



HDFC securities

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Saurashtra Cement Ltd.

Quick small/midcap Funda Momentum Picks

Medium to High risk

Key points:

- These picks are based on fundamentals and issued when momentum is seen in them. These stocks may not have enough liquidity and depth and may go from circuit to circuit (either up or down). In the interest of timeliness, detailed financial projections are not prepared.
- Small allocation of investible surplus may be put in such stocks and spread your surplus among several such stocks.
- Once the risk appetite in the market reduces, such stocks could face the pressure of selling irrespective of fundamentals or valuations.
- Entry and exit into these stocks have to be carefully timed.
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- It is possible that the street may take time to recognize these or there may be adverse developments in the interim. Hence proper exit strategies have to be worked out in advance (that may include stoploss or trailing stoploss).

05-August-2021



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Red flag level*	Time Horizon
Cement	Rs.118.75	Buy in Rs.117-121 band & add more on dips to Rs 106	Rs. 135	Rs. 148	Rs.95	1- 2 quarters

*Investor may sell 60-65% of their holding on first target being achieved and later keep a stop loss of first target for balance holding, in case the second target takes time to be achieved. Investor may also maintain Rs.196 as red flag level below which investment position needs to be reviewed, including the possibility to exit

HDFC Scrip Code	SAUCEMEQNR
BSE Code	502175
NSE Code	NA
Bloomberg	SRC:IN
CMP August 04, 2021	Rs.118.75
Equity Capital (Rs cr)	70
Face Value (Rs)	10
Equity Share O/S (cr)	6.99
Market Cap (Rs cr)	829.94
Book Value (Rs)	75
Avg. 52 Wk Volumes	109649
52 Week High	132.00
52 Week Low	36.50

Share holding Pattern % (June, 2021)	
Promoters	73.09
Institutions	0.74
Non Institutions	26.17
Total	100.0

Retail Research Risk Rating:

	Red*
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* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

Saurashtra Cement Limited (SCL) was incorporated in 1956 and has 6+ decades of experience of operating in cement industry. It is the flagship company of The Mehta Group which has multiple businesses with diversified locations. Besides standard products, the company also manufactures 'Sulphate Resistant Portland Cement' which is used for specific applications. Going forward, in order to improve its competitiveness, the company aims at ensuring strategic integration of activities and optimize production and distribution across all markets in order to provide a complete solution for customer needs at the lowest possible cost.

It is a one of the oldest cement players in the Western Region of India. It has 1.5 MTPA of cement capacity at Ranavav Gujarat. We believe further growth will be driven by increase in demand of cement and acquisition of exterior cement-based masonry paint business.

We expect COVID-led lockdown and slowdown in the economy to lead to subdued growth in volumes for SCL in FY22E but buoyant cement prices and aggressive control on variable costs are likely to drive EBITDA growth. The industry has high dependence on real estate and infra, which are likely to be impacted by the economic slowdown. The key growth drivers of demand are likely to be rural housing, Pradhan Mantri Awas Yojana (rural), Pradhan Mantri Gram Sadak Yojana and increased spending on infrastructure development.

Valuations & Recommendation:

We expect the company to benefit from 1) Its established regional presence, 2) long term experience of promoter group, 3) Acquisition of exterior cement-based masonry paint company "Snowcem Paints", 4) Net debt free balance sheet and consistent strong cash flow generation, and 5) Positive industry triggers like higher realizations.

Cement companies are valued (EV/T or EV/EBITDA) based on their capacities, regional diversification, and Balance Sheet strength. Smaller companies are generally valued lower because of regional concentration, limited scale of operations, lower pricing power; however, stocks get re-rated post announcing growth plans, successfully executing expansions and forays into new markets (like Snowcem in the current company), thus reducing concentration risk on earnings.

We think SCL can post 11% CAGR (over FY21-FY23E) in net sales to Rs.834.7 cr, 23% CAGR in EBITDA to Rs. 173 cr and 29% CAGR in PAT to Rs.120.2 cr. This does not take into account the sales from the newly acquired Snowcem exterior paints business.

We believe the base case fair value of the stock is Rs.135 (FY23E EV/T of \$56 and FY23E EV/EBITDA of 3.6x) and the bull case fair value is Rs.148 (FY23E EV/T of \$64 and FY23E EV/EBITDA of 4.1x). Investors can buy the stock at the CMP (FY23E EV/T of \$46 and FY23E EV/EBITDA of 3.0x) and add on dips to Rs.106 (FY23E EV/T of \$38 and FY23E EV/EBITDA of 2.4x).

Financial Summary (Consolidated)


Particulars (Rs cr)	Q4FY21	Q4FY20	YoY-%	Q3FY20	QoQ-%	FY19	FY20	FY21P
Total Operating Income	243	177	37%	206	18%	622	608	674
EBITDA	48	31	55%	34	41%	5	109	115
APAT	32	7	357%	21	52%	-5	57	72
Diluted EPS (Rs)	4.53	0.95	377%	2.97	53%	-0.7	8.1	10.4
RoE-%						-1.2	13.2	14.8
P/E (x)						NA	14.7	11.5
EV/EBITDA						108.4	4.7	4.5

(Source: Company, HDFC sec)

Triggers

In order to diversify its business and expand into highly scalable and synergistic business to its existing cement business, the company in Mar 2021 had acquired "Snowcem Paints" which is into manufacturing of exterior cement-based masonry paints. The total consideration for the transaction is around Rs 55 crore. Snowcem markets exterior power paints, interior emulsion, enamels, primers, cement paints, putty and snowcare range. It has several well-known brands in its portfolio. The operations has commenced under 'Saurashtra Cement - Paint Division' with effect from May 01, 2021. Going forward, scale-up in the Snowcem paints business is likely to be the key growth driver for the company. This may also lead to P/E rerating depending on how fast the scale up happens.

SCL's plant at Ranavav located in Gujarat state has a capacity of 1.5 MTPA. The plant offers locational advantages because of its proximity to the Porbandar and Veraval/Okha ports, rail network and is close to highways. Besides standard products, the company also manufactures 'Sulphate Resistant Portland Cement' for specific applications. The products are marketed / distributed in bags, jumbo bags



and loose by road, rail and sea - to suit customer's requirements located in Gujarat, Maharashtra, Rajasthan, Madhya Pradesh and the West Coast of India. SCL thus has competitive access to the domestic markets and also to the large export markets in the Africa, Middle East countries, Sri Lanka etc. by the economical sea route.

Cement prices have risen the most in Q1FY22 sequentially in West markets, also. Cement price in West region has increased by 1% QoQ, 3% YoY.

SCL's financial strength has been constantly improving on the back of strong operating cash flows due to lower capex on the expansion side. It has posted RoE/RoCE of 14.8/19.8% in FY21P which is sustainable. In the past 8 years, it has never made a loss except a small loss in FY19.

In SCL, promoter holding stands at ~73% which was increased from ~64% post equity infusion in FY16 @ par.

Concerns

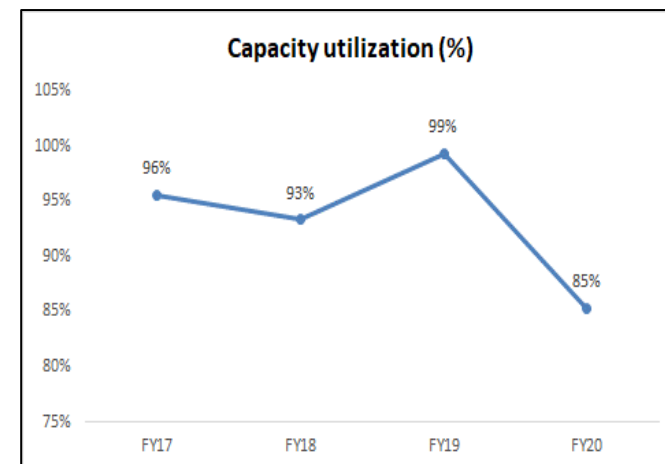
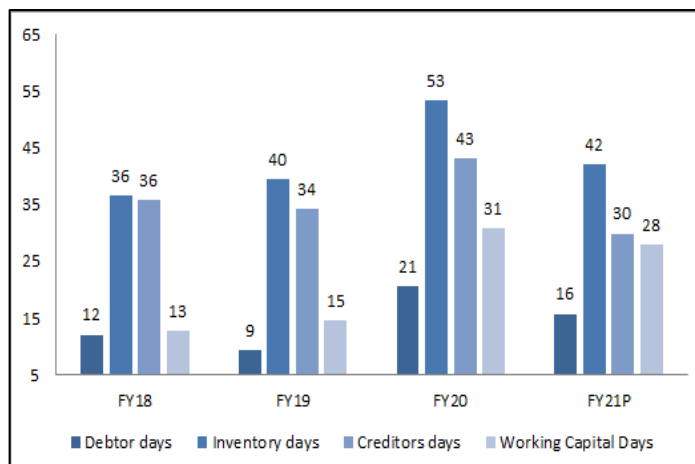
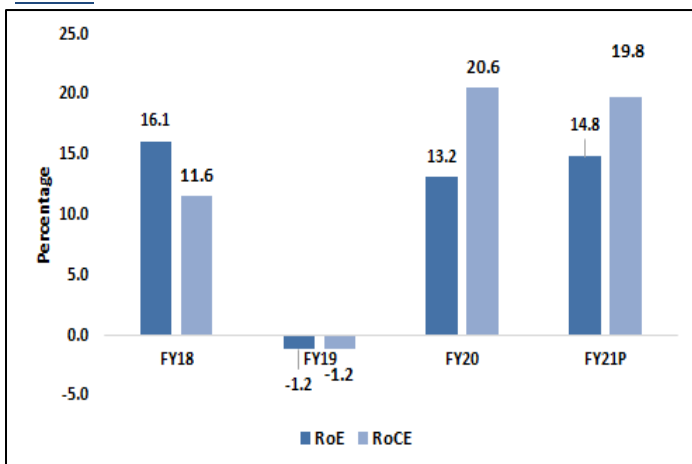
- Its realizations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry. The cement industry is likely to add 78mnT cement capacity over FY21-FY24E.
- The company is exposed to any adverse volatility in the prices of the commodities, fuel, power and freight costs. Inability to pass on price can affect adversely on profitability.
- Revenue of the company is concentrated in Western Indian region, any slowdown in region will affect revenue and profitability of the company. Majority of the sales volume of the Company is restricted to the state of Gujarat. The Company is largely dependent on a single market and any calamity or other factor which may affect development in Gujarat may also impact the Company's performance.
- Inability to scale and have a profitable growth in the Snowcem Paints business over next 2-3 years would have an adverse impact on the earnings growth prospects of the company.

- It has Rs.59.8 cr Capital WIP on books as on March 2021 including old CWIP of Rs.34 cr. It had applied for environmental clearance for expansion in 2018 over large area and limestone capacity. However the current status of this expansion is not known.

Company Background:

Saurashtra Cement Limited (SCL) is the flag ship company of The Mehta Group, formed in 1956. Saurashtra Cement Limited" (SCL), manufactures and markets cement under the brand name "HATHI". Saurashtra Cement, Ranavav is a dry process cement plant using Pre-calciner Technology that consists of In Line (ILC) as well as Separate Line Calciner (SLC) for the pyro-processing. Apart from this, the group also owns Gujarat Sidhee Cement Ltd which is engaged in the business of cement (1.2 mn tonnes plant) under the brand name 'Sidhee'. Recently it merged one of the promoter companies into Saurashtra Cement so that the 19.4% stake (out of 73.4% promoter stake) is now held directly by the promoters.

Charts



(Source: Company, HDFC sec)

Financial

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21P
Net Revenue	574	622	608	674
Growth (%)	22.0	8.4	-2.2	10.8
Operating Expenses	524	617	499	559
EBITDA	50	5	109	115
Growth (%)	69.9	-90.5	2211.2	5.0
EBITDA Margin (%)	8.7	0.8	17.9	17.0
Other Income	17.7	8.4	8.4	12.3
Depreciation	17.7	18.3	19.7	20.0
EBIT	50	-5	98	107
Interest	3.4	4.7	4.5	4.4
Exceptional Items	0.0	3.2	-16.0	0.0
PBT	46	-7	77	102
Tax	-16.0	-1.9	20.8	30.2
PAT	62	-5	57	72
Growth (%)	349.0	PL	LP	27.9
EPS	8.9	-0.7	8.1	10.4

Balance Sheet

As at March	FY18	FY19	FY20	FY21
SOURCE OF FUNDS				
Share Capital	69.2	69.3	69.5	69.8
Reserves	346	339	381	453
Shareholders' Funds	416	408	451	523
Long Term Debt	3	4	6	5
Long Term Provisions & Others	12	12	18	30
Total Source of Funds	430	425	475	558
APPLICATION OF FUNDS				
Net Block	377	386	386	406
Non-Current Investments	6	5	4	8
Deferred Tax Assets (net)	0	2	0	0
Long Term Loans & Advances	16	23	26	26
Total Non-Current Assets	399	416	416	439
Current Investments	0	0	0	0
Inventories	56	78	100	56
Trade Receivables	19	16	34	29
Short term Loans & Advances	14	3	4	3
Cash & Equivalents	81	81	102	188
Other Current Assets	4	3	5	11
Total Current Assets	175	181	245	287
Short-Term Borrowings	13	26	18	13
Trade Payables	52	63	55	37
Other Current Liab & Provisions	76	80	110	115
Short-Term Provisions	3	3	3	3
Total Current Liabilities	144	172	186	168
Net Current Assets	31	9	59	119
Total Application of Funds	430	425	475	558

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21P
Reported PBT	46	-7	77	102
Adjustment	10	21	37	17
Working Capital Change	2	4	-38	30
Tax Paid	-9	-3	-14	-16
OPERATING CASH FLOW (a)	49	15	62	134
Capex	-31	-31	-24	-39
dec in Fixed Asset	1	0	1	2
Free Cash Flow	19	-17	39	96
Investments	-7	10	-21	-90
Non-operating income	0	5	5	6
INVESTING CASH FLOW (b)	-37	-16	-38	-121
Debt Issuance / (Repaid)	0	15	-6	-9
Interest Expenses	-3	-4	-3	-3
FCFE	15	-5	30	85
Share Capital Issuance	0	0	0	0
Dividend	-7	-7	-12	-6
Other financial Activity	-1	-1	-3	0
FINANCING CASH FLOW (c)	-12	3	-23	-17
CHANGES IN CASH BALANCE (a+b+c)	0	2	1	-4
Opening cash Balance	70	81	81	102
Closing cash Balance	70	83	81	98

Key Ratios

	FY18	FY19	FY20	FY21P
Profitability (%)				
EBITDA Margin	8.7	0.8	17.9	17.0
EBIT Margin	8.7	-0.8	16.1	15.9
APAT Margin	10.9	-0.8	9.3	10.7
RoE	16.1	-1.2	13.2	14.8
RoCE	11.6	-1.2	20.6	19.8
Solvency Ratio				
D/E	0.0	0.1	0.1	0.0
Interest Coverage	14.6	-1.1	21.8	24.4
PER SHARE DATA				
EPS	44.6	-0.7	8.2	10.4
CEPS	11.6	1.9	11.0	13.2
BV	60	59	65	75
Dividend	1.0	1.0	1.8	1.0
Turnover Ratios (days)				
Debtor days	12	9	21	16
Inventory days	36	40	53	42
Creditors days	36	34	43	30
Working Capital Days	13	15	31	28
VALUATION				
P/E	13.3	NA	14.7	11.5
P/BV	2.0	2.0	1.8	1.6
EV/EBITDA	10.3	108.4	4.7	4.5
Dividend Yield	0.8	0.8	1.5	0.8
Dividend Payout	2.2	NA	21.6	9.7

(Source: Company, HDFC sec)



Disclosure:

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