

Poor recovery realisation in South is a spot of bother

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Dalmia Bharat Enterprises, formerly Dalmia Cement, has taken the next step in restructuring its diversified portfolio, which includes cement manufacturing, sugar plants and investments. Private equity giant KKR is investing up to Rs 750 crore into DBE's cement subsidiary Avnija in two stages – Rs 500 crore now and the rest over the next 18 months.

The transaction will result in KKR acquiring up to 20% stake in Avnija, say senior company officials. The investment by KKR comes at a time when Dalmia Bharat Enterprises through its subsidiaries has plans to aggressively expand its cement capacity by 10 mt over the next 3-4 years.

While the financial details of the yet to be listed Dalmia Bharat Enterprises are sketchy, this transaction values the cement capacity on an enterprise value per tonne at nearly \$87 per tonne, as compared to other South-based players such as India Cements, which trades at nearly \$78 per tonne levels. Analysts point to the booming demand in the eastern region which could have led to better valuations on a per tonne basis for Avnija.

However, in the key southern cement market for Avnija, cement prices didn't recover in the fourth quarter as anticipated earlier. For instance, other South-based companies such as Chettinad Cement's realisations declined nearly 16.7% y-o-y to Rs 3,134 per tonne in the quarter. This clouds the near-term outlook for Dalmia Bharat Enterprises, though its better than its southern peers, thanks to its significant exposure in booming eastern India through OCL and large sugar production capacity in Uttar Pradesh.