

Shree Cement

REDUCE

Better than expected results due to lower tax

CMP: Rs4,414

Target Price: Rs3,965

SCL's Q3 results were better than expected, with adjusted PAT coming in at Rs2.74bn, vs. our estimate of Rs2.48bn, due to lower than estimated effective tax rate. Top line growth was aided by Power division, even as cement revenue declined. However, substantial savings in energy costs resulted in EBITDA margin expanding by 72bps yoy to 27.8%. SCL faces challenges in its northern cement markets and we believe the stock price more than discounts the positives. Maintain Reduce.

Turnover driven by Power division: Cement and clinker volume declined 6% yoy, due to subdued demand, while average realisation was up 5% yoy, but down ~Rs7/bag qoq. Consequently, cement revenue declined ~2% yoy. However, power revenue rose 52% yoy, driven by rise of 68% yoy in sale of power units. Lower international coal prices helped SCL maximize power volume at lower rates. As a result, revenue grew 6% yoy.

Lower energy costs keep margins stable: Freight cost/tonne was up 4% yoy, while fuel cost/tonne was down ~23% yoy and 28% qoq, due to a decline in pet coke prices, as well as high inventory build-up in Q2. Power generation cost also declined yoy, on account of a sharp correction in international coal prices. Consequently, SCL reported a power EBITDA of ~Rs660mn. Lower pet coke consumption and prices, along with the correction in international coal prices, aided a marginal improvement of 72bps yoy in margins, despite weak cement prices. On a PBT basis, results were 6% below expectations, while MAT credit entitlement of Rs484mn pulled tax rate down to 6%, as against our estimate of 20%, resulting in PAT coming in 11% higher than our expectation at Rs2.74bn.

Capex: SCL's 1mn tonne Unit 9 is progressing on schedule and is likely to be commissioned by June 2013, taking its capacity to ~15mn tonnes.

Valuation: The stock trades at a residual cement EV/tonne of US\$144, which is at a ~15% premium to replacement cost. Despite SCL's impressive results, we believe most of the positives are already factored into the stock price. SCL benefitted from the softening in pet coke and international coal prices, which could be temporary. Moreover, cement demand and prices in the key markets still remain weak. Our TP remains unchanged at Rs3965. Maintain Reduce.

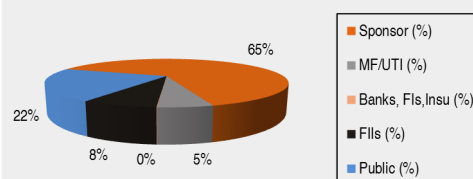
- Corporate development
- Earnings estimate change
- Target price change
- Rating change

KEY DATA

Bloomberg	SRCM IN
Reuters	SHCM.BO
52-wk H/L (Rs)	5,384.4/2,270.0
6-m avg trd value	US\$1.4mn
Market cap	Rs153.8bn/US\$2.8bn
Shares o/s	34.8mn
Face value	Rs10

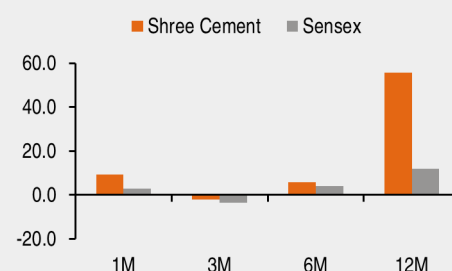
Source: Bloomberg

SHAREHOLDING (%)



Source: Ace equity

PRICE PERFORMANCE



Source: Bloomberg

KEY FINANCIALS

Y/E 31 March	2012	2013E	2014E	2015E
Revenue	58,981	58,999	67,625	75,452
EBITDA	16,458	15,599	17,994	19,812
EBITDA margin (%)	27.9	26.4	26.6	26.3
PAT	6,185	9,186	10,678	12,630
FDEPS (Rs)	159.6	263.7	306.5	362.5
% growth	178.8	65.2	16.2	18.3
P/E (x)	27.7	16.7	14.4	12.2
RoCE avg (%)	16.1	21.8	20.6	21.4

Source: Company, BRICS Research

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Exhibit 1: Q3FY13 performance

Particulars (Rs. Mns)	Q3FY13 Actual	Q3FY13 Estimate	Difference %	Q4FY12	yoy %	Q2FY13	qoq %
Sales	14,568	15,761	(7.6)	13,761	5.9	14,281	2.0
EBITDA	4,054	4,070	(0.4)	3,730	8.7	3,717	9.1
EBITDA %	27.8	25.8	200.1	27.1	72.3	26.0	179.7
Depreciation	1,265	950	33.1	2,346	(46.1)	818	54.6
Other income	576	550	4.7	404	42.5	323	78.5
PBT	2,918	3,100	(5.9)	1,378	111.8	2,659	9.7
Tax	176	620	(71.6)	576	(69.4)	365	(51.6)
PAT	2,741	2,480	10.5	801	242.2	2,294	19.5
EPS	78.7	71.2	10.5	23.0	242.2	65.85	19.5

Source: Company, BRICS Research

Financial summary

Income statement					Balance sheet				
(Rs mn)					(Rs mn)				
Y/E 31 March	2012	2013E	2014E	2015E		2012	2013E	2014E	2015E
Revenue	58,981	58,999	67,625	75,452	Net fixed assets	17,924	20,823	17,890	15,719
Revenue growth (%)	67.9	—	14.6	11.6	Investments	25,352	27,887	35,417	42,500
Operating exp	42,524	43,400	49,631	55,639	Current assets	15,752	16,579	20,742	22,713
EBITDA	16,458	15,599	17,994	19,812	Inventories	5,033	5,263	6,017	6,822
EBITDA margin (%)	27.9	26.4	26.6	26.3	Sundry debtors	1,811	1,811	2,076	2,316
Depreciation	8,731	3,701	5,219	5,171	Cash & bank balance	4,590	5,737	8,606	9,466
EBIT	7,727	11,897	12,775	14,642	Loans & advances	3,933	3,767	4,044	4,108
MTM profit / (loss)	—	—	—	—	Other current assets	385	—	—	—
Other income	1,628	2,061	2,513	2,889	Total assets	59,029	65,290	74,049	80,932
Interest paid	2,354	2,181	1,598	1,127	Net worth	27,339	35,724	45,357	56,873
PBT	7,001	11,777	13,690	16,403	Share capital	348	348	348	348
Tax	1,440	2,591	3,012	3,773	Reserves & surplus	26,991	35,376	45,009	56,524
PAT	6,185	9,186	10,678	12,630	Minority interest	—	—	—	—
Minority interest	—	—	—	—	Total debt	20,739	18,912	16,605	11,581
EO income	624	—	—	—	Secured loans	16,404	15,444	13,484	8,772
APAT	5,561	9,186	10,678	12,630	Unsecured loans	4,335	3,468	3,121	2,809
PAT growth (%)	194.9	48.5	16.2	18.3	Current liabilities & prov	11,647	11,351	12,784	13,176
Shares o/s (mn)	35	35	35	35	Current liabilities	9,694	8,487	9,893	10,107
Fully diluted o/s shrs (mn)	35	35	35	35	Provisions	1,954	2,864	2,891	3,069
FDEPS (Rs) recurring	159.6	263.7	306.5	362.5	Net deferred tax liab	(697)	(697)	(697)	(697)
					Total liabilities	59,029	65,290	74,049	80,932
Cash flow statement					Key ratios				
(Rs mn)					Y/E 31 March				
Y/E 31 March	2012	2013E	2014E	2015E	2012	2013E	2014E	2015E	
PAT	5,561	9,186	10,678	12,630	Valuation ratios				
Depreciation	8,490	3,701	5,219	5,171	PE (x)	27.7	16.7	14.4	
Amortisation	—	—	—	—	CEPS (Rs)	411.0	369.9	456.3	
Interest paid	—	—	—	—	PCE (x)	10.7	11.9	9.7	
Tax paid	1,415	2,591	3,012	3,773	BVPS (Rs)	785	1,025	1,302	
Chg in working capital	2,048	(887)	112	(896)	Price/Book (x)	5.6	4.3	3.4	
Int/div in other income	—	—	—	—	EV/EBITDA (x)	8.7	8.9	7.0	
Other operations	(3,093)	(1,150)	(2,486)	(2,711)	EV/Revenue (x)	2.4	2.3	1.9	
CF from operations (a)	13,630	10,850	13,523	14,195	Dividend yield (%)	0.5	0.5	0.7	
Capital expenditure	(4,465)	(6,600)	(2,286)	(3,000)	Cash flow yield (%)	6.0	2.8	7.3	
Chg in investments	—	—	—	—	Performance ratios				
Other investing act	—	—	—	—	Raw material to sales (%)	48.1	50.5	50.3	
Int/div in other income	—	—	—	—	SGA to sales (%)	—	—	—	
CF from investments (b)	(4,465)	(6,600)	(2,286)	(3,000)	Effective tax rate (%)	20.6	22.0	22.0	
Free cash flow (a+b)	9,164	4,250	11,237	11,195	PAT margin (%)	10.5	15.6	15.8	
Equity raised/(repaid)	—	—	—	—	DPS (Rs)	23.5	23.0	30.0	
Debt raised/(repaid)	660	(1,827)	(2,307)	(5,024)	Dividend payout ratio (%)	15	9	10	
Interest paid	—	—	—	—	Return ratios				
Dividend (incl tax)	(819)	(801)	(1,045)	(1,115)	RoE avg (%)	23.6	29.1	26.3	
Other fin activities	(9,024)	(474)	(5,016)	(4,195)	RoCE avg (%)	16.1	21.8	20.6	
CF from financing (c)	(9,183)	(3,103)	(8,368)	(10,334)	Fixed asset turnover (x)	3.0	3.0	3.5	
Net chg in cash (a+b+c)	(18)	1,147	2,869	861	Working capital ratios				
Opening balance	4,608	4,590	5,737	8,606	Inventory (days)	65	64	65	
Closing balance	4,590	5,737	8,606	9,466	Payable (days)	36	25	31	
					Receivable (days)	11	11	11	
					Working capital (days)	40	51	45	
					Leverage ratios				
					Interest cost (%)	11.5	11.0	9.0	
					Net debt/equity (x)	(0.4)	(0.4)	(0.6)	
					Interest coverage (x)	3.3	5.5	8.0	

BRICS RECOMMENDATION SCALE

BUY:	More than 15% upside
ADD:	Upside up to 15% (between 0% and 15%)
REDUCE:	Downside up to 15% (between 0% and -15%)
SELL:	More than 15% downside

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