

December 11, 2018

Dalmia Bharat Ltd.

Recently, we visited the Dalmia Bharat plants at Dalmiapuram and Ariyalur as well as the Kallakudi limestone mine and came back very enthusiastic about the sustainability and environment-friendly measures undertaken by the company. We met Mr R.A.Krishnakumar, Executive Director, Mr. Gururajan, Deputy Executive Director – Finance & Accounts and Mr Rajamohan, Senior General Manager, IE & ENV. The company showcased the various processes in the plant as well as highlighted the cement variants manufactured (16 varieties at Dalmiapuram and 2 at Ariyalur), how it is manufactured and the green initiatives undertaken in the plants.

Aim to make itself into a green business underway

- The company has reduced freshwater consumption and also built rainwater harvesting structures (3x its requirement) to make itself water neutral.
- Also, it has one of the lowest carbon footprints among global manufacturers (330kg/ton) enabling it to rank #1 in global cement sector by CDP (Carbon Disclosure Project) for its readiness to a low carbon transmission.
- We also witnessed the usage of rock breakers to mine limestone thus removing the need of secondary blasting and reducing noise and air pollution. Also, the company is using large excavators to minimize blasting.
- Both the plants as well as the areas around the limestone mine have been beautified through various horticulture projects. The completed areas in the mine have been transformed into a rainwater reservoir.
- The plants have also installed air-cooled condensers in its captive power plants and is aiming to increase the proportion of alternate fuels or raw materials (AFR) in its input mix. This will help DBL to comply to PAT-2 norms by BEE and further reduce their P&F consumption. (Electricity consumed/ton in FY18 was 69kWh)
- By 2040, the company aims to become carbon neutral, which is a challenging task in itself for a cement company.

Consistent incremental operational efficiencies at the heart of DBL

- DBL is constantly striving to better itself through various initiatives undertaken by management as well as employees.
- The company started a project to increase cement kiln volumetric loading, resulting in debottlenecking of processes.

Higher mix of premium products to boost profitability

- The company has recently increased its proportion of premium products with the launch of composite cement under the brand, "Dalmia FBC". This product, along with its flagship product, "Dalmia DSP" command a price differential of ~INR 35-55/bag, translating to higher realization and in turn, higher margins.
- The company currently manufactures 16 variants of cement at Dalmiapuram including Dalmia Infra Green cement which was launched in FY17. This variant has reduced the curing (process of maintaining correct moisture level in concrete to achieve strength) time from 3-4 weeks to 3 days.

Capex in the East to provide the next leg of growth

- DBL is further consolidating its presence in the East (current market share ~13%) with a clinker unit and grinding units in Odisha, WB and Bihar aggregating to a capacity of 7.8mt.

For more details, please refer:

[company update](#) and

[Q2FY19 result update](#).

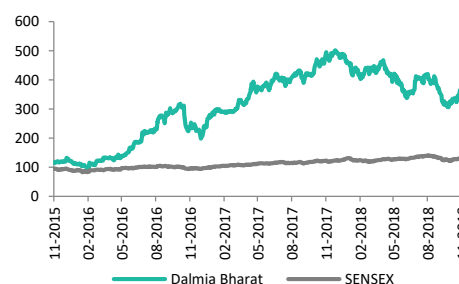
STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	2373	2817	
		18.7%▲	

Market Data	
Industry	Cement
Sensex	34960
Nifty	10488
Bloomberg Code	DBEL:IN
Eq. Cap. (INR Crores)	17.8
Face Value (INR.)	2
52-w H/L	1930/3350
Market Cap (INR Crores)	21730

Valuation Data	FY18	FY19E	FY20E
P/E (x)	45.1	31.9	23.5
EV/EBITDA(x)	13.7	10.7	8.9
EV/Ton(x)	151.9	112.2	113.9

Dalmia Bharat vs SENSEX



Shareholding Pattern (in %)

	Sep'18	Jun'18	Sep'17
Promoters	57.92	57.92	58.04
FIs	17.04	17.28	14.35
DIs	5.97	5.88	7.97
Retail	16.12	15.97	16.69
Others	2.95	2.95	2.95
Total	100.0	100.0	100.0



Revenue Growth
CAGR

FY18-FY20E : 12.2%



EBITDA Growth
CAGR

FY18-FY20E : 14.6%



PAT Growth CAGR

FY18-FY20E : 26.5%

* Read last page for disclaimer & rating rationale



Valuation

We remain positive on the stock on the back of:

- Prudent management of leverage despite acquisitions
- High expansion potential with most approvals already received
- Higher proportion of premium products in its portfolio
- Government push on infrastructure and affordable housing resulting in higher demand

We expect DBL to report a revenue CAGR growth of 12.2% over FY18-21E to achieve INR 12165cr of net sales in FY21E. This is mainly driven by a volume CAGR growth of 11% on the back of ramp up of Murli and Kalyanpur assets as well as a higher capacity utilization. We expect power and fuel costs to moderate due to the set up of WHRS (to the tune of 30MW) over the next two years. EBITDA is expected to grow at a CAGR of 14.6% with margins improvement led by savings in power and fuel cost. At CMP of INR 2373/share, DBL trades at an EV/EBITDA of 8.9x on FY20E earnings and an EV/Ton of \$114 on FY20E capacity. We value DBL's present capacity of 25mt at EV/Ton of \$150 (asset-based) and EV/EBITDA at 10x (earnings-based) to reach at an average target price of INR 2817/share, giving a potential upside of 18.7%.

Particulars (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	6411.0	7404.4	8608.8	9695.7	11095.0	12165.2
<i>Growth</i>		<i>15.5%</i>	<i>16.3%</i>	<i>12.6%</i>	<i>14.4%</i>	<i>9.6%</i>
EBITDA	1592.0	1901.9	2026.6	2220.8	2705.1	3050.9
<i>Growth</i>		<i>19.5%</i>	<i>6.6%</i>	<i>9.6%</i>	<i>21.8%</i>	<i>12.8%</i>
PAT	190.0	344.8	535.9	661.3	899.0	1084.9
<i>Growth</i>		<i>81.5%</i>	<i>55.4%</i>	<i>17.1%</i>	<i>36.1%</i>	<i>20.8%</i>
EBITDA Margin(%)	24.8%	25.7%	23.5%	22.9%	24.4%	25.1%
PAT Margin(%)	3.0%	4.7%	6.2%	6.8%	8.1%	8.9%
EPS	21.4	38.8	60.3	74.4	101.1	122.0
P/E	37.1	38.6	45.1	31.9	23.5	19.4
EV/EBITDA	8.3	9.8	13.7	10.7	8.9	7.8
EV/Ton	79.0	110.9	151.9	112.2	113.9	88.1

Source: NSPL Research



Cement Roller Mill



Different Types of AFR



Rotary Kiln in Operation



Flyash Silo



Coal Roller Mill





Artificial Lake through rainwater harvesting



View of Overall Cement plant at Ariyalur



Recreational green development zone at Kallakudi Mines



Captive Power Plant - II



Captive Power Plant



VRM Flow Diagram

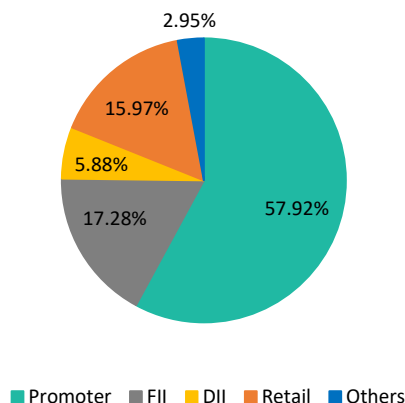




Management Team

Name	Designation
Pradip Kumar Khaitan	Chairman
Yadu Hari Dalmia	Managing Director
Gautam Dalmia	Director
N Gopaldaswamy	Director
Sudha Pillai	Director
Jai Hari Dalmia	Managing Director
Jayesh Doshi	WholeTime Director & CFO
Puneet Yadu Dalmia	Director
Virendra Singh Jain	Director

Shareholding Pattern



About the company

Dalmia Bharat is a part of the Dalmia Group, which was founded in 1935 by Mr. Jaidayal Dalmia. The company is headquartered in Delhi and has interests in cement, sugar, refractory, travel, magnesite and electronics operations. Although, the company had its cement interests spread out under a number of companies historically (namely Adhunik Cement, OCL India, Calcom), they have been recently restructured into Dalmia Bharat. Currently, the company's cement operations are mainly present in the Southern and Eastern regions with 12.1 MnT in the South, 9.3 MnT in the East and 3.6 MnT in the North East.

Location of the Plant	State	Region	Type	Capacity (Million Tons)
Dalmiapuram	Tamil Nadu	South	Integrated	4
Ariyalur	Tamil Nadu	South	Integrated	2.5
Belgaum	Karnataka	South	Integrated	2.7
Kadapa	Andhra Pradesh	South	Integrated	2.6
Kapilash	Orissa	East	Grinding	1.4
Rajgangpur	Orissa	East	Integrated	4
Medinipur	West Bengal	East	Grinding	1.8
Bokaro	Jharkhand	East	Grinding	2.6
Lumshnong	Meghalaya	North East	Integrated	1.5
Lanka	Assam	North East	Integrated	2.1

Third generation management to propel DBL forward

The third generation of the Dalmia group was ushered in 2007 with Mr. Puneet Dalmia spearheading the division as Managing Director. A gold medallist from IIM-Bangalore and an engineer from IIT Delhi, Mr. Puneet played a pivotal role in attracting private equity players as well as expanding organically. Under his leadership, each business has successfully increased its capacity and created new and dynamic quality metrics. The Group's revenue has risen exponentially, making it the second largest cement manufacturer in south India.

Top Fund Holding

Name	% of Holding
Aditya Birla Sun Life Fund	2.33
Oppenheimer Developing Markets Fund	1.12
Small Cap World Fund	1.6



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: NSPL Research

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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	31.9	23.5	19.4
EV/EBITDA (x)	9.8	13.7	10.7	8.9	7.8
EV/Ton (\$)	110.9	151.9	112.2	113.9	88.1
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: NSPL Research



Dalmia Bharat Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
December 11, 2018	2373	2817	Strong Buy	Buy	5% - 15%
November 02, 2018 – Result Update	2132	2817	Strong Buy	Hold	0 – 5%
October 12, 2018 - Company Update	2052	2817	Strong Buy	Reduce	-5% - 0
August 13, 2018 – Result Update	2561	3188	Strong Buy	Sell	Less than -5%

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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
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