

**CMP: Rs 61**

**Rating: Hold**

**Target Price: Rs 67**

**Stock Info**

BSE	502180
NSE	SHREDIGCEM
Bloomberg	DIGV IN
Routers	SRDC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs mn)	1418
Mkt Cap (Rs mn)	8698
52W H/L (Rs)	67/18
Avg Yearly Vol (in 000')	923

**Shareholding Pattern %**

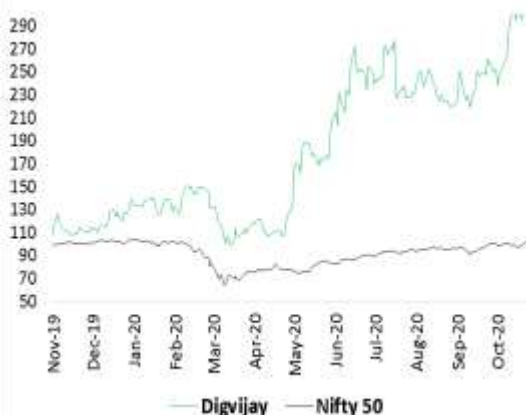
(As on September 2020)

Promoters	56.96
Public & Others	43.04

**Stock Performance (%)**

	3m	6m.	1 Yr
Shree Digvijay Cement	23.9	89.9	180.1
Nifty50	14.3	39.7	7.6

**Shree Digvijay Cement Price Chart**



**Shrey Gandhi**

Shrey.gandhi@arihantcapital.com

022 4225 4840

**Shree Digvijay Cement Company Limited (SDCCL) Q2FY21 result was below our expectation on all fronts. Net Revenue declined by 2.2%YoY but increased by 10.9% QoQ to Rs 970 mn in Q2FY21 below our expectation of Rs 1413 mn. EBIDTA declined by 46.1%YoY and 50.5% QoQ to Rs 104mn below our expectation of Rs 274 mn, decline in EBIDTA was due to de-growth in top line and higher operating cost. Other expense rose by 83.7% YoY and 124.7 % QoQ to Rs 191mn due to repair and maintenance and enhancement work of the plant carried out in this quarter of Rs 91 mn included in other expenses. EBIDTA margin contracted by 873 bps YoY and 1328 bps QoQ to 10.7% PAT declined by 68.7% YoY and 72.7% QoQ to Rs 27 mn below our estimates of Rs 158 mn mainly due to decline in operating profit. PAT margin contracted by 590 bps YoY and 854 bps QoQ to 2.8%.**

**Operational Highlights :**

- Company reported weak performance in Q2FY21. Top line declined by 2.2% YoY but rose 10.9% QOQ to Rs 970 mn. Sales volume rose by 3.5 % YoY and 14.8% QOQ to 2.09 lakh tonnes in Q2FY21 however realization /ton declined by 5.5% YoY and 3.5 % QoQ to Rs 4642 in Q2FY21. EBIDTA declined by 46.1%YoY and 50.5% QoQ to Rs 104mn, decline in EBIDTA was due to de-growth in top line and higher operating cost. EBIDTA/ton declined by 47.9% YoY & 56.9% QoQ to Rs 498 in Q2FY21. Decline in topline and operating profit led to decline in bottom line PAT declined by 68.7% YoY and 72.7% QoQ to Rs 27 mn
- Company has allotted 517333 equity shares of Rs 10 each under company's ESOS 2019 scheme pursuant to the allotment the share capital has increased from Rs 1413 mn to Rs 1418 mn.
- On 28<sup>th</sup> July 2020 company has incorporated SDCCL Logistics Limited as a wholly owned subsidiary with the paid-up share capital of Rs 1,00,000.
- SDCCL took a major plant overhaul exercise to increase the plant productivity. Post major plant overhaul clinker production has improved considerably, company has produced highest ever clinker production of 93324 tons in Oct 20.
- Company has acquired new milestone mines mitigating area of concern for many years with this additional mines it has sufficient limestone reserve for more than 20 years for which the company has raised debt of Rs 250 mn in the current quarter.

**Valuation and Outlook**

At CMP of Rs 61, SDCCL is trading at EV/EBIDTA multiple of 7.5(x) 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. However, We are cautious on factors such as company's limited scale of operation, low market share. Further company has taken loan to acquire mines which will increase the finance cost going ahead. We have lowered our PAT estimates by 14% & 15% respectively to Rs 491 mn & Rs 497 mn in FY21E & FY22E . We value the stock at a EV/EBIDTA multiple of 8x to its FY22E EBIDTA of Rs 948 mn to arrive at a target price of Rs 67 which gives potential upside of 10.3% from current level. We downgrade our rating from Buy to Hold on the stock.

## Q2FY21 Results

Rs mn	Q2FY21	Q2FY20	Q1FY21	YOY	QOQ
<b>Net Revenue</b>	<b>970</b>	<b>992</b>	<b>875</b>	<b>-2.2%</b>	<b>10.9%</b>
<b>Operating Costs</b>	<b>579</b>	<b>611</b>	<b>484</b>	<b>-5.2%</b>	<b>19.6%</b>
Employee cost	96	84	96	14.3%	0.0%
Other Expenses	191	104	85	83.7%	124.7%
<b>EBITDA</b>	<b>104</b>	<b>193</b>	<b>210</b>	<b>-46.1%</b>	<b>-50.5%</b>
<i>EBITDA margin %</i>	<i>10.7%</i>	<i>19.5%</i>	<i>24.0%</i>	<i>-873bps</i>	<i>-1328bps</i>
Depreciation	67	61	66	9.8%	1.5%
<b>EBIT</b>	<b>37</b>	<b>132</b>	<b>144</b>	<b>-72.0%</b>	<b>-74.3%</b>
Other Income	7	2	11	245.0%	-37.3%
Finance cost	4	2	3	100.0%	33.3%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>40</b>	<b>132</b>	<b>152</b>	<b>-69.8%</b>	<b>-73.8%</b>
Tax Expense	13	46	53	-71.7%	-75.5%
Effective tax rate %	32.6%	34.8%	34.9%	-227bps	-229bps
<b>PAT</b>	<b>27</b>	<b>86</b>	<b>99</b>	<b>-68.7%</b>	<b>-72.8%</b>
<i>PAT margin %</i>	<i>2.8%</i>	<i>8.7%</i>	<i>11.3%</i>	<i>-590bps</i>	<i>-854bps</i>
<b>EPS (Rs)</b>	<b>0.20</b>	<b>0.60</b>	<b>0.70</b>	<b>-66.7%</b>	<b>-71.4%</b>

## Valuation:

Particular ( Rs in Mn)	FY22E
EV/EBIDTA (x)	8.0
EBIDTA	948
EV	7585
Cash & bank	2,208
Debt	250
M Cap	9543
No Shares	141.8
Fair Value (Rs)	67
CMP (Rs)	61
Upside (%)	10.3

## Financial Statement

## Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>4,133</b>	<b>4,365</b>	<b>4,699</b>	<b>5,114</b>	<b>5,746</b>
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
<b>Other expenses</b>	<b>873</b>	<b>959</b>	<b>917</b>	<b>1,125</b>	<b>1,149</b>
Total operating Expense	<b>3,655</b>	<b>4,100</b>	<b>3,689</b>	<b>4,184</b>	<b>4,683</b>
<b>EBITDA</b>	<b>478</b>	<b>265</b>	<b>1,009</b>	<b>931</b>	<b>1,063</b>
Other Income	64	46	22	30	40
Depreciation	229	240	248	269	291
Interest	107	39	18	26	23
<b>PBT</b>	<b>206</b>	<b>33</b>	<b>766</b>	<b>666</b>	<b>674</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>206</b>	<b>33</b>	<b>766</b>	<b>666</b>	<b>674</b>
Tax	73	13	201	175	177
Rate (%)	35.2%	38.5%	26.3%	26.3%	26.3%
<b>PAT</b>	<b>134</b>	<b>20</b>	<b>565</b>	<b>491</b>	<b>497</b>
Change (%)	-213.2%	-84.8%	2691.7%	-13.1%	1.3%

Source: Company, Aриhant Research

## Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>					
Share Capital	1,414	1,414	1,414	1,418	1,418
Reserves & Surplus	771	783	1,343	1,834	2,331
<b>Net Worth</b>	<b>2,185</b>	<b>2,197</b>	<b>2,764</b>	<b>3,252</b>	<b>3,749</b>
Long term debt	0	0	0	250	250
Short term debt	250	403	0	0	0
<b>Total Debt</b>	<b>250</b>	<b>403</b>	<b>0</b>	<b>250</b>	<b>250</b>
Other Liabilities & Provisions	1106	1053	1189	1391	1779
<b>Capital Employed</b>	<b>3,541</b>	<b>3,653</b>	<b>3,953</b>	<b>4,893</b>	<b>5,778</b>
<b>Application of Funds</b>					
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
<b>Non Current Asset</b>	<b>2,566</b>	<b>2,511</b>	<b>2,259</b>	<b>2,422</b>	<b>2,585</b>
Investments	0	0	0	0	0
Debtors	121	137	98	107	120
Inventories	440	579	649	668	797
Cash & bank balance	320	362	744	1,627	2,208
Loans & advances & other CA	94	64	203	68	68
<b>Total current assets</b>	<b>975</b>	<b>1,142</b>	<b>1,694</b>	<b>2,470</b>	<b>3,193</b>
<b>Total Assets</b>	<b>3,541</b>	<b>3,653</b>	<b>3,953</b>	<b>4,893</b>	<b>5,778</b>

## Financial Statement

### Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>206</b>	<b>33</b>	<b>766</b>	<b>666</b>	<b>674</b>
Depreciation	229	240	248	269	291
Interest & others	89	24	0	9	6
Cash flow before WC changes	520	284	1,026	948	975
<b>(Inc)/dec in working capital</b>	<b>515</b>	<b>-290</b>	<b>45</b>	<b>27</b>	<b>-53</b>
Operating CF after WC changes	1,034	-6	1,071	975	922
Less: Taxes	-18	-10	-129	-175	-177
<b>Operating cash flow</b>	<b>1,016</b>	<b>-16</b>	<b>942</b>	<b>800</b>	<b>745</b>
(Inc)/dec in F.A + CWIP	-152	-171	-165	-163	-163
(Pur)/sale of investment	0	0	0	0	0
<b>Cash flow from investing</b>	<b>-124</b>	<b>-41</b>	<b>-137</b>	<b>-141</b>	<b>-141</b>
<b>Free cash flow (FCF)</b>	<b>866</b>	<b>-78</b>	<b>783</b>	<b>637</b>	<b>582</b>
Loan raised/(repaid)	-710	150	-400	250	-
Equity raised	0	0	0	0	0
Interest & others	-105	-34	-17	-26	-23
Dividend	0	0	0	0	0
<b>Cash flow from financing activities</b>	<b>-815</b>	<b>116</b>	<b>-421</b>	<b>225</b>	<b>-23</b>
<b>Net inc /(dec) in cash</b>	<b>77</b>	<b>59</b>	<b>385</b>	<b>884</b>	<b>581</b>
Opening balance of cash	222	299	359	743	1,627
Closing balance of cash	299	359	743	1,627	2,208

Source: Company, Arihant Research

### Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	0.9	0.1	4.0	3.5	3.5
CEPS	2.6	1.8	5.7	5.4	5.6
BVPS	15.5	15.5	19.5	22.9	26.4
DPS					
<b>Valuation (x)</b>					
P/E	64.6	426.4	15.3	17.6	17.4
P/CEPS	23.8	33.1	10.6	11.4	11.0
P/BV	3.9	3.9	3.1	2.7	2.3
EV/EBITDA	17.8	32.6	7.8	7.6	6.8
<b>Return Ratios (%)</b>					
Gross Margin	39.2%	34.7%	48.3%	47.0%	45.0%
EBIDTA Margin	11.6%	6.1%	21.5%	18.2%	16.5%
PAT Margin	3.2%	0.5%	12.0%	9.6%	8.6%
ROE	6.1%	0.9%	20.4%	15.1%	13.3%
ROCE	10.2%	1.0%	27.5%	18.9%	16.4%
<b>Leverage Ratio (%)</b>					
Total D/E	0.1	0.2	0.0	0.1	0.1
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.2	1.2	1.2	1.0	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

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880