

# Shree Cement (SHRCM)

₹ 1637

Rating matrix	
Rating	: Buy
Target	: ₹ 1884
Target Period	: 12-15 months
Potential Upside	: 15%

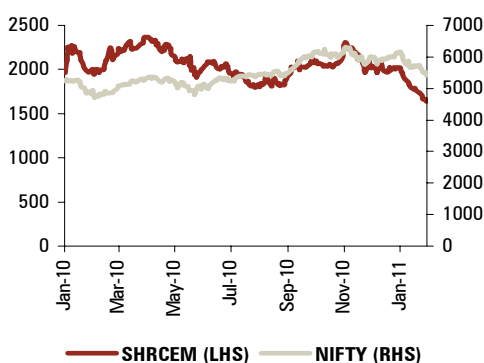
Key Financials				
	FY09	FY10	FY11E	FY12E
Net Sales	2715.0	3632.1	3409.2	4618.0
EBITDA	950.8	1494.0	816.4	1064.1
EBITDA Margin (%)	35.0	41.1	23.9	23.0
Net Profit	578.0	676.1	186.3	359.7
EPS (₹)	166.1	194.3	53.5	103.4

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	9.9	8.4	30.6	15.8
Target PE (x)	11.3	9.7	35.2	18.2
EV to EBITDA (x)	6.1	3.8	7.5	5.2
EV/Tonne (US\$)*	98	81	79	61
Price to book (x)	4.5	2.9	2.7	2.4
RoNW (%)	46.0	34.6	8.9	15.0
RoCE (%)	27.1	22.6	6.5	10.0

\* adjusted for cement business

Stock data	
Mcap	₹ 5749 crore
Debt (FY10)	₹ 2106 crore
Cash & Invest (FY10)	₹ 2129 crore
EV	₹ 5726 crore
52 week H/L	₹ 2542 / 1610
Equity cap	₹ 34.8 crore
Face value	₹ 10
MF Holding(%)	6.4
FII Holding(%)	6.5

### Price movement



### Analyst's name

**Vijay Goel**  
vijay.goel@icicisecurities.com

**Rashesh Shah**  
rashes.shah@icicisecurities.com

**Hitesh Taunk**  
hitesh.taunk@icicisecurities.com

## WHAT'S CHANGED...

PRICE TARGET .....	Changed from ₹ 2256 to ₹ 1884
EPS (FY11E) .....	Changed from ₹ 62 to ₹ 53.5
EPS (FY12E) .....	Changed from ₹ 110 to ₹ 103.4
RATING.....	Unchanged

## Bottomline takes hit from lower realisations...

Shree Cement's reported net sales of ₹ 779 crore in Q3FY11 which was below our expectation of ₹ 792 crore while reported net profit of ₹ 27.5 crore was slightly higher than our estimate of ₹ 24.4 crore respectively. Variance in expectation was on account of lower than expected cement and power realisations during Q3FY11. Revenue from cement segment has declined by ~9.4% YoY to ₹ 746 crore driven by ~11%YoY decline in realisation and 13%YoY growth in total expenditure. Also, power revenue declined by ~21% YoY to ₹ 33.5 crore despite growth in sales volume by 7%YoY, mainly due to poor power realisation. EBITDA margin has declined by 1849 bps mainly due to drop in cement & power realisations and rise in total expenditure. Cement EBITDA declined by ~53% YoY and ~3% QoQ to ₹ 564 per tonne.

### Deprived realisations in Cement and Power took toll on both biz

Cement sales volumes of 2.62 MT (including clinker) increased by 2.1% YoY (12.8% QoQ). Cement realisations declined by 11.3% YoY (3.6% QoQ) to ₹ 2851 per tonne due to poor pricing scenario in northern region during Q3FY11. Besides, power sales volume also surged by ~7% YoY (47% QoQ) to ~74 mn units. Power realisation has declined by 27% YoY (up by ~11% QoQ) to ₹ 4.5 per unit.

### Cement EBITDA Margin under pressure on higher input cost

The operating margin declined by 1575 bps YoY and to ~19.8% on lower realisations and higher input cost. Cement EBITDA/tonne declined 53% YoY and 3% QoQ to ₹ 564 per tonne. Cement expenditure increased 13.1% YoY to ₹ 2287 per tonne due to an increase in power & fuel cost, employee cost and Freight cost.

## Valuation

At the CMP of ₹ 1637, the stock is trading at 30.6x and 15.8x its FY11E and FY12E earnings, respectively. The stock is trading at an EV/EBITDA of 7.5x and 5.2x FY11E and FY12E EBITDA, respectively. On an EV/tonne basis (adjusted for the cement business), the stock is trading at \$79 and \$61 its FY11E and FY12E capacities, respectively. We have valued the cement business at its FY12E capacity of 13.5 MTPA and power business at 1.2x P/BV. We are assigning a **Buy** rating to the stock with a revised target price of ₹ 1884 per share. At our target price, the cement business is valued at \$70/tonne (44% discount to replacement cost of \$125 per tonne).

### Exhibit 1: Financial Performance

(Rs Crore)	Q3FY11	Q3FY11E	Q3FY10	Q2FY11	QoQ (Chg %)	YoY (Chg %)
Total Operating Income	779.6	792.0	865.8	717.6	8.6	-10.0
EBITDA	157.5	141.1	335.0	142.7	10.4	-53.0
EBITDA Margin (%)	20.2	17.8	38.7	19.9	32 bps	-1849 bps
Depreciation	131.4	122.4	94.7	128.5	2.2	38.7
Interest	20.4	13.7	11.5	13.7	48.4	76.8
Other Income	1.9	25.5	16.0	25.5	-92.7	-88.4
Reported PAT	27.5	24.4	167.2	10.6	160.6	-83.6
EPS (Rs)	7.9	7.0	48.0	3.0	160.6	-83.6

Source: Company, ICICIdirect.com Research

### Net sales down ~10% YoY led by lower realisation in cement and power segments

Net sales declined by ~10% YoY to ₹ 779.6 crore in Q3FY11 on the back of lacklustre realisations in the cement and power segments. Cement revenues declined by ~9% YoY to ₹ 746 crore despite volume growth of 2% YoY to 2.62 MT as realisation declined by ~11% YoY to ₹ 2851/tonne on the backdrop of dull pricing in the company's selling markets during the quarter. Power revenues took a hit of ~21% YoY to ₹ 34 crore as the power realisation declined to ₹ 4.5/unit from ₹ 6.2/unit in Q3FY10. However, power volume has increased ~7% YoY to 73.7 mn units.

On a QoQ basis, net sales grew by ~9% with the help of 9% and 6% QoQ growth in revenues from cement and power segment respectively. Cement sales volumes jumped by ~13% QoQ while the realisation dipped by ~4% QoQ. The sequential decline in cement realisation was due to deprived pricing scenario in the wake of lower demand of commodity in the northern region during Q3FY11. Besides, growth in power revenue was on the back of sharp growth in sales volume (47% QoQ) and increased realisation (11% QoQ).

### Low realisations & higher input costs squeezes operating margin

During Q3FY11, Company's EBITDA declined by 53% YoY to Rs 157.5 crore on the back of 17% YoY growth in Total cost. EBITDA margin of cement division reported a decline of 1575 bps YoY to ~20% on account of drop in cement realisations to 11.3% YoY to ₹ 2851. In addition, total expenditure (adjusted for the power segment) increased by ~13% YoY to ₹ 2287 per tonne. However, sequentially margin remained flat on ~9% QoQ increase in topline.

The power & fuel cost (adjusted for the power segment) increased by 25% YoY and ~6% QoQ to ₹ 700 per tonne on account of an increase in pet coke prices. The raw material cost increased by 3.3% YoY to ₹ 351 per tonne on account of an increase in cost of raw materials like gypsum and slag. The freight cost surged notably by 14% YoY and 9% QoQ to ₹ 770 per tonne. The employee cost and other expenditure surged by 26% and 10% YoY ₹ 183 and ₹ 301 per tonne respectively.

Under the power segment, company's EBITDA reported a decline of 58% YoY mainly on account of shrinkage in realisation to ₹ 4.5/unit.

### Bottom line declines ~84% YoY; however increases 161% QoQ

Despite tax write back of Rs ~26 crore, net profit reported a noteworthy decline of ~84% YoY to ₹ 27.5 crore on sharp rise in interest and depreciation charges which soared by 77% YoY and 39% YoY to Rs 20.4 crore and Rs 131.4 crore respectively. The increase in depreciation was on account of commissioning of the power plant. Following the trend, other income also declined by ~88% YoY to Rs ~2 crore.

### Exhibit 2: Per tonne analysis (Cement business)

	Q3FY11	Q3FY10	YoY (%)	Q2FY11	QoQ (%)
<b>Sales Volume</b>	<b>2.62</b>	<b>2.56</b>	<b>2.1</b>	<b>2.32</b>	<b>12.8</b>
<b>Net Realisation</b>	<b>2851</b>	<b>3213</b>	<b>-11.3</b>	<b>2958</b>	<b>-3.6</b>
<b>Total Expenditure</b>	<b>2297</b>	<b>2021</b>	<b>13.6</b>	<b>2380</b>	<b>-3.5</b>
Stock Adjustment	-19	26	-172.9	80	-123.2
Raw material	351	340	3.3	326	7.5
Power & Fuel	710	561	26.5	660	7.5
Employees	183	146	25.7	212	-13.5
Freight	770	676	13.9	707	9.0
Others	301	273	10.2	394	-23.6
<b>EBITDA per Tonne</b>	<b>554</b>	<b>1192</b>	<b>-53.5</b>	<b>579</b>	<b>-4.3</b>

Source: Company, ICICIdirect.com Research

Cement realisations declined 11.3% YoY to 2851 per tonne while on a sequential basis it declined by 3.6%. The total cost increased by 13.1% YoY where as it declined by 3.9% QoQ to ₹ 2,287 per tonne. This dragged the EBITDA/tonne by 52.7% YoY and 2.6% QoQ to ₹ 564 per tonne

Cement sales volumes increased to 2.62 MT in Q3FY11 (up 2% YoY and 13% QoQ) as against 2.56 MTPA in Q3FY10 and 2.32 MT in Q2FY11

### Exhibit 3: Cement segment performance

	Q3FY11	Q3FY10	YoY	Q2FY11	QoQ
Sales Volume (MTPA)	2.62	2.56	2.1	2.32	12.80
Realisation (Rs/Tonne)	2851	3213	-11.3	2958	-3.6
Net Sales (Rs Cr)	746.1	823.2	-9.4	686.0	8.8
Total Expenditure	601.1	530.8	13.2	551.8	8.9
Stock Adjustment	-4.9	6.6	-174.5	18.6	-126.2
Raw material	91.9	87.1	5.5	75.7	21.4
Power & Fuel	185.8	156.6	18.6	153.1	21.4
Employees	47.9	37.3	28.4	49.1	-2.4
Freight	201.6	173.2	16.4	163.9	23.0
Others	78.8	70.0	12.6	91.4	-13.8
EBITDA	145.0	292.4	-50.4	134.2	8.0
EBITDA per Tonne	554	1192	-53.5	579	-4.3
EBITDA Margin (%)	19.4	35.5	1575 bps down	19.6	21 bps up
EBIT	88.2	133.4	-33.9	42	109.1
EBIT Margin (%)	11.8	16.2	438 bps down	6.2	568 bps up

Source: Company, ICICIdirect.com Research

Power sales volumes surged by 7% YoY and 47% QoQ to 74 million units. Power realisation declined by 27% YoY, while it increased by 11% QoQ to ₹ 4.5 per unit

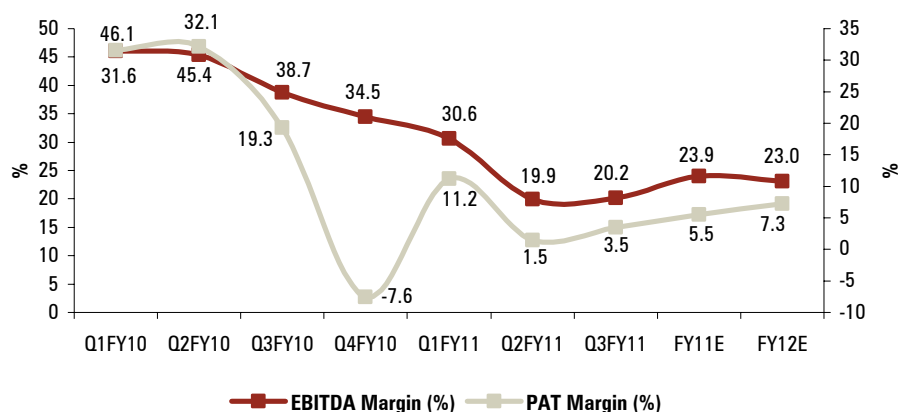
### Exhibit 4: Power segment performance

	Q3FY11	Q3FY10	YoY	Q2FY11	QoQ
Net Sales	33.5	42.6	-21.3	31.6	6.2
Sales Volume	73.7	68.8	7.1	50.1	47.1
Realisation	4.5	6.2	-26.6	6.3	-27.8
Cost per unit	2.8	1.9	52.4	2.4	17.0
EBITDA per unit	1.7	4.3	-60.7	3.9	-56.0
EBITDA	12.5	29.7	-57.9	19.4	-35.3
EBITDA Margin (%)	3.7	7.0	325 bps down	6.1	240 bps down
EBIT	-61.2	108.2	PL	-28.8	NA
EBIT Margin (%)	-182.5	254.0	PL	-91.3	NA

Source: Company, ICICIdirect.com Research

The EBITDA margin declined by 1849 bps YoY to 20.2% while it increased by 32 bps QoQ in Q3FY11 as against 39% in Q3FY10 and 20% in Q2FY11

### Exhibit 5: EBITDA and PAT margin



Source: Company, ICICIdirect.com Research

**Capex**

The grinding expansion of 1.5 MTPA at Jaipur is expected to be commissioned by Q3FY12E. After this expansion, the total cement capacity would reach to 13.5 MTPA. Also, the company is setting up 300 MW of the thermal power plant for merchant sales which is expected to come on stream by Q2FY12E.

**Valuations**

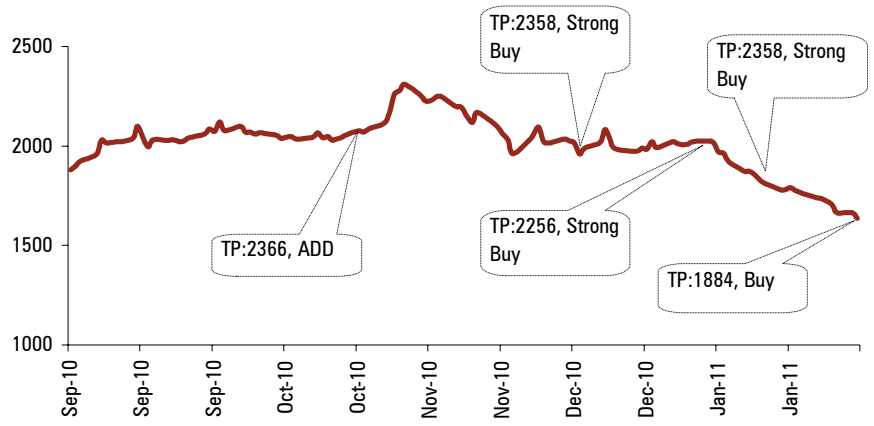
At the CMP of ₹ 1637, the stock is trading at 30.6x and 15.8x its FY11E and FY12E earnings, respectively. The stock is trading at an EV/EBITDA of 7.5x and 5.2x FY11E and FY12E EBITDA, respectively. On an EV/tonne basis (adjusted for the cement business), the stock is trading at \$79 and \$61 its FY11E and FY12E capacities, respectively. We have valued the cement business at its FY12E capacity of 13.5 MTPA and power business at 1.2x P/BV. We are assigning a **Buy** rating to the stock with a revised target price of ₹ 1884 per share. At our target price, the cement business is valued at \$70/tonne (44% discount to replacement cost of \$125 per tonne).

## ICICIdirect.com coverage universe (Cement)

<b>ACC</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	ACC CMP	977 CY08	7,308.6	64.5	15.1	9.9	24.6	26.6
MCAp	18358 Target	1015 CY09	8,027.3	85.5	11.4	6.7	26.7	32.5
	% Upside	4% CY10E	7,736.2	56.4	17.3	9.9	16.0	17.9
		CY11E	8,486.2	52.8	18.5	10.4	13.9	15.4
<b>Ambuja Cements</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	GUJAMB CMP	121 CY08	6,234.7	7.4	16.3	10.3	21.9	27.7
MCAp	18437 Target	128 CY09	7,076.9	8.0	15.1	9.1	20.1	27.1
	% Upside	5% CY10E	7,480.4	8.1	15.0	8.6	17.8	23.2
		CY11E	8,284.0	8.4	14.5	7.6	16.3	22.3
<b>UltraTech Cements</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	ULTCEM CMP	996 FY09	6,383.1	78.9	12.6	16.4	27.5	24.3
MCAp	27310 Target	1038 FY10	7,054.8	86.8	11.5	13.8	23.6	25.4
	% Upside	4% FY11E	13,182.2	46.1	21.6	11.6	10.3	11.2
		FY12E	17,797.7	56.1	17.7	8.5	12.9	14.9
<b>Shree Cement</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	SHRCM CMP	1637 FY09	2,715.0	166.1	9.9	6.1	46.0	27.1
MCAp	5697 Target	1884 FY10	3,632.1	194.3	8.4	3.8	34.6	22.6
	% Upside	15% FY11E	3,409.2	53.5	30.6	7.5	8.9	6.5
		FY12E	4,618.0	103.4	15.8	5.2	15.0	10.0
<b>India Cements</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	INDCEM CMP	92 FY09	3,426.5	17.2	5.3	4.2	17.4	17.0
MCAp	2826 Target	UR FY10	3,771.3	10.6	8.7	5.3	10.1	11.3
	% Upside	FY11E	3,595.0	3.7	24.7	10.1	3.3	4.1
		FY12E	4,715.8	6.4	14.3	6.3	5.4	7.6
<b>JK Cement</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	JKCEME CMP	124 FY09	1,496.8	21.1	5.9	4.1	17.7	17.2
MCAp	867 Target	UR FY10	1,826.8	32.3	3.8	4.1	22.6	17.9
	% Upside	FY11E	1,961.2	5.5	22.7	9.5	3.5	5.8
		FY12E	2,483.5	14.0	8.9	6.3	8.7	9.4
<b>JK Lakshmi</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	JKCORP CMP	49 FY09	1,224.7	14.6	3.4	2.8	21.5	15.7
MCAp	598 Target	56 FY10	1,490.5	19.2	2.5	2.0	23.2	17.5
	% Upside	15% FY11E	1,260.5	3.4	14.4	6.2	4.1	3.6
		FY12E	1,567.6	6.7	7.3	5.3	7.7	5.9
<b>Orient Paper &amp; Industries</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	ORIPAP CMP	50 FY09	1,503.2	12.0	4.2	3.5	41.3	43.1
MCAp	964 Target	59 FY10	1,616.5	8.2	6.1	4.5	22.5	22.5
	% Upside	17% FY11E	1,781.8	5.6	9.0	5.2	13.3	14.6
		FY12E	2,271.1	8.5	5.9	3.6	18.1	19.6
<b>Mangalam Cement</b>			<b>Sales (₹ Crore)</b>	<b>EPS (₹)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
Idirect Code	MANCEM CMP	114 FY09	563.7	37.5	3.0	2.0	33.0	35.2
MCAp	304 Target	136 FY10	613.7	44.5	2.6	1.0	29.8	40.0
	% Upside	19% FY11E	490.6	7.2	15.8	5.7	4.8	3.2
		FY12E	626.6	11.7	9.8	3.5	7.5	7.1

Source: Company, ICICIdirect.com Research

**Exhibit 6: Recommendation History**



Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Add, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: 20% or more;  
Buy: Between 10% and 20%;  
Add: Up to 10%;  
Reduce: Up to -10%  
Sell: -10% or more;

**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
7<sup>th</sup> Floor, Akruiti Centre Point,  
MIDC Main Road, Marol Naka,  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

## **ANALYST CERTIFICATION**

We */I, Vijay Goel MBA (FINANCE), Rashesh Shah CA, Hitesh Taunk MBA (Finance)* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

## **Disclosures:**

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Vijay Goel MBA (FINANCE), Rashesh Shah CA, Hitesh Taunk MBA (Finance)* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Vijay Goel MBA (FINANCE), Rashesh Shah CA, Hitesh Taunk MBA (Finance)* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.