



# Company Report | Plant Visit Update

## Dalmia Cement (Bharat) Ltd

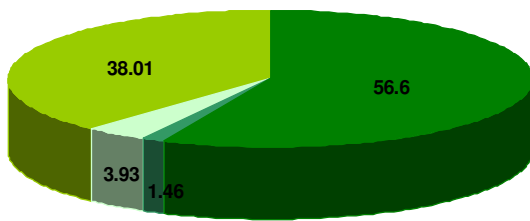
BUY

LONG TERM INVESTMENT CALL

12 January 2010

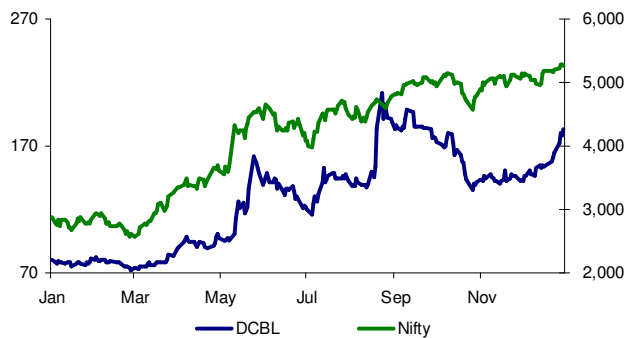
Industry	Cement
CMP (INR)	189
Target Price Upside / (Downside)	225 (+20%)
52 week High/Low (INR)	220 / 72
Market Cap (INR MN)	15,300
3M Avg. Daily Volumes	56,048
Industry P/E (TTM)	8.48
DCBL P/E (TTM)	7.55

### Shareholding Pattern (%)



■ Promoters ■ FI ■ FI / MF / Others ■ Others

### Stock Performance (Last one year)



### Performance (%)

	1 Month	3 Months	1 Year
DCBL	29.1	4.4	129.2
NIFTY	3.0	4.7	83.2

\* Source: Capitaline, Unicon Research

Analyst

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We visited the cement manufacturing plant of Dalmia Cement (Bharat) Ltd (DCBL) at Dalmiapuram and Ariyalur in the state of Tamil Nadu (representing 72% of its installed capacity of 9 million tonne per annum (MnT) to understand its manufacturing technology, assessment of regional demand-supply and over all plan of the company. Following are the key takeaways from the management meet.

### Company Background

DCBL has business interests in two major segments namely Cement and Sugar with share of ~72% and 16% respectively for FY09 and rest coming from Power and others. DCBL has cement plants in Southern States of Tamil Nadu (Dalmiapuram & Ariyalur) and Andhra Pradesh (Kadappa), with combined capacity of 9 million tonnes per annum (MnT). With ~51% of its cement getting sold in Tamil Nadu, 25% in Kerala, 11% in Karnataka, 9% in Andhra Pradesh and rest 4% in eastern and other regions, DCBL enjoys double digit market share in its region. DCBL is a pioneer in super specialty cements like Oil well, Railway sleeper and Air strip. DCBL also has three Integrated Sugar Mills in the State of UP with installed capacity of 22,500 tons of cane crush per day, distillery capacity of 80 kilo litres per day (KLPD) & cogeneration facility. DCBL also has stake in OCL ~ 21.7% having cement manufacturing capacity of 5.4 MnT

### DCBL Cement Plants capacity (MnT)

Cement	Kadappa, AP	Dalmiapuram (TN)	Ariyalur (TN)	Orissa	Total
DCBL	2.50	4.00	2.50	-	9.00
OCL	-	-	-	5.35	5.35
Total	2.50	4.00	2.50	5.35	14.35

### Demand Supply scenario

During H1FY10, as compared to all India consumption growth of 11.6%, the consumption in southern region grew marginally at 4.5%. The growth in Southern region was muted due to slowdown in construction activities in Andhra Pradesh due to political instability.

### Cement Supply Scenario

Installed Capacity (MnT)	At end of	Addition	Expected
	Q2FY09	H1FY10	H2FY10E
All India	231	12	25
South	83	5	10
East	34	3	6

**At all India level, Supply additions grew @12% during 1HFY10**



# Company Report | Plant Visit Update

## Dalmia Cement (Bharat) Ltd

Cement Demand Scenario	
Demand Growth	(%)
South	4
East	18
Kerala	7
Orissa	23
Tamil Nadu	12
West Bengal	16

At all India level, demand additions grew @12% during 1HFY10

### Key Highlights – Macro

- Capacity utilization in South, which was down from 91% to 78% YoY during 1HFY10, is now marginally improving on the back of strong demand coming from real-estate, rural housing and government sponsored constructions,
- Cement price, which was reduced during 1HFY10 to ~250-260/bag in the southern region are again inching up on the back of firm demand
- Government sponsored projects to aid the cement demand in South
 

The Government of Karnataka (GoK), amongst the top five industrial states in India and where DCBL's derives ~11% of its cement sales, is set to unveil infrastructure projects, including Public Private Partnership projects, worth INR 1000bn over next 12-15 months and increase the State GDP from 7% to 9%. The GoK is expected to come up with ten industrial infrastructure projects in the near future. GoK is also in the process of selecting a contractor for executing ~35 km high speed rail link project from Bangalore Airport Davanahalli to the City centre. The cost of the project is estimated at INR 57.67bn for which five consortiums have been short listed and are expected to be implemented in a PPP mode. The Centre will invest ~INR 40.1bn in this project as viability gap funding and the state government will provide the land assets. Some of the major infrastructure projects to be taken up using PPP model include:

  - 10,000 km of four-lane road projects for KRDC valued at INR 450bn;
  - Tadri sea port at Haldipur worth INR 40bn investment;
  - Davanahally Business Park in a 300 acre land at INR 95bn and
  - Two mono-rail projects in Bangalore worth INR 60bn

All these lead to good demand in the southern region, where there is concern of excess cement capacity over demand.

### Key Highlights – Micro

#### Cement Segment

- DCBL has availed services of FLSmidth, a world leader in cement plant designs to erect its new plant at Ariyalur. The materials handling equipment supplies include a circular limestone stacker / reclaimers three side scraper stacker / reclaimers systems for raw mill additives, coal and cement mill additives, respectively. The alternative fuels used in pyroprocessing include used lubricating oil, greases, sludge from furnace oil and LSHS (Low Sulphur Heavy Stock), spent carbon, and oil soaked cotton waste.
- The benefit of new plant getting commissioned at Ariyalur (taking DCBL's cement capacity to 9MnT on standalone basis) will lead to volume growth from Q4FY10 and onwards.
- Post Ariyalur plant becoming operational, market mix will change in favor of Tamil Nadu and Kerala market which would be beneficial to DCBL as both these regions has high growth potential
- DCBL is setting up a captive power plant of 27MW at Ariyalur which is expected to be operational from Q4FY10, making the Ariyalur plant self-reliant for its power requirement

#### Power Segment

DCBL has captive power plant of 88.5MW, of which 16.5MW is Wind energy farm at Tamil Nadu (PLF of 23%) and 45MW thermal power plant at Dalmiapuram, Tamilnadu with PLF of ~82-85%. From this plant, ~10MW is sold to the TNEB through PTC and rest is meant for captive consumption. At its Ariyalur plant, DCBL is adding 27MW of thermal power plant, exclusively for captive consumption.

DCBL imports coal mainly from South Africa / Indonesia and also uses alternative fuel like pet coke and lignite. DCBL has a one year contract with the coal supplier from South Africa and its shipment cost is ~USD 17-18/tonne against current shipment cost of ~USD23/tonne. The current cost of imported coal stands at ~USD 85/tonne, including shipment.



# Company Report | Plant Visit Update

## Dalmia Cement (Bharat) Ltd

On sequential basis, Fly-ash cost has gone up from 475 to 525/tonne during 2QFY10. Due to fly-ash generated from its own captive power plant, going forward, DCBL stands to marginally save its cost on purchase of fly-ash from third party.

### Investment rationale

- Proven track record** - Over FY05 to FY09, DCBL's topline has grown at a compounded average growth rate (CAGR) of 40% and PAT at 51%. DCBL's operating margins for last two years have been at ~30%.
- Greenfield expansion** - (Kadapa Unit at AP in FY09, and Ariyalur at Tamil Nadu in FY10, having capacity of 2.5MnT each will lead to volume growth, going forward.
- Higher Margins** - DCBL enjoys, high EBITDA margin of ~INR 1300/tonne in cement segment owing to its premium brand and optimal product mix.
- Ambitious plan to expand cement capacity by 20 MnT over decade** - DCBL is the second largest cement manufacturer in the southern region after India Cement Ltd. DCBL aims to ramp up its capacity to ~35MnT by FY20 to make it a pan India player rather than depending on particular region. DCBL aims to grab ~10% share of an estimated 500 MnT market over next decade. The additional capacity would come thorough a separate purpose vehicle and for that matter, DCBL has formed 100% subsidiary company namely Dalmia Cement Ventures Ltd (DCVL) with focus to initially build ~10 MnT (production capacity) in different region of South, North-East and Centre. DCVL has acquired land and has received environmental clearance for leased limestone mines, the critical raw material to make cement. As per the DCBL's preliminary estimates, the total investment to build 10 MnT capacity is expected at INR 45bn.
- Capex funding not a concern** - DCBL, in order to achieve its objective as amongst the top five cement manufacturer in India with capacity of ~35MnT, is mulling to raise capital at DCVL level, its wholly owned subsidiary with strategic or private equity player or fund its capex requirements through internal accruals over the next three to four years. Additional capacity of ~10 MnT is expected to cost ~USD 1bn (INR 45bn) of which debt would be ~USD 650Mn (INR 31bn). DCBL invested ~INR 2.5bn and have a confirmed credit line of INR 30bn to build 10MnT.

### Q2FY10 Result Highlights

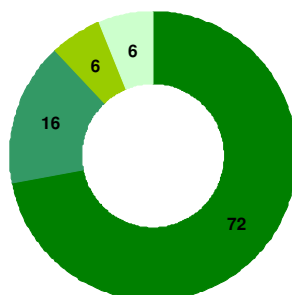
DCBL's net profit for Q2FY10 rose by 34% to INR 538.5mn against 401.9mn during Q2FY09. Revenue grew by 23% to INR 5,588.3mn. Higher profit was result of the high cement realizations and lower input cost. EBITDA increased to 28% during Q2FY10 on YoY basis.

### Segmental Performance

While Cement division of DCBL grew marginally by 14% during Q2FY10, its sugar and power witnessed a robust growth. During the quarter, DCBL's Sugar and Power division turned profitable. Sugar division posted a profit of INR 160.9mn against a loss of INR 77.4mn during Q2FY09, whereas in case of its power division posted a profit of INR 66.8mn compared to loss of INR 27.3mn during same quarter previous year.

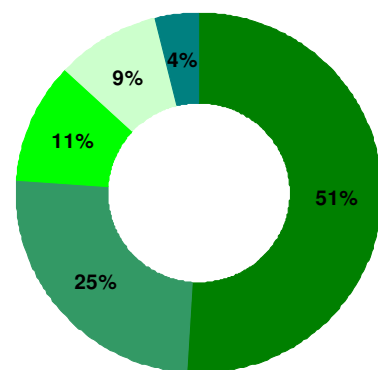
With additional profit of INR 200Mn coming from its associate company OCL, DCBL's consolidate profit stood at INR 1,320Mn for 1HFY10.

Revenue Break-Up-FY09



■ Cement ■ Sugar ■ Power ■ Others

Geographical Market



■ TamilNadu ■ Kerala ■ Karnataka ■ Andhra Preadesh ■ Others



# Company Report | Plant Visit Update

## *Dalmia Cement (Bharat) Ltd*

### Valuation and outlook

At the CMP of INR 189/share, DCBL trades at 8.5x its trailing EPS and P/BV of 1.2x compared to its peers like Madras Cements which trades at ~ 2.1x its book value and for India Cements at 1.2 times. We assign equal PE of 7x to its Cement and Sugar business consensus earning, owing to rising sugar prices and recent pent up in cement demand with favourable prices and set price objective of INR 225 (+20% upside) over 12-15 months. **BUY**

### Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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