

27th July, 2007**REDUCE**

Price	Target Price
Rs1,216	Rs990

Sensex	15,235
---------------	---------------

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	29	(9)	57
Rel. to Sensex	0	16	(18)	4

Source: Capitaline

Stock Details

Sector	Cement
Reuters	SHCM.BO
Bloomberg	SRCM@IN
Equity Capital (Rs mn)	348
Face Value (Rs)	10
52 Week H/L	1,592/795
Market Cap (Rs bn)	42.36
Daily Avg Vol. (No of shares)	29305
Daily Avg Turnover (US\$m)	0.9

Shareholding Pattern (%)(30th June 07)

Promoters	63.7
FII/NRI	17.9
Institutions	6.9
Private Corp.	5.2
Public	6.3

Ajit Motwaniajit.motwani@emkayshare.com

+91 22 6612 1255

Shree Cement

Results in line with expectations

Result
Update

Shree cement's (Shree) Q1FY2008 net profit at Rs1.17 bn is in line with our estimates. Revenues for the quarter stood at Rs.4.25 bn registering a growth of 37.6%, driven by 25.4% growth in cement volumes and 9.7% growth in cement realisations. The increase in volumes was on account of commissioning of its new 1.5 MT unit IV at Ras, which contributed fully during Q1FY2008. The operating profit growth of 32.6% yoy to Rs1823 mn was lower than topline growth as Shree's operating profit margin fell by 162 bps to 42.8%. The fall in OPMs was on account of a 41.4% increase in power and fuel costs which increased as pet coke prices have gone up significantly yoy. We are not changing our estimates for Shree. The stock currently trades at 9.8X its FY2008 earnings and 11X its FY2009 earnings. On EV/ton basis the stock trades at USD140 for FY2008E and USD106 for FY2009E. We agree Shree is the best volume play in the industry but what we are concerned about is the pricing discipline of players in the northern region. North India is expected to add the highest amount of fresh capacities, with its share of new capacities at a huge 32% as against its current share of 21%. At this pace of capacity addition the pricing discipline among the northern cement producers can be very erratic. Meanwhile we maintain our REDUCE rating on the stock.

Result highlights

- Shree's Q1FY2008 net profit of Rs.1.17 bn is in line with our estimates. Net profit has increased by 29.4% on a yoy basis.
- The net revenues for the quarter stood at Rs4258 billion registering a growth of 37.6%, driven by 23.4% growth in cement volumes and 11.5% growth in cement realisations. The increase in volumes was on account of 1.5 MT increase in capacity Ras.
- Operating profits have shown an increase of 32.6% to Rs.1823 mn but the operating profit margin has shown a fall of 162 bps to 42.8%. The fall in operating margin was on account of a 41.4% increase in power and fuel expenses. As Shree is operating at very high operating levels, additional power and fuel requirements not met through captive power plants were bought from power grid at higher prices. Higher pet coke prices also led to a rise in power costs. Going forward, the management expects this trend to continue, which will affect the margins of the company.
- Significant cash flows helped the company in repaying its debt, which resulted in its interest costs coming down by 27.1% to Rs.39.2 mn. Other income has increased by a huge 318% to Rs.126.2 mn.
- Shree plans to raise its capacity by 9 MT by mid CY08, making it the largest cement company in North. But over the next 12 months North will see significant capacity additions of around 52%, which will keep pricing pressures on cement producers.
- We are not changing our estimates for Shree. The stock currently trades at 9.8X its FY2008 earnings and 11X its FY2009 earnings. On EV/ton basis the stock trades at USD140 for FY2008E and USD106 for FY2009E. We agree Shree is the best volume play in the industry but what we are concerned about is the pricing discipline of players in the northern region. North India is expected to add the highest amount of fresh capacities, with its share of new capacities at a huge 32% as against its current share of 21%. At this pace of capacity addition the pricing discipline among the northern cement producers can be very erratic. Meanwhile we maintain our REDUCE rating on the stock.

Result Table

Rs million	Q1FY08	Q1FY07	Var(%)
Net Sales	4258.3	3093.8	37.6%
Total Expenditure	2435	1719	41.7%
Operating profit	1823.3	1374.8	32.6%
Other Income	126.2	30.2	317.9%
PBIDT	1949.5	1405	38.8%
Interest	39.2	53.8	-27.1%
PBDT	1910.3	1351.2	41.4%
Depreciation	357.9	262.9	36.1%
PBT	1552.4	1088.3	42.6%
Tax	383	184.5	107.6%
PAT before extra ordinary item	1169.4	903.8	29.4%
Extra-ordinary Items	0	0	
Reported PAT	1169.4	903.8	29.4%
EPS	33.6	25.9	29.4%
Margins			
OPMs	42.8%	44.4%	
EBIDTA	45.8%	45.4%	
EBDT	44.9%	43.7%	
PBT(%)	36.5%	35.2%	
PAT	27.5%	29.2%	
Tax rate	24.7%	17.0%	

Per tonne analysis

Rs million	Q1FY08	Q1FY07	Var(%)
Cement Sales	1.410	1.124	25.4%
Raw Material	367	315	16.4%
Stocks	-53	49	-209.2%
Employee	109	101	7.6%
Power and fuel	584	420	39.1%
Freight	439	386	13.9%
Other exp	287	259	10.9%
Total Cost per tonne	1727	1529	12.9%
Realisation	3020	2752	9.7%
EBIDTA	1293	1223	5.7%

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Share & Stock Brokers Ltd is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Share & Stock Brokers Ltd, nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Share & Stock Brokers Ltd's prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Emkay Share and Stock Brokers Ltd.,

Paragon Center, Ground Floor, C-6

Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299