

17 August 2020

## Deccan Cements

*Good operating show; WHRS to aid savings; retaining a Buy*

Rating: **Buy**

Target Price: ₹458

Share Price: ₹295

Amid the tough business environment, Deccan Cements reported an enhanced operating performance, beating our estimates, aided by price hikes and cost savings, though the volume decline was in line with the industry. On the commencement of the 6MW WHRS, savings in fuel costs are expected to aid its operating performance. The GU expansion is currently on hold. We believe its strong net cash balance sheet and current short term profitability augurs well. We retain our Buy recommendation on the stock, at a higher target of ₹458 (earlier ₹348).

**Volume dip, in line with the industry.** Deccan Cements' sales volumes in Q1 fell 34% y/y to 0.3m tons. However, price hikes in its operating regions (AP, Telangana) led to realisation/ton increasing 16% y/y. In July on the monsoon commencing, prices dipped ₹10-12/bag. The GU capex continues to be deferred on the uncertain demand environment. We expect volumes to fall 11.5% in FY21 and grow 8.6% in FY22, and realisations grow 4% and 3% respectively.

**Highest EBITDA/ton.** On the cost savings due to lower fuel prices, and travelling/advertising expenses, etc., and to higher realisations, the company reported the highest EBITDA/ton of ₹1,349 (vs. ₹898 a year ago, ₹327 the quarter prior). During Jun one boiler of 6MW of the WHRS commenced and management said another boiler would commence by Sep'20. Further aided by truck-loading and wagon-loading facilities (commissioned in FY20), EBITDA/ton would be ₹635 and ₹763 in FY21 and FY22 respectively (vs. ₹531 in FY20).

**Outlook, Valuation.** With no major capex announced, the company is expected to be net cash and its net D/E reach -0.2x in FY22 (vs. -0.1x in FY20). On the better operating performance, we raise our FY21e and FY22e EBITDA respectively 36% and 29% and, consequently, our PAT. We maintain a Buy rating, at a higher target of ₹458 based on FY22e EV/EBITDA of 5x.

**Risks:** Extension of the lockdown; rise in input costs.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	5,699	6,514	5,558	5,116	5,741
Net profit (₹ m)	385	461	663	465	642
EPS (₹)	27.5	32.9	47.3	33.2	45.9
PE (x)	18.4	12.7	4.1	8.9	6.4
EV / EBITDA (x)	8.1	5.5	3.2	4.4	2.9
EV / ton (\$)	40.7	31.2	14.6	21.8	18.5
RoE (%)	11.1	11.9	13.2	9.9	12.4
RoCE (%) after tax	8.1	8.7	11.3	7.5	9.8
Dividend yield (%)	0.6	0.9	2.0	1.4	1.4
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.1	-0.2

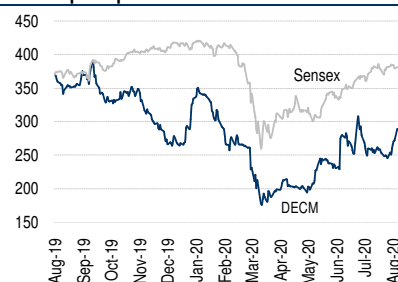
Source: Company, Anand Rathi Research

Key data	DECM IN / DCNC.BO
52-week high / low	₹418 / 147
Sensex / Nifty	38051 / 11247
3-m average volume	\$0.3m
Market cap	₹4bn / \$54.1m
Shares outstanding	14m

Shareholding pattern (%)	Jun-20	Mar-20	Dec-19
Promoters	56.2	56.2	56.2
- of which, Pledged			
Free float	43.8	43.8	43.8
- Foreign institutions	2.4	2.3	2.1
- Domestic institutions	11.3	12.5	12.8
- Public	30.1	29.0	28.8

Estimates revision (%)	FY21e	FY22e
Sales	2.8	1.0
EBITDA	36.2	28.7
PAT	55.7	39.3

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

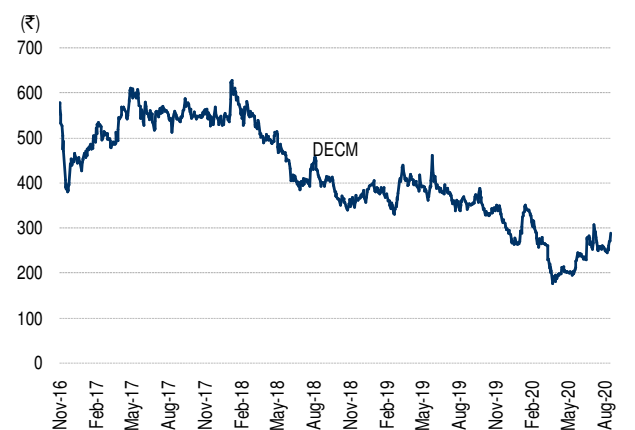
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volume (m tons)	1.5	1.7	1.5	1.3	1.4
Net revenues	5,699	6,514	5,558	5,116	5,741
Growth (%)	14.8	14.3	-14.7	-8.0	12.2
Direct costs	3,864	4,513	3,682	3,221	3,502
SG&A	986	1,048	1,093	1,066	1,157
<b>EBITDA</b>	<b>848</b>	<b>952</b>	<b>783</b>	<b>828</b>	<b>1,082</b>
EBITDA margins (%)	14.9	14.6	14.1	16.2	18.8
- Depreciation	227	223	209	235	262
Other income	43	99	96	87	98
Interest expenses	57	77	68	59	59
PBT	608	751	602	622	858
Effective tax rate (%)	36.6	38.6	-12.1	25.2	25.2
+ Associates / (Minorities)					
Net income	385	461	566	465	642
Adjusted income	385	461	663	465	642
WANS	14	14	14	14	14
FDEPS (₹ / sh)	27.5	32.9	47.3	33.2	45.9
FDEPS growth (%)	-17.8	19.5	43.9	-29.8	38.1

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	608	751	602	622	858
+ Non-cash items	227	223	209	235	262
Oper. prof. before WC	835	974	811	857	1,120
- Incr. / (decr.) in WC	-222	122	-213	88	52
Others incl. taxes	181	265	124	137	196
Operating cash-flow	876	587	900	632	873
- Capex (tang. + intang.)	130	184	970	370	250
Free cash-flow	746	402	-70	262	623
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	-114	547

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

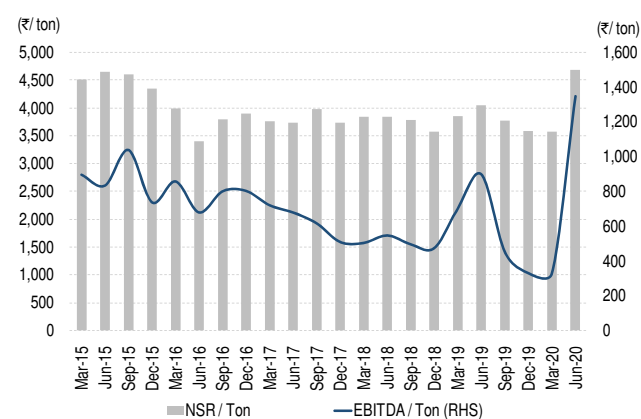
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	70	70	70	70	70
Net worth	3,654	4,064	4,499	4,908	5,495
Debt	539	737	889	589	589
Minority interest					
DTL / Assets)	651	676	491	491	491
<b>Capital employed</b>	<b>4,843</b>	<b>5,477</b>	<b>5,879</b>	<b>5,988</b>	<b>6,575</b>
Net tangible assets	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)	-	-	-	0	0
Current assets (ex cash)	1,159	1,263	1,541	1,163	1,305
Cash	762	1,313	1,166	1,053	1,599
Current liabilities	753	735	1,226	761	851
Working capital	406	528	315	403	454
<b>Capital deployed</b>	<b>4,843</b>	<b>5,477</b>	<b>5,879</b>	<b>5,988</b>	<b>6,575</b>
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	8.9	6.4
EV / EBITDA (x)	8.1	5.5	3.2	4.4	2.9
EV / Sales (x)	1.2	0.8	0.4	0.7	0.5
P/B (x)	1.9	1.4	0.6	0.8	0.8
RoE (%)	11.1	11.9	13.2	9.9	12.4
RoCE (%) - after tax	8.1	8.7	11.3	7.5	9.8
DPS (₹ / sh)	3.0	3.8	4.0	4.0	4.0
Dividend payout (%) - incl. DDT	13.1	13.7	11.9	12.0	8.7
Net debt / equity (x)	-0.1	-0.1	-0.1	-0.1	-0.2
WC days	26.0	29.6	20.7	28.7	28.9
EV / ton (\$)	40.7	31.2	14.6	21.8	18.5
NSR / ton (₹)	3,826	3,755	3,770	3,920	4,050
EBITDA / ton (₹)	570	549	531	635	763
Volumes (m tons)	1.49	1.74	1.47	1.31	1.42
CFO : PAT (%)	227.3	127.4	135.8	135.9	135.9

Source: Company, Anand Rathi Research

**Fig 6 – Quarterly per-ton NSR and EBITDA trends**



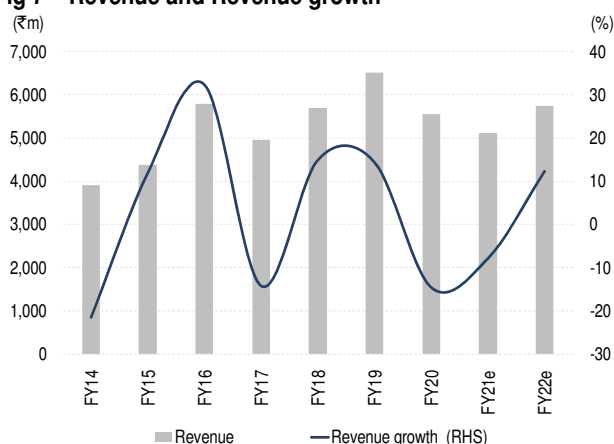
Source: Company, Anand Rathi Research

## Other Key Highlights

### Revenue growth

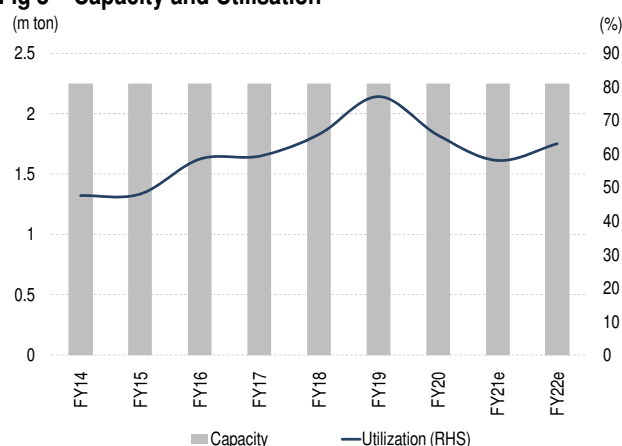
The complete lockdown in April led to negligible volumes; whereas in May and June demand stemmed mostly from rural and semi-urban areas as cities were quarantined and labour issues dominated. In Q1, demand in AP/Telangana fell ~45% y/y; in the South, it dropped ~46% y/y. For the company, volumes for the quarter declined 34% y/y to 0.3m tons, leading to its revenue falling 24% y/y to ₹1.4bn. However, price hikes in AP/Telangana helped its realisation/ton grow 16% y/y to ₹4,683.

**Fig 7 – Revenue and Revenue growth**



Source: Company, Anand Rathi Research

**Fig 8 – Capacity and Utilisation**



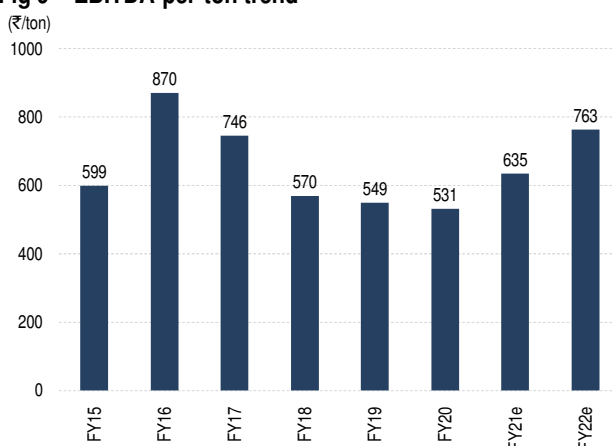
Source: Company, Anand Rathi Research

### Operating performance

In Q1, absolute EBITDA declined only 1.2% y/y to ₹399m. On the high realisation and cost savings, EBITDA/ton for the quarter came at ₹1,349 (₹898 a year ago, ₹327 the prior quarter) up 50% y/y. Raw material cost/ton and power & fuel cost/ton declined 11.7% and 8.5% y/y whereas freight cost/ton rose 3.2% y/y. Other expenditure and staff cost declined 35% and 3.5% y/y on an absolute basis

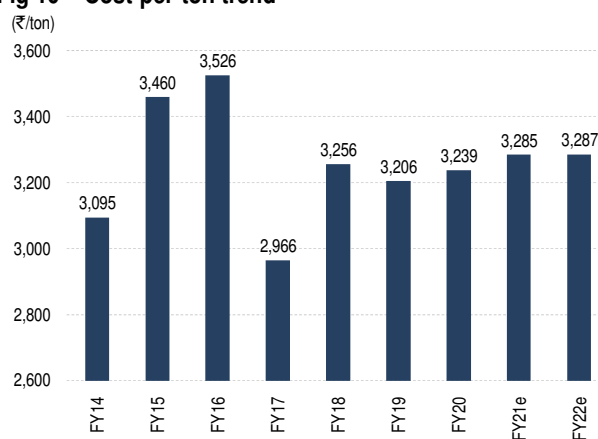
Adjusted PAT increased 12% y/y to ₹261m on a stable operating performance and lower tax, partially offset by an increase in depreciation expense.

**Fig 9 – EBITDA-per-ton trend**



Source: Company, Anand Rathi Research

**Fig 10 – Cost-per-ton trend**



Source: Company, Anand Rathi Research

## Result Highlights

**Fig 11 – Quarterly trend**

(₹ m)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Sales	1,341	1,636	1,617	1,625	1,731	1,541	1,820	1,342	1,158	1,238	1,386	(23.9)	12.0
EBITDA	182	214	230	213	229	281	404	160	106	113	399	(1.2)	252.9
EBITDA margins (%)	13.6	13.1	14.2	13.1	13.2	18.2	22.2	11.9	9.1	9.1	28.8	661bps	1967bps
EBITDA per ton (₹)	508	503	546	495	473	703	898	449	328	327	1,349	50.2	312.6
Interest	14	14	16	15	16	29	14	19	19	16	14	6.5	(10.0)
Depreciation	57	57	53	57	56	58	50	52	53	55	55	11.8	0.9
Other income	21	6	17	19	20	43	20	37	20	19	21	8.4	11.7
PBT	131	150	178	159	177	237	361	126	54	(35)	351	(2.7)	L2P
Tax	42	63	65	57	62	106	127	(197)	14	(5)	90	(29.6)	NA
Reported PAT	89	87	113	102	115	131	233	323	40	(30)	261	11.9	L2P
Adjusted PAT	89	87	113	102	115	131	233	323	40	67	261	11.9	291.7

Source: Company, Anand Rathi Research

**Fig 12 – Per-ton analysis**

(₹)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Realisations	3,736	3,845	3,841	3,779	3,577	3,852	4,045	3,769	3,593	3,578	4,683	15.8	30.9
EBITDA	508	503	546	495	473	703	898	449	328	327	1,349	50.2	312.6
Sales volumes (m tons)	0.36	0.43	0.42	0.43	0.48	0.40	0.45	0.36	0.32	0.35	0.30	(34.2)	(14.5)
<b>Costs</b>													
Raw material	345	356	350	342	352	368	385	378	348	378	340	(11.7)	(10.0)
Power & Fuel	1,217	1,182	1,203	1,112	1,375	1,546	1,401	1,303	1,175	1,332	1,281	(8.5)	(3.8)
Staff cost	174	116	154	158	126	173	174	189	189	197	257	47.4	30.7
Trans., C&F charges	1,061	1,069	1,149	1,065	836	658	870	847	848	811	897	3.2	10.6
Other Expenses	445	535	459	425	438	494	488	615	515	619	481	(1.4)	(22.3)

Source: Company, Anand Rathi Research

## Valuations

Amid the tough business environment, Deccan Cements reported an enhanced operating performance, beating our estimates, aided by price hikes and savings, though its volume decline was in line with the industry. On the full commencement of the 6MW WHRS, savings in fuel costs are expected boosting its operating performance. The GU expansion postponement continues. The demand and pricing scenario will depend on containing the pandemic and on government expenditure on infrastructure, we believe. The company's strong net-debt-free balance sheet will remain positive. We maintain our Buy recommendation on the stock, at a higher target of ₹458 based on an EV/EBITDA of 5x.

### Change in estimates

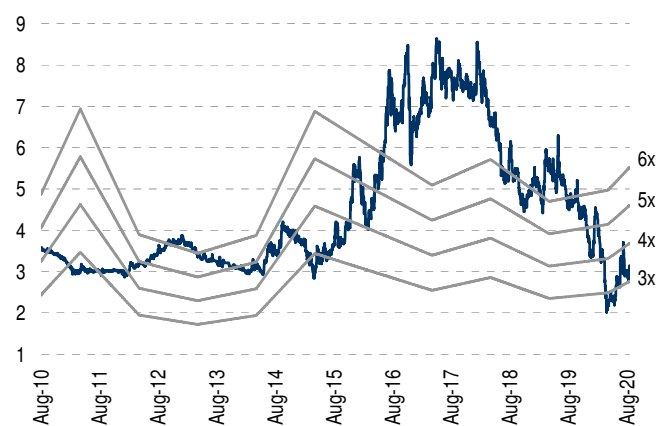
We have broadly maintained our revenue estimates and have raised our FY21e and FY22e EBITDA 36% and 29% respectively, and PAT 56% and 39%.

**Fig 13 – Change in estimates**

(₹ m)	Old		New		Variance	
	FY21e	FY22e	FY21e	FY22e	% chg	% chg
Sales	4,976	5,684	5,116	5,741	2.8	1.0
EBITDA	608	840	828	1,082	36.2	28.7
PAT	299	461	465	642	55.7	39.3

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

### Risks

- 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	295	8.9	6.4	4.4	2.9	22	19
Birla Corp.	613	15.6	12.2	7.8	6.8	61	51
Ramco Cement	675	30.7	22.3	18.6	14.2	128	119
Dalmia Bharat	790	NA	NA	8.3	7.3	102	90
Heidelberg Cement	181	18.6	13.5	9.0	6.9	82	76
India Cement	115	NA	30.0	12.8	9.4	57	58
JK Cement	1,513	31.5	20.1	15.0	10.9	119	113
JK Lakshmi	276	17.3	11.3	7.3	5.3	47	41
Mangalam Cement	203	14.7	8.3	7.0	5.0	38	35
NCL Industries	89	10.8	7.6	5.3	4.5	30	30
Orient Cement	69	24.5	12.3	7.4	5.6	40	37
Prism Johnson	48	NA	21.4	12.0	7.3	53	50
Star Cement	88	17.1	13.2	9.6	7.5	78	79
Sanghi Industries	25	NA	8.9	11.8	7.3	40	38

Source: Anand Rathi Research

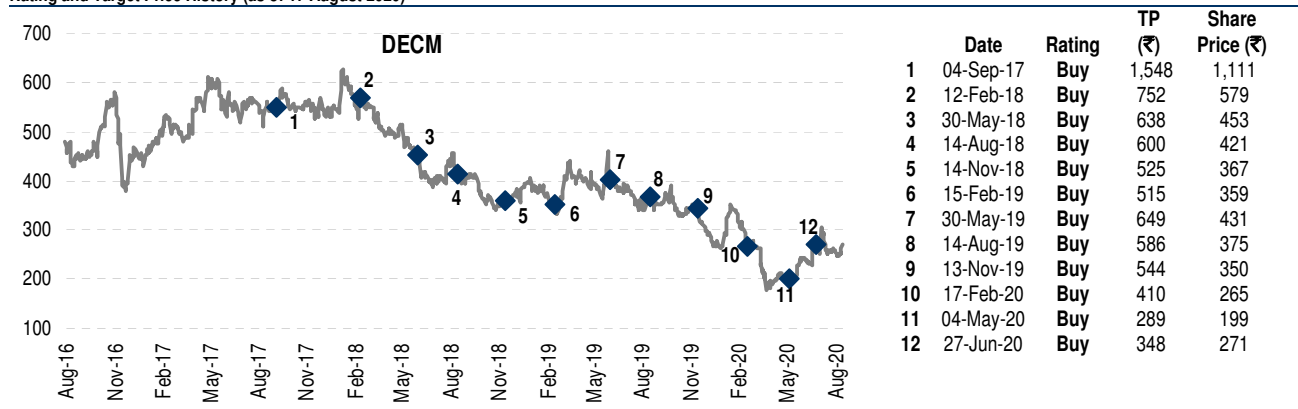
## Appendix

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