

# Dalmia Bharat

India Research

**EVENT UPDATE**

 Bloomberg: DBEL IN  
Reuters: DALA BO

**BUY**

## Another step towards structure simplification

Dalmia Bharat (DBL) has proposed the amalgamation of "Adhunik" into DCBL and "Bokaro" & OCL into Odisha Cement (100% subsidiary of OCL). Power assets of 99 MW under DCBPVL (74% subsidiary of Dalmia Power) will also get merged into DCBL. This proposal will further simplify the corporate structure (post the first step taken in Jan-15, regarding partial exit provided to KKR) bode well for DBL and would help in some synergy benefits from raw material & logistics. Maintain Buy with TP of Rs 924.

### Further simplification of corporate structure

Under this new proposal, Adhunik (100% of DCBL) will be merged into DCBL and DCEL Bokaro (100% of DCBL) & OCL India (75% of DCBL) will be merged into OCL's 100% subsidiary ODCL (Odisha Cement). ODCL shall be renamed as OCL India post the restructuring process, which is expected to be completed in 8-10 months. DBL took the first step towards simplification of corporate structure in Jan-15 through acquiring KKR's 15% stake in DCBL by paying in a mix of cash and issuing shares in DBL. This step removed the key overhang on the stock regarding the complex corporate structure.

### Margins to improve further over FY16-18E

We expect the volume growth of ~32% CAGR during FY15-18E led by full consolidation of OCL India (stake increased to 74.7%), ramp-up of Karnataka & Calcom units and pick-up in cement demand in its selling markets. We expect the margin improvement to continue over FY16-18E led by realisation improvement and cost moderation. Blended EBITDA/ton is expected to improve further to Rs 1269/ton in FY18E from Rs 648/ton in FY15.

### Outlook & Valuation

We maintain our estimates for DBL as we expect marginal synergy benefits at the DBL consolidated level. Improvement in utilisation rates and reduction in debt leaves a high potential for operating & financial leverage benefits going ahead for DBL. With no major capex over the next 2 years, EBITDA expected to grow at 65% CAGR during FY15-18E (led by strong volume growth & margin improvement). We expect DBL's net debt/equity to come down to 1x in FY18E from 1.6x in FY16E. The stock trades at 6x FY18E EV/EBITDA and \$75/t on FY18E capacity (~50% discount to replacement cost). We maintain Buy on DBL with target price of Rs 924 (based on 6.5x FY18E EV/EBITDA).

### Key Financials (Consolidated)

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
Revenue	28,779	33,662	60,674	75,671	84,970
EBITDA	3,268	4,546	13,857	17,726	20,317
EBITDA margin (%)	11.4	13.5	22.8	23.4	23.9
Net profit	(84)	30	1,199	4,544	6,428
EPS (Rs)	(1.0)	0.4	13.5	51.2	72.4
RoE (%)	(0.3)	0.3	3.8	12.8	15.5
RoCE (%)	3.7	3.3	8.7	11.4	13.3
P/E (x)	-	-	59.6	15.7	11.1
EV/EBITDA (x)	29.1	28.2	9.7	7.3	6.0
EV/Tonne (\$)	104	86	90	79	75

Source: Company, Karvy Stock Broking

### Recommendation

CMP:	Rs805
Target Price:	Rs924
Previous Target Price:	Rs924
Upside (%)	15%

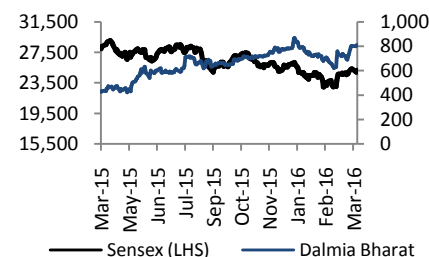
### Stock Information

Market Cap. (Rs bn / US\$ mn)	72/1,083
52-week High/Low (Rs)	887/398
3m ADV (Rs mn / US\$ mn)	21/0.3
Beta	1.3
Sensex/ Nifty	24,900/7,597
Share outstanding (mn)	88.8

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	28.6	(2.0)	94.9	(6.3)
Rel. to Sensex	17.7	1.2	117.0	(2.6)

### Performance



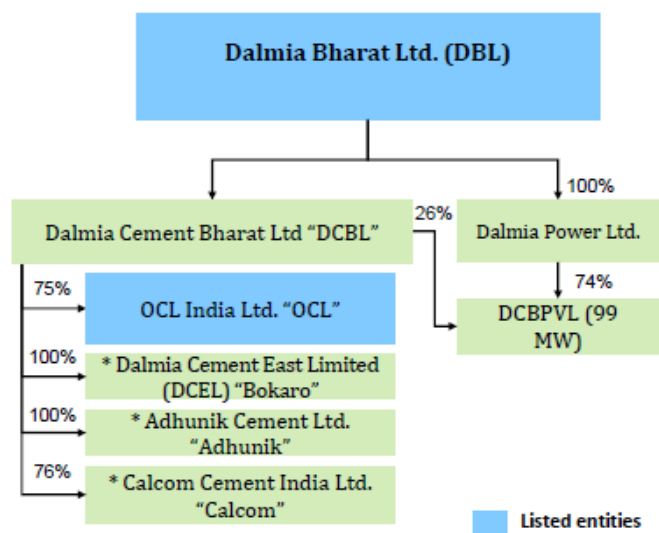
Source: Bloomberg

### Analysts Contact

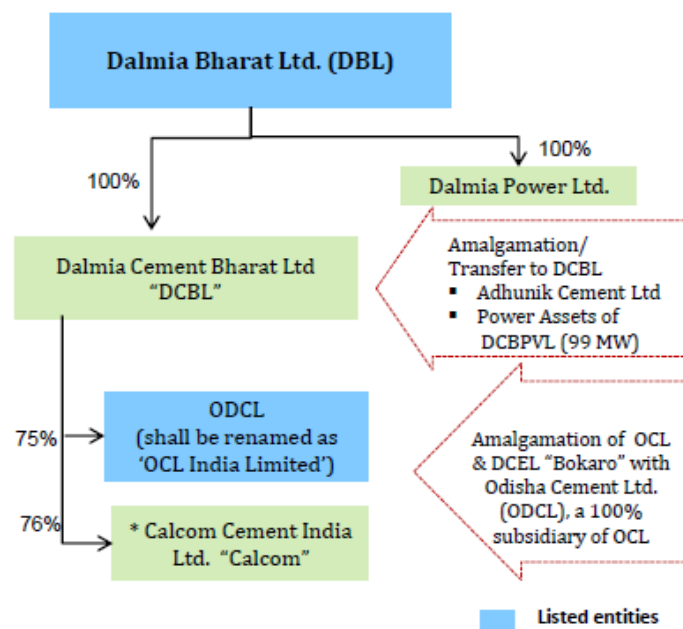
Vijay Goel  
022 6184 4314  
vijay.goel@karvy.com

**Dalmia Bharat**
**Further simplification of corporate structure**

Dalmia Bharat (DBL) has proposed the amalgamation of "Adhunik" into DCBL and "Bokaro" & OCL into Odisha Cement (100% subsidiary of OCL). Power assets of 99 MW under DCBPVL (74% subsidiary of Dalmia Power) will also get merged into DCBL.

**Exhibit 1: Current corporate structure**


Source: Karvy Stock Broking, Company

**Exhibit 2: Proposed corporate structure**


Source: Karvy Stock Broking, Company

In Jan-15, Dalmia Bharat (DBL) simplified the corporate structure by acquiring 15% stake (held by its equity partner KKR in DCBL) through a mix of cash and shares. DBL issued 7.5 mn shares to KKR which translates into 8.5% stake in DBL. The promoter holding gets reduced to 57.5% (from 62.8%). This was positive for DBL as it removed the key overhang on the stock regarding the exit of PE partner and simplifies the corporate structure. Post this deal, DCBL became the 100% subsidiary of DBL and KKR be the largest shareholder of DBL.

**OCL India capacity at 9.3 mt now**

OCL capacity will be increased to 9.3 mt (from 6.7 mt) after merger with Bokaro's 2.6 mt. DCBL capacity will be increased to 13.6 mt (post the merger with Adhunik's 1.5 mt).

**Exhibit 3: Capacity details**

mt	Current	Post restructuring
DCBL	12.1	13.6
OCL	6.7	9.3
Bokaro	2.6	0
Adhunik	1.5	0
Calcom	2.1	2.1
<b>Total</b>	<b>25.0</b>	<b>25.0</b>

Source: Karvy Stock Broking, Company

**Exhibit 4: Region wise capacity details**

mt	Cement Capacity (mt)	Captive Power (MW)
South	12.1	99
East	9.3	62
North East	3.6	25
<b>Total</b>	<b>25</b>	<b>186</b>

Source: Karvy Stock Broking, Company

## Financials

### Exhibit 5: Profit & Loss Statement (Consolidated)

Y/E Mar Rs mn	FY14	FY15	FY16E	FY17E	FY18E
<b>Revenue</b>	<b>28,779</b>	<b>33,662</b>	<b>60,674</b>	<b>75,671</b>	<b>84,970</b>
% growth	4.6	17.0	80.2	24.7	12.3
Operating expenditure	25,511	29,116	46,817	57,945	64,653
<b>EBITDA</b>	<b>3,268</b>	<b>4,546</b>	<b>13,857</b>	<b>17,726</b>	<b>20,317</b>
% growth	(45.0)	39.1	204.9	27.9	14.6
Other Income	2,076	2,413	1,720	1,892	2,081
Depreciation	2,422	2,716	4,490	5,125	5,269
<b>EBIT</b>	<b>2,922</b>	<b>4,243</b>	<b>11,087</b>	<b>14,494</b>	<b>17,130</b>
Interest	3,151	4,344	6,870	7,209	6,759
Exceptional Items	-	61	-	-	-
PBT	(229)	(162)	4,217	7,285	10,371
Tax	644	469	2,699	2,185	3,111
<b>Reported PAT</b>	<b>(873)</b>	<b>(631)</b>	<b>1,518</b>	<b>5,099</b>	<b>7,259</b>
Minority Interest	789	661	(319)	(556)	(831)
<b>Adjusted PAT</b>	<b>(84)</b>	<b>30</b>	<b>1,199</b>	<b>4,544</b>	<b>6,428</b>
% growth	(104)	(136)	3,833	279	41

Source: Company, Karvy Stock Broking

### Exhibit 6: Balance Sheet (Consolidated)

Y/E Mar Rs mn	FY14	FY15	FY16E	FY17E	FY18E
Cash & Cash equivalents	844	5,281	5,906	5,860	3,194
Trade receivables	2,782	5,101	5,818	7,256	8,148
Inventories	3,311	7,293	7,480	8,293	9,312
Loans & Advances	13,313	32,115	33,872	35,499	36,038
Investments	12,336	16,905	14,405	14,405	19,405
Fixed Assets	54,973	77,376	76,386	73,261	70,992
<b>Total Assets</b>	<b>87,558</b>	<b>144,070</b>	<b>143,867</b>	<b>144,573</b>	<b>147,089</b>
Current Liabilities & Provisions	7,551	16,816	16,941	17,680	18,160
Debt	42,732	84,797	82,600	77,600	72,600
Deferred tax assets (Liabilities)	1,560	4,006	4,950	5,200	5,400
Total Liabilities	51,842	105,619	104,491	100,480	96,160
Shareholder's equity	162	162	178	178	178
Reserves & Surplus	30,785	30,539	31,103	35,265	41,269
Shareholder's funds	30,947	30,702	31,281	35,442	41,447
Minority Interest	4,769	7,750	8,095	8,651	9,482
<b>Total Equity &amp; Liabilities</b>	<b>87,558</b>	<b>144,070</b>	<b>143,867</b>	<b>144,573</b>	<b>147,089</b>

Source: Company, Karvy Stock Broking.

**Exhibit 7: Cash Flow Statement (Consolidated)**

Y/E Mar Rs mn	FY14	FY15	FY16E	FY17E	FY18E
PAT	(84)	31	1,199	4,544	6,428
Add: Depn	2,422	2,716	4,490	5,125	5,269
Change in WC	(345)	(885)	(2,538)	(3,137)	(1,971)
<b>Cash Flow from operations</b>	<b>1,992</b>	<b>1,861</b>	<b>3,151</b>	<b>6,531</b>	<b>9,726</b>
Capex	(9,322)	(25,119)	(3,500)	(2,000)	(3,000)
Change in Investments	(533)	(4,569)	2,500	-	(5,000)
Deffered Tax Liability	(392)	(12,507)	944	250	200
<b>Cash Flow from Investing</b>	<b>(10,247)</b>	<b>(42,194)</b>	<b>(56)</b>	<b>(1,750)</b>	<b>(7,800)</b>
Change in equity	-	-	15	-	-
Change in debt	8,425	42,065	(2,197)	(5,000)	(5,000)
Dividend paid	(249)	(284)	(312)	(332)	(374)
Others	(135)	2,989	22	506	781
<b>Cash flow from financing</b>	<b>8,040</b>	<b>44,770</b>	<b>(2,471)</b>	<b>(4,827)</b>	<b>(4,593)</b>
<b>Net cash Flow</b>	<b>(215)</b>	<b>4,437</b>	<b>625</b>	<b>(46)</b>	<b>(2,666)</b>
cash at the beginning	1,059	844	5,281	5,906	5,860
<b>Cash at the end</b>	<b>844</b>	<b>5,281</b>	<b>5,906</b>	<b>5,860</b>	<b>3,194</b>

Source: Company, Karvy Stock Broking

**Exhibit 8: Key Ratios**

Y/E Mar %	FY14	FY15	FY16E	FY17E	FY18E
EBITDA margin	11.4	13.5	22.8	23.4	23.9
EBIT margin	10.2	12.6	18.3	19.2	20.2
Net profit margin	(0.3)	0.1	2.0	6.0	7.6
Dividend payout ratio	-	633.4	22.2	6.3	4.8
Net debt/equity (x)	0.8	1.6	1.6	1.3	1.0
Interest/EBIT (x)	1.1	1.0	0.6	0.5	0.4
RoCE	3.7	3.3	8.7	11.4	13.3
RoE	(0.3)	0.3	3.8	12.8	15.5

Source: Company, Karvy Stock Broking

**Exhibit 9: Valuation Parameters**

Y/E Mar	FY14	FY15	FY16E	FY17E	FY18E
EPS (Rs)	(1.0)	0.4	13.5	51.2	72.4
DPS (Rs)	2.0	2.4	3.0	3.2	3.5
BVPS (Rs)	381.2	378.1	352.3	399.2	466.8
P/E (x)	-	-	59.6	15.7	11.1
EV/EBITDA (x)	29.1	28.2	9.7	7.3	6.0
P/BV (x)	2.1	2.1	2.3	2.0	1.7
EV/Tonne (USD)	104	86	90	79	75

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

---

For further enquiries please contact:

---

**research@karvy.com**

**Tel: +91-22-6184 4300**

## Disclosures Appendix

### Analyst certification

The following analyst(s), who is (are primarily responsible for this report and whose name(s) is/ are mentioned therein, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

### Disclaimer

Karvy Stock Broking Limited [KSBL] is a SEBI registered Stock Broker, Depository Participant, Portfolio Manager and also distributes financial products. The subsidiaries and group companies including associates of KSBL provide services as Registrars and Share Transfer Agents, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, financial consultancy and advisory services, realty services, data management, data analytics, market research, solar power, film distribution and production profiling and related services. Therefore associates of KSBL are likely to have business relations with most of the companies whose securities are traded on the exchange platform. The information and views presented in this report are prepared by Karvy Stock Broking Limited and are subject to change without any notice. This report is based on information obtained from public sources, the respective corporate under coverage and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KSBL. While we would endeavor to update the information herein on a reasonable basis, KSBL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent KSBL from doing so. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KSBL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither- KSBL nor any associate companies of KSBL accepts any liability arising from the use of information and views mentioned in this report. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities

- Associates of KSBL might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
- Associates of KSBL might have received compensation from the subject company mentioned in the report during the period preceding twelve months from the date of this report for investment banking or merchant banking or brokerage services from the subject company in the past twelve months or for services rendered as Registrar and Share Transfer Agent, Commodity Broker, Currency and forex broker, merchant banker and underwriter, Investment Advisory services, insurance repository services, consultancy and advisory services, realty services, data processing, profiling and related services or in any other capacity.
- KSBL encourages independence in research report preparation and strives to minimize conflict in preparation of research report.
- Compensation of KSBL's Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.
- KSBL generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.
- KSBL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.
- KSBL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report and have no financial interest in the subject company mentioned in this report.
- Accordingly, neither KSBL nor Research Analysts have any material conflict of interest at the time of publication of this report.
- It is confirmed that KSBL and Research Analysts primarily responsible for this report and whose name(s) is/are mentioned therein of this report have not received any compensation from the subject company mentioned in the report in the preceding twelve months.
- It is confirmed that **Vijay Goel**, Research Analyst did not serve as an officer, director or employee of the companies mentioned in the report.
- KSBL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.
- Neither the Research Analysts nor KSBL have been engaged in market making activity for the companies mentioned in the report.
- We submit that no material disciplinary action has been taken on KSBL by any Regulatory Authority impacting Equity Research Analyst activities.

### **Karvy Stock Broking Limited**

Office No. 701, 7<sup>th</sup>Floor, Hallmark Business Plaza, Opp.- Gurunanak Hospital, Mumbai 400 051

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.