

Shree Cement

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Shareholding (%)

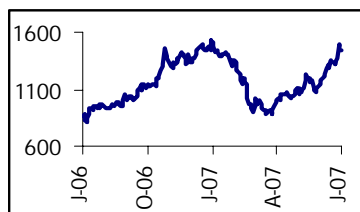
Promoters	63.7
FII's	6.8
MFs	6.0
Others	23.5

Share price performance

52-week high/low (Rs) 1590/ 792			
	-1m	-3m	-12m
Abs (%)	25.8	42.0	66.2
Rel* (%)	17.5	27.9	10.6

*to Nifty

Stock chart



Robust growth continues; capacity expansions ahead of schedule

Shree Cement Ltd. (SCL) has reported impressive Q1FY08 numbers. Higher cement prices and operationalisation of fresh capacities have resulted in 37.6% YoY and 12.6% QoQ growth in net sales. This, coupled with higher blending ratio, has resulted in margin expansion on QoQ basis.

SCL has stated that its expansion plans are ahead of schedule, and it expects capacity to increase to 9mn tonne by FY09. The current cement demand-supply scenario and capacity expansion expected going forward merit firm cement prices until Q2FY09. Subsequently, with fresh capacities becoming operational, cement prices may come under pressure. However, given SCL's expansion plans, we believe that the company will be able to report better than industry growth over the next two years. At the current price, the stock is trading at a P/E of 10.6x FY08E and EV/tonne of US\$164.5. Hence, we maintain 'Buy' rating on the stock.

▲ Increase in capacities and firm prices drive topline growth:

During Q1FY08, SCL reported 37.6% YoY and 12.6% QoQ growth in net sales. While operationalisation of fresh capacities helped drive YoY growth, QoQ growth was driven by 11.8% growth in volume and 0.7% growth in net realisations. SCL increased its cement capacity by 1.9mn tonne to 4.5mn tonne. Resultantly, the company was able to register strong growth in volume on YoY basis. SCL has also commissioned a 1.5mn tonne plant in March 2007, which will lead to further increase in volume. Net realisations for the quarter stood at Rs3,020 per tonne (higher by 12.9% YoY and 0.7% QoQ).

▲ Operating profit margin expands with increase in prices:

Buoyed by higher realisations, SCL reported 280bps QoQ increase in EBITDA margin to 42.8%. An analysis of cost reveals that power & fuel costs increased to Rs583.9 per tonne, while raw material cost declined to Rs313.5 per tonne. This was in view of an increase in the blending ratio. During the quarter, the share of blended cement increased to 88%. While an increase in the share of blended cement results in lower raw material cost, power consumption for the same is high. This has resulted in the company drawing power from the grid, resulting in an increase in power & fuel cost. However, with the new power plant expected to be operational by September 2007 there will be savings in the overall power & fuel cost.

Buy

Rs1,437

July 20, 2007

Market cap

Rs bn 50

US\$ mn 1,236

Avg 3m daily volume

29,890

Avg 3m daily value

Rs mn 35

Shares outstanding (mn)

35

Reuters

SHCM.BO/SHREECEM.NS

Bloomberg

SRCM IN

Sensex

15,550

Nifty

4,562

Shree Cement

Operating profit margin stood at Rs1,293.1 per tonne (higher by 8.8% YoY and 7.8% QoQ).

- ▲ **Capacity expansion plans ahead of schedule:** During early 2006, SCL increased its cement capacity by 1.9mn tonne to 4.5mn tonne. Another plant commissioned in March 2007 increased its capacity by 1.5mn tonne to 6mn tonne. In addition, its 1.1mn tonne clinkerisation plant (Unit – 5) is expected to come up by September 2007 and another 1.1mn tonne clinkerisation plant (Unit – 6) by September 2008. Further, SCL is also setting up a 3mn tonne grinding unit and plans to increase its captive power production to 99MW by December 2007. The captive power plant would enable the company to meet its entire power requirement internally.
- ▲ **Valuation:** SCL has stated that its expansion plans are ahead of schedule, and it expects capacity to increase to 9mn tonne by FY09. The current cement demand-supply scenario and capacity expansion expected going forward merit firm cement prices until Q2FY09. Subsequently, with fresh cement capacities becoming operational, cement prices may come under pressure. However, given SCL's expansion plans, we believe that the company will be able to report better than industry growth over the next two years. At the current price, the stock is trading at a P/E of 10.6x FY08E and EV/tonne of US\$164.5. Hence, we maintain 'Buy' rating on the stock.

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Table 1. Quarterly result table

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Net Sales	4,258.3	3,093.9	37.6	3,782.7	12.6
Total Expenses	2,435.1	1,719.1	41.7	2,269.9	7.3
(Inc) / Dec in stock	(74.9)	54.8	(236.8)	(57.5)	30.4
Raw material	516.9	353.9	46.1	474.5	8.9
Staff cost	153.9	114.0	35.0	210.5	(26.9)
Power & Fuel	823.3	471.8	74.5	721.6	14.1
Freight	619.7	433.7	42.9	534.7	15.9
Other Expenses	396.3	291.0	36.2	386.1	2.7
EBIDTA	1,823.3	1,374.8	32.6	1,512.8	20.5
Other Income	126.3	30.2	317.9	91.5	38.1
PBIDT	1,949.5	1,405.0	38.8	1,604.3	21.5
Interest	39.3	53.8	(27.0)	16.4	139.6
Gross Profit	1,910.2	1,351.2	41.4	1,587.9	20.3
Depreciation	358.0	262.9	36.1	1,547.1	(76.9)
PBT	1,552.3	1,088.2	42.6	40.8	3,704.0
Tax	383.1	184.4	107.8	3.1	3,345.9
current	383.1	184.4	107.8	3.1	3,345.9
deferred	-	-	-!	-	-
PAT	1,169.1	903.9	29.4	37.7	3,003.0
Prior Period items				201.3	
Adj PAT	1,169.1	903.9	29.4	238.9	389.3
Equity	348.4	348.4	(0.0)	348.4	-
Adj EPS	33.6	25.9	29.4	6.9	389.3
Key Ratios (%)					
EBIDTA Margin	42.8	44.4		40.0	
Interest / Sales	0.9	1.7		0.4	
Tax / PBT	24.7	16.9		7.7	
NPM	27.5	29.2		6.3	

Source: IISL research, company

Table 2. Cost Per Tonne Analysis

(Rs/tonne)	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Sales volumes (tonnes)	1,410,000	1,157,000	21.9	1,261,100	11.8
Net Realisation	3,020.1	2,674.0	12.9	2,999.5	0.7
Raw material cost	313.5	353.2	(11.3)	330.7	(5.2)
Staff cost	109.1	98.5	10.8	166.9	(34.6)
Power cost	583.9	407.8	43.2	572.2	2.0
Freight	439.5	374.8	17.2	424.0	3.6
Other expenses	281.1	251.5	11.8	306.1	(8.2)
Total Expenses	1,727.0	1,485.8	16.2	1,799.9	(4.1)
EBIDTA	1,293.1	1,188.2	8.8	1,199.6	7.8

Source: IISL research, company

FINANCIALS

Profit & Loss

In Rs million	FY06	FY07	FY08E	FY09E
Net sales	6,676.9	13,679.8	19,600.3	23,641.0
YoY(%)	14.7	104.9	43.3	20.6
Total expenses	4,459.8	7,562.6	11,021.1	13,869.7
Inc/dec in stock	(289.6)	(20.1)	0.0	0.0
Raw material cost	896.2	1,641.7	2,294.3	2,917.0
Staff cost	329.8	580.1	684.5	800.9
Power and fuel cost	1,373.2	2,345.1	3,462.0	4,248.4
Freight cost	1,181.4	1,867.4	2,830.0	3,767.0
Other expenses	969.0	1,148.5	1,750.3	2,136.5
EBIDTA	2,217.1	6,117.1	8,579.3	9,771.3
YoY(%)	30.5	175.9	40.2	13.9
EBIDTA(%)	33.2	44.7	43.8	41.3
Other income	34.7	211.6	317.4	333.3
PBIDT	2,251.8	6,328.7	8,896.7	10,104.6
Interest	128.3	103.7	207.7	227.9
Gross profit	2,123.5	6,225.0	8,689.0	9,876.8
Depreciation	1,639.7	4,330.5	2,361.8	3,170.5
PBT & extra ordinary	483.8	1,894.5	6,327.1	6,706.3
Extra ordinary items	(212.4)	0.0	0.0	0.0
PBT	271.4	1,894.5	6,327.1	6,706.3
(-) Tax	87.4	124.4	1,581.8	1,676.6
Tax/ PBT	32.2	6.6	25.0	25.0
PAT	184.0	1,770.0	4,745.4	5,029.7
Adjusted net profit	396.4	1,770.0	4,745.4	5,029.7
YoY(%)	(52.4)	346.5	168.1	6.0

Balance Sheet

In Rs million	FY06	FY07	FY08E	FY09E
Equity capital	348.4	348.4	348.4	348.4
Preference capital	0.0	0.0	0.0	0.0
Reserves	3,161.5	4,732.9	9,279.6	14,110.7
Net worth	3,509.9	5,081.3	9,628.0	14,459.1
Total borrowings	3,727.3	7,227.3	8,227.3	8,727.3
Deferred tax	689.7	245.8	(70.6)	(405.9)
Total liabilities	7,926.9	12,554.4	17,784.8	22,780.6
Gross block	12,931.8	14,931.8	24,431.8	28,409.3
Less: Acc. depreciation	6,631.8	10,962.4	13,324.2	16,494.6
Net block	6,300.0	3,969.5	11,107.6	11,914.7
CWIP	977.5	4,477.5	977.5	1,000.0
Investments	0.0	0.0	0.0	0.0
Current assets	2,181.8	6,929.1	10,790.7	15,844.6
Inventories	1,129.4	2,126.6	2,993.3	3,480.8
Debtors	182.6	411.6	643.4	840.9
Cash	190.7	3,711.8	6,474.9	10,843.8
Loans and advances	679.1	679.1	679.1	679.1
Current liabilities	1,272.8	2,054.7	2,994.3	3,768.2
Provisions	259.7	767.0	2,096.8	2,210.5
Net current assets	649.4	4,107.5	5,699.6	9,865.9
Miscellaneous expense	0.0	0.0	0.0	0.0
Total assets	7,926.9	12,554.4	17,784.8	22,780.6

Key Ratios

In Rs million	FY06	FY07	FY08E	FY09E
EPS (Rs)	5.3	50.8	136.2	144.4
Adjusted EPS (Rs)	11.4	50.8	136.2	144.4
CEPS (Rs)	60.1	162.4	194.9	225.7
Book value (Rs)	100.8	145.8	276.4	415.0
Dividend per share (Rs)	5.00	5.00	5.00	5.00
Debt-equity (x)	1.1	1.4	0.9	0.6
ROCE	8.1	19.5	43.1	34.2
ROE	11.3	41.2	64.5	41.8

Valuations

PE (x)	126.3	28.3	10.6	10.0
Cash PE (x)	23.9	8.9	7.4	6.4
Price/cash flows (x)	24.6	9.1	6.5	6.5
Price/book value (x)	14.3	9.9	5.2	3.5
Dividend Yield	0.3	0.3	0.3	0.3
Market cap/sales	7.5	3.7	2.6	2.1
EV/sales (x)	8.0	3.9	2.6	2.0
EV/EBDITA (x)	24.2	8.8	6.0	4.9
EV/tonne (USD)	267.7	207.7	166.5	119.7

Cash Flow

In Rs million	FY06	FY07	FY08E	FY09E
Net profit	184.0	1,770.0	4,745.4	5,029.7
Depn and w/o	1,639.7	4,330.5	2,361.8	3,170.5
Deferred tax	58.7	(443.9)	(316.4)	(335.3)
Change in working cap	189.1	63.0	1,170.9	202.7
Other income	(34.7)	(211.6)	(317.4)	(333.3)
Operating cash flow	2,036.8	5,508.1	7,644.3	7,734.3
Other income	34.7	211.6	317.4	333.3
Capex	(2,513.1)	(5,500.0)	(6,000.0)	(4,000.0)
Investments	0.0	0.0	0.0	0.0
Investing cash flow	(2,478.3)	(5,288.4)	(5,682.6)	(3,666.7)
Dividend	(198.6)	(198.6)	(198.6)	(198.6)
Fresh equity	0.0	0.0	0.0	0.0
Debt	756.1	3,500.0	1,000.0	500.0
Financing cash flow	557.5	3,301.4	801.4	301.4
Others	(55.9)	0.0	0.0	0.0
Opening cash	130.6	190.7	3,711.8	6,474.8
Closing cash	190.7	3,711.8	6,474.8	10,843.8

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