

16<sup>th</sup> May 2007**Reduce**

Price	Target Price
<b>Rs1,062</b>	<b>Rs 990</b>

Sensex - 13,929

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	16	(21)	(24)	6
Rel. to Sensex	11	(19)	(27)	(10)

Source: Bloomberg

**Stock Details**

Sector	Cement
Reuters	SHCM.BO
Bloomberg	SRCM@IN
Equity Capital (Rs mn)	348
Face Value	10
52 Week H/L	1,592/650
Market Cap (Rs bn)	37.0
Daily Avg Vol (No of shares)	47322
Daily Avg Turnover (US\$ mn)	1.2

**Shareholding Pattern (%)**

(31st Mar.'07)

Promoters	63.7
FII/NRI	18.3
Institutions	7.3
Private Corp.	3.9
Public	6.7

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**Shree Cement**Result  
Update**Results in line with expectations****In line with expectations**

Shree cement's (Shree) Q4FY2007 pre-exceptional PBT at Rs1318 million in line with our estimates, however because of negligible tax provision during the quarter (because change in depreciation policy) the pre-exceptional net profit at Rs1315 million is ahead of expectations. The net revenues for the quarter stood at Rs3.78 billion registering a growth of 67.7%, driven by 37% growth in cement volumes and 21% growth in cement realisations. The pre-exceptional operating profit for the quarter grew by a huge 69.5% to Rs1513 million. OPMs improved marginally by 40 bps to 40%. Further because of the exceptional depreciation charge the company has provided minimal tax charge for the quarter and consequently pre-exceptional net profit stood at Rs1315 million up 92% yoy, which was higher than our expectations. The reported net profit stood at Rs237 million against Rs607 million in Q4FY2006 registering a 61% decline. We are not changing our estimates for Shree. The stock currently trades at 8.3X its FY2008 earnings and 9.5 X its FY2009 earnings. On and EV/ton basis the stock trades at USD116 for FY2008 and USD90 for FY2009. We agree Shree is the best volume play in the industry but we are concerned about is the pricing discipline of players in the northern region once the large stream of new capacities become operation which in turn would lead to downturn in cement prices. We maintain our REDUCE rating on the stock with a price target of Rs990.

**Results Highlights**

- Shree cement's (Shree) Q4FY2007 pre-exceptional PBT at Rs1318 million in line with our estimates, however because of negligible tax provision during the quarter (because change in depreciation policy) the pre-exceptional net profit at Rs1315 million is ahead of expectations.
- The net revenues for the quarter stood at Rs3.78 billion registering a growth of 67.7%, driven by 37% growth in cement volumes and 21% growth in cement realisations.
- The company has reversed Rs207 million of pre operative expenses. For the purpose of calculation for this quarter we have not considered this item and accounted for it below the line. The operating profit (excluding exceptional item) for the quarter grew by a huge 69.5% to Rs1513 million. OPMs improved marginally by 40 bps to 40%.
- The reported depreciation for the quarter stands at Rs15470, which includes Rs1145 for unit IV and the attached captive power plant and also Rs207 million of pre-operative expenses. However as the unit IV was commissioned on 26<sup>th</sup> March 2007, we have treated this depreciation and pre operative exp as exceptional item and hence accounted for it below the line.
- For Q4FY2007 we have taken depreciation levels of Rs270 million as reported in Q3FY2007. Hence the pre-exceptional PBT stood at Rs1318 million which a growth of 94%, in line with our expectations. Further because of the exceptional depreciation charge the company has provided minimal tax charge for the quarter and consequently pre-exceptional net profit stood at Rs1315 million up 92% yoy, which was higher than our expectations. The reported net profit stood at Rs237 million against Rs607 million in Q4FY2006 registering a 61% decline.
- We are not changing our estimates for Shree. The stock currently trades at 8.3X its FY2008 earnings and 9.5 X its FY2009 earnings. On and EV/ton basis the stock trades at USD116 for FY2008 and USD90 for FY2009. We agree Shree is the best volume play in the industry but we are concerned about is the pricing discipline of players in the northern region once the large stream of new capacities become operation. We maintain our REDUCE rating on the stock with a price target of Rs990.

## Result table

Rs millions	Q407	Q406	Change	FY2007	FY2006	Change
Net Sales	3783	2255	68%	13681	6677	105%
Total Expenditure	2270	1362	67%	7757	4300	80%
Operating profit	1513	893	69%	5924	2376	149%
Other Income	91	17	428%	212	33	541%
EBIDTA	1604	910	76%	6136	2409	155%
Interest	16	23	-29%	104	128	-19%
PBDT	1588	887	79%	6024	2308	161%
Depreciation	270	207	31%	1134	575	97%
PBT	1318	681	94%	4890	1734	182%
Tax	3	-3	-194%	124	87	42%
Profit After Tax	1315	684	92%	4766	1646	189%
Extra ordinary expenses	1078	77	1300%	2996	1462	105%
Reported Profit After Tax	237	607	-61%	1770	184	862%
EPS (Rs)	37.7	19.6		136.8	47.3	
Equity	348.4	348.4		348.4	348.4	
Face Value	10	10		10	10	
<b>Margins</b>						
OPMs	40.0%	39.6%		43.3%	37.7%	
EBIDTA	42.4%	40.4%		44.8%	38.2%	
EBDT	42.0%	39.3%		44.0%	35.9%	
EBT	34.8%	30.2%		35.7%	27.4%	
EAT	34.8%	30.3%		34.8%	27.2%	
Tax rate	0.2%	-0.5%		2.5%	0.8%	

## Per tonne analysis

	Q407	Q406	Change	FY2007	FY2006	Change
Cement Sales	1277530	929000	37.5%	4830000	3202709	50.8%
Raw Material	371	357	4.0%	340	280	21.5%
Stocks	-45	-239	-81.2%	-4	-85	-95.1%
Employee	165	107	53.9%	120	102	17.7%
Power and fuel	565	513	10.1%	486	429	13.2%
Freight	419	437	-4.3%	387	369	4.8%
Other exp	302	312	-3.2%	278	248	11.9%
Total Cost per tonne	1777	1466	21.2%	1606	1343	19.6%
Realisation	2961	2427	22.0%	2833	2085	35.9%
EBIDTA	1184	961	23.2%	1227	742	65.3%

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