

# SHREE CEMENTS

## Shining star

India Equity Research | Cement



Shree Cement's EBITDA at INR3.9bn was above our estimate of INR3.4bn, led by higher realization (up 2.5% QoQ) and lower than estimated expenses. Cement EBITDA/t was INR1,195 vs our estimate of INR998 while power segment's EBITDA/unit at INR1.06 was also above our estimate of INR0.75. During the monsoon quarter, cement prices remained firm (as against a dip of ~6%-8% seen in last two years). Taking a cue from the reported performance and expected improvement going ahead, we are revising up our cement EBITDA/t estimate from ~INR1,150 to ~INR1,279 for FY13 and from INR1,151 to INR1,312 for FY14. As a result, our PAT is being revised up by ~25% and ~21% for FY13 and FY14 respectively. With revised TP of INR4,853 (vs INR4,001 earlier), we maintain 'BUY'.

### Impressive cement EBITDA/t of INR1,195

Against our expectation of a decline, cement realisation increased ~2.5% QoQ while volumes were also estimated to be up ~21% YoY. With fixed costs (staff cost and other expenses) being below estimates, EBITDA/t was an impressive INR1,195 vs INR812 in the same quarter last year. During the monsoon quarter, cement prices remained firm (as against a dip of ~6%-8% seen in last two years). With the expected recovery in demand, cement prices too will increase going ahead. Therefore, we are revising up our cement EBITDA/t estimate for FY13 from ~INR1,150 to ~INR1,309 and for FY14 to INR1,359 from INR1,151 estimated earlier.

### Power EBITDA/unit improves sequentially on flat realisations

Power EBITDA for the quarter is INR1.06/unit vs INR0.91 in the previous quarter despite realizations remaining flat QoQ at INR4.4/unit. Sales volume was 307mn units as against virtually zero sales in the same quarter last year.

### Outlook and valuations: sustained efficiency; maintain 'BUY'

With improved profitability outlook, we value the cement business at 7x FY14E EV/EBITDA (vs 6.5x earlier) while continue to value power business at 0.6x P/B, giving us a TP of INR4,853 (vs INR4,001 earlier). Maintain 'BUY/Sector Outperformer' recommendation/rating. At CMP, stock trades at 4.9x FY14E EV/EBITDA.

#### Financials

(INR mn)

Year to March	Q1FY13	Q2FY12	% change	Q5FY12	% change	FY12	FY13E	FY14E
Total income	13,238	8,561	54.6	14,553	(9.0)	60,831	60,416	72,304
EBITDA (INR mn)	3,938	2,018	95.1	4,812	(18.2)	16,489	18,324	21,314
Adjusted net profit	2,281	385	NA	3,515	(35.1)	6,185	8,338	10,481
Diluted EPS (INR)	65.5	11.0	NA	100.9	(35.1)	177.5	239.3	300.9
Diluted P/E (x)						22.9	17.0	13.5
EV/EBITDA (x)						7.6	6.4	4.9
ROAE (%)						26.7	26.9	26.5

#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

#### MARKET DATA (R: SHCM.BO, B: SRCM IN)

CMP	: INR 4,058
Target Price	: INR 4,853
52-week range (INR)	: 4,445 / 1,820
Share in issue (mn)	: 34.8
M cap (INR bn/USD mn)	: 141/ 2,670
Avg. Daily Vol.BSE/NSE('000)	: 18.9

#### SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters %	64.8	64.8	64.8
MF's, FI's & BK's	5.3	5.3	5.0
FII's	7.9	7.9	8.2
others	22.0	22.0	22.0
* Promoters pledged shares (% of share in issue)	:		NIL

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	19.2	1.3	12.3
3 months	39.0	8.7	25.6
12 months	120.9	10.0	58.9

#### Navin Sahadeo

+91 22 6623 3473  
navin.sahadeo@edelcap.com

#### Prasad Baji

+91 22 4040 7415  
prasad.baji@edelcap.com

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**Table 1: Operational summary**

Particulars	Q2FY12	Q3FY12	Q4FY12	Q5FY12*	Q1FY13
<b>Cement Segment</b>					
Cement sales (mn tonnes)	2.4	2.8	3.3	3.2	2.9
% Change YoY	17.7	21.5	30.2	32.2	20.6
Clinker sales (mn tonnes)	0.1	0.0	0.1	0.2	0.1
<b>Cement segment revenues (INR mn)</b>	<b>8,478</b>	<b>10,813</b>	<b>11,891</b>	<b>12,823</b>	<b>11,874</b>
Average realisation (INR/tonne)	3,438	3,826	3,457	3,872	3,970
% Change QoQ	(3.4)	11.3	(9.6)	12.0	2.5
Cement EBITDA (INR mn)	2,018	3,188	3,483	4,457	3,612
EBITDA/tonne (INR/tonne)	812	1,119	1,003	1,322	1,195
% Change QoQ	(7.6)	37.8	(10.4)	31.9	(9.6)
<b>Power Segment</b>					
Power revenue (INR mn) (a)	69	1,773	2,888	1,730	1,364
Revenue from power trading (INR mn) (b)	-	688	1,038	-	-
Power revenue from merchant sales (INR mn) (c) = (a)-(b)	69	1,085	1,850	1,730	1,364
Merchant power sales (mn units)	7	256	431	390	307
Average tariff per unit (INR/unit)	NA	4.2	4.3	4.4	4.4
Power EBITDA (INR mn) (d)	0	148	249	355	326
Power EBITDA from power trading (INR mn) (e)	-	14	15	-	-
Power EBITDA from merchant sales (INR mn) (f) = (d)-(e)	0	134	235	355	326
<b>EBITDA/unit from merchant sales (INR/unit)</b>	<b>0.1</b>	<b>0.5</b>	<b>0.5</b>	<b>0.9</b>	<b>1.1</b>

Source: Company, Edelweiss research

\*Company has changed its accounting year from March to June in the previous quarter.

Accordingly, FY12 is a 15months period and hence we call it as Q5FY12.

## Financial snapshot

(INR mn)

Year to March	Q1FY13	Q2FY12	% change	Q5FY12	% change	FY12	FY13E	FY14E
Cement sale	2.94E	2.44	20.5	3.20	(8.1)	14.9	13.2	14.7
Clinker sale	0.09E	0.05	80.0	0.17	(47.1)	0.7	0.3	0.4
Cement realisation per tonne	3,970	3,438	15.5	3,872	2.5			
Net Sales	13,238	8,561	54.6	14,553	(9.0)	60,831	60,416	72,304
Raw material	1,300	1,515	(14.2)	1,362	(4.6)	9,256	5,668	6,494
Staff cost	704	593	18.8	746	(5.7)	3,195	2,993	3,772
Power & Fuel	3,290	2,033	61.8	3,415	(3.6)	15,041	15,439	18,218
Freight & Selling expenses	2,130	1,491	42.8	2,355	(9.6)	10,157	9,969	12,259
Other expenditure	1,875	910	NA	1,863	0.7	6,695	8,023	10,247
Total expenditure	9,300	6,542	42.2	9,741	(4.5)	44,343	42,092	50,990
EBITDA	3,938	2,018	95.1	4,812	(18.2)	16,489	18,324	21,314
Interest	543	290	87.2	480	13.3	1,869	2,172	2,172
Depreciation	942	1,619	(41.9)	818	15.1	8,731	7,010	7,010
Other Income	292	10	NA	322	(9.2)	1,112	1,718	1,775
PBT before exceptional items	2,745	119	NA	3,836	(28.4)	7,001	10,859	13,906
Exceptional items	10	11	(15.2)	1	NA	123	48	67
PBT	2,736	108	NA	3,835	(28.7)	6,877	10,811	13,839
Tax expense	454	(277)	NA	320	42.0	693	2,473	3,358
Adjusted net profit	2,281	385	NA	3,515	(35.1)	6,185	8,338	10,481
Equity capital (FV INR 10)	348	348		348		348	348	348
No. of shares (mn)	34.8	34.8		34.8		35	35	35
EPS (INR)	65.5	11.0	NA	100.9	(35.1)	177.5	239.3	300.9

## as % of net revenues

Raw material	9.8	17.7		9.4		15.2	9.4	9.0
Staff expenses	5.3	6.9		5.1		5.3	5.0	5.2
Power & fuel	24.9	23.8		23.5		24.7	25.6	25.2
Freight outward	16.1	17.4		16.2		16.7	16.5	17.0
Other expenses	14.2	10.6		12.8		11.0	13.3	14.2
EBITDA	29.7	23.6		33.1		27.1	30.3	29.5
Net profit	17.2	4.5		24.2		10.2	13.8	14.5

## Change in estimates

We retain our cement volume estimate at 12.7mt and 14.3mt for FY13 and FY14 respectively. Cement EBITDA/t estimate is being revised from ~INR1,150 to ~INR1,279 for FY13 and to ~INR1,312 for FY14. We retain our existing estimates for the power business. Accordingly, our total EBITDA estimates stand revised up by 11% for FY13 and by 14% for FY14. PAT is being revised up by 25% and 21% for FY13 and FY14 respectively.

## Change in estimates

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Revenue (INR mn)	60,416	58,567	3.2	72,304	68,913	4.9	Taking a cue from the reported performance and expected improvement going ahead, we are revising up our realisation estimates by 3.5% and 2.0% for FY13 and FY14 respectively.
EBITDA (INR mn)	18,324	16,554	10.7	21,314	18,740	13.7	
EBITDA margin (%)	30.3	28.3		29.5	27.2		
Net profit (INR mn)	8,338	6,662	25.2	10,480	8,662	21.0	
PAT margin (%)	13.9	11.4		14.6	12.7		

Source: Edelweiss research

## Company Description

Shree Cements (SRCM) is the largest cement manufacturer in North India and among the top cement manufacturing groups in the country. The company is being professionally managed by its promoters Shri B. G. Bangur, chairman and Shri H. M. Bangur, managing director (promoters holding 64.78% of the company).

After beginning commercial production in 1985, the company has more than quadrupled its capacity in the past five years to reach the current 13.5 mn tonnes p.a. with manufacturing plants at Beawar, Ras, Khushkhera, Suratgarh and Jaipur in Rajasthan, and Laksar (Roorkee) in Uttarakhand. SRCM is also engaged in the power sector with power generation capacity of 560 MW.

Further, SRCM has set up waste heat recovery projects of 46 MW, the largest globally (excluding China).

## Investment Theme

Shree Cement is one the most efficient company in the mid cap space due to 100% captive power, usage of pet coke, short lead distance and lean cost structure. As a result, its EBITDA/t is comparable to even the efficient large cap pan India players. With timely capacity additions, it has continuously gained market share in its operating region (north and central).

## Key Risks

Sharp decrease in cement prices from current levels.

Significant increase in the power and fuel cost.

Delay in ramping up of the power projects.

## Financial Statements

### Key assumptions

		FY10	FY11	FY12*	FY13E	FY14E
<b>Macro</b>	GDP (YoY %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
<b>Sector</b>	All India cement demand (mn tonnes)	196	207	221	241	263
	Industry volume growth (%)	10.7	5.6	6.6	9.0	9.1
	Industry capacity utilisation (%)	89.2	79.2	77.0	77.7	77.0
	All India average price (INR/50 kg bag)	246	244	266	294	299
<b>Company</b>	Volumes (mn tonnes)	9.3	9.3	14.2	12.7	14.3
	Realisations(INR/tonne)	3457	3233	3637	4027	4132
	EBITDA/tonne (INR)	1360	762	1045	1279	1312
	Power- Sold units (mn KWH)	264	621	1322	2068	2521
	Power realisations(INR/unit)	6.7	5.1	4.3	4.1	4.1
	EBITDA/unit (INR)	4.2	1.7	0.7	0.8	0.8

### Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Income from operations	36,437	35,141	60,831	60,416	72,304
Materials costs	4,460	5,623	9,256	5,668	6,494
Employee costs	1,586	1,985	3,195	2,993	3,772
Total SG&A expenses	2,932	3,391	6,695	8,023	10,247
Other Expenses	12,403	15,264	25,197	25,408	30,478
EBITDA	15,056	8,879	16,489	18,324	21,314
Depreciation & Amortization	5,704	6,758	8,731	7,010	7,010
EBIT	9,352	2,121	7,758	11,314	14,304
Other income	888	445	1,112	1,718	1,775
Interest expenses	926	978	1,869	2,172	2,172
Profit before tax	9,313	1,588	7,001	10,859	13,905
Provision for tax	1,918	(993)	693	2,473	3,358
Net profit	7,395	2,581	6,308	8,386	10,547
Adjusted net profit	6,761	2,096	6,185	8,338	10,480
Shares outstanding (mn)	35	35	35	35	35
Diluted EPS (INR)	194.1	60.2	177.5	239.3	300.8
CEPS (INR)	375.4	234.3	411.0	441.2	504.0
Dividend per share (INR)	13.0	10.0	20.0	20.0	20.0
Dividend payout (%)	6.7	16.6	11.3	8.4	6.6

### Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating expenses	58.7	74.7	72.9	69.7	70.5
EBITDA margins	41.3	25.3	27.1	30.3	29.5
Net profit margins	20.3	7.3	10.4	13.9	14.6

### Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	34.1	(3.6)	73.1	(0.7)	19.7
Net profit	28.0	(65.1)	144.4	32.9	25.8

<b>Balance sheet</b>					
(INR mn)					
<b>As on 31st March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Equity capital	348	348	348	348	348
Reserves & surplus	17,984	19,513	26,990	34,572	44,243
Shareholders funds	18,332	19,861	27,338	34,920	44,591
Secured loans	17,885	17,805	11,874	11,805	8,805
Unsecured loans	3,177	2,274	1,433	1,433	1,433
Borrowings	21,062	20,079	13,309	13,238	10,238
Deferred tax (net)	(124)	(722)	(697)	(697)	(697)
<b>Sources of funds</b>	<b>39,271</b>	<b>39,218</b>	<b>39,950</b>	<b>47,461</b>	<b>54,132</b>
Gross block	29,509	40,421	52,689	54,689	63,689
Depreciation	21,989	28,750	37,481	44,491	51,501
Net block	7,520	11,671	15,208	10,198	12,188
Capital work in progress	9,674	10,278	970	6,970	970
Investments	15,922	11,965	25,352	25,352	25,352
Inventories	3,581	4,042	5,033	5,707	5,942
Sundry debtors	824	1,082	1,811	2,217	2,402
Cash and equivalents	4,164	4,608	4,590	12,139	22,401
Loans and advances	7,252	4,656	5,680	4,656	4,656
Other current assets	-	-	385	-	-
Total current assets	15,822	14,389	17,499	24,719	35,401
Sundry creditors and others	4,668	6,264	17,126	17,126	17,126
Provisions	4,999	2,820	1,954	2,653	2,653
Total current liabilities & provisions	9,667	9,084	19,079	19,778	19,778
Net current assets	6,155	5,305	(1,580)	4,941	15,622
<b>Uses of funds</b>	<b>39,271</b>	<b>39,218</b>	<b>39,950</b>	<b>47,461</b>	<b>54,132</b>
Book value per share (INR)	526.2	570.1	784.7	1,002.4	1,280.0

<b>Free cash flow</b>					
(INR mn)					
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Net profit	6,761	2,096	6,185	8,338	10,480
Depreciation	5,704	6,758	8,731	7,010	7,010
Deferred tax	(22)	(1,175)	(722)	(27)	-
Others	(642)	1,771	(1,798)	26	1
Gross cash flow	11,801	9,450	12,396	15,347	17,491
Less: Changes in WC	(738)	(1,294)	(6,867)	(1,028)	420
Operating cash flow	12,540	10,744	19,263	16,375	17,071
Less: Capex	(11,710)	(11,518)	2,960	8,000	3,000
<b>Free cash flow</b>	<b>24,250</b>	<b>22,262</b>	<b>16,303</b>	<b>8,375</b>	<b>14,071</b>

<b>Cash flow metrics</b>					
<b>Year to March</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>
Operating cash flow	12,540	10,744	19,263	16,375	17,071
Investing cash flow	(16,885)	(6,361)	(17,089)	(8,000)	(3,000)
Financing cash flow	3,786	(3,939)	(2,572)	(825)	(3,810)
Net cash flow	(559)	444	(398)	7,549	10,262
Capex	(11,710)	(11,518)	(4,694)	(8,000)	(3,000)
Dividends paid	(611)	(569)	(2,085)	(756)	(810)

**Profitability & efficiency ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	48.6	13.5	26.7	26.9	26.5
ROACE (%)	44.7	8.4	37.1	61.6	56.2
Inventory day	55	67	48	63	58
Debtors days	7	10	9	12	12
Payable days	82	96	124	201	169
Cash conversion cycle (days)	(19)	(19)	(67)	(126)	(100)
Current ratio	1.6	1.6	0.9	1.2	1.8
Debt/EBITDA	1.4	2.3	0.8	0.7	0.5
Debt/Equity	1.1	1.0	0.5	0.4	0.2
Adjusted debt/equity	1.1	1.0	0.5	0.4	0.2
Interest coverage	10.1	2.2	4.2	5.2	6.6

**Operating ratios**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	1.1	0.9	1.5	1.4	1.4
Fixed asset turnover	5.3	3.7	4.5	4.8	6.5
Equity turnover	2.4	1.8	2.6	1.9	1.8

**Valuation parameters**

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	194.1	60.2	177.5	239.3	300.8
Y-o-Y growth (%)	17.0	(69.0)	195.0	34.8	25.7
Diluted PE (x)	20.9	67.4	22.9	17.0	13.5
Price/BV (x)	7.7	7.1	5.2	4.0	3.2
EV/tonne (USD/tonne)	285	284	185	173	154
EV/Sales (x)	3.9	4.1	2.1	1.9	1.4
EV/EBITDA (x)	9.5	16.3	7.6	6.4	4.9
EV/EBITDA (x)+1 yr forward	16.0	8.8	6.8	5.5	-
Dividend yield (%)	0.3	0.2	0.5	0.5	0.5

**Peer comparison valuation**

	Price (INR)	Market Cap (INR bn)	PE (x)		EV/EBITDA(x)		ROE(%)	
			2013E	2014E	2013E	2014E	2013E	2014E
ACC Ltd	1,446	272	17.7	17.4	10.7	9.7	20.5	18.9
Ambuja Cement	209	319	21.5	20.7	12.8	11.6	17.5	16.5
Ultratech Cement	2,026	555	23.7	21.2	12.8	11.0	16.8	16.1
Shree Cement	4,058	141	17.0	13.5	6.4	4.9	26.9	26.5
India Cements	99	31	8.9	7.8	5.3	4.6	8.4	8.8
<b>Average</b>			<b>17.8</b>	<b>16.1</b>	<b>9.6</b>	<b>8.4</b>	<b>18.0</b>	<b>17.4</b>

*Source: Edelweiss research*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ACC	REDUCE	SU	M	Ambuja Cement Ltd	REDUCE	SU	M
Grasim Industries	BUY	SO	M	India Cements	BUY	SO	H
Shree Cements	BUY	SO	M	UltraTech Cement	HOLD	SP	M

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return







**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.  
Board: (91-22) 4009 4400, Email: [research@edelcap.com](mailto:research@edelcap.com)

Vikas Khemani	Head Institutional Equities	vikas.khemani@edelcap.com	+91 22 2286 4206
Nischal Maheshwari	Co-Head Institutional Equities & Head Research	nischal.maheshwari@edelcap.com	+91 22 4063 5476
Nirav Sheth	Head Sales	nirav.sheth@edelcap.com	+91 22 4040 7499

**Coverage group(s) of stocks by primary analyst(s): Cement**

ACC, Ambuja Cement Ltd, Grasim Industries, India Cements, Shree Cements, UltraTech Cement

**Recent Research**

Date	Company	Title	Price (INR)	Recos
15-Oct-12	<b>Cement Channel Check</b>	Price recovery on course; <i>Monthly Update</i>		
14-Sep-12	<b>Cement Channel Check</b>	Monsoon gloom: Not as bad as last year; <i>Monthly Update</i>		
24-Aug-12	<b>Shree Cements</b>	Splendid performance; <i>Result Update</i>	3394	Buy

**Distribution of Ratings / Market Cap**

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

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