

Shree Digvijay Cements Company

Market Price: Rs 36.50, 7th Nov, 2007

MapRs508crs

P/Ex: 9xFY08E,

EV/Ton: US\$112/ton

Target Price: Rs54/share, 25% discount to average industry valuation

Potential upside: 44%

Background

Shree Digvijay Cement Co Ltd. (SDCC) is situated at Sikka – Jamnagar and has a capacity of 1.3mn tones/annum. The company is a subsidiary of Grasim Industries Ltd., the flagship Company of Aditya Birla Group. The company is currently under BIFR, but the management has applied for the release.

The company has seen a major improvement in performance over the last three years, akin to the rest of the cement industry. It posted its first full year profit in 2006, the profits have grown by an additional 10% in FY07, but the accumulated losses still persisted.

In FY07 the company expanded its capital through a rights issue to the existing shareholder at a ratio of 1 for every 18 held at par. This increased the capital from 7.5crores to Rs141 cores. The capital infusion has wiped out the accumulated losses and the company reported a positive net worth for the first time in FY07.

Recent performance

The first half performance of the company has been satisfactory. Cement realizations grew by 31% at Rs.2,676 per tone. Profit before exceptional items, increased by 26% to Rs.18.9 Cores. This is despite the operations being impaired on account of break down in the first quarter and heavy rains in the second quarter.

Valuations:

Based on the current performance, we expect an EPS of Rs3.9 for FY08, based on past performance. Since the demand for cement is expected to be much higher going forward especially in the home markets of SDCC Gujarat and Maharashtra, we believe that realization will go up further, hence our current estimates are conservative. At the current price the stock is trading at a PEX9xFY08 earnings. Analysts expect a 50% earnings growth in FY09. In that event the valuations become even more attractive, at 6xFY09 earnings.

Possible takeover candidate

Based on replacement value, the stock is valued at an EVUS\$107/ton, which is at substantial discount to the industry valuations. The relatively cheap valuation, along with its attractive location makes it a very attractive take over candidate.

Location advantages:

- The fact that the plant is at the coast and has its own dedicated jetty makes it an ideal plant for exports and also for lower logistic costs as one can use the sea transport for off take of cement and import of fuel.
- In addition the plant is very close to the reliance refinery complex and proposed SEZ in Jamnagar. We have been given to understand that 50% of the company's cement output is supplied to Reliance Industries.

Recommendation

With recent reports in the media about a possible takeover, we expect the stock to be in the lime light. Any potential acquisition should happen at a substantial premium to the current valuation, since the industry is on a dream run right now, which is likely to last for the next 12-18 months. **We expect a valuation in excess of US\$150/ton for Digvijay (which is at discount to average industry valuation of US\$180/ton). We recommend a BUY on the stock based on a valuation of US\$160/ton, which corresponds to a stock price of Rs54/share.**

Arun Thirumalai
arun@dascap.com
 9740077809

Comparative Industry valuation

Company	Price Rs	EPS (Rs)		PER (x)		EV/Ton (USD)		Capacity (MnT)		
		FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY07	FY08E	FY09E
ACC	1078	77	95	14	11	221	210	20	22	23
BJUT	352	58	67	6	5	89	73	6	6	8
ACEM	145	11	12	13	12	238	227	18	20	23
ICEM	282	26	30	11	10	194	144	9	11	14
MC	4579	364	502	13	9	179	120	6	8	11
SRCM	1484	134	175	11	8	183	127	6	8	9
UTCCEM	999	78	101	13	10	208	165	17	18	22
CENT	1058	54	60	20	18	222	190	6	8	9
KSI	572	76	83	7	7	182	136	5	5	6
GRASIM	3704	289	334	13	11	281	225	24	26	32
SDCC	36	4	6	9	6	112	112	1.3	1.3	1.3

Our Team

Mrunmay Das mrunmay@dascap.com
Arun Thirumalai arun@dascap.com

Ph:91-80-28440501-Ext 31
PH:91-80-28440501-Ext 26

Mob: 91-9845026333
Mob: 91-9740077809

Detailed Financials

Financial Performance (Rs Cr)

Year End	200703	200603	200503
Equity	141.3	7.4	7.4
Net worth	43.4	-144.4	-193.2
Enterprise Value	347.1	469.9	335.9
Capital Employed	117.2	75.3	77.2
Gross Block	180.3	181.3	184.1
Sales	289.4	248.0	106.0
Other Income	7.5	20.0	3.1
PBIDT	61.8	59.8	1.8
PBDT	60.4	56.4	-6.6
PBIT	55.5	52.3	-1.6
PBT	54.1	48.9	-10.1
RPAT	54.0	48.7	-9.9
Book Value (Rs)	3.0	-193.6	-259.0
EPS (Rs.)	3.8	65.4	0
Dividend (%)	0	0	0
Payout (%)	0	0	0

Ratio Analysis

Current Ratio	0.63	0.28	0.26
Invtry Turnover	11.7	11.3	7.1
Debtors Turnover	33.9	27.6	16.3
Interest Cover	39.1	10.9	-0.32
EBIDTA%	21.3	17.8	0.73
EBIT%	20.8	16.5	-7.2
PAT	18.6	13.4	-10.4
ROCE (%)	24.9	24.1	0
RONW (%)	71.2	-36.1	0
EV/EBIDTA	5.6	7.8	183.5

Enterprise Value Calculation RS Mn

Market Cap	5088.2
Debt	750
less cash/ Investments	40
Enterprise Value	5798.2
EV in USD	146.05
EV/ton USD	112.35

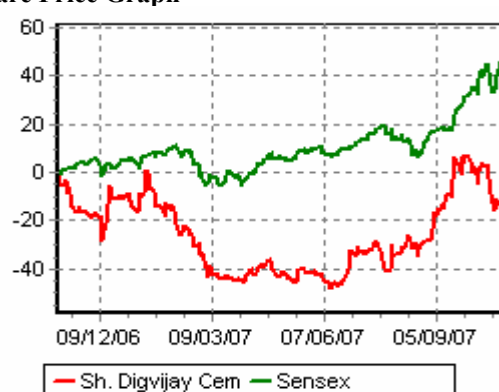
Latest Results (Rs Cr)

Period-Ended	200709	200609	Var. (%)
Sales	41.81	56.79	-26.38
Other Income	1.55	0.86	80.23
PBIDT	3.65	10.04	-63.65
PBDT	3.45	9.64	-64.21
PBIT	1.99	8.43	-76.39
PBT	1.79	8.03	-77.71
PAT	1.5	8.03	-81.32

Shareholding Pattern

(AS ON 30 Sep 2007)	Shares	(%)
Foreign	2700980	1.91
Institutions	66020	0.05
Govt Holding	0	0
Non Promoter Corp. Hold.	11941808	8.45
Promoters	75836793	53.64
Public & Others	50828677	35.95
Totals	141374278	100

Share Price Graph



MARKET DATA (AS ON 31 Oct 2007)

Price (Rs)	29.7	52 W H/L(Rs)	39.10 / 17.55
Lat. P/E	8.25	Lat. EPS(Rs)	3.6
Mkt. Cap.(Rs Cr)	419.78	Lat. Eq (RS cr)	141.34
Lat. BV(Rs)	3.07	Div. Yield (%)	0

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