SHREE CEMENT LIMITED

May 2014

Cement Fundamentals

Cement - Fundamentals

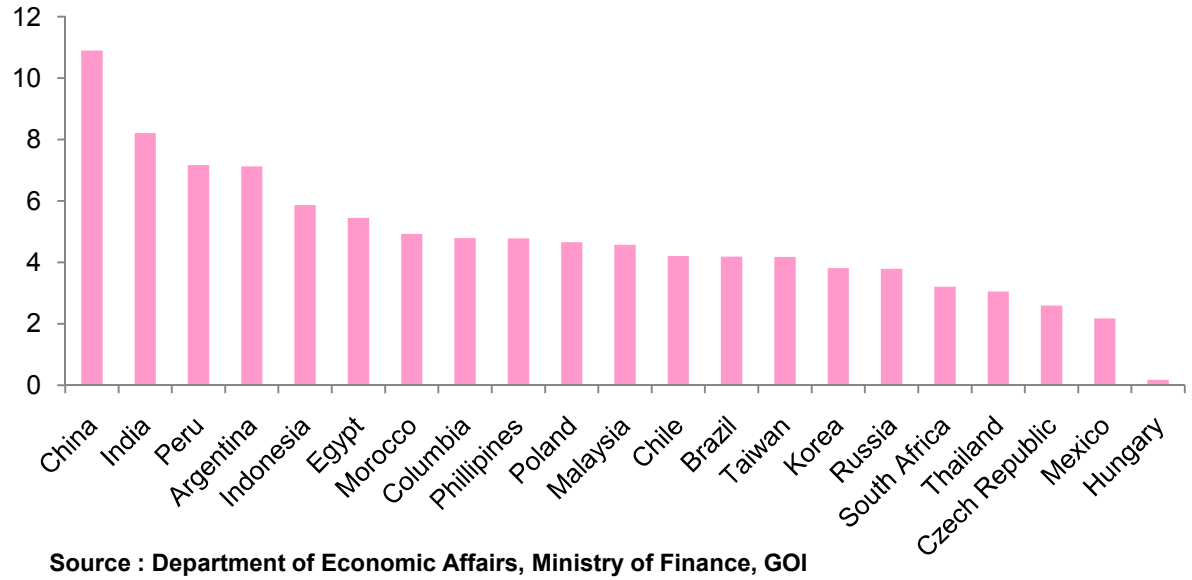
- Cement & Steel are indispensible for growth
- In India cement enjoys added advantage of “No Imports”
- Cement due to its unique attributes is “Macro Cost Insensitive”
- Cement being a commodity, its top-line is influenced largely by macro economic factors
- Cement is capital and energy intensive
- Micro cost management is the only savior

Indian Cement Industry

Indian Cement – Macro Economic Factors

- India is undergoing a systematic change from a developing Economy to a rapidly developing economy on its way to become a developed economy
- India's economy is expected to grow by around 6-7% during next 2-3 years. This makes it the world's second fastest growing economy

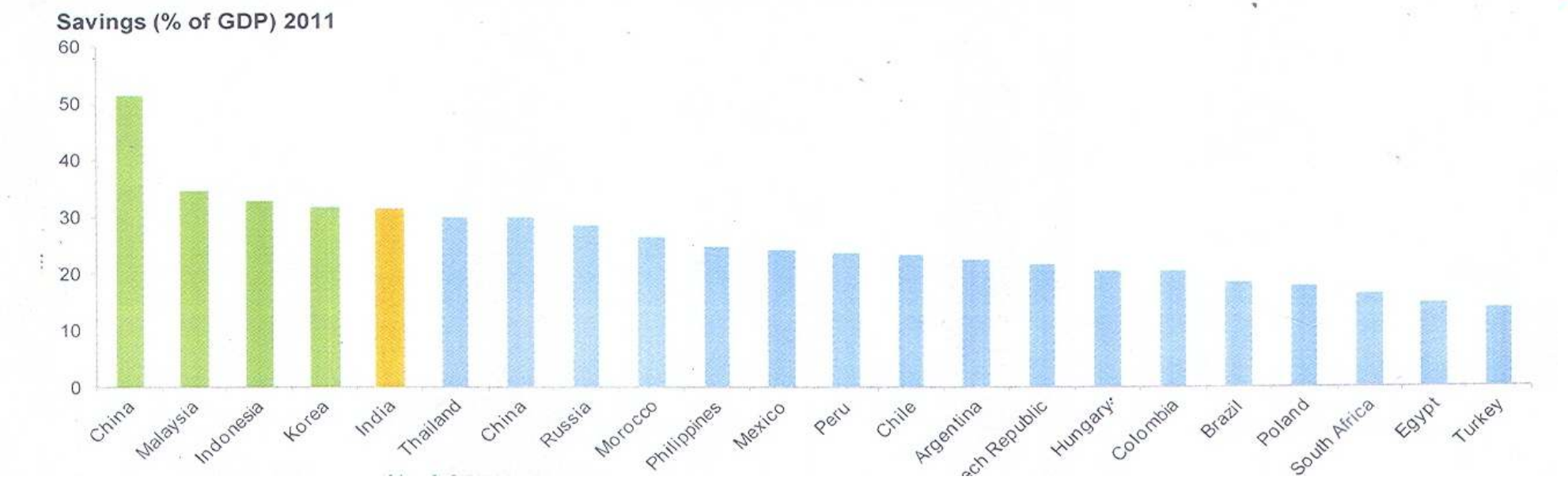
GDP Growth Rate %(2006-2011)



Source : Department of Economic Affairs, Ministry of Finance, GOI

- This shall necessarily change the economic growth attribute from "deficit" to "consumption"

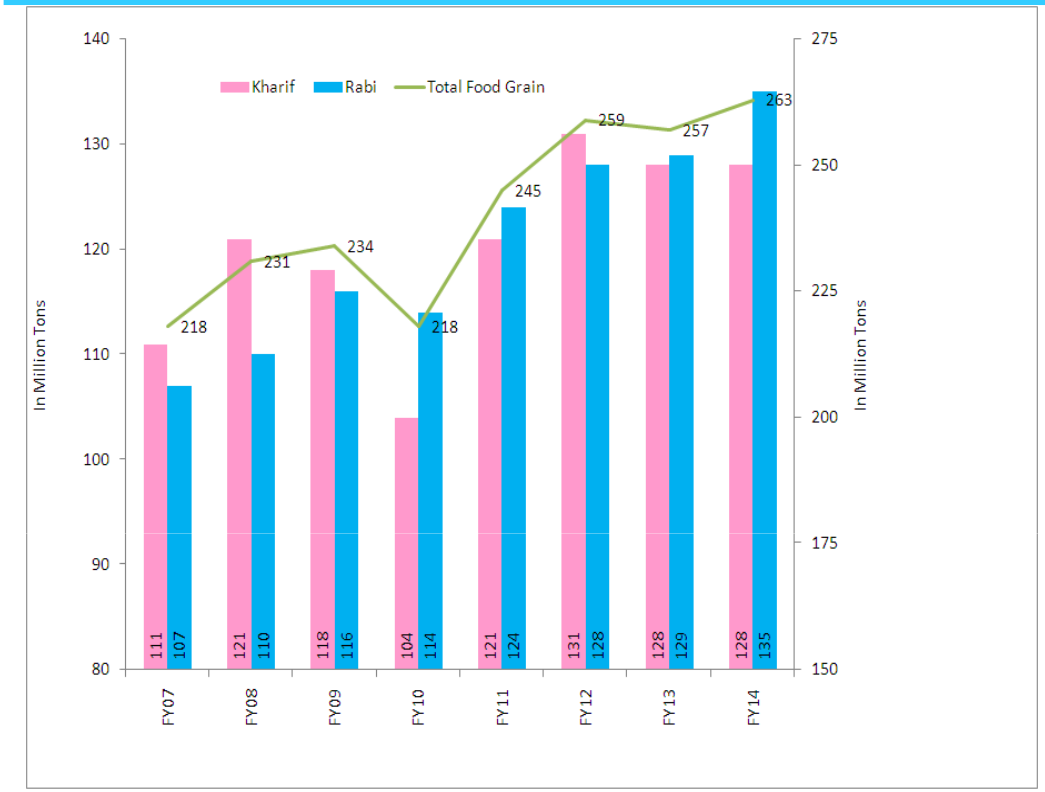
Indian Cement – Macro Economic Factors



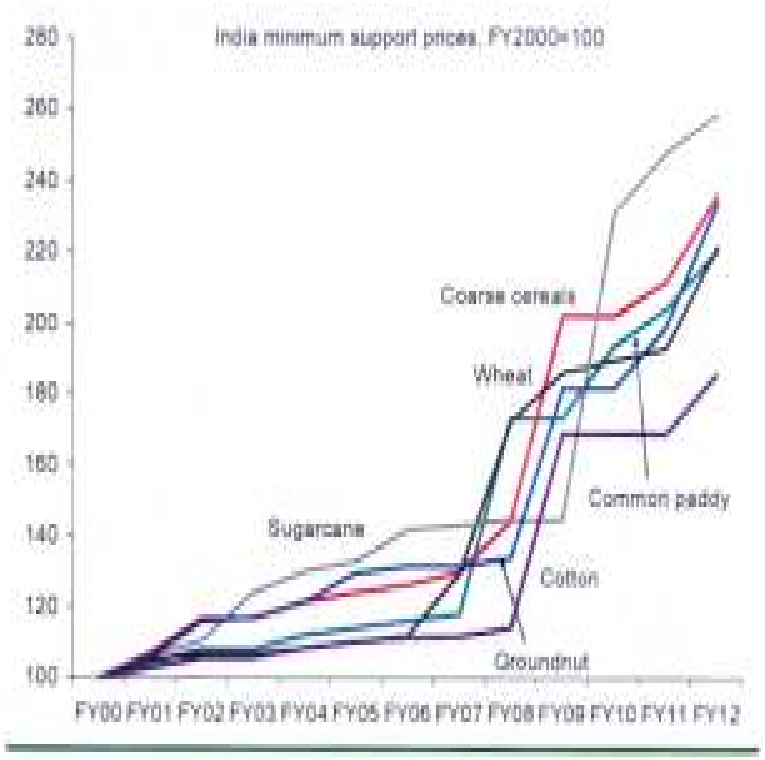
Source : Department of Economic Affairs, Ministry of Finance, GOI

- **Savings are flowing into housing which necessitates infrastructure development too**
- **The social benefit schemes like National Rural Employment Guarantee Act is also making the development process an inclusive one. The Direct Cash Transfer would further augment rural populace cash flows**
- **Housing demand is strongly emerging from all segments viz. Urban, semi-urban and rural sector**

Indian Cement – Macro Economic Factors



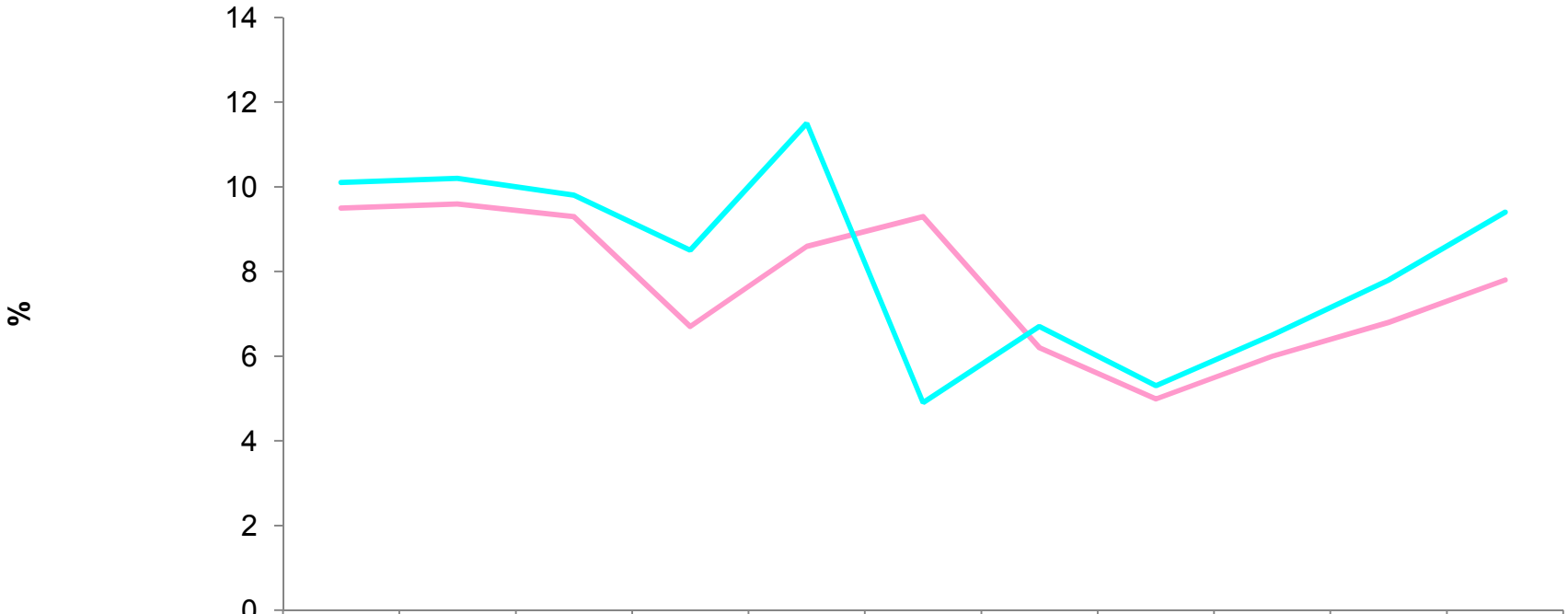
Source : Department of Agriculture & Cooperation



Source : BNP Paribas, CEIC

- Agricultural growth has remained insulated from the decreasing GDP growth rates
- There have been regular and major hike by Government for agricultural produce procurement price
- This has boosted rural and semi-urban savings

Indian Cement - Macro Economic Factors

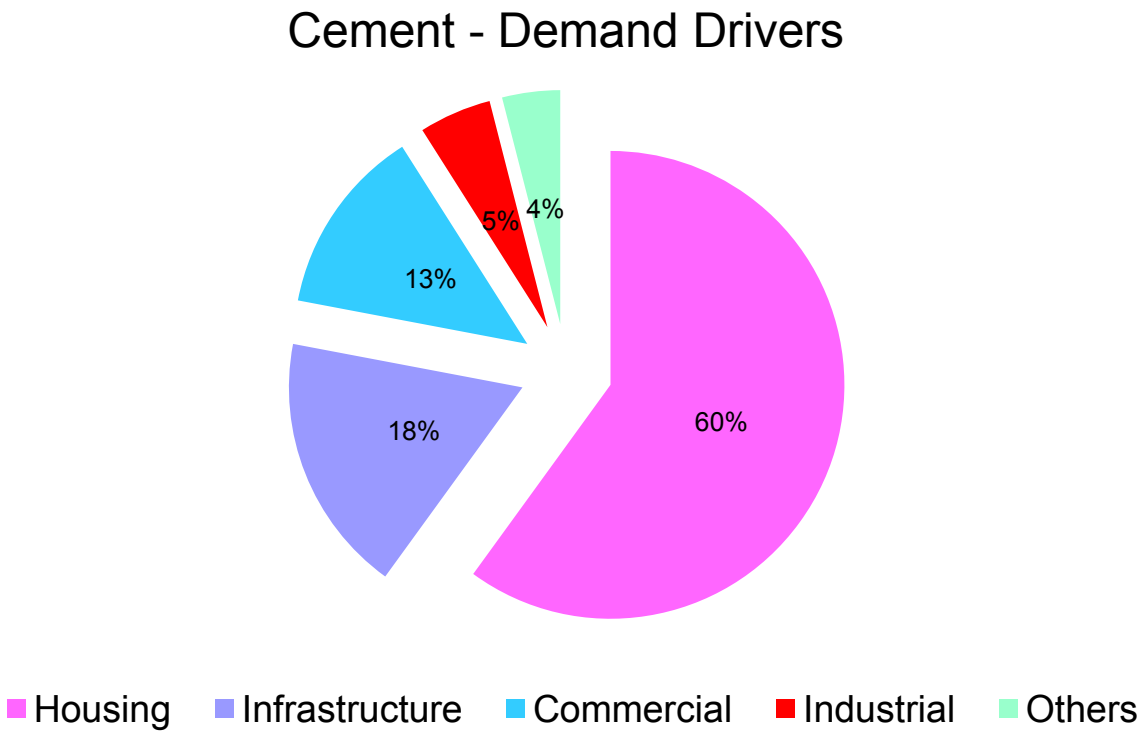


	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14(P)	FY15(P)	FY16(P)
GDP	9.5	9.6	9.3	6.7	8.6	9.3	6.2	5.0	6	6.8	7.8
Cement Demand	10.1	10.2	9.8	8.5	11.5	4.9	6.7	5.3	6.5	7.8	9.4

Source : Ministry of Statistics and Programme Implementation (Mospi) and CARE Research

- **Cement demand bears a strong co-relation with GDP Growth**
- **Past 2-3 years show de-growth mainly due to muted macros**
- **With plan expenditure focus on infrastructure development the long term average will tend to be 1.2X GDP**

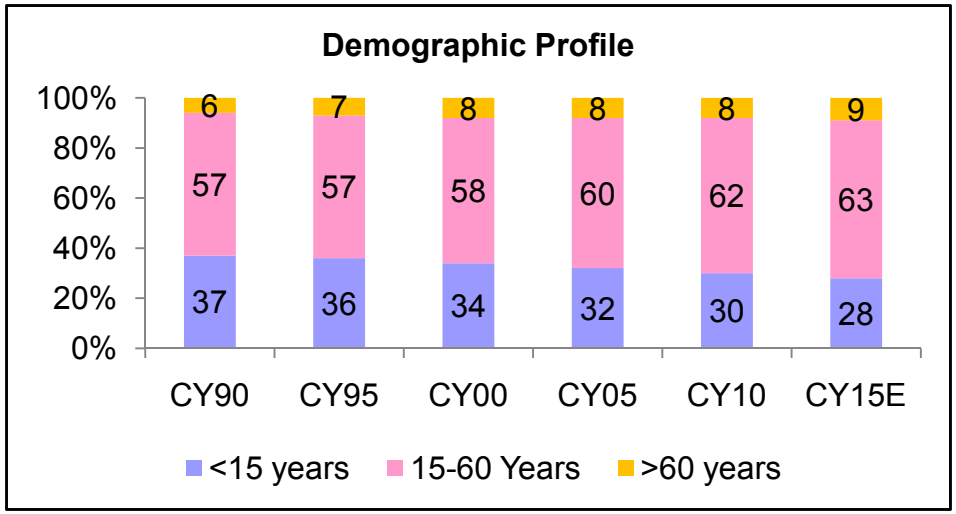
Cement – Demand Drivers



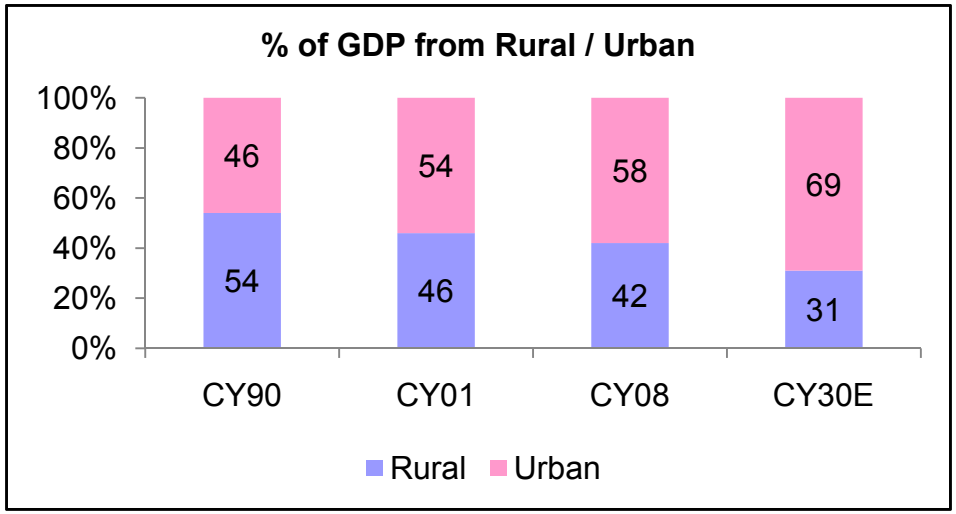
Source : CLSA Report, January 2014

- **Housing particularly rural & semi urban areas continues to be the main demand driver for cement**
- **The infrastructure spent should pick up urgently to address the macro growth needs of the economy**
- **The slower pace of infrastructure development has resulted in a capacity overhang in industry**

Demograpfic Profile – Urbanization catalyst



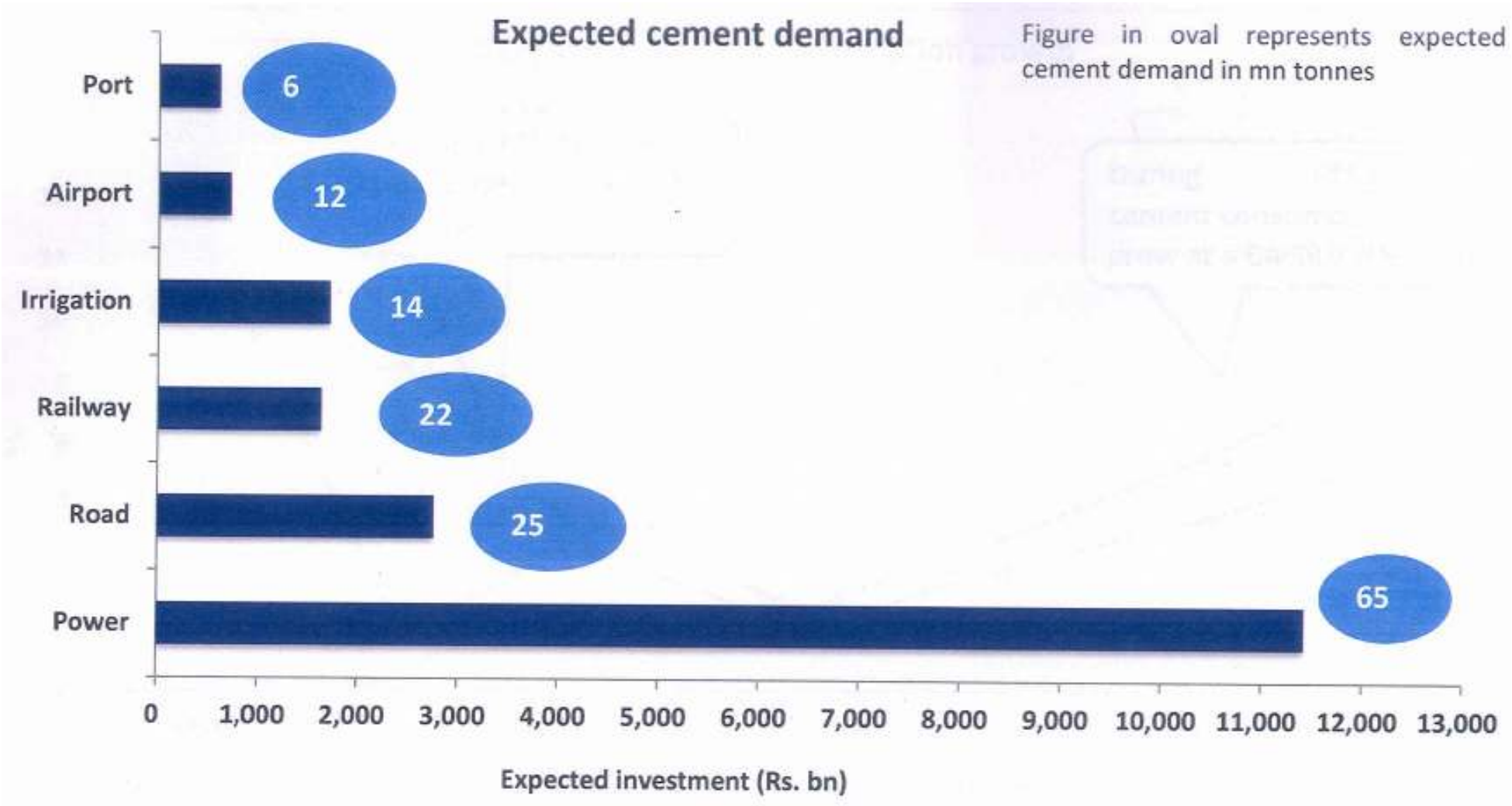
Source : Mckinsey, HDFC Sec Inst Research



Source :India Urbanisation Econometric Model, Mckinsey Global Institute , HDFC Sec Inst Research

- More than half of India's population is younger than the age of 25 years
- The entry of this group into the working population over the next few decades is expected to spur India's economic growth and consequent Urbanization
- The share of Urban area in the GDP is expected to increase significantly over next decade

Emerging Infrastructure Demand



Source : CARE Research

Cement Industry Snapshot

Source : Bernstein Research

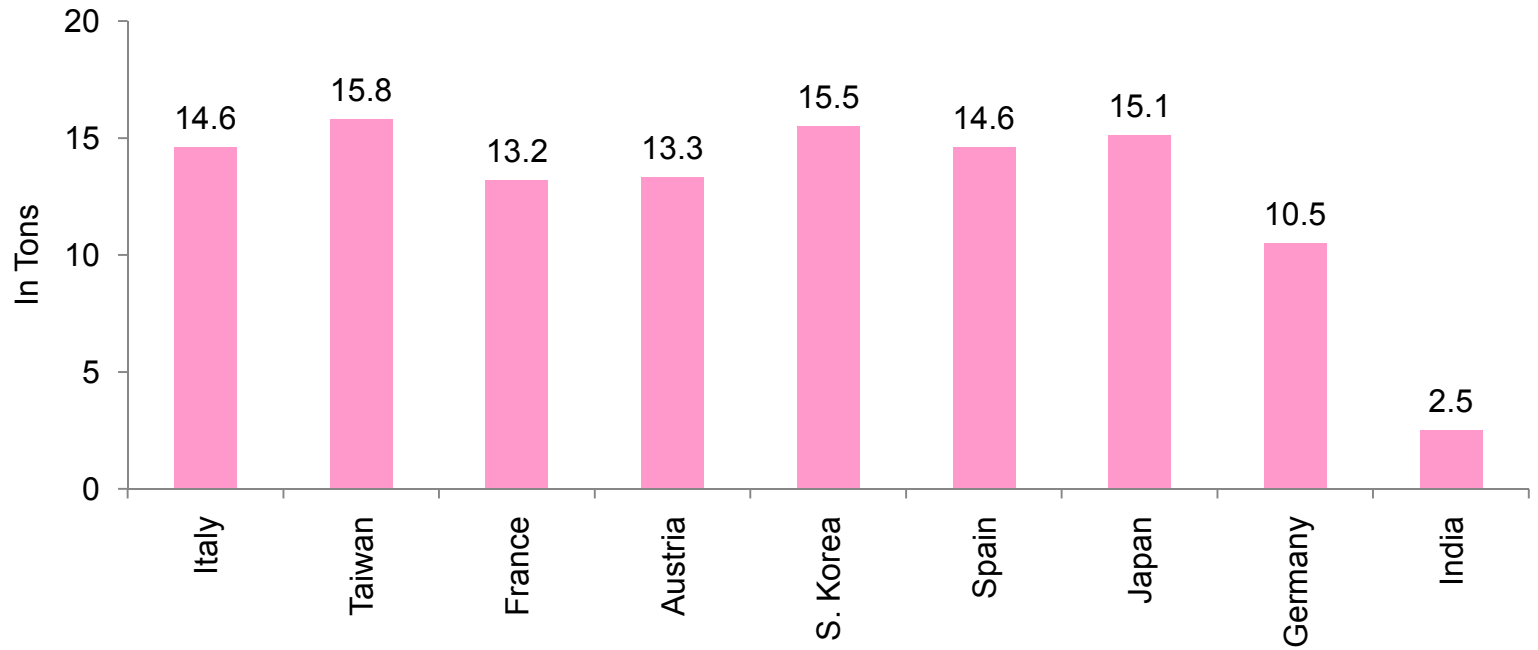
India Cement : Consolidation

Company	North	South	East	West	India
Ultratech	17%	11%	8%	24%	16%
ACC	10%	9%	15%	13%	10%
Ambuja	13%		14%	11%	9%
Jaypee	14%			17%	9%
India Cem		12%			5%
Shree Cem	17%				
Madras Cem		10%			
Chettinad		9%			
OCL			18%		
Lafarge			19%		
Century				2%	
Top 5 Players Share	**71%**	**51%**	**74%**	**67%**	**49%**

Source : JP Morgan

- **India is in the lower quartile in terms of market attractiveness from consolidation view point**
- **However, if India is considered as a composite of four cement nations viz. North, East, South, West - the consolidation regionally is fairly high**
- **Over 65% of the regional capacity is consolidated in North, West and East.**

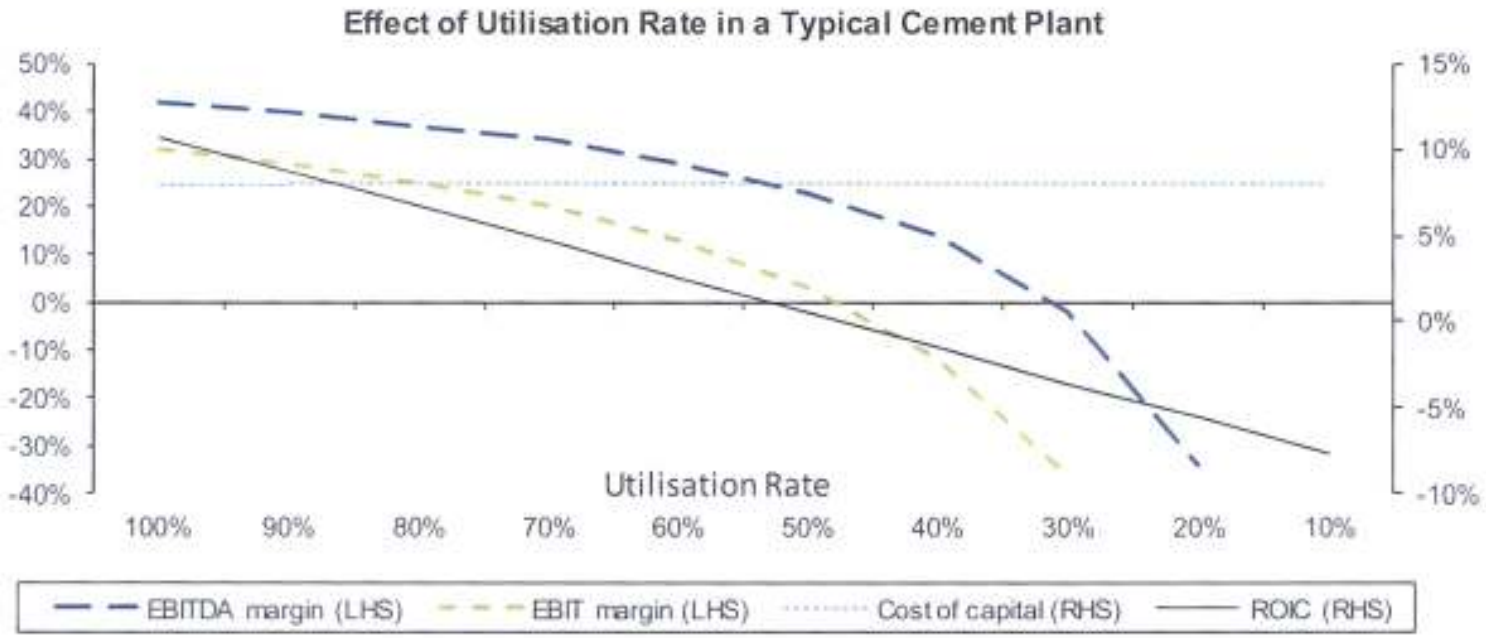
Cement – Drop Off point (Cumulative consumption per capita)



Source : Bernstein Research

- **Universally the cement demand curve is best exemplified as an elongated 'S' with three distinct phases of developing, rapidly developing (urbanization phase) and developed economic state (replacement phase)**
- **The drop off point for cement demand co-incide with transition from urbanization to replacement phase.**
- **This phenomenon happens after cumulative cement consumption of 10-15 Tons per capita has been attained**
- **The cumulative consumption (since cement decontrol in 1989) till 2013 in India has been 2.50 Tons per capita**
- **Cement still has to go a long way in India**

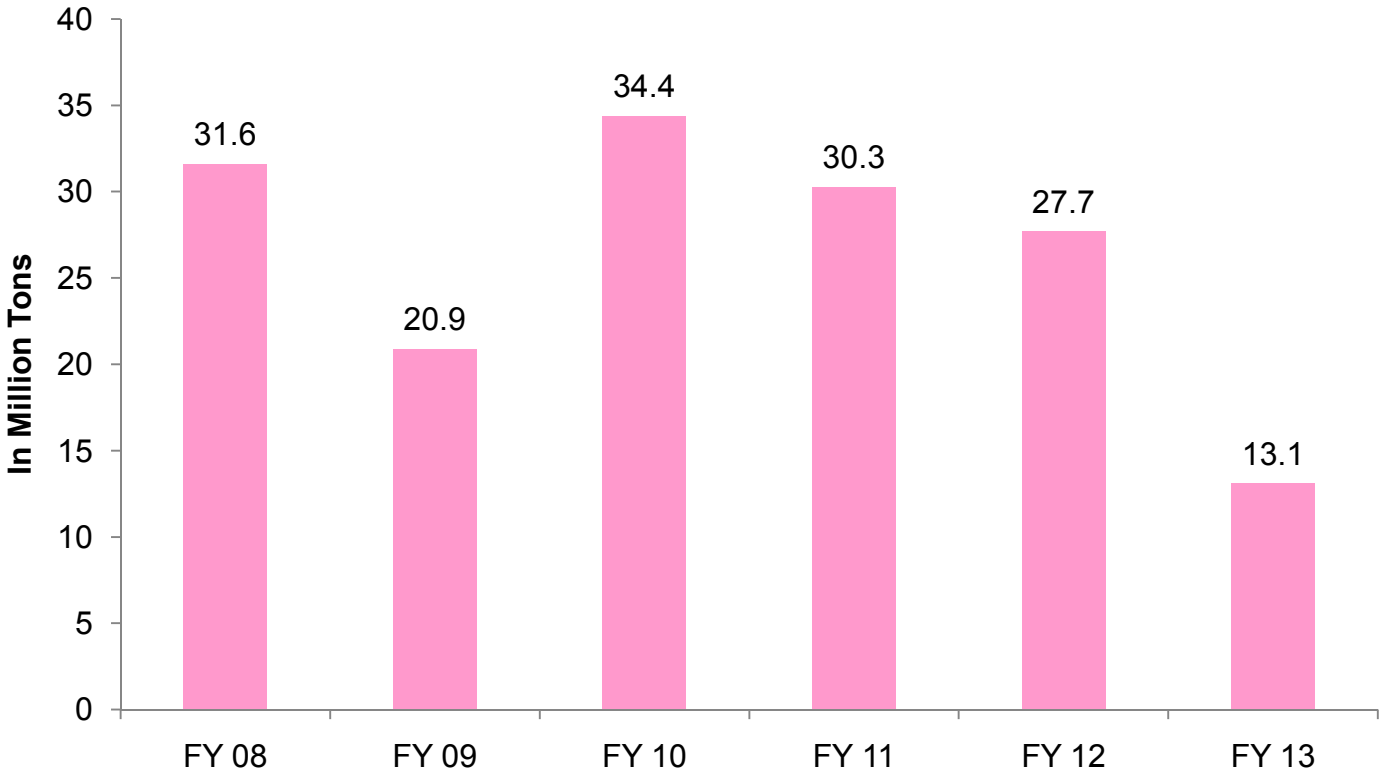
Capacity Utilisation Vs EBIDTA



Source : Bernstein Research

- **There is a strong correlation between capacity utilization and EBITDA margins**
- **The sub 80% capacity utilization pan India last year showed improvement in 2012-13**
- **North India shall end the year at around 85% capacity utilization and the EBITDA margin should graduate to over 30%**

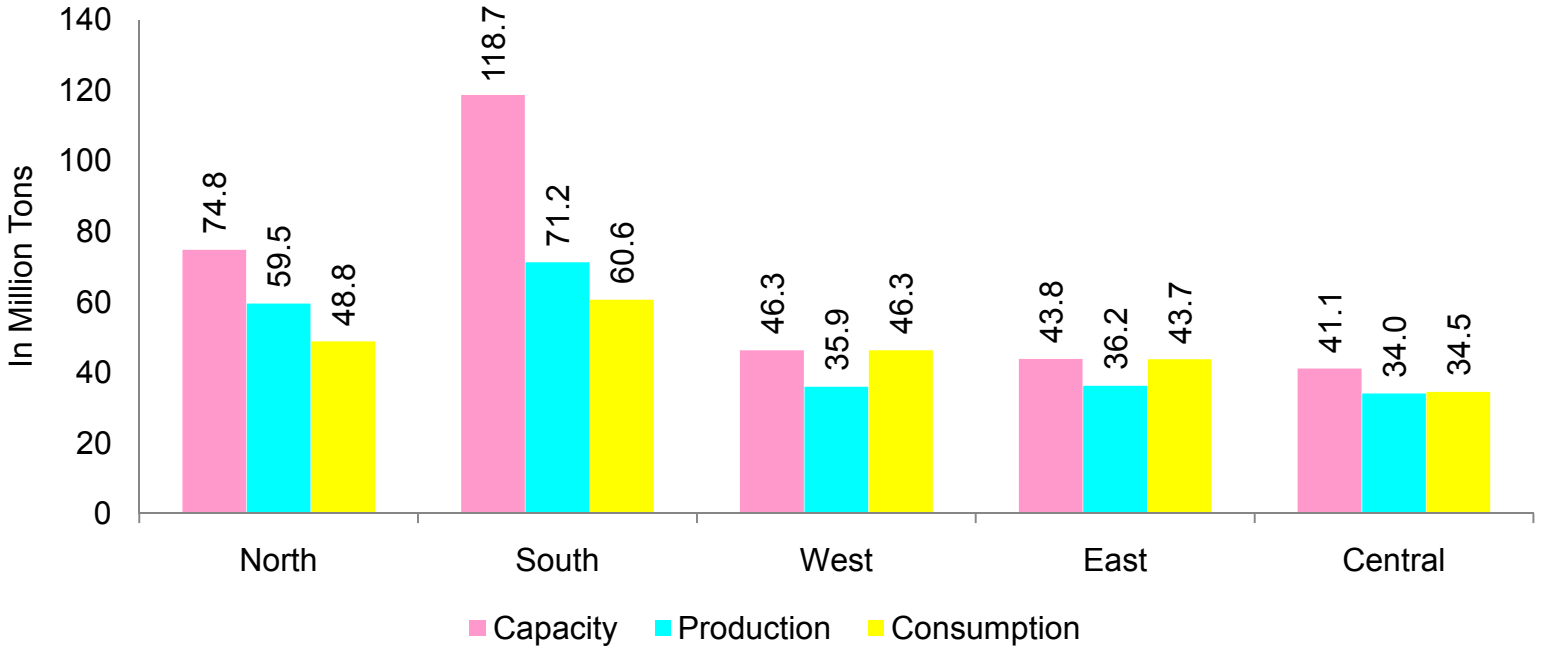
Slowing pace of capacity addition



Source : CARE Research

- The pace of capacity additions have significantly slowed down in last 3 years
- Bottlenecks in Land procurement and environmental approvals are the major hindrance leading to time overruns in implementation schedule
- Implementation time for Greenfield projects has increased from 30/36 months to 48/60 months

Regionwise Capacity, Production and Consumption

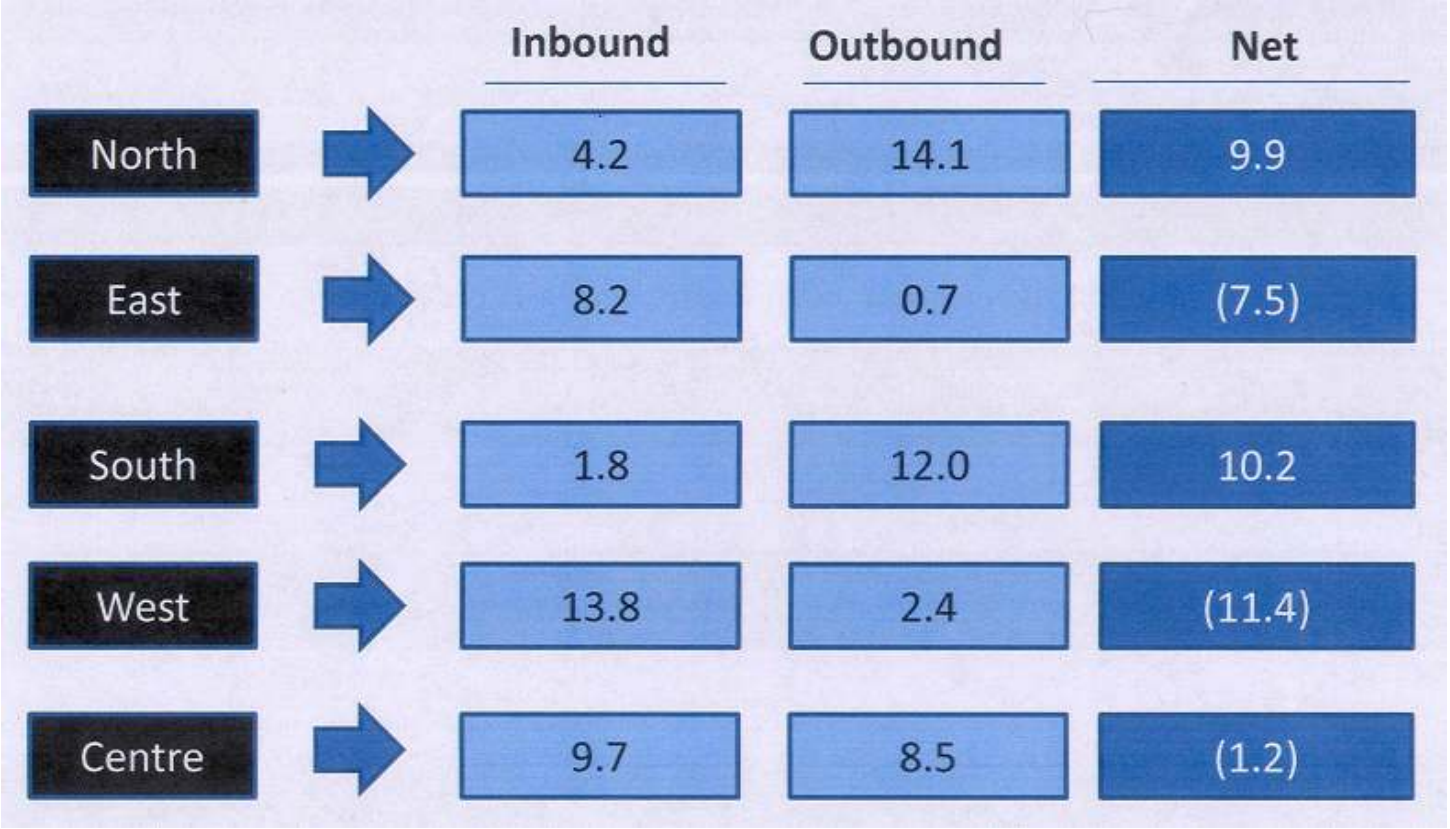


Source : CARE Research

- **The availability of limestone in India is restricted to eight pockets with highest concentration in South**
- **Accordingly the demand-supply mismatch is highest in South followed by North, East & West**
- **This accords inbuilt opportunity for greater profitability in North & East as more and more production from South shall move to other deficit regions**
- **Shree Cement is omnipresent in North & East**

Inter Regional Snap shot

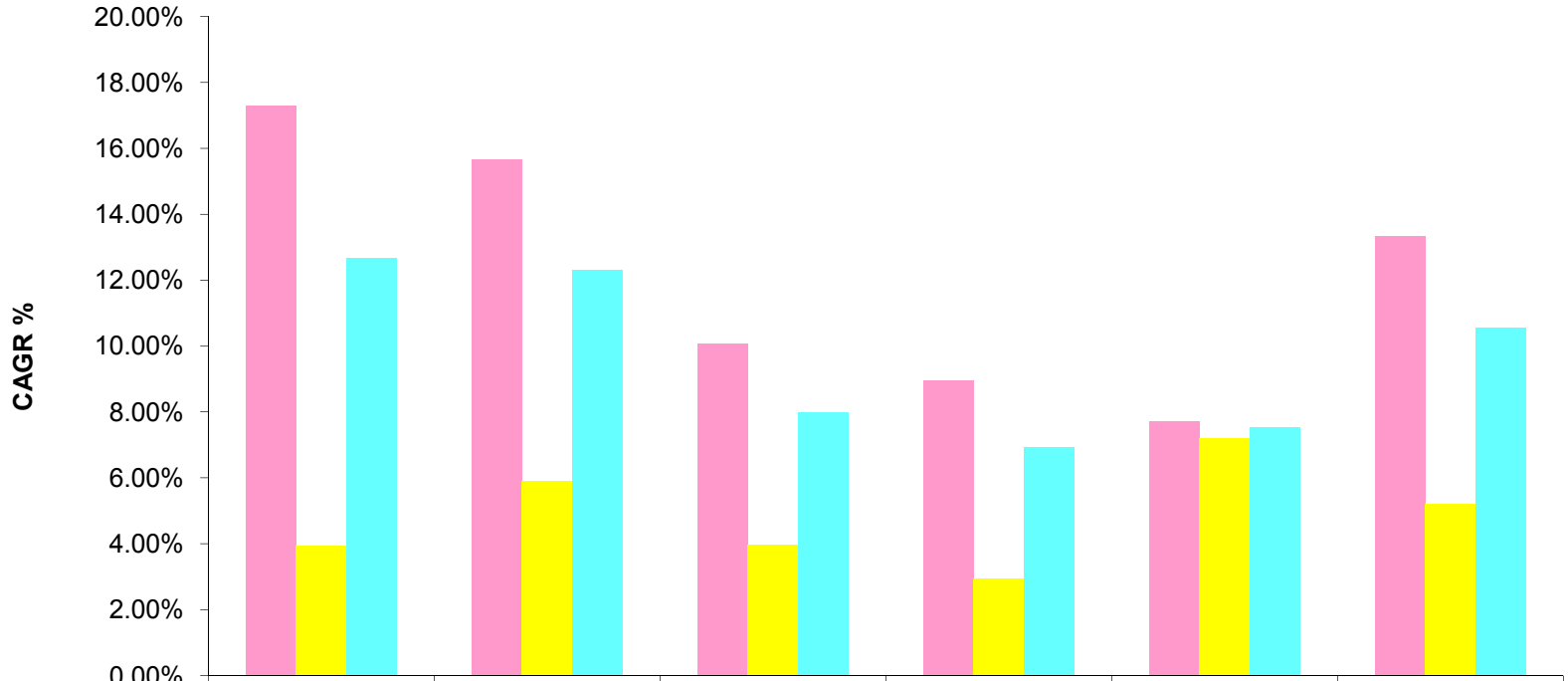
Figures in Million Tons



Source : CARE Research

- East & West regions are net importers due to lack of limestone reserves
- West is compensated from South at minimal freight dis-arbitrage due to coastal locations
- East has the best growth opportunity with relative EBIDTA protection

Regionwise CAGR of cement capacity addition

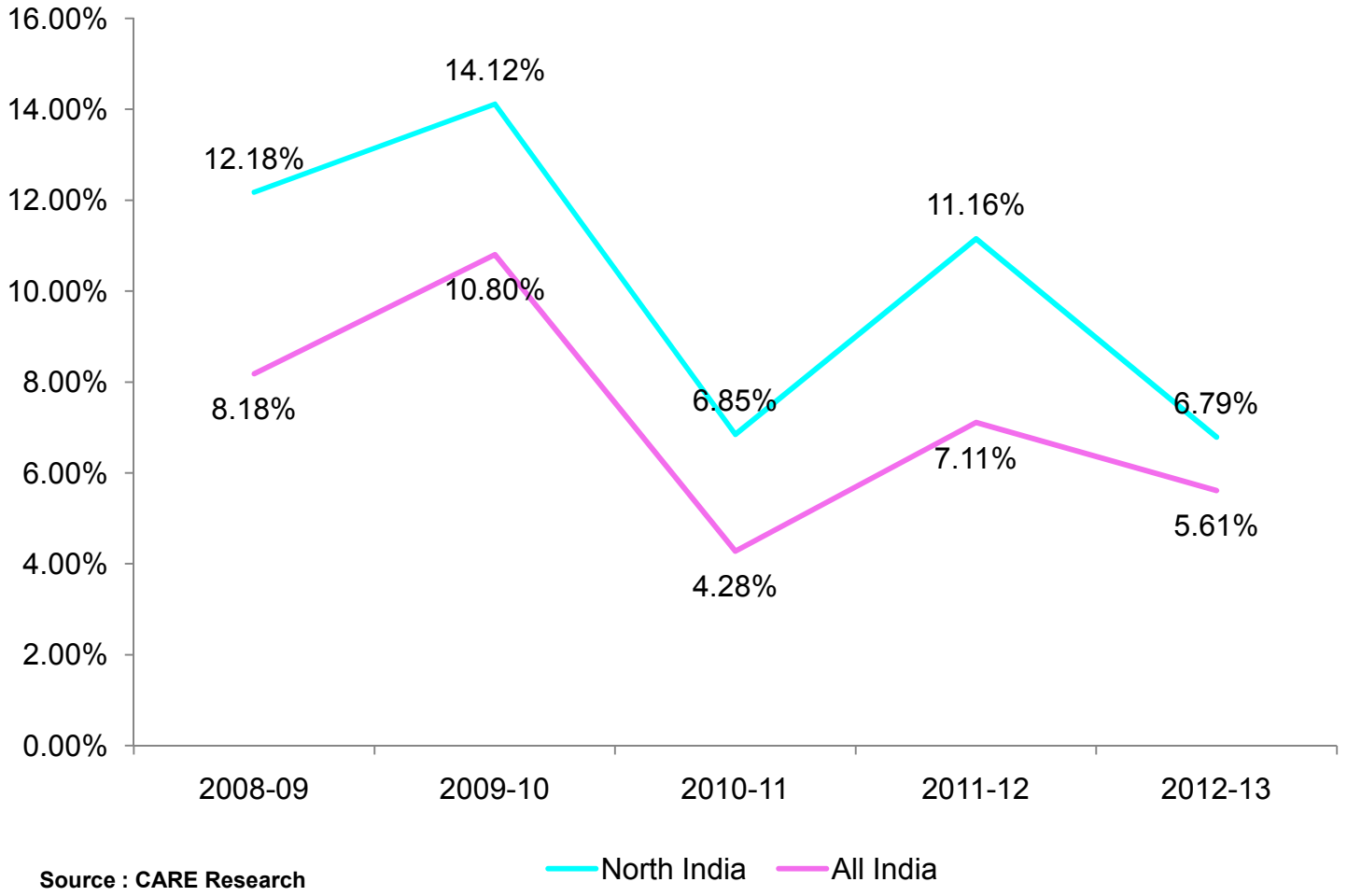


	North	South	East	West	Central	All India
6 Yrs (2003-09)	17.29%	15.66%	10.08%	8.97%	7.71%	13.36%
3 Yrs (2009-12)	3.95%	5.90%	3.99%	2.95%	7.22%	5.20%
9 Yrs (2003-12)	12.66%	12.31%	8.01%	6.93%	7.55%	10.57%

Source : CMA

- **North being the best performing market witnessed highest CAGR for capacity addition**
- **South witnessed second best CAGR due to greater limestone availability**

Cement Despatch Growth rate – All India Vs North



Source : CARE Research

- **North India cement market has always grown at a better rate than all India**
- **This is primarily due to it being the major agriculture hub for the country**

Shree Cement Limited

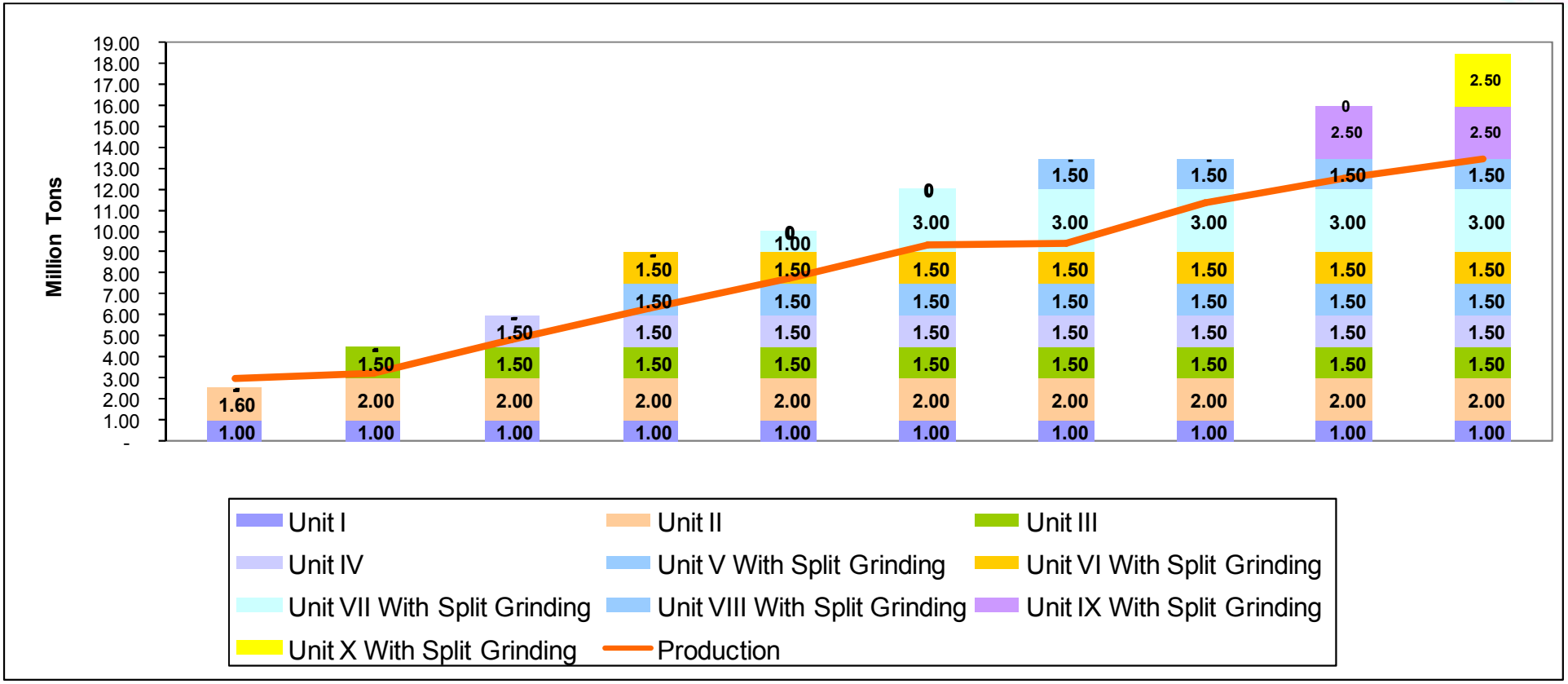
Board of Directors

Mr. B G Bangur	*Executive Chairman*
Mr. H M Bangur	*Managing Director*
Mr. Prashant Bangur	*Wholetime Director*
Dr. Y K Alagh	*Ex-Union Cabinet Minister & Economist*
Mr. R L Gaggar	*Solicitor*
Mr. O P Setia	*Ex-Managing Director State Bank of India*
Mr. Nitin Desai	*Economist*
Mr. S K Somany	*Technocrat*
Dr. Leena Srivastav	*Expert in Environment & Energy Conservation*
Mr. Ramakant Sharma	*Director*

Shree - Awards & Recognition received in 2013-14

- State Level Productivity Excellence Award
- Best Corporate Social Responsibility Practice Award by Bombay Stock Exchange
- CII-ITC sustainability award Commendation Certificate for Significant Achievement
- NCCBM Award for Second Best Quality Excellence for the year 2012-13
- Best HR strategy in Line with Business by World HRD congress
- International Green Hero by The Green Organization, London
- Global HR Excellence award for organization with Innovative HR practices at World HRD congress
- Mother Teresa Corporate Citizen Award by Loyola Institute of Business Administration, Chennai
- Golden Peacock Business Excellence Award for the year 2013

Capacity enhancement



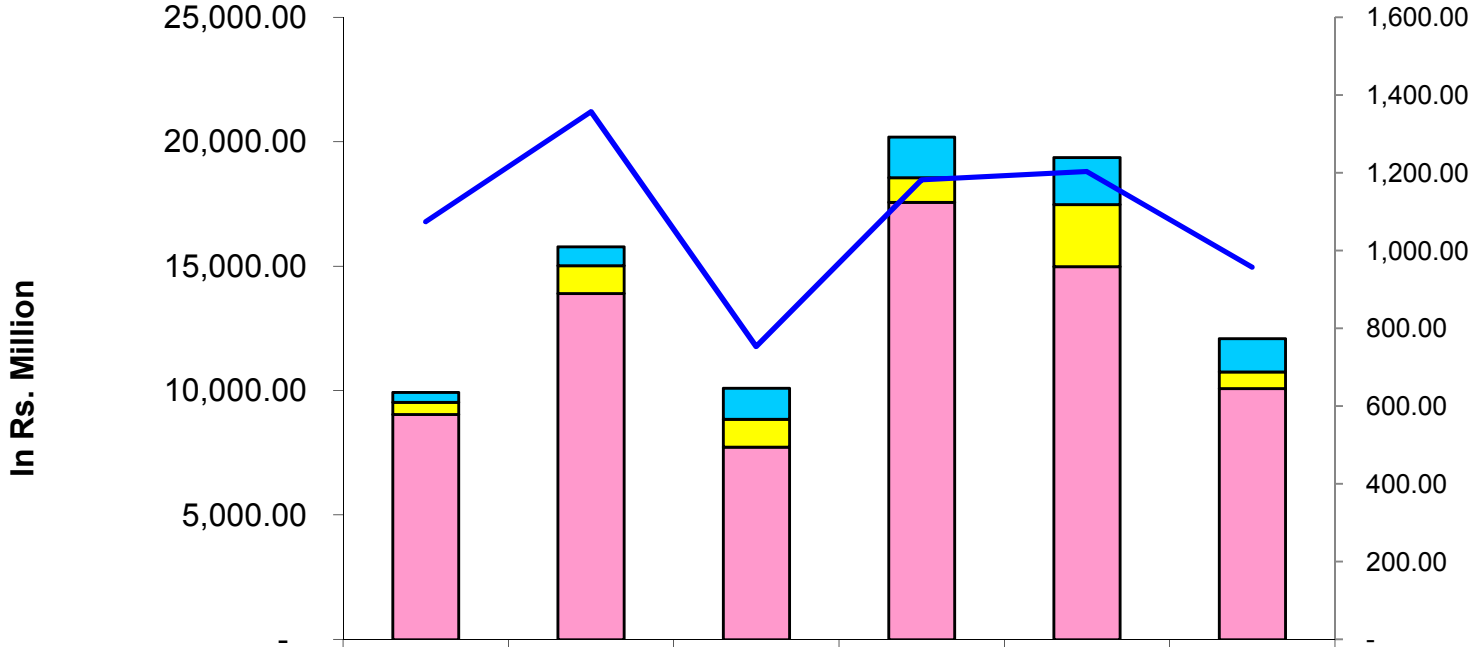
Year	Mar' 05	Mar' 06	Mar' 07	Mar' 08	Mar' 09	Mar' 10	Mar' 11	Jun' 12*	Jun 13	Jun 14E
Capacity	2.60	4.50	6.00	9.00	10.00	12.00	13.50	13.50	16.00	16.00
Production	3.02	3.22	4.80	6.34	7.77	9.37	9.43	11.36	12.33	13.50

** June 12 Capacity & Production numbers are annualised*

Expansion Plans

- **The Board in its meeting dated July 30, 2013 has noted following commissioning schedule :**
  - Unit X – 2 MTPA Clinerisation at Ras in H1 2014-15
  - Bihar Grinding Unit – 2 MTPA Cement grinding in H1 2014-15
  - Greenfield 2.5 MTPA Cement plant at Raipur in H2 2014-15
- **The company has already taken lime stone concession in Karnataka for setting up green field capacity of over 5 mtpa. Land has already been purchased at the two sites from internal accruals**
- **The total cement capacity by the end of 2014-15 should stand at 21 MTPA**
- **No new Debt or Equity infusion is required**

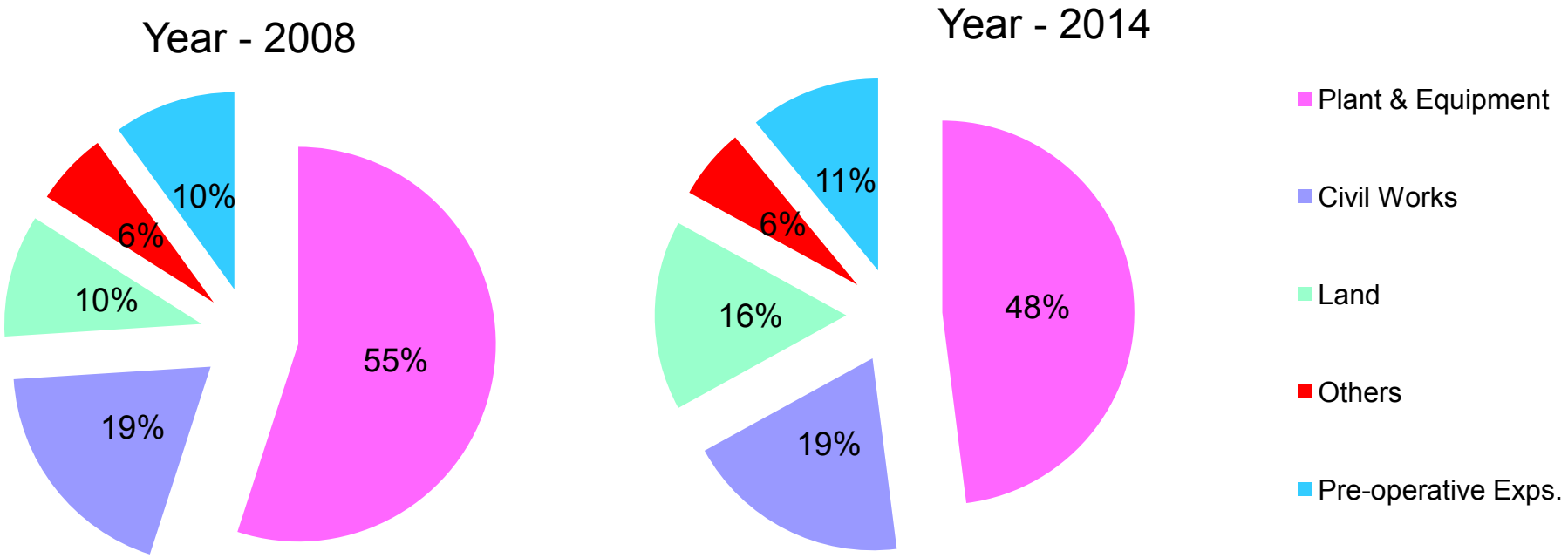
EBIDTA Margins



	2008-09	2009-10	2010-11	15M 2011-12	2012-13	9M 2013-14
Other Income	391.49	758.38	1,251.00	1,627.80	1,883.30	1,334.90
Power EBITDA	495.80	1,120.40	1,120.00	989.00	2,490.60	666.20
Cement EBITDA	9,039.10	13,904.74	7,728.30	17,570.90	14,989.10	10,083.60
Cement EBIDTA / Ton	1,073.82	1,356.95	752.95	1,181.63	1,202.88	957.06

- **Shree's EBIDTA over last 5 years have grown at a CAGR of 13%**
- **The increase in EBIDTA is due to proactive cost & management policies**
- **Cement EBITDA adjusted for investment subsidy received. EBITDA trend establishes strong capacity utilisation correlation**

Cement Plant – Estimated cost of a Greenfield



Source : CLSA

- **Over last 5 years the cost of setting up a greenfield cement unit has gone up from INR 4000 (USD 90) per ton to INR 8000 (USD 130) per ton**
- **The increase is mainly on account of huge run up in Land prices all across India**
- **Land acquisition has also become difficult, expensive and time consuming**

The paradox of increasing EBITDA

- The rational for EBITDA / Ton increase despite capacity overhang can be well understood by appreciating the increasing cost of capacity creation
- In mid 90's a greenfield 1 mtpa plant with captive power (plant battery limits only) could be set up at INR 4000 per ton or INR 4 billion
- With normal inflation, despite global capex slowdown, today it costs INR 8 billion. INR 5.5 billion towards Plant & Machinery and INR 2.5 billion towards land and infrastructure
- The facility creation cost has also increased dramatically due to galloping increase in land prices
- The incremental cost of capital coupled with high interest rates is getting compensated in higher EBITDA per ton
- This further buttresses a case for further increase in EBITDA /Ton to encourage fresh green field capacity

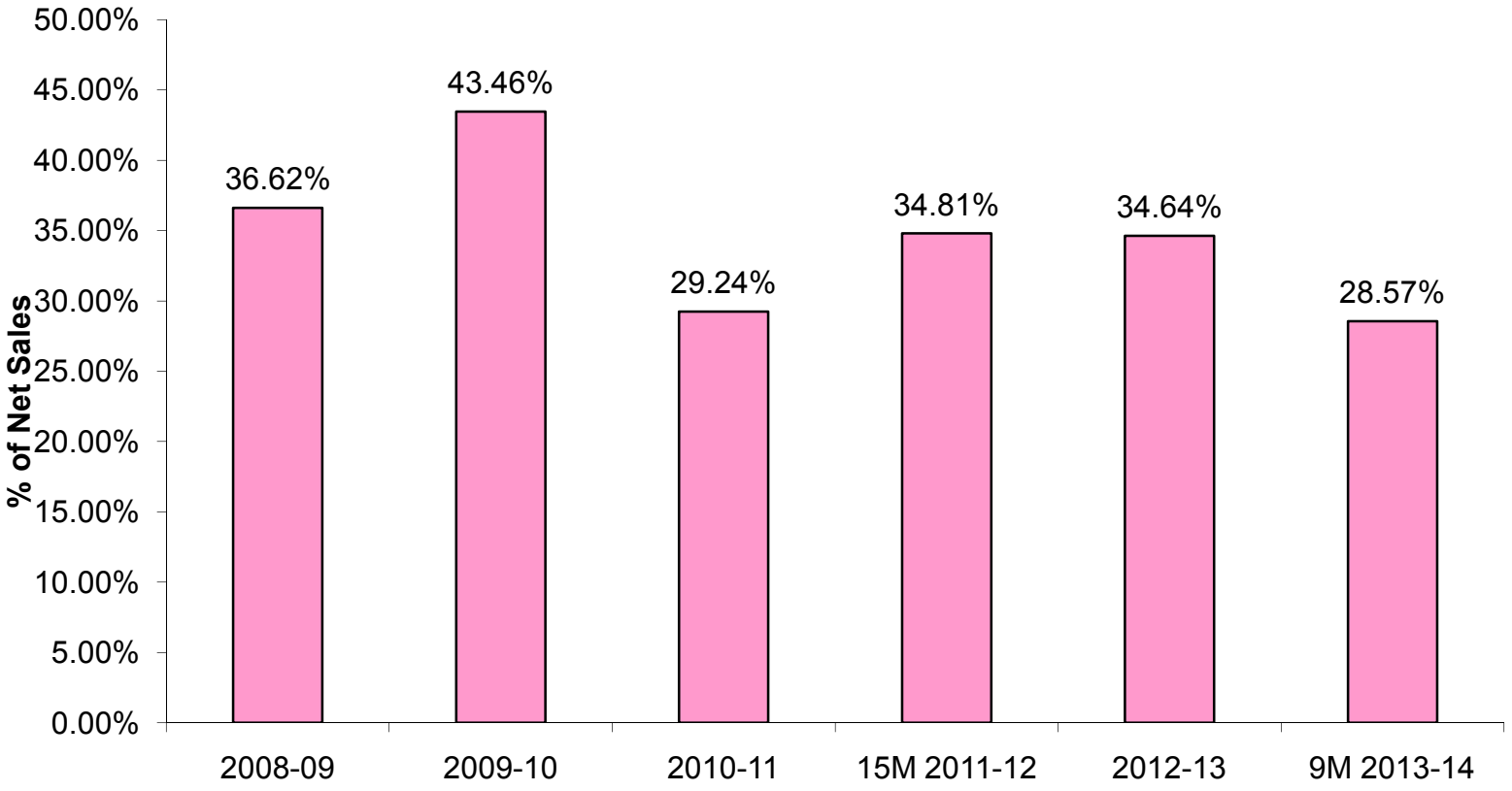
Minimum EBIDTA for justifying new investment

Return on capital employed %

Utilisation level	EBITDA/ton (Rs/ton)					
	500	750	1000	1250	1500	1750
50	(1.1)	0.3	1.6	2.9	4.3	5.6
60	(0.5)	1.1	2.7	4.3	5.9	7.5
70	0.0	1.9	3.8	5.6	7.5	9.4
80	0.5	2.7	4.8	7.0	9.1	11.3
90	1.1	3.5	5.9	8.3	10.7	13.1
100	1.6	4.3	7.0	9.6	12.3	15.0

- **A study was undertaken by ICICI Securities to find out Return on capital Employed (ROCE) assuming replacement cost of Rs. 7,500 per ton at different Utilisation levels**
- **A minimum EBIDTA per ton of Rs. 1500 / ton is required to justify new investment in cement sector**
- **Presently the same is at around Rs. 800 / ton on Pan India basis**

Operating Profit Margin

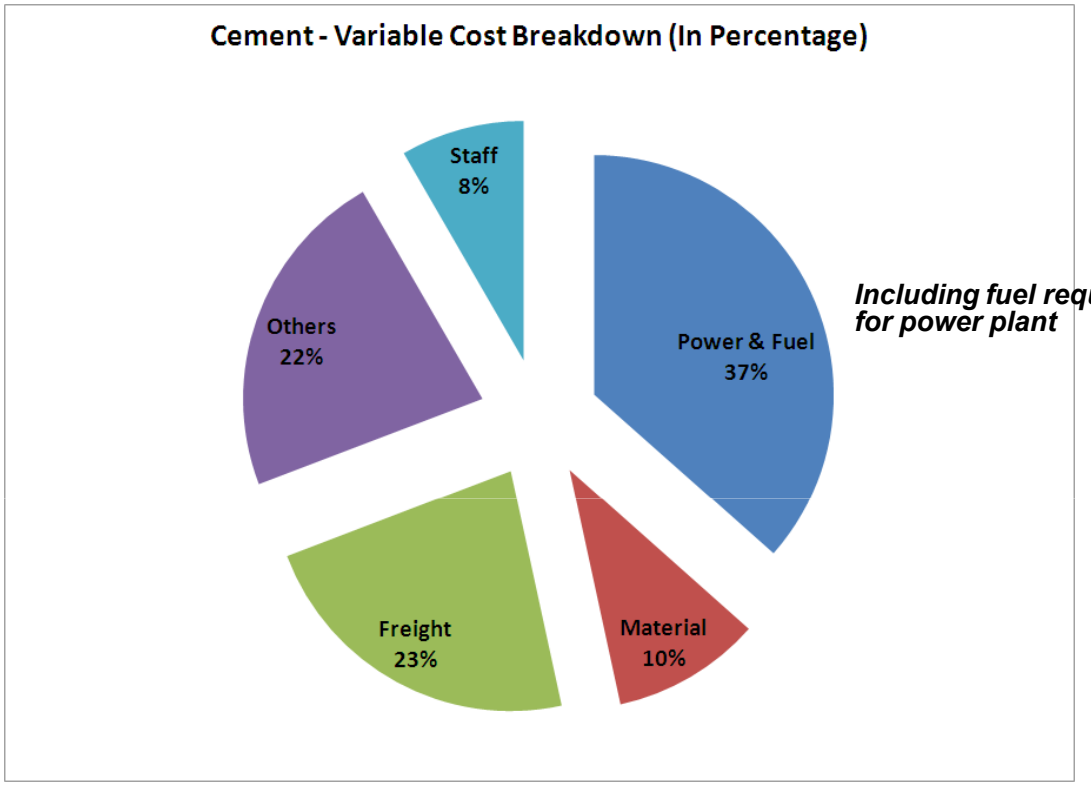


- **Shree has always operated at healthy profit margins**
- **Industry Average EBIDTA has been around 15-20% at 75%+ capacity utilization**
- **Since last 3-4 quarters cement demand is subdued due to lack of plan spending by the government**
- **This is amply manifested in flat EBIDTA margins**

The Energy Challenge - Genesis

- **Energy in almost all developing economies is a state controlled monopoly**
- **The state plays the game of cross subsidization by taxing the trade and industry as well as the rich in the form of higher tariffs or administered price to subsidize the weaker sections of society**
- **Cement is not a monopoly business but its operational requirement needs make it an unwilling participant in the game of cross subsidization**

The Energy Challenge - Impact



Source : SCL data

- Typically Thermal and Electrical Energy constitutes 37% of the cost of Production
- The two forms of energy are somewhat fungible – one can be increased or decreased at the cost or saving of other depending on cost economics
- Logistics intensity of business poses the challenges for petroleum energy as well

The Energy Challenge - Mitigation

- **Shree is fully seized of the matter and has developed unique strategy to wean itself from the cross subsidization phenomena by**

  A. Use of Alternative Fuels

  B. Waste Heat Recovery Boiler (WHRB)

  C. Captive Power Generation

  D. Split Location Grinding Units

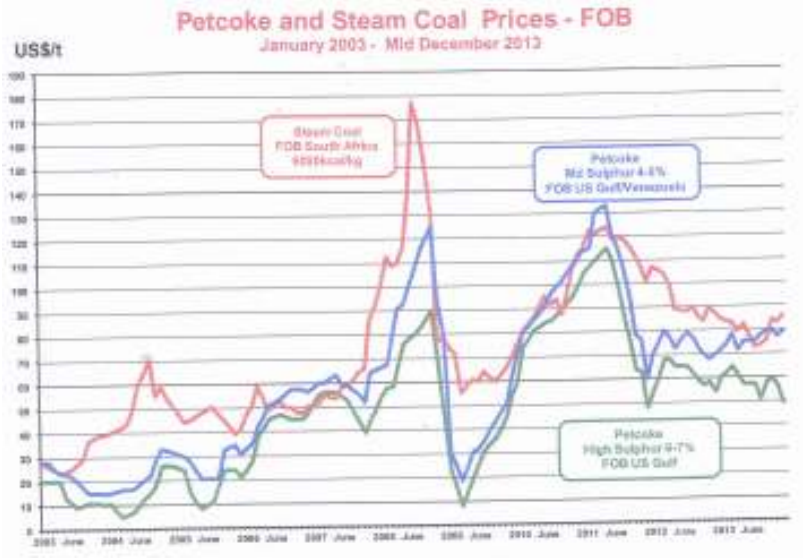
  E. Own Railway Sidings

A. Use of Alternate Fuel

- **Shree is the first Indian cement company to start using Petroleum coke for its cement and power operations.**
- **Petcoke prices are presently cheaper than coal**
- **Pet coke prices move in tandem with coal prices and not petroleum crude oil**
- **All Shree facilities are multi-fuel capable and switch to any fuel is possible based on economies**

Cost advantage of Pet - coke

	INR Cost/Million K.Cal	
Source	Cost	Higher by
Indian Petcoke	1001	
Imported Petcoke	1036	3.50%
US Coal	1064	6.29%
South African Coal	1103	10.19%
Indian Coal (Auction)	1500	49.85%



Source : Cimeurope EL – December 2013

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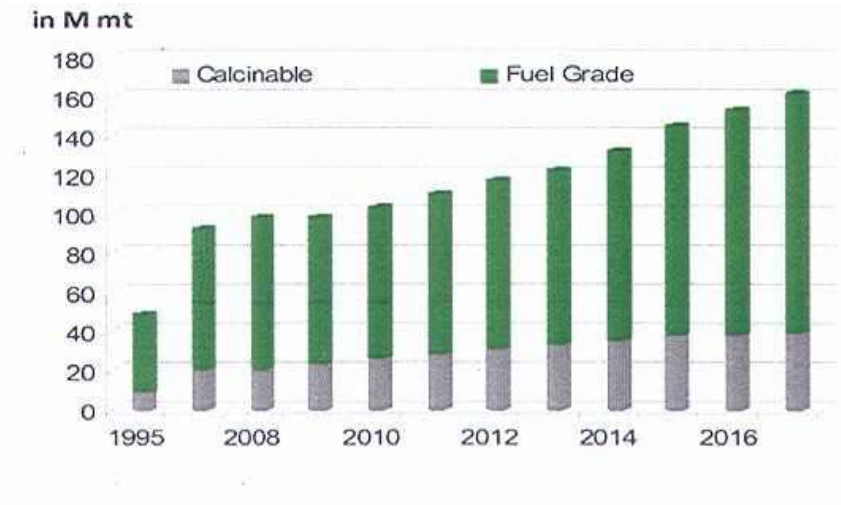
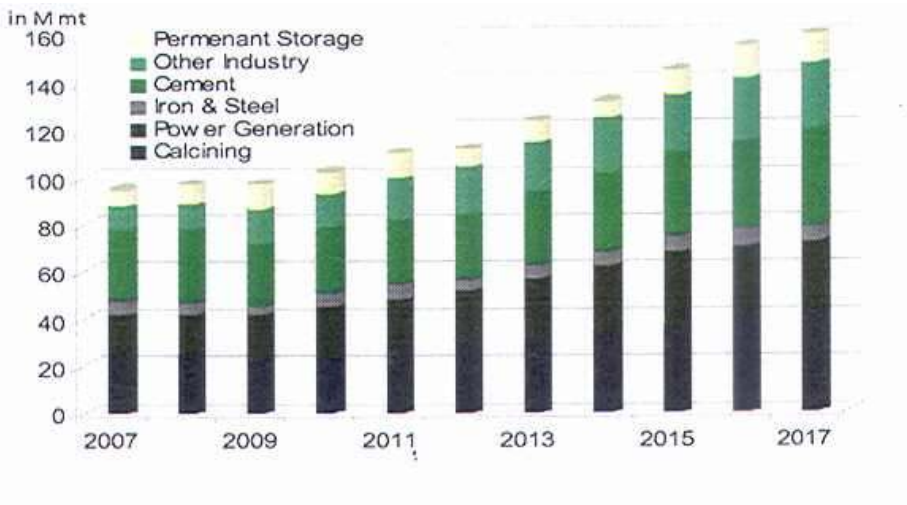
A. Use of Alternate Fuel (World Petcoke Supply)

World Petcoke Production



Petcoke demand by sector



Source : Jacobs, Heidelberg Cement AG, Others

- **Global petcoke production is set to increase by 30% from currently about 120M mt to 160M mt in 2017**
- **Additional volumes are expected to increasingly find home in the power sector and other industries as the cement industry in Europe is unable to absorb the additional volume.**

B. Waste Heat Recovery Boilers (WHRB)

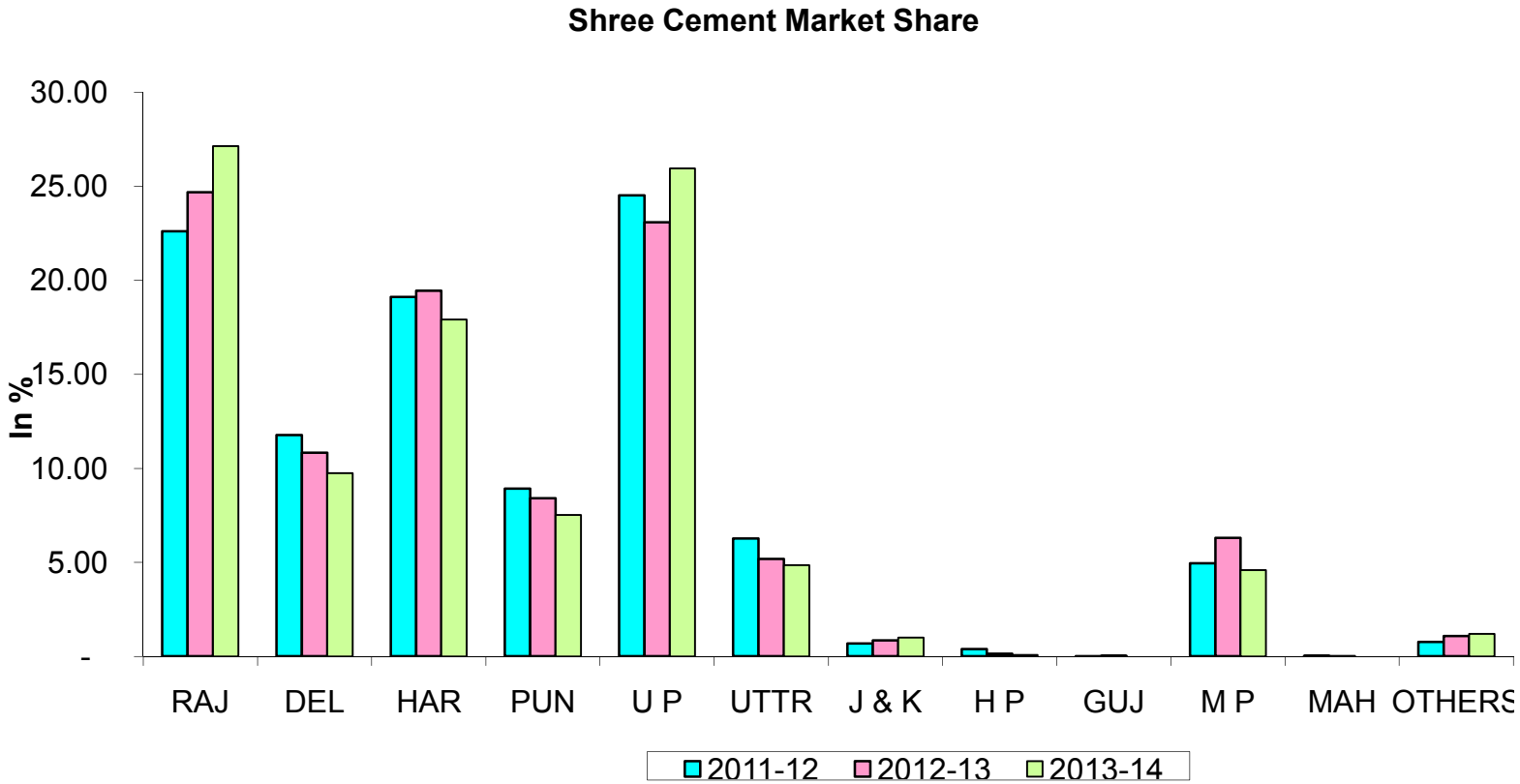
- **WHRB capacity of 78 MW constitutes around 14% of total power capacity**
- **This is the highest capacity of WHRB in India**
- **The cost of power generation in WHRB is only 0.45 paisa / unit as the heat is produced from waste heat gases**
- **All future expansion / new units shall have WHRB**
- **A typical 1 Million Ton cement unit can support WHRB of 5 MW**
- **Company has perfected this art and expects to generate 50% of total power requirement for East Indi's plants from this novelsource**

C. Power – Capacity

Nature	Location	Capacity (MW)	Configuration
Thermal Power Plant	Beawar	36	18 X 2
Thermal Power Plant	Ras	72	18 X 4
Thermal Power Plant	Ras	50	50 X 1
Thermal Power Plant	Ras	50	50 X 1
Sub Total		208	
Green Power Plant	Beawar	18	18 X 1
Green Power Plant	Ras	35	21 X 1 + 14 X 1
Green Power Plant	Ras	25	25 X 1
Sub Total		78	
Merchant Power 1	Beawar	150	150 X 1
Merchant Power 2	Beawar	150	150 X 1
Sub Total		300	
Total		586	

- **About 25% of above capacity is for captive use**
- **Surplus power is sold in open market mainly to Regional Power Distribution Companies or in Indian energy Exchange (IEX)**

D. Split Location Grinding plants



- There are only eight pockets in India where limestone is available for cement plants
- The capacity concentration is also in these eight regions
- This necessarily makes producers go to more distant markets in capacity overhang scenario
- Split location grinding units are a solution to optimize logistic cost

D. Split Location Grinding plants

- **Capacity at Grinding units were optimised for better logistic cost management**

  I. 1.2 million ton Suratgarh Grinding unit was increased to 2 million ton
  II. 1.8 Million ton Roorkee Grinding unit was increased to 3 million ton
  III. 2.0 million ton Khuskhera Grinding unit was increased to 3 million ton
  IV. 1.5 million ton near Jaipur has also been commissioned

- **Roorkee gives some fiscal benefits like:**
  - 100% Excise duty exemption for a period of 10 years (Remaining period – 7 years)
  - 100% Income Tax exemption for a period of initial 5 years and thereafter 30% exemption for further period of 5 years (Remaining period – 7 years)
- **The Grinding units would help increase the market share of the company**
- **A new Grinding unit is also being planned in Bihar (commisioning H1 FY14) with a view to develop the quintessential dealer base to take care of the Chattisgarh cement plants to be set up in near future**
- **Logistic cost has become critical in view of petroleum price behaviour. Split grinding locations provide better logistic cost management**
- **58% of our cement is despatched through Grinding Units**

E. Own Railway Siding

Cost per ton/km in INR:

Rail: 1.82 Road 1.84

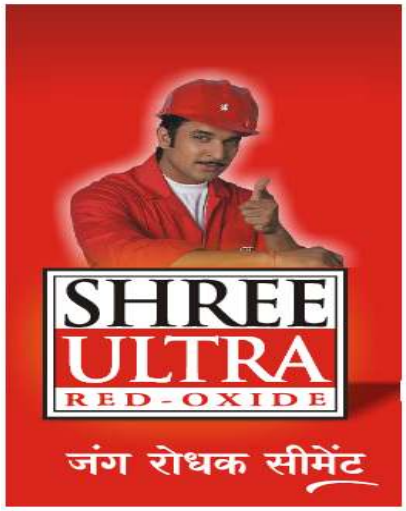
Advantages of Own Railway Siding

- **Reduced Cost Per Ton Per Km for longer distances**
- **Big Supplies can be made to distant destination**
- **Started despatching through open wagon loading having discount of 20-46%**
- **Coal wagon tippler deployed which helps in reducing unloading time**
- **Another siding at Ras site is being constructed slated for completion by H2 FY15**
- **This would further ease logistics management**

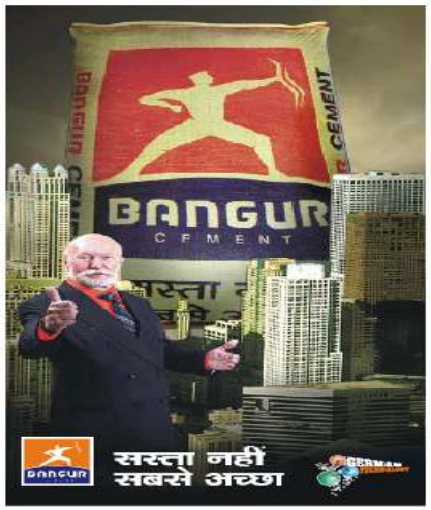
Market Strategy

- **Multiple brands created to capture market share due to increased visibility**
- **It helps in retaining more number of dealers / retailers thereby making the supply chain powerful**

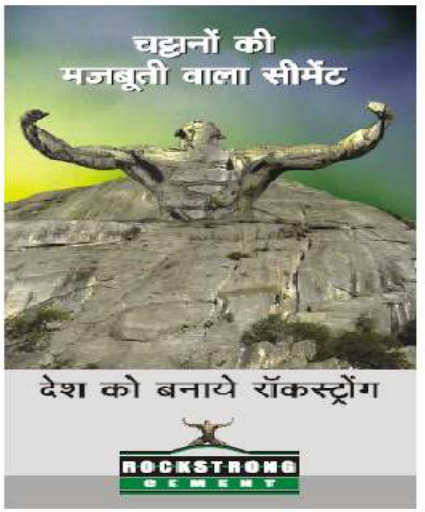
SHREE ULTRA RED OXIDE



BANGUR CEMENT



ROCKSTRONG CEMENT



Logistic Advantage

- **Proximity to key markets (Delhi, Jaipur, Uttarakhand & Punjab) results in lower logistics cost**
- **Avg. distance increased from 504 to 564 kms due to doubling of qty. from 7.8 to 13.7 mn. tons in last 6 years**
- **Average distance of North Indian producers is around 600 Kms**
- **The focus on rural and semi urban markets has kept the lead distance almost same in few years despite increase in volume**

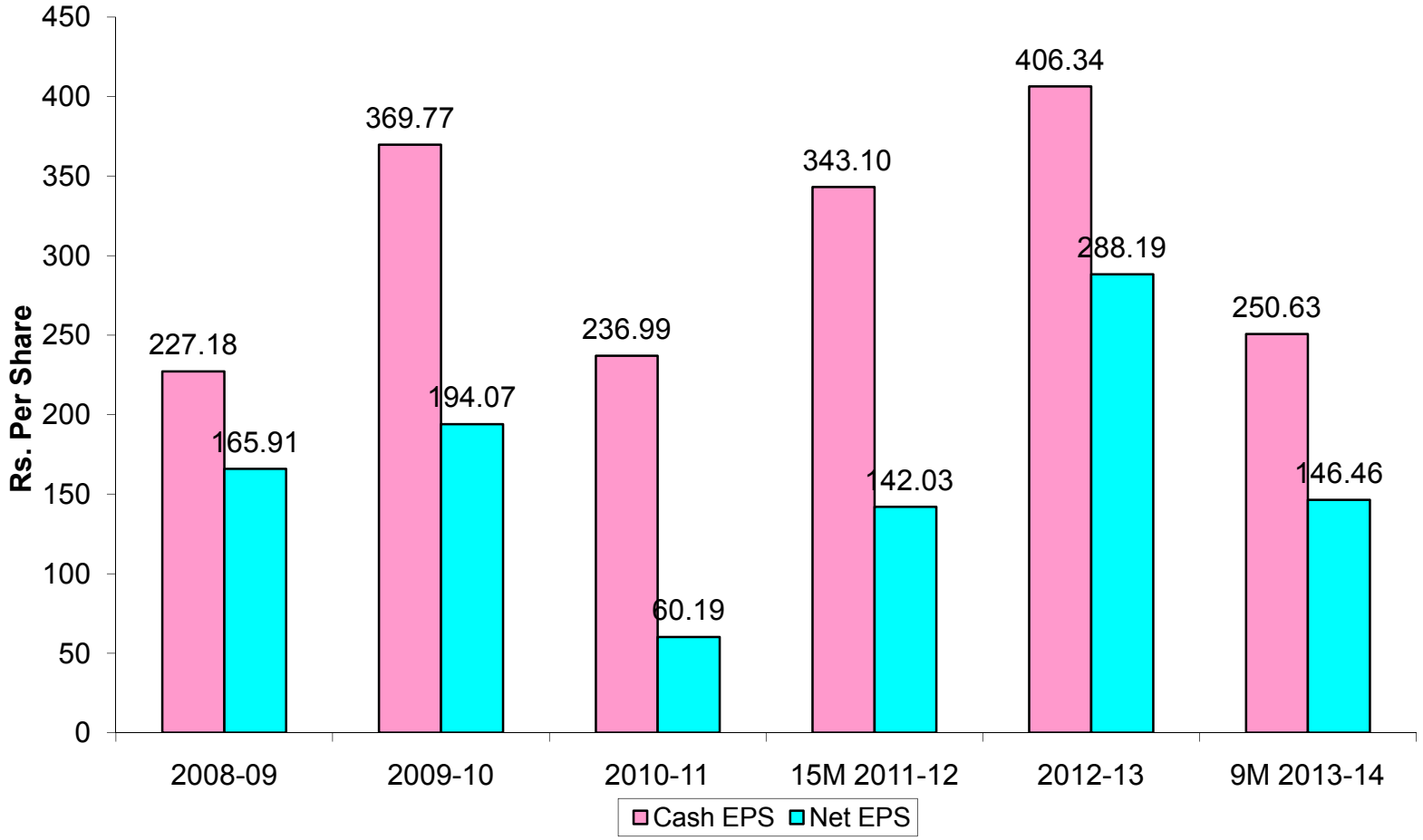
Percentage Quantity sold Distance-wise

Distance Slab (Kms.)	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
0-250	15%	11%	10%	9%	9%	10%
251-500	27%	23%	22%	23%	27%	27%
501-750	48%	53%	50%	48%	41%	40%
751-1000	10%	13%	18%	20%	23%	23%
Total	100%	100%	100%	100%	100%	100%
Average Km.	504	543	565	569	570	564
Total Quantity (Mn. Tons)	7.8	9.4	9.4	11.8	12.4	13.7

- **Shree Plants**
- **Other Cement Plants**
- **Cement Grinding Plants**

Shree Cement – Financial Section

Cash Earning Per Share



The EPS figures for 15M 2011-12 have been annualised and 9M 2013-14 not annualised

- **The CAGR over five years for Cash EPS is 16% & Net EPS at 15%**
- **Aggressive depreciation policy resulted lag between Cash EPS and Net EPS**

Shree - Profit & Loss Account

In Rs. Million

Particulars	2008-09	2009-10	2010-11	2011-12(15M)	2012-13	9M 2013-14
Net Sales	27,106	36,321	34,535	57,995	55,903	42,306
EBIDTA	**9,926**	**15,784**	**10,099**	**18,085**	**17,493**	**10,845**
Interest	334	766	1,754	2,354	1,931	984
Depreciation	2,054	5,704	6,758	8,731	4,356	3,961
Exceptional Items	309	634	485	123	11	785
Profit Before Tax	7,229	8,679	1,104	6,878	11,194	5,114
Tax	1,449	1,918	(994)	693	1,155	12
Profit After Tax	**5,780**	**6,761**	**2,097**	**6,185**	**10,040**	**5,102**
Cash Profit Post Tax	**7,834**	**12,465**	**8,855**	**14,916**	**14,396**	**9,063**

CAGR during the above period :

- Net Sales – 20%
- EBIDTA – 15%
- Profit After Tax – 15%
- Cash Profit (Post Tax) – 16%

Shree - Balance Sheet

In Rs. Million

Particulars	2008-09	2009-10	2010-11	2011-12 (15M)	2012-13
Shareholders Funds	12,100	18,332	19,862	27,339	38,437
Loans	14,962	21,062	18,446	12,048	8,995
Deferred Tax	(104)	(124)	(723)	(697)	(938)
Total	**26,958**	**39,271**	**37,585**	**38,690**	**46,494**
Gross Fixed Assets	*22,559*	*29,509*	*47,711*	*53,418*	*60,736*
Net Fixed Assets	11,057	17,194	18,961	16,178	19,153
Cash & cash Equivalent	13,171	20,086	16,952	29,942	25,727
Net Working capital	2,729	1,991	1,673	(7,429)	1,614
Total	**26,958**	**39,271**	**37,585**	**38,690**	**46,494**

CAGR during the above period :

- Net Worth – 34%
- Gross Fixed Assets – 28%
- Cash & cash equivalents – 18%

Shree is a cash centric organisation

IRR to Shareholders

In Rs. Million

Particulars	Date	Amount (Mn. Rs.)
Market Capitalisation	18-Feb-85	(154.00)
Debt Conversion	15-Feb-88	(46.00)
Dividend	3-Feb-92	19.97
Dividend	1-Nov-92	25.34
Debt Conversion	20-Nov-91	(7.96)
Shares Issued	4-Mar-93	(126.00)
Dividend	10-Feb-93	26.63
Amalgamation with Shree Leas.	12-Oct-93	(2.40)
Dividend	1-Nov-94	36.94
Dividend	4-Oct-95	49.23
Shares Issued	5-May-95	(190.08)
Dividend	3-Oct-96	61.42
Shares Issued (Rights)	8-Apr-97	(116.12)
Dividend	29-Nov-01	34.84
Dividend	24-Aug-02	34.84
Dividend	12-Aug-03	87.09
Dividend	20-Jul-04	104.51
Dividend	19-Aug-05	139.35
Dividend	4-Aug-06	174.19
Dividend	29-Mar-07	209.02
Dividend	18-Jul-08	278.70
Interim Dividend	5-May-09	174.19
Final Dividend	24-Jul-09	174.19
Interim Dividend	27-Jan-10	174.19
Final Dividend	14-Aug-10	278.70
Interim Dividend	9-Feb-11	209.02
Final Dividend	5-Aug-11	278.70
Interim Dividend	31-Jan-12	209.02
Interim Dividend	22-May-12	209.02
Final Dividend	18-Oct-12	278.70
Interim Dividend	4-May-13	278.70
Final Dividend	29-Oct-13	418.05
Interim Dividend	5-Feb-14	348.37
Market Capitalisation at Rs. 5733/-	28-Apr-14	199,721.67
IRR		**27.03%**

Disclaimer

- This presentation contains forward-looking statements which may be identified by their use of words like “plans”, “expects”, “will”, “anticipates”, “believes”, “intends”, “projects” , “estimates” or other words of similar meaning. All statements that address expectations or projections about the future, including, but not limited to, statements about the strategy for growth, product development, market position, expenditures and financial results are forward-looking statements.

- Forward-looking statements are based on certain assumptions and expectations of future events. The company does not guarantee that these assumptions and expectations are accurate or will be realised, The actual results, performance or achievements could thus differ materially form those projected in any such forward-looking statements. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent developments, information or events, or otherwise.

SHREE CEMENT LIMITED

Thank You