

Deccan Cements

Cost reduction initiatives near completion

We maintain BUY on Deccan Cement (DECM) with a TP of Rs 370. Weak demand and volatile pricing in south pulled down DECM's profitability during both 4Q and FY20. However, DECM executed two major cost reduction infrastructures. It commissioned railway wagon and truck loaders in FY20 and its 6MW WHRS is also near completion. These will lower its material handling and power costs FY21 onwards, boosting margin.

- 4QFY20 hit on weak demand and pricing:** Sales vol fell 14% YoY to 0.35mn MT, on weak regional demand and Covid lockdown. The co's NSR fell 1/7% QoQ/YoY as it could not capitalize on the regional price hike in AP/T. Lower input and freight costs moderated YoY inflation at 3% despite neg op lev. Unitary EBITDA halved YoY to Rs 327/MT on lower realization. Thus, rev/EBITDA/APAT in 4QFY20 fell 20/60/49% YoY to Rs 1,238/113/67mn resp.
- FY20 performance also hit on poor sales:** Weak demand throughout the year led to 16% vol decline YoY to 1.47mn MT. NSR recovered a modest 1% YoY. The benefits of lower fuel/diesel prices got offset on account of lower utilisation and opex rose 2% YoY. Unitary EBITDA thus fell 3% YoY to Rs 533/MT. Lower sales pulled down FY20 revenue/EBITDA/APAT fell by 15/18/6% YoY resp to Rs 5,558/783/433mn. Lower capital charges moderated APAT fall.
- Major cost reduction initiatives completed:** During FY20, DECM commissioned truck loader and wagon loader facilities which will reduce material handling cost FY21 onwards. DECM's 6MW WHRS is almost ready and is expected to be operational by Aug'20 (delayed by 5 months due to Covid). This should reduce its power cost ~15-20% 2HFY21 onwards. The co spent ~Rs 970mn towards infrastructures in FY20. Owing to large capex despite weak earnings, net cash reduced to Rs138mn vs Rs 773mn YoY.
- Maintain BUY:** We estimate DECM to deliver 1% vol CAGR during FY20-22E on account of Covid impact in FY21E. WE estimate 15% vol decline in FY21E and factor in 20% recovery in FY22E on low base. Healthy pricing at start of FY21E and the opex reduction from commissioning of loaders and WHRS will aid margin recovery. These should drive 18% EBITDA CAGR in FY20-22E. We maintain BUY with unchanged TP of Rs 370/sh (5.7x its FY22E EBITDA, in-line its 10-yr mean multiple).

Financial summary

YE Mar (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY19	QoQ (%)	FY18	FY19	FY20P	FY21E	FY22E
Net Sales	1,238	1,541	(19.7)	1,158	6.9	5,702	6,514	5,558	4,914	5,926
EBITDA	113	281	(59.7)	106	7.0	852	952	783	734	1,087
APAT	67	131	(49.0)	40	68.7	385	461	433	358	619
AEPS (Rs)	4.8	9.3	(49.0)	2.8	68.7	27.5	32.9	30.9	25.6	44.2
EV /EBITDA (x)						3.8	3.1	4.6	4.3	4.4
EV/MT (Rs bn)						1.46	1.31	1.59	1.39	2.12
P/E (x)						9.6	8.1	8.6	10.4	6.0
RoE (%)						11.1	11.9	10.1	7.7	12.3

Source: Company, HSIE Research, Financials

BUY

CMP (as on 25 June 2020)	Rs 265
Target Price	Rs 370
NIFTY	10,289

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 370	Rs 370
EBITDA %	FY21E (3.9)	FY22E 2.0

KEY STOCK DATA

Bloomberg code	DECM IN
No. of Shares (mn)	14
MCap (Rs bn) / (\$ mn)	4/49
6m avg traded value (Rs mn)	5
52 Week high / low	Rs 419/147

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	43.4	(2.3)	(31.4)
Relative (%)	21.3	13.7	(19.8)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	56.19	56.24
FIs & Local MFs	12.84	12.52
FPIs	2.14	2.26
Public & Others	28.83	28.98
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Sales vol declined 14% YoY (+7% QoQ) to 0.35mn MT, hit sharply by weak regional demand and Covid lockdown.

The co's NSR fell 1/7% QoQ/YoY as it could not capitalize on the regional price hike in AP/T.

Opex fell 1% QoQ on lower input and freight costs. These also moderated YoY inflation at 3% despite neg op lev.

Lower realization coupled with opex inflation led to 53% YoY contraction in unitary EBITDA to Rs 327/MT.

Sharp vol decline led to 20% YoY net sales decline to Rs 1.24bn. Margin contraction further pulled down EBITDA/APAT by 60/49% to Rs113/67mn resp.

Exceptional loss: A favourable decision from HC-Andhra and App Tribunal has been set aside by the SC regarding revision of wheeling charges by AP Electricity Regulatory Commission. Thus an expense of Rs ~96mn has been provided under exceptional item. The co has also filed a review petition against the order.

Quarterly Financial Snapshot

Particulars (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net Sales	1,238	1,541	(19.7)	1,158	6.9
Raw Materials	101	111	(9.3)	173	(41.7)
Power and Fuel	461	619	(25.5)	379	21.7
Transport	281	263	6.7	273	2.8
Employee	68	69	(1.9)	61	11.6
Other Exp	214	198	8.4	166	29.1
EBITDA	113	281	(59.7)	106	7.0
EBITDA margin (%)	9.1	18.2		9.1	
Depreciation	55	58	(4.6)	53	4.0
EBIT	58	223	(74.0)	53	10.0
Other Income (Including EO Items)	(77)	43		20	
Interest Cost	16	29	(45.5)	19	(15.0)
PBT - Reported	(35)	237		54	
Tax	(5)	106		14	
Tax rate (%)	15.4	44.8		26.4	
RPAT	(30)	131		40	
EO (Loss) / Profit (Net Of Tax)	(96)	-		-	
APAT	67	131	(49.0)	40	68.7
Adj PAT margin (%)	5.4	8.5		3.4	

Source: Company, HSIE Research

Quarterly Performance Analysis

Particulars	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Sales vol (mn MT)	0.35	0.40	(13.6)	0.32	7.4
Rs/MT trend					
NSR	3,578	3,847	(7.0)	3,594	(0.5)
Raw materials	292	278	5.0	538	(45.8)
Power & fuel	1,332	1,544	(13.8)	1,175	13.3
Freight	811	657	23.5	848	(4.3)
Employee	197	173	13.6	189	3.9
Other Exp	619	493	25.5	515	20.2
Opex	3,251	3,145	3.4	3,266	(0.5)
EBITDA	327	701	(53.4)	328	(0.4)

Source: Company, HSIE Research

We have updated our fin model for FY19/20 P&L, BS and CF statements as reported.

Deccan Cem's vol fell 16% YoY in FY20 – driven by weak demand across the year. We model in 15% fall in FY21 on Covid impact, but expect it to recover by 20% in FY22E.

We factor in 2% NSR CAGR during FY20-22E. This along with low energy cost, benefits from power redn and handling infra should boost margin and EBITDA CAGR.

We cut vol est by 11/7% for FY21/22E factoring in higher impact of Covid lockdown on demand, leading to marginal tweaking in earnings

Operational Trends and Assumptions

Particulars	FY17	FY18	FY19	FY20	FY21E	FY22E
Cement Cap (mn MT)	2.3	2.3	2.3	2.3	2.3	2.3
Sales Volume (mn MT)	1.3	1.5	1.7	1.4	1.2	1.5
YoY change (%)	1.5	9.8	18.5	(17.2)	(15.0)	20.0
Utilisation (%)	59.4	65.2	77.3	64.0	54.4	65.3
(Rs/ MT trend)						
NSR (1)	3,712	3,885	3,745	3,860	4,014	4,035
YoY change (%)	(9.4)	4.7	(3.6)	3.1	4.0	0.5
Raw Materials (2)	339	403	365	348	357	368
Power & Fuel (3)	1,067	1,155	1,304	1,343	1,276	1,206
Freight costs (4)	815	1,075	925	866	844	861
Employee cost (5)	168	165	151	191	236	216
Other expense (6)	577	507	452	568	702	644
Total Opex (7)= sum(2 thru 6)	2,966	3,304	3,197	3,316	3,415	3,294
YoY change (%)	(8.1)	11.4	(3.2)	3.7	3.0	(3.5)
EBITDA per MT (1-7)	746	581	547	544	600	740
YoY change (%)	(14.3)	(22.2)	(5.7)	(0.7)	10.3	23.5

Source: Company, HSIE Research

Change in Estimates

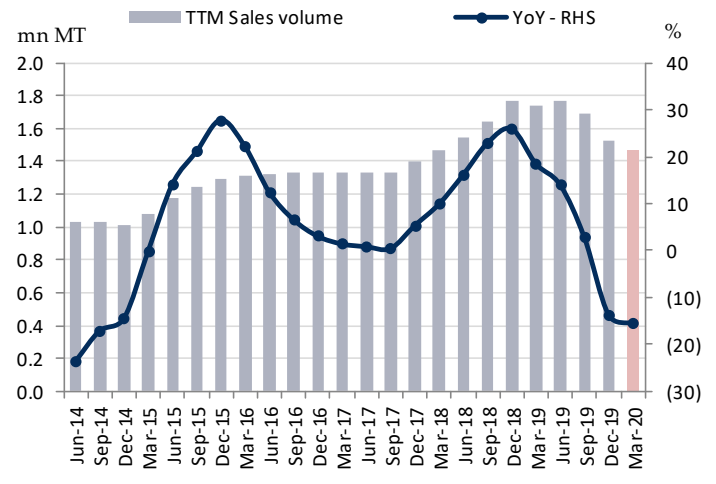
Rs mn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Net Revenues	5,351	4,914	(8.2)	6,338	5,926	(6.5)
EBITDA	764	734	(3.9)	1,067	1,087	2.0
APAT	374	358	(4.3)	611	619	1.3
AEPS	26.7	25.6	(4.3)	43.6	44.2	1.3

Source: Company, HSIE Research

Long term op performance trends (TTM basis)

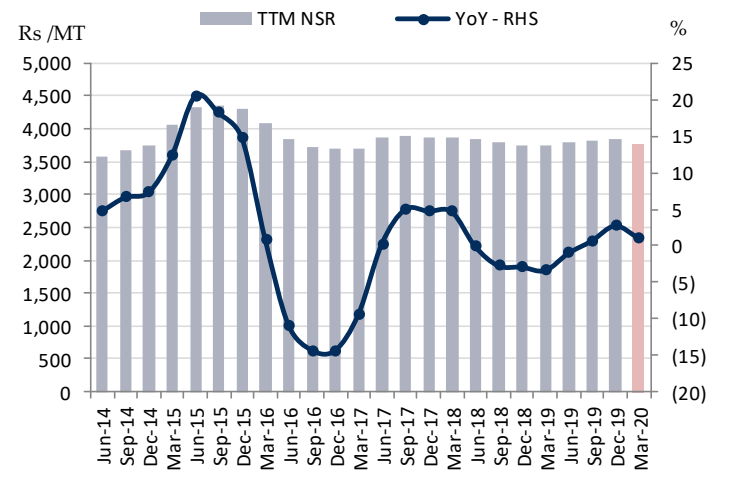
We have plotted Deccan Cements' operating metrics on trailing 12-month (TTM) basis, to assess its long term performance trends

Deccan's sales vol fell sharply by 16% for the first time in 6 years!!



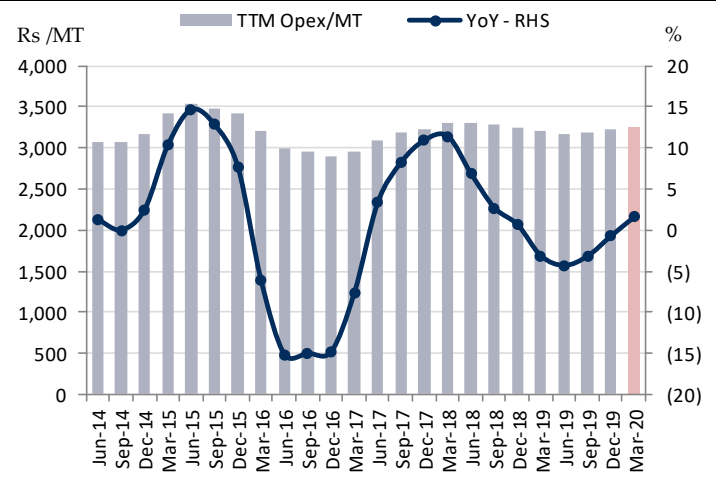
Source: Company, HSIE Research

NSR recovered only by 1% YoY on volatile pricing in FY20



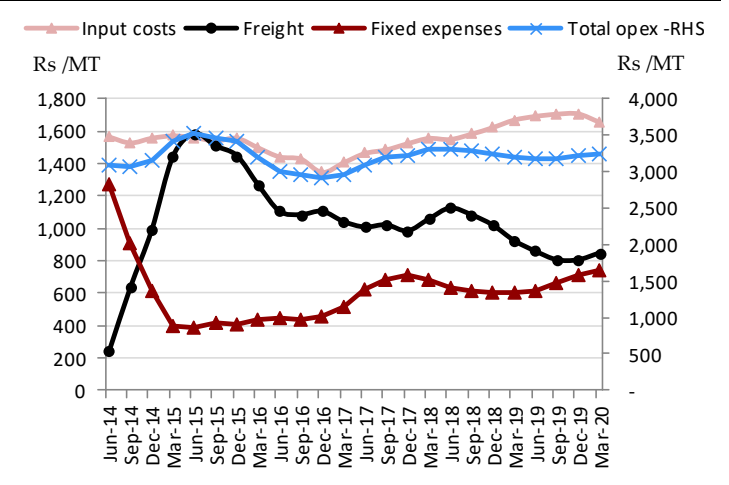
Source: Company, HSIE Research

Falling fuel prices kept input/freight costs lower but neg op-lev drove opex inflation rise to 2% YoY



Source: Company, HSIE Research

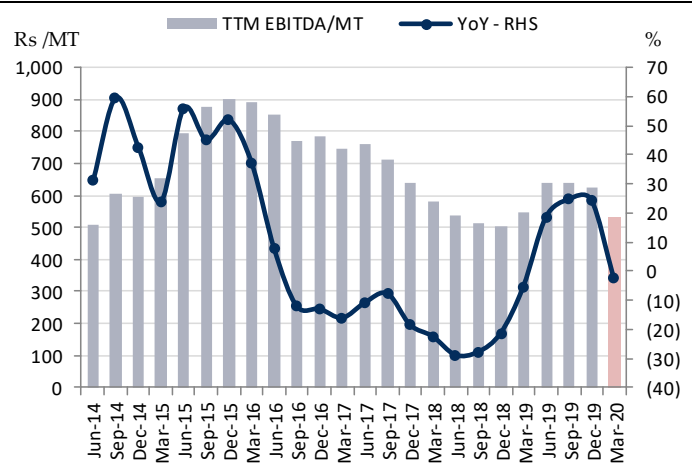
Unitary input and freight costs reduction moderated the impact of rise in unitary fixed costs



Source: Company, HSIE Research

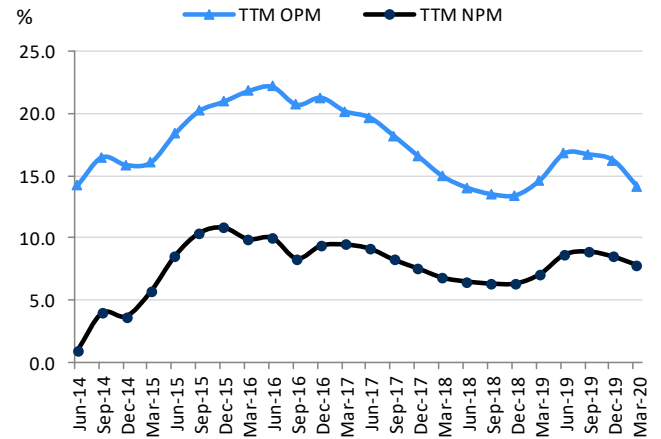
Long term performance trends (TTM basis) continued

Co's unitary EBITDA fell to 6 year low



Source: Company, HSIE Research

OPM fell to 7-yr low, while NPM recovered to 3-yr high on low capital charges despite EBITDA decline



Source: Company, HSIE Research

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA			EV/MT (Rs bn)			Net D:E (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
UltraTech Cement	1,044	3,803	BUY	4,720	13.4	15.0	12.3	10.92	10.47	9.84	0.4	0.3	0.2	10.4	7.6	9.5
Shree Cement	769	22,068	REDUCE	17,900	20.6	23.9	19.5	17.50	17.06	15.68	(0.3)	(0.3)	(0.3)	13.9	7.9	9.7
Ambuja Cements	369	186	BUY	210	9.5	10.7	9.1	6.93	6.55	6.54	(0.7)	(0.7)	(0.7)	6.8	5.3	6.0
ACC	235	1,251	BUY	1,440	7.8	10.7	8.8	5.93	6.08	6.14	(0.4)	(0.4)	(0.3)	11.6	8.4	10.6
Ramco Cements	149	633	ADD	685	15.7	15.8	11.4	9.64	9.22	8.22	0.6	0.6	0.3	12.8	10.7	12.2
Dalmia Bharat	137	709	BUY	930	8.4	10.9	8.0	6.76	5.92	4.67	0.4	0.4	0.3	2.1	(1.5)	1.3
JK Cement	108	1,397	BUY	1,425	11.2	12.6	10.2	8.11	8.01	8.15	0.9	0.9	0.8	17.4	11.3	15.1
Star Cement	37	88	BUY	100	8.9	9.4	8.1	6.12	6.43	6.75	(0.1)	(0.0)	0.1	15.7	13.5	16.1
JK Lakshmi	30	254	BUY	370	5.9	7.7	6.6	3.41	3.41	3.61	0.6	0.5	0.6	16.2	9.0	11.4
Orient Cement	15.1	74	BUY	85	7.0	7.9	6.4	3.36	3.16	3.17	1.1	0.9	0.8	8.0	4.6	9.6
Deccan Cements	3.7	265	BUY	370	4.6	4.3	4.4	1.59	1.39	2.12	(0.0)	(0.1)	0.2	10.1	7.7	12.3

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY19/CY20E/CY21E resp

Financials

Income Statement

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	4,962	5,702	6,514	5,558	4,914	5,926
<i>Growth %</i>	<i>(8.0)</i>	<i>14.9</i>	<i>14.2</i>	<i>(14.7)</i>	<i>(11.6)</i>	<i>20.6</i>
Raw Material	453	591	635	502	437	540
Power & Fuel	1,427	1,695	2,269	1,934	1,562	1,771
Freight Expense	1,090	1,578	1,609	1,247	1,033	1,265
Employee cost	224	242	263	275	289	318
Other Expenses	772	744	786	818	859	945
EBITDA	997	852	952	783	734	1,087
<i>EBITDA Margin (%)</i>	<i>20.1</i>	<i>14.9</i>	<i>14.6</i>	<i>14.1</i>	<i>14.9</i>	<i>18.4</i>
<i>EBITDA Growth %</i>	<i>(13.0)</i>	<i>(14.5)</i>	<i>11.7</i>	<i>(17.8)</i>	<i>(6.3)</i>	<i>48.2</i>
Depreciation	217	227	223	209	252	277
EBIT	780	626	729	574	481	810
Other Income (Including EO Items)	24	40	99	229	100	100
Interest	68	57	77	68	94	68
PBT	736	608	751	735	487	842
Tax	267	223	290	169	129	223
RPAT	469	385	461	566	358	619
EO (Loss) / Profit (Net Of Tax)	-	-	-	134	-	-
APAT	469	385	461	433	358	619
<i>APAT Growth (%)</i>	<i>2.9</i>	<i>(17.8)</i>	<i>19.5</i>	<i>(6.0)</i>	<i>(17.2)</i>	<i>72.7</i>
AEPS	33.5	27.5	32.9	30.9	25.6	44.2
<i>AEPS Growth %</i>	<i>2.9</i>	<i>(17.8)</i>	<i>19.5</i>	<i>(6.0)</i>	<i>(17.2)</i>	<i>72.7</i>

Source: Company, HSIE Research

Balance Sheet

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	70	70	70	70	70	70
Reserves And Surplus	3,253	3,584	3,994	4,429	4,703	5,238
Total Equity	3,323	3,654	4,064	4,499	4,773	5,308
Long-term Debt	337	261	273	815	847	2,847
Short-term Debt	365	67	266	213	213	213
Total Debt	702	328	540	1,028	1,061	3,061
Deferred Tax Liability	612	651	676	491	491	491
Long-term Liab+ Provisions	334	340	325	55	60	66
TOTAL SOURCES OF FUNDS	4,971	4,973	5,604	6,074	6,385	8,925
APPLICATION OF FUNDS						
Net Block	3,771	3,630	3,546	3,800	4,297	4,270
Capital WIP	1	44	90	598	98	2,098
Other Non-current Assets	185	113	188	136	134	134
Total Non-current Investments	1	1	1	1	1	1
Total Non-current Assets	3,957	3,788	3,825	4,534	4,530	6,502
Inventories	575	589	652	670	541	652
Debtors	107	134	159	478	246	148
Cash and Cash Equivalents	530	762	1,313	1,166	1,652	2,013
Other Current Assets (& Loans/adv)	177	322	265	257	240	237
Total Current Assets	1,388	1,808	2,388	2,572	2,678	3,050
Creditors	31	26	47	81	25	30
Other Current Liabilities & Provns	344	597	562	951	798	598
Total Current Liabilities	375	623	608	1,032	823	628
Net Current Assets	1,014	1,185	1,780	1,540	1,855	2,423
TOTAL APPLICATION OF FUNDS	4,971	4,973	5,604	6,074	6,385	8,925

Source: Company, HSIE Research

Cash Flow

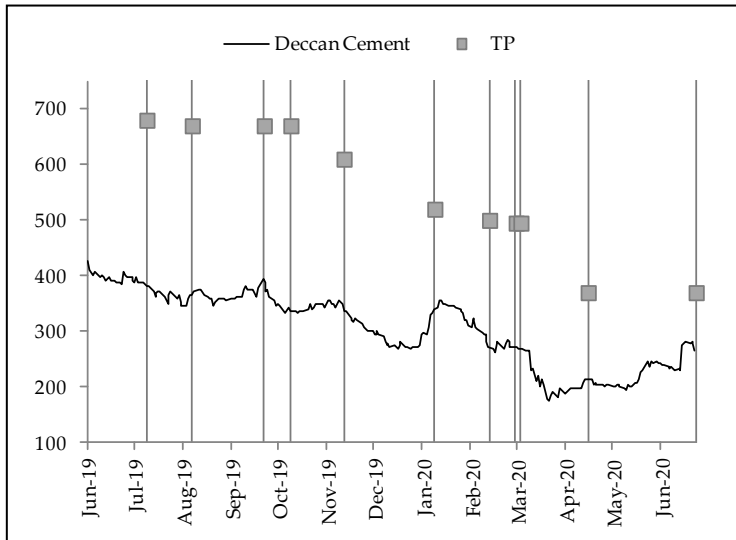
YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	736	608	751	505	487	842
Non-operating & EO Items	(19)	(37)	(78)	(76)	(100)	(100)
Interest Expenses	68	57	77	68	94	68
Depreciation	217	227	223	209	252	277
Working Capital Change	(169)	45	(190)	(146)	177	(201)
Tax Paid	(219)	(195)	(200)	(125)	(129)	(223)
OPERATING CASH FLOW (a)	614	705	583	435	782	664
Capex	(277)	(135)	(185)	(967)	(250)	(2,250)
Free Cash Flow (FCF)	337	570	398	(531)	532	(1,586)
Investments	1	-	-	-	-	-
Non-operating Income	8	19	49	69	100	100
Others						
INVESTING CASH FLOW (b)	(268)	(116)	(136)	(898)	(150)	(2,150)
Debt Issuance/(Repaid)	(83)	(83)	231	504	32	2,000
Interest Expenses	(69)	(57)	(77)	(56)	(94)	(68)
FCFE	184	430	552	(83)	470	345
Share Capital Issuance	-	-	-	-	-	-
Dividend	-	(51)	(51)	(131)	(84)	(84)
FINANCING CASH FLOW (c)	(153)	(190)	104	317	(146)	1,848
NET CASH FLOW (a+b+c)	193	399	550	(146)	486	361
EO Items, Others						
Closing Cash & Equivalents	531	929	1,312	1,167	1,652	2,013

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY %						
EBITDA Margin	20.1	14.9	14.6	14.1	14.9	18.4
EBIT Margin	15.7	11.0	11.2	10.3	9.8	13.7
APAT Margin	9.4	6.8	7.1	7.8	7.3	10.4
RoE	15.2	11.1	11.9	10.1	7.7	12.3
RoIC	11.5	9.2	10.5	9.6	7.3	10.2
RoCE	10.8	8.5	9.6	8.8	6.9	8.7
EFFICIENCY						
Tax Rate %	36.3	36.6	38.6	23.0	26.5	26.5
Fixed Asset Turnover (x)	1.3	1.4	1.6	1.3	1.0	1.1
Inventory (days)	42	38	37	44	40	40
Debtors (days)	8	9	9	31	18	9
Other Current Assets (days)	13	21	15	17	18	15
Payables (days)	2	2	3	5	2	2
Other Current Liab & Provns (days)	25	38	31	62	59	37
Cash Conversion Cycle (days)	36	27	26	25	15	25
Net Debt/EBITDA (x)	0.2	(0.5)	(0.8)	(0.2)	(0.8)	1.0
Net D/E	0.1	(0.1)	(0.2)	(0.0)	(0.1)	0.2
Interest Coverage	11.4	11.0	9.4	8.5	5.1	11.8
PER SHARE DATA (Rs)						
EPS	33.5	27.5	32.9	30.9	25.6	44.2
CEPS	49.0	43.7	48.8	45.8	43.6	64.0
Dividend	3.0	3.0	3.8	4.0	6.0	6.0
Book Value	237.2	260.8	290.1	321.2	340.8	378.9
VALUATION						
P/E (x)	7.9	9.6	8.1	8.6	10.4	6.0
P/Cash EPS (x)	5.4	6.1	5.4	4.8	6.1	4.1
P/BV (x)	1.1	1.0	0.9	0.8	0.8	0.7
EV/EBITDA (x)	3.9	3.8	3.1	4.6	4.3	4.4
EV/MT (Rs bn)	1.73	1.46	1.31	1.59	1.39	2.12
Dividend Yield (%)	1.1	1.1	1.4	1.5	2.3	2.3
OCF/EV (%)	15.8	21.5	19.8	12.2	25.0	13.9
FCFF/EV (%)	8.7	17.4	13.5	(14.9)	17.0	(33.3)
FCFE/M Cap (%)	5.0	11.6	14.9	(2.2)	12.7	9.3

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Jul-19	389	BUY	680
9-Aug-19	365	BUY	670
22-Sep-19	378	BUY	670
10-Oct-19	348	BUY	670
13-Nov-19	347	BUY	610
10-Jan-20	332	BUY	520
14-Feb-20	270	BUY	500
2-Mar-20	272	BUY	495
5-Mar-20	268	BUY	495
17-Apr-20	213	BUY	370
26-Jun-20	265	BUY	370

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

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