

Retail Equity Research

Dalmia Bharat Limited

Cement

BSE CODE: 542216 NSE CODE: DALBHARAT
Bloomberg CODE: DALBHARA:IN SENSEX: 38,310

Accumulate

12M Investment period Rating as per Mid Cap
CMP Rs.790 TARGET Rs.865 RETURN 10% ↑
(Closing: 13-08-20)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Strong margins on cost reduction amidst challenges

Dalmia Bharat Ltd (DBL) is the fourth largest cement company in India with a capacity of ~26.1MT, focusing in South with 13.2MT and East & North-East with 12.9MT.

- We revise upwards our Target to Rs.865 (earlier Rs.640) considering strong growth in earnings but revised to Accumulate (from Buy) due to recent increase in stock price.
- Q1FY21 revenue de-grew by 22%YoY mainly due to sharp decline in volumes (-20%ToY) impacted by Covid-19.
- EBITDA declined by only 7.8%YoY due to sharp improvement in EBITDA margin (31% Vs 26.3%) aided by reduction in costs. EBITDA/Ton improved to record high of Rs.1,678 Vs Rs.1,464.
- The capacity expansion of ~7.8MT in East is on track with slight delay due to lockdown restrictions. ~4.4MT would be completed in FY21 and balance in FY22.
- Acquisition of Murli Industries (3MT-Maharashtra) would be completed by Q3FY21 and ramp up is expected in another 12 months.
- Demand outlook remains uncertain in the short-term but to recover strongly in FY22. We value DBL at 8x FY22E EV/EBITDA.

Covid-19 impacts the volumes...

DBL reported revenue de-growth of 22.2%YoY mainly impacted by volume declines (-20%YoY) owing to lock-down restrictions on account of Covid-19. However, the volumes are better industry (de-growth of ~38%YoY). However, the company remains cautious about the demand outlook in the short-term due to current uncertain situation. We factor ~8%YoY decline in volumes in FY21 but strong double digit recovery in FY22E supported by capacity expansion/acquisitions and improvement in premium mix (currently 18% of trade segment). Expect revenue to grow by 5%CAGR over FY19-21E.

Strong improvement in EBITDA margin aided by cost reduction

Despite sharp decline in volumes and revenue, the company could soften the impact by controlling its discretionary spending coupled with benign fuel costs. EBITDA declined only 7.8%YoY aided by sharp improvement in EBITDA margin to 31.1% Vs 26.3% YoY. Lower depreciation owing to WDV method (-12%YoY) and higher other income (+25%YoY) resulted in strong PAT growth of 29%YoY. EBITDA on a per Ton basis improved to record high of Rs.1,678 Vs Rs.1,464 YoY. Total expenses per Ton declined by 10% YoY mainly due to savings in Fuel (-32% YoY), Freight (-6%YoY) and other expenses (-18%YoY). Pet coke prices started to increase in Q1FY21 after declining ~20% from the peak (June 2019). Freight cost benefits from efficient usage of digital tools and reduction in lead distance on account of commissioning of Kalyanpur Cement. DBL is also focusing on cost saving measures like setting up of Waste Heat Recovery (WHR) in various locations. Cement prices had witnessed ~12% QoQ increase in Q1FY21 but has softened since Mid-July. We expect EBITDA/Ton to improve to Rs.1,243 vs Rs.1,092 in FY20. Adverse price movements of cement, fuel and RM prices are the key risks.

Valuation & Outlook

Demand outlook remains uncertain in the short-term but is expected to recover in FY22. DBL's capacity expansion will support to continue its volume growth above industry. The stock currently trades at 8.3x on our revised estimates. We value at 8x FY22 EV/EBITDA to arrive at a Target of Rs.865 (Rs640 earlier). Rating revised to Accumulate (earlier Buy) due to recent increase in stock price.

Company Data

Market Cap (Rs.cr)	15196
Enterprise Value (Rs.cr)	18415
Outstanding Shares (cr)	19.3
Free Float	46%
Dividend Yield	0.5%
52 week high Rs.	1007
52 week low Rs.	406
6m average volume (cr)	0.03
Beta	1.1
Face value Rs.	2

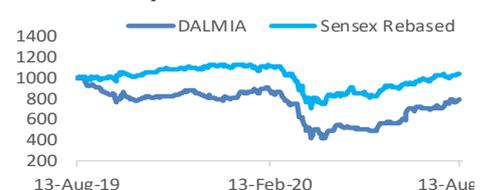
Shareholding %

	Q3FY20	Q4FY20	Q1FY21
Promoters	54.3	54.3	55.8
FII's	14.2	15.3	14.2
MFs/Insti	6.3	5.5	3.9
Public	14.3	13.8	14.5
Others	10.7	11.1	11.7
Total	100	100	100
Promotor pledge	NIL	NIL	0.0%

Price Performance

	3 Month	6 Month	6 Month
Absolute Return	57.5%	-7.6%	-20.5%
Absolute Sensex	23.3%	-7.0%	3.8%
Relative Return*	34.3%	-0.6%	-24.4%

*over or under performance to benchmark index



Consolidated (cr)

	FY20A	FY21E	FY22E
Sales	9,674	9,005	10,634
Growth (%)	2.0	-6.9	18.1
EBITDA	2,106	2,212	2,399
EBITDA Margin (%)	21.8	24.6	22.6
Adj. PAT	238	500	557
Growth (%)	-20.4	110.1	11.3
Adj. EPS	12.3	25.9	28.8
Growth (%)	-20.4	110.1	11.3
P/E	63.8	30.4	27.3
P/B	1.4	1.4	1.3
EV/EBITDA	8.5	7.6	7.4
ROE (%)	2.2	4.6	4.9
D/E	0.6	0.5	0.5

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	1974	2537	-22.2%	2483	-20.5%
EBITDA	614	666	-7.8%	508	20.9%
EBITDA margins %	31.1%	26.3%	480bps	20.5%	1060bps
Depreciation	301	342	-12.0%	375	-19.7%
EBIT	313	324	-3.4%	133	135.3%
Interest	73	116	-37.1%	124	-41.1%
Other Income	55	44	25.0%	56	-1.8%
Exceptional Items	0	0	0.0%	0	0.0%
PBT	295	252	17.1%	65	353.8%
Tax	107	100	7.0%	41	161.0%
Share of profit from associates	0	0	0.0%	0	0.0%
Minority interest	-2	5	0.0%	0	0.0%
Reported PAT	190	147	29.3%	24	691.7%
Adjustments	0	-3	0.0%	0	0.0%
Adj PAT	190	144	31.9%	24	691.7%
No. of Shares	19	19	0.0%	19	0.0%
Adj EPS (Rs)	9.8	7.5	31.9%	1.2	691.7%

Per Tonne Analysis

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Cement Volume (MT)	3.66	4.55	-19.6%	5.17	-29.2%
Cost of materials consumed	959	930	3.2%	998	-3.9%
Employee Expenses	475	380	25.0%	317	49.9%
Power & Fuel	697	1020	-31.7%	747	-6.7%
Freight & forwarding	954	1013	-5.9%	983	-3.0%
Other expenses	631	769	-18.0%	776	-18.6%
Total expenses	3716	4112	-9.6%	3820	-2.7%
Realisation (inc. RMC)	5393	5576	-3.3%	4803	12.3%
EBITDA	1678	1464	14.6%	983	70.7%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	9,034	10,758	9,005	10,634	-0.3%	-1.1%
EBITDA	1,988	2,489	2,212	2,399	11.3%	-3.6%
Margins (%)	22.0	23.1	24.6	22.6	10bps	{40bps}
Adj. PAT *	153	477	500	557	226.9%	16.7%
EPS	7.9	24.7	25.9	28.8	228.2%	16.8%

* Changes in depreciation method resulted in lower depreciation



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	8,582	9,484	9,674	9,005	10,634
% change	15.9	10.5	2.0	-6.9	18.1
EBITDA	2,030	1,942	2,106	2,212	2,399
% change	6.7	-4.3	8.5	5.0	8.4
Depreciation	1,213	1,296	1,528	1,393	1,500
EBIT	817	646	578	820	898
Interest	705	551	438	387	400
Other Income	277	235	217	225	234
PBT	389	330	357	658	732
% change	-45.1	-15.2	8.2	84.3	11.3
Tax	98.0	-11.0	119.0	157.9	175.7
Tax Rate (%)	25.2%	-3.3%	22.0%	24.0%	24.0%
Reported PAT	291.1	299.0	238.0	500.1	556.5
Adj*	0	0	0	0	0
Adj PAT	291.1	299.0	238.0	500.1	556.5
% change	-20.9	2.7	-20.4	110.1	11.3
No. of shares (cr)	8.9	19.3	19.3	19.3	19.3
Adj EPS (Rs.)	15	16	12	26	29
% change	-20.9	-52.7	-20.4	110.1	11.3
DPS (Rs.)	3	2	2	2	2
CEPS (Rs.)	169.1	82.7	91.6	98.1	106.6

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	1,504	1,595	1,766	1,893	2,057
Non-cash adj.	-56	-112	117	158	176
Other adjustments	607	562	319	229	224
Changes in W.C	-585	-35	718	-566	-245
C.F. Operation	1,469	2,010	2,920	1,714	2,211
Capital exp.	-389	-4051	-1611	-198	-2600
Change in inv.	-757	1,077	-392	0	0
Other invest.CF	0	0	0	0	0
C.F - Investment	-1,146	-2,974	-2,003	-198	-2,600
Issue of equity	6636	0	0	0	0
Issue/repay debt	-1,853	-1,949	-511	-1,037	0
Dividends paid	-27	-23	-45	-45	-45
Other finance.CF	523	0	0	0	0
C.F - Finance	8733	-1971	-556	-1082	-45
Chg. in cash	6,840	-2,936	361	434	-434
Closing cash	323	280	266	700	266

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	323	280	266	700	266
Accounts Receivable	524	549	397	493	583
Inventories	779	1,032	974	824	1,027
Other Cur. Assets	1,128	1,227	1,334	1,136	1,317
Investments	3,501	2,424	2,816	2,816	2,816
Gross Fixed Assets	11,022	11,854	12,362	13,562	16,062
Net Fixed Assets	9,125	9,086	8,587	8,776	10,121
CWIP	168	501	1,702	700	800
Intangible Assets	4,912	4,506	4,006	3,624	3,279
Def. Tax (Net)	-1,422	-1,279	-1,277	-1,277	-1,277
Other Assets	876	932	529	827	976
Total Assets	19,914	19,259	19,334	18,619	19,908
Current Liabilities	2,984	3,123	3,377	2,837	3,167
Provisions	156	311	281	289	320
Debt Funds	6,322	4,923	4,850	4,200	4,600
Other Liabilities	117	263	265	278	293
Equity Capital	6,654	39	39	39	39
Reserves & Surplus	3,681	10,600	10,522	10,977	11,489
Shareholder's Fund	10,335	10,639	10,561	11,016	11,527
Total Liabilities	19,914	19,259	19,334	18,619	19,908
BVPS (Rs.)	1,162	402	403	427	453

RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	23.7	20.5	21.8	24.6	22.6
EBIT margin (%)	9.5	6.8	6.0	9.1	8.4
Net profit mgn.(%)	3.4	3.2	2.5	5.6	5.2
ROE (%)	3.8	2.9	2.2	4.6	4.9
ROCE (%)	4.7	3.3	2.7	4.1	4.4
W.C & Liquidity					
Receivables (days)	23.8	20.6	17.8	18.0	18.5
Inventory (days)	30.4	34.9	37.8	36.4	31.8
Payables (days)	113.7	93.3	89.4	95.3	78.6
Current ratio (x)	1.6	1.3	1.2	1.4	1.2
Quick ratio (x)	0.2	0.2	0.1	0.3	0.2
Turnover & Leverage					
Gross asset T.O (x)	0.8	0.8	0.8	0.7	0.7
Total asset T.O (x)	0.5	0.5	0.5	0.5	0.6
Int. coverage ratio (x)	1.2	1.2	1.3	2.1	2.2
Adj. debt/equity (x)	0.7	0.6	0.6	0.5	0.5
Valuation					
EV/Sales (x)	2.2	1.9	1.9	1.9	1.7
EV/EBITDA (x)	9.2	9.5	8.5	7.6	7.4
P/E (x)	24.0	50.8	63.8	30.4	27.3
P/BV (x)	0.7	1.4	1.4	1.4	1.3

Recommendation Summary



Dates	Rating	Target
15-Feb-19	Hold	1130
14-May-19	Accumulate	1236
5-Aug-19	Accumulate	1100
24-Oct-19	Buy	975
17-Feb-20	Buy	985
7-May-20	Buy	640
13-Aug-20	Accumulate	865

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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