

Deccan Cement

Strong show; geared up for doubling its capacity!

During 3QFY21, Deccan Cement (DECM) reported strong surge in volumes and profits riding on solid demand in AP, healthy regional pricing and robust cost controls. Thus, its sales vol/revenue/EBITDA/APAT grew 58/80/363/737% YoY. The icing on the cake is a 2.2mn MT expansion announcement (long due). Given that DECM has a net cash balance sheet (INR 1.3bn) and robust cash flow outlook, the doubling of capacity should not deteriorate its balance sheet. We maintain BUY rating on the stock with a revised TP of INR 535/share (5.5x Dec'22 EBITDA).

- **Strong 3QFY21:** Sales volume firmed up 13% QoQ (+58% YoY on a low base) to 0.51mn MT, riding on strong demand in AP markets. Utilisation firmed up to 90%, its highest-ever utilisation in the past 12 years. NSR fell 7% QoQ on both price decline QoQ as well as increased share of sales in AP (low-price market). However, it stood 14% higher YoY. Opex fell 4% YoY and 5% QoQ, aided by both lower input costs (increased PPC sales and benefits from WHRS ramp-up) and lower freight costs (lower lead distance). Thus, unitary EBITDA surged 192% YoY to INR 960/MT. DECM commissioned 6.3MW WHRS during Dec'20. This will drive down its power cost by ~INR 40mn every quarter.
- **Long due Capex announced:** DECM has also announced 2.2mn MT brownfield expansion (after a gap of nine years), thereby doubling its capacity by early FY24E. We increase FY21/22E EBITDA by 12/4% factoring in strong performance and subsequently raise target price to INR 535/share (5.5x Dec'22E EBITDA).

Financial Summary

YE Mar (INR mn)	Q3 FY21	Q3 FY20	YoY (%)	Q2 FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.51	0.32	58.3	0.45	12.6	1.7	1.4	1.8	1.9	2.1
NSR (INR/MT)	4,080	3,594	13.5	4,372	(6.7)	3,745	3,860	4,220	3,946	3,973
Opex (INR/MT)	3,121	3,266	(4.4)	3,269	(4.5)	3,197	3,316	3,228	3,259	3,300
EBITDA (INR/MT)	960	328	192.4	1,103	(13.0)	547	544	992	687	673
Net Sales	2,081	1,158	79.8	1,981	5.1	6,514	5,558	7,680	7,684	8,279
EBITDA	489	106	363.0	500	(2.0)	952	783	1,806	1,337	1,402
APAT	331	40	737.2	338	(2.2)	461	433	1,165	826	825
AEPS (INR)	23.6	2.8	737.2	24.2	(2.2)	32.9	30.9	83.2	58.9	58.9
EV/EBITDA (x)						5.1	7.0	2.6	4.8	6.2
EV/MT (INR bn)						2.15	2.44	2.09	2.86	3.89
P/E (x)						12.2	13.0	4.8	6.8	6.8
RoE (%)						11.9	10.1	23.1	13.9	12.3

Source: Company, HSIE Research

Estimates Revision

INR Mn	FY21E Old	FY21E Revised	Chg%	FY22E Old	FY22E Revised	Chg%	FY23E Old	FY23E Revised	Chg%
Net Revenues	7,284	7,680	5.4	7,365	7,684	4.3	8,038	8,279	3.0
EBITDA	1,616	1,806	11.7	1,288	1,337	3.8	1,402	1,402	0.0
APAT	1,022	1,165	14.0	789	826	4.6	836	825	(1.4)
AEPS	73.0	83.2	14.0	56.3	58.9	4.6	59.7	58.9	(1.4)

Source: Company, HSIE Research

BUY

CMP (as on 12 Feb 2021)	INR 401
Target Price	INR 535
NIFTY	15,163

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 500	INR 535
	FY21E	FY22E
EBITDA %	-	-

KEY STOCK DATA

Bloomberg code	DECM IN
No. of Shares (mn)	14
MCap (INR bn) / (\$ mn)	6/77
6m avg traded value (INR mn)	32
52 Week high / low	INR 409/147

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.9	53.6	37.0
Relative (%)	(1.0)	19.2	13.0

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.24	56.24
FIs & Local MFs	4.19	2.75
FPIs	2.48	2.62
Public & Others	37.09	38.39
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi

rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Saurabh Dugar

saurabh.dugar@hdfcsec.com
+91-22-6171-7353

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com