

November 11, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs2,025	Rs2,400
EPS change FY12E/13E (%)	-395 / -32
Target Price change (%)	+17.0
Nifty	5,169
Sensex	17,193

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	18	10	(10)
Rel. to Nifty	10	17	18	8

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	SRCM@IN
Equity Capital (Rs mn)	348
Face Value(Rs)	10
No of shares o/s (mn)	35
52 Week H/L	2,274/1,505
Market Cap (Rs bn/USD mn)	71/1,414
Daily Avg Volume (No of sh)	20576
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	64.8	64.8	64.8
FII/NRI	19.4	17.1	16.8
Institutions	4.5	5.8	6.1
Private Corp	7.7	8.2	8.3
Public	3.7	4.1	4.0

Source: Capitaline

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- **Shree's 2QFY12 EBITDA at Rs2.0bn (+41% yoy) significantly ahead of est (Rs1.49bn) led by higher cement realizations (Rs3412/t,+13% yoy).Revenues grow 24% yoy to Rs8.54bn**
- **Better realization & higher share of cement in dispatches (98% vs 92%) help 39% improvement EBIDTA/t to Rs816. Muted power offtake lead to 96% decline in Power EBIDTA**
- **Cement price in North already up 7% vs Q2FY12 avg. Despite factoring higher RM cost & lower power volumes, recent price hikes drive EBITDA upgrade of 8%/5% for FY12E/13E**
- **Shree remains our top pick. Raise TP to Rs2400 driven by earnings upgrade & roll over to FY13. Valuation at 4.4X EV/E & EV/t of USD84 for FY13 remain attractive. ACCUMULATE**

Higher realization & lower clinker volumes drive Q2FY12 profitability

Shree cement Q2FY12 EBITDA at Rs2.01bn (+41% yoy) came in above estimates of Rs1.5 bn led by higher cement realizations driving EBITDA/t to Rs816 (+39% yoy) above estimates of Rs615/t. Revenues at Rs8.5bn (+19.1% yoy) came in above estimates of Rs7.6bn, led by 23.6% yoy growth in cement revenues (Rs8.5bn), while power revenues declined 6.7% yoy to Rs0.86 bn. Cement volumes grew 9% yoy to 2.5 mnt while realizations grew 13.3% yoy to Rs3412/t (vs est of Rs3148/t). Total cost per tonne stood at Rs2596/t, slightly above estimates on account of higher raw material costs which increased 15.6% yoy and 7% qoq to Rs384/t (vs est of Rs365/t) as the company produced higher volumes of cement (increasing the quantity of raw materials like gypsum and flyash). Consequently with higher cement realizations and significantly lower depreciation charges (Rs1.62bn vs est of Rs2.3bn as company defers capitalization of unit I of the 300 MW power plant), APAT at Rs232mn grew +120% yoy.

Improved Power offtake & higher cement prices to improve profitability

Shree has recently entered in a contract for sale of 225MW of power for H2FY12 with various SEBs like Punjab, UP etc at a price of Rs4.35/unit. We expect Shree to sell 122mn units for FY12 with EBITDA/unit of Re1. Also, the uptick in prices which started in Sept-11 has gained momentum & as of Oct-11 prices in northern India are already up Rs18-20/bag from Q2FY12 average of Rs247/bag. Hence Shree is set to deliver significant improvement in profitability in both its businesses over next 2-3 quarters. Further cement margins are expected to improve with higher proportion of cement in total dispatches (Oct cement volumes up14.5% clinker volumes -98%). Despite building in for higher RM costs (on account of higher proportion of cement production) & lower power volume we upgrade our EBITDA estimate by 8%/5% for FY12E/13E.

Shree remains our top pick-Raise TP to Rs2400-ACCUMULATE

Shree remains our top mid-cap pick in the sector. With improved earnings outlook, we raise our target price on Shree to Rs2400 (Rs2050 earlier) led by EBIDTA upgrade & roll over to FY13 number. We continue to value Shree's at 25% discount to ACC (6.5X EV/E & USD110 EV/t) yielding us a value of Rs2200/share for cement business alone. The current stock price implies negative value for power business. However with power offtake tied up for the next 3 quarters, we expect the market to assign some value to power business (Rs200/share in our estimate @ 4X FY13 EV/E) leading to re-rating of the stock. Maintain ACCUMULATE.

Financial Snapshot

YE-	Net	EBITDA		EPS	RoE	EV/		EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	Tonne
FY10	36,321	14,919	41.1	7,197	206.6	24.5	47.3	9.0	4.4	130
FY11	35,119	8,812	25.1	2,097	60.2	-70.9	11.0	30.8	7.7	104
FY12E	42,972	10,821	25.2	2,260	64.9	7.7	10.9	28.6	5.9	96
FY13E	50,634	13,077	25.8	3,267	93.8	44.6	14.3	19.8	4.4	84

Result Tables

Y/E, Mar (Rs. m)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Net Sales	7,176	7,796	10,701	10,340	8,546	19.1	-17.3	18,886	16,621	13.6
Total Expenditure	5,749	6,221	7,742	7,749	6,532	13.6	-15.7	14,281	12,299	16.1
<i>as % of sales</i>	80	80	72	75	76			76	74	
Consumption of RM	757	919	1,121	966	954	26.1	-1.3	1,920	1,684	14.0
<i>as % of sales</i>	11	12	10	9	11			10	10	
Stock Adjustment	186	-49	-175	172	107	-42.5	-37.6	279	-112	-348.6
<i>as % of sales</i>	3	-1	-2	2	1			1	-1	
Purchase of traded goods	115	11	15	154	26	-77.1	-82.9	181	599	-69.8
<i>as % of sales</i>	2	0	0	1	0			1	4	
Employee Cost	491	479	537	612	593	20.7	-3.2	1,205	969	24.4
<i>as % of sales</i>	7	6	5	6	7			6	6	
Power, Oil & Fuel	1,762	2,068	3,020	2,728	2,033	15.4	-25.5	4,761	4,036	18.0
<i>as % of sales</i>	25	27	28	26	24			25	24	
Freight expenses	1,639	2,016	2,313	2,231	1,909	16.5	-14.4	4,140	3,422	21.0
<i>as % of sales</i>	23	26	22	22	22			22	21	
Other expenditure	799	777	912	886	910	13.9	2.7	1,795	1,702	5.5
<i>as % of sales</i>	11	10	9	9	11			10	10	
EBIDTA	1,427	1,575	2,959	2,591	2,014	41.1	-22.3	4,605	4,322	6.5
Depreciation	1,360	1,373	2,993	1,680	1,631	19.9	-3.0	3,311	2,877	15.1
EBIT	67	203	-33	910	384	471.5	-57.9	1,294	1,445	-10.4
Other Income	429	319	209	164	192	-55.1	17.6	356	715	-50.2
Interest	311	504	519	476	468	50.7	-1.5	944	731	29.1
PBT	185	18	-344	599	108	-41.9	-82.0	706	1,429	-50.6
Total Tax	80	-222	-446	43	-125	-256.7	-388.8	-82	264	-130.8
Adjusted PAT	106	240	102	555	232	120.1	-58.2	788	1,165	-32.4
(Profit)/loss from JV's/Ass/MI										
APAT After MI	106	240	102	555	232	120.1	-58.2	788	1,165	-32.4
Extra ordinary items	0	-35	-555	0	-152			-152	0	
Reported PAT	106	275	657	555	385	264.4	-30.7	940	1,165	-19.3
EPS	3.0	6.9	2.9	7.5	6.7	120.1	-11.4	14.2	33.4	-57.5

Margins (%)						(bps)	(bps)			
EBIDTA	19.9	20.2	27.7	25.1	23.6	368	-149	24.4	26.0	-162
EBIT	0.9	2.6	-0.3	8.8	4.5	355	-432	6.9	8.7	-184
EBT	2.6	0.2	-3.2	5.8	1.3	-132	-453	3.7	8.6	-486
PAT	1.5	3.1	1.0	5.4	2.7	125	-265	4.2	7.0	-284
Effective Tax rate	43.0	-1236.6	129.6	7.2	-115.9	-15,883	-12,307	-11.5	18.5	-3,005

Segmental Results

Segmental Results	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Revenue										
Cement	6,860	7,461	9,505	9,169	8,478	23.6	-7.5	17,647	14,999	17.7
Power	925	860	2,296	1,819	863	-6.7	-52.6	2,682	3,501	-23.4
Total Revenue	7,785	8,321	11,801	10,989	9,340	20.0	-15.0	20,329	18,500	9.9
Less: Intersegment revenue	609	525	1,099	649	794	30.3	22.4	1,442	1,878	-23.2
Net segment revenue	7,176	7,796	10,701	10,340	8,546	19.1	-17.3	18,886	16,621	13.6
EBIT										
Cement	422	882	175	1,792	1,230	191.6	-31.3	3,022	1,224	146.8
Power	-288	-612	159	-797	-830	188.2	4.2	-1,627	297	-648.2
Total EBIT	134	271	334	995	400	198.8	-59.8	1,395	1,521	-8.3
EBIT margin										
Cement	6.2%	11.8%	1.8%	19.5%	14.5%	836	-503	17.1%	8.2%	896
Power	-31.2%	-71.1%	6.9%	-43.8%	-96.3%	-6,510	-5,245	-60.7%	8.5%	-6,916

Per tonne analysis

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Cement Volumes (mnt)	2.28	2.62	2.88	2.69	2.49	9.0	-7.7	5.18	4.76	8.7
Raw Material	332	351	389	359	384	15.6	7.0	371	353	4.9
Stocks	82	-19	-61	64	43	-47.3	-32.4	54	-24	-328.7
Employee	216	183	186	227	239	10.7	4.9	233	203	14.4
Power and fuel	718	708	814	660	792	10.2	20.0	723	731	-1.0
Freight expenses	719	770	803	828	768	6.8	-7.3	800	718	11.3
Freight on interunit clinker	149	153	173	167	172	15.5	3.3	169	149	13.4
Freight & Selling Expenses	570	617	630	662	596	4.6	-9.9	630	569	10.8
Other exp	350	297	317	329	366	4.5	11.3	347	357	-2.9
Total Cost per tonne	2,422	2,294	2,453	2,524	2,596	7.2	2.8	2,562	2,465	3.9
Realisation	3,010	2,851	3,300	3,405	3,412	13.3	0.2	3,408	3,148	8.3
EBIDTA	588	556	847	880	816	38.6	-7.3	846	683	23.9

Source: Company, Emkay Research

Power segment analysis

Power (Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Sales	210	335	1196	1012	69	-67.3	-93.2	1239	1035	19.8
Realisation	4.2	4.5	4.6	4.9	10.1	142.1	105.8	5.1	5.4	-5.8
EBITDA	86	120	520	220	4	-95.9	-98.4	224	480	-53.4
EBITDA/unit	1.7	1.6	2.0	1.0	0.5	-69.8	-50.7	0.9	2.5	-63.4
EBIDTA margin	40.8%	35.8%	43.5%	21.7%	5.1%	-3,574	-1,664	18.0%	46.4%	-2,836

Source: Company

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	36,321	35,119	42,972	50,634
Growth (%)	34.0	(3.3)	22.4	17.8
Total Expenditure	21,504	26,427	32,151	37,556
Raw Materials Cost	3,238	3,723	4,104	4,645
Employee costs	1,586	1,985	2,425	2,667
Power & Fuel cost	6,105	9,123	12,767	15,740
Freight	5,889	5,829	6,664	7,725
Others	4,687	5,649	6,192	6,779
EBIDTA	14,919	8,812	10,821	13,077
Growth (%)	56.9	-40.9	22.8	20.8
EBIDTA %	41.1	25.1	25.2	25.8
Depreciation	5,902	7,243	7,017	8,151
EBIT	9,016.6	1,569.6	3,804.3	4,926.6
EBIT margin (%)	24.8	4.5	8.9	9.7
Other income	1,284	1,249	996	1,089
Interest	1,185	1,709	1,976	1,932
EBT	9,116	1,109	2,825	4,083
Tax	1,918	(988)	565	817
Effective tax rate (%)	21.0	-89.1	20.0	20.0
Adj PAT	7,197	2,097	2,260	3,267
Growth (%)	24.5	-70.9	7.7	44.6
Net Margin (%)	19.8	6.0	5.3	6.5
(Profit)/loss from JV's/Ass/MI				
Adjusted PAT After JVs/Ass/MI	7,197	2,097	2,260	3,267
Extra-ordinary	437	0	94	0
Reported PAT	6761	2097	2166	3267
Growth (%)	17.0	-69.0	3.3	50.8

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	9,313	-140	1,829	2,994
Depreciation	5,704	7,243	7,017	8,151
Interest Provided	766	1,709	1,976	1,932
Other Non-Cash items	-1,286	-9	-94	0
Chg in working cap	-61	1,295	383	249
Tax paid	-1,897	988	-565	-817
Operating Cashflow	12,540	11,087	10,546	12,509
Capital expenditure	-11,710	-11,516	-4,722	-5,500
Free Cash Flow	830	-430	5,824	7,009
Other income	489	1,249	996	1,089
Investments	-5,663	3,958	0	0
Investing Cashflow	-16,885	5,207	996	1,089
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	5,729	-983	-1,250	-1,250
Interest Paid	-1,332	-1,709	-1,976	-1,932
Dividend paid (incl tax)	-611	-568	-529	-529
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	3,786	-3,260	-3,755	-3,711
Net chg in cash	-559	1,517	3,065	4,387
Opening cash position	4,723	4,164	4,608	7,673
Closing cash position	4,164	4,608	7,673	12,060

Balance Sheet

Y/E, Mar (Rs. m)	FY10E	FY11P	FY12E	FY13E
Equity share capital	348	348	348	348
Reserves & surplus	17,984	19,514	21,150	23,888
Net worth	18,332	19,862	21,499	24,236
Minority Interest				
Secured Loans	17,885	17,805	16,555	15,305
Unsecured Loans	3,177	2,274	2,274	2,274
Loan Funds	21,062	20,079	18,829	17,579
Net Deferred Taxes	124	723	723	723
Total Liabilities	39,270	39,218	39,605	41,093
Gross Block	29,509	40,421	52,421	55,421
Less: Acc Depreciation	21,989	28,750	35,767	43,918
Net block	7,520	11,671	16,654	11,503
Capital WIP	9,674	10,278	3,000	5,500
Investment	15,922	11,965	11,965	11,965
Current Assets	15,822	14,389	18,471	23,976
Inventories	3,581	4,042	4,946	5,828
Sundry Debtors	824	1,082	1,324	1,560
Cash and Bank	4,164	4,608	7,673	12,060
Loans and Advances	7,140	4,431	4,431	4,431
Other current assets	112,784	224,525	96,195	96,195
Current Liab & Prov	9,666	9,084	10,485	11,851
Current liabilities	4,667	6,264	7,665	9,032
Provisions	4,999	2,820	2,820	2,820
Net current assets	6,156	5,305	7,987	12,125
Miscellaneous Exps	0	0	0	0
Total Assets	39,272	39,218	39,605	41,093

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	41.1	25.1	25.2	25.8
Net Margin	19.8	6.0	5.3	6.5
ROCE	31.1	7.2	12.2	14.9
ROE	47.3	11.0	10.9	14.3
RoIC	97.4	14.3	25.9	34.5
Per Share Data (Rs)				
EPS	206.6	60.2	64.9	93.8
CEPS	363.5	268.1	263.6	327.7
BVPS	526.2	570.1	617.1	695.7
DPS	13.0	14.0	13.0	13.0
Valuations (x)				
PER	9.0	30.8	28.6	19.8
P/CEPS	5.1	6.9	7.0	5.7
P/BV	3.5	3.3	3.0	2.7
EV / Sales	1.8	1.9	1.5	1.1
EV / EBITDA	4.4	7.7	5.9	4.4
Dividend Yield (%)	0.7	0.8	0.7	0.7
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.2	(0.0)	-0.3
Net Debt/EBIDTA	1.1	1.8	1.0	0.4
Working Cap Cycle (days)	-3	-12	-12	-12

Recommendation History: Shree Cement – SRCM IN

Date	Reports	Reco	CMP	Target
02/08/2011	Shree Cement Q1FY12 Result Update	Accumulate	1,750	2,050
30/05/2011	Shree Cement Q4FY11 Result Update	Accumulate	1,836	1,960
31/01/2011	Shree Cement Q3FY11 Result Update	Accumulate	1,660	1,960
11/11/2010	Shree Cement Q2FY11 Result Update	Accumulate	2,240	2,330

Recent Research Reports

Date	Reports	Reco	CMP	Target
11/11/2011	IL&FS Transportation Q2FY12 Result Update	Accumulate	205	234
08/11/2011	Aban Offshore Q2FY12 Result Update	Buy	436	522
08/11/2011	Madras Cement Q2FY12 Result Update	Hold	116	125
02/11/2011	Orient Paper Q2FY12 Result Update	Buy	62	82

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