

Shree Cement

BSE SENSEX 18,578	S&P CNX 5,648	CMP: INR4,049	TP: INR4,694	Buy						
Bloomberg	SRCM IN									
Equity Shares (m)	34.8									
52-Wk Range (INR)	4,442/1,823									
1,6,12 Rel. Perf. (%)	18/31/113									
M.Cap. (INR b)	141.0									
M.Cap. (USD b)	2.7									
Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/Ton
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	EBITDA	(USD)
03/11A	34,535	6,972	200.1	-31.4	-	-	36.5	8.4	-	-
06/12A	48,792	9,558	274.4	37.1	14.8	5.2	40.5	19.6	9.2	179
06/13E	63,119	12,268	351.0	27.9	11.5	3.8	38.1	31.2	6.2	132
06/14E	71,234	14,203	403.1	14.8	10.0	3.0	33.6	27.4	5.1	109

- Shree Cement's 1QFY13 operating performance is above estimates, with EBITDA of INR3.93b (v/s estimate INR3.2b), driven by higher-than-estimated volumes and realizations in cement and merchant power business. While volume data for 1QFY13 has not been disclosed, our per/ton analysis are based on estimated volumes.
- SRCM's 1QFY13 revenues grew by 55.3% YoY (down 9.1% QoQ) to INR13.2b (v/s estimate of INR10.9b) and recurring PAT stood at INR2.3b. EBITDA grew by 96% YoY (down 18.3% QoQ) to INR3.93b, translating into EBITDA margins of 29.7% (v/s estimate 29.4%) -- a decline of 336bp QoQ (+620bp YoY).
- Cement volumes estimated to have grown by 22.7% YoY (down 9.5% QoQ) to 3.05mt (v/s estimate of 2.85mt). Blended realizations improved by INR86/ton QoQ (+INR490/ton YoY) to INR3,891/ton (v/s estimate of INR3,685/ton). Cement EBITDA/ton at INR1,182/ton (v/s estimate of INR1,114/ton) was lower by INR142/ton QoQ (+INR379/ton YoY). QoQ cost uptick was attributable to higher energy cost and negative operating leverage.
- Merchant power volumes in 1QFY13 were at ~307m units, against ~390m units in 5QFY12 (v/s 14m units in 2QFY12) and revenues were INR1.36b (v/s INR1.7b in 5QFY12 and INR69m in 2QFY12). Merchant power business EBITDA was at ~INR326m (v/s estimate of INR40m). Realizations and EBITDA/unit of own generation were INR4.44/unit (v/s INR4.44 in 5QFY12) and INR1.1/unit (v/s INR0.9/unit in 5QFY12) respectively.
- We raise normal EPS estimates by ~13%/11% for FY13/FY14 to INR351/INR403, led by INR23/bag (v/s earlier estimate of INR13/bag) higher realizations in FY13 and INR10/bag (no change) increase in FY14. We assume cement volume growth of 10% in FY13 to 13.4mt and 9% in FY14 to 14.6mt. We raise EBITDA/unit estimate for the merchant power business to ~INR0.8/unit (v/s INR0.5/unit earlier). The stock trades at 10x FY14E EPS, 5.1x EV/EBITDA and USD109/ton (adj. for merchant power assets of ~400MW). **Buy** with a revised TP of INR4,694.

Quarterly performance

Y/E June	FY12				FY13				FY12	FY13E	FY13	Var.
	2Q	3Q	4Q	5Q *	1Q	2QE	3QE	4QE (15 Mon)	(15 Mon)	1QE	(%)	
Sales Dispat. (m ton)	2.49	2.85	3.47	3.37	3.05	3.09	3.76	3.47	14.87	13.37	2.85	7.02
YoY Change (%)	9.0	8.8	20.6	25.1	22.7	8.6	8.1	2.9	15.9	-10.1	14.7	54.8
Realization (INR/Ton)	3,401	3,798	3,560	3,805	3,891	3,991	4,191	4,182	3,576	4,074	3,685	6
YoY Change (%)	13.0	33.2	7.9	11.8	14.4	5.1	17.7	9.9	14.8	13.9	24.7	-41.7
QoQ Change (%)	-0.1	11.7	-6.2	6.9	2.2	2.6	5.0	-0.2			-3.2	-171.3
Net Sales	8,520	12,586	14,241	14,553	13,230	14,522	18,458	16,909	58,980	63,119	10,927	21
YoY Change (%)	18.7	61.4	33.1	42.9	55.3	15.4	29.6	16.2	36.6	7.0	47.4	16.6
EBITDA	2,003	3,320	4,210	4,812	3,930	4,250	6,018	5,284	16,456	19,507	3,216	22
Margins (%)	23.5	26.4	29.6	33.1	29.7	29.3	32.6	31.2	27.9	30.9	29.4	0.9
Depreciation	1,619	2,351	2,346	818	942	950	1,750	1,772	8,731	5,413	850	11
Interest	468	519	411	480	543	525	500	489	2,354	2,057	450	21
Other Income	204	172	774	322	300	200	700	300	1,630	1,500	250	20
PBT before EO Exp	119	622	2,227	3,836	2,745	2,975	4,468	3,323	7,001	13,537	2,166	27
Extra-Ord Expense	11	0	508	1	10	0	0	-10	123	0	0	
PBT	108	622	1,719	3,835	2,736	2,975	4,468	3,332	6,878	13,537	2,166	26
Tax	-277	30	576	320	454	684	1,028	785	693	2,978	0	
Rate (%)	-256.7	4.9	33.5	8.3	16.6	23.0	23.0	23.5	10.1	22.0	0.0	
Reported PAT	385	592	1,143	3,515	2,281	2,291	3,441	2,548	6,185	10,559	2,166	5
Adj PAT	426	592	1,481	3,516	2,289	2,291	3,441	2,540	6,296	10,559	2,166	6
YoY Change (%)	-13.7	304.8	NA	460.9	438.0	286.9	132.4	-27.7	66.9	67.7	-268.4	-263.2

E:MOSL Estimates; ^ Y/E March for FY11; * volumes are estimated

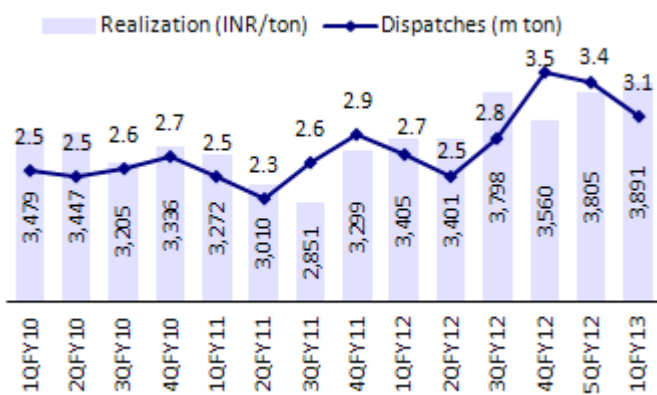
Jinesh Gandhi (Jinesh@MotilalOswal.com); +91 22 3982 5416

Sandipan Pal (Sandipan.Pal@MotilalOswal.com); +9122 3982 5436

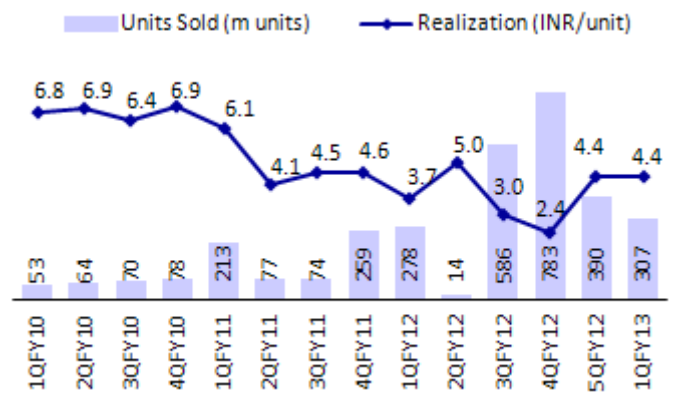
Strong volume, realizations for cement and power led to strong revenue growth

- SRCM's 1QFY13 revenues grew by 55.3% YoY (down 9.1% QoQ) to INR13.2b (v/s estimate of INR10.9b).
- Based on volumes of 3.05mt (+22.7% YoY), blended realizations improved INR86/ton QoQ (+INR490/ton YoY) to INR3,891/ton (v/s estimate of INR3,685/ton).
- Merchant power volumes in 1QFY13 were at ~307m units, against ~390m units in 5QFY12 (v/s 14m units in 2QFY12) and revenues were INR1.36b (v/s INR1.7b in 5QFY12 and INR69m in 2QFY12). Realizations from own generation were INR4.44/unit (v/s INR4.44 in 5QFY12).

Trend in cement business volumes and realizations



Trend in merchant power business volumes and realizations

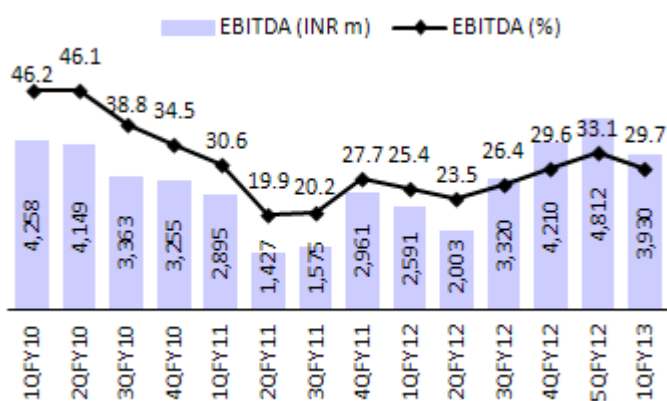


Source: Company, MOSL

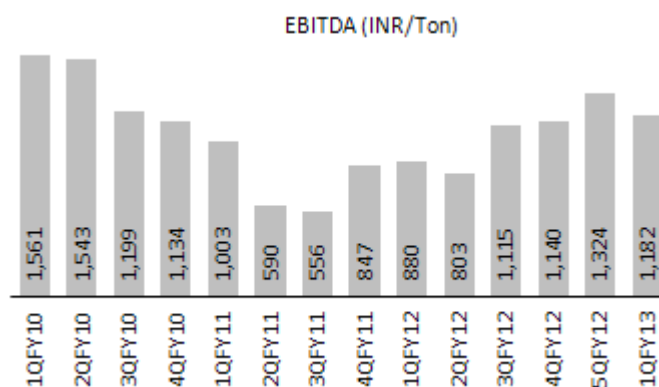
Energy cost push, negative operating leverage dent QoQ profitability

- EBITDA grew by 96% YoY (down 18.3% QoQ) to INR3.93b, translating into EBITDA margins of 29.7% (v/s estimate of 29.4%) -- a decline of 336bp QoQ (+620bp YoY).
- Higher interest and depreciation resulted in adjusted PAT of INR2.3b (v/s estimate of INR2.2b). The sharp QoQ decline in depreciation is attributable to lumpiness from the accelerated WDV method of accounting where the company recognized significant depreciation from its recently commissioned power plant over 3/4QFY12.
- Cement EBITDA/ton at INR1,182/ton (v/s estimate of INR1,114/ton) was lower by INR142/ton QoQ (+INR379/ton YoY). The QoQ uptick in cost was attributable to higher energy cost (pet coke price increased 9% QoQ to INR7,312/t v/s 6,700/t in 5QFY12) and negative operating leverage.
- EBITDA of the merchant power business was ~INR326m (v/s estimate of INR40m), led by better-than-expected EBITDA/unit at INR1.1/unit (v/s INR0.9/unit in 5QFY12) respectively.

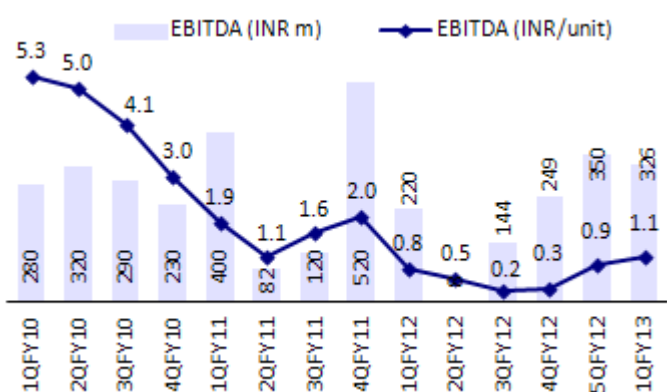
Trend in EBITDA



Trend in cement EBITDA (INR/ton)



Trend in power EBITDA (INR/unit)



Cement business income statement (INR/ton)

	1Q FY13	2Q FY12	YoY (%)	5Q FY12	QoQ (%)
Net Realization	3,891	3,401	14.4	3,805	2.2
Raw Material Cost	426	443	-3.8	404	5.5
Staff Cost	231	239	-3.2	221	4.2
Power & fuel	739	787	-6.1	604	22.3
Freight & selling Exp	698	627	11.4	699	-0.1
Other Exp	615	502	22.4	553	11.2
Total Exp	2,709	2,598	4.3	2,481	9.2
EBITDA	1,182	803	47.1	1,324	-10.7
EBITDA Margin (%)	30.4	23.6		34.8	

Source: Company, MOSL

Upgrading estimates

- We are upgrading our normal EPS estimates by ~13%/11% for FY13/FY14 to INR351/INR403 respectively, led by INR23/bag (v/s earlier estimate of INR13/bag) higher realizations in FY13 and INR10/bag (no change) increase in FY14.
- We assume cement volume growth of 10% in FY13 to 13.4mt and 9% in FY14 to 14.6mt (unchanged).
- Also, we have raised our EBITDA/unit for the merchant power business to ~INR0.8/unit (v/s INR0.5/unit) earlier.
- These translate into 11% upward revision in the target price to INR4,694.

Revised forecast (INR b)

	FY13E			FY14E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	63.1	60.3	4.7	71.2	68.3	4.2
EBITDA	19.5	17.4	12.4	21.8	19.9	9.8
Net Profit	12.3	10.8	13.1	14.2	12.8	11.4
EPS (INR)	351.0	310	13.2	403.1	361	11.5

Source: MOSL

Valuation and view

- We expect SRCM's cement business to witness a return to superior profitability, with EBITDA/ton of INR1,340/ton in FY13 v/s MOSL cement universe average of INR1,097/ton.
- It is well placed for the next leg of growth in cement business with strong balance sheet (net cash of INR13b as in June 2012). Company is expanding capacity at its Rajasthan plant by ~4mt clinker capacity, which would be operational by June 2013 and December 2014.
- The stock trades at 10x FY14E EPS, 5.1x EV/EBITDA and USD109/ton (adjusting for merchant power assets of ~400MW). We maintain a **Buy** rating with a revised SOTP-based target price of INR4,694.

Shree Cement - Sum of the parts valuations (INR m)

	Parameter	Factor	FY13E	FY14E
Cement business	EV/EBITDA	6	107,481	123,275
Merchant Power	DCF	@ 15% WACC	12,577	10,984
Total EV			120,058	134,259
Less: Net Debt			-19,956	-29,271
Equity Value			140,014	163,530
Fair Value (INR/share)			4,019	4,694
Upside (%)			-0.7	15.9

Source: MOSL

Shree Cement: an investment profile

Company description

Shree Cement has the largest single-location integrated plant in North India, with an installed capacity of 13m ton. It is strategically located in central Rajasthan from where it can cater to the entire Rajasthan market and Delhi and Haryana, with economic logistics cost. As it is a significant player in North India, over the years Shree has established the reputation of one of the world's most efficient cement manufacturers.

Key investment arguments

- One of the most cost efficient cement producers in India.
- An efficient cement manufacturer, best-positioned to manage a downturn in the cycle.
- De-risking its business by diversifying into merchant power.

Key investment risks

- Being a single location plant, it is heavily dependent on North India; any downturn in prices in the North would adversely impact profitability.
- Increase in pet coke prices could impact profitability as it uses pet coke as feedstock for the captive power plant and to fire kilns.

Comparative valuations

		Shree Cement	ACC	India Cement
P/E (x)	FY13E	11.5	19.7	8.9
	FY14E	10.0	16.7	6.7
P/BV (x)	FY13E	3.8	3.5	0.7
	FY14E	3.0	3.2	0.6
EV/EBITDA (x)	FY13E	6.2	10.8	5.0
	FY14E	5.1	9.4	4.0
EV/Ton (US\$)	FY13E	132	147	65
	FY14E	109	145	59

Shareholding Pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	64.8	64.8	64.8
Domestic Inst	5.3	5.0	5.8
Foreign	18.7	19.0	17.1
Others	11.2	11.2	12.3

Recent development

- Company is expanding capacity at its Rajasthan plant by ~4mt clinker capacity, which would be operational by June 2013 and December 2014.

Valuation and view

- The stock trades at 10x FY14E EPS, 5.1x EV/EBITDA and USD109/ton (adjusting for merchant power assets of ~400MW).
- Maintain **Buy** with revised target price of INR4,694 (SOTP based).

Sector view

- We believe we have witnessed bottom-of-the-cycle utilization and profitability and it should gradually improve hereon, given sustainable demand drivers.
- Structural increase in cost base would necessitate higher cement prices.
- Revival in cement demand would be a key catalyst for the stock's performance.

EPS: MOSL forecast v/s Consensus (INR)

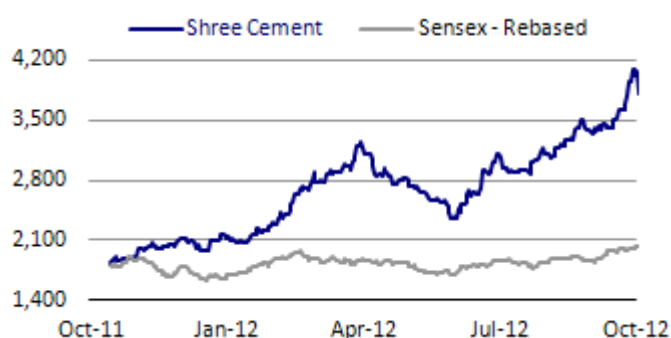
	MOSL Forecast*	Consensus Forecast	Variation (%)
FY13	351.0	230.5	52.2
FY14	403.1	285.5	41.2

*Adjusted for accelerated depreciation

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
4,049	4,694	15.9	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E June	2011 ^	2012	2013E	2014E	
Gross Sales	34,535	48,792	63,119	71,234	
Net Sales	34,535	48,792	63,119	71,234	
Change (%)	-4.9	41.3	29.4	12.9	
Total Expenditure	25,687	34,927	43,612	49,398	
% of Sales	74.4	71.6	69.1	69.3	
EBITDA	8,848	13,865	19,507	21,836	
Margin (%)	25.6	28.4	30.9	30.7	
Depreciation	6,758	7,133	5,413	6,792	
EBIT	2,091	6,732	14,094	15,044	
Int. and Finance Charges	1,753	1,878	2,057	1,851	
Other Income - Rec.	1,251	1,471	1,500	1,650	
PBT before EO Expense	1,588	6,325	13,537	14,843	
EO Expense/(Income)	485	41	0	0	
PBT after EO Expense	1,103	6,284	13,537	14,843	
Tax	-994	649	2,978	3,265	
Deferred Tax					
Tax Rate (%)	-90.0	10.3	22.0	22.0	
Reported PAT	2,097	5,635	10,559	11,577	
Adj PAT for EO items	2,582	5,671	10,559	11,577	
Change (%)	-63.6	119.7	86.2	9.6	
Margin (%)	7.5	11.6	16.7	16.3	
Normal PAT *	6,972	9,558	12,268	14,203	
Balance Sheet		(INR Million)			
Y/E June	2011 ^	2012	2013E	2014E	
Equity Share Capital	348	348	348	348	
Other Reserves	19,513	26,991	36,653	47,252	
Total Reserves	19,513	26,991	36,653	47,252	
Net Worth	19,862	27,339	37,001	47,600	
Deferred Liabilities	-723	-697	-697	-401	
Secured Loan	19,079	16,079	18,079	17,379	
Unsecured Loan	1,000	532	1,000	1,000	
Total Loans	20,079	16,611	19,079	18,379	
Capital Employed	39,218	43,253	55,383	65,579	
Gross Block	42,713	50,564	55,064	63,064	
Less: Accum. Deprn.	28,752	35,886	41,299	48,092	
Net Fixed Assets	13,961	14,678	13,764	14,972	
Capital WIP	5,000	1,500	5,000	5,000	
Investments	11,965	25,352	25,352	25,352	
Curr. Assets	17,756	17,499	25,788	35,959	
Inventory	4,042	5,033	6,917	7,806	
Account Receivables	1,082	1,811	1,729	1,952	
Cash and Bank Balance	4,987	4,590	13,683	22,298	
Others	7,644	6,065	3,459	3,903	
Curr. Liability & Prov.	9,463	15,776	14,521	15,705	
Account Payables	6,635	13,822	8,646	9,758	
Provisions	2,828	1,954	5,875	5,947	
Net Current Assets	8,293	1,723	11,266	20,255	
Appl. of Funds	39,218	43,253	55,383	65,579	
Ratios					
Y/E June	2011 ^	2012	2013E	2014E	
Basic (INR)					
Normal EPS *	200.1	274.4	351.0	403.1	
Cash EPS	394.1	479.1	507.6	602.7	
BV/Share	570.1	784.8	1,062.1	1,366.4	
DPS	14.0	20.0	22.0	24.0	
Payout (%)	27.2	14.5	8.5	8.4	
Valuation (x)					
P/E		14.8	11.5	10.0	
Cash P/E		8.5	8.0	6.7	
P/BV		5.2	3.8	3.0	
EV/Sales		3.1	2.3	1.9	
EV/EBITDA		9.2	6.2	5.1	
EV/ton (US\$-Cap)		179	132	109	
Dividend Yield (%)		0.5	0.5	0.6	
Return Ratios (%)					
RoE	36.5	40.5	38.1	33.6	
RoCE	8.4	19.6	31.2	27.4	
Working Capital Ratios					
Inventory (Days)	43	38	40	40	
Debtor (Days)	11	14	10	10	
Working Capital Turnover (D)	88	13	65	104	
Leverage Ratio (x)					
Current Ratio	1.9	1.1	1.8	2.3	
Debt/Equity	1.0	0.6	0.5	0.4	
Cash Flow Statement		(INR Million)			
Y/E June	2011 ^	2012	2013E	2014E	
Oper. Profit/(Loss) before Ta	8,848	13,865	19,507	21,836	
Interest/Dividends Recd.	1,251	1,471	1,500	1,650	
Direct Taxes Paid	395	-564	-2,978	-2,969	
(Inc)/Dec in WC	-1,315	6,173	-451	-373	
CF from Operations	9,180	20,945	17,578	20,145	
(inc)/dec in FA	-8,525	-4,350	-8,000	-8,000	
(Pur)/Sale of Investments	3,958	-13,387	0	0	
CF from investments	-4,567	-17,738	-8,000	-8,000	
Issue of Shares	-482	2,617	0	0	
(Inc)/Dec in Debt	-983	-3,468	2,468	-700	
Interest Paid	-1,753	-1,878	-2,057	-1,851	
Dividend Paid	-571	-815	-897	-978	
CF from Fin. Activity	-3,789	-3,544	-485	-3,530	
Inc/Dec of Cash	823	-337	9,093	8,615	
Add: Beginning Balance	4,164	4,987	4,590	13,683	
Closing Balance	4,987	4,590	13,683	22,298	

E: MOSL Estimates; ^ Y/E March; * Adj for accelerated depn & EO items

N O T E S

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Shree Cement

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Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com