

Dalmia Bharat

Healthy cost controls; earnings hit by Covid

We retain BUY on Dalmia Bharat with a TP of Rs 930. We like the co for its distribution strength across its markets and healthy balance sheet. Covid lockdown in Mar-20 and weak pricing pulled down consol rev/EBITDA/APAT 11/16/86% YoY. A weak 4Q slowed FY20 rev/EBITDA growth to 1/9% YoY. FY20 unitary EBITDA remained buoyant at Rs 1,091/MT (+6% YoY) led by lower input costs and asset sweating. APAT fell 23% YoY on higher dep and tax outgo. Despite large capex in FY20, Dalmia reduced net debt ~11% YoY.

- **4QFY20 analysis:** Covid lockdown pulled down sales vol by 7% YoY to 5.2mn MT (ex covid +7% vol growth). This was Dalmia's first vol decline after many quarters! Weak pricing across east and south drove 4% NSR fall YoY. On cost front, Dalmia's slag/petcoke prices in 4Q fell 15/27% YoY and drove 3% opex decline. This cushioned unitary EBITDA fall to 10% YoY to Rs 983/MT. Thus, consol rev/EBITDA fell 11/16% YoY. INR depreciation bloated MTM led int cost (on forex loan) and drove 86% APAT decline.
- **Healthy FY20:** Despite weak 4Q, Dalmia's vol rose 3% YoY (ahead of -1% for industry) led by vol growth in the east/NE and slight decline in south. Amid weak pricing, low petcoke/slag prices and asset sweating drove 6% unitary EBITDA expansion to Rs 1,091/MT. Thus, consol rev/EBITDA rose 1/9% YoY. Higher Cash PAT and WC release led to 27% rise in OCF to Rs 23.4 bn. Despite 45% jump in capex outgo, FCF rose 8% YoY to Rs 9.9bn and drove 11% reduction in net debt to Rs 39.6bn (we treat the IEX investment of Rs 7.6bn and locked MF units worth Rs 3.5bn as long term investment).
- **Capex update and growth outlook:** During 1HFY21, 3.1mn MT clinker unit in Odisha and 1mn MT GU in Bokaro will be commercially operational. Thereafter, during 2HFY21/FY22, two SGUs of 2.5mn MT each in WB/Odisha will get commissioned (currently delayed by six months). Murli plant's operationalisation is delayed to 2HFY22E due to Covid. We expect Dalmia's vol to fall 8% YoY in FY21E and rebound by 25% in FY22E. We expect its unitary EBITDA to moderate to ~Rs 910/MT during FY21-22E (18% lower vs FY20), on account of lower utilisation.
- **Maintain BUY:** We trim Dalmia's EBITDA est for FY21/22E by 3/3% resp, to factor in Covid impact on sales and expansion delays. We remain positive on the co, owing to its strong distribution strength across east/NE/south regions. Its lean operating costs also cushion the regional price volatility. Dalmia's balance sheet should remain comfortable despite large expansions (net Debt/EBITDA under 2.5x). We maintain BUY with unchanged TP of Rs 930 (10x its FY22 EBITDA, in-line its five year mean). Our TP implies replacement cost of Rs 5.6bn/MT.

Financial Summary

YE Mar (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY19	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	24,830	28,010	(11.4)	24,180	2.7	85,800	94,660	95,810	88,154	108,678
EBITDA	5,080	6,080	(16.4)	4,570	11.2	20,370	19,240	21,050	16,045	20,522
APAT	260	1,865	(86.1)	240	8.3	2,930	2,900	2,230	(1,586)	1,315
AEPS (Rs)	1.3	9.7	(86.1)	1.2	8.3	32.8	15.0	11.6	(8.2)	6.8
EV/EBITDA (x)						7.5	7.9	7.0	9.1	6.5
EV/MT (Rs bn)						6.1	5.8	5.7	4.9	3.8
P/E (x)						36.8	37.2	48.4	(68.0)	82.1
RoE (%)						2.9	2.8	2.1	(1.5)	1.3

Source: Company, HSIE Research, Consolidated Financials

BUY

CMP (as on 15 Jun 2020)	Rs 560	
Target Price	Rs 930	
NIFTY	9,814	
KEY CHANGES	OLD	NEW
Rating	Buy	Buy
Price Target	Rs 930	Rs 930
EBITDA %	FY21E	FY22E
	(3.0)	(2.5)

KEY STOCK DATA

Bloomberg code	DALBHARA IN
No. of Shares (mn)	189
MCap (Rs bn) / (\$ mn)	106/1,391
6m avg traded value (Rs mn)	142
52 Week high / low	Rs 1,158/403

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.3)	(31.1)	(51.8)
Relative (%)	(7.7)	(12.1)	(36.0)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	54.26	54.28
FIs & Local MFs	6.33	5.49
FPIs	14.16	15.29
Public & Others	25.25	24.94
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Consol sales vol fell 7% YoY to 5.17mn MT, mainly impacted by Covid lockdown

NSR recovered 1% QoQ, aided by better pricing QoQ in south. However, it still remained 4% lower YoY, thereby pulling down margin YoY.

Opex cooled off 3/1% YoY/QoQ, aided mainly by falling input costs (lower slag & fuel cost). Freight costs fell 2% QoQ but went up 5% YoY on increased lead distance. Fixed costs rose 2% YoY while flat QoQ, impacted by vol decline.

Thus unitary EBITDA came in 10% lower at Rs 983/MT

INR depreciation bloated MTM led int cost (on forex loan) and drove 86% APAT decline.

Quarterly Consolidated Financial Snapshot

Particulars (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net Sales	24,830	28,010	(11.4)	24,180	2.7
Raw Materials	5,760	6,820	(15.5)	4,940	16.6
Power and Fuel	1,640	1,560	5.1	1,690	(3.0)
Transport	3,860	4,570	(15.5)	4,580	(15.7)
Employee	4,480	4,600	(2.6)	4,500	(0.4)
Other Exp	4,010	4,380	(8.4)	3,900	2.8
EBITDA	5,080	6,080	(16.4)	4,570	11.2
EBITDA margin (%)	20.5	21.7		18.9	
Depreciation	3,750	3,560	5.3	4,050	(7.4)
EBIT	1,330	2,520	(47.2)	520	155.8
Other Income (Including EO Items)	560	950	(41.1)	680	(17.6)
Interest Cost	1,240	830	49.4	950	30.5
PBT - Reported	650	2,640	(75.4)	250	160.0
Tax	410	10		(10)	
Tax rate (%)	63.1	0.4		(4.0)	
(Minority Int)/ Share of assoc profit	20	(355)		(20)	
RPAT	260	2,275	(88.6)	240	8.3
EO (Loss) / Profit (Net Of Tax)	-	410		-	
APAT	260	1,865	(86.1)	240	8.3
Adj PAT margin (%)	1.0	6.7		1.0	

Source: Company, HSIE Research

Quarterly Consolidated Performance Analysis

Particulars	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Sales vol (mn MT)	5.17	5.57	(7.2)	5.10	1.4
Rs/MT trend					
NSR	4,803	5,029	(4.5)	4,741	1.3
Raw materials	1,114	1,224	(9.0)	969	15.0
Power & fuel	747	820	(9.0)	898	(16.9)
Freight	867	826	4.9	882	(1.8)
Employee	317	280	13.3	331	4.3
Other Exp	776	786	(1.4)	765	1.4
Opex	3,820	3,937	(3.0)	3,845	0.6)
EBITDA	983	1,092	(10.0)	896	9.7

Source: Company, HSIE Research

We have updated our fin model for FY19/20 P&L, BS and CF statements as reported.

Dalmia's vol grew 3% YoY in FY20 – driven by strong demand in east/NE regions amid decline in south. We model in 8% vol fall in FY21 on Covid impact, but expect it to recover by 25% in FY22E

We factor in slight ~1% fall in NSR during FY21/22E. Despite low energy costs we estimate ~18% fall in unitary EBITDA owing to lower utilisation.

We cut vol est by 4/6% for FY21/22E factoring in higher impact of Covid lockdown on demand, driving 3/3% EBITDA est downgrades. The APAT downgrade is amplified owing to its low base

We have marginally cut our val multiple to 10x from 10.5x earlier to factor in weak earnings. However out target valuation is not impacted due to capex deferment and better WC.

During 1QFY21, Dalmia bought back Rs 2.7bn worth shares out of Rs 5bn earmarked (2.8% of pre buy back shares)

Operational Trends and Assumptions

Particulars	FY17	FY18	FY19	FY20	FY21E	FY22E
Cement Cap (mn MT)	25.0	25.0	26.1	26.1	29.6	35.1
Sales Volume (mn MT)	15.3	17.0	18.7	19.3	17.8	22.2
YoY change (%)	19.6	10.8	10.1	3.3	(7.5)	24.5
Utilisation (%)	61.2	67.8	71.6	73.9	60.3	63.3
(Rs/ MT trend)						
NSR (1)	4,867	5,059	5,068	4,967	4,942	4,893
YoY change (%)	(2.9)	3.9	0.2	(2.0)	(0.5)	(1.0)
Raw Materials (2)	852	1,018	1,079	968	988	1,007
Power & Fuel (3)	677	828	940	901	865	874
Freight costs (4)	890	833	856	871	854	854
Employee cost (5)	386	358	347	350	428	395
Other expense (6)	825	820	816	785	908	839
Total Opex (7)= sum(2 thru 6)	3,629	3,858	4,038	3,876	4,042	3,969
EBITDA per MT (1-7)	1,238	1,201	1,030	1,091	900	924
YoY change (%)	(0.5)	(3.0)	(14.2)	5.9	(17.6)	2.7

Source: Company, HSIE Research

Change in Estimates

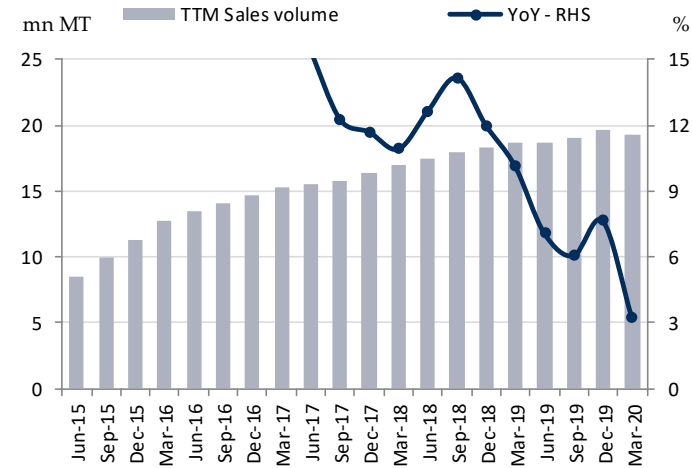
Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Net Revenues	91.79	88.15	(4.0)	114.78	108.68	(5.3)
EBITDA	16.54	16.05	(3.0)	21.04	20.52	(2.5)
APAT	(1.29)	(1.59)	23.2	0.57	1.31	131.5
AEPS	(6.7)	(8.2)	23.2	2.9	6.8	131.5

Source: Company, HSIE Research

Long term op performance trends (TTM basis)

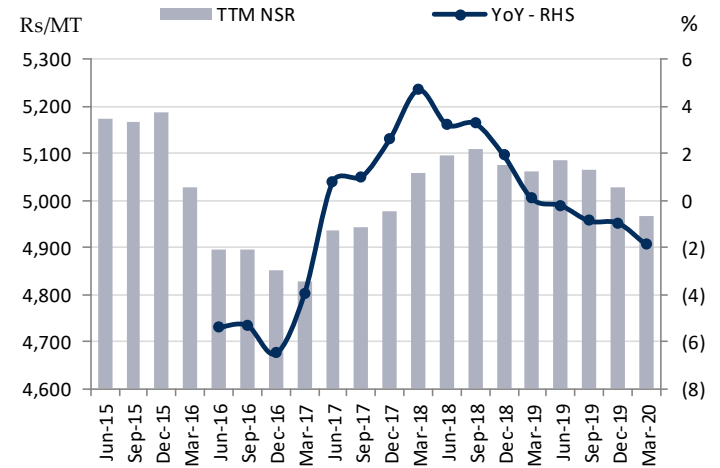
We have plotted Dalmia Bharat's operating metrics on trailing 12-month (TTM) basis, to assess its long term performance trends

Dalmia Bharat's quarterly vol declined for the first time (in several years) in 4QFY20, moderating FY20 growth



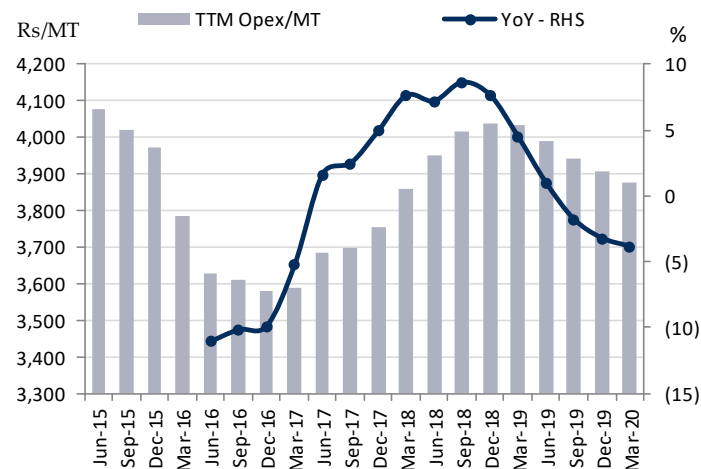
Source: Company, HSIE Research

NSR fell 2% YoY on weak pricing across east and south markets



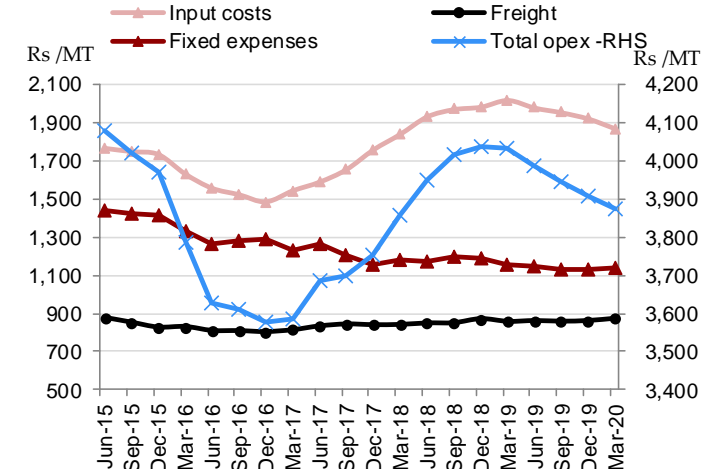
Source: Company, HSIE Research

Falling input costs and increased asset sweating led to opex fall of 4% YoY in FY20



Source: Company, HSIE Research

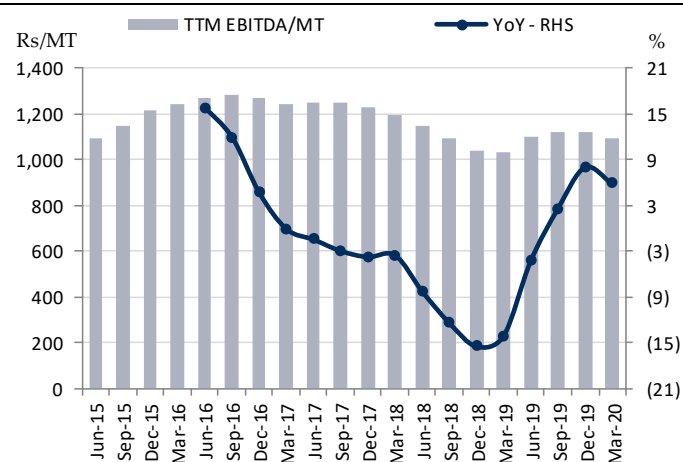
While input costs reduced, freight and fixed costs remained stable



Source: Company, HSIE Research

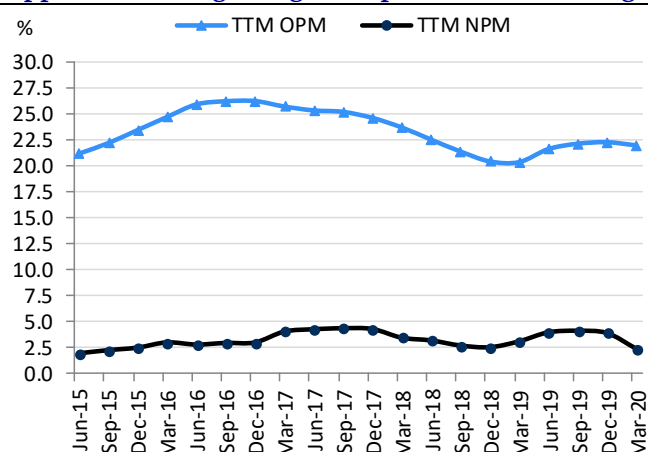
Long term performance trends (TTM basis) continued

Dalmia's unitary EBITDA recovered 6% YoY on low costs



Source: Company, HSIE Research

OPM recovered YoY on opex moderation while NPM dipped YoY owing to higher depreciation & tax outgo



Source: Company, HSIE Research

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA			EV/MT (Rs bn)			Net D:E (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
UltraTech Cem	1,029	3,745	BUY	4,720	13.2	14.8	12.1	10.78	10.33	9.70	0.4	0.3	0.2	10.4	7.6	9.5
Shree Cement	770	22,117	REDUCE	17,900	20.6	23.9	19.6	17.54	17.11	15.72	(0.3)	(0.3)	(0.3)	13.9	7.9	9.7
Ambuja Cements	379	191	BUY	210	10.0	11.2	9.5	7.27	6.87	6.85	(0.7)	(0.7)	(0.7)	6.8	5.3	6.0
ACC	235	1,251	BUY	1,440	7.8	10.7	8.8	5.93	6.08	6.14	(0.4)	(0.4)	(0.3)	11.6	8.4	10.6
Ramco Cements	142	603	BUY	670	14.5	15.0	11.0	8.80	8.43	7.65	0.4	0.4	0.3	12.1	10.2	12.7
Dalmia Bharat	108	560	BUY	930	7.0	9.1	6.5	5.66	4.92	3.82	0.4	0.4	0.2	2.1	(1.5)	1.2
JK Cement	92	1,197	BUY	1,355	10.5	10.8	9.8	7.17	7.23	7.64	0.9	0.9	1.0	14.9	11.8	13.9
Star Cement	36	85	BUY	100	8.6	9.1	7.8	5.90	6.21	6.54	(0.1)	(0.0)	0.1	15.7	13.5	16.1
JK Lakshmi	28	239	BUY	370	5.7	7.3	6.4	3.26	3.26	3.46	0.6	0.5	0.6	16.2	9.0	11.4
Orient Cement	12.3	60	BUY	85	6.3	7.0	5.7	3.01	2.81	2.82	1.1	0.9	0.8	8.0	4.6	9.6
Deccan Cements	3.3	238	BUY	370	4.0	3.7	4.0	1.37	1.26	1.88	(0.1)	(0.1)	0.2	9.9	7.9	11.8

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY19/CY20E/CY21E resp

Financials

Consolidated Income Statement

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	74,470	85,800	94,660	95,810	88,154	108,678
Growth %	16.2	15.2	10.3	1.2	(8.0)	23.3
Raw Material	13,030	17,270	20,160	18,680	17,619	22,380
Power & Fuel	10,360	14,050	17,560	17,380	15,429	19,405
Freight Expense	13,610	14,130	15,980	16,810	15,234	18,970
Employee cost	5,910	6,080	6,480	6,750	7,628	8,772
Other Expenses	12,620	13,900	15,240	15,140	16,200	18,630
EBITDA	18,940	20,370	19,240	21,050	16,045	20,522
EBITDA Margin (%)	25.4	23.7	20.3	22.0	18.2	18.9
EBITDA Growth %	19.0	7.6	(5.5)	9.4	(23.8)	27.9
Depreciation	12,260	12,130	12,960	15,280	15,912	16,710
EBIT	6,680	8,240	6,280	5,770	133	3,812
Other Income (Including EO Items)	2,960	2,740	2,530	2,180	2,000	2,000
Interest	8,560	7,080	5,420	4,380	4,299	3,919
PBT	1,080	3,900	3,390	3,570	(2,166)	1,893
Tax	740	980	(100)	1,190	(650)	473
Minority Int	(100)	(10)	410	140	70	105
RPAT	440	2,930	3,080	2,240	(1,586)	1,315
EO (Loss) / Profit (Net Of Tax)	-	-	180	10	-	-
APAT	440	2,930	2,900	2,230	(1,586)	1,315
APAT Growth (%)	(76.8)	565.3	(1.0)	(23.1)	(171.1)	n/a
AEPS	4.9	32.8	15.0	11.6	(8.2)	6.8
AEPS Growth %	(76.9)	563.8	(54.2)	(23.1)	(171.1)	n/a

Consolidated Balance Sheet

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	178	178	385	385	385	385
Reserves And Surplus	96,112	103,172	106,000	105,220	103,248	104,178
Total Equity	96,290	103,350	106,385	105,605	103,634	104,563
Minority Int	(290)	(300)	110	250	320	425
Long-term Debt	62,540	54,590	40,150	36,040	37,040	27,040
Short-term Debt	17,840	18,070	18,630	23,560	20,460	17,460
Total Debt	80,380	72,660	58,780	59,600	57,500	44,500
Deferred Tax Liability	13,720	13,930	12,790	12,770	12,770	12,770
Long-term Liab+ Provisions	2,530	2,110	4,120	3,620	2,680	2,680
TOTAL SOURCES OF FUNDS	192,630	191,750	182,185	181,845	176,904	164,938
APPLICATION OF FUNDS						
Net Block	126,100	121,360	119,720	113,746	119,834	121,924
Capital WIP	1,280	1,730	5,010	17,020	12,020	4,020
Goodwill	29,060	19,010	16,200	12,180	7,180	2,180
Other Non-current Assets	7,430	8,370	9,320	5,290	4,260	4,310
Total Non-current Investments	6,290	10,690	14,540	12,230	12,230	12,230
Total Non-current Assets	170,160	161,160	164,790	160,466	155,524	144,664
Inventories	6,520	7,790	10,320	9,740	9,697	11,955
Debtors	5,300	5,640	5,490	3,970	4,408	5,434
Cash and Cash Equivalents	22,860	27,900	14,390	19,960	19,086	17,743
Other Current Assets (& Loans/adv)	7,780	10,850	10,390	11,970	11,549	11,736
Total Current Assets	42,460	52,180	40,590	45,640	44,740	46,868
Creditors	8,900	9,280	8,770	8,290	7,493	9,238
Other Current Liabilities & Provns	11,090	12,310	14,425	15,970	15,867	17,356
Total Current Liabilities	19,990	21,590	23,195	24,260	23,360	26,593
Net Current Assets	22,470	30,590	17,395	21,380	21,380	20,275
TOTAL APPLICATION OF FUNDS	192,630	191,750	182,185	181,846	176,904	164,938

Source: Company, HSIE Research

Consolidated Cash Flow

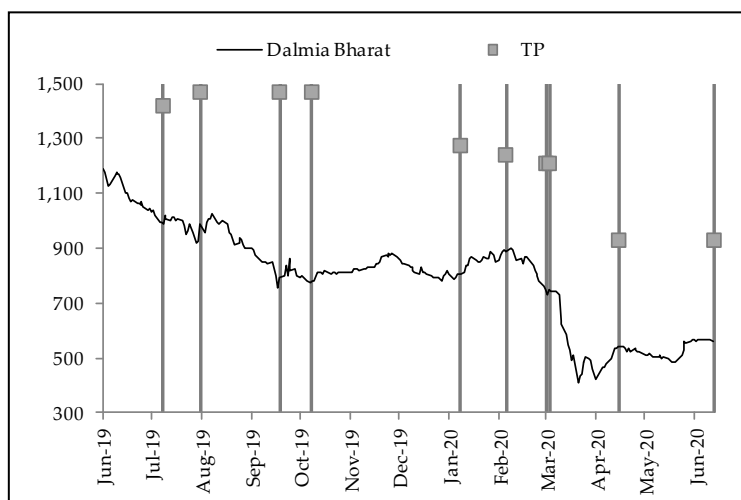
YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	1,080	3,890	3,390	3,570	(2,166)	1,893
Non-operating & EO Items	(2,680)	(2,590)	(1,210)	(1,190)	(2,000)	(2,000)
Interest Expenses	8,560	7,080	5,160	3,640	4,684	4,080
Depreciation	12,260	12,130	12,960	15,280	15,912	16,710
Working Capital Change	(280)	(3,590)	(1,630)	2,740	(784)	(287)
Tax Paid	(190)	(860)	(240)	(660)	650	(473)
OPERATING CASH FLOW (a)	18,750	16,060	18,430	23,380	16,296	19,922
Capex	(3,920)	(3,930)	(9,260)	(13,450)	(12,000)	(5,800)
Free Cash Flow (FCF)	14,830	12,130	9,170	9,930	4,296	14,122
Investments	1,680	3,950	10,510	(4,970)	-	-
Non-operating Income	850	1,330	620	820	2,000	2,000
Others						
INVESTING CASH FLOW (b)	(1,390)	1,350	1,870	(17,600)	(10,000)	(3,800)
Debt Issuance/(Repaid)	(9,000)	(7,730)	(15,090)	120	(2,100)	(13,000)
Interest Expenses	(8,100)	(7,620)	(5,220)	(4,680)	(4,684)	(4,080)
FCFE	(2,270)	(3,220)	(11,140)	5,370	(2,488)	(2,958)
Share Capital Issuance	(390)	40	40	-	-	-
Dividend	-	(330)	(400)	(930)	(385)	(385)
FINANCING CASH FLOW (c)	(17,490)	(15,640)	(20,670)	(5,490)	(7,169)	(17,465)
NET CASH FLOW (a+b+c)	(130)	1,770	(370)	290	(874)	(1,343)
EO Items, Others						
Closing Cash & Equivalents	25,541	24,630	27,530	14,680	19,086	17,743

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY %						
EBITDA Margin	25.4	23.7	20.3	22.0	18.2	18.9
EBIT Margin	9.0	9.6	6.6	6.0	0.2	3.5
APAT Margin	0.6	3.4	3.1	2.3	(1.8)	1.2
RoE	0.6	2.9	2.8	2.1	(1.5)	1.3
RoIC	3.1	3.7	2.8	2.3	0.1	1.9
RoCE	3.8	4.3	3.5	2.9	0.8	2.6
EFFICIENCY						
Tax Rate %	68.5	25.1	(2.9)	33.3	30.0	25.0
Fixed Asset Turnover (x)	0.5	0.5	0.6	0.6	0.5	0.6
Inventory (days)	32	33	40	37	40	40
Debtors (days)	26	24	21	15	18	18
Other Current Assets (days)	38	46	40	46	48	39
Payables (days)	44	39	34	32	31	31
Other Current Liab & Provns (days)	54	52	56	61	66	58
Cash Conversion Cycle (days)	(2)	11	12	5	9	9
Net Debt/EBITDA (x)	3.0	2.2	2.3	1.9	2.3	1.3
Net D/E	0.6	0.4	0.4	0.4	0.4	0.2
Interest Coverage	0.8	1.2	1.2	1.3	0.0	1.0
PER SHARE DATA (Rs)						
EPS	4.9	32.8	15.0	11.6	(8.2)	6.8
CEPS	142.7	168.8	82.3	90.9	74.3	93.5
Dividend	2.0	3.7	2.0	2.0	2.0	2.0
Book Value	1,079	1,155	553	549	539	545
VALUATION						
P/E (x)	245.1	36.8	37.2	48.4	(68.0)	82.1
P/Cash EPS (x)	8.5	7.2	6.7	6.2	7.5	6.0
P/BV (x)	1.1	1.0	1.0	1.0	1.0	1.0
EV/EBITDA (x)	8.7	7.5	7.9	7.0	9.1	6.5
EV/MT (Rs bn)	6.61	6.10	5.84	5.66	4.92	3.82
Dividend Yield (%)	0.4	0.7	0.4	0.4	0.4	0.4
OCF/EV (%)	11.4	10.5	12.1	15.8	11.2	14.9
FCFE/EV (%)	9.0	8.0	6.0	6.7	2.9	10.5
FCFE/M Cap (%)	(2.1)	(3.0)	(10.3)	5.0	(2.3)	(2.7)

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Jul-19	993	BUY	1,420
3-Aug-19	987	BUY	1,470
22-Sep-19	793	BUY	1,470
10-Oct-19	772	BUY	1,470
10-Jan-20	803	BUY	1,275
7-Feb-20	891	BUY	1,245
2-Mar-20	784	BUY	1,210
5-Mar-20	729	BUY	1,210
17-Apr-20	534	BUY	930
15-Jun-20	560	BUY	930

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. 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.

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