

Dalmia Bharat

BSE SENSEX	S&P CNX
28,439	8,801
Bloomberg	DBEL IN
Equity Shares (m)	88.8
M.Cap.(INRb)/(USDb)	210.3 / 3.1
52-Week Range (INR)	2368 / 813
1, 6, 12 Rel. Per (%)	17/25/169
Avg Val, INRm	234
Free float (%)	42.2

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Sales	74.0	86.4	97.9
EBITDA	19.0	23.1	25.7
NP	3.4	5.9	7.7
Adj EPS (INR)	38.8	66.7	87.1
EPS Gr. (%)	81.2	72.1	30.6
BV/Sh. (INR)	558	623	710
RoE (%)	7.2	11.3	13.1
RoCE (%)	7.3	9.3	10.6
P/E (x)	65.1	37.8	29.0
P/BV (x)	4.5	4.1	3.6

Estimate change



TP change



Rating change



CMP: INR2,523 TP: INR3,162(+25%)

Buy

A quarter of strong outperformance across all parameters

- **Superior volume growth v/s peers:** 4Q cement volumes grew 17% YoY to 4.55mt (est. of 3.93mt), as volume growth ex-OCL was 28% YoY due to higher volumes from south/north-east and higher sales in MP/Chhattisgarh. Pure cement realizations were flat QoQ (-1% YoY) at INR4,725/t, despite weaker realizations in focus markets, due to higher proportion of premium sales. Hence, revenues rose 15.6% YoY to INR21.85b (est. of INR18.5b).
- **EBITDA/t up QoQ despite cost pressures:** EBITDA/t for 4QFY17 rose 3% QoQ (-8% YoY) to INR1,212, despite higher fuel prices, as unitary cost/t fell INR112 QoQ on account of: 1) positive operating leverage, 2) lower cost of power production and higher petcoke consumption (78% v/s 74% in 3QFY17) and 3) lower employee cost on disbursement of bonus in previous quarters. Hence, EBITDA increased 8% YoY to INR5.52b for 4QFY17.
- **FY17 performance:** Volumes at 15.3mt rose 20% YoY, led by growth in southern operations. Realizations declined 3% YoY to INR4,843/t. Hence, revenues increased 15.5% YoY to INR74b. EBITDA/t was flat at INR1,244, and thus, EBITDA increased 19% YoY to INR19b. However, a lower tax rate at 40% (v/s 48% in FY16) resulted in PAT growth of 77% YoY to INR3.37b.
- **Other key takeaways:** (a) Gross debt down INR7.2b in FY17 to INR80.8b. (b) Received INR5.9b from sale of KKR shares in April-17. (c) Premium brands constituted ~10% of overall sales. (c) Ex-OCL volumes increased 28% YoY in 4QFY17. (d) Petcoke consumption at 78% v/s 74% in 3QFY17.
- **Valuation and view:** We believe the net debt reduction program of ~INR7.5b in FY17 will continue into FY18/FY19, and expect net debt to EBITDA to reduce to below 1.5x from 2.8x in FY17. Operating cash flow is likely to improve strongly, led by margin improvement on the back of ongoing cost efficiency program and realization improvement by way of higher proportion of premium sales. OCL-DBL merger synergy benefits could further improve operating cash flow in FY19. We expect valuation multiple for the company to catch up with large caps, given improving balance sheet and earnings CAGR of 50% over FY17-FY19. We value DBEL at 13x FY19E EV/EBITDA, at ~20% discount to peers due to ~50% exposure to the south market and arrive at a TP of INR3,162, implying 25% upside. **Buy.**

Quarterly Performance (Consolidated)

Y/E March	FY16				FY17				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY16	FY17E	FY18E	FY17
Sales Dispatches (m ton)	3.1	2.85	2.96	3.88	3.76	3.42	3.56	4.55	12.80	15.29	17.14	4QE
YoY Change (%)	96.8	95.2	79.6	66.0	21.7	20.0	20.3	17.3	82.4	19.5	12.1	Var (%)
Realization (INR/ton)	5,176	4,979	4,998	4,871	4,695	4,897	4,886	4,802	5,009	4,843	5,042	4,717
YoY Change (%)	17.7	2.5	7.4	-11.4	-9.3	-1.6	-2.2	-1.4	4.4	-3.3	4.1	-2.7
QoQ Change (%)	-5.8	-3.8	0.4	-2.5	-3.6	4.3	-0.2	-1.7				-2.6
Net Sales	15,995	14,190	14,793	18,901	17,654	16,747	17,393	21,850	64,113	74,044	86,403	18,518
YoY Change (%)	135.0	104.8	94.2	53.5	10.4	18.0	17.6	15.6	90.5	15.5	16.7	-1.5
EBITDA	3,858	3,116	3,395	5,116	4,963	3,902	4,211	5,517	15,916	19,019	23,059	3,904
Margins (%)	24.1	22.0	23.0	27.1	28.1	23.3	24.2	25.2	24.8	25.7	26.7	21.1
Depreciation	1,176	1,544	1,416	1,673	1,338	1,587	1,593	1,509	5,809	6,027	6,248	1,517
Interest	1,724	1,733	1,731	2,070	2,412	2,291	2,198	1,998	7,302	8,900	7,625	2,135
Other Income	542	925	581	632	887	1,102	712	715	2,295	2,988	2,600	904
PBT after EO Expense	1,500	769	829	2,005	2,100	1,125	1,131	2,863	5,102	7,210	11,786	1,156
Tax	772	614	385	689	911	662	624	704	2,456	2,892	4,714	445
Rate (%)	51.5	79.9	46.4	34.3	43.4	58.9	55.1	24.6	48.1	40.1	40.0	38.4
Reported PAT (pre minority)	728	155	444	1,317	1,189	463	507	2,159	2,645	4,318	7,072	712
Minority + associate	201	31	145	369	250	152	151	319	745	870	1,139	98
PAT Adj for EO items	527	124	299	947	940	311	357	1,736	1,900	3,448	5,933	614
YoY Change (%)	-292.7	-173.3		100.4	78.3	149.8	19.2	83.2	6,129.8	81.5	72.1	-35.3

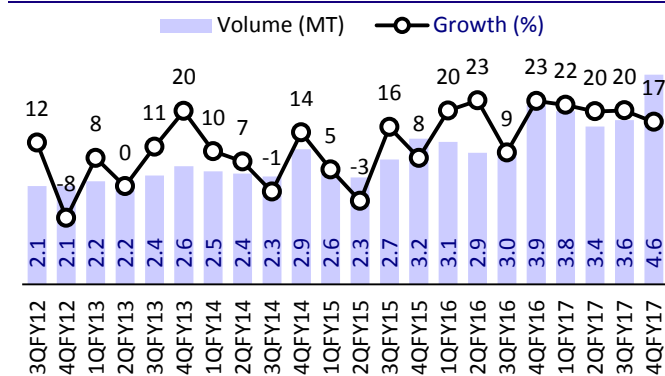
E: MOSL Estimates; JPA Bokaro consolidated since 16/Nov/14, *OCL from March-2015

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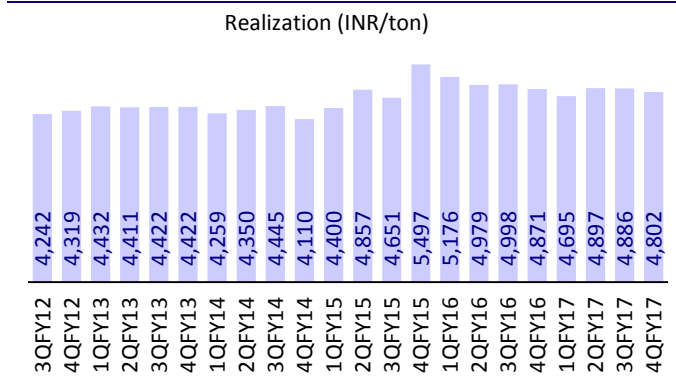
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Exhibit 1: Robust volume growth



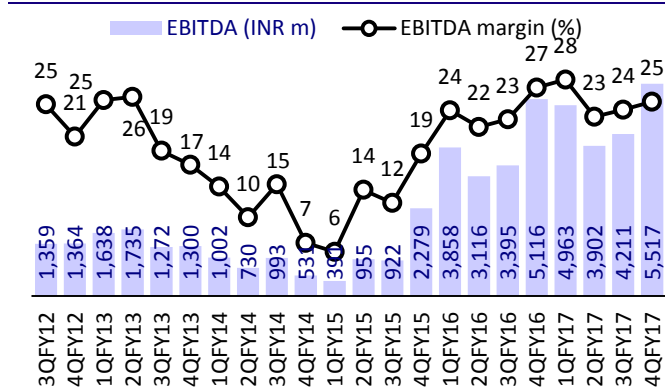
Source: Company, MOSL

Exhibit 2: Realizations witnessed marginal decline



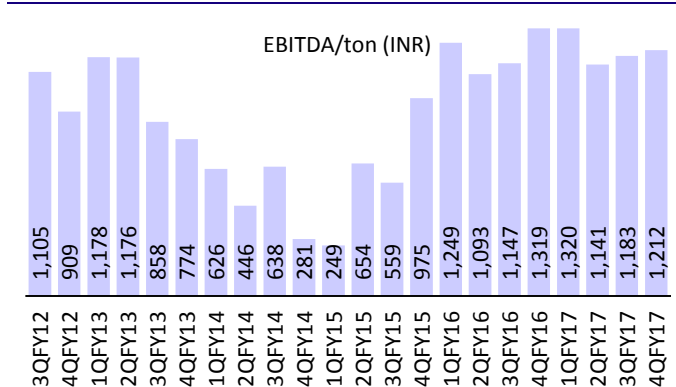
Source: Company, MOSL

Exhibit 3: Improved margins lead by operating leverage



Source: Company, MOSL

Exhibit 4: Trend in EBITDA/ton



Source: Company, MOSL

Exhibit 5: DBEL: Key operating indicators (incl Management Services)

INR/Ton	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net realization	4,802	4,871	-1.4	4,886	-1.7
RM Cost	927	833	11.3	720	28.8
Employee Expenses	302	367	-17.6	452	-33.2
Power, Oil & Fuel	695	526	32.2	689	0.9
Freight and Handling Outward	904	922	-2.0	901	0.3
Other Expenses	761	904	-15.9	940	-19.0
Total Expenses	3,590	3,553	1.0	3,703	-3.1
EBITDA	1,212	1,319	-8.1	1,183	2.5

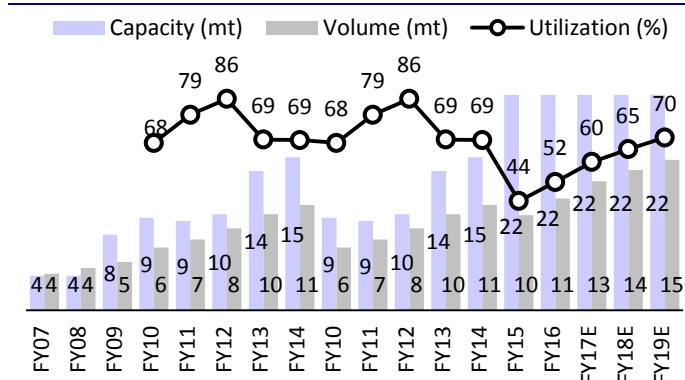
Source: Company, MOSL



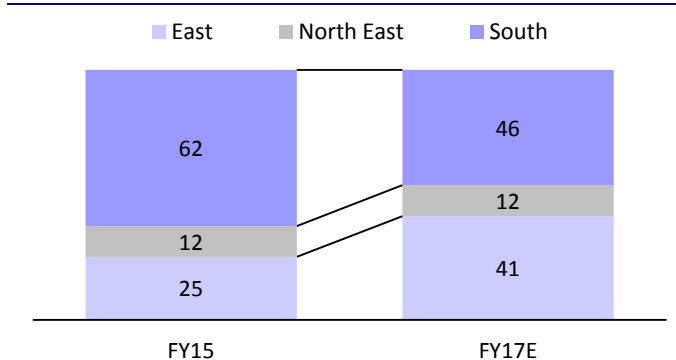
Management Conference Highlights

- All India Cement volume demand declined 1% YoY and DBEL Markets (South, East and North East) grew at 20% YoY in FY17. DBEL grew at 17% YoY in 4QFY17.
- Volume growth in FY18 to be led by demand from housing segment which has started to see strong traction from March-17.
- Petcoke consumption for 4QFY17 increased to 78% vs 74% in 3QFY17 with domestic and fluid petcoke constituting ~15% of overall volume.
- DBEL paid down INR 7.5b in debt in FY17 with Net Debt outstanding at ~INR53b. The company continues to focus on de-leveraging over the next few years. FY18/FY19 annual capex to be in the region of INR3-4bn.
- Management expects volume growth for Dalmia cement to be 2x of that of all India growth.
- Dalmia's 62% of overall sales is in trade segment and residual is in non trade segment.
- It has received a sum of INR5.9bn from sale proceeds of KKR's share which will be used to repay debt in FY18.
- Demand from southern market is expected to grow at 8-9% YoY led by strong demand from A.P/telangana while demand from TN would be sluggish due to poor monsoon.
- Premium brand sales which constitutes ~10% of overall volumes is likely to increase further as it penetrates into newer markets of North east and south.
- OCL's capacity is likely to be increased by ~1mtpa by way of debottlenecking.
- **Valuation and view:** We believe the net debt reduction programme of ~INR7.5bn in FY17 will continue into FY18/FY19 and expect net debt to EBITDA to reduce to below 1.5x from 2.8x in FY17. Operating cashflow is likely to see strong improvement led by margin improvement on back of ongoing cost efficiency program and realization improvement by way of higher proportion of premium sales. OCL-DBL merger synergy benefits could further improve operating cashflow for the company in FY19. We expect valuation multiple for Dalmia cement to catch up with large caps given improving balance sheet and earnings CAGR of 50% over FY17-FY19. We value Dalmia cement at 13x FY19 EV/EBITDA which is ~20% discount to peers due to ~50% exposure to southern market and arrive at a target price of INR3162/share implying a 25% upside from present levels

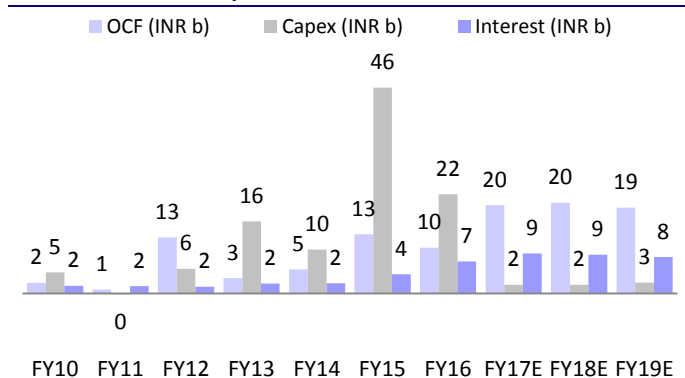
Story in charts

Exhibit 1: Steady growth in capacity and utilization lever


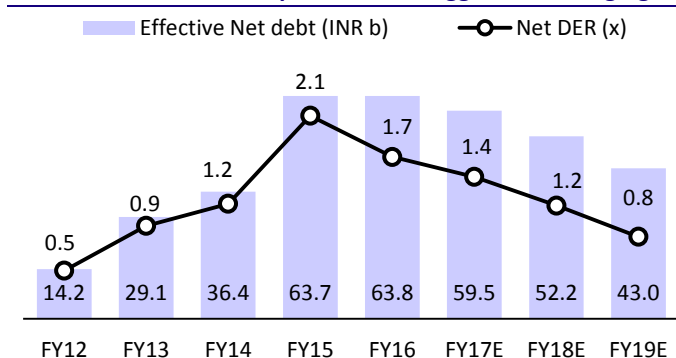
Source: Company, MOSL

Exhibit 2: Diversification in market mix


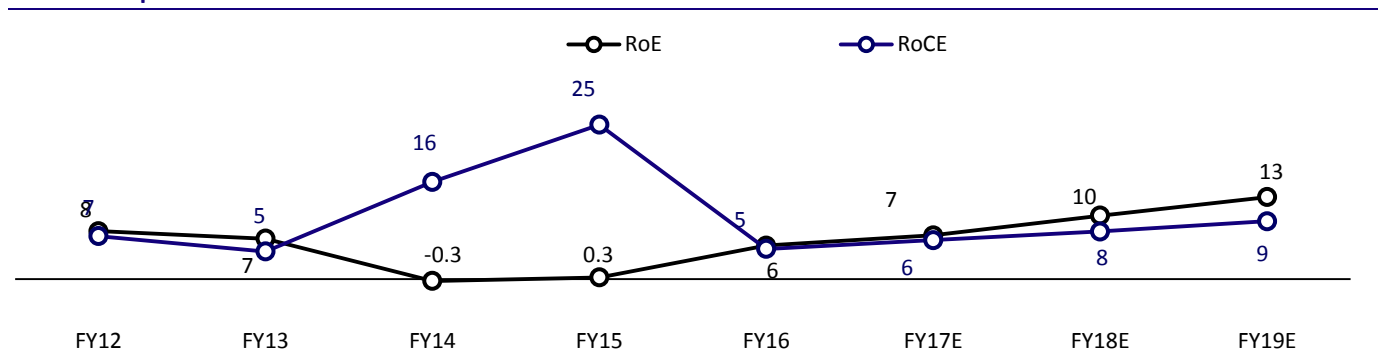
Source: Company, MOSL

Exhibit 3: Gradual uptick in FCFE


Source: Company, MOSL

Exhibit 4: Stabilization operations to trigger de-leveraging


Source: Company, MOSL

Exhibit 5: Uptrend in RoE and RoCE


Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Net Sales	27,906	28,670	33,662	64,113	74,044	86,403	97,898
Change (%)	19.1	2.7	17.4	90.5	15.5	16.7	13.3
Total Expenditure	21,564	25,407	29,116	48,196	55,025	63,343	72,216
% of Sales	77.3	88.6	86.5	75.2	74.3	73.3	73.8
EBITDA	6,342	3,263	4,546	15,916	19,019	23,059	25,683
Margin (%)	22.7	11.4	13.5	24.8	25.7	26.7	26.2
Depreciation	2,059	2,422	2,716	5,809	6,027	6,248	6,291
EBIT	4,282	842	1,830	10,107	12,992	16,811	19,392
Int. and Finance Charges	2,314	3,151	4,344	7,302	8,900	7,625	7,115
Other Income - Rec.	769	2,081	2,413	2,294	2,988	2,600	2,600
PBT bef. EO Exp.	2,738	-229	-101	5,100	7,080	11,786	14,877
EO Expense/(Income)	0	0	0	-1	-131	0	0
PBT after EO Exp.	2,738	-229	-101	5,101	7,210	11,786	14,877
Current Tax	1,336	644	469	2,456	2,892	4,714	5,951
Tax Rate (%)	48.8	-281.5	-463.5	48.2	40.1	40.0	40.0
Reported PAT	1,402	-873	-570	2,645	4,318	7,072	8,926
Minority and Associates	569	789	661	-745	-870	-1,139	-1,181
PAT Adj for EO items	1,971	-84	92	1,899	3,448	5,933	7,745
Change (%)	-13.1	-104.3	-209.2	1,971.1	81.6	72.1	30.6
Margin (%)	7.1	-0.3	0.3	3.0	4.7	6.9	7.9

Balance Sheet							(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Equity Share Capital	162	162	162	178	178	178	178
Total Reserves	30,517	30,785	30,539	45,715	49,471	55,197	62,942
Net Worth	30,679	30,947	30,702	45,893	49,649	55,375	63,120
Deferred Liabilities	1,638	1,865	4,279	16,746	15,764	15,764	15,764
Minority Interest	5,181	4,464	7,477	5,259	6,129	7,268	8,449
Total Loans	35,744	42,760	84,797	87,351	78,063	67,183	62,183
Capital Employed	73,242	80,036	127,254	155,249	149,604	145,589	149,515
Gross Block	49,979	52,446	84,123	128,748	131,778	134,103	139,103
Less: Accum. Deprn.	7,410	9,852	25,890	31,699	37,726	43,974	50,265
Net Fixed Assets	42,569	42,594	58,233	97,050	94,053	90,129	88,838
Capital WIP	5,503	12,379	19,142	2,355	1,325	1,000	1,000
Total Investments	11,804	12,336	16,905	26,665	27,434	27,434	27,434
Curr. Assets, Loans&Adv.	16,139	15,560	30,147	22,655	25,038	27,812	36,900
Inventory	3,520	3,311	7,293	6,976	6,488	7,575	9,119
Account Receivables	2,572	2,843	5,253	5,100	5,933	6,865	9,119
Cash and Bank Balance	999	844	5,281	2,336	1,750	826	4,446
Loans and Advances	9,048	8,562	12,320	8,243	10,867	12,546	14,215
Curr. Liability & Prov.	6,899	7,523	16,816	24,447	30,174	32,188	36,058
Account Payables	6,241	6,874	15,833	22,226	26,158	30,774	34,868
Provisions	658	649	984	2,221	4,016	1,414	1,190
Net Current Assets	9,240	8,037	13,331	-1,792	-5,136	-4,375	842
Appl. of Funds	73,242	80,036	127,254	155,249	149,604	145,589	149,515

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Basic (INR) *							
EPS	24.3	-1.0	1.1	21.4	38.8	66.7	87.1
Cash EPS	49.6	28.8	34.6	86.8	106.5	136.9	157.8
BV/Share	377.8	381.1	378.1	516.8	558.2	622.5	709.6
DPS	2.0	2.0	1.5	1.5	2.0	2.0	3.0
Payout (%)	9.6	NM	NM	8.1	6.0	3.5	0.0

Valuation (x) *

P/E	103.9	-2,439	2,233.8	117.9	65.1	37.8	29.0
Cash P/E	50.8	87.6	73.0	29.1	23.7	18.4	16.0
P/BV	6.7	6.6	6.7	4.9	4.5	4.1	3.6
EV/Sales	8.9	8.7	8.0	4.4	3.7	3.0	2.6
EV/EBITDA	26.1	47.3	70.4	19.2	15.8	12.5	10.9
EV/Ton (US\$)	261	238	180	189	184	179	174
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Return Ratios (%)

RoIC	4.6	5.9	14.7	5.0	6.4	8.6	10.0
RoE	6.6	-0.3	0.3	5.0	7.2	11.3	13.1
RoCE	4.5	15.9	25.3	5.2	7.3	9.3	10.6

Working Capital Ratios

Asset Turnover (x)	0.4	0.4	0.3	0.4	0.5	0.6	0.7
Inventory (Days)	46	42	79	40	32	32	34
Debtor (Days)	32	39	70	69	74	72	80

Leverage Ratio (x)

Current Ratio	2.3	2.1	1.8	0.9	0.8	0.9	1.0
Debt/Equity	1.2	1.4	2.8	1.9	1.6	1.2	1.0

Cash Flow Statement

(INR Million)

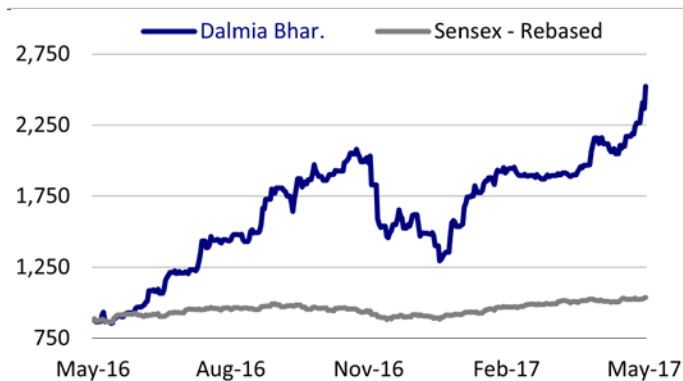
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Oper. Profit/(Loss) before Tax	5,118	1,185	4,546	15,916	19,019	23,059	25,683
Interest/Dividends Recd.	936	928	2,413	2,294	2,988	2,600	2,600
Depreciation	1,847	1,946	2,716	5,809	6,027	6,248	6,291
Direct Taxes Paid	-597	302	469	2,456	2,892	4,714	5,951
(Inc)/Dec in WC	-3,452	3,709	-857	12,178	2,758	-1,684	-1,598
CF from Operations	10,102	-1,899	7,347	3,576	16,357	22,629	23,930
CF from Operating incl EO	3,457	5,462	13,356	1,802	18,617	22,223	20,749
(inc)/dec in FA	-16,330	-9,343	-41,767	-39,166	-2,431	-2,000	-5,000
Free Cash Flow	-12,872	-3,881	-28,411	-37,364	16,186	20,223	15,749
(Pur)/Sale of Investments	132	-533	-4,569	-9,760	-768	0	0
CF from investments	-16,198	-9,876	-46,335	-48,927	-3,199	-2,000	-5,000
Issue of Shares	-1,088	-213	-135	13,448	645	0	0
(Inc)/Dec in Debt	16,617	7,016	42,037	2,555	-9,289	-10,880	-5,000
Interest Paid	-2,263	-2,355	-4,344	-7,302	-8,900	-7,625	-7,115
Dividend Paid	-189	-190	-142	-155	-207	-207	0
CF from Fin. Activity	13,077	4,258	37,416	8,546	-17,750	-18,712	-12,115
Inc/Dec of Cash	336	-155	4,437	-38,578	-2,332	1,511	3,634
Add: Beginning Balance	664	999	844	5,281	2,336	1,750	826
Closing Balance	1,000	844	5,281	-33,297	3	3,261	4,460

Corporate profile

Company description

DBEL is India's 4th largest cement manufacturer with operations in South, East and North East India. The company has capacity of 25mt out of which 14.2mt is in South, 8.9mt capacity in East and 1.5mt in North East

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	57.8	57.3	57.4
DII	5.4	4.9	4.7
FII	11.6	12.4	11.3
Others	25.3	25.4	26.6

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
KKR Mauritius Cement Investments Limited	8.4
Valiant Mauritius Partners Offshore Limited	8.0
Birla Sun Life Trustee Company Private Limited A/C Birla Sun Life Advantage Fund	1.4

Source: Capitaline

Exhibit 4: Top management

Name	Designation
P K Khaitan	Chairman
Jai Hari Dalmia	Managing Director
Yadu Hari Dalmia	Managing Director
Jayesh Doshi	Director & CFO
Nidhi Bisaria	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Gautam Dalmia	N Gopalaswamy
Puneet Yadu Dalmia	Sudha Pillai
V S Jain	

*Independent

Exhibit 6: Auditors

Name	Type
S S Kothari Mehta & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	38.8	32.1	20.7
FY18	66.7	60.3	10.6
FY19	87.1	92.4	-5.7

Source: Bloomberg

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