



Prabhudas
Lilladher

Fulfilling investors' needs since 1944

Novonil Guha
91-22-6632 2237

Senior Research Analyst
NovonilGuha@PLIndia.com

Q4 FY07
Result Update

Shree Cement

Market Performer

Rs 1,051

May 15, 2007

Accounting policy changes impact profits

Company Details		Q4 FY07 Result Snapshot	
Market Cap:	Rs 36,617m	<p>At the operating level, Shree Cement's (SCL) results belied expectations -- Rs 1.51bn in EBITDA against our expected Rs 1.64bn. Realizations and volumes paralleled expectations, but higher-than-expected energy costs coupled with the steep rise in staff costs resulted in a lower-than-expected EBITDA margin.</p> <p>Further, in Q4 the company changed the accounting for depreciation for Unit IV to WDV, resulting in lower PAT of Rs 245m, (estimated Rs 1.08bn). Ahead, from the commissioning of the 1.5m ton Unit IV in Mar.'07, we expect the impressive volume growth to continue. Also, with the change in accounting for depreciation to the WDV, we expect higher depreciation for FY08. However, following the CMA's one-year price-freeze agreement with the government, we do not expect any price upside. Consequently, at a PE of 8.8x FY08E and EV/t of \$115, the company is fairly valued. We reiterate a Market Performer rating on the stock.</p>	
52-Week High/Low:	Rs 1,592 / 650		
Bloomberg Code:	SRCM@IN		
Reuters Code:	SHCM.BO / NS		
Shares O/s:	35m		
Average Volume (3 months):	45,235 shares		
Price Performance			
(%)	1m	3m	12m
Absolute	14.4	(19.5)	4.9
Relative to Sensex	10.1	(19.1)	(13.2)

Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4 FY07	Q4 FY06	YoY Gr. (%)	Q3 FY07	FY06	FY07P	YoY Gr. (%)
Net Sales	3,783	2,266	66.9	3,645	6,948	13,680	96.9
Raw Material	417	110	280.8	426	607	1,622	167.3
Staff Costs	210	99	111.7	138	330	580	75.9
Power & Fuel	722	477	51.4	617	1,373	2,345	70.8
Freight	535	406	31.6	511	1,005	1,867	85.8
Other Expenses	386	392	(1.4)	352	1,417	1,343	(5.2)
Total Expenditure	2,270	1,484	53.0	2,044	4,731	7,758	64.0
EBITDA	1,513	783	93.3	1,601	2,217	5,922	167.1
<i>EBITDA Margin (%)</i>	<i>40.0</i>	<i>34.5</i>	<i>545.7</i>	<i>43.9</i>	<i>31.9</i>	<i>43.3</i>	
Depreciation	1,340	207	548.7	263	1,640	4,331	164.1
Other Income	91	16	472.9	47	35	212	509.4
EBIT	264	592	(55.4)	1,385	612	1,803	194.6
Interest	16	23	(28.2)	7	128	104	(19.2)
PBT	248	569	(56.5)	1,379	484	1,700	251.3
Extraordinary Income/(Expense)	(6)	35		-	(212)	195	(191.8)
PBT (After EO)	242	604	-	1,379	271	1,894	598.0
Tax	3	(3)	-	338	87	124	42.4
<i>Tax Rate (%)</i>	<i>1.3</i>	<i>(0.5)</i>		<i>24.5</i>	<i>18.1</i>	<i>7.3</i>	
Reported PAT	239	607	(60.6)	1,041	184	1,770	861.8
Adjusted PAT	245	572	(57.3)	1,041	396	1,575	297.3

(Stock price as on May 14, 2007)



Result Highlights

Turnover driven by growth in both volume and price

SCL reported a significant 67% jump in the top line, aided by a 32.5% rush in volumes and a 26% rise in average realizations. Volume growth was partly driven by the commissioning of Unit III in February '06. Strong cement prices in the north coupled with a favourable yoy base helped the company post a 26% yoy realization growth. Ahead, however, we expect muted growth in realizations due to the price freeze agreed on by cement manufacturers.

Higher realizations and operating rates help in the 545-bp margin expansion

Total costs were up 53% yoy. Raw material costs (per ton) went up 8% due to the greater use of fly ash in order to maximize volumes. Power and fuel costs (per ton) jumped 14% yoy due to higher prices of petcoke, while freight costs (per ton) were stable during the quarter. Further, staff costs doubled mainly from increments announced in January '07, which also resulted in the rise in gratuity liability. After adjusting for a reversal of the pre-operative expenses relating to the earlier year (amounting to Rs 201m) as a non-recurring item, the company registered a 545-bp yoy jump in the EBITDA margin to 40%, (lower than the about 45% we expected). SCL's EBITDA/ton also improved to Rs 1,186 (from Rs 812 a year ago). The company changed the method of accounting for depreciation to WDV, resulting in a charge of Rs 1.55bn during the quarter (expected, Rs 294m), which also included Rs 206.9m of amortization of pre-operative expenses. After adjusting for the amortization as a non-recurring expense, the company posted an adjusted PAT of Rs 245m.

Valuations

At the current price, the stock quotes at a PE of 8.8x FY08E while on an EV/ton it quotes at \$115. We will shortly be revising our figures, giving effect to the higher depreciation. However, while the valuations are inexpensive, we feel that the lack of pricing power for the next year would hamper stock performance in the medium term. We maintain a **Market Performer** rating on the stock.

Key Figures

Y/e March	FY06	FY07E	FY08E	FY09E
Revenue (Rs m)	6,948	14,130	18,066	21,024
EBITDA (Rs m)	2,217	6,140	7,740	7,924
Margins (%)	31.9	43.5	42.8	37.7
PAT (Rs m)	396	3,635	4,112	4,252
EPS (Rs)	11.4	104.3	118.0	122.0
PER (x)	92.4	10.0	8.8	8.5
EV / E (x)	18.4	6.5	5.2	4.6
EV / Sales (x)	5.9	2.8	2.2	1.8
RoCE (%)	8.8	56.8	48.4	43.7
RoE (%)	13.5	82.0	55.3	40.2

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.