

27 June 2020

Deccan Cements

*Covid'19-struck performance; strong balance sheet persists; Buy*Rating: **Buy**

Target Price: ₹348

Share Price: ₹271

Against the backdrop of the lockdown, anaemic demand in Telangana/AP and an exceptional ₹96m provision, Deccan Cements reported 20%/60% revenue/EBITDA decline and a ₹30bn loss. Also, the start of the WHRS was delayed by ~6 months due to no inter-regional movement. Demand and prices are expected to continue under pressure with the monsoon. With no major capex in the works, we expect a net debt-free company. We retain a Buy recommendation on the stock, at a higher target of ₹348 (earlier ₹289).

Demand weakness to persist. Lost business days in Mar'20 and weak demand in its key operating region (AP/Telangana) due to little construction pushed down Deccan Cements' volumes 13.5% y/y to 0.35m tons. Further, its realisations/ton dropped 7% y/y pulled down overall revenue 19.7% y/y to ₹1.2bn. With April a complete washout, demand is now mostly from rural areas. Management expects it to improve only after the monsoon as the region is also struck by labour non-availability.

Weak operating performance; WHRS commencement delayed. With the low realisations and higher y/y costs/ton (freight 23.4%, staff 13.4%, other expenses 25.4%, raw material 2.6%), the EBITDA/ton plunged 54% y/y to ₹327 (₹703 a year ago, ₹328 the quarter prior). Power & fuel cost/ton, however slid 14% y/y due to lower fuel prices. Further, the ₹96m provision toward he revised wheeling charges pulled down Adj. PAT 49% y/y. The 6MW WHRS is expected to be complete by Sep'20 (earlier Mar'20), delayed by the lockdown.

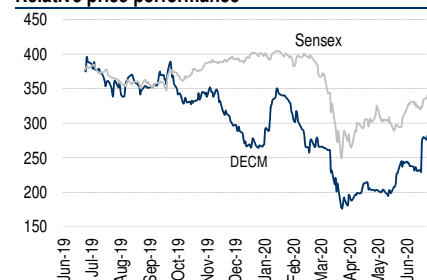
Outlook, Valuation. Apart from maintenance capex, the company said it would not incur any expansion capex in these uncertain times. We expect it to remain net cash. FY21 volumes, however, are expected to fall 13% y/y, and grow 10.5% in FY22, whereas EBITDA/ton would come at ₹474 and ₹593. We maintain our Buy rating, at a higher target of ₹348 based on FY22e EV/EBITDA of 5x. **Risk:** Extension of the lockdown; rise in input costs.

Key data	DECM IN / DCNC.BO
52-week high / low	₹419 / 147
Sensex / Nifty	35171 / 10383
3-m average volume	\$0.1m
Market cap	₹4bn / \$50.1m
Shares outstanding	14m

Shareholding pattern (%)	Mar-20	Dec-19	Sept-19
Promoters	56.2	56.2	56.2
- of which, Pledged			
Free float	43.8	43.8	43.8
- Foreign institutions	2.3	2.1	1.7
- Domestic institutions	12.5	12.8	13.8
- Public	29.0	28.8	28.3

Estimates revision (%)	FY21e	FY22e
Sales	1.2	(2.4)
EBITDA	12.0	1.1
PAT	7.3	(9.8)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	5,699	6,514	5,558	4,976	5,684
Net profit (₹ m)	385	461	663	299	461
EPS (₹)	27.5	32.9	47.3	21.3	32.9
PE (x)	18.4	12.7	4.1	12.7	8.2
EV / EBITDA (x)	8.1	5.5	3.2	5.7	3.7
EV / ton (\$)	40.2	30.8	14.4	20.3	18.3
RoE (%)	11.1	11.9	13.2	6.5	9.3
RoCE (%) after tax	8.1	8.7	11.3	4.8	7.2
Dividend yield (%)	0.6	0.9	2.0	1.5	1.5
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volume (m tons)	1.5	1.7	1.5	1.3	1.4
Net revenues	5,699	6,514	5,558	4,976	5,684
Growth (%)	14.8	14.3	-14.7	-10.5	14.2
Direct costs	3,864	4,513	3,682	3,181	3,556
SG&A	986	1,048	1,093	1,186	1,287
EBITDA	848	952	783	608	840
EBITDA margins (%)	14.9	14.6	14.1	12.2	14.8
- Depreciation	227	223	209	235	262
Other income	43	99	96	85	97
Interest expenses	57	77	68	59	59
PBT	608	751	602	399	616
Effective tax rate (%)	36.6	38.6	-12.1	25.2	25.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	385	461	566	299	461
Adjusted income	385	461	663	299	461
WANS	14	14	14	14	14
FDEPS (₹ / sh)	27.5	32.9	47.3	21.3	32.9
FDEPS growth (%)	-17.8	19.5	43.9	-54.9	54.3

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	608	751	602	399	616
+ Non-cash items	227	223	209	235	262
Oper. prof. before WC	835	974	811	634	878
- Incr. / (decr.) in WC	-222	122	-213	75	59
Others incl. taxes	181	265	124	81	135
Operating cash-flow	876	587	900	478	684
- Capex (tang. + intang.)	130	184	970	370	250
Free cash-flow	746	402	-70	108	434
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	51	63	68	56	56
+ Equity raised	-	-	-	-	-
+ Debt raised	-457	198	152	-300	-
- Fin investments	0	0	-0	0	-
- Misc. (CFI + CFF)	7	-13	160	20	20
Net cash-flow	231	550	-146	-268	358

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

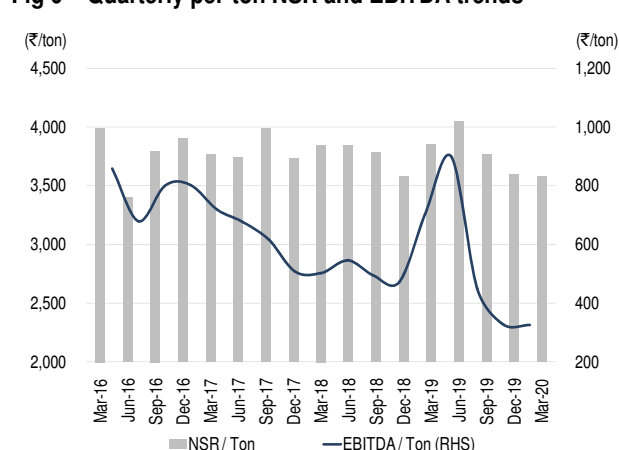
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	70	70	70	70	70
Net worth	3,654	4,064	4,499	4,742	5,147
Debt	539	737	889	589	589
Minority interest	-	-	-	-	-
DTL / Assets)	651	676	491	491	491
Capital employed	4,843	5,477	5,879	5,822	6,227
Net tangible assets	3,484	3,402	3,602	4,304	4,292
Net intangible assets	146	140	178	178	178
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	44	94	617	50	50
Investments (strategic)	1	1	1	1	1
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	1,159	1,263	1,541	1,132	1,293
Cash	762	1,313	1,166	899	1,257
Current liabilities	753	735	1,226	742	844
Working capital	406	528	315	390	449
Capital deployed	4,843	5,477	5,879	5,822	6,227
Contingent liabilities	262	269	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	18.4	12.7	4.1	12.7	8.2
EV / EBITDA (x)	8.1	5.5	3.2	5.7	3.7
EV / Sales (x)	1.2	0.8	0.4	0.7	0.5
P/B (x)	1.9	1.4	0.6	0.8	0.7
RoE (%)	11.1	11.9	13.2	6.5	9.3
RoCE (%) - after tax	8.1	8.7	11.3	4.8	7.2
DPS (₹ / sh)	3.0	3.8	4.0	4.0	4.0
Dividend payout (%) - incl. DDT	13.1	13.7	11.9	18.7	12.2
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.1	-0.1
WC days	26.0	29.6	20.7	28.6	28.8
EV / ton (\$)	40.2	30.8	14.4	20.3	18.3
NSR / ton (₹)	3,826	3,755	3,770	3,880	4,010
EBITDA / ton (₹)	570	549	531	474	593
Volumes (m tons)	1.49	1.74	1.47	1.28	1.42
CFO : PAT (%)	227.3	127.4	135.8	160.1	148.4

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trends



Source: Company, Anand Rathi Research

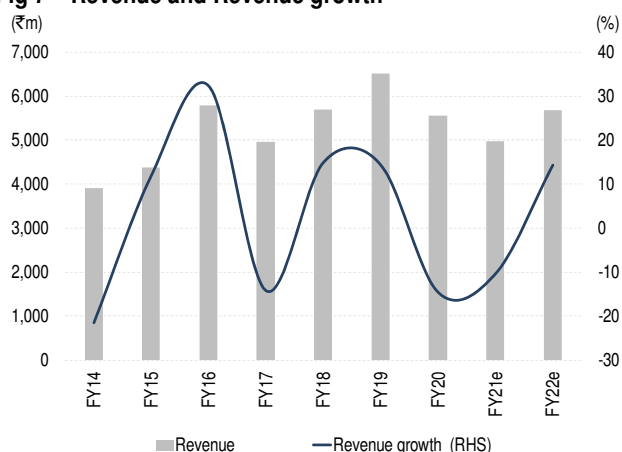
Other Key Highlights

Revenue growth

Having already struggled with weak demand, especially in AP/Telangana, the lockdown took a further toll on Deccan Cements' overall performance. Volumes contracted 14% y/y and realisations 7%, pulling down overall revenue 20% y/y to ₹1.2bn. Q4 sales volumes in AP/Telangana and the South plunged ~32% and 20% y/y respectively; for the year, the fall was ~21% and 10.7% respectively.

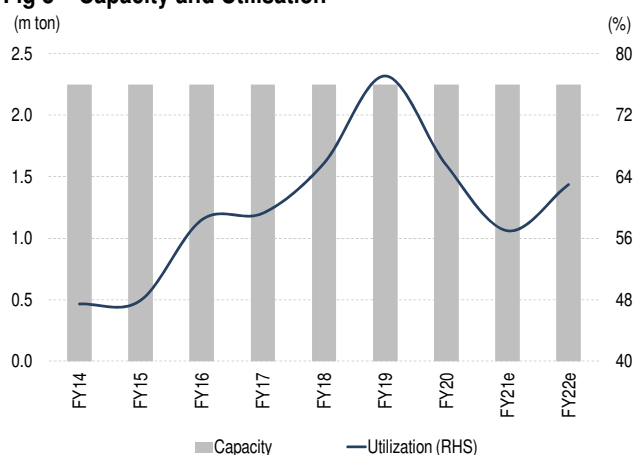
The complete lockdown in April led to no volumes; whereas May and June demand stemmed mostly from rural areas, cities being quarantined and due to labour issues. Post-April prices climbed by ₹50-55/bag in the South. Nevertheless, a drop in prices is likely on weak demand and the monsoon season commencing.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



Source: Company, Anand Rathi Research

Operating performance

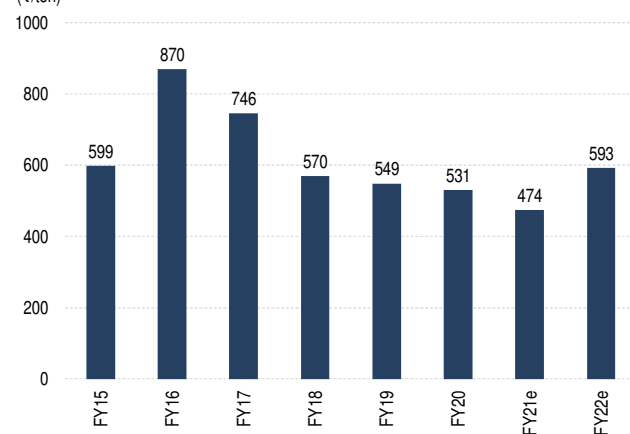
In Q4, absolute EBITDA declined 60% y/y to ₹113m and EBITDA/ton 54% y/y to ₹327/ton. The company gained from lower fuel prices, which resulted in power & fuel cost/ton declining 14% y/y. Low volumes, however, restricted fixed-cost absorption since Q4 per-ton staff costs and other expenses rose respectively 13% and 25% y/y. Further, freight cost/ton stepped up 13.4% y/y. The company did not cut salaries.

In FY20, the Supreme Court passed an order regarding wheeling charges. The order affirmed that the Andhra Pradesh Electricity Regulatory Commission (APERC) had the power to revise wheeling charges from time to time. Accordingly, the orders passed by the High Court in favour of the company were set aside. On 6th Jan'20, the company had filed a review petition against the order. Nevertheless, it made a ₹96m provision for an exceptional item, subject to adjustments, if any, according to demand by discoms.

The muted operating performance and 55.4% y/y lower other income pushed down adj. PAT 49% y/y to ₹67m, though partially set off by the (45% y/y) drop in interest expense, and depreciation expense. The company reported a ₹29.6m loss vs. a ₹141m net profit (PAT) a year ago.

Fig 9 – EBITDA-per-ton trend

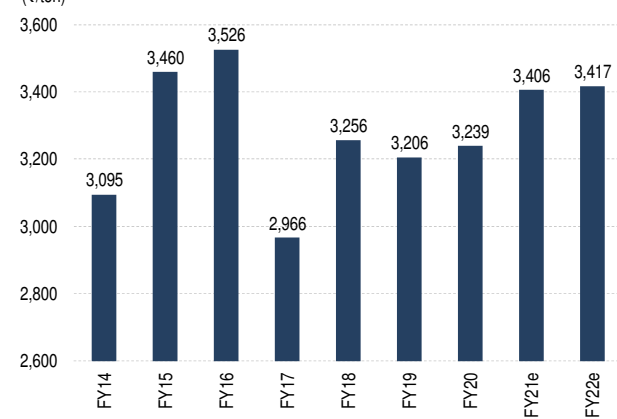
(₹/ton)



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend

(₹/ton)



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	1,362	1,341	1,636	1,617	1,625	1,731	1,541	1,820	1,342	1,158	1,238	(19.7)	6.9
EBITDA	210	182	214	230	213	229	281	404	160	106	113	(59.7)	7.0
EBITDA margins (%)	15.4	13.6	13.1	14.2	13.1	13.2	18.2	22.2	11.9	9.1	9.1	-910bps	1bps
EBITDA per ton (₹)	615	508	503	546	495	473	703	898	449	328	327	(53.5)	(0.4)
Interest	15	14	14	16	15	16	29	14	19	19	16	(45.5)	(15.0)
Depreciation	57	57	57	53	57	56	58	50	52	53	55	(4.6)	4.0
Other income	9	21	6	17	19	20	43	20	37	20	19	(55.4)	(2.6)
PBT	147	131	150	178	159	177	237	361	126	54	(35)	(114.7)	(165.1)
Tax	52	42	63	65	57	62	106	127	(197)	14	(5)	(105.1)	(138.0)
Adjusted PAT	95	89	87	113	102	115	131	233	323	40	67	(49.0)	68.7
Reported PAT	95	89	87	113	102	115	131	233	323	40	(30)	P2L	P2L

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(₹)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Realisations	3,984	3,736	3,845	3,841	3,779	3,577	3,852	4,045	3,769	3,593	3,578	(7.1)	(0.4)
EBITDA	615	508	503	546	495	473	703	898	449	328	327	(53.5)	(0.4)
Sales volumes (m tons)	0.34	0.36	0.43	0.42	0.43	0.48	0.40	0.45	0.36	0.32	0.35	(13.5)	7.4
Costs													
Raw material	366	345	356	350	342	352	368	385	378	348	378	2.6	8.6
Power & Fuel	1,085	1,217	1,182	1,203	1,112	1,375	1,546	1,401	1,303	1,175	1,332	(13.9)	13.3
Staff cost	201	174	116	154	158	126	173	174	189	189	197	13.4	3.9
Trans., C&F charges	1,448	1,061	1,069	1,149	1,065	836	658	870	847	848	811	23.4	(4.3)
Other Expenses	222	445	535	459	425	438	494	488	615	515	619	25.4	20.2

Source: Company, Anand Rathi Research

Valuations

Against the backdrop of the lockdown, anaemic demand in Telangana/AP and an exceptional ₹96m provision, Deccan Cements reported 20%/60% revenue/EBITDA declines and a ₹29.6bn loss. Also, the start of the WHRS was delayed by ~6 months due to no inter-regional movement. Demand and prices are expected to remain under pressure with the monsoon starting. With no major capex in the works, we expect a net debt-free company. We maintain our Buy recommendation on the stock, at a higher target of ₹348 based on an EV/EBITDA of 5x.

Change in estimates

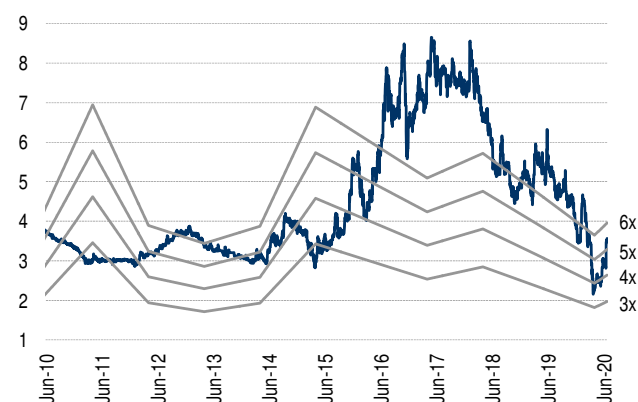
We have raised our FY21e revenue, EBITDA and PAT respectively 1.2%, 12% and 7.3%. For FY22, we have reduced revenue and pat estimates 2.4% and 9.8% respectively.

Fig 13 – Change in estimates

(₹ m)	Old		New		Variance	
	FY21e	FY22e	FY21e	FY22e	% chg	% chg
Sales	4,919	5,822	4,976	5,684	1.2	(2.4)
EBITDA	543	832	608	840	12.0	1.1
PAT	278	511	299	461	7.3	(9.8)

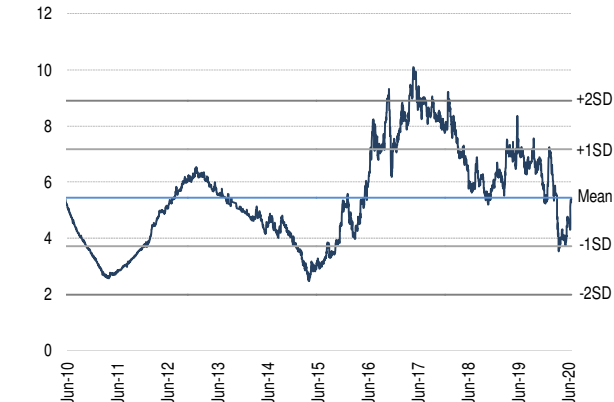
Source: Anand Rathi Research

Fig 14 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 15 – EV/EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risk

- Extension of the lockdown
- Rise in input costs.

Fig 16 – Peer comparison

	CMP ₹	P/E		EV / EBITDA		EV / ton (\$)	
		FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Deccan Cement	271	12.7	8.2	5.7	3.7	20	18
Birla Corp.	597	18.8	13.5	8.1	6.7	60	50
Dalmia Bharat	700	NA	NA	9.4	7.7	93	78
Heidelberg Cement	181	22.8	15.5	10.5	8.0	82	77
India Cement	125	NA	43.2	14.1	10.5	60	60
JK Cement	1,366	28.5	18.1	13.8	10.0	108	102
JK Lakshmi	256	43.1	12.7	9.9	5.6	46	39
Mangalam Cement	192	13.9	7.8	6.8	4.8	36	33
NCL Industries	75	11.2	5.9	5.2	3.5	26	23
Orient Cement	77	100.0	22.6	9.7	7.2	43	41
Prism Johnson	48	NA	29.2	10.9	7.9	52	49
Ramco Cement	642	36.0	23.7	20.1	14.0	117	112
Sanghi Industries	26	NA	16.1	13.3	8.6	38	39

Source: Anand Rathi Research

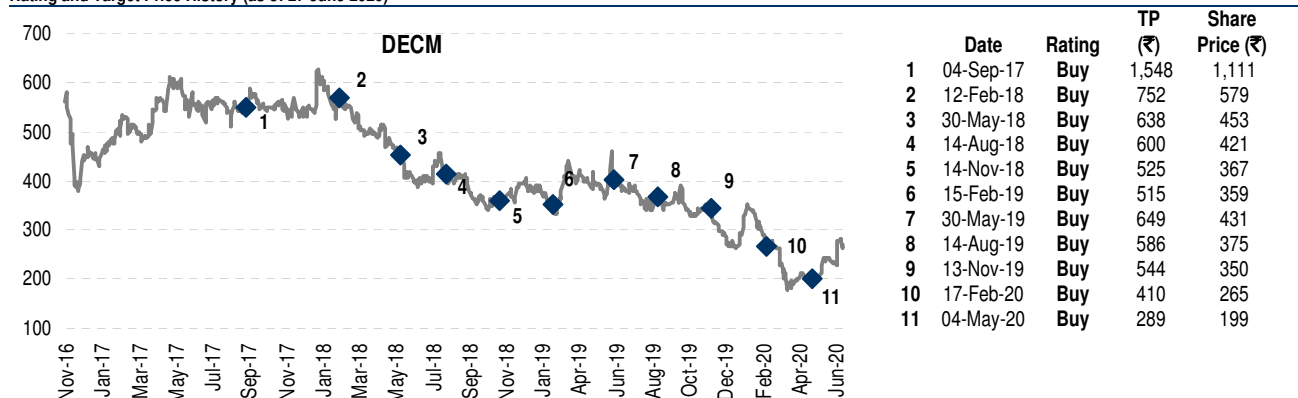
Appendix

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