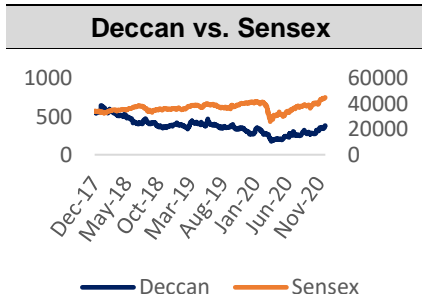


Target: Rs. 600
CMP Rs.380 (6x FY23 EV/EBITDA)
BUY

Index Details	
Sensex	44,635
Nifty	13,134
Industry	Cement

Scrip Details	
Mkt Cap (Rs Cr)	535
O/S Share (Cr)	1.40
3 M Avg Vol (000)	83
52 Wk H/L (Rs)	377/147
Div Yield (%)	1.07
FVPS (Rs)	5.00

Shareholding Pattern	
Shareholder	%
Promoters	56.24
Institutional	6.67
Public	37.08
Total	100.00



Deccan Cement is a 2.3 MTPA cement manufacturer with a single location facility at Bhavanipuram near Hyderabad. The fortunes for Deccan could not have been better given the sustained buoyancy in cement prices and benign cost environment despite the surplus capacity situation. It reported its highest EBITDA/tonne of Rs. 1138 in H1FY21 and a net profit of Rs 60 crores. (The highest since FY04).

Since the lock down cement prices have sky rocketed to Rs 350+ per bag. Historically the prices of cement have rarely stayed north of Rs. 300/bag in south India for more than a few months. It will be difficult for this robust pricing environment to persist given that rapidly improving supplies would lead to a cool off in prices. We expect net realizations to degrow at a CAGR of 6.8% over the period FY21-23.

The sharp surge in cement prices in the past few months more than compensated for the arrest in demand leading to a 6.4% YoY growth in the revenue to Rs. 337 cr in H1FY21. And while we expect revenues to scale to Rs.703 cr for FY21 (+26.5% YoY), the expected price slump (-0.8% CAGR over FY20-23) despite improving volumes (+5.5% CAGR over FY20-23) is expected to lead to a 4.6% CAGR in revenues to Rs.637 cr by FY23.

We expect record EBIDTA and net earnings of Rs.155 cr (+96.8% YoY) & Rs.99 cr (+74.2% YoY) respectively for FY21. However, the trajectory of growth for the same is expected to be southbound post FY21 as a function of the expect price slump and surge in prices of coal, petcoke and diesel take effect. Accordingly, we expect EBIDTA and net earnings to cool off to Rs.103 cr (degrowth of 18.2% CAGR) and Rs.61 cr (degrowth of 21.2% CAGR). EBIDTA per tonne is also expected to retract to Rs.599/tonne by FY23.

The completion of the WHRS expansion from 18 MW to 33 MW (at a cost of Rs 58.2 cr) should help ameliorate the surge in fuel costs marginally.

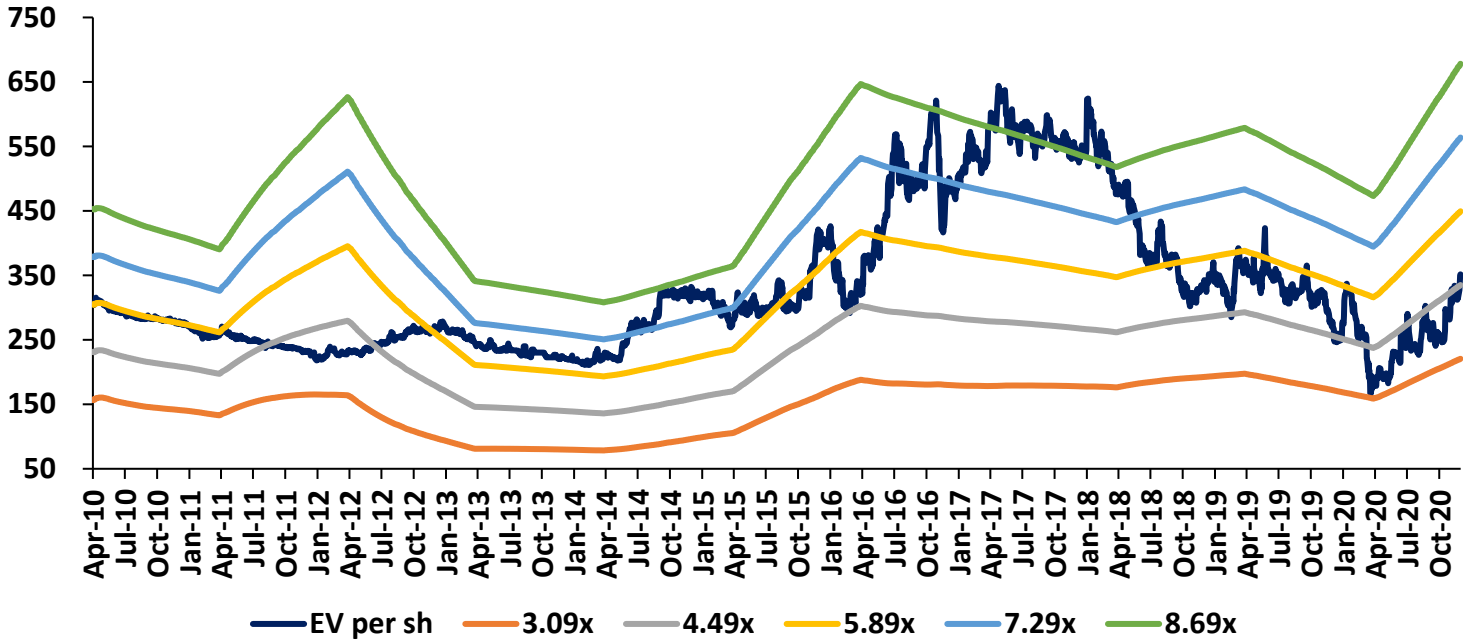
Despite our negative growth outlook on EBIDTA and net earnings, we believe that the stock is grossly undervalued. In addition, the improving cash flows should aid in the reduction in net debt by Rs. 207 cr to negative Rs. 219 crores by FY23. This in our opinion is valuation positive.

We initiate coverage on Deccan Cements with a BUY for a price target of Rs. 600 (6X EV/EBITDA FY23) representing potential appreciation of 57.8% over the next 24 months from the CMP of Rs. 380

Key Financials (in ₹ crores)

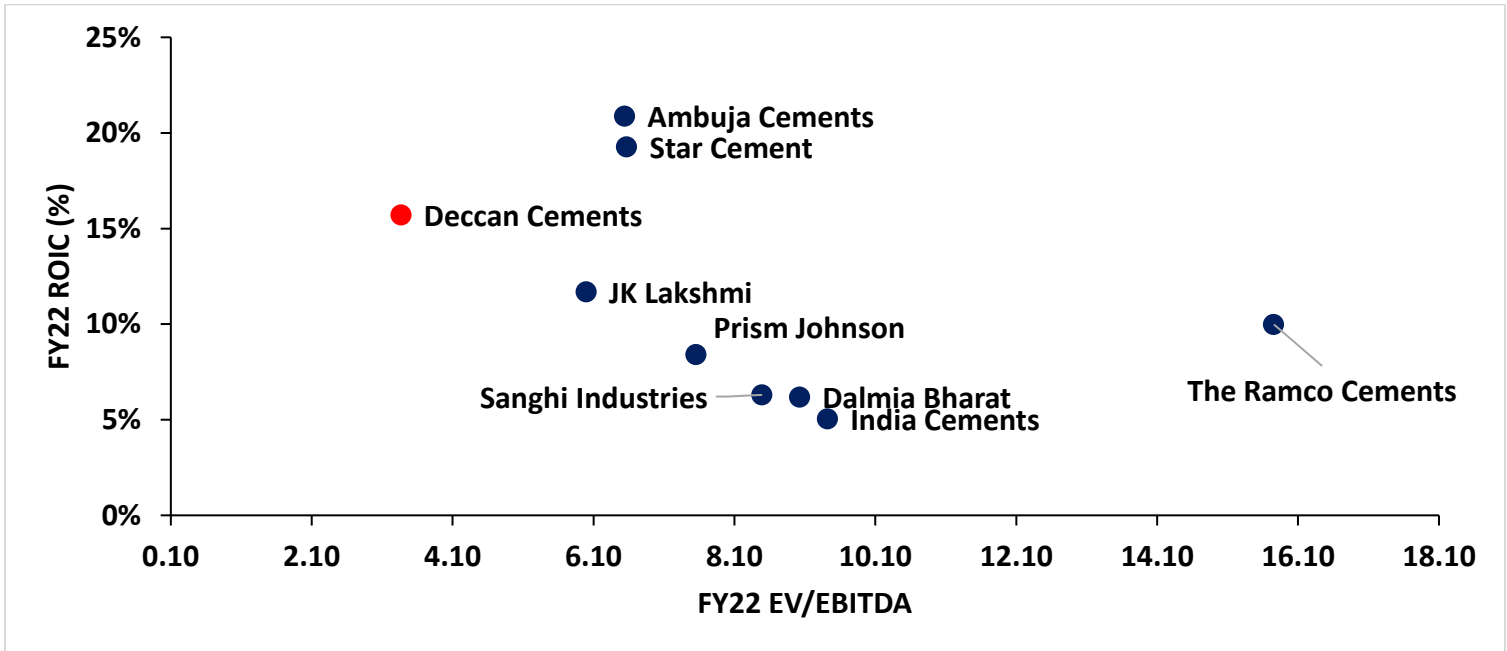
	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS (Rs)	BV (Rs)	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
FY19	651	95	46	14.6	7.1	32.9	290.1	11.3	9.7	12.7	1.4	5.3
FY20	556	79	57	14.1	10.2	40.4	321.2	12.6	11.6	4.6	0.6	3.2
FY21E	703	155	99	22.0	14.0	14.1	384.8	18.3	15.9	26.6	1.0	3.2
FY22E	671	119	74	17.7	11.0	10.5	432.2	12.2	10.6	35.7	0.9	3.4
FY23E	637	103	61	16.2	9.6	8.7	471.6	9.3	8.3	42.9	0.8	3.2

EV/EBITDA 1 year forward band chart

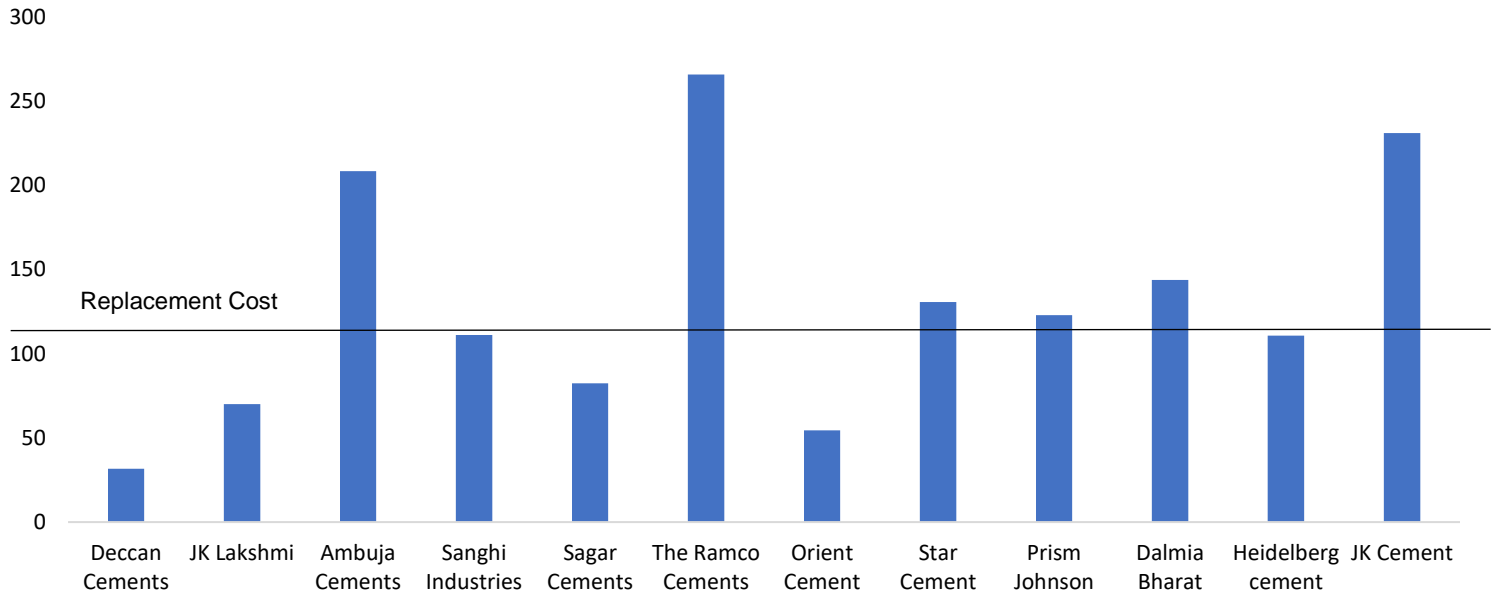


Source: Bloomberg & Ventura Research

High ROIC and Lowest Valuation Multiple



Source: Bloomberg & Ventura Research

FY22 EV/Tonne (in USD)


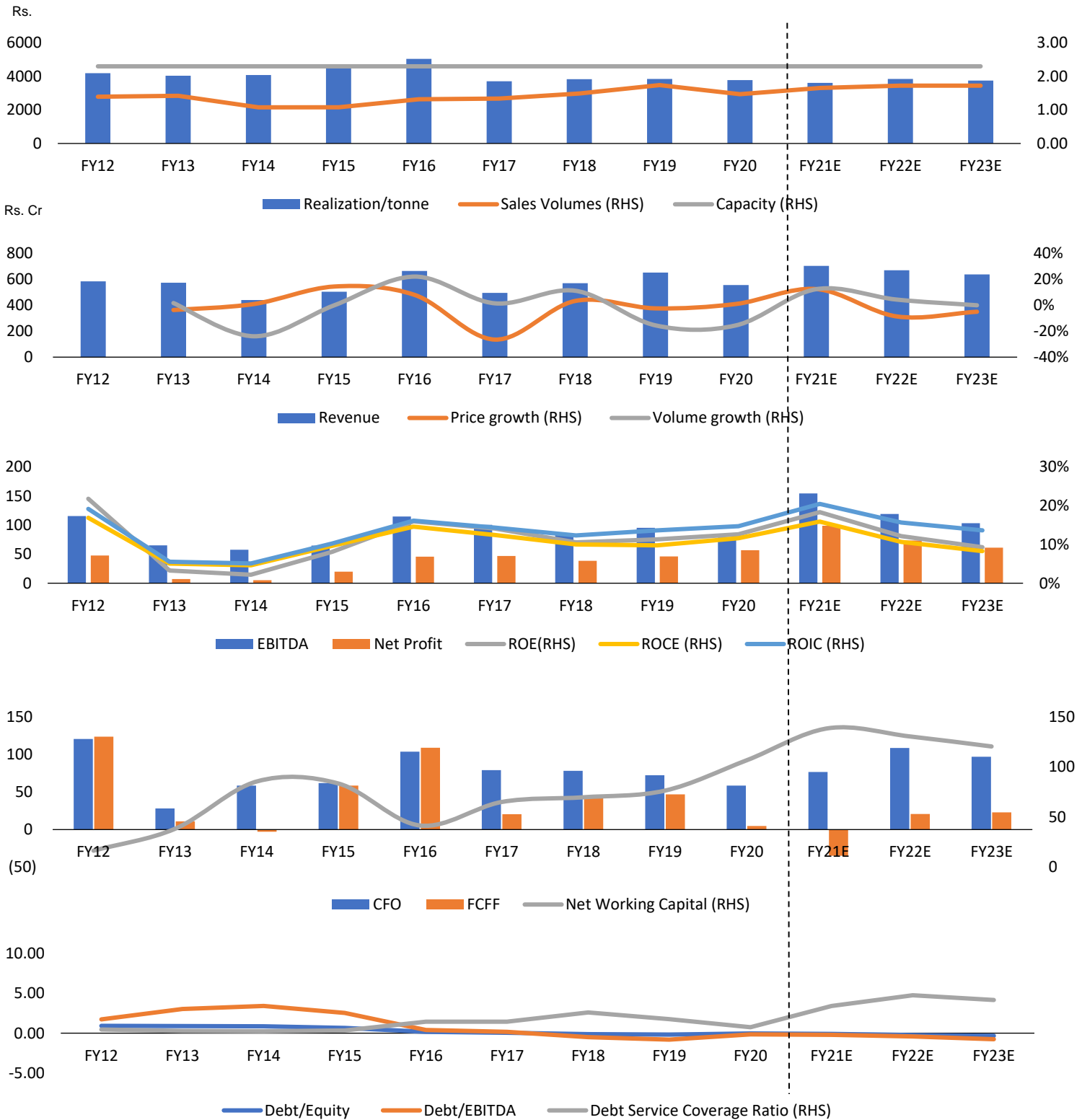
Source: Bloomberg & Ventura Research

FY23 EBITDA/Tonne vs Sales Volume Sensitivity Table

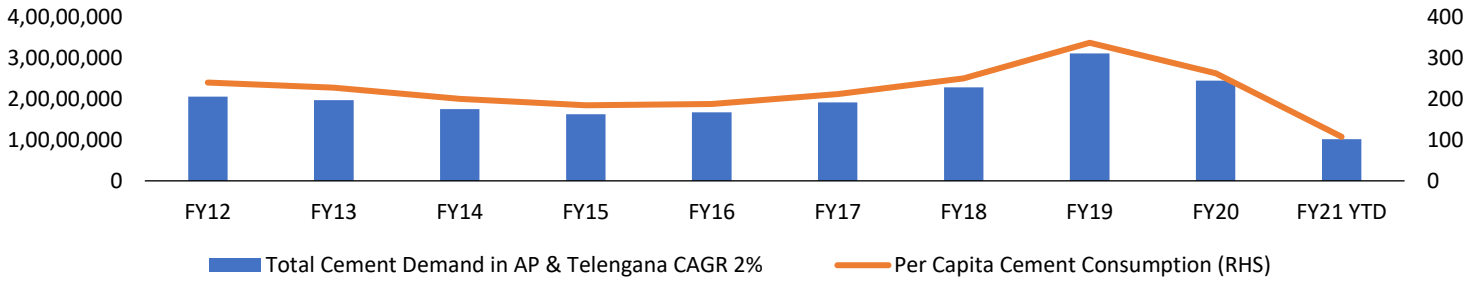
	Net Profit	FY23 EBITDA/Tonne (in Rs)														
		500	550	600	650	700	750	800	850	900	950	1,000	1,050	1,100	1,150	1,200
FY23 Sales Volume (in MTPA)	1.1	25	29	33	37	41	46	50	54	58	62	66	70	74	79	83
	1.3	32	37	42	47	52	57	62	67	71	76	81	86	91	96	101
	1.5	40	46	51	57	62	68	74	79	85	91	96	102	107	113	119
	1.7	47	54	60	67	73	79	86	92	98	105	111	118	124	130	137
	1.9	55	62	69	76	83	91	98	105	112	119	126	133	140	148	155
	2.1	62	70	78	86	94	102	110	118	125	133	141	149	157	165	173
	2.3	70	79	87	96	104	113	122	130	139	148	156	165	173	182	191

Source: Ventura Research

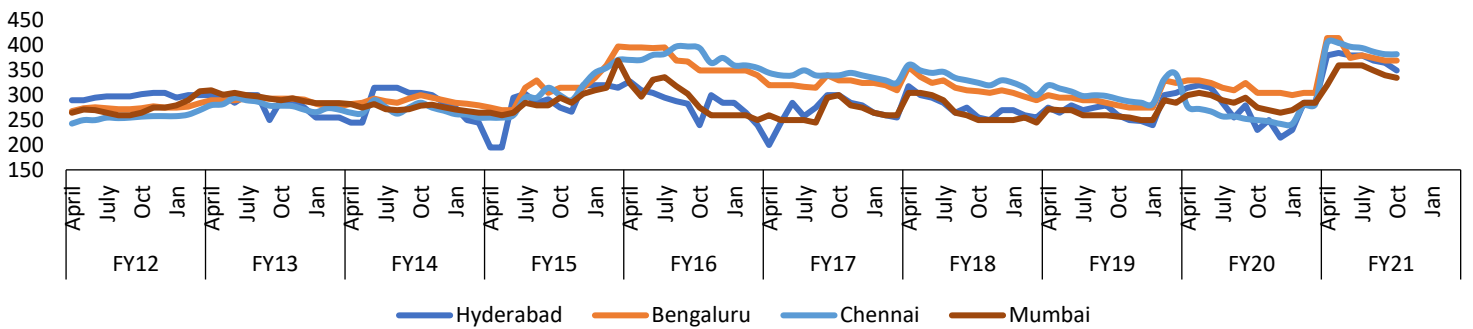
Deccan Cements Story in Charts



Source: Company Reports & Ventura Research

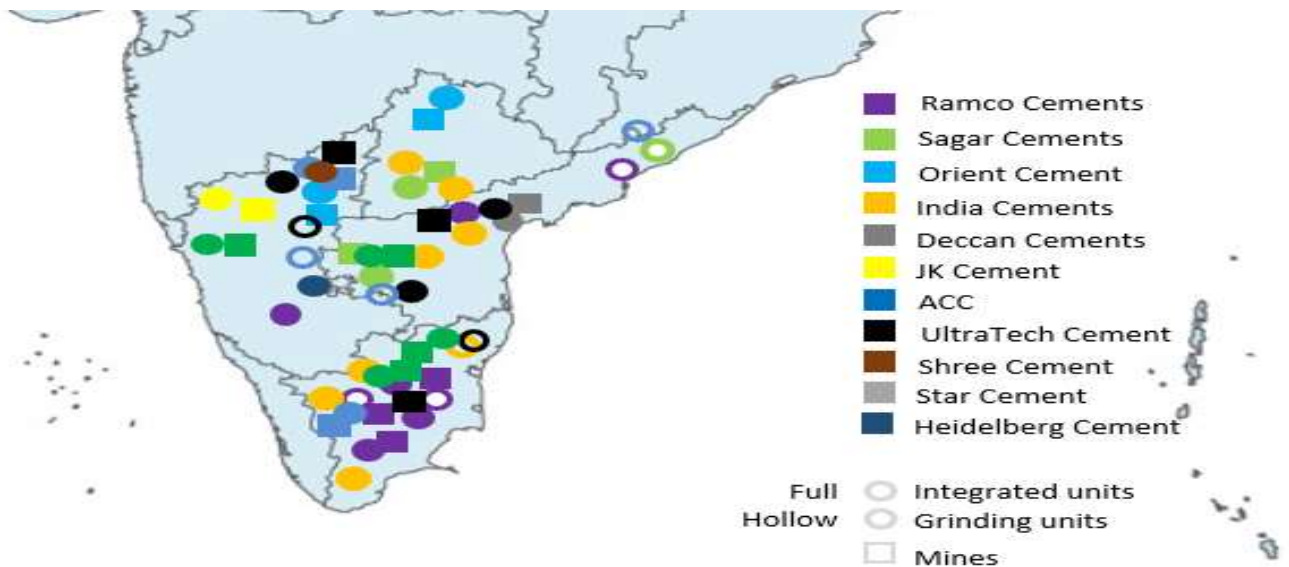


Cement Prices



Source: Company Reports & Ventura Research

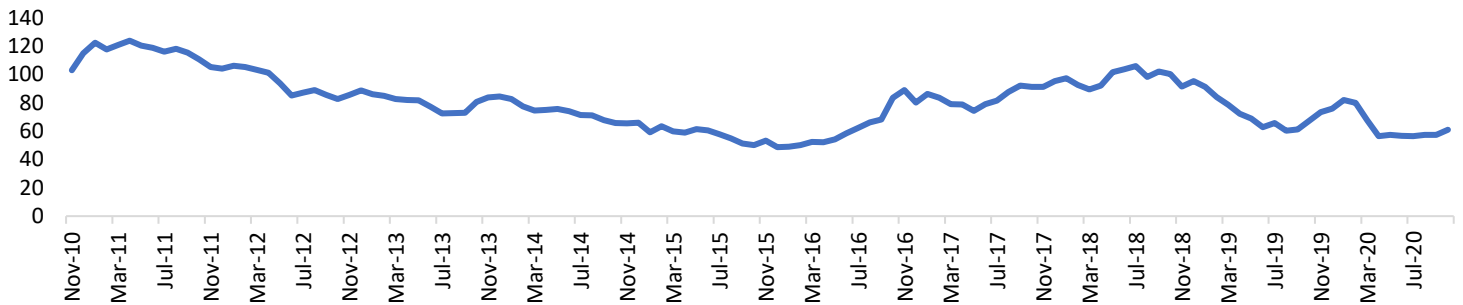
Cement Company locations in South India



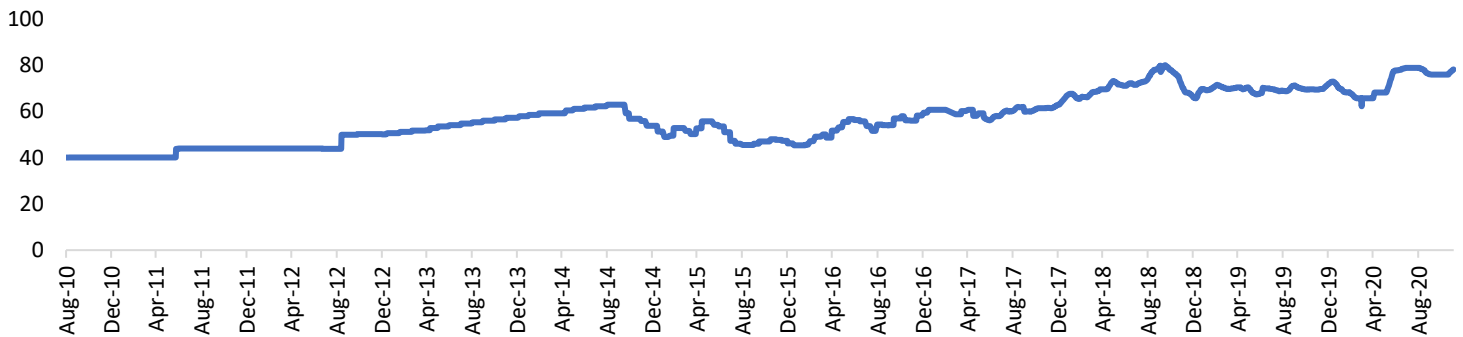
Source: Company Reports and Ventura Research

Economic Recovery Portends Rebound in Energy Prices

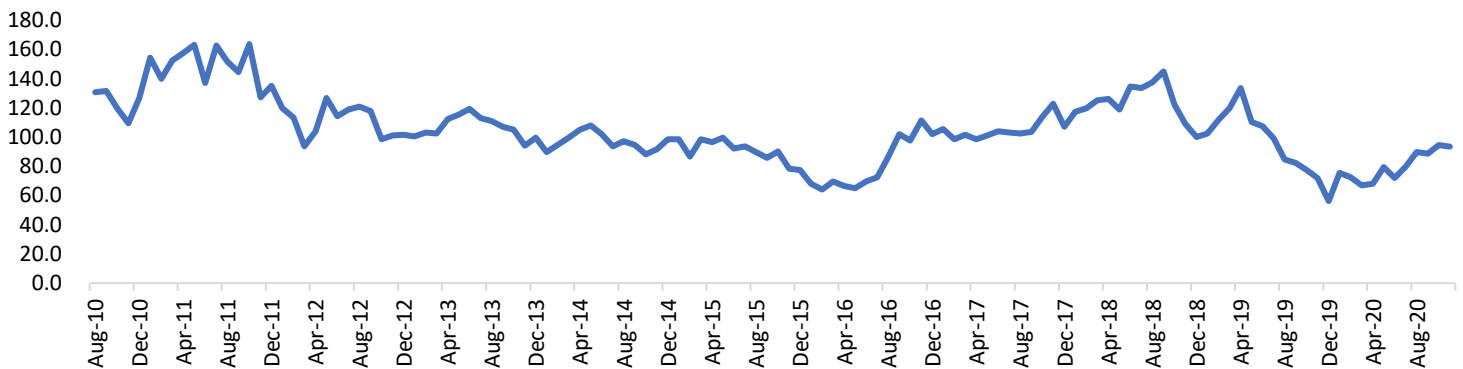
South African Coal Price USD/metric tonne



Diesel Price INR/Ltr



Pet Coke Prices USD/Tonne



Source: Bloomberg and Index Mundi

Risks

1. While we have assumed extremely conservative pricing environment, any deterioration in the demand growth can have negative impact on our valuations
2. In case of runaway inflation, cost pressures can significantly impact profitability

Quarterly Financial Performance

Figures are in Rs Cr	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	198	134	47.5	139	42.9	651	556	-14.7
Raw Material Cost	23.0	13.0	76.1	12.7	80.1	63.5	50.2	-21.1
<i>RM Cost to Sales (%)</i>	<i>11.6</i>	<i>9.7</i>		<i>9.2</i>		<i>28.0</i>	<i>9.0</i>	
Power and Fuel Cost	52.9	46.4	14.0	37.8	40.1	226.9	193.4	-14.8
<i>Power and Fuel Cost to Sales (%)</i>	<i>26.7</i>	<i>34.6</i>		<i>27.2</i>		<i>100.0</i>	<i>34.8</i>	
Freight Cost	41.9	30.2	39.0	26.4	58.6	160.9	124.7	-22.5
<i>Freight Cost to Sales (%)</i>	<i>21.2</i>	<i>22.5</i>		<i>19.1</i>		<i>70.9</i>	<i>22.4</i>	
Operating expenses	30.3	28.6		21.7		104.8	109.1	
<i>Operating expenses to Sales</i>	<i>15.3</i>	<i>21.3</i>		<i>15.7</i>			<i>19.6</i>	
EBITDA	50.0	16.0	212.1	39.9	25.1	95.3	78.5	-17.6
<i>EBITDA Margin (%)</i>	<i>25.2</i>	<i>11.9</i>		<i>28.8</i>		<i>42.0</i>	<i>14.1</i>	
Depreciation	5.6	5.2	9.1	5.6	1.4	22.3	20.9	-6.3
Interest	1	2	-29.7	1	-4.9	8	7	-10.2
Other Income	2.3	3.7	-36.8	2.1	9.3	9.9	9.6	-3.1
<i>Other Income to Sales (%)</i>	<i>1.2</i>	<i>2.8</i>		<i>1.5</i>		<i>4.4</i>	<i>1.7</i>	
Exceptional Income / Expenses	0.0	0.0		0.0		0.0	-9.6	
Profit Before Tax	45	13	259.5	35	29.1	75	51	32.7
<i>Tax Rate (%)</i>	<i>25.3</i>	<i>-156.5</i>		<i>25.5</i>		<i>38.6</i>	<i>-12.1</i>	
Profit After Tax	34	32	4.7	26	29.6	46	57	23.0
Minority Int/Share of Associates	0.0	0.0		0.0		0.0	0.0	
Net Profit	34	32	4.7	26	29.6	46	57	23.0
Net Profit Margin (%)	17.1	24.1		69.2		7.1	29.3	
Adjusted EPS	24.2	23.1	4.7	18.6	29.6	32.9	40.4	23.0
Shareholder's Funds	509.9	455.7	11.9			406.4	449.9	10.7
BV per share	364.0	325.3	11.9			290.1	321.2	10.7
Net Debt	-113.0	-42.1	168.4			-77.3	-11.2	-85.5
Net Debt to Equity	-0.2	-0.1	139.9			-0.2	-0.0	-86.9
Net Debt to EBITDA	-1.0	-0.4	157.9			-0.8	-0.1	-82.4
Capex	-2	-34				-13.6	-39.7	
RoE(%)	12.0	17.6				11.3	12.6	
RoCE(%)	11.7	18.7				9.7	11.6	
P/E	6.5	6.2		6.1		12.7	4.6	
P/B	0.8	1.1				1.4	0.6	
EV/EBITDA	2.6	4.3				5.3	3.2	

Source: Company Reports & Ventura Research

Financial & Projections

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E		FY19	FY20	FY21E	FY22E	FY23E
Income Statement						Per Share Data & Yields					
Sales Volume	2	1	2	2	2	Adjusted EPS (Rs)	32.9	40.4	14.1	10.5	8.7
Utilization	75.7	63.9	71.8	75.0	75.0	Adj Cash EPS (Rs)	48.8	55.4	86.2	68.6	60.1
Revenue	651.4	555.9	703.0	670.9	637.3	Adj Book Value per share (Rs)	290.1	321.2	384.6	432.0	471.3
<i>YoY Growth (%)</i>	<i>14.23</i>	<i>-14.7</i>	<i>26.5</i>	<i>-4.6</i>	<i>-5.0</i>	CFO Yield (%)	13.2	10.7	14.0	19.9	17.7
Raw Material Cost	63.5	50.2	82.4	80.5	73.3	FCF Yield (%)	46.9	4.7	-35.0	20.7	23.0
<i>YoY Growth (%)</i>	<i>7.49</i>	<i>-21.1</i>	<i>64.3</i>	<i>-2.3</i>	<i>-9.0</i>	Solvency Ratios (X)					
Power & Fuel Cost	226.9	193.4	192.8	171.1	162.5	Total Debt to Equity	0.1	0.2	0.2	0.1	0.1
<i>YoY Growth (%)</i>	<i>33.8</i>	<i>-14.8</i>	<i>-0.3</i>	<i>-11.3</i>	<i>-5.0</i>	Net Debt to Equity	-0.2	-0.0	-0.1	-0.2	-0.3
Gross Profit	361.0	312.3	427.8	419.3	401.5	Net Debt to EBITDA	-0.8	-0.1	-0.2	-0.4	-0.8
<i>Margin (%)</i>	<i>55.4</i>	<i>56.2</i>	<i>60.9</i>	<i>62.5</i>	<i>63.0</i>	Interest Coverage Ratio	0.1	0.1	0.1	0.1	0.1
Freight Cost	160.9	124.7	147.5	164.0	168.1	Debt Service Coverage Ratio	1.8	0.7	3.4	4.8	4.2
<i>YoY Growth (%)</i>	<i>2.0</i>	<i>-22.5</i>	<i>18.3</i>	<i>11.2</i>	<i>2.5</i>	Working Capital Ratios					
Operating Expenses	104.8	109.1	125.7	136.2	130.0	Payable Days	3	5	5	5	5
<i>YoY Growth (%)</i>	<i>6.4</i>	<i>4.2</i>	<i>15.2</i>	<i>8.3</i>	<i>-4.5</i>	Receivable Days	9	31	34	32	30
EBITDA	95.3	78.5	154.6	119.1	103.4	Inventory Days	37	44	43	44	44
<i>Margin (%)</i>	<i>14.6</i>	<i>14.1</i>	<i>22.0</i>	<i>17.7</i>	<i>16.2</i>	Gross Working Capital Days	45	75	77	76	74
Depreciation	22.3	20.9	22.0	22.5	23.0	Net Working Capital Days	43	70	72	71	69
<i>Depreciation to Gross Block (%)</i>	<i>5.4</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>	Return Ratios (%)					
EBIT	73.0	57.6	132.5	96.6	80.4	Return on Equity	11.3	12.6	18.3	12.2	9.3
<i>Margin (%)</i>	<i>11.2</i>	<i>10.4</i>	<i>18.8</i>	<i>14.4</i>	<i>12.6</i>	Return on Capital Employed	9.7	11.6	15.9	10.6	8.3
Other Income	9.9	9.6	8.5	9.0	8.0	Return on Invested Capital	13.6	14.7	20.5	15.7	13.7
Finance Cost	7.8	7.0	8.2	7.5	6.8	Valuation (X)					
Exceptional Item	0.0	-9.6	0.0	0.0	0.0	P/BV	1.44	0.58	1.0	0.9	0.8
PBT	75.1	50.6	132.8	98.1	81.6	EV/Sales	0.8	0.5	0.7	0.6	0.5
<i>Margin (%)</i>	<i>11.5</i>	<i>9.1</i>	<i>18.9</i>	<i>14.6</i>	<i>12.8</i>	EV/EBITDA	5.3	3.2	3.2	3.4	3.2
Reported Tax	29.0	-6.1	34.2	24.5	20.4	P/E	12.7	4.6	26.6	35.7	42.9
PAT	46.1	56.7	98.7	73.6	61.2	Cash Flow Statement					
<i>Margin (%)</i>	<i>7.1</i>	<i>10.2</i>	<i>14.0</i>	<i>11.0</i>	<i>9.6</i>	Profit Before Tax	75.1	50.6	132.8	98.1	81.6
Balance Sheet						Adjustments	32.8	32.1	10.0	26.7	25.7
Share Capital	7.0	7.0	7.0	7.0	7.0	Change in Working Capital	-6.6	-30.3	-32.0	8.2	10.0
Total Reserves	399.4	442.9	531.8	598.1	653.2	Less: Tax Paid	-29.0	6.1	-34.2	-24.5	-20.4
Shareholders' Fund	406.4	449.9	538.8	605.1	660.2	Cash Flow from Operations	72.2	58.5	76.7	108.5	96.9
Long Term Borrowings	25.2	66.8	62.2	56.9	52.5	Capital Expenditure	-13.6	-39.7	-25.0	-10.0	-10.0
Long Term Provisions	3.7	4.5	5.6	5.4	5.1	Change in Investments	-10.9	-44.6	-4.8	1.6	1.7
Other Long Term Liabilities	96.4	50.3	54.0	53.9	53.7	Cash Flow from Investing	-24.5	-84.3	-29.8	-8.4	-8.3
Total Liabilities	531.6	571.5	660.7	721.3	771.6	Change in Borrowings	20.1	36.3	-6.8	-6.2	-5.8
Gross Block	416.6	461.2	486.2	496.2	506.2	Less: Finance Cost	-7.8	-7.0	-8.2	-7.5	-6.8
Less: Accumulated Depreciation	64.4	85.2	107.2	129.7	152.7	Dividend paid	-5.1	-13.1	-9.8	-7.3	-6.1
Net Block	352.2	376.0	379.0	366.5	353.5	Cash Flow from Financing	7.2	16.2	-24.7	-21.0	-18.6
Capital WIP	9.0	59.8	60.0	60.0	60.0	Net Cash Flow	55.0	-9.5	22.2	79.1	69.9
Intangible Assets	0.4	1.9	2.0	2.0	2.0	Opening Balance of Cash	76.2	131.2	116.6	138.9	218.0
Loans & Advances	16.9	11.4	14.1	13.4	12.7	Closing Balance of Cash	131.2	116.6	138.9	218.0	287.9
Other Non Current Financial Assets	2.1	2.1	2.0	2.0	2.0						
Income Tax Assets	0.0	0.0	0.0	0.0	0.0						
Other Non Current Assets	5.0	6.5	7.0	6.7	6.4						
Net Current Assets	146.1	113.8	196.6	270.6	334.9						
Total Assets	531.6	571.5	660.7	721.3	771.6						

Source: Company Reports & Ventura Research

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