



## Shree Cement

STOCK INFO. BSE Sensex: 18,513	BLOOMBERG SRCM IN	24 October 2007	
S&P CNX: 5,496	REUTERS CODE SHCM.BO	<i>Previous Recommendation: Buy</i>	<b>Buy</b>
Equity Shares (m)	34.8		<b>Rs1,513</b>
52-Week Range	1,695/851		
1,6,12 Rel. Perf. (%)	-4/17/-13		
M.Cap. (Rs b)	52.7		
M.Cap. (US\$ b)	1.3		

- Shree Cement's 2QFY08 results are better than our estimates on account of better than estimated realizations and lower cost push. Shree's 2QFY08 revenue grew by 48% YoY to Rs4.66b, driven by 34.6% YoY higher volumes to 1.49MT and 9.7% YoY (~3.4% QoQ) improvement in realizations to Rs3,122/ton.
- EBITDA grew 41% to Rs2b, translating into EBITDA margin of 43.1% - a decline of 200bp YoY (flat QoQ). EBITDA margin was impacted by higher energy cost due to increase in pet coke price and higher freight cost. However, EBITDA/ton improved 4.8% YoY to Rs1,346/ton (~4% QoQ).
- Depreciation was up 103% YoY due to accelerated depreciation provision on the new capacities, which commissioned operations during the quarter. However, higher other income at Rs2.9b on account of sale of accrued carbon credit worth Rs1.6b, mitigated impact of higher depreciation.
- We are revising our earnings estimate downwards by 11% for FY08E (to Rs123) and by 12.5% for FY09E (to Rs147.3) to factor in accelerated depreciation on new plants and increase in pet coke prices. Valuations at 10.3x FY09E and 4.5x FY09E EV/EBITDA do not fully reflect superior growth and profitability of the company. Maintain **Buy** with target price to Rs2,000 (~6x FY0 EV/EBITDA).

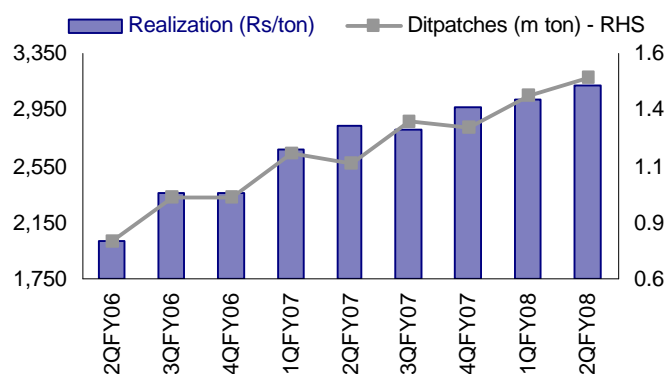
Y/E MARCH	FY07				FY08				(Rs Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY07	FY08E
Sales Dispatches (m ton)	1.16	1.11	1.30	1.28	1.41	1.49	1.80	2.00	4.94	6.70
YoY Change (%)	58.5	44.2	81.1	32.5	21.9	34.6	39.0	56.4	50.9	35.5
Realization (Rs/ton)	2,665	2,846	2,815	2,964	3,020	3,122	3,182	3,242	2,767	3,152
YoY Change (%)	36.5	41.1	39.5	26.0	13.3	9.7	13.0	9.4	35.4	13.9
QoQ Change (%)	13.2	6.8	-1.1	5.3	1.9	3.4	1.9	1.9		-7.3
<b>Net Sales</b>	<b>3,083</b>	<b>3,160</b>	<b>3,645</b>	<b>3,783</b>	<b>4,258</b>	<b>4,664</b>	<b>5,727</b>	<b>6,471</b>	<b>13,680</b>	<b>21,120</b>
YoY Change (%)	116.3	103.3	152.7	66.9	38.1	47.6	57.1	71.1	104.4	54.4
<b>EBITDA</b>	<b>1,375</b>	<b>1,426</b>	<b>1,601</b>	<b>1,513</b>	<b>1,823</b>	<b>2,011</b>	<b>2,491</b>	<b>2,803</b>	<b>5,922</b>	<b>9,129</b>
Margins (%)	44.6	45.1	43.9	40.0	42.8	43.1	43.5	43.3	43.3	43.2
Depreciation	263	338	263	1,547	358	688	1,400	1,416	4,331	3,861
Interest	54	27	7	16	39	85	65	76	104	265
Other Income	30	43	47	91	126	291	140	153	212	710
<b>PBT before EO Exp</b>	<b>1,088</b>	<b>1,104</b>	<b>1,379</b>	<b>41</b>	<b>1,552</b>	<b>1,530</b>	<b>1,166</b>	<b>1,464</b>	<b>1,699</b>	<b>5,712</b>
Extra-Ord Expense	0	0	0	-201	0	0	0	0	-195	0
<b>PBT</b>	<b>1,088</b>	<b>1,104</b>	<b>1,379</b>	<b>242</b>	<b>1,552</b>	<b>1,530</b>	<b>1,166</b>	<b>1,464</b>	<b>1,894</b>	<b>5,712</b>
Tax	184	326	338	3	383	468	257	320	124	1,428
Rate (%)	16.9	29.6	24.5	1.3	24.7	30.6	22.0	21.9	6.6	25.0
<b>Reported PAT</b>	<b>904</b>	<b>777</b>	<b>1,041</b>	<b>239</b>	<b>1,169</b>	<b>1,062</b>	<b>910</b>	<b>1,143</b>	<b>1,770</b>	<b>4,284</b>
<b>Adj PAT</b>	<b>904</b>	<b>777</b>	<b>1,041</b>	<b>40</b>	<b>1,169</b>	<b>1,062</b>	<b>910</b>	<b>1,143</b>	<b>1,587</b>	<b>4,284</b>
YoY Change (%)	247.6	108.1	162.5	-93.0	29.3	36.6	-12.6	2739.2	898.4	169.9
Margins (%)	29.3	24.6	28.6	1.1	27.5	22.8	15.9	17.7	11.6	20.3

E:MOSt Estimates; Quarterly results do not add up with full year results as it provides addl. depreciation and deferred tax at the end of year

### Strong volume growth, firm prices drive revenue growth

Shree's 2QFY08 revenue grew 48% YoY to Rs4.66b, driven by 34.6% YoY higher volumes to 1.49MT and 9.7% YoY (~3.4% QoQ) improvement in realizations to Rs3,122/ton. Improvement in realizations would have been higher, but for sale of clinker due to commissioning of new kiln.

TREND IN DISPATCHES AND REALIZATION



Source: Company/Motilal Oswal Securities

### Cost push impacts EBITDA margin

EBITDA grew 41% to Rs2b, translating into EBITDA margin of 43.1% - a decline of 200bp YoY (flat QoQ). EBITDA margin was impacted by higher energy cost (up 23% YoY to Rs591/ton) due to increase in pet coke price and higher freight cost (up 35% YoY to Rs472/ton). However, EBITDA/ton improved 4.8% YoY to Rs1,346/ton (~4% QoQ).

INCOME STATEMENT (RS/TON)

PER TON STATEMENT (RS/TON)	2QFY08	YOY (%)	QOQ(%)
Net Realization	3,122	9.7	3.4
Raw Material Cost	276	-21.4	-14.8
Staff Cost	108	2.1	-1.1
Power & fuel	591	22.8	1.3
Freight & selling Exp	472	35.1	7.5
Other Exp	327	19.8	21.2
Total Exp	1,775	13.7	2.8
EBITDA	1,346	4.8	4.1

Source: Company/Motilal Oswal Securities

### Higher depreciation restricts PAT

Depreciation was up 103% YoY due to accelerated depreciation provision on the new capacities, which commissioned operations during the quarter. However,

higher other income at Rs2.9b on account of sale of accrued carbon credit worth Rs1.6b, mitigated impact of higher depreciation. Also, higher tax provisioning (at 30.6% of PBT) restricted PAT growth to 37% YoY at Rs1.06b.

### Expansion program on schedule

In 2QFY08, the company commissioned its 1MT kiln, 2MT grinding unit and 18MW CPP. The other expansion plans, 1mt split grinding unit and 1.5mt clinker unit are expected to be operational by 3QFY08 and 1QFY09 respectively. This will increase its capacity from the current 6m ton to 9m ton by the end of FY09, thereby enabling it to significantly grow its volumes significantly.

### Revising estimates

We are revising our earnings estimate downwards by 11% for FY08E (to Rs123) and by 12.5% for FY09E (to Rs147.3), despite upgrade in EBITDA of 4.7% each to factor in:

- ✍ Higher than expected realization
- ✍ Further increase in pet coke prices
- ✍ Accelerated depreciation on new plants

However, our estimates do not factor in any sale of carbon credits, due to the lack of visibility for timeline of such sale. It is eligible for 10,000/units a month till July 2010, adding around Rs4 to EPS (@EUR20/unit).

REVISED FORECAST (RS M)

	FY08E			FY09E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	21,120	20,526	2.9	26,400	25,658	2.9
Net Profit	4,284	4,817	-11.1	5,131	5,867	-12.4
EPS (Rs)	123.0	138	-11.1	147.3	168	-12.5

Source: Motilal Oswal Securities

### Valuation and view

Timely capacity expansion would help the company to make the most of the buoyant cement prices in its key markets. Valuations at 10.3x FY09E and 4.5x FY09E EV/EBITDA do not fully reflect superior growth and profitability of the company. Maintain **Buy** with target price to Rs2,000 (~6x FY09 EV/EBITDA).

## Shree Cement: an investment profile

### Company description

Shree Cement is the largest single-location integrated cement plant in North India, with an installed capacity of 6m ton. It is strategically located in central Rajasthan from where it can cater to the entire Rajasthan market as well as Delhi and Haryana, with economic logistics cost. It is a significant player in Rajasthan (28.3% of volumes), Haryana (22.6% of volumes), Delhi (21.9% of volumes) and Punjab (12.6% of volumes). Over the years, it has established a reputation as one of the world's most efficient cement manufacturers.

### Key investment arguments

- ✍ One of the most cost efficient cement producers in India
- ✍ Highest volume growth of 30% CAGR for the next two years.
- ✍ Best positioned geographically (86% volumes from North and 14% from Central India); to benefit from current tightening of demand-supply and consequent upturn in cement prices.

### Recent view

- ✍ Unit V (1MT clinker capacity), split grinding unit (2MT grinding capacity) and 18MW captive power plant commenced operations during 2QFY08.

### COMPARATIVE VALUATIONS

		SHREE CEMENT	BIRLA CORP.	ULTRATECH
P/E (x)	FY08E	12.3	7.8	16.2
	FY09E	10.3	6.4	11.8
P/BV (x)	FY08E	6.2	3.8	7.2
	FY09E	3.9	2.5	4.6
EV/Sales (x)	FY08E	2.7	1.5	2.8
	FY09E	1.9	1.3	2.5
EV/EBITDA (x)	FY08E	6.2	4.8	9.6
	FY09E	4.5	3.6	7.8

### SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	63.7	63.7	63.7
Domestic Inst	7.1	6.9	8.8
Foreign	18.1	17.9	15.4
Others	11.1	11.5	12.1

### Key investment risks

- ✍ Being a single location plant, it is heavily dependent on North India; any downturn in prices in the North would adversely impact its profitability.
- ✍ Increase in pet coke prices would impact profitability, as it uses pet coke as feedstock for captive power plant as well as to fire kiln.

### Valuation and view

- ✍ Valuations at a P/E of 10.3x FY09E and EV/EBITDA of 4.5x FY08E do not fully reflect the superior volume growth and profitability which the company would enjoy.
- ✍ We recommend **Buy**, with a target price of Rs2,000 (~6x FY08E EV/EBITDA).

### Sector view

- ✍ Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth.
- ✍ Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HFY09.
- ✍ Imports not a significant threat, due to infrastructural bottlenecks.

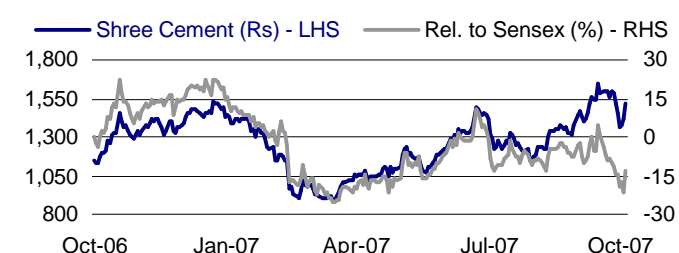
### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	123.0	131.0	-6.1
FY09	147.3	141.1	4.4

### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,513	2,000	32.2	Buy

### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Net Sales</b>	<b>5,821</b>	<b>6,694</b>	<b>13,680</b>	<b>21,120</b>	<b>26,400</b>
Change (%)	23.0	15.0	104.4	54.4	25.0
Total Expenditure	4,127	4,512	7,758	11,991	15,276
% of Sales	70.9	67.4	56.7	56.8	57.9
<b>EBITDA</b>	<b>1,694</b>	<b>2,182</b>	<b>5,922</b>	<b>9,129</b>	<b>11,123</b>
Margin (%)	29.1	32.6	43.3	43.2	42.1
Depreciation	1,230	1,852	4,331	3,861	4,824
<b>EBIT</b>	<b>464</b>	<b>330</b>	<b>1,592</b>	<b>5,267</b>	<b>6,300</b>
Int. and Finance Charges	198	128	104	265	223
Other Income - Rec.	41	33	212	710	1,000
<b>PBT before EO Expense</b>	<b>307</b>	<b>234</b>	<b>1,700</b>	<b>5,712</b>	<b>7,077</b>
Extra Ordinary Expense/(Incom	-5	-37	-195	0	0
PBT after EO Expense	311	271	1,894	5,712	7,077
Tax	24	29	124	1,428	1,946
Tax Rate (%)	6.6	32.2	6.6	25.0	27.5
<b>Reported PAT</b>	<b>291</b>	<b>184</b>	<b>1,770</b>	<b>4,284</b>	<b>5,131</b>
<b>PAT Adj for EO items</b>	<b>286</b>	<b>159</b>	<b>1,588</b>	<b>4,284</b>	<b>5,131</b>
Change (%)	-3.6	-44.4	898.7	169.8	19.8
<b>Net Profit</b>	<b>286</b>	<b>159</b>	<b>1,588</b>	<b>4,284</b>	<b>5,131</b>

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	348	348	348	348	348
Total Reserves	3,181	3,162	4,689	8,694	13,498
<b>Net Worth</b>	<b>3,529</b>	<b>3,510</b>	<b>5,038</b>	<b>9,043</b>	<b>13,846</b>
Deferred Liabilities	631	690	-37	134	311
Total Loans	2,971	3,727	9,314	8,000	7,600
<b>Capital Employed</b>	<b>7,131</b>	<b>7,927</b>	<b>14,314</b>	<b>17,177</b>	<b>21,757</b>
Gross Block	9,875	12,932	16,573	24,073	28,073
Less: Accum. Deprn.	5,043	6,632	11,092	14,953	19,777
<b>Net Fixed Assets</b>	<b>4,832</b>	<b>6,300</b>	<b>5,482</b>	<b>9,120</b>	<b>8,297</b>
Capital WIP	1,522	978	3,438	2,000	500
Investments	0	0	500	500	500
<b>Curr. Assets</b>	<b>1,517</b>	<b>2,182</b>	<b>7,741</b>	<b>9,181</b>	<b>17,291</b>
Inventory	726	1,129	1,561	2,459	3,074
Account Receivables	239	183	263	331	519
Cash and Bank Balance	130	191	3,533	4,018	10,181
Others	421	679	2,384	2,373	3,517
<b>Curr. Liability &amp; Prov.</b>	<b>739</b>	<b>1,532</b>	<b>2,846</b>	<b>3,625</b>	<b>4,831</b>
Account Payables	502	1,273	1,963	2,087	2,732
Provisions	237	260	883	1,538	2,098
<b>Net Current Assets</b>	<b>778</b>	<b>649</b>	<b>4,895</b>	<b>5,556</b>	<b>12,460</b>
<b>Appl. of Funds</b>	<b>7,131</b>	<b>7,927</b>	<b>14,314</b>	<b>17,177</b>	<b>21,757</b>

E: MOSt Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>8.2</b>	<b>4.6</b>	<b>45.6</b>	<b>123.0</b>	<b>147.3</b>
Cash EPS	43.5	57.7	169.9	233.8	285.7
BV/Share	101.3	100.8	130.5	245.4	383.3
DPS	4.0	5.0	6.0	6.9	8.0
Payout (%)	54.7	107.9	13.5	6.5	6.4
<b>Valuation (x)</b>					
P/E		331.5	33.2	12.3	10.3
Cash P/E		26.2	8.9	6.5	5.3
P/BV		15.0	11.6	6.2	3.9
EV/Sales		8.4	4.3	2.7	1.9
EV/EBITDA		25.8	9.9	6.2	4.5
EV/ton (US\$-Cap)		353	260	199	137
Dividend Yield (%)		0.3	0.4	0.5	0.5
<b>Return Ratios (%)</b>					
RoE	10.6	5.4	42.3	65.4	46.8
RoCE	8.5	5.8	17.6	39.3	38.9
<b>Working Capital Ratios</b>					
Inventory (Days)	46	62	42	43	43
Debtor (Days)	12	8	6	5	6
Working Capital Turnover (Day)	49	35	131	96	172
<b>Leverage Ratio (x)</b>					
Current Ratio	2.1	14	2.7	2.5	3.6
Debt/Equity	10	13	2.0	0.9	0.6

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Oper. Profit/(Loss) before Tax	1,694	2,182	5,922	9,129	11,123
Interest/Dividends Recd.	41	33	212	710	1,000
Direct Taxes Paid	-21	-87	-124	-1,428	-1,946
(Inc)/Dec in WC	541	189	-903	-177	-741
<b>CF from Operations</b>	<b>2,255</b>	<b>2,317</b>	<b>5,107</b>	<b>8,234</b>	<b>9,436</b>
(inc)/dec in FA	-1,322	-2,739	-5,778	-6,062	-2,500
<b>CF from investments</b>	<b>-1,314</b>	<b>-2,739</b>	<b>-6,278</b>	<b>-6,062</b>	<b>-2,500</b>
(Inc)/Dec in Debt	-527	815	4,859	-1,142	-223
Interest Paid	-198	-128	-104	-265	-223
Dividend Paid	-159	-199	-238	-279	-327
<b>CF from Fin. Activity</b>	<b>-886</b>	<b>483</b>	<b>4,513</b>	<b>-1,687</b>	<b>-774</b>
<b>Inc/Dec of Cash</b>	<b>54</b>	<b>60</b>	<b>3,342</b>	<b>485</b>	<b>6,163</b>
Add: Beginning Balance	76	130	191	3,533	4,018
<b>Closing Balance</b>	<b>130</b>	<b>191</b>	<b>3,533</b>	<b>4,018</b>	<b>10,181</b>

**N O T E S**



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**Shree Cement**

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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