Sharekhan by BNP PARIBAS

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Dalmia Bharat Limited

Beneficiary of favourable regional dynamics

Cement	Sharekhan code: DALMIABHA	Company Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 1,801**	
Price Target: **Rs. 2,150**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

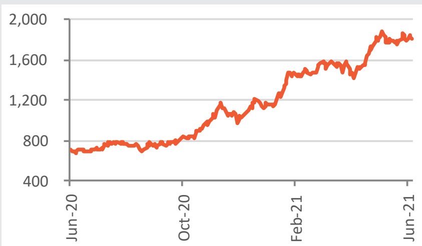
Company details

Market cap:	Rs. 33,691 cr
52-week high/low:	Rs. 1,910 / 652
NSE volume: (No of shares)	2.0 lakh
BSE code:	542216
NSE code:	DALMIABHA
Free float: (No of shares)	8.2 cr

Shareholding (%)

Promoters	56.0
FII	13.5
DII	5.0
Others	25.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.8	19.1	70.6	154.3
Relative to Sensex	-6.9	10.3	59.3	103.1

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Dalmia Bharat (Dalmia) with a revised PT of Rs. 2,150, owing to favourable valuation and positive regional dynamics.
- The Eastern and Southern regions sees strong improvement in average cement prices both q-o-q and y-o-y during Q1FY2022. The same is expected to aid OPM while covid second wave affects utilization level.
- Post weak April-May 2021, June shows gradual improvement. Expect demand to kick start in two to three months. Continuous capacity additions to capture expected rise in demand.
- Balance sheet to remain strong while strong cash flow generation expected over the next two years despite capital expenditures.

Dalmia Bharat (Dalmia) is expected to benefit from the strong pricing discipline being witnessed in its key regional markets viz. East and South during Q1FY2022 despite the period getting affected by COVID led state-wise restrictions. As per our channel checks, pan-India cement prices during Q1FY2022 were higher 6.8% q-o-q (+5.5% y-o-y) as major price hikes undertaken by companies in April 2021 largely sustained in May and June 2021. The Eastern region saw the highest rise in average cement prices at 14.2% q-o-q (up 6.5% y-o-y) in Q1FY2022 followed by South (up 9.5% q-o-q, up 12.7% y-o-y). However, recently, Tamil Nadu region witnessed reduction of Rs. 25 per bag in cement prices on the behest of state Government 's request. West saw cement prices rising by 6.1% q-o-q (up 4.5% y-o-y) followed by Central (up 3.9% q-o-q, up 2.3% y-o-y) and North (up 0.8% q-o-q, up 0.9% y-o-y). The strong pricing environment in the Eastern and Southern regions which comprise of 47% and 40% of Dalmia's existing 30.75MTPA capacity respectively is expected to benefit the company in supporting its operational profitability in Q1FY2022 as the utilization levels remain relatively weak affected by the second wave of COVID. As per management's recent media interaction, April-May 2021 were affected by the second wave but June has begun to show improvement in demand. The management expects that over the next two to three months, the demand should be back on track. Further, Dalmia has been able to gain market share during FY2021 in which the cement industry is estimated to have de-grown by 3-5% y-o-y while it showed 7% y-o-y volume growth. On the cost front, the company has been reducing pet coke usage (54% in Q4 vs 70% in Q3) while rise in diesel costs are contained through reduced lead distance. Considering the strong demand outlook from infrastructure and housing sectors, the company is on capacity expansion mode with 2.25MTPA capacity added during March 2021 taking its total capacity to 30.75MTPA and further 7.75MTPA capacity to be added to take its capacity to 38.5MTPA by FY2023. The company has put the announcement regarding new expansions and capital allocation framework on account of the second wave of COVID in the country. It would be announcing the same once the situation stabilizes. However, it had hinted on doubling its capacities over the next three to four years in the previous quarter. The details regarding the same will be awaited. Barring the near term impact on COVID second wave, the cement industry is poised for a healthy demand environment going ahead with government led infrastructure investment and a gradual pick up in private capital expenditure. Dalmia is expected to benefit from the strong demand and pricing environment in Eastern and Southern India going ahead. The capacity expansion plans are expected to provide next leg of growth for the company. We retain buy with on the stock with a revised price target of Rs. 2150.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2,150: Dalmia Bharat is expected to gain from favourable regional dynamics in both the demand and pricing front. Being among the top five players in the cement industry, it is expected to benefit from the strong demand environment led by government infrastructure investments and a revival of private capital expenditure over the next five years. Its medium and long term expansion plans would provide long-term sustainable growth over the same period. Despite expansion, the balance sheet is expected to strengthen further and return ratios to improve. Dalmia is currently trading at an EV/EBITDA of 10x its FY2023E earnings, which we believe should see re-rating as it gains size, geographical diversification and an improved operational profitability. Hence, we retain Buy with a revised price target of Rs. 2,150.

Key Risks

1) Pressure on cement demand and cement prices in the East, North-east and South of India can affect financial performance; and 2) Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can also impact performance.

Valuation (Consolidated) Rs cr

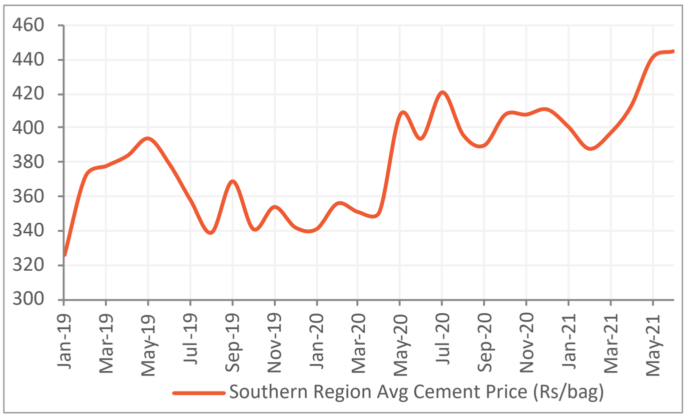
Particulars	FY20	FY21	FY22E	FY23E
Revenue	9,674	10,522	12,163	13,639
OPM (%)	21.8	26.4	23.8	23.6
Adjusted PAT	268	992	946	1,162
% y-o-y growth	*-9.5*	*270.1*	*-4.7*	*22.9*
Adjusted EPS (Rs.)	13.7	53.6	51.1	62.8
P/E (x)	131.2	33.6	35.3	28.7
P/B (x)	3.3	2.6	2.5	2.3
EV/EBITDA (x)	18.0	12.0	11.4	9.8
RoNW (%)	2.5%	8.6%	7.2%	8.3%
RoCE (%)	3.9%	9.3%	7.2%	8.0%

Source: Company; Sharekhan estimates

Favourable pricing environment in regions of operations

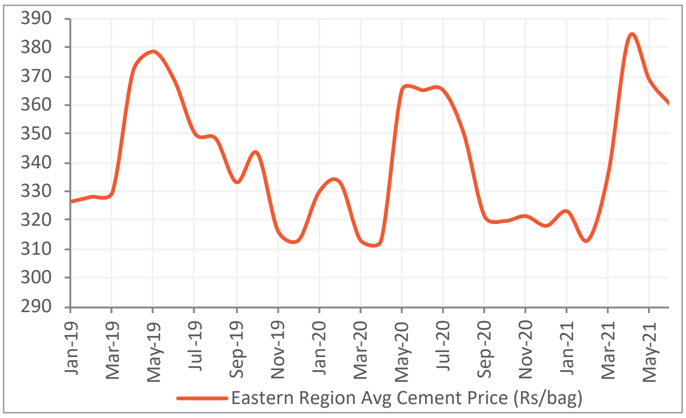
As per our channel checks, pan-India cement prices during Q1FY2022 were higher 6.8% q-o-q (+5.5% y-o-y) as major price hikes undertaken by companies in April 2021 largely sustained in May and June 2021. The Eastern region saw the highest rise in average cement prices at 14.2% q-o-q (up 6.5% y-o-y) in Q1FY2022 followed by South (up 9.5% q-o-q, up 12.7% y-o-y). However, recently, the Tamil Nadu region witnessed reduction of Rs. 25 per bag in cement prices on the behest of state Government 's request. The west saw cement prices rising by 6.1% q-o-q (up 4.5% y-o-y) followed by Central (up 3.9% q-o-q, up 2.3% y-o-y) and North (up 0.8% q-o-q, up 0.9% y-o-y). The strong pricing environment in Eastern and Southern regions which comprise of 47% and 40% of Dalmia's existing 30.75MTPA capacity respectively is expected to benefit in supporting operational profitability in Q1FY2022 as utilization levels remain relatively weak affected by the second wave of Covid.

South price trend



Source: Industry, Sharekhan Research

East price trend



Source: Industry, Sharekhan Research

Average Cement Prices Pan-India during Q1FY2022 Rs cr

Price trend (Rs/bag)	Q1FY2022	Q1FY2021	YoY (%)	Q4FY2021	QoQ (%)
West	366	350	4.5	345	6.1
North	366	362	0.9	363	0.8
Central	369	360	2.3	355	3.9
South	**433**	**384**	**12.7**	**395**	**9.5**
East	**371**	**348**	**6.5**	**324**	**14.2**
Pan India	**381**	**361**	**5.5**	**356**	**6.8**

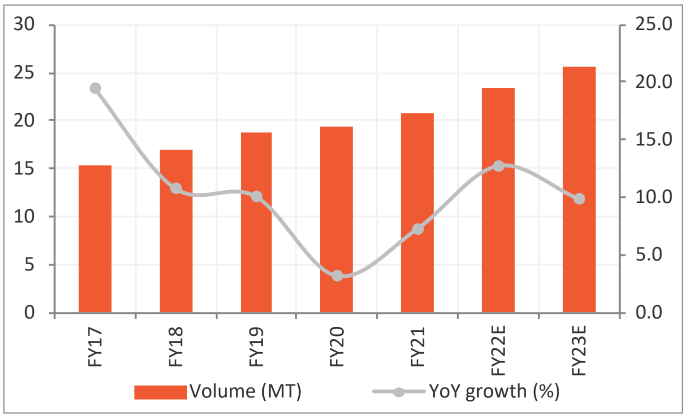
Source: Industry, Sharekhan Research

Ongoing expansions on track to capture expected rise in demand

Dalmia added 2.25MTPA capacity during March 2021 taking its total capacity to 30.75MTPA. Further, 7.75MTPA capacity will be added to take its capacity to 38.5MTPA by FY2023. The company has put on hold the announcement regarding new expansions and capital allocation framework on account of the second wave of COVID in the country. It would be announcing the same once the situation improves. However, it had hinted on doubling its capacities over the next three to four years in the previous quarter. The details regarding the same are awaited. Barring the near-term impact, the cement industry is poised for a healthy demand environment going ahead with government led infrastructure investment and a gradual pick up in private capital expenditure. Dalmia is expected to benefit from the strong demand and pricing environment in Eastern and Southern India going ahead.

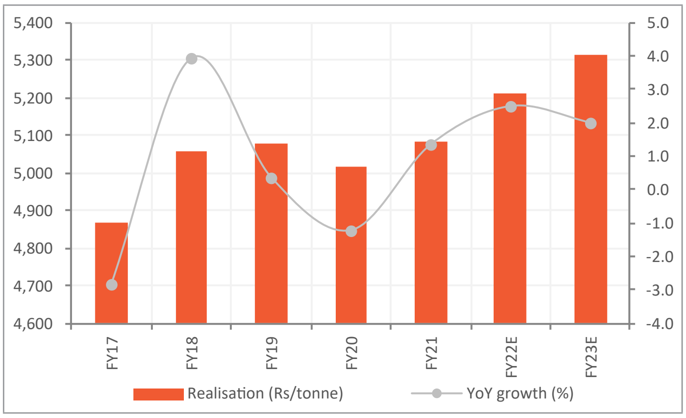
Financials in charts

Volume trend



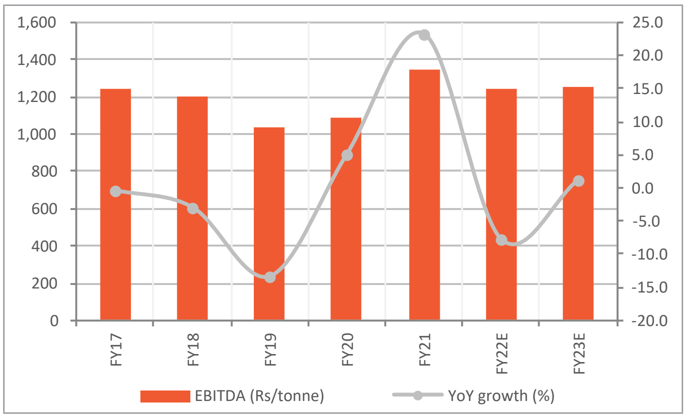
Source: Company, Sharekhan Research

Realisation trend



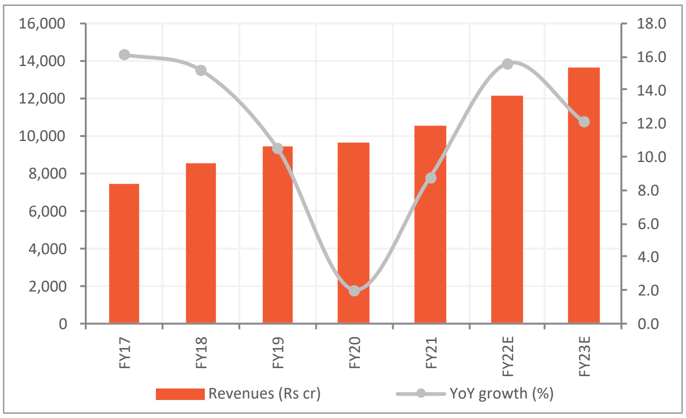
Source: Company, Sharekhan Research

EBITDA/tonne trend



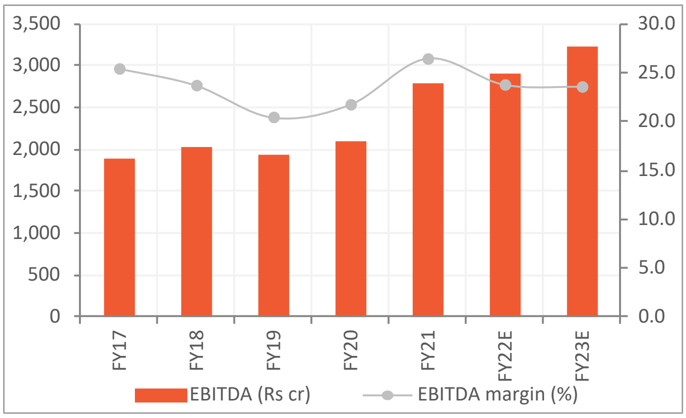
Source: Company, Sharekhan Research

Revenue trend



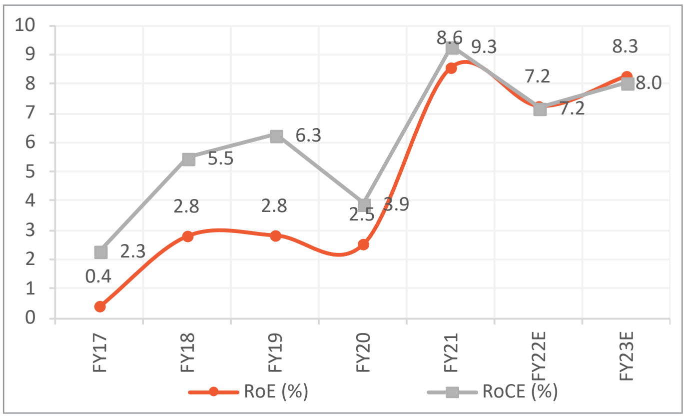
Source: Company, Sharekhan Research

Operating profit trend



Source: Company, Sharekhan Research

Return Ratios trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Improving demand brightens outlook

The cement industry has seen sustained improvement in demand over the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the trailing five years. Amidst the COVID-19 led disruption, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand is expected to pick-up from Q3FY2021, with labourers returning to project sites. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remains intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

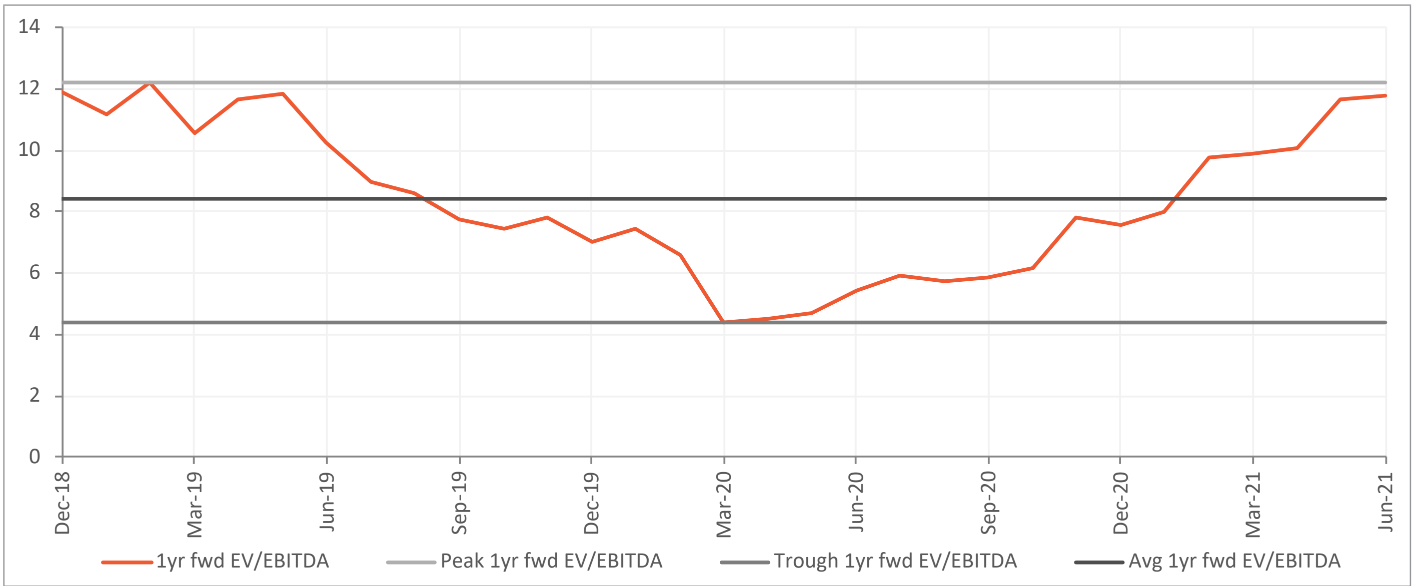
■ Company Outlook – Aggressive expansion plans to capture high growth opportunities

Dalmia is on a strong growth trajectory for the next five years with capacity expansion plans lined up for the medium and long term. The company is slated to increase its capacity from current 30.75 MTPA to 38.5 MTPA by FY2022E. The capacity expansion would help it consolidate its leadership position in the East and venture into the West through the acquisition of Murli Industries. Further, it is chalking out a capital allocation strategy to double its capacity over the next three years. The detailed plan is expected to be shared over the next quarter. However, it aims to become a large pan-India player through both organic and inorganic routes. Also, despite, its expansion plans, the company would turn net cash surplus by FY2023E.

■ Valuation – Maintain Buy with a revised PT of Rs. 2,150

Dalmia Bharat is expected to gain from favourable regional dynamics in both demand and pricing front. Being among the top five players in the cement industry, it is expected to benefit from the strong demand environment led by government infrastructure investments and a revival of private capital expenditure over the next five years. Its medium and long term expansion plans would provide long-term sustainable growth over the same period. Despite expansion, the balance sheet is expected to further strengthen and return ratios to improve. Dalmia is currently trading at an EV/EBITDA of 10x its FY2023E earnings, which we believe should see a re-rating as it gains size, geographical diversification and an improved operational profitability. Hence, we retain Buy with a revised price target of Rs. 2,150.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
UltraTech Cement	36.3	30.3	17.5	14.9	4.1	3.7	12.1	12.8
Dalmia Bharat	35.2	28.7	11.4	9.8	2.5	2.3	7.2	8.3
Shree Cement	39.7	34.8	20.9	18.1	5.9	5.1	15.9	15.7
The Ramco Cement	25.3	22.0	15.8	14.0	3.8	3.2	15.9	15.8
JK Lakshmi Cement	16.5	13.7	7.7	6.5	2.8	2.4	18.2	18.6

Source: Sharekhan Research

About company

Dalmia Bharat started its journey in 1939 and has a legacy of eight decades. The company possesses India's fifth largest installed cement manufacturing capacity of 26.5 MT spread across 13 manufacturing plants in nine states. The company's addressable market spans 22 states in the East, North East and Southern India. Dalmia Bharat comprises ~5% of the country's cement capacity. It has captive power generation capacity of 195MW (including solar and waste heat recovery plants).

Investment theme

Dalmia is on a strong growth trajectory for the next five years with capacity expansion plans lined up for medium and long term. The company is slated to increase its capacity from current 28.5 MTPA to 37.3 MTPA by FY2022E. The capacity expansion would help it consolidate its leadership position in the East and venture into the West through the acquisition of Murli Industries. Further, it is chalking out a capital allocation strategy to double its capacity over the next three years. The detailed plan is expected to be shared over the next quarter. However, it aims to become a large pan-India player through both organic and inorganic routes. Also, despite, its expansion plans, the company would turn net cash surplus by FY2023E.

Key Risks

- Pressure on cement demand and cement prices in the east, northeast and the west can affect financial performance.
- Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can negatively affect the company's performance.

Additional Data

Key management personnel

Mr. Pradip Kumar Khaitan	Chairman
Mr. Gautam Dalmia	MD
Mr. Puneet Yadu Dalmia	CEO,MD

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	RAMA INV CO PVT LTD	42.75
2	SITA INV CO LTD	7.44
3	Dharti Investment & Holdings	1.69
4	IEPF	1.46
5	JH DALMIA TRST	1.39
6	KAVITA DALMIA PARIVAR	1.39
7	Valiant Mauritius Partners Ltd	1.35
8	Franklin Resources Inc	1.34
9	KRITAGYATA TRUST	1.10
10	Dalmia Bharat Sugar & Industries	1.01

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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