



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

SHREE CEMENT

WHAT WE LIKE

EXCEPTIONAL GROWTH SINCE INCEPTION & GREAT TURNAROUND IN 2002

Shree Cement has demonstrated exceptional growth with a revenue CAGR of 17.95% since its inception in 1985. It has also seen a CAGR of 12.33% in cement volumes sold since inception. The company faced tough times around 2002 when it was saddled with high-interest loans of 19% interest rate. It was mulling a 50% stake sale to French cement giant Vicat to help go through the crisis at the time. But the company made a great turnaround in the following years and has now cemented its place as the 2nd largest cement company in India.

INTENSE FOCUS ON REDUCING COSTS & INCREASING EFFICIENCY

Shree Cement has developed its economic moat of being the lowest cost manufacturer of cement in India and Shree earning industry-leading OPM of 30%. All this is a result of multiple efforts like:

- Using Waste Heat Recycling to lower power costs
- Split Grinding units to save on freight
- Using synthetic gypsum

These initiatives have resulted in the company having the lowest cost per ton of near Rs 3100/ton of cement in FY21 vs industry players like ACC who had this figure at Rs 4100 per ton.

CONTINUOUS CAPACITY EXPANSION & STRONG FINANCIALS

Shree has always maintained an aggressive stance in terms of expansion by systematically expanding into new territories. Thus it has come a far way from being a North only player till 2013, to expanding into the East zone from 2014-18 and commissioning plants in the South zone since 2018. The company is also looking to maintain its aggressive momentum and double the current capacity of 43.4 MTPA in 5-7 years.

STRONG FINANCIALS

Shree Cement has maintained a resilient financial profile with a debt to equity of only 0.14 despite maintaining its aggressive capital allocation. Most of the CAPEX is funded using the Cash generated from operations. Shree has also maintained consistent CFO generation with the last 10 year cumulative CFO at roughly 1.75 times PAT.

WHAT WE DON'T LIKE

OVERCAPACITY IN THE INDUSTRY

Most cement manufacturers are going for capacity expansion. Continued overcapacity in the industry poses a big risk of under-utilization of production capacities which may lead to loss of market share, and output prices falling to non-remunerative levels.

DEPENDENCE ON LIMESTONE

Limestone is the primary raw material for cement production and its consistent availability at optimum cost is essential for existing and future plant requirements. With depleting reserves in existing mines and the acquisition of new limestone mines getting uncertain due to regulatory and competition issues, conservation and more efficient use of limestone are of paramount importance for any cement player looking to develop an edge.

RISKS ARISING FROM FOSSIL FUEL & POWER COST VOLATILITY

Cement making is a very power-intensive process with high power generation & fuel requirements. Thus the higher the dependence of the cement maker on using fossil fuels like coal and pet coke, the higher the risk arising from price inflation in these materials. This risk was easily evident recently as power costs of the entire industry rose very high in the last 18 months due to inflation in pet coke prices. We at SSS believe that this risk is being mitigated to a certain extent by using WHRS & increasing the share of renewable power.

Logistics costs also play an important role in the performance of a cement maker. Logistics costs are directly related to inflation in fuel costs like diesel and thus cement makers are vulnerable to rising oil costs as well.

HIGH CAPITAL INTENSIVE BUSINESS WHICH IS VULNERABLE TO ECONOMIC SLOWDOWN

There is no other way to grow in the cement industry except to increase capacity regularly. And capacity expansion needs a lot of investment of money and time. If demand doesn't pan out as expected, it could develop into a difficult situation for the company.

Cement is a product that is in demand the most during high economic activity and slumps during an economic slowdown. However, in the past, Shree Cement has shown good resilience even during the worst of periods.

