

Dalmia Bharat | BUY

Inline results; Next phase of growth from East

Dalmia Bharat (DBEL) reported revenue growth of 21% YoY in 4QFY18, led by volume growth (14% YoY) on rising demand in key markets - East (+17% YoY), Northeast (+14% YoY), South (+14% YoY) and Maharashtra (+14% YoY). Realisations declined marginally on a sequential basis and was 3% higher YoY. EBITDA/t at INR1,137/t declined 6% YoY as cost escalations more than offset the realisations improvement. Net debt declined by INR4.4bn in 4QFY18 and net debt-to-EBITDA reduced to 1.72x from 2x QoQ with cost of debt declining to 8% (8.9% in 4QFY17). Company has embarked on its next phase of growth through 7.8MTPA of capacity expansion in Eastern India. Post expansion DBEL will become a major player in the east with combined capacity of 18.2MTPA (supported by 7.5MTPA of clinker) having a capacity share of 20% (12% currently). DBEL is setting up the capacity at a cost of USD70/t, expected to be completed in 30 months. We value DBEL's existing assets at 12x EVE additionally incorporating INR400 on expansion potential; TP is INR 3,420 (Mar'19). Maintain BUY.

- +14% volumes drive revenue growth:** DBEL reported volumes of 5.18mnT in 4QFY18, (+14% YoY) on rising demand across markets (East - +17%, North East - +14%, South - +14% and Maharashtra - +14%). Revenue for the quarter - at INR 26.4bn - grew 21% YoY. Cement realisations - at INR 4,892/t - grew 3% YoY (sequential decline of 1%). Capacity utilisation was 83% in 4QFY18 vs. 73% in 4QFY17. For full year FY18, volumes grew by 11% at 16.96mnT. Net realisations for full year grew by 5.4% leading to a revenue growth of 16%.
- Cost escalations impact EBITDA/t:** 4QFY18 EBITDA at INR 5.9bn (+7% YoY). Blended EBITDA/t at INR 1,137/t (vs. INR 1,212/t) declined 6% as the realisation growth (INR290/t of positive impact) was more than offset by increase in raw material costs (-INR89/t of impact), power/fuel costs (-INR62/t impact), freight costs (-INR125/t impact) and other expenses (-INR84/t impact). Power/fuel cost increase was primarily on higher petcoke prices partially mitigated by increase in AFR usage and WHR commissioning. Diesel price increase led to higher logistics cost. The company contained freight costs escalations on the reduction in lead distance (decline of 15-17kms during 4QFY18). It reported PAT at INR 1.8bn (INR 2.1bn in 4QFY17).
- 7.8MTPA of capacity expansion:** OCL, a subsidiary of DBEL is setting up 7.8MTPA of capacity in Eastern India. OCL will set up a clinkerisation line in its Rajgangpur plant with 2.8MTPA capacity. Additionally, company will set up split grinding units in Odisha, Bengal and Bihar aggregating to 7.8MTPA capacity. Post expansion DBEL+OCL will have total capacity of 18.2MTPA in east (9.3MTPA from existing, 1.1MTPA from Kalyanpur and 7.8MTPA from expansion) supported by clinker capacity of 7.5MTPA. Post expansion capacity share is expected to be 20% (12% currently)
- Maintain BUY:** We value DBEL's existing assets at 12x EVE. Additionally, we incorporate INR 400/share on account of the company's expansion potential, factoring in execution risks. We arrive at a TP of INR 3,420/share and maintain our BUY rating on the stock.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,420
Upside/Downside	24.9%
Previous Price Target	3,420
Change	0.0%

Key Data – DBEL IN

Current Market Price	INR2,737
Market cap (bn)	INR244.0/US\$3.6
Free Float	42%
Shares in issue (mn)	89.0
Diluted share (mn)	89.0
3-mon avg daily val (mn)	INR479.1/US\$7.0
52-week range	3,350/2,299
Sensex/Nifty	34,616/10,517
INR/US\$	68.1

Price Performance

%	1M	6M	12M
Absolute	-5.7	-9.6	12.8
Relative*	-6.2	-12.6	-0.7

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

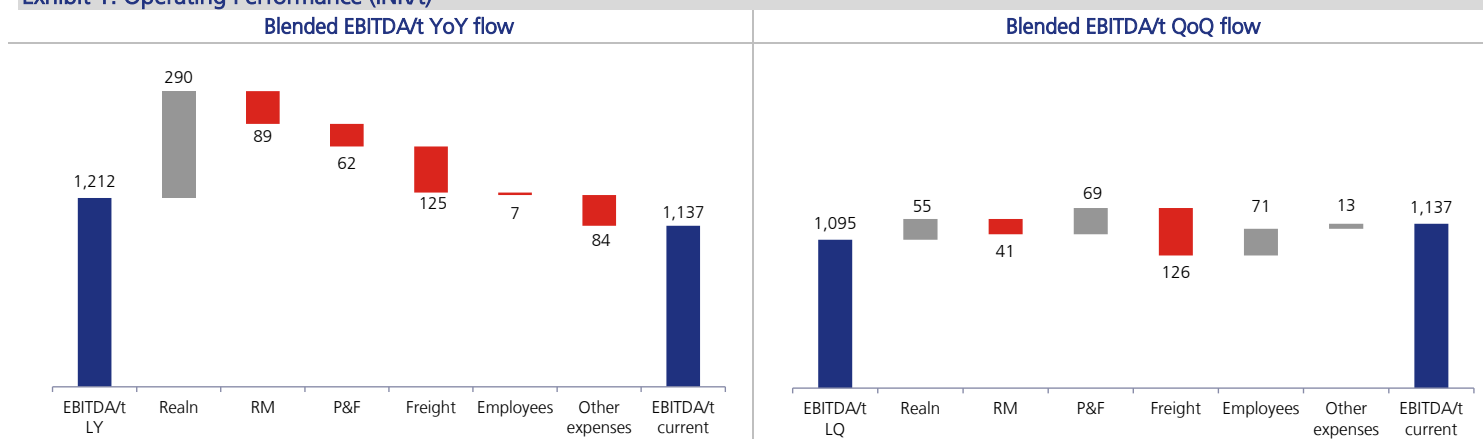
Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	64,113	74,235	86,088	1,02,010	1,16,364
Sales Growth (%)	90.6	15.8	16.0	18.5	14.1
EBITDA	15,916	18,935	20,415	24,195	27,255
EBITDA Margin (%)	24.8	25.5	23.7	23.7	23.4
Adjusted Net Profit	1,900	2,552	5,359	8,950	11,525
Diluted EPS (INR)	21.4	28.7	60.2	100.6	129.5
Diluted EPS Growth (%)	2,488.4	33.9	110.0	67.0	28.8
ROIC (%)	5.0	6.3	9.0	11.0	11.3
ROE (%)	5.0	5.3	9.7	14.0	15.9
P/E (x)	127.8	95.4	45.4	27.2	21.1
P/B (x)	5.3	4.8	4.1	3.6	3.1
EV/EBITDA (x)	21.0	17.3	15.7	13.4	11.9
Dividend Yield (%)	0.1	0.1	0.2	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 21/May/2018

Other details and conference call highlights

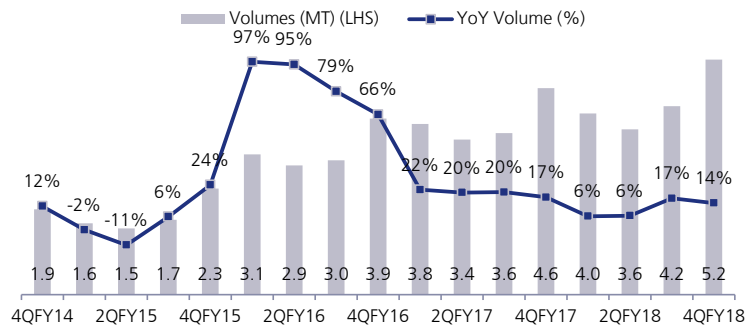
- Expansion details – DBEL will set up a clinker line of 2.8MTPA in Rajgangpur in Odisha and split grinding units at Odisha, Bengal and Bihar
 - Expansion is expected to be completed in 30 months' time
 - Expansion would require an investment of INR37.2bn
 - Net Debt to EBITDA will remain at 2.2-2.4x as the incremental capex will be incurred over 2.5 years
 - Total capex for expansion and acquisition is expected to be INR50bn to be spent over 2.5 years
 - Consequent to expansion, company will have 18.2 MTPA of grinding capacity in East supported by 7.5MTPA of clinker capacity
- 8 MTPA of grinding capacity is expected to be commissioned in East India apart from expansion from DBEL
- Management expects the cement industry to grow at 7-8% on increased demand from infrastructure, low cost housing, NHAI projects and irrigation projects
 - Company expects to grow at 1.5 times the industry
- Dalmia DSP brand is the premium brand with price gap of around INR80-100/bag with other brand of cement
- Company commissioned 9.2MW of WHR capacity in Rajgangpur, Odisha
 - Company expects 50Kwh electricity generation per tonne of clinker with a cost of power at INR0.4-0.5/Kwh. Cost of power production from renewable source is INR0.2/Kwh
 - Company intends to set up WHRS of 16MW at other locations as well
- Slag prices have increased by 100% YoY
 - Slag availability is expected to improve on account of production uptick from Bhushan plant on acquisition by Tata
- Petcoke prices are currently at USD108/t (+30% YoY)
- Company has incentives receivable of INR8.5bn
 - Company booked INR3.5bn of incentives in FY18; INR820mn booked in 4QFY18

Exhibit 1. Operating Performance (INR/t)



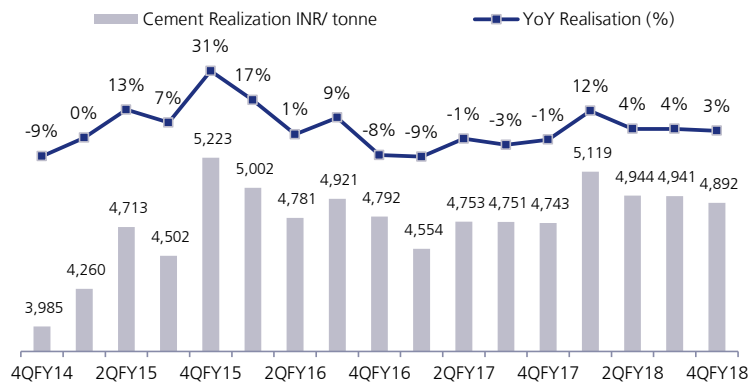
Source: Company, JM Financial

Exhibit 2. Cement volume trends



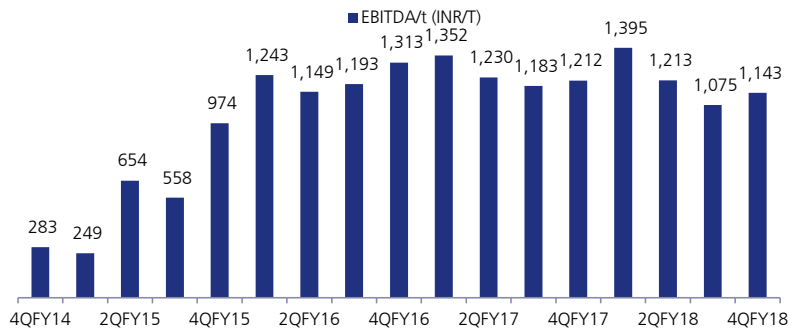
Source: Company, JM Financial

Exhibit 3. Cement realisation trends



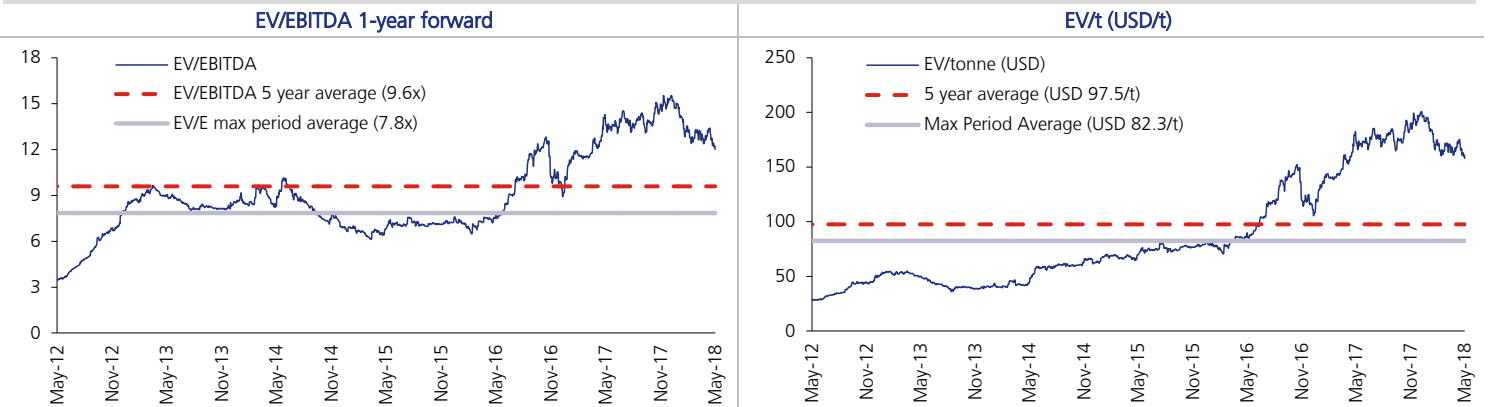
Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

Exhibit 5. Valuations Charts



Source: Company, JM Financial

Exhibit 6. Results in brief

	(INR mn)							
	4Q FY18	4Q FY17	%YoY	3Q FY18	%QoQ	FY18	FY17	%YoY
Net Sales(excluding excise)	26,380	21,850	20.7	20,906	26.2	86,088	74,044	16.3
Other Operating Income	0	0		0		0	0	#DIV/0!
Total Revenues	26,380	21,850	20.7	20,906	26.2	86,088	74,044	16.3
Expenditure	20,490	16,334	25.4	16,362	25.2	65,673	54,992	19.4
EBITDA	5,891	5,517	6.8	4,544	29.6	20,415	19,052	7.2
% margin	22.3	25.2		21.7		23.7	25.7	
Other income	655	715	-8.4	507	29.1	2,784	2,988	-6.8
Interest	1,539	1,998	-23.0	1,419	8.5	7,049	8,900	-20.8
Depreciation	1,861	1,509	23.4	1,814	2.6	7,037	6,027	16.8
PBT	3,145	2,724	15.4	1,818	73.0	9,112	7,112	28.1
Tax	1,060	565	87.4	374	183.3	2,677	2,762	-3.1
% tax rate	33.7	20.7		20.6		29.4	38.8	
PAT (Reported)	2,086	2,159	-3.4	1,444	44.5	6,436	4,351	47.9
Less: Minority interest	249	319		279		1,078	870	
OCI	0	248		659		4,482	232	
Total Comprehensible Income	1,837	2,089	-12.1	1,824	0.7	9,840	3,713	165.0
EPS (INR)	20.6	20.7	-0.2	13.1	57.6	63.8	39.1	63.1
Key Operational matrix								
Cement sales (mn tonnes)	5.18	4.55	13.8	4.15	24.8	16.96	15.29	10.9
Realisation (INR/tonne)	4,892	4,743	3.1	4,941	-1.0	4,969	4,704	5.6
EBITDA INR/tonne	1,143	1,212	-5.7	1,075	6.3	1,198	1,246	-3.9

Source: Company, JM Financial

Exhibit 7. Expense breakdown

	(INR mn)							
	4Q FY18	4Q FY17	%YoY	3Q FY18	%QoQ	FY18	FY17	%YoY
Raw material	4,611	3,551	29.9	3,767	22.4	15,672	11,976	30.9
INR/tonne	778	774	0.6	812	-4.2	826	761	8.6
Power and fuel	3,922	3,165	23.9	3,430	14.3	13,661	9,792	39.5
INR/tonne	757	695	8.9	826	-8.4	805	640	25.8
Freight	5,329	4,112	29.6	3,748	42.2	15,911	13,435	18.4
INR/tonne	1,029	904	13.8	903	13.9	938	879	6.8
(Inc)/dec in stock	654	669	-2.3	282	131.7	162	890	-81.8
INR/tonne	126	147	-14.2	68	85.7	10	58	-83.6
Total Variable cost	14,516	11,497	26.3	11,227	29.3	45,406	36,093	25.8
INR/tonne	2,802	2,527	10.9	2,705	3.6	2,677	2,361	13.4
Staff cost	1,599	1,375	16.3	1,575	1.5	6,415	6,092	5.3
INR/tonne	309	302	2.2	379	-18.7	378	398	-5.1
Other expenditure	4,375	3,463	26.4	3,561	22.9	13,853	12,807	8.2
INR/tonne	845	761	11.0	858	-1.6	817	838	-2.5
Total fixed cost	5,974	4,837	23.5	5,135	16.3	20,267	18,899	7.2
INR/tonne	1,153	1,063	8.5	1,237	-6.8	1,195	1,236	-3.3
Tot expenditure (excluding excise)	20,490	16,334	25.4	16,362	25.2	65,673	54,992	19.4
Cost INR/tonne	3,956	3,590	10.2	3,943	0.3	3,872	3,597	7.7

Source: Company, JM Financial

Company background

- Dalmia Bharat Ltd (DBEL) is part of the Dalmia Group, one of India's oldest industrial houses with operations in areas such as cement, sugar, travel, magnesite, refractory and electronics across the country. The cement business was founded in 1935 and is now housed under DBEL, which is the third largest cement player in India, with total installed capacity of 25 MT under control through subsidiaries. The company is among the market leaders in East and South India with a sizeable market share. It also has over 175 MW of installed captive power plants (CPP), which takes care of most of the power requirements for its cement operations.

Key investment arguments:

- **15.7MTPA of expansion potential:** DBL has capacity expansion potential of 15.7MTPA, of which 13.1MTPA is greenfield, while 2.6MTPA is brownfield. The company has clearances available in c.80% of its greenfield potential. Its 11MTPA brownfield potential is constrained by clinker availability, resulting in a feasible capacity of 2.6MTPA. Rajputana Properties' (earlier a DBL subsidiary) bid for Binani Cement has been approved and recommended to the NCLT. Rajputana Properties has additional greenfield expansion potential of 5MTPA in Rajasthan. Most of its projects have received clearances, providing comfort on execution. However, we factor in a marginal execution risk on account of the company's entry into a new geography.
- **Acquisition of stressed assets; value contingent upon execution:** DBL acquired Murli Industries (3MTPA in Chandrapur) and Kalyanpur Cement (1.1MTPA in Bihar) through an auction under Insolvency & Bankruptcy Code (IBC) proceedings. DBL acquired these assets at a relatively low valuation of USD 55/t for Kalyanpur and USD 20/t for Murli Industries; the transactions are likely to be completed by 1HFY19. Currently, these assets are not operational. DBL is slated to incur additional capex of INR 4bn (INR 1bn in Kalyanpur and INR 3bn in Murli Industries) for asset ramp-up. However, management is confident that the acquisitions will be EBITDA positive from the first year of operations.
- **Leverage in the comfort zone despite acquisitions:** DBL significantly reduced its net debt from c.INR 60.2bn at end-Mar'16 to INR 39.5bn at end-Dec'17. Its net debt-to-EBITDA dropped from 3.8x to 2x over the same period. By repaying a large portion of the high cost debt, the company also successfully brought down its interest cost down to 8% in 3QFY18. Going forward, we estimate free cash flow generation of INR 23bn, which would further help bring down DBL's net debt significantly. Management is comfortable with a net debt-to-EBITDA ratio of 3.5x.

Valuation and View

- We value DBEL's existing assets at 12x EVE. Additionally, we incorporate INR 400/share on account of the company's expansion potential, factoring in execution risks. We arrive at a TP of INR 3,420/share and maintain our BUY rating on the stock.

Key risks

(1) Any delay in demand recovery can have an adverse impact on earnings. (2) DBEL, with one of the highest leverages in the sector, is vulnerable to rising interest rates/low system liquidity. (3) Regulatory risk: the sector has been under the radar of the Competition Commission of India with few judgements against cement companies. (4) A cap in the cement price by the government is a risk to profitability. (5) Any threat to the company's ability to ramp up assets acquired under the IBC.

Exhibit 8. Volume, realisation and cost outlook

	FY16	FY17	FY18	FY19E	FY20E
Cement Sales (mn tonnes)	12.8	15.3	17.0	18.8	20.5
YoY Growth (%)	82.1	19.7	10.8	10.9	8.9
Cement Realisations (INR/tonne)	4,749	4,717	4,970	5,228	5,495
YoY Growth (%)	5.0	-0.7	5.4	5.2	5.1
Cement EBITDA (INR/tonne)	1,238	1,229	1,198	1,242	1,288

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Net Sales	64,113	74,235	86,088	1,02,010	1,16,364	
Sales Growth	90.6%	15.8%	16.0%	18.5%	14.1%	
Other Operating Income	0	0	0	0	0	
Total Revenue	64,113	74,235	86,088	1,02,010	1,16,364	
Cost of Goods Sold/Op. Exp	11,693	12,090	14,175	16,675	19,208	
Personnel Cost	5,053	5,938	6,415	7,503	8,576	
Other Expenses	31,450	37,272	45,084	53,637	61,325	
EBITDA	15,916	18,935	20,415	24,195	27,255	
EBITDA Margin	24.8%	25.5%	23.7%	23.7%	23.4%	
EBITDA Growth	164.2%	19.0%	7.8%	18.5%	12.6%	
Depn. & Amort.	5,809	7,262	7,037	7,167	7,173	
EBIT	10,107	11,674	13,378	17,029	20,081	
Other Income	2,295	2,862	2,784	3,060	3,491	
Finance Cost	7,302	8,689	7,049	6,084	5,889	
PBT before Excep. & Forex	5,100	5,846	9,112	14,005	17,683	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	5,100	5,846	9,112	14,005	17,683	
Taxes	2,455	2,423	2,677	4,114	5,194	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	745	870	1,079	941	964	
Reported Net Profit	1,900	2,552	5,359	8,950	11,525	
Adjusted Net Profit	1,900	2,552	5,359	8,950	11,525	
Net Margin	3.0%	3.4%	6.2%	8.8%	9.9%	
Diluted Share Cap. (mn)	88.7	89.0	89.0	89.0	89.0	
Diluted EPS (INR)	21.4	28.7	60.2	100.6	129.5	
Diluted EPS Growth	2,488.4%	33.9%	110.0%	67.0%	28.8%	
Total Dividend + Tax	190	265	534	0	0	
Dividend Per Share (INR)	1.8	2.2	4.8	0.0	0.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Profit before Tax	5,100	5,846	9,112	14,005	17,683	
Depn. & Amort.	5,809	7,262	7,037	7,167	7,173	
Net Interest Exp. / Inc. (-)	7,302	8,689	7,049	6,084	5,889	
Inc (-) / Dec in WCcap.	3,054	-2,163	2,081	-1,105	-708	
Others	-1,812	-1,902	-2,783	-3,060	-3,491	
Taxes Paid	-304	-555	-2,677	-4,114	-5,194	
Operating Cash Flow	19,149	17,176	19,820	18,977	21,353	
Capex	-4,141	-3,366	-4,090	-22,640	-21,040	
Free Cash Flow	15,008	13,810	15,731	-3,663	313	
Inc (-) / Dec in Investments	-8,067	1,090	-7,651	5,500	4,000	
Others	-5,024	455	2,784	3,060	3,491	
Investing Cash Flow	-17,232	-1,822	-8,957	-14,080	-13,549	
Inc / Dec (-) in Capital	11	21	0	0	0	
Dividend + Tax thereon	-534	0	0	-1,047	-1,348	
Inc / Dec (-) in Loans	4,129	-6,826	-7,739	0	0	
Others	-8,607	-8,729	-1,335	-6,278	-6,121	
Financing Cash Flow	-5,002	-15,534	-9,074	-7,325	-7,469	
Inc / Dec (-) in Cash	-3,085	-180	1,789	-2,428	335	
Opening Cash Balance	5,420	1,928	1,748	3,538	1,109	
Closing Cash Balance	2,336	1,748	3,538	1,109	1,444	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Shareholders' Fund	45,893	50,384	59,973	67,682	77,627	
Share Capital	178	178	178	178	178	
Reserves & Surplus	45,715	50,206	59,795	67,504	77,449	
Preference Share Capital	0	0	0	0	0	
Minority Interest	5,259	6,129	7,206	8,147	9,111	
Total Loans	87,672	80,490	72,751	72,751	72,751	
Def. Tax Liab. / Assets (-)	16,746	14,479	14,548	14,548	14,548	
Total - Equity & Liab.	1,55,570	1,51,481	1,54,478	1,63,127	1,74,036	
Net Fixed Assets	1,26,528	1,21,397	1,12,091	1,27,564	1,41,430	
Gross Fixed Assets	1,03,175	1,08,666	1,12,365	1,13,365	1,14,365	
Intangible Assets	26,947	23,420	17,062	17,062	17,062	
Less: Depn. & Amort.	5,949	11,971	19,008	26,175	33,349	
Capital WIP	2,355	1,282	1,673	23,313	43,353	
Investments	26,665	27,393	35,045	29,545	25,545	
Current Assets	26,502	28,526	36,080	38,809	41,699	
Inventories	0	0	0	0	0	
Sundry Debtors	5,100	5,639	5,217	8,384	9,564	
Cash & Bank Balances	2,336	1,748	3,538	1,109	1,444	
Loans & Advances	682	1,185	934	934	934	
Other Current Assets	18,384	19,954	26,391	28,381	29,757	
Current Liab. & Prov.	24,126	25,834	28,737	32,789	34,638	
Current Liabilities	9,947	10,389	10,508	14,560	16,409	
Provisions & Others	14,179	15,445	18,229	18,229	18,229	
Net Current Assets	2,376	2,692	7,343	6,019	7,062	
Total - Assets	1,55,570	1,51,482	1,54,478	1,63,128	1,74,037	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
Net Margin	3.0%	3.4%	6.2%	8.8%	9.9%	
Asset Turnover (x)	0.5	0.5	0.6	0.6	0.7	
Leverage Factor (x)	3.7	3.2	2.8	2.5	2.3	
RoE	5.0%	5.3%	9.7%	14.0%	15.9%	

Key Ratios						
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
BV/Share (INR)	517.5	566.2	673.9	760.6	872.3	
ROIC	5.0%	6.3%	9.0%	11.0%	11.3%	
ROE	5.0%	5.3%	9.7%	14.0%	15.9%	
Net Debt/Equity (x)	1.9	1.6	1.2	1.1	0.9	
P/E (x)	127.8	95.4	45.4	27.2	21.1	
P/B (x)	5.3	4.8	4.1	3.6	3.1	
EV/EBITDA (x)	21.0	17.3	15.7	13.4	11.9	
EV/Sales (x)	5.2	4.4	3.7	3.2	2.8	
Debtor days	29	28	22	30	30	
Inventory days	0	0	0	0	0	
Creditor days	65	61	50	62	61	

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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