

May 30, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs1,836	Rs1,960
EPS change FY11E/12E (%)	NA / -85.4
Target Price change (%)	NA
Nifty	5,473
Sensex	18,232

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	8	(8)	(6)
Rel. to Nifty	(3)	5	(1)	(12)

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	2,324/1,505
Market Cap (Rs bn/USD mn)	64/1,420
Daily Avg Volume (No of sh)	6574
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	64.8	64.8	64.8
FII/NRI	16.8	17.4	16.7
Institutions	6.1	6.4	7.0
Private Corp	8.3	7.5	7.3
Public	4.0	4.0	4.2

Source: Capitaline

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- EBITDA of Rs2.96bn (+88% qoq) - in line with estimates. However accelerated depreciation (on Jaipur grinding unit capitalised in Q4FY11), drags APAT to a meager Rs102mn
- Revenues of Rs10.7bn (+13.4% yoy) came in exactly in line, led by 6.8% revenue growth in cement revenues (Rs9.5bn) and impressive 121% yoy growth in power revenues (Rs1.2bn)
- Upgrade FY12 EBITDA by 3.8%, but cut FY12E EPS estimates by to EPS of Rs13.8 on account of revised depreciation guidance. Introduce FY13 estimates with EPS of Rs175
- Change in FY12 EPS does not affect our target as it's driven by depreciation (non cash charge). Continue to value Shree on 6X FY12 EV/E. Maintain ACCUMULATE. Target - Rs1,960

Q4FY11 operating performance meets expectation

Shree's Q4FY11 EBITDA of Rs2.96bn grew 88% qoq (-17.1% yoy), in line with estimates, with 744bps sequential improvement in EBITDA margins at 27.7%. Revenues of Rs10.7bn (+13.4% yoy) came in exactly in line, led by 6.8% revenue growth in cement division (Rs9.5bn) and impressive 121% yoy growth in power revenues (Rs1.19bn). Cement volumes grew 7.5% yoy (2.88mnt) while realizations though stood flat yoy, improved 15.7% sequentially. Pure Grey Cement realizations at Rs3432/t, improved 16.2% qoq.

Sharp improvement in realization boost cement EBITDA/t to Rs847

Cement EBITDA/t at Rs847, improved 52% qoq, as 16% sequential improvement in cement realization helped protect margins against cost increases. Total cost /t of Rs2380 increased 13% yoy led by 24% increase in higher raw material cost/t and 28% increase in P&F costs per tonne (As Shree completely relies on imported petcoke, prices of which have gone up by 44% yoy and 16% qoq).

2.3X jump in power volumes drives 68% jump in power EBITDA

Power revenues grew on the back of impressive 2.3X jump in volumes (257mn units vs 78 mn sold in Q4FY10). Power volumes increased as Shree commissioned ~100 MW of earlier in the year and as power offtake improved in the usually deficit 4Q. Power realisation came in better than expected at Rs4.65/unit leading to power EBITDA of Rs520 mn, +68% yoy and up 3.3X qoq. Cost of power/unit declined 9% yoy & 7.5% qoq with resultant EBITDA/unit at Rs2, sequential improvement of 24%.

Accelerated depreciation drags net profit to a meager Rs102 mn

Shree's depreciation charges jump 2x sequentially to Rs2.65bn, (higher than estimates of Rs1.4bn) as it charged accelerated depreciation (on Jaipur grinding unit capitalised in Q4FY11). This coupled with lower than expected other income (Rs209mn vs 428mn) and higher assets write off (Rs343mn vs estimated 60mn) led to a APAT of just Rs102mn, (adjusted for prior period tax of Rs555 mn). Reported net profit of Rs657mn (-192% yoy) was lower than estimates of Rs1016m.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	EV/ Tonne
Mar										
FY10	36,321	14,919	41.1	7,197	206.6	24.5	47.3	8.9	4.4	126.7
FY11P	35,118	8,857	25.2	1,506	43.2	-79.1	7.9	42.5	7.6	103.2
FY12E	44,918	11,429	25.4	482	13.8	-68.0	2.4	132.6	5.6	90.9
FY13E	53,713	13,842	25.8	6,109	175.4	1166.8	27.0	10.5	3.8	61.8

Result Tables

Y/E, Mar (Rs. m)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11P	FY10	YoY (%)
Net Sales	9,440	9,445	7,176	7,796	10,701	13.4	37.3	35,119	36,321	-3.3
Total Expenditure	5,871	6,550	5,749	6,221	7,742	31.9	24.5	26,262	20,992	25.1
<i>as % of sales</i>	62%	69%	80%	80%	72%			75%	58%	
Consumption of RM	842	927	757	919	1,121	33.1	22.0	3,723	3,238	15.0
<i>as % of sales</i>	9%	10%	11%	12%	10%			11%	9%	
Stock Adjustment	-29	-299	186	-49	-175	506.3	258.4	-336	-197	70.9
<i>as % of sales</i>	0%	-3%	3%	-1%	-2%			-1%	-1%	
Purchase of traded goods	22	484	115	11	15	-33.7	32.1	625	92	580.4
<i>as % of sales</i>	0%	5%	2%	0%	0%			2%	0%	
Employee Cost	408	478	491	479	537	31.8	12.0	1,985	1,495	32.8
<i>as % of sales</i>	4%	5%	7%	6%	5%			6%	4%	
Power, Oil & Fuel	1,779	2,274	1,762	2,068	3,020	69.8	46.0	9,123	6,105	49.4
<i>as % of sales</i>	19%	24%	25%	27%	28%			26%	17%	
Freight expenses	2,043	1,783	1,639	2,016	2,313	13.2	14.7	7,751	7,404	4.7
<i>as % of sales</i>	22%	19%	23%	26%	22%			22%	20%	
Other expenditure	807	903	799	777	912	13.0	17.4	3,390	2,856	18.7
<i>as % of sales</i>	9%	10%	11%	10%	9%			10%	8%	
EBIDTA	3,569	2,895	1,427	1,575	2,959	-17.1	87.8	8,857	15,329	-42.2
Depreciation	2,898	1,517	1,360	1,373	2,993	3.3	118.0	6,758	5,704	18.5
EBIT	671	1,378	67	203	-33	-105.0	-116.5	2,099	9,625	-78.2
Other Income	212	287	429	319	209	-1.6	-34.5	1,243	1,161	7.0
Interest	321	420	311	504	519	61.7	3.1	1,753	818	114.3
PBT	562	1,244	185	18	-344	-161.2	-2017.7	1,588	9,968	-84.1
Total Tax	330	185	80	-222	-446	-235.0	101.0	-403	2,063	-119.5
Adjusted PAT	232	1,059	106	240	102	-56.1	-57.5	1,991	7,904	-74.8
(Profit)/loss from JV's/Ass/MI										
APAT after MI	232	1,059	106	240	102	-56.1	-57.5	1,991	7,904	-74.8
Extra ordinary items	946	0	0	-35	-555	-158.7	1470.4	-106	1,143	-109.3
Reported PAT	-714	1,059	106	275	657	-192.1	139.1	2,097	6,761	-69.0
Reported EPS	6.7	30.4	3.0	6.9	2.9	-56.1	-57.5	43.2	221.2	-80.5

Margins (%)						(bps)	(bps)			
EBIDTA	37.8%	30.6%	19.9%	20.2%	27.7%	-1,015	744	25.2%	42.2%	-1,698
EBIT	7.1%	14.6%	0.9%	2.6%	-0.3%	-742	-291	6.0%	26.5%	-2,052
EBT	6.0%	13.2%	2.6%	0.2%	-3.2%	-917	-344	4.5%	27.4%	-2,292
PAT	2.5%	11.2%	1.5%	3.1%	1.0%	-151	-212	5.7%	21.8%	-1,609
Effective Tax rate	58.7%	14.9%	43.0%	-1236.6%	129.6%	7,093	136,626	-25.4%	20.7%	-4,606

Execution on 2x 150 MW TPP on track

Shree's power plants with capacity of 300MW (150 MW X2) at a capex of Rs12 bn is on track for commissioning by June-11 & Sept-11. Post the completion of this project Shree's total power capacity will reach to 565 MW, out of this will 115 mw be used for the self consumption and the rest will be available for sale.

Segmental Results

Segmental Results	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11P	FY10	YoY (%)
Revenue										
Cement	8,900	8,138	6,860	7,461	9,505	6.8	27.4	31,965	34,552	-7.5
Power	1,476	2,576	925	860	2,296	55.5	166.9	6,656	6,317	5.4
	10,376	10,714	7,785	8,321	11,801	13.7	41.8	38,621	40,869	-5.5
Less: Intersegment revenue	935	1,269	609	525	1,099	17.5	109.5	3,502	4,547	-23.0
Net segment revenue	9,440	9,445	7,176	7,796	10,701	13.4	37.3	35,119	36,321	-3.3
Net power revenues	541	1,307	315	335	1,196	121.3	256.9	3,154	1,770	78.2
EBIT										
Cement	534	802	422	882	175	-67.2	-80.2	2,281	6,286	-63.7
Power	-54	585	-288	-612	159	-394.1	-125.9	-156	3,065	-105.1
	480	1,387	134	271	334	-30.5	23.3	2,125	9,351	-77.3
EBIT margin										
Cement	6.0%	9.9%	6.2%	11.8%	1.8%	-69.3	-84.4	7.1%	18.2%	-1,106
Power	-3.7%	22.7%	-31.2%	-71.1%	6.9%	-289.1	-109.7	-2.3%	48.5%	-5,086

Per tonne analysis

Per tonne analysis	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11F	FY10	YoY (%)
Cement sales (mnt)	2.68	2.49	2.28	2.62	2.88	7.5	10.1	10.26	10.26	0.0
Raw Material	314	373	332	351	389	23.8	10.8	363	316	15.0
Stocks	-11	-120	82	-19	-61	464.1	225.6	-33	-19	70.9
Employee	152	192	216	183	186	22.6	1.8	193	146	32.8
Power and fuel	578	742	718	708	814	40.9	14.9	748	539	38.7
Freight expenses	762	717	719	770	803	5.3	4.2	755	722	4.7
Freight on interunit clinker	132	149	149	153	173	30.6	12.7	157	129	21.3
Freight & Selling Expenses	630	568	570	617	630	0.0	2.1	598	592	1.0
Other exp	301	363	350	297	317	5.2	6.6	330	278	18.7
Total Cost per tonne	2,105	2,272	2,422	2,294	2,453	16.5	6.9	2,418	1,991	21.5
Realisation	3,321	3,274	3,010	2,851	3,300	-0.6	15.7	3,115	3,368	-7.5
EBIDTA	1,216	1,003	588	556	847	-30.4	52.1	697	1,377	-49.4

Source: Company. Emkay Research

Power segment analysis

Power	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11P	FY10	YoY (%)
Sales	541	825	210	335	1196	121.3	256.9	2566	1770	45.0
Realization	6.9	5.8	4.2	4.5	4.6	-33.1	2.2	4.9	6.7	-26.7
EBITDA	310	394	86	120	520	67.7	332.9	1120	1200	-6.6
EBITDA/unit	4.0	2.8	1.7	1.6	2.0	-49.3	23.9	2.1	4.5	-52.8
EBIDTA margin	57.3%	47.8%	40.8%	35.8%	43.5%	-1,387	763	43.7%	67.8%	-2,416

Source: Company

Upgrade FY12 EBITDA by 3.8%, but cut EPS estimates on account of revised accelerated depreciation

On account of higher than expected FY11 exit cement prices, we upgrade our FY12 EBITDA estimates by 3.8% to ₹11.4bn. However, adjusting for revised accelerated depreciation charges as guided by management, we cut our earnings estimates for FY12 by 85.4% to an EPS of ₹13.8 (₹95 earlier). The accelerated depreciation in FY12 would reduce the burden in FY13 with much lesser depreciation charges. We introduce our FY13 estimates with a EPS of ₹175. The change in earnings for FY12 does not affect our target for Shree as earnings change is driven by higher depreciation (non cash charges). We continue to value Shree on 6X FY12E EV/EBITDA (currently 5.6X FY12). We maintain ACCUMULATE rating on the stock with price target of ₹1,960.

Rs mn	FY12E			FY13E
	Earlier	Revised	% change	Introduce
Sales	45248	44918	-0.7	53713
EBIDTA	11014	11429	3.8	13842
EBIDTA (%)	24.3	25.4		25.8
Net Profit	3314	482	-85.4	6109
EPS	95.1	13.8	-85.4	175.4

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Net Sales	36,321	35,118	44,918	53,713
Growth (%)	34.0	(3.3)	27.9	19.6
Total Expenditure	21,504	26,261	33,489	39,872
Raw Materials Cost	3,238	3,722	4,349	4,800
Employee costs	1,586	1,983	2,181	2,399
Power & Fuel cost	6,105	9,125	14,555	19,017
Freight	5,889	6,000	6,882	7,575
Others	4,687	4,933	5,523	6,081
EBIDTA	14,919	8,857	11,429	13,842
Growth (%)	56.9	-40.6	29.1	21.1
EBIDTA %	41.1	25.2	25.4	25.8
Depreciation	5,902	7,243	9,999	5,515
EBIT	9,016.6	1,613.9	1,430.6	8,326.3
EBIT margin (%)	24.8	4.6	3.2	15.5
Other income	1,284	1,243	1,243	1,243
Interest	1,185	1,753	2,070	1,933
EBT	9,116	1,103	603	7,636
Tax	1,918	(403)	121	1,527
Effective tax rate (%)	21.0	-36.5	20.0	20.0
Adj PAT	7,197	1,506	482	6,109
Growth (%)	24.5	-79.1	-68.0	1,166.8
Net Margin (%)	19.8	4.3	1.1	11.4
(Profit)/loss from JV's/Ass/MI				
Adj. PAT After JV's/Ass/MI	7,197	1,506	482	6,109
Extra-ordinary	437	(591)	0	0
Reported PAT	6761	2097	482	6109
Growth (%)	17.0	-69.0	-77.0	1,166.8

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	9,313	-140	-640	6,393
Depreciation	5,704	7,243	9,999	5,515
Interest Provided	766	1,753	2,070	1,933
Other Non-Cash items	-1,286	-9	0	0
Chg in working cap	-61	1,295	318	285
Tax paid	-1,897	403	-121	-1,527
Operating Cashflow	12,540	10,545	11,627	12,600
Capital expenditure	-11,710	-12,018	-6,371	0
Free Cash Flow	830	-1,472	5,256	12,600
Other income	489	1,243	1,243	1,243
Investments	-5,663	3,958	0	0
Investing Cashflow	-16,885	5,200	1,243	1,243
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	5,729	-978	-1,250	-1,250
Interest Paid	-1,332	-1,753	-2,070	-1,933
Dividend paid (incl tax)	-611	-529	-529	-529
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	3,786	-3,260	-3,849	-3,712
Net chg in cash	-559	467	2,649	10,131
Opening cash position	4,723	4,164	4,631	7,281
Closing cash position	4,164	4,631	7,281	17,411

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Equity share capital	348	348	348	348
Reserves & surplus	17,984	19,552	19,505	25,085
Net worth	18,332	19,900	19,853	25,433
Minority Interest				
Secured Loans	17,885	16,907	15,657	14,407
Unsecured Loans	3,177	3,177	3,177	3,177
Loan Funds	21,062	20,084	18,834	17,584
Net Deferred Taxes	124	723	723	723
Total Liabilities	39,270	39,261	37,965	42,295
Gross Block	29,509	42,072	54,072	54,072
Less: Acc Depreciation	21,989	29,232	39,231	44,746
Net block	7,520	12,840	14,841	9,326
Capital WIP	9,674	9,129	3,500	3,500
Investment	15,922	11,965	11,965	11,965
Current Assets	15,822	14,412	18,491	29,905
Inventories	3,581	4,042	5,170	6,183
Sundry Debtors	824	1,082	1,384	1,655
Cash and Bank	4,164	4,631	7,281	17,411
Loans and Advances	7,140	4,431	4,431	4,431
Other current assets	112,784	224,827	224,827	224,827
Current Liab & Prov	9,666	9,084	10,832	12,401
Current liabilities	4,667	6,264	8,012	9,581
Provisions	4,999	2,820	2,820	2,820
Net current assets	6,156	5,328	7,659	17,505
Miscellaneous Exps	0	0	0	0
Total Assets	39,272	39,261	37,965	42,295

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	41.1	25.2	25.4	25.8
Net Margin	19.8	4.3	1.1	11.4
ROCE	31.1	7.3	6.9	23.8
ROE	47.3	7.9	2.4	27.0
RoIC	97.4	14.0	9.9	67.6
Per Share Data (Rs)				
EPS	206.6	43.2	13.8	175.4
CEPS	363.5	268.1	300.9	333.7
BVPS	526.2	571.2	569.9	730.1
DPS	13.0	13.0	13.0	13.0
Valuations (x)				
PER	8.9	42.5	132.6	10.5
P/CEPS	5.1	6.8	6.1	5.5
P/BV	3.5	3.2	3.2	2.5
EV / Sales	1.8	1.9	1.4	1.0
EV / EBITDA	4.4	7.6	5.6	3.8
Dividend Yield (%)	0.7	0.7	0.7	0.7
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.2	(0.0)	-0.5
Net Debt/EBIDTA	1.1	1.7	1.0	0.0
Working Cap Cycle (days)	-3	-12	-12	-12

Recommendation History: Shree Cement – SRCM IN

Date	Reports	Reco	CMP	Target
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
17/08/2010	Shree Cement Q1FY11 Result Update	Accumulate	1,805	2,200
24/05/2010	Shree Cement Q4FY2010 Result Update	Accumulate	1,990	2,354

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/05/2011	Aban Offshore Q4FY11 Result Update	Accumulate	541	645
26/05/2011	Century Plyboards Q4FY11 Result Update	Buy	65	75
25/05/2011	Madras Cement Q4FY11 Result Update	Accumulate	93	100
25/05/2011	IRB Infrastructure Q4FY11 Result Update	Buy	152	255

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