

November 07, 2016

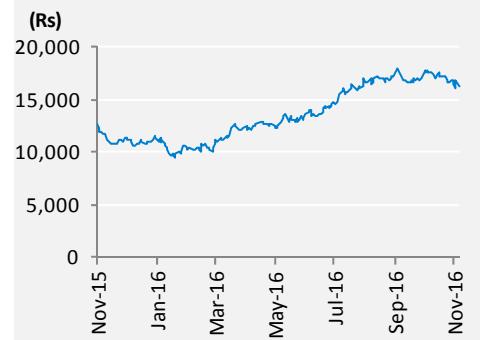
Kamlesh Bagmar  
kamleshbagmar@plindia.com  
+91-22-66322237

Rating	<b>Accumulate</b>
Price	Rs16,348
Target Price	Rs17,500
Implied Upside	7.0%
Sensex	27,459
Nifty	8,497

(Prices as on November 07, 2016)

Trading data			
Market Cap. (Rs bn)	569.5		
Shares o/s (m)	34.8		
3M Avg. Daily value (Rs m)	229.1		
Major shareholders			
Promoters	64.79%		
Foreign	13.10%		
Domestic Inst.	5.12%		
Public & Other	16.99%		
Stock Performance			
(%)	1M	6M	12M
Absolute	(7.3)	29.4	36.3
Relative	(5.2)	20.6	31.7
How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2017	342.0	465.8	-26.6
2018	468.2	593.0	-21.0

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



Source: Bloomberg

**Shree Cement (SRCM) reported Q2FY17 earnings in line with our estimates. Unlike its peers, SRCM delivered both on volumes and margins. It posted 9% growth in volumes with highest in the industry EBITDA/t of Rs1300 (without including the sales tax incentives). We reiterate our positive outlook on SRCM, given its highly efficient operations and strong earnings growth potential (driven by 15% volumes growth and EBITDA/t of Rs1150). We maintain 'Accumulate' with PT of Rs17500, EV/EBITDA of 16x FY18E.**

- **Exploited the benefit of strong prices and low costs to the fullest extent:** Volumes grew 9% YoY at 4.6m tonnes (PLe: 4.5 mt) aided by higher volumes from East. Realisations rose 9%/Rs342 YoY (+3%/Rs114 QoQ) at Rs3,970 (PLe:Rs3970). Thanks to fall in pet coke prices, Costs/t fell 1.8% YoY at Rs2,668 (PLe:Rs2650). Aided by volume growth and higher margins, Cement EBITDA grew 56% YoY at Rs5.9bn (PLe:Rs6.0bn).
- **Lower fuel cost drove the growth in Power EBITDA:** Volumes remained flat YoY at 538m (PLe: 550m) units. While, realisations fell 0.6% YoY (↑6% QoQ) at Rs3.6/unit, above our estimate of Rs3.3. Cost/unit fell 4%/Rs0.1 at Rs2.4 (PLe:Rs2.2) on the back of lower fuel costs. Hence, EBITDA grew 8% YoY at Rs622m (PLe:Rs605m). Total EBITDA (Cement + Power) grew 50% YoY at Rs6.6bn (excluding incentives of Rs451m), in line with our estimates.
- **On track to become 40mtpa (current 27mtpa) player by FY19:** SRCM is aggressively expanding capacity by 5m tonnes in Bihar, one of the most profitable and growing market in the eastern region. It is also adding 2m tonnes of split grinding capacity in Suratgarh (Rajasthan) to maintain its market leadership in Northern region. Work is on advanced stage at its 4m tonnes Greenfield plant in Karnataka, backed by one of the best logistics and improved demand outlook.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	64,399	55,677	87,816	101,016
Growth (%)	9.6	(13.5)	57.7	15.0
EBITDA (Rs m)	13,127	13,188	27,377	32,231
PAT (Rs m)	4,451	4,019	11,916	16,312
EPS (Rs)	127.8	115.4	342.0	468.2
Growth (%)	(42.3)	(9.7)	196.5	36.9
Net DPS (Rs)	24.0	24.0	34.0	38.0

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	20.4	23.7	31.2	31.9
RoE (%)	8.9	7.0	17.8	20.5
RoCE (%)	7.6	6.0	15.2	18.3
EV / EBITDA (x)	42.6	41.8	19.7	16.4
EV / Tonne (\$)	441.9	319.1	293.6	21,524.4
PE (x)	128.0	141.7	47.8	34.9
P / BV (x)	10.8	9.2	7.9	6.5
Net dividend yield (%)	0.1	0.1	0.2	0.2

Source: Company Data; PL Research

## Exhibit 1: Q2FY17 Result Overview (Rs m)

Y/e June	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
<b>Net Sales</b>	<b>20,068</b>	<b>17,119</b>	<b>17.2</b>	<b>21,987</b>	<b>42,055</b>	<b>34,313</b>	<b>22.6</b>
Raw Material	881	1,256	(29.8)	1,782	2,663	2,495	6.7
% of Net Sales	4.4	7.3		8.1	6.3	7.3	
Staff Costs	1,377	1,228	12.1	1,331	2,708	2,418	12.0
% of Net Sales	6.9	7.2		6.1	6.4	7.0	
Power & Fuel	3,573	3,722	(4.0)	3,279	6,851	7,879	(13.0)
% of Net Sales	17.8	21.7		14.9	16.3	23.0	
Freight and selling expenses	4,066	3,468	17.3	4,402	8,468	7,479	13.2
% of Net Sales	20.3	20.3		20.0	20.1	21.8	
Other Expenses	3,609	3,283	9.9	3,885	7,494	6,364	17.8
% of Net Sales	18.0	19.2		17.7	17.8	18.5	
Total Expenditure	13,506	12,956	4.2	14,678	28,184	26,634	5.8
<b>EBITDA</b>	<b>6,563</b>	<b>4,163</b>	<b>57.7</b>	<b>7,308</b>	<b>13,871</b>	<b>7,679</b>	<b>80.6</b>
Margin (%)	32.7	24.3		33.2	33.0	22.4	
Depreciation	4,322	2,448	76.6	1,540	5,862	4,831	21.4
Other income	1,233	958	28.7	979	2,212	1,402	57.8
<b>EBIT</b>	<b>3,473</b>	<b>2,673</b>	<b>30.0</b>	<b>6,746</b>	<b>10,220</b>	<b>4,250</b>	<b>140.5</b>
Interest	293	235	25.0	276	569	498	14.2
<b>PBT</b>	<b>3,180</b>	<b>2,438</b>	<b>30.4</b>	<b>6,471</b>	<b>9,650</b>	<b>3,752</b>	<b>157.2</b>
Extraordinary income/(expense)	-	-		-	-	(240)	
<b>PBT (After EO)</b>	<b>3,180</b>	<b>2,438</b>	<b>30.4</b>	<b>6,471</b>	<b>9,650</b>	<b>3,512</b>	<b>174.8</b>
Tax	265	(26)	NA	1,394	1,659	7	NA
% PBT	8.3	(1.1)		21.5	17.2	0.2	
<b>Reported PAT</b>	<b>2,915</b>	<b>2,464</b>	<b>18.3</b>	<b>5,077</b>	<b>7,992</b>	<b>3,505</b>	<b>128.0</b>
<b>Adjusted PAT</b>	<b>2,915</b>	<b>2,464</b>	<b>18.3</b>	<b>5,077</b>	<b>7,992</b>	<b>3,745</b>	<b>113.4</b>

Source: Company Data, PL Research

## Exhibit 2: Operating Metrics

Y/e June	Q2FY17	Q2FY16	YoY gr. (%)	Q1FY17	H1FY17	H1FY16	YoY gr. (%)
Volume (m te)-Cement	4.6	4.2	9.1	5.2	9.7	8.5	14.1
Volume (m units)-Power	538	539	(0.2)	608	1,145	1,111	3.1
Net Realisations (Rs/te)	3,969	3,626	9.4	3,855	3,909	3,550	10.1
Realised rate (Rs/unit)	3.55	3.57	(0.6)	3.36	3.50	3.63	(3.6)
Cement EBITDA (Rs m)	5,941	3,585	65.7	6,524	12,465	6,495	91.9
Power EBITDA (Rs m)	622	578	7.6	784	1,406	1,184	18.7
Cement EBITDA/ te (Rs/te)	1,301	857	51.9	1,262	1,281	761	68.2
Power EBITDA/Kwh (Rs)	1.16	1.07	7.8	1.29	1.23	1.07	15.2

Source: Company Data, PL Research

## Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
<b>Net Revenue</b>	<b>64,399</b>	<b>55,677</b>	<b>87,816</b>	<b>101,016</b>
Raw Material Expenses	9,105	7,936	10,986	12,870
Gross Profit	55,294	47,742	76,830	88,146
Employee Cost	4,550	3,645	5,444	6,097
Other Expenses	37,617	30,909	44,009	49,818
<b>EBITDA</b>	<b>13,127</b>	<b>13,188</b>	<b>27,377</b>	<b>32,231</b>
Depr. & Amortization	9,248	9,084	14,350	14,189
Net Interest	1,032	736	1,209	1,101
Other Income	1,161	1,178	3,322	3,786
<b>Profit before Tax</b>	<b>4,008</b>	<b>4,545</b>	<b>15,141</b>	<b>20,727</b>
Total Tax	(255)	(4)	3,225	4,415
<b>Profit after Tax</b>	<b>4,263</b>	<b>4,549</b>	<b>11,916</b>	<b>16,312</b>
Ex-Od items / Min. Int.	(355)	(23)	—	—
Adj. PAT	4,451	4,019	11,916	16,312
Avg. Shares O/S (m)	34.8	34.8	34.8	34.8
<b>EPS (Rs.)</b>	<b>127.8</b>	<b>115.4</b>	<b>342.0</b>	<b>468.2</b>

## Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	12,386	10,330	25,723	28,469
C/F from Investing	(9,709)	(12,214)	(12,144)	(13,380)
C/F from Financing	(2,586)	2,485	(4,390)	(5,761)
Inc. / Dec. in Cash	92	601	9,189	9,328
Opening Cash	4,784	4,683	4,875	14,064
Closing Cash	4,683	4,875	14,064	23,392
FCFF	(6,948)	254	15,648	27,550
FCFE	(9,780)	(282)	12,648	24,550

## Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
<b>Growth</b>				
Revenue (%)	9.6	(13.5)	57.7	15.0
EBITDA (%)	(4.0)	0.5	107.6	17.7
PAT (%)	(42.3)	(9.7)	196.5	36.9
EPS (%)	(42.3)	(9.7)	196.5	36.9
<b>Profitability</b>				
EBITDA Margin (%)	20.4	23.7	31.2	31.9
PAT Margin (%)	6.9	7.2	13.6	16.1
RoCE (%)	7.6	6.0	15.2	18.3
RoE (%)	8.9	7.0	17.8	20.5
<b>Balance Sheet</b>				
Net Debt : Equity	(0.2)	(0.3)	(0.4)	(0.5)
Net Wrkng Cap. (days)	49	24	(6)	2
<b>Valuation</b>				
PER (x)	128.0	141.7	47.8	34.9
P / B (x)	10.8	9.2	7.9	6.5
EV / EBITDA (x)	42.6	41.8	19.7	16.4
EV / Sales (x)	8.7	9.9	6.1	5.2
<b>Earnings Quality</b>				
Eff. Tax Rate	(6.4)	(0.1)	21.3	21.3
Other Inc / PBT	34.7	26.3	21.9	18.3
Eff. Depr. Rate (%)	10.7	9.5	13.3	13.0
FCFE / PAT	(219.7)	(7.0)	106.1	150.5

Source: Company Data, PL Research.

## Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	52,764	61,802	72,328	87,088
Total Debt	9,166	8,630	5,630	2,630
Other Liabilities	8,523	9,150	9,380	9,610
<b>Total Liabilities</b>	<b>70,454</b>	<b>79,582</b>	<b>87,338</b>	<b>99,328</b>
Net Fixed Assets	38,350	36,642	36,192	37,403
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	30,152	40,307	48,513	59,291
<i>Cash &amp; Equivalents</i>	<i>19,701</i>	<i>26,492</i>	<i>35,681</i>	<i>45,009</i>
<i>Other Current Assets</i>	<i>19,976</i>	<i>22,122</i>	<i>21,870</i>	<i>24,211</i>
<i>Current Liabilities</i>	<i>9,525</i>	<i>8,308</i>	<i>9,039</i>	<i>9,929</i>
Other Assets	1,952	2,634	2,634	2,634
<b>Total Assets</b>	<b>70,454</b>	<b>79,582</b>	<b>87,338</b>	<b>99,328</b>

## Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
<b>Net Revenue</b>	<b>18,268</b>	<b>20,174</b>	<b>21,987</b>	<b>20,068</b>
<b>EBITDA</b>	<b>4,240</b>	<b>5,050</b>	<b>7,308</b>	<b>6,563</b>
<i>% of revenue</i>	23.2	25.0	33.2	32.7
Depr. & Amortization	3,042	3,338	1,540	4,322
Net Interest	233	286	276	293
Other Income	236	755	979	472
<b>Profit before Tax</b>	<b>1,199</b>	<b>2,181</b>	<b>6,471</b>	<b>2,419</b>
Total Tax	170	(53)	1,394	265
<b>Profit after Tax</b>	<b>1,029</b>	<b>2,233</b>	<b>5,077</b>	<b>2,154</b>
Adj. PAT	1,030	2,234	5,077	2,154

## Key Operating Metrics

Y/e March	2015	2016	2017E	2018E
Volume (mn te)-Cement	16.2	14.2	22.4	25.2
Volume (mn units)-Power	1,885.0	1,739.0	1,966.6	1,995.7
Net Realisations (Rs/te)	3,547.6	3,491.1	3,625.9	3,734.7
Realised rate (Rs/unit)	3.7	3.4	3.4	3.4
Cement EBITDA (Rs/te)	735.1	785.5	1,136.9	1,205.2
Raw material cost (Rs/te)	364.0	333.7	320.2	340.6
Power & Fuel cost (Rs/te)	610.9	516.7	513.1	498.9
Freight cost (Rs/te)	608.8	573.4	556.2	572.9

Source: Company Data, PL Research.

**Prabhudas Lilladher Pvt. Ltd.**

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage		PL's Recommendation Nomenclature
25.6%	59.0%	BUY
15.4%	0.0%	Accumulate
		Reduce
		Sell

**DISCLAIMER/DISCLOSURES****ANALYST CERTIFICATION**

We/I, Mr. Kamlesh Bagmar (CA), Mr. Ankit Shah (BE, MBA, CFA (US)), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**Terms & conditions and other disclosures:**

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com)

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Kamlesh Bagmar (CA), Mr. Ankit Shah (BE, MBA, CFA (US)), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

**DISCLAIMER/DISCLOSURES (FOR US CLIENTS)****ANALYST CERTIFICATION**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report

**Terms & conditions and other disclosures:**

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.