

Retail Equity Research (South India Focus)

Dalmia Bharat Ltd

Cement

BSE CODE : 542216

NSE CODE: DALBHARAT

BLOOMBERG CODE: DALBHARA:IN SENSEX : 37,091

Accumulate

12M Investment Period

Rating as per Mid Cap

CMP Rs1,074 TARGET Rs1,236 RETURN 14% ↑

(Closing: 13-05-19)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Steady volume growth with recovery in margins

Dalmia Bharat Ltd (DBL) is the fourth largest cement company in India with a capacity of ~26.1MT, focusing in South with 13.2MT and East & North-East with 12.9MT. DBL has completed amalgamation with OCL India and has been renamed again as 'Dalmia Bharat Ltd'.

- Q4FY19 revenue growth was at 8%YoY supported by volume growth of 7.5% YoY while industry volume grew at 12%YoY .
- EBITDA on per ton basis improved to Rs1,165 Vs Rs1,120 YoY and Rs850 QoQ supported by savings in freight and other expenses.
- Blended realization was flat on YoY basis but improved ~5% QoQ. On cost front, softening of RM and fuel prices in recent months, will see benefit in coming quarters.
- Ramp-up in new acquisition (Kalyanpur cement-1.1MT) which started commercial production in April will aid volume growth.
- The new capacity expansion of ~7.8MT in East with a capex of ~Rs3,700cr is on track and is likely to be completed by FY21.
- We value at EV/EBITDA of 9.5x on FY21E, arrive a Target of Rs1,236 (from Rs1,130) and upgrade to Accumulate from HOLD.

Steady volume growth...

DBL reported revenue growth of 8%YoY in Q4FY19 supported by 7.5%YoY growth in volumes while industry volume grew by 12%YoY. Blended realisation was flat on YoY basis but grew by ~5% on QoQ basis. DBL has booked tax incentive for ~Rs84cr for the quarter (~Rs210cr for FY19) and expects Rs150-170cr next year. The newly acquired asset, Kalyanpur Cement (1.1MT in Bihar) has started commercial production in April, 2019 and expects 60-65% utilisation in FY20 which will aid volume growth. FY19 witnessed a strong demand improvement in industry with ~12% volume growth. Though we expect slowdown in volume growth in Q1FY20 quarter on account of election, government's strong focus on Infra & Housing will continue to support demand. We expect revenue to grow by 12%CAGR over FY19-21E.

Fuel & Slag prices softened from peak...

EBITDA margin improved by 70bps YoY and 520bps QoQ aided by savings in freight (-8.4%YoY) and other expenses (13.9%YoY) which is largely off-set by surge in RM cost (+12%YoY). Pet coke (fuel) price per ton was at \$91 during Q4FY19 Vs \$93/\$101 QoQ/YoY. Also, price of slag was at Rs1,296 per ton Vs Rs1,356/Rs1,033 QoQ/YoY. The full benefit of the softening of Fuel and RM prices is expected in coming quarters. The savings in freight expenses was on account of decline in diesel prices while lead distance continue to remain <300km. DBL is also focusing on cost saving measures like setting up of Waste Heat Recovery (WHR) in various locations. Cement prices also has started witnessing some improvement especially in South in the quarter on account of demand improvement. DBL's capacity utilisation has improved to 72% in FY19 from 68% in FY18. We expect EBITDA margin to improve to 21.9%/23.3% in FY20/FY21 from 20.5% in FY19. Adverse price movements and any surge in fuel & RM prices is the key risk.

Capacity expansion and debt reduction is on track...

DBL has completed the amalgamation with OCL India and the resultant entity 'Odisha Cements Ltd' has been renamed as 'Dalmia Bharat Ltd'. The restructuring will lead to additional synergy and tax benefits. For the acquisition of Murlu Industries (3MT, Maharashtra), final hearing at NCLT got completed in February and order is awaited. The recently announced new grinding capacity expansion of ~7.8MT in East with a capex of Rs3,700cr is on track and is expected to complete by FY21. Rs1,700-2,000cr is expected to spend in FY20. DBL has repaid debt of Rs1,368 in FY19 and has scheduled Rs1,100cr for FY20E.

Valuations

We value DBL at EV/EBITDA of 9.5x to arrive at a Target of Rs1,236 (earlier Rs1,130) and upgrade to Accumulate from Hold rating.

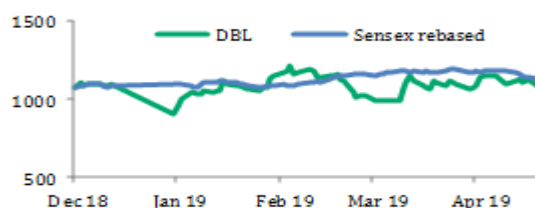
Company Data

Market Cap (cr)	Rs.20,621
Enterprise Value (cr)	Rs.23,783
Outstanding Shares (cr)	19.2
Free Float	25%
Dividend Yield	NA
52 week high	Rs.1,220
52 week low	Rs.903
6m average volume (cr)	NA
Beta	1.06
Face value	Rs2

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	74.89	53.66	54.26
FII's	0.60	15.75	16.89
MFs/Insti	2.18	5.91	4.39
Public	22.33	25.56	23.22
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-0.8%	NA	NA
Absolute Sensex	2.6%	NA	NA
Relative Return*	-3.3%	NA	NA

over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	9,484	10,448	11,331
Growth (%)	10.5	10.2	14.2
EBITDA	1,942	2,289	2,780
EBITDA Margin(%)	20.5	21.9	23.3
PAT Adj.	308.0	514.3	849.5
Growth (%)	5.8	67.0	65.2
Adj.EPS	16.0	26.8	44.2
Growth (%)	NA	48.8	75.8
P/E	66.9	40.1	24.3
P/B	1.9	1.9	1.7
EV/EBITDA	12.2	10.5	8.4
ROE (%)	2.9	4.7	7.4
D/E	0.6	0.6	0.5

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	Q3FY19	QoQ Growth %	FY19	FY18	YoY Growth %
Sales	2842	2628	8.1%	2164	31.3%	9484	8582	10.5%
EBITDA	649	580	11.9%	380	70.8%	1942	2030	-4.3%
EBITDA margins	22.8%	22.1%	70bps	17.6%	520bps	20.5%	23.7%	(320bps)
Depreciation	356	313	13.7%	332	7.2%	1296	1213	6.8%
EBIT	293	267	9.7%	48	510.4%	646	817	-20.9%
Interest	103	135	-23.7%	135	-23.7%	551	705	-21.8%
Other Income	63	67	-6.0%	64	-1.6%	244	277	-11.9%
Exceptional Items	0	0		0		0	0	
PBT	264	177	49.2%	40	560.0%	339	389	-12.9%
Tax	0	53	-100.0%	9	-100.0%	-11	98	-111.2%
Share of profit from Associate	0	0		0		0	0	
Minority Interest	36	-4		0		42	0	
Reported PAT	228	128	78.1%	28	714.3%	308	291	5.8%
Adjustments	22	22		0		0	0	
Adj PAT	250	150	66.7%	28	792.9%	308	291	5.8%
No. of Shares	8.9	8.9	0.0%	8.9	0.0%	19.2	19.2	0.0%
EPS (Rs)	13.0	16.9	-22.8%	1.5	792.9%	16.0	15.2	5.8%

Per Ton analysis

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	Q3FY19	QoQ Growth %
Overall Cement Volumes (Mn T)	5.57	5.18	7.53%	4.47	24.61%
Raw materials	1118	998	12.07%	817	36.98%
Employee expenses	280	247	13.34%	356	-21.26%
Power & Fuel	820	778	5.46%	1040	-21.13%
Freight	932	1017	-8.41%	1013	-8.06%
Other expenses	786	913	-13.88%	765	2.78%
Total expenses	3,937	3,954	-0.42%	3,991	-1.35%
Realisation	5,102	5,073	0.57%	4,841	5.39%
EBITDA	1165	1120	4.06%	850	37.06%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	10,623	11,801	10,448	11,931	-1.6%	1.1%
EBITDA	2,268	2,721	2,289	2,780	0.9%	2.2%
Margins (%)	21.4%	23.1%	21.9%	23.3%	50bps	20bps
Adj. PAT	462	728	514	850	11.3%	16.7%
EPS	24	38	27	44	11.6%	16.4%

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	7,404	8,582	9,484	10,448	11,931
% change	15	16	11	10	14
EBITDA	1,902	2,030	1,942	2,289	2,780
% change	19	7	-4	18	21
Depreciation	603	1,213	1,296	1,307	1,377
EBIT	1,299	817	646	982	1,403
Interest	890	705	551	521	523
Other Income	299	277	244	182	182
PBT	708	389	339	643	1,062
% change	39	-45	-13	90	65
Tax	276	98	-11	129	212
Tax Rate (%)	0	0	0	0	0
Reported PAT	345	291	308	514	850
Adj.*	0	0	0	0	0
Adj. PAT	368	291	308	514	850
% change	80	-21	6	67	65
No. of shares (cr)	9	9	19	19	19
Adj EPS (Rs)	39	15	16	27	44
% change	80	-21	-51	67	65
DPS (Rs)	3	3	2	2	2

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash	137	323	391	565	1,058
Accounts Receivable	593	524	549	601	654
Inventories	649	779	1,032	1,061	1,140
Other Cur. Assets	819	1,128	1,228	1,308	1,444
Investments	2,743	3,501	2,424	2,424	2,424
Gross Fixed Assets	10,646	11,022	11,725	13,725	14,925
Net Fixed Assets	9,458	9,125	8,957	10,079	10,291
CWIP	133	168	501	600	700
Intangible Assets	2,718	4,912	4,506	4,077	3,689
Def. Tax (Net)	(1,576)	(1,422)	(1,279)	(1,279)	(1,279)
Other Assets	727	876	933	985	1,092
Total Assets	16,401	19,914	19,243	20,422	21,212
Current Liabilities	2,616	2,984	3,301	3,544	3,669
Provisions	555	156	260	272	307
Debt Funds	7,469	6,322	4,924	5,324	5,124
Other Liabilities	797	117	119	170	200
Equity Capital	18	6,654	38	38	38
Reserves & Surplus	4,947	3,681	10,600	11,070	11,874
Shareholder's Fund	4,965	10,335	10,638	11,108	11,913
Total Liabilities	16,401	19,914	19,243	20,422	21,212
BVPS	555	1,162	553	578	619

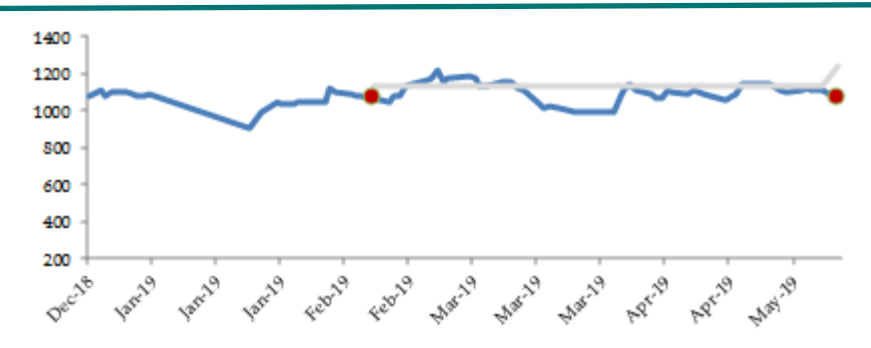
CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19E	FY20E	FY21E
Net inc. + Depn.	948	1,504	1,604	1,822	2,226
Non-cash adj.	190	-56	-112	129	212
Other Adjustment	796	607	562	392	310
Changes in W.C	-216	-585	-37	94	-190
C.F. Operation	1,718	1,469	2,017	2,436	2,559
Capital exp.	-337	-389	-1,055	-2,099	-1,300
Change in inv.	109	-757	1,077	0	0
Other invest.CF	45	0	0	0	0
C.F - Investment	-182	-1,146	22	-2,099	-1,300
Issue of equity	2	6,636	0	0	0
Issue/repay debt	-1,555	-1,853	-1,948	-118	-722
Dividends paid	0	-27	-23	-45	-45
Other finance.CF	0	523	0	0	0
C.F - Finance	-1,548	8,733	-1,971	-163	-766
Chg. in cash	-13	6,840	68	175	493
Closing cash	137	323	391	565	1,058

RATIOS

Y.E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	25.7	23.7	20.5	21.9	23.3
EBIT margin (%)	17.5	9.5	6.8	9.4	11.8
Net profit mgn.(%)	5.0	3.4	3.2	4.9	7.1
ROE (%)	7.7	3.8	2.9	4.7	7.4
ROCE (%)	5.8	4.7	3.4	4.9	6.2
W.C & Liquidity					
Receivables (days)	27.2	23.8	20.7	20.1	19.2
Inventory (days)	33.2	30.4	34.9	36.6	33.7
Payables (days)	145.5	113.7	93.3	92.0	90.7
Current ratio (x)	1.1	1.6	1.3	1.3	1.4
Quick ratio (x)	0.2	0.2	0.2	0.3	0.4
Turnover & Leverage					
Gross asset T.O (x)	0.7	0.8	0.8	0.8	0.8
Total asset T.O (x)	0.5	0.5	0.5	0.5	0.6
Int. covge. ratio (x)	1.5	1.2	1.2	1.9	2.7
Adj. debt/equity (x)	1.6	0.7	0.6	0.6	0.5
Valuation					
EV/Sales (x)	3.5	2.8	2.5	2.3	1.9
EV/EBITDA (x)	13.6	11.9	12.2	10.5	8.4
P/E (x)	25.9	32.8	66.9	40.1	24.3
P/BV (x)	1.9	0.9	1.9	1.9	1.7

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
15 th February 2019	Hold	1,130
14 th May 2019	Accumulate	1,236

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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