

EVENT UPDATE

January 25, 2011

Listing Note - Dalmia Bharat Enterprises Ltd.

Dalmia Bharat Enterprises Ltd. (DBEL), an entity that demerged from Dalmia Cement (Bharat) Ltd. is likely to be listed in the stock exchanges viz., BSE, NSE and MSE shortly before end of January 2011.

Background of DBEL

DCBL demerged its sugar and cement, power, refractories and other businesses into two different entities. DCBL changed its name into Dalmia Bharat Sugar Industries Ltd. (DBSIL), which looks after erstwhile DCBL's sugar business. Now DBEL will be managing cement, power, refractories and other businesses. The demerger will help the company to focus on its core capabilities while other business such as sugar will operate as a separate entity. The company also holds majority stake in its proposed cement venture with a capacity of 10mn tonnes per annum. The global private equity major KKR Holdings Inc. (KKR) has already invested in the said company. DBEL also holds 45.4% stake in OCL India Ltd. (OCL), a cement major in eastern part of India.

Salient Features of DBEL

- DBEL has strong execution capabilities as it executed projects worth ₹30bn, 4 locations across 3 states. The company added cement capacities of 2.5mn tonnes each in Ariyalur (State - Tamil Nadu) and Kadapa (State - Andhra Pradesh).
- The company has demonstrated higher growth compared to the other southern cement companies, which helped to gain significant market share in the said region.
- Demerger will enable the company to focus on cement and cement related businesses.
- The company has received first tranche amount of \$500mn from KKR Holdings out of the total investment of \$750mn.

Financials

DBEL (₹Cr)					
	FY07	FY08	FY09	FY10	3 years CAGR
Total Income	759	1,133	1,293	1,459	24%
Net Sales	751	1,122	1,283	1,439	24%
EBITDA from Operations	247	450	433	370	14%
Depreciation	43	44	48	92	29%
EBIT	204	406	385	278	11%
EBITDA Margin (%)	33%	40%	33%	25%	NA
OCL India (₹Cr)					
	FY07	FY08	FY09	FY10	3 years CAGR
Total Income	498	613	880	1,151	32%
Net Sales	484	593	871	1,137	33%
EBITDA from operations	154	200	236	388	36%
Operational EBITDA Margin %	32%	34%	27%	34%	NA

Track-record of timely execution

Ariyalur, Tamil Nadu Plant details

Particulars	Unit	Details
Completion Time	Months	21
Commissioning	Date	Jun'10
Project Type	GF/BF	GF
Capex	₹Cr	878
Installed Capacity	MTPA	2.5

(Source: Company)

Kadapa, Karnataka Plant Details

Particulars	Unit	Details
Completion Time	Months	19
Commissioning	Date	Mar'09
Project Type	GF/BF	GF
Capex	₹Cr	895
Installed Capacity	MTPA	2.5

(Source: Company)

Growth in market share & volume

DBEL has a direct presence in southern region and through OCL in the eastern region. During the past few years, the company increased its market share in the respective regions.

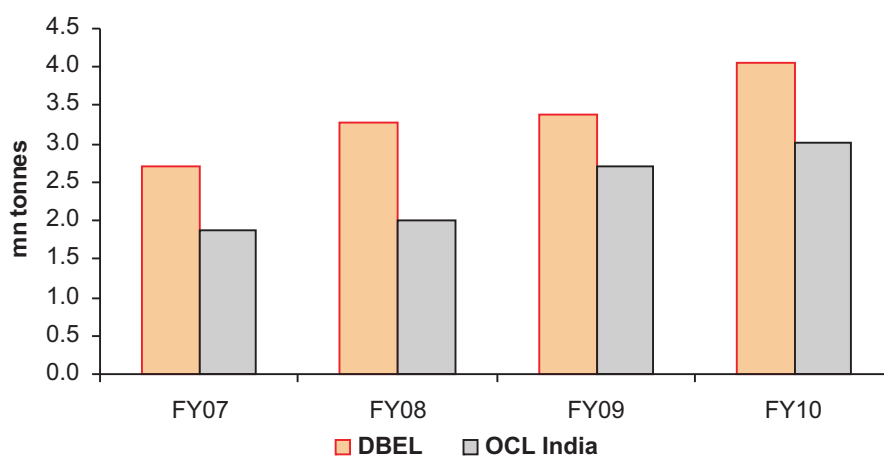
Robust pace of growth

States	State CAGR FY05-10	DBEL and OCL CAGR FY05-10
Tamil Nadu	13%	21%
Kerala	6%	19%
West Bengal	8%	21%
Orissa	9%	14%

(Source: Company)

Chart 1

Sales Volume of DBEL and OCL India



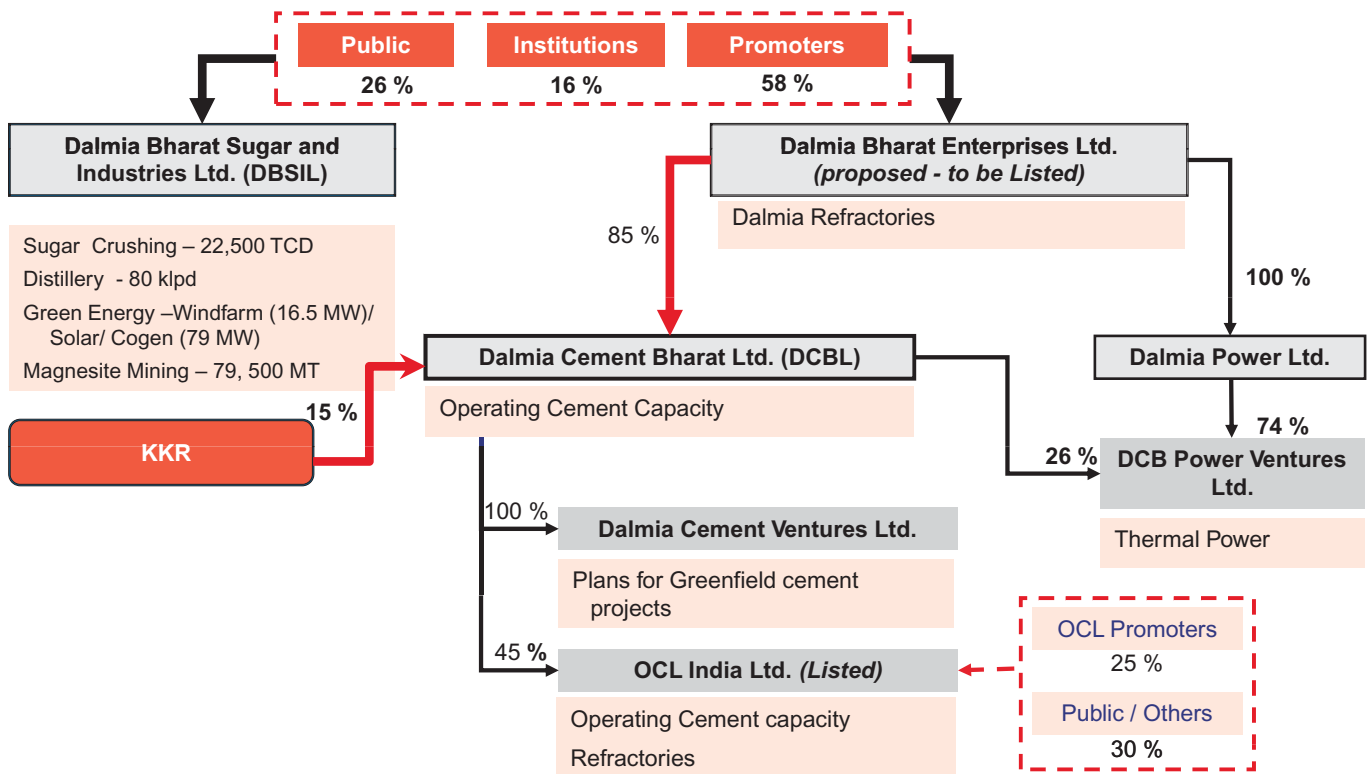
Source: Company

Market share

States	Market Share in FY05	Market Share Nov. YTD'11
Tamil Nadu	8%	12%
Kerala	7%	14%
West Bengal	3%	6%
Orissa	25%	29%

(Source: Company)

Corporate Structure - Post Restructuring Exercise



Restructuring Update

Process	Status	Date
Demerger	Completed	1st April 2010
Shareholders' Approval	Completed	2nd June 2010
High Court Approval	Received	29th July 2010
Filed with Registrar of Companies and Stock Exchanges	Completed	1st September 2010
Trading in DBSIL	Started	24th September 2010
Listing Approval for DBEL from NSE, BSE and MSE	Received	01 November 2010
SEBI Approval for listing of DBEL	Received	13th January 2011
Expected start of		Q4'11

(Source: Company)

Valuation

We believe the demerger augurs well for the company and reduces its overall dependence on sugar business, which will provide better flexibility in terms of fund raising programmes. DBEL also deserves strong value unlocking from its power business.

We have derived the price of DBEL using SOTP methodology by assuming 3 scenarios, which are mentioned hereunder:

Assumptions

	Scenario 1	Scenario 2	Scenario 3
Cement Business			
Cement (mn tonnes per annum)	9	9	9
Enterprise Value (\$/ tonne)	70	80	90
EV (₹Cr)	2835	3240	3645
OCL India			
Stake in OCL India	45%	45%	45%
OCL's Capacity (mn tonnes per annum)	5.4	5.4	5.4
Enterprise Value (\$/ tonne)	60	70	80
Holding Discount (30%)	42	49	56
EV (₹Cr)	463	541	618
Power Business			
Merchant Power (MW)*	20	20	20
Merchant Power Rates (₹per unit)	4	5	6
EV of Power business (₹Cr)	127	156	184
Refractory Business			
Revenues (₹Cr)	43.53	43.53	43.53
EV/Sales (x)	2	2	2
EV of Refractory Business (₹Cr)	87.06	87.06	87.06
Enterprise Value (Consolidated) (₹Cr)	3513	4023	4534
Less: Net Debt including 45% of OCL (₹Cr)	1759	1759	1759
Expected Market Cap (₹Cr)	1754	2264	2775
No. of Equity Shares (Cr)	8.1	8.1	8.1
Fair value of a share (₹)	217	280	343

* New captive power plant at Ariyalur commenced

Note:

- Power business based on long-term cash flows and
- Considered current slowdown in the cement sector in the southern region

