



# Shree Cement

 Relative to sector: **Outperformer**
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**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

No. of shares	: 35 mn
Market cap	: Rs 57.8 bn
52 week high/low	: Rs 2542/ Rs 1610
Avg. daily vol. (6mth)	: 25,100 shares
Bloomberg code	: SRCM IB
Reuters code	: SHCM.BO

**Shareholding (%) Dec-10 QoQ chg**

Promoters	: 52.8	0.0
FIs	: 13.4	0.5
MFs / UTI	: 3.1	(0.2)
Banks / FIs	: 5.2	0.1
Others	: 25.5	(0.5)

**Financial Summary**

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2009	26,645	6,078	-	174	104	-	64.6	35.1	-	11.7
2010	35,324	7,391	-	212	22	-	48.6	30.3	-	17.5
2011E	32,984	2,492	131	72	(66)	23.2	13.0	9.8	7.5	23.2
2012E	44,071	5,680	180	163	128	10.2	25.4	19.7	5.4	29.0

Source: \*Consensus broker estimates, Company, ENAM estimates

**PERFORMANCE MARRED BY LOWER CEMENT PRICES**

Shree Cement's Q3FY11 EBITDA fell 53% YoY to Rs 1.6 bn, due to a **11% YoY decline in cement realizations** and higher costs, particularly petcoke (avg. petcoke price of Rs 7,900/ tonne, up ~65% YoY). Adj. PAT at Rs 299 mn (vs. Rs 180 mn in 2QFY11) was positively impacted by tax reversals of Rs 222 mn.

**Key highlights**

- **Sales:** Blended sales volumes were up marginally by 2% YoY (in-line with industry growth) to 2.62 mnt. (cement: 2.3 mnt, clinker: 0.3 mnt). Net realization (blended) fell 11% YoY and 5% QoQ to Rs 2,851/ t.
- **EBITDA:** Cement EBITDA/ tonne stood at ~Rs 586 vs. ~Rs 1,184 in Q2FY10 (due to higher petcoke cost and lower realizations).
- **Power biz:** Power revenues declined 22% YoY to Rs 335 mn due to continued shutdown of plant owing to lower merchant tariffs and high cost of generation.

**Outlook**

After being subdued in 3Q, **cement prices have increased by Rs 10-15 per bag, since beginning Jan '11**. We expect seasonal pick up in demand during 4Q thus supporting the price recovery. In FY12, given the over supply situation in the cement industry (80% utilization), we expect EBITDA to remain at Rs 700-800 per ton. Profitability of the industry is expected to recover from FY13 onwards, as utilization level improves to 85%.

**Valuations**

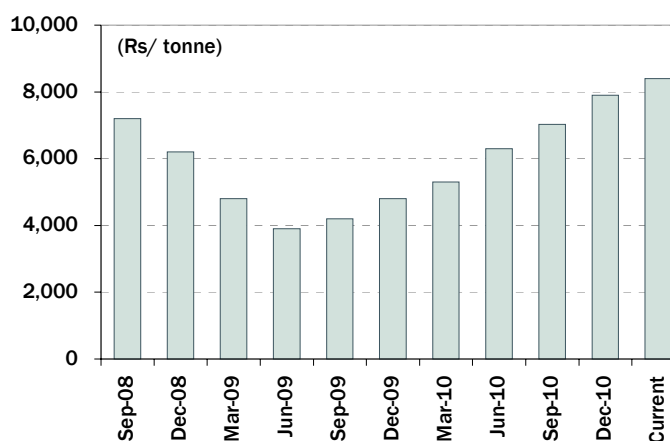
We have lowered our EPS estimates for FY11 and FY12 to Rs 72 (vs. Rs 83) and Rs 163 (vs. Rs 183) resp. to factor in lower cement volumes. We have reduced our cement volume estimates for FY11 and FY12 to 10.2 mnt (vs. 11 mnt) and 11.2 mnt (vs. 11.9 mnt) resp. However, due to ~18% correction in the stock price over last one month, we are **upgrading the stock to BUY**. Our revised target price stands at Rs 1,863 (vs. 2,031) based on 6x FY12 EV/EBITDA – 12% upside from CMP.

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>7,804</b>	<b>8,660</b>	<b>(9.9)</b>	<b>7,167</b>	<b>8.9</b>	<b>32,984</b>	<b>35,324</b>	<b>(6.6)</b>
<b>EBITDA</b>	<b>1,583</b>	<b>3,353</b>	<b>(52.8)</b>	<b>1,418</b>	<b>11.6</b>	<b>8,508</b>	<b>15,021</b>	<b>(43.4)</b>
Other income	311	160	94.1	438	(29.0)	919	758	21.2
<b>PBIDT</b>	<b>1,894</b>	<b>3,513</b>	<b>(46.1)</b>	<b>1,856</b>	<b>2.1</b>	<b>9,427</b>	<b>15,780</b>	<b>(40.3)</b>
Depreciation	1,314	947	38.7	1,285	2.2	5,500	5,704	(3.6)
Interest	504	115	337.5	311	62.0	1,158	766	51.3
<b>PBT</b>	<b>77</b>	<b>2,451</b>	<b>(96.9)</b>	<b>260</b>	<b>(70.4)</b>	<b>2,769</b>	<b>9,309</b>	<b>(70.3)</b>
Tax	(222)	762	-	80	(378.5)	277	1,918	(85.6)
<b>Adjusted PAT</b>	<b>299</b>	<b>1,689</b>	<b>(82.3)</b>	<b>180</b>	<b>65.8</b>	<b>2,492</b>	<b>7,391</b>	<b>(66.3)</b>
Extra ordinary income/ (exp.)	(24)	(15)	63.0	(75)	(68.3)	0	(634)	-
<b>Reported PAT</b>	<b>275</b>	<b>1,675</b>	<b>(83.6)</b>	<b>105</b>	<b>160.9</b>	<b>2,492</b>	<b>6,757</b>	<b>(63.1)</b>
No. of shares (mn)	35	35	-	35	-	35	35	-
EBITDA margin (%)	20.3	38.7	-	19.8	-	25.8	42.5	-
PBIDT margin (%)	24.3	40.6	-	25.9	-	28.6	44.7	-
<b>EPS - annualized (Rs.)</b>	<b>34.3</b>	<b>193.9</b>	<b>(82.3)</b>	<b>20.7</b>	<b>65.8</b>	<b>71.5</b>	<b>212.2</b>	<b>(66.3)</b>

Source: Company, ENAM Research

## Shree Cement's average petcoke cost



Source: Company

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