



EQUITY STRATEGIST

INVESTMENT PICK

LOW RISK/HIGH RETURN

HOLDING PERIOD – 3 to 6 MONTHS

DATE 03rd June 2003

SHREE CEMENT

PRESENT PRICE – Rs.63.65

PROJECTED PRICE – Rs.80

- Shree Cement Ltd (SCL) is the least cost producer of cement in North India (including Rajasthan) owing to its efficient and integrated operations. The company's operating cost of cement, excluding freight, works out to ~Rs.950 per tonne vis-à-vis an average of ~Rs.1,200 per tonne for other players in the region.
- SCL with its 2.7m tonne capacity, enjoys significant presence in the cement market of Northern India including Rajasthan. The company has a captive power plant – first of its kind in the Indian cement industry – that runs (to a large extent) on alternative fuel. More importantly, its cement plants are the most energy efficient by international standards. As a result, it is among the least cost producers of cement in India and the least cost producer in North India with a cost advantage of Rs.250 per tonne (excluding freight) over competitors.
- SCL has the second largest market presence, next only to the Gujarat Ambuja and ACC combine, in Rajasthan and the adjoining Northern market. It is strongly positioned in Rajasthan and the adjoining Northern region, where fresh capacity addition is unlikely to come up over the next two years.

- It sources power from captive power generation facilities, which ensures uninterrupted operation of the cement plants. Power is generated through a cost effective thermal power plant (36 MW), which has the flexibility of using 100% alternative fuel. Shree also has a co-generation power plant of 4 MW.
- SCL is the only company that produces power based on alternative fuel. This is the most cost effective approach of producing power in Rajasthan as power production using coal works out to be an expensive proposition. This is because coal costs are prohibitive due to longer distance of supply and low energy content.
- **It has an equity capital of Rs.34.84 cr supported by a strong book value of Rs.63.80. We expect FY04 and FY05 EPS to be around Rs.12.50 and Rs.15 respectively which discounts the current price by just 5.09 and 4.24 times respectively. BUY FOR MEDIUM TERM. IT CAN DECLINE TO AROUND Rs.55 WHERE IT CAN BE BOUGHT.**

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