

RESULT UPDATE ✓

Dalmia Cement (DALCEM)

WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 130 from Rs 125
EPS (FY10E).....	Changed to Rs 21.9 from Rs 19.2
EPS (FY11E).....	Changed to Rs 22.5 from Rs 20.1
RATING.....	Unchanged

Current Price
Rs 141

Target Price
Rs 130

Potential upside
-8%

Time Frame
12 months

HOLD

Sugar business drives bottomline...

Dalmia Cement Q1FY10 results were broadly inline with our expectations. Net profit grew 16.1% YoY and 32.3% QoQ basis. For Dalmia cements given the restricted presence in the Southern region and likely expectation of an over supply scenario in south which will translate into low return ratios, we maintain our HOLD rating on the stock.

Highlight of the quarter

Net sales grew 32.9% YoY to Rs 551.7 crore in Q1FY10 from Rs 415.0 crore in Q1FY09 due to higher cement and sugar volumes. The EBITDA margin has declined by 180 bps YoY to 27.8% primarily due to decline in margins from cement business. EBITDA has reported YoY growth of 24.7% to Rs 153.4 crore. The growth in EBITDA was mainly contributed by Sugar division. Interest expense have increase by 19.2% YoY to Rs 41 crore while depreciation has increase by 50.8% to Rs 30.2 crore due to capitalizations of Andhra Pradesh (AP) Plant The net profit has reported growth of 16.1% YoY and 32.3% QoQ to Rs 58.6 crores.

Valuations

At the CMP of Rs 141 per share, the stock is trading at 6.4x and 6.3x its FY10E and FY11E earnings, respectively. The stock is trading at 4.4x and 4x EV/EBITDA. Given the restricted presence in the Southern region and likely expectation of an over supply scenario in south which will translate into low return ratios, we maintain our Hold rating on the stock with price target of Rs 130.

Ravi Sodah

ravi.sodah@icicidirect.com

Vijay Goel

vijay.goel@icicidirect.com

Stock data

Mcap	Rs 1047 crore
Debt (FY09)	Rs 2601 crore
Cash & Inv. (FY09)	Rs 1025 crore
EV	Rs 2624 crore
52 week H/L	Rs 244 / 67
Equity cap	Rs 16.17 crore
Face value	Rs 2
MF Holding	0.00%
FII Holding	13.00%

Comparative stock metrics

Stock return	3M	6M	12M
Dalmia Cem	42	70	-38
JK Cement	101	156	-14
Shree Cem	66	183	164
Orient Paper	70	151	60

Exhibit 1: Key Financials

(Rs crore)

	Q1FY10A	Q1FY10E	Q1FY08	Q4FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09	FY10E	FY11E
Net Sales	551.7	537.5	415.0	485.0	32.9	13.8	1753.0	2367.7	2921.7
EBITDA	153.4	182.2	123.0	172.0	24.7	-10.8	502.0	614.3	642.9
EBITDA Margin (%)	27.8	33.9	29.6	35.5			28.6	25.9	22.0
Depreciation	30.2	33.8	20.0	23.9	50.8	26.2	88.5	160.7	163.1
Interest	41.0	53.2	34.4	40.8	19.2	0.6	142.6	212.9	237.8
Income/Extraordinary	5.6	-13.0	7.0	-24.0	-19.6	-123.5	-11.0	12.4	11.1
Reported Net Profit	58.6	55.0	50.5	44.3	16.1	32.3	158.6	177.1	182.3
EPS* (Rs)	7.2	6.8	6.2	5.5	16.1	32.3	19.6	21.9	22.5
Valuation									
PE (x)	-	-	-	-	-	-	7.2	6.4	6.3
Target PE (x)	-	-	-	-	-	-	6.6	5.9	5.8
EV to EBITDA (x)	-	-	-	-	-	-	5.9	4.4	4.0
Price to book (x)	-	-	-	-	-	-	0.9	0.8	0.7
RoNW (%)	-	-	-	-	-	-	12.9	12.7	11.6
RoCE (%)	-	-	-	-	-	-	11.7	11.3	11.2

Source: Company, ICICIdirect.com Research

Segmental results

Exhibit 2: Sales volumes and net realisation

	Q1FY10	Q1FY09	Q4FY09	YoY Gr. (%)	QoQ Gr. (%)
Cement					
Sales Volume (Tonnes)	970000	878000	891000	10.5	8.9
Realisation (Rs/Tonne)	3958	3645	3892	8.6	1.7
Sugar					
Sales Volume (Tonnes)	52737	31180	43,742	69.1	20.6
Realisation (Rs/Tonne)	22574	14555	19,380	55.1	16.5

Source: Company, ICICIdirect.com Research

Cement

The cement division has reported revenue growth of 19.8% YoY to Rs 387 crore. Cement volumes grew 10.5% YoY to 9.7 lakh tonne due to capacity addition in AP. Realisation improved 8.6% YoY Rs 3958 per tonne while EBITDA per tonne decline by 2.9% YoY to Rs 1420 per tonne. EBITDA margins has shrink YoY by 420 bps to 35.7 due to consumption of higher cost coal inventory at AP plant and increase in lead distances.

Sugar

The sugar division has reported revenue growth of 91.3% YoY to Rs 131 crore. Sugar volumes grew 69.1% YoY to 0.53 lakh tonne while realisation improved 55.1% YoY Rs 22574 per tonne. Due to improvement in realisation EBITDA margins has improved to 14.4% in Q1FY10 from 1.4% Q1FY09. Thus EBITDA has surged to Rs 19 crore in Q1FY10 from Rs 1.4 crore in Q1FY09.

Exhibit 3: Segmental Sales, EBITDA and EBITDA margin

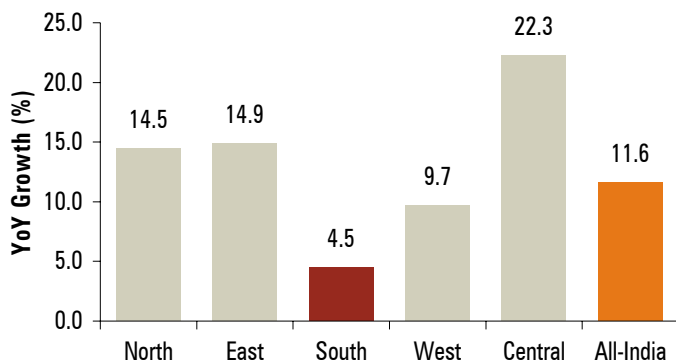
	Q1FY10	Q1FY09	Q4FY09	YoY Gr. (%)	QoQ Gr. (%)	FY09	FY10E	FY11E
Cement								
Net Sales	387.0	323.0	348.0	19.8	11.2	1293.0	1739.9	2295.2
EBITDA	138.0	129.0	117.0	7.0	17.9	466.0	584.2	646.3
EBITDA Margin (%)	35.7	39.9	33.6			36.0	33.6	28.2
Sugar (Includes Distillery & Co-Generation)								
Net Sales	131.0	69.0	111.0	89.9	18.0	355.0	501.8	475.2
EBITDA	18.0	1.0	42.0	1700.0	-57.1	63.0	96.6	78.2
EBITDA Margin (%)	13.7	1.4	37.8			17.7	19.3	16.5

Source: Company, ICICIdirect.com Research

Outlook

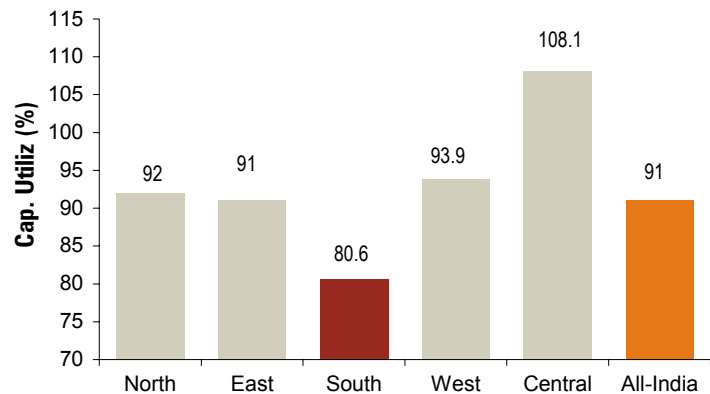
All the three plants of Dalmia cement are operating in southern regions. As compared to all India consumption growth of 11.6%, the consumption in southern region grew marginally at 4.5%. The growth in Southern region was muted due to slowdown in construction activities in Andhra Pradesh due to assembly elections.

Exhibit 4: Region wise consumption growth



Source: CMA, ICICIdirect.com Research

Exhibit 5: Region wise capacity utilizations

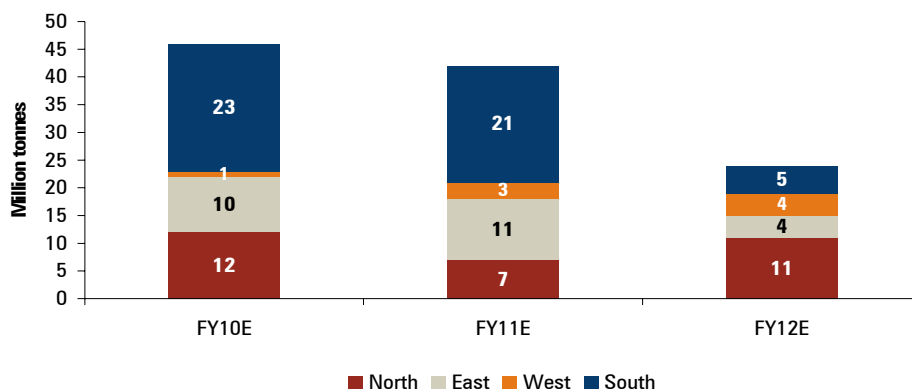


Source: CMA, ICICIdirect.com Research

On supply front, out of 23.1 million tonnes of capacity added in last one year about 15.2 million tonnes have been added in South India resulting into decline in capacity utilization of southern region to 80.6% in Q1FY10 from 93.8% in Q1FY09. As a result prices in southern region have remained subdued.

Out of 112 million tonnes of capacity that is scheduled to come on stream 49 million tonnes (44%) is likely to be commissioned in the southern region by FY12. As compared to other region, southern region is less consolidated which will result in to lesser price discipline.

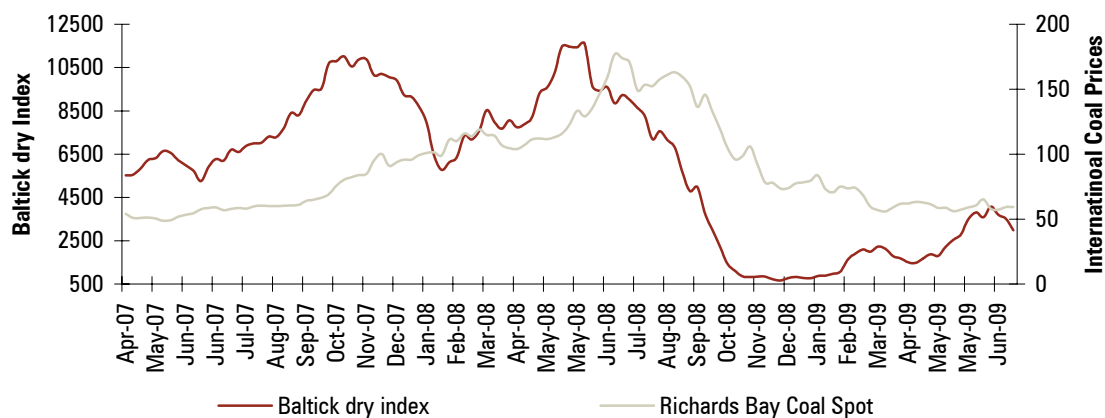
Exhibit 6: Region wise expected Capacity additions



Source: Industry, ICICIdirect.com Research

Due to the global slowdown prices of international coal have declined by 52.2%YoY. Apart from this, the rates of sea freight have also cooled off sharply. The benchmark index for sea freight rates, Baltic Dry Index has corrected 76.3% YoY. Dalmia Cement is 100% depended on imported coal. Thus, going ahead, a decline in landed cost of imported coal will reduce the power cost of the company.

Exhibit 7: International coal prices & Baltic Dry Index



Source: Bloomberg, ICICIdirect.com Research

Thus saving in power and fuel cost, higher cement volumes due to capacity addition and firm sugar price will enable the company to maintain its bottom line.

Capex plan

Dalmia Cement has commenced the operations of grinding unit at Ariyalur in Tamil Nadu. A new Clinker unit is also expected to be commissioned by end of Q2FY10 along with a CPP of 27 MW which is expected by the end of Q3FY10.

Valuations

At the CMP of Rs 141 per share, the stock is trading at 6.4x and 6.3x its FY10E and FY11E earnings, respectively. The stock is trading at 4.4x and 4x EV/EBIDTA. For Dalmia cements given the restricted presence in the Southern region and likely expectation of an over supply scenario in south which will translate into low return ratios, we maintain our **HOLD** rating on the stock with a stock price of Rs 130.

Exhibit 8: Valuations

	Sales (Rs Crore)	% Change	EPS (Rs)	% Change	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
FY09	1,753.0	18.3	19.6	-54.3	7.2	5.9	12.9	11.7
FY10E	2,367.7	35.1	21.9	11.7	6.4	4.4	12.7	11.3
FY11E	2,921.7	23.4	22.5	2.9	6.3	4.0	11.6	11.2

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 9: Valuation Matrix

ACC			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	ACC CMP	824 CY08	7,308.6	62.5	13.2	8.3	25.9	32.8
MCap	14523 Target	575 CY09E	7,630.3	66.9	12.3	7.1	23.5	31.5
	% Upside	-30% CY10E	7,754.7	53.7	15.3	8.4	16.7	21.7
Ambuja Cements			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	GUJAMB CMP	96 CY08	6,234.7	7.4	12.9	8.0	21.9	27.7
MCap	13399 Target	68 CY09E	6,830.5	8.3	11.6	6.5	20.5	27.5
	% Upside	-29% CY10E	6,443.6	6.5	14.7	7.1	14.3	19.4
UltraTech Cements			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	ULTCEM CMP	776 FY09	6,383.1	77.4	10.0	6.3	31.0	29.2
MCap	9791 Target	865 FY10E	6,944.3	95.6	8.1	4.6	29.0	31.4
	% Upside	11% FY11E	7,926.9	103.4	7.5	4.1	24.5	28.7
Shree Cement			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	SHRCCEM CMP	1409 FY09	2,715.0	165.9	8.5	5.1	61.2	34.7
MCap	4909 Target	1350 FY10E	2,903.0	129.2	10.9	4.9	31.6	23.6
	% Upside	-4% FY11E	3,145.1	136.8	10.3	4.6	25.8	22.5
India Cements			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	INDCEM CMP	151 FY09	3,426.8	17.2	8.8	5.6	17.5	17.0
MCap	4266 Target	126 FY10E	3,837.3	19.0	8.0	4.8	16.8	17.0
	% Upside	-17% FY11E	4,241.9	18.1	8.4	4.7	14.2	15.3
JK Cement			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	JKCEME CMP	116 FY09	1,496.8	20.4	5.7	6.2	17.2	14.1
MCap	813 Target	115 FY10E	1,844.0	21.0	5.5	4.3	15.2	13.6
	% Upside	-1% FY11E	2,093.5	22.9	5.1	3.7	14.4	13.8
Dalmia Cements			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	DALCEM CMP	141 FY09	1,753.0	19.6	7.2	5.9	12.9	11.7
MCap	1140 Target	130 FY10E	2,367.7	21.9	6.4	4.4	12.7	11.3
	% Upside	-8% FY11E	2,892.9	22.5	6.3	4.2	11.5	11.1
Orient Paper & Industries			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	ORIPAP CMP	55 FY09	1,503.2	12.0	4.5	3.1	41.1	44.3
MCap	1053 Target	66 FY10E	1,755.6	12.8	4.3	2.5	32.4	34.6
	% Upside	21% FY11E	2,003.6	12.5	4.4	2.1	24.7	31.1

Source: ICICIdirect.com Research, Company

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (UP): -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicidirect.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
Gr. Floor, Mafatlal House,
163, HT Parekh Marg,
Backbay Reclamation
Churchgate,
Mumbai – 400 020**

research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Ravi Sodah MBA (Finance), Vijay Goel BE. MBA (finance)* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. 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 ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its > subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may 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. ICICI Securities 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. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Ravi Sodah MBA (Finance), Vijay Goel BE. MBA (finance)* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively 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.

It is confirmed that *Ravi Sodah MBA (Finance), Vijay Goel BE. MBA (finance)* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.