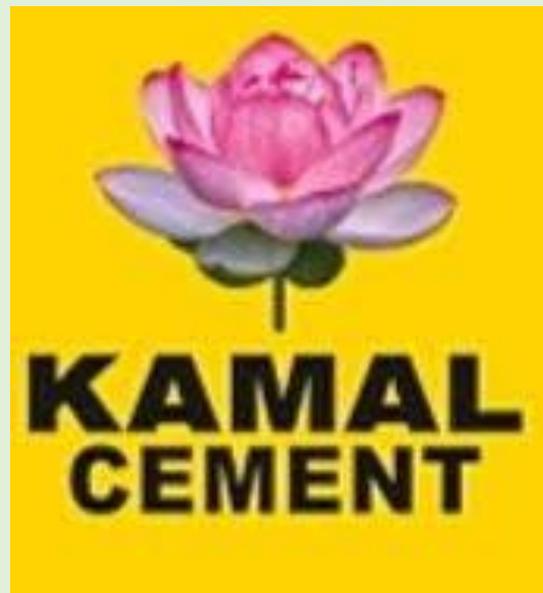


Shree Digvijay Cement Company Limited

Realization Growth & operational efficiency to drive the way forward ; Initiate with Buy



CMP: Rs 59

Rating: BUY

Target Price: Rs 75

Stock Info

BSE	502180
NSE	SHREDIGCEM
Bloomberg	DIGV IN
Routers	SRDC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs mn)	1414
Mkt Cap (Rs mn)	9038
52W H/L (Rs)	65/18
Avg Yearly Vol (in 000')	857.21

Shareholding Pattern %

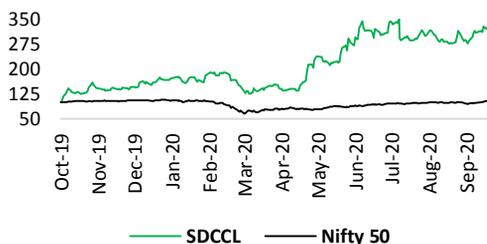
(As on September 2020)

Promoters	56.96
Public & Others	43.04

Stock Performance (%)

	3m	6m.	1 Yr
Shree Digvijay Cement	6.5	166	192
Nifty50	4.7	18.9	0.8

Shree Digvijay Cement Price Chart



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Shree Digvijay Cement Company Limited (SDCCL) is an India-based Company incorporated in 1944. The company currently is managed by Private Equity firm named True North Fund VI LLP. Company is engaged in the manufacturing and selling of cement. Company caters to domestic as well as export market. Company has a manufacturing facility at Sikka, Jamnagar. The manufacturing capacity stands at 1.20 Million Tons per Annum housing a Fully Automatic Modern Cement Plant. Company has been unique trendsetter in providing superior quality of ordinary & special Portland cement. Company has high growth potential in cement sector backed by : 1) Strong Brand image; 2) Monopoly in oil well cement brand 3) Better operational efficiency 4) Good Management team. We estimate SDCCL topline to grow at a CAGR of 10.6% over the period of FY20-22E backed by improved realization with increase in demand for cement as infrastructure and construction activity starts picking up, Moreover low raw material cost and better operational efficiency will aid margin improvement going ahead, We initiate coverage on SDCCL with 'Buy' rating having a target price of Rs 75, which gives a potential upside of 27.4%.

Growth in cement Industry : Cement industry plays a very important and pivotal role in every developing economy and in current context more so. It could be a huge opportunity for the country to use the calamity caused by Covid 19 as an opportunity to start building infrastructure at all levels and more so in health care sector. Another area which deserves huge impetus is- Affordable Housing. All these factors will spur the growth for cement Industry going ahead. Also with the unlocking of economy demand for cement is expected to pick up from Q3FY21 onwards with end of rainy season and construction activity picking up.

Monopoly in oil well Cement Company has a monopoly in oil well cement brand which is a special kind of cement which is used by oil exploration companies like ONGC, Oil India. Oil well cement contributes 15-17% of the revenue. Company's 40% profit comes from the oil well cement and has high margin

Low transportation cost adds in the margin : Company does not import any raw material to manufacture cement. Major raw material for the company is lime stone which company gets from its own mines other raw material like gypsum is available nearby where the plant is located. Company procures Pet coke which is available from RIL plant which is just 5 KM away from Company's plant.

Reboust Financial performance: Historically sales have grown at CAGR of 14% from Rs 3149 mn in FY17 to Rs 4699 mn in FY20 while the operating profit has grown from Rs 77 mn in FY17 to Rs 1009 mn in FY20, while the operating Margin has expanded from 2.4% in FY17 to 21.5% in FY20. PAT have grown from Rs (118) mn in FY17 to Rs 565 mn in FY20. Company has healthy return ratios ROE 20.4 % and ROCE of 27.5% as on FY20. Company is virtually a debt free company which provides financially stability to the company.

Valuation and Outlook

At CMP of Rs 59, SDCCL is trading at EV/EBIDTA multiple of 7.5 to its FY20 EBIDTA of Rs 1009 mn We value the stock at a EV/EBIDTA multiple of 8x to its FY22E EBIDTA of Rs 1063 mn to arrive at a target price of Rs 75 which gives potential upside of 27.4% from current level. We initiate coverage on the stock with a 'Buy' rating.

Company Background

Shree Digvijay Cement Company Limited (SDCCL) is an India-based Company incorporated in 1944. The Company currently is managed by Private Equity firm named True North Fund VI LLP. Company is engaged in the manufacturing and selling of cement. The Company offers products, such as Ordinary Portland Cement 53 grade (OPC), Ordinary Portland Cement 43 grade (OPC), Sulphate Resisting Portland Cement (SRPC), Oil Well Cement Class G Grade HSR and Portland Pozzolana Cement. The Company's other products include special cements, such as Oil Well Cement, Sulphate Resisting Portland Cement and Railway Sleeper Manufacturing Cement. The Company offers its products through KAMAL brand. The Company caters to the domestic market. The Company exports cement and cement clinker to various countries, including the United Arab Emirates, Somalia, Yemen, Bangladesh, Qatar, Sri Lanka, Iraq, Kuwait, Bahrain, Philippines, and other South Asian Association for Regional Cooperation and African countries. The Company has a manufacturing facility at Sikka, Jamnagar. The manufacturing capacity stands at 1.20 Million Tons per Annum housing a Fully Automatic Modern Cement Plant. Company has been unique trendsetter in providing superior quality of ordinary & special Portland cement.

Key Managerial Persons

Person Name	Designation
Mr Anil Singhvi	Chairman and Executive Director
Mr Vikas Kumar	CFO
Mr Rajiv Nambiar	CEO-MD
Mr Suresh Meher	VP (Legal)CS and Compliance

Risk & Concerns:

Raw Material Risk : The cement industry depends on limestone and other raw materials. However, availability of limestone is limited and thus, it is essential to promote the use of blended cement, which uses alternative raw materials such as fly ash and slag. The increase in the cost of these alternative materials and availability of those materials may further increase the production costs.

Volatility in crude oil prices: Cement industry is highly energy intensive and 29% of its total expenditure consists of power and fuel costs. Company, 80% of company's requirement for kiln fire is met by Petcoke, which is a derivative of crude oil. Thus, any rise in crude oil prices will adversely impact prices of Petcoke and operating costs of the Company. In case of increase in Petcoke prices or no availability, Company uses imported or indigenous coal (through e-auction) as the availability of linkage coal is limited.

Power & Fuel: Volatility of fuel prices in the international markets coupled with uncertainty over availability of domestic and linkage coal continue to pose challenges in regard to coal availability and pricing to the cement industry as well as the Company.

Cement Sector Outlook

India is the second largest producer of cement in the world. No wonder, India's cement industry is a vital part of its economy, providing employment to more than a million people, directly or indirectly. Ever since it was deregulated in 1982, the Indian cement industry has attracted huge investments, both from Indian as well as foreign investors. India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent initiatives, such as development of 98 smart cities, is expected to provide a major boost to the sector. Aided by suitable Government foreign policies, several foreign players such as Lafarge-Holcim, Heidelberg Cement, and Vicat have invested in the country in the recent past. A significant factor which aids the growth of this sector is the ready availability of raw materials for making cement, such as limestone and coal.

Cement production reached 334.48 million tonnes (MT) in FY20. The cement production capacity is estimated to touch 550 MT by 2020. The Indian cement industry is dominated by a few companies. The top 20 cement companies account for almost 70% of the total cement production in the country. A total of 210 large cement plants account for a cumulative installed capacity of over 410 MT, with 350 small plants accounting for the rest. Of these 210 large cement plants, 77 are in the states of Andhra Pradesh, Rajasthan and Tamil Nadu.

In Union Budget 2020-21, the Government of India has extended benefits under Section 80 - IBA of the Income Tax Act till March 31, 2020 to promote affordable housing in India.

The eastern states of India are likely to be the newer and virgin markets for cement companies and could contribute to their bottom line in future. In the next 10 years, India could become the main exporter of clinker and gray cement to the Middle East, Africa, and other developing nations of the world. Cement plants near the ports, for instance the plants in Gujarat and Visakhapatnam, will have an added advantage for export and will logistically be well armed to face stiff competition from cement plants in the interior of the country. India's cement production capacity is expected to reach 550 MT by 2025.

Due to the increasing demand in various sectors such as housing, commercial construction and industrial construction, cement industry is expected to reach 550-600 million tonnes per annum (MTPA) by the year 2025. Number of foreign players are also expected to enter the cement sector owing to the profit margins and steady demand.

Q1FY21 Result analysis

Rs mn	Q1FY21	Q1FY20	Q4FY20	YOY	QOQ
Net Revenue	875	1,198	1,283	-27.0%	-31.8%
Operating Costs	484	701	751	-31.0%	-35.6%
Employee cost	96	81	93	18.5%	3.2%
Other Expenses	85	114	129	-25.4%	-34.1%
EBITDA	210	302	310	-30.5%	-32.3%
<i>EBITDA margin %</i>	<i>24.0%</i>	<i>25.2%</i>	<i>24.2%</i>	<i>-121bps</i>	<i>-16bps</i>
Depreciation	66	61	64	8.2%	3.1%
EBIT	144	241	246	-40.2%	-41.5%
Other Income	11	4	11	175.0%	0.0%
Finance cost	3	11	2	-76.4%	30.0%
Exceptional Item	-	-	-	-	-
PBT	152	234	255	-34.9%	-40.2%
Tax Expense	53	82	23	-35.4%	130.4%
Effective tax rate %	34.8%	35.0%	9.0%	-27bps	2576bps
PAT	99	152	232	-34.6%	-57.2%
<i>PAT margin %</i>	<i>11.4%</i>	<i>12.7%</i>	<i>18.1%</i>	<i>-133bps</i>	<i>-672bps</i>
EPS (Rs)	0.70	1.60	1.07	-56.3%	-34.6%

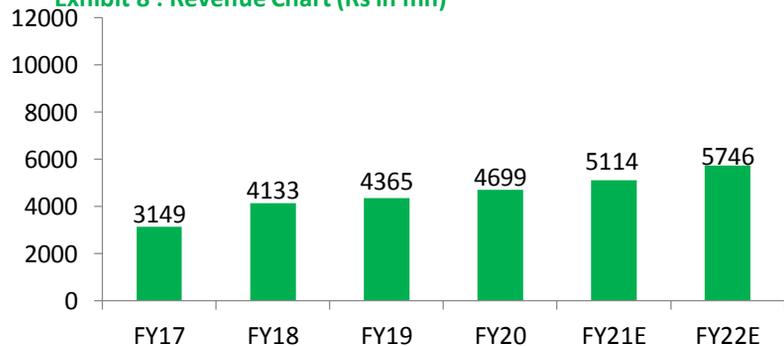
- Revenue from operation degrew by 27% YOY in Q1FY21 to Rs 875 mn due to decline in sales volumes which stood at 1.82 lacs tonnes in Q1FY21 as compared to 2.50 lakh tonnes in Q1FY20 due to huge disruption in business due to covid 19.
- EBIDTA declined by 30.5% YOY and 32.3% QoQ respectively to Rs 210 mn ,while the margins contracted by 121 bps YOY & 16 bps points QoQ respectively to 24% in Q1FY21 due to decline in top line and increase in raw material cost and employee expenses EBIDTA/Ton declined to Rs 1215 in Q1FY21 from Rs 1227 in Q1FY20.
- Cost of raw material increased by 33% YOY to Rs 350 mn and and employee expenses increased by 18.5% YOY to RS 96 mn in Q1FY21.
- PAT declined by 34% to Rs 99.8 mn YOY in Q1FY21 on the back of decline in top line and lower operating margin. PAT margin contracted by 130 bps YOY to 11.4% in Q1FY21.

Financial Performance Analysis

Revenue is expected to grow at 10.6% CAGR in FY20-FY22E

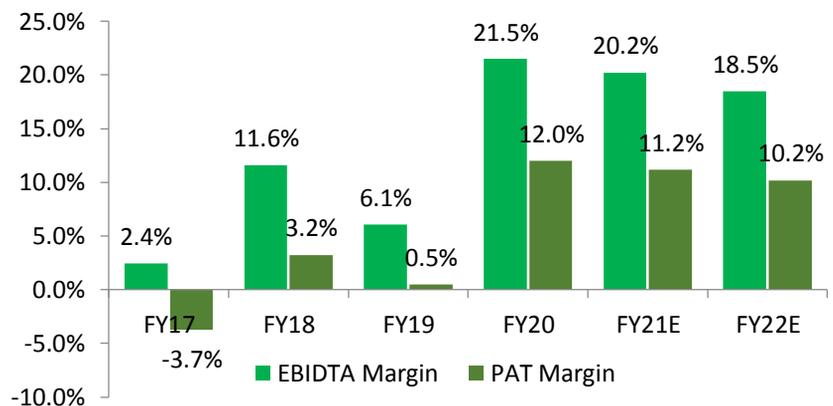
SDCCL had posted 14% CAGR growth in its sales over FY17-20. This was primarily on account of rise in volume and realization. Realization /ton has increased from Rs 3687 in FY17 to Rs 4780 in FY20. We are estimating sales to register 10.6% CAGR growth over the period of FY20-22E on back of improved realization and pick up in demand for cement.

Exhibit 8 : Revenue Chart (Rs in mn)



Margins expected to be healthy going ahead.

EBIDTA grew from Rs 77 mn in FY17 to Rs 1009 mn in FY20. EBIDTA/ton increased from Rs 9.0 in FY17 to Rs 102.7 in FY20. Operating margin expanded from 2.5% in FY17 to 21.5% in FY20 on back of operational efficiency and higher topline growth. We expect operating margin to be in range of 18 % to 20% on back of better realization , lower employee cost going ahead. PAT margin expanded from -3.7% in FY17 to 12% in FY20 on back of topline growth and better operating margin. Going ahead We expect PAT margin to be around 10.2% in FY22E.



Valuation and Outlook

At CMP of Rs 59, SDCCCL is trading at EV/EBIDTA multiple of 7.5 to its FY20 EBIDTA of Rs 1009 mn. We are positive on the company backed by increase in demand for cement, its monopoly in Oil well cement, good management and reasonable valuations compared to its other peers. We value the stock at a EV/EBIDTA multiple of 8x to its FY22E EBIDTA of Rs 1063 mn to arrive at a target price of Rs 75 which gives potential upside of 27.4% from current level. We initiate coverage on the stock with a 'BUY' rating.

Particular (Rs in Mn)	FY22E
EV/EBIDTA(x)	8.0
EBIDTA	1,063
EV	8504
Cash & bank	2,127
Debt	0
M Cap	10631
No Shares	141.4
Fair Value	75
CMP (Rs)	59
Upside	27.4%

Exhibit 12 : Peer Comparison Table as on FY20

Particulars (in Mn.)	Shree Digvijay Cement Limited	Sagar Cement Limited	The Ramco Cement Limited
CMP (as on 23-10-2020)	59	747	784
Revenue	4,699.0	11751	53893
EBIDTA	1009	1844	11846
PAT	565	267	6041
Margins			
EBITDA Margin	21.5	15.7	21.3
PAT Margin	12.0	2.3	11.2
Return Ratios			
ROE (%)	20.4	2.8	12.1
ROCE (%)	27.5	7.8	12.7
Leverage			
Debt- Equity (x)	0.0	0.4	0.5
Valuation			
EPS	4.0	11.9	25.6
P/E	14.8	62.3	30.6
EV/EBIDTA	7.5	11.3	18.3

*Financials are as on FY20

Financial Statement

Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	4,133	4,365	4,699	5,114	5,746
Change (%)	31.3%	5.6%	7.7%	8.9%	12.4%
Cost of Goods Sold	2,513	2,851	2,428	2,711	3,160
Employee costs	269	290	344	348	373
Other expenses	873	959	917	1,023	1,149
Total operating Expense	3,655	4,100	3,689	4,081	4,683
EBITDA	478	265	1,009	1,033	1,063
Other Income	64	46	22	30	40
Depreciation	229	240	248	269	291
Interest	107	39	18	18	18
PBT	206	33	766	776	794
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	206	33	766	776	794
Tax	73	13	201	204	209
Rate (%)	35.2%	38.5%	26.3%	26.3%	26.3%
PAT	134	20	565	572	585
Change (%)	-213.2%	-84.8%	2691.7%	1.2%	2.4%

Source: Company, Aриhant Research

Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Sources of Funds					
Share Capital	1,414	1,414	1,414	1,414	1,414
Reserves & Surplus	771	783	1,343	1,915	2,500
Net Worth	2,185	2,197	2,764	3,329	3,914
Long term debt	0	0	0	0	0
Short term debt	250	403	0	0	0
Total Debt	250	403	0	0	0
Other Liabilities & Provisions	1106	1053	1189	1395	1783
Capital Employed	3,541	3,653	3,953	4,724	5,697
Application of Funds					
Net Block	2,007	1,945	1,885	2,048	2,211
Deffered Tax & other liblity	165	166	103	103	103
Other Non-Current Assets	394	400	272	272	272
Non Current Asset	2,566	2,511	2,259	2,422	2,585
Investments	0	0	0	0	0
Debtors	121	137	98	107	120
Inventories	440	579	649	668	797
Cash & bank balance	320	362	744	1,458	2,127
Loans & advances & other CA	94	64	203	68	68
Total current assets	975	1,142	1,694	2,301	3,112
Total Assets	3,541	3,653	3,953	4,724	5,697

Financial Statement

Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
PBT	206	33	766	776	794
Depreciation	229	240	248	269	291
Interest & others	89	24	0	1	1
Cash flow before WC changes	520	284	1,026	1,050	1,090
(Inc)/dec in working capital	515	-290	45	28	-53
Operating CF after WC changes	1,034	-6	1,071	1,078	1,037
Less: Taxes	-18	-10	-129	-204	-209
Operating cash flow	1,016	-16	942	874	828
(Inc)/dec in F.A + CWIP	-152	-171	-165	-163	-163
(Pur)/sale of investment	0	0	0	0	0
Cash flow from investing	-124	-41	-137	-141	-141
Free cash flow (FCF)	866	-78	783	711	665
Loan raised/(repaid)	-710	150	-400	0	0
Equity raised	0	0	0	0	0
Interest & others	-105	-34	-17	-18	-18
Dividend	0	0	0	0	0
Cash flow from financing activities	-815	116	-421	-18	-18
Net inc /(dec) in cash	77	59	385	715	669
Opening balance of cash	222	299	359	743	1,458
Closing balance of cash	299	359	743	1,458	2,127

Source: Company, Arihant Research

Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
Per share (Rs)					
EPS	0.9	0.1	4.0	4.0	4.1
CEPS	2.6	1.8	5.7	5.9	6.2
BVPS	15.5	15.5	19.5	23.5	27.7
DPS					
Valuation (x)					
P/E	62.5	412.4	14.8	14.6	14.3
P/CEPS	23.0	32.1	10.3	9.9	9.5
P/BV	3.8	3.8	3.0	2.5	2.1
EV/EBITDA	17.2	31.5	7.5	6.6	5.8
Return Ratios (%)					
Gross Margin	39.2%	34.7%	48.3%	47.0%	45.0%
EBIDTA Margin	11.6%	6.1%	21.5%	20.2%	18.5%
PAT Margin	3.2%	0.5%	12.0%	11.2%	10.2%
ROE	6.1%	0.9%	20.4%	17.2%	15.0%
ROCE	10.2%	1.0%	27.5%	22.9%	19.7%
Leverage Ratio (%)					
Total D/E	0.1	0.2	0.0	0.0	0.0
Turnover Ratios					
Asset Turnover (x)	1.2	1.2	1.2	1.1	1.0
Inventory Days	64	74	98	90	92
Receivable Days	11	11	8	8	8
Payable days	51	44	37	38	39

Source: Company, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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