

4Q disappoints; focus on volumes


Merrill Lynch

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4Q EBITDA disappoints, profits hit by depreciation policy

Shree Cement's 4Q FY07 EBITDA grew 85% YoY but fell 6% QoQ dragged by higher costs; EBITDA was below our expectations. Recurring profit for 4Q FY07 stood at Rs245mn, down 60% YoY & 77% QoQ due to a 5-6 fold increase in depreciation during the quarter. This primarily reflects the company's accelerated depreciation policy for its 1.5mn tpa cement expansion commissioned in Mar '07.

Cost push hurts 4Q; FY08 profit estimate largely unchanged

In 4Q FY07, Shree's EBITDA/ton fell ~4% QoQ to Rs1186/ton led by ~13% QoQ rise in operating costs. Higher power & fuel costs (+19% QoQ) & higher wages (+54% QoQ) were the key cost push factors. Our conversation with the company indicates that the wage increase includes ~Rs90mn towards gratuity provisions. The increase in power & fuel costs was primarily due to sharp increase in pet coke prices. We have factored 4Q cost trends but our FY08 profit estimate is largely unchanged due to ~3% upward revision in our cement price assumptions.

1.5mn tpa expansion commissioned; volumes from 1Q FY08

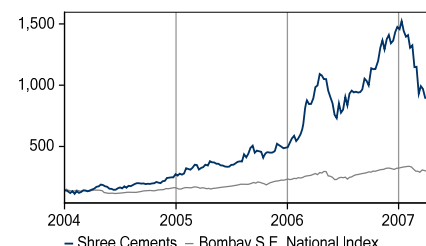
In Mar '07, Shree commissioned its 1.5mn tpa expansion at Ras in Rajasthan; the Co's cement capacity now totals 6mn tpa. Volume growth from the expanded capacity will likely be available from 1Q FY08 onwards. We estimate Shree's FY08 volumes at ~6mn tpa, up 24% YoY.

Further expansions underway; focus is on volume growth

The company expects to commission a further 1.5mn tpa kiln expansion & its greenfield grinding unit by Dec '07. An additional 1.5mn tpa kiln expansion is scheduled around Sep '08. Thus, by Mar '09, Shree expects its capacity to total ~9-10mn tpa. Volumes will be the key driver of the Co's future profits.

Stock Data

Price	Rs1,051
Investment Opinion	C-2-7
Volatility Risk	HIGH
52-Week Range	Rs650.00-Rs1,592
Mrkt Val / Shares Out (mn)	US\$888 / 34.8
Average Daily Volume	10,859
ML Symbol / Exchange	SREEF / BSE
Bloomberg / Reuters	SRCM IN / SHCM.BO
ROE (2008E)	55.0%
Net Dbt to Eqty (Mar-2006A)	5.0%
Est. 5-Yr EPS / DPS Growth	20.0% / 10.0%
Free Float	36.3%



Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	184	3,570	3,731	3,055	2,353
EPS	5.29	102.47	107.10	87.70	67.55
EPS Change (YoY)	-77.4%	NM	4.5%	-18.1%	-23.0%
Dividend / Share	5.00	6.00	6.50	7.00	7.50
Free Cash Flow / Share	39.12	47.64	54.07	56.24	156.06

Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	198.58x	10.26x	9.81x	11.98x	15.56x
Dividend Yield	0.476%	0.571%	0.618%	0.666%	0.714%
EV / EBITDA*	16.19x	6.06x	4.72x	4.97x	5.45x
Free Cash Flow Yield*	3.72%	4.53%	5.14%	5.35%	14.85%

* For full definitions of *iQmethod*SM measures, see page 5.

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14 May 2007

*iQprofile*SM Shree Cement Ltd

Key Income Statement Data (Mar)	2006A	2007A	2008E	2009E	2010E
(Rs Millions)					
Sales	6,677	13,680	17,690	20,492	23,359
Gross Profit	2,217	5,922	7,609	7,226	6,583
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	365	3,586	4,783	3,706	2,652
Net Interest & Other Income	(94)	108	191	368	486
Associates	NA	NA	NA	NA	NA
Pretax Income	272	3,694	4,975	4,074	3,138
Tax (expense) / Benefit	(87)	(124)	(1,244)	(1,018)	(784)
Net Income (Adjusted)	184	3,570	3,731	3,055	2,353
Average Fully Diluted Shares Outstanding	35	35	35	35	35

Key Cash Flow Statement Data

Net Income (Reported)	184	3,570	3,731	3,055	2,353
Depreciation & Amortization	1,852	2,336	2,825	3,520	3,931
Change in Working Capital	(83)	(704)	(521)	(340)	(143)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	59	(37)	0	0	0
Cash Flow from Operations	2,013	5,165	6,035	6,235	6,141
Capital Expenditure	(650)	(3,505)	(4,151)	(4,276)	(704)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(650)	(3,505)	(4,151)	(4,276)	(704)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(197)	(236)	(255)	0	0
Cash Flow from Financing	969	1,188	1,373	1,960	5,437
Free Cash Flow	1,363	1,660	1,884	1,959	5,437
Net Debt	1,675	251	(1,377)	(3,337)	(8,774)
Change in Net Debt	(1,166)	(1,424)	(1,628)	(1,959)	(5,437)

Key Balance Sheet Data

Property, Plant & Equipment	5,151	4,521	5,847	6,602	3,375
Other Non-Current Assets	0	0	0	0	0
Trade Receivables	270	530	723	849	902
Cash & Equivalents	1,407	4,798	6,693	13,209	14,864
Other Current Assets	1,293	2,539	3,462	4,065	4,318
Total Assets	8,122	12,388	16,725	24,725	23,459
Long-Term Debt	2,552	4,749	5,016	9,572	6,066
Other Non-Current Liabilities	690	652	652	652	652
Short-Term Debt	530	300	300	300	24
Other Current Liabilities	833	1,635	2,229	2,618	2,781
Total Liabilities	4,605	7,337	8,198	13,142	9,524
Total Equity	3,517	5,052	8,527	11,582	13,935
Total Equity & Liabilities	8,122	12,388	16,725	24,725	23,459

*iQmethod*SM - Bus Performance*

Return On Capital Employed	3.4%	35.8%	28.4%	15.2%	9.3%
Return On Equity	5.2%	83.3%	55.0%	30.4%	18.4%
Operating Margin	5.5%	26.2%	27.0%	18.1%	11.4%
EBITDA Margin	33.2%	43.3%	43.0%	35.3%	28.2%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	10.9x	1.4x	1.6x	2.0x	2.6x
Asset Replacement Ratio	0.4x	1.5x	1.5x	1.2x	0.2x
Tax Rate (Reported)	32.1%	3.4%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	47.6%	5.0%	-16.1%	-28.8%	-63.0%
Interest Cover	2.8x	34.6x	25.0x	6.2x	4.2x

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 5.

Company Description

Shree is a pure cement company located in Rajasthan (north India). It is one of the largest producers in northern India. The company is also one of the lowest-cost cement producers across the industry. Shree's founding shareholder is the Bangur family.

Stock Data

Price to Book Value 4.3x

Table 1: 4Q FY07 results summary

Yr to 31Mar	4Q FY06	3Q FY07	4Q FY07	YoY Chng	QoQ chng
Cement sales (Mn tonnes)	1.0	1.3	1.3	33%	-1%
<i>Rs mn</i>					
Turnover	2,255	3,645	3,783	68%	4%
Operating costs	1,439	2,044	2,270	58%	11%
EBDIT	816	1,601	1,513	85%	-6%
<i>EBDIT margin</i>	<i>36%</i>	<i>44%</i>	<i>40%</i>		
Depreciation	207	263	1,340	549%	410%
Operating profit	609	1,338	173	-72%	-87%
Other income	17	47	91	428%	94%
EBIT	627	1,385	264	-58%	-81%
Interest	23	7	16	-28%	151%
Profit before tax	604	1,379	248	-59%	-82%
Provision for Tax	(3)	338	3	-195%	-99%
Recurring net profit	607	1,041	245	-60%	-77%
<i>Net Margin</i>	<i>26.9%</i>	<i>28.6%</i>	<i>6.5%</i>		
Non-recurring income/(expenses)			(6)		
Reported net profit	607	1,041	239	-61%	-77%

Source: ML research

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iQmethodSM Measures Definitions
Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill

Amortization

Net Income

Operating Profit

Expected 5-Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt, Less Cash & Equivalents

EBIT

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Sales

Other LT Liabilities

Enterprise Value

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap. = Current Share Price * Current Basic Shares

Basic EBIT + Depreciation + Amortization

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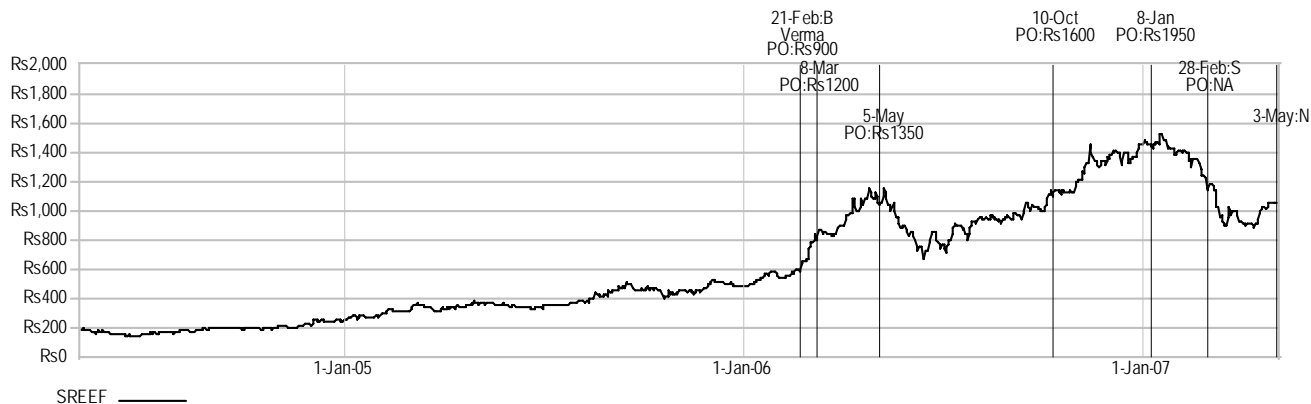
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14 May 2007

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Investment Rating Distribution: Building Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	47	47.96%	Buy	10	22.73%
Neutral	37	37.76%	Neutral	7	20.59%
Sell	14	14.29%	Sell	1	9.09%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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