Stock Idea

Sector: Cement

March 02, 2021

Dalmia Bharat Limited

Rising through the ranks

Sharekhan
by BNP PARIBAS

Powered by Sharekhan's 3R Research Philosophy

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Dalmia Bharat Limited

Rising through the ranks

Cement	Sharekhan code: DALMIABHA	Initiating Coverage

Stock Idea

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

\+ Positive = Neutral - Negative

Reco/View	
Reco:	**Buy**
CMP:	**Rs. 1,467**
Price Target:	**Rs. 1,900**

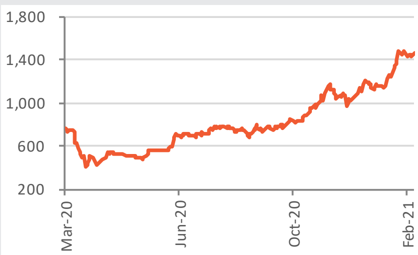
Company details

Market cap:	Rs. 27,402 cr
52-week high/low:	Rs. 1,570/406
NSE volume: (No of shares)	1.3 lakh
BSE code:	542216
NSE code:	DALMIABHA
Free float: (No of shares)	8.2 cr

Shareholding (%)

Promoters	56.1
FII	13.5
DII	4.0
Others	26.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	26.9	27.4	95.7	91.5
Relative to Sensex	19.2	15.8	69.4	60.8

Sharekhan Research, Bloomberg

Summary

- We initiate coverage on Dalmia Bharat (Dalmia) with a Buy rating and price target of Rs. 1,900. Multiples to expand from 8.5x EV/EBITDA FY23E currently as it gains size, geographical diversification and higher operational profitability.
- Dalmia is on an expansion spree in the medium to long term and aims to double its capacity and become a larger pan-India player.
- Despite aggressive expansions, it is likely to achieve net cash position by FY2023E led by free cash flows of almost Rs. 1,200 crore p.a. during FY2021-FY2023E.
- The government's infrastructure investment plan over the next five years, impetus on affordable housing and India's structural growth drivers for cement consumption present strong growth tailwinds.

Dalmia Bharat Limited (Dalmia) is India's fifth-largest cement player with an installed capacity of 28.5 million tonnes per annum (MTPA or ~5% of domestic capacity) with an addressable market that spans across 22 states in East, North-East and South regions. During FY2006-FY2020, the company's capacity soared from 1 MTPA to 26.5 MTPA led by both organic and inorganic initiatives at a lower cost of $82/tonne. Dalmia is in an expansion phase as it plans to add a 7.8 MTPA ($57/tonne cost) brownfield capacity in the East and a 3 MTPA capacity (from Murli Industries - $40/tonne cost) to reach 37.3 MTPA (total average cost of $73/tonne) by FY2022E. Further, its three-year target is to double its capacity from 28.5 MTPA currently for which it has been formalising a capital allocation strategy, the details of which are expected next quarter. Dalmia aims to become one of the larger pan-India players. Dalmia has a strong treasury corpus of almost Rs. 3,200 crore and has been able to reduce gross debt and net debt by Rs. 4170 crore and Rs. 4596 crore, respectively over FY2016-Q3FY2021. We expect the company to have a net cash surplus by FY2022E. Dalmia Bharat is expected to generate almost Rs. 1,200 crore per annum of free cash flows on an average during FY2021-FY2023, leading to a FCF yield of 6% in FY2023E. Dalmia's adjusted average RoCE (ex-goodwill, amortisation and securities premium) has been healthy at 9% for FY2019-FY2020 versus an unadjusted figure of 5%. Amid the COVID-19 led disruptions, cement demand from the rural sector remained healthy, while offtake from the infrastructure sector has started picking 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 of 1.2x GDP remain intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan spread over FY2020 to FY2025 would keep demand healthy. We have built in higher-than-consensus net earnings for FY2021-FY2023 factoring better margins led by operating leverage. Dalmia is currently trading at an EV/EBITDA of 8.5x its FY2023E earnings, which we believe should see re-rating as it gains size, geographical diversification and an improved operational profitability. Hence, we initiate coverage on the stock with a Buy rating, valuing the stock at 11.5x EV/EBITDA its FY2023E earnings, leading to a price target of Rs. 1,900.

Aggressive plans to gain size

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 28.5 MTPA currently 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. A detailed plan is expected to be shared over the next quarter. However, its focus is on becoming 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.

Our Call

Valuation - Initiate with Buy rating and PT of Rs. 1900: Dalmia Bharat is expected to grow its net earnings by 22% CAGR over FY2021E-FY2023E driven by healthy volume growth in core eastern regions. Further, its medium and long term expansion plans would provide long-term sustainable growth post FY2023E. Despite expansion, the balance sheet is expected to further strengthen and return ratios to improve. We have built in higher-than-consensus net earnings for FY2021-FY2023 factoring better margins led by operating leverage. Dalmia is currently trading at an EV/EBITDA of 8.5x its FY2023E earnings, which we believe should see re-rating as it gains size, geographical diversification and an improved operational profitability. Hence, we initiate coverage on the stock with a Buy rating, valuing the stock at 11.5x EV/EBITDA its FY2023E earnings, leading to a price target of Rs. 1,900.

Key risk

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	FY19	FY20	FY21E	FY22E	FY23E
Revenue	9,484	9,674	10,570	12,200	13,629
OPM (%)	20.5	21.8	25.3	23.8	23.6
Adjusted PAT	296	268	741	908	1,104
% y-o-y growth	*5.7*	*-9.5*	*176.3*	*22.6*	*21.7*
Adjusted EPS (Rs.)	15.2	13.7	39.2	48.1	58.5
P/E (x)	96.6	106.7	37.4	30.5	25.1
P/B (x)	2.7	2.7	2.5	2.4	2.2
EV/EBITDA (x)	16.3	14.9	11.2	10.0	8.5
RoNW (%)	2.8%	2.5%	6.9%	8.0%	9.0%
RoCE (%)	6.3%	3.9%	6.5%	7.7%	8.5%

Source: Company, Sharekhan estimates

Executive Summary

3R Research Positioning Summary

- **Right Sector:**
  Low per capita consumption, high entry barriers, healthy pricing discipline, positively co-relation to GDP growth.
- **Right Quality:**
  Dalmia is part of a renowned business group, pedigree of low-cost capacity expansions, among cost-efficient players and deep rural penetration.
- **Right Valuation:**
  Robust balance sheet, stock trades at a discount to peers with a strong growth profile.

Valuation and return potential

- **Trading at relatively lower valuation:** Stock trades at an EV/EBITDA of 8.5x its FY2023E earnings, which is at a discount to its peers.
- **Strong growth profile led by capacity expansion:** Expect 22% CAGR in net earnings over FY2021-FY2023E led by strong volume growth in east and revival in demand in South.

Catalysts

Long-term triggers

- Strong volume growth during FY21E-FY23E led by government-led infrastructure spending and affordable housing.
- Long-term demand growth pegged at 1.2x GDP. Low per capita cement consumption of India versus world average.

Medium Term Triggers

- Capacity expansions to 37 MTPA from 28.5 MTPA currently by FY2022E.
- Eastern region to maintain high volume growth while South is likely to revive.

Key Risks

Weak macros, decline in cement prices, rise in key input costs.

Earnings and Balance sheet highlights

- **Consistent earnings growth:** Revenues and PAT to grow at a CAGR of 14% and 22%, over FY2021-23E.
- **Key regions:** Catering to cement demand in East, North East and South India.
- **Healthy balance sheet and cash flows:** expect it to be net cash surplus by FY2022E. Free cash flows of almost Rs. 1200 crore per annum during FY2021-FY2023 providing FCF yield of 6% in FY2023E.
- **Healthy return profile:** adjusted average RoCE (ex-goodwill, amortisation, securities premium) is healthy at 9% over FY2019-FY2020 versus unadjusted 5%.

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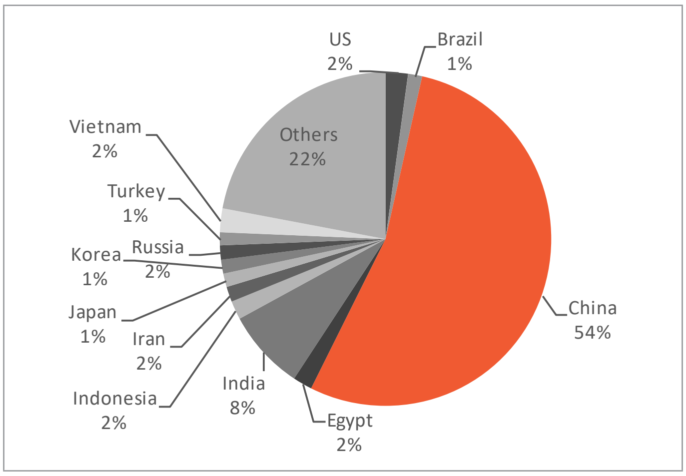
Why we like space – Healthy demand and pricing discipline brightens outlook

The cement industry has seen sustained improvement in demand in the past fifteen years barring a couple of years, while regional cement prices have been rising for the past five years. The government's Rs. 111 lakh crore infrastructure investment plans from FY2020 to FY2025 would lead to healthy demand going ahead.

India world's second-largest cement producer

India is the world's second-largest producer of cement after China, accounting for 8% of global installed capacity as of 2019. India's installed cement capacity is estimated at ~500 MTPA after China, which has an installed capacity of ~3,200 MTPA. India's cement Industry was de-controlled in 1989 and de-licensed in 1991 under the policy of economic liberalisation. Decisions on installation of new plants are taken by the industry based on market demand.

World Production - 2019

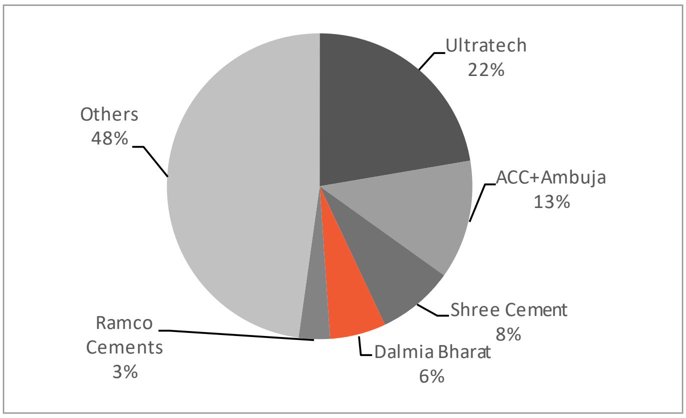


Source: United States Geological Survey (USGS)

Highly fragmented market dominated by few players

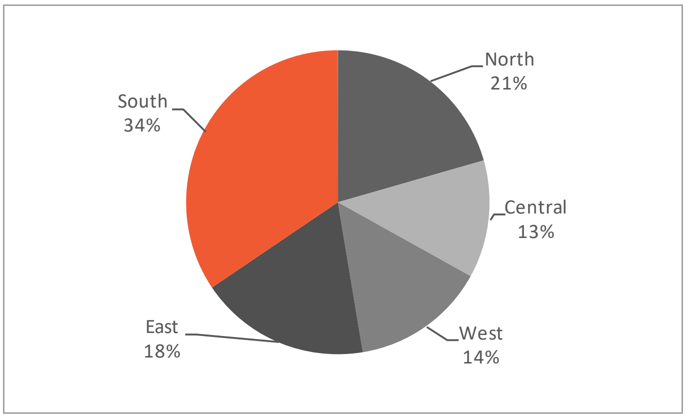
Indian cement industry is highly fragmented with ~250 plants owned by ~75 players. The top five cement players hold ~52% of total installed capacity. Region-wise, South dominates with a 34% share followed by the North (21%), East (18%), West (14%) and Central (13%) regions.

Top 5 players hold lion's share



Source: Industry Data; Sharekhan Research

Regional mix

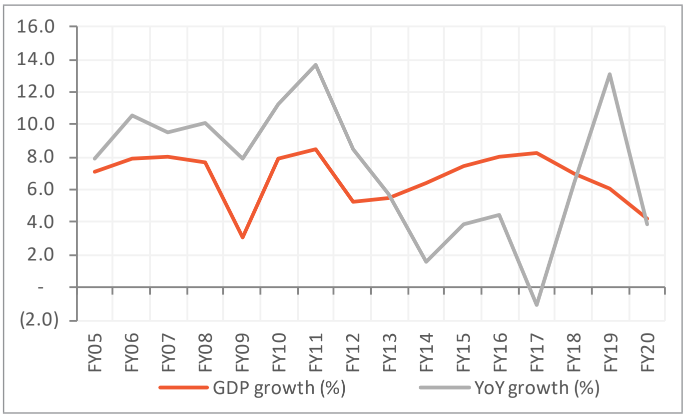


Source: Industry Data; Sharekhan Research

Cement demand to GDP ratio and low per capita consumption to drive long-term growth

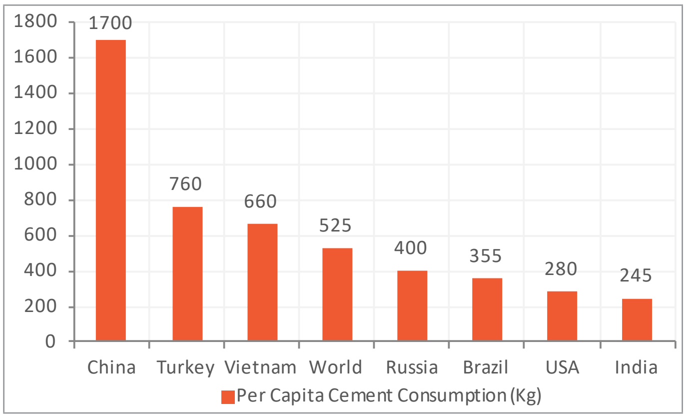
The cement industry showed a strong positive correlation with India's GDP growth during FY2005-FY2008 at 1.2x, while it improved to 1.7x during FY2009 to FY2013. Cement demand saw a lull during FY2014-FY2017, wherein it grew at just 0.3x GDP growth. However, since FY2018-FY2020, the industry again reverted to a growth rate of 1.3x GDP. The expected improvement in GDP growth rate from FY2022 is expected to improve cement industry's demand growth. Additionally, per capita consumption of cement in India stood at ~245 kg as of FY2019 is much lower to the world average of ~525kg, which leaves ample room for long-term growth for the industry.

Cement demand ~1.2x GDP



Source: Ministry of Statistics & Programme Implementation, Industry, Sharekhan Research

Per capita cement consumption

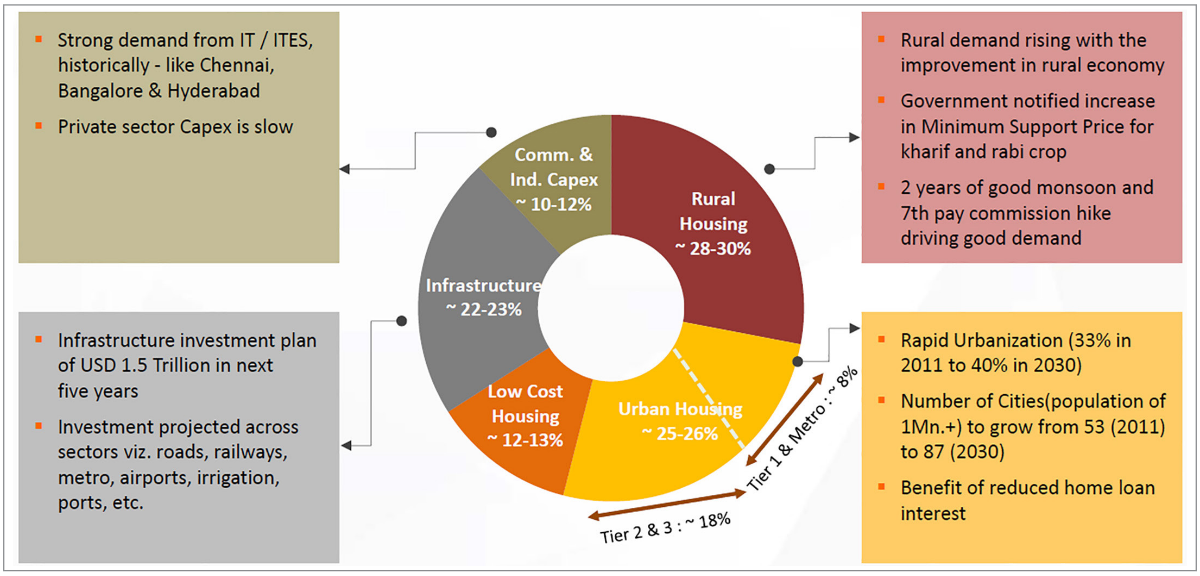


Source: USGS;

Key demand growth drivers

Cement demand is driven by five segments - infrastructure, low-cost housing, urban housing, rural housing and commercial and industrial capex. The housing sector (including low-cost projects, urban and rural housing) contributes to 65-69% of demand. Rapid urbanisation, rising number of cities, rising rural income, normal monsoons, pay commission hikes, etc are some key drivers of the housing sector in India. Commercial and industrial capex is led by strong demand from IT/ITES along with private capital expenditure. However, private capex has been slow over the trailing three years. Infrastructure investments are driven by central and state government expenditure in sectors such as roads, railways, metros, airports, irrigation, ports, etc. The share of government led infrastructure investments have increased over trailing three years compensating for slowdown in private capex.

Segment-wise demand mix

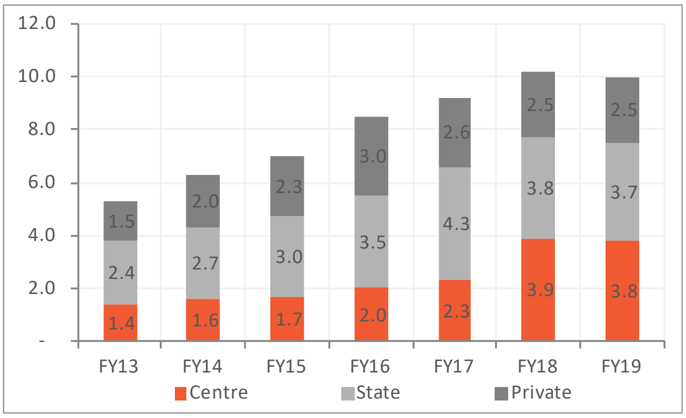


Source: UltraTech Ltd Corporate Presentation, Sharekhan Research

Infrastructure investments driven by public sector

India's infrastructure spending has been rising, with Rs. 36 lakh crore of investments during FY2013-FY2017. Investments for FY2018 and FY2019 are estimated at Rs.10.2 lakh crore and Rs. 10 lakh crore, respectively. During FY2018-FY2019, infrastructure investment was predominantly driven by the public sector (i.e. Centre and state governments which held a share of ~75%). The private sector's share has declined from an average 30% during FY2013-FY2017 to 25% during FY2018-FY2019E.

India's infrastructure investment trend since FY2013

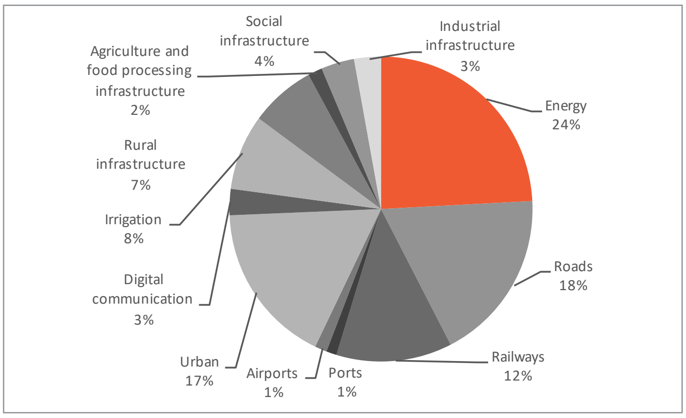


Source: Report of Task Force National Infrastructure Pipeline, Sharekhan Research

Huge infrastructure investments during FY2020-FY2025 augur well for cement demand:

The government envisages Rs. 111 lakh crore of capital expenditure in the infrastructure sector in India during FY2020 to FY2025. Sectors such as Energy (24%), roads (18%), urban (17%) and railways (12%) amount to ~71% of the projected infrastructure investment. The government's continued thrust on infrastructure investment is expected to boost cement demand. Although demand is expected to fall during FY2021 led by COVID-19 led disruptions, we expect a revival from FY2022.

Sector-wise capital expenditure

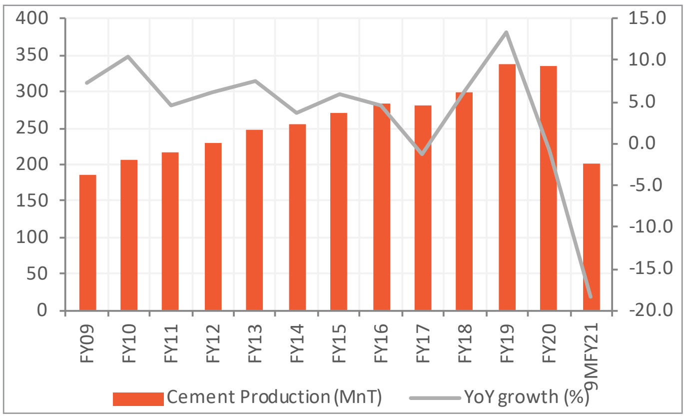


Source: Report of Task Force National Infrastructure Pipeline, Sharekhan Research

Cement production and pricing outlook

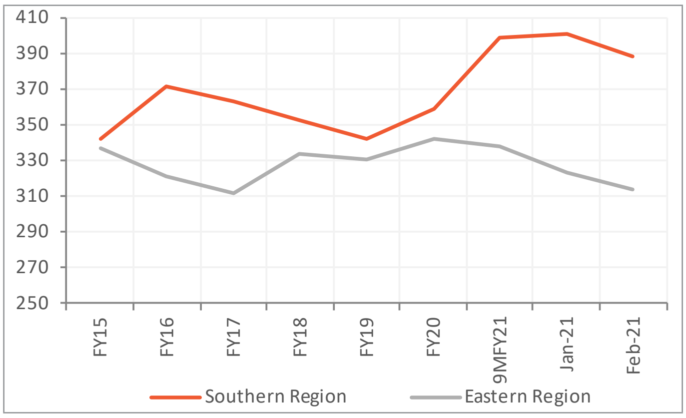
The cement industry has witnessed a steady rise in demand over the past fifteen years barring FY2017 and FY2020 led by rise in government spending on infrastructure projects (especially roads) and affordable housing segments (which has been the one of the key focus areas through favourable policy measures). For Q3FY2021, as per DPIIT, cement production declined by 4.9% y-o-y with December 2020 production rising by 8.9% m-o-m. However, our coverage universe of cement players saw strong volume growth of 7.7% y-o-y, with UltraTech reporting one of the best volume growth numbers (up 14.1% y-o-y). Further, cement demand is expected to remain healthy during Q4FY2021, as non-trade demand has started to pick up along with sustained offtake from the IHB and rural segments. Cement transported through railways during January 2021 rose by 14.4% y-o-y (up 4.5% m-o-m). A steady rise in demand has also led to improvement in cement prices across pan-India level. Despite the industry facing a lull in demand in the past couple of years, the cement prices have remained firm. As per our channel checks, pan-India average cement prices in January-February 2021 are higher by 2.8% as compared to Q4FY2020 with southern region prices up 12.9%. Barring the southern region, average cement prices have remained flat y-o-y. Dalmia's key region - the Eastern region have witnessed pressure in cement prices although demand continued to remain the strongest (in terms of growth rates).

Cement Production trend



Source: Industry Data, Sharekhan Research

South and East cement price trend

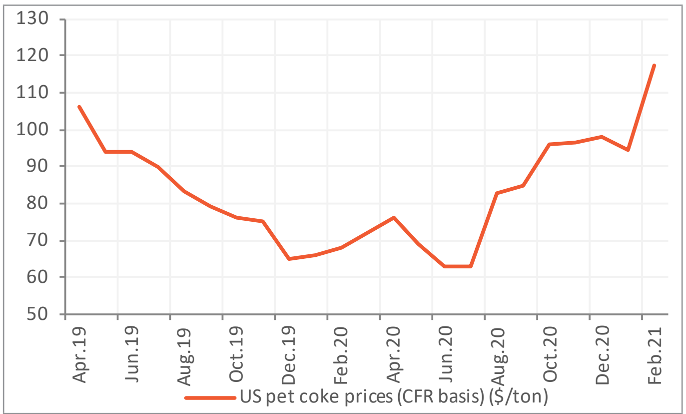


Source: Sharekhan Research

Input cost especially pet coke price on an uptrend

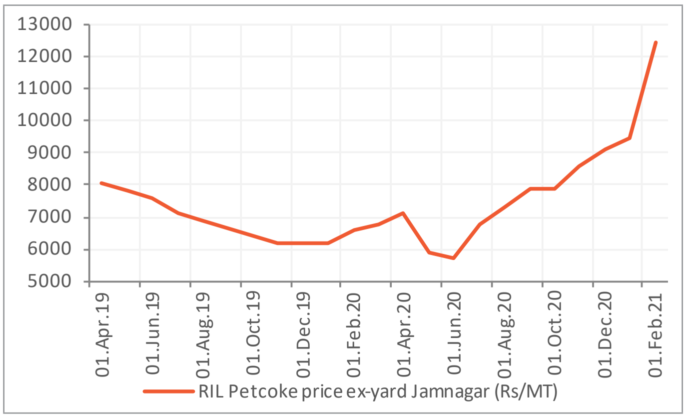
The cement industry's key input costs viz. power, fuel and freight comprise 45-50% of revenues on an average and are major levers for players to improve profitability by altering the fuel mix and lead distances. Petcoke and diesel prices (in metro cities) have declined from 2019 peaks with softening crude oil prices. This has helped cement industry players in posting record profitability in terms of EBITDA/tonne for FY2020. However, International average petcoke prices for January-February 2021 are up by 9.5% versus Q3FY2021 (up 54% versus Q4FY2020), while domestic petcoke prices for the same period are up 28% versus Q3FY2021 (up 68% versus Q4FY2020). Rise in petcoke prices is expected to reflect partially in Q4FY2021 and fully in Q1FY2022 as low-cost inventory gets exhausted. Further, average retail diesel prices across metros have risen by 6.5% for January-February 2021 versus Q3FY2021 (up 19% versus Q4FY2020). However, rail freight for January-February 2021 declined by 1.8% versus Q4FY2020 and 1% versus Q3FY2021. Freight costs of cement companies are partially saved through higher transportation of cement through the rail network.

International petcoke prices



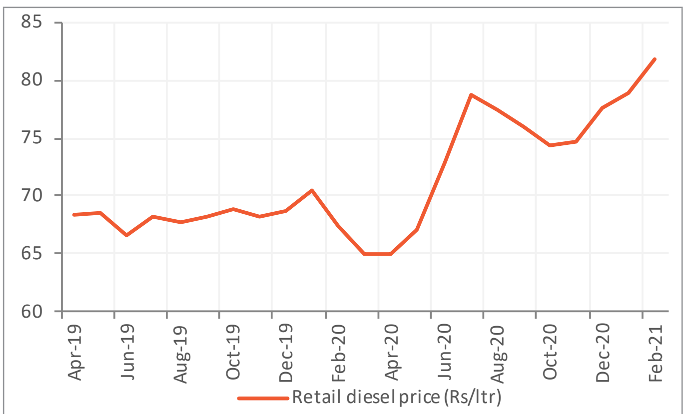
Source: Industry; Sharekhan Research

Domestic petcoke prices



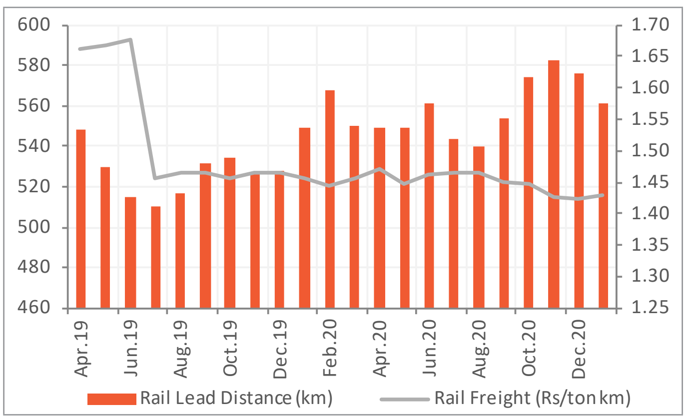
Source: Industry; Sharekhan Research

Retail diesel prices



Source: Industry; Sharekhan Research

Railways cement lead distance and freight rates



Source: Industry; Sharekhan Research

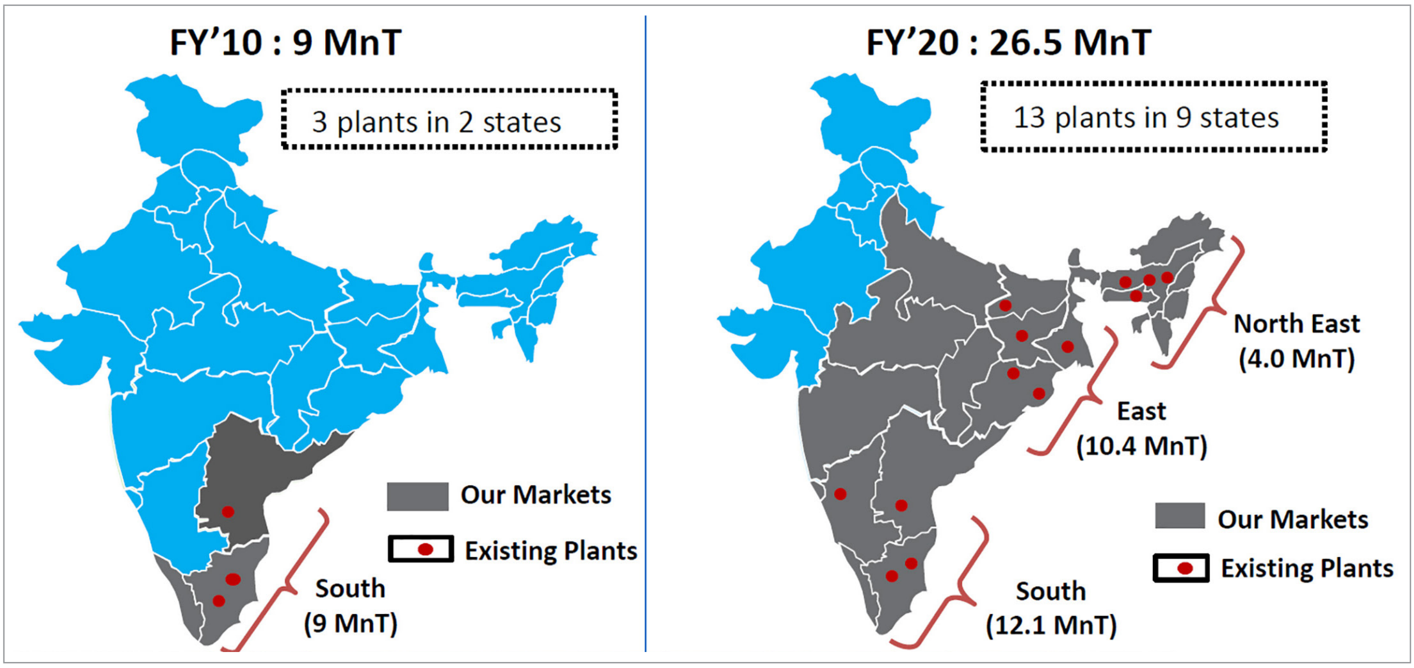
Why we like Dalmia Bharat – Aggressive expansion plans to gain size

Dalmia Bharat (Dalmia) has a legacy of expanding capacities at a lower cost, thereby keeping leverage under control. It plans to double its capacity over next three years expanding its geographical reach and fortifying its key regional presence. The company's balance sheet would strengthen further despite aggressive expansion.

Cementing growth for a decade

Over FY2010-FY2020, Dalmia Bharat (Dalmia) has grown from a 9MT capacity confined to the Southern region (three plants in two states) to 26.5MT capacity geographical diversifying into the East and North East regions with a total of 13 plants in nine states. The company's addressable market spans across 22 states in the East, North East and Southern India, with a selective presence in Uttar Pradesh and Maharashtra. The company's capacity comprises ~5% of the country's installed capacity making it one among the largest cement groups in India. The company is the largest cement brand in Eastern India, the fastest growing cement consuming zone in the country.

Capacity expansion over FY2010-FY2020

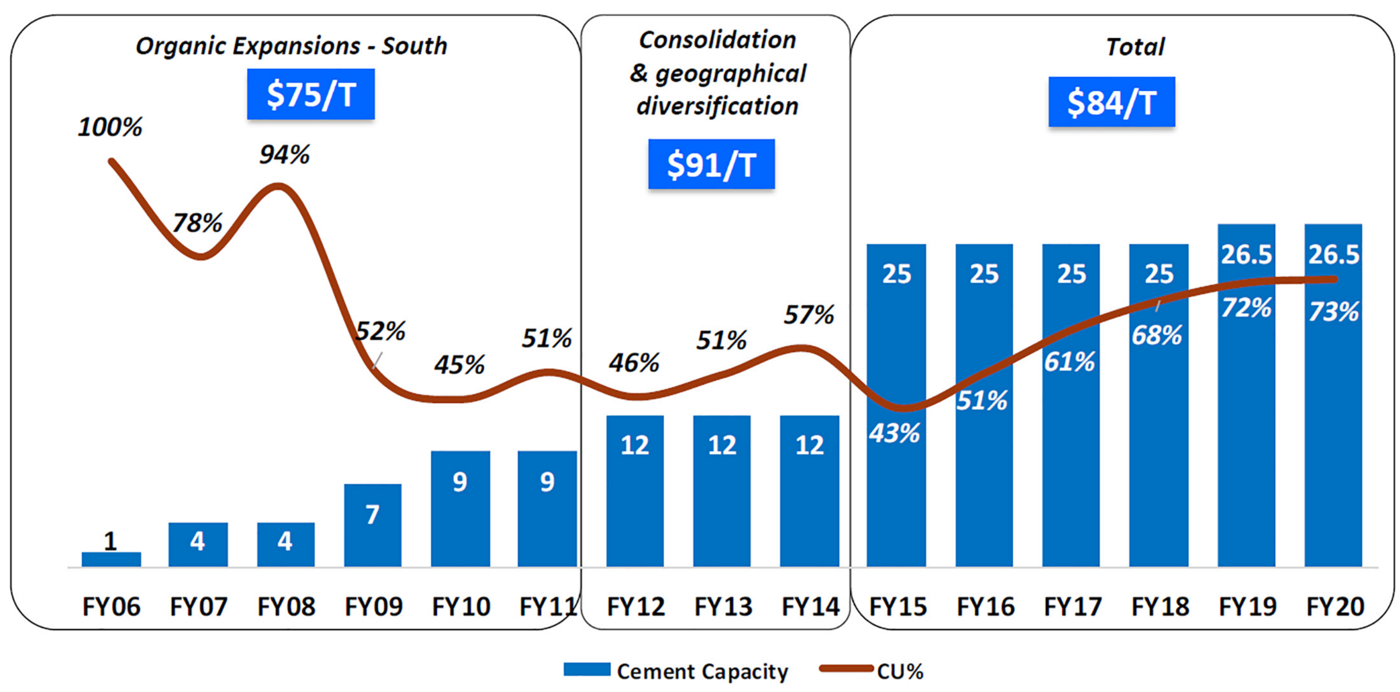


Source: Company, Sharekhan Research

Low-cost expansions over FY2006 to FY2020

Dalmia has expanded capacity from just 1MT from FY2006 to 26.5MT by FY2020 both organically and unorganically at a low cost of Rs. $82/tonne

Capacity addition cost per tone over FY2006-FY2020

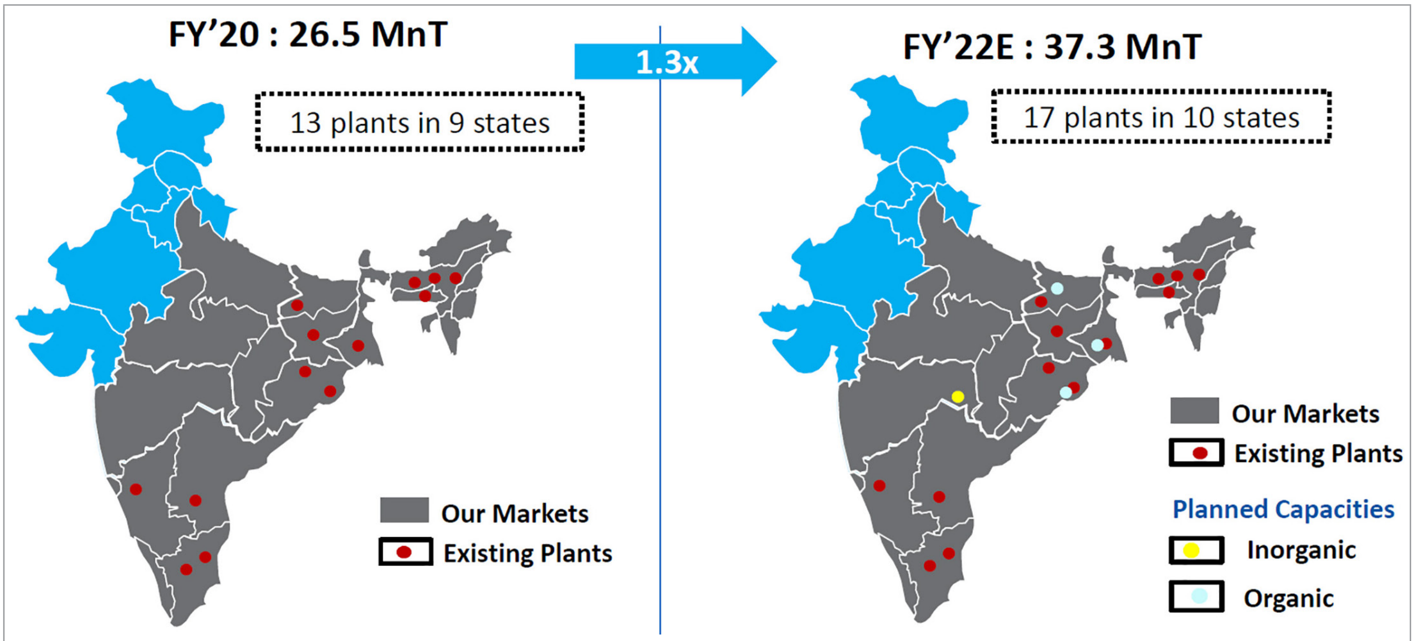


Source: Company, Sharekhan Research

Brownfield capacity expansion plans of ~7.8MT in medium term

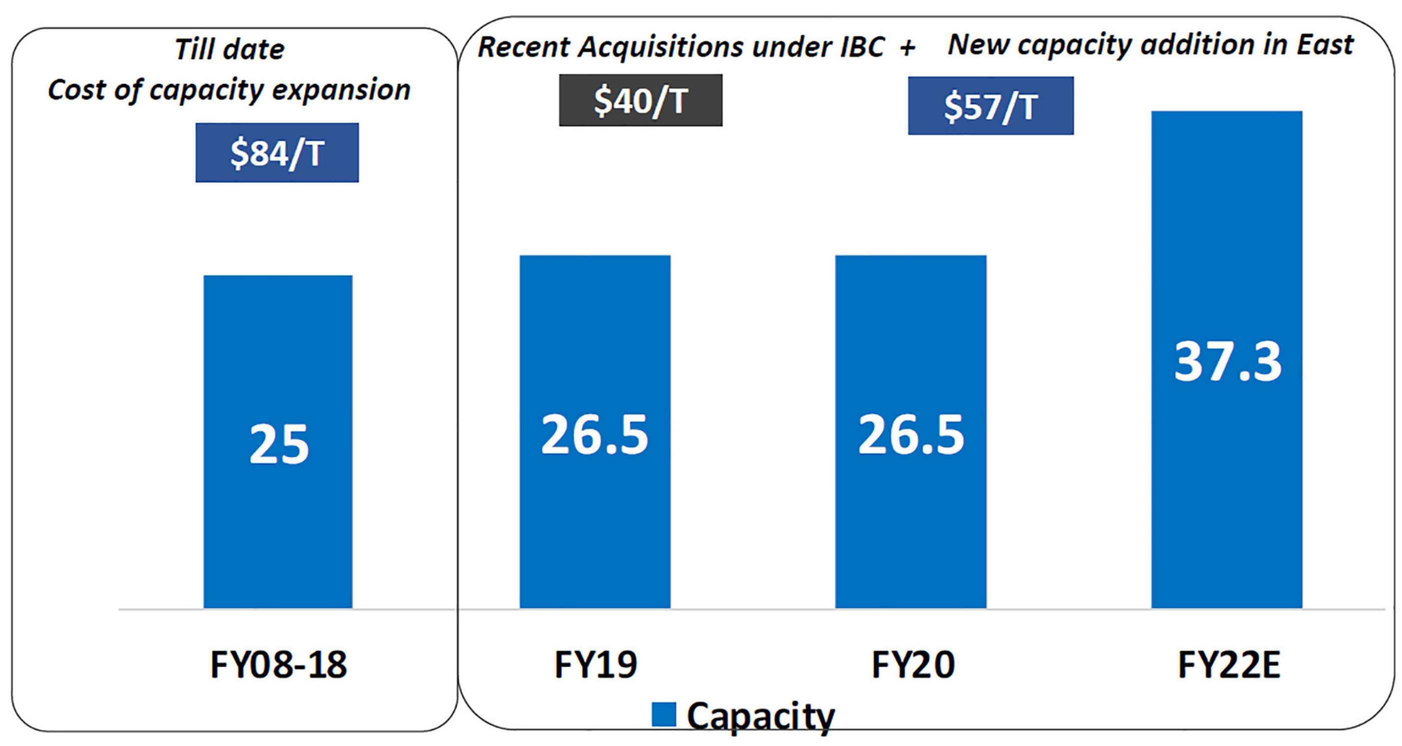
Dalmia Bharat undertook debottlenecking of a 2 MT capacity during Q3FY2021 taking its total cement capacity to 28.5 MT. Dalmia is on a capacity expansion spree and is slated to increase its capacity by 7.8MT in Eastern India from to reach 37.3MT by FY2022 at a capex of Rs. 3,200 crore. The acquisition of Murli Industries will add 3 MT and increase its presence in Western India. The full production of Murli Industries is expected to come on stream in H2FY2022 during which its contribution would become part of the company's operations. The company is working on 30 MW capacity of waste heat recovery power generation plant, which is slated to be operational by FY2023. Overall, the company is yet to spend Rs. 1,400 crore over next 12-18 months on Murli Industries' acquisition and 30MW WHRS capacity.

Capacity expansion over FY2020-FY2022



Source: Company, Sharekhan Research

Capacity addition cost over FY2008-FY2022E



Source: Company, Sharekhan Research

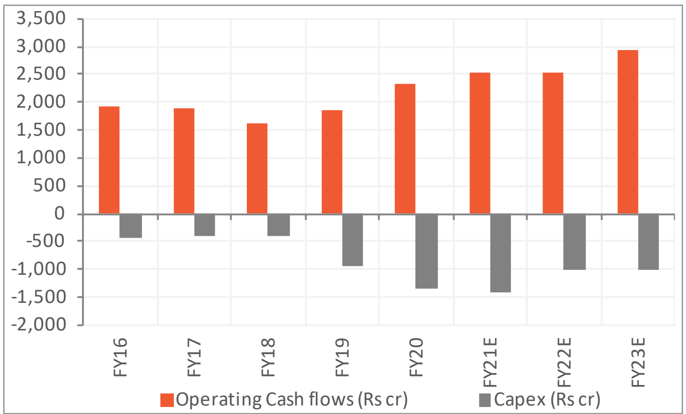
Expansion plans for doubling capacity over next three years

The company is exploring a few proposals to double its existing capacity over the next three years. It is planning to expand its capacity from current 28.5 MT to 55-60 MT. It is also working on a long-term capacity expansion strategy and on formalizing a capital allocation policy for the company which is expected to be shared by the management in detail during Q4FY2021-Q1FY2022.

Eyeing net cash surplus by FY2023E

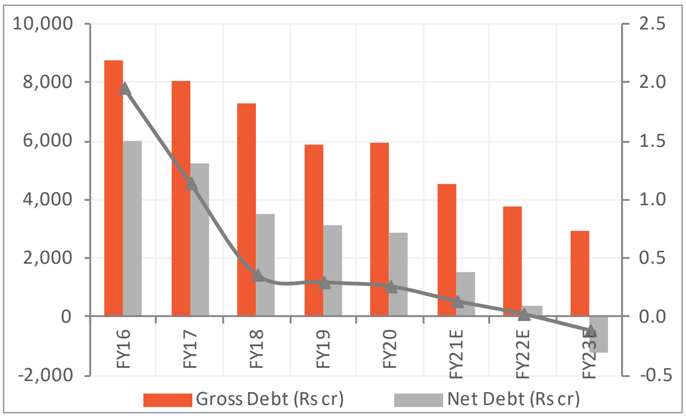
The company repaid Rs. 1,379 crore during 9MFY2021, reducing its net debt to Rs. 1,399 crore as of Q3FY2021. Consequently, the net debt to EBITDA ratio stood at 0.56 from 1.34 a year ago. Gross debt as of Q3FY2021 stood at Rs. 4587 crore. The company is expected to generate strong operating cash flows of over Rs. 2,500 crore per annum over FY2021E-FY2023E. We factor in Rs. 3,400 crore of capital expenditure during the same period. The company is expected to achieve a net cash surplus by FY2023E.

OCF/Capex trend



Source: Company Data; Sharekhan Research

Net Debt trend

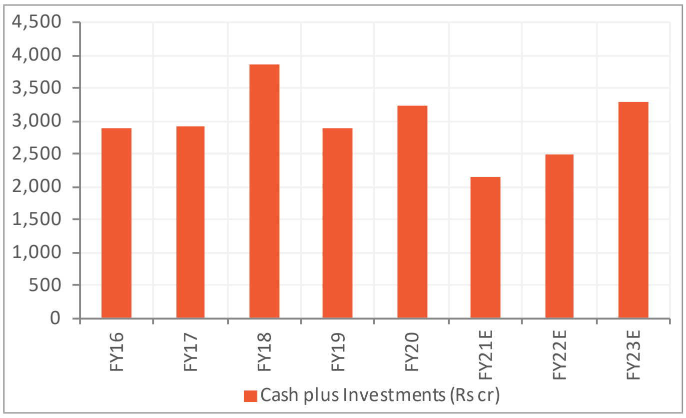


Source: Company Data; Sharekhan Research

High treasury corpus and strong free cash generation

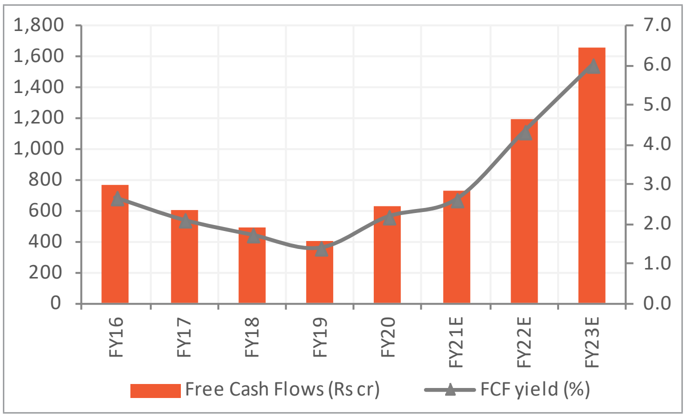
Dalmia has maintained strong treasury corpus (cash + investments). It had a treasury corpus over Rs. 3,200 crore as of FY2020. It has generated over Rs. 575 crore per annum of free cash flows on an average during FY2016-FY2020. We expect it to generate almost Rs. 1200 crore of free cash flows per annum on an average during FY2021E-FY2023E led by strong operating cash flows. We expect its FCF yield to be at 6% in FY2023E.

Tresury surplus trend



Source: Company Data; Sharekhan Research

FCF/FCF yield trend



Source: Company Data; Sharekhan Research

Better than expected Q3FY2021 Results

Consolidated revenues rose by 18% y-o-y (up 19% q-o-q) for Q3FY2021 to Rs. 2,857 crore, was better than consensus estimates. Volumes grew by 13.7% y-o-y to 5.8 million tonnes, led by strong demand in the Eastern region. Blended realisation rosse by 3.9% y-o-y (down 1.9% q-o-q) to Rs. 4926. The company reported better-than-expected operational performance with EBITDA/tonne of Rs. 1,191, which rose 33% y-o-y (down 18.5% q-o-q). Higher capacity utilization, higher realisation and lower raw material, power and other expenses (per tonne) led to better-than-consensus EBITDA/tonne. Strong operational performance along with lower depreciation (down 19% y-o-y) led to consolidated adjusted net profit of Rs. 179 crore as against Rs. 24 crore in Q3FY2020.

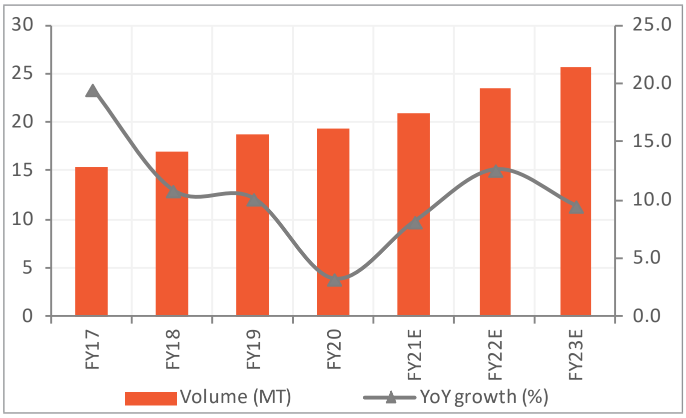
Results (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	Y-o-Y %	Q2FY21	Q-o-Q %
Net Sales	2857	2418	18%	2410	19%
Total Expenditure	2166	1961	10%	1708	27%
Operating profits	691	457	51%	702	-2%
Other Income	46	68	-32%	41	12%
EBIDTA	737	525	40%	743	-1%
Interest	94	93	1%	74	27%
PBDT	643	432	49%	669	-4%
Depreciation	329	405	-19%	302	9%
PBT	314	27	1063%	367	-14%
Tax	134	-1	-	136	-1%
Extraordinary items	-4	0	-	-1	
Minority Interest	0	2		0	
Reported Profit After Tax	183	24	663%	232	-21%
Adjusted PAT	179	24	646%	231	-23%
EPS	10	1	646%	12	-23%
			BPS		**BPS**
OPMs	24.2%	18.9%	529	29.1%	-494
PAT	6.3%	1.0%	527	9.6%	-332
Tax rate	42.7%	-3.7%	4638	37.1%	562

Source: Company; Sharekhan Research

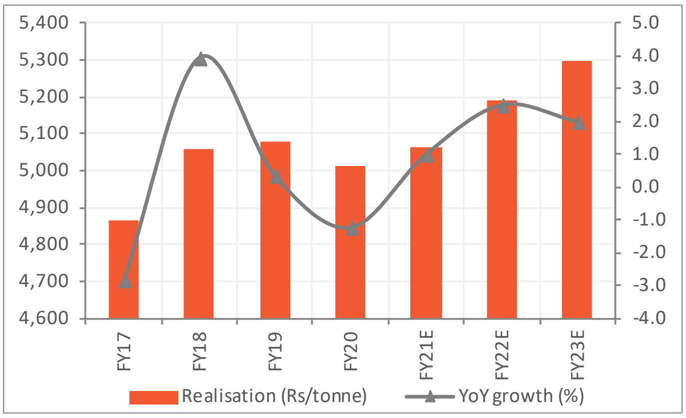
Financials in charts

Volume trend



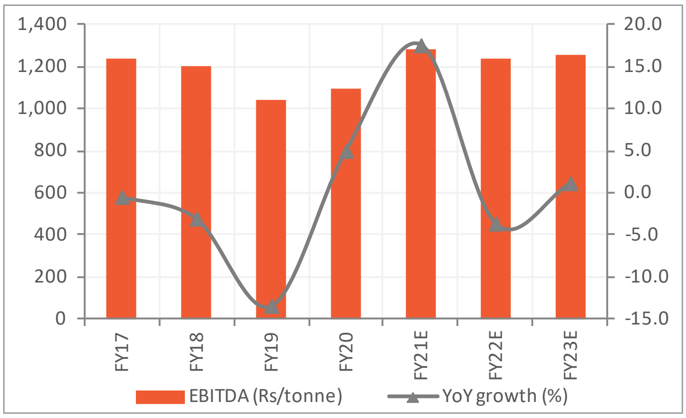
Source: Company, Sharekhan Research

Realisation trend



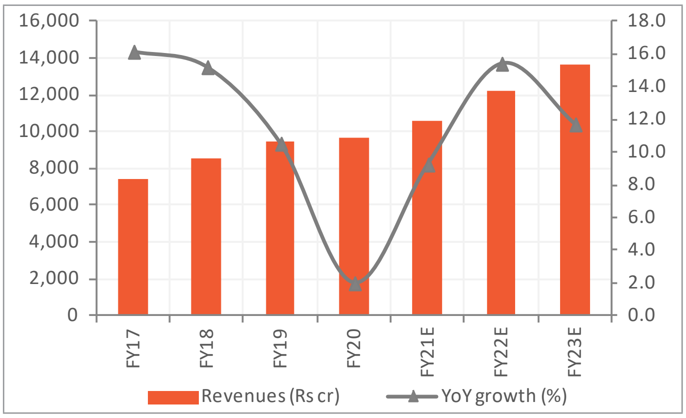
Source: Company, Sharekhan Research

EBITDA/tonne trend



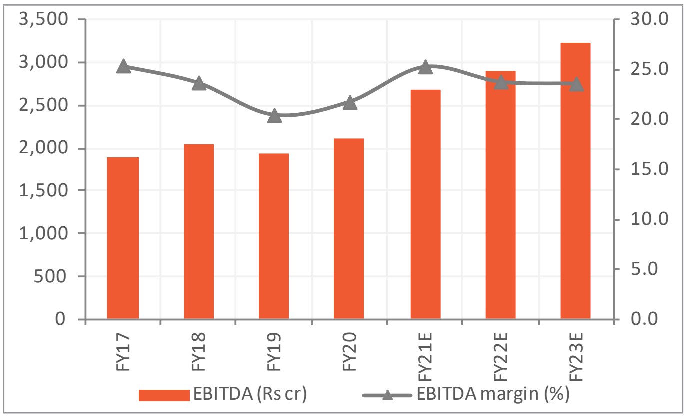
Source: Company, Sharekhan Research

Revenue trend



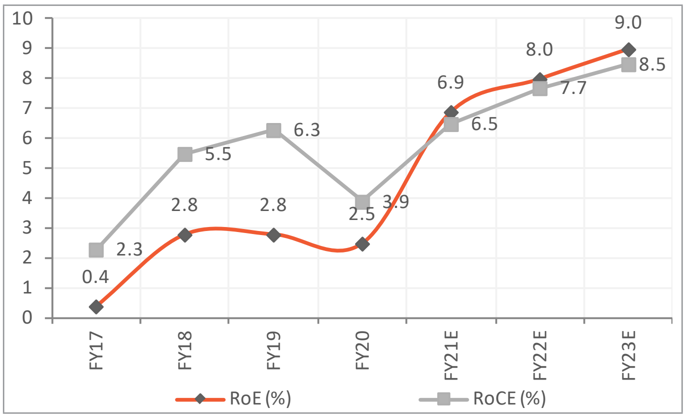
Source: Company, Sharekhan Research

Operating profit trend



Source: Company, Sharekhan Research

Return Ratios trend



Source: Company, Sharekhan Research

Valuations - Expect re-rating of valuation multiples

Dalmia's valuation at 8.5x EV/EBITDA on FY2023E earnings does not capture the strong growth potential of the company. The company is expected to gain size over the next three years eyeing to become a larger pan India player.

Sector View – Improving demand brightens outlook

The cement industry has seen a sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been rising over the past five years. Amid COVID-19 led disruptions, the cement demand from the rural sector remained healthy, 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 of 1.2x GDP remains intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan over FY2020 to FY2025 would create 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 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.

Valuation - Initiate with a Buy rating; assigning a PT of Rs. 1,900

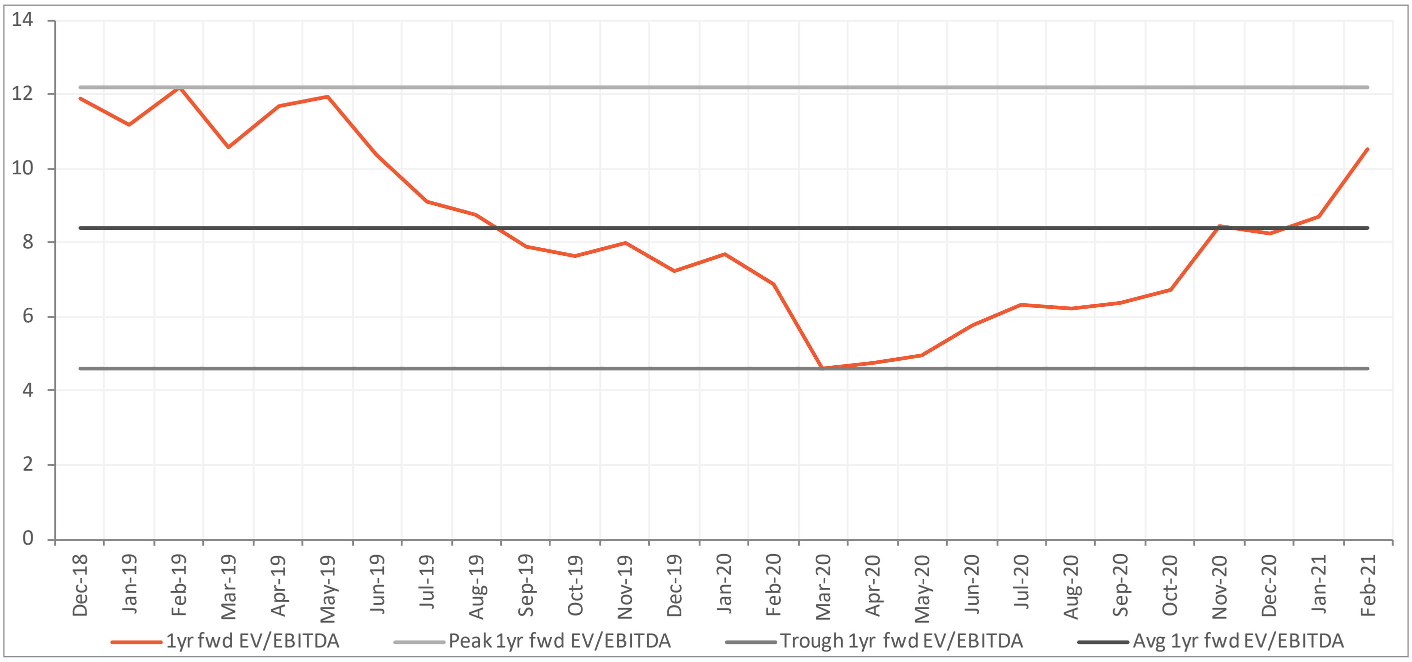
Dalmia Bharat is expected to grow its net earnings by 22% CAGR over FY2021E-FY2023E driven by healthy volume growth in core eastern regions. Further, its medium and long term expansion plans would provide long-term sustainable growth post FY2023E. Despite expansion, the balance sheet is expected to further strengthen and return ratios to improve. We built in higher than consensus net earnings for FY2021-FY2023 factoring better margins led by operating leverage. Dalmia is currently trading at an EV/EBITDA of 8.5x its FY2023E earnings, which we believe should see re-rating as it gains size, geographical diversification and an improved operational profitability. Hence, we initiate coverage on the stock with a Buy rating, valuing the stock at 11.5x EV/EBITDA its FY2023E earnings, leading to a price target of Rs. 1,900.

Volume, Realisation and EBITDA/Tonne assumptions

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Volume (MMT)	**18.7**	**19.3**	**20.9**	**23.5**	**25.7**
YoY growth (%)	*10.1*	*3.3*	*8.2*	*12.6*	*9.5*
Realisation (Rs/tonne)	**5077**	**5015**	**5065**	**5192**	**5296**
YoY growth (%)	0.4	-1.2	1.0	2.5	2.0
EBITDA (Rs/tonne)	1040	1092	1284	1237	1252
YoY growth (%)	-13.4	5.0	17.6	-3.6	1.2

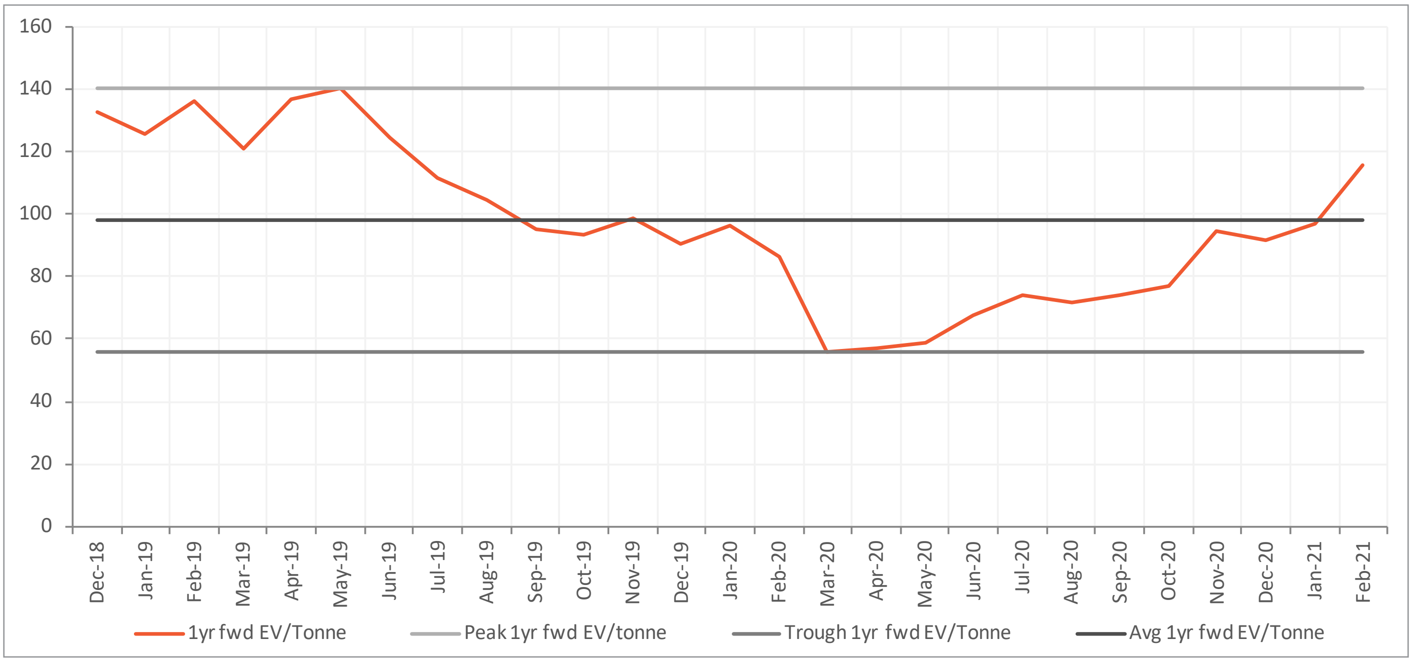
Source: Company, Sharekhan Research

One year forward EV/EBITDA (x) band



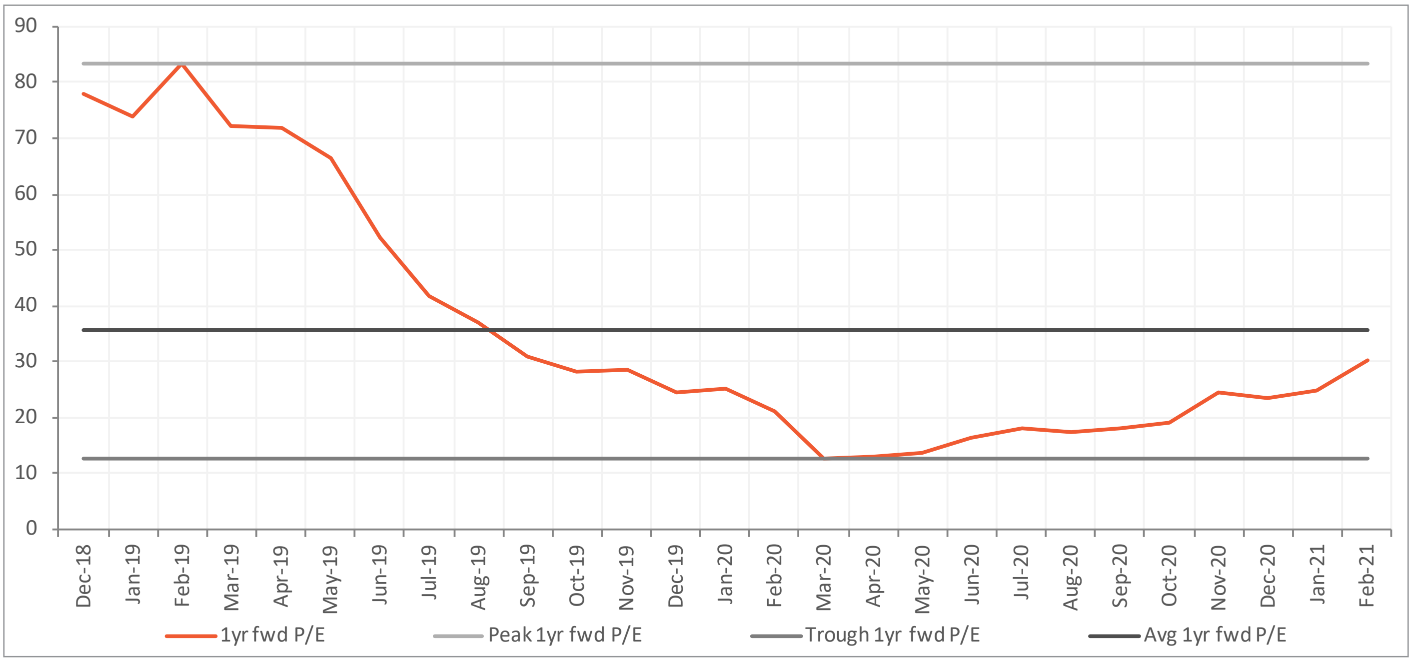
Source: Company; Sharekhan Research

One year forward EV/Tonne (x) band



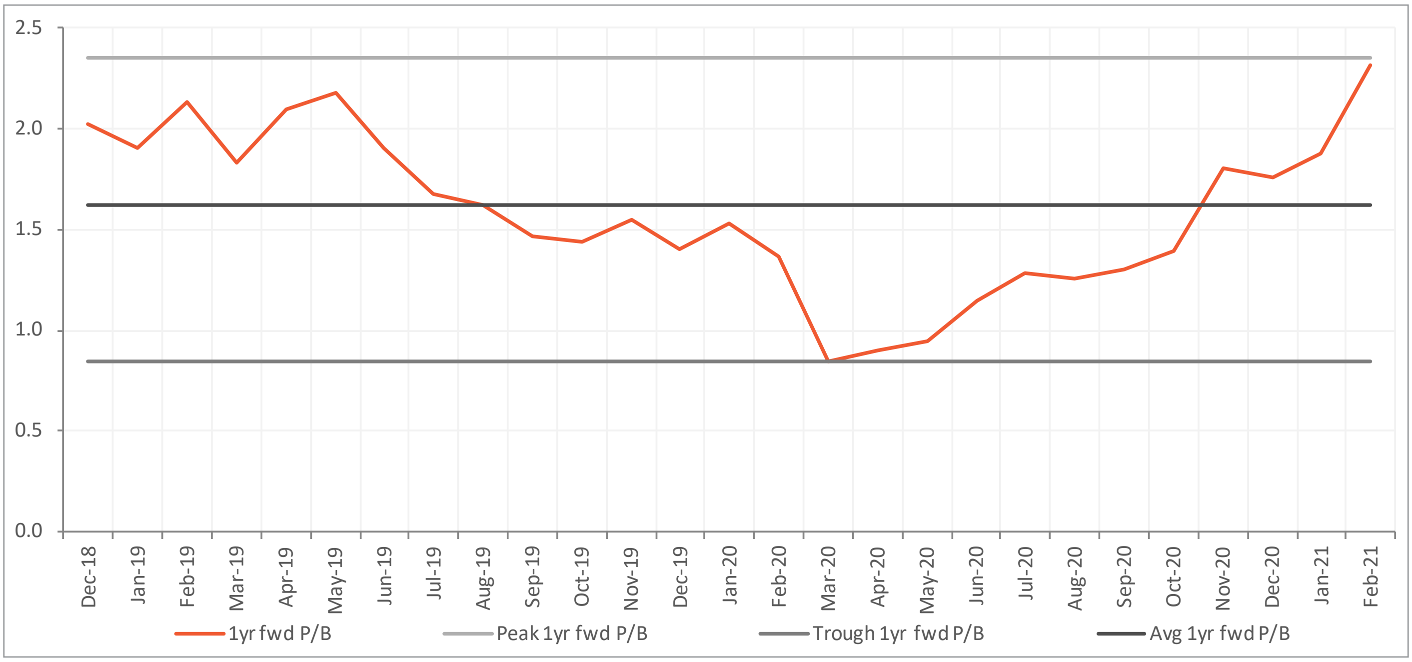
Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Company; Sharekhan Research

One-year forward P/B (x) band



Source: Company; Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Shree Cement	40.2	35.3	19.8	17.2	5.9	5.2	15.6	15.5
UltraTech	33.9	28.5	16.7	14.1	3.8	3.4	12.0	12.7
The Ramco Cements	27.4	24.2	16.2	14.3	3.7	3.2	14.2	14.1
The India Cements	34.6	26.6	9.8	8.8	1.0	0.9	2.8	3.6
JK Lakshmi Cement	14.4	11.8	5.9	5.0	2.0	1.7	14.8	15.7

Source: Sharekhan Research

Financials (Consolidated)

Statement of Profit and Loss Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net sales	**9,484**	**9,674**	**10,570**	**12,200**	**13,629**
Growth(%)	*11*	*2*	*9*	*15*	*12*
Total Expenditure	**7,542**	**7,568**	**7,891**	**9,293**	**10,408**
Raw material	1,785	1,746	1,794	2,061	2,302
Employee	648	675	740	830	927
Power & Fuel	1,756	1,738	1,880	2,329	2,602
Freight cost	1,829	1,895	2,050	2,378	2,682
Other Expenditure	1,524	1,514	1,427	1,696	1,894
Operating profit	**1,942**	**2,106**	**2,679**	**2,907**	**3,222**
Growth(%)	*(5)*	*8*	*27*	*9*	*11*
Operating profit Margin %	**20**	**22**	**25**	**24**	**24**
Depreciation	1,296	1,528	1,271	1,394	1,496
EBIT	646	578	1,407	1,513	1,726
EBIT margin (%)	7	6	13	12	13
Other Income	235	217	174	208	219
Interest Expenses	551	415	410	338	266
Exceptional items	-9	23	0	0	0
PBT	339	357	1,171	1,384	1,679
Tax	(10)	119	416	461	560
Effective Tax rate (%)	(3)	33	36	33	33
PAT before Minority Interest	349	238	756	923	1,119
Minority Interest	-41	-14	-15	-15	-15
Adjusted Net profit	**296**	**268**	**741**	**908**	**1,104**
Growth(%)	*6*	*(9)*	*176*	*23*	*22*
E/O item	(12)	44	-	-	-
Reported net profit	308	224	741	908	1,104
Growth(%)	*5*	*(27)*	*231*	*23*	*22*
EPS	15.2	13.7	39.2	48.1	58.5
Growth(%)	*6*	*(9)*	*185*	*23*	*22*

Balance Sheet Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	39	39	38	38	38
Reserves & surplus	10,600	10,522	10,878	11,731	12,769
Net worth	**10,639**	**10,561**	**10,916**	**11,769**	**12,807**
Secured loans	4,015	3,505	2,105	1,305	505
Unsecured loans	1,863	2,445	2,445	2,445	2,445
Total Loan funds	**5,878**	**5,950**	**4,550**	**3,750**	**2,950**
Minority Interest	11	25	40	55	70
Other liabilities	-	-	-	-	-
Net deffered taxes	1,279	1,277	1,277	1,277	1,277
Total Liabilities	**17,807**	**17,813**	**16,783**	**16,851**	**17,104**
Gross Block	11,570	11,764	13,164	14,164	15,164
Less: Depreciation	2,484	3,345	4,616	6,010	7,506
Net Block	**9,086**	**8,419**	**8,548**	**8,154**	**7,658**
Goodwill on consolidation	4,487	3,968	3,968	3,968	3,968
CWIP	520	1,740	1,740	1,740	1,740
Investment	2,424	2,816	1,816	1,816	1,816
Current Asset	**4,021**	**3,668**	**3,852**	**4,839**	**6,072**
Inventories	1,032	974	1,064	1,228	1,372
Sundry Debtors	549	397	434	501	559
Cash & Bank balance	469	403	342	685	1,481
Loans & Advances	1,621	1,475	1,593	2,006	2,240
Other current assets	350	419	419	419	419
Current liabilities & pro.	**2,731**	**2,798**	**3,140**	**3,666**	**4,150**
Current liabilities	2,471	2,594	2,703	3,183	3,564
Provisions	260	204	438	483	586
Net current asset	**1,290**	**870**	**711**	**1,173**	**1,921**
Miscellaneous expenditure	-	-	-	-	-
Total Assets	**17,807**	**17,813**	**16,783**	**16,851**	**17,104**

Cash Flow Statement Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Cash flow from operating activities	1,843	2,337	2,534	2,536	2,928
Cash flow from investing activities	339	-1812	-400	-1000	-1000
Cash flow from financing activities	-2067	-591	-2195	-1193	-1132
Net change in cash and cash equivalents	115	-66	-61	343	796
Opening Cash balance	354	469	403	342	685
Closing Cash balance	469	403	342	685	1,481
Free Cash Flows (FCFF)	401	625	725	1,198	1,662
Free Cash Flows to Equity (FCFE)	(1,639)	394	(940)	173	685

Key Ratios

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Margins (%)					
OPM	20.5	21.8	25.3	23.8	23.6
NPM	3.1	2.8	7.0	7.4	8.1
Tax rate	-3.0	31.3	35.5	33.3	33.3
As a percentage of revenue (%)					
Raw Material Cost	18.8	18.0	17.0	16.9	16.9
Employee Cost	6.8	7.0	7.0	6.8	6.8
Power & fuel Cost	18.5	18.0	17.8	19.1	19.1
Freight costs	19.3	19.6	19.4	19.5	19.7
Other Expenses	16.1	15.7	13.5	13.9	13.9
Financial ratios					
Debt / Equity (x)	0.6	0.6	0.4	0.3	0.2
Inventory days	39.7	36.7	36.7	36.7	36.7
Debtor days	21.1	15.0	15.0	15.0	15.0
Payable days	33.8	31.4	30.0	30.0	30.0
Working capital cycle	27.1	20.3	21.7	21.7	21.7
Adjusted EPS (Rs.)	15.2	13.7	39.2	48.1	58.5
Cash EPS (Rs.)	81.6	92.1	106.5	121.9	137.7
Dividend Per Share (Rs.)	2.0	2.0	2.5	2.5	3.0
Dividend Payout Ratio (%)	13.2	14.6	7.5	6.1	6.0
Book Value Per Share (Rs.)	545.6	541.6	578.1	623.2	678.2
RoNW (%)	2.8	2.5	6.9	8.0	9.0
RoCE (%)	6.3	3.9	6.5	7.7	8.5
Valuation ratios					
CMP (Rs.)	1467.0	1467.0	1467.0	1467.0	1467.0
P/E (x)	96.6	106.7	37.4	30.5	25.1
M.cap (Rs. crore)	27702	27702	27702	27702	27702
Market cap / Sales (x)	2.9	2.9	2.6	2.3	2.0
Enterprise Value (Rs. crore)	31592	31338	30094	28951	27355
EV / Sales (x)	3.3	3.2	2.8	2.4	2.0
EV / EBIDTA (x)	16.3	14.9	11.2	10.0	8.5
Price / Book value (BV)	2.7	2.7	2.5	2.4	2.2
Dividend yield (%)	0.1	0.1	0.2	0.2	0.2
Growth ratios (%)					
Revenue	10.5	2.0	9.3	15.4	11.7
Operating profit	-4.6	8.4	27.2	8.5	10.8
Profit before tax	-18.3	15.2	208.3	18.2	21.3
Adjusted PAT	5.7	-9.5	176.3	22.6	21.7
EPS	5.7	-9.5	185.3	22.6	21.7

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, north east and 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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