

November 02, 2018

Dalmia Bharat

Q2FY19 Result Update

Top-line growth led by improved realization & volume growth

The company posted a revenue of INR 2158cr for the quarter, up by 15.8% mainly driven by an increase in volumes (+14% YoY) and to also realization to a certain extent (3.6% YoY). Total sales volume for the quarter stood at 4.13mt up by 13.5% YoY (from 3.64mt). The rise in realization can be attributed to the introduction of composite cement (PCC) in the Eastern region, which is a blended mix of both flyash and slag. PCC contributed to 11% of the total volume in the quarter (vs 8% QoQ) and is expected to improve further.

Subdued EBITDA/Ton due to rising input costs

EBITDA/Ton for the quarter stood at INR 942 down by 22.3% YoY (from INR 1212) and down by 18.8% QoQ (from INR 1160) due to higher power and fuel costs (up by 23% YoY, as well as logistics and raw material costs (up by 8% and 7.6% YoY respectively).

Merger with OCL India completed; higher liquidity to follow

The company has amalgamated all its subsidiaries (including OCL India) as of October 30, to a new entity named Odisha Cement Limited (ODCL)[^]. When the new entity is listed, it will be renamed to Dalmia Bharat Limited. This move is tax neutral, simplifies the corporate structure, and also increases the free float of the company, thereby increasing liquidity.

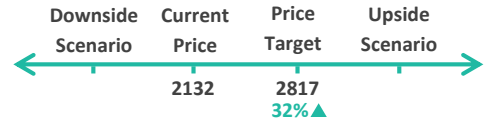
Capacity expansion on track; acquired assets to ramp up

Dalmia Bharat (DBL) is setting up a 7.8mt cement plant in the Eastern region by FY21, and as of Q2FY19, the main plant and equipment have been ordered. The acquired asset of Kalyanpur has been ramped up and will operate in full swing from November and currently sells cement at INR 60 higher than previously sold cement from the plant. Murli Industries and Binani assets are still pending in NCLT (Murli Industries is expected to be resolved by Q4FY19).

Valuations

DBL operates in regions which have historically commanded higher realization with respect to the rest of India i.e South and East markets. We expect a strong low teens demand growth in the East, North East and South markets from FY19E-FY21E where the company is adding capacity. We remain positive on the stock with a target price of INR 2817 giving an upside of 32%. (i.e. valuing the stock at FY20E EV/Ton of \$150/Ton, 10x FY20E EV/EBITDA)

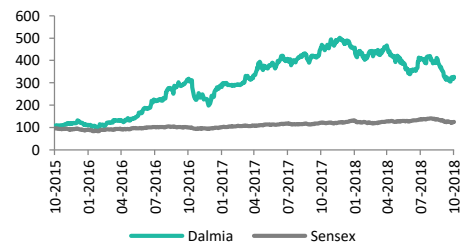
STRONG BUY*



Market Data	
Industry	Cement
Sensex	34432
Nifty	10380
Bloomberg Code	DBEL:IN
Eq. Cap. (INR Crores)	17.8
Face Value (INR)	2
52-w H/L	1930/3350
Market Cap (INR Crores)	19292

Valuation Data	FY18	FY19E	FY20E
OPM	23.5%	22.9%	24.4%
NPM	6.2%	6.8%	8.1%
P/E (x)	45.1	27.6	20.3
EV/EBITDA (x)	13.7	9.4	7.9
EV/Ton (\$)	151.9	98.8	100.5

Dalmia Bharat Vs SENSEX



Shareholding Pattern

	Sep'18	Jun'18	Sep'17
Promoters	57.92	57.92	58.04
FIIs	17.04	17.28	14.35
DIIs	5.97	5.88	7.97
Retail	16.12	15.97	16.69
Others	2.95	2.95	2.95

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	7404.4	8608.8	9695.7	11095.0	12165.2
Growth%	-	16%	13%	14%	10%
EBITDA	1901.9	2026.6	2220.8	2705.1	3050.9
Growth%	-	7%	10%	22%	13%
Adjusted PAT	344.8	535.9	661.3	899.0	1084.9
Growth%	-	55%	23%	36%	21%
EPS (INR)	38.8	60.3	74.4	101.1	122.0
Sales Volume (MT)	15.3	17.0	18.7	21.2	23.0
P/E (x)	38.6	45.1	27.6	20.3	16.8
EV/EBITDA	9.8	13.7	9.4	7.9	6.8
EV/Tonne	110.9	151.9	98.8	100.5	77.5

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

[^] We will release a follow-up note on the amalgamated entity with revised estimates.



Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Net Sales	2158	1836	2368	17.5%	-8.9%
COGS	415	340	442	22.1%	-6.1%
Employee Expenses	165	161	168	2.5%	-1.8%
Power and Fuel	429	308	405	39.3%	5.9%
Freight and Forwarding	392	320	465	22.5%	-15.7%
Other Expenses	368	266	365	38.3%	0.8%
Total Expenses	1769	1395	1845	26.8%	-4.1%
EBITDA	389	441	523	-11.8%	-25.6%
Depreciation	303	293	305	3.4%	-0.7%
Other Income	74	92	43	-19.6%	72.1%
EBIT	160	240	261	-33.3%	-38.7%
Finance Cost	225	197	162	14.2%	38.9%
PBT	-65	43	99	-251.2%	-165.7%
Taxes	-67	25	47	-368.0%	-242.6%
Net Profit	2	18	52	-88.9%	-96.2%
Cash Profit	305	311	402	-1.9%	-14.6%

Source: Company, NSPL Research

- Post amalgamation of subsidiaries, Dalmia will have an incremental goodwill of INR 3200cr which will be amortized over 6-8 years. This increases the annual depreciation by ~INR 500cr in the near term.
- The company's net sales grew 17.5% y-o-y (from INR 1836cr in Q2FY18) but declined 9% q-o-q (from INR 2368cr in Q1FY19) to INR 2158cr in Q2FY19.
- EBITDA for the company stood at INR 389cr down from INR 441cr (-11.8% Y-o-Y) and INR 523cr (-25.6% Q-o-Q) with EBITDA Margins at 18.0% as against 24.0% in Q2FY18 and 22.1% in Q1FY19. The fall in margins was primarily due to higher power and fuel costs, as well as raw material costs.
- EBITDA/Ton for the quarter stood at INR 942 down from INR 1212 (-22.3% Y-o-Y) in Q2FY18 and up from INR 1160 (-18.8% Q-o-Q) in Q1FY19. Total cement volumes for the quarter stood at 4.13mt up by 13.5% YoY (from 3.64mt) but down by 8.4% QoQ (from 4.51mt).
- Reported PAT stood at INR 2cr which was down from INR 18cr in Q2FY18 and INR 52cr in Q1FY19 after the restatement. Cash profits stood at INR 305cr for the quarter, down from 311cr in Q2FY18 and INR 402cr in Q1FY19.
- Realization/ Ton stood at INR 5225, up from INR 5044 (3.6% Y-o-Y) but down from INR 5251 (-0.5% Q-o-Q).

Conference Call Highlights

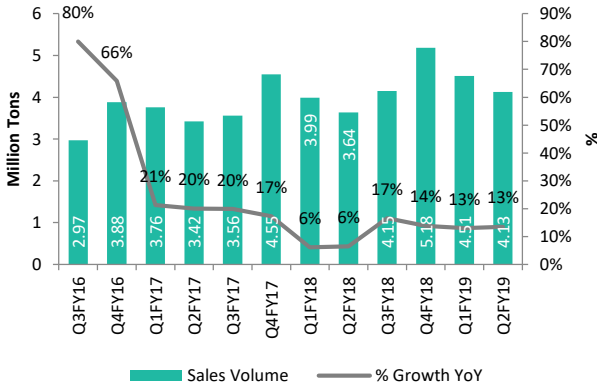
- Capacity Utilization stood at 72% for the quarter, up from 64% in Q1FY18. The company has also improved its sales mix with higher trade segment sales.
- Demand uptick continued with demand growth of 14% for the quarter. The management also guided that a demand growth of 8% is expected in H2FY19 (due to high base in H2FY18) leading to an overall demand growth of 9% in FY19.
- Fuel prices and slag prices continued to inch up. However, the slag prices are expected to have peaked out as exports to Bangladesh and Nepal have reduced, leading to a pile up of stocks in steel plants. Also, the introduction of PCC have reduced the demand of slag for DBL.
- Petcoke prices have seen a moderation post Q2FY19 (Reduced from \$115-118 in July to \$105 in October). DBL combines both local and Saudi petcoke to increase its efficiency. DBL has also started receiving linkage coal and has increased its proportion of AFR to 5.5% in the quarter.
- From November, production in Kalyanpur (now changed to Dalmia DSP Limited) plant is expected to be in full swing.
- Pure Cement EBITDA/Ton stood at INR 896/ton
- The company has announced an interim dividend of INR 1.7/share. Since the shareholders of DBL will get 2 shares of ODCL post the merger, they will effectively get INR 3.4, translating to a payout ratio of ~50%.
- Gross debt stood at INR 7120cr, net cash at INR 3300cr, and net debt/ EBITDA stood at 1.95.
- DBL received incentives worth INR 179cr during the quarter.

(INR/Ton)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Realization	5225	5044	5251	3.6%	-0.5%
RM Cost	1005	934	980	7.6%	2.5%
Employee Cost	400	442	373	-9.7%	7.3%
Power and Fuel	1039	846	898	22.8%	15.7%
Freight and Forwarding	949	879	1031	8.0%	-7.9%
Other Expenditure	891	731	809	21.9%	10.1%
Total Expenditure	4283	3832	4091	11.8%	4.7%
EBITDA	942	1212	1160	-22.3%	-18.8%

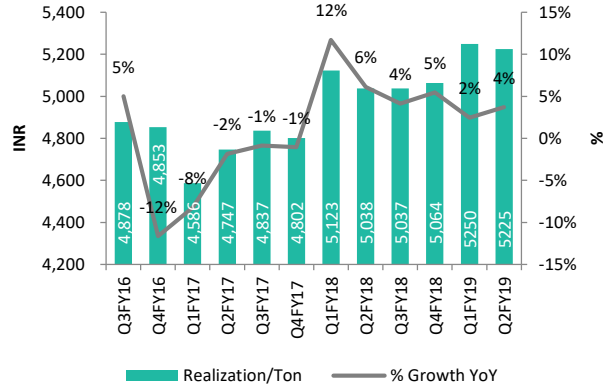
Source: Company, NSPL Research



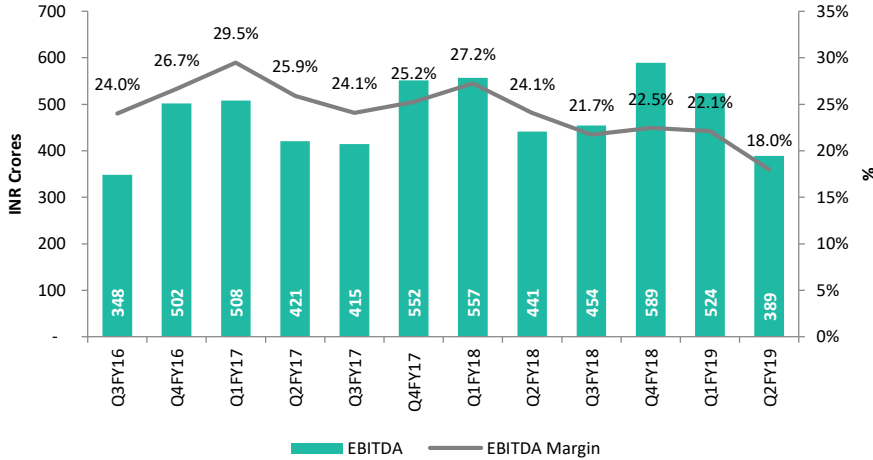
Sales Volume



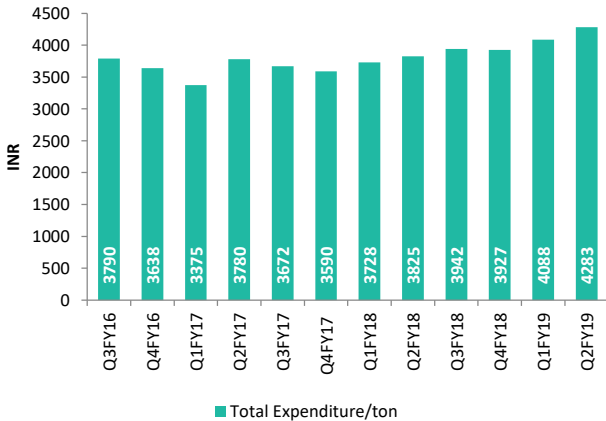
Realization/Ton



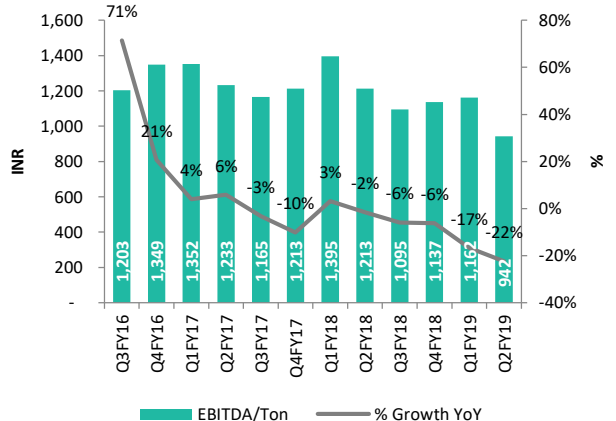
Margin fell due to higher RM cost and higher power and fuel cost



Increasing cost pressure due to high slag cost and high fuel cost



EBITDA/Ton



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	7404.4	8608.8	9695.7	11095.0	12165.2
COGS	1406.1	1583.4	1757.5	2028.8	2226.2
Employee Expenses	609.2	641.5	699.2	776.1	853.7
Power and Fuel Cost	979.2	1366.1	1659.2	1898.7	2081.8
Selling and Distribution Expenses	1229.0	1591.1	1812.9	2016.5	2149.2
Other Expenses	1279.0	1400.2	1546.1	1669.8	1803.4
EBITDA	1901.9	2026.6	2220.8	2705.1	3050.9
D&A	602.7	703.7	795.7	927.8	1026.0
Other income	298.8	278.4	354.4	358.9	417.8
EBIT	1598.0	1601.2	1779.5	2136.2	2442.7
Interest Expense	890.0	689.9	654.8	645.8	666.9
PBT	708.0	911.2	1124.8	1490.4	1775.8
Tax	276.2	267.7	337.4	447.1	532.8
PAT	344.8	535.9	661.3	899.0	1084.9
EPS in INR	38.8	60.1	74.4	101.1	122.0

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	17.8	17.8	17.8	17.8	17.8
Reserves & Surplus	4947.1	5979.5	6617.7	7485.2	8532.2
Shareholder's Funds	4964.9	5997.3	6635.5	7503.1	8550.0
Minority Interest	612.9	720.6	846.6	990.8	1149.0
Long term borrowings	6254.7	5461.9	5853.5	6245.2	6636.9
Deferred Tax Liability (Net)	1576.4	1454.8	1454.8	1454.8	1454.8
Other long-term liabilities	177.8	120.2	263.6	304.3	333.9
Long term provisions	153.8	97.5	193.3	223.2	244.9
Non-current liabilities	8162.7	7134.4	7765.3	8227.5	8670.5
Short term borrowings	1220.0	863.2	1275.0	1100.0	1075.0
Trade payables	954.1	908.4	963.0	1139.5	1219.8
Other current liabilities	1661.7	2239.6	2137.1	2168.4	2199.8
Short-term provisions	401.6	458.1	458.1	458.1	458.1
Current liabilities	4237.4	4469.3	4833.1	4866.0	4952.7
Total Equity and Liabilities	17977.8	18321.5	20080.5	21587.4	23322.2

Goodwill on consolidation	2694.7	1706.2	1706.2	1706.2	1706.2
Gross Block	10645.5	11238.3	12706.3	14816.3	16384.3
Less Accum. Deprn	1031.6	1735.4	2531.0	3458.8	4484.8
Fixed Assets	9613.9	9502.9	10175.2	11357.4	11899.5
Other Non Current Assets	829.4	934.3	976.2	984.8	973.6
Total Non-current Assets	13138.1	12143.4	12857.6	14048.4	14579.3
Current Investments	2641.4	3407.9	4430.3	4430.3	5094.9
Inventories	648.8	779.2	866.7	1000.5	1128.3
Trade receivables	593.3	521.7	557.8	607.9	666.6
Cash and cash equivalents (Incl. other bank balances)	175	353.8	459.8	341.8	539.1
Short term loans & advances	43.5	83.3	69.8	80.7	96.8
Other Current Assets	737.7	1032.3	838.5	1077.7	1217.3
Total Current Assets	4839.8	6178.1	7223.0	7539.0	8742.9
Total Assets	17977.8	18321.5	20080.5	21587.4	23322.2

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
PBT	708.0	911.2	1124.8	1490.4	1775.8
Depreciation	602.7	703.7	795.7	927.8	1026.0
Operating profit after working capital changes	-216.3	207.5	275.0	-155.7	-179.1
Less income tax paid	-55.5	-55.5	-337.4	-447.1	-532.8
Cash Flow from Operating	1717.6	2456.9	2512.7	2461.2	2756.8
(Incr)/ Decr in Gross PP&E	-355.6	-592.7	-1468.0	-2110.0	-1568.0
(Purchase)/ Sale of Current Investments (net)	97.6	117.2	-1064.2	-8.6	-653.4
Cash Flow from Investing	-182.2	-427.2	-2532.2	-2118.6	-2221.4
(Decr)/Incr in Debt	-682.6	-1149.6	803.5	216.7	366.7
Finance costs	-872.7	-689.9	-654.8	-645.8	-666.9
Cash Flow from Financing	-1553.3	-1839.5	125.6	-460.6	-338.2
Cash at the Start of the Year	150.2	132.4	322.5	428.6	310.5
Incr/ (Decr) in Cash	-17.8	190.1	106.1	-118.1	197.3
Cash at the End of the Year	132.4	322.5	428.6	310.5	507.8

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
Particulars					
EBITDA/ton	1243.1	1194.9	1185.9	1275.0	1324.6
Volume (mn tons)	15.3	17.0	18.7	21.2	23.0
Growth (%)					
Total Sales	15.0%	6.1%	9.5%	14.4%	9.6%
EBITDA	19.5%	6.6%	9.6%	21.8%	12.8%
PAT	81.5%	55.4%	23.4%	35.9%	20.7%
Profitability (%)					
EBITDA Margin	25.7%	23.5%	22.9%	24.4%	25.1%
NPM	4.7%	6.2%	6.8%	8.1%	8.9%
ROE	6.9%	8.9%	10.0%	12.0%	12.7%
ROCE	11.7%	11.4%	11.8%	13.1%	13.6%
Per share data					
EPS	38.8	60.3	74.4	101.1	122.0
BPS	558.5	674.6	746.4	844.0	961.8
Valuations (x)					
P/E (x)	38.6	45.1	27.6	20.3	16.8
EV/EBITDA (x)	9.8	13.7	9.4	7.9	6.8
EV/Ton (\$)	110.9	151.9	98.8	100.5	77.5
Net Debt/EBITDA	2.77	1.75	1.23	1.15	0.87
Net Debt/Equity	1.1	0.6	0.4	0.4	0.3
Interest Coverage	1.8	2.3	2.7	3.3	3.7

Source: Company, NSPL Research

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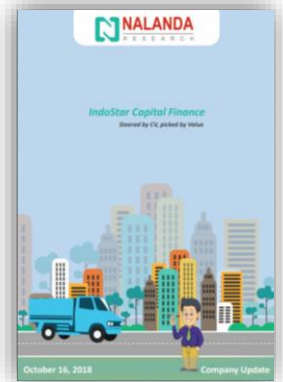
Dalmia Bharat



Coromandel International



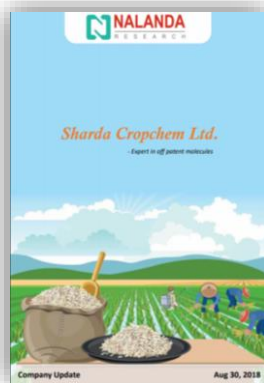
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Minda Industries



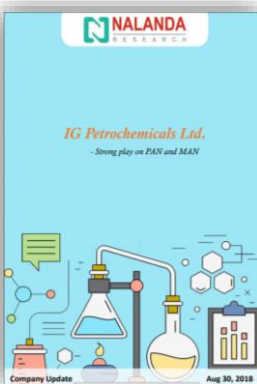
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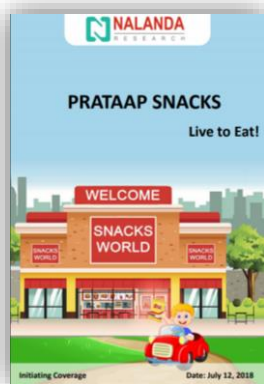
Heidelberg Cements



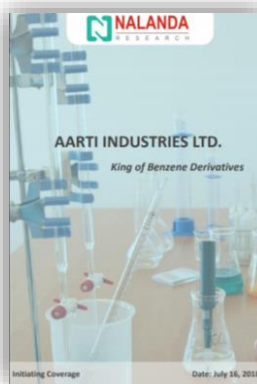
Manappuram Finance



IG Petrochemicals



Prataap Snacks



Aarti Industries



Shriram Transport



Dalmia Bharat Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 02, 2018	2132	2817	Strong Buy	Buy	5% - 15%
October 12, 2018 (Company Update)	2051	2817	Strong Buy	Hold	0 - 5%
August 13, 2018	2561	3188	Strong Buy	Reduce	-5% - 0
				Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO