Sharekhan by BNP PARIBAS

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# Dalmia Bharat Ltd

## Pricing and power costs to affect Q2; Decadal growth vision clear

| Cement | Sharekhan code: DALMIABHA | Company 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. 2,221** | |
| Price Target: **Rs. 2,601** | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

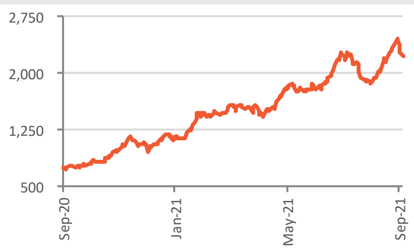
**Company details**

| | |
|---|---|
| Market cap: | Rs. 41,565 cr |
| 52-week high/low: | Rs. 2,547 / 723 |
| 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 | 13.1 |
| DII | 5.8 |
| Others | 25.1 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 13.7 | 22.3 | 40.1 | 193.9 |
| Relative to Sensex | 8.0 | 11.1 | 22.6 | 140.1 |

*Sharekhan Research, Bloomberg*


**Summary**

- We maintain Buy on stock with a revised PT of Rs. 2,601, as we see further upside considering its strong earnings growth outlook over FY2021-FY2024E.
- Cement prices in East and South weakened on a q-o-q basis, led by seasonality and unavailability of sand in couple of states in East. We expect prices to strengthen as the monsoon recedes from September end.
- Post strong cement demand growth in July and August 2021, September is expected to see some softening. We expect demand to pick up post Q2FY2022. Q2FY2022 may feel pressure on OPM as pet coke/coal prices continue to tread higher.
- Dalmia highlights its vision of becoming a pan-India player in its annual report. Capacity to expand at a 15% CAGR over the decade capturing healthy cement industry demand growth.


**Dalmia Bharat's (Dalmia) region of operations has seen higher sequential decline in cement prices in its region of operations viz. South and East compared to other regions, led by extended monsoons and unavailability of sand in couple of states in East. We expect cement prices and demand to pick up with receding monsoon from September end. In Q2FY2022, OPM may remain under pressure due to weak demand and pricing along with increased pet coke/coal prices. Nevertheless, Dalmia has expansion plans to reach 48.5MT in FY2024 and 100-130MT by FY2031 to capture the healthy cement demand growth over the coming decade.**

- **Cement prices weaken in East and South, Expect revival from September end:** As per our channel checks, Eastern and Southern regions saw the highest dip in cement prices by 8.7% q-o-q and 5.4% q-o-q in Q2FY2022, while pan-India cement prices during Q2FY2022 were lower 3.7% q-o-q owing to seasonality. The dip in cement prices in the Eastern region is also on account of unavailability of sand in West Bengal and Bihar, which had led to lower demand apart from the monsoon. Industry players expect strengthening of cement prices with receding monsoon from September end.
- **Demand weakened in September post healthy growth in July-August:** Cement demand is said to have weakened in September 2021, led by extended monsoons post healthy growth seen in July and August months. Cement transported through rail saw 26.5% y-o-y and 38.6% y-o-y growth during July and August, respectively. Cement demand is expected to revive post Q2FY2022.
- **Capacity expansion over the decade to capture industry growth:** Dalmia in its FY2021 annual report highlighted its vision to become a pan-India pure play cement company with a capacity of 100MT to 130MT by 2031. It will expand its current capacity of 30.75million tonne to 36 million tonne by FY2022, 48.5 million tonne by FY2024 and targets the next goal to be ~60 million tonne. During this proposed leg of expansion from 48.5 million tonne to 60 million tonne, it hopes to enter the markets of central and northern India. The company will be expending around Rs. 9,000 crore till FY2024E.

**Our Call**

**Valuation – Maintain Buy with a revised PT of Rs. 2,601:** Dalmia Bharat has addressed its medium and long-term growth plans through its decadal capital allocation plan, which would ensure a more predictable, sustainable, and profitable growth path going ahead. The company would be focusing on achieving 14-15% RoCE over the next few years and maintain its balance sheet quality. Dalmia is currently trading at an EV/EBITDA of 14x/12x its FY2023E/FY2024E earnings, which we believe leaves room for further upside, considering its strong earnings growth trajectory over the next three years. Hence, we retain Buy with a revised price target (PT) of Rs. 2,601.

**Key Risks**

1) Pressure on cement demand and cement prices in the East, Northeast 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 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|
| Revenue | 10,522 | 12,163 | 14,282 | 16,869 |
| OPM (%) | 26.4 | 22.0 | 20.9 | 21.0 |
| Adjusted PAT | 992 | 889 | 968 | 1,244 |
| *% y-o-y growth* | *270.1* | *-10.4* | *8.8* | *28.6* |
| Adjusted EPS (Rs.) | 53.6 | 48.1 | 52.3 | 67.3 |
| P/E (x) | 41.3 | 46.1 | 42.4 | 33.0 |
| P/B (x) | 3.2 | 3.0 | 2.9 | 2.6 |
| EV/EBITDA (x) | 14.7 | 15.3 | 13.7 | 11.5 |
| RoNW (%) | 8.6% | 6.8% | 7.0% | 8.3% |
| RoCE (%) | 9.3% | 6.6% | 6.8% | 7.8% |

*Source: Company; Sharekhan estimates*

**Expect demand and pricing environment to improve as monsoon retreats by month end**

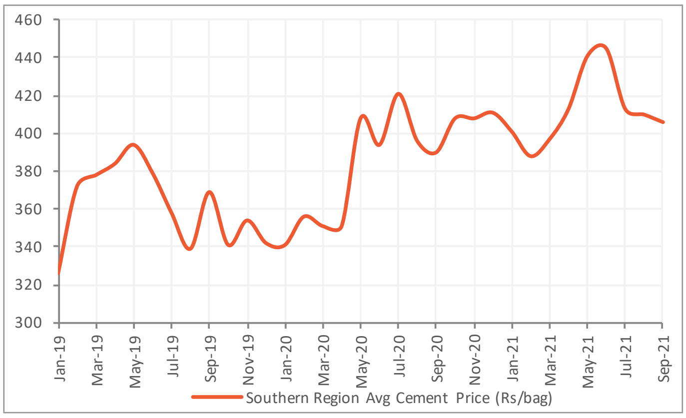
As per our channel checks, pan-India cement prices during Q2FY2022 were lower 3.7% q-o-q (+2.1% y-o-y) owing to seasonality and reduction in cement prices in Eastern and Southern regions. The Eastern region saw the highest dip in average cement prices at 8.7% q-o-q (down 2.1% y-o-y) in Q2FY2022, followed by South (down 5.4% q-o-q, up 1.8% y-o-y). Dip in cement prices in the Eastern region is also on account of unavailability of sand in West Bengal and Bihar, which had led to lower demand apart from the monsoon. The cement sector had seen healthy demand during July 2021 and August 2021, while September saw moderation in demand due to picking up of monsoons. On the other hand, international pet coke prices continued to surge, rising by 22% q-o-q (up 104% y-o-y), while domestic pet coke prices increased by 21% q-o-q (up 88% y-o-y). Weak pricing in Dalmia's region of operations along with increased pet coke prices is likely to put pressure on OPM during Q2FY2022. However, cement demand and pricing environment are expected to improve as monsoon recedes by month-end.

**Average Cement Prices Pan-India during Q2FY2022**

| Price trend (Rs/bag) | Q2FY2022 | Q2FY2021 | YoY (%) | Q1FY2022 | QoQ (%) |
|---|---|---|---|---|---|
| West | 362 | 341 | 6.2 | 366 | -1.0 |
| North | 364 | 354 | 2.7 | 366 | -0.5 |
| Central | 359 | 351 | 2.3 | 369 | -2.6 |
| **South** | **410** | **402** | **1.8** | **433** | **-5.4** |
| **East** | **338** | **346** | **-2.1** | **371** | **-8.7** |
| Pan India | 367 | 359 | 2.1 | 381 | -3.7 |

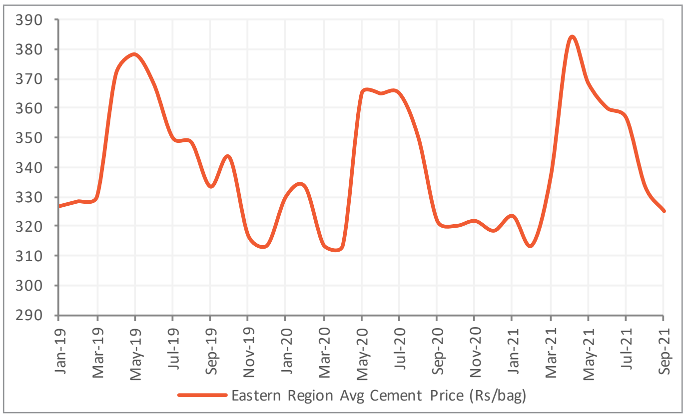
*Source: Industry, Sharekhan Research*

**South price trend**




*Source: Industry, Sharekhan Research*

**East price trend**

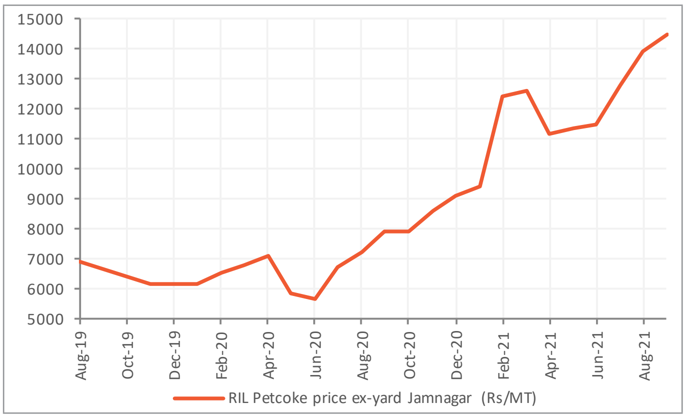



*Source: Industry, Sharekhan Research*

**International petcokeprice trend**


*Source: Industry, Sharekhan Research*

**Domestic petcoke price trends**

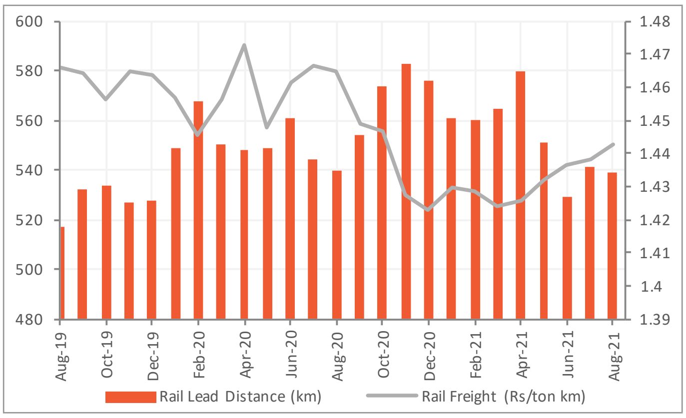



*Source: Industry, Sharekhan Research*

**Retail Diesel Price Trend**


*Source: Ministry of Petroleum; Sharekhan Research*

**Railways cement lead distance and freight trend**

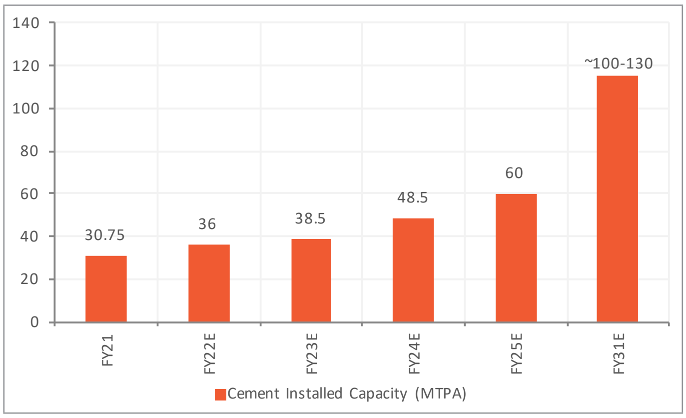



*Source: Ministry of Railways; Sharekhan Research*

## Ongoing expansions on track to capture expected rise in demand

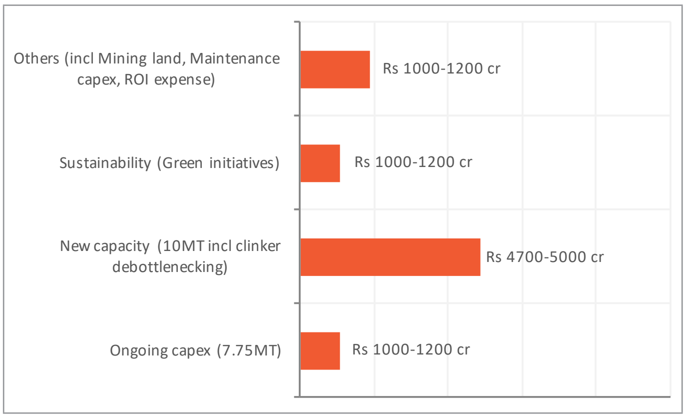
Dalmia in its FY2021 annual report highlighted its vision to become a pan-India pure play cement company with a capacity of 100MT to 130MT by 2031. It is targeting a 15% CAGR capacity addition. Over the next two to three years, it will be consolidating its position in its existing region of operations. Dalmia Bharat will expand its current capacity of 30.75 million tonne to 36 million tonne by FY2022, 48.5 million tonne by FY2024 and target the next goal to be ~60 million tonne. During this proposed leg of expansion from 48.5 million tonne to 60 million tonne, it hopes to enter markets of central and northern India. The company will be expending around Rs. 9,000 crore till FY2024E.

**Cement capacity addition trend**




*Source: Company, Sharekhan Research*

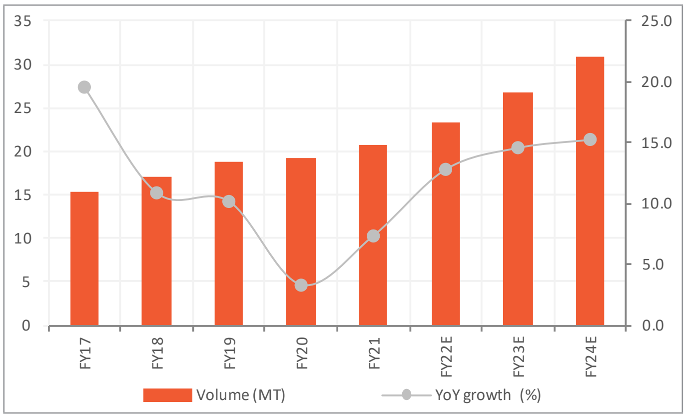
**Capex break-up till FY24E**




*Source: Company, Sharekhan Research*

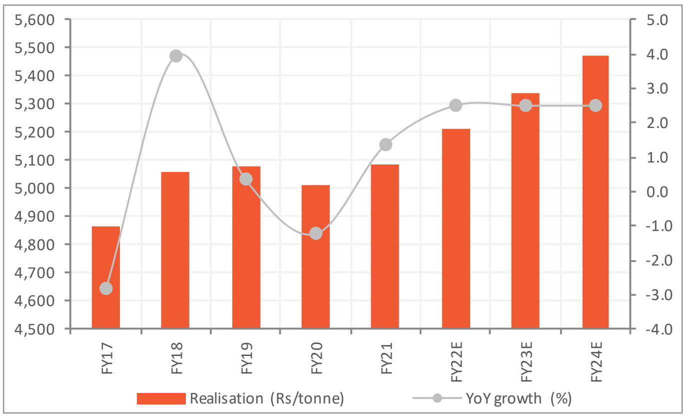
## Financials in charts

### Volume trend



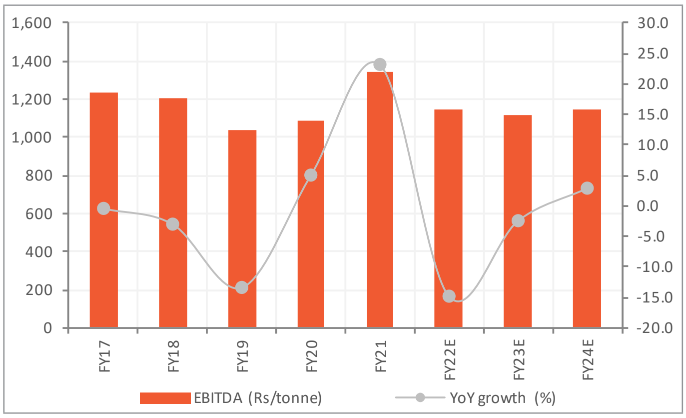

*Source: Company, Sharekhan Research*

### Realisation trend



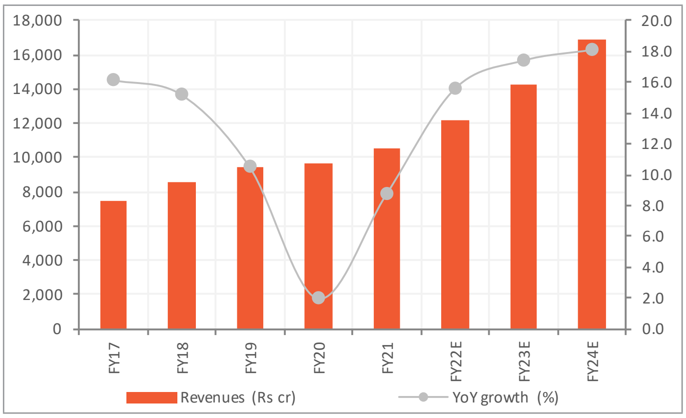

*Source: Company, Sharekhan Research*

### EBITDA/tonne trend



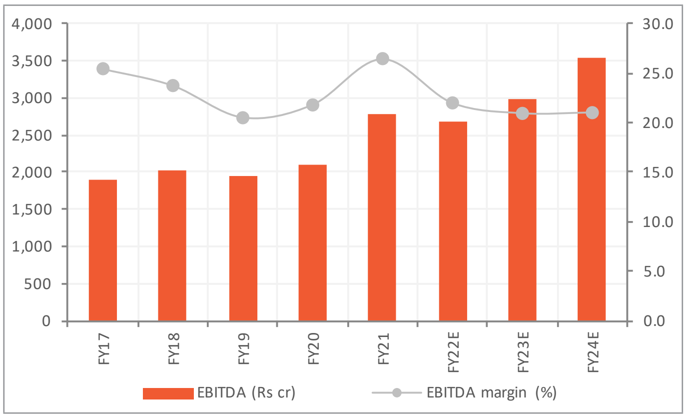

*Source: Company, Sharekhan Research*

### Revenue trend



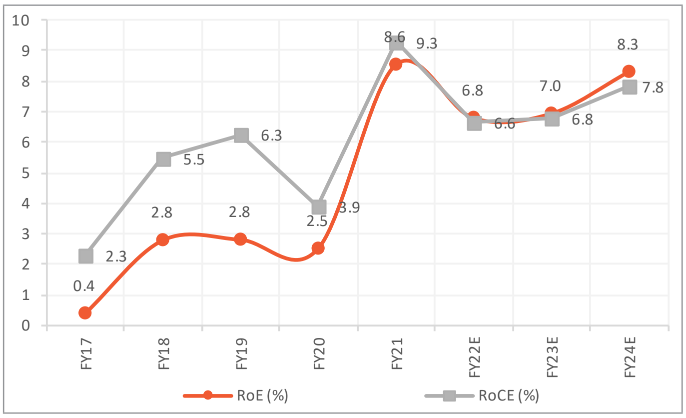

*Source: Company, Sharekhan Research*

### Operating profit trend




*Source: Company, Sharekhan Research*

### Return Ratios trend




*Source: Company, Sharekhan Research*

## 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. Amid COVID-19 led disruptions, 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.

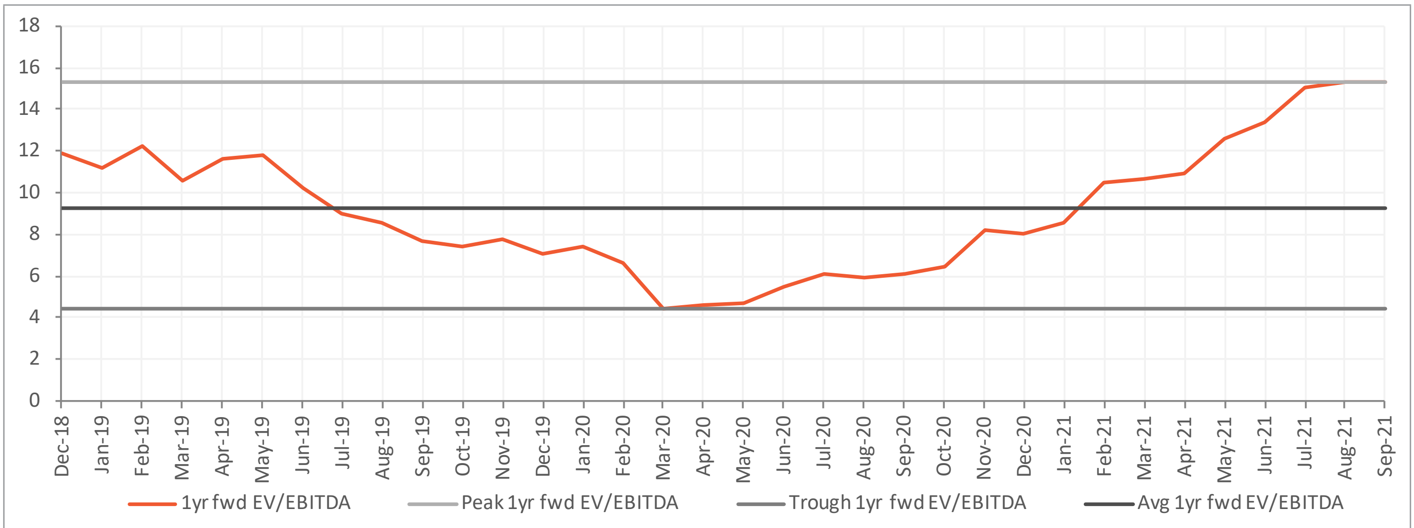
### Company outlook – Aggressive expansion plans to capture high growth opportunities

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 outlined its capital-allocation strategy over the next decade to increase capacity at a 14-15% CAGR to reach 110 million tonne-130-million tonne by 2031, which would be done through both organic and inorganic routes, maintaining Net Debt/EBITDA below 2x (unless a large ticket-size acquisition is done). It also highlighted allocation towards shareholders' returns (10% of OCFs) and Green and Innovation fund (10% of OCF). It targets to reach 48.5-million tonne cement capacity (current 30.8-million tonnes) over the next three years, initially expanding in Southern and Northeast regions.

### Valuation – Maintain Buy with a revised PT of Rs. 2,601

Dalmia Bharat has addressed its medium and long-term growth plans through its decadal capital allocation plan, which would ensure a more predictable, sustainable, and profitable growth path going ahead. The company would be focusing on achieving 14-15% RoCE over the next few years and maintain its balance sheet quality. Dalmia is currently trading at an EV/EBITDA of 13x/11x its FY2023E/FY2024E earnings, which we believe leaves room for further upside, considering its strong earnings growth trajectory over the next three years. Hence, we retain Buy with a revised PT of Rs. 2,601.

**One-year forward EV/EBITDA (x) band**




*Source: Company Data; Sharekhan Research*

**Peer Comparison**

| Particulars | P/E (x) | | EV/EBITDA (x) | | P/BV (x) | | RoE (%) | |
|---|---|---|---|---|---|---|---|---|
| | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E | FY23E | FY24E |
| UltraTech Cement | 27.5 | 22.8 | 14.2 | 11.6 | 3.8 | 3.3 | 14.8 | 15.4 |
| Dalmia Bharat | 42.5 | 33.0 | 13.8 | 11.6 | 2.9 | 2.6 | 7.0 | 8.3 |
| Shree Cement | 37.7 | 32.3 | 19.7 | 16.6 | 5.5 | 4.8 | 15.5 | 15.8 |
| The Ramco Cement | 21.5 | 19.5 | 13.6 | 12.2 | 3.1 | 2.7 | 15.4 | 14.8 |

*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, Northeast, 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 the medium and long term. The company is slated to increase its capacity from current 28.5 MTPA to 37.3 MTPA by FY2022E. 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. Moreover, 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 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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