

Dalmia Bharat | BUY

Operationally inline; Net debt reduced by Rs6.4bn

DBEL reported inline revenue growing at 16% YoY (cement revenue growth of 20%) on 6%/13% volume/realisation growth. Company increased the market share in its region of operations from 8.6% to 9.2% YoY. EBITDA/t for the quarter stood at Rs1,395/t, 3% up YoY on realisation improvement partially offset by power/fuel and freight costs escalations. Net debt (ND) declined by Rs6.4bn in 1QFY18 on receipt of payment from KKR. Net debt to EBITDA stands reduced to 2.4x from 2.8x earlier. Going forward, management is confident of pick up in the demand from low cost housing and infrastructure push by the government. We roll forward our target price, valuing the stock at 12x EVE to arrive at a TP of Rs3,100 (Sep'18). Maintain BUY.

- 16% revenue growth on volume/realisation growth:** DBEL reported a volume of 4.0mnT, +6% YoY lead by improvement in the market share in its region of operations from 8.6% to 9.2% YoY. Revenue at Rs20.6bn; 16% YoY, was inline with JMFe. Cement realisations for the quarter was higher 8.6% QoQ at Rs5,150/t (13% growth YoY) was 2% above JMFe. We believe, the realisation growth was aided by cement price increase and higher proportion of premium cement sales during the quarter. Capacity utilisation was at 61% in 1QFY18 vs 60% in 1QFY17. OCL reported Rs8.3bn revenue during 1QFY18 growing 17% YoY.
- Power/fuel and freight partially offset realisation growth:** EBITDA for the quarter stood at Rs5.56bn growing by 9.5% YoY was in line with JMFe. EBITDA/t was up 3% YoY primarily on 1) Realisation growth (Rs465/t of positive impact); 2) lower raw material costs (Rs107/t of positive impact) on inventory accretion, partially offset by higher power and fuel costs (Rs272/t of negative impact) on increased petcoke/coal prices, freight costs (Rs92/t of negative impact) on higher diesel prices/busy season surcharge applicable during the quarter and higher other expenses (Rs159/t of negative impact). Company moderated its variable costs sequentially by 6% through improvement in clinker productivity and optimisation of fuel mix (petcoke usage at 55% from 62% in Q4FY17). Power consumption in 1QFY18 stood at 69kwh/t of cement. OCL reported an EBITDA of Rs2bn during the quarter
- Net debt reduced by Rs6.4bn in 1QFY18:** Company reduced its net debt from Rs52.3bn as on Mar'17 to Rs46bn as on Jun'17 (gross debt reduced from Rs80.6bn to Rs77.3bn during the period); reduction in the net debt by Rs6.4bn during 1QFY18 primarily on receipt of Rs5.9bn from KKR. With this the Net debt to EBITDA stands reduced to 2.4x from 2.8x earlier and cost of debt reduced to 8.3% (vs 8.7% in 4QFY17).
- Other details:** Schemes of arrangement involving i) Dalmia Cement (Bharat) Ltd and its subsidiaries and ii) amongst Odisha Cement Ltd, Dalmia Bharat Ltd and Dalmia Cement (Bharat) Ltd are pending for sanction by NCLT, Chennai bench
- Maintain BUY:** DBEL is trading at 10.9/9.1x EV/EBITDA and at US\$156/147 on EV/t basis in FY19E/20E. We maintain a BUY rating with TP of Rs3,100 at 12.0x EV/EBITDA (Sep'18).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,100
Upside/(Downside)	20.6%
Previous Price Target	2,750
Change	12.7%

Key Data – DBEL IN

Current Market Price	Rs2,570
Market cap (bn)	Rs228.6/US\$3.6
Free Float	69%
Shares in issue (mn)	89.0
Diluted share (mn)	89.0
3-mon avg daily val (mn)	Rs357.7/US\$0.4
52-week range	2,784/1,186
Sensex/Nifty	32,325/10,066
Rs/US\$	63.6

Price Performance

%	1M	6M	12M
Absolute	-1.0	33.4	81.0
Relative*	-4.5	16.6	55.2

* To the BSE Sensex

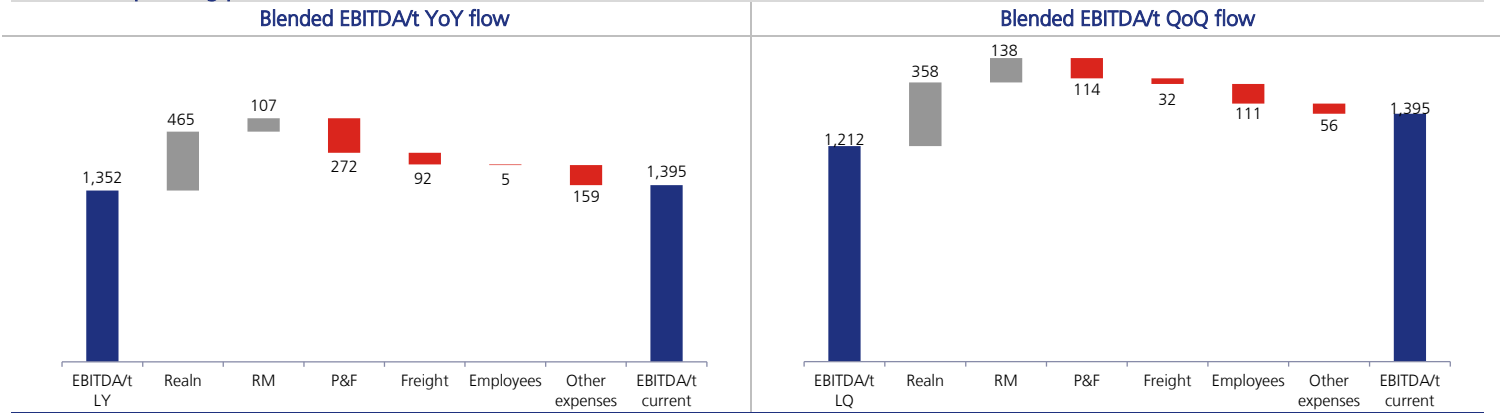
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(Rs mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	61,205	72,592	81,878	92,368	1,04,423
Sales Growth (%)	81.9	18.6	12.8	12.8	13.1
EBITDA	15,786	19,019	21,468	24,155	27,215
EBITDA Margin (%)	24.5	25.7	25.7	25.6	25.6
Adjusted Net Profit	1,907	3,448	5,509	8,294	11,595
Diluted EPS (Rs.)	21.5	38.7	61.9	93.2	130.3
Diluted EPS Growth (%)	2,497.7	80.2	59.8	50.5	39.8
ROIC (%)	5.1	7.7	8.6	11.3	14.1
ROE (%)	5.0	7.2	10.6	14.3	17.4
P/E (x)	119.5	66.3	41.5	27.6	19.7
P/B (x)	5.0	4.6	4.2	3.7	3.2
EV/EBITDA (x)	20.0	16.2	13.7	11.7	9.8
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2

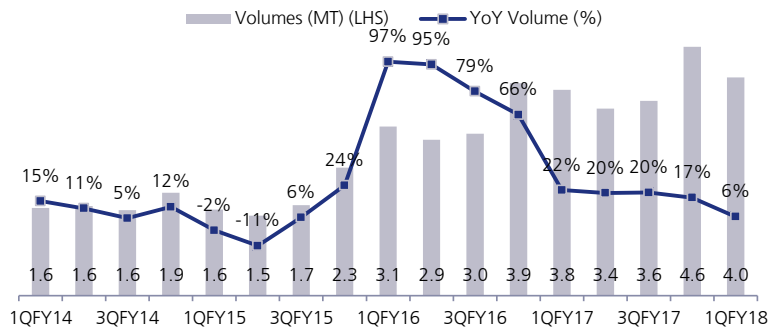
Source: Company data, JM Financial. Note: Valuations as of 04/Aug/2017

Exhibit 1. Operating performance



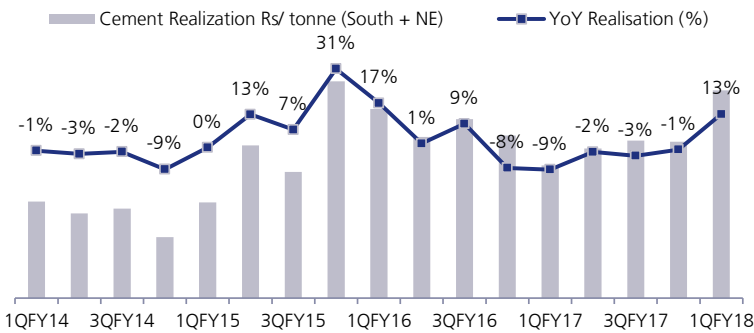
Source: Company, JM Financial

Exhibit 2. Cement volume trends



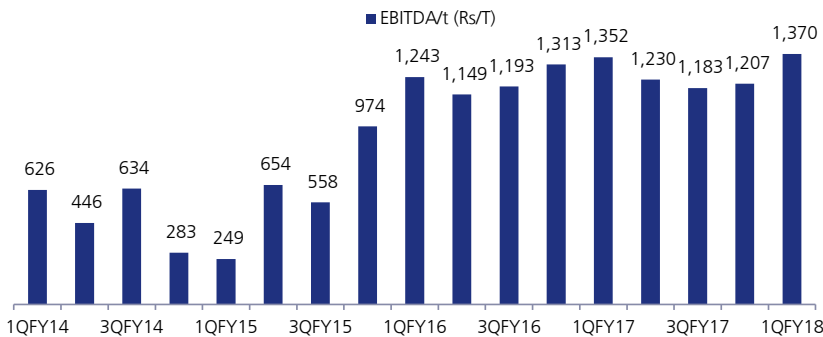
Source: Company, JM Financial

Exhibit 3. Cement realisation trends



Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

Exhibit 5. Results in brief

	(Rs mn)							
	1Q FY18	1Q FY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
Net Sales(excluding excise)	20,589	17,654	16.6	21,850	-5.8	81,878	74,044	10.6
Other Operating Income	0	121				1,638	0	
Total Revenues	20,589	17,775	15.8	21,850	-5.8	83,515	74,044	12.8
Expenditure	15,023	12,691	18.4	16,334	-8.0	62,047	55,025	12.8
EBITDA	5,566	5,084	9.5	5,517	0.9	21,468	19,019	12.9
% margin	27.0	28.6		25.2		25.7	25.7	
Other income	700	766	-8.6	715	-2.0	2,505	2,988	-16.1
Interest	2,117	2,412	-12.2	1,998	5.9	6,799	8,900	-23.6
Depreciation	1,532	1,338	14.5	1,509	1.6	7,136	6,027	18.4
PBT	2,617	2,100	24.7	2,724	-3.9	10,039	7,080	41.8
Tax	622	911	-31.7	565	9.9	4,016	2,762	45.4
% tax rate	23.7	43.4		20.7		40.0	39.0	
PAT (Reported)	1,996	1,189	67.8	2,159	-7.6	6,023	4,318	39.5
Extraordinary items	0	-15		0		0	0	
Share of associates	0	0		0		0	0	
Less: Minority interest	357	250		319		514	870	
PAT (Adjusted after minority interest)	1,639	924	77.3	1,841	-11.0	5,509	3,448	59.8
EPS (Rs)	18.4	10.6	74.4	20.7	-11.0	51.0	38.8	31.5
Key Operational matrix								
Cement sales (mn tonnes)	3.99	3.76	6.1	4.55	-12.3	16.36	15.29	7.0
Realisation (Rs/tonne)	5,150	4,554	13.1	4,743	8.6	4,832	4,704	2.7
EBITDA Rs/tonne	1,370	1,352	1.3	1,207	13.5	1,202	1,210	-0.7

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	(Rs mn)							
	1Q FY18E	1Q FY17	%YoY	4Q FY17	%QoQ	FY18E	FY17	%YoY
Raw material	3,807	2,954	28.9	3,551	7.2	13,505	12,026	12.3
Rs/tonne	881	757	16.4	774	13.9	802	764	4.9
Power and fuel	3,229	2,018	60.0	3,165	2.0	12,777	9,792	30.5
Rs/tonne	809	537	50.8	695	16.4	781	640	21.9
Freight	3,735	3,175	17.7	4,112	-9.2	15,231	13,435	13.4
Rs/tonne	936	844	10.9	904	3.6	931	879	5.9
(Inc)/dec in stock	-656	417	-257.5	669	-198.1	890	890	0.0
Rs/tonne	-164	111	-248.4	147	-211.9	54	58	-6.6
Total Variable cost	10,115	8,564	18.1	11,497	-12.0	42,404	36,143	17.3
Rs/tonne	2,535	2,278	11.3	2,527	0.3	2,591	2,364	9.6
Staff cost	1,646	1,533	7.4	1,375	19.8	6,906	6,092	13.4
Rs/tonne	413	408	1.2	302	36.6	422	398	5.9
Other expenditure	3,261	2,595	25.7	3,463	-5.8	12,737	12,790	-0.4
Rs/tonne	817	690	18.4	761	7.4	778	836	-7.0
Total fixed cost	4,908	4,127	18.9	4,837	1.5	19,643	18,882	4.0
Rs/tonne	1,230	1,098	12.1	1,063	15.7	1,200	1,235	-2.8
Tot expenditure (excluding excise)	15,023	12,691	18.4	16,334	-8.0	62,047	55,025	12.8
Cost Rs/tonne	3,765	3,375	11.5	3,590	4.9	3,792	3,599	5.4

Source: Company, JM Financial

Company background

- Dalmia Bharat Ltd (DBEL) is part of the Dalmia Group—one of the oldest industrial houses in the country with interest in cement, sugar, travel agency, magnesite, refractory and electronic operations spread 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 26MT under control through subsidiaries. The company is among the market leaders in the eastern and southern markets with sizeable market share. It also has over 175 MW of installed captive power plants (CPP), which takes care of most of the power requirement for the cement operations.

Key investment arguments:

- Exposure to high growth southern/eastern markets: The company has exposure to the high-growth southern (48% of capacity) and eastern markets (52% of capacity). These markets are expected register higher growth on increased infrastructure spending. 60% capacity utilisation gives DBEL opportunity to tap the demand revival without significant capex.
- No incremental capex to provide support to the balance sheet: Expansion has been driven by stake acquisition (OCL) and greenfield capacity. Consolidated capacity has grown from 9mnT in FY12 to 26mnT in FY17. Although the company has net debt of Rs4.6bn (2.4x ND:EBITDA), we expect free cash flow generation of Rs48.3bn over the FY18-20E, will help in reducing the debt significantly. Improvement in the balance sheet will be a key trigger for outperformance, going forward
- Dalmia's management focus on improving the growth trajectory: With the joining of Mahendra Singhi (from Shree Cement) as CEO, the company has been focusing on consolidating its position as market leader in the southern and eastern markets.

Valuation and View

- Significant discount to peers: DBEL is currently trading at 10.9x FY19E EV/EBTIDA, which is at nearly a 25% discount to the large caps. This discount is expected to narrow, as DBEL is expected to remain one of the most efficient players in the industry with the highest EBITDA/t and exposure in the growing southern and eastern markets.

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; and (3) regulatory risk—the sector has been under the radar of the Competition Commission of India with few judgements against cement companies (4) cap in the cement price by the government is a risk to the profitability

Exhibit 7. Volume, realisation and cost outlook

	FY16	FY17	FY18E	FY19E	FY20E
Cement Sales (mn tonnes)	12.8	15.3	16.4	17.6	19.0
YoY Growth (%)	82.1	19.7	7.0	7.7	7.9
Cement Realisations (Rs/tonne)	4,450	4,601	4,832	5,073	5,327
YoY Growth (%)	-1.6	3.4	5.0	5.0	5.0
Cement EBITDA (Rs/tonne)	996	1,166	1,202	1,256	1,311

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement						(Rs mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	61,205	72,592	81,878	92,368	1,04,423	
Sales Growth	81.9%	18.6%	12.8%	12.8%	13.1%	
Other Operating Income	3,175	1,452	1,638	1,847	2,088	
Total Revenue	64,380	74,044	83,515	94,216	1,06,511	
Cost of Goods Sold/Op. Exp	8,708	12,576	14,014	15,736	17,716	
Personnel Cost	5,065	6,092	6,906	7,813	8,855	
Other Expenses	34,821	36,357	41,127	46,513	52,725	
EBITDA	15,786	19,019	21,468	24,155	27,215	
EBITDA Margin	24.5%	25.7%	25.7%	25.6%	25.6%	
EBITDA Growth	162.0%	20.5%	12.9%	12.5%	12.7%	
Depn. & Amort.	4,528	6,027	7,136	7,436	7,496	
EBIT	11,259	12,992	14,332	16,718	19,719	
Other Income	1,642	2,988	2,505	2,826	3,195	
Finance Cost	7,256	8,900	6,799	5,591	5,076	
PBT before Excep. & Forex	5,644	7,080	10,039	13,954	17,838	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	5,644	7,080	10,039	13,954	17,838	
Taxes	2,992	2,762	4,016	4,884	6,243	
Extraordinary Inc./Loss(-)	1	0	0	0	0	
Assoc. Profit/Min. Int.(-)	745	870	514	776	0	
Reported Net Profit	1,908	3,448	5,509	8,294	11,595	
Adjusted Net Profit	1,907	3,448	5,509	8,294	11,595	
Net Margin	3.0%	4.7%	6.6%	8.8%	10.9%	
Diluted Share Cap. (mn)	88.7	89.0	89.0	89.0	89.0	
Diluted EPS (Rs.)	21.5	38.7	61.9	93.2	130.3	
Diluted EPS Growth	2,497.7%	80.2%	59.8%	50.5%	39.8%	
Total Dividend + Tax	190	265	286	238	645	
Dividend Per Share (Rs)	1.8	2.2	2.6	2.2	6.2	

Source: Company, JM Financial

Cash Flow Statement						(Rs mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	5,645	7,080	10,039	13,954	17,838	
Depn. & Amort.	4,528	6,027	7,136	7,436	7,496	
Net Interest Exp. / Inc. (-)	7,256	8,900	6,799	5,591	5,076	
Inc (-) / Dec in WCap.	22,076	4,601	-1,340	-733	-842	
Others	-1,642	-2,988	-2,505	-2,826	-3,195	
Taxes Paid	-2,992	-2,762	-4,016	-4,884	-6,243	
Operating Cash Flow	34,871	20,858	16,113	18,538	20,130	
Capex	-34,038	-2,585	-2,500	-2,500	-1,500	
Free Cash Flow	834	18,273	13,613	16,038	18,630	
Inc (-) / Dec in Investments	-9,760	-768	5,880	0	0	
Others	-10,403	2,988	2,505	2,826	3,195	
Investing Cash Flow	-54,201	-366	5,885	326	1,695	
Inc / Dec (-) in Capital	6,188	0	0	0	0	
Dividend + Tax thereon	-286	-238	-645	-970	-1,357	
Inc / Dec (-) in Loans	-1,099	-9,010	-15,000	-10,000	-5,000	
Others	11,581	-11,831	-6,919	-5,745	-5,076	
Financing Cash Flow	16,384	-21,078	-22,564	-16,716	-11,433	
Inc / Dec (-) in Cash	-2,945	-586	-565	2,148	10,392	
Opening Cash Balance	5,281	2,336	1,750	1,185	3,333	
Closing Cash Balance	2,336	1,750	1,185	3,333	13,726	

Source: Company, JM Financial

Balance Sheet						(Rs mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	45,893	49,649	54,393	61,562	71,800	
Share Capital	178	178	178	178	178	
Reserves & Surplus	45,715	49,471	54,215	61,384	71,622	
Preference Share Capital	0	0	0	0	0	
Minority Interest	5,259	6,129	6,643	7,420	7,420	
Total Loans	83,698	74,688	59,688	49,688	44,688	
Def. Tax Liab. / Assets (-)	16,746	15,764	15,764	15,764	15,764	
Total - Equity & Liab.	1,51,596	1,46,230	1,36,489	1,34,434	1,39,672	
Net Fixed Assets	1,26,528	1,23,086	1,18,450	1,13,514	1,07,518	
Gross Fixed Assets	1,14,321	1,17,936	1,19,936	1,21,936	1,23,936	
Intangible Assets	26,947	26,947	26,947	26,947	26,947	
Less: Depn. & Amort.	17,095	23,122	30,259	37,695	45,191	
Capital WIP	2,355	1,325	1,825	2,325	1,825	
Investments	26,665	27,434	21,554	21,554	21,554	
Current Assets	26,502	29,258	30,788	34,989	47,739	
Inventories	0	0	0	0	0	
Sundry Debtors	5,100	5,933	6,864	7,744	8,754	
Cash & Bank Balances	2,336	1,750	1,185	3,333	13,726	
Loans & Advances	682	1,185	-316	-316	-316	
Other Current Assets	18,384	20,391	23,055	24,227	25,575	
Current Liab. & Prov.	28,100	33,548	34,304	35,623	37,139	
Current Liabilities	9,728	10,704	11,459	12,778	14,294	
Provisions & Others	18,372	22,845	22,845	22,845	22,845	
Net Current Assets	-1,598	-4,290	-3,515	-634	10,601	
Total - Assets	1,51,596	1,46,230	1,36,488	1,34,434	1,39,672	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	3.0%	4.7%	6.6%	8.8%	10.9%
Asset Turnover (x)	0.5	0.5	0.6	0.7	0.8
Leverage Factor (x)	3.7	3.1	2.7	2.4	2.1
RoE	5.0%	7.2%	10.6%	14.3%	17.4%

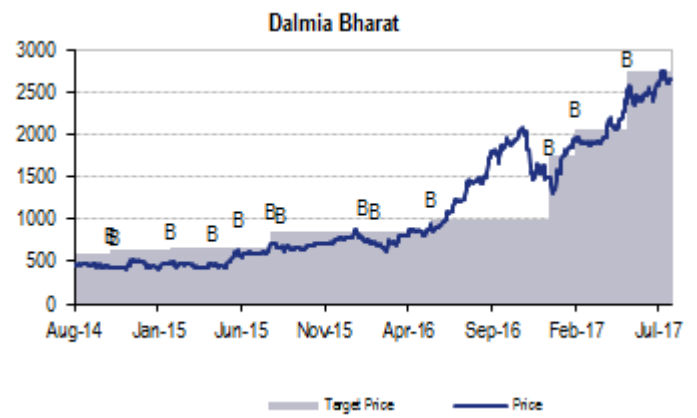
Key Ratios					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (Rs.)	517.5	557.9	611.2	691.8	806.8
ROIC	5.1%	7.7%	8.6%	11.3%	14.1%
ROE	5.0%	7.2%	10.6%	14.3%	17.4%
Net Debt/Equity (x)	1.8	1.5	1.1	0.8	0.4
P/E (x)	119.5	66.3	41.5	27.6	19.7
P/B (x)	5.0	4.6	4.2	3.7	3.2
EV/EBITDA (x)	20.0	16.2	13.7	11.7	9.8
EV/Sales (x)	4.9	4.2	3.5	3.0	2.5
Debtor days	29	29	30	30	30
Inventory days	0	0	0	0	0
Creditor days	64	63	61	61	60

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
6-Jun-14					560	
18-Jul-14					600	7.1
4-Aug-14					600	0.0
10-Oct-14					635	5.8
20-Oct-14					635	0.0
30-Jan-15					650	2.4
16-Apr-15					650	0.0
1-Jun-15					650	0.0
30-Jul-15	57.8				850	30.8
19-Aug-15	57.8	0.0			850	0.0
15-Jan-16	51.7	-10.6			850	0.0
5-Feb-16	52.7	1.9			850	0.0
19-May-16	59.0	12.0			1,000	17.6
19-Dec-16	51.8	-12.2	84.7		1,750	75.0
7-Feb-17	51.8	0.0	84.7	0.0	2,050	17.1
11-May-17	62.6	20.9	94.1	11.0	2,750	34.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

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Sell	Price expected to move downwards by more than 10%

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