

Dalmia Bharat Ltd.



Dalmia Bharat Ltd.

Sustained outperformance!

CMP INR 2511	Target INR 2985	Potential Upside 19%	Market Cap (INR Mn) 210684	Recommendation BUY	Sector Cement
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Result highlights

- Total Sales stood at INR 24332 mn which was up by 15.4% y-o-y and 23.7% q-o-q. Volume growth stood at 17% y-o-y reaching 4.55 MT as against 3.88 MT last year. EBITDA stood at INR 5517 mn which was up by 7.8% y-o-y and 31% q-o-q and EBITDA/ton stood at INR 1248 as against INR 1361 same quarter last year. EBITDA margins declined by 158 bps y-o-y primarily due to higher power and fuel costs and COGS. However, it was offset to an extent by lower other expenses.
- PAT stood at INR 1839 mn which was up by 94.2% y-o-y and 414.6% q-o-q. Net profit was primarily up due to lower interest costs, lower depreciation and low tax expense.
- Dalmia Bharat Ltd (DBEL) has outperformed on all fronts in a quarter which was significantly affected by de-monetization and had a high base. The robust volume growth was due to capacity addition in Belgaum, Karnataka (2.5 MT) and market share gains.

MARKET DATA

Shares outs (Mn)	88.9
EquityCap (INR Mn)	177.9
Mkt Cap (INR Mn)	210684.4
52 Wk H/L (INR)	2425/846
Volume Avg (3m K)	310.14
Face Value (INR)	2
Bloomberg Code	DBEL IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	39986.20	73275.00	83481.00	93653.02	104898.85
EBITDA	6025.10	15786.10	19018.80	21128.85	24706.22
APAT	30.50	1908.30	3448.00	6114.33	9020.41
AEPS	0.38	21.47	38.79	68.78	101.47
P/E (x)	1126.15	36.90	50.33	36.51	24.75
EV/EBITDA (x)	16.27	8.37	11.88	12.57	10.30

Source: Company, KRChoksey Research

Robust volume growth in a challenging quarter:

DBEL posted a robust volume growth of 17% Y-O-Y in Q4FY17 scaling to 4.55 MT as against 3.88 MT in Q4FY16. Despite the lag effect of de-monetization and high base, DBEL managed to outperform on the volume front on account of capacity addition in Belgaum, Karnataka (2.5 MT) and market share gains in South & North East India. DBEL continued to focus on building of its strong brand with its launch of DSP brand in Southern India.

Cement volumes for FY17 stood at 15.3 MT (est. of 14.37 MT) as against 12.8 MT in FY16 translating into a growth of 20% Y-O-Y. Going forward, we believe with the Government's enhanced focus on rural and affordable housing coupled with infrastructure development, we expect a sharp recovery in cement volumes from Q1FY18 onwards.

With no further capacity addition in near future, we factor in 9.4% cement volume CAGR over FY17-FY19E and estimate it to grow from 15.30 MT to 18.34 MT in the same period.

Higher operating leverage to lead to better efficiencies:

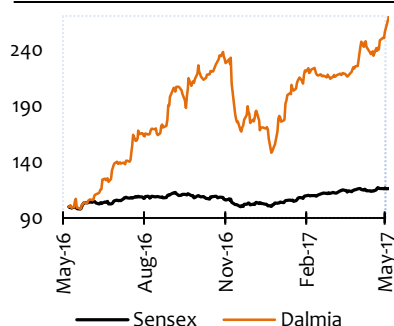
In Q4FY17, EBITDA for the company stood at INR 5517 mn which was up by 7.8% Y-O-Y. EBITDA margins took a hit of 158 bps Y-O-Y on account of higher power & fuel costs and COGS. However, it was offset to an extent by lower other expenses. The fixed costs increased by 13% during the year on absolute basis; however due to higher operating leverage, the fixed costs on per ton basis reduced from INR 978 in FY16 to INR 962 in FY17.

We expect EBITDA/ton to increase from INR 1243 in FY17 to INR 1347 by FY19E on account of surge in capacity utilization, effective logistics management, higher share of revenues from DSP brand and lower other expenses.

Significant debt reduction expected on account of surge in FCFF:

DBEL pared down Net debt of INR 7510 mn during FY17 resulting into its Net/EBITDA reducing from 3.91x in FY16 to 2.75x in FY17. On account of minimal capex, better efficiencies and higher capacity utilization, we expect a significant hike in free cash flow generation over FY17-FY19E (expected FCFF of INR 19290 mn in FY19). We believe the FCFF will be utilized to reduce the debt and we reckon the net debt to scale down from INR 52330 mn in FY17 to INR 31135 mn by FY19E.

SHARE PRICE PERFORMANCE

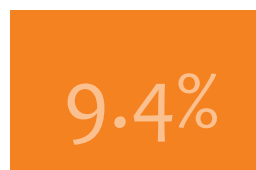


MARKET INFO

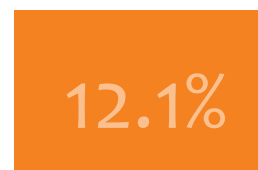
SENSEX	30,251
NIFTY	9,422

SHARE HOLDING PATTERN (%)

Particulars	Mar17	Dec 16	Sep16
Promoters	57.76	57.34	57.41
FIIIs	8.04	8.85	8.21
DIIIs	5.25	4.76	4.95
Others	28.94	29.05	29.42
Total	100	100	100



Volume CAGR between FY 17 and FY 19E



Revenue CAGR between FY 17 and FY 19E

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Consequently, we expect the return ratios to burgeon with ROE increasing from 8.24% in FY17 to 16.27% by FY19 and ROCE increasing from 11.55% to 16.28% in the same period.

Valuation and Outlook:

With expected Net debt of INR 31134.6 mn by FY19E, DBEL trades at an EV/EBITDA of 10.3x and EV/ton of \$152 on FY19E basis. The company enjoys a healthy presence in high growing regions with robust market share of 8%/15%/21% in South/East/North-East. On account of strong brand presence, superior margins, reduction in debt and surge in return ratios; we believe the company will fetch premium valuations and would be subject to re-rating depending upon volume growth sustainability and further improvement in efficiency.

We value Dalmia Bharat Ltd at an EV/EBITDA of **12x FY19E** arriving at a target price of **INR 2985** translating into a **19%** upside from CMP of **INR 2511**.

We maintain our **BUY** rating on the stock.

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Q4FY17 Result Snapshot

Particulars (Mn)	Q4FY17	Q3FY16	Q4FY16	Q-o-Q	Y-o-Y
Total Sales	24332	19674	21092	23.7%	15.4%
Total Expenditure	18816	15463	15976	21.7%	17.8%
Cost of Raw Materials	4219.8	2564.3	3233.1	64.6%	30.5%
Employee Cost	1374.5	1610.1	1423.2	-14.6%	-3.4%
Power and Fuel Costs	3164.5	2453.7	2041.6	29.0%	55.0%
Transportation costs	4112.2	3208.6	3577.5	28.2%	14.9%
Other expenses	3462.8	3345.3	3509.1	3.5%	-1.3%
Excise duty paid on sales	2481.9	2281.2	2191.5	8.8%	13.3%
PBIDT (Excl OI)	5517	4211	5116	31.0%	7.8%
EBITDA Margins (%)	22.7%	21.4%	24.3%	127bps	-158bps
Depreciation	1508.5	1593.3	1672.5	-5.3%	-9.8%
EBIT & Exceptional Item	4008	2618	3444	53.1%	16.4%
Exceptional Items	0	0	0	-	-
Other Income	714.5	711.5	631.5	0.4%	13.1%
EBIT	4723	3329	4075	41.9%	15.9%
Interest	1998.2	2198.2	2069.9	-9.1%	-3.5%
EBT	2724	1131	2005	140.9%	35.9%
Tax	565.3	623.6	688.2	-9.3%	-17.9%
NPAT before Minority Interest	2159	507	1317	325.5%	63.9%
Minority Interest	320	150	370	113.3%	-13.5%
PAT	1839	357	947	414.6%	94.2%
PAT Margin (%)	7.6%	1.8%	4.49%	574bps	307bps
EPS	20.69	4.02	10.65	414.6%	94.2%

Source: Company, KRChoksey Research

Key takeaways from conference call:

- The management expects a revival in cement demand from Q1FY18 onwards. They estimate that the cement demand grew by ~4% in East (incl. North East) and ~8% in South in FY17. However, they expect the demand to pick up and grow by ~7-8% in East (incl. NE) and ~7% in South for FY18.
- Management expects the entire corporate restructuring to be completed by H1FY18. Further, DBEL received INR 5880 mn from KKR as per the terms of the placement agreement approved by the shareholders in Feb,2016; which will be utilized to reduce the debt.
- The company doesn't plan to add capacity in near future; however de-bottlenecking and certain equipment changes will augment capacity by ~1 MTPA in East at minimal capex.
- The company plans to increase revenue share from super premium DSP brand from 10% currently to 20% on account of expected launch in East and North East.
- Management maintain their positive stance on cement demand and expect an uptick on account of concentrated efforts by the Government on infrastructure development and affordable housing.

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Consolidated Profit & Loss (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Total Sales	39986.20	73275	83481.00	93653.02	104898.85
COGS	5282.40	11035.9	12915.80	14465.70	15912.27
Employee Expenses	2787.50	5064.5	6091.80	6396.39	6716.21
Power and fuel	7120.90	8828.7	9792.30	11750.76	13513.37
Transportation cost	6249.00	11474	13435.10	14890.83	16521.57
Other Expenses	7676.30	12190.3	12789.80	14047.95	15210.33
Excise duty	4845.00	8895.5	9437.40	10972.54	12318.88
EBITDA	6025.10	15786.1	19018.80	21128.85	24706.22
D&A	2715.80	4527.6	6027.10	5389.83	5502.33
Other income	933.40	1642.1	2987.80	2809.59	3000.00
EBIT	4242.70	12900.6	15979.50	18548.61	22203.89
Interest Expense	4343.80	7256.2	8899.90	8024.94	7174.94
PBT	-101.10	5644.4	7079.60	10523.67	15028.95
Tax	468.60	2990.8	2761.50	3472.81	4959.55
Effective tax rate	-	52.99%	39.01%	33.00%	33.00%
Share of profit in subsidiary's associates	485.30	0	0.00	0.00	0.00
Less minority interest	-176.10	745.3	870.10	936.53	1048.99
PAT	30.50	1908.3	3448.00	6114.33	9020.41

Source: Company, KRChoksey Research

Consolidated Balance Sheet (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	162.40	177.60	177.90	177.90	177.90
Reserves	30526.60	38358.00	41610.50	47113.39	55231.76
Net worth	30701.60	38568.80	41821.60	47324.49	55442.86
Minority Interest	7469.60	3568.60	4438.70	5375.23	6424.22
Total loans	84796.50	88925.00	80249.40	71749.40	61749.40
Capital Employed	124946	137514	138313	136764	136409
Net block	77375.60	78818.40	80945.00	78055.17	75052.84
Current Investments	15829.40	24726.00	24726.00	24726.00	24726.00
Inventories	7293.20	7082.90	8138.72	9313.53	10462.86
Sundry debtors	5100.60	4946.40	5717.88	6158.01	6610.06
Sundry creditors	7483.90	9136.00	10792.65	12484.09	13732.50
Cash and bank	5280.80	2483.20	3195.86	4679.20	5888.82
Total Current assets	41327.40	45854.80	49349.95	53363.71	57186.84
Total Current liabilities	25945.70	30749.30	35572.13	38245.17	39421.26
Capital Deployed	124946	137514	138313	136764	136409

Source: Company, KRChoksey Research

Consolidated Cash Flow (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
PAT	30.50	1908.30	3448.00	6114.33	9020.41
Depreciation & Amortization	2715.80	4527.60	6027.10	5389.83	5502.33
(Incr)/Decr in Working Capital	676.80	3370.90	2716.36	654.09	-960.06
Cash Flow from Operating	5448.30	18907.40	21961.46	21119.71	21786.60
(Incr)/ Decr in Gross PP&E	-4971.10	-3928.70	-8153.40	-2500.00	-2500.00
Cash Flow from Investing	-30869.30	-16703.50	-8153.40	-2500.00	-2500.00
(Decr)/Incr in Debt	34984.80	4128.50	-4000.00	-8500.00	-10000.00
Dividend	-190.00	-534.40	-195.50	-611.43	-902.04
Cash Flow from Financing	29344.50	-5001.50	-13095.40	-17136.37	-18076.98
Incr/(Decr) in Balance Sheet Cash	4436.90	-2797.60	712.66	1483.34	1209.62
Cash at the Start of the Year	843.90	5280.80	2483.20	3195.86	4679.20
Cash at the End of the Year	5280.80	2483.20	3195.86	4679.20	5888.82

Source: Company, KRChoksey Research

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Ratio Analysis (Consolidated)	FY15	FY16	FY17	FY18E	FY19E
EBITDA/ton	859.50	1233.29	1243.06	1255.43	1346.78
Volume (mn tons)	7.01	12.80	15.30	16.83	18.34
Growth (%)					
Total Sales	16.74%	83.25%	13.93%	12.18%	12.01%
EBITDA	29.65%	162.01%	20.48%	11.09%	16.93%
PAT	136.22%	6156.72%	80.68%	77.33%	47.53%
Profitability (%)					
EBITDA Margin	15.07%	21.54%	22.78%	22.56%	23.55%
NPM	0.08%	2.60%	4.13%	6.53%	8.60%
Return ratios					
ROE	0.10%	4.95%	8.24%	12.92%	16.27%
ROCE	3.40%	9.38%	11.55%	13.56%	16.28%
Per share data					
EPS	0.38	21.47	38.79	68.78	101.47
BPS	378.10	433.84	470.43	532.33	623.65
Valuations (x)					
P/E (x)	1126.15	36.90	50.33	36.51	24.75
P/BV (x)	1.12	1.83	4.15	4.72	4.03
EV/EBITDA (x)	16.27	8.37	11.88	12.57	10.30
EV/Ton (\$)	79.09	78.88	134.84	158.55	151.86
Net Debt/EBITDA	10.57	3.91	2.75	2.00	1.26
Net Debt/Equity	2.07	1.60	1.25	0.89	0.56
Interest Coverage	0.98	1.78	1.80	2.31	3.09

Source: Company, KRChoksey Research

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Dalmia Bharat Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
11-May-17	2,511	2,985	BUY	Buy	More than 15%
27-Feb-17	1,897	2,540	BUY	Accumulate	5% – 15%
09-Jan17	1,535	2,090	BUY	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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