

Shree Cement

Expansion projects on schedule

We visited Shree Cement's (SCL) manufacturing plants in Rajasthan (Beawer and Ras) on November 6–7. Following are the key highlights of the same.

7 units in Rajasthan: SCL's manufacturing plants are located in the districts of Beawer (two units) and Ras (five units), three hours by road from Jaipur. The company currently has a clinker capacity of 7.5mn tonnes (mt), which will increase to 8.5mt following the set up of an eighth manufacturing unit by Q2FY11. SCL has a market share of 23% in Rajasthan and an overall 18% share in the northern region.

Unit 1 under maintenance shutdown: Currently, unit 1 in Beawer is undergoing a maintenance shutdown for 10–12 days. This is part of the routine annual maintenance drive and operations are expected to commence shortly.

145MW power plants on schedule: SCL is setting up power plants with a total capacity of 145MW, of which 45MW would comprise waste heat recovery units. Construction activity is in full swing, with the first 50MW unit well on its way towards commissioning by March '10, as per schedule. A second 50MW unit is likely to be commissioned by Q1FY11. Turbines are in place while boilers are expected by the end of November from APT China for the combined 100MW capacity. The waste heat recovery plants are scheduled to come onstream by the end of Q3FY10.

Additional 300MW power capacity planned at Beawer: The company intends to set up an additional 300MW of power capacity for merchant sales. The foundation stone has already been laid at the site and construction activity is likely to commence soon. SCL expects 150MW to be completed by March '11 and the balance by September. Post expansion, it will have ~450MW of surplus power to be sold in the open market.

Maintain Buy: At our target P/E multiple of 9x on FY11E earnings, we have a fair value of Rs 1,967 for SCL. At this price, the stock would trade at an EV/EBITDA multiple of 4.9x on FY11E. With the power segment expected to generate significant revenues, we believe the company has substantially de-risked the cyclicity in the cement business. We maintain a Buy rating on the stock.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 1,645	Rs 1,967	BUY	HIGH

BSE	NSE	BLOOMBERG
500387	SHRECEM	SRCM IN

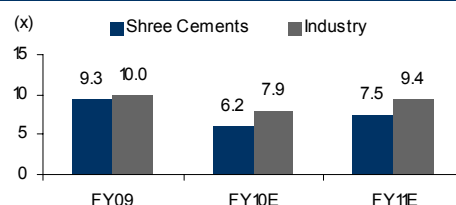
Company data

Market cap (Rs mn / US\$ mn)	57,312/1,235
Outstanding equity shares (mn)	35
Free float (%)	34.4
Dividend yield (%)	0.6
52-week high/low (Rs)	1790 / 320
2-month average daily volume	42,092

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Shree Cement	1,645	5.1	1.0	101.9
Sensex	16,499	(0.9)	8.8	38.9

P/E comparison



Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	19.2	9.4	7.1	7.5
P/E @ Target	22.9	11.3	8.5	9.0
EV/EBITDA @ CMP	7.8	7.1	4.6	4.8

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	20,659	26,642	36,733	38,637
Growth (%)	51.0	29.0	37.9	5.2
Adj net income	2,993	6,087	9,202	7,610
Growth (%)	92.1	103.4	51.2	(17.3)
FDEPS (Rs)	85.9	174.7	264.1	218.4
Growth (%)	92.1	103.4	51.2	(17.3)

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	41.7	35.7	42.4	37.3
EBIT margin	18.6	28.0	27.8	23.1
Adj PAT margin	14.5	22.8	25.1	19.7
ROE	50.9	64.7	55.8	31.1
ROIC	18.9	27.2	31.7	23.8
ROCE	19.3	28.3	33.2	23.0





Cement capacity being expanded to
12mt by FY11

Expansion drive

SCL's Suratgarh and Roorkee cement units are likely to become operational by end-FY10, taking the company's cement capacity to 12mt. Clinker capacity is being increased from 7.5mt at present to 8.5mt by Q2FY11.

Fig 1 - SCL's expanded capacity as at end-FY10

(mt)				Capacity as of Mar '10	
Plant	Site	District	State	Clinker	Cement
Unit 1 & 2	Bangur Nagar	Beawar	Rajasthan	2.3	2.6
Unit 3,4,5,6 & 7	Bangur City	Ras	Rajasthan	5.2	3.0
Grinding unit	Khush khera	Alwar	Rajasthan	-	3.5
Grinding unit	Suratgarh		Rajasthan	-	1.5
Grinding unit	Roorkee		Uttar Pradesh	-	1.5
Total				7.5	12.1

Source: RHH

Cement and power expansion projects

Fig 2 - Five cement units in Ras



Source: RHH

Fig 3 - Unit 8 construction site in Ras



Source: RHH



Fig 4 - 100MW power plant site...



Source: RHH

Fig 5 - ...full commissioning by Q1FY11



Source: RHH

Fig 6 - Construction work in full swing...



Source: RHH

Fig 7 - ...taking power capacity to ~260MW

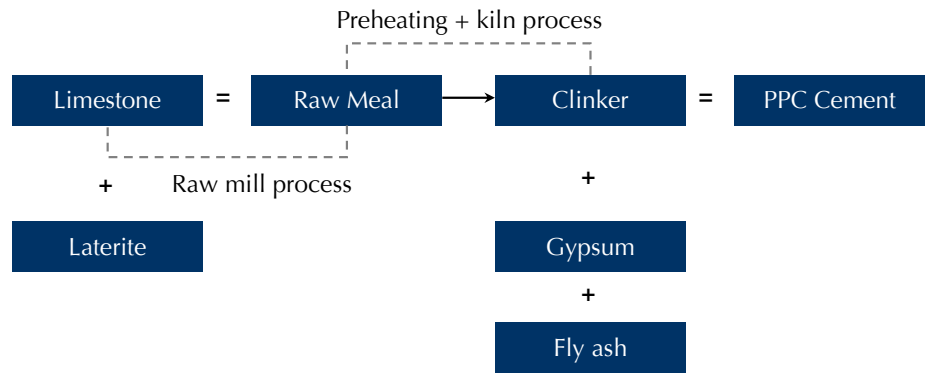


Source: RHH



Cement manufacturing process

Fig 8 - Cement manufacturing flowchart



Source: RHH, Company

Fig 9 - Limestone stacking



Source: RHH

Fig 10 - Raw mill



Source: RHH

Fig 11 - Piro process – Pre-heater



Source: RHH

Fig 12 - Kiln



Source: RHH



Fig 13 - Clinker out of the kiln



Source: RHH

Fig 14 - Cement mill



Source: RHH

Fig 15 - Cement packaging unit



Source: RHH

Fig 16 - Conveyor belt to move clinker



Source: RHH



Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	20,659	26,642	36,733	38,637
Growth (%)	51.0	29.0	37.9	5.2
EBITDA	8,624	9,505	15,584	14,415
Growth (%)	46.2	10.2	64.0	(7.5)
Depreciation & amortisation	4,788	2,054	5,356	5,481
EBIT	3,837	7,451	10,228	8,934
Growth (%)	144.9	94.2	37.3	(12.6)
Interest	497	744	650	924
Other income	733	829	1,377	1,502
EBT	4,072	7,536	10,955	9,512
Income taxes	1,079	1,449	1,753	1,902
Effective tax rate (%)	26.5	19.2	16.0	20.0
Extraordinary items	(389)	(309)	-	-
Min into / inc from associates	-	-	-	-
Reported net income	2,604	5,777	9,202	7,610
Adjustments	(389)	(309)	-	-
Adjusted net income	2,993	6,087	9,202	7,610
Growth (%)	92.1	103.4	51.2	(17.3)
Shares outstanding (mn)	34.8	34.8	34.8	34.8
FDEPS (Rs) (adj)	85.9	174.7	264.1	218.4
Growth (%)	92.1	103.4	51.2	(17.3)
DPS (Rs)	8.0	10.0	10.0	10.0

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	7,391	7,831	14,559	13,091
Non-cash adjustments	224	415	(3,037)	37
Changes in working capital	(539)	219	13	(164)
Cash flow from operations	7,076	8,465	11,535	12,964
Capital expenditure	(4,234)	(5,330)	(9,600)	(9,500)
Change in investments	(5,369)	(3,660)	2,500	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(9,602)	(8,990)	(7,100)	(9,500)
Issue of equity	-	-	(0)	(0)
Issue/repay debt	3,993	1,655	(4,133)	2,000
Dividends paid	(326)	(1,081)	(408)	(408)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	1,141	48	(106)	5,056
Closing cash & cash eq	4,674	4,723	4,617	9,673

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	9.5	10.5	10.5	10.5
ROIC (%)	18.9	27.2	31.7	23.8
Invested capital (Rs mn)	17,958	26,225	27,955	32,138
EVA (Rs mn)	1,690	4,382	5,921	4,259
EVA spread (%)	9.4	16.7	21.2	13.3

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	4,674	4,723	4,617	9,673
Accounts receivable	494	583	1,006	1,059
Inventories	1,766	1,545	2,028	2,323
Other current assets	4,026	7,443	7,443	7,443
Investments	5,910	8,448	5,948	5,948
Gross fixed assets	21,872	22,559	35,348	42,948
Net fixed assets	7,599	6,269	13,701	15,820
CWIP	180	4,789	1,600	3,500
Intangible assets	1	-	-	-
Deferred tax assets, net	185	104	104	104
Other assets	-	-	-	-
Total assets	24,834	33,903	36,448	45,870
Accounts payable	1,668	2,602	3,522	3,705
Other current liabilities	694	354	354	354
Provisions	2,437	3,885	849	886
Debt funds	13,307	14,962	10,828	12,828
Other liabilities	-	-	-	-
Equity capital	348	348	348	348
Reserves & surplus	6,380	11,752	20,546	27,749
Shareholder's funds	6,728	12,100	20,895	28,097
Total liabilities	24,834	33,903	36,448	45,870
BVPS (Rs)	193.1	347.3	599.7	806.5

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	41.7	35.7	42.4	37.3
EBIT margin	18.6	28.0	27.8	23.1
Net profit margin	14.5	22.8	25.1	19.7
ROE	50.9	64.7	55.8	31.1
ROCE	19.3	28.3	33.2	23.0
Working Capital & Liquidity ratios				
Receivables (days)	7	7	8	10
Inventory (days)	50	35	31	33
Payables (days)	48	45	53	54
Current ratio (x)	4.6	4.8	3.9	5.1
Quick ratio (x)	2.2	1.8	1.5	2.6
Turnover & Leverage ratios (x)				
Gross asset turnover	1.1	1.2	1.3	1.0
Total asset turnover	1.0	0.9	1.0	0.9
Interest coverage ratio	7.7	10.0	15.7	9.7
Adjusted debt/equity	2.0	1.2	0.5	0.5
Valuation ratios (x)				
EV/Sales	3.3	2.5	1.9	1.8
EV/EBITDA	7.8	7.1	4.6	4.8
P/E	19.2	9.4	7.1	7.5
P/BV	8.5	4.7	2.9	2.1



Quarterly trend

Particulars	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Revenue (Rs mn)	6,292	6,653	8,062	9,229	8,996
YoY growth (%)	32.2	27.1	24.0	50.2	43.0
QoQ growth (%)	2.4	5.7	21.2	14.5	(2.5)
EBITDA (Rs mn)	1,828	2,270	3,306	4,255	4,088
EBITDA margin (%)	29.0	34.1	41.0	46.1	45.4
Adj net income (Rs mn)	1,075	1,292	2,439	2,916	2,895
YoY growth (%)	1.2	268.9	494.9	162.9	169.3
QoQ growth (%)	(3.1)	20.2	88.8	19.5	(0.7)

DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	93.0	73.5	80.8	84.0	80.0
Interest burden (PBT/EBIT)	107.0	106.1	101.1	107.1	106.5
EBIT margin (EBIT/Revenues)	11.5	18.6	28.0	27.8	23.1
Asset turnover (Revenues/Avg TA)	105.4	98.3	90.7	104.4	93.9
Leverage (Avg TA/Avg equity)	303.8	357.2	312.0	213.2	168.0
Return on equity	36.4	50.9	64.7	55.8	31.1

Company profile

Promoted by BG Bangur, Shree Cement is among the top 10 cement producers in India with an installed capacity of 9.1mt. Its plants are located in Beawar and Ras (Rajasthan). The company continues to maintain its leadership position in northern India. It has a total captive power capacity of 116MW, meeting more than 90% of its total power requirement.

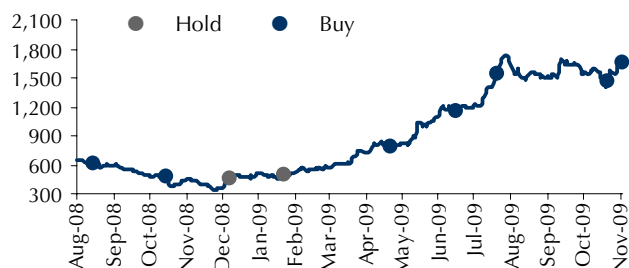
Shareholding pattern

(%)	Mar-09	Jun-09	Sep-09
Promoters	65.4	65.5	65.6
FII's	14.3	14.9	15.5
Banks & FI's	10.1	9.6	8.8
Public	10.2	10.0	10.1

Recommendation history

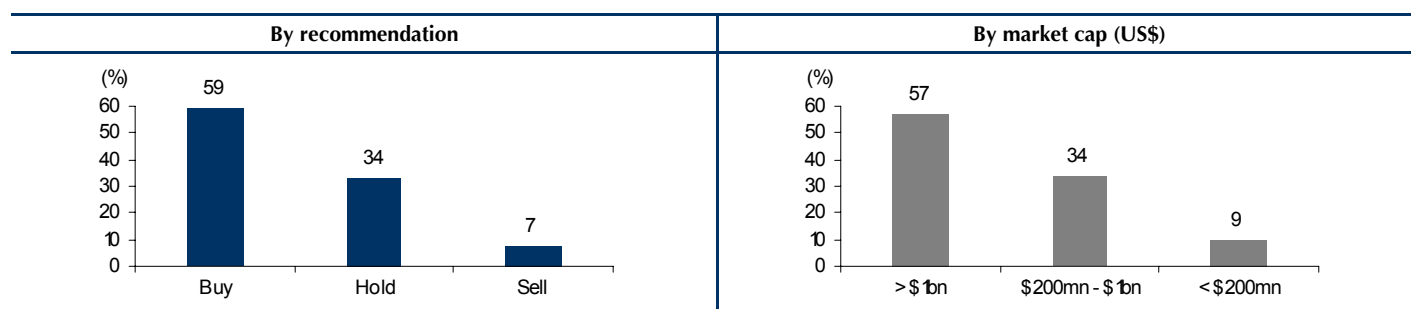
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	609	737	Buy
23-Oct-08	Results Review	484	619	Buy
16-Dec-08	Sector Report	460	485	Hold
29-Jan-09	Results Review	498	525	Hold
29-Apr-09	Results Review	775	893	Buy
22-Jun-09	Monthly Update	1,156	1,340	Buy
27-Jul-09	Results Review	1,539	1,967	Buy
29-Oct-09	Results Review	1,574	1,967	Buy
9-Nov-09	Company Update	1,645	1,967	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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