Stock Note

Shree Digvijay Cement Co. Ltd.

January 23, 2024

RETAILRESEARCH

Shree Digvijay Cement Co. Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Cements	Rs 117.6	Buy in Rs 116-120 band & add on dips in Rs 102-105 band	Rs 129	Rs 144.5	2-3 quarters

HDFC Scrip Code	SHRDIGEQNR
BSE Code	502180
NSE Code	SHREDIGCEM
Bloomberg	SHREDIGCEM
CMP January 20, 2024	117.6
Equity Capital (Rs cr)	146.7
Face Value (Rs)	10
Equity Share O/S (cr)	14.7
Market Cap (Rs cr)	1726
Book Value (Rs)	21.4
Avg. 52 Wk Volumes	879133.05
52 Week High (Rs)	124
52 Week Low (Rs)	57.3

Share holding Pattern % (Dec, 2023)	
Promoters	55.07
Institutions	3.61
Non Institutions	41.32
Total	100

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Shree Digvijay Cement Co. Ltd (SDCCL) is primarily engaged in the manufacturing of cement as its core business activity. The company's product portfolio includes various kinds of cement such as Portland Pozzolana cement, OPC Cement, SRPC Cement, Oil Well cement, etc. SDCCL has its manufacturing plant at the coastal town of Digvijaygram, Jamnagar, Gujarat which currently has a manufacturing capacity of 1.2 MMTPA of cement. The company has received Environmental Clearance (EC) for expansion of capacity to 3 MMTPA and also started working on the same. The company has 8.5MW waste heat recovery power plant which contributes to the ~27% overall power requirement of the company. The company has established a healthy brand of its cement products which is supported on ground by its distribution network leading to higher retail trade mix. The company has Gujarat-wide network of over 1,000 Channel Partners selling the Cement under the Brand Name “**KAMAL CEMENT**“.

The company is also engaged in logistics business via its wholly owned subsidiary SDCCL Logistics Limited. SDCCL owns and operates a captive sea port that can harbor and handle 3,000-5,000 DWT vessels along the jetty. The port can be used for the import and export of cargo for the its own and others.

The company has delivered very good set of numbers in Q3FY24, the EBITDA increased by 208% YoY to Rs 49 Crore (excluding other income). The EBITDA/Tonne surged 3x YoY to Rs.1550/tonne. The management expects the demand for the cement is expected to increase over the medium term due to demand from infrastructure and real estate segments.

We believe various cost saving initiatives taken by the company (including waste heat recovery-based and wind power through Power Purchase Agreement to replace high-cost grid power), increase in cement and clinker capacity and limestone extraction from captive mines would aid revenue and margin growth.

Valuation & Recommendation:

Due to healthy demand of the products in Gujarat region, the company’s plant is operating at more than 100% of its capacity and is expected to operate at similar rates in the near term till the additional capacity is commissioned. Also the company is continuously improving its plant performance by debottlenecking & asset optimisation and keeping the cost under control; this increases productivity and profitability of the company. We believe along with this higher sales volume due to expansion and improving profitability could result in rerating of the

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company. Also the PE investor True North may look at exiting the company at some point in future. The recent deal of Ambuja Taking over Sanghi Ind (capacity 6.1 mn tonnes) happened at EV of $99 per tonne. SDCC's EV/Tonne for FY24 works out to $69.3.

We believe investors can buy the stock in the range of Rs 116-120 band and add on dips to 102-105 band (5.6x EV/EBITDA FY26E, $61.02 EV/MT FY24E), for base case fair value of Rs 129 (7x EV/EBITDA FY26E, $75.93 EV/MT) and bull case fair value of Rs 144.5 (7.8x EV/EBITDA FY26E, $85.19 EV/MT).

Financial Summary:

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Operating Income	191	206	-7.3	183	4.3	629	727	783	833	1,331
EBITDA	49	16	206.7	18	173.7	117	101	139	158	268
APAT	31	10	208.0	7	324.8	55	58	80	89	151
Diluted EPS (Rs)	2.1	0.7	208.0	0.5	324.8	3.8	4.0	5.5	6.0	10.3
RoE-%						17.7	18.2	21.8	19.7	26.5
P/E (x)						30.9	29.7	21.6	19.5	11.4
EV/EBITDA						14.0	16.0	12.4	11.4	6.4

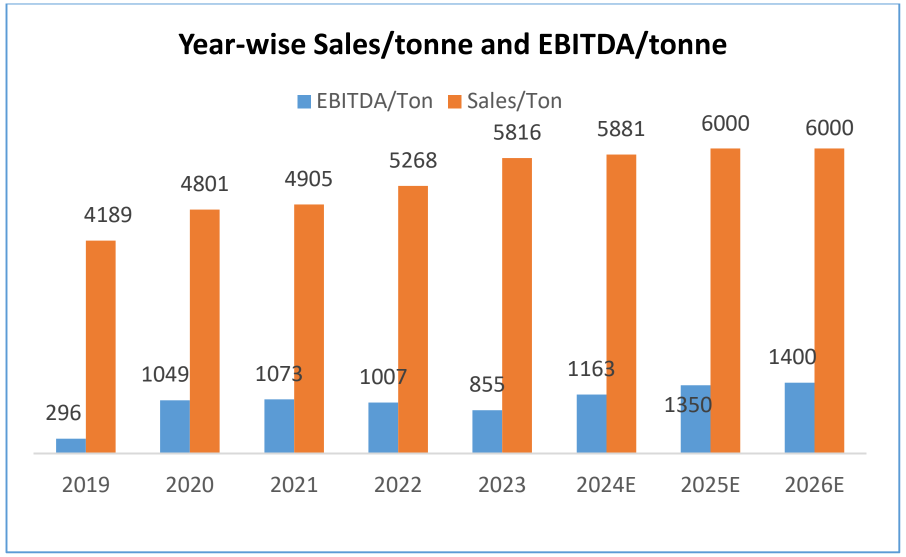
(Source: Company, HDFC sec)

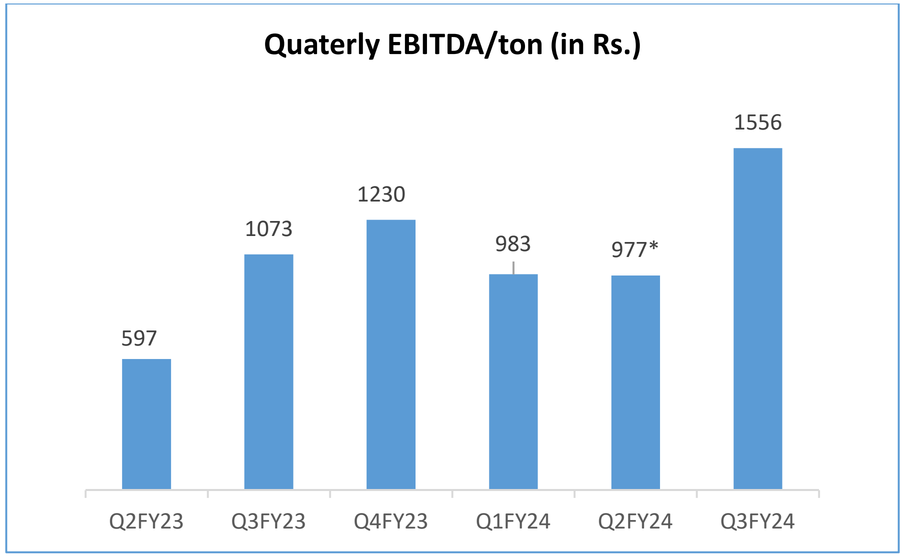
Q3FY24 Result Update

Consolidated revenue from operations during the quarter stood at Rs 191 crores, down by ~7.3% YoY. Realization/t stood at Rs 5825/tonne, down by 0.89% YoY and down 2.23% QoQ. EBITDA (excluding the other income) during the quarter stood at Rs 49 crores, up by ~206.7%. YoY (SDCCL had undergone maintenance activity in Q2FY24 and QoQ profitability figures are not comparable). Despite lower realization and volumes during Q3FY24 the company was able to achieve the highest ever EBITDA per tonne of over Rs. 1550/tonne which is almost 3 times to its Q3FY23 EBITDA/Tonne of Rs. 484/Tonne and compared to Rs.1208/tonne for Ultratech Cement for Q3FY24. Adjusted PAT during the quarter stood at Rs 31 crores, up by ~208 %. YoY.

As per the Management of company, continuous focus on enhancing productivity and cost reduction has resulted in increased profitability during the quarter. Also on demand front, it has picked up well after a slow start post festival season. It is expected to further improve in the coming months.

The Q3FY24 performance was despite a sluggish November. From December, sales have stabilized and the company expects 6-7% volume growth for the whole of FY24.





(- EBITDA/ton for Q2FY is adjusted for shutdown expenses occurred in Q2FY24)* *(Source: Company, HDFC sec)*

Key Triggers

More than 100% Capacity Utilization of the plant's capacity

Since FY22, the company's plant is operating at more than 100% of its capacity and it is expected to operate at similar rates the near term till the additional capacity is commissioned. Generally, in the cement industry, few plants run at full or near full capacity. However, improved plant performance by debottlenecking & asset optimisation and keeping the cost under control has increased productivity and profitability of the company. Along with higher sales volume, highest ever blended and special products sales has a positive effect on the top line growth and profitability.

Capacity expansion at Sikka

The company has got the environmental clearance for expansion of cement production capacity from 1.2 MTPA to 3 MTPA and clinker capacity from 1.1 MTPA to 2.21 MTPA. This will allow the company to further improve on productivity and with minimum capex increase production on sustained basis. Also, the management of the company is confident that they will complete the whole capacity expansion within the capex budget of ~Rs.250 crores (i.e. cost of capex/tonne is ~$20/ tonne).

As of end of Q3FY24, the company's expansion plans are progressing well and management is at the advanced stage of finalizing the capex orders and the work of ground preparation is also progressing well. It is expected that the additional capacity will be operational by Q3FY25.

Change in Promoter and management
In 2018, True North Fund acquired a ~54% stake in the company from Brazil's Votorantim Cimentos for ~Rs.120 crores. It also acquired ~3% stake from the public through an open offer for ~Rs.8 crores.

Mr. Anil Singhvi was appointed as Non-Independent Executive Director and the Executive Chairman of the Company w.e.f. 30th April 2019. Mr. Singhvi has vast experience in managing and running large corporates, including, long experience in cement and other industries in India. He is a Chartered Accountant and having outstanding professional career. Out of over 41 years of experience, he spent 23 years in building up of Ambuja Cement, where the last position held by him was of the CEO and Managing Director. He was instrumental in making Ambuja Cement the most efficient producer of Cement and in building its brand value.

Special Grade Cement(SGC)
The company produces special grade cement which has various applications due to its unique properties. Some of the application are as follows:

- ***Railway sleepers:*** SGC is primarily used to produce railway sleepers for the Indian Ministry of Railways.
- ***Masonry mortars:*** It is used for making masonry motors due to its higher water retention, workability and plasticity.
- ***Rapid Setting construction project:*** Portland cement with a high setting rate is used in construction projects that requires rapid setting.
- ***Acid-resistant structures:*** SGC is also used in structures that need to be withstand acidic environment.

In addition to this the company has awarded with the prestigious license from American Petroleum Institute (API) for the manufacturing of Oil Well Cement – API 10A Class G HSR Cement.

Strategic Investment in Sea Port
The company also owns and operates a captive sea port that can harbor and handle 3,000-5,000 DWT vessels along the jetty. The port can be used for the import and export of cargo for the company and others. The company via its wholly owned subsidiary SDCCL Logistics Limited provides unique combination of product along with Customer Tailored Logistics solutions offered through combination of Road, Railways & Captive Sea port. During FY23 the WOS has its started operations utilizing the SDCCL's captive port at Sikka by way of handling cargo with regard to import of gypsum of 33,000 MT and earned a revenue of Rs. 1.86 crores.

Cost savings through use of Green energy
The company has an 8.5MW captive Waste Heat Recovery System (WHRS) power plant at Sikka. During FY23, the Company's Waster Heat Recovery System (WHRS) at its plant site generated 275 lakh units (Net) of electrical energy. Additionally, the Company also consumed 123

lakh units (Net) of wind power through Power Purchase Agreement (PPA). During FY23 out of the total energy consumed 38.40% was from green energy.
The Company is continuously focusing on increasing the proportion of green energy in its energy mix by cheaper sourcing and becoming self-sufficient for its energy requirement. With this objective, the Hybrid power contract for a capacity of 8.10 MW, executed by the company in previous year, will generate about 37% of total power requirement of the plant and put together with WHRS will constitute over 65% of total power needs of the Company.

Adequate limestone
The Company is having mineral rights of three mines namely Debhar-Bhavneshwar, Mokhana and Pachhtardi having total expected Limestone Reserve of 27.49 million tons. Out of which, the Company has got the clearance for Pachhtardi mine. However, the Company is yet to obtain environment clearance on remaining mines from Ministry of Environment & Forest, Climate Change. These mines are outside the Eco-Sensitive Zone but Debhar-Bhavneshwar and Mokhana mines major portion fall within 1km restrictions of Barda Wildlife Sanctuary. The Company has made various representation to Ministry of Environment and Forest and State Government. Management is confident of getting positive response from the respective authorities and will be able to get the required clearances.

Industry Structure & Developments:
Cement Division:
India is the second largest cement producer in the world with around 7% of the global capacity. Demand for cement is mainly driven by housing sector which is estimated to account for nearly 65% of the total demand. As per Crisil's estimates, India's cement demand will grow 10-12% on-year to ~440 million tonne in FY 2024, driven by strong offtake from the infrastructure segment.

According to the estimate of the National Council for Cement and Building Materials (NCCBM), India's cement industry is expected to add ~80 million tonne capacity by 2025 . India, with 298 million tonne (FY 2022) is the second biggest producer of cement in the world after China. It has 8 per cent of the global installed capacity in cement production. It has a total of 210 large cement plants. The market size of the India's cement industry was 3,644.5 million tonnes in 2022. The industry hopes to reach 4,832.6 million tonnes by 2028 at a compound annual growth rate (CAGR) of 4.94 per cent during 2023-2028.

Risks & Concerns
Volatility in input costs:
The company is exposed to commodity price risk arising out of fluctuation in prices of raw materials (gypsum, fly ash and iron slag) and fuel (coal and pet coke). Limestone along with power and fuel cost are the major cost components for the cement industry. Furthermore, the industry being high power and freight intensive, the operating dynamics are significantly driven by the prices/regulations of coal/pet

coke and crude oil. Elevated input costs, coupled with high freight and fuel expense, have aggravated the cost pressure, which in turn has impacted the profitability of cement companies. The freight cost also increased in FY23 on the back of increase in crude oil prices.

Cyclicality in cement sector:

SDCCL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players in the respective regions during such periods. When the capacity additions exceed the incremental demand, the prices and consequently, the profitability of the players get impacted. There is also a high degree of correlation between the GDP growth and the growth in cement consumption.

Execution risks:

SDCCL is implementing capacity expansion program at Sikka that will take its capacity up from 1.2 mn tonnes to 3 mn tonnes. It faces execution risks and some delays in commissioning of the expanded capacities may result in delay in booking the additional sales and profits. Also the environment clearance for limestone mines from two locations may nor be received for some more time.

Company Background:

Shree Digvijay Cement Limited (SDCCL) is incorporated in November 1944 and is primarily engaged in manufacture and sale of cement. Currently the company is managed by a Private Equity firm named True North Fund. They brought in an excellent management team headed by the sector veteran, Anil Singhavi. Company currently has installed capacity of 1.2 MTPA at the coastal township of Digvijaygram (Sikka) in Jamnagar District of Gujarat along with clinker production capacity of 1.1MTPA and the 8.5MW Waste Heat Recovery System(WHRS) power plant. The company's product portfolio includes various kinds of cement such as Portland Pozzolana cement, OPC Cement, SRPC Cement, Oil Well cement, etc. It sells cement under its established brand 'Kamal Cement'. The company has announced the capacity expansion of the plant to 3MTPA of cement production and 2.21MTPA of clinker production and also received the EC for the same.

The company primarily sells its cement in the state of Gujarat through a network of 1,000+ channel partners/ dealers.

Financials

Income Statement

Particulars (Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**629**	**727**	**783**	**833**	**1331**
Growth (%)	***25.2***	***15.5***	***7.7***	***6.5***	***59.7***
Operating Expenses	512	626	643	676	1063
EBITDA	**117**	**101**	**139**	**158**	**268**
Growth (%)	***11.5***	***-13.7***	***37.9***	***13.1***	***69.8***
EBITDA Margin (%)	***18.6***	***13.9***	***17.8***	***18.9***	***20.1***
Depreciation	31	35	35	39	60
Other Income	4	7	8	8	12
EBIT	**90**	**73**	**112**	**127**	**220**
Interest expenses	1	1	5	7	16
PBT	**88**	**71**	**107**	**119**	**204**
Tax	33	13	27	31	52
PAT	**55**	**58**	**80**	**89**	**151**
Share of Asso./Minority Int./JV	0	0	0	0	0
Adj. PAT	**55**	**58**	**80**	**89**	**151**
Growth (%)	***2.4***	***5.0***	***37.8***	***10.7***	***70.7***
EPS	3.8	4.0	5.5	6.0	10.3

Balance Sheet

As at March	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	144	145	147	147	147
Reserves	168	180	259	347	432
Shareholders' Funds	**312**	**325**	**405**	**494**	**579**
Minority Interest	0	0	0	0	0
Total Debt	0	0	60	125	75
Net Deferred Taxes	14	7	7	7	7
Other Non-curr. Liab.	0	0	0	0	0
Total Sources of Funds	**326**	**332**	**472**	**626**	**661**
APPLICATION OF FUNDS					
Net Block & Goodwill	197	182	153	189	304
CWIP	5	7	75	175	5
Investments	0	0	0	0	0
Other Non-Curr. Assets	28	22	32	33	53
Total Non Current Assets	**230**	**211**	**260**	**397**	**362**
Inventories	127	115	133	148	219
Debtors	13	22	21	23	47
Cash & Equivalents	83	108	60	61	30
Other Current Assets	9	13	95	103	165
Total Current Assets	**232**	**258**	**309**	**335**	**461**
Creditors	63	63	75	84	128
Other Current Liab & Provisions	74	74	22	23	35
Total Current Liabilities	**136**	**137**	**97**	**107**	**162**
Net Current Assets	96	121	212	228	299
Total Application of Funds	**326**	**332**	**472**	**626**	**661**

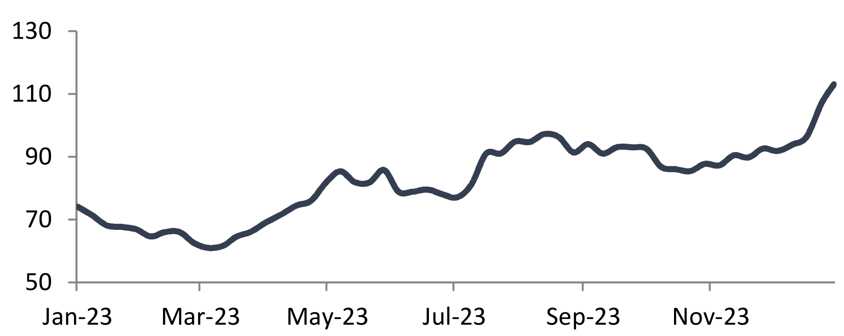
Cash Flow Statement

Particulars (Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	88	71	107	119	204
Non-operating & EO items	1	-3	-10	-1	-20
Interest Expenses	-2	-2	5	7	16
Depreciation	31	35	35	39	60
Working Capital Change	-37	1	-139	-15	-101
Tax Paid	-24	-17	-27	-31	-52
OPERATING CASH FLOW (a)	**57**	**86**	**-29**	**118**	**106**
Capex	-35	-21	-75	-175	-5
Free Cash Flow	22	66	-104	-57	101
Investments	0	0	0	0	0
Non-operating income	-5	-16	0	0	0
INVESTING CASH FLOW (b)	**-40**	**-37**	**-75**	**-175**	**-5**
Debt Issuance / (Repaid)	0	0	60	65	-50
Interest Expenses	-1	-1	-5	-7	-16
FCFE	16	49	-48	1	35
Share Capital Issuance	3	2	0	0	0
Dividend	-57	-50	0	0	0
Others	0	0	0	0	0
FINANCING CASH FLOW (c)	**-56**	**-50**	**56**	**58**	**-66**
NET CASH FLOW (a+b+c)	**-38**	**0**	**-48**	**1**	**35**

Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	18.6	13.9	17.8	18.9	20.1
EBIT Margin	14.2	10.0	14.3	15.2	16.5
APAT Margin	8.8	8.0	10.2	10.6	11.4
RoE	17.7	18.2	21.9	19.7	28.2
RoCE	28.7	22.8	28.3	23.4	34.5
Solvency Ratio (x)					
Net Debt/EBITDA	-0.7	-1.1	0.0	0.4	-0.1
Net D/E	-0.3	-0.3	0.0	0.1	0.0
PER SHARE DATA (Rs)					
EPS	3.8	4.0	5.5	6.0	10.3
CEPS	6.0	6.4	7.9	8.7	14.4
BV	21.5	22.1	27.6	33.7	39.5
Dividend	3.5	4.0	0.0	0.0	4.5
Turnover Ratios (days)					
Debtor days	7	9	10	10	10
Inventory days	58	61	58	62	50
Creditors days	33	31	32	35	29
VALUATION					
P/E	30.9	29.7	21.6	19.5	11.4
P/BV	5.5	5.3	4.3	3.5	3.0
EV/EBITDA	14.0	16.0	12.4	11.4	6.4
EV / Revenues	2.6	2.2	2.2	2.1	1.3
Dividend Yield (%)	3.0	3.4	0.0	0.0	3.8
Dividend Payout (%)	91.9	101.1	0.0	0.0	43.7

Share Price chart:



SHRINIVAS RAJESH SARDA

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HDFC Sec Retail Research Rating description

Green Rating stocks

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Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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