Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Dalmia Bharat Ltd

A Footprint in Central India at right valuation

Cement	Sharekhan code: DALMIABHA
Reco/View: Buy ↔	CMP: Rs. 1,906
Price Target: Rs. 2,250 ↑	

↑ 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 Updated Aug 08, 2022	31.20

High Risk

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

Source: Morningstar

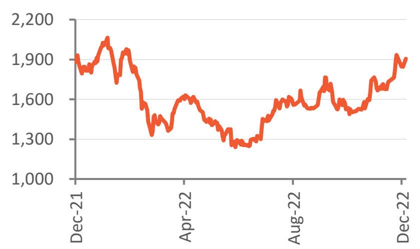
Company details

Market cap:	Rs. 35,728 cr
52-week high/low:	Rs. 2,103 / 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	12.6	14.8	51.3	1.3
Relative to Sensex	11.8	12.2	33.7	-5.3

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on the stock with a revised price target (PT) of Rs. 2,250, increasing our valuation multiple to factor in faster capacity additions and its strong growth potential led by capacity expansions.
- Dalmia announces acquisition of 9.4mtpa cement capacity along with 6.7mtpa clinker and 280MW power capacities of Jaiprakash Associates. Acquisition at an EV of Rs. 5666 crore translates to attractive valuation of $73/tonne.
- Company to get a head-start in central region with ~10% market share and aligns with its vision of pan-India cement player with capacity of 75mtpa and 110-130mtpa by FY2027 and FY2031.
- The acquisition is likely to increase its net debt/equity and net debt/EBITDA from 0.04x and 0.32x as on Q2FY2023 to 0.4x and 2.9x on FY2023E earnings but would tread lower by FY2025E led by incremental earnings from acquisition and additional capacity additions.

Dalmia Bharat (Dalmia) took a key step towards realising its pan-India cement player target by entering into a binding framework agreement with Jaiprakash Associates for the acquisition of 9.4mtpa cement capacity (along with 6.7mtpa clinker capacity and 280MW thermal power plants). The acquisition valued at an EV of Rs. 5666 crore translates to $73/tonne, which is attractive considering the current replacement cost and yet outpacing large peers like Ultratech and Adani group. The said acquisition would give the company a head-start in the Central region with ~10% capacity share and increase its cement and clinker capacities to 46.4mtpa and 27.6mtpa from 37mtpa and 20.9mtpa as on Q2FY2023, respectively. It would realise its targeted cement and clinker capacities of 49mtpa and 23.7mtpa by FY2024, much earlier with the focus shifting to achieve 75mtpa by FY2027 and 110-130mtpa by FY2031. The acquisition is likely to increase its net debt/equity and net debt/EBITDA from 0.04x and 0.32x as on Q2FY2023 to 0.4x and 2.9x on FY2023E earnings but would tread lower by FY2025E led by incremental earnings from acquisition and additional capacity additions.

- **Acquisition of assets at an attractive valuation of $73/tonne:** The company's acquisition of the Cement, Clinker and Power Plants from Jaiprakash Associates and its associate having a total cement capacity of 9.4mtpa (along with Clinker capacity of 6.7mtpa and Thermal Power plants of 280MW) at an EV of Rs. 5000 crore, values the assets at an attractive EV/tonne valuation of $73/tonne. Moreover, it has been able to outpace a couple of other large bidders viz. Ultratech and Adani group, which as per media reports, have been eyeing the assets at a valuation of Rs. 5000 crores. We believe that considering the interest from large buyers, the company has been able to grab a good deal at attractive valuation.
- **Head-start in Central region with ~10% capacity share:** As per the company, the Central cement market is having one of the lowest per capita cement consumption in India at ~170kg. Central region demand is estimated at ~54mtpa, which comprises ~15% of domestic cement demand. The central region's cement demand is expected to grow at 7% CAGR in the medium term. The central region has good market structure, with top five players in the region holding ~75% of the market. The said region has capacity utilisation of ~75%+ compared to pan-India utilization levels of ~65-70%. The acquisition of the assets would help the company in getting a head-start with ~10% capacity share.
- **A key step towards realising Pan-India cement player target:** Post-acquisition, Dalmia Bharat's cement and clinker capacity would increase to 46.4mtpa and 27.6mtpa from 37mtpa and 20.9mtpa respectively as on Q2FY2023. The company had earlier targeted cement and clinker capacities of 49mtpa and 23.7mtpa by FY2024 which would be achieved much earlier. More importantly, the acquisition will enable the company to expand its footprint into the central region and will represent a significant step towards realization of its vision to emerge as a pan India Cement company with a capacity of 75mtpa by FY2027 and 110-130mtpa by FY2031.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2250: Dalmia Bharat is expected to benefit from the recent acquisition which gives it a good head-start in the central region at attractive valuation. The company's planned capacity by FY2024 would be achieved much earlier while it focuses to reach 75mtpa and 110-130mtpa capacities by FY2027 and FY2031. The acquisition would lead to an increase in leverage in the near term. However, it would still remain within its comfort zone, considering its under-leverage balance sheet and strong OCF generation capabilities. Currently, we do not factor in the said acquisition in our estimates awaiting closure of the deal and further details on the acquired assets. We retain a Buy with a revised price target (PT) of Rs. 2,250, increasing our valuation multiple to factor in faster capacity additions and its strong growth potential led by capacity expansions.

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.

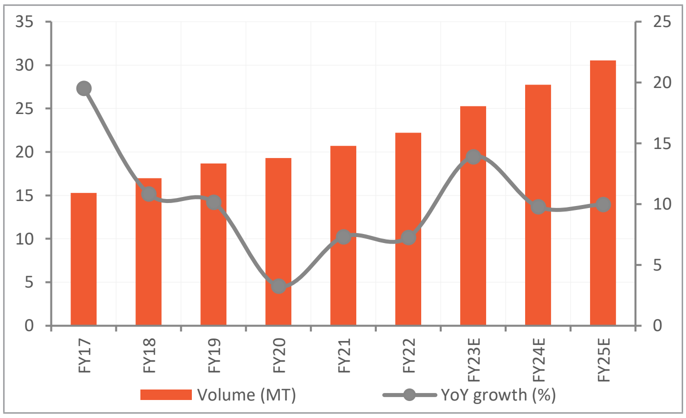
Valuation (Consolidated) Rs cr

Particulars	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)	37.8	61.7	45.0	39.6
P/B (x)	2.2	2.2	2.1	2.0
EV/EBIDTA (x)	13.4	15.1	12.6	11.4
RoNW (%)	6.5%	3.6%	4.7%	5.1%
RoCE (%)	7.8%	4.0%	4.9%	5.2%

Source: Company; Sharekhan estimates

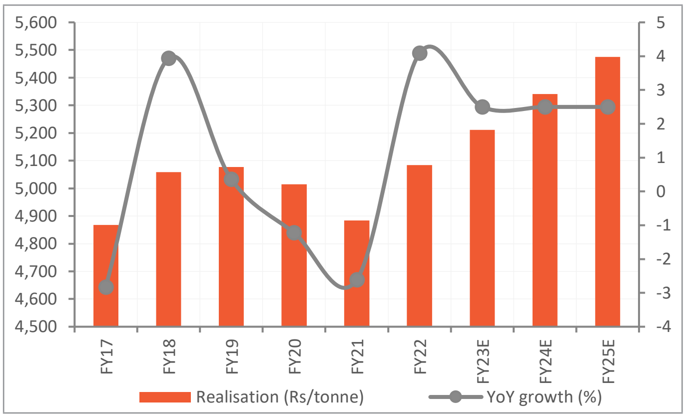
Financials in charts

Volume trend



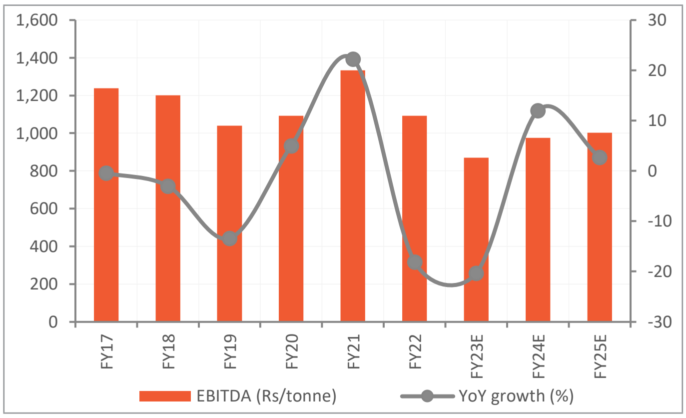
Source: Company, Sharekhan Research

Realisation trend



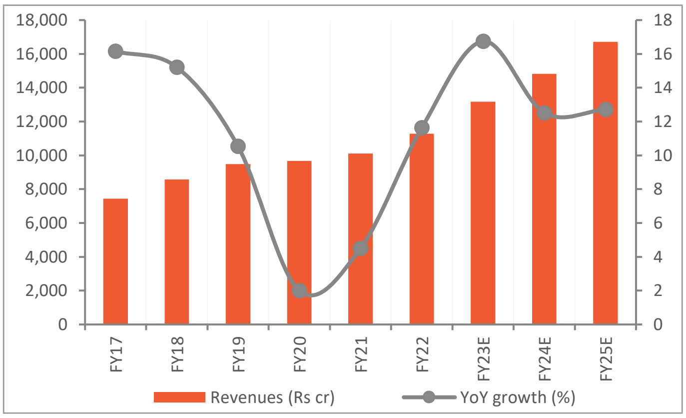
Source: Company, Sharekhan Research

EBITDA/tonne trend



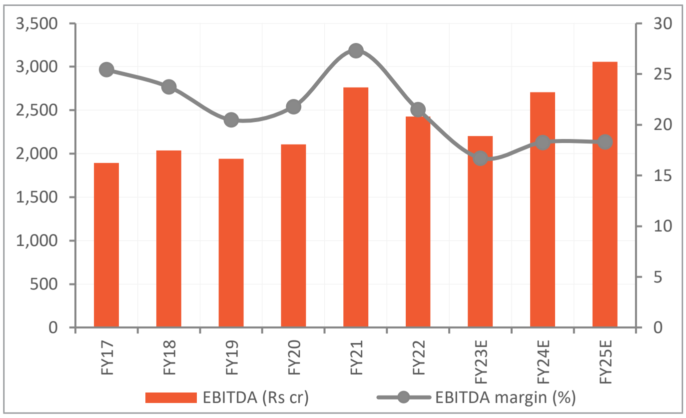
Source: Company, Sharekhan Research

Revenue trend



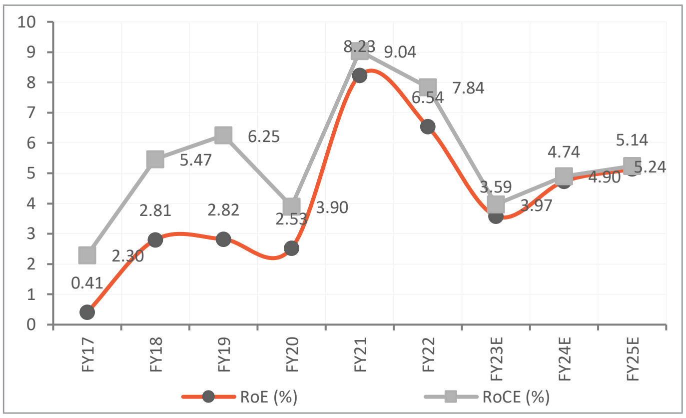
Source: Company, Sharekhan Research

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 rising over the past 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. The government's Rs. 111-lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

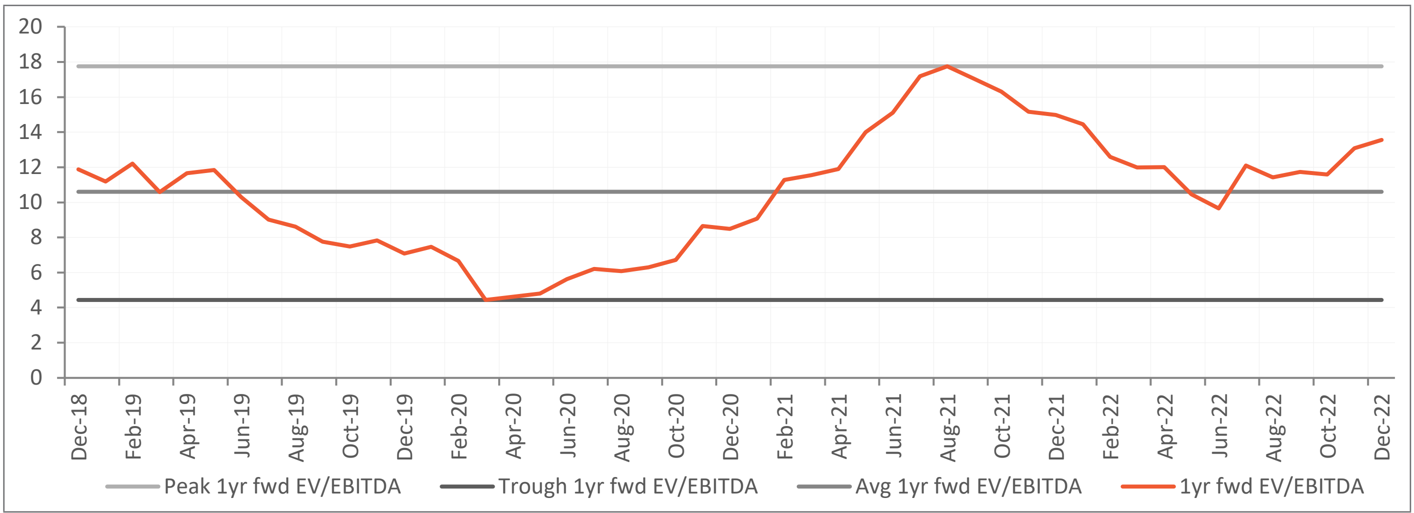
■ Company Outlook – Aggressive expansion plans to help capture high-growth opportunities

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 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 75mtpa and 110-130mtpa capacities by FY2027 and FY2031 with a vision of becoming a pan-India cement player.

■ Valuation – Maintain Buy with a revised PT of Rs. 2,250

Dalmia Bharat is expected to benefit from the recent acquisition, which gives it a good head-start in the central region at attractive valuation. The company's planned capacity by FY2024 would be achieved much earlier while it focuses on reaching 75mtpa and 110-130mtpa capacities by FY2027 and FY2031. The acquisition would lead to increase in leverage in the near term. However, it would still remain within its comfort zone, considering its under-leverage balance sheet and strong OCF generation capabilities. Currently, we do not factor in the said acquisition in our estimates awaiting closure of the deal and further details on the acquired assets. We retain a Buy with a revised price target (PT) of Rs. 2,250, increasing our valuation multiple to factor in faster capacity additions and its strong growth potential led by capacity expansions.

One-year forward EV/EBITDA (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech Cement	29.8	23.6	15.2	12.2	3.4	3.0	12.0	13.4
Dalmia Bharat	45.0	39.6	12.6	11.4	2.1	2.0	4.7	5.1
Shree Cement	45.2	30.2	19.5	14.2	4.5	4.0	10.3	13.9
The Ramco Cement	25.5	20.5	13.7	11.7	2.4	2.2	9.8	11.1

Source: Sharekhan Research

About company

Founded in 1939, Dalmia Bharat is India's fourthlargest cement manufacturing company by installed capacity, spread across 10 states and 14 manufacturing units. With a growing capacity, currently pegged at 37.0 MnT, Dalmia Bharat Limited is Dalmia Cement (Bharat) Limited, a subsidiary of Dalmia Bharat Limited, which prides itself at having one of the lowest carbon footprints in the cement world globally. its vision is to emerge as a Pan India Cement company with a capacity of 75 MnT by FY27 and 110130 MnT by FY31.

Investment theme

Dalmia is on a strong growth trajectory for the next five years, with capacity expansion plans lined up for a 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 made). It also highlighted allocation towards shareholders' returns (10% of OCFs) and a green & innovation fund (10% of OCF). It targets to reach 75mtpa and 110-130mtpa capacities by FY2027 and FY2031 with a vision of becoming a pan-India cement player.

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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