

Results disappoint, we expect recovery



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3Q FY07 results disappoint, volumes drive profit growth

Shree reported 3Q FY07 net profit at Rs1.04bn, up 272% YoY and 34% QoQ. Headline profit was in line with our expectations due to change in depreciation accounting, but EBITDA performance disappointed. Shree's EBITDA/ton fell 3% QoQ to Rs1237 owing to flat cement prices and higher freight costs. Overall 3Q EBITDA grew 12% QoQ led primarily by 16% QoQ growth in volumes. We are surprised by the flatness in cement prices for Shree, as our industry data points to 3-4% QoQ rise in prices across north India.

We expect EBITDA to improve going forward

We expect Shree's EBITDA/ton to improve going forward owing to both continued rise in cement prices across the industry and likely easing of pet coke related costs. We forecast Shree's FY08E EBITDA/ton at ~Rs1307, up~6% vs 3Q FY07.

Volumes to remain strong, Ras expansion nearly ready

Shree has indicated that the expansion of its Ras unit by 1.5mn tpa (+33% capacity) will be fully commissioned by Mar '07. The Co has started trial runs of the new kiln & the grinding mill should be ready in March. Continued strong cement demand, coupled with absence of new supplies from other majors (except Binani) in north India, should allow Shree to post stronger-than-industry volumes.

Maintain Buy & price target of Rs1950/sh

We re-iterate our Buy rating on Shree given our expectation of continued firmness in cement prices across the industry for another 12-18 months. Our PO of Rs1950/sh for Shree is based on a target EV/EBITDA of ~9x FY08E. & implies ~20-25% discount vs peak multiples of cement majors during the previous cyclical upturn. The discount captures risk of likely valuation compression as we move towards an expected cyclical reversal in FY09E; we also assign a small (~10%) discount for Shree's relatively smaller size.

Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	816	1,461	3,931	4,150	2,408
EPS	23.42	41.95	112.84	119.13	69.11
EPS Change (YoY)	525.7%	79.1%	169.0%	5.6%	-42.0%
Dividend / Share	3.50	5.00	6.00	6.50	7.00
Free Cash Flow / Share	(4.97)	2.45	(41.39)	41.69	13.83

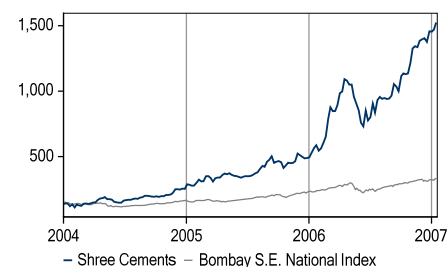
Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	65.08x	36.33x	13.51x	12.79x	22.05x
Dividend Yield	0.230%	0.328%	0.394%	0.426%	0.459%
EV / EBITDA*	34.16x	26.16x	9.34x	7.54x	9.72x
Free Cash Flow Yield*	-0.326%	0.160%	-2.72%	2.74%	0.908%

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

Stock Data

Price	Rs1,524
Price Objective	Rs1,950
Date Established	8-Jan-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs528.00-Rs1,592
Mrkt Val / Shares Out (mn)	US\$1,198 / 34.8
Average Daily Volume	7,725
ML Symbol / Exchange	SREEF / BSE
Bloomberg / Reuters	SRM IN / SHCM.BO
ROE (2007E)	90.5%
Net Dbt to Eqty (Mar-2006A)	83.9%
Est. 5-Yr EPS / DPS Growth	20.0% / 10.0%
Free Float	36.3%



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Refer to important disclosures on page 6 to 7. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

19 January 2007

iQprofileSM Shree Cement Ltd

Key Income Statement Data (Mar)	2005A	2006A	2007E	2008E	2009E
(Rs Millions)					
Sales	5,821	6,677	13,835	17,243	18,878
Gross Profit	1,698	2,217	6,209	7,690	5,967
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	1,011	1,642	4,904	5,884	3,407
Net Interest & Other Income	(175)	(94)	0	32	25
Associates	NA	NA	NA	NA	NA
Pretax Income	836	1,549	4,904	5,916	3,432
Tax (expense) / Benefit	(21)	(87)	(973)	(1,765)	(1,024)
Net Income (Adjusted)	816	1,461	3,931	4,150	2,408
Average Fully Diluted Shares Outstanding	35	35	35	35	35

Key Cash Flow Statement Data

Net Income (Reported)	816	1,461	3,931	4,150	2,408
Depreciation & Amortization	687	575	1,305	1,806	2,560
Change in Working Capital	541	(83)	(718)	(352)	(210)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(4)	59	(400)	0	0
Cash Flow from Operations	2,040	2,013	4,118	5,604	4,758
Capital Expenditure	(2,213)	(1,927)	(5,560)	(4,151)	(4,276)
(Acquisition) / Disposal of Investments	8	0	0	0	0
Other Cash Inflow / (Outflow)	880	0	0	0	0
Cash Flow from Investing	(1,326)	(1,927)	(5,560)	(4,151)	(4,276)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(138)	(197)	(236)	(255)	0
Cash Flow from Financing	440	(308)	(1,914)	942	483
Free Cash Flow	(173)	85	(1,442)	1,452	482
Net Debt	2,841	2,952	4,630	3,433	2,950
Change in Net Debt	(577)	111	1,678	(1,197)	(482)

Key Balance Sheet Data

Property, Plant & Equipment	6,353	6,428	8,643	10,989	12,705
Other Non-Current Assets	0	0	0	0	0
Trade Receivables	239	270	535	665	743
Cash & Equivalents	130	130	875	2,450	7,489
Other Current Assets	1,147	1,293	2,564	3,187	2,252
Total Assets	7,870	8,122	12,618	17,292	23,189
Long-Term Debt	2,467	2,552	4,749	5,016	9,572
Other Non-Current Liabilities	631	690	290	290	290
Short-Term Debt	504	530	756	867	867
Other Current Liabilities	739	833	1,651	2,053	2,292
Total Liabilities	4,341	4,605	7,447	8,226	13,021
Total Equity	3,529	3,517	5,172	9,067	11,474
Total Equity & Liabilities	7,870	8,122	12,618	17,292	24,496

iQmethodSM - Bus Performance*

Return On Capital Employed	13.2%	20.5%	43.1%	31.5%	13.2%
Return On Equity	27.0%	41.5%	90.5%	58.3%	23.4%
Operating Margin	17.4%	24.6%	35.4%	34.1%	18.0%
EBITDA Margin	29.2%	33.2%	44.9%	44.6%	31.6%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.5x	1.4x	1.0x	1.4x	2.0x
Asset Replacement Ratio	3.2x	3.4x	4.3x	2.3x	1.7x
Tax Rate (Reported)	2.5%	5.6%	19.8%	29.8%	29.8%
Net Debt-to-Equity Ratio	80.5%	83.9%	89.5%	37.9%	25.7%
Interest Cover	5.1x	12.8x	33.9x	24.6x	5.3x

Key Metrics

* For full definitions of iQmethodSM 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 10.3x

Table 1: 3Q FY07 results summary

Yr to 31Mar	3Q FY06	2Q FY07	3Q FY07A	YoY Chng	QoQ chng
Cement sales (Mn tonnes)	0.72	1.12	1.29	80%	16%
<i>Rs mn</i>					
Turnover	1,443	3,160	3,645	153%	15%
Operating costs	1,011	1,733	2,044	102%	18%
EBDIT	432	1,427	1,601	271%	12%
<i>EBDIT margin</i>	30%	45%	44%		
Depreciation	123	* 338	263	114%	-22%
Operating profit	309	1,088	1,338	333%	23%
Other income	7	43	47	562%	9%
EBIT	316	1,131	1,385	338%	22%
Interest	33	27	7	-80%	-76%
Profit before tax	283	1,104	1,379	387%	25%
Provision for Tax	3	326	338	10130%	3%
Recurring net profit	280	778	1,041	272%	34%
<i>Net Margin</i>	19.4%	24.6%	28.6%		
Non-recurring income/(expenses)					
Reported net profit	280	778	1,041	272%	34%

* prior to reversal made of Rs76mn for 1FYH07 Source: Company

Price Objective Basis & Risk

Our PO of Rs1950/sh for Shree is based on a target EV/EBITDA of ~9x FY08E. Our target valuation implies ~20-25% discount vs peak multiples of cement majors during the previous cyclical upturn in FY94-96. We think the discount adequately reflects the risk of likely valuation compression in the sector as we move towards an expected cyclical reversal in FY09E; we also assign a small (~10%) discount for Shree's relatively smaller size.

Risks to our price objective stem from 1) unforeseen government intervention in cement pricing and 2) faster-than-anticipated commissioning of new capacities in north India.

Analyst Certification

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***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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SREEF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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Investment Rating Distribution: Building Group (as of 31 Dec 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	32	47.76%	Buy	7	21.88%
Neutral	31	46.27%	Neutral	7	22.58%
Sell	4	5.97%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 31 Dec 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1306	42.74%	Buy	406	31.09%
Neutral	1509	49.38%	Neutral	446	29.56%
Sell	241	7.89%	Sell	53	21.99%

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