%	7.3%	14.7%	7.2%	567	733
Deccan Cement	4.0	5.6	28	27	13.2%	12.6%	13.8%	13.3%	539	584
Sanghi Industries	10.5	11.0	64	60	3.2%	4.2%	3.8%	4.3%	792	702
NCL Industries	5.8	6.5	40	39	9.9%	11.9%	10.5%	12.2%	619	606
Star Cement	9.1	9.8	83	110	12.8%	16.6%	16.8%	15.3%	1228	1395
Prism Johnson	13.2	19.1	77	76	11.1%	2.1%	9.3%	6.3%	786	615

Source: Industry, Anand Rathi Research

Valuation matrix

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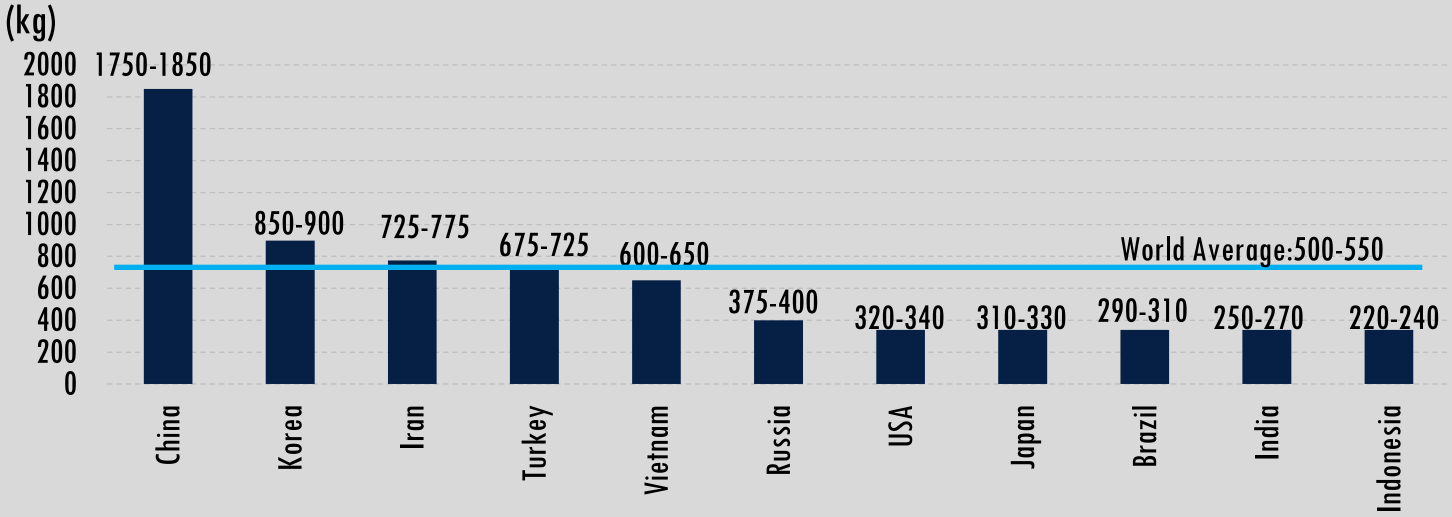
	CMP (Rs)	EV / tonne ($)			EV / EBITDA (x)			P/E(x)			P/BV(x)		
		FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e
ACC*	2,440	134	125	113	14.5	11.7	10.2	21.6	21.1	19.1	2.9	2.5	2.3
Ambuja*	594	364	262	222	28.2	17.8	15.6	55.9	38.9	34.7	3.8	3.5	3.2
UltraTech*	9,675	237	172	157	22.3	14.5	12.4	40.0	26.3	23.1	4.7	4.1	3.5
Shree	**25,367**	**207**	**177**	**160**	**21.4**	**18.2**	**15.5**	**39.5**	**34.5**	**30.2**	**4.5**	**4.0**	**3.6**
Dalmia Bharat	1,769	90	80	76	12.6	10.9	9.1	40.2	28.2	22.9	2.0	1.9	1.8
JK Lakshmi	783	96	83	78	10.7	8.8	7.8	19.6	15.9	13.8	2.8	2.4	2.1
Star Cement	229	144	145	109	16.2	13.1	11.3	28.3	23.2	21.8	3.4	2.9	2.6
Ramco	756	124	121	117	14.8	11.9	10.2	39.4	28.1	21.4	2.5	2.3	2.1
India Cement	208	73	74	74	51.1	18.9	13.3	NA	126.9	31.8	1.2	1.2	1.2
Birla Corp.	1,546	94	86	77	10.8	8.9	7.2	28.8	18.1	13.4	1.8	1.6	1.5
JK Cement	3,963	183	171	172	18.4	14.9	13.1	34.2	25.4	22.0	5.7	4.7	3.9
Orient Cement	228	67	71	76	11.0	8.7	8.2	27.1	18.5	16.7	2.7	2.4	2.1
Heidelberg	197	71	69	64	11.7	8.9	7.2	23.1	17.2	14.1	3.0	2.8	2.5
Sagar	218	46	40	36	12.5	7.7	5.4	NA	33.3	12.8	1.8	1.7	1.5
Deccan	614	62	55	44	11.0	10.5	9.6	19.7	19.7	18.6	1.2	1.1	1.1
NCL Industries	208	46	45	34	5.2	4.4	3.7	8.7	7.2	6.3	1.1	1.0	0.8
Prism	155	102	98	91	17.8	11.4	9.5	37.7	36.7	26.7	8.3	6.8	6.1

Source: Company, Anand Rathi Research * Bloomberg estimates   Note: FY24 figures for ACC, Ambuja, Ultratech, Dalmia Bharat, Orient Cement, Birla Corp are actuals

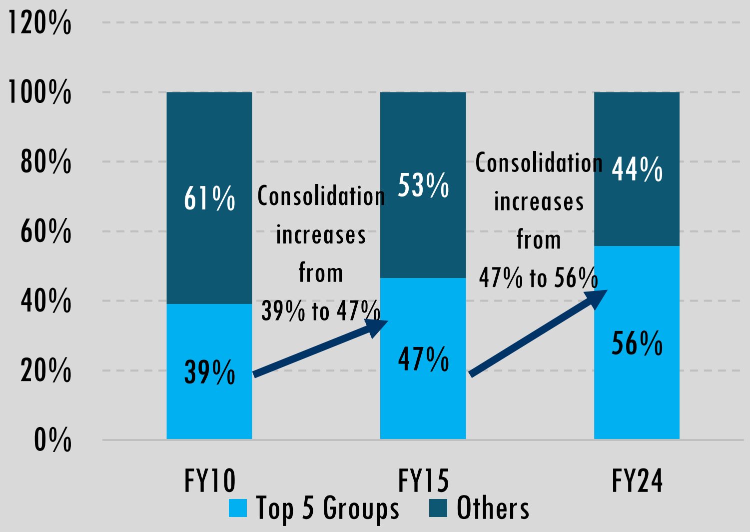
Industry: Low per-capita consumption with growing consolidation

- After China, India is the second largest cement manufacturer in the world with ~615m tonnes capacity
- Compared to other major cement-producing countries, India has the lowest per-capita consumption (250-270kg), nearly half of the global 500-550kg average
- India has many cement manufacturers with ~55% of capacity held by the top five: Ultratech, Adani, Shree, Dalmia Bharat, Nuvoco Vistas, ~23% only by Ultratech, the largest in the country
- The top-five cement companies accounted for 39% of capacity in FY2010; in FY24, this figure grew to ~56%. We believe the greater degree of consolidation has played a huge role in preventing a plunge in prices, despite the drop in utilisation rates

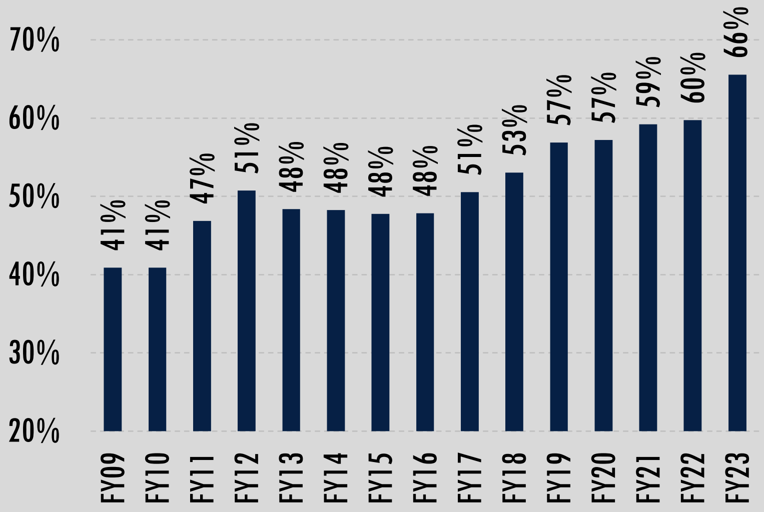
Per-capita cement consumption



Capacity consolidation from 39% to 56% over FY10-24



Market share (sales volumes) of the top-five companies

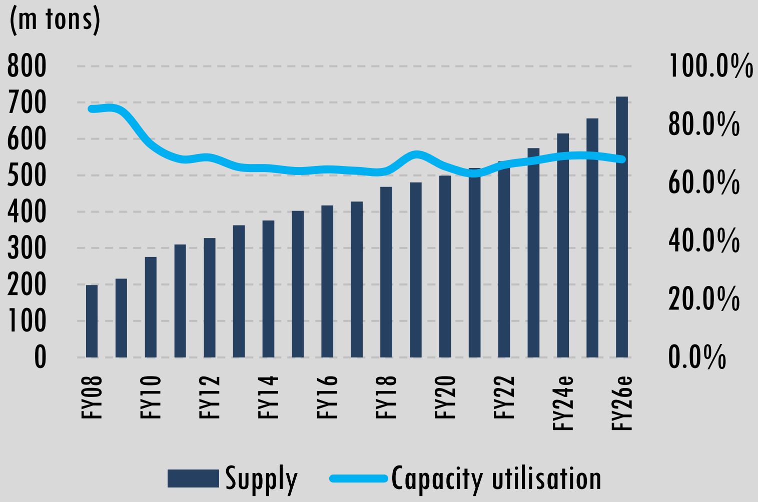


Source: Industry, Anand Rathi Research

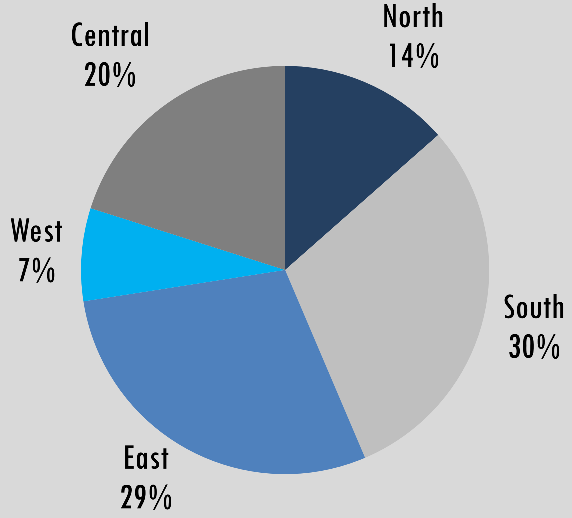
Industry utilisation still firm

- Barring a few unprecedented events (eg, Covid), cement industry utilisation has been 65-70% in the last 15 years
- We expect effective capacity utilisation to be higher, at ~68%, aided by an uptick in demand despite supply pressure
- We expect all-India cement demand to register a 7% CAGR over FY24-26, with ~490m tonnes produced by FY26 (388m in FY23), driven by more spending on infrastructure. A 5% CAGR was clocked over FY18-23
- Supply is likely to register an 8% CAGR over FY24-26, with ~140m-tonne capacity added. South and east India are seeing the highest capacity added, followed by the central and northern regions

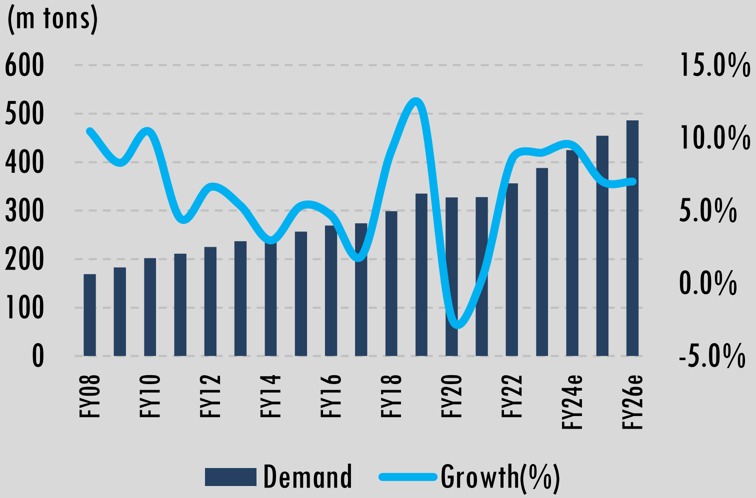
All-India capacity utilisation vs. supply



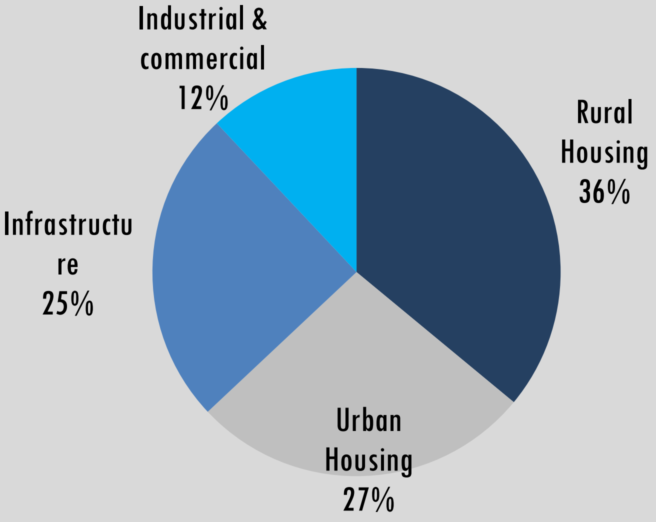
Regional distribution of additions (FY24-26)



Industry demand



Share of cement demand



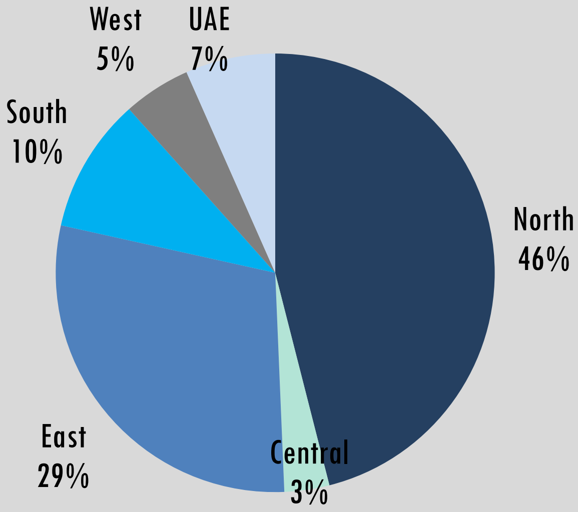
Source: Industry, Anand Rathi Research

Company background; business overview

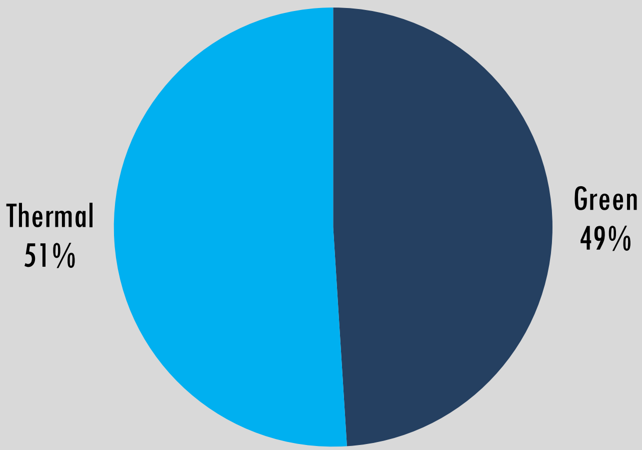
ANANDRATHI

- Promoted by H M Bangur, Shree Cements was incorporated in 1979, and set up its first plant in 1985, with 0.6m tonnes installed capacity
- With an installed capacity now of 56.4m tonnes in India and 60.4m tonnes including overseas, it is one of the top-three cement groups in India with an 8% capacity market share. In North India, too, it is one of the market leaders. Its consolidated cement capacity of 60.4m tonnes is spread over the north (46%), east (29%), south (10%), west (5%), and central India (3%), and the UAE (7%)
- Its integrated brand portfolio consists of Bangur Magna, Bangur Jungrodhak, Bangur Powermax and Bangur Rockstrong, which have been designed to meet the requirements of diverse customers. It has a strong distribution network of over 22,100+ dealers and more than 1,210+ depots
- Excl. Chinese counterparts, in the global cement industry, it has the second largest waste-heat-recovery power (WHRP) plant, with generation capacity of 977MW incl. 245MWfrom its waste-heat-recovery systems (WHRS). Besides, it has a separate trading division, addressing third-party buyers and sellers. It has recently made a foray into the RMC business (Bangur Concrete) to emerge as a multi-modal company in its core cements business
- It also produces at its Uttar Pradesh plant autoclaved aerated concrete (AAC) blocks – a light-weight, pre-cast building material with high insulating capacity,
- M/s. B.R. Maheshwari & Co., Chartered Accountants are its statutory auditors

Region-wise capacity split



Power-capacity mix



Source: Company, Anand Rathi Research

Journey so far

ANANDRATHI

1979-2004

- 1979: Incorporation
- 1984: IPO; Listing on the BSE
- 1985: First integrated cement plant (0.6m tpa) at Beawar, Rajasthan
- 1996: Rights Issue in the ratio of 1:5
- 1997: Second integrated unit at Beawer
- 2003: First CPP of 36MW at Beawar

2005-2009

- 2006: First integrated cement plant (U-III) at Ras
- 2007: First grinding unit, Khushkhera, Rajasthan
- 2008: First WHRP plant at Beawar
- 2009: Became the first cement company in India to produce synthetic gypsum

2010-2014

- 2010: Cement capacity reached 10m tonnes
- 2010: GU set up at Suratgarh, Rajathan
- 2010: GU set up at Laksar (Roorkee), Uttarakhand
- 2010: World record of commissioning a kiln in 330 days (U-VII at Ras)
- 2011: GU at Jobner, Rajasthan
- 2011: Recognised as `New Sustainability Champion' by The World Economic Forum
- 2012: 300 MW plant started at Beawar
- 2013: Commissioning of Clinker Unit (U-IX) at Ras
- 2014: Clinker Unit (U-X) at Ras
- 2014: First GU in east India, at Aurangabad, Bihar

2015-2018

- 2015: Cement capacity reached 20m tonnes
- 2015: First IU in east India at Raipur, Chhattisgarh
- 2015: First acquisition (Panipat GU from JP Associates)
- 2015: Highest 5-star rating by `Whitehopleman' (first time to a cement company in the world)
- 2016: GU started at Bulandshahr
- 2017: Cement capacity reached 30m tonnes
- 2017: Commissioning of clinker unit at Raipur, Chhattisgarh
- 2017: Market capitalisation touched $10bn
- 2018: Cement capacity reached 34.9m tonnes
- 2018: Commissioning of GU at Sri Ganganagar, Rajasthan, and second GU in Bihar
- 2018: Wind power generation started in Karnataka

2019-2021

- 2019: Cement capacity reached 41.9m tpa
- 2019: Acquired Raipur Handling and Infrastructure Pvt. Ltd. for Rs590m
- 2019: Completed acquisition of majority stake (97.6%) in Union Cementin the UAE at an EV of $305.24m
- 2019: 3m tpa cement mill started at Gulbarga
- 2019: Commissioned thebalance 6.3MW of a 21MW wind power plant in Karnataka
- 2020: Commissioned a 2.5m tonne GU in Jharkhand
- 2020: Raised ~Rs24bn through a QIP
- 2021:Commissioned a 3m tpa GU at Cuttak, Odisha
- 2021: Set up 16.5MW WHRS at Union Cement

2022-FY24

- 2022: Commissioned a 3m-tonne GU in Pune
- 2022: Commissioned a 4m-tonne clinker unit in Raipur
- 2022: Set up a Railways siding in Jharkhand
- 2022: Commissioned 8MW and 10.5MW wind power plants in Karnataka and at its Patas unit
- 2023: Emerged as the highest bidder for Datima coal mine block, Chhattisgarh.
- 2023:Add 122MW green power capacity
- 2024: Commissioned a 3.5m tonne IU in Gothra
- 2024:Commissioned a 3m tonne IU in Purulia
- 2024: Launch of the new brand entity and Bangur Magna Cement
- 2024:Launched Bangur concrete and set up an RMC unit in Hyderabad
- 2024:Acquired Starcrete LLP (5RMC plants)
- 2024:Till 9MFY24, it added 88MW of renewable energy capacity

Source: Company, Anand Rathi Research

Board of directors

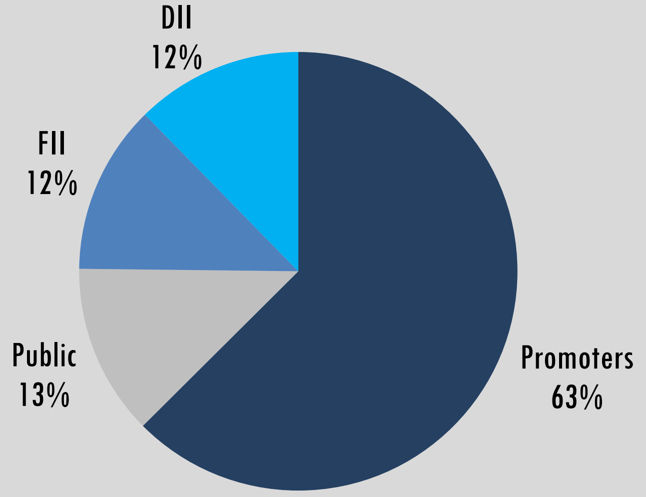
Promoters & management

Name of director	Nature of directorship
Mr. Hari Mohan Bangur	Chairman
Mr. Prashant Bangur	Vice-chairman
Mr. Neeraj Akhoury	Managing director
Mr. Nitin Dayalji Desai	Independent director
Mr. Shreekant Somany	Independent director
Ms. Uma Ghurka	Independent director
Mr. Sanjiv Krishnaji Shelgikar	Independent director
Mr. Zubair Ahmed	Independent director

Details of holders of >5% shares as on 31st Mar'24

Shareholder name	% holding
Shree Capital Services	24.90
Digvijay Finlease	11.74
FLT	9.98
Mannakrishna Investments Pvt. Ltd.	5.66

Shareholding pattern (Mar'24)



Source: Company, Anand Rathi Research

Board of directors

ANANDRATHI

Remuneration and committee members' details (FY23)

Name of Director	Nature of Directorship	Ratio of remuneration of each Director to median remuneraion of employees(FY23)	% increase in remuneration for FY22-23	Audit committee	Nomination and Remuneration committee	Risk Management committee	CSBR Committee	Stakeholder's relationship committee
Mr. B. G. Bangur(ceased w.e.f. 14th Oct'22)	Chairman	No sitting fees/commission paid						
Mr.Hari Mohan Bangur	Chairman	761	7%					
Mr.Prashant Bangur	Vice Chairman	410.3	5.45%			√	√	
Mr. Neeraj Akhoury(appointed w.e.f. 14th Oct'22)	Managing Director	148.1	NA			√	√	√
Mr. PN Chhangani(ceased w.e.f.13th Feb'23)	WTD	74*	(1.95%)*			√	√	
Mr. Shreekant Somany	Independent director	5.8	7.69%	⬟	√			
Mr. Nitin Dayalji Desai	Independent director	5.8	1.82%	√	⬟		⬟	√
Mr. Sanjiv Krishnaji Shelgikar	Independent director	6.3	7.14%	√	√	⬟	√	⬟
Ms. Uma Ghurka	Independent director	5.2	0%				√	
Mr. Zubair Ahmed(appointed on 12th May'22)	Independent director	4.3	NA	√				
Mr. Ratanlal Gaggar(ceased w.e.f.15th Dec'22)	Independent director	3.9	-22.45%	√	√			√
Dr. Yoginder K. Algah(ceased w.e.f.10th Aug'22)	Independent director	2.2	-61.98%	√	√			

* Excl retirement benefits
Chairman of that committee ⬟

- ❑ Median salary increase in FY23 ~8.41%
- ❑ Average increase in managerial remuneration ~6.47%
- ❑ Average increase in others' remuneration ~8.48%

Source: Company, Anand Rathi Research

Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Sales volume (m tons)	**27.7**	**31.8**	**35.5**	**39.3**	**44.5**
Net revenues	1,43,059	1,68,375	1,95,906	2,19,033	2,50,383
Growth (%)	12.9	17.7	16.4	11.8	14.3
Direct costs	75,414	1,05,380	1,13,903	1,23,766	1,39,972
SG & A	31,166	33,572	39,096	44,960	51,704
EBITDA	**36,478**	**29,423**	**42,907**	**50,306**	**58,706**
EBITDA margins (%)	25.5	17.5	21.9	23.0	23.4
Depreciation	10,365	15,462	14,289	17,804	22,033
Other income	5,373	4,315	5,485	5,695	6,510
Interest expenses	2,178	2,689	2,793	2,793	2,793
PBT	29,309	15,586	31,311	35,404	40,390
Effective tax rates (%)	18.9	14.8	25.0	25.0	25.0
+ Associates / (Minorities)					
Net income	23,766	13,281	23,483	26,553	30,293
Adj. income	23,766	13,281	23,483	26,553	30,293
WANS	36	36	36	36	36
FDEPS (Rs)	658.7	368.1	650.9	735.9	839.6
FDEPS growth (%)	2.8	-44.1	76.8	13.1	14.1

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	361	361	361	361	361
Net worth	1,72,709	1,82,884	2,04,563	2,29,312	2,57,801
Debt	20,142	25,392	25,392	25,392	25,392
Minority interest					
Deferred tax Liability/(Asset)	-6,695	-6,686	-6,686	-6,686	-6,686
Capital employed	**1,86,155**	**2,01,591**	**2,23,270**	**2,48,018**	**2,76,507**
Net tangible assets	47,118	45,911	66,324	96,521	1,25,988
Net intangible assets	6,097	7,416	7,416	7,416	7,416
Goodwill	-	-	-	-	-
CWIP (tangible and intangible)	9,729	23,203	22,000	25,000	15,000
Investments (strategic)	80,610	82,999	82,999	82,999	82,999
Investments (financial)	34,850	33,507	33,507	21,507	28,507
Current assets (excl. cash)	47,873	57,274	67,091	75,011	85,748
Cash	1,183	1,193	450	2,755	3,084
Current liabilities	41,160	49,756	56,357	63,009	72,028
Working capital	6,569	7,363	10,574	11,822	13,514
Capital deployed	**1,86,155**	**2,01,591**	**2,23,270**	**2,48,018**	**2,76,507**
Contingent liabilities	-	-	-	-	-

Source: Company, Anand Rathi Research

Financials

ANANDRATHI

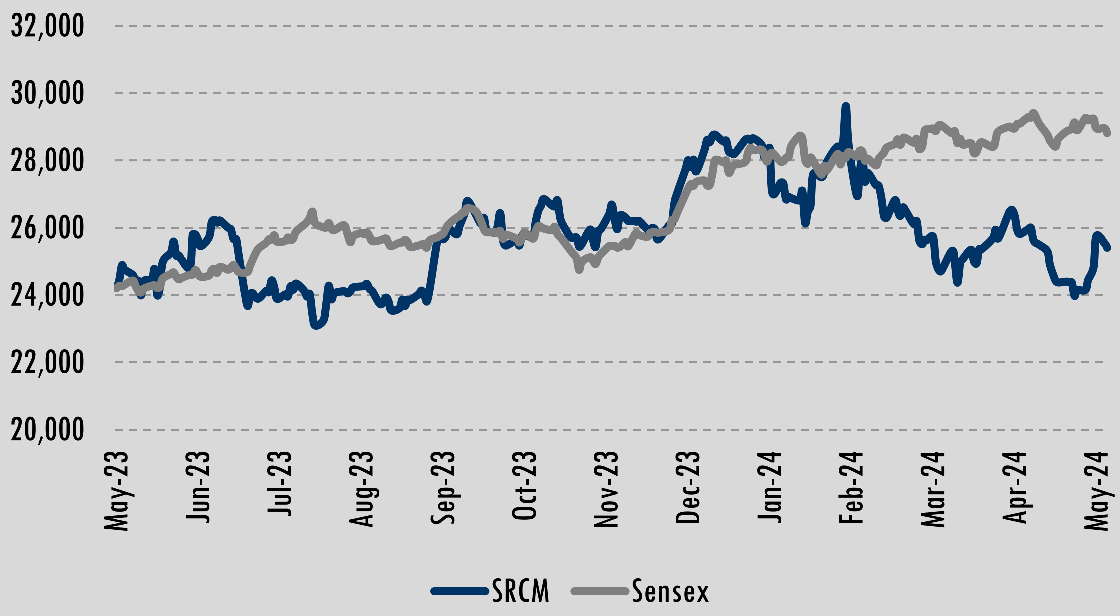
Cash-flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT (adj. OI and interest)	26,114	13,961	28,618	32,502	36,674
+ Non-cash items	10,365	15,462	14,289	17,804	22,033
Operating profit before WC changes	36,478	29,423	42,907	50,306	58,706
- Incr. / (decr.) in WC	4,820	794	3,211	1,248	1,692
Others including taxes	4,382	937	7,828	8,851	10,098
Operating cashflow	27,277	27,692	31,869	40,207	46,917
- Capex (tangible + intangible)	21,684	29,047	33,500	51,000	41,500
Free cashflow	5,593	-1,355	-1,631	-10,793	5,417
Acquisitions					
- Dividend (incl. buyback & taxes)	3,247	3,608	1,804	1,804	1,804
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,191	5,250	-	-	-
- Fin. investments	4,953	1,046	-	-12,000	7,000
- Misc. items (CFI + CFF)	-2,883	-770	-2,692	-2,902	-3,717
Net cashflow	-915	10	-743	2,305	329

Source: Company, Anand Rathi Research

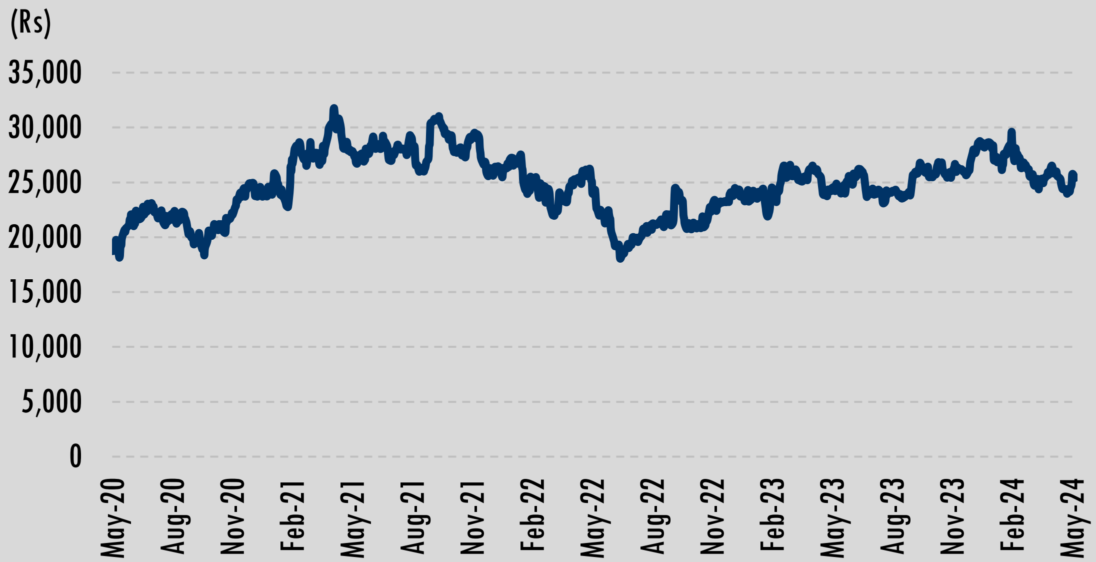
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	36.4	71.1	39.5	34.5	30.2
EV/EBITDA (x)	23.3	31.8	21.4	18.2	15.5
EV/sales (x)	5.9	5.6	4.7	4.2	3.6
P/B (x)	5.0	5.2	4.5	4.0	3.6
RoE (%)	14.6	7.5	12.1	12.2	12.4
RoCE (%) - after tax	12.0	6.1	10.1	10.3	10.5
DPS (Rs)	90.0	100.0	50.0	50.0	50.0
Dividend payout (%) –incl. DDT	13.7	27.2	7.7	6.8	6.0
Net debt/equity (x)	-0.1	-0.1	-0.0	0.0	-0.0
WC Days	11	15	17	19	1s8
EV/ tonne ($)	220.7	242.8	207.3	176.9	160.1
NSR/ tonne (Rs)	5,157	5,292	5,512	5,572	5,632
EBITDA/ tonne (Rs)	1,315	925	1,207	1,280	1,320
Volumes (m tonnes)	27.7	31.8	35.5	39.3	44.5
CFO : PAT (%)	114.8	208.5	135.7	151.4	154.9

Price performance

Relative-price performance



Price movement



Source: Bloomberg, Anand Rathi Research

Appendix

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