Dalmia Bharat Ltd.

RESULT UPDATE

August 8th, 2017

Dalmia Bharat Ltd.

Financial de-leveraging continues!

CMP	Target	Potential Upside	Market Cap (INR mn)	Recommendation	Sector
INR 2653	**INR 3205**	**20.8%**	**236,026**	**BUY**	**Cement**

Result highlights

•Total sales stood at INR 23055 mn which was up by 14.1% Y-O-Y and down 5.2% Q-O-Q. Sales were in-line with our expectations of INR 23040 mn. Volumes stood at 3.99 MT as against our estimates of 4.1 MT and were up by 6.1% Y-O-Y.

•EBIDTA stood at INR 5566 mn which was up by 9.5% Y-O-Y and 0.9% Q-O-Q and EBIDTA margin declined to 27% as against 28.6% same quarter last year. EBITDA was in-line with our estimates of INR 5530 mn and EBITDA/ton surged to INR 1405 as against INR 1352 in Q1FY17.

•PAT stood at INR 1639 mn as against our estimates of INR 1610 mn and was up by 74.4% Y-O-Y and down 11% Q-O-Q while PAT Margin rose to 8% as against 5.3% in Q1FY17.

MARKET DATA

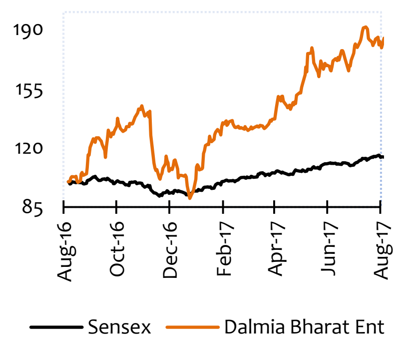
Shares outs (mn)	89
EquityCap (INR mn)	178
Mkt Cap (INR mn)	236026
52 Wk H/L (INR)	2780/1186
Volume Avg (3m K)	140.6
Face Value (INR)	2
Bloomberg Code	DBEL IN

KEY FINANCIALS

Particulars (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	39986.20	73275.00	83481.00	94542.86	107387.81
EBITDA	6025.10	15786.10	19018.80	21637.19	26144.30
APAT	30.50	1908.30	3448.00	6600.33	10030.13
AEPS	0.38	21.47	38.79	74.24	112.82
P/E (x)	1126.15	36.90	50.33	35.73	23.51
EV/EBITDA (x)	16.27	8.37	11.88	12.82	10.13

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	32274
NIFTY	10057

Revenues in-line; volume outperformance to continue:

Dalmia Bharat Ltd (DBEL) posted volumes of 3.99 MT resulting into a growth of 6.1% Y-O-Y as against industry de-growth of 2% Y-O-Y. We believe the company will continue to outperform on the volume front as against the industry growth on account of healthy presence in fast growing regions of East (incl. North East). Likewise, DBEL improved its market share in operating regions from 8.6% to 9.2% on Y-O-Y basis on account of superior brand building and deeper penetration of premium products. The company intends to increase its capacity in East by ~1.5-2 MTPA on the back of de-bottlenecking providing further revenue visibility.

We estimate volumes to grow at 9.7% over FY17-FY19 from 15.30 MT to 18.43 MT and revenues to surge from INR 83481 mn to INR 107387.8 mn over the same period.

Industry leading operating efficiencies; margins to sustain:

In Q1FY18, the company delivered EBITDA of INR 5566 mn translating into EBITDA/ton of INR 1405; which was the highest among its peers primarily on account of efficient cost structure coupled with strong pricing and demand scenario in East. Going ahead, we estimate the margins to sustain owing to higher operating leverage (est. capacity utilizations to ramp up from 61.2% to 73.7% over FY17-FY19) and stability in cement prices on the back of healthy demand.

We expect a surge in EBITDA/ton from INR 1243 to INR 1419 and increase in EBITDA margins from 25.69% to 27.59% over FY17-FY19.

Valuation and Outlook:

The company pared down debt to the tune of INR 3290 mn while its net debt stood at INR 46020 mn from INR 52410 mn on Q-O-Q basis and we believe that the financial de-leveraging should continue over FY18E-FY19E.

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	58.04	57.76	57.34
FIIs	13.83	8.04	8.85
DIIs	7.55	5.25	4.76
Others	20.57	28.94	29.05
Total	100	100	100

9.7%

Volume CAGR between FY 17 and FY 19E

13.4%

Revenue CAGR between FY 17 and FY 19E

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Dalmia Bharat Ltd.

With expected net debt of INR 28925 mn by FY19E, the company trades at an EV/EBITDA of 10.13x and EV/ton of $158.

We value Dalmia Bharat Ltd at an EV/EBITDA of **12x FY19E** on account of a.)financial de-leveraging, b.) outperforming volume growth, c.) robust market share of 8%/15%/21% in South/East/North-East and d.) superior operating efficiencies**;** arriving at a target price of **INR 3205** translating into a **20.8%** upside from CMP of **INR 2653**. We maintain our **BUY** rating on the stock.

Q1FY18 Result Snapshot

Particulars (mn)	Q1FY18	Q4FY17	Q1FY17	Q-O-Q	Y-O-Y
Total Sales	**23055**	**24332**	**20201**	**-5.2%**	**14.1%**
Total Expenditure	**17489**	**18816**	**15117**	**-7.1%**	**15.7%**
Cost of Raw Materials	3151	4220	3371	-25.3%	-6.5%
Employee Cost	1646	1375	1533	19.8%	7.4%
Power and Fuel Costs	3229	3165	2018	2.0%	60.0%
Transportation costs	3735	4112	3175	-9.2%	17.7%
Other expenses	3261	3463	2595	-5.8%	25.7%
Excise duty paid on sales	2466	2482	2426	-0.6%	1.7%
PBIDT (Excl OI)	**5566**	**5517**	**5084**	**0.9%**	**9.5%**
EBITDA Margins (%)	**27.0%**	**25.2%**	**28.6%**	**179bps**	**-157bps**
Depreciation	1532	1509	1338	1.6%	14.5%
EBIT before Exceptional Item	4034	4008	3746	0.6%	7.7%
Exceptional Items	0	0	0	-	-
Other Income	700	715	766	-2.0%	-8.6%
EBIT	**4734**	**4723**	**4512**	**0.2%**	**4.9%**
Interest	2117	1998	2412	5.9%	-12.2%
EBT	**2617**	**2724**	**2100**	**-3.9%**	**24.7%**
Tax	622	565	911	9.9%	-31.7%
NPAT before Minority Interest	**1996**	**2159**	**1189**	**-7.6%**	**67.8%**
Minority Interest	357	319	250	12.0%	43.0%
PAT	**1639**	**1841**	**940**	**-11.0%**	**74.4%**
PAT Margin (%)	**8.0%**	**8.4%**	**5.3%**	**-46bps**	**267bps**
EPS	**18.42**	**20.69**	**10.56**	**-11.0%**	**74.4%**

Source: Company, KRChoksey Research

Key takeaways from conference call:

•During the quarter, cement prices and demand remained healthy in the Eastern region while volume growth in South remained subdued on account of sluggish demand scenario in Tamil Nadu and Kerala. Going ahead, the management expects Assam, Arunachal Pradesh, Bihar and Jharkhand to be the high growing regions in East and North-East.

•The management foresees capacity addition of ~6 MTPA in Eastern region and ~8 MTPA in Southern region during FY18.

• Overall capacity utilizations for the company hovered around ~65% with utilization levels of ~58%/75%/72% in South/East/North-East respectively.

• The management expects capacity hike by approximately 2 MTPA for the company in Eastern region by end of FY18 on the back of de-bottlenecking.

• The management focuses on financial de-leveraging over FY18E-FY19E and intends to add capacity provided that the Net debt/EBITDA ratio stays under 3.5x.

• The company expects cement demand to be strong due to concerted efforts by the Government on infrastructure development and affordable housing and intends to outperform the industry on volumes and operating efficiencies.

Dalmia Bharat Ltd.

Key Financials:

Consolidated Profit & Loss (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Total Sales	**39986.20**	**73275**	**83481.00**	**94542.86**	**107387.81**
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	15032.31	16913.58
Other Expenses	7676.30	12190.3	12789.80	14181.43	15571.23
Excise duty	4845.00	8895.5	9437.40	11079.07	12616.85
EBITDA	**6025.10**	**15786.1**	**19018.80**	**21637.19**	**26144.30**
D&A	2715.80	4527.6	6027.10	5988.70	6113.70
Other income	933.40	1642.1	2987.80	2836.29	3000.00
EBIT	4242.70	12900.6	15979.50	18484.78	23030.60
Interest Expense	4343.80	7256.2	8899.90	7222.45	6457.45
PBT	-101.10	5644.4	7079.60	11262.33	16573.15
Tax	468.60	2990.8	2761.50	3716.57	5469.14
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	945.43	1073.88
PAT	**30.50**	**1908.3**	**3448.00**	**6600.33**	**10030.13**

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	47550.80	56577.92
Net worth	30701.60	38568.80	41821.60	47761.90	56789.02
Minority Interest	7469.60	3568.60	4438.70	5384.13	6458.01
Total loans	84796.50	88925.00	80249.40	71749.40	61749.40
Capital Employed	**124946**	**137514**	**138313**	**137210**	**137789**
Net block	77375.60	78818.40	80945.00	77456.30	73842.60
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	6216.52	6766.90
Sundry creditors	7483.90	9136.00	10792.65	12484.09	13732.50
Cash and bank	5280.80	2483.20	3195.86	5585.78	8098.16
Total Current assets	41327.40	45854.80	49349.95	54408.88	59777.03
Total Current liabilities	25945.70	30749.30	35572.13	38245.17	39421.26
Capital Deployed	**124946**	**137514**	**138313**	**137210**	**137789**

Source: Company, KRChoksey Research

Consolidated Cash Flow (INR mn)	FY15	FY16	FY17	FY18E	FY19E
PAT	**30.50**	**1908.30**	**3448.00**	**6600.33**	**10030.13**
Depreciation & Amortization	2715.80	4527.60	6027.10	5988.70	6113.70
(Incr)/Decr in Working Capital	676.80	3370.90	2716.36	515.49	-1202.31
Cash Flow from Operating	**5448.30**	**18907.40**	**21961.46**	**21272.40**	**22472.84**
(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	-660.03	-1003.01
Cash Flow from Financing	**29344.50**	**-5001.50**	**-13095.40**	**-16382.48**	**-17460.46**
Incr/(Decr) in Balance Sheet Cash	4436.90	-2797.60	712.66	2389.92	2512.38
Cash at the Start of the Year	843.90	5280.80	2483.20	3195.86	5585.78
Cash at the End of the Year	**5280.80**	**2483.20**	**3195.86**	**5585.78**	**8098.16**

Source: Company, KRChoksey Research

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Dalmia Bharat Ltd.

Operating metrics (in INR)	FY15	FY16	FY17	FY18E	FY19E
Realization/ton	**4887.75**	**4889.45**	**4654.22**	**4840.39**	**5034.01**
COGS cost/ton	753.55	862.18	844.17	859.52	863.44
Employee cost/ton	397.65	395.66	398.16	380.06	364.44
Power and fuel cost/ton	1015.82	689.74	640.02	698.20	733.27
Transportation and Handling cost/ton	891.44	896.41	878.11	893.19	917.78
Other Expenses/ton	1095.05	952.37	835.93	842.63	844.94
EBITDA/ton	**859.50**	**1233.29**	**1243.06**	**1285.63**	**1418.66**

Source: Company, KRChoksey Research

Ratio Analysis (Consolidated)	FY15	FY16	FY17	FY18E	FY19E
EBITDA/ton	**859.50**	**1233.29**	**1243.06**	**1285.63**	**1418.66**
Volume (mn tons)	**7.01**	**12.80**	**15.30**	**16.83**	**18.43**
Growth (%)					
Total Sales	16.74%	83.25%	13.93%	13.25%	13.59%
EBITDA	29.65%	162.01%	20.48%	13.77%	20.83%
PAT	136.22%	6156.72%	80.68%	91.43%	51.96%
Profitability (%)					
EBITDA Margin	17.15%	24.52%	25.69%	25.92%	27.59%
NPM	0.09%	2.96%	4.66%	7.91%	10.58%
Return ratios					
ROE	0.10%	4.95%	8.24%	13.82%	17.66%
ROCE	3.40%	9.38%	11.55%	13.47%	16.71%
Per share data					
EPS	0.38	21.47	38.79	74.24	112.82
BPS	378.10	433.84	470.43	537.25	638.80
Valuations (x)					
P/E (x)	1126.15	36.90	50.33	35.73	23.51
P/BV (x)	1.12	1.83	4.15	4.94	4.15
EV/EBITDA (x)	16.27	8.37	11.88	12.82	10.13
EV/Ton ($)	79.09	78.88	134.84	165.55	158.08
Net Debt/EBITDA	10.57	3.91	2.75	1.92	1.11
Net Debt/Equity	2.07	1.60	1.25	0.87	0.51
Interest Coverage	0.98	1.78	1.80	2.56	3.57

Source: Company, KRChoksey Research

Dalmia Bharat Ltd.

Dalmia Bharat Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
8-Aug-17	2,653	3,205	BUY	**Buy**	More than 15%
11-May-17	2,511	2,985	BUY	**Accumulate**	5% – 15%
27-Feb-17	1,897	2,540	BUY	**Hold**	0 – 5%
09-Jan17	1,535	2,090	BUY	**Reduce**	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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