

August 30, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs1,641	Rs2,050
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	4,920
Sensex	16,416

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(13)	(5)	(10)
Rel. to Nifty	3	(3)	3	(2)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Cement
Bloomberg	SRCM@IN
Equity Capital (Rs mn)	348
Face Value(Rs)	10
No of shares o/s (mn)	35
52 Week H/L	2,324/1,505
Market Cap (Rs bn/USD mn)	57/1,240
Daily Avg Volume (No of sh)	19950
Daily Avg Turnover (US\$m)	0.8

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	64.8	64.8	64.8
FII/NRI	17.1	16.8	17.4
Institutions	5.8	6.1	6.4
Private Corp	8.2	8.3	7.5
Public	4.1	4.0	4.0

Source: Capitaline

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- 300 MW power plant (150MW X 2) at Rajasthan execution on track. 1st Unit (150MW) already under trial runs - 2<sup>nd</sup> unit expected to be synchronized by Oct-11
- Shree enters into short term contracts for sale of 225MW of power with SEBs @Rs4.35/unit for H2FY12. Management believes petcoke prices to stabilize with commissioning of IOC, Koyali and HPCL, Bhatinda plants
- Significant land acquisition completed for Karnataka & Chhatisgarh Greenfield Cement plants - capacity to touch 20 mnt by FY16
- Headwinds for Shree yet to recede-However see resumption of EBIDTA growth from H2FY12 onwards. Valuation at 5.4X EV/E & EV/t of USD85 remain inexpensive-ACCUMULATE

We visited Shree Cement's Beawar (Rajasthan) plant to appraise ourselves on the company's 300 MW power plant (150MW X 2) expansion. We also spoke to the management on the company's strategy on the power business and the next phase of expansion on cement business. Key highlights of our interaction:

### 300 MW power plant (150MW X 2) at execution on track- 1st Unit (150MW) already under trial runs

We recently visited the 1st Unit (150MW) of the 300 MW CPP at Rajasthan which is under trial runs. Shree has recently entered in a contract for sale of 225MW of power for H2FY12 with various SEBs like Punjab, UP etc at a price of Rs4.35/unit. Shree is expected to generate EBITDA of roughly Re1 /unit from sale of power under these contracts. The management has guided to sell ~ 100 mn units of power in FY12, with estimated EBITDA from power division to be around Rs1 bn.

### Cement demand weakness persists –foresee recovery in FY13

The demand continues to remain sluggish impacted by the slump in real estate construction in Jaipur & NCR. The demand has been impacted not only because of rising interest rates but also due to Noida land issues. Further the slowdown in Government led Infrastructure has not helped the cause. With Government facing this policy paralysis and the recent agitation issues, the management expects demand sluggishness to continue over next 6 months. However the scenario is expected to improve in FY13 particularly for Shree as Rajasthan is set to see flush of new urban infra projects like Jaipur Metro & mega road projects like Beawar – Pali Pindwara & Udaipur-Kishangarh-Ahmedabad.

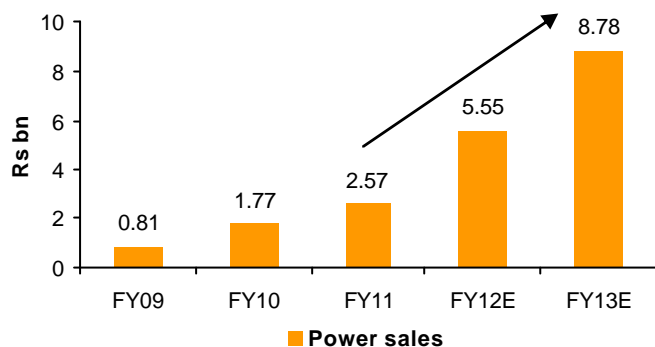
### Financial Snapshot

YE-	Net	EBITDA		EPS		RoE		EV/		EV/
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	Tonne
FY10	36,321	14,919	41.1	7,197	206.6	24.5	47.3	8.1	4.0	117.1
FY11	35,119	8,812	25.1	2,097	60.2	-70.9	11.0	27.8	7.0	93.4
FY12E	42,721	10,591	24.8	-312	-9.0	-114.9	(1.6)	NA	5.4	85.2
FY13E	50,154	12,974	25.9	5,170	148.4	-175.9	24.2	11.3	3.8	67.2

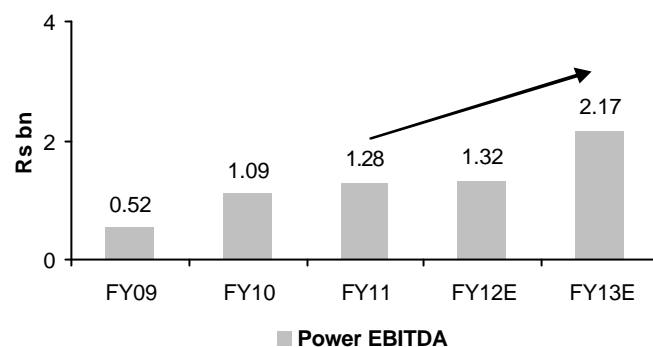
### Pet coke price to stabilize

Shree continues to use petcoke for cement operations due to its lower ash content (1%) which is beneficial for production of cement. However it has started using low grade imported coal from US together with South African and Indonesian coal for its power plant operations. The management highlighted that it expects petcoke prices to stabilize with commissioning of IOC, Koyali plant near Baroda and HPCL plant at Bhatinda. Further the lower heat rate for the 300 MW plant as compared to its existing power plants would help Shree to improve its efficiencies and control power generation cost.

#### Power revenues 85% CAGR over FY11-13E



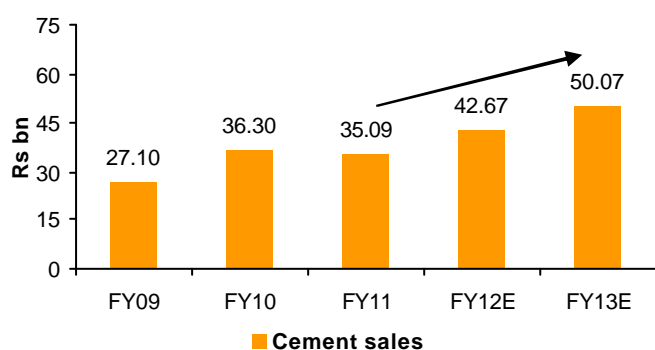
#### Power EBITDA 30% CAGR over FY11-13E



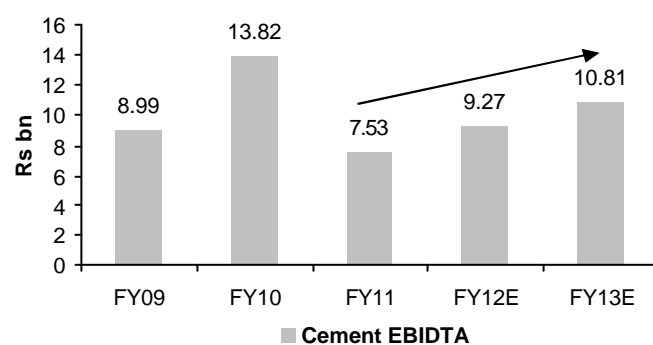
### Shree to increase cement capacity to 20 mtpa by FY16- Cash generation sufficient to fund future growth plans

Shree plans to increase its cement capacity from current 13.5 mtpa to 20 mtpa by FY16. It has already finished 95% of land acquisition in Karnataka and around 93% in Chattisgarh. The total project cost for these expansions together with captive power plants is expected to be around Rs3.5bn. Shree's current net cash stands at Rs1.6bn and the management is confident of generating healthy cash flows in the future ruling out the need for any external debt or equity dilution to fund these expansion projects. Shree has an outstanding debt of Rs20bn & cash Rs16.5bn as of FY11. The debt repayment obligations over FY12&13 is ~Rs9.5 bn.

#### Cement revenues 19% CAGR over FY11-13E



#### Cement EBITDA 20% CAGR over FY11-13E



### Valuation at 5.4X EV/E & EV/t of USD85 remain inexpensive-ACCUMULATE

With sluggish cement demand & uncertainty on pricing power for the manufacturers, we expect profitability for the sector to see tepid recovery. Hence we also agree that earnings headwinds for Shree are yet to recede. However with likely peaking out of cost pressures (expect for enactment of New Mining Tax) & low base for FY11, we see Shree's EBITDA growth to resume from H2FY12 onwards. In this context we believe Shree's valuation at 5.4X EV/E & EV/t of USD85 for FY12 numbers remain inexpensive-ACCUMULATE with price target of Rs2050.

## Financials

## Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>36,321</b>	<b>35,119</b>	<b>42,721</b>	<b>50,154</b>
Growth (%)	34.0	(3.3)	21.6	17.4
<b>Total Expenditure</b>	<b>21,504</b>	<b>26,427</b>	<b>32,130</b>	<b>37,180</b>
Raw Materials Cost	3,238	3,723	4,194	4,661
Employee costs	1,586	1,985	2,343	2,530
Power & Fuel cost	6,105	9,123	13,107	16,271
Freight	5,889	5,829	6,955	7,711
Others	4,687	5,649	5,530	6,006
<b>EBIDTA</b>	<b>14,919</b>	<b>8,812</b>	<b>10,591</b>	<b>12,974</b>
Growth (%)	56.9	-40.9	20.2	22.5
<b>EBIDTA %</b>	<b>41.1</b>	<b>25.1</b>	<b>24.8</b>	<b>25.9</b>
Depreciation	5,902	7,243	9,999	5,668
<b>EBIT</b>	<b>9,016.6</b>	<b>1,569.6</b>	<b>592.3</b>	<b>7,305.7</b>
<b>EBIT margin (%)</b>	<b>24.8</b>	<b>4.5</b>	<b>1.4</b>	<b>14.6</b>
Other income	1,284	1,249	1,088	1,089
Interest	1,185	1,709	2,070	1,932
<b>EBT</b>	<b>9,116</b>	<b>1,109</b>	<b>(390)</b>	<b>6,462</b>
Tax	1,918	(988)	(78)	1,292
<b>Effective tax rate (%)</b>	<b>21.0</b>	<b>-89.1</b>	<b>20.0</b>	<b>20.0</b>
<b>Adj PAT</b>	<b>7,197</b>	<b>2,097</b>	<b>(312)</b>	<b>5,170</b>
Growth (%)	24.5	-70.9	NA	NA
<b>Net Margin (%)</b>	<b>19.8</b>	<b>6.0</b>	<b>(0.7)</b>	<b>10.3</b>
(Profit)/loss from JV's/Ass/MI				
<b>Adj. PAT After JVs/Ass/MI</b>	<b>7,197</b>	<b>2,097</b>	<b>(312)</b>	<b>5,170</b>
Extra-ordinary	437	0	0	0
<b>Reported PAT</b>	<b>6761</b>	<b>2097</b>	<b>-312</b>	<b>5170</b>
Growth (%)	17.0	-69.0	NA	NA

## Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>9,313</b>	<b>-140</b>	<b>-1,477</b>	<b>5,373</b>
Depreciation	5,704	7,243	9,999	5,668
Interest Provided	766	1,709	2,070	1,932
Other Non-Cash items	-1,286	-9	0	0
Chg in working cap	-61	1,295	375	241
Tax paid	-1,897	988	78	-1,292
<b>Operating Cashflow</b>	<b>12,540</b>	<b>11,087</b>	<b>11,044</b>	<b>11,922</b>
Capital expenditure	-11,710	-11,516	-4,722	-3,000
<b>Free Cash Flow</b>	<b>830</b>	<b>-430</b>	<b>6,323</b>	<b>8,922</b>
Other income	489	1,249	1,088	1,089
Investments	-5,663	3,958	0	0
<b>Investing Cashflow</b>	<b>-16,885</b>	<b>5,207</b>	<b>1,088</b>	<b>1,089</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	5,729	-983	-1,250	-1,250
Interest Paid	-1,332	-1,709	-2,070	-1,932
Dividend paid (incl tax)	-611	-568	-529	-529
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>3,786</b>	<b>-3,260</b>	<b>-3,849</b>	<b>-3,711</b>
<b>Net chg in cash</b>	<b>-559</b>	<b>445</b>	<b>3,562</b>	<b>6,300</b>
Opening cash position	4,723	4,163	4,608	8,170
<b>Closing cash position</b>	<b>4,164</b>	<b>4,608</b>	<b>8,170</b>	<b>14,470</b>

## Balance Sheet

Y/E, Mar (Rs. m)	FY10E	FY11P	FY12E	FY13E
Equity share capital	348	348	348	348
Reserves & surplus	17,984	19,514	18,673	23,314
<b>Net worth</b>	<b>18,332</b>	<b>19,862</b>	<b>19,021</b>	<b>23,662</b>
<b>Minority Interest</b>				
Secured Loans	17,885	17,805	16,555	15,305
Unsecured Loans	3,177	2,274	2,274	2,274
<b>Loan Funds</b>	<b>21,062</b>	<b>20,079</b>	<b>18,829</b>	<b>17,579</b>
Net Deferred Taxes	124	723	723	723
<b>Total Liabilities</b>	<b>39,270</b>	<b>39,218</b>	<b>37,128</b>	<b>40,519</b>
Gross Block	29,509	40,421	52,421	55,421
Less: Acc Depreciation	21,989	28,750	38,749	44,417
<b>Net block</b>	<b>7,520</b>	<b>11,671</b>	<b>13,672</b>	<b>11,004</b>
Capital WIP	9,674	10,278	3,000	3,000
<b>Investment</b>	<b>15,922</b>	<b>11,965</b>	<b>11,965</b>	<b>11,965</b>
<b>Current Assets</b>	<b>15,822</b>	<b>14,389</b>	<b>18,931</b>	<b>26,316</b>
Inventories	3,581	4,042	4,917	5,773
Sundry Debtors	824	1,082	1,316	1,545
Cash and Bank	4,164	4,608	8,170	14,470
Loans and Advances	7,140	4,431	4,431	4,431
Other current assets	112,784	224,525	96,195	96,195
<b>Current Liab &amp; Prov</b>	<b>9,666</b>	<b>9,084</b>	<b>10,440</b>	<b>11,766</b>
Current liabilities	4,667	6,264	7,620	8,946
Provisions	4,999	2,820	2,820	2,820
<b>Net current assets</b>	<b>6,156</b>	<b>5,305</b>	<b>8,491</b>	<b>14,550</b>
Miscellaneous Exps	0	0	0	0
<b>Total Assets</b>	<b>39,272</b>	<b>39,218</b>	<b>37,127</b>	<b>40,518</b>

## Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	41.1	25.1	24.8	25.9
Net Margin	19.8	6.0	(0.7)	10.3
ROCE	31.1	7.2	4.4	21.6
ROE	47.3	11.0	(1.6)	24.2
RoIC	97.4	14.3	4.5	58.3
<b>Per Share Data (Rs)</b>				
EPS	206.6	60.2	(9.0)	148.4
CEPS	363.5	268.1	278.1	311.1
BVPS	526.2	570.1	546.0	679.2
DPS	13.0	14.0	13.0	13.0
<b>Valuations (x)</b>				
PER	8.1	27.8	NA	11.3
P/CEPS	4.6	6.2	6.0	5.4
P/BV	3.2	2.9	3.1	2.5
EV / Sales	1.6	1.8	1.3	1.0
EV / EBITDA	4.0	7.0	5.4	3.8
Dividend Yield (%)	0.8	0.8	0.8	0.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.1	0.2	(0.1)	-0.4
Net Debt/EBIDTA	1.1	1.8	1.0	0.2
Working Cap Cycle (days)	-3	-12	-12	-12

**Recommendation History: Shree Cement – SRCM IN**

Date	Reports	Reco	CMP	Target
02/08/2011	<a href="#">Shree Cement Q1FY12 Result Update</a>	Accumulate	1,750	2,050
30/05/2011	<a href="#">Shree Cement Q4FY11 Result Update</a>	Accumulate	1,836	1,960
31/01/2011	<a href="#">Shree Cement Q3FY11 Result Update</a>	Accumulate	1,660	1,960
11/11/2010	<a href="#">Shree Cement Q2FY11 Result Update</a>	Accumulate	2,240	2,330

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
23/08/2011	<a href="#">Cement Sector Update</a>			
16/08/2011	<a href="#">Global Offshore Q1FY12 Result Update</a>	Hold	97	110
12/08/2011	<a href="#">India Cements Q1FY12 Result Update</a>	UR	72	UR
09/08/2011	<a href="#">Madras Cement Q1FY12 Result Update</a>	Accumulate	84	100

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