

August 05, 2015

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Rating	Accumulate
Price	Rs11,633
Target Price	Rs12,000
Implied Upside	3.2%
Sensex	28,223
Nifty	8,568

(Prices as on August 05, 2015)

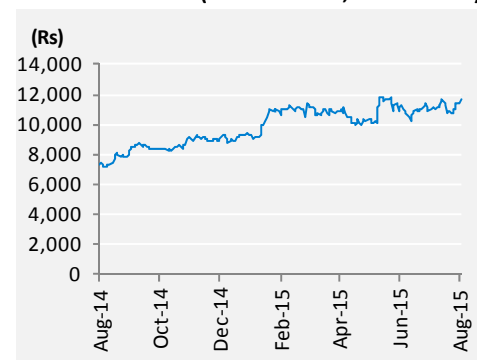
Trading data	
Market Cap. (Rs bn)	405.3
Shares o/s (m)	34.8
3M Avg. Daily value (Rs m)	407.8

Major shareholders	
Promoters	64.79%
Foreign	13.10%
Domestic Inst.	5.12%
Public & Other	16.99%

Stock Performance			
(%)	1M	6M	12M
Absolute	5.0	5.1	56.6
Relative	4.5	7.2	47.6

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2016	168.7	317.0	-46.8
2017	487.1	472.4	3.1

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



Source: Bloomberg

Shree Cement (SRCEM) reported Q4FY15 earnings ahead of our expectation on the back of better-than-expected cement realisations and higher volumes in power business. We maintain our positive outlook on SRCEM, given its highly efficient operations, quality management and strong growth potential. However, potential upside remains scanty at the current level due to rich valuations. Given the low return potential and expensive valuations, we maintain 'Accumulate' with PT of Rs12,000.

■ **Strong show in the current environment with EBITDA/t at Rs670:** Thanks to new capacity in the East and higher volumes in the North, volumes grew 17% YoY at 4.3m (PL: 4.5m) tonnes (t). While, realisations fell 13% YoY/Rs519 per tonne at Rs3,476, above our estimate of Rs3,407. Lower power & fuel cost helped SRCEM to reduce costs by 0.7% YoY or Rs19 per tonne to Rs2,806 (PL: Rs2,780). However, reduction is insignificant compared to fall in realisations. Hence, EBITDA/t fell 43% YoY to Rs670 (PL: Rs627). Aided by volume growth, SRCEM managed to limit the decline to 33% with EBITDA at Rs2.9bn (PL: Rs2.8bn).

■ **Earnings in Power business at eight-quarter high:** Volumes rose 15% YoY at 572m (PL: 520m) units. Realisations rose 6.3% YoY (+6.6% QoQ) at Rs3.6/unit, in line with our estimate. Cost/unit fell 26%/Rs0.87 at Rs2.5, better than our estimate of Rs2.6. Thanks to lower costs, higher scale and improved realisations, EBITDA came at Rs606m (PL:Rs520m) against loss of Rs10m in Q4FY14.

■ **Valuation and Outlook:** We expect SRCEM's EBITDA to grow at CAGR of ~36% in FY15-FY17 on the back of strong volume growth and bottomed-out margins. Sizeable capacity base of 26m tonnes, strong balance sheet and quality operations would sustain premium valuations for the stock. However, upside potential in stock price would be limited from the current levels due to rich valuations.

Key financials (Y/e June)	2014	2015	2016E	2017E
Revenues (Rs m)	58,759	64,399	77,332	94,827
Growth (%)	5.5	9.6	20.1	22.6
EBITDA (Rs m)	13,674	13,302	17,929	24,656
PAT (Rs m)	7,718	4,451	5,877	16,971
EPS (Rs)	221.5	127.8	168.7	487.1
Growth (%)	(23.2)	(42.3)	32.0	188.8
Net DPS (Rs)	22.0	24.0	28.0	28.0

Profitability & Valuation	2014	2015	2016E	2017E
EBITDA margin (%)	23.3	20.7	23.2	26.0
RoE (%)	18.0	9.0	10.4	23.9
RoCE (%)	13.9	7.5	9.0	21.0
EV / EBITDA (x)	28.8	29.8	21.7	15.1
EV / Tonne (\$)	328.0	323.5	232.1	189.4
PE (x)	52.5	91.0	69.0	23.9
P / BV (x)	8.6	7.8	6.7	5.0
Net dividend yield (%)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

Exhibit 1: Q4FY15 Result Overview (Rs m)

Y/e June	Q4FY15	Q4FY14	YoY gr. (%)	Q3FY15	FY15	FY14	YoY gr. (%)
Net Sales	17,194	16,514	4.1	15,733	64,399	58,759	(8.8)
Raw Material	1,239	1,492	(16.9)	1,216	5,004	4,475	11.8
<i>% of Net Sales</i>	<i>7.2</i>	<i>9.0</i>		<i>7.7</i>	<i>7.8</i>	<i>7.6</i>	
Staff Costs	1,190	1,014	17.4	1,138	4,550	3,953	15.1
<i>% of Net Sales</i>	<i>6.9</i>	<i>6.1</i>		<i>7.2</i>	<i>7.1</i>	<i>6.7</i>	
Power & Fuel	4,157	3,842	8.2	3,553	15,798	13,787	14.6
<i>% of Net Sales</i>	<i>24.2</i>	<i>23.3</i>		<i>22.6</i>	<i>24.5</i>	<i>23.5</i>	
Freight and selling expenses	4,011	3,177	26.3	3,517	13,955	11,905	17.2
<i>% of Net Sales</i>	<i>23.3</i>	<i>19.2</i>		<i>22.4</i>	<i>21.7</i>	<i>20.3</i>	
Other Expenses	3,081	2,655	16.1	2,935	11,790	10,855	8.6
<i>% of Net Sales</i>	<i>17.9</i>	<i>16.1</i>		<i>18.7</i>	<i>18.3</i>	<i>18.5</i>	
Total Expenditure	13,678	12,179	12.3	12,358	51,097	44,975	13.6
EBITDA	3,516	4,335	(18.9)	3,375	13,302	13,784	(3.5)
<i>Margin (%)</i>	<i>20.4</i>	<i>26.2</i>		<i>21.5</i>	<i>20.7</i>	<i>23.5</i>	
Depreciation	2,383	1,538	54.9	2,629	9,248	5,499	68.2
Other income	444	568	(21.8)	535	1,515	1,964	(22.8)
EBIT	1,578	3,365	(53.1)	1,281	5,569	10,249	(45.7)
Interest	264	308	(14.3)	270	1,206	1,292	(6.6)
PBT	1,314	3,057	(57.0)	1,010	4,363	8,957	(51.3)
Extraordinary income/(expense)	(240)	(20)		(40)	(355)	(805)	(56.0)
PBT (After EO)	1,074	3,037	(64.6)	971	4,008	8,152	(50.8)
Tax	33	267	(87.7)	(226)	(255)	279	(191.4)
<i>% PBT</i>	<i>3.1</i>	<i>8.8</i>		<i>(23.3)</i>	<i>(6.4)</i>	<i>3.4</i>	
Reported PAT	1,041	2,770	(62.4)	1,197	4,263	7,872	(45.8)
Adjusted PAT	1,281	2,515	(49.1)	1,237	4,451	7,718	(42.3)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e June	Q4FY15	Q4FY14	YoY gr. (%)	Q3FY15	FY15	FY14	YoY gr. (%)
Volume (m te)-Cement	4.3	3.7	16.9	4.1	16.2	14.3	13.4
Volume (m units)-Power	572	498	14.9	334	1,885	1,860	1.4
Net Realisations (Rs/te)	3,476	3,994	(13.0)	3,537	3,548	3,672	(3.4)
Realised rate (Rs/unit)	3.57	3.36	6.3	3.35	3.68	3.43	7.1
Cement EBITDA (Rs m)	2,910	4,345	(33.0)	3,255	12,056	13,124	(8.1)
Power EBITDA (Rs m)	606	(10)	NA	120	1,246	660	88.7
Cement EBITDA/ te (Rs/te)	670	1,169	(42.7)	788	746	921	(19.0)
Power EBITDA/Kwh (Rs)	1.06	(0.02)	NA	0.36	0.66	0.35	86.2

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e June	2014	2015	2016E	2017E
Net Revenue	58,759	64,399	77,332	94,827
Raw Material Expenses	7,565	5,004	10,933	12,947
Gross Profit	51,194	59,395	66,398	81,880
Employee Cost	3,953	4,550	5,182	5,960
Other Expenses	33,567	41,543	43,287	51,265
EBITDA	13,674	13,302	17,929	24,656
Depr. & Amortization	5,499	9,248	11,774	6,521
Net Interest	1,022	1,206	1,453	988
Other Income	999	1,161	2,320	3,129
Profit before Tax	8,152	4,008	7,021	20,276
Total Tax	279	(255)	1,144	3,305
Profit after Tax	7,872	4,263	5,877	16,971
Ex-Od items / Min. Int.	(805)	(355)	—	—
Adj. PAT	7,718	4,451	5,877	16,971
Avg. Shares O/S (m)	34.8	34.8	34.8	34.8
EPS (Rs.)	221.5	127.8	168.7	487.1

Cash Flow Abstract (Rs m)

Y/e June	2014	2015	2016E	2017E
C/F from Operations	14,004	12,940	15,295	20,049
C/F from Investing	(12,079)	(16,986)	(8,080)	(3,771)
C/F from Financing	(1,555)	3,480	(4,806)	(7,897)
Inc. / Dec. in Cash	371	(565)	2,409	8,381
Opening Cash	4,674	4,784	4,219	6,628
Closing Cash	4,784	4,219	6,628	15,009
FCFF	3,001	(7,504)	9,539	5,792
FCFE	2,118	(4,504)	4,539	(2,208)

Key Financial Metrics

Y/e June	2014	2015	2016E	2017E
Growth				
Revenue (%)	5.5	9.6	20.1	22.6
EBITDA (%)	(8.9)	(2.7)	34.8	37.5
PAT (%)	(23.2)	(42.3)	32.0	188.8
EPS (%)	(23.2)	(42.3)	32.0	188.8
Profitability				
EBITDA Margin (%)	23.3	20.7	23.2	26.0
PAT Margin (%)	13.1	6.9	7.6	17.9
RoCE (%)	13.9	7.5	9.0	21.0
RoE (%)	18.0	9.0	10.4	23.9

Balance Sheet

Net Debt : Equity	(0.3)	(0.2)	(0.3)	(0.4)
Net Wrkng Cap. (days)	97	(20)	8	14

Valuation

PER (x)	52.5	91.0	69.0	23.9
P / B (x)	8.6	7.8	6.7	5.0
EV / EBITDA (x)	28.8	29.8	21.7	15.1
EV / Sales (x)	6.7	6.2	5.0	3.9

Earnings Quality

Eff. Tax Rate	3.4	(6.4)	16.3	16.3
Other Inc / PBT	20.1	34.7	33.0	15.4
Eff. Depr. Rate (%)	8.0	10.2	12.3	5.9
FCFE / PAT	27.4	(101.2)	77.2	(13.0)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e June	2014	2015	2016E	2017E
Shareholder's Funds	47,109	51,969	60,748	81,002
Total Debt	11,999	14,999	9,999	1,999
Other Liabilities	6,529	6,748	6,968	7,188
Total Liabilities	65,636	73,716	77,714	90,188
Net Fixed Assets	32,947	42,004	40,629	41,009
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	31,261	30,116	35,138	46,219
Cash & Equivalents	24,037	23,471	25,880	34,262
Other Current Assets	14,875	14,721	18,418	22,296
Current Liabilities	7,651	8,076	9,161	10,339
Other Assets	1,429	1,596	1,947	2,961
Total Assets	65,636	73,716	77,714	90,188

Quarterly Financials (Rs m)

Y/e June	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Net Revenue	16,053	15,419	15,733	17,194
EBITDA	3,376	3,035	3,375	3,516
% of revenue	21.0	19.7	21.5	20.4
Depr. & Amortization	2,227	2,009	2,629	2,383
Net Interest	350	323	270	264
Other Income	309	227	535	444
Profit before Tax	1,041	922	971	1,074
Total Tax	(47)	(15)	(226)	33
Profit after Tax	1,088	937	1,197	1,041
Adj. PAT	1,155	945	1,237	1,281

Key Operating Metrics

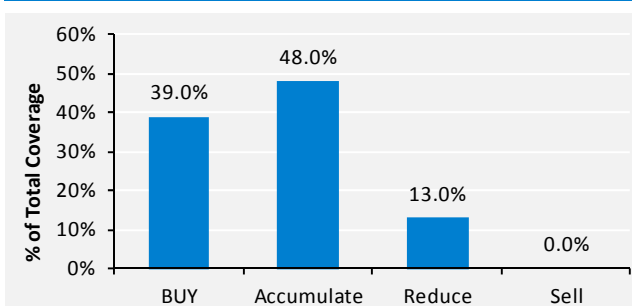
Y/e June	2014	2015	2016E	2017E
Volume (mn te)-Cement	14.3	16.2	18.3	21.5
Volume (mn units)-Power	1,859.7	1,885.1	2,200.3	2,257.2
Net Realisations (Rs/te)	3,671.7	3,547.8	3,794.8	4,022.5
Realised rate (Rs/unit)	3.5	3.7	3.6	3.7
Cement EBITDA (Rs/te)	920.8	746.0	902.8	1,078.1
Raw material cost (Rs/te)	0.4	340.9	352.8	371.3
Power & Fuel cost (Rs/te)	556.6	609.0	581.2	610.2
Freight cost (Rs/te)	607.5	625.7	644.5	676.7

Source: Company Data, PL Research.

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