

Deccan Cements

Robust price gains; cost to reduce on WHRS ramp-up

Deccan Cement's (DECM) 1QFY21 volume fell 33% YoY. However, owing to a sharp rebound in regional pricing, revenue fell only 24% YoY to Rs 1.39bn. Margin soared 50% YoY, thus cushioning EBITDA to Rs 399mn, a decline of 1% YoY. APAT rose 12% YoY on a lower tax rate (new tax regime). We expect demand recovery and benefits accruing from WHRS and loading infrastructures to drive earnings recovery. We maintain BUY with an unchanged target price of Rs 380/sh.

- **1QFY21 - sharp margin rebound to offset the impact of volume loss:** Sales volume fell 33/14% YoY/QoQ to 0.30 mn MT, hit hard by a sharp demand decline across southern and Maharashtra markets. NSR, however, rebounded 31/14% QoQ/YoY, aided by a massive price uptick in the region. Supply chain disruptions amid COVID lockdown and negative op-lev drove up cost inflation by 5/3% YoY/QoQ. Subsequently, solid pricing gains propped up unitary EBITDA 49% YoY to a robust Rs 1,348/MT and almost offsetted the impact of volume loss. DECM had migrated to the new corporate tax rate late last year. Thus, a lower tax rate of 26% vs 35% YoY boosted APAT.
- **Capex update and outlook:** DECM's 6MW WHRS is expected to be fully operational during 3QFY21, which will reduce operating expense by ~Rs 70/MT. During FY20, DECM had commissioned truck and wagon loader facilities, which will reduce material handling cost. These should aid margin expansion going ahead. DECM reported that, on 1st and 21st July, it received demand notices totalling ~Rs 244mn from regional power discoms towards differential wheeling charges due for FY03-15 and FY15-16 periods respectively. The co has already set aside Rs 96mn last qtr in this regard. The differential amounts to ~12% of its cash balance and ~3/4% of its net worth/Mcap. DECM has sought more details from these discoms and, hence, has not further provisioned for the same. We maintain our estimates, building in 18% EBITDA CAGR during FY20-23E. We maintain BUY with an unchanged target price of Rs 380/sh (5.5x Jun'22 EBITDA).

Quarterly/annual financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY1 ¹	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.30	0.45	(33.5)	0.35	(14.4)	1.1	1.4	1.2	1.5	1.7
NSR (Rs/T)	4,680	4,088	14.5	3,577	30.8	3,741	3,860	4,014	4,035	4,055
Opex (Rs/T)	3,332	3,181	4.8	3,250	2.5	3,191	3,316	3,415	3,294	3,316
EBITDA(Rs/T)	1,348	907	48.6	327	312.4	541	544	600	740	739
Net Sales	1,386	1,820	(23.9)	1,238	12.0	6,511	5,558	4,914	5,926	7,087
EBITDA	399	404	(1.2)	113	252.9	951	783	734	1,087	1,292
APAT	261	233	11.9	67	291.7	461	433	358	619	707
AEPS (Rs)	18.7	16.7	11.9	4.8	291.7	32.1	30.9	25.6	44.2	50.5
EV/EBITDA (x)						3.1	4.7	4.4	4.5	4.9
EV/MT (Rs bn)						1.31	1.64	1.44	2.17	2.84
P/E (x)						8.1	8.8	10.7	6.2	5.4
RoE (%)						11.1	10.1	7.7	12.3	12.6

Source: Company, HSIE Research

BUY

CMP (as on 14 Aug 2020)	Rs 273
Target Price	Rs 380
NIFTY	11,178

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 380	Rs 380
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	DECM IN
No. of Shares (mn)	14
MCap (Rs bn) / (\$ mn)	4/51
6m avg traded value (Rs mn)	13
52 Week high / low	Rs 418/147

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	34.8	0.8	(27.1)
Relative (%)	13.1	9.0	(28.7)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	56.24	56.24
FIs & Local MFs	12.52	11.30
FPIs	2.26	2.37
Public & Others	28.98	30.09
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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