

Analyst & Advisor: Abhishek Jain  
www.stocksidea.com  
+91-98260-41144

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## **Deccan Cements Ltd— STRONG BUY—160—INR**

Sector — Cement  
Regd.Off. — 6-3-666/B, Somajiguda, Hyderabad, A. P. -500 082  
Listed — BSE (502137).

### **Company overview—**

Company was incorporated in the year 1979. Deccan cements started its operation with a licensed capacity of 66000 tpa. The first mini cement plant based on rotary kiln technology started commercial production in Oct.'92. M B Raju of the Nagarjuna group, a technocrat enterpreneur, promoted company. To diversify its area of operations, the company promoted DCL Polyester Ltd for the manufacture of polyester filament yarn. The other companies of the group are DCL Polyesters and Deccan Polypacks. Manufacturing facility was located at Mahankaligudem in the state Andhra Pradesh. Company started its modernization program in the year 1986-87. During this period company introduced reinforced suspension preheated technology, from Onoda Engineering & Consulting Company, Japan, to enhance its capacity from 66000 tpa to 99000 tpa. The company has also commissioned a captive-generation plant to meet around 65% of its total power requirement. The company issued PCDs on a rights basis, aggregating Rs 8.66 cr, in Nov.'92 to meet long-term working capital requirements, capital expenditure and to invest in-group companies, DCL Polyesters and Deccan Polypacks. The company commissioned the first wind farm in Andhra Pradesh in 95, which has generated 10.65 lac units of power. Company also commissioned 3.75 MW captive mini hydel plant at Guntur Branch canal, Narasaraopet, Andhra Pradesh. The company executed the expansion capacity of the cement division from 1,98,000 tonnes to 2,97,000 tonnes per annum 1999-2000. It has been one of the very few mini cement plants that are operating profitably over the years in the country. In addition, it also has a slag cement unit with a capacity of 5 lakh tomes.

### **Products & Services—**

Company manufactures different category of ordinary Portland cement and Blended cements like slag cement mainly. Company is an Andhra-pradesh based mini-cement manufacturer with captive power plant. It has been one of the very few mini cement plants that are operating profitably over the years in the country. It had a 2.97 lakh tonne capacity mini cement plant. Company has strong brand identity in andhra Pradesh. Company's cost of cement production is low due to various input material benefits and mini plants tax benefits. Company also increased its slag cement capacity to capture fastest growing blended cement market. Company has 3.75-mw-hydel-power plant situated at Narasaraopet and operates windmills of 225 MW capacities for its own power requirements. Company's power cost in cement production is very less and this will provide strong improvement in its bottom line in the long run.

### **Financials—**

Results for 1<sup>st</sup> and 2<sup>nd</sup> Quarter 2006-07

Description	Jul-Sep 06 Rs. Million	Apr-Jul 06 Rs. Million
Net Sales	406.56	413.11
Other Income	6.16	2.07
Total Income	412.72	415.18
Expenditure	-293.11	-314.44
Operating Profit	119.61	100.75
Interest	-2.06	-2.11
Gross Profit	117.55	98.64
Depreciation	-13.1	-12.89
Profit before Tax	104.45	85.76
Tax	-34.43	-29.08
Profit after Tax	70.03	56.67
Net Profit	70.03	56.67
Equity Capital	70.04	70.04
EPS	10	8.09
Percent of Shares - Non Promoters	45.33	

### Valuation—

Cement manufacturing industry is highly power intensive, and hence the captive power plants have been very useful for the company to considerably reduce power costs. Cement demand is growing at more than 16% in the Southern part of the country. In the quarters to come, we don't see any major capacity addition in the cement sector due to potential delays in land acquisition issues or environmental issues, real estate prices sustaining at the present levels may drive up cement growth even well in the years to come. According to sources, Cement prices can go up by 5-10 Rs. in the coming months across the south. Company is generating profits consistently from last several years. At CMP, Stock is trading at Attractive Valuation of 5.55 X multiple of its FY2007 Estimated earnings. We recommend investors to "Strong BUY" "Deccan cements" with Short term, medium to long-term investment horizon.

**We invite Readers to send Valuable feedback, stock and subscription queries at E-mail [investment\\_guru1@yahoo.com](mailto:investment_guru1@yahoo.com)**

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