

January 9, 2008

Rating	Out Performer
Price	Rs1,346
Target Price	Rs1,515
Implied Upside	13%
Sensex	20,870

(Prices as on January 9, 2008)

#### Trading Data

Market Cap. (Rs bn)	46.9
Shares o/s (m)	34.8
Free Float	77.1%
Avg. Daily Vol ('000)	3.6
Avg. Daily Value (Rs m)	5.2

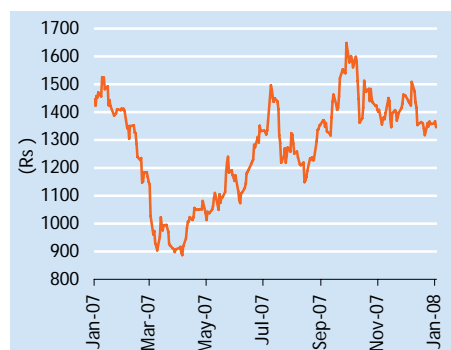
#### Major Shareholders

Promoters	63.7%
Foreign	18.1%
Domestic Inst.	12.2%
Public & Others	6.0%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(7.8)	0.9	(5.5)
Relative	(12.4)	(37.8)	(59.3)

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



Source: Bloomberg

## Shree Cement

### Results impressive, in line with expectations

- **Results:** Shree Cement (SCL) reported impressive results for 3QFY08 with topline growth of 43.6% YoY, primarily led by 23% and 17% rise in volume and realisation respectively. The numbers were in line with our expectation of 43.3% YoY growth. EBITDA grew by 39.7% YoY below topline growth due to higher power & fuel cost and freight cost. PAT declined by 66.4% YoY to Rs350m on account of accelerated depreciation provided on new plant and 18MW captive power plant commissioned in the previous quarter. We estimated PAT for the quarter at Rs390m.
- **Capex update:** SCL commissioned 18MW CPP during the quarter taking its total power capacity to 81MW. Apart from the CPP, the company also commissioned a second grinding unit of 1.5MTPA at Khushkhera, Gurgaon enhancing the total capacity of the unit to 3.5MTPA
- **Valuation:** FY09 will realise the full year benefits of the company's cost cutting initiatives in the form of split grinding unit and pet coke based CPP. These initiatives would help SCL contain price decline pressures in the market to an extent. Apart from this, volumes would continue to grow by 29% in FY09; however, growth would decline in FY10 due to capacities being fully utilised and due to non-addition of new capacity. We expect decline of Rs6 and Rs12/bag in gross realisation for FY09 and FY10 respectively. The company would generate robust free cash flow in the next couple of years despite falling prices.

The stock currently trades at EV/EBITDA of 4.2x and 4.3x FY09E and FY10E respectively, while on EV/tonne it trades at US\$116 and US\$99 FY09E and FY10E respectively. We reiterate Out Performer rating on the stock with price target of Rs1,515.

Key financials (Rs m)	FY07	FY08E	FY09E	FY10E
Revenues	13,680	20,559	25,707	25,475
<i>Growth (%)</i>	<i>104.4</i>	<i>50.3</i>	<i>25.0</i>	<i>(0.9)</i>
EBITDA	5,922	8,805	10,135	8,283
PAT	1,588	3,903	6,037	5,634
EPS (Rs)	45.6	112.0	173.3	161.7
<i>Growth (%)</i>	<i>38.3</i>	<i>145.8</i>	<i>54.7</i>	<i>(6.7)</i>
Net DPS (Rs)	5.0	6.0	10.0	10.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	43.3	42.8	39.4	32.5
RoE (%)	42.3	61.6	55.0	34.2
RoCE (%)	15.6	34.0	40.8	32.2
EV / sales (x)	3.6	2.3	1.6	1.4
EV / EBITDA (x)	8.2	5.3	4.2	4.3
PE (x)	29.5	12.0	7.8	8.3
P / BV (x)	10.3	5.8	3.4	2.5
Net dividend yield (%)	0.0	0.1	0.1	0.1

Source: Company Data; PL Research

Kamlesh Bagmar  
KamleshBagmar@PLIndia.com  
+91-22-6632 2237



## Result Highlights

### Buoyant revenue growth

SCL posted growth of 43.6% YoY in net revenue, primarily led by impressive growth of 22.9% and 16.9% in volume and net realisation respectively. Even on QoQ basis, net realisation rose by 3.7% to Rs3,238 per tonne. Going forward, volume growth would continue in the range of 24-25%, with far more focus on NCR region with the commissioning of an additional 1.5 million tonne grinding unit at Kushkhera in December 2007. Prices are expected to remain stable at current levels.

### Cost pressure drove margin down by 120bps

Total cost per tonne rose by 19.4% YoY as against 16.9% increase in net realisation during the quarter, leading to decline of 120bps in EBITDA margin to 42.7%. The decline was primarily on account of higher power & fuel and freight cost. Power & fuel cost per tonne increased by 17.7% YoY due to 21% YoY rise in pet coke cost, partially offset by rise in PPC cement's share and replacement of grid power with captive power. Freight cost per tonne went up by 28.1% YoY on account of routine restrictions on loading during the festive season, leading to higher freight per tonne loaded. It is expected that it will remain at current levels provided there is no diesel price hike. Despite all these factors, the company's EBITDA per tonne increased by 14% YoY and 11% QoQ to Rs1,384.

### PAT declined by 66% YoY

Following an aggressive depreciation policy, SCL provided accelerated depreciation on capacities commissioned till December 2007. Except the second grinding unit, which was commissioned post September 2007, all capacity added was charged for nine month after deducting for partial depreciation charged on this capacity during the second quarter. Hence, EBIT (excluding other income) declined by 51% YoY to Rs702m.

PAT declined by 66% YoY to Rs350m due to rise in interest cost with capitalisation of capacities partially offset by decline in effective tax rate on account of accelerated depreciation.



## Outlook

SCL is expected to maintain the current quarter margins with stable realisations aided by savings in freight associated with the split grinding unit and stabilisation in power cost with the increase in CPP capacity. Volume growth is expected to remain at the existing level of 23-24%.

## Valuation

SCL is one of the most efficient players in the industry, operating at an EBITDA per tonne of Rs1,333 per tonne (9MFY08). The company's proximity to the NCR region and efficient operations will enable it to marginalise pricing pressure to an extent. Aided with by the timely capacity addition, the company would generate strong free cash flow in the next couple of years. At the current price, the stock trades at EV/EBITDA of 4.2x and 4.3x FY09E and FY10E respectively, while on EV/tonne it trades at US\$116 and US\$99 FY09E and FY10E respectively. We reiterate Out Performer rating on the stock with a price target of Rs1,515.



Operating metrics

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9MFY08	9MFY07	YoY gr. (%)
Volume (m tonne)	1.6	1.3	22.9	1.49	4.5	3.7	24.0
Net Realisations (Rs/tonne)	3,238	2,770	16.9	3,122	3,114	2,698	15.4
EBITDA / tonne (Rs/tonne)	1,384	1,217	13.7	1,349	1,333	1,201	11.0

Q3 FY08 Result Overview

(Rs m)

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9MFY08	9MFY07	YoY gr. (%)
Net sales	5,236	3,645	43.6	4,664	14,158	9,889	43.2
Raw material	589	426	38.4	458	1,504	1,214	23.9
<i>% of net sales</i>	<i>11.3</i>	<i>11.7</i>		<i>9.8</i>	<i>10.6</i>	<i>12.3</i>	
Staff costs	202	138	46.0	161	517	370	39.9
<i>% of net sales</i>	<i>3.9</i>	<i>3.8</i>		<i>3.5</i>	<i>3.7</i>	<i>3.7</i>	
Power & fuel	893	617	44.6	883	2,599	1,623	60.1
<i>% of net sales</i>	<i>17.0</i>	<i>16.9</i>		<i>18.9</i>	<i>18.4</i>	<i>16.4</i>	
Freight	804	511	57.4	661	2,085	1,333	56.4
<i>% of net sales</i>	<i>15.4</i>	<i>14.0</i>		<i>14.2</i>	<i>14.7</i>	<i>13.5</i>	
Other expenses	511	352	45.1	485	1,391	946	47.0
<i>% of net sales</i>	<i>9.8</i>	<i>9.7</i>		<i>10.4</i>	<i>9.8</i>	<i>9.6</i>	
Total expenditure	2,999	2,044	46.7	2,649	8,097	5,486	47.6
EBITDA	2,237	1,601	39.7	2,015	6,061	4,403	37.7
<i>Margin (%)</i>	<i>42.7</i>	<i>43.9</i>		<i>43.2</i>	<i>42.8</i>	<i>44.5</i>	
Depreciation	1,875	263	613.0	688	2,921	864	237.9
Other income	170	47	260.4	291	587	120	388.6
EBIT	532	1,385	(61.6)	1,619	3,728	3,659	1.9
Interest	127	7	1,850.0	85	251	87	187.4
PBT	405	1,379	(70.6)	1,534	3,477	3,571	(2.7)
Extraordinary income/(expense)	16	-		(4)	11	(7)	
PBT (after EO)	420	1,379	(69.5)	1,530	3,488	3,564	(2.1)
Tax	70	338	(79.2)	468	921	848	8.6
<i>% PBT</i>	<i>16.7</i>	<i>24.5</i>		<i>30.6</i>	<i>26.4</i>	<i>23.8</i>	
Reported PAT	350	1,041	(66.4)	1,062	2,566	2,715	(5.5)
Adjusted PAT	337	1,041	(67.6)	1,065	2,557	2,721	(6.0)



Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### PL's Recommendation Nomenclature

<b>Buy</b>	: > 15% Outperformance to BSE Sensex	<b>Out Performer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Under Performer (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

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.