



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 **31.20**
Updated Dec 08, 2022

High Risk

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

Source: Morningstar

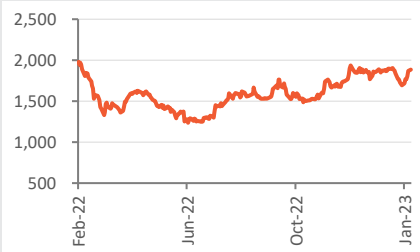
Company details

Market cap:	Rs. 35,336 cr
52-week high/low:	Rs. 2,012 / 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	23.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.1	6.8	17.6	-4.7
Relative to Sensex	0.5	7.9	14.8	-9.7

Sharekhan Research, Bloomberg

Dalmia Bharat Ltd

Operationally strong Q3; Expansions on track

Cement	Sharekhan code: DALMIABHA		
Reco/View: Buy	↔	CMP: Rs. 1,885	Price Target: Rs. 2,250 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain a Buy on Dalmia Bharat with an unchanged PT of Rs. 2,250, considering its strong growth potential led by capacity additions.
- In Q3FY2023, the company reported better-than-expected operational performance as operating costs per tonne were lower than expected. Operating profits and net profits were up 57% and 145% y-o-y.
- It signed a definitive agreement with JP Associates for acquisition of 5.3 MT cement capacity, 3.3 MT clinker capacity and 280 MW thermal power capacity at an attractive valuation of \$75 EV/tonne. It would provide inroads in Central India.
- Management reiterates its commitment of achieving 75 MT cement capacity by FY2027, 110-130 MT by 2031, while it remains on track to achieve 49 MT by March 2024.

Dalmia Bharat (Dalmia) reported better-than-expected operational performance for Q3FY2023 led by lower-than-estimated operating costs per tonne. Consolidated revenues stood at Rs. 3355 crore (up 23% y-o-y) led by both volume growth of 11.5% y-o-y at 6.3 MT and blended realisation growth of 10% y-o-y. EBITDA/tonne stood at Rs. 1022 (up 41% y-o-y) was ahead of our estimate of Rs. 868/tonne led by lower opex/tonne (down 4% q-o-q). Overall, consolidated operating profit/adjusted net profit rose by 57.5%/144.6% y-o-y to Rs. 644 crore/Rs. 203 crore (higher than our estimate). It re-iterated its commitment of achieving a 75 MT cement capacity by FY2027 and 110-130 MT by 2031, while it remains on track to achieve 49 MT by FY2024. It signed definitive agreement with JP Associates for acquisition of 5.2 MT cement capacity, 3.3 MT clinker capacity and 280 MW thermal power plant capacity at an EV of Rs. 3,230 crore (attractively valued at an EV/tonne of \$75). The acquisition would provide it inroads in lucrative central markets. The company remains optimistic on cement demand and targets to grow at 1.5x cement demand growth delivering industry leading earnings growth and RoCEs.

Key positives

- EBITDA/tonne at Rs. 1022 was higher than our estimate of Rs. 868 owing to lower opex/tonne (down 4% q-o-q).
- Planned acquisition of 5.2 MT cement assets of JP Associates at an attractive valuation of \$75 EV/tonne.

Key negatives

- Freight cost per tonne were up 6% y-o-y and 8% q-o-q at Rs. 1,114 due to levy of busy season surcharge by Indian Railways and absence of rail incentives during the quarter.
- Gross debt and net debt increased q-o-q by Rs. 762 crore and Rs. 247 crore in lieu of capacity expansions.

Management Commentary

- It would focus on improving capacity utilisation, sustenance of cost efficiencies and delivering industry leading earnings growth and RoCEs. It targets to grow at 1.5x the industry growth rate going ahead.
- The cement industry is expected to operate at 64-66% capacity utilisation in FY2023 with ~40 MT capacity addition estimated. Current cement prices are broadly at Q3FY23 levels.
- It commissioned 25 MW renewable power in Q3 taking total renewable power capacity to 154 MW. By FY2023 end, its renewable power capacity will be 173MW, comprising 24% of the power mix. By FY2024, it would increase renewable power capacity to 328 MW.

Revision in estimates – We have marginally increased our operating profit estimates for FY2023-FY2025, factoring lower opex/tonne.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 2,250: Dalmia Bharat is expected to benefit from the strong demand environment and improved pricing in Eastern India. It continues to show 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 acquisition of JP Assets would provide it inroads in the lucrative Central India markets in-line with its long-term vision of becoming a pan-India player. 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 12x/11x its FY2024E/FY2025E earnings, which we believe provides further room for upside considering 17% CAGR in net earnings over FY2023E-FY2025E. Hence, we retain a Buy with an unchanged price target (PT) of Rs. 2,250, considering the strong growth outlook led by capacity additions.

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	13,369	15,043	16,955
OPM (%)	21.5	17.3	19.1	19.0
Adjusted PAT	932	644	814	881
% y-o-y growth	-3.1	-30.9	26.3	8.3
Adjusted EPS (Rs.)	50.4	36.3	44.0	47.6
P/E (x)	37.4	51.9	42.8	39.6
P/B (x)	2.2	2.1	2.0	2.0
EV/EBIDTA (x)	13.2	14.3	11.7	10.7
RoNW (%)	6.5%	4.2%	4.9%	5.1%
RoCE (%)	7.8%	4.5%	5.0%	5.1%

Source: Company; Sharekhan estimates

Strong operational performance

Dalmia Bharat reported consolidated net revenues of Rs. 3355 crore, up 22.7% y-o-y (up 12.9% q-o-q), which were in-line with our estimate. Cement volumes were up 11.5% y-o-y (+9% q-o-q) at 6.3 MnT while blended realizations were up 10.1% y-o-y (+3.6% q-o-q) at Rs. 5323/tonne. Blended consolidated EBITDA/T at Rs. 1022 (+41.3% y-o-y, +55.9% q-o-q) was much higher than our estimate of Rs. 868/T. On the cost front, power & fuel costs stood at Rs. 1529/T (+29% y-o-y, -1% q-o-q), freight costs at Rs. 1114/T (+6% y-o-y, +8% q-o-q) and other expense stood at Rs. 765/T (-1% y-o-y, -7% q-o-q). Overall, consolidated operating profit rose by 57.5% y-o-y (+69.9% q-o-q) at Rs. 644 crore which was 19% higher than our estimate. Consolidated adjusted net profit rose 2.4x y-o-y (up 4.2x q-o-q) to Rs. 203 crore, which was 39% higher than our estimate.

Key conference call takeaways

- ◆ **Capacity additions:** The company remains committed on its 75 MT capacity target for FY2027 and 110-130 MT capacity target by 2030 while it remains on track to achieve 49 MT capacity by March 2024.
- ◆ **JP Asset acquisition:** Dalmia has signed definitive agreements for acquisition of 5.2MT cement, 3.3MT clinker capacities of JP Associates at an EV of Rs. 3230 crore. It expects to close the transaction in few months. The acquisition would help the company enter into a high growth lucrative central India at an attractive valuation. It has sufficient limestone availability for the asset.
- ◆ **Outlook:** It would focus on improving capacity utilisation, sustenance of cost efficiencies and delivering industry leading earnings growth and RoCEs. It targets to grow at 1.5x industry growth rate going ahead. It is building leadership team with launch of an employee scheme 'Lakshya' in Q3FY2023. In the East, cement demand is improving with sand availability issue not there. The cement industry is expected to operate at 64-66% capacity utilisation in FY2023 with ~40MT capacity addition estimated. Current cement prices are broadly at Q3FY23 levels.
- ◆ **Q3FY23 performance:** Cement volumes grew 11.5% y-o-y to 6.3MT while revenues were up 23% y-o-y to Rs. 3355 crore. EBITDA increased 57% y-o-y to Rs. 644 crore with EBITDA/tonne at Rs. 1022.
- ◆ **Power costs:** The power consumption costs stood at \$216 per tonne in Q2 which has come down to \$195 in Q3 while current purchase cost is \$185. The power cost in terms of Kcal was Rs. 2.52/unit in Q2 and Rs. 2.42/unit in Q3.
- ◆ **Renewable power:** The company commissioned 25MW renewable power in Q3 taking total renewable power capacity to 154MW. By FY2023 end, its renewable power capacity will be 173MW, comprising 24% of the power mix. By FY2024, it would increase renewable power capacity to 328MW.
- ◆ **Freight costs:** Imposition of busy season surcharge by Railways and rail incentive not present during Q3 has led to increase in freight cost on per tonne basis.
- ◆ **Blended cement:** For Q3, blended cement mix stood the highest for any quarter at 83%. It has managed to sell blended cement in South (traditionally OPC market) taking blended share to 63% versus below 50% earlier.
- ◆ **Capex:** The capex for Q3FY23 and 9MFY23 was Rs. 900 crore and Rs. 2100 crore, respectively. The capex for FY2023 is estimated at Rs. 3000-3200 crore.
- ◆ **Incentives:** Incentives accrued in Q3 and 9M were Rs. 61 crores and Rs. 180 crores. Collections stood at Rs. 25 crores and Rs. 133 crores for Q3 and 9M. Incentives receivables as on date is Rs. 700 crores.
- ◆ **Debt:** The gross debt increased by Rs. 760 crores to Rs. 4050 crores. Net Debt increased by Rs. 247 crores with net debt to EBITDA at 0.39x.
- ◆ **Budget:** The Union budget's focus on building infrastructure, rise in capital expenditure by 33%, extension of interest-free loan to state governments and Rs. 35000 crore allocation to achieve net-zero emissions are positive for the cement sector. The company remains bullish on long term cement demand.
- ◆ **Other highlights:** For Q3, trade mix was 60%, lead distance 307 kms, Fuel mix was 70% pet coke, 16% coal and balance others. It operated at 68% capacity utilisation. The rail mix is 17%. Premium cement share was 22%.

Results (Consolidated)

Particulars	Rs cr				
	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Net Sales	3355	2734	22.7%	2971	12.9%
Total Expenditure	2711	2325	16.6%	2592	4.6%
Operating profits	644	409	57.5%	379	69.9%
Other Income	35	30	16.7%	38	-7.9%
EBIDTA	679	439	54.7%	417	62.8%
Interest	69	46	50.0%	54	27.8%
PBDT	610	393	55.2%	363	68.0%
Depreciation	325	302	7.6%	332	-2.1%
PBT	285	91	213.2%	31	819.4%
Tax	74	34	117.6%	-21	-452.4%
Extraordinary items	-1	-2	-50.0%	2	
Minority Interest	14	8		1	
Reported Profit After Tax	204	85	140.0%	46	343.5%
Adjusted PAT	203	83	144.6%	48	322.9%
EPS	11	4	144.6%	3	322.9%
			bps		bps
OPMs	19.2%	15.0%	424	12.8%	644
PAT	6.1%	3.0%	301	1.6%	444
Tax rate	26.0%	37.4%	-1140	-67.7%	9371

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.

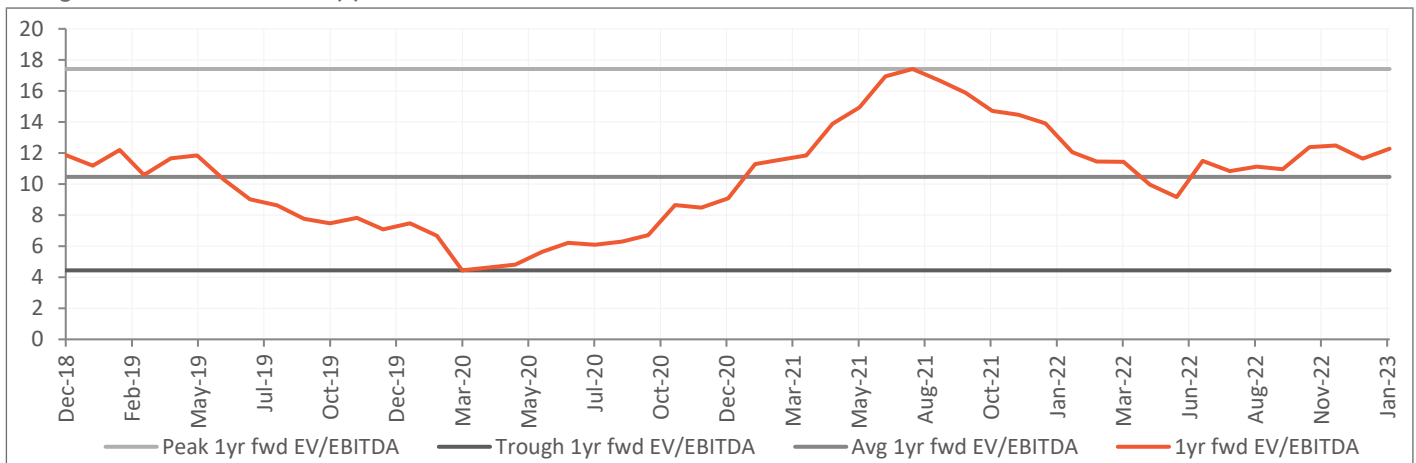
■ Company Outlook – Aggressive expansion plans to help capture high-growth opportunities

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. 2,250

Dalmia Bharat is expected to benefit from the strong demand environment and improved pricing in Eastern India. It continues to show 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 acquisition of JP Assets would provide it inroads in the lucrative Central India markets in-line with its long-term vision of becoming a pan-India player. 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 12x/11x its FY2024E/ FY2025E earnings, which we believe provides further room for upside considering 17% CAGR in net earnings over FY2023E-FY2025E. Hence, we retain a Buy with an unchanged price target (PT) of Rs. 2,250, considering the strong growth outlook led by capacity additions.

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	42.7	31.9	20.7	16.0	3.8	3.4	9.3	11.3
Dalmia Bharat	51.9	42.8	14.3	11.7	2.1	2.0	4.2	4.9
Shree Cement	74.4	44.7	27.9	19.3	4.8	4.4	6.6	10.3
The Ramco Cement	79.7	23.7	22.6	12.9	2.4	2.2	3.1	9.8

Source: Sharekhan Research

About company

Dalmia Bharat started its journey in 1939 and has a legacy of eight decades. The company possesses India's fourth-largest installed cement manufacturing capacity of 37 MT spread across 14 manufacturing plants in ten 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 renewable power generation capacity of 154 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 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. 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 Investment Co Pvt Ltd	32.47
2	Shree Nirman Ltd	8.28
3	Sita Investment Co Ltd	7.41
4	Keshav Power Pvt Ltd	1.85
5	Dalmia Bharat Sugar & Industries L	1.71
6	DHARTI COMMERCIAL TRADING PVT LT	1.68
7	INVESTOR EDUCATION & PROTECTN FD	1.64
8	Franklin Resources Inc	1.64
9	D S TRUST	1.54
10	J H DALMIA TRUST	1.38

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

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

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.