Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Dalmia Bharat Ltd

Healthy Q4; transient headwinds in the near term

Cement	Sharekhan code: DALMIABHA

Reco/View: Buy	↔	CMP: Rs. 1,422	Price Target: Rs. 1,850	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 30.30

Updated Feb 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

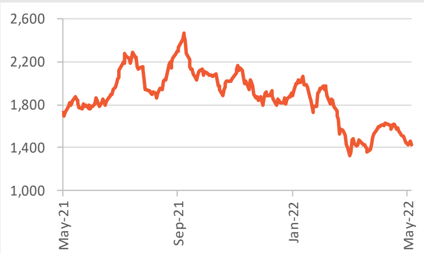
Company details

Market cap:	Rs. 26,644 cr
52-week high/low:	Rs. 2547 / 1279
NSE volume: (No of shares)	2.0 lakh
BSE code:	542216
NSE code:	DALMIABHA
Free float: (No of shares)	8.3 cr

Shareholding (%)

Promoters	55.9
FII	12.6
DII	7.1
Others	24.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.3	-24.7	-32.9	-17.6
Relative to Sensex	-4.5	-18.1	-23.6	-28.2

Sharekhan Research, Bloomberg

Summary

- In Q4FY2022, the company reported largely in-line operational performance while net earnings beat was led by reversal of deferred tax.
- The company expects cement demand growth of 8-9% y-o-y for FY2023 although remain cautious on OPM front during H1FY2023 due to elevated energy costs.
- The company remains on track to achieve 48.5MT cement capacity by March 2024 while announcement regarding capacity expansions post that is delayed due to global challenges and uncertainties.
- We maintain a Buy on stock with a revised PT of Rs. 1,850, factoring downwardly revised estimates and favourable valuation post recent correction.

Dalmia Bharat (Dalmia) reported largely in-line operational performance while net earnings beat was led by reversal of deferred tax charges. The consolidated revenues grew 7.3% y-o-y at Rs. 3380 crore led by volume growth of 2.3% y-o-y and blended realizations growth of 4.8% y-o-y. Healthy performance in South and South eastern regions compensated for demand weakness in Eastern region. EBITDA/tone at Rs. 1036 (-13.1% y-o-y) was affected by increased power & fuel costs (up 51.5% y-o-y) and freight costs (up 8.1% y-o-y). Reported net profit of Rs. 595 crore (up 53% y-o-y) was aided by Rs. 272 crore reversal of deferred tax. The management expects cement demand growth of 8-9% y-o-y for FY2023 although cautious on OPM front during H1FY2023 due to elevated energy costs. Its capacity expansion plans to reach 48.5MT by FY2024 remain on track while its long term expansion plans to reach 110-130MT is expected to be delayed on account of ongoing global challenges like commodity inflation, interest rate hikes among others.

Key positives

- Volumes and realisations grew y-o-y.
- Interest expense fell 27% y-o-y (down 2.2% q-o-q).
- Operational profitability remained in line with expectations despite steep rise in energy and freight costs.

Key negatives

- Fuel purchase costs remained high at $220-230/tonne as compared to consumption cost of $181/tonne during Q4FY2022. The same is likely to impact margins during H1FY2023.
- Capacity expansion announcement post 48.5 MT has been delayed due to global challenges and uncertainties.

Management Commentary

- The company would increase its cement capacity to 40MT by FY2023 and 48.5MT by FY2024 from current 35.9MT.
- The company spent Rs. 1900 crore during FY2022 and capex planned for FY2023 is Rs. 3000-3500 crore and for FY2024 is Rs. 3500-4000 crore.
- Renewable energy capacity was increased from 31MW to 62MW during FY2022. It would be adding 41MW WHRS and 66 MW of solar power capacities in FY2023.

Revision in estimates – We have lowered our estimates factoring lower volumes and operational profitability.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,850: Dalmia Bharat is expected to be affected by elevated energy costs like its industry peers during H1FY2023 leading to lower operational profitability in the near term. Further, a rise in prices of commodities is expected to drive up costs for its future capacity expansions. It has delayed its announcement for capacity expansion post reaching 48.5MT by FY2024. Dalmia is currently trading at an EV/EBITDA of 9x its FY2024E earnings, which we believe provides favourable risk reward to the investors. Hence, we retain Buy with a revised price target (PT) of Rs. 1,850 factoring a downward revision in estimates.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	10,110	11,286	12,614	14,826
OPM (%)	27.3	21.5	19.2	19.3
Adjusted PAT	962	932	726	890
% y-o-y growth	*259.0*	*-3.1*	*-22.1*	*22.5*
Adjusted EPS (Rs.)	52.0	50.4	39.3	48.1
P/E (x)	27.3	28.2	36.2	29.6
P/B (x)	2.1	1.7	1.6	1.5
EV/EBITDA (x)	9.3	9.7	10.0	8.7
RoNW (%)	8.2%	6.5%	4.5%	5.3%
RoCE (%)	9.0%	7.8%	4.7%	5.3%

Source: Company; Sharekhan estimates

Operationally in-line quarter

Dalmia Bharat reported consolidated net revenues of Rs. 3380 crore, up 7.3% y-o-y (up 23.6% q-o-q) which was in-line with our estimate. Cement volumes were up 2.3% y-o-y at 6.6 million tonnes while blended realizations were up 4.8% y-o-y at Rs. 5129/T. Blended consolidated EBITDA/T at Rs. 1036 (-13.1% y-o-y) was marginally lower than our estimate of Rs. 1082/T. The lower than expected EBITDA/T was led primarily due to lower realisations. On the cost front, power & fuel costs at Rs. 1325/T (+51.5% y-o-y), freight costs at Rs. 1124/T (up 8.1% y-o-y) and other expense stood at Rs. 716/T (-5.3% y-o-y). Overall, consolidated operating profit declined by 11.1% y-o-y (up 67% q-o-q) at Rs. 683 crore which was marginally lower than our estimate. The consolidated adjusted net profit of Rs. 595 crore was up 53.4% y-o-y aided by reversal of deferred tax of Rs. 272 crore.

Demand outlook positive while cautious on margins

The company expects annual cement demand growth of 8-9% for FY2023. However, the high energy costs remain a key headwind. The fuel consumption cost for Q3FY2022 stood at $158/tonne, which increased to $181/tonne in Q4FY2022. The current procurement cost is $220-230/tonne. Hence, the energy cost is likely to go up during H1FY2023. It is cautious on margins for H1FY2023 due to high energy costs. Company believes it is too early to comment on impact of inflation and rising interest costs on cement demand. The company has delayed announcement of its capacity expansion beyond 48.5MT owing to current headwinds led by global challenges.

Key conference call takeaways

- **Outlook:** The company expects 8-9% annual cement demand growth for FY2023, even as high energy costs remain a key headwind. It is cautious on margins for H1FY2023 due to high energy costs. The company believes it is too early to comment on effect of inflation and rising interest costs on cement demand. The company has delayed announcement of its capacity expansion beyond 48.5MT owing to current headwinds led by global challenges.
- **Capacity expansions:** The company would increase its cement capacity to 40MT by FY2023 and 48.5MT by FY2024 from current 35.9 million tonnes.
- **Capex:** The company spent Rs. 1900 crore during FY2022 and capex planned for FY2023 is Rs. 3000-3500 crore and for FY2024 is Rs. 3500-4000 crore.
- **Price hike:** The company witnessed Rs. 30-50 per bag rise in cement prices from December 2021 to March 2022.
- **FY2022 performance:** The year has been mixed. The company increased capacity by 17% y-o-y, entered western market through Murli Asset, increased dividend payout, devised formal capital allocation plan, started ESG journey, formed transparent treasury policy and improved upon corporate governance. On the misses front, demand remained volatile and input costs rose steeply.
- **Energy cost:** The fuel cost consumption almost doubled from $128/tonne to $246/tonne during the year. The green fuel mix currently stands at 16.4%. The fuel consumption cost for the company increased from $78/tonne in FY2021 to $141/tonne in FY2022. The fuel consumption cost for Q3FY2022 stood at $158/tonne which increased to $181/tonne in Q4FY2022. The current procurement cost is $220-230/tonne. Hence, the energy cost is likely to go up during H1FY2023. Petcoke comprises 64% of overall fuel mix.
- **Renewable energy:** Renewable energy capacity was increased from 31MW to 62MW during FY2022. The price differential between grid power cost and WHRS/Solar is Rs. 6-7 per unit. It would be adding 41MW WHRS and 66MW solar capacities in FY2023.
- **Incentives:** For FY2022, incentives stood at Rs. 231 crore and for Q4FY2022 at Rs. 52 crores. The collections for FY2022 was Rs. 237 crore and for Q4FY2022 was Rs. 77 crore. Incentive receivables at the end of FY2022 stood at Rs. 665 crore.
- **Murli Asset:** The asset is expected to operate at 60-70% capacity utilisation during FY2023. The management expects it to be at par with Dalmia's profitability level in a year's time.
- **Premium product share:** The premium product comprised 20% of the overall trade sales.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Net Sales	**3380**	**3151**	**7.3%**	**2734**	**23.6%**
Total Expenditure	2697	2383	13.2%	2325	16.0%
Operating profits	**683**	**768**	**-11.1%**	**409**	**67.0%**
Other Income	53	39	35.9%	30	76.7%
EBIDTA	736	807	-8.8%	439	67.7%
Interest	45	62	-27.4%	46	-2.2%
PBDT	691	745	-7.2%	393	75.8%
Depreciation	334	327	2.1%	302	10.6%
PBT	**357**	**418**	**-14.6%**	**91**	**292.3%**
Tax	-239	-220	-	34	-
Extraordinary items	0	-239	-	-2	-
Minority Interest	5	12		8	
Reported Profit After Tax	595	627	-5.1%	85	600.0%
Adjusted PAT	**595**	**388**	**53.4%**	**83**	**616.9%**
EPS	32	21	53.4%	4	616.9%
			bps		**bps**
OPMs	20.2%	24.4%	-417	15.0%	525
PAT	17.6%	12.3%	529	3.0%	1457
Tax rate	-	-	-	37.4%	-

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 laborer 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.

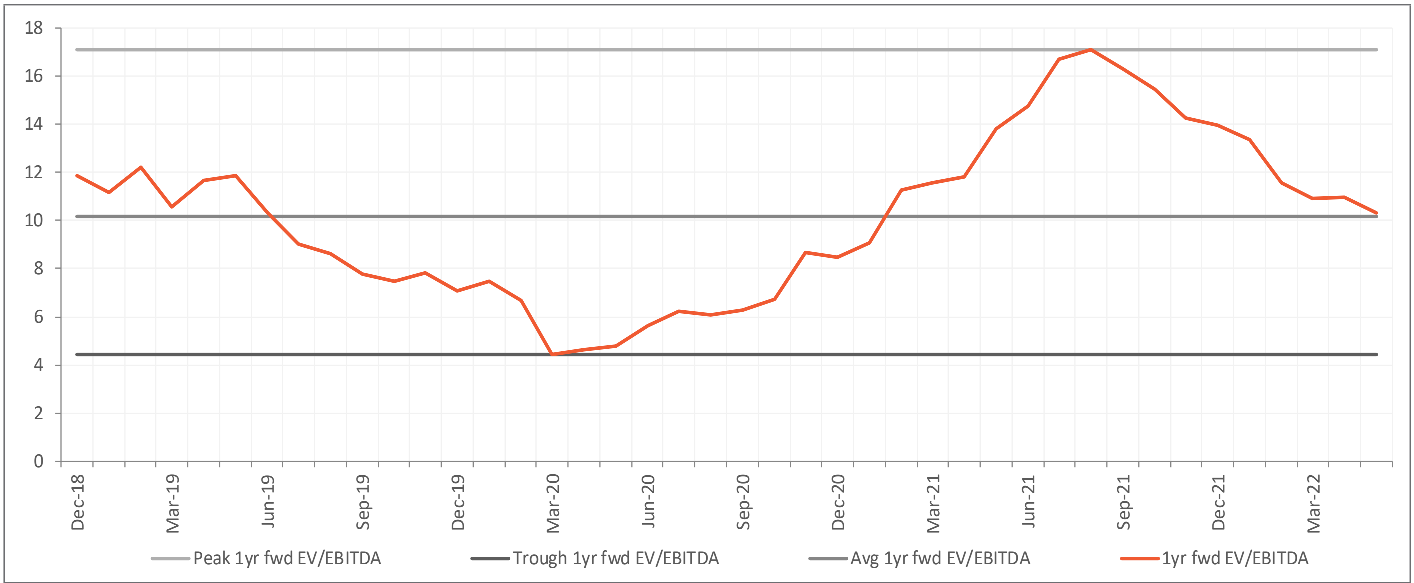
■ Company outlook – Aggressive expansion plans to capture high growth opportunities

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 14-15% CAGR to reach 110-130-million tonnes 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 & Innovation fund (10% of OCF). It targets to reach 48.5 million tonnes of cement capacity (current 35.9-million tonnes) over the next three years initially expanding in Southern and North East regions.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,850

Dalmia Bharat is expected to be affected by elevated energy costs like its industry peers during H1FY2023 leading to lower operational profitability in the near term. Further, a rise in prices of commodities is expected to drive up costs for its future capacity expansions. It has delayed its announcement for capacity expansion post reaching 48.5MT by FY2024. Dalmia is currently trading at an EV/EBITDA of 9x its FY2024E earnings, which we believe provides favourable risk reward to the investors. Hence, we retain Buy with a revised price target (PT) of Rs. 1,850 factoring a downward revision in estimates.

One-year forward EV/EBITDA (x) band



Source: 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	26.3	21.7	13.4	11.2	3.3	2.9	13.3	14.1
Dalmia Bharat	36.2	29.6	10.0	8.7	1.6	1.5	4.5	5.3
Shree Cement	28.8	24.9	15.1	12.6	4.4	3.8	16.3	16.3
The Ramco Cement	22.3	20.1	13.4	12.2	2.4	2.1	11.2	11.2

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 would increase its cement capacity to 40MT by FY2023 and 48.5MT by FY2024 from current 35.9MT. 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. It aims to become a large pan-India player through both organic and inorganic routes.

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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