

**Q4FY07 result**

# Shree Cement

Bloomberg: SRCM IN  
Reuters: SHCM.NS  
Mkt cap: INR36.6bn/USD 0.9bn

**BUY**
**Current price: INR 1,051\***  
**Target price: INR 1,285\*\***

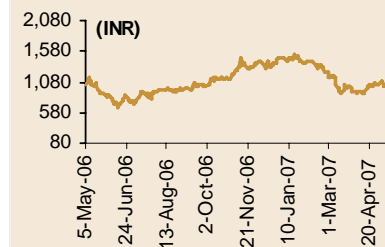
## Results slightly below our expectation

We maintain BUY with March 2008 price target of INR 1,285

\*\*Horizon: March 2008

**Satish Kumar**  
(91-22) 6636-0176  
satish.kumar@bricssecurities.com

**Abhinav Sharma**  
(91-22) 6636-0130  
abhinav.sharma@bricssecurities.com

**Stock performance**


(%)	Absolute	Relative to	
		Sensex	Sector
3 months	(25.2)	(22.1)	(12.2)
6 months	(19.6)	(24.7)	(10.6)
12 months	(3.8)	(14.4)	(6.3)

**Expected performance relative to Sensex** **OUTPERFORM**
**Beta relative to Sensex** **1.1**
**Key financials**

Y/E 31 Mar	FY07E	FY08E	FY09E
Net sales (INR m)	13,671	18,958	26,753
Net profit (INR m)	3,636	3,822	5,883
Adj EPS (INR)	104.4	109.7	168.9
<b>PER (x)</b>	<b>10.1</b>	<b>9.6</b>	<b>6.2</b>
PCE (x)	7.6	6.2	4.5
EV/Core			
EBITDA (x)	6.6	4.6	2.7
Price/Book (x)	4.9	3.3	2.2
ROE (%)	63.0	41.3	42.4
ROCE (%)	45.0	37.9	43.5
<b>Consensus EPS (INR) *</b>		<b>106.8</b>	<b>131.9</b>

\* Bloomberg

Shree Cement (SRCM) declared revenues of INR 3,782.7m for Q4FY07, an increase of 67% YoY and 4% QoQ. Due to an unusually high depreciation charge for the quarter, the net profit figure of INR 239m cannot be compared to the previous quarter's figures. Realisation for the quarter was INR 148 per bag, which was higher by INR 6 per bag QoQ. Costs also increased on a QoQ basis to INR 1,621 per tonne. Accounting for one-time adjustments, costs were INR 1,778 per tonne, a hefty increase of INR 200 per tonne over the last quarter. Hence, adjusted EBITDA per tonne of INR 1,186 per tonne is lower than our estimate of INR 1,240 per tonne.

We have raised our EPS estimates after factoring in the impact of higher realisation and costs. Our FY08 EPS estimate stands revised from INR 90 to INR 110 and our FY09 EPS estimate has been revised to INR 169 from INR 140. We maintain BUY with March 2008 price target of INR 1,285.

**Figure 1: Quarterly results**

	(INR m)			
	Q4FY07	Q4FY07E	Q3FY07	Q4FY06
Net sales	3,782.7	3,509.2	3,645.3	2,255.0
Expenditure	2,068.6	1,965.4	2,044.1	1,439.1
Core EBITDA	1,714.1	1,543.8	1,601.2	815.9
Other income	91.4	90.0	47.1	17.3
Interest	16.4	6.5	6.5	22.8
Gross profit	1,789.1	1,627.3	1,641.8	810.4
Depreciation	1,547.0	263.0	263.0	206.6
Profit before tax	242.1	1,364.3	1,378.8	603.8
Tax	3.1	368.4	337.5	-3.3
Net profit	239.0	995.9	1041.3	607.1

Source: Company, Brics Research

**Realisation higher QoQ**

SRCM declared revenues of INR 3.78bn on cement despatches of 1.28MT in Q4FY07. This implies realisation of INR 148 per 50 kg bag of cement as against Q3FY07 realisation of INR 142.

**Substantial increase in cost of production**

The cost of production for the quarter was INR 1,778 per tonne, if we adjust for the capitalisation of pre-operative expenses for FY06. These expenses were to the tune of INR 201.2 m. The adjusted cost per tonne was higher than the previous quarter's INR 1,585 per tonne. The increase came mainly due to a rise in power and fuel costs from INR 478 per tonne in Q3FY07 to INR 566 per tonne in Q4FY07.

Hence, EBITDA per tonne for the quarter dropped to INR 1,186 per tonne, from INR 1,240 per tonne for the last quarter.

**Figure 2: Cost break-up**

	<i>(INR per tonne)</i>	
	Q4FY07	Q3FY07
Consumption of raw materials	326.8	330.2
Staff cost	164.9	107.2
Power and fuel	565.5	478.3
Freight and selling expenses	419.1	396.1
Other expenditure	302.6	272.7
<b>Total cost</b>	<b>1,778.9</b>	<b>1,584.6</b>

Source: Brics Research

This quarter's result was also affected by an adjustment in depreciation. The company aligned its book depreciation to IT depreciation. Hence, depreciation for the quarter was unusually high at INR 1,547m. Therefore, the Q4 result cannot be compared to the previous quarters.

#### **Outlook remains subdued**

In the wake of an impending cyclical downturn in FY09, we expect cement prices to go down in that year. The standoff between cement makers and the government has also taken away any raw materials pricing upside from the cement companies for FY08.

#### **We revise our EPS estimates**

We have raised our EPS estimates after factoring in the impact of higher realisation and costs. Our FY08 EPS stands revised from INR 90 to INR 110 and our FY09 EPS has been revised to INR 169 from INR 140. Figure 3 details important assumptions for FY08 and FY09.

**Figure 3: Key assumptions**

	FY08	FY09
Net sales (INR m)	21,450.0	30,400.0
Sales in MT	6.5	9.5
Realisation (INR per bag)	146	141
Core EBITDA (INR per tonne)	1,217.0	1,143.4
EPS (INR)	110	169

Source: Company, Brics Research

**We maintain BUY with an end-FY08 price target of INR 1,285. At our price target, SRCM would trade at a P/E of 8 on FY09E.**

<b>Income statement</b>						<i>INR m</i>
Year ending 31 Mar	FY05	FY06	FY07E	FY08E	FY09E	
<b>Net sales</b>	<b>5,817</b>	<b>6,962</b>	<b>13,671</b>	<b>18,958</b>	<b>26,753</b>	
Growth (%)	22.2	19.7	96.4	38.7	41.1	
Operating expenses	(4,121)	(4,735)	(7,567)	(10,798)	(15,641)	
<b>Core EBITDA</b>	<b>1,696</b>	<b>2,228</b>	<b>6,103</b>	<b>8,160</b>	<b>11,112</b>	
Other income	41	41	160	262	532	
<b>EBITDA</b>	<b>1,736</b>	<b>2,269</b>	<b>6,263</b>	<b>8,422</b>	<b>11,645</b>	
Depreciation	(1,230)	(1,249)	(1,170)	(2,114)	(2,190)	
<b>EBIT</b>	<b>507</b>	<b>1,020</b>	<b>5,093</b>	<b>6,308</b>	<b>9,455</b>	
Interest paid	(198)	(222)	(180)	(553)	(595)	
<b>Pre-tax profit</b>	<b>309</b>	<b>798</b>	<b>4,913</b>	<b>5,755</b>	<b>8,860</b>	
Tax (current + deferred)	(20)	(60)	(1,277)	(1,934)	(2,977)	
<b>Profit after tax</b>	<b>288</b>	<b>738</b>	<b>3,636</b>	<b>3,822</b>	<b>5,883</b>	
<b>Net profit</b>	<b>288</b>	<b>738</b>	<b>3,636</b>	<b>3,822</b>	<b>5,883</b>	
Adjusted net profit	288	738	3,636	3,822	5,883	
Growth (%)	121.0	156.1	392.7	5.1	53.9	

<b>Balance sheet</b>						<i>INR m</i>
Year ending 31 Mar	FY05	FY06	FY07E	FY08E	FY09E	
Current assets	1,759	2,279	5,252	10,037	17,757	
Fixed assets	6,339	6,912	10,550	10,936	9,746	
Other assets	14	14	205	205	205	
<b>Total assets</b>	<b>8,112</b>	<b>9,205</b>	<b>16,008</b>	<b>21,179</b>	<b>27,708</b>	
Current liabilities	815	932	1,667	2,251	3,134	
Total Debt	2,971	3,371	6,000	7,000	7,000	
Other liabilities	799	834	873	873	873	
<b>Total liabilities</b>	<b>4,585</b>	<b>5,137</b>	<b>8,540</b>	<b>10,125</b>	<b>11,007</b>	
Paid-up capital	348	348	348	348	348	
Reserves & surplus	3,178	3,720	7,120	10,706	16,353	
<b>Shareholders' funds</b>	<b>3,527</b>	<b>4,068</b>	<b>7,468</b>	<b>11,054</b>	<b>16,701</b>	
<b>Total equity &amp; liabilities</b>	<b>8,112</b>	<b>9,205</b>	<b>16,008</b>	<b>21,179</b>	<b>27,708</b>	

<b>Cash-flow</b>						<i>INR m</i>
Year ending 31 Mar	FY05	FY06	FY07E	FY08E	FY09E	
Pre-tax profit	309	798	4,913	5,755	8,860	
Depreciation	1,230	1,249	1,170	2,114	2,190	
Tax paid	(24)	(60)	(1,277)	(1,934)	(2,977)	
Chg in working capital	<b>443</b>	<b>(78)</b>	<b>(5)</b>	<b>(239)</b>	<b>(170)</b>	
<b>Cash flow from operations (a)</b>	<b>1,957</b>	<b>1,908</b>	<b>4,800</b>	<b>5,697</b>	<b>7,903</b>	
Capital expenditure	(1,327)	(1,822)	(5,000)	(2,500)	(1,000)	
Chg in investments	8	0	0	0	0	
<b>CF from investing (b)</b>	<b>(1,319)</b>	<b>(1,822)</b>	<b>(5,000)</b>	<b>(2,500)</b>	<b>(1,000)</b>	
<b>Free cash flow (a+b)</b>	<b>638</b>	<b>87</b>	<b>(200)</b>	<b>3,197</b>	<b>6,903</b>	
Debt raised/(repaid)	(523)	400	2,629	1,000	0	
Dividend (incl. tax)	(162)	(197)	(236)	(236)	(236)	
<b>CF from financing (c)</b>	<b>(685)</b>	<b>203</b>	<b>2,393</b>	<b>764</b>	<b>(236)</b>	
<b>Net chg in cash (a+b+c)</b>	<b>(47)</b>	<b>290</b>	<b>2,194</b>	<b>3,961</b>	<b>6,667</b>	

#### Key ratios

Year ending 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
Adjusted EPS (Rs)	8.3	21.2	104.4	109.7	168.9
Adjusted EPS growth (%)	121.0	156.1	392.7	5.1	53.9
Core EBITDA growth (%)	29.4	31.4	174.0	33.7	36.2
Core EBITDA margin (%)	29.1	32.0	44.6	43.0	41.5
Pre-tax margin (%)	5.3	11.5	35.9	30.4	33.1
ROE (%)	8.3	19.4	63.0	41.3	42.4
ROCE (%)	6.8	13.1	45.0	37.9	43.5
Net debt/Equity (%)	83.4	75.0	46.7	4.8	(36.8)

#### Valuation parameters

Year ending 31 Mar	FY05	FY06	FY07E	FY08E	FY09E
PER (x)	127.1	49.6	10.1	9.6	6.2
PCE (x)	24.1	18.4	7.6	6.2	4.5
Price/Book (x)	10.4	9.0	4.9	3.3	2.2
Yield (%)	0.4	0.5	0.6	0.6	0.6
EV/Net sales (x)	6.8	5.7	2.9	2.0	1.1
EV/Core EBITDA (x)	23.3	17.8	6.6	4.6	2.7

**Shree Cement: Recommendation history**

Date	Stock price (INR)	Recommendation	Price target (INR)	Report
16-Aug-05	406	BUY	488	Northern comfort - Expanding capacity in the deficit-prone northern region
14-Sep-05	491	BUY	601	Northward bound - We raise volume projections, price target
21-Sep-05	498	BUY	601	Glut? What glut? Fear of an oversupply are overdone
27-Oct-05	442	BUY	601	Q2FY06 result: Strong positive surprise - Expect faster volume growth in H2
17-Jan-06	538	BUY	601	Q3FY06 result: 'In line with expectation
24-Jan-06	562	BUY	695	Revision of price target: Expect robust growth to continue - We upgrade price target
12-Apr-06	1083	BUY	1294	Result preview - Mar 06
26-Apr-06	1146	BUY	1573	Soaring ahead - We upgrade EPS estimates, price targets
8-May-06	1050	BUY	1573	Q4FY06 result: In line with expectation
3-Jul-06	749	BUY	1360	Well-set - Outlook remains strong
1-Aug-06	934	BUY	1360	Q1FY07 result: Outstanding quarter
11-Oct-06	1097	BUY	1360	Q2FY07 result: Going Strong
10-Jan-07	1471	BUY	2000	Quarterly Result Preview: Strong earnings season - But topline growth is forecast to slow down
18-Jan-07	1524	BUY	2000	Q3FY07 result: Q3FY07 result in line – we maintain Buy
<b>14-May-07</b>	<b>1051</b>	<b>BUY</b>	<b>1285</b>	<b>Q4FY07 result: Results slightly below our expectation - We maintain BUY with March 2008 price target of INR 1,285</b>

**Brics Research and Sales**

Research	Sector	E-Mail ID	Telephone
<b>Prabhat Awasthi (Head of Equities &amp; Research)</b>	Auto, Telecom, Metals	prabhat.awasthi@bricssecurities.com	(91-22) 66360 155
Kapil Singh	Auto	kapil.singh@bricssecurities.com	(91-22) 66360 047
Srikanth Vadlamani, CFA	Banking	srikanth.vadlamani@bricssecurities.com	(91-22) 66360 178
Deepak Reddy	Banking	deepak.reddy@bricssecurities.com	(91-22) 66360 157
Satish Kumar	Cement, Engineering	satish.kumar@bricssecurities.com	(91-22) 66360 176
Abhinav Sharma	Cement, Engineering	abhinav.sharma@bricssecurities.com	(91-22) 66360 130
Bidisha Ganguly	Economist	bidisha.ganguly@bricssecurities.com	(91-22) 66360 175
Harmendra Gandhi, FRM	IT Services	harmendra.gandhi@bricssecurities.com	(91-22) 66360 179
Sarvottam Kumar	IT Services	sarvottam.kumar@bricssecurities.com	(91-22) 66360 059
Vishal Gupta	Petrochem, Oil & Gas, Airlines	vishal.gupta@bricssecurities.com	(91-22) 66360 195
Saion Mukherjee	Pharmaceuticals	saion.mukherjee@bricssecurities.com	(91-22) 66360 138
Inderjeetsingh Bhatia	Pharmaceuticals	inderjeet.bhatia@bricssecurities.com	(91-22) 66360 177
Bijal Shah, CFA	Telecom, Metals	bijal.shah@bricssecurities.com	(91-22) 66360 169
Manish Gunwani	Mid-caps	manish.gunwani@bricssecurities.com	(91-22) 66360 128
Manish Jain	Mid-caps	manish.jain@bricssecurities.com	(91-22) 66360 057
Aatash Shah	Mid-caps	aatash.shah@bricssecurities.com	(91-22) 66360 062
Jamil Ansari	Mid-caps	jamil.ansari@bricssecurities.com	(91-22) 66360 088
<b>Sales – Equity</b>			
<b>Smita Das (Head of Institutional Sales)</b>		smita.das@bricssecurities.com	(91-22) 66360 027
Abhijit Chakraborty		abhijit.chakraborty@bricssecurities.com	(91-22) 66360 126
Sachin Patil		sachin.patil@bricssecurities.com	(91-22) 66360 170
A. Sasikant		a.sasikant@bricssecurities.com	(91-22) 66360 083
Sanjay Jakate		sanjay.jakate@bricssecurities.com	(91-22) 66360 137
Ajit Kasar		ajit.kasar@bricssecurities.com	(91-22) 66360 109
Sanjay Shinde		sanjay.shinde@bricssecurities.com	(91-22) 66360 109
<b>Sales – Derivatives</b>			
<b>Yuvraj Sehgal (Head of Derivatives)</b>		yuvraj.sehgal@bricssecurities.com	(91-22) 66360 134
Saurin Zota		saurin.zota@bricssecurities.com	(91-22) 66360 042
Bhavin Parikh		bhavin.parikh@bricssecurities.com	(91-22) 66360 022
Ravi Jhaveri		ravi.jhaveri@bricssecurities.com	(91-22) 66360 035
Abhinav Salvi		abhinav.salvi@bricssecurities.com	(91-22) 66360 064
Piyush Shah		piyush.shah@bricssecurities.com	(91-22) 66360 065
Jignesh Shah		jignesh.shah@bricssecurities.com	(91-22) 66360 063
Vipul Shah		vipul.shah@bricssecurities.com	(91-22) 66360 067
Pramit Shah		pramit.shah@bricssecurities.com	(91-22) 66360 062
Suchita Shah		suchita.shah@bricssecurities.com	(91-22) 66360 091
Uday Purohit		uday.purohit@bricssecurities.com	(91-22) 66360 134
<b>Database</b>			
Sanjay Kadam		sanjay.kadam@bricssecurities.com	(91-22) 66360 160
<b>Production</b>			
Priyanka Sheth		priyanka.sheth@bricssecurities.com	(91-22) 66360 053
Bindhu Unny		bindhu.unny@bricssecurities.com	(91-22) 66360 242
Sushama Patil		sushama.patil@bricssecurities.com	(91-22) 66360 163
<b>Administration</b>			
Anna D'Souza		anna.dsouza@bricssecurities.com	(91-22) 66360 029
Krishnahari Kasturi		krishnahari.kasturi@bricssecurities.com	(91-22) 66360 161
Sunita Dmello		sunita.dmello@bricssecurities.com	(91-22) 66360 029

**MUMBAI**

Sadhana House, 1<sup>st</sup> Floor,  
Behind Mahindra Tower,  
570 P.B.Marg, Worli,  
Mumbai- 4010018. India  
Tel : (91-22) 66360000  
Fax : (91-22) 66360164

**DELHI**

803, Ashoka Estate,  
Barakhamba Road,  
Connaught Place,  
New Delhi- 110001  
Tel : (91-11) 51515392  
Fax : (91-11) 23358790

**BANGALORE**

Unit No. 106, 1st Floor,  
The Presidency, No. 82,  
St. Mark's Road,  
Bangalore- 560001  
Tel : (91-80) 22485116  
Fax : (91-80) 22485114

**KOLKATA**

FMC Fortuna,  
R.No.A/16, 3rd Floor,  
234/3A, A.J.C. Bose Road,  
Kolkata- 700020  
Tel : (91-33) 22812216  
Fax : (91-33) 22812406

**CHENNAI**

Lemuir House, No.10,  
G.N. Chetty Road,  
T.Nagar,  
Chennai- 600017  
Tel : (91-44) 52606474  
Fax : (91-44) 52606476

**Disclaimer:** All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication, but we make no representation as to its accuracy or completeness. All information is for the private use of the person to whom it is provided without any liability whatsoever on the part of BRICS Securities Limited, any associated company, or employee thereof. Nothing contained herein should be construed as an offer to buy or sell or a solicitation of an offer to buy or sell. The value of any investment may fall as well as rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of the investment to increase or diminish. Consequently, investors may not get back the full value of their original investment.