ANANDRATHI

India I Equities

Cement

Company Update

Change in Estimates☑ Target☑ Reco☐

6 February 2021

Dalmia Bharat

Rating: Buy
Target Price: Rs.1,650
Share Price: Rs.1,239

Doing the right things; maintaining a Buy

With itsforthcoming expansion and diversified operations in West, Dalmia Bharat is set to cater to counting demand. The WHRS expansion and new efficient plants would further enhance operating efficiency. The de-levering exercise and forensic audit report for mutual fund units fraud in its favour are other positives. We retain a Buy, with a higher target of Rs,1,650 (earlier Rs,1,174.)

Enhanced performance. Sturdydemand in the east andits ramping up of its clinker unit at Odisha pushed volumesup 13.7% y/y to 5.8m tons. Despite subdued prices in the east, realisation/ton rose 5.7% y/y (though q/qdown 2%) as the proportion of premium cement sales rose 60% y/y to 18% of trade volumes. Despite higher input costs and branding expenses EBITDA/ton grew 34% y/y to Rs.1,167,offset by economic fuel usage, cost optimisation steps and higher realisations.

Expansion to cater to rising demand with diversifying presence. Dalmia is all set to expand 32% cement capacity to 37.5m tons by FY23 alongwith 30MW WHRS. The expansion will enhance its operating efficiency with diversifying presence to West region. The 3m ton clinker at Odisha operated at 70% capacity with cost savings of Rs75/clinker whereas trial production of WB GU commenced. Management guided capex of Rs10bn in FY22 with some spillover for Bihar GU expansion. Management is working on a roadmap to double capacity.

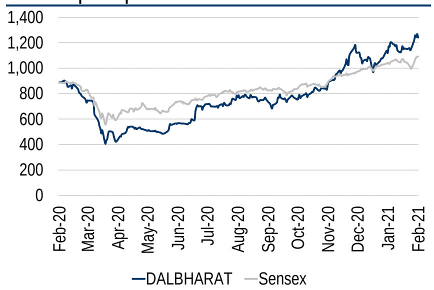
Business outlook, Valuation. With prices expected to be stable, demand is expected to continue to grow in double digits in East and South demand is likely to improve backed by road projects announced in budget for TN/Kerala and further demand uptick in AP. We expect Volume, Revenue & EBITDA to grow at 10%,12% & 9% CAGR over FY21-23. Appointment of new internal auditor and outcome of the forensic audit report relating to mutual fund are the key positives and will help in re-rating the stock. We introduce FY23e and retain a Buy, with a higher target of Rs1,650 (9x FY23e EV/EBITDA). **Risks:** Rise in raw material prices, demand slowdown.

Key data	DALBHARAT IN
52-week high / low	Rs509 / 202
Sensex / Nifty	50732 / 14924
3-m average volume	$27.2m
Market cap	Rs487bn / $6671.5m
Shares outstanding	1024m

Shareholding pattern (%)	Dec '20	Sep '20	Jun '20
Promoters	56.1	56.1	55.8
- of which, Pledged	-	-	-
Free float	43.9	43.9	44.2
- Foreign institutions	13.5	14.2	14.2
- Domestic institutions	3.9	3.6	3.9
- Public	26.5	26.1	26.2

Estimates revision (%)	FY21e	FY22e
Sales	8.0	9.6
EBITDA	12.0	16.9
PAT	41.2	61.4

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (Rsm)	94,840	96,740	1,03,258	1,15,997	1,28,768
Net profit (Rsm)	3,080	2,240	9,135	10,411	12,567
EPS (Rs)	16.0	11.6	48.9	55.7	67.3
PE (x)	77.6	106.7	25.3	22.2	18.4
EV / EBITDA (x)	13.9	12.7	9.0	8.0	6.7
EV / ton ($)	196.6	185.8	162.8	132.7	117.4
RoE (%)	2.9	2.1	8.4	9.0	9.9
RoCE (%)	3.6	2.2	5.7	6.3	7.2
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2
Net debt/equity (x)	0.3	0.3	0.2	0.1	-0.1

Source: Company, Anand Rathi Research

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Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Sales volume (m tons)	18.7	19.3	20.1	22.5	24.5
Net revenues	94,840	96,740	1,03,258	1,15,997	1,28,768
Growth (%)	*10.5*	*2.0*	*6.7*	*12.3*	*11.0*
Direct costs	53,700	53,790	53,818	62,120	69,978
SG&A	21,720	21,890	21,285	23,270	25,448
EBITDA	19,420	21,060	28,154	30,607	33,342
EBITDA margins (%)	*20.5*	*21.8*	*27.3*	*26.4*	*25.9*
- Depreciation	12,960	15,280	12,786	13,791	14,394
Other income	2,350	2,170	1,859	2,088	2,318
Interest expenses	5,420	4,380	3,279	3,009	2,079
PBT	3,390	3,570	13,948	15,894	19,187
Effective tax rate (%)	*-2.9*	*33.3*	*34.0*	*34.0*	*34.0*
+ Associates / (Minorities)	410	140	70	80	96
Net income	3,080	2,240	9,135	10,411	12,567
Adjusted income	3,080	2,240	9,135	10,411	12,567
WANS	193	193	187	187	187
FDEPS (Rs / sh)	16.0	11.6	48.9	55.7	67.3
FDEPS growth (%)	*5.5*	*-27.3*	*321.3*	*14.0*	*20.7*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	386	386	374	374	374
Net worth	1,06,390	1,05,610	1,11,091	1,21,128	1,33,322
Debt	58,840	59,530	53,530	43,530	23,530
Minority interest	110	250	320	400	496
DTL / (Assets)	12,790	12,770	12,770	12,770	12,770
Capital employed	1,78,130	1,78,160	1,77,711	1,77,828	1,70,118
Net tangible assets	90,860	84,190	97,022	99,327	93,932
Net intangible assets	28,670	29,180	29,180	29,180	29,180
Goodwill	16,200	12,180	10,962	9,866	9,866
CWIP (tang. & intang.)	5,200	17,400	6,000	4,000	1,500
Investments (strategic)	1,090	1,180	1,180	1,180	1,180
Investments (financial)	23,150	26,980	26,980	26,980	26,980
Current assets (ex cash)	35,520	30,970	33,099	37,182	41,276
Cash	4,690	4,030	4,407	4,435	4,304
Current liabilities	27,250	27,950	31,119	34,322	38,101
Working capital	8,270	3,020	1,980	2,860	3,175
Capital deployed	1,78,130	1,78,160	1,77,711	1,77,828	1,70,118
Contingent liabilities	5,520	5,310	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
PBT(Adj. OI and Interest)	6460	5780	15368	16815	18948
+ Non-cash items	12,960	15,280	12,786	13,791	14,394
Oper. prof. before WC	19,420	21,060	28,154	30,607	33,342
- Incr. / (decr.) in WC	(750)	(5,250)	(1,040)	880	315
Others incl. taxes	1,090	1,350	4,742	5,404	6,524
Operating cash-flow	19,080	24,960	24,452	24,323	26,504
- Capex (tang. + intang.)	11,790	17,300	13,000	13,000	6,500
Free cash-flow	7,290	7,660	11,452	11,323	20,004
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	470	465	5,368	374	374
+ Equity raised	-	-	-	-	-
+ Debt raised	(13,890)	690	(6,000)	(10,000)	(20,000)
- Fin investments	(10,810)	3,920	-	-	-
- Misc. (CFI + CFF)	2590	4625	-294	921	-239
Net cash-flow	1,150	(660)	377	28	(131)

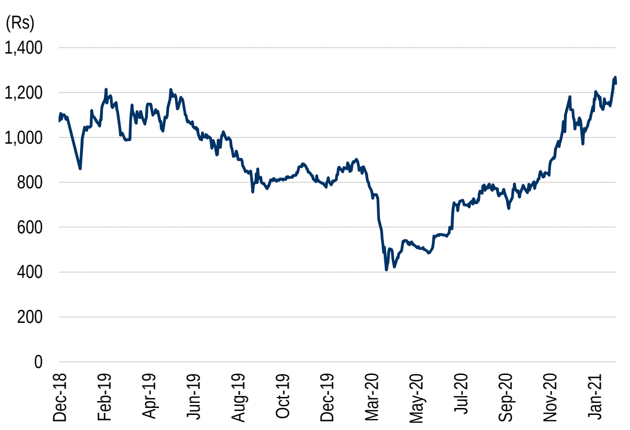
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	77.6	106.7	25.3	22.2	18.4
EV / EBITDA (x)	13.9	12.7	9.0	8.0	6.7
EV / Sales (x)	2.8	2.8	2.5	2.1	1.7
P/B (x)	2.2	2.3	2.1	1.9	1.7
RoE (%)	2.9	2.1	8.4	9.0	9.9
RoCE (%) - after tax	3.6	2.2	5.7	6.3	7.2
DPS (Rs / sh)	2.0	2.0	2.0	2.0	2.0
Dividend payout (%) - incl. DDT	15.3	20.8	4.1	3.6	3.0
Net debt / equity (x)	0.3	0.3	0.2	0.1	-0.1
WC days	32	11	7	9	9
EV / ton ($)	196.6	185.8	162.8	132.7	117.4
NSR / ton (Rs)	4,749	4,691	4,811	4,871	4,991
EBITDA / ton (Rs)	999	1,072	1,386	1,350	1,352
Volumes (m tons)	18.7	19.3	20.1	22.5	24.5
CFO : PAT (%)	619.5	1114.3	267.7	233.6	210.9

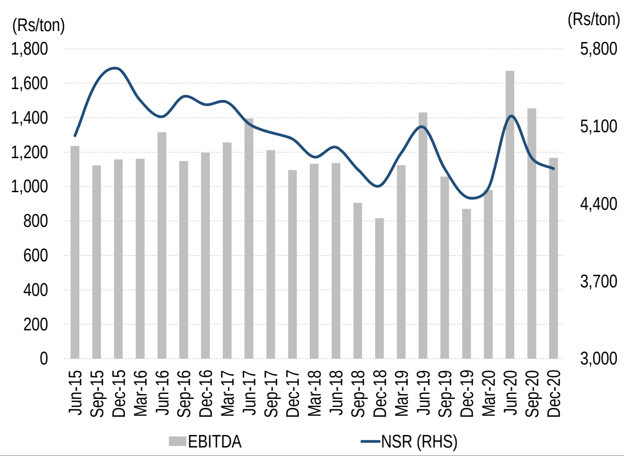
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 –Quarterly per-ton NSR and EBITDA trends



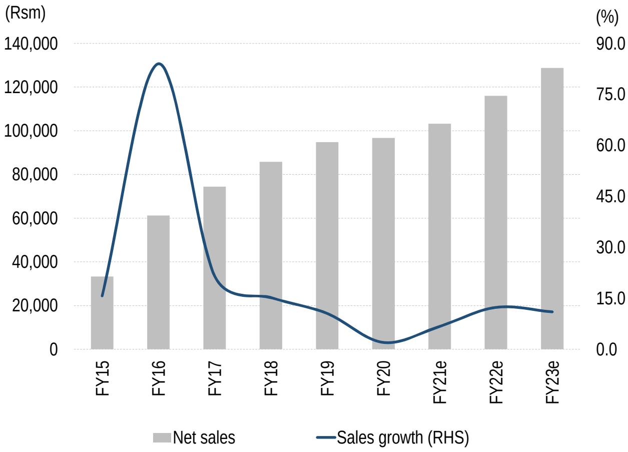
Source: Company, Anand Rathi Research

Other key highlights

Revenue growth

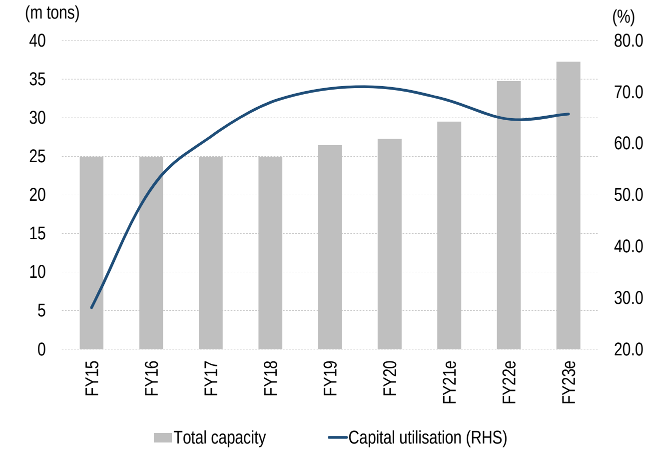
Dalmia's Q3 revenue overall grew 18% y/y to Rs.28.6bn. Volume growth was up 13.7% y/y to 5.8m tons following mounting demand and a pick-up in government infrastructure and low-cost housing projects. The eastern states continued to outperform with green-shoots of demand revival visible in the south. Per-ton realization stepped up 5.7% y/y to Rs4,717. In Jan, prices fell slightly in the east and south, though they were higher y/y. Prices in the east have bottomed out, touching the lowest level of the last 5-7 years. No further decline is expected.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



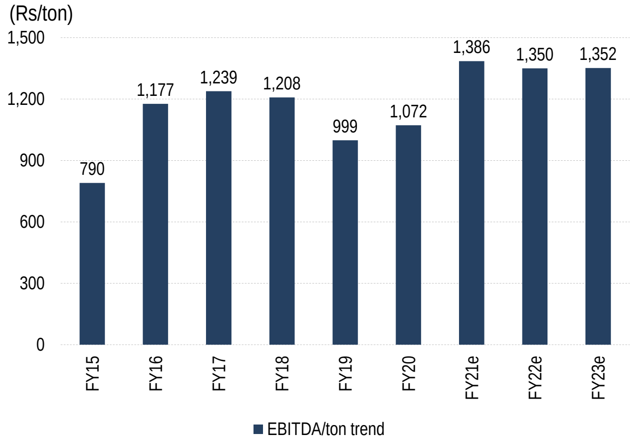
Source: Company, Anand Rathi Research

Operating performance

The company reported Rs6.9bn EBITDA, up 51% y/y. EBITDA/ton rose 34% y/y to Rs.1,167 on better y/y realisations and cost optimisation. Per-ton raw-material costs and power & fuel costs declined respectively 8% and 4%. Freight cost/ton was up 0.6% y/y. Other expenditure and staff costs grew respectively 9% and 4% y/y on an absolute basis. The increase in other expenditure was due to higher expenditure on advertising and publicity.

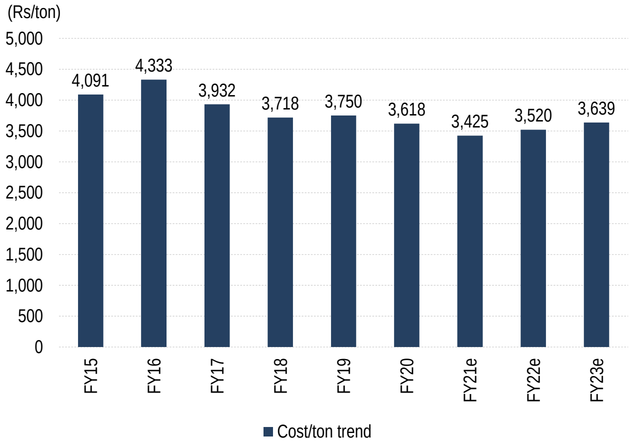
Interest cost increased q/q due to the commencement of clinker capacity as related interest capitalisation was discontinued. Due to debt repayment management expects it to hold at current levels despite the new capacity commencing. The better operating performance, a 4% y/y decline in interest and 18.8% y/y in depreciation led to adj. PAT rocketing 658% y/y to Rs1.8bn on the low base, partially offset by other income down 32% y/y.

Fig 9 – EBITDA-per-ton trend (cement)



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend (cement)



Source: Company, Anand Rathi Research

Forensic Audit Report on the Mutual Fund Units Fraud

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, KG Somani & Co (KGS), the independent agency was appointed to conduct a forensic audit into the illegal and unauthorised transfer of mutual fund units ("Securities") valued at ~Rs.3.4bn of Dalmia Cement East (DCE) and OCL India (since amalgamated with Dalmia Cement (Bharat), a subsidiary of the company), by Allied Financial Services Pvt. Ltd. (AFS)

The report submitted confirms that the fraud was perpetrated on company and contains, *inter alia,* the manner in which the fraud was perpetrated by AFS; and that AFS issued delivery instruction slips to itself based on forged requisition slips and used them with the forged signature of the authorized signatories of OCL/DCE to fraudulently transfer the securities to its own and associate entities' accounts.

Result Highlights

Fig 11 – Quarterly trend

(Rs m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	% Y/Y	% Q/Q
Sales	23,680	20,990	21,640	28,420	25,370	22,360	24,180	24,830	19,740	24,100	28,570	*18.2*	*18.5*
EBITDA	5,230	3,900	3,800	6,490	6,660	4,750	4,570	5,080	6,140	7,020	6,910	*51.2*	*(1.6)*
EBITDA margins (%)	*22.1*	*18.6*	*17.6*	*22.8*	*26.3*	*21.2*	*18.9*	*20.5*	*31.1*	*29.1*	*24.2*	*529bps*	*-494bps*
EBITDA per ton (Rs)	1,137	906	817	1,124	1,431	1,058	871	981	1,672	1,454	1,167	*34.1*	*(19.7)*
Interest	1,620	2,250	720	830	1,160	1,030	950	1,240	730	730	910	*(4.2)*	*24.7*
Depreciation	3,050	3,030	3,320	3,560	3,420	4,060	4,050	3,750	3,010	3,020	3,290	*(18.8)*	*8.9*
Other income	430	740	640	540	440	490	680	560	550	410	460	*(32.4)*	*12.2*
PBT	990	-640	400	2,640	2,520	150	250	650	2,950	3,680	3,170	*1,168.0*	*(13.9)*
Tax	470	-670	90	10	1,000	-210	-10	410	1,070	1,360	1,340	*NA*	*(1.5)*
Adj. PAT	520	30	310	2,630	1,520	360	260	240	1,880	2,320	1,830	*603.8*	*(21.1)*
Associates/(Minorities)	-10	40	30	350	50	90	20	-20	-20	0	10	*(50.0)*	*NA*
PAT after Asso./ MI	530	-10	280	2,280	1,470	270	240	260	1,900	2,320	1,820	*658.3*	*(21.6)*

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	% Y/Y	% Q/Q
Realisations	4,911	4,712	4,562	4,860	5,095	4,716	4,461	4,540	5,189	4,815	4,717	*5.7*	*(2.0)*
EBITDA (cement)	1,137	906	817	1,124	1,431	1,058	871	981	1,672	1,454	1,167	*34.1*	*(19.7)*
Sales volumes (m tons)	4.51	4.13	4.47	5.57	4.55	4.47	5.10	5.17	3.66	4.80	5.80	*13.7*	*20.8*
Costs													
Raw material	989	1,002	949	916	818	785	814	998	784	760	747	*(8.3)*	*(1.8)*
Power & Fuel	898	1,039	1,040	820	1,020	962	898	747	697	729	860	*(4.2)*	*18.0*
Staff	373	400	356	280	380	378	331	317	475	352	303	*(8.4)*	*(13.8)*
Freight	1,031	949	1,013	932	1,013	924	1,006	983	954	992	1,012	*0.6*	*2.1*
Other expenditure	809	891	765	786	769	834	765	776	631	669	733	*(4.2)*	*9.6*

Source: Company, Anand Rathi Research

Key takeaways; Concall highlights

Financials and Other operating highlights

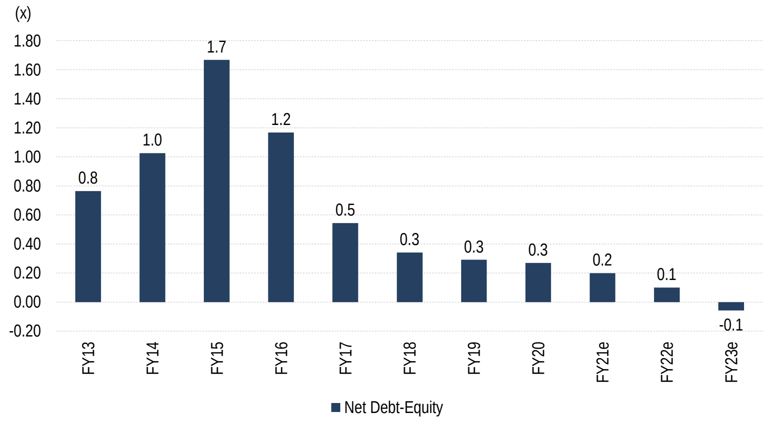
- On mounting demand (volumes in the East grew in double digits), the company achieved its highest quarterly volumes, of 5.8m ton.
- Interest cost increased due to the commencement of clinker capacity as the effect of discontinuation of capitalisation of interest. Management expects such costs to hold at current levels despite new capacity commencing, due to debt repayment.
- The increase in other expenditure was owing to higher expenditure on advertising and publicity. The higher flyash prices were to offset the different mix of sourcing. Slag prices are expected to hit a high and expected to be steady from now.
- The trade-nontrade mix was 65:35 and the blended cement share was 79%. The premium cement share (DSP) rose 60% y/y to 18% of trade volumes. The lead distance was 277km (280km a year ago).
- The company has non-amortised goodwill of Rs.6.7bn and is now evaluating the prospective amendment about disallowance of goodwill amortisation for tax purposes.
- The issue regarding release of mutual fund units of Rs.3.9bn which were illegally and fraudulently transferred by the Depository Participant in collusion with the Clearing Agent, from demat accounts of the company's erstwhile step-down subsidiaries (OCL India and Dalmia Cement East (which were merged with Dalmia Cement Bharat) is pending adjudication before the Supreme Court and SEBI.
- The forensic audit was conducted by KG Somani & Co. to investigate and look into all MF transactions upon the order of the audit committee of the Board. The forensic audit report confirms that the fraud was per perpetrated on the company by Allied Financial Services Pvt. Ltd. by forging signatures on many documents and reports.
- Accrued incentives were Rs.240m (Rs.600m in 9M FY21). The company received incentives of Rs.450m in Q3 (Rs.610m in 9M FY21).

Debt and Capex plans

- Gross and net debt at 31st Dec'20 were Rs.45.87bn and Rs.13.99bn. During the quarter, the company further repaid Rs.6.22bn debt (Rs.13.79bn in 9M FY21). The present net-debt-to-EBITDA is 0.56x vs. 1.34x on 31st Mar'20.
- Cement and clinker capacity were respectively 28.5m tons and 20m tons on 31st Dec'20. Trial runs have started for the WB GU. The Odisha GU, Murli capacity and Bihar GU are expected to commence by Q1 FY22, H2 FY22 and FY23, respectively. The company is planning to go all India and talked of doubling capacity from 28.5m tons to ~55-60m tons. A formal announcement about this will be made in 3-4 months.
- In 9M FY21, it incurred Rs.10.8bn capex (~Rs.3.5bn for expansion, ~Rs.4.5bn for Murli and ~Rs.3bn for maintenance). It will incur Rs.10bn in FY21 toward the East expansion, 30MW WHRS and Murli (~Rs.350m) with some spillover to FY22.

- The 3m-ton clinker line at Rajgangpur commenced in Oct'20. It is now running at 70% capacity and generated Rs.70-75/ton savings in clinker.

Fig 13 – Net-debt-to-equity



Source: Company, Anand Rathi Research

Demand and Outlook

- Management expect the East to grow in double digits and South volumes to improve backed by road projects announced in the Budget for TN and Kerala and a further demand rise in AP. The budget allocation for infra, road, rail and metro-rail increased respectively 34.5%, 34.9%, 36.3% and 8.7%.
- Cement prices have been stable ytd and with demand rising, management expects them to be stable for the next 12-24 months. In Jan, prices declined marginally in the East and South, though higher y/y. Prices in the East have bottomed out, touching the lowest of the last 5-7years. No further decline is expected.
- Current petcoke prices are $110-115/ton, which management said would be partially offset by the low-cost stocks available, higher green/ alternative fuel usage and use of lignite in the South.
- At present, renewable power contributes 7%-8% of total power. Management expects this to touch 35-40% in the next five years and 100% by FY30. The company will have a WHRS at all kilns (except in TN due to a high level of moisture in limestone there). Further, it will set up solar power plant.
- Murli has 27m tons of reserve, which management expects can be increased to 30-35%. Further, the company is exploring limestone reserves in nearby areas.

Valuations

Supported by mounting demand and cost rationalisation, Dalmia Bharat reported an enhanced Q3 performance. It is set to increase capacity to 37.5m tons, enabling it to cater to the growing market in the East and diversify its operations in Maharashtra. The stabilisation of the Rajgangpur clinker line and the WHRS commencing at Kadapa would further help optimise costs. In Q2 FY21, it completed the 6.17m share buy-back worth Rs.3.29bn. Some pressure on costs is expected due to higher prices of pet-coke, fuel and diesel. The de-levering exercise and renewable-energy capacity expansion are positives. The company recently appointed Earnst and Young as internal auditor for FY22 and shared the forensic audit report of the mutual fund fraud.

We believe these are steps in the right direction and the stock is likely to be re-rated.

Change in estimates

We have raised our FY21e and FY22e revenue 8% and 9.6%, EBITDA 12% and 16.9% and PAT 41% and 61% respectively.

Fig 14 – Change in estimates

	Old		New		Variance	
(Rs m)	FY21e	FY22e	FY21e	FY22e	% Chg.	% Chg.
Sales	95,621	1,05,830	1,03,258	1,15,997	*8.0*	*9.6*
EBITDA	25,132	26,191	28,154	30,607	*12.0*	*16.9*
PAT	6,472	6,449	9,135	10,411	*41.2*	*61.4*

Source: Anand Rathi Research

At the ruling price, the stock trades at 7x FY23e EV/EBITDA and an EV/ton of $82. We retain our Buy recommendation, with a higher target price of Rs.1,650 based on 9x FY23e EV/EBITDA, reflecting an EV/ton of $110.

Fig 15 – Peer comparison – Valuations

	CMP	P/E (x)		EV /EBITDA (x)		EV / ton ($)	
	(Rs)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Dalmia Bharat	1,239	25.3	22.2	9.0	8.0	118	96
Birla Corp.	831	13.2	12.4	8.0	7.3	74	62
Deccan Cement	372	5.7	5.9	3.1	2.6	27	22
Heidelberg Cement	239	22.4	17.5	11.2	9.1	114	107
India Cement	171	25.0	20.5	10.0	9.3	74	72
JK Cement	2,237	26.7	24.2	14.4	12.7	170	164
JK Lakshmi	350	13.7	11.2	6.7	5.5	57	50
Mangalam Cement	251	9.4	7.6	5.6	4.6	43	39
NCL Industries	161	16.5	14.3	7.4	6.7	48	50
Orient Cement	93	10.4	8.4	5.6	4.8	48	43
Ramco Cement	871	25.1	22.6	16.6	14.3	162	151
Star Cement	101	20.9	16.2	11.5	9.1	91	93
Sanghi Industries	39	14.7	14.3	11.5	9.1	54	52

Source: Company, Anand Rathi Research

Risks

- Demand slowdown
- Rise in prices of pet-coke and diesel.

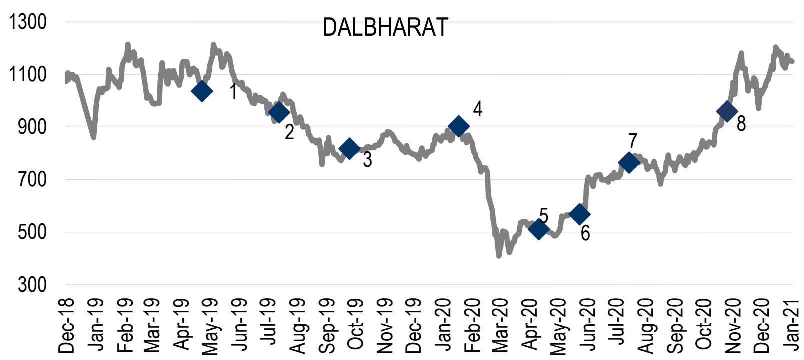
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 6 February 2021)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	16-May-19	Buy	1,361	1,037
2	05-Aug-19	Buy	1,378	986
3	21-Oct-19	Buy	1,270	815
4	10-Feb-20	Buy	1,233	900
5	04-May-20	Buy	759	530
6	16-Jun-20	Buy	793	560
7	09-Aug-20	Buy	1,000	769
8	07-Nov-20	Buy	1,174	895

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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