

## Shree Cement

### Performance highlights

#### Quarterly results - Standalone

Y/E Mar. (₹ cr)	1QFY2013	5QFY2012	% Chg qoq	2QFY2012	% Chg yoy
Net sales	1,324	1,456	(9.1)	852	55.4
Operating profit	393	480	(18.1)	198	98.8
OPM (%)	29.7	33.0	(327)bp	23.2	649bp
Net profit	228	351	(34.9)	36	536.8

Source: Company, Angel Research

Shree Cement (SRCM) posted a strong performance on the bottom-line front (up 537% yoy) in 1QFY2013 which was ahead of our estimates. The stellar performance was on account of a 22% yoy growth in cement volumes, coupled with a better-than-estimated 14.8% yoy growth in cement realization. **We remain Neutral on the stock.**

**OPM at 29.7%, up 649bp yoy:** SRCM's cement business posted an EBITDA/tonne of ₹1,186 for the quarter (up 27% on a yoy basis). The sharp improvement in EBITDA/tonne was aided by higher realization. Cement prices remained high during the quarter due to delayed monsoons. Thus, cement realization was higher by 2.7% even on a qoq basis. Merchant power volumes rose multifold on a yoy basis to 307MUs, aided by higher generation capacity. The EBITDA/unit of merchant power sold stood at ₹1.05. The OPM stood at 29.7%, up 649bp on a yoy basis. Apart from a strong operational performance, the bottom-line was also boosted by lower depreciation which stood at ₹94cr, down 41.9% yoy.

**Outlook and valuation:** We expect SRCM to post a 2.6% and 20.3% growth in its top-line and bottom-line respectively over FY2012-14E. The company's dominant presence in the high growth northern market is expected to result in a strong profit growth. The stock has run up steeply over the past few months, which is largely on the back of strong volume growth in the cement business and the same is way ahead of the industry growth rate. However, at the current market price, we believe SRCM's cement business is trading at fair valuations of EV/tonne of US\$138 on current capacity (US\$91 on FY2014E capacity). **Hence, we maintain our Neutral recommendation on the stock.**

#### Key financials

Y/E March (₹ cr)	FY2011	FY2012*	FY2013E	FY2014E
Net Sales	3,454	5,898	5,701	6,210
% chg	(5.2)	70.8	(3.3)	8.9
Net Profit	210	618	839	908
% chg	(69.0)	194.7	35.7	8.3
FDEPS(₹)	74.1	180.9	240.7	260.7
OPM (%)	25.6	27.9	29.7	28.1
P/E(x)	54.6	22.4	16.8	15.5
P/BV(x)	7.1	5.2	4.1	3.3
RoE(%)	13.5	26.7	27.1	23.6
RoCE(%)	5.3	19.3	25.4	23.4
EV/Sales (x)	3.9	2.0	1.9	1.5
EV/tonne	199	154	120	91
EV/EBITDA	15.0	7.2	6.4	5.5

Source: Company, Angel Research; Note: \* The company has changed its accounting period to June-end, hence FY2012 consists of 15 months.

## NEUTRAL

CMP	₹4,049
Target Price	-

Investment Period	-
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Stock Info	
Sector	Cement
Market Cap (₹ cr)	14,105
Net Debt (₹ cr)	(308)
Beta	0.8
52 Week High / Low	4442/1823
Avg. Daily Volume	12,719
Face Value (₹)	10
BSE Sensex	18,578
Nifty	5,648
Reuters Code	SHCM.BO
Bloomberg Code	SRCM@IN

Shareholding Pattern (%)	
Promoters	64.8
MF / Banks / Indian FIs	5.3
FII / NRIs / OCBs	8.4
Indian Public / Others	21.5

Abs. (%)	3m	1yr	3yr
Sensex	8.6	8.8	7.2
SRCM	39.9	121.8	155.5

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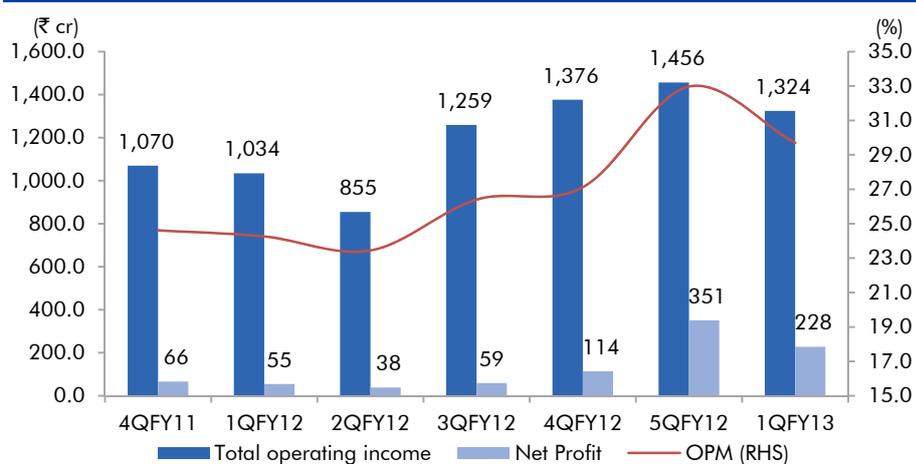
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**Exhibit 1: 1QFY2013 Performance**

Y/E March (₹ cr)	1QFY2013	5QFY2012	% Chg qoq	2QFY2012	% Chg yoy
<b>Total Operating Income</b>	<b>1,324</b>	<b>1,456</b>	<b>(9.1)</b>	<b>852</b>	<b>55.4</b>
Net raw-material costs	130	136	(4.4)	109	19.6
(% of sales)	9.8	9.3		12.8	
Power & fuel	330	341	(3.5)	203	62.1
(% of sales)	24.9	23.4		23.9	
Staff costs	70	75	(5.9)	59	18.8
(% of sales)	5.3	5.7		4.5	
Freight & forwarding	213	236	(9.6)	192	11.0
(% of sales)	16.1	17.8		14.5	
Other expenses	188	188	(0.4)	91	106.2
(% of sales)	14.2	14.2		6.9	
Total Expenditure	931	976	(4.7)	654	42.2
<b>Operating Profit</b>	<b>393</b>	<b>480</b>	<b>(18.1)</b>	<b>198</b>	<b>98.8</b>
<b>OPM (%)</b>	<b>29.7</b>	<b>33.0</b>	<b>(327)bp</b>	<b>23.2</b>	<b>649bp</b>
Interest	54	48	13.3	29	87.2
Depreciation	94	82	15.1	162	(41.9)
Other Income	30	32	(6.7)	2	1,129.1
PBT	275	383	(28.2)	9	2,858.3
Extr. (Income)/Expense	1	-		1	(15.2)
PBT	274	383	(28.4)	8	3,261.7
Provision for tax	45	32	42.0	(28)	(263.9)
(%) of PBT	16.6	8.4		(340.3)	
<b>Reported PAT</b>	<b>228</b>	<b>351</b>	<b>(34.9)</b>	<b>36</b>	<b>536.8</b>
PATM (%)	17.2	24.1		4.2	

Source: Company, Angel Research

**Exhibit 2: Financial performance**


Source: Company, Angel Research

**Exhibit 3: 1QFY2013 – Actual vs Angel estimates**

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	1,324	1,249	6.0
Operating profit	393	347	13.4
Net profit	228	145	57.2

Source: Company, Angel Research

**Performance highlights**
**Total operating income up 55.4% yoy, led by strong growth in cement business**

During 1QFY2013, SRCM's total operating income grew by 55.5% yoy to ₹1,324cr, primarily on account of a 40.1% yoy increase in revenues of the cement business. The stellar performance of the cement business was led by a robust 22% yoy growth in cement volumes and a healthy 14.6% yoy growth in realization. The revenue of the power business also grew exponentially to ₹136cr (₹4.2cr in 2QFY2012) aided by 300MW of new generation capacity commissioned during FY2012.

**Higher realization results in 49.3% yoy increase in EBITDA/tonne**

On the operating front, net raw-material cost per tonne of cement fell by 3.8% yoy to ₹420/tonne. The freight cost per tonne fell by 9.0% yoy. The power and fuel cost per tonne too was down by 7.6% yoy due to lower pet coke prices. The operating profit per tonne of cement increased to ₹1,186, up 49.3% yoy.

**Exhibit 4: Cement operational performance**

Particulars (₹)	1QFY13	5QFY12	2QFY12	chg(%) yoy	chg(%) qoq
Realization/tonne	3,909	3,805	3,405	14.8	2.7
Net Raw material cost/tonne	420	404	437	(3.8)	4.1
Power & fuel cost/tonne	745	620	806	(7.6)	20.2
Freight cost/tonne	701	699	771	(9.0)	0.3
Other costs	617	559	365	69.0	10.5
Operating profit/tonne	1,186	1,321	794	49.3	(10.2)

Source: Company, Angel Research

**Exhibit 5: Segment-wise revenue break-up**

Particulars (₹ cr)	1QFY13	5QFY12	2QFY12	chg (%) yoy	chg (%) qoq
<b>Revenue</b>					
Cement	1167	1282	848	37.7	(9.0)
Power	136	173	4	3,115.1	(21.4)
<b>EBIT</b>					
Cement	240	336	123	94.9	(28.7)
Power	60	65	(83)		(7.2)

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 portland pozzolana cement 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 the company's revenue growth going ahead.

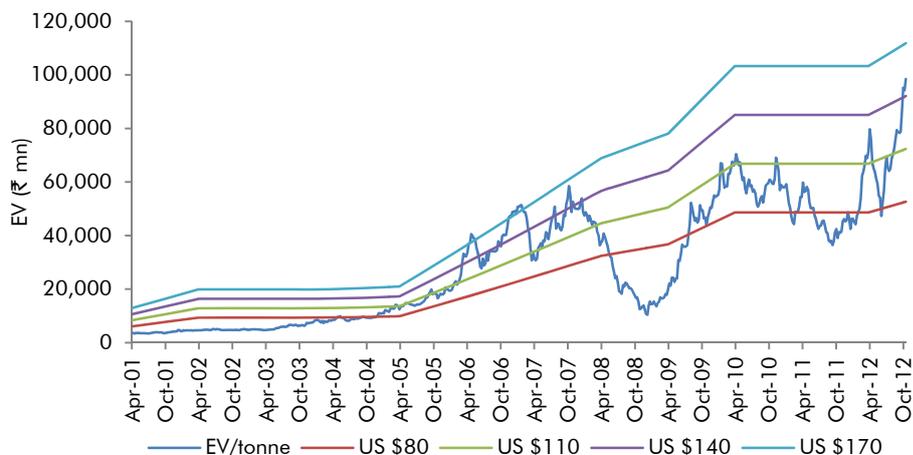
## Outlook and valuation

We expect SRCM to post a 2.6% and 20.0% growth in top-line and bottom-line respectively over FY2012-14E. The company's dominant presence in the high growth northern market is expected to result in strong profit growth. The stock has run up steeply over the past few months, which is largely on the back of strong volume growth in the cement business and the same is way ahead of the industry growth rate. However, at the current market price, we believe SRCM's cement business is trading at fair valuations of EV/tonne of US\$138 on current capacity (US\$91 on FY2014E capacity). **Hence, we maintain our Neutral recommendation on the stock.**

### Exhibit 6: Change in estimates

(₹ cr)	FY2013E			FY2014E		
	Earlier	Revised	Var (%)	Earlier	Revised	Var (%)
Net Sales	5,630	5,701	1.3	6,187	6,210	0.4
Operating Exp	3,966	4,007	1.0	4,460	4,464	0.1
Operating Profit	1,663	1,694	1.8	1,727	1,747	1.1
Depreciation	677	622	(8.1)	707	650	(8.1)
PBT	969	1,048	8.2	1,063	1,135	6.8
Tax	194	210	8.2	159	227	42.4
PAT	775	839	8.2	903	908	0.6

Source: Company, Angel Research

**Exhibit 7: One-year forward EV/tonne**


Source: Bloomberg, Angel Research

**Exhibit 8: Recommendation summary**

Company	Reco	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2014E P/BV (x)	FY2014E P/E (x)	FY2012-14E EPS CAGR	FY2014E RoE (%)	EV/tonne ^ US \$
ACC*	Neutral	1,445	-	-	3.2	17.6	8.0	19.1	142
Ambuja Cements*	Neutral	209	-	-	3.6	16.8	23.6	20.5	190
India Cements	Neutral	99	-	-	0.8	8.1	12.8	10.2	69
JK Lakshmi	Neutral	118	-	-	0.9	6.6	41.7	14.6	50
Madras Cement	Neutral	186	-	-	1.6	10.2	6.2	17.0	70
<b>Shree Cements#</b>	<b>Neutral</b>	<b>4,049</b>	-	-	<b>3.3</b>	<b>15.5</b>	<b>20.0</b>	<b>23.6</b>	<b>138</b>
UltraTech Cements	Neutral	2,028	-	-	3.2	18.3	11.3	18.7	209

Source: Company, Angel Research; Note: \*Y/E December; # Y/E June; ^ Computed on TTM basis

## Company background

SRCM is a leading cement company in north India, with a current total capacity of 13.5mtpa spread across Rajasthan (11.7mtpa) and Uttarakhand (1.8mtpa). The company has ambitiously grown its cement capacity by five times in the past six years. In FY2011 alone, the company added 3.3mtpa of cement capacity and 1mtpa of clinker capacity. Also, the company has ventured into the power generation business and currently has 560MW of power generation capacity post the addition of 300MW in FY2012.

**Profit and loss statement**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>Total operating income</b>	<b>2,715</b>	<b>3,642</b>	<b>3,454</b>	<b>5,898</b>	<b>5,701</b>	<b>6,210</b>
% chg	28.8	34.2	(5.2)	70.8	-3.3	8.9
<b>Total Expenditure</b>	<b>1,793</b>	<b>2,204</b>	<b>2,569</b>	<b>4,252</b>	<b>4,007</b>	<b>4,464</b>
Net Raw Materials	262	313	342	598	559	625
Other Mfg costs	606	610	905	1,500	1,304	1,444
Personnel	104	159	199	319	310	338
Other	821	1,121	1,124	1,835	1,835	2,056
<b>EBITDA</b>	<b>922</b>	<b>1,439</b>	<b>885</b>	<b>1,646</b>	<b>1,694</b>	<b>1,747</b>
% chg	11.9	56.0	(38.5)	86.0	2.9	3.1
(% of net Sales)	34.0	39.5	25.6	27.9	29.7	28.1
Depreciation & Amortization	205	570	676	873	622	650
<b>EBIT</b>	<b>717</b>	<b>868</b>	<b>209</b>	<b>773</b>	<b>1,072</b>	<b>1,097</b>
% chg	107.5	21.1	(75.9)	269.5	38.8	2.3
(% of net Sales)	26.4	23.8	6.1	13.1	18.8	17.7
Interest & other Charges	77	129	175	235	129	92
Other Income	83	129	125	163	106	131
(% of PBT)	11.5	14.8	78.8	23.3	10.1	11.5
<b>Recurring PBT</b>	<b>723</b>	<b>868</b>	<b>159</b>	<b>700</b>	<b>1,048</b>	<b>1,135</b>
% chg	96.3	20.1	(81.7)	340.7	49.8	8.3
Extraordinary expense/(Inc.)	-	-	48	12	-	-
<b>PBT (reported)</b>	<b>723</b>	<b>868</b>	<b>110</b>	<b>688</b>	<b>1,048</b>	<b>1,135</b>
Tax	145	192	(99)	70	210	227
(% of PBT)	20.1	22.1	(90.0)	10.1	20.0	20.0
<b>PAT</b>	<b>578</b>	<b>676</b>	<b>258</b>	<b>630</b>	<b>839</b>	<b>908</b>
% chg	122.0	17.0	(61.8)	144.2	33.0	8.3
(% of Net Sales)	21.3	18.6	7.5	10.7	14.7	14.6
<b>Basic EPS (₹)</b>	<b>166</b>	<b>194</b>	<b>74</b>	<b>181</b>	<b>241</b>	<b>261</b>
<b>Fully Diluted EPS (₹)</b>	<b>166</b>	<b>194</b>	<b>74</b>	<b>181</b>	<b>241</b>	<b>261</b>
% chg	122.0	17.0	(61.8)	144.2	33.0	8.3

Note: FY2012 Consists of 15 months; Some of the figures from FY2012 are reclassified and hence not comparable with previous year numbers

**Balance Sheet**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	35	35	35	35	35	35
Reserves & Surplus	1,175	1,798	1,951	2,699	3,421	4,202
<b>Shareholders' Funds</b>	<b>1,210</b>	<b>1,833</b>	<b>1,986</b>	<b>2,734</b>	<b>3,456</b>	<b>4,237</b>
Total Loans	1,496	2,106	1,689	963	663	363
Deferred Tax Liability	(10)	(12)	(72)	(70)	(70)	(70)
Other Long term liab			357	370	370	370
Long term provisions			16	17	17	17
<b>Total Liabilities</b>	<b>2,696</b>	<b>3,927</b>	<b>3,976</b>	<b>4,014</b>	<b>4,436</b>	<b>4,918</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	2,256	2,951	4,042	5,188	5,488	5,738
Less: Acc. Depreciation	1,629	2,199	2,875	3,748	4,370	5,020
<b>Net Block</b>	<b>627</b>	<b>752</b>	<b>1,167</b>	<b>1,440</b>	<b>1,118</b>	<b>718</b>
Capital Work-in-Progress	479	967	729	178	278	478
<b>Investments</b>	<b>845</b>	<b>1,592</b>	<b>1,196</b>	<b>2,535</b>	<b>2,835</b>	<b>3,235</b>
Long term loans and adv.			308	205	205	205
<b>Current Assets</b>	<b>1,466</b>	<b>1,582</b>	<b>1,467</b>	<b>1,545</b>	<b>1,872</b>	<b>2,364</b>
Cash	509	416	499	459	741	1,079
Loans & Advances	744	725	456	401	465	538
Other	213	441	512	684	666	747
Current liabilities	<b>721</b>	<b>967</b>	<b>892</b>	<b>1,889</b>	<b>1,873</b>	<b>2,083</b>
<b>Net Current Assets</b>	<b>745</b>	<b>615</b>	<b>575</b>	<b>(344)</b>	<b>(1)</b>	<b>281</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>2,696</b>	<b>3,927</b>	<b>3,976</b>	<b>4,014</b>	<b>4,436</b>	<b>4,918</b>

Note: FY2012 consists of 15 months; Some of the figures from FY2012 are reclassified and hence not comparable with previous year numbers

**Cash flow statement**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	723	868	110	688	1,048	1,135
Depreciation	205	570	676	873	622	650
Change in Working Capital	(80)	33	156	1,233	(62)	57
Less: Other income	83	129	125	163	106	131
Direct taxes paid	164	190	(71)	70	210	227
<b>Cash Flow from Operations</b>	<b>601</b>	<b>1,152</b>	<b>888</b>	<b>2,561</b>	<b>1,293</b>	<b>1,484</b>
(Inc)/ Dec Fixed Assets	(530)	(1,183)	(853)	(595)	(400)	(450)
(Inc)/ Dec in Investments	(254)	(747)	396	(1,339)	(300)	(400)
Other income	83	129	125	163	106	131
<b>Cash Flow from Investing</b>	<b>(700)</b>	<b>(1,802)</b>	<b>(332)</b>	<b>(1,771)</b>	<b>(594)</b>	<b>(719)</b>
Issue of Equity	-	-	(0)	-	-	-
Inc./ (Dec.) in loans	165	610	(417)	(726)	(300)	(300)
Dividend Paid (Incl. Tax)	41	53	57	86	117	127
<b>Cash Flow from Financing</b>	<b>125</b>	<b>557</b>	<b>(474)</b>	<b>(812)</b>	<b>(417)</b>	<b>(427)</b>
Others				18		
Inc./ (Dec.) in Cash	25	(92)	82	(40)	282	338
<b>Opening Cash balances</b>	<b>484</b>	<b>509</b>	<b>416</b>	<b>499</b>	<b>459</b>	<b>741</b>
<b>Closing Cash balances</b>	<b>509</b>	<b>416</b>	<b>499</b>	<b>459</b>	<b>741</b>	<b>1,079</b>

Note: FY2012 consists of 15 months; some of the figures from FY2011 onwards are reclassified and hence not comparable with previous year numbers

**Key ratios**

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	24.4	20.9	54.6	22.4	16.8	15.5
P/CEPS	18.0	11.3	15.9	9.5	9.7	9.1
P/BV	12.2	7.7	7.1	5.2	4.1	3.3
Dividend yield (%)	0.3	0.4	0.4	0.6	0.8	0.9
EV/Sales	5.1	3.6	3.9	2.0	1.9	1.5
EV/EBITDA	14.9	9.2	15.0	7.2	6.4	5.5
EV / Total Assets	5.1	3.4	3.3	2.9	2.4	2.0
<b>Per Share Data (₹)</b>						
EPS (Basic)	165.9	194.0	74.1	180.9	240.7	260.7
EPS (fully diluted)	165.9	194.0	74.1	180.9	240.7	260.7
Cash EPS	224.8	357.8	254.2	428.0	419.2	447.3
DPS	11.7	15.2	16.3	24.7	33.6	36.4
Book Value	333.2	526.2	570.1	784.8	991.9	1,216.3
<b>Dupont Analysis</b>						
EBIT margin	26.4	23.8	6.1	13.1	18.8	17.7
Tax retention ratio	79.9	77.9	190.0	89.9	80.0	80.0
Asset turnover (x)	1.5	1.3	1.0	1.7	1.6	1.6
ROIC (Post-tax)	31.1	23.7	11.4	19.7	23.7	23.3
Cost of Debt (Post Tax)	4.4	5.6	17.6	16.0	12.7	14.4
Leverage (x)	0.9	0.9	0.8	0.4	0.2	0.1
Operating ROE	55.9	40.9	6.4	21.4	26.0	24.4
<b>Returns (%)</b>						
ROCE (Pre-tax)	30.6	26.2	5.3	19.3	25.4	23.4
Angel ROIC (Pre-tax)	81.7	95.7	16.7	64.5	150.5	309.7
ROE	65.0	45.2	13.5	26.7	27.1	23.6
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	1.2	1.4	1.0	1.3	1.1	1.1
Inventory / Sales (days)	22	26	40	28	32	30
Receivables (days)	7	7	10	9	12	11
Payables (days)	124	140	132	119	171	162
WC cycle (ex-cash) (days)	25	22	15	(22)	(49)	(45)
<b>Solvency ratios (x)</b>						
Net debt to equity	0.1	0.1	(0.0)	(0.7)	(0.8)	(0.9)
Net debt to EBITDA	0.2	0.1	(0.0)	(1.2)	(1.7)	(2.3)
Interest Coverage (EBIT / Int.)	9.3	6.7	1.2	3.3	8.3	11.9

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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

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