

Dalmia Bharat | BUY

Inline quarter; East expansion will be a key monitorable

Dalmia Bharat (DBEL) reported 1QFY19 results In-line with expectation. DBEL reported revenue growth of 16% YoY, led by volume growth (13% YoY) on rising demand in key markets. Blended realisations grew by 3.7% on a sequential basis and was 2.5% higher YoY. Cement EBITDA/t at INR1,135/t declined 19% YoY as variable cost escalations more than offset the realisations improvement. Net debt at INR 34.28bn, declined by INR 850mn in 1Q. Subsequently net debt-to-EBITDA remained stable at 1.71x and cost of debt remained stable at 8% (8.3% in 1QFY18). Company's 7.8MTPA expansion in Eastern India is on track and expected to be completed by Sep'20. Post expansion DBEL will become a major player in the east with combined capacity of 18.2MTPA (7.5MTPA of clinker) having a capacity share of 20% (12% currently). We value DBEL's existing assets at 12x EVE additionally incorporating INR400 on expansion potential; TP is INR 3,420 (Mar'19). Maintain BUY.

- +13% volumes drive revenue growth:** DBEL reported volumes of 4.51mnT in 1QFY19, (+13% YoY) on rising demand across markets (East - +13%, North East - +17% and South - +16% as per management commentary). Revenue for the quarter at INR 23.7bn, grew by 15.8% YoY. Blended realisations - at INR 5,250/t - grew 2.5% YoY (sequential growth of 3.7%). Capacity utilisation for 1Q was at 72% in 1QFY19 vs. 64% in 1QFY18. Realisations improved on higher sales in premium/super premium category (12-14% of the overall volumes; improving by 4% YoY) and improved trade sales (64-65% of volumes; +6-7% YoY).
- Cost escalations impact EBITDA/t:** 1QFY19 EBITDA at INR 5.24bn declined by 5.9% YoY. Blended EBITDA/t at INR 1,162/t (vs. INR 1,395/t) declined 16.7% as the realisation growth (INR127/t of positive impact) was more than offset by increase in raw material costs (-INR283/t of impact), power/fuel costs (-INR65/t impact), freight costs (-INR40/t impact). Higher raw material cost was primarily on account of increase in slag prices at INR 306/t of cement (+24% YoY). Increase in petcoke prices from USD 78/t to USD 99/t (+27% YoY) led to higher power/fuel cost, partially mitigated by increase in AFR usage (4% from 3% last year) and WHR (9% of the overall power requirement). Diesel price increase led to higher logistics cost. Company reported PAT at INR 1.6bn vs. INR 1.35bn in 1QFY18.
- Other details:** OCL's expansion of 7.8MTPA in East is on track for completion by Sep'20. 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 in east is expected to be 20%
- Key Risks:** i) A cap in the cement price by the government is a risk to profitability; ii) Any threat to the company's ability to ramp up assets acquired under the IBC.
- 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)	28.5%
Previous Price Target	3,420
Change	0.0%

Key Data – DBEL IN

Current Market Price	INR2,661
Market cap (bn)	INR237.2/US\$3.5
Free Float	42%
Shares in issue (mn)	89.0
Diluted share (mn)	89.0
3-mon avg daily val (mn)	INR326.7/US\$4.8
52-week range	3,350/2,174
Sensex/Nifty	38,024/11,471
INR/US\$	68.7

Price Performance

%	1M	6M	12M
Absolute	12.9	-4.8	7.5
Relative*	8.1	-14.5	-10.5

* To the BSE Sensex

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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)	124.2	92.8	44.2	26.5	20.5
P/B (x)	5.1	4.7	3.9	3.5	3.1
EV/EBITDA (x)	20.6	17.0	15.3	13.1	11.6
Dividend Yield (%)	0.1	0.1	0.2	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 10/Aug/2018

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.

Concall highlights

Demand/Pricing

- Volumes in 1Q grew by 13% in East, 16% in South and 17% in North East (overall for the industry 14% YoY in the relevant regions of the company) led by
 - Affordable housing projects – 1.1mn houses constructed in 1Q
 - Roads construction – 2,455kms in 1Q at an average of 26kms per day – Target for FY19 is 16,000kms of road construction
 - Railways and Metro projects
- Capacity utilisation in east in 1Q was at 85%
- Overall for FY19, management expects the volumes to grow by 9-10% for the industry
- Overall proportion of premium/super premium (INR 25-30/bag pricing differential vs grade A) in the total cement volumes was 12-14%, improving by 4% YoY
- Trade segment sales for the quarter was at 64-65%, increasing by 6-7%
- PSC volumes during 1Q was 35%-38% as a proportion of overall volumes
- Realisations improvement was on account of higher trade sales, and improvement in penetration of premium cement sales

Costs

- Fuel mix during the quarter was Pet-coke (59% in 1Q), Lignite/Domestic coal (35%) and AFR (4%)
 - Percentage of AFR is expected to go up to 8% by the year end
- Slag landed cost for the company was at INR 600/t (goes upto INR 1,800/t depending on the area)
- Company expects to benefit by around 4-6% on logistics costs owing to relaxation of axle loading norms

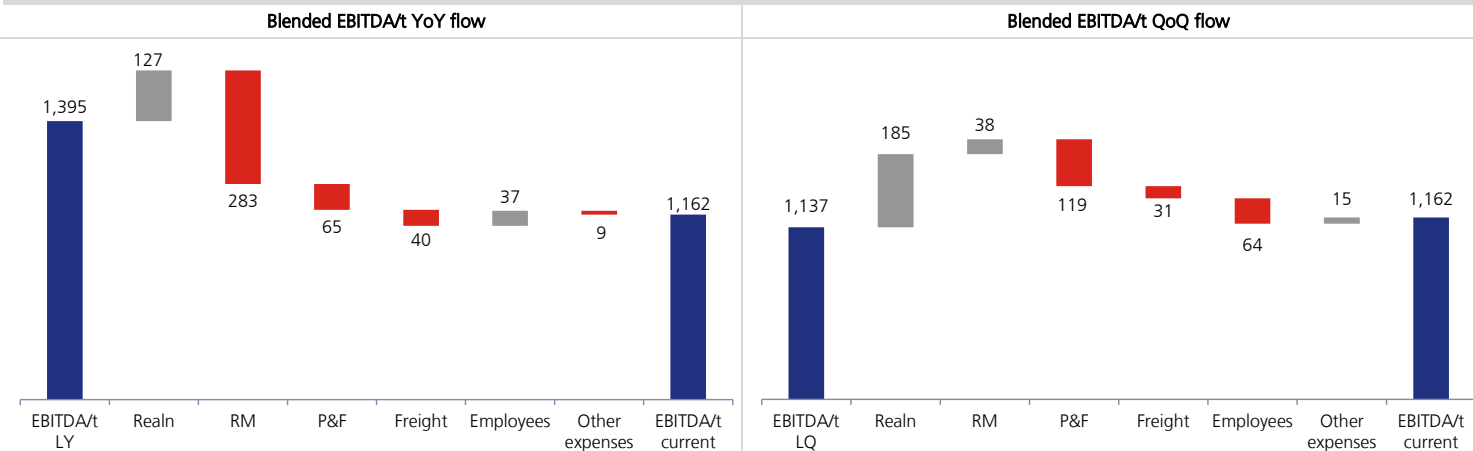
Expansion

- **Murli Acquisition**
 - Resolution proposal is pending in NCLT
 - Management foresees no risk related to acquisition on account of delay
 - Total capex expected to be incurred of INR 7.5bn – INR 4bn on acquisition and INR 3.5bn of incremental capex for ramping up of the asset
- **Kalyanpur Acquisition**
 - Resolution proposal has been approved and revamping of the existing plant has started
 - Limestone mines for the company have been restored by Bihar government
 - Management expects the consolidation of the numbers in 2Q and production is expected to start in Oct'18.
 - INR 1.5bn has been spent on acquisition and incrementally INR 1.5bn is to be spent to bring the plant up to speed
 - Company has INR 1.5bn of incentives receivables and incentives are available with the company for 7 years

Others

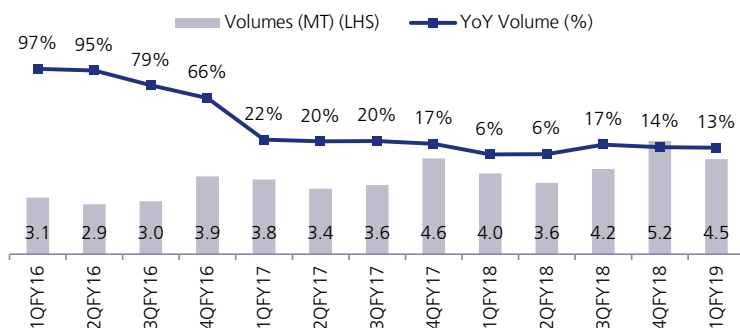
- Company booked INR 390mn of incentives in 1Q (50% lower YoY). Management expects the incentives for FY19 to be 30-40% lower than FY18
- Company has received NCLT nod on its restructuring exercise, however, statutory permissions toward transfer of mine are pending and are expected to be received in 2-3 months. Management expects completion of restructuring by Dec'18 end.

Exhibit 1. EBITDA/t flow



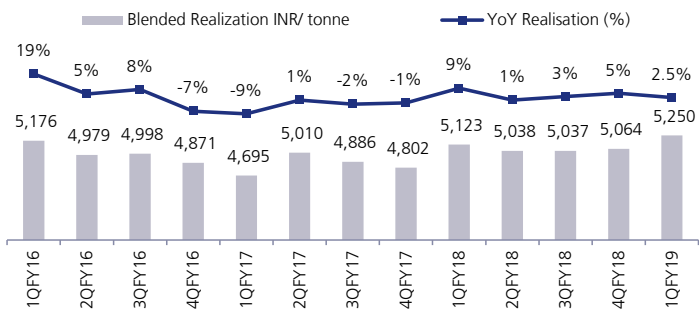
Source: Company, JM Financial

Exhibit 2. Cement volume trends



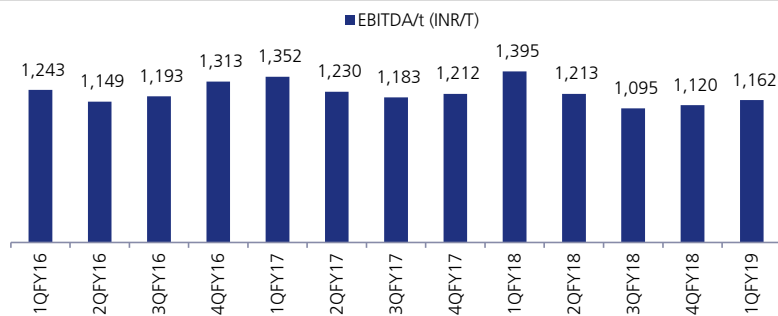
Source: Company, JM Financial

Exhibit 3. Cement realisation trends



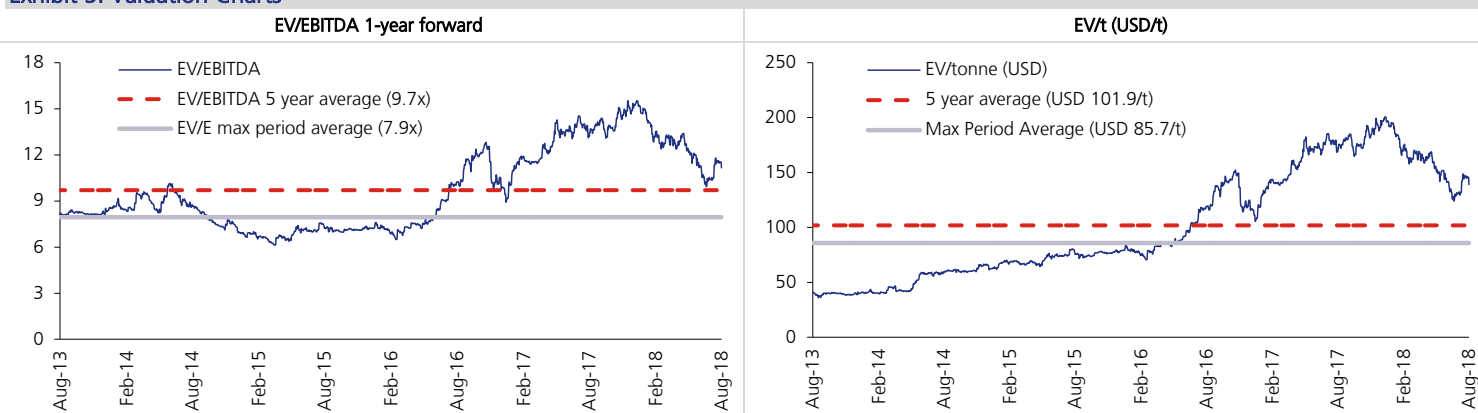
Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

Exhibit 5. Valuation Charts



Source: Company, JM Financial

Exhibit 6. Results in brief

	1Q FY19	1Q FY18	%YoY	4Q FY18	%QoQ	FY19E	FY18	%YoY
Net Sales(excluding excise)	23,676	20,441	15.8	26,233	-9.7	1,02,010	86,088	18.5
Other Operating Income	0	0		0		0	0	#DIV/0!
Total Revenues	23,676	20,441	15.8	26,233	-9.7	1,02,010	86,088	18.5
Expenditure	18,436	14,876	23.9	20,342	-9.4	77,815	65,673	18.5
EBITDA	5,240	5,565	-5.9	5,891	-11.1	24,195	20,415	18.5
% margin	22.1	27.2		22.5		23.7	23.7	
Other income	432	700	-38.2	655	-33.9	3,060	2,784	9.9
Interest	1,620	2,117	-23.5	1,539	5.2	6,084	7,049	-13.7
Depreciation	1,798	1,709	5.2	1,861	-3.4	7,167	7,037	1.8
PBT	2,254	2,439	-7.6	3,145	-28.3	14,005	9,112	53.7
Tax	773	721	7.2	1,060	-27.0	4,114	2,677	53.7
% tax rate	34.3	29.6		33.7		29.4	29.4	
PAT (Reported)	1,481	1,718	-13.8	2,086	-29.0	9,891	6,436	53.7
Extraordinary items	0	0		0		0	0	
Share of associates	0	0		0		0	0	
Less: Minority interest	238	357		249		941	1,078	
OCI	361	-11		0		0	4,482	
PAT (Adjusted after minority interest)	1,603	1,351	18.7	1,837	-12.7	8,950	9,840	-9.0
EPS (INR)	14.0	15.3	-8.7	20.6	-32.3	100.6	60.7	65.8
Key Operational matrix								
Cement sales (mn tonnes)	4.51	3.99	13.0	5.18	-12.9	18.80	16.96	10.9
Realisation (INR/tonne)	5,028	5,119	-1.8	4,892	2.8	5,228	4,969	5.2
EBITDA INR/tonne	1,162	1,395	-16.7	1,120	3.7	1,242	1,198	3.7

Source: Company, JM Financial

Exhibit 7. Expenses breakdown

	1Q FY19	1Q FY18	%YoY	4Q FY18	%QoQ	FY19E	FY18	%YoY
Raw material	4,632	3,429	35.1	4,611	0.5	18,244	15,672	16.4
INR/tonne	988	786	25.6	778	26.9	868	826	5.0
Power and fuel	3,950	3,236	22.1	3,922	0.7	15,903	13,661	16.4
INR/tonne	876	811	8.0	757	15.7	846	805	5.0
Freight	4,651	3,957	17.5	5,182	-10.2	18,700	15,911	17.5
INR/tonne	1,031	992	4.0	1,000	3.1	994	938	6.0
(Inc)/dec in stock	-218	-654	-66.6	654	-133.4	362	162	123.5
INR/tonne	-48	-164	-70.5	126	-138.4	19	10	101.5
Total Variable cost	13,015	9,968	30.6	14,369	-9.4	53,209	45,406	17.2
INR/tonne	2,886	2,498	15.5	2,774	4.0	2,830	2,677	5.7
Staff cost	1,682	1,636	2.8	1,599	5.2	7,503	6,415	17.0
INR/tonne	373	410	-9.1	309	20.8	399	378	5.5
Other expenditure	3,740	3,272	14.3	4,375	-14.5	17,103	13,853	23.5
INR/tonne	829	820	1.1	845	-1.8	910	817	11.4
Total fixed cost	5,421	4,908	10.5	5,974	-9.2	24,606	20,267	21.4
INR/tonne	1,202	1,230	-2.3	1,153	4.2	1,309	1,195	9.5
Tot expenditure (excluding excise)	18,436	14,876	23.9	20,342	-9.4	77,815	65,673	18.5
Cost INR/tonne	4,088	3,728	9.6	3,927	4.1	4,138	3,872	6.9

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 34.3bn at Jun'18 end. Its net debt-to-EBITDA dropped from 3.8x to 1.7x 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 1QFY19. Going forward, significant free cash flow generation will 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.

Exhibit 8. Volumes, 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 WCap.	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	6,976	6,518	7,792	9,782	11,158	
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	11,408	13,436	18,599	18,599	18,599	
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%	

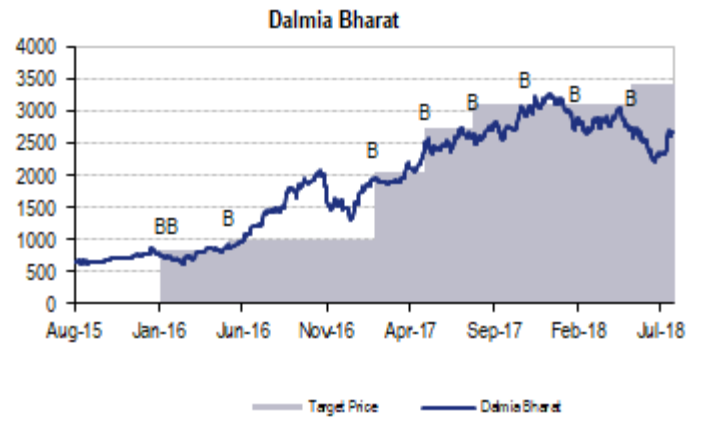
Key Ratios						
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E	
BV/Share (INR)	517.5	566.2	673.9	760.6	872.3	
ROIC	5.0%	6.3%	9.0%	11.0%	11.3%	
ROE	5.0%	5.3%	9.7%	14.0%	15.9%	
Net Debt/Equity (x)	1.9	1.6	1.2	1.1	0.9	
P/E (x)	124.2	92.8	44.2	26.5	20.5	
P/B (x)	5.1	4.7	3.9	3.5	3.1	
EV/EBITDA (x)	20.6	17.0	15.3	13.1	11.6	
EV/Sales (x)	5.1	4.3	3.6	3.1	2.7	
Debtor days	29	28	22	30	30	
Inventory days	40	32	33	35	35	
Creditor days	65	61	50	62	61	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
18-Jan-16	Buy	850	
7-Feb-16	Buy	850	0.0
19-May-16	Buy	1,000	17.6
7-Feb-17	Buy	2,050	105.0
11-May-17	Buy	2,750	34.1
7-Aug-17	Buy	3,100	12.7
7-Nov-17	Buy	3,100	0.0
9-Feb-18	Buy	3,100	0.0
22-May-18	Buy	3,420	10.3

Recommendation History



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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Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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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