

RESULT UPDATE

MID CAP

Share Data

Reuters code	SHCM.BO
Bloomberg code	SRCM IN
Market cap. (US\$ mn)	1,420
6M avg. daily turnover (US\$ mn)	0.7
Issued shares (mn)	35
Target price (Rs)	2,151

Performance (%)	1M	3M	12M
Absolute	4	(11)	0
Relative	7	(7)	(2)

Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	70.0	182.2
+/- (%)	22.6	160.2
PER (x)	25.7	9.9
PBV (x)	2.9	2.3
Dividend/Yield (%)	0.6	0.6
EV/Sales (x)	1.6	1.1
EV/EBITDA (x)	6.7	4.6

Major shareholders (%)

Promoters	65
FII's	6
MF's	6
Public & Others	23

Financial highlights

(Rs mn)	1QFY11	1QFY12	YoY (%)	FY11	FY12E	YoY (%)	FY13E	YoY (%)
Net sales	9,445	10,340	9.5	35,122	43,062	22.6	51,541	19.7
EBITDA	2,896	2,592	(10.5)	8,812	10,448	18.6	12,939	23.8
EBITDA margin (%)	30.7	25.1	—	25.1	24.3	—	25.1	—
Other income	168	1	(99.6)	1,243	1,200	(3.5)	1,400	16.7
Interest paid	302	318	5.5	1,709	1,312	(23.2)	1,051	(20.0)
Depreciation	1,509	1,598	5.9	6,758	7,500	11.0	5,000	(33.3)
PBT	1,253	676	(46.0)	1,588	2,835	78.5	8,289	192.3
Total tax	185	43	(76.6)	(403)	395	(198.2)	1,940	390.8
Reported PAT	1,060	550	(48.1)	2,097	2,040	(2.7)	5,948	191.6
Adjusted PAT	1,068	633	(40.8)	1,991	2,440	22.6	6,348	160.2
Equity shares (mn)	34.8	34.8	—	34.8	34.8	—	34.8	—
Adjusted EPS (Rs)	30.7	18.2	(40.8)	57.2	70.0	22.6	182.2	160.2

Shree Cement

Maintain Outperformer

Price: Rs 1,797

BSE Index: 18,314

02 August 2011

1QFY12 Result – Cement shines, Power disappoints...

- Shree Cement (SRCM) delivered adjusted net profits at Rs 633 mn, (40% lower YoY), above estimates, mainly due to lower reported depreciation at Rs 1.6 bn and lower tax outflow.
- Cement volumes grew 7% YoY to 2.7 mn tonnes, while realisations are up Rs 106 QoQ to Rs 3,405 per tonne. However, given the operating cost pressures, EBITDA per tonne improved by just Rs 31 QoQ to Rs 878. Freight cost increased by Rs 32 QoQ to Rs 662 per tonne. Employee costs also increased 28% YoY (14% QoQ) to Rs 612 mn, largely due to salary increases.
- Demand for power has been sluggish as volumes were down 7% QoQ to 238 mn units. Realisations at Rs 4.25 per unit saw a dip of Re 0.37 QoQ while cost per unit increased by 70 bps QoQ to Rs 3.3 per unit, leading to power EBITDA of Re 0.95 per unit (Rs 226 mn). Along with higher depreciation, power division reported an EBIT loss of Rs 797 mn.

Outlook

Monsoons and higher interest rates will slowdown housing and infra activities in the near term. Given the huge capacity overhang and weak demand, prices will remain under pressure, although steep fall is unlikely given the sustained cost inflation. We expect this scenario to change post the monsoon/festivals as busy construction season sets in. Upcoming elections in states like Uttar Pradesh, Gujarat and Punjab should also lead to increased government spending in 2HFY12E. This augurs well for SRCM as it is predominantly a North and Central India play (23% UP and 8% Punjab). The new 150 MW power unit added in July 2011 with another 150 MW unit due for commissioning in 3QFY11 will increase power volumes, although lower merchant tariffs and higher fuel costs will keep profitability subdued. Currently, SRCM trades at US\$ 84 EV/tonne on FY12E capacity. Maintain Outperformer.

SOTP

Particulars	Basis	EV (Rs mn)
Cement	13.1 mn tpa @ US\$ 100 per tonne	58,426
Power	Salable power – 430 MW @ Rs 40 mn per MW	17,200
Total EV		75,626
Net debt		773
Market cap		74,853
No. of shares (mn)		34.8
Target price (Rs)		2,151

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	36,423	35,122	43,062	51,541
<i>Growth (%)</i>	<i>34.2</i>	<i>(3.6)</i>	<i>22.6</i>	<i>19.7</i>
Operating expenses	(21,504)	(26,310)	(32,614)	(38,602)
Operating profit	14,919	8,812	10,448	12,939
EBITDA	14,919	8,812	10,448	12,939
<i>Growth (%)</i>	<i>56.9</i>	<i>(40.9)</i>	<i>18.6</i>	<i>23.8</i>
Depreciation	(5,704)	(6,758)	(7,500)	(5,000)
Other income	1,284	1,243	1,200	1,400
EBIT	10,498	3,298	4,148	9,339
Interest paid	(1,185)	(1,709)	(1,312)	(1,051)
Pre-tax profit	9,313	1,588	2,835	8,289
(before non-recurring)				
Non-recurring items	(634)	(485)	(400)	(400)
Pre-tax profit	8,679	1,103	2,435	7,889
(after non-recurring)				
Tax (current + deferred)	(1,918)	403	(395)	(1,940)
Net profit (before Minority Interest, Pref. Dividend, etc.)	6,761	1,506	2,040	5,948
Prior period adjustments	0	591	0	0
Reported PAT	6,761	2,097	2,040	5,948
Adjusted net profit	7,395	1,991	2,440	6,348
<i>Growth (%)</i>	<i>21.5</i>	<i>(73.1)</i>	<i>22.6</i>	<i>160.2</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Cash and Marketable sec.	10,601	5,608	16,520	22,687
Other current assets	11,658	9,780	11,196	12,118
Investments	9,485	10,965	0	0
Net fixed assets	17,194	21,949	18,471	15,992
Total assets	48,938	48,303	46,187	50,797
Current liabilities	9,667	9,084	7,440	9,301
Total debt	21,062	20,079	17,293	14,543
Other non-current liabilities	(124)	(723)	0	0
Total liabilities	30,605	28,441	24,733	23,844
Share capital	348	348	348	348
Reserves & surplus	17,984	19,513	21,105	26,605
Shareholders' funds	18,332	19,862	21,453	26,953
Total equity & liab.	48,938	48,303	46,187	50,797
Capital employed	39,271	39,218	38,746	41,496

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Pre-tax profit	8,679	1,103	2,435	7,889
Depreciation	5,704	6,758	7,500	5,000
Change in working capital	(270)	3,312	(1,135)	(552)
Total tax paid	(848)	(2,211)	(1,477)	(449)
Cash flow from oper. (a)	13,266	8,961	7,323	11,887
Capital expenditure	(11,835)	(11,516)	(4,022)	(2,522)
Change in investments	(7,474)	3,958	9,965	(5,000)
Others	(6)	3	(0)	0
Cash flow from inv. (b)	(19,315)	(7,555)	5,943	(7,522)
Free cash flow (a+b)	(6,049)	1,406	13,266	4,366
Debt raised/(repaid)	6,101	(983)	(2,786)	(2,750)
Dividend (incl. tax)	(611)	(569)	(568)	(448)
Others	0	591	0	0
Cash flow from fin. (c)	5,489	(961)	(3,355)	(3,198)
Net chg in cash (a+b+c)	(559)	445	9,911	1,167

Key Ratios

Yr end 31 Mar (%)	FY10	FY11	FY12E	FY13E
Adjusted EPS (Rs)	212.3	57.2	70.0	182.2
Growth	21.5	(73.1)	22.6	160.2
Book NAV/share (Rs)	526.2	570.1	615.8	773.7
Dividend/share (Rs)	13.0	14.0	11.0	11.0
Dividend payout ratio	7.2	22.0	18.4	7.1
Tax	22.1	(36.5)	16.2	24.6
EBITDA margin	41.0	25.1	24.3	25.1
EBIT margin	28.8	9.4	9.6	18.1
RoCE	31.7	8.4	10.6	23.3
Net debt/Equity	57.1	72.9	3.6	(30.2)

Valuations

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
PER	8.5	24.2	25.7	9.9
PCE	4.8	6.7	6.3	5.5
Price/Book	3.4	3.2	2.9	2.3
Yield (%)	0.7	0.8	0.6	0.6
EV/Net sales	1.9	2.1	1.6	1.1
EV/EBITDA	4.6	8.5	6.7	4.6

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
Net margin (%)	20.3	5.7	5.7	12.3
Asset turnover	0.9	0.7	0.9	1.1
Leverage factor	2.7	2.5	2.3	2.0
Return on equity (%)	48.6	10.4	11.8	26.2

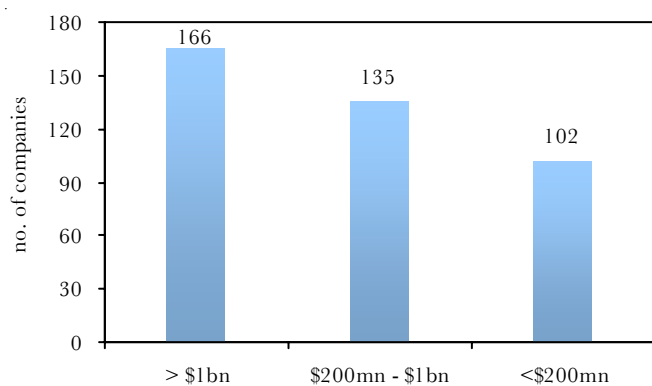
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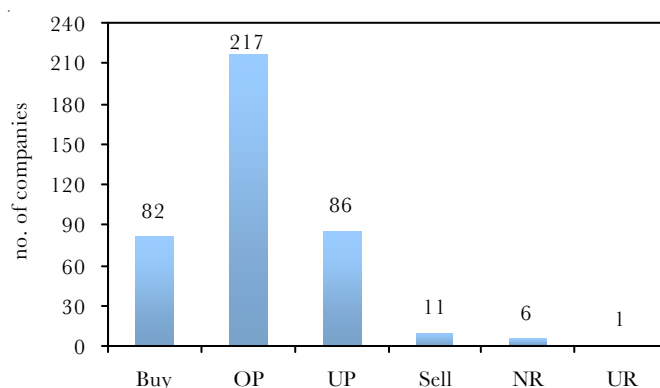
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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