Axis Annual Analysis 2023

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Shree Cement Ltd

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Axis Annual Analysis
03rd Aug, 2023

Shree Cement Ltd
Cement

HOLD
Target Price
25380

Capacity Expansion, Product Mix, & New Markets to Drive Growth.

Summary

- **Robust sales and volume growth**: The company reported sales of Rs 16,837 Cr, up 18% YoY, on account of better demand in key markets in the North and East India. In contrast, its blended realization for the year declined by 2.3% to Rs 5,043/tonne. The cement sales volume increased by 15% YoY (31.79 mtpa in FY23 vs. 27.71 mtpa in FY22), thanks to higher demand during the year.
- **Higher costs impact EBITDA margin:** The company reported a lower EBITDA margin of 17.5% in FY23 compared to 25.5% in FY22 due to high input costs, particularly fuel cost inflation.
- **Increasing traction in premium brands:** The company's premium brands Roofon and Bangur Power continued to receive encouraging responses from the market in FY23 and contributed 7% to the total sales volume during the year.
- **Focused on bringing greener products to the market:** In its efforts to achieve environmental sustainability by reducing the amount of clinker used in cement production, the company is working on a new variant – Limestone Calcined Clay Cement (LC3), which saves up to 40% of CO_2 emissions compared to OPC. The company is strongly focused on bringing greener products to the market and has already achieved 77% blended cement in FY23 (compared to 75% in FY22). The share of green energy in total energy consumption has also increased from 48% in FY22 to 51%, the highest in the industry.

Key Highlights

- **Started construction of an integrated plant in the Guntur district:** During the year, SCL started construction of an integrated plant in the Guntur district of Andhra Pradesh (3 mtpa grinding and 1.5 mtpa clinker) at an investment cost of Rs 2,500 Cr. In addition, a new clinker grinding plant is being built in Navalgarh (Rajasthan) with a capacity of 3.5 mtpa and a capital expenditure of 3,500 Cr. These two plants are expected to be commissioned in Q2FY25/Q3FY24. Recently, the Purulia grinding plant in West Bengal was commissioned with a capacity of 3 mtpa. All these expansions are being carried out by wholly owned subsidiaries of the company.
- **Capacity to increase to ~56 MTPA by the end of CY24:** The Company has increased the capacity of the cement grinding plant in Saraikela Kharsawan district in Jharkhand from 2.50 to 3.00 mtpa, to be completed in Apr'23. With this initiative and new projects, the company's capacity (including its subsidiary) in India will increase to ~56 MTPA by the end of CY24.
- **Continues to undertake both organic and inorganic capacity expansions:** SCL intends to increase its total cement grinding capacity to 80 mtpa and beyond in the coming years and will continue to explore new regions across the country to undertake both organic and inorganic capacity expansions.

Key Competitive Strengths

a) Lowest cost producer of cement in India, b) Robust sales and distribution network,c) Robust financial position, d) and Experienced and competent management bandwidth

Strategies Implemented during FY23

a) Launched 'WeLead' - an internal campaign to enhance synergy among various functions; b) Enhance brand equity to create more value; c) Planned expansion to increase capacity to capitalize on growing markets; d) Digitization of various operations, and e) Sustainable leadership practice through more green energy, producing more blended cement and using more alternate fuels.

Growth Drivers

a) Infrastructure push by the government, b) Housing for all, c) Revival in private capex, d) Real Estate growth.

Key Focus Areas in FY24

a) Increasing market share by expanding capacities in new markets; b) Increasing sales of premium cement; c) Enhancing cost leadership, and d) Practicing sustainable growth.

Outlook & Recommendation: The company's new capacity expansion plan is on track and many cost optimisation and brand positioning initiatives have been undertaken to strengthen its market position. It is strongly positioned in its key markets of Northern and Eastern India and these regions are expected to show encouraging growth, supported by higher cement demand in the region. We expect the company to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 12%/12%/28%/52% over FY23-FY25E. The stock currently trades at 20x and 17x FY24E/FY25E EV/EBITDA, respectively. We maintain our HOLD rating on the stock with a TP of Rs 25,380/share, implying an upside of 6% from the CMP.

Key Financials

(Rs Cr)	FY23	FY24E	FY25E
Net Sales	16,837	19,349	21,134
EBITDA	2,943	4,046	4,844
Net Profit	1,169	2,194	2,704
EPS (Rs)	324	608	749
PER (x)	74	40	32
EV/EBITDA (x)	28	20	17
P/BV (x)	4.7	4.3	3.8
ROE (%)	7	11	13

Source: Capitaline, Axis Securities

(CMP as of 3rd[th] Aug,2023)

CMP (Rs)	23990
Upside /(Downside (%))	6
High/Low (Rs)	27049/17865
Market cap (Cr)	86280
Avg. daily vol. (6m) Shrs.	50063
No. of shares (Cr)	3.61

Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	62.55	62.55	62.55
FIIs	12.5	12.82	12.6
MFs / UTI	6.88	6.88	7.2
Banks / FIs	0.15	0.11	0.1
Others	17.92	17.75	17.6

Financial & Valuations

Y/E Mar (Rs. Cr)	FY23	FY24E	FY25E
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EV/EBITDA (x)	28	20	17
P/BV (x)	4.7	4.3	3.8
ROE (%)	7	11	13

Change in Estimates (%)

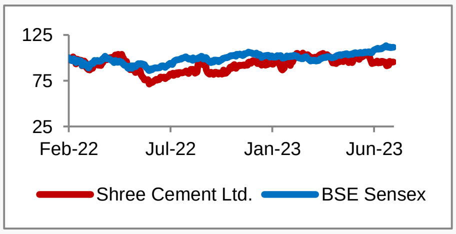
Y/E Mar	FY24E	FY25E
Sales	0	0
EBITDA	0	0
PAT	0	0

ESG disclosure Score**

Environmental Disclosure Score	54
Social Disclosure Score	47
Governance Disclosure Score	85
Total ESG Disclosure Score	62
Sector Average	46

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Company Overview

Shree Cement Limited (SCL) was established in 1979 and belongs to the B.G.Bangur - H. M. Bangur faction of theBangur family in Kolkata. SCL has a consolidated cement production capacity of 50.4 mntpa (including overseas) and a power generation capacity of 889 MW. The company has a presence in both India and UAE with 4 integrated plants in India, 1 plant in UAE and 9 grinding plants. Shree Cement is also one of the pioneers in the industry to use alternative fuels in cement production and today has the highest installed capacity of waste heat recovery plants in the world after China.

Among the three largest cement companies in India, SCL is one of the fastest-growing cement companies in the industry in terms of production capacity. In terms of market capitalisation, SCL ranks 52nd among the companies listed on the Indian stock exchange as of 31 March 2023.

Product and Brand Portfolio

SCL's brand portfolio includes an ordinary and premium range of products that ensure the highest quality for both general construction and specialised applications and environments. The company manufactures all three varieties of cement, mainly OPC/PPC/PSC. It currently markets cement under five brands Roofon, Bangur Power, Shree Jung Rodhak, Bangur Cement and Rock Strong. The company introduced Roofon and Bangur Power brands in the premium cement category in 2019 to further strengthen its portfolio. At its plant in Uttar Pradesh, SCL produces aerated autoclaved concrete (AAC) blocks, a lightweight, prefabricated building material with high-insulating properties.

SCL also has an installed commercial power generation capacity of 300 megawatts and a captive and green power capacity of 442 megawatts.

FY23 Performance Round-up

- **Robust sales and volume growth:** The company reported sales of Rs 16,837 Cr, up 18% YoY owing to better demand in key markets in the North and East. While blended realization for the year declined by 2.3% to Rs 5,043/tonne, cement volumes increased by 15% (FY23– - 31.79 mtpa vs FY22 – 27.71 mtpa) on higher demand.
- **Higher costs weighed on margins:** The company reported a lower EBITDA margin of 17.5% in FY23 compared to 25.5% in FY22 due to high input costs, mainly due to fuel cost inflation.
- **Dividend:** The total dividend for FY23 is Rs 100/share, which is equivalent to Rs 361 Cr. In FY23, the Company paid a dividend of Rs 90/share (interim and final) amounting to Rs 325 Cr. The Board of Directors has not proposed any final dividend for FY23FY23. The Board does not propose to transfer any amount to reserves for FY23FY23.
- **Cash:** Cash and cash equivalents (including liquid investments) as of March 31, 2023, amounted to Rs 8,187 Cr, most of which is invested in liquid debt mutual funds.
- **Debt:** Gross debt stood at Rs 1,568 Cr, of which most was in the form of USD-denominated external commercial borrowings. SCL ended FY23 as a net debt-free company with positive cash of Rs 6,619 Cr.

Related Party Transactions Analysis

During FY23, there were no material related party transactions which may pose a conflict with the interest of the Company under Section 188 of the Companies Act, 2013 and Regulation 23 of the Listing Regulations. All related party transactions have been approved by the Audit and Risk Management Committee.

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis
Various Subsidiaries	265	525	98%	Equity contributions
Various Subsidiaries	204	45	-78%	Sale of Goods/Material
Various Subsidiaries	16	49	206%	Sale of Land
Various Subsidiaries	70	63	-10%	Services Received
Entities controlled/influenced by KMP	37	46	24%	Contributions Towards Corporate Social Responsibilities
Various Subsidiaries	21	37		Loan Given
Various Subsidiaries	17	56	229%	Repayment Received of Loan Given

Source: Company; Axis Securities

Cost Optimization Measures

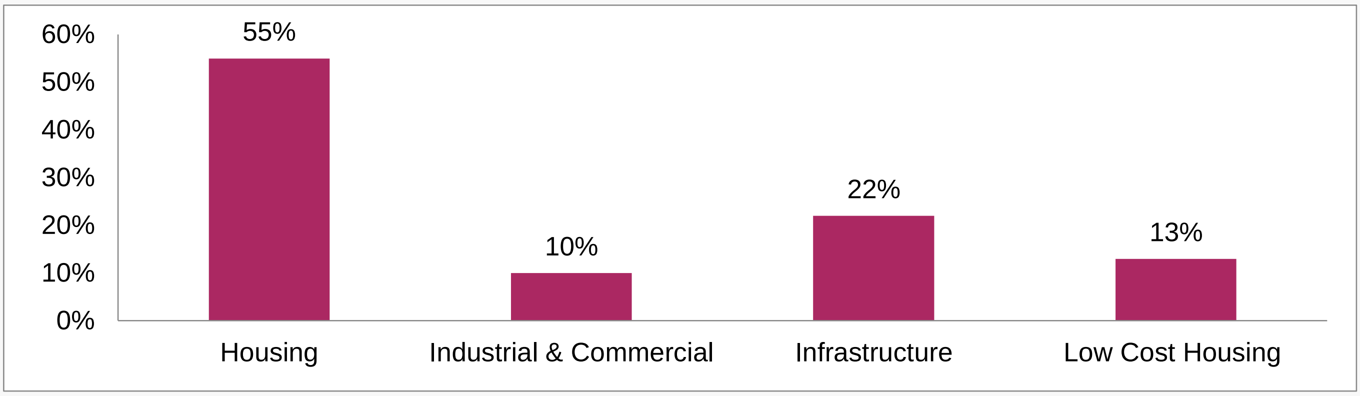
The company's timely and proactive decision-making resulted in a cost/tonne decline of 2.6% during the year despite the rise in input costs in the latter half of the year.

- **Power/Fuel Cost: In FY23,** The cost of energy and fuel increased by 53% per tonne on a YoY basis, to Rs 1,744/tonne due to an increase in the prices of pet coke and imported coal due to geopolitical events that impacted the entire cement industry. The impact was mitigated to some extent by increased procurement of domestic linkage coal, higher consumption of alternative fuels and expansion of fuel supply sources. The company's focus on energy management practices helped reduce power consumption per tonne of cement from 67.15 kWh in FY22 to 64.93 kWh in FY23. The share of green power in total power consumption increased from 48.3% in FY22 to 51.1% in FY23
- **Freight/Forwarding Cost:** Freight & forwarding costs stood at Rs 1,174/tonne in FY23 as against Rs 1,170/tonne in FY22. The company has managed to contain the increase in its transport costs in FY23 through route rationalisation, digitisation measures and other efficiency initiatives. The company has also intensified its efforts to expand the rail connectivity of its cement plants, which will increase bulk transport capacity and reduce transport costs.
- **Raw Material Cost:** During the year, there was a sharp increase in the prices of fly ash and slag, which led to an overall increase in raw material costs. As a result, the total cost of raw materials increased by 30% from 1,002 Cr. in FY22 to 1,300 Cr. in FY23

Key Growth drivers

- **Infrastructure push by the government:** The Indian government has consistently invested in infrastructure to drive the country's development agenda. For the 2023-24 budget, it has earmarked Rs 10 Tn as capital expenditure, an increase of 33% over the FY23 budget estimates and 37% over the revised FY22 estimates. The steady increase in capital expenditure is a positive indicator for cement consumption in the coming years. In addition, initiatives such as the National Infrastructure Pipeline and PM Gati Shakti are expected to boost construction activity in the country, thereby increasing demand for cement.
- **Upsurge in housing construction:** The country's housing sector experienced a prolonged downturn in the pre-COVID period, resulting in high inventory levels and lower launches in the real estate sector. However, in the post-pandemic period, the sector rebounded, helped by the increasing preference for home ownership, a favourable interest rate regime and registration and stamp duty concessions offered by several states across the country. In addition, the government's increased spending on 'Housing for All' has boosted the demand for housing in the country. The Union Budget 2023-24 envisages investments of Rs 54,487 Cr for PMAY - Grameen and Rs 25,103 Cr for PMAY – Urban, representing a cumulative growth of 66% over the previous year
- **Industrialisation**: Rapid industrialisation in India is expected to play a key role in the growth of the cement industry. The growth of industries leads to demand for the construction of factories, warehouses and other infrastructure. With the growth of manufacturing, infrastructure and transportation sectors, the demand for cement has increased significantly.

Exhibit 1: Cement consumption trend segment-wise: Housing remains the largest cement consumer



Source: Company, Axis Securities

Key operational activities during the year

Cement and Clinker Capacity Expansion

During the year, the Company continued with its ongoing projects in Nawalgarh in Rajasthan and Purulia in West Bengal (through its wholly-owned subsidiary)and started setting up an integrated plant in the Guntur district in Andhra Pradesh. The status of projects under implementation is given below:

Upcoming unit	Type of Unit	Scheduled Timeline	Revised Timeline
Nawalgarh, Rajasthan	Integrate Cement Unit	Q4 – FY 2023-24	Q3 – FY 2023-24
Purulia, West Bengal (through WOS)	Clinker Grinding Unit	Q4 – FY 2022-23*	Q1 – FY 2023-24
Guntur, Andhra Pradesh	Integrate Cement Unit	Q3 – FY 2024-25	Q2 – FY 2024-25

*Plant commissioning got delayed due to certain clearances.

The Company has also undertaken a capacity expansion of the cement grinding plant atSaraikelaKharsawanin Jharkhand district to increase capacity from 2.50 mtnpa to 3.00 mtnpa and completed the same in Apr'23 through process optimisation, de-bottlenecking and productivity improvement initiatives. With this initiative and new projects, the company's capacity (including subsidiary) in India will increase to ~56 mtnpa by the end of CY24.

Premium Cement

The company's premium brands Roofon and 'Bangur Power continued to receive encouraging responses from the market in FY23, contributing 7% of total sales volume during the year.

Capacity Utilization

The overall capacity utilization for FY23 stood at 70.44% while utilization reached 63.7%in FY22.

Cost Optimisation

To reduce the amount of clinker used in cement production, the company is working on a new variant, Limestone Calcined Clay Cement (LC3), which saves up to 40% of CO2 emissions compared to OPC. The company is strongly focused on bringing greener products to the market and has already achieved a 77% share of blended cement in FY23 (compared to 75% in FY22). According to the company, this upward trend will continue in the coming years.

The company has introduced cement-specific process optimisation packages based on artificial intelligence (AI). The various process variables are controlled in a closed-loop system using PID (proportional, integral and derivative) controllers. This system mimics the best operator, helps detect error signals and changes the system output until the error reaches zero. This has resulted in optimised production, reduced fuel consumption, higher energy savings, and improved quality and efficiency.

Sustainable Growth

The company focuses on integrating the circular economy into its operations by seeking solutions to use different types of waste as fuel. The company has managed to completely replace fossil fuels with biofuel in all its grinding units. All these measures have helped the thermal substitution rate (TSR) to be 3.50% in FY23, up from 2.41% last year. The company has explored various models and decided to set up state-of-the-art plants that will enable it to use various industrial, agricultural and municipal wastes as much as possible in its plants. These plants are expected to increase the TSR to 15% by the end of FY24.

Solar Power Plants Projects

The company has invested heavily in green energy generation, which is clearly reflected in the increasing share of green energy consumption. In FY23, 51.1% of the total electricity requirement was met through green power, which is one of the highest in the cement industry. The company is in the process of setting up another 83 MW of green power capacity, which will further increase the share of green energy in total power consumption.

Sales and Distribution

Product Portfolio

The company's product portfolio is deliberately diversified and dynamic to meet the diverse needs and requirements of its customers. The company constantly strives to have a positive impact on the planet by developing sustainable products. All its brands enjoy great popularity among its customers. The company's portfolio consists of various types of cement with a special focus on blended cement, which contributes to the circular economy.

Distribution Network

The dealer network increased to 30,672 as compared to 25,860 in the last year.

Asset footprint

Expansion of facilities in regions where the company still has little presence. This will lead to faster growth and at the same time bring about a more balanced distribution of capacities.

Improve market share in its existing market

The company's short-term goal is to increase its market share in the existing market by offering different products based on the needs and preferences of different customers at a reasonable price and by improving distribution.

Customer Satisfaction

The company constantly strives to provide quality products to its customers and to meet its requirements. The company has established state-of-the-art facilities at its production sites, including a Cross Belt Analyser (CBA), a Particle Size Analyser (PSA), automated hot mill sampling and X-ray diffraction (XRD) analysis, as well as a fully equipped laboratory for alternative fuel testing, including equipment such as Inductive Couple Plasma (ICP). The company has also implemented a quality management system (ISO 9001:2015) to ensure the quality of its products and processes.

Supply Chain & Logistics

Supply Chain

To build a sustainable supply chain, the company works closely with its critical suppliers. A critical supplier is the one with whom the annual business in the previous year was more than Rs 5 Cr or the one who supplies the product for which he is the sole/biggest source of supply.

Improvement in Turn Around Time (TAT)

The company has successfully implemented a fully automated RPA (Robotic Process Automation)-driven process to reduce the delay time during the loading and unloading process, resulting in a significant reduction in manpower requirements and turnaround time (TAT). The company uses RFID tags to track vehicles to ensure smooth navigation within the factory premises. The company has also automated the loading process with automatic chutes, while multipliers are used for unloading at the sites.

Manufacturing Facilities

The company's production facilities at 14 locations, including four integrated plants and ten split grinding units form the core of its operations. The company's total installed cement capacity is 46.4 Mn tonnes per year. The company's clinker production sites are strategically positioned to be in close proximity to raw materials and key markets. The company's cement plants at the above-integrated locations, together with the split grinding plants, form a well-connected centre that ensures faster and timely service to its customers. The split grinding plants offer significant logistical management and cost advantages that enable the company to price its products efficiently.

Railway Sidings

The company is striving to increase the number of its rail transports from the current 12% through various measures. To this end, sidings are being installed at most new and existing locations. In the reporting year, the company loaded cement and clinker via the following sidings at its facilities. The installation of sidings has improved the transport and logistics capacities for bulk goods and thus contributed to cost optimisation, fuel savings, and improved time efficiency.

Upgrading OITDS

The company has upgraded its Operator Independent Truck Dispatch System (OITDS) with the AI feature in Ras and will also install it at its Raipur plant. OITDS helps improve the efficiency of raw material transportation at the mines by ensuring dynamic allocation of mine dumpers and excavators by optimising their routes and utilisation in terms of demand while maintaining the desired quality of limestone. This also helps with real-time monitoring of operator and equipment performance, full digitisation of mine processes and monitoring of operational behaviour to improve safety and performance.

Key strategies moving forward

Expanding and Upgrading Capacities

- The aim is to upgrade existing facilities with modern technology and new processes and increase capacity through planned expansion to capitalize on the growing markets
- Capacity is to be expanded to 80 mtpa by 2030.
- To achieve this goal, the company has acquired limestone mines at several locations and is developing various sites for the construction of greenfield cement projects throughout the country.

Market Consolidation:

- Strengthen market reach by expanding the distribution network and increasing retail sales by focusing on growing smaller towns and rural areas.
- Continue to improve existing brands and introduce new brands in line with changing customer needs.

Cost leadership

- To be among the lowest-cost manufacturers in the industry in terms of logistics costs, energy costs and raw material costs.
- Continue to explore digital transformation and innovation to optimise costs in logistics
- Focus on formulating innovative measures to maintain cost leadership, leverage operating cash flow and maintain a strong balance sheet with minimal leverage.

Sustainable Growth

- Be among the sustainable pioneers in the industry with strong practises for waste, water, energy and emissions management.
- Conscious use and management of mines and raw materials.

Business Outlook

As for FY24, we expect demand to experience another year of high growth. This growth will be driven mainly by the government's push for infrastructure and the higher spending expected ahead of the 2024 general election. Housing is also expected to see healthy growth momentum, supported by the government's push to meet the PMAY targets. The industrial and trade segments are also on the path to recovery. We expect cement demand to maintain this growth momentum going forward. The capacity expansion programmes that are currently being implemented are progressing well. By the end of Q2FY25, when the capex plans will be commissioned, the company will reach a capacity level of ~56 MTPAmtnpa. Historically, the company has achieved growth that has been above the industry standard. The company aims to ensure that it maintains this momentum.

Risks and Mitigation

The company's risk management process aims to identify and mitigate risks that have the potential to materially affect the company's business objectives and maintains a balance between risk management and the exploitation of opportunities.

Key risks identified, assessed, and mitigated during the year under review include:

Climate Change: The rise in temperature as a result of high greenhouse gas emissions is the greatest threat currently facing humanity. Many countries around the world are working to reduce these emissions. India has committed to being carbon neutral by 2070. Since cement manufacturing is considered a carbon-intensive process, it faces restrictions and penalties from regulators.

Mitigation: Identify and implement energy efficiency projects and initiatives, and increase the use of renewable energy and electricity generation from waste heat. - Targeted increased use of AFR. - Collaborate with industry and academic institutions to work on carbon capture, utilisation and storage (CCUS) and low carbon products. - Establish roles and responsibilities including a monitoring framework for the achievement of ESG-related targets.

Consolidation and intense competition: There are several large, medium and small companies in the Indian cement industry. Over the years, supply has outstripped demand in the cement sector. Moreover, the industry is in a regular expansion mode. This has led to intense competition and affected capacity utilisation across the industry.

Mitigation: Regular capacity expansion at strategic locations to increase market share. - Review and adjust market strategy to maintain and improve market share.

Succession planning: Succession planning helps organisations identify the talent needed to sustain operations and future growth.

Mitigation: Promote and create a culture that gives responsibility to younger talent to groom them as future leaders. - Provide regular training for succession planning. - Cross-functional and techno-commercial work experiences for staff to develop and improve business acumen for taking on leadership roles. - Strengthen existing practices and create a roadmap to identify critical positions, potential successors and their development plans.

IT privacy and cybersecurity: IT systems play an important role in supporting business processes such as sales, logistics and production. Therefore, cyber security is an integral part of the group-wide IT security strategy

Mitigation: Regular review of ERP and key software to meet current and future requirements. - Strengthen established practices and procedures for IT security and governance across the organisation. - Regularly monitor and track licenced products, unauthorised software usage, data leakage tracking, etc. across the organisation through best-in-class technology and processes. - Assessing IT infrastructure (e.g. Vulnerability Assessment and Penetration Testing - VAPT) and then raising staff awareness of cyber security.

Fuel sourcing: Cement operations are primarily dependent on coal/petcoke to meet fuel needs. Dependence on conventional sources can hinder growth and also create business continuity risks.

Mitigation: The development of equipment and processes allows the company to work with multiple fuels and flexibly choose the type of fuel depending on availability and at competitive costs. - Increasing the share of alternative fuels to replace the use of coal and petroleum coke. - Procurement of coal from domestic sources (cogeneration and own coal block) to reduce dependence on imported coal.

Progress on sustainability

The company is committed to using the right balance of resources and operating sustainably. It has adopted the triple bottom line approach, which includes environmental and social responsibility, to evaluate performance and value creation.

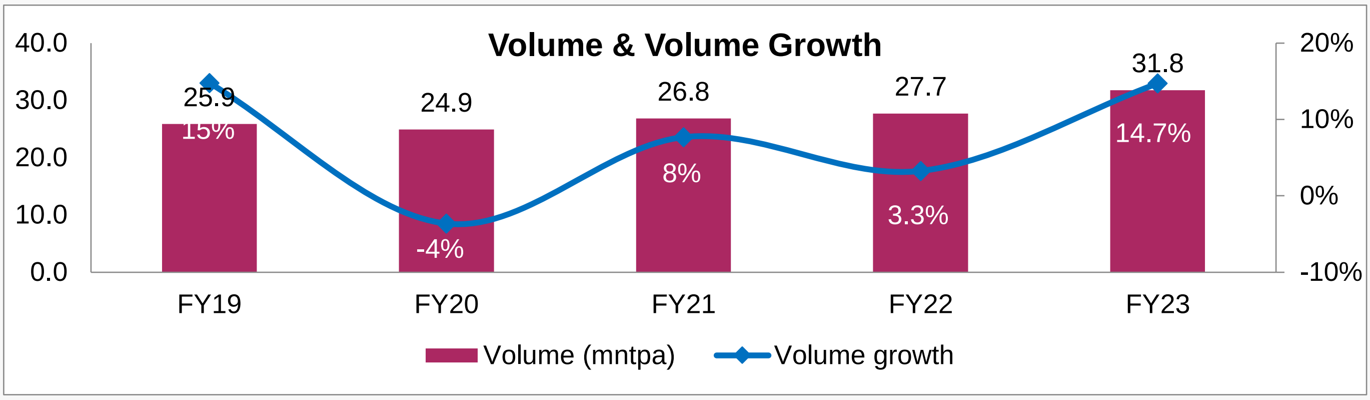
- **Energy management:** Energy conservation is at the heart of the company and has generated numerous innovations and initiatives over the years, ranging from experiments on the shop floor to capex. This has resulted in numerous benefits, including carbon intensity reduction and rationalisation of production costs. The company's performance in energy conservation has been recognised in public forums such as the Government of India's Perform, Achieve & Trade" (PAT) programme, where the Company has consistently exceeded its targets in PAT Cycle I, II and III. The Company was awarded the 'Best Performer' Award by the Bureau of Energy Efficiency for the highest number of energy-saving certificates at PAT Cycle I as well as PAT Cycle II.
- **Increasing use of power from green resources:** The company has maintained its leadership position in the use of green power (WHR, wind and solar power) to its total power consumption. It has significantly increased its green power capacity from 263.1 MW in FY22 to 385.6 MW in FY23. This has enabled the Company to increase the share of green energy in total energy consumption to 51.1% from 48.3% in the previous year. The company is in the process of building an additional green power capacity of 83 MW at various locations to further increase its share of green power to meet its own needs. The company continues to have the largest WHR capacity in the global cement industry excluding China.
- **Alternative fuels and raw materials:** The Company is constantly working to increase the use of alternative raw materials and fuels in its operations. It uses waste from various industries such as pharmaceuticals, chemicals, sponge iron, fertilisers, thermal power plants and others as alternative raw materials and fuels. It also uses MSW (Municipal Solid Waste), RDF (Refused Derived Fuel) and crop residues as alternative fuels to save fossil fuels. These measures have helped it improve its thermal substitution rate from 2.41% in FY22 to 3.50% in FY23. The share of alternative raw material consumption in the company's total raw material consumption was 27.96% in FY 23.
- **Green products:** The company manufactures cement mixes in the category of Portland Pozzolanic Cement (PPC), Portland Smelter Cement (PSC) and Composite Cement (CC) which strictly comply with the specified BIS standards. Blended cement contributes to sustainable design by making concrete stronger and more durable, reducing the consumption of natural resources such as limestone, lowering greenhouse gas emissions and contributing to a circular economy by using waste from power plants, iron and steel mills. The use of blended cement also brings cost benefits for the company's customers. The share of blended cement in the total cement production is 76.97% in FY23 During the year, the cement blends produced at all the company's locations were awarded the prestigious Greenpro certificate by the Confederation of Indian Industry (CII). The company is also exploring the feasibility of another sustainable alternative to OPC,limestone-clay cement (LC3).
- **Carbon reduction:** The company is constantly working on ways to reduce its carbon emissions. Over the years, it has taken measures such as installing waste heat recovery units, increasing the production of blended cement, increasing the use of renewable energy, etc. to achieve this. Its specific net Scope 1 emissions (kg CO_2/tonne of cementitious material) have decreased from 530 in FY22 to 521 in FY23. Under the Science-BasedTargets (SBTi), the company has committed to reducing Scope 1 GHG emissions by 12.7% per tonne of cementitious materials by 2030 (from a 2019 baseline) and Scope 2 GHG emissions by 27.1% per tonne of cementitious materials within the same timeframe. The company is making good progress towards achieving its GHG emission reduction targets.

Profitability Analysis (Rs Cr)

Particulars	FY22	FY23	Change	Comments/Analysis
Sales	14306	16837	18%	Revenue increased owing to an increase in volume due to increased government spending, better housing demand and a renewed focus on improving brand equity.
Raw Materials/Others	1139	1260	11%	Raw material costs were higher owing to high fly ash and slag prices and also owing to higher Volume.
Gross Profits	13167	15577	18%	Gross Profits were impacted by an increase in input cost as power/fuel costs increased sharply.
Operating Expenses	7541	10537	40%	Operating expenses were higher owing to an increase in fuel cost, and R/M cost.
Interest	218	269	23%	Interest cost was higher owing to an increase in short-term borrowings and higher interest rates.
EBIT	3149	1828	-42%	EBIT was lower due to an increase in input cost.
PAT	2377	1169	-51%	PAT was lower due to high costs and an increase in depreciation and interest costs.
EPS	659	324	-51%	EPS is in line with the PAT

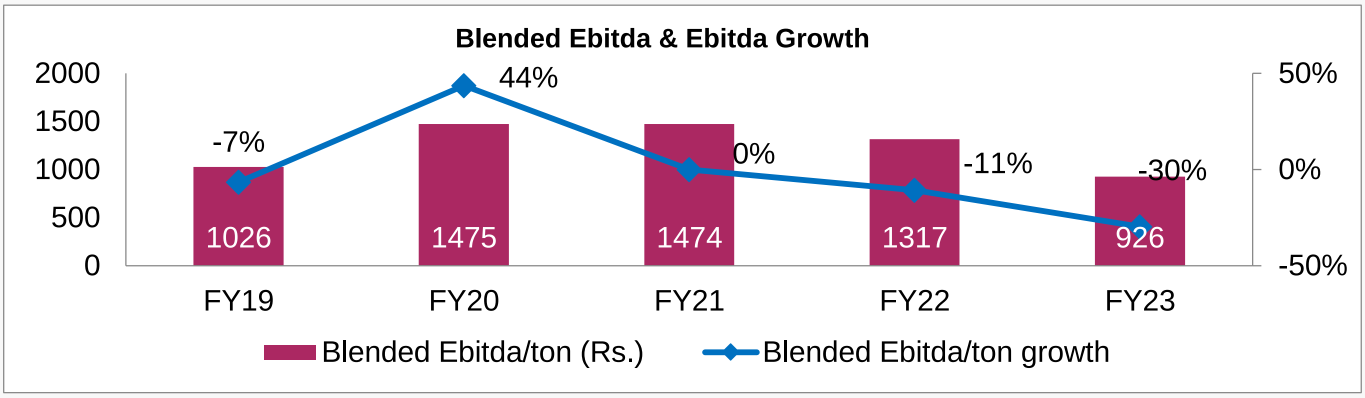
Source: the company; Axis Securities

Exhibit 2: Volume and Growth Trend



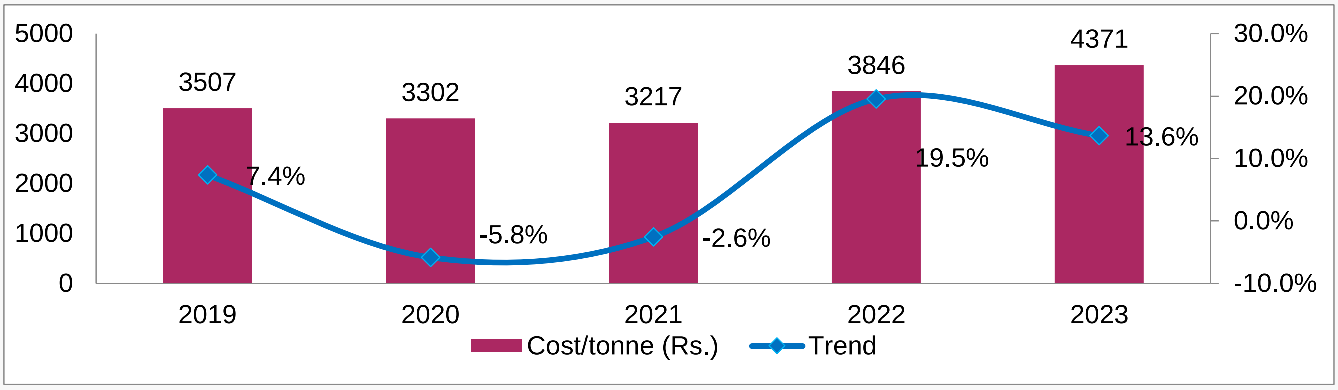
Source: Company, Axis Securities

Exhibit 3: Realization/tonne and Growth Trend



Source: Company, Axis Securities

Exhibit 4: Cost/tonne Trend



Source: Company, Axis Securities

Growth Indicators (Rs Cr)

Particulars	FY22	FY23	Change	Comments/Analysis
Revenue	**14306**	**16837**	18%	Revenue increased owing to an increase in volume due to increased government spending, better housing demand, and a renewed focus on improving brand equity
EBITDA	**3648**	**2943**	-19%	EBITDA impacted by high raw material cost and fuel costs
PAT	**2377**	**1169**	-51%	PAT was lower due to high cost and increase in depreciation and interest expense
EPS	**659**	**324**	-51%	EPS is in line with the PAT
Volume	**27.71**	**31.79**	15%	Volumes (mtpa) were higher due to better demand in the operational regions.

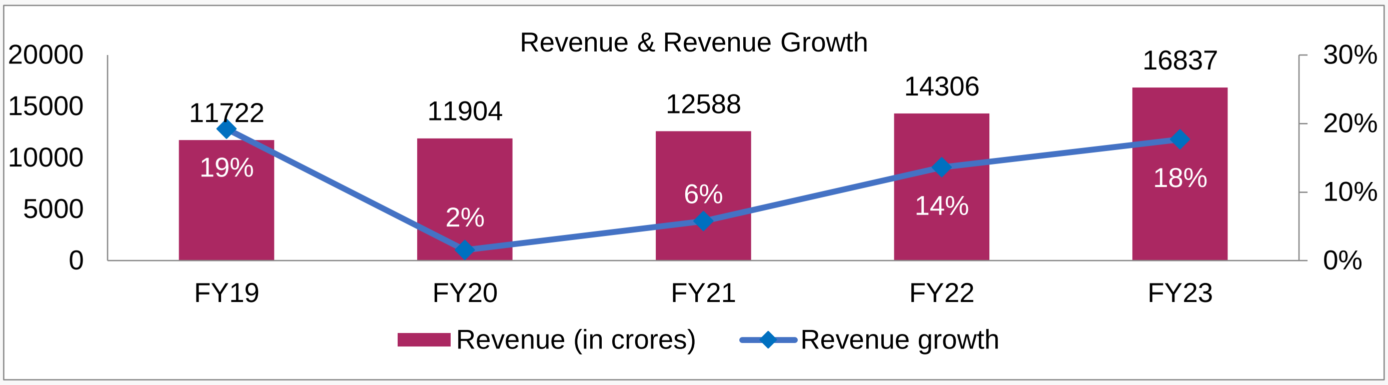
Source: the company; Axis Securities

Profitability Margins

Particulars	FY22	FY23	Change	Comments/Analysis
GPM	**47.3%**	**37.4%**	(990 bps)	GPM was lower due to high raw material costs and fuel costs.
EBITDAM	**25.5%**	**17.5%**	(800 bps)	EBITDAM impacted by high fuel and other input costs
PATM	**16.6%**	**6.9%**	(970 bps)	PATM is affected by higher cost and increase in depreciation and interest expenses

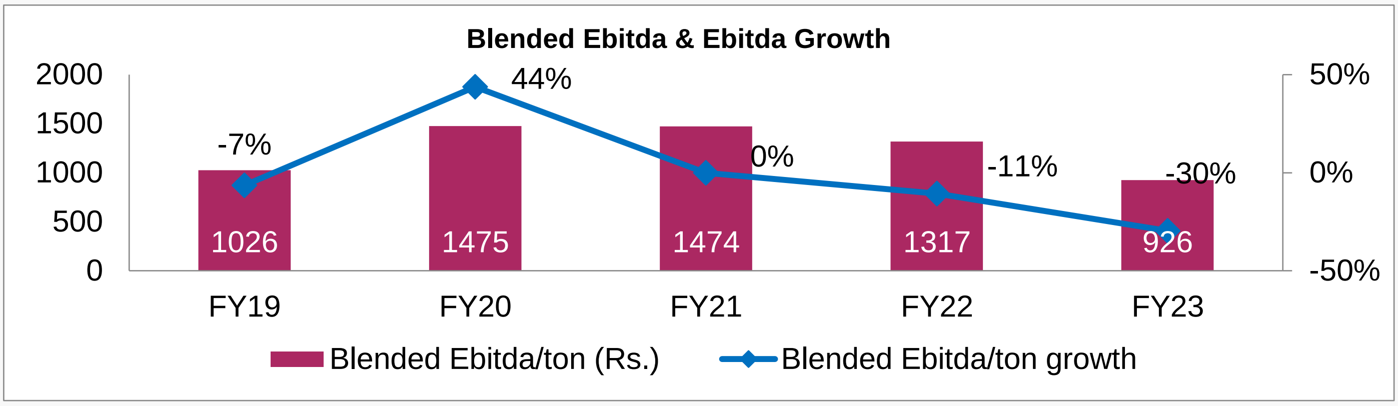
Source: the company; Axis Securities

Exhibit 5: Revenue and Revenue Growth Trend



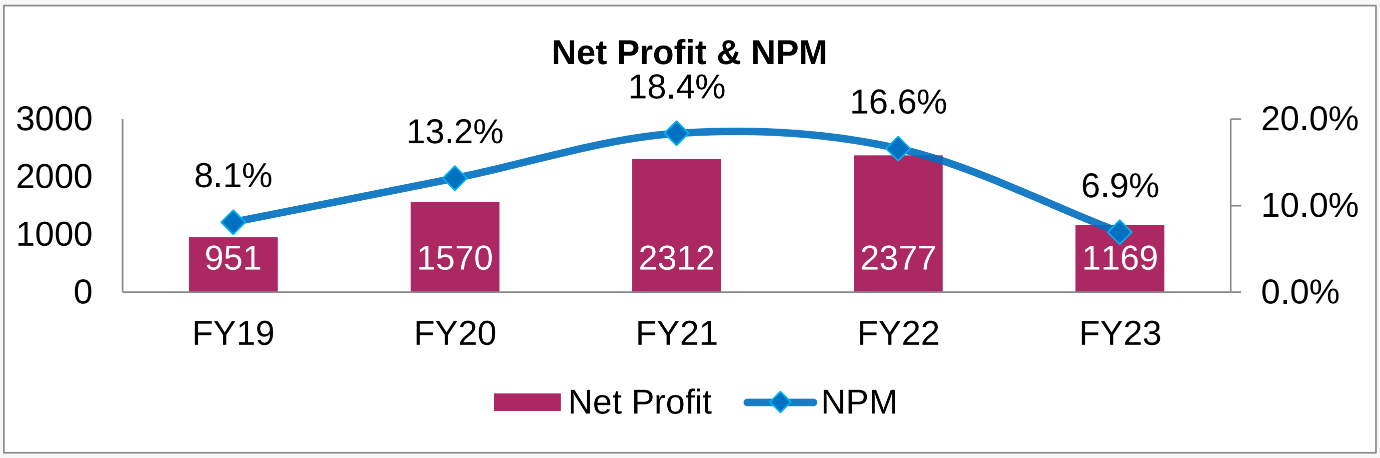
Source: Company, Axis Securities

Exhibit 6: Blended Ebitda/tonne Trend



Source: Company, Axis Securities

Exhibit 7: Net Profit and NPM Trend



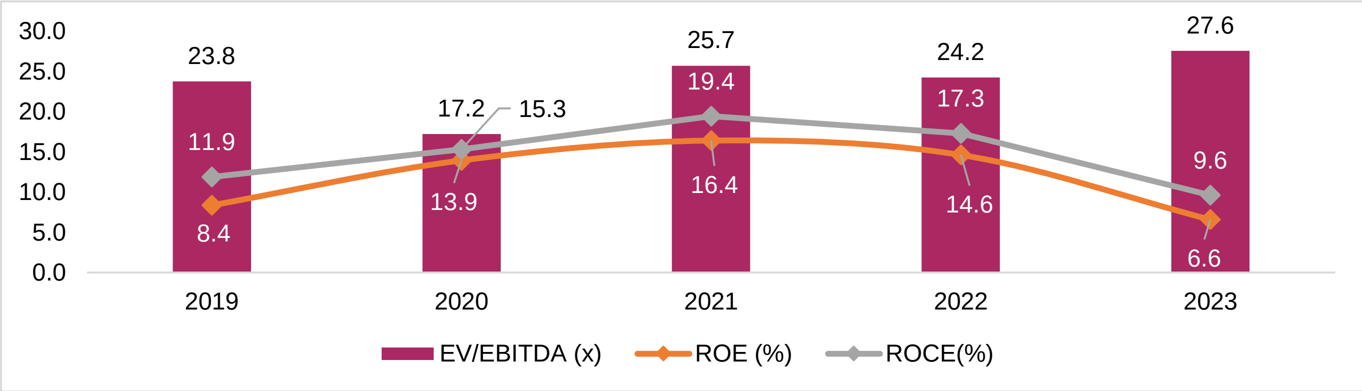
Source: Company, Axis Securities

Financial Ratios

Particulars	FY22	FY23	Change	Comments/Analysis
ROE	14.6	6.6	(800 bps)	Lower owing to reduced margin and higher base of R/S.
ROCE	17.3	9.6	(770 bps)	Lower owing to reduced margin caused by higher operating expenses
Asset Turn	1.1	1.2	10 bps	Slightly improved owing to higher sales.
Net Debt/Equity	-0.4	-0.3	10 bps	The company is a net debt-free company and owing to a higher short-term loan net/debt ration Slightly declined.
EV/EBITDA	24	28	4x	

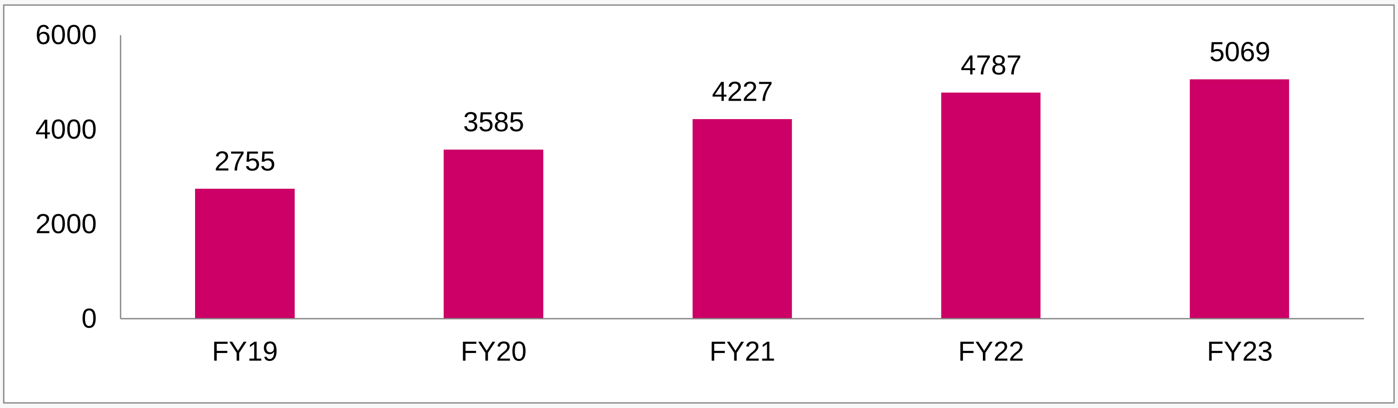
Source: the company; Axis Securities

Exhibit 8: EV/EBITDA, ROE & ROCE Trend



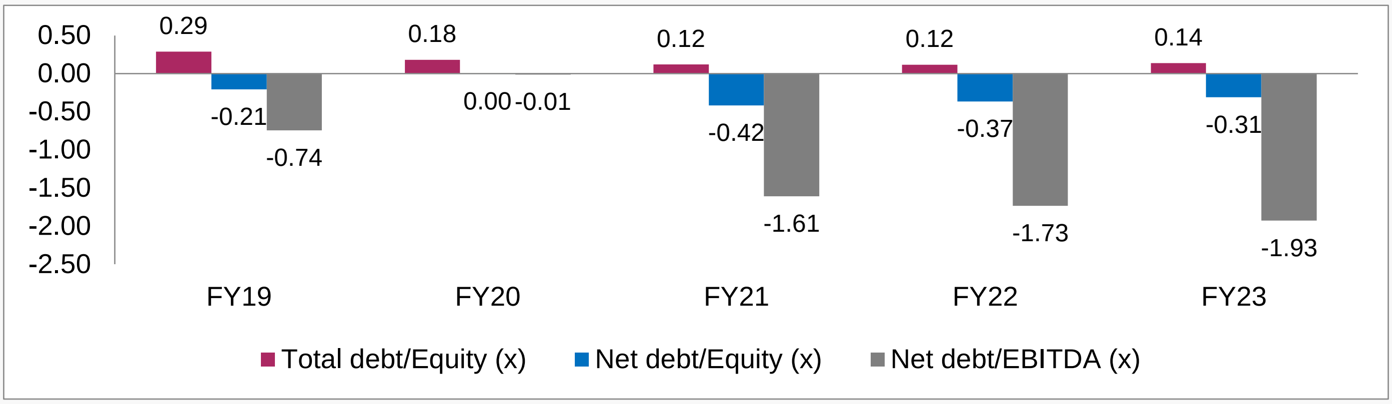
Source: Company, Axis Securities

Exhibit 9: Book Value (Rs)



Source: Company, Axis Securities

Exhibit 10: Leverage Ratio



Source: Company, Axis Securities

Key Balance Sheet Takeaways

Working Capital Management

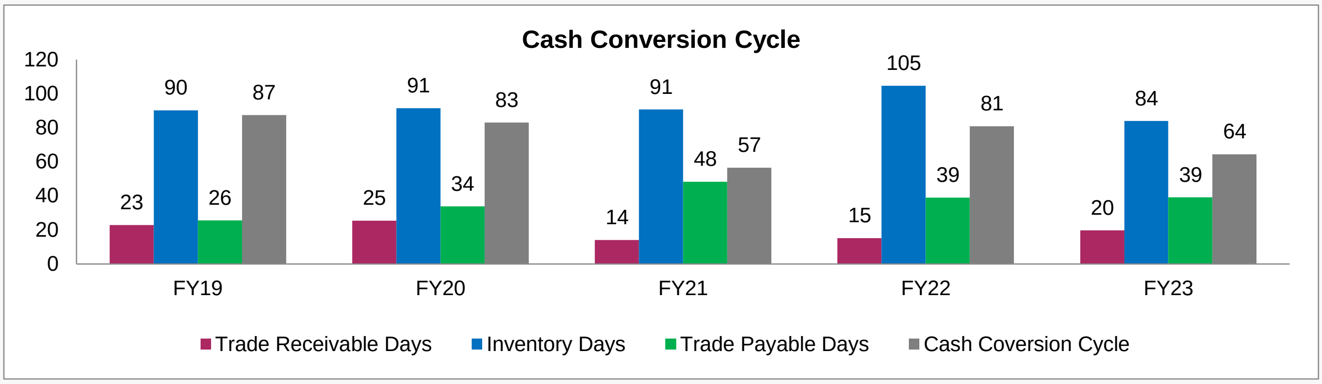
- Working capital intensity in FY23 improved as the cash conversion cycle improved to 65 days in FY23 from 81 days in FY22. This was due to an increase in debtors and a decrease in inventories. There was no change in trade payables days. During the year, the OCF to EBITDA ratio increased to 92% from 75% in FY22 due to better cash realisation in working capital management.
- From FY19 to FY23, the company generated a total OCF of Rs 15,332 Cr and 58% of the OCF (Rs 8,949 Cr) was utilised for the company's Capex. This indicates a normal Capex intensity. While CFO remained the main source of funding for the company, it generated FCF of Rs 6,383Cr during FY19-FY23.FCF/net profit was -9% compared to 32% in FY22 as the company spent more on growth capex during the year.

Cash Conversion Cycle

Particulars	FY22	FY23	Change	Comments/Analysis
Inventory Days	105	84	-21	Inventory days reduced owing to better management
Trade Receivables Days	15	20	5	Receivable days increased owing to business conditions
Trade Payables Days	39	39	0	No change
Cash Conversion Cycle	81	65	-16	Overall CCC

Source: the company; Axis Securities

Exhibit 11: Cash Conversion Cycle

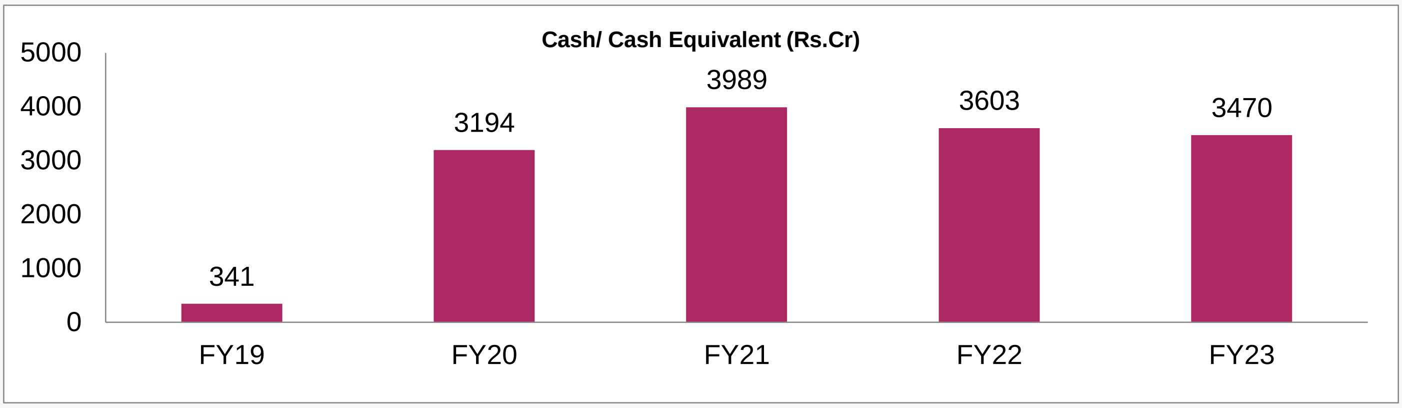


Source: Company, Axis Securities

Key Balance Sheet Takeaways (Contd...)

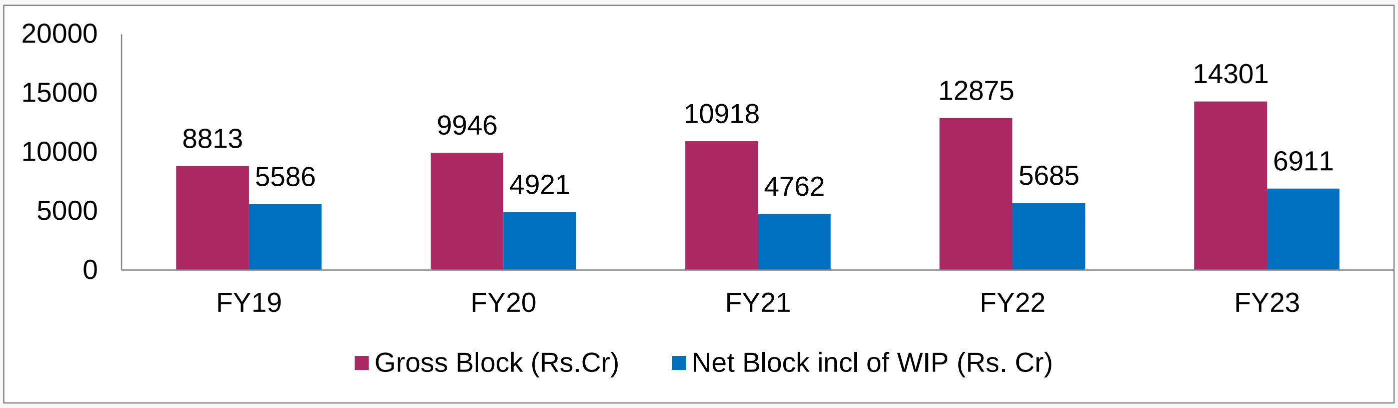
- **Debt Levels:** The company reduced its long-term debt by 55% from Rs1,298 Cr to Rs581 Cr during the year while short-term debt increased from Rs 716 Cr to Rs 1,958 Cr owing to working capital requirements.
- **Fixed capital formation:** Gross fixed capital formation improved from Rs1,969 Cr in FY22 to Rs 2,805 Cr in FY23, an improvement of 42% as the company is expanding its current capacity to sustain growth by increasing its market share.
- **Capex plans:** During the year, the company expanded its grinding capacity from 46.3 mtpa to 50.4 mtpa.
- **Cash and liquidity position:** The cash/cash equivalent stood at Rs 3,470 Cr as of 31st Mar'23 compared to Rs 3,603 Cr in FY22, a decrease of 4%. The high cash balance needs to be utilized for a better return on equity.

Exhibit 12: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 13: Gross & Net Block



Source: Company, Axis Securities

Forex Analysis

- The company's foreign exchange risk emanates from forex borrowings and the import of fuel and other raw materials. For all forex loans, the company maintains 100% forward cover against foreign exchange risk. As regards the import of fuel and other raw materials, the company decides about the hedging based on prevailing market conditions, period of exposure, the amount involved etc. The company does not have any exposure hedged through commodity derivatives.
- The gain/(loss) due to fluctuation in foreign currency exchange rates on derivative contracts, recognised in the statement of profit and loss is (3.41) Cr for the year ended March 31, 2023(1.41)Cr for the year ended March 31, 2022.

Contingent Liability Analysis

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis
Custom duty	72	74	2	No provision has been made based on the legal opinion gathered by the company.
CCI Penalty	397	397	-	The penalty of Rs 398 Cr was imposed in 2016 against which the company had appealed and the authority granted stay subject to a deposit of 10% of the penalty amount. The matter is currently being heard by NCLAT.In other cases, CCI imposed a penalty of Rs18.44 Cr in connection with the cement supply tender of the Govt of Haryana. The company has filed an appeal against the order and is being heard by NCLAT. In both the above case based on legal counsel advisory, no provision has been made.
Sales Tax/VAT	38	38	-	The appeal is pending with Rajasthan high court regarding a sales tax matter wherein the The department has sought to reduce the subsidy benefit from 75% to 50%. The company based on legal opinion has not provided any provision in the accounts.
Total	**507**	**509**	**2**	***Any adverse decision in the above cases may impact the profitability of the company.***

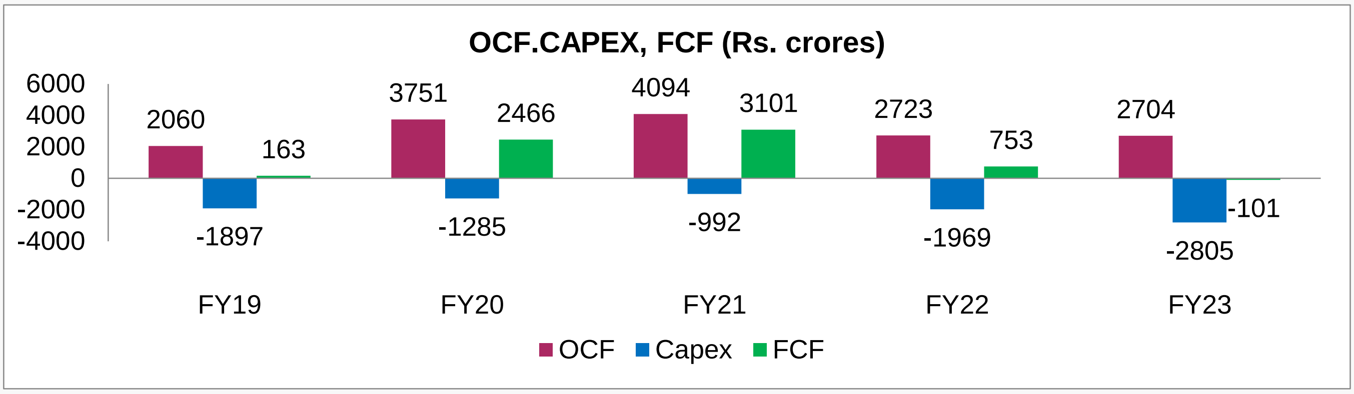
Source: the company, Axis Securities

Key Cash Flow Takeaways

Particulars (RsCr)	FY22	FY23	Change	Comments/Analysis
PBT	2931	1559	-47%	PBT was lower due to high input costs, higher depreciation and interest costs during the year.
Non-cash expenses				
Depreciation	1036	1546	49%	Depreciation is higher as new plants are commissioned during the year.
Finance Cost	218	269	23%	Finance cost was higher owing to higher rates and higher short-term borrowings.
Others	-534	-424	21%	Lower owing to fair value gain on financial assets.
Working Capital Adjustments	-732	97	-87%	Strict management of working capital improved the capital flow during the year.
CFO	2723	2718	0%	The same level was maintained owing to better operating performance and efficient WC management.
CFI	-1865	-2409	-29%	Higher owing to high Capex and investments
CFF	-1181	-509	-57%	Lower due to repayment of ST loan
Capex	-1969	-2805	42%	Higher due to expense made for capacity expansion
Free Cash Flow Generation	753	-101	87%	Lower owing to higher capex during the year. FCF is expected to improve in FY24.

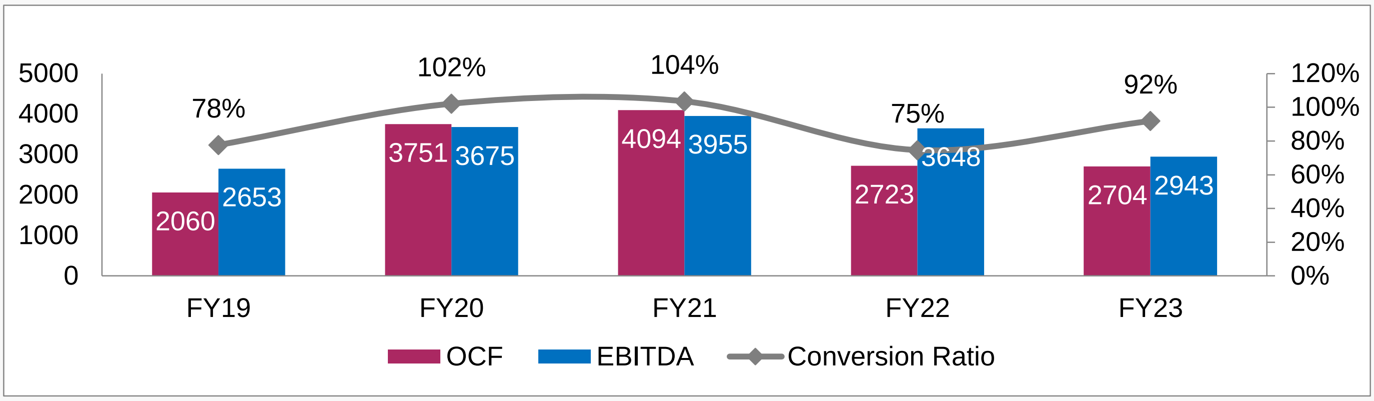
Source: the company; Axis Securities

Exhibit 14: OCF, Capex, FCF Trend(in Cr)



Source: Company, Axis Securities

Exhibit 15: OCF, EBITDA & Conversion ratio trend (Cr)



Source: Company, Axis Securities

Corporate Social Responsibility

During the year, the company spent Rs 57.54 Cr and Rs 45.73 Cr last year on corporate social responsibility. To make a positive impact on the local communities where the company operates, it has taken several initiatives.

- **Education for better community literacy:** Education creates a strong social foundation for the community. To strengthen the social fabric of the communities, the company has taken educational measures through the following initiatives
    - Quality Education
    - Inclusive education
    - Promotion of literary heritage
- **Agricultural initiatives:** These initiatives include organising visits to the local farmers in the nearest Krishi Vigyan Kendra to improve their skills and knowledge. The company also assists farmers in procuring farm tools, quality seeds and fodder seeds to increase yield and productivity.
- **Non-agricultural initiatives:** The company promotes the enhancement of practical knowledge of students by providing internships to students of IITs and IIMs. Similarly, ITI graduates are given vocational training in nearby mines.
- **Healthcare:** The company provides healthcare services to its local communities through its Wellness Management Centres (WMC) as well as by organising health camps. The company's health initiatives focus on areas such as COVID, health services for new mothers and their babies, cleanliness and hygiene programmes, COVID-19 assistance, and Health care for new mothers.
- **Women's empowerment and skills development:** Women empowerment plays a key role in the development of society. Therefore, the organisation has taken initiatives in priority areas to improve the status of women in society:
    - Vocational training for women
    - Shree Shakti Project
    - Shree Balika Samriddhi Yojna
    - Improving the status of the girl child in the family
- **Community Infrastructure and Rural Development:** The company undertakes projects to develop and improve infrastructure around its farms as listed below. The company carries out construction, repair and improvement of community facilities such as Gramme Panchayat buildings, sewers, community centres in villages, community toilets, stages, waiting stalls and sheds etc. The company is constructing water reservoirs for animals in public places. The company has constructed and repaired roads in the surrounding villages to ensure smooth and safe traffic.

Corporate Governance Philosophy

- Corporate Governance is considered one of the most important elements that catalysis the growth cycle. Corporate Governance philosophy is aimed at creating and nurturing a valuable bond with stakeholders and creating maximum value for them.
- It constantly reviews and benchmarks its corporate governance practices against global best practices. The company maintain high levels of governance standards backed by values, ethics and policies and measures accomplishment in terms of the ability to meet shareholders' aspirations.
- Custodian of funds, transparency and ethical conduct are the three pillars of its corporate governance philosophy.

AXIS SECURITIES

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23	FY24E	FY25E
Net sales	14306	16837	19349	21134
Other operating income	0	0	0	0
Total income	14306	16837	19349	21134
Raw Material	1139	1260	1768	1874
Power & Fuel	3161	5545	5642	5980
Freight &Forwarding	3241	3732	4300	4601
Employee benefit expenses	807	866	922	978
Other Expenses	2309	2491	2670	2857
EBITDA	**3648**	**2943**	**4046**	**4844**
Other income	537	430	614	528
PBIDT	4186	3374	4660	5373
Depreciation	1036	1546	1553	1626
Interest & Fin Chg.	218	269	295	281
E/o income / (Expense)	0	0	0	0
Pre-tax profit	2931	1559	2812	3467
Tax provision	554	390	619	763
RPAT	**2377**	**1169**	**2194**	**2704**
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	**2377**	**1169**	**2194**	**2704**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23	FY24E	FY25E
Total assets	23416	25819	27790	30358
Net Block	5712	6958	8887	9798
CWIP	973	2320	2320	2320
Investments	11546	11651	11271	12671
Wkg. cap. (excl cash)	1953	2200	2479	2667
Cash / Bank balance	118	119	137	126
Misc. Assets	3114	2571	2697	2777
Capital employed	23416	25819	27790	30358
Equity capital	36	36	36	36
Reserves	17235	18252	20229	22717
Minority Interests	0	0	0	0
Borrowings	3030	4797	4697	4697
Def Tax Liabilities	0	0	0	0
Other Liabilities and Provision	3115	2733	2827	2907

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23	FY24E	FY25E
Profit before tax	2931	1559	2812	3467
Depriciation	1036	1546	1553	1626
Interest Expenses	218	269	295	281
Non operating/ EO item	-534	-424	-614	-528
Change in W/C	-732	97	-279	-188
Income Tax	196	329	619	763
Operating Cash Flow	2723	2718	3149	3894
Capital Expenditure	-1969	-2805	-3483	-2536
Investments	-26	-10	380	-1400
Others	-482	402	614	528
Investing Cash Flow	-1865	-2409	-2489	-3408
Borrowings	-593	73	-100	0
Interest Expenses	-209	-257	-295	-281
Dividend paid	-379	-324	-216	-216
Financing Cash Flow	-1181	-509	-611	-497
Change in Cash	-1	-20	49	-11
Opening Cash	15	-5	-25	23
Closing Cash	15	-25	23	13

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E Mar	FY22	FY23	FY24E	FY25E
Operational Ratios				
Sales growth	14%	18%	15%	9%
OPM	25.5%	17.5%	20.9%	22.9%
Op. profit growth	-8%	-19%	37%	20%
COGS / Net sales	53%	63%	61%	59%
Overheads/Net sales	22%	20%	19%	18%
Depreciation / G. block	8.1%	10.8%	8.0%	8.0%
Efficiency Ratios				
Total Asset Turnover (x)	1.1	1.2	1.1	1.0
Sales/Gross block (x)	1.1	1.2	1.1	1.0
Sales/Net block(x)	2.7	2.7	2.4	2.3
Working capital/Sales (%)	0.1	0.1	0.1	0.1
Valuation Ratios				
PE (x)	40	76	40	32
P/BV (x)	5.5	4.9	4.3	3.8
EV/EBITDA (x)	24.2	28.4	20.1	16.5
EV/Sales (x)	6.2	5.0	4.2	3.8
Return Ratios				
ROE	14.6	6.6	11.4	12.6
ROCE	17.3	9.6	15.4	16.8
ROIC	33.0	17.4	25.9	29.3
Leverage Ratios				
Debt/equity (x)	0.1	0.1	0.1	0.1
Net debt/ Equity (x)	-0.4	-0.3	-0.3	-0.3
Debt service coverage ratio (x)	1.4	0.6	1.1	1.4
Interest Coverage ratio (x)	14.5	6.8	10.5	13.4
Cash Flow Ratios				
OCF/Sales	20%	18%	19%	22%
OCF/Ebitda	75%	92%	78%	80%
OCF/Capital Employed (%)	15%	14%	16%	17%
FCF/Sales (%)	5%	-0.4%	-2%	6%
Payout ratio (Div/NP)	14	19	10	8
AEPS (Rs.)	659	324	608	749
AEPS Growth (%)	22%	11%	11%	11%
CEPS (Rs.)	946	753	1039	1200
DPS (Rs.)	90	60	60	60

Source: Company, Axis Securities

Shree Cement Price Chart and Recommendation History

Date	Reco	TP	Research
07-Feb-22	HOLD	24,700	Result Update
23-May-22	HOLD	20,430	Result Update
22-Jul-22	HOLD	20,430	AAA
29-Jul-22	HOLD	18,640	Result Update
16-Oct-22	HOLD	22,465	Result Update
29-Nov-22	BUY	25,900	Company Update
09-Feb-23	BUY	26,700	Company Update
22-May-23	BUY	26,700	Result Update
28-Jul-23	HOLD	25,380	Result Update
03-Aug-23	HOLD	25,380	AAA

Source: Axis Securities

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Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

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HOLD	Between 10% and -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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