Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 31.2

Updated Aug 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. 30,974 cr
52-week high/low:	Rs. 2,195/1,213
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	12.4
DII	8.3
Others	23.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	3.5	5.8	14.4	-18.8
Relative to Sensex	-1.3	1.5	5.1	-20.1

Sharekhan Research, Bloomberg

Stock Update

Result Update

Dalmia Bharat Ltd

A resilient performance; Expansion plan on track

Cement	Sharekhan code: DALMIABHA
Reco/View: Buy ⟷	CMP: Rs. 1,652 / Price Target: Rs. 2,100 ⟷

↑ Upgrade ⟷ Maintain ↓ Downgrade

Summary

- We maintain a Buy on the stock with an unchanged PT of Rs. 2,100, considering the strong growth potential led by capacity additions.
- In Q2FY2023, the company reported an-line performance led by solid volume growth of 13% y-o-y while EBITDA/tonne stood at Rs. 655, led by tight control on operational costs.
- It remains on track to achieve a 49 MT cement capacity by FY2024 and has set a target to achieve 70-75 MT by FY2027 while its long-term target of 110-130 MT by 2031 remain intact.
- Management remains optimistic on strong demand environment going ahead, which along with cost efficiencies yield improvement in operational profitability.

Dalmia Bharat (Dalmia) reported largely in-line performance for Q2FY2023. Consolidated revenues stood at Rs. 2971 crore (up 15% y-o-y) led by strong volume growth of 13% y-o-y at 5.8 MT, while blended realization improved 2% y-o-y. EBITDA/tonne stood at Rs. 655 (down 46% y-o-y) was marginally lower than our estimate of Rs. 677/tonne. Overall, consolidated operating profit/adjusted net profit declined by 39%/78% y-o-y to Rs. 379 crore/Rs. 48 crore (In-line with our estimate). It remains on track to achieve 49 MT cement capacity by FY2024 from 37 MT now and has set target to achieve 70-75 MT by FY2027 while its long-term commitment to reach 110-130 MT by 2031 remains intact. It added 24MW renewable power capacity taking total renewable power capacity to 129MW (24% of the power mix) and targets 328MW (36% of the power mix) by FY2024. The management remained optimistic about strong demand environment sustaining going ahead, which along with cost efficiencies, would yield improvement in operational profitability.

Key positives

- Volume growth was strong at 13% y-o-y. Volume and pricing improved in September post a weak August.
- Power & fuel costs on a per tonne basis increased marginally by 1% q-o-q while it is expected to decline by 10% in Q3FY2023 on a per Kcal basis.

Key negatives

- Raw material costs on a per tonne basis increased 16% y-o-y and 13% q-o-q, led by increased blending and increase in slag prices.
- Net debt increased by Rs. 836 crore q-o-q to Rs. 651 crores led by higher gross debt and diminution in MTM value of IEX investment.

Management Commentary

- The company plans to grow at a 1.5x industry growth rate for FY2023. The operational profitability is expected to increase going ahead with an increase in volumes, higher realisations and cost efficiencies.
- Post September, the cement prices increased by Rs. 20-25/bag in Kerala, Rs. 10-15/bag in Karnataka and Rs. 5/bag in the Eastern region.
- The capex for FY2023 is expected to be Rs. 3000 crore out of which it has spent Rs. 1200 crore in H1FY2023. It would spent Rs. 3500-4000 crores on capex for FY2024.

Revision in estimates – We have marginally lowered our estimates for FY2023-FY2025, factoring increased raw material costs.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 2,100: 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 a decline in power & fuel costs and an increasing share of renewable energy capacities. The strong demand envisaged by the company has led to adherence to its near-term and long-term capacity expansion plans. 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 an unchanged price target (PT) of Rs. 2,100, considering the strong growth outlook led by capacity additions.

Key Risks

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	FY22	FY23E	FY24E	FY25E
Revenue	11,286	13,176	14,826	16,711
OPM (%)	21.5	16.7	18.3	18.3
Adjusted PAT	932	572	784	891
% y-o-y growth	-3.1	-38.6	37.1	13.7
Adjusted EPS (Rs.)	50.4	30.9	42.4	48.2
P/E (x)	32.8	53.5	39.0	34.3
P/B (x)	1.9	1.9	1.8	1.7
EV/EBITDA (x)	11.5	13.0	10.9	9.9
RoNW (%)	6.5%	3.6%	4.7%	5.1%
RoCE (%)	7.8%	4.0%	4.9%	5.2%

Source: Company; Sharekhan estimates

An in-line performance

Dalmia Bharat reported consolidated net revenues of Rs. 2971 crore, up 15.3% y-o-y (down 10.0% q-o-q), which was in line with our estimate. Cement volumes were up 13% y-o-y (-7% q-o-q) at 5.8 MnT, while blended realizations were up 1% y-o-y (-3% q-o-q) at Rs. 5137/T. Blended consolidated EBITDA/T at Rs. 655 (-46% y-o-y, -30% q-o-q) was marginally below our estimate of Rs. 677/T. On the cost front, power & fuel costs stood at Rs. 1542/T (+56% y-o-y, +1% q-o-q), freight costs at Rs. 1030/T (+5% y-o-y, -6% q-o-q) and other expense stood at Rs. 820/T (+1% y-o-y, +10% q-o-q). Overall, consolidated operating profit declined by 39% y-o-y (-35% q-o-q) at Rs. 379 crore, which was 3% lower than our estimate. The consolidated adjusted net profit declined 78% y-o-y to Rs. 48 crore, which was in line with our estimate. The company added 24MW of renewable power capacity.

Key Conference call takeaways

- **Capacity additions:** The company remains committed to its 110-130MT capacity addition target by 2030. In the medium term, it is on track to achieve 49MT capacity by March 2024 and has set a target of 70-75MT capacity by FY2027, the details of which will be share in subsequent quarters. The capacity additions planned are organically while it would continue to look for inorganic opportunities pan-India.
- **Outlook:** India's long-term growth story remains intact. Cement demand is expected to grow at 1.1-1.2x GDP growth with top four cement players expected to increase market share substantially over a decade. The company plans to grow at 1.5x industry growth rate for FY2023. The operational profitability is expected to increase going ahead with increase in volumes, higher realisations and cost efficiencies.
- **Q2FY2023 performance:** It achieved revenue growth of 15% y-o-y on the back of 13% y-o-y volume growth in Q2. The volume and prices recovered in September post a weak August. The EBITDA/tonne stood at Rs. 655.
- **Cement prices:** Post-September, the cement prices increased by Rs. 20-25/bag in Kerala, Rs. 10-15/bag in Karnataka and Rs. 5/bag in Eastern region.
- **Power & fuel:** The power & fuel costs on Kcal basis stood at Rs. 2.52 for Q2FY2023 as against Rs. 2.47 in Q1FY2023. It expects 10% reduction in costs in Q3FY2023. The electricity generation cost for Q2FY2023 was Rs. 6.9/unit. Pet coke price has softened to $195 now from $215 in Q2FY2023.
- **Capex:** The capex for FY2023 is expected to be Rs. 3000 crore out of which it has spent Rs. 1200 crore in H1FY2023. It would spent Rs. 3500-4000 crores on capex for FY2024.
- **Incentives:** The company accrued incentives of Rs. 61 crores and Rs. 119 crores in Q2FY2023 and H1FY2023, respectively. The incentives received were Rs. 84 crores and Rs. 128 crores, respectively. The outstanding incentive receivables as on September 2022 are Rs. 665 crore.
- **Debt:** Its gross debt stood at Rs. 3287 crores, an increase of Rs. 147 crores in H1FY2023.
- **Cash:** The reduction in cash reserves was partly led by a reduction in value of IEX by Rs. 1190 crore.
- **Renewable power:** It completed 4MW WHRS and 20MW solar power addition taking total renewable power capacity to 129MW, which is 24% of the overall power mix. It plans to take renewable power capacity to 328MW by FY2024, which will be 36% of the power mix.
- **Blended cement:** The blended cement mix for Q2 stood at 82% which is expected to further go up m-o-m. In South, it increased blending ratio to 63% from 43% in Q2FY2022.
- **Other highlights:** The lead distance was 308kms. Trade share was 64%. The fuel mix was 59% petcoke and 14% domestic coal.

Results (Consolidated) **Rs cr**

Particulars	Q2FY23	Q2FY22	y-o-y	Q1FY23	q-o-q
Net Sales	**2971**	**2577**	**15.3%**	**3302**	**-10.0%**
Total Expenditure	2592	1956	32.5%	2716	-4.6%
Operating profits	**379**	**621**	**-39.0%**	**586**	**-35.3%**
Other Income	38	45	-15.6%	22	72.7%
EBIDTA	417	666	-37.4%	608	-31.4%
Interest	54	50	8.0%	47	14.9%
PBDT	363	616	-41.1%	561	-35.3%
Depreciation	332	303	9.6%	312	6.4%
PBT	**31**	**313**	**-90.1%**	**249**	**-87.6%**
Tax	-21	93	-	64	-
Extraordinary items	2	13	-84.6%	-3	
Minority Interest	1	5		9	
Reported Profit After Tax	46	204	-77.5%	196	-76.5%
Adjusted PAT	**48**	**217**	**-77.9%**	**193**	**-75.1%**
EPS	3	12	-77.9%	10	-75.1%
OPMs	12.8%	24.1%	-1134 bps	17.7%	-499 bps
PAT	1.6%	8.4%	-681 bps	5.8%	-423 bps
Tax rate	-67.7%	29.7%	-	25.7%	-

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 laborers 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 remain intact. The government's Rs. 111-lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

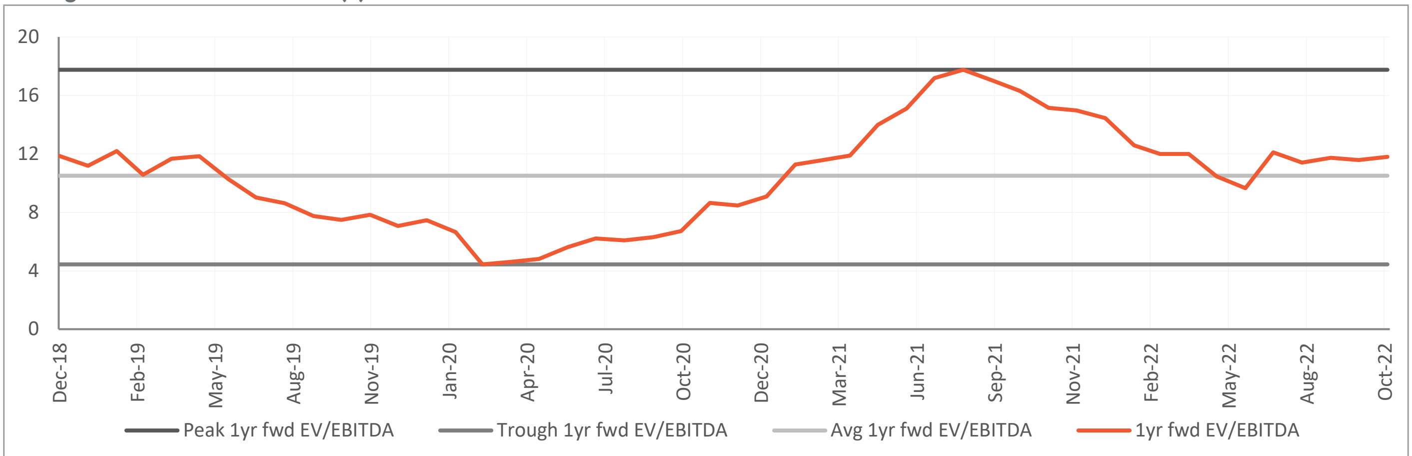
■ Company Outlook – Aggressive expansion plans to help capture high-growth opportunities

Dalmia is on a solid 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 significant 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 (currently 35.9-million tonnes) in the next three years, initially expanding in the Southern and North East regions.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 2,100

Dalmia Bharat is expected to benefit from the strong demand environment expected in Eastern India during FY2023. The company has shown operational solid efficiencies which is expected to improve further with the decline in power & fuel costs and increasing share of renewable energy capacities. The strong demand envisaged by the company has led to adherence to its near-term and long-term capacity expansion plans. 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 an unchanged price target (PT) of Rs. 2,100, considering robust 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	33.1	26.7	16.6	13.5	3.4	3.0	10.7	12.0
Dalmia Bharat	53.5	39.0	13.0	10.9	1.9	1.8	3.6	4.7
Shree Cement	70.7	42.5	26.3	18.2	4.6	4.2	6.6	10.3
The Ramco Cement	32.4	20.8	16.5	12.3	2.4	2.2	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 East, North East and Southern India. Dalmia Bharat comprises ~5% of the country's cement capacity. It has a captive power generation capacity of 195 MW (including solar and waste heat recovery plants).

Investment theme

Dalmia is on a solid 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 by acquiring 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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

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