SHREE CEMENT

6th November, 2008

OUTPERFORMER | CMP: 421

BSE Code	500387
NSE Code	SHREECEM

Key Data

Sensex	9734
52 week H/L (Rs)	1600/330
Market Cap (Rs Cr)	1507.88
Avg. daily vol. (6m)	6919
Face Value (Rs)	10

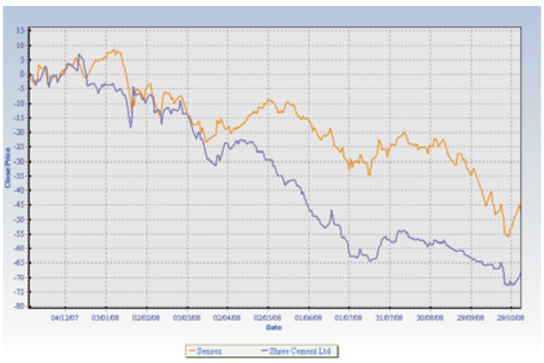
Source: Capitaline

Shareholding Pattern (%)

Promoters	63.72
Institution	9.6
Foreign holding	15.92
Non-promoter corp. holding	4.9
Public & Others	5.86

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

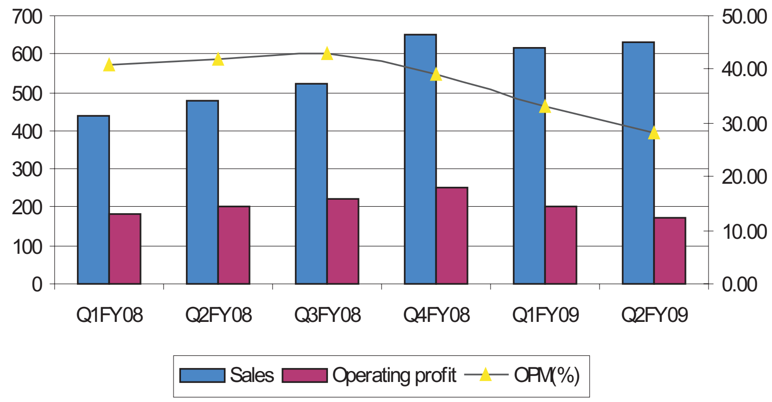
Result Highlights

Shree cement reported 32% YOY growth in sales to Rs 630cr in Q2FY09 on account of a 19% increase in cement volumes.

At the operating level, total costs witnessed a rise of 65.93% YOY to Rs 456.12cr. Power and fuel expenses increased by 80% YOY due to rise witnessed in coal and pet coke prices during the quarter. However lower depreciation provision and tax outgo enabled the company to maintain net profits at Rs 101.17cr which was higher by 6.37% YOY.

Financials

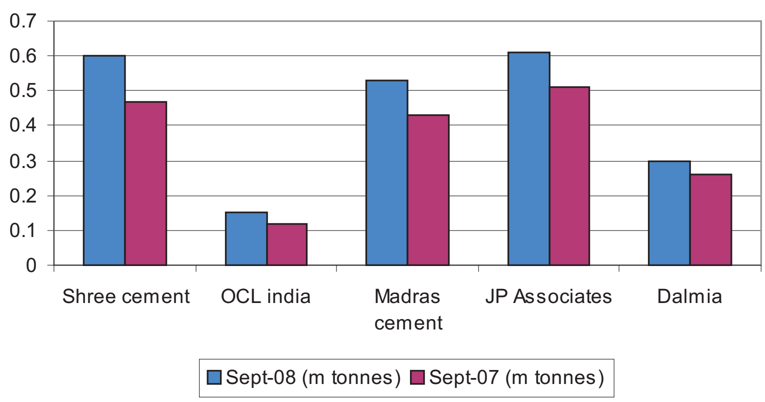
(Rs crores)	Q2 FY09	Q2 FY08	YoY%	Q1 FY09	QoQ%
Net Sales	629.18	476.02	32.18	614.32	2.42
Total Expenditure	456.12	274.88	65.93	411.35	10.88
Core EBITDA	173.06	201.14	-13.96	202.97	-14.74
EBITDA Margins (%)	27.51	42.25		33.04	
Other Income	33.59	29.12	15.35	11.77	185.39
Depreciation	53.70	68.77	-21.91	46.06	16.59
EBIT	152.95	161.49	-5.29	168.68	-9.33
Interest	16.67	8.45	97.28	17.06	-2.29
Profit Before Tax	136.28	153.04	-10.95	151.62	-10.12
Tax	28.79	46.81	-38.50	40.72	-29.30
Reported Net Profit	107.49	106.23	1.19	110.90	-3.07
Extra Ordinary Inc/Exp	6.32	11.12	-43.17	-5.49	-215.12
Adjusted Net Profit	101.17	95.11	6.37	116.39	-13.08
NPM (%)	16.08	19.98		18.95	
No of shares	3.48	3.48		3.48	
EPS (Ann.)	29.04	27.30		33.45	



Shree cement's net sales grew by 32% YOY, Which also includes carbon credit sale of 17.84cr. Cement sales and clinker sales volume stood at 1.74m and 0.28m tonnes respectively for this quarter. Growth in sales was primarily driven by volume growth of 35% which was partially negated by a fall of 4% in realisations. The net realisation of cement during the quarter was Rs 2400 per tonne and of clinker was Rs2200 per tonne. Realisation was lower on account of higher proportion of clinker sales volume and flat cement realisation.

Total cost was up by 62% against sales growth of 32% YOY, resulting into fall of 1474bps YOY in EBITDA margin to 27.51%. The overall power and fuel cost was up by 80% YOY, due to rise in pet coke prices during the quarter. Raw material costs also firmed up by 14% in Q2FY09, putting additional pressure on profitability of operations. Tax rate for the quarter was at a lower 21% while the adjusted PAT witnessed a marginal increase of 6.37% YOY to Rs 101.17cr.

Outperformers - Dispatches



Company has planned a capital expenditure of Rs 250cr during the current year and Rs 300cr to be spend during the next year. Capex would be used up for waste heat recovery plant as well as additional grinding unit. Currently the company has installed power capacity of 120MW.

Company expects during second half of the current year around 7-8 million metric tonnes of cement capacity would be added in the Northern market by cement industry. 30 million metric tonnes of cement capacity is expected to come on stream during the next 3 years.

Recommendations

At the current price, Shree cement trades at 5 times its TTM earnings of Rs 84.54 and 3 times its TTM EBITDA of Rs 2304.42cr. The company's current capacity is 8 million metric tonnes. Capacity additions expected in the northern region are likely to keep cement prices under pressure. Furthermore, demand is expected to be muted due to the impending slowdown the real estate sector. Lower demand coupled with higher supplies are likely to skew the demand-supply balance. This may force cement manufacturers, particularly in North India to cut back on their capacity utilisation. We expect margins to strengthen due to falling commodity prices. We are upgrading the stock to OUTPERFORMER rating on back of attractive valuations.

RATING INTERPRETATION
Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period