

India Research

## EVENT UPDATE

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BUY

## Dalmia Bharat

## 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 &amp; 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%

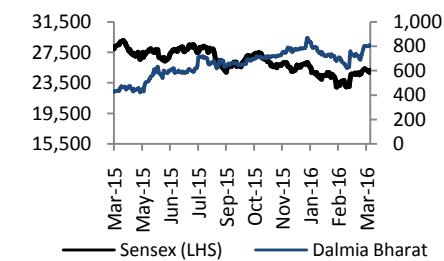
## Stock Information

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

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## 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

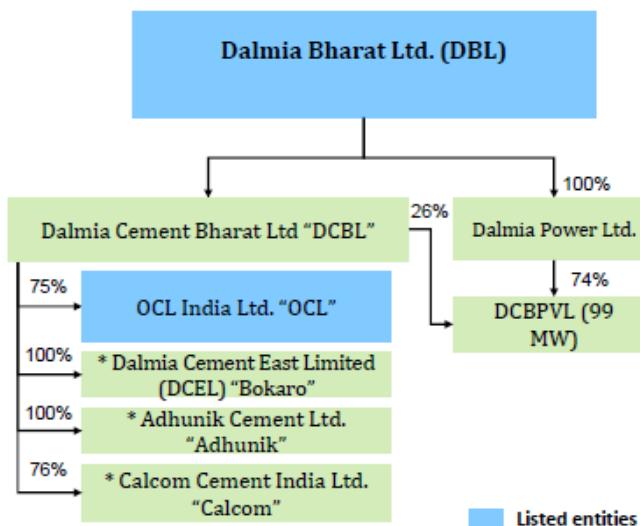
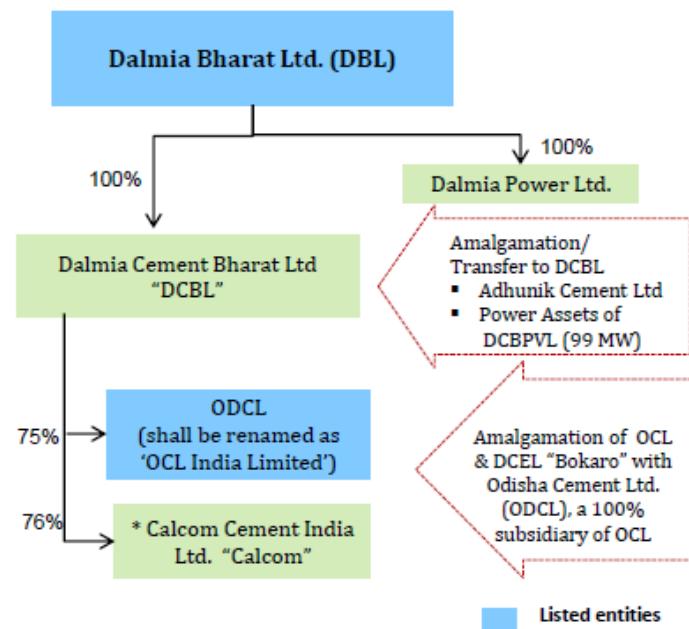


Exhibit 2: Proposed corporate structure



Source: Karvy Stock Broking, Company

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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
Deffered 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%

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