

May 8, 2008

Rating	Outperformer
Price	Rs930
Target Price	Rs1,113
Implied Upside	20%
Sensex	17,080

(Prices as on May 8, 2008)

### Trading Data

Market Cap. (Rs bn)	32.4
Shares o/s (m)	34.8
Free Float	36.3%
Avg. Daily Vol ('000)	4.9
Avg. Daily Value (Rs m)	5.4

### Major Shareholders

Promoters	63.7%
Foreign	7.7%
Domestic Inst.	7.1%
Public & Others	21.5%

### Stock Performance

(%)	1M	6M	12M
Absolute	(14.4)	(33.4)	(7.7)
Relative	(24.0)	(23.0)	(31.7)

Price Performance (RIC: SHCM.BO, BB: SRCM IN)



Source: Bloomberg

■ **Results:** Shree Cement (SCL) reported PAT of Rs4.1bn for Q4FY08, below out expectation of Rs4.6bn, on account of higher than expected tax rate and lower other income. Net sales grew by 71.9%, led by volume growth of 61.4% and 5.2% increase in realisation. EBITDA rose by 69.7% ahead of our expectation of 67.4% on account of better than expected sales volume. EBITDA per tonne grew by 5.2% YoY to Rs1,234.

■ **Capex update:** The company announced expansion of clinker capacity by 1mtpa at its Ras unit, along with associated split grinding capacity at a total outlay of Rs3bn. It is expected to be commissioned by H1FY10 end. In addition to this, the company is adding waste heat recovery based power plant of 10MW capacity at Ras with outlay of Rs550m, and it is expected to begin operations by end of FY09.

■ **Valuation:** SCL's operating margins would be under stiff pressure going forward, led by falling realisation and sharp rise in fuel cost. However, absolute EBITDA would decline at a CAGR of 8% over FY08-10E, relatively lower as compared to the steep 26% rise in cost and 3% fall in realisation, on account of volume growth of 16%. At the current price, the stock trades at EV/EBITDA of 3.73x and 3.68x FY09E and FY10E, while on EV/tonne it trades at US\$81 and US\$64 FY09E and FY10E respectively. The stock looks attractive on the valuations as compared to its peers; we reiterate Outperformer rating on the stock with a price target of Rs1,113.

Key financials (Y/e March)	FYY07	FY08	FY09E	FY10E
Revenue (Rs m)	13,680	20,659	25,536	26,473
Growth (%)	104.4	50.3	24.2	3.7
EBITDA (Rs m)	5,922	8,624	8,230	7,324
PAT (Rs m)	1,588	2,880	4,551	3,793
EPS (Rs)	45.6	82.7	130.6	108.9
Growth (%)	38.3	81.4	58.0	(16.7)
Net DPS (Rs)	6.0	8.0	10.0	10.0

Source: Company Data; PL Research

Profitability & valuation	FYY07	FY08	FY09E	FY10E
EBITDA margin (%)	43.3	41.7	32.2	27.7
RoE (%)	42.3	50.8	48.8	29.2
RoCE (%)	15.6	26.6	31.6	24.3
EV / sales (x)	2.8	1.6	1.2	1.0
EV / EBITDA (x)	6.4	3.9	3.7	3.7
PE (x)	20.4	11.2	7.1	8.5
P / BV (x)	7.1	4.4	2.9	2.2
Net dividend yield (%)	0.1	0.1	0.1	0.1

Source: Company Data; PL Research

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## Highlights

### Topline up 71.9% YoY, driven by strong volume growth

Net sales grew by 71.9% YoY, primarily driven by volume growth of 61.4% and realisation growth of 6.5%. However, realisation declined on QoQ basis, reflecting pressure on prices during the quarter.

### EBITDA margin declined 49bps YoY to 39%

Total cost rose by 73.2% YoY against sales growth of 71.9% YoY, leading to decline of 49bps YoY in EBITDA margin to 39%. While on sequential basis, margins declined by 371bps on account of decline in realisation and sharp rise in fuel and freight cost. Raw material cost per tonne declined by 26% YoY on account of savings realised from split grinding unit. Power & fuel cost rose by 25% YoY to Rs526 due to unprecedented rise of 37% YoY in pet coke prices during the quarter. Freight cost per tonne was up by 25% on account of diesel price hike and change in the billing structure from ex-price to FOR basis in certain regions. EBITDA per tonne grew by 5.2% YoY to Rs1, 234.

### PAT at Rs4.1bn

Maintaining its aggressive depreciation policy, the company provided depreciation of Rs1.87bn, in line with peak depreciation during the previous quarter. The quarter included capitalisation of 18MW CPP and 1mtpa clinker unit. Other income rose by 57.8% on account of higher treasury income. Interest expense shot up sharply due to capitalisation of expansion plans.

## Valuation & outlook

The company is expected to generate strong free cash flows in the next two years on account of stable earnings and lower capital expenditure. Absolute EBITDA would decline at a CAGR of 8% over FY08-10E, relatively lower as compared to the steep 26% rise in cost and 3% fall in realisation, on account of volume growth of 16%. At the current market price, the stock trades at EV/EBITDA of 3.73x and 3.68x FY09E and FY10E, while on EV/tonne, it trades at US\$81 and US\$64 FY09E and FY10E capacity respectively. The stock trades at a huge discount to its peers despite better cash flow generation and profitability. We reiterate Outperformer rating on the stock with a price target of Rs1,113.



Segmental Performance

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	QoQ gr. (%)
Volume sales (m tonne)	2.1	1.3	61.4	1.6	27.1
Realisation (Rs/tonne)	3,162	2,969	6.5	3,238	(2.3)
EBITDA/tonne (Rs/tonne)	1,234	1,173	5.2	1,383	(10.8)

Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net sales	6,501	3,783	71.9	5,236	13,680	20,659	51.0
Raw material	1,107	433	155.6	589	1,690	2,611	54.5
<i>% of net sales</i>	<i>17.0</i>	<i>11.4</i>		<i>11.3</i>	<i>12.4</i>	<i>12.6</i>	
Staff costs	219	210	4.0	202	580	736	26.9
<i>% of net sales</i>	<i>3.4</i>	<i>5.6</i>		<i>3.9</i>	<i>4.2</i>	<i>3.6</i>	
Power & fuel	1,073	722	48.7	893	2,345	3,672	56.6
<i>% of net sales</i>	<i>16.5</i>	<i>19.1</i>		<i>17.0</i>	<i>17.1</i>	<i>17.8</i>	
Freight	1,081	535	102.1	804	1,867	3,165	69.5
<i>% of net sales</i>	<i>16.6</i>	<i>14.1</i>		<i>15.4</i>	<i>13.7</i>	<i>15.3</i>	
Other expenses	485	388	24.9	511	1,275	1,850	45.1
<i>% of net sales</i>	<i>7.5</i>	<i>10.3</i>		<i>9.8</i>	<i>9.3</i>	<i>9.0</i>	
Total expenditure	3,964	2,288	73.2	2,999	7,758	12,035	55.1
EBITDA	2,537	1,495	69.7	2,237	5,922	8,624	45.6
<i>Margin (%)</i>	<i>39.0</i>	<i>39.5</i>		<i>42.7</i>	<i>43.3</i>	<i>41.7</i>	
Depreciation	1,867	1,547	20.7	1,875	4,331	4,788	10.6
Other income	146	92	57.8	170	212	733	246.2
EBIT	815	40	1,952.3	532	1,803	4,569	153.4
Interest	246	16	1,401.9	127	104	497	379.3
PBT	569	23	2,339.2	405	1,700	4,072	139.6
Write-back of provision	-	212		16	195	(389)	
PBT (After EO)	569	236	141.4	420	1,894	3,683	94.4
Tax	158	(3)	(4,963.1)	70	124	1,079	767.4
<i>% PBT</i>	<i>27.8</i>	<i>(1.4)</i>		<i>16.7</i>	<i>6.6</i>	<i>29.3</i>	
Exceptional item	411	239	71.9	350	1,770	2,604	47.1
Reported PAT	411	24	1,637.3	337	1,588	2,880	81.4
Adjusted PAT	6,501	3,783	71.9	5,236	13,680	20,659	51.0



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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