



## 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  
Updated July 08, 2022

31.2

## High Risk

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

Source: Morningstar

## Company details

Market cap:	Rs. 33,049 cr
52-week high/low:	Rs. 2475/1213
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	7.3
Others	24.2

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	11.3	40.7	19.6	-26.4
Relative to Sensex	11.2	24.3	14.1	-27.8

Sharekhan Research, Bloomberg

## Dalmia Bharat Ltd

## Regional cement prices recuperate; Retain Buy

Cement	Sharekhan code: DALMIABHA		
Reco/View: Buy	↔	CMP: Rs. 1,763	Price Target: Rs. 2,100
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- We maintain a Buy on the stock with a revised PT of Rs. 2,100, rolling forward our valuation multiple to September 2024 TTM earnings.
- The average cement prices in East and South increase during September 2022 reversing the decline witnessed in August 2022.
- It remains on track to achieve a 49 MT cement capacity and 173 MT of renewable energy capacity by FY2024. The company's long-term cement capacity addition plans to aid in capturing high growth especially in Eastern region.
- The domestic and international pet coke prices during Q2FY2023 declined by 18% q-o-q and over 20% q-o-q respectively. The positive impact on operational profitability is likely to be seen from Q3FY2022.

Dalmia Bharat (Dalmia) is expected to benefit from a revival in cement prices in Eastern and Southern India. The average cement prices in the East from September 2022 till date increased 7.9% m-o-m (up 12.3% y-o-y) reversing the correction witnessed in August 2022 (down 8.1% m-o-m). Similarly, average cement prices in the South in September increased 2.8% m-o-m (down 2% y-o-y) against the 2.2% m-o-m decline in August 2022. Further, Dalmia's ongoing expansion plans of cement capacity to 49 MT (from 37 MT currently) and clinker capacity to 23.7 MT (current 20.9 MT) by FY2024 would aid in capturing cement demand, especially in the Eastern region (which is expected to grow at a faster clip). Its renewable energy expansion of adding a 35.4 MW WHRS and 32.5 MW solar capacities in balance fiscal is likely to aid in reducing power & fuel costs. The recent correction in pet coke/coal prices remain a key tailwind to improve operational profitability from Q3FY2022 onwards.

- Cement prices recuperate in East and South in September:** As per our channel checks, the average cement price for September 2022 improved 7.9% m-o-m (up 12.3% y-o-y) in East while they were up 2.8% m-o-m (down 2% y-o-y) in South. The fall in cement prices during August 2022 in East (down 8.1% m-o-m) and South (down 2.2% m-o-m) got reversed in September 2022. The average cement prices in East and South for Q2FY2023 are lower 9.7% q-o-q (up 5.6% y-o-y) and 0.6% q-o-q (down 3.9% y-o-y).
- Capacity expansions to aid in capturing high growth:** Dalmia Bharat plans to increase cement capacity to 49 MT (from 37 MT currently) and clinker capacity to 23.7 MT (current 20.9 MT) by FY2024. It had maintained its long-term cement capacity target of 110 MT to 130 MT by 2031 during the Q1FY2023 earnings conference call. On the renewable energy front, it would be adding 35.4 MW WHRS and 32.5 MW solar capacities in balanced fiscal. The overall renewable power capacity would be increased to 173 MW by FY2023. The company's long term capacity expansions along with a focus on increasing renewable power capacity is expected to drive volume growth and aid in reducing power & fuel costs respectively.
- Decline in power & fuel costs – a key tailwind:** The average domestic pet coke prices for Q2FY2023 have declined by 18% q-o-q led by a sustained decline in pet coke prices m-o-m since July 2022. Further, international pet coke prices for Q2FY2023 have declined more than 20% q-o-q. The decline in pet coke/coal prices is likely to reflect in lower power & fuel costs from Q3FY2023 onwards aiding in improving operational profitability for the company.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 2100:** Dalmia Bharat is expected to benefit from the strong demand environment expected in Eastern India during FY2023. The company has shown strong operational efficiencies which is expected to improve further with an increasing share of renewable energy capacities. Strong demand envisaged by the company has led to adherence to its near-term and long-term capacity expansion plans. We introduce our FY2025E earnings in this note. Dalmia is currently trading at an EV/EBITDA of 11x/10x its FY2024E/FY2025E earnings, which we believe provides favourable risk-reward to investors. Hence, we retain a Buy with a revised price target (PT) of Rs. 2,100, rolling forward our valuation multiple to September 2024 TTM earnings.

## 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)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	11,286	13,176	14,826	16,711
OPM (%)	21.5	16.8	18.9	18.9
Adjusted PAT	932	584	850	965
% y-o-y growth	-3.1	-37.3	45.4	13.6
Adjusted EPS (Rs.)	50.4	31.6	45.9	52.2
P/E (x)	35.0	55.8	38.4	33.8
P/B (x)	2.1	2.0	1.9	1.8
EV/EBITDA (x)	12.3	13.8	11.2	10.1
RoNW (%)	6.5%	3.7%	5.1%	5.5%
RoCE (%)	7.8%	4.0%	5.2%	5.5%

Source: Company; Sharekhan estimates

## Cement prices reverse correction witnessed in August 2022 in East and South

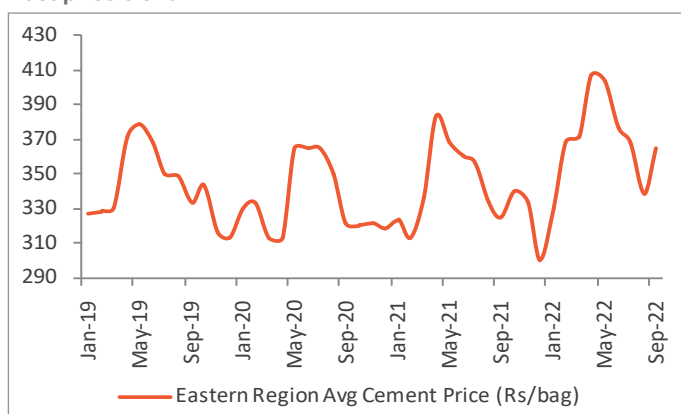
As per our channel checks, pan-India average cement price for September 2022 improved 1.5% m-o-m (up 3.5% y-o-y); while for Q2FY2023, prices are up 3.0% q-o-q (down 6.7% y-o-y). Although the Eastern region reported a steep increase of 7.9% m-o-m (up 12.3% y-o-y) in average cement prices in September 2022, post a sharp correction seen during August 2022 (down 8.1% m-o-m). Further, average cement prices in the Southern region increased by 2.8% m-o-m (down 2% y-o-y) in September 2022, which had declined by 2.2% m-o-m during August 2022. The reversal of correction seen in average cement prices during August 2022 in Eastern and Southern India in September 2022 bodes well for Dalmia Bharat.

### Average pan-India cement prices during Q2FY2023

Price trend (Rs./bag)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
West	388	362	7.2	402	-3.3
North	365	364	0.4	411	-11.3
Central	384	359	6.8	419	-8.4
South	394	410	-3.9	396	-0.6
East	357	338	5.6	396	-9.7
Pan India	378	367	3.0	405	-6.7

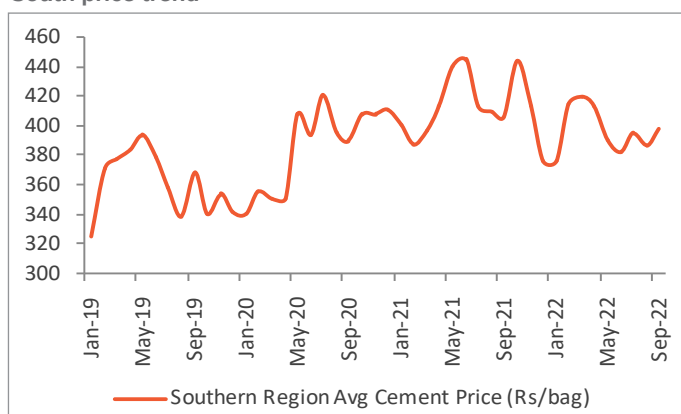
Source: Industry, Sharekhan Research

### East price trend



Source: Industry, Sharekhan Research

### South price trend



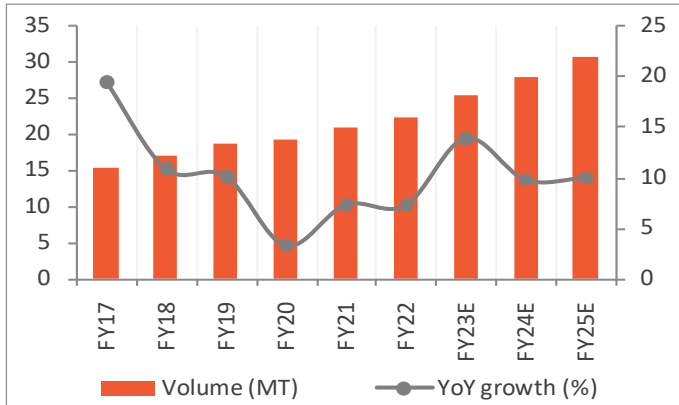
Source: Industry, Sharekhan Research

## Capacity expansion plans to capture growth

Dalmia Bharat plans to increase cement capacity to 49 MT (from 37 MT currently) and clinker capacity to 23.7 MT (current 20.9 MT) by FY2024. It had maintained its long-term cement capacity target of 110 MT to 130 MT by 2031 during the Q1FY2023 earnings conference call. On the renewable energy front, it would be adding 35.4 MW WHRS and 32.5 MW solar capacities in balance fiscal. The overall renewable power capacity would be increased to 173 MW by FY2023. The company's long-term capacity expansions along with a focus on increasing renewable power capacity are expected to drive volume growth and aid in reducing power & fuel costs respectively.

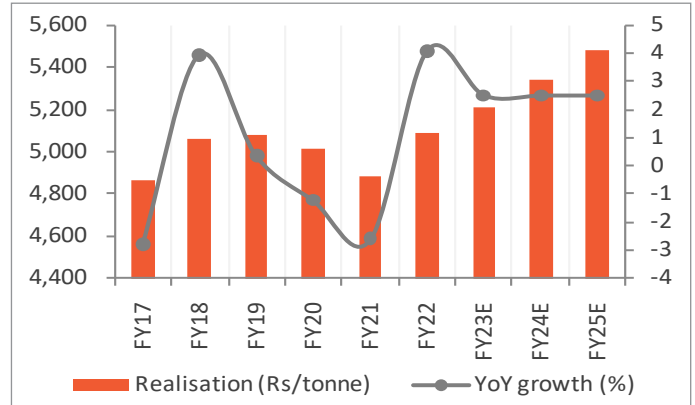
## Financials in charts

### Volume trend



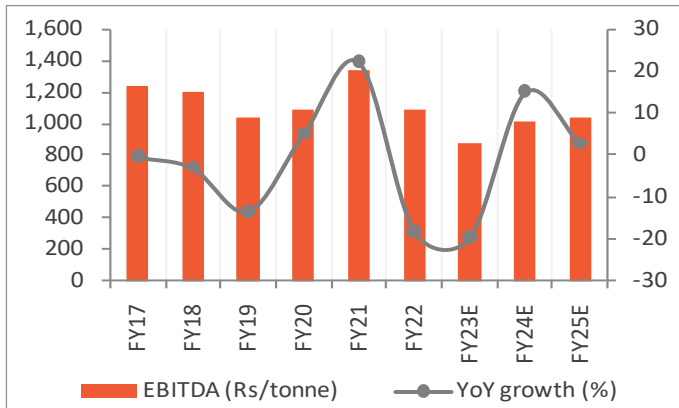
Source: Company, Sharekhan Research

### Realisation trend



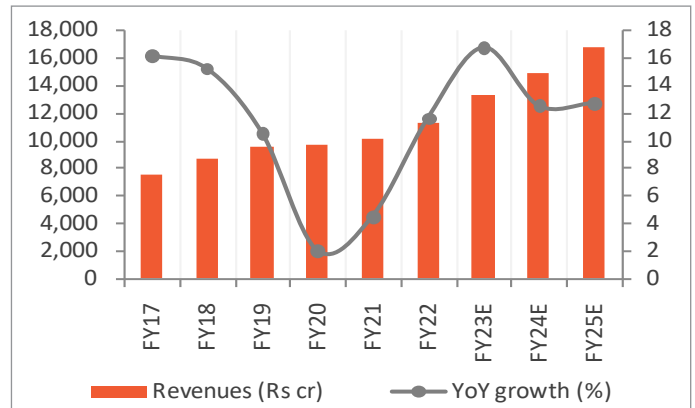
Source: Company, Sharekhan Research

### EBITDA/tonne trend



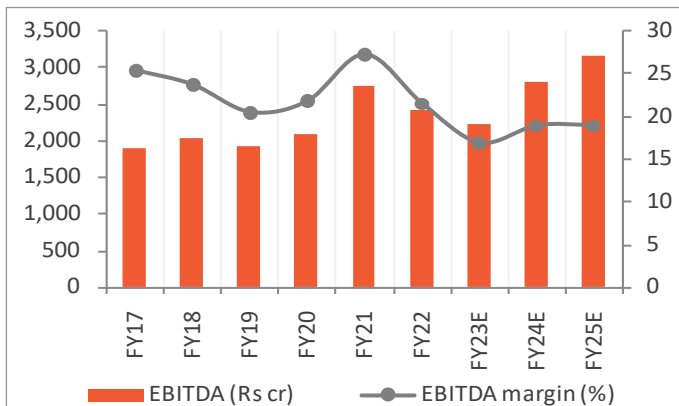
Source: Company, Sharekhan Research

### Revenue trend



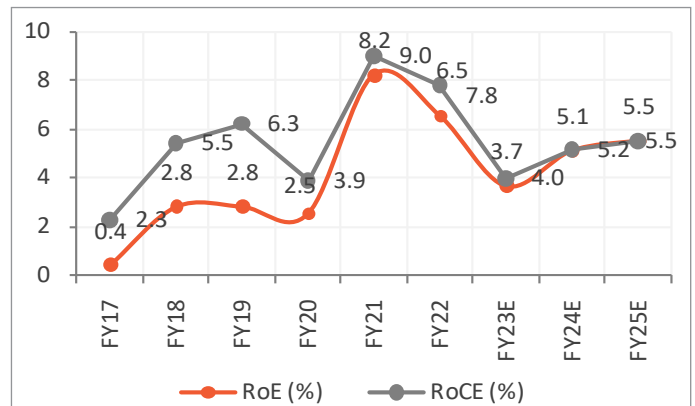
Source: Company, Sharekhan Research

### 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 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.

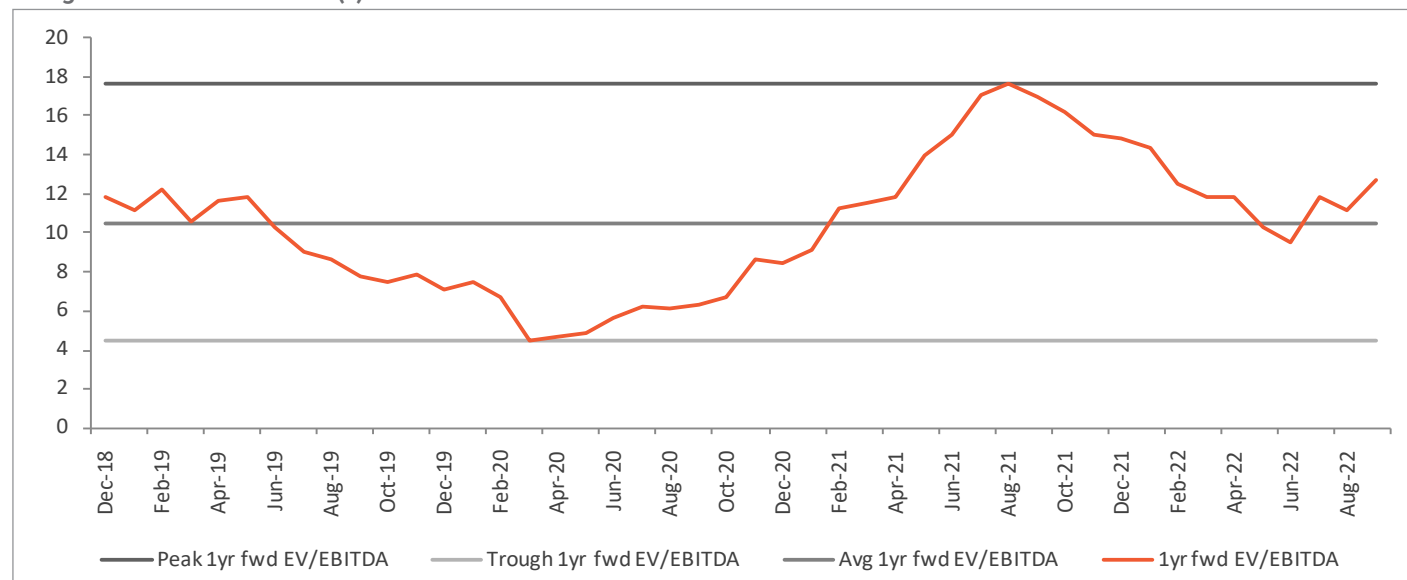
### ■ Company outlook - Aggressive expansion plans to help capture high-growth opportunities

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 a green & innovation fund (10% of OCF). It targets to reach 48.5 million tonnes of cement capacity (current 35.9-million tonnes) in the next three years, initially expanding in the Southern and North East regions.

### ■ Valuation - Maintain Buy with a revised PT of Rs. 2,100

Dalmia Bharat is expected to benefit from strong demand environment expected in Eastern India during FY2023. The company has shown strong operational efficiencies which is expected to improve further with increasing share of renewable energy capacities. Strong demand envisaged by the company has led to adherence to its near-term and long-term capacity expansion plans. We introduce our FY2025E earnings in this note. Dalmia is currently trading at an EV/EBITDA of 11x/10x its FY2024E/FY2025E earnings, which we believe provides favourable risk-reward to investors. Hence, we retain a Buy with a revised price target (PT) of Rs. 2,100, considering strong growth outlook, led by capacity additions.

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



Source: Sharekhan Research

#### Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech Cement	31.9	28.1	16.1	14.4	3.6	3.2	11.8	11.9
Dalmia Bharat	55.8	38.4	13.8	11.2	2.0	1.9	3.7	5.1
Shree Cement	56.4	36.7	24.1	17.4	4.7	4.2	8.6	12.1
The Ramco Cement	35.8	23.0	18.0	13.4	2.7	2.4	7.7	11.1

Source: Company; 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 195 MW (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 40 MT by FY2023 and 48.5 MT by FY2024 from current 35.9 MT. 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

### 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

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## 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 deteriorating 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

# Sharekhan

by BNP PARIBAS

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