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#### Q4FY20 result review and earnings revision

## Cement

Target price: Rs785

### Earnings revision

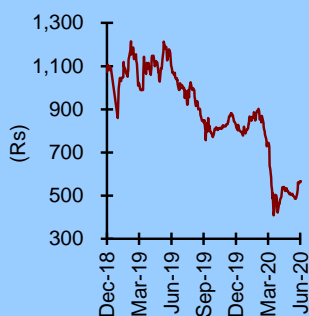
(%)	FY21E	FY22E
Sales	↓ 4.3	↓ 4.5
EBITDA	↓ 0.2	↓ 0.0
PAT	↑ 15.7	↑ 7.9

### Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	54.3	54.3	54.3
Institutional investors	21.4	20.5	20.8
MFs and others	3.5	4.5	3.3
Banks/FIs/Ins.	0.8	0.5	0.3
FIIIs	17.1	17.5	17.2
Others	24.3	25.2	24.9

Source: CMIE

### Price chart



# Dalmia Bharat

**BUY**  
Maintained  
**Rs564**

## Market mix concerns seem priced-in

Dalmia Bharat's (DALBHARA) Q4FY20 EBITDA declined 16% YoY to Rs5.1bn (in line with consensus) owing to weak realisation. Volumes declined 7% YoY while realisation declined 5% YoY, both broadly in-line with our estimates. Company started trial run at 3mnte clinker line at Odisha which would reduce dependence on external clinker purchase; while grinding units are delayed by six months owing to Covid-19. Net debt declined by Rs3.1bn YoY to Rs28.3bn as at Mar'20 while the company bought back 5.3mn shares amounting to Rs2.7bn (vs Rs5bn earmarked at maximum price of Rs700/sh) during YTD-Q1FY21. We broadly maintain our FY21E-FY22E EBITDA with the target price unchanged at Rs785/sh based on 7x FY22E EV/E. Maintain BUY as market mix concerns (East exposure) seem adequately priced-in with valuation at 5.3x FY22E EV/E or 8x FY22E EV/OCF.

Conference call on June 15 (Mon) at 10:30hrs IST, (022 6280 1143)

- ▶ **Revenues declined 11% YoY to Rs24.8bn (I-Sec: Rs25.2bn):** Volume decline was lower than peers at 7% YoY to 5.17mnte during Q4FY20 while it increased 3% YoY to 19.3mnte (vs likely industry decline of 2% YoY) in FY20 owing to improved demand in East despite demand contraction in South. However, realisation declined 5% YoY (increased 1.8% QoQ) owing to weak prices (on supply concerns) in East and South markets.
- ▶ **Cement EBITDA/te declined 16% YoY to Rs961/te:** Total cost/te declined 3% YoY / 0.6% QoQ vs our estimate of 2% YoY decline in Q4FY20. Raw material plus power & fuel cost/te declined 10% YoY led by 15% YoY / 28% YoY decline in slag and petcoke prices respectively; though the same was flat QoQ despite 10% QoQ lower petcoke prices owing to maintenance shutdown, higher external clinker purchase and 9% QoQ increase in slag prices. Fly ash prices stood flat both YoY and QoQ in Q4FY20. Freight cost/te increased 6% YoY (down 2% QoQ) with lead distance remaining at <300km. Other expenses/te (including employee costs) increased 3% YoY owing to poor operating leverage. Company received government incentives of Rs2bn in Q4FY20 and Rs4.1bn in FY20. PAT declined 89% YoY to Rs260mn.
- ▶ **Grinding units delayed by six months due to Covid-19.** Trial run of the 3.1mnte clinker unit at Rajgangpur, Odisha, commenced in Dec'19, which is likely to reduce dependence on external clinker purchase; however, grinding units has been delayed by six months from the respective commissioning dates. Company has incurred capex of Rs14.4bn out of total capex of Rs30bn till date. DALBHARA received NCLAT approvals under IBC proceedings to acquire 3mnte Murli Industries, Maharashtra, which may take at least a year to be operational, in our view.
- ▶ **DALBHARA generated FCF of Rs5.5bn** post OCF of Rs19bn including receipt of Rs4.1bn incentives and capex of Rs13.5bn in FY20. Net debt declined by Rs3.1bn to Rs28.3bn in Mar'20 and is unlikely to increase over FY20-FY22E.

Market Cap	Rs107bn/US\$1.4bn	Year to Mar	2019	2020	2021E	2022E
Reuters/Bloomberg	DALA.BO/DALBHARA IN	Revenue (Rs mn)	94,840	95,810	94,314	1,11,036
Shares Outstanding (mn)	189.1	EBITDA (Rsmn)	19,420	21,060	21,136	25,606
52-week Range (Rs)	1171/409	Net Income (Rs mn)	3,080	2,240	2,068	4,874
Free Float (%)	45.7	% Chg YoY	5.5	(27.3)	(5.7)	135.7
FII (%)	17.2	P/E (x)	35.2	48.3	51.3	21.7
Daily Volume (US\$'000)	1,872	CEPS (Rs)	83.5	91.3	93.7	113.5
Absolute Return 3m (%)	(11.5)	EV/E (x)	7.2	6.5	6.5	5.3
Absolute Return 12m (%)	(51.6)	Dividend Yield	0.4	0.4	0.2	0.5
Sensex Return 3m (%)	3.4	RoCE (%)	4.7	2.9	3.1	4.6
Sensex Return 12m (%)	(14.0)	RoE (%)	2.9	2.1	2.0	4.6

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**Table 1: Q4FY20 result review***(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	I-Sec estimates	% variance
<b>Net Sales</b>	<b>24,830</b>	<b>27,970</b>	<b>(11.2)</b>	<b>24,180</b>	<b>2.7</b>	<b>25,208</b>	<b>(1.5)</b>
Volumes	5.17	5.57	(7.2)	5.10	1.4	5.31	(2.6)
Blended realisations	4,803	5,022	(4.4)	4,741	1.3	4,750	1.1
Raw Materials	5,160	6,230	(17.2)	4,310	19.7	4,511	14.4
Personnel Cost	1,640	1,560	5.1	1,690	(3.0)	1,700	(3.6)
Power and Fuel	3,860	4,570	(15.5)	4,580	(15.7)	4,790	(19.4)
Freight and Selling	5,080	5,190	(2.1)	5,130	(1.0)	5,044	0.7
Other Expenses	4,010	4,380	(8.4)	3,900	2.8	4,424	(9.4)
<b>Total Expenses</b>	<b>19,750</b>	<b>21,930</b>	<b>(9.9)</b>	<b>19,610</b>	<b>0.7</b>	<b>20,469</b>	<b>(3.5)</b>
<b>EBITDA</b>	<b>5,080</b>	<b>6,040</b>	<b>(15.9)</b>	<b>4,570</b>	<b>11.2</b>	<b>4,739</b>	<b>7.2</b>
<b>EBITDA/te</b>	<b>983</b>	<b>1,084</b>	<b>(9.4)</b>	<b>896</b>	<b>9.7</b>	<b>893</b>	<b>10.0</b>
Interest	1,240	830	49.4	950	30.5	1,140	8.8
Depreciation	3,750	3,560	5.3	4,050	(7.4)	3,848	(2.5)
Other Income	560	540	3.7	680	(17.6)	430	30.2
<b>Recurring pre-tax income</b>	<b>650</b>	<b>2,190</b>	<b>(70.3)</b>	<b>250</b>	<b>160.0</b>	<b>181</b>	<b>258.2</b>
Extra-ordinary items	-	(450)		-		-	
Taxation	410	10	NA	(10)	NA	18	NA
Minority Interest	(20)	350	NA	20	NA	20	NA
<b>Reported Net Income</b>	<b>260</b>	<b>1,380</b>	<b>(81.2)</b>	<b>240</b>	<b>8.3</b>	<b>143</b>	<b>81.4</b>
<b>Recurring Net Income</b>	<b>260</b>	<b>2,280</b>	<b>(88.6)</b>	<b>240</b>	<b>8.3</b>	<b>143</b>	<b>81.4</b>

Source: Company data, I-Sec research

**Table 2: Historical quarterly analysis on per-tonne basis**

<i>(Rs/te)</i>	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Blended realisation</b>	<b>5,022</b>	<b>5,371</b>	<b>5,002</b>	<b>4,741</b>	<b>4,803</b>
Raw materials consumed	1,118	725	841	845	998
Power & fuel	820	1,020	962	898	747
Freight cost	932	1,013	924	1,006	983
Staff cost	280	380	378	331	317
Other expenses	786	769	834	765	776
<b>Total costs/te</b>	<b>3,937</b>	<b>3,908</b>	<b>3,940</b>	<b>3,845</b>	<b>3,820</b>
<b>EBITDA/te –blended</b>	<b>1,084</b>	<b>1,464</b>	<b>1,063</b>	<b>896</b>	<b>983</b>

Source: Company data, I-Sec research

**Table 3: DALBHARA generated FCF of Rs5.5bn in FY20**

<i>(Rs mn)</i>	FY19	FY20	% YoY
Operating Cash flow	15,400	16,280	5.7
Working Capital changes	(1,630)	2,740	NA
Capital Commitments	(9,260)	(13,500)	45.8
<b>Net Operating FCF</b>	<b>4,510</b>	<b>5,520</b>	<b>22.4</b>
Investing Activities	10,570	(4,850)	NA
Inc(Dec) in Borrowings	(15,050)	120	NA
Dividend paid	(400)	(930)	132.5
<b>Change in Cash &amp; Bank</b>	<b>(370)</b>	<b>(140)</b>	<b>(62.2)</b>

Source: Company data, I-Sec research

**Table 4: EBITDA to OCF conversion stood at 97% in FY20**

<i>(Rs mn)</i>	FY19	FY20	% YoY
OCF before w/cap changes	20,300	21,300	4.9
W/cap changes	(1,630)	2,740	NA
Taxes paid	(240)	(660)	175.0
<b>OCF</b>	<b>18,430</b>	<b>23,380</b>	<b>26.9</b>
EBITDA	19,420	21,060	8.4
<b>EBITDA:OCF</b>	<b>95%</b>	<b>111%</b>	
Interest	(5,220)	(5,110)	(2.1)
Other income	2,440	2,170	(11.1)
<b>EBITDA:OCF (post int./OI)</b>	<b>81%</b>	<b>97%</b>	

**Table 5: Per tonne estimates**

	FY18	FY19	FY20	FY21E	FY22E
<b>Blended realisation</b>	<b>5,059</b>	<b>5,077</b>	<b>4,967</b>	<b>4,889</b>	<b>4,920</b>
YoY change (%)	4.9%	0.4%	-2.2%	-1.6%	0.6%
<b>Cement realisation</b>	<b>4,800</b>	<b>4,744</b>	<b>4,691</b>	<b>4,620</b>	<b>4,657</b>
YoY change (%)	5.2%	-1.2%	-1.1%	-1.5%	0.8%
Raw Material Consumed	900	956	857	827	837
Power and Fuel	828	940	901	857	876
Employees expenses	359	347	350	345	313
Freight and Forwarding	951	979	982	999	1,016
Other Expenses	820	816	785	765	742
<b>Total Operating Expenses</b>	<b>3,858</b>	<b>4,037</b>	<b>3,875</b>	<b>3,794</b>	<b>3,785</b>
YoY change (%)	6.2%	4.6%	-4.0%	-2.1%	-0.2%
<b>EBITDA</b>	<b>1,200</b>	<b>1,040</b>	<b>1,092</b>	<b>1,096</b>	<b>1,135</b>
YoY change (%)	-3.1%	-13.4%	5.0%	0.4%	3.5%

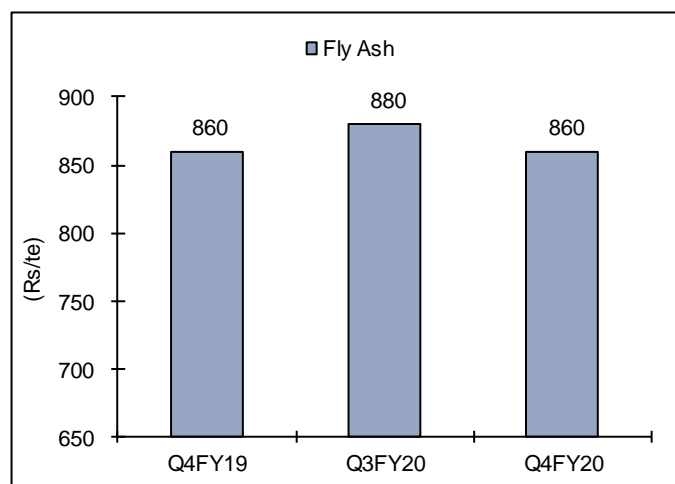
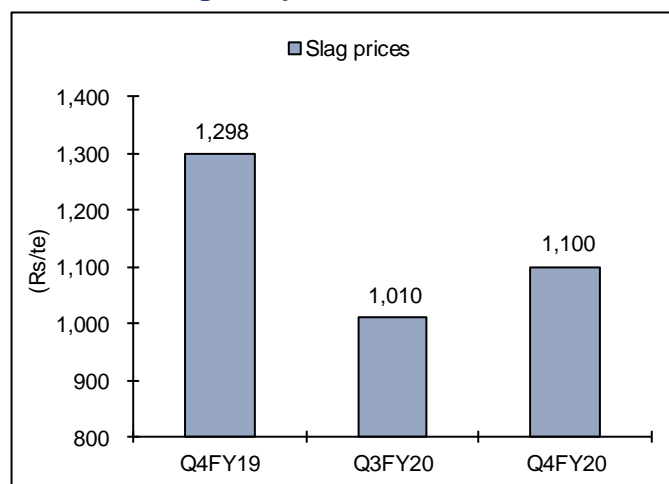
Source: Company data, I-Sec research

**Table 6: Performance trend and assumptions**

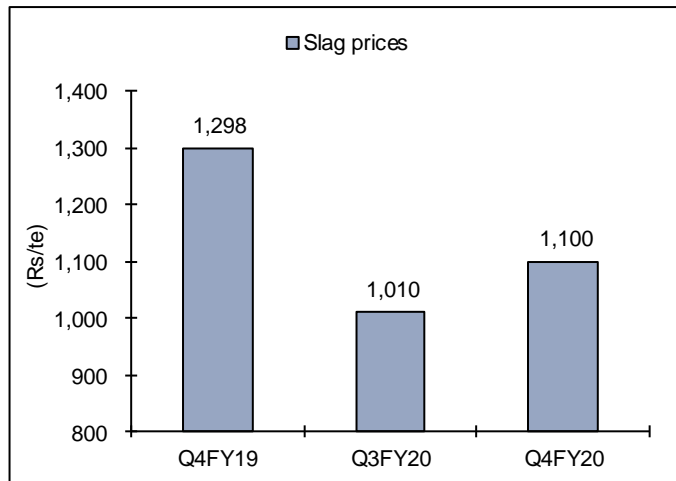
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	FY18	FY19	FY20	FY21E	FY22E
<b>Capacity</b>	<b>24.9</b>	<b>24.9</b>	<b>26.0</b>	<b>31.2</b>	<b>36.8</b>
Production	17.0	18.7	19.3	19.3	22.6
Capacity utilisation (%)	73	80	82	70	69
<b>Sales</b>	<b>17.0</b>	<b>18.7</b>	<b>19.3</b>	<b>19.3</b>	<b>22.6</b>
Growth (%)	10.9%	10.1%	3.3%	0.0%	17.0%
<b>Realisation (Rs/te)</b>	<b>4,800</b>	<b>4,744</b>	<b>4,691</b>	<b>4,620</b>	<b>4,657</b>
Growth (%)	5.2%	-1.2%	-1.1%	-1.5%	0.8%

Source: Company data, I-Sec research

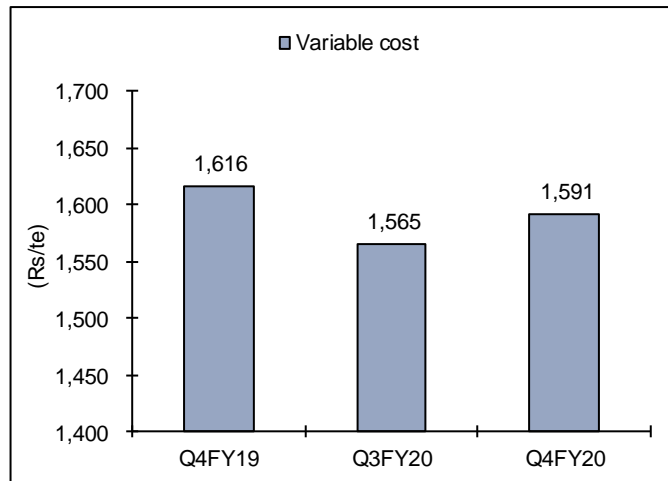
**Chart 1: Fly ash prices stood flat YoY / declined 2% QoQ in Q4FY20****Chart 2: Slag prices declined 15% YoY / increased 9% QoQ during the quarter**

**Chart 3: Petcoke prices declined 28% YoY and 11% QoQ in Q4FY20**



Source: Company data, I-Sec research

**Chart 4: Variable costs declined 2% YoY / increased 2% QoQ during the quarter**



**Table 7: Valuations based on 7x FY22E EV/E**

EBITDA	25,606
<b>Target EV/ EBITDA multiple (x)</b>	<b>7</b>
Target EV (Rs mn)	179,239
Net debt / (cash) (Rs mn)	31,380
Target value (Rs mn)	147,859
No. of shares (mn)	188
<b>Target price per share (Rs)</b>	<b>785</b>

Source: I-Sec research

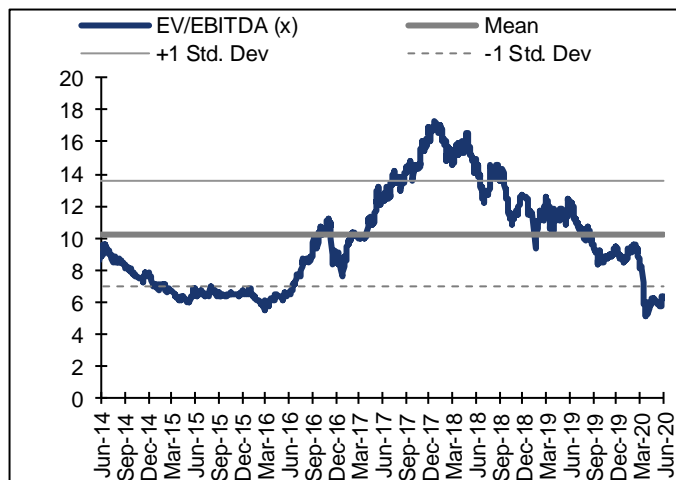
**Table 8: Earnings revision**

(Rs mn)

	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	94,314	98,509	(4.3)	1,11,036	1,16,323	(4.5)
EBITDA	21,136	21,186	(0.2)	25,606	25,611	(0.0)
PAT	2,068	1,786	15.7	4,874	4,515	7.9

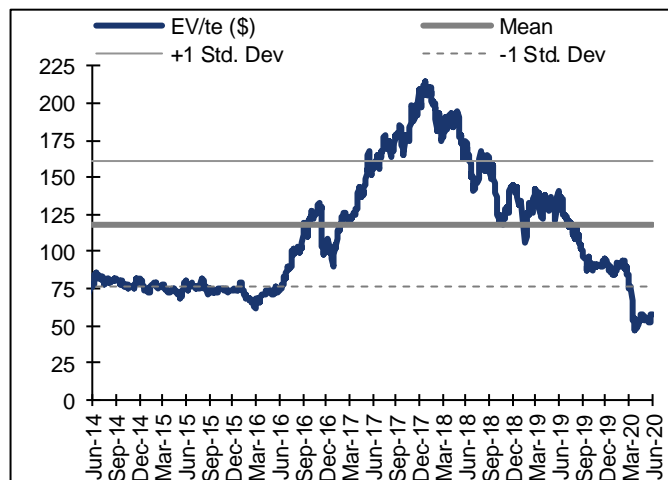
Source: I-Sec research

**Chart 5: Rolling EV/EBITDA**



Source: I-Sec research

**Chart 6: Rolling EV/te**



## Financial summary (consolidated)

Table 9: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income</b>	<b>94,840</b>	<b>95,810</b>	<b>94,314</b>	<b>1,11,036</b>
<b>Operating Expenses</b>	<b>75,420</b>	<b>74,750</b>	<b>73,178</b>	<b>85,431</b>
<b>EBITDA</b>	<b>19,420</b>	<b>21,060</b>	<b>21,136</b>	<b>25,606</b>
% margin	20.5	22.0	22.4	23.1
Depreciation	12,960	15,280	15,547	16,458
Gross Interest	5,510	4,380	4,521	4,317
Other Income	2,440	2,170	1,894	1,894
<b>Recurring PBT</b>	<b>3,390</b>	<b>3,570</b>	<b>2,962</b>	<b>6,724</b>
Add: Extraordinaries	-	-	-	-
<b>Less: Taxes</b>	<b>(100)</b>	<b>1,190</b>	<b>741</b>	<b>1,681</b>
- Current tax	1,120	1,071	889	2,017
- Deferred tax	(1,220)	119	(148)	(336)
Add: Associate Income	-	-	-	-
Less: Minority Interest	(410)	(140)	(154)	(169)
<b>Net Income (Reported)</b>	<b>3,080</b>	<b>2,240</b>	<b>2,068</b>	<b>4,874</b>
<b>Recurring Net Income</b>	<b>3,080</b>	<b>2,240</b>	<b>2,068</b>	<b>4,874</b>

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	40,200	34,980	39,438	41,628
Current Liab. & Prov.	25,530	26,600	26,704	29,385
<b>Net Current Assets</b>	<b>14,670</b>	<b>8,380</b>	<b>12,735</b>	<b>12,243</b>
<b>Investments of which</b>	<b>24,240</b>	<b>28,160</b>	<b>25,160</b>	<b>25,160</b>
Strategic/Group	1,070	780	780	780
Marketable	23,170	27,380	24,380	24,380
<b>Net Fixed Assets*</b>	<b>1,24,740</b>	<b>1,30,790</b>	<b>1,27,243</b>	<b>1,26,785</b>
<b>Goodwill</b>	<b>16,200</b>	<b>12,180</b>	<b>12,180</b>	<b>12,180</b>
<b>Total Assets</b>	<b>1,79,850</b>	<b>1,79,510</b>	<b>1,77,318</b>	<b>1,76,368</b>
of which cash & cash equivalents	27,860	31,410	30,164	27,580
<b>Liabilities</b>				
Borrowings	59,210	59,660	59,660	54,660
Deferred Tax Liability & Other liabilities	12,790	12,770	12,622	12,286
Minority Interest	110	250	250	250
Deferred capital investment subsidy	1,290	1,220	1,220	1,220
Equity Share Capital	390	390	376	376
Face value per share (Rs)	2	2	2	2
Reserves & Surplus	1,06,000	1,05,220	1,03,190	1,07,576
<b>Net Worth</b>	<b>1,06,390</b>	<b>1,05,610</b>	<b>1,03,566</b>	<b>1,07,952</b>
<b>Total Liabilities</b>	<b>1,79,850</b>	<b>1,79,510</b>	<b>1,77,318</b>	<b>1,76,368</b>

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	24,440	22,360	24,180	24,830
% growth (YoY)	3	7	12	(11)
Recurring EBITDA	6,660	4,750	4,570	5,080
Margin (%)	27.3	21.2	18.9	20.5
Other income	440	490	680	560
<b>Recurring Net Income</b>	<b>1,470</b>	<b>270</b>	<b>240</b>	<b>260</b>

Source: Company data

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>15,400</b>	<b>16,280</b>	<b>15,776</b>	<b>19,326</b>
Working Capital	(1,630)	2,740	(2,805)	(2,316)
Capital Commitments	(9,260)	(13,500)	(12,000)	(16,000)
Net Operating FCF	<b>4,510</b>	<b>5,520</b>	<b>971</b>	<b>1,010</b>
Investing Activities	<b>10,570</b>	<b>(4,850)</b>	<b>4,894</b>	<b>1,894</b>
Issue of Share Capital	-	-	(3,905)	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(15,050)	120	-	(5,000)
Dividend paid	(400)	(930)	(207)	(487)
Others	-	-	-	-
<b>Chg. in Cash &amp; Bank</b>	<b>(370)</b>	<b>(140)</b>	<b>1,754</b>	<b>(2,584)</b>

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	16	12	11	26
Diluted Recurring EPS	16	12	11	26
Diluted Recurring CEPS	84	91	94	114
Dividend per share	2.0	2.0	1.1	2.6
Book Value	554	550	551	575
<b>Growth Ratios (% YoY)</b>				
Operating Income	10.5	1.0	(1.6)	17.7
EBITDA	(4.6)	8.4	0.4	21.1
Recurring Net Income	5.5	(27.3)	(7.7)	135.7
Diluted Recurring EPS	5.5	(27.3)	(5.7)	135.7
Diluted Recurring CEPS	6.6	9.2	2.7	21.1
<b>Valuation Ratios (x)</b>				
P/E	35.2	48.3	51.3	21.7
P/CEPS	6.8	6.2	6.0	5.0
P/BV	1.0	1.0	1.0	1.0
EV / EBITDA	7.2	6.5	6.5	5.3
EV / te (US\$)	82	77	65	54
EV / Operating Income	1.5	1.4	1.5	1.2
<b>Operating Ratios (%)</b>				
Raw Material / Sales	20.4	17.5	17.2	17.2
Other expenses / Sales	16.1	15.8	15.6	15.1
Other Income / PBT	72.0	60.8	63.9	28.2
Effective Tax Rate	(2.9)	33.3	25.0	25.0
NWC / Total Assets	0.1	0.0	0.0	0.1
Inventory (x)	4.6	4.1	3.9	4.0
Receivables (days)	21	18	18	20
Payable (days)	44	42	42	38
D/E Ratio (x)	0.3	0.3	0.3	0.3
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	3.2	2.3	2.2	4.4
RoCE	4.7	2.9	3.1	4.6
RoNW	2.9	2.1	2.0	4.6
Dividend Payout	12.5	17.1	10.0	10.0

Source: Company data, I-Sec research

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