

14 November 2018

Deccan Cements

*Operationally efficient; retaining our Buy*Rating: **Buy**

Target Price: ₹525

Share Price: ₹421

Buoyed up by strong sales volumes in AP/Telangana, Deccan Cements reported firm revenue growth. With greater operating efficiencies, its de-leveraging exercise and rising government investment in its key markets, we expect a 22% CAGR in its PAT over FY18-20. We have a Buy recommendation on the stock, at a lower target price of ₹525.

Mounting demand. With rising demand in its key operating region (AP/Telangana), Deccan Cements, being a strong regional operator in the South, reported 25.8% y/y volume growth to 0.43m tons, resulting in revenue growing 19.3% to ₹1.63bn. We expect revenue to clock a 13% CAGR over FY18-20, aided by 8% volume growth at 77% capacity utilisation by FY20.

Better cost optimisation. Despite rising fuel and diesel prices, power & fuel cost per ton in Q2 FY19 slightly increased (2.4%), while freight costs per ton decreased 26.4%. Rising production costs offset realisation gains, resulting in EBITDA/ton declining 19.6% y/y to ₹495 (₹615 a year ago). We expect an EBITDA/ton of ₹622 by FY20 given the company's constant focus on cost rationalisation and the expected better pricing in the region.

De-leveraging exercise. With no major capacity expansion announced, the focus on de-leveraging is expected to continue. We expect PAT to register a 22% CAGR over FY18-20 and RoE and RoCE to improve to respectively ~13% and ~16% by FY20. With no capex planned so far for the next two years, we expect the net-cash position to improve considerably due to significant cash-flows and better return ratios.

Valuation. A pick-up in demand and better pricing would lead to higher realisation in coming quarters. We maintain a Buy rating, at a lower target of ₹525 based on an EV/EBITDA of 6x in accord with the overall reduction in the Nifty valuation. **Risk:** High pet-coke prices.

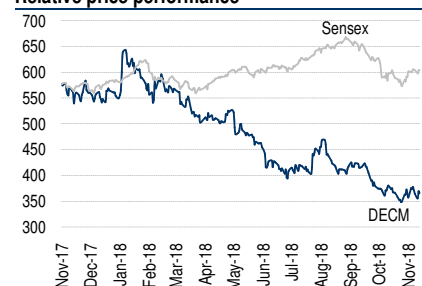
Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	5,791	4,962	5,702	6,361	7,245
Net profit (₹ m)	456	469	385	469	576
EPS (₹)	32.5	33.5	27.5	33.5	41.1
PE (x)	8.9	16.9	18.4	11.3	9.2
EV / EBITDA (x)	4.1	8.4	8.2	5.3	4.1
EV / ton (\$)	31.4	55.7	46.4	32.4	29.3
RoE (%)	17.2	15.2	11.1	12.1	13.3
RoCE (%)	11.1	10.6	8.0	9.2	10.7
Dividend yield (%)	0.9	0.5	0.6	0.9	1.1
Net debt / equity (x)	0.2	0.1	-0.0	-0.1	-0.2

Source: Company, Anand Rathi Research

Key data	DECM IN / DCNC.BO
52-week high / low	₹660 / 326
Sensex / Nifty	35146 / 10580
3-m average volume	\$0m
Market cap	₹5bn / \$70.8m
Shares outstanding	14m

Shareholding pattern (%)	Jun'18	Mar'18	Dec'17
Promoters	56.2	56.2	56.2
- of which, Pledged	-	-	-
Free float	43.8	43.8	43.8
- Foreign institutions	1.7	1.8	1.4
- Domestic institutions	13.9	13.9	12.3
- Public	28.3	28.2	30.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Sales volume (m tons)	1.3	1.3	1.5	1.6	1.7
Net revenues	5,791	4,962	5,702	6,361	7,245
Growth (%)	32.3	-14.3	14.9	11.6	13.9
Direct costs	4,068	2,969	3,864	4,346	4,942
SG&A	577	996	986	1,085	1,226
EBITDA	1,146	997	852	930	1,077
EBITDA margins (%)	19.8	20.1	14.9	14.6	14.9
- Depreciation	203	217	227	240	240
Other income	15	24	40	50	46
Interest expenses	152	68	57	31	11
PBT	806	736	608	710	872
Effective tax rate (%)	43.5	36.3	36.6	34.0	34.0
+ Associates / (Minorities)					
Net income	456	469	385	469	576
Adjusted income	456	469	385	469	576
WANS	14	14	14	14	14
FDEPS (₹ / sh)	32.5	33.5	27.5	33.5	41.1
FDEPS growth (%)	129.1	2.9	-17.8	21.6	22.8

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	806	736	608	710	872
+ Non-cash items	203	217	227	240	240
Oper. prof. before WC	1,009	953	835	950	1,112
- Incr. / (decr.) in WC	-625	264	-98	181	131
Others incl. taxes	172	232	181	221	277
Operating cash-flow	1,462	457	752	548	704
- Capex (tang. + intang.)	77	225	130	150	150
Free cash-flow	1,385	232	622	398	554
Acquisitions					
- Div. (incl. buyback & taxes)	42	51	51	56	69
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,177	-38	-333	-398	-170
- Fin investments	-0	-0	0	0	-
- Misc. (CFI + CFF)	90	-49	7	20	20
Net cash-flow	76	193	231	-76	295

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

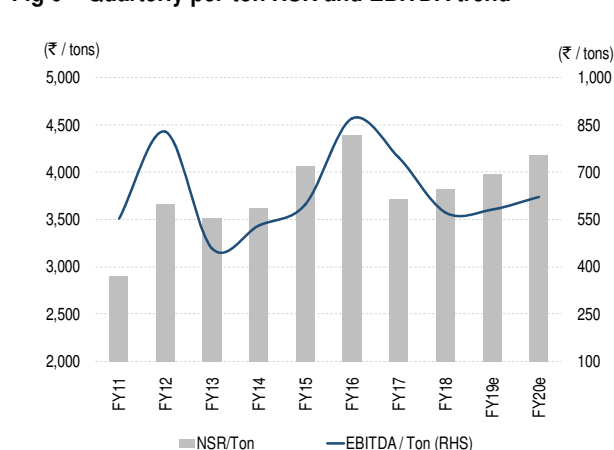
Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	70	70	70	70	70
Net worth	2,861	3,323	3,654	4,066	4,572
Debt	1,061	996	663	265	96
Minority interest					
DTL / Assets)	579	612	651	651	651
Capital employed	4,501	4,931	4,968	4,982	5,319
Net tangible assets	3,252	3,614	3,484	3,288	3,198
Net intangible assets	171	156	146	146	146
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	340	1	44	150	150
Investments (strategic)	1	1	1	1	1
Investments (financial)	-	-	-	0	0
Current assets (ex cash)	813	1,043	1,159	1,284	1,493
Cash	350	531	762	686	981
Current liabilities	425	415	628	573	650
Working capital	388	628	531	711	843
Capital deployed	4,501	4,931	4,968	4,982	5,319
Contingent liabilities	293	235	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	8.9	16.9	18.4	11.3	9.2
EV / EBITDA (x)	4.1	8.4	8.2	5.3	4.1
EV / sales (x)	0.8	1.7	1.2	0.8	0.6
P/B (x)	1.4	2.4	1.9	1.3	1.2
RoE (%)	17.2	15.2	11.1	12.1	13.3
RoCE (%) - after tax	11.1	10.6	8.0	9.2	10.7
DPS (₹ / sh)	2.5	3.0	3.0	3.3	4.1
Dividend payout (%) - incl. DDT	9.2	10.8	13.1	12.0	12.0
Net debt / equity (x)	0.2	0.1	-0.0	-0.1	-0.2
WC days	22.9	46.2	34.0	40.8	42.5
EV / ton (\$)	31.4	55.7	46.4	32.4	29.3
NSR / ton (₹)	4,396	3,712	3,829	3,982	4,182
EBITDA / ton (₹)	870	746	572	582	622
Volumes (m tons)	1.32	1.34	1.49	1.60	1.73
CFO : PAT (%)	320.8	97.5	195.0	116.9	122.4

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 7 – Quarterly Trend

(₹ m)	Q2 FY19	Q1 FY19	Q4 FY18	Q3 FY18	Q2 FY18	FY18	FY19e	FY20e
Sales	1,625	1,617	1,636	1,341	1,362	5,702	6,361	7,245
EBITDA	213	230	214	182	210	852	930	1,077
EBITDA margins (%)	13	14	13	14	15	15	15	15
EBITDA per ton (₹)	495	546	503	508	615	572	582	622
Interest	15	16	14	14	15	57	31	11
Depreciation	57	53	57	57	57	227	240	240
Other income	19	17	6	21	9	40	50	46
PBT	159	178	150	131	147	608	710	872
Tax	57	65	63	42	52	223	241	297
Adj. PAT	102	113	87	89	95	385	469	576

Source: Company, Anand Rathi Research

Fig 8 – Per-ton analysis

(₹/ ton)	Q2 FY19	Q1 FY19	Q4 FY18	Q3 FY18	Q2 FY18	FY18	FY19e	FY20e
Realisations	3,779	3,841	3,845	3,736	3,984	3,829	3,982	4,182
EBITDA	495	546	503	508	615	572	582	622
Sales volumes (m tons)	0.43	0.42	0.43	0.36	0.34	1.49	1.60	1.73
Costs								
Raw material	342	350	356	345	366	353	367	385
Power & fuel	1,112	1,203	1,182	1,217	1,085	1,145	1,203	1,263
Staff	158	154	116	174	201	163	167	169
Freight	1,065	1,149	1,069	1,061	1,448	1,066	1,120	1,176
Other expenditure	425	459	535	445	222	503	512	539

Source: Company, Anand Rathi Research

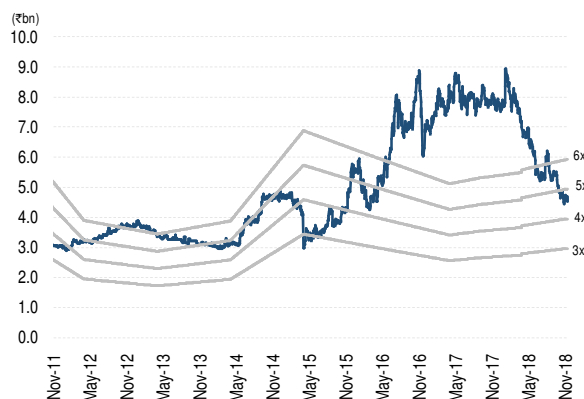
Other key highlights

Driven by the 25.8% rise in volumes to 0.43m tons, revenue stepped up a smart 19.3% y/y to ₹1.6bn despite realisations declining 5.5% y/y. And despite the rise in fuel and diesel prices, quarterly power & fuel cost per ton increased only a slight 2.4% y/y, though the freight cost per ton fell 26.4% y/y. Other expenses shot up 91.4% y/y. Thus, such a decline in realisation and rise in costs drove the 19.5% y/y fall in EBITDA/ton to ₹495. Strong revenue growth and higher other income (116.7% y/y) resulted in PAT increasing 7% y/y to ₹102m.

Valuations

A better pricing and demand environment would lead to higher realisations in coming quarters. We maintain our Buy rating, at a revised target of ₹525 based on an EV/EBITDA of 6x.

Fig 10 – EV / EBITDA band



Source: Anand Rathi Research

Fig 11 – Peer comparison

	CMP ₹	P/E		EV / EBITDA		EV / ton (\$)	
		FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Deccan Cement	379	11.3	9.2	5.3	4.1	32.4	29.3
Birla Corp.	610	24.6	16.2	9.2	7.9	64	67
Dalmia Bharat	2,126	29.4	22.2	9.5	8.1	122	111
Heidelberg Cement	149	16.0	12.8	7.9	6.8	93	88
India Cement	90	16.2	9.0	7.4	5.8	51	50
JK Cement	695	17.1	15.0	9.9	9.4	83	69
JK Lakshmi	267	20.8	11.7	9.9	7.2	63	59
Mangalam Cement	213	NM	71.8	11.8	9.0	37	36
NCL Industries	130	16.0	8.8	7.0	5.0	39	35
Orient Cement	85	50.8	19.1	10.5	7.9	50	57
Ramco Cement	611	29.8	22.6	17.1	13.3	174	174
Sagar Cement	655	43.3	14.2	11.8	7.2	50	44
Sanghi Industries	100	17.5	13.0	9.5	7.4	171	119
Star Cement	62	16.5	11.3	10.0	9.4	86	100

Source: Anand Rathi Research

Risk

- High pet-coke prices.

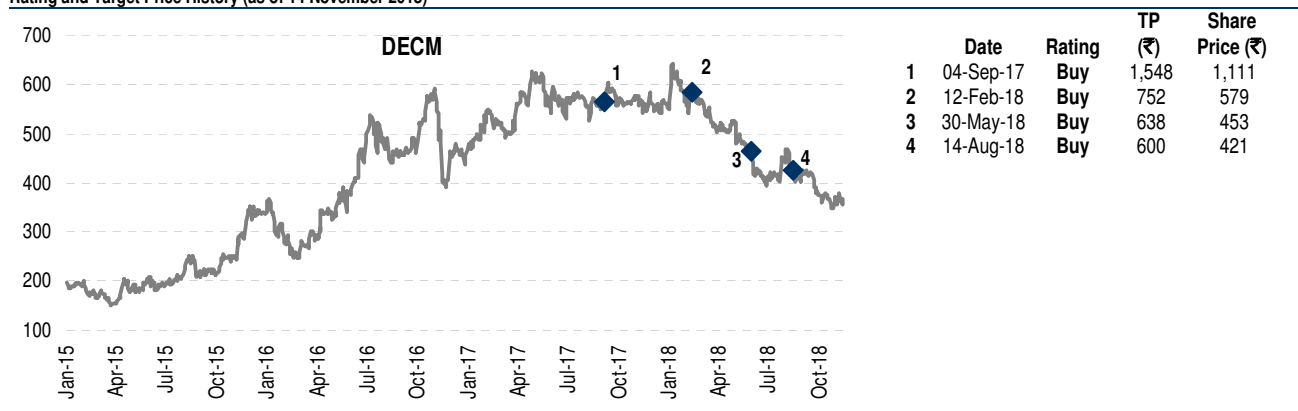
Appendix

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