

September 23, 2010

Dalmia Cement (DALCEM)

Rs 240

WHAT'S CHANGED...

PRICE TARGET	Under Review
EPS (FY11E)	Under Review
EPS (FY12E)	Under Review
RATING.....	Under Review

Dalmia Bharat Sugar fair value at Rs 69/share...

Dalmia Cement (Bharat) Limited (DCBL) has changed its name to Dalmia Bharat Sugar and Industries Limited (DBSIL). This is expected to be announced by the stock exchanges shortly. In March 2010, DCBL announced the demerger of its cement, power and refractory business to DBEL, which is expected to be listed by the first week of November, 2010. The sugar business will remain housed in DCBL (renamed as DBSIL). DCBL has also announced the record date as September 27, 2010 for the issue of shares of Dalmia Bharat Enterprises Ltd (DBEL) and ex date as September 24, 2010. Hence, post the record date, the market price of equity shares of DCBL (renamed as DBSIL) will trade at a price pertaining to the valuations of the integrated sugar business, which remain housed in it. In terms of the scheme, the shareholders of the DCBL (renamed to DBSIL) are entitled to shares of the new entity DBEL in the ratio 1:1. We estimate the fair value of DBSIL at Rs 69 per share and fair value of DBEL at Rs 267 per share.

Demerger of cement, power and refractory business into DBEL (to be listed)

In March 2010, DCBL announced the demerger of its cement, power and refractory business to DBEL, which is expected to be listed by the first week of November, 2010. The integrated sugar business, which includes sugar crushing, distillery and cogeneration, will remain housed in DCBL (renamed to DBSIL). DBEL will have two subsidiaries Avnija Properties and Dalmia Power. It will have 85% control on Avnija, which controls the cement business and 100% control on Dalmia Power, which controls the power business. Avnija is 15% controlled by PE firm Kohlberg Kravis Roberts (KKR). Avnija has a current operating capacity of 9 MTPA and is expanding it by 10 MTPA through Dalmia Cement Ventures (DCVL) in the next three to four years. The 10 MTPA expansion plan under Avnija has a capex of Rs 4500 crore, which will be funded through debt of Rs 3250 crore, Rs 750 crore of the KKR PE funding and the rest through internal accruals. Avnija also has control over listed company OCL India's 45.4% stake. The current capacity of OCL is 5.3 MTPA. Dalmia Power (DPL) will have 74% control in Dalmia Power Ventures (DPVL), which has a thermal power capacity of 72 MW. Avnija will have the balance 26% control in DPVL.

Dalmia Bharat Sugar (DBSIL) – Business Model

DBSIL has cane crushing capacity of 22500 TCD with plants located at Ramgarh, Jawaharpur and Nigohi in UP (7500 TCD each). It has cogeneration capacity of 79 MW of which 2/3 is exportable. DBSIL also has an 80 klpd distillery at Jawaharpur and wind farm capacity of 16.5 MW.

Rating matrix

Rating & Target : Under Review

Key Financials (Combined)

	FY09	FY10	FY11E	FY12E
Net Sales	1753.6	2154.3	2565.1	3118.8
EBITDA	504.7	459.6	347.0	509.1
EBITDA Margin (%)	28.8	21.3	13.5	16.3
Reported PAT	141.2	177.2	86.0	225.8
Adjusted EPS (Rs)	17.4	21.9	10.6	27.9

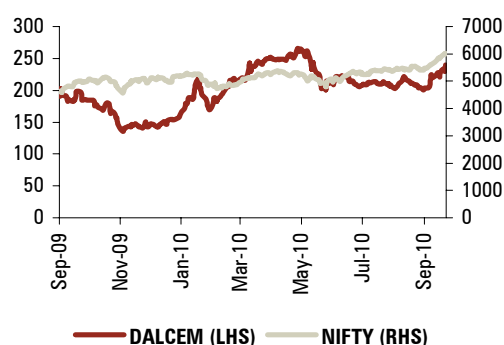
Valuation summary (Combined)

	FY09	FY10	FY11E	FY12E
PE (x)	13.8	11.0	22.6	8.6
Target PE (x)	13.3	10.6	21.8	8.3
EV to EBITDA (x)	7.2	8.5	11.2	7.4
EV/Tonne(US\$)	98	77	77	74
Price to book (x)	1.5	1.4	1.3	1.2
RoNW (%)	11.7	13.1	5.9	14.4
RoCE (%)	10.8	8.9	6.3	9.8

Stock data (Combined)

Mcap	Rs 1943 crore
Debt (FY10)	Rs 2895 crore
Cash & Invest(FY10)	Rs 945 crore
EV	Rs 3893 crore
52 week H/L	Rs 285 / 134
Equity cap	Rs 16.19 crore
Face value	Rs 2
MF Holding(%)	4.9
FII Holding(%)	6.1

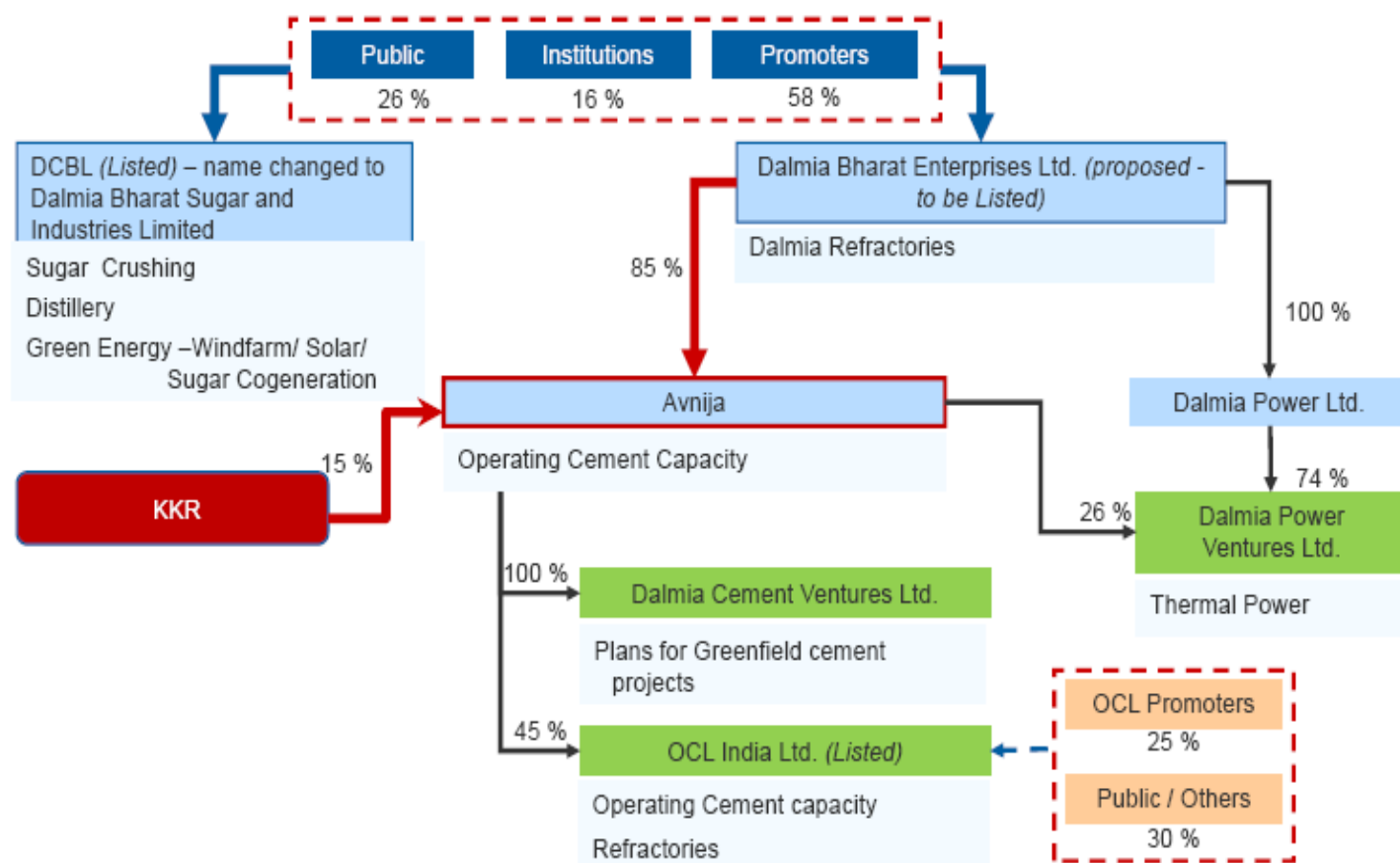
Price movement



Analyst's name

Vijay Goel

vijay.goel@icicisecurities.com

Exhibit 1: Resultant Structure

Source: Company, ICICIdirect.com Research

Exhibit 2: Key Financials of DBSIL and DBEL

Rs Cr	FY10		
	Combined	DBSIL	DBEL
Gross Revenue	2344	652	1692
EBITDA	500	130	370
Depreciation	132	41	91
EBIT	380	89	291
As on Sept 20, 2010			
Net Fixed Assets	4264	642	3622
Net Current Assets	675	493	182
Investments	718	11	707
Total Debt	2587	487	2100
Term Debt	2077	300	1777
Soft Loans	384	112	272
Working Capital	126	75	51
Cash & Equivalents	734	55	679
Net Debt	1544	262	1282

Source: Company, ICICIdirect.com Research

Note: Net Debt = Term debt + Soft Loans - Cash & Equivalents - Undrawn working capital

Working capital that has not been drawn as on September 20, 2010 is Rs 95 crore for DBSIL and Rs 88 crore for DBEL.

Exhibit 3: Fair value of Dalmia Bharat Sugar

	Valuation Remarks	
Sugar Capacity (TCD)		22500
Replacement Cost (Rs Cr)	at Rs 2.2 lakh per tonne	495
Cogeneration capacity (MW)		55
Replacement Cost (Rs Cr)	at Rs 4 cr per MW	220
Distillery Capacity (Klpd)		80
Replacement Cost (Rs Cr)	at Rs 0.4 cr per klpd	32
Windfarm Capacity (MW)		16.5
Replacement Cost (Rs Cr)	at Rs 4.5 cr per MW	74
Total Replacement cost		821
Less: Net debt		262
Fair Market Cap		559
No. of shares		8.1
Fair Value per share		69

Source: Company, ICICIdirect.com Research

Exhibit 4: Fair value of Dalmia Bharat Enterprises

	Valuation Remarks	
Cement Capacity (mtpa)		9.0
Replacement Cost (Rs Cr)	at \$70 per tonne	2835
OCL Cement Capacity - 5 mtpa	45.4% stake	2.3
Replacement Cost (Rs Cr)	at \$50 per tonne	511
Thermal Power Capacity (MW)		72
Replacement Cost (Rs Cr)	at Rs 4 cr per MW	288
Total Replacement Cost (Rs Cr)		3634
Less: Net Debt		1470
Fair Market Cap		2163
No. of shares		8.1
Fair Value per share		267

Source: Company, ICICIdirect.com Research

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 Strong Buy, Buy, Add, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor, Akruiti Centre Point,
 MIDC Main Road, Marol Naka,
 Andheri (East)
 Mumbai – 400 093**

research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Vijay Goel 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 judgment 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 *Vijay Goel 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 *Vijay Goel 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.