Shree Cement

Performance highlights

Y/E Mar. (₹ cr)	3QFY2012	2QFY2012	% Chg qoq	3QFY2011	% Chg yoy
Net sales	1,259	855	47.3	780	61.4
Operating profit	332	199	66.8	152	119.2
OPM (%)	26.4	23.3	310bp	19.5	697bp
Net profit	59	38	53.8	27	115.3

Source: Company, Angel Research

During 3QFY2012, Shree Cement (SRCM) posted 115.3% yoy growth in its bottom line to ₹59cr. Bottom-line growth was mainly driven by the cement business, which posted substantially higher realizations and reasonable 8.8% growth in volumes. PAT growth could have been higher, but it was restricted to a large extent by the sharp increase in depreciation cost (78.9% yoy) on account of capitalization of 150MW of new power capacity. **We remain Neutral on the stock.**

OPM up by 697bp yoy, 310bp qoq: SRCM's total operating income grew by 61.4% yoy to ₹1,259cr, primarily on account of higher cement realization. The company's cement realization improved by 33.2% yoy to ₹3,794/tonne (up 11.4% qoq) on account of higher cement prices and higher cement sales as a proportion of total cement and clinker sales (98% in 3QFY2012 vs. 88% in 3QFY2011, as it had 1.5mtpa of incremental grinding capacity operational). Revenue of the power business also grew by 429% yoy to ₹177cr due to a 244% increase in sale volumes to 256.4MUs. This revenue included ₹66cr from power trading operations. The company's overall EBITDA margin expanded by 697bp yoy, as higher cement realization negated the cost pressures witnessed in freight cost and other expenses.

Outlook and valuation: We expect SRCM to post a strong 23.8% CAGR in its top line over FY2011-13E, aided by an 8.9% CAGR in dispatches over the period. At the CMP, SRCM's cement business is trading at EV/tonne of US$84 on current capacity (US$59 on FY2013E capacity), which, when considering its unfavorable plant locations, in our view offers inadequate margin of safety. **Hence, we maintain our Neutral recommendation on the stock.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net Sales	3,642	3,512	4,497	5,383
% chg	34.2	(3.6)	28.0	19.7
Net Profit	676	210	237	421
% chg	17.0	(69.0)	12.9	77.6
FDEPS(Rs)	194.0	74.1	68.0	120.7
OPM (%)	39.5	25.2	25.3	26.1
P/E(x)	11.6	30.4	33.2	18.7
P/BV(x)	4.3	4.0	3.6	3.1
RoE(%)	45.2	13.5	11.3	17.7
RoCE(%)	26.2	5.4	8.9	15.8
EV/Sales (x)	1.9	2.0	1.6	1.1
EV/EBITDA	4.8	8.0	6.2	4.4

Source: Company, Angel Research

NEUTRAL

CMP	₹2,255
Target Price	-
Investment Period	-

Stock Info	
Sector	Cement
Market Cap (₹ cr)	7,857
Beta	0.7
52 Week High / Low	2305/1505
Avg. Daily Volume	5,824
Face Value (₹)	10
BSE Sensex	17,194
Nifty	5,199
Reuters Code	SHCM.BO
Bloomberg Code	SRCM@IN

Shareholding Pattern (%)	
Promoters	64.8
MF / Banks / Indian FIs	5.0
FII / NRIs / OCBs	8.7
Indian Public / Others	21.5

Abs. (%)	3m	1yr	3yr
Sensex	(2.9)	(6.2)	82.4
SRCM	18.9	35.9	353.1

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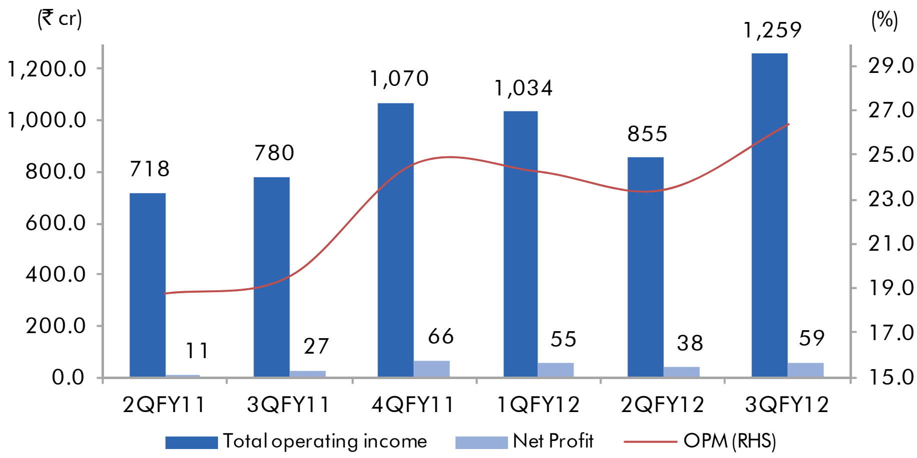
Exhibit 1: 3QFY2012 performance (Standalone)

Y/E March (₹ cr)	3QFY2012	2QFY2012	% Chg qoq	3QFY2011	% Chg yoy	9MFY2012	9MFY2011	% Chg
Total Operating Income	**1,259**	**855**	*47.3*	**780**	*61.4*	**3,147**	**2,442**	*28.9*
Net raw-material costs	156	109	*43.8*	88	*77.5*	394	305	*29.2*
(% of sales)	*12.4*	*12.7*		*11.3*		*12.5*	*12.5*	
Power & fuel	325	203	*60.1*	207	*57.4*	802	610	*31.3*
(% of sales)	*25.9*	*23.8*		*26.5*		*25.5*	*25.0*	
Staff costs	64	59	*7.7*	48	*33.2*	184	145	*27.3*
(% of sales)	*5.1*	*4.7*		*3.8*		*5.9*	*5.9*	
Freight & forwarding	266	192	*38.3*	202	*31.7*	681	544	*25.2*
(% of sales)	*21.1*	*15.3*		*16.0*		*21.6*	*22.3*	
Other expenses	115	92	*24.8*	84	*37.6*	310	262	*16.0*
(% of sales)	*9.1*	*7.3*		*6.6*		*9.7*	*10.7*	
Total Expenditure	926	655	*41.3*	628	*47.5*	2,365	1,866	*26.7*
Operating Profit	**332**	**199**	*66.8*	**152**	*119.2*	**782**	**576**	*36.0*
OPM (%)	*26.4*	*23.3*	*310bp*	*19.5*	*697bp*	*24.9*	*23.6*	*129bp*
Interest	37	29	*27.5*	20	*81.7*	98	64	*52.3*
Depreciation	235	162	*45.2*	131	*78.9*	557	411	*35.5*
Other Income	2	2	*(24.1)*	2	*(1.0)*	4	44	*(90.0)*
PBT	62	11	*476.6*	2	*3,356.4*	132	145	*(8.6)*
Provision for Taxation	3	(28)	-	(26)	-	(20)	1	-
(% of PBT)	*4.9*	*(256.8)*		*(1,427.2)*		*(15.4)*	*0.5*	
Reported PAT	**59**	**38**	*53.8*	**27**	*115.3*	**153**	**144**	*6.1*
PATM (%)	*4.7*	*4.5*		*3.5*		*4.9*	*5.9*	
EPS (₹)	17	11	*53.8*	8	*115.3*	44	41	*6.1*

Source: Company, Angel Research

Exhibit 2: Financial performance



Source: Company, Angel Research

Exhibit 3: 3QFY2012 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	1,259	1,082	*16.3*
Operating profit	332	279	*19.0*
Net profit	59	76	*(21.7)*

Source: Company, Angel Research

Performance highlights

Total operating income up 61.4% yoy, led by strong growth in cement business

During 3QFY2012, SRCM's total operating income grew by 61.4% yoy to ₹1,259cr, primarily on account of higher cement realization. The company's cement realization improved by 33.2% yoy to ₹3,794/tonne (up 11.4% qoq), on account of higher prices as well as higher cement sales as a proportion of total cement and clinker sales (98% in 3QFY2012 vs. 88% in FY2011 as 1.5mtpa of incremental grinding capacity was operational). Cement dispatches also grew by 8.8% yoy to 2.85mn tonnes.

Revenue of the power business also grew by 429% yoy to ₹177cr due to a 244% increase in sale volumes to 256.4MUs. This revenue included ₹66cr from power trading operations. Power volumes growth was aided by 150MW of new capacity commissioned during the quarter.

Freight costs spiked, but much higher cement realization aided improvement in overall OPMs

Although SRCM faced margin pressures during the quarter due to higher freight cost and other expenses, substantial growth in cement realization and higher revenue from the power division resulted in OPM expanding by 697bp yoy to 26.4%. Even on a sequential basis, the company's margin improved by 310bp due to higher realization, which negated the surge in costs faced by the company.

Per tonne analysis

On the operating front, raw-material cost per tonne of cement was flat yoy, while it fell by 23.4% qoq. Power and fuel cost per tonne increased by 10.8% yoy; however, it reduced by 2.3% qoq on account of moderation in pet coke prices. Freight cost/per tonne rose by 21.1% yoy on account of inter-unit clinker transfer to incremental grinding unit at Jaipur in Rajasthan (1.5mtpa) and higher diesel cost. Operating profit per tonne of the cement increased to ₹1,113 (100.2% yoy).

Exhibit 4: Cement operational performance

Particulars (₹)	3QFY2012	2QFY2012	3QFY2011	*chg (%) yoy*	*chg (%) qoq*
Realization/tonne	3,794	3,405	2,848	*33.2*	*11.4*
Raw material cost/tonne	328	428	329	*(0.3)*	*(23.4)*
Power & fuel cost/tonne	798	817	721	*10.8*	*(2.3)*
Freight cost/tonne	932	771	769	*21.1*	*20.9*
Other costs	403	370	319	*26.5*	*9.1*
Operating profit/tonne	1,113	800	556	*100.2*	*39.1*

Source: Company, Angel Research

Exhibit 5: Segment-wise revenue break-up

Particulars (₹ cr)	3QFY2012	2QFY2012	3QFY2011	*chg (%) yoy*	*chg (%) qoq*
Cement	1,081	848	746	*44.9*	*27.5*
Power	177	7	34	*429.2*	*2,469.2*

Source: Company, Angel Research

Investment rationale

One of the lowest-cost cement producers: SRCM is one of the lowest-cost cement producers in north India, primarily because of its captive power plant and lesser power consumption per tonne of cement (one of the lowest in the industry due to higher proportion of PPC (~80%) in overall sales volumes) and lower freight cost as its grinding units are close to demand centers.

Growth to be driven by capacity addition: SRCM has recently added 3.3mtpa of cement capacity by commissioning new grinding plants and by de-bottlenecking. The company has also commissioned new merchant power capacity of 300MW in two phases in October 2011 and January 2012. We expect these capacity additions to drive its revenue growth going ahead.

Relatively unfavorable plant locations amongst our coverage companies: SRCM has 87% of its total capacity located in Rajasthan, which is expected to face prolonged utilizations and margin pressures, as state-wise it is India's second biggest capacity cluster (44.8mtpa of total capacity in FY2011) and has huge demand supply gap even after catering to surplus demand of nearby states (Punjab, Haryana, Chandigarh, NCR and UP), in addition to its own demand. The balance 13% capacity is in Uttarakhand, where demand supply dynamics are much better than Rajasthan's and, hence, capacities in the state are expected to witness higher utilizations.

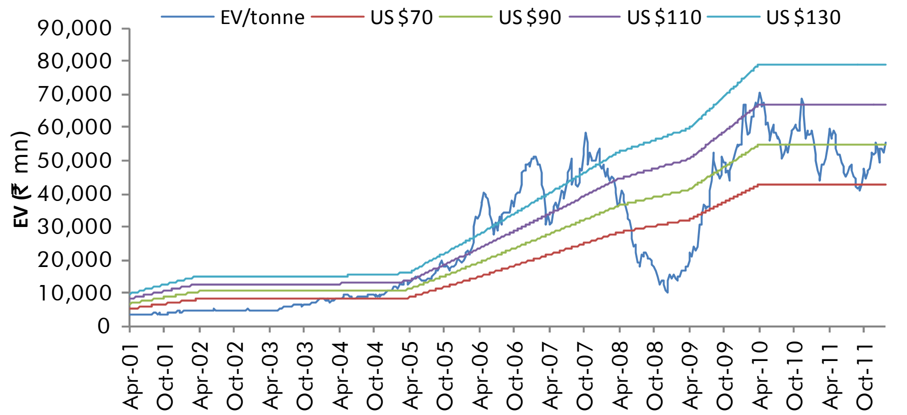
Outlook and valuation: We expect SRCM to post a strong 23.8% CAGR in its top line over FY2011-13E, aided by an 8.9% CAGR in dispatches over the period. At the CMP, SRCM's cement business is trading at EV/tonne of US$84 on current capacity (US$59 on FY2013E capacity), which, when considering its unfavorable plant locations, in our view offers inadequate margin of safety. **Hence, we maintain our Neutral recommendation on the stock.**

Exhibit 6: Change in estimates

(₹ cr)	FY2012E			FY2013E		
	Earlier	Revised	*Var. (%)*	Earlier	Revised	*Var. (%)*
Net Sales	4,260	4,497	5.6	5205	5,383	3.4
Operating Exp	3,260	3,358	3.0	3897	3,979	2.1
Operating Profit	999	1,138	13.9	1309	1,404	7.3
Depreciation	667	798	19.7	747	828	10.9
PBT	260	221	(15.0)	542	526	(3.1)
Tax	13	(16)	-	108	105	(3.1)
PAT	247	237	(4.0)	434	421	(3.1)

Source: Angel Research

Exhibit 7: One-year forward EV/tonne



Source: Company, Angel Research

Exhibit 8: Recommendation summary

Company	Reco	CMP (₹)	Tgt. Price (₹)	*Upside (%)*	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR	FY2013E RoCE (%)	FY2013E RoE (%)
ACC*	Neutral	1,190	-	-	2.8	17.6	6.4	20.9	16.7
Ambuja Cements*	Neutral	161	-	-	2.7	17.5	6.9	20.4	16.5
India Cements	Neutral	81	-	-	0.7	8.8	165.3	7.2	8.0
JK Lakshmi Cement	Accumulate	47	51	7.9	0.5	6.1	53.9	7.5	8.3
Madras Cements	Neutral	117	-	-	1.2	7.7	31.1	12.8	16.5
Shree Cement	**Neutral**	**2,255**	-	-	**3.1**	**18.7**	**27.6**	**15.8**	**17.7**
UltraTech	Neutral	1,211	-	-	2.3	14.6	27.1	17.5	17.1

Source: Company, Angel Research; Note: December year ending

Profit and loss statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Total operating income	**2,108**	**2,715**	**3,642**	**3,512**	**4,497**	**5,383**
% chg	*50.3*	*28.8*	*34.2*	*(3.6)*	*28.0*	*19.7*
Total Expenditure	**1,284**	**1,793**	**2,204**	**2,626**	**3,358**	**3,979**
Net Raw Materials	225	262	313	401	542	596
Other Mfg costs	367	606	610	912	1,156	1,493
Personnel	74	104	159	199	245	270
Other	618	821	1,121	1,114	1,415	1,619
EBITDA	**824**	**922**	**1,439**	**886**	**1,138**	**1,404**
% chg	*37.8*	*11.9*	*56.0*	*(38.4)*	*28.5*	*23.3*
(% of net Sales)	*39.1*	*34.0*	*39.5*	*25.2*	*25.3*	*26.1*
Depreciation& Amortization	479	205	570	676	798	828
EBIT	**346**	**717**	**868**	**210**	**341**	**576**
% chg	*109.1*	*107.5*	*21.1*	*(75.8)*	*62.2*	*69.0*
(% of net Sales)	*16.4*	*26.4*	*23.8*	*6.0*	*7.6*	*10.7*
Interest & other Charges	56	77	129	175	199	143
Other Income	78	83	129	124	79	93
(% of PBT)	21.3	11.5	14.8	78.2	36.0	17.7
Recurring PBT	**368**	**723**	**868**	**159**	**221**	**526**
% chg	*88.2*	*96.3*	*20.1*	*(81.7)*	*38.9*	*138.2*
Extraordinary expense/(Inc.)	-	-	-	48	-	-
PBT (reported)	**368**	**723**	**868**	**110**	**221**	**526**
Tax	108	145	192	(99)	(16)	105
(% of PBT)	29.3	20.1	22.1	(90.0)	(7.3)	20.0
PAT (reported)	**260**	**578**	**676**	**210**	**237**	**421**
% chg	*41.6*	*122.0*	*17.0*	*(61.8)*	*(8.3)*	*77.6*
(% of Net Sales)	12.3	21.3	18.6	7.4	5.3	7.8
Basic EPS (₹)	**75**	**166**	**194**	**74**	**68**	**121**
Fully Diluted EPS (₹)	**75**	**166**	**194**	**74**	**68**	**121**
% chg	*41.6*	*122.0*	*17.0*	*(61.8)*	*(8.3)*	*77.6*

Balance sheet

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity share capital	35	35	35	35	35	35
Reserves & surplus	638	1,175	1,798	1,951	2,155	2,517
Shareholders' funds	**673**	**1,210**	**1,833**	**1,986**	**2,190**	**2,552**
Total loans	1,331	1,496	2,106	2,008	1,608	1,108
Deferred tax liability	(18)	(10)	(12)	(72)	(90)	(90)
Total Liabilities	**1,985**	**2,696**	**3,927**	**3,922**	**3,708**	**3,570**
APPLICATION OF FUNDS						
Gross block	2,187	2,256	2,951	4,042	5,242	5,442
Less: acc. depreciation	1,427	1,629	2,199	2,875	3,673	4,501
Net Block	**760**	**627**	**752**	**1,167**	**1,569**	**941**
Capital work-in-progress	18	479	967	1,028	78	78
Goodwill	-	-	-	-	-	-
Investments	**591**	**845**	**1,592**	**1,196**	**1,546**	**1,846**
Current Assets	1,112	1,466	1,582	1,439	1,484	1,725
Cash	484	509	416	461	740	791
Loans & advances	403	744	725	466	199	245
Other	226	213	441	512	545	689
Current liabilities	**496**	**721**	**967**	**908**	**970**	**1,021**
Net Current Assets	**616**	**745**	**615**	**531**	**514**	**704**
Misc. exp. not written off	-	-	-	-	-	-
Total Assets	**1,985**	**2,696**	**3,927**	**3,922**	**3,708**	**3,570**

Cash flow statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	368	723	868	110	221	526
Depreciation	479	205	570	676	798	828
Change in Working Capital	(476)	(80)	33	98	295	(139)
Less: Other income	78	83	129	124	79	93
Direct taxes paid	124	164	190	(71)	(16)	105
Cash Flow from Operations	**169**	**601**	**1,152**	**831**	**1,250**	**1,017**
(Inc)/ Decin Fixed Assets	(204)	(530)	(1,183)	(1,152)	(250)	(200)
(Inc)/ Dec in Investments	(541)	(254)	(747)	396	(350)	(300)
Other income	78	83	129	124	79	93
Cash Flow from Investing	**(667)**	**(700)**	**(1,802)**	**(631)**	**(521)**	**(407)**
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	399	165	610	(98)	(400)	(500)
Dividend Paid (Incl. Tax)	33	41	53	57	33	59
Cash Flow from Financing	**367**	**125**	**557**	**(155)**	**(433)**	**(559)**
Others	-	-	-	-	18	-
Inc./(Dec.) in Cash	(131)	25	(92)	44	279	51
Opening Cash balances	**615**	**484**	**509**	**416**	**461**	**740**
Closing Cash balances	**484**	**509**	**416**	**461**	**740**	**791**

Key ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	30.2	13.6	11.6	30.4	33.2	18.7
P/CEPS	10.6	10.0	6.3	8.9	7.6	6.3
P/BV	12.7	6.8	4.3	4.0	3.6	3.1
Dividend yield (%)	0.4	0.5	0.7	0.7	0.4	0.7
EV/Sales	3.8	2.8	1.9	2.0	1.6	1.1
EV/EBITDA	9.8	8.1	4.8	8.0	6.2	4.4
EV / Total Assets	4.1	2.8	1.8	1.8	1.9	1.7
Per Share Data (₹)						
EPS (Basic)	74.7	165.9	194.0	74.1	68.0	120.7
EPS (fully diluted)	74.7	165.9	194.0	74.1	68.0	120.7
Cash EPS	212.1	224.8	357.8	254.2	297.0	358.5
DPS	9.4	11.7	15.2	16.3	9.5	16.8
Book Value	177.4	333.2	526.2	570.1	628.6	732.5
Dupont Analysis						
EBIT margin	16.4	26.4	23.8	6.0	7.6	10.7
Tax retention ratio	70.7	79.9	77.9	190.0	107.3	80.0
Asset turnover (x)	1.8	1.5	1.3	1.0	1.4	1.9
ROIC (Post-tax)	21.0	31.1	23.7	11.4	11.4	16.0
Cost of Debt (Post Tax)	3.5	4.4	5.6	16.2	11.8	8.4
Leverage (x)	1.2	0.9	0.9	1.0	0.8	0.5
Operating ROE	42.1	55.9	40.9	6.8	11.0	19.8
Returns (%)						
ROCE (Pre-tax)	20.2	30.6	26.2	5.4	8.9	15.8
Angel ROIC (Pre-tax)	52.3	81.7	95.7	19.2	26.4	52.4
ROE	49.2	65.0	45.2	13.5	11.3	17.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.1	1.2	1.4	1.0	1.0	1.0
Inventory / Sales (days)	29	22	26	40	34	33
Receivables (days)	7	7	7	10	9	9
Payables (days)	147	124	140	130	102	91
WC cycle (ex-cash) (days)	1	25	22	14	(6)	(11)
Solvency ratios (x)						
Net debt to equity	0.4	0.1	0.1	0.2	(0.3)	(0.6)
Net debt to EBITDA	0.3	0.2	0.1	0.4	(0.6)	(1.1)
Interest Coverage (EBIT / Int.)	6.2	9.3	6.7	1.2	1.7	4.0

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Disclosure of Interest Statement	**Shree Cement**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)* Reduce (-5% to 15%)	*Accumulate (5% to 15%)* Sell (< -15%)	*Neutral (-5 to 5%)*