

Melody from higher realization

Q3FY12 Result Update

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Q3FY12 Operational Highlights

Net sales growth of 61% yoy was led by blended realization

Shree Cement Ltd (SCL) registered revenue growth of 61% yoy. Cement revenue grew 45% yoy, which was led by 9% yoy (14% QoQ) increase in cement (incl. clinker) volumes and 33% yoy (11% QoQ) increase in blended realizations. Power segment also boosted the topline by reporting growth of 429% yoy on account of merchant sales and power traded. Merchant power sales during the quarter were 256mn units at Rs 4.35 vs 74mn units at Rs 4.5 in Q3FY11.

Higher realization to offset increase in cost

Operating cost/t surged by 26% yoy (11% QoQ) to Rs 2889 as both fixed and variable costs continue to rise. Despite 26% yoy rise in cost/t, the Company was able to outpace the EBITDA growth by 63% yoy (Rs 905/t) thanks to better realizations in SCL's core Rajasthan and NCR markets.

Recent Coal India's move: positive for SCL

Recently, Coal India's move to price its coal on gross calorific value methods, which would raise the local cement players' fuel cost by 30%, but SCL is insulated to any such hike in fuel cost as it has no coal linkage with Coal India, nor it depends on local coal to meet its fuel requirement. In this scenario, we believe, the cost push pricing that the industry would undertake in near term would positively impact profitability.

Change in estimates

We have increased our cement volume estimates further by 2% and realizations by 5% for FY12E. We have also lowered power & fuel cost as pet coke prices have fallen by 15-20% during the quarter. Rupee appreciation remains upside risk to our estimations.

(₹ mn)	Old Estimates		New Estimates	
	FY12E	FY13E	FY12E	FY13E
Sales	4126.4	5086.8	4310.4	5160.6
Growth (%)	17.5	23.3	22.7	19.7
PAT	153	417.4	206.2	410.0
OPM (%)	23.3	23.8	25.8	26.6
NPM (%)	3.7	8.2	4.8	7.9

Source: Company, Networth Research

Rating	Buy
Target Price	₹ 2608
CMP	₹ 2210
Upside	18%
Sensex	16995

Key Data	
Bloomberg Code	SRCM IN
Reuters Code	SHCM.BO
NSE Code	SHREECEM
Current Share o/s (mn)	34.8
Diluted Share o/s (mn)	34.8
Mkt Cap (₹bn/\$mn)	77.9/1555.4
52 WK H/L (₹)	2299.7/1500
Daily Vol. (3M NSE Avg)	10482
Face Value (₹)	10
Beta	0.75
1 USD/₹	50.1

Shareholding Pattern	(%)
Promoters	64.8
FII	8.5
Others	26.7

Price Performance (%)	1M	6M	1yr
SHREECEM	6.4	17.7	28.5
NIFTY	8.8	0.6	-10.7

Source: Bloomberg; *As on 24 Jan, 2012

Valuations:

On EV/tonne basis, cement business is available at 10% discount to the replacement cost of \$110/t. On EV/EBITDA basis, SCL is trading at 6.7x and 4.7x its FY12E and FY13E EBITDA respectively. With the improved core earnings outlook, we have revised our target price to ₹ 2608 (from ₹ 2250 earlier) implying 18% upside from the CMP. We continue to value cement business at 6 x FY13E EBITDA, 25% discount to its peers and power business at 4x FY13 EBITDA, 40% discount to larger players like Tata Power and Adani Power.

Valuation Methodology	FY13E
Cement EBITDA	1221
EV/EBITDA (x)	6.0
Cement EV	7323
Power EBITDA	125
EV/EBITDA (x)	4.0
Power EV	500
Total EV of the firm	7822
Debt	1107
Cash & cash equivalents	2372
Market Value	9087
No.of shares	3.5
Target value	2,608

Financials

(₹ mn)

Income Statement (Rs in mn)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)	9mFY12	9mFY11	%
Net Sales	12585.59	7796.09	61%	8546.45	47%	31472.06	24417.47	29%
Other Operating Income	11.319	7.86	44%	14.23	-20%	26.34	-0.59	-4534%
Total Income	12596.91	7803.95	61%	8560.68	47%	31498.39	24416.87	29%
Expenditure:								
(Inc)/dec in stock in trade	-154.09	-48.8	216%	107.21	-244%	125.02	-161.09	-178%
Cost of RM	1090.11	918.58	19%	953.82	14%	3010.06	2602.62	16%
Purchase of traded goods	627.81	11.06	5576%	26.38	2280%	808.56	610.52	32%
Power & Fuel Cost	3254.45	2067.88	57%	2033.19	60%	8015.55	6103.41	31%
Freight & Selling Exp	2655.45	2015.77	32%	1919.425	38%	6805.92	5437.78	25%
Employee's Cost	638.36	479.39	33%	592.68	8%	1843.17	1448.27	27%
Other Expenses	1149.40	776.8	48%	909.57	26%	2944.62	2478.68	19%
Expenditure	9261.48	6220.68	49%	6542.28	42%	23552.90	18520.18	27%
EBIDTA	3335.43	1583.271	111%	2018.405	65%	7945.49	5896.69	35%
<i>EBIDTA Margin (%)</i>	26%	20%		24%		25%	24%	
Depreciation	2350.53	1313.63	79%	1619.22	45%	5567.37	4107.63	36%
EBIT	984.89	269.641	265%	399.185	147%	2378.13	1789.06	33%
Interest Exp	519.50	503.55	3%	468.34	11%	1463.34	1234.48	19%
Other Income	156.88	310.82	-50%	188.43	-17%	502.95	1034.76	-51%
Extraordinary Item	0.16	59.00	-100%	11.43	-99%	94.42	142.17	-34%
PBT	622.12	17.911	3373%	107.845	477%	1323.32	1447.17	-9%
Tax	30.178	-257.00	-112%	-277.07	-111%	-203.677	7.464	-2829%
PAT	591.94	274.911	115%	384.915	54%	1527.00	1439.70	6%
<i>PAT Margin (%)</i>	5%	4%		4%		5%	6%	

S.N.	Segmental results (Rs in mn)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)	9mFY12	9mFY11	%
1	Segment Revenue (Net Sales)								
	a. cement	10,812.87	7,460.93	45%	8,477.74	28%	28,459.86	22,459.67	27%
	b. Power	3,018.08	860.01	251%	862.55	250%	5,699.94	4,360.85	31%
	Total	13,830.95	8,320.93	66%	9,340.29	48%	34,159.80	26,820.51	27%
	Less: inter segment revenue	1,245.36	524.84		793.83		2,687.74	2,403.05	
	Net Sales	12,585.59	7,796.09		8,546.46		31,472.06	24,417.47	

2	Segment Results (Profit before interest & financial Expenses, Exceptional Items and Taxes)								
	a. cement	2,104.67	882.29	139%	1,230.17	71%	5,126.47	2,106.50	143%
	b. Power	-1,119.10	-611.58	83%	-830.28	35%	-2,746.38	-314.72	773%
	Total	985.57	270.71		399.90		2,380.09	1,791.78	

Per tonne analysis	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)	9mFY12	9mFY11	%
Cement volumes	2.85	2.62	9%	2.49	14%	8.03	7.39	9%
Realization	3794	2848	33%	3405	11%	3544	3039	17%
(Inc)/dec in stock in trade	-54	-19	190%	43	-226%	16	-22	-171%
Cost of RM	382	351	9%	383	0%	375	352	6%
Purchase of traded goods	220	4	5118%	11	1979%	101	83	22%
Power & Fuel Cost	781	708	10%	795	-2%	839	801	5%
Freight & Selling Exp	932	769	21%	771	21%	848	736	15%
Employee's Cost	224	183	22%	238	-6%	230	196	17%
Other Expenses	403	296	36%	365	10%	367	335	9%
Total exp	2889	2293	26%	2606	11%	2774	2481	12%
EBIDTA	905	555	63%	799	13%	770	558	38%

Financials

Income Statement

	(₹ mn)				
Y/E March	FY10	FY11	FY12E	FY13E	FY14E
Net Revenues	36321.2	35118.7	43104.4	51606.4	58576.3
Growth %	34.0	-3.3	22.7	19.7	13.5
COGS	3031.1	3891.7	5073.3	4620.2	5108.5
Gross Profit	33290.1	31227.1	38031.1	46986.2	53467.8
Growth %	35.7	-6.2	21.8	23.5	13.8
Power & Fuel Cost	6104.8	9123.2	11623.0	16154.8	17898.7
Freight Cost	6298.3	6140.6	7122.8	7871.3	9004.8
Employee Cost	1586.1	1985.4	2436.8	2917.5	3311.5
SG&A Expenses	4275.8	5121.5	5720.7	6321.9	7232.2
Core EBITDA	15025.1	8856.4	11127.7	13720.6	16020.5
Growth %	57.6	-41.1	25.6	23.3	16.8
Other Income	1283.5	1242.9	1000.5	1209.3	1274.4
EBITDA	16308.7	10099.3	12128.2	14930.0	17294.9
Depreciation	5704.3	6757.6	7427.3	8467.3	8627.3
EBIT	10604.4	3341.7	4700.9	6462.6	8667.6
Growth %	27.6	-68.5	40.7	37.5	34.1
Interest Exp	1184.6	1709.4	1765.0	1337.5	815.0
EBT	9419.8	1632.3	2935.8	5125.1	7852.6
Tax	1918.1	-993.5	398.3	1025.0	1570.5
PAT	6761.0	2097.0	2061.8	4100.1	6282.1
Growth %	17.0	-69.0	-1.7	98.9	53.2

Balance Sheet

	(₹ mn)				
Y/E March	FY10	FY11	FY12E	FY13E	FY14E
Cash and Equi.	4163.7	4608.1	7137.2	11757.5	13658.6
Receivables	824.2	1082.1	1169.9	1400.7	1589.8
Inventories	3581.3	4042.3	4345.6	5407.2	5988.2
Loans and Advances	7139.7	4431.5	4310.4	5160.6	5857.6
Other Assets	236.8	947.1	947.1	947.1	947.1
Investments	15922.4	11964.6	11964.6	11964.6	11964.6
Gross Fixed Assets	29508.6	40420.7	52420.7	53420.7	54420.7
Net Fixed Assets	7519.5	11670.6	16243.3	8775.9	1148.6
CWIP	9674.2	10278.3	2278.3	2278.3	8278.3
Application of Funds	49061.9	49024.6	48396.5	47691.9	49432.9
Accounts Payable	1714.7	1223.0	2235.4	2781.4	3080.3
Other Liabilities	2953.8	5041.2	4906.5	5874.3	6667.6
Provisions	4998.7	2819.7	2570.5	2885.3	3222.4
Deferred Tax Liabilities	0.0	0.0	0.0	0.0	0.0
Loan Funds	21062.4	20079.0	17079.0	11079.0	6079.0
Reserves and Surplus	17984.0	19513.4	21256.7	24723.5	30035.3
Equity Capital	348.4	348.4	348.4	348.4	348.4
Sources of Funds	49061.9	49024.6	48396.5	47691.9	49432.9

Cash Flow Statement

	(₹mn)				
Y/E March	FY10	FY11	FY12E	FY13E	FY14E
PAT	6761.0	2097.0	2061.8	4100.1	6282.1
Depreciation	5704.3	6757.6	7427.3	8467.3	8627.3
Changes in WC	738.5	1294.3	358.5	-313.9	-37.9
Cashflow from Operations	13203.8	10148.9	9847.6	12253.6	14871.5
Capital Expenditure	-11840.5	-11512.8	-4000.0	-1000.0	-7000.0
Investments	-7474.1	3957.8	0.0	0.0	0.0
Misc items	-20.14	-598.53	0.00	0.00	0.00
Cashflow from Investments	-19334.7	-8153.5	-4000.0	-1000.0	-7000.0
Cashflow from Financing	5572.1	-1551.0	-3318.5	-6633.3	-5970.3
Net Change in Cash	-558.9	444.3	2529.2	4620.2	1901.1

Financial Ratios

Y/E March	FY10	FY11	FY12E	FY13E	FY14E
Profitability					
Core EBITDA margins	41.4	25.2	25.8	26.6	27.3
Net Profit Margins	18.6	6.0	4.8	7.9	10.7
Return					
ROE	36.9	10.6	9.5	16.4	20.7
ROCE	26.9	8.4	12.2	17.9	23.8
Liquidity and Gearing					
Cash Conversion Cycle	52.9	75.6	63.4	50.7	53.2
Current Ratio	1.6	1.7	1.8	2.1	2.2
Debt/Equity	1.1	1.0	0.8	0.4	0.2
Interest Cover	9.0	2.0	2.7	4.8	10.6
Per Share					
FDEPS	194.1	60.2	59.2	117.7	180.3
Operating CashflowPS	379.0	291.3	282.7	351.7	426.9
BVPS	526.2	570.1	620.2	719.7	872.2
Valuation					
Price/Earning	11.3	36.5	37.3	18.8	12.3
Price/BV	4.2	3.9	3.6	3.1	2.5
EV/EBIDTA	4.7	8.9	6.7	4.7	3.6
EV/Tonne (cement)	140.3	119.8	107.2	87.9	78.4

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