

## Shree Cement Ltd

### Muted quarter, tough Q2 ahead

Shree Cement's (SRCM) Q1FY11 performance fell short of our and street estimates at the EBITDA margin and net profit level. A higher-than-expected depreciation charge (of Rs 1.5bn, up 55% YoY) and elevated power and fuel costs pulled down profitability. While we expect the company to witness a challenging Q2FY11 as well, we believe power revenues from expanded captive capacities will offset the subdued cement performance to some extent. While the stock could see some downside from current levels, we believe dips should be used as buying opportunities.

**Power revenues bolster topline:** SRCM's Q1FY11 net sales increased 2.3% YoY to Rs 9.4bn, primarily led by a 253% surge in power revenue to Rs 1.3bn which cushioned the weak cement numbers. Dispatches declined by 5.8% YoY, with the company selling 2.41mt of cement and 0.1mt of clinker during the quarter. Net realisations fell 2.5% YoY to Rs 3,245/mt. The company clocked an EBITDA/tonne of Rs 1,000 (excluding profits from the sale of power).

We believe SRCM will have a difficult Q2FY11, as volumes continue to decline and power costs move up. In order to factor in higher power and fuel expenses, we revise our EBITDA estimates downwards by 14% and 9% respectively for FY11 and FY12.

**Faster ramp-up of power capacity to boost FY12 revenues:** SRCM is expected to commission its 300MW power unit by June '11, six months ahead of schedule. This, we believe, will boost power revenue flows in FY12. We have built in revenues of Rs 5.2bn and Rs 14.5bn from the sale of power in FY11 and FY12 respectively.

**Maintain Buy:** Assigning an EV/EBITDA multiple of 5x on FY12E, we arrive at a revised March '11 target price of Rs 2,300 (from Rs 2,400 earlier). The stock could see some downward pressure going forward as we anticipate volume and price pressure along with increased costs in Q2FY11. However, any decline in stock price will be a buying opportunity as we expect a revival from Q3FY11 onwards. We maintain our Buy recommendation on the stock.

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 1,785	Rs 2,300	BUY	HIGH

BSE	NSE	BLOOMBERG
500387	SHREECEM	SRCM IN

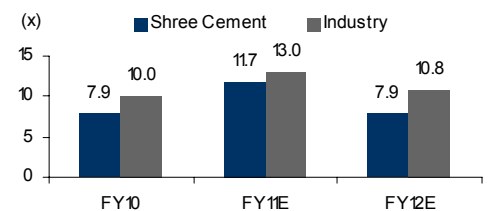
#### Company data

Market cap (Rs mn / US\$ mn)	62,189/1,330
Outstanding equity shares (mn)	35
Free float (%)	34.5
Dividend yield (%)	0.6
52-week high/low (Rs)	2,542/1,372
2-month average daily volume	29,699

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Shree Cement	1,785	(7.1)	(14.7)	(11.1)
Sensex	18,194	1.3	7.1	12.1

#### P/E comparison



#### Valuation matrix

(x)	FY09	FY10	FY11E	FY12E
P/E @ CMP	10.2	7.9	11.7	7.9
P/E @ Target	13.7	10.7	15.8	10.6
EV/EBITDA @ CMP	6.6	4.1	5.4	3.4

#### Financial highlights

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenue	26,642	36,321	39,139	55,340
Growth (%)	29.0	36.3	7.8	41.4
Adj net income	6,087	7,828	5,301	7,901
Growth (%)	103.4	28.6	(32.3)	49.0
FDEPS (Rs)	174.7	224.7	152.1	226.8
Growth (%)	103.4	28.6	(32.3)	49.0

#### Profitability and return ratios

(%)	FY09	FY10	FY11E	FY12E
EBITDA margin	35.7	42.1	29.9	33.6
EBIT margin	28.0	26.4	16.6	17.4
Adj PAT margin	22.8	21.6	13.5	14.3
ROE	64.7	51.4	25.5	29.2
ROIC	27.2	23.2	12.7	18.0
ROCE	28.3	25.0	15.4	19.3





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	9,445	8,469	11.5
EBITDA	2,895	2,924	(1.0)
Adj net income	1,062	1,368	(22.4)
FDEPS (Rs)	30.5	39.3	(22.4)

Source: RCML Research

**Fig 2 - Quarterly performance**

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	9,445	9,229	2.3	9,440	0.0
Expenditure	6,550	4,974	31.7	6,093	7.5
Operating profit	2,895	4,255	(32.0)	3,347	(13.5)
Other income	168	473	(64.4)	54	209.7
Interest	302	152	98.6	163	85.0
Depreciation	1,506	973	54.8	2,786	(46.0)
PBT	1,255	3,603	(65.2)	452	177.8
Tax	185	645	(71.4)	185	0.2
PAT	1,062	2,916	(63.6)	267	297.2
EBITDA margin (%)	30.6	46.1	(1,546bps)	35.5	(481bps)
FDEPS (Rs)	30.5	83.8	(63.6)	7.7	297.2

Source: Company, RCML Research

**Fig 3 - Revised estimates**

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	39,614	39,139	(1.2)	55,340	55,340	0.0
EBITDA	13,578	11,718	(13.7)	20,851	18,811	(9.8)
EBITDA margin (%)	34.3	29.9	(434bps)	37.7	34.0	(369bps)

Source: RCML Research

Higher power, fuel and depreciation charges took results below estimates

Dispatches fell 5.8% YoY while realisations dipped 2.5%; power sales shored up topline

EBITDA/t at Rs 1,000 ex-power

Estimates revised to incorporate higher power and fuel cost



## Standalone financials

### Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
<b>Revenues</b>	<b>26,642</b>	<b>36,321</b>	<b>39,139</b>	<b>55,340</b>
Growth (%)	29.0	36.3	7.8	41.4
<b>EBITDA</b>	<b>9,505</b>	<b>15,291</b>	<b>11,718</b>	<b>18,590</b>
Growth (%)	10.2	60.9	(23.4)	58.6
Depreciation & amortisation	2,054	5,704	5,228	8,988
EBIT	7,451	9,586	6,490	9,602
Growth (%)	94.2	28.7	(32.3)	48.0
Interest	744	599	1,280	1,160
Other income	829	758	1,177	1,077
EBT	7,536	9,746	6,387	9,519
Income taxes	1,449	1,918	1,086	1,618
Effective tax rate (%)	19.2	19.7	17.0	17.0
Extraordinary items	(309)	(1,067)	-	-
Min into / inc from associates	-	-	-	-
Reported net income	5,777	6,761	5,301	7,901
Adjustments	(309)	(1,067)	-	-
<b>Adjusted net income</b>	<b>6,087</b>	<b>7,828</b>	<b>5,301</b>	<b>7,901</b>
Growth (%)	103.4	28.6	(32.3)	49.0
Shares outstanding (mn)	34.8	34.8	34.8	34.8
<b>FDEPS (Rs) (adj)</b>	<b>174.7</b>	<b>225</b>	<b>152</b>	<b>227</b>
Growth (%)	103.4	28.6	(32.3)	49.0
DPS (Rs)	10.0	8.0	8.0	8.0

### Cash flow statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Net income + Depreciation	7,831	12,465	10,529	16,889
Non-cash adjustments	415	623	(3,460)	532
Changes in working capital	219	(61)	(913)	(1,316)
Cash flow from operations	8,465	13,028	6,156	16,105
Capital expenditure	(5,330)	(11,710)	(10,500)	(7,500)
Change in investments	(3,660)	(5,663)	2,000	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(8,990)	(17,373)	(8,500)	(7,500)
Issue of equity	-	-	-	-
Issue/repay debt	1,655	5,729	272	(3,549)
Dividends paid	(1,081)	(1,944)	(325)	(326)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	48	(560)	(2,398)	4,730
Closing cash & cash eq	4,723	4,163	1,765	6,495

### Economic Value Added (EVA) analysis

Y/E March	FY09	FY10	FY11E	FY12E
WACC (%)	10.0	10.0	10.0	10.0
ROIC (%)	27.2	23.2	12.7	18.0
Invested capital (Rs mn)	26,225	40,230	44,414	44,243
EVA (Rs mn)	4,510	5,282	1,192	3,511
EVA spread (%)	17.2	13.1	2.7	7.9

### Balance sheet

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and cash eq	4,723	4,163	1,765	6,495
Accounts receivable	583	824	1,072	1,819
Inventories	1,545	3,581	4,508	6,041
Other current assets	7,443	7,252	7,252	7,398
Investments	8,448	15,922	13,922	13,922
Gross fixed assets	22,559	29,509	45,183	54,683
Net fixed assets	6,269	7,520	17,965	18,477
CWIP	4,789	9,674	4,500	2,500
Intangible assets	-	-	-	-
Deferred tax assets, net	104	124	124	124
Other assets	-	-	-	-
<b>Total assets</b>	<b>33,903</b>	<b>49,061</b>	<b>51,109</b>	<b>56,777</b>
Accounts payable	2,602	2,420	2,681	3,790
Other current liabilities	354	2,249	2,249	2,249
Provisions	3,885	4,999	1,524	2,057
Debt funds	14,962	21,062	21,334	17,785
Other liabilities	-	-	-	-
Equity capital	348	348	348	348
Reserves & surplus	11,752	17,984	22,959	30,533
Shareholder's funds	12,100	18,332	23,307	30,882
<b>Total liabilities</b>	<b>33,903</b>	<b>49,062</b>	<b>51,109</b>	<b>56,777</b>
BVPS (Rs)	347.3	526.2	669.0	896.4

### Financial ratios

Y/E March	FY09	FY10	FY11E	FY12E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	35.7	42.1	29.9	33.6
EBIT margin	28.0	26.4	16.6	17.4
Net profit margin	22.8	21.6	13.5	14.3
ROE	64.7	51.4	25.5	29.2
ROCE	28.3	25.0	15.1	19.0
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	7	7	9	10
Inventory (days)	35	44	54	52
Payables (days)	45	44	34	32
Current ratio (x)	4.8	3.4	3.0	3.6
Quick ratio (x)	1.8	1.1	0.6	1.4
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	1.2	1.4	1.0	1.1
Total asset turnover	0.9	0.9	0.8	1.0
Interest coverage ratio	10.0	16.0	5.1	8.3
Adjusted debt/equity	1.2	1.1	0.9	0.6
<b>Valuation ratios (x)</b>				
EV/Sales	2.4	1.7	1.6	1.1
EV/EBITDA	6.6	4.1	5.4	3.4
P/E	10.2	7.9	11.7	7.9
P/BV	5.1	3.4	2.7	2.0



### Quarterly trend

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	9,229	8,996	8,660	9,440	9,445
YoY growth (%)	50.2	43.0	30.2	17.1	2.3
QoQ growth (%)	14.5	(2.5)	(3.7)	9.0	0.0
EBITDA (Rs mn)	4,255	4,088	3,353	3,347	2,895
EBITDA margin (%)	46.1	45.4	38.7	35.5	30.6
Adj net income (Rs mn)	2,916	2,895	1,674	267	1,070
YoY growth (%)	162.9	169.3	29.6	(89.0)	(63.3)
QoQ growth (%)	19.5	(0.7)	(42.2)	(84.0)	300.4

### DuPont analysis

(%)	FY08	FY09	FY10	FY11E	FY12E
Tax burden (Net income/PBT)	73.5	80.8	80.3	83.0	83.0
Interest burden (PBT/EBIT)	106.1	101.1	101.7	98.4	99.1
EBIT margin (EBIT/Revenues)	18.6	28.0	26.4	16.6	17.4
Asset turnover (Revenues/Avg TA)	98.3	90.7	87.6	78.1	102.6
Leverage (Avg TA/Avg equity)	357.2	312.0	272.6	240.6	199.1
<b>Return on equity</b>	<b>50.9</b>	<b>64.7</b>	<b>51.4</b>	<b>25.5</b>	<b>29.2</b>

### Company profile

Promoted by BG Bangur, Shree Cement is among the top 10 cement producers in India with an installed capacity of 9.1mt. Its plants are located in Beawar and Ras (Rajasthan). The company continues to maintain its leadership position in northern India. It has a total captive power capacity of 116MW, meeting more than 95% of its total power requirement.

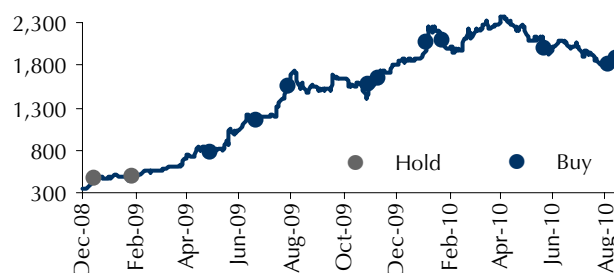
### Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	65.6	65.6	65.5
FIs	15.1	15.8	16
Banks & FIs	9.4	8.8	8.3
Public	9.9	9.8	10.2

### Recommendation history

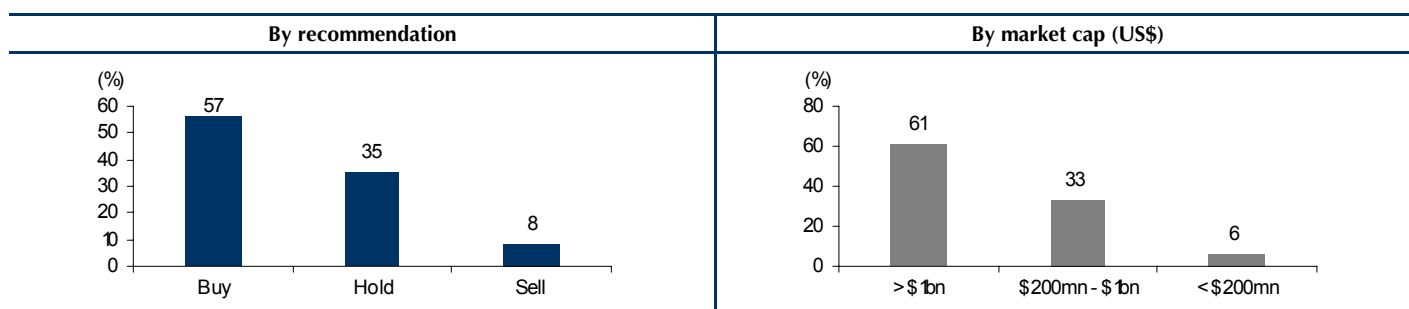
Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	460	485	Hold
29-Jan-09	Results Review	498	525	Hold
29-Apr-09	Results Review	775	893	Buy
22-Jun-09	Monthly Update	1,156	1,340	Buy
27-Jul-09	Results Review	1,539	1,967	Buy
29-Oct-09	Results Review	1,574	1,967	Buy
9-Nov-09	Company Update	1,645	1,967	Buy
6-Jan-10	Quarterly Preview	2,025	2,165	Buy
22-Jan-10	Results Review	2,087	2,428	Buy
21-May-10	Results Review	1,990	2,300	Buy
4-Aug-10	Company Update	1,798	2,400	Buy
16-Aug-10	Results Review	1,785	2,300	Buy

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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