

October 16, 2012

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Rating	<b>BUY</b>
Price	Rs4,058
Target Price	Rs4,500
Implied Upside	10.9%
Sensex	18,578
Nifty	5,648

(Prices as on October 16, 2012)

#### Trading data

Market Cap. (Rs bn)	141.4
Shares o/s (m)	34.8
3M Avg. Daily value (Rs m)	197.5

#### Major shareholders

Promoters	64.78%
Foreign	7.91%
Domestic Inst.	5.30%
Public & Other	22.01%

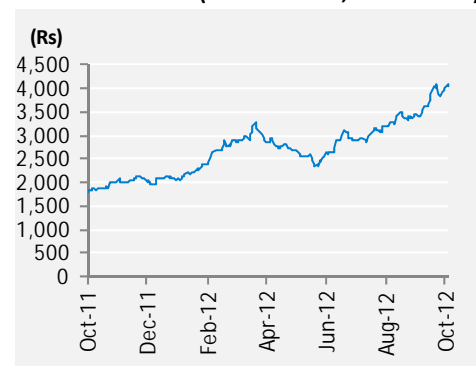
#### Stock Performance

(%)	1M	6M	12M
Absolute	19.2	41.7	120.9
Relative	18.6	33.4	112.2

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	296.4	230.5	28.6
2014	317.3	285.5	11.1

#### Price Performance (RIC:SHCM.BO, BB:SRM IN)



Source: Bloomberg

Shree Cement reported earnings slightly below our expectation. The underperformance was primarily on account of sharper-than-expected increase in costs. We maintain our positive outlook driven by strong cash flow generation, consistent capacity addition (18mtpa by Q4FY14 from current 13.5mtpa) and comfort on valuations. We value the stock at Rs4,500, EV/EBITDA of 6.5x FY14.

- Sharp increase in costs diluted better-than-expected realisations:** Thanks to better-than-expected realisations, cement revenue grew ahead of our expectation at Rs11.9bn (PLe: Rs11.7bn), up 40% YoY. Realisations grew 14.5% YoY (2.6% QoQ or Rs100/t) at Rs3,905 (PLe: Rs3,870). Volumes grew 22% at 3.04m tonnes, in-line-with our estimates. However, cost/t rose way ahead of our expectation at Rs2,722 (PLe:Rs2,578), up 10% QoQ/Rs237 per tonne on the back of higher-than-expected pet coke and repairs and maintenance cost. Impacted by sharp increase in cost, EBITDA in cement business grew below our expectation at Rs3.6bn (PLe: Rs3.9bn), up 80% YoY (-19% QoQ). EBITDA/t grew 47% YoY (-11% QoQ) at Rs1,182 (PLe: Rs1,292).
- Margins improved further in Power business:** Despite lower-than-expected volumes (307 v/s PLe:400 MUs), power biz managed to meet our expectation with EBITDA at Rs335m (PLe:340m) on the back of lower cost of generation (Rs3.26 v/s PLe:Rs3.60). EBITDA/unit expanded by Rs0.15 QoQ to Rs1.06 (PLe: Rs0.85). Realisations dropped marginally by Rs0.10/kwh to Rs4.32 (PLe:4.3).
- PAT benefited by lower depreciation:** PAT grew to Rs2.29bn (PLe: Rs2.92bn) against Rs393m in Q1FY12 due to 42% decline in depreciation at Rs942m (PLe: Rs590m).

#### Key financials (Y/e June)

	2011	2012*	2013E	2014E
Revenues (Rs m)	34,535	58,981	57,086	68,110
Growth (%)	(4.9)	70.8	(3.2)	19.3
EBITDA (Rs m)	8,810	16,239	17,009	21,051
PAT (Rs m)	2,587	6,308	10,327	11,054
EPS (Rs)	74.3	181.1	296.4	317.3
Growth (%)	(65.0)	143.9	63.7	7.0
Net DPS (Rs)	14.0	20.0	25.0	25.0

#### Profitability & Valuation

	2011	2012*	2013E	2014E
EBITDA margin (%)	25.5	27.5	29.8	30.9
RoE (%)	13.5	26.7	30.6	24.1
RoCE (%)	9.1	17.1	21.7	19.2
EV / EBITDA (x)	16.3	7.9	7.4	5.5
EV / Tonne (\$)	221.0	183.1	144.0	98.2
PE (x)	54.6	22.4	13.7	12.8
P / BV (x)	7.1	5.2	3.5	2.7
Net dividend yield (%)	0.3	0.5	0.6	0.6

Source: Company Data; PL Research

\*FY12 = 15 Months

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**Exhibit 1: Q1FY13 Result Overview (Rs m)**

Y/e June	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13E	FY12*	YoY gr. (%)
<b>Net Sales</b>	<b>13,230</b>	<b>8,520</b>	<b>55.3</b>	<b>14,553</b>	<b>57,086</b>	<b>58,980</b>	<b>(3.2)</b>
Raw Material	1,300	1,102	18.0	1,362	5,311	5,979	(11.2)
<i>% of Net Sales</i>	<i>9.8</i>	<i>12.9</i>		<i>9.4</i>	<i>9.3</i>	<i>10.1</i>	
Staff Costs	704	593	18.8	746	3,067	3,195	(4.0)
<i>% of Net Sales</i>	<i>5.3</i>	<i>7.0</i>		<i>5.1</i>	<i>5.4</i>	<i>5.4</i>	
Power & Fuel	3,290	2,016	63.2	3,415	14,675	14,999	(2.2)
<i>% of Net Sales</i>	<i>24.9</i>	<i>23.7</i>		<i>23.5</i>	<i>25.7</i>	<i>25.4</i>	
Freight and selling expenses	2,130	1,558	36.7	2,355	9,568	10,064	(4.9)
<i>% of Net Sales</i>	<i>16.1</i>	<i>18.3</i>		<i>16.2</i>	<i>16.8</i>	<i>17.1</i>	
Other Expenses	1,875	1,249	50.2	1,863	7,457	8,287	(10.0)
<i>% of Net Sales</i>	<i>14.2</i>	<i>14.7</i>		<i>12.8</i>	<i>13.1</i>	<i>14.1</i>	
Total Expenditure	9,300	6,517	42.7	9,741	40,077	42,524	(5.8)
<b>EBITDA</b>	<b>3,930</b>	<b>2,003</b>	<b>96.2</b>	<b>4,812</b>	<b>17,009</b>	<b>16,456</b>	<b>3.4</b>
<i>Margin (%)</i>	<i>29.7</i>	<i>23.5</i>		<i>33.1</i>	<i>29.8</i>	<i>27.9</i>	
Depreciation	942	1,619	(41.9)	818	4,038	8,731	(53.7)
Other income	300	204	47.3	322	1,598	1,630	(1.9)
<b>EBIT</b>	<b>3,288</b>	<b>588</b>	<b>459.6</b>	<b>4,315</b>	<b>14,569</b>	<b>9,355</b>	<b>55.7</b>
Interest	543	468	16.0	480	1,974	2,354	(16.1)
<b>PBT</b>	<b>2,745</b>	<b>119</b>	<b>2,201.2</b>	<b>3,836</b>	<b>12,595</b>	<b>7,001</b>	<b>79.9</b>
Extraordinary income/(expense)	(10)	(11)		(1)	-	(123)	
<b>PBT (After EO)</b>	<b>2,736</b>	<b>108</b>	<b>2,435.3</b>	<b>3,835</b>	<b>12,595</b>	<b>6,878</b>	<b>83.1</b>
Tax	454	(277)	(264.0)	915	2,268	693	227.5
<i>% PBT</i>	<i>16.6</i>	<i>NA</i>		<i>23.9</i>	<i>18.0</i>	<i>10.1</i>	
<b>Reported PAT</b>	<b>2,281</b>	<b>385</b>	<b>492.7</b>	<b>2,920</b>	<b>10,327</b>	<b>6,185</b>	<b>67.0</b>
<b>Adjusted PAT</b>	<b>2,289</b>	<b>393</b>	<b>483.2</b>	<b>2,920</b>	<b>10,327</b>	<b>6,267</b>	<b>64.8</b>

Source: Company Data, PL Research \* FY12 = 15 Months

**Exhibit 2: Operating Metrics**

Y/e June	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	FY13E	FY12*	YoY gr. (%)
Volume (m te)-Cement	3.0	2.5	22.4	3.4	12.6	14.9	(15.0)
Volume (m units)-Power	307	7	NA	390	2,001	1,323	51.3
Net Realisations (Rs/te)	3,905	3,412	14.5	3,806	3,965	3,576	10.9
Realised rate (Rs/unit)	4.3	5.1	(14.6)	4.4	4.1	4.3	(5.6)
Cement EBITDA (Rs m)	3,595	1,996	80.2	4,450	15,181	15,462	(1.8)
Power EBITDA (Rs m)	326	8	NA	355	1,828	994	84.0
Cement EBITDA/ te (Rs/te)	1182	803	47.2	1321	1201	1040	15.5
Power EBITDA/Kwh (Rs)	1.1	1.1	(5.4)	0.9	0.9	0.8	21.6

Source: Company Data, PL Research \* FY12 = 15 Months

**Income Statement (Rs m)**

Y/e June	2011	2012*	2013E	2014E
<b>Net Revenue</b>	<b>34,535</b>	<b>58,981</b>	<b>57,086</b>	<b>68,110</b>
Raw Material Expenses	4,906	8,782	7,778	9,040
Gross Profit	29,629	50,199	49,308	59,070
Employee Cost	1,985	3,195	3,067	3,681
Other Expenses	18,834	30,765	29,232	34,339
<b>EBITDA</b>	<b>8,810</b>	<b>16,239</b>	<b>17,009</b>	<b>21,051</b>
Depr. & Amortization	6,758	8,731	4,038	7,549
Net Interest	1,710	2,135	1,974	1,928
Other Income	766	1,504	1,598	1,907
<b>Profit before Tax</b>	<b>1,109</b>	<b>6,878</b>	<b>12,595</b>	<b>13,482</b>
Total Tax	(994)	693	2,268	2,428
<b>Profit after Tax</b>	<b>2,102</b>	<b>6,185</b>	<b>10,327</b>	<b>11,054</b>
Ex-Od items / Min. Int.	(485)	(123)	—	—
<b>Adj. PAT</b>	<b>2,587</b>	<b>6,308</b>	<b>10,327</b>	<b>11,054</b>
<b>Avg. Shares O/S (m)</b>	<b>34.8</b>	<b>34.8</b>	<b>34.8</b>	<b>34.8</b>
<b>EPS (Rs.)</b>	<b>74.3</b>	<b>181.1</b>	<b>296.4</b>	<b>317.3</b>

**Cash Flow Abstract (Rs m)**

Y/e June	2011	2012*	2013E	2014E
C/F from Operations	10,744	19,263	13,166	18,188
C/F from Investing	(6,358)	(17,088)	(7,317)	(5,393)
C/F from Financing	(4,515)	(2,572)	(4,705)	(4,942)
Inc. / Dec. in Cash	(129)	(397)	1,144	7,852
Opening Cash	5,118	4,987	4,590	5,733
Closing Cash	4,987	4,590	5,733	13,586
FCFF	(2,209)	6,127	11,123	537
FCFE	(4,449)	4,347	9,323	(1,263)

**Key Financial Metrics**

Y/e June	2011	2012*	2013E	2014E
<b>Growth</b>				
Revenue (%)	(4.9)	70.8	(3.2)	19.3
EBITDA (%)	(41.0)	84.3	4.7	23.8
PAT (%)	(65.0)	143.9	63.7	7.0
EPS (%)	(65.0)	143.9	63.7	7.0
<b>Profitability</b>				
EBITDA Margin (%)	25.5	27.5	29.8	30.9
PAT Margin (%)	7.5	10.7	18.1	16.2
RoCE (%)	9.1	17.1	21.7	19.2
RoE (%)	13.5	26.7	30.6	24.1

**Balance Sheet**

Net Debt : Equity	0.1	(0.5)	(0.4)	(0.5)
Net Wrkng Cap. (days)	(9)	(182)	(157)	(160)

**Valuation**

PER (x)	54.6	22.4	13.7	12.8
P / B (x)	7.1	5.2	3.5	2.7
EV / EBITDA (x)	16.3	7.9	7.4	5.5
EV / Sales (x)	4.1	2.2	2.2	1.7

**Earnings Quality**

Eff. Tax Rate	(89.6)	10.1	18.0	18.0
Other Inc / PBT	78.5	23.3	12.7	14.1
Eff. Depr. Rate (%)	16.7	16.6	7.4	10.5
FCFE / PAT	(172.0)	68.9	90.3	(11.4)

Source: Company Data, PL Research.

\* FY12 = 15 Months

**Balance Sheet Abstract (Rs m)**

Y/e June	2011	2012*	2013E	2014E
Shareholder's Funds	19,862	27,339	40,154	51,493
Total Debt	18,822	17,042	15,242	13,442
Other Liabilities	3,572	3,697	3,897	4,097
<b>Total Liabilities</b>	<b>42,256</b>	<b>48,079</b>	<b>59,293</b>	<b>69,032</b>
Net Fixed Assets	21,949	17,924	26,301	27,552
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	19,584	29,457	32,043	40,261
Cash & Equivalents	16,952	29,942	31,085	38,938
Other Current Assets	9,780	11,163	12,109	14,086
Current Liabilities	7,148	11,647	11,152	12,763
Other Assets	723	697	949	1,219
<b>Total Assets</b>	<b>42,256</b>	<b>48,079</b>	<b>59,293</b>	<b>69,032</b>

**Quarterly Financials (Rs m)**

Y/e June	Q2FY12	Q3FY12	Q4FY12	Q1FY13
<b>Net Revenue</b>	<b>12,586</b>	<b>13,762</b>	<b>14,553</b>	<b>13,230</b>
<b>EBITDA</b>	<b>3,320</b>	<b>3,730</b>	<b>4,812</b>	<b>3,930</b>
% of revenue	26.4	27.1	33.1	29.7
Depr. & Amortization	2,351	2,346	818	942
Net Interest	519	411	480	543
Other Income	172	774	322	300
<b>Profit before Tax</b>	<b>622</b>	<b>1,719</b>	<b>3,835</b>	<b>2,736</b>
Total Tax	30	576	320	454
<b>Profit after Tax</b>	<b>592</b>	<b>1,143</b>	<b>3,515</b>	<b>2,281</b>
<b>Adj. PAT</b>	<b>592</b>	<b>1,163</b>	<b>3,516</b>	<b>2,288</b>

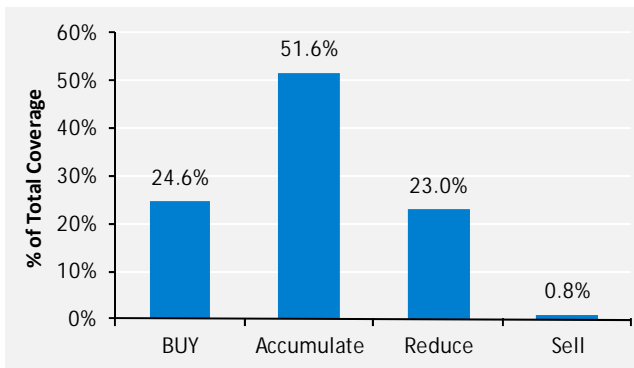
**Key Operating Metrics**

Y/e June	2011	2012*	2013E	2014E
Volume (mn te)-Cement	10.3	14.9	12.6	14.7
Volume (mn units)-Power	621.5	1,322.0	2,001.1	2,225.8
Net Realisations (Rs/te)	3,529.0	4,032.7	4,455.1	4,631.9
Realised rate (Rs/unit)	4.1	4.3	4.1	4.1
Cement EBITDA (Rs/te)	742.2	1,025.2	1,200.8	1,291.7
Raw material cost (Rs/te)	394.8	407.8	424.8	439.6
Power & Fuel cost (Rs/te)	708.2	648.2	656.4	676.6
Freight cost (Rs/te)	472.5	507.4	558.1	586.0

Source: Company Data, PL Research.

\* FY12 = 15 Months

**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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