

Institutional Equities
 India Research

Shree Cements

QUARTERLY REVIEW

 Bloomberg: SRCM IN
 Reuters: SHCM.BO

BUY

1QFY13 starts on a strong note; Cement EBITDA per MT at Rs1230; BUY

Rock-strong quarter - Shree Cement (SRCM) delivered another above expectations results as its EBITDA doubled YoY to Rs3.94bn (+18% ahead of our est of Rs3.3bn & street est of Rs3.7bn). Whilst we were factoring in 2% QoQ lower net cement realisation, it rose +3% QoQ thereby boosting YoY realisation growth of 12%. Additionally, SRCM continues to grow ahead of industry as its sales volume surged 25% YoY (-10% QoQ) to 3 mnMT. Captive power sales rose 45x YoY to 316mn units (our est of Rs200 mn units) vs. 7mn units in Sep-11 qtr & 390 mn units in Jun-12 qtr. These boosted top-line growth to 55% YoY (+10% higher than our est). Power realization came in-line with our est of Rs3.4 per unit.

Operating costs rate remained in-line with our est of ~Rs2,700 per MT (+1% YoY & +9% QoQ). Lower sequential volumes (-10% QoQ) resulted in higher QoQ opex. SRCM continues to remain one of the most cost efficient cement producers in India as its opex is at-least Rs700-1000 per MT lower than the cement majors which more than compensates for its Rs700-800 lower realisation vs. these companies. Subsequently, SRCM continues to deliver industry leading EBITDA per MT. *During the quarter, SRCM registered EBITDA per MT of Rs1230 (ahead of our est Rs1,064) – which is one the best in the monsoon quarters over the last five years.*

PAT surges 5x to Rs2.3bn: SRCM depreciation has seemingly stabilized QoQ and stood 40% lower YoY to Rs942mn (our est of Rs1.5bn) which boosted PAT growth by 478% YoY to Rs2.9bn (vs. our est of Rs1.3bn).

Re-iterate our “BUY” recommendation on the stock: In our last sector report dated 11 Oct 2012 ([Cement 2.0 – Supply discipline sustainable; Profitability on upswing](#)) we have discussed that the industry’s pricing power should remain strong and cement prices should continue to rise thereby driving profitability. SRCM should further benefit on its cost leadership and on account of the rising demand for its captive power sales. We maintain our BUY recommendation on the stock valuing the cement business at 6.7x FY14E EBITDA & the power business at 7.8x FY14E EBITDA.

Key Financials

Y/E Mar/Jun (Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Net Sales	36,509	34,656	59,034	60,125	70,953
EBITDA	15,111	8,848	16,457	17,401	21,359
EBITDA margin (%)	41.4	25.5	27.9	28.9	30.1
PAT (Rs)	7,395	2,582	6,300	8,725	11,279
EPS (Rs)	212.3	74.1	144.7	250.5	323.8
RoE (%)	48.6	13.5	17.1	27.9	28.1
RoCE (%)	24.6	16.2	16.2	22.2	24.2
EV/EBITDA (x)	8.8	15.4	9.7	6.9	5.5

Source: Company, Karvy Institutional Research; Note: # FY12 data includes five quarters of

Recommendation

CMP:	Rs4,058
Target Price:	Rs4,850
Upside (%)	20%

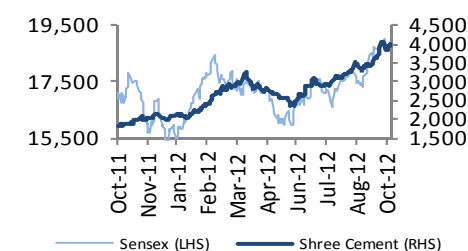
Stock Information

Market Cap. (Rs bn / US\$ mn)	141/2,673
52-week High/Low (Rs)	4,445/1,820
3m ADV (Rs mn /US\$ mn)	124/2.3
Beta	0.8
Sensex/ Nifty	18,578/5,648
Share outstanding (mn)	35

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	19.2	39.0	120.9	92.3
Rel. to Sensex	18.5	28.0	103.1	60.0

Performance



Source: Bloomberg

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Strong 1QFY13 (Sep-12) quarter

Exhibit 1: Quarterly Operational Trends – Cement & power business

	Sep-11	Jun-11	Sep-12	YoY (%)	QoQ (%)
Sales Volume (mn mt)					
Cement and clinker	2.42	3.37	3.02	24.6	(10.4)
Trends (Rs per MT)					
Net avg realisation	3,498	3,805	3,931	12.4	3.3
Raw material cost	455	404	430	(5.3)	6.5
Power and fuel cost	821	604	712	(13.2)	17.9
<i>RM and P&F cost combined</i>	1,276	1,008	1,143	(10.4)	13.3
Employee cost	643	699	705	9.7	0.9
Transport cost	245	221	233	(4.7)	5.2
Other expenses	515	553	621	20.5	12.3
Operating cost	2,678	2,481	2,702	0.9	8.9
EBITDA	820	1,323	1,229	49.9	(7.1)
Captive Power					
Power Sold (mn units)	7	390	316	4,542.2	(19.1)
Realisation (Rs/unit)	5.00	4.44	4.32	(13.6)	(2.6)
EBITDA (Rs/unit)	1.14	0.90	0.71	(37.3)	(20.7)

Source: Company, Karvy Institutional Research

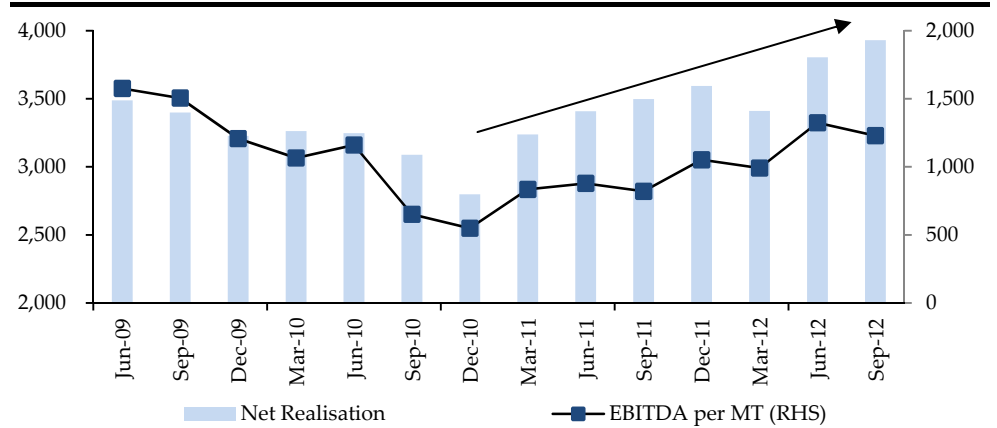
Exhibit 2: Quarterly Financial

(Rs mn)	Sep-11	Jun-11	Sep-12	YoY (%)	QoQ (%)
Net Sales	8,520	14,553	13,238	55.4	(9.0)
Total Expenditure	6,517	9,741	9,300	42.7	(4.5)
Raw Materials	1,102	1,362	1,300	18.0	(4.6)
Power and Fuel	2,016	3,415	3,290	63.2	(3.6)
Employee	593	746	704	18.8	(5.7)
Transport	1,558	2,355	2,130	36.7	(9.6)
Others	1,249	1,863	1,875	50.2	0.7
EBITDA	2,003	4,811	3,938	96.6	(18.2)
EBITDA margins (%)	23.5	33.1	29.7	623 bps	(331) bps
Other Income	204	322	292	43.4	(9.2)
Depreciation	1,619	818	942	(41.9)	15.1
PBIT	588	4,315	3,288	459.6	(23.8)
PBIT margins (%)	6.9	29.7	24.8	1,794bps	(481)bps
Interest	468	480	543	16.0	13.3
Taxes	(277)	320	454		42.0
Net Profits - adjusted	396	3,516	2,291	477.9	(34.8)
<i>PAT margins (%)</i>	4.7	24.2	17.3	1,265 bps	(685) bps
EPS (Rs)	11.4	100.9	65.8	477.9	(34.8)

Source: Company, Karvy Institutional Research

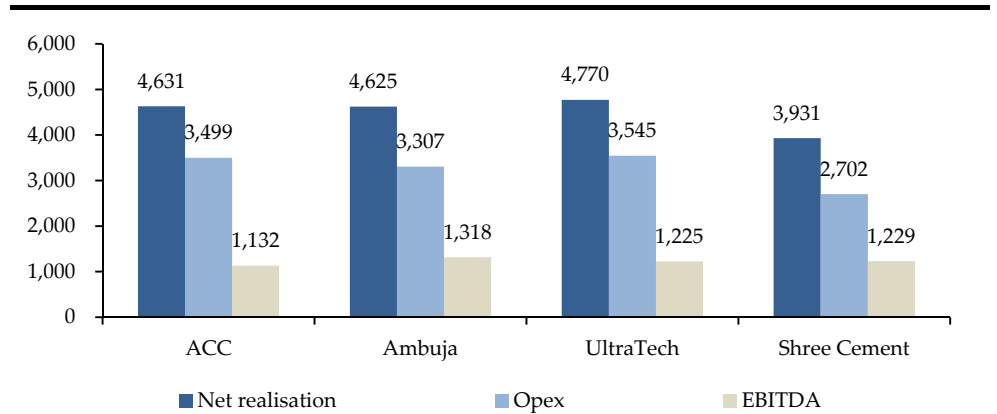
Shree Cements

Exhibit 3: SRCM's profitability boosted by rising QoQ net realisation



Source: Company, Karvy Institutional Research

Exhibit 4: Despite lower realisation vs. the large companies, lower opex helps SRCM deliver industry leading EBITDA per MT



Source: Company, Karvy Institutional Research

Data pertains to Jun-12 Qtr

Key Annual Operating Estimates

Exhibit 5: Key operational parameters

	FY09	FY10	FY11	FY12	FY13E	FY14E
Cement & Clinker Sales (mn mt)	8.4	10.2	10.3	14.9	13.3	14.5
<i>YoY Growth (%)</i>	27.2	21.9	0.2	8.6	12.2	8.9
(Per mt)						
Net avg realisation	3,129	3,372	3,114	3,576	3,892	4,253
<i>YoY Growth (%)</i>	(2.0)	7.8	(7.7)	14.9	8.8	9.3
Raw material	304	297	330	401	414	440
<i>YoY Growth (%)</i>	(8.6)	(2.5)	11.2	21.6	3.3	6.1
Power and fuel cost	721	548	744	689	705	748
<i>YoY Growth (%)</i>	29.6	(24.0)	35.8	(7.5)	2.5	6.1
Freight cost	546	615	598	679	749	784
<i>YoY Growth (%)</i>	0.3	12.5	(2.7)	13.5	10.3	4.7
Employee cost	124	155	193	215	230	259
<i>YoY Growth (%)</i>	10.9	25.3	24.9	11.1	6.9	12.6
Other Expenses	393	417	506	559	607	675
<i>YoY Growth (%)</i>	17.3	6.2	21.4	10.4	8.6	11.2
Operating Costs	2,088	2,031	2,372	2,543	2,706	2,907
<i>YoY Growth (%)</i>	11.0	(2.7)	16.8	7.2	6.4	7.4
EBITDA	1,122	1,398	751	1,040	1,193	1,356
<i>YoY Growth (%)</i>	(15.6)	24.5	(46.3)	38.6	14.6	13.7
Power Sales volume (mn units)	117	264	524	1,322	1,815	1,995
<i>YoY Growth (%)</i>		125.1	98.8	152.3	36.3	10.7
Net avg realisation	6.9	6.7	4.9	4.3	4.5	4.5
<i>YoY Growth (%)</i>		(2.5)	(27.5)	(10.7)	2.4	1.1
EBITDA/unit	2.4	3.0	2.2	0.8	0.8	0.8
<i>YoY Growth (%)</i>		25.0	(27.5)	(65.7)	9.1	1.4
<i>Power Share of total EBITDA (%)</i>		5.2	12.9	6.0	8.5	7.7

Source: Company, Karvy Institutional Research

Exhibit 6: Shree Cement's SOTP valuation

	Per Share value (Rs)	
Cement Business		
FY14E EBITDA	19,713	
Target EV/EBITDA multiple (x)	6.7	
Target EV (Rs mn)	132,075	3,791
Power business		
FY14E EBITDA	1,646	
Target EV/EBITDA multiple (x)	7.8	
Target EV (Rs mn)	12,908	371
Net Debt/ (cash) (Rs mn)	(18,983)	(545)
Target Mkt Cap (Rs mn)	163,966	4,850

Source: Karvy Institutional Research

Shree Cements
Exhibit 7: Profit & Loss Statement

Year to March/June (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Net Revenues	36,509	34,656	59,034	60,125	70,953
<i>% growth</i>	33.6	(5.1)	36.3	27.3	18.0
Operating expenditure	21,398	25,808	42,577	42,724	49,594
EBITDA	15,111	8,848	16,457	17,401	21,359
<i>% growth</i>	55.6	(41.4)	48.8	32.2	22.7
Depreciation	5,704	6,758	8,739	6,000	7,000
EBIT	9,407	2,091	7,718	11,401	14,359
Interest expenditure	1,291	1,753	2,354	1,821	1,510
Other income	1,197	1,251	1,628	1,290	1,205
Exceptional items	(634)	(485)	(122)	(148)	(178)
PBT	9,313	1,588	6,992	10,869	14,054
Tax	1,918	(994)	692	2,144	2,775
Adjusted PAT / Net profit	7,395	2,582	6,300	8,725	11,279
<i>% growth</i>	21.4	(65.1)	95.2	73.1	29.3
EBITDA/mt (Rs)	1,398	751	1,040	1,193	1,356

Source: Company, Karvy Institutional Research FY12 onwards June ending & FY12 includes five quarters, Growth numbers annualised

Exhibit 8: Balance Sheet

Year to March/June (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
Cash & liquid investments	20,086	16,952	29,942	27,581	29,349
Debtors	824	1,082	1,811	1,647	1,944
Inventory	3,581	4,042	5,033	6,589	9,720
Loans & advances	2,053	7,371	5,680	3,580	4,236
Investments LT	-	-	-	-	-
Gross Block	29,509	40,421	52,450	59,450	71,950
Net Block	7,520	11,671	15,211	16,211	21,711
CWIP	9,674	7,290	967	5,000	5,000
Miscellaneous	662	1,054	1,139	753	712
Total assets	44,401	49,462	59,782	61,360	72,670
Current liabilities & provisions	4,581	10,720	15,344	14,465	16,693
Debt	21,062	18,822	17,042	11,738	10,738
Other liabilities	425	58	56	56	56
Total liabilities	26,068	29,600	32,443	26,259	27,487
Shareholders' equity	348	348	348	348	348
Reserves & surpluses	17,984	19,514	26,991	34,753	44,835
Total networth	18,332	19,862	27,339	35,101	45,183
Total networth & liabilities	44,401	49,462	59,782	61,360	72,670

Source: Company, Karvy Institutional Research FY12 onwards June ending & FY12 includes five quarters

Shree Cements
Exhibit 9: Cash Flow Statement

Year to March/June (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
PBT	9,313	1,588	7,001	10,869	14,054
Depreciation	5,704	6,758	8,731	6,000	7,000
Interest	1,291	1,754	2,354	1,821	1,510
Tax paid	(1,897)	709	87	(3,533)	(2,725)
(Incr) / decr in net WC	780	1,632	2,430	1,111	(2,068)
Other income	(1,197)	(1,211)	(1,152)	(1,290)	(1,205)
Other non cash items	(634)	(488)	(188)	(148)	(178)
Cash flow from operating activities	13,360	10,741	19,263	14,831	16,388
(Incr) / decr in capital expenditure	(11,877)	(11,518)	(4,694)	(11,033)	(12,500)
(Incr) / decr in investments	(6,832)	4,492	(13,356)	(1,000)	(3,000)
Others	547	666	962	1,290	1,205
Cash flow from investing activities	(18,162)	(6,361)	(17,089)	(10,742)	(14,295)
Incr / (decr) in borrowings	6,101	(2,205)	(1,780)	(5,304)	(1,000)
Issuance of equity	-	-	-	-	-
Dividend paid	(611)	(569)	(810)	(324)	(815)
Interest paid	(1,291)	(1,738)	18	(1,821)	(1,510)
Cash flow from financing activities	4,199	(4,512)	(2,572)	(7,450)	(3,325)
Net change in cash	(604)	(131)	(398)	(3,361)	(1,232)

Source: Company, Karvy Institutional Research FY12 onwards June ending & FY12 includes five quarters

Exhibit 10: Key Ratios

Year to March/June (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
EBITDA margin	41.4	25.5	27.9	28.9	30.1
EBIT margin	29.1	9.6	15.8	21.1	21.9
Net profit margin	20.3	7.4	10.7	14.5	15.9
Dividend payout ratio	7.2	22.0	12.9	9.3	9.0
Net debt: equity	0.1	0.1	(0.5)	(0.5)	(0.4)
Working capital turnover	18.3	16.9	(19.4)	(23.1)	(96.5)
Gross block turnover	1.4	1.0	1.3	1.1	1.1
RoCE	24.6	16.2	16.2	22.2	24.2
RoIC	50.1	31.6	38.7	62.8	55.9
RoE	48.6	13.5	17.1	27.9	28.1

Source: Company, Karvy Institutional Research FY12 onwards June ending & FY12 includes five quarters

Exhibit 11: Valuation Parameters

Year to March/June (Rs mn)	FY10	FY11	FY12	FY13E	FY14E
EPS (Rs)	212.3	74.1	144.7	250.5	323.8
DPS (Rs)	13.0	14.0	16.0	20.0	25.0
Book value per share (Rs)	526	570	785	1,008	1,297
P/E (x)	19.1	54.7	28.0	16.2	12.5
P/BV (x)	7.7	7.1	5.2	4.0	3.1
EV/EBITDA (x)	8.8	15.4	9.7	6.9	5.5
EV/Sales (x)	3.6	3.9	2.7	2.0	1.7
EV/mt(USD)	260	203	190	179	157

Source: Company, Karvy Institutional Research FY12 onwards June ending & FY12 includes five quarters, FY12E EPS and DPS are annualized

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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