Dalmia Bharat

BSE SENSEX	S&P CNX
32,014	9,979

Bloomberg	DBEL IN
Equity Shares (m)	88.8
M.Cap.(INR b)/(USD b)	235.6 / 3.5
52-Week Range (INR)	2780/1186
1, 6, 12 Rel. Per (%)	0/25/69
Avg Val, INRm	326
Free float (%)	42.0

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Sales	74.0	84.8	96.0
EBITDA	19.0	21.9	24.5
NP	3.4	6.1	8.0
Adj EPS (INR)	38.8	68.7	89.9
EPS Gr. (%)	81.2	77.1	31.0
BV/Sh. (INR)	558	625	714
RoE (%)	7.2	11.6	13.4
RoCE (%)	7.3	9.5	10.8
P/E (x)	68.4	38.6	29.5
P/BV (x)	4.8	4.2	3.7

Estimate change
TP change
Rating change

CMP: INR2,638 TP:INR3,282 (+24%) Buy

Strong beat led by realization improvement

- **Volume growth led by North East operations:** Cement volume for 1QFY18 grew 6% YoY to 3.99mt (v/s our estimate of 4.04mt), as volume ex-OCL increased 8% YoY. Pure cement realization increased by INR402/t QoQ (INR585/t YoY) to INR5,126/t, led by better realization in both East and South markets as also higher proportion of premium sales. Revenue grew 16% YoY to INR20.59b (v/s our estimate of INR20.33b).
- **Highest ever EBITDA/t despite cost pressures:** EBITDA/t for 1QFY18 grew 15% QoQ (and 3% YoY) to INR1,395/t, as realization improvement more than offset the cost push. Unitary cost/t increased by INR175/t QoQ due to higher power and fuel charges, led by increase in petcoke prices. EBITDA increased 9%YoY to INR5.56b for 1QFY18. Interest cost declined just 12% YoY, as there were non-cash charges of INR300m pertaining to hedging cost in 1QFY18. PAT grew 55% YoY to INR1.45b, as tax rate was lower at 31% in 1QFY18 v/s 43% in 1QFY17.
- **Concall highlights:** (a) Interest cost was higher by INR300m due to non-cash charges related to hedging cost; (b) Net debt reduced by INR6.4b QoQ, led by receipt of INR5.25b from KKR stake sale; (c) Petcoke consumption was 75% v/s 78% in 4QFY17.
- **Valuation and view:** We believe the net debt reduction of ~INR7.5b in FY17 will continue into FY19. Net debt to EBITDA will reduce to below 1.5x in FY19 from 2.8x in FY17. Operating cash flow is likely to see strong improvement, led by margin improvement on cost efficiency program and realization improvement by way of higher proportion of premium sales. OCL-DBL merger synergy benefits could further improve cash flow in FY19. We expect DBEL's valuation multiple to catch up with large caps, given improving balance sheet and earnings CAGR of 52% over FY17-19. We value DBEL at 12.5x FY20E EV/EBITDA (~20% discount to peers due to ~50% exposure to southern market) and arrive at a target price of INR3,282.

Quarterly Performance (Consolidated) (INR Million)

Y/E March	FY17				FY18				FY17	FY18E	FY18	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var (%)
Sales Dispatches (m ton)	3.76	3.42	3.56	4.55	3.99	3.76	3.92	4.87	15.29	16.54	4.04	-1
YoY Change (%)	21.7	20.0	20.3	17.3	6.1	10.0	10.0	7.0	19.5	8.2	7.5	
Realization (INR/ton)	4,727	4,897	4,886	4,802	5,160	4,902	5,182	5,235	4,843	5,129	5,030	3
YoY Change (%)	-8.7	-1.6	-2.2	-1.4	9.2	0.1	6.1	9.0	-3.3	5.9	7.1	
QoQ Change (%)	-3.0	3.6	-0.2	-1.7	7.5	-5.0	5.7	1.0			4.8	
Net Sales	**17,775**	**16,747**	**17,393**	**21,850**	**20,589**	**18,441**	**20,295**	**25,487**	**74,044**	**84,811**	**20,333**	1
YoY Change (%)	11.1	18.0	17.6	15.6	15.8	10.1	16.7	16.6	15.5	14.5	15.2	
EBITDA	**5,084**	**3,902**	**4,211**	**5,517**	**5,566**	**3,835**	**4,963**	**7,571**	**19,019**	**21,935**	**5,036**	11
Margins (%)	28.6	23.3	24.2	25.2	27.0	20.8	24.5	29.7	25.7	25.9	24.8	
Depreciation	1,338	1,587	1,593	1,509	1,532	1,550	1,550	1,616	6,027	6,248	1,510	
Interest	2,412	2,291	2,198	1,998	2,117	1,800	1,750	1,813	8,900	7,480	1,900	
Other Income	766	1,102	712	715	700	900	900	100	2,988	2,600	750	
PBT after EO Expense	**2,100**	**1,125**	**1,131**	**2,863**	**2,885**	**1,385**	**2,563**	**4,241**	**7,210**	**10,807**	**2,376**	
Tax	911	662	624	704	889	554	1,025	1,367	2,892	3,782	713	
Rate (%)	43.4	58.9	55.1	24.6	30.8	40.0	40.0	32.2	40.1	35.0	30.0	
Reported PAT (pre minority)	**1,189**	**463**	**507**	**2,159**	**1,996**	**831**	**1,538**	**2,875**	**4,318**	**7,024**	**1,663**	20
Minority + associate	250	152	151	319	357	100	100	360	870	917	100	257
PAT Adj for EO items	**940**	**311**	**357**	**1,736**	**1,454**	**731**	**1,438**	**2,514**	**3,448**	**6,107**	**1,563**	-7
YoY Change (%)	78.3	149.8	19.2	83.2	54.7	135.1	302.9	44.9	589.9	77.1	66.3	

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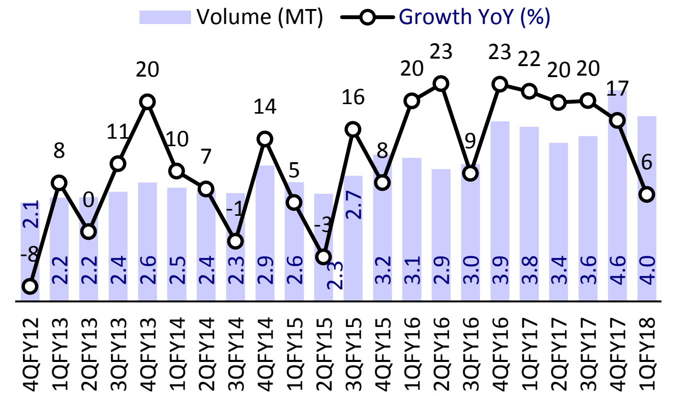
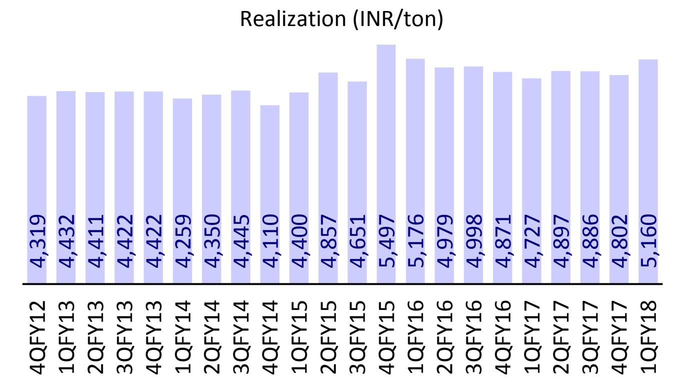
Exhibit 1: Robust volume growth



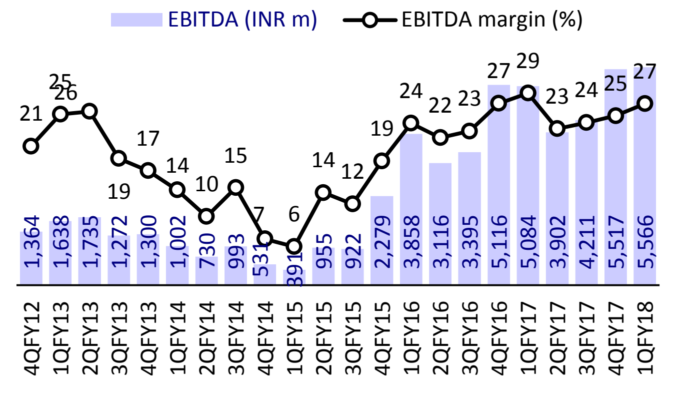
Source: Company, MOSL

Exhibit 2: Realizations witnessed an increase of INR 358/t QoQ



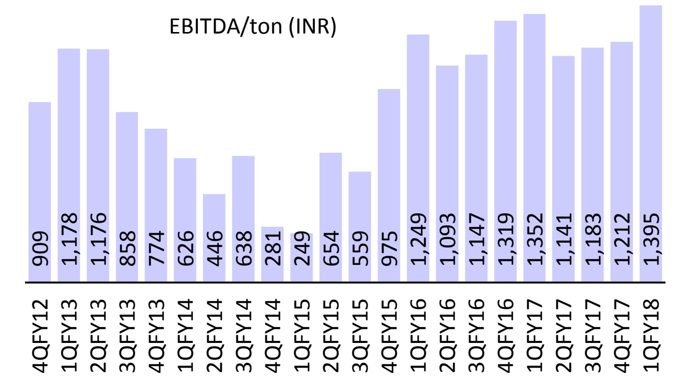
Source: Company, MOSL

Exhibit 3: Improved margins lead by higher realizations



Source: Company, MOSL

Exhibit 4: Trend in EBITDA/ton



Source: Company, MOSL

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

INR/Ton	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
Net realization	**5,160**	**4,727**	**9.2**	**4,802**	**7.5**
RM Cost	790	896	-11.9	927	-14.9
Employee Expenses	413	408	1.2	302	36.6
Power, Oil & Fuel	809	537	50.8	695	16.4
Freight and Handling Outward	936	844	10.9	904	3.6
Other Expenses	817	690	18.4	761	7.4
Total Expenses	**3,765**	**3,375**	**11.5**	**3,590**	**4.9**
EBITDA	**1,395**	**1,352**	**3.2**	**1,212**	**15.1**

Source: Company, MOSL

Conference call highlights

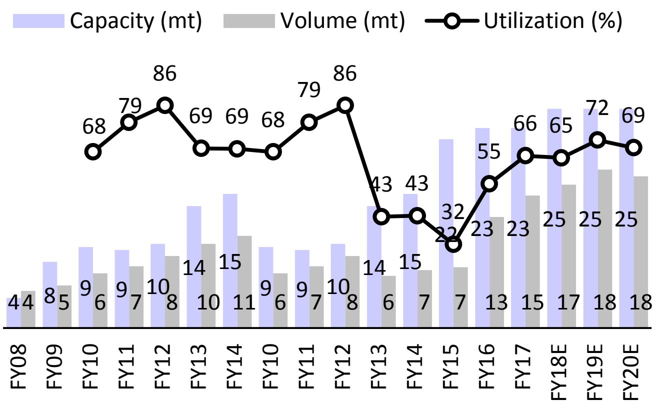
- The industry witnessed a capacity addition of 17mt in FY17. In FY18, the East is likely to add 5mt-6mt of capacity, while the South would add 7mt-8mt capacity.
- Utilization stands at 75% for the East, 58% for the South and 72% for the North East. Overall utilization stands at 67%. DBEL's utilization would be largely in line with that of the industry.
- There has been a 10% pricing improvement in the East; 6% in the North East, and 4% in the South on a YoY basis.
- Slag and petcoke prices have started increasing, impacting unitary costing. Slag prices have increased from INR800/t to INR1,200/t in the last 3-6 months.
- There were INR300m of non-cash charges for the quarter towards hedging cost. The increase in working capital was INR1,500m while maintenance capex was around INR900m.
- Net debt has reduced QoQ by INR6.4b. Net debt/EBITDA stands at 2.4x.
- The company is planning to complete the commissioning of a 9MW WHRS in Orissa by March 2018
- OCL's capacity has been augmented to ~8mt.

Valuation and view

We believe the net debt reduction of ~INR7.5bn in FY17 will continue into FY19 and net debt to EBITDA to reduce to below 1.5x in FY19 from 2.8x in FY17. Operating cashflow is likely to see strong improvement led by margin improvement on back of cost efficiency program and realization improvement by way of higher proportion of premium sales. OCL-DBL merger synergy benefits could further improve 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 52% over FY17-FY19. We value Dalmia cement at 12.5x FY20 EV/EBITDA (~20% discount to peers due to ~50% exposure to southern market and arrive at a target price of INR3282/share implying a 24% upside).

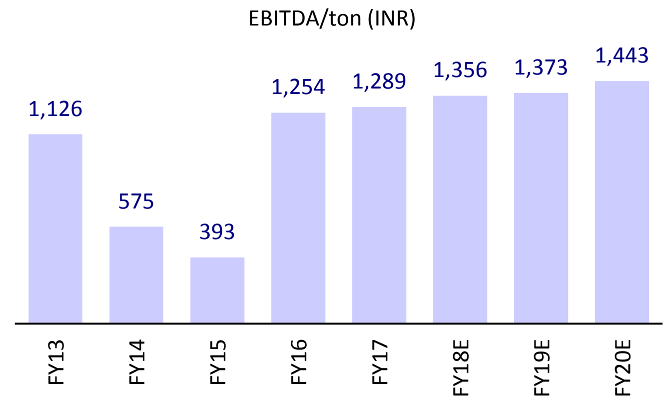
Story in charts

Exhibit 6: Steady growth in capacity and utilization lever



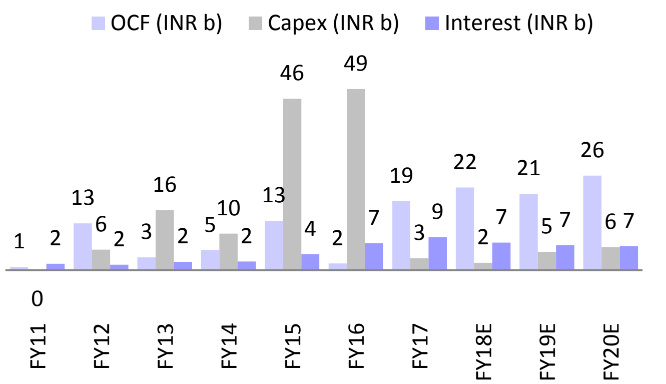
Source: Company, MOSL

Exhibit 7: EBITDA/ton trend



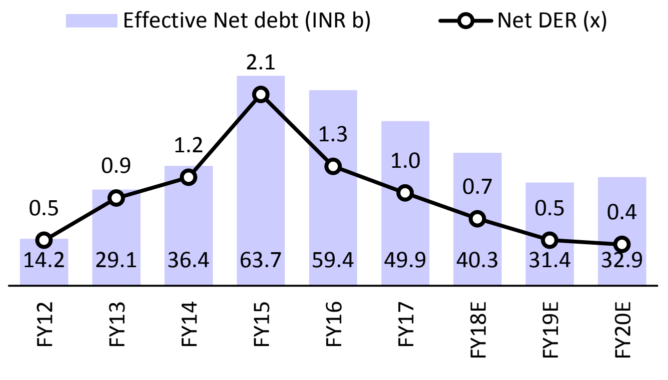
Source: Company, MOSL

Exhibit 8: Gradual uptick in FCFE



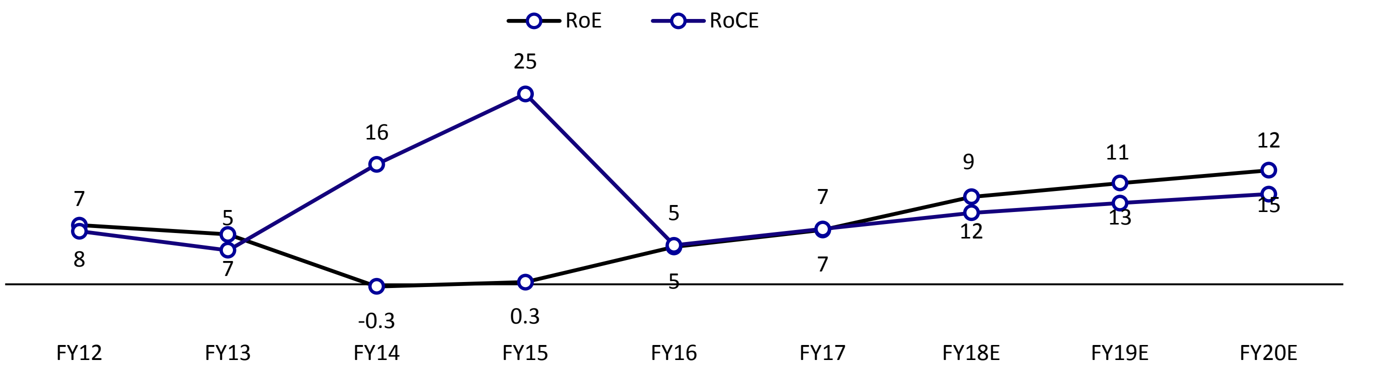
Source: Company, MOSL

Exhibit 9: Stabilization operations to trigger de-leveraging



Source: Company, MOSL

Exhibit 10: 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**	**2020E**
Net Sales	**27,906**	**28,670**	**33,662**	**64,113**	**74,044**	**84,811**	**95,981**	**106,997**
Change (%)	19.1	2.7	17.4	90.5	15.5	14.5	13.2	11.5
Total Expenditure	21,564	25,407	29,116	48,196	55,025	62,876	71,456	79,243
% of Sales	77.3	88.6	86.5	75.2	74.3	74.1	74.4	74.1
EBITDA	**6,342**	**3,263**	**4,546**	**15,916**	**19,019**	**21,935**	**24,525**	**27,754**
Margin (%)	22.7	11.4	13.5	24.8	25.7	25.9	25.6	25.9
Depreciation	2,059	2,422	2,716	5,809	6,027	6,248	6,526	6,269
EBIT	**4,282**	**842**	**1,830**	**10,107**	**12,992**	**15,687**	**17,999**	**21,485**
Int. and Finance Charges	2,314	3,151	4,344	7,302	8,900	7,480	6,792	6,529
Other Income - Rec.	769	2,081	2,413	2,294	2,988	2,600	2,600	2,600
PBT bef. EO Exp.	**2,738**	**-229**	**-101**	**5,100**	**7,080**	**10,807**	**13,807**	**17,555**
EO Expense/(Income)	0	0	0	-1	-131	0	0	0
PBT after EO Exp.	**2,738**	**-229**	**-101**	**5,101**	**7,210**	**10,807**	**13,807**	**17,555**
Current Tax	1,336	644	469	2,456	2,892	3,782	4,832	6,144
Tax Rate (%)	48.8	-281.5	-463.5	48.2	40.1	35.0	35.0	35.0
Reported PAT	**1,402**	**-873**	**-570**	**2,645**	**4,318**	**7,024**	**8,975**	**11,411**
Minority and Associates	569	789	661	-745	-870	-917	-976	-1,037
PAT Adj for EO items	**1,971**	**-84**	**92**	**1,899**	**3,448**	**6,107**	**7,998**	**10,374**
Change (%)	-13.1	-104.3	-209.2	1,971.1	81.6	77.1	31.0	29.7
Margin (%)	7.1	-0.3	0.3	3.0	4.7	7.2	8.3	9.7

Balance Sheet								(INR Million)
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Equity Share Capital	162	162	162	178	178	178	178	178
Total Reserves	30,517	30,785	30,539	45,715	49,471	55,371	63,370	73,367
Net Worth	**30,679**	**30,947**	**30,702**	**45,893**	**49,649**	**55,549**	**63,548**	**73,544**
Deferred Liabilities	1,638	1,865	4,279	16,746	15,764	15,764	15,764	5,860
Minority Interest	5,181	4,464	7,477	5,259	6,129	7,046	8,023	9,060
Total Loans	35,744	42,760	84,797	87,351	78,063	67,183	62,183	62,183
Capital Employed	**73,242**	**80,036**	**127,254**	**155,249**	**149,604**	**145,542**	**149,517**	**150,647**
Gross Block	49,979	52,446	84,123	128,748	131,778	134,103	139,103	143,353
Less: Accum. Deprn.	7,410	9,852	25,890	31,699	37,726	43,974	50,500	56,769
Net Fixed Assets	**42,569**	**42,594**	**58,233**	**97,050**	**94,053**	**90,129**	**88,603**	**86,584**
Capital WIP	5,503	12,379	19,142	2,355	1,325	1,000	1,000	3,000
Total Investments	**11,804**	**12,336**	**16,905**	**26,665**	**27,434**	**27,434**	**27,434**	**27,434**
Curr. Assets, Loans&Adv.	**16,139**	**15,560**	**30,147**	**22,655**	**25,038**	**26,919**	**36,230**	**41,258**
Inventory	3,520	3,311	7,293	6,976	6,488	7,436	8,941	10,260
Account Receivables	2,572	2,843	5,253	5,100	5,933	6,738	8,941	8,794
Cash and Bank Balance	999	844	5,281	2,336	1,750	430	4,411	2,856
Loans and Advances	9,048	8,562	12,320	8,243	10,867	12,315	13,937	19,347
Curr. Liability & Prov.	**6,899**	**7,523**	**16,816**	**24,447**	**30,174**	**31,341**	**35,152**	**39,030**
Account Payables	6,241	6,874	15,833	22,226	26,158	30,207	34,185	38,109
Provisions	658	649	984	2,221	4,016	1,135	966	922
Net Current Assets	**9,240**	**8,037**	**13,331**	**-1,792**	**-5,136**	**-4,422**	**1,078**	**2,228**
Appl. of Funds	**73,242**	**80,036**	**127,254**	**155,249**	**149,604**	**145,542**	**149,517**	**150,647**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR) *								
EPS	**24.3**	**-1.0**	**1.1**	**21.4**	**38.8**	**68.7**	**89.9**	**116.6**
Cash EPS	49.6	28.8	34.6	86.8	106.5	138.9	163.3	187.1
BV/Share	377.8	381.1	378.1	516.8	558.2	624.5	714.4	826.8
DPS	2.0	2.0	1.5	1.5	2.0	2.0	3.0	4.0
Payout (%)	9.6	NM	NM	8.1	6.0	3.4	0.0	3.6
Valuation (x) *								
P/E					68.4	38.6	29.5	22.7
Cash P/E					24.9	19.1	16.2	14.2
P/BV					4.8	4.2	3.7	3.2
EV/Sales					3.8	3.2	2.8	2.5
EV/EBITDA					16.4	13.4	11.6	10.2
EV/Ton (US$)					181	171	166	166
Dividend Yield (%)					0.1	0.1	0.1	0.2
Return Ratios (%)								
RoIC	4.6	5.9	14.7	5.0	6.4	8.6	10.0	11.9
RoE	6.6	-0.3	0.3	5.0	7.2	11.6	13.4	15.1
RoCE	4.5	15.9	25.3	5.2	7.3	9.5	10.8	12.0
Working Capital Ratios								
Asset Turnover (x)	0.4	0.4	0.3	0.4	0.5	0.6	0.6	0.7
Inventory (Days)	46	42	79	40	32	32	34	35
Debtor (Days)	32	39	70	69	74	74	83	71
Leverage Ratio (x)								
Current Ratio	2.3	2.1	1.8	0.9	0.8	0.9	1.0	1.1
Debt/Equity	1.2	1.4	2.8	1.9	1.6	1.2	1.0	0.8

Cash Flow Statement **(INR Million)**

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Oper. Profit/(Loss) before Tax	5,118	1,185	4,546	15,916	19,019	21,935	24,525	27,754
Interest/Dividends Recd.	936	928	2,413	2,294	2,988	2,600	2,600	2,600
Depreciation	1,847	1,946	2,716	5,809	6,027	6,248	6,526	6,269
Direct Taxes Paid	-597	302	469	2,456	2,892	3,782	4,832	6,144
(Inc)/Dec in WC	-3,452	3,709	-857	12,178	2,758	-2,033	-1,519	-2,705
CF from Operations	**10,102**	**-1,899**	**7,347**	**3,576**	**16,357**	**22,786**	**23,812**	**26,914**
CF from Operating incl EO	**3,457**	**5,462**	**13,356**	**1,802**	**18,617**	**22,380**	**20,631**	**25,526**
(inc)/dec in FA	-16,330	-9,343	-41,767	-39,166	-2,431	-2,000	-5,000	-6,250
Free Cash Flow	**-12,872**	**-3,881**	**-28,411**	**-37,364**	**16,186**	**20,380**	**15,631**	**19,276**
(Pur)/Sale of Investments	132	-533	-4,569	-9,760	-768	0	0	0
CF from investments	**-16,198**	**-9,876**	**-46,335**	**-48,927**	**-3,199**	**-2,000**	**-5,000**	**-6,250**
Issue of Shares	-1,088	-213	-135	13,448	645	0	0	0
(Inc)/Dec in Debt	16,617	7,016	42,037	2,555	-9,289	-10,880	-5,000	0
Interest Paid	-2,263	-2,355	-4,344	-7,302	-8,900	-7,480	-6,792	-6,529
Dividend Paid	-189	-190	-142	-155	-207	-207	0	-377
CF from Fin. Activity	**13,077**	**4,258**	**37,416**	**8,546**	**-17,750**	**-18,567**	**-11,792**	**-6,907**
Inc/Dec of Cash	**336**	**-155**	**4,437**	**-38,578**	**-2,332**	**1,813**	**3,839**	**12,370**
Add: Beginning Balance	664	999	844	5,281	2,336	1,750	430	4,411
Closing Balance	**1,000**	**844**	**5,281**	**-33,297**	**3**	**3,563**	**4,269**	**16,781**

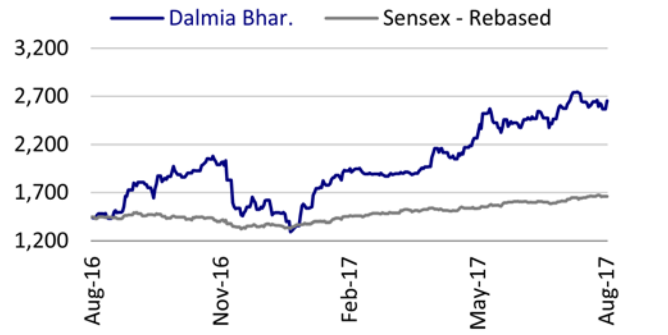
E: MOSL Estimates

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 (%)

	Jun-17	Mar-17	Jun-16
Promoter	58.0	57.8	57.4
DII	7.7	5.4	4.6
FII	17.4	11.6	11.4
Others	16.9	25.3	26.5

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Small Cap World Fund, INC	3.1
Birla Sun Life Trustee Company Private Limited A/C	2.4
DSP Black Rock MIP Fund	1.1
Valiant Mauritius Partners Offshore Limited	1.1

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 (%)
FY18	68.7	73.2	-6.1
FY19	89.9	108.0	-16.7
FY20	116.6	131.2	-11.1

Source: Bloomberg

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