

11 February 2023

Dalmia Bharat

Now an all-India player; maintaining a Buy

Amid the high-cost setting, Dalmia reported a strong performance overall on healthy demand and greater operating efficiency. Its entry to the stable demand-pricing (Central) region would be positive, reducing the market mix of the low-utilisation South. Its greater focus on raising the share of “green” energy, better return ratios, divesting non-core assets and a defined capital-allocation policy are positives. We believe a re-rating is on cards and retain a Buy, with a higher target of Rs.2,536 (earlier Rs.2,160), at 12x FY25e EV/EBITDA.

Strong show. The stable pricing environment and 68% utilisation pushed up revenue 22.7% y/y to Rs33.6bn (volumes up 10.5% y/y, realisations 11.2% y/y). Operating efficiency and some moderation in fuel prices helped EBITDA grow 57.5% y/y to Rs6.4bn and EBITDA/ton, 43.9% y/y to Rs1022 (industry leading). While the moderation in fuel prices is expected to continue, the share of blended cement rose to its highest, at 83%.

Entry into the Central region through the JP acquisition. In Dec'22, Dalmia entered into binding agreement with JAL to acquire cement (9.4m tonnes), clinker (6.7m tonnes) and power plants (280MW) at an EV of Rs56.66bn. It signed definitive agreements with JAL to acquire cement (5.2m tons), clinker (3.3m tons) and power plants (280MW) at an EV of Rs32.33bn.

Business outlook, Valuation. Aiming at 110m-130m tonne cement capacity by FY31, the company is expanding its cement capacity to 49m tons and 23.7m tonnes (clinker) by FY24 (post-JP acquisition ~58.4m tons(cement) and 30.4m tons(clinker)), keeping net-debt-to-EBITDA below 2x. Aiming at 100% renewable energy by FY30 (24% now), renewable energy capacity would be expanded to 328MW by FY24. We expect 12%/15%/20% CAGR over FY22-25 in volumes/revenue/ EBITDA. We retain a Buy rating, with a higher target price of Rs2,536 (12x FY25e EV/EBITDA). **Risks:** Rise in raw material prices, demand slowdown.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	99,880	110,600	135,544	151,867	169,928
Net profit (Rs m)	12,050	8,180	7,181	9,587	14,590
EPS (Rs)	64.4	43.7	38.3	51.2	77.9
P/E (x)	30.1	44.4	50.6	37.9	24.9
EV / EBITDA (x)	13.8	15.9	14.6	11.9	9.1
EV / tonne (\$)	161.9	115.9	105.3	87.6	83.9
RoE (%)	10.3	5.7	4.4	5.6	8.0
RoCE (%)	6.7	3.6	3.3	4.2	6.1
Dividend yield (%)	0.1	0.5	0.3	0.3	0.3
Net debt / equity (x)	0.0	-0.1	-0.1	-0.0	-0.1

Source: Company, Anand Rathi Research

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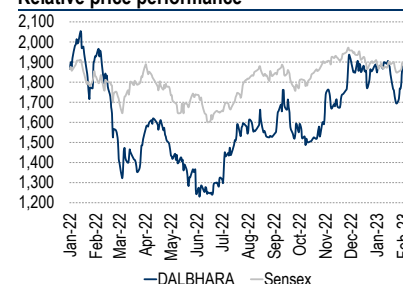
Rating: Buy
Target Price: Rs.2,536
Share Price: Rs.1,940

Key data	DALBHARA IN
52-week high / low	Rs.1,976 / 1,213
Sensex / Nifty	60683 / 17857
3-m average volume	\$6.7m
Market cap	Rs.364bn / \$4,406.8m
Shares outstanding	187m

Shareholding pattern (%)	Dec-22	Sep-22	Jun-22
Promoters	55.9	55.9	55.9
- of which, Pledged	-	-	-
Free float	44.1	44.1	44.1
- Foreign institutions	12.4	12.4	12.6
- Domestic institutions	8.1	8.2	7.3
- Public	23.6	23.6	24.3

Estimates revision (%)	FY23e	FY24e	FY25e
Sales	3.6	2.0	0.3
EBITDA	(2.8)	1.7	7.7
PAT	(2.8)	3.8	19.0

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Sales volume (m tons)	20.7	22.2	25.4	28.3	31.4
Net revenues	99,880	110,600	135,544	151,867	169,928
Growth (%)	5.0	10.7	22.6	12.0	11.9
Direct costs	52,750	63,970	84,718	92,538	99,858
SG&A	20,730	24,630	26,721	29,237	32,161
EBITDA	26,400	22,000	24,104	30,092	37,910
EBITDA margins (%)	26.4	19.9	17.8	19.8	22.3
- Depreciation	12,500	12,350	14,282	17,041	18,436
Other income	3,030	3,810	2,440	2,734	3,059
Interest expenses	2,950	1,970	2,123	2,223	1,704
PBT	13,980	11,490	10,139	13,562	20,828
Effective tax rate (%)	12.7	27.4	30.0	30.0	30.0
+ Associates / (Minorities)	110	340	366	406	490
Net income	11,710	8,160	7,181	9,587	14,590
Adjusted income	12,050	8,180	7,181	9,587	14,590
WANS	187	187	187	187	187
FDEPS (Rs / sh)	64.4	43.7	38.3	51.2	77.9
FDEPS growth (%)	454.7	-32.2	-12.2	33.5	52.2

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (adj. OI and interest)	13,900	9,650	9,822	13,052	19,474
+ Non-cash items	12,500	12,350	14,282	17,041	18,436
Oper. prof. before WC	26,400	22,000	24,104	30,092	37,910
- Incr. / (decr.) in WC	(9,980)	4,700	(5,538)	(107)	(940)
Others incl. taxes	(2,070)	360	3,042	4,069	6,249
Operating cash-flow	38,450	16,940	26,601	26,131	32,601
- Capex (tang. + intang.)	15,860	17,840	29,500	31,500	18,000
Free cash-flow	22,590	(900)	(2,899)	(5,369)	14,601
Acquisitions					
- Div. (incl. buyback & taxes)	5,243	1,686	1,124	1,124	1,124
+ Equity raised	-	1	-	-	-
+ Debt raised	(22,400)	(5,910)	-	2,000	(14,000)
- Fin investments	11,750	16,710	(10,000)	-	-
- Misc. (CFI + CFF)	-15,243	-24,336	-567	-760	-1604
Net cash-flow	(1,560)	(870)	6,543	(3,733)	1,082

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

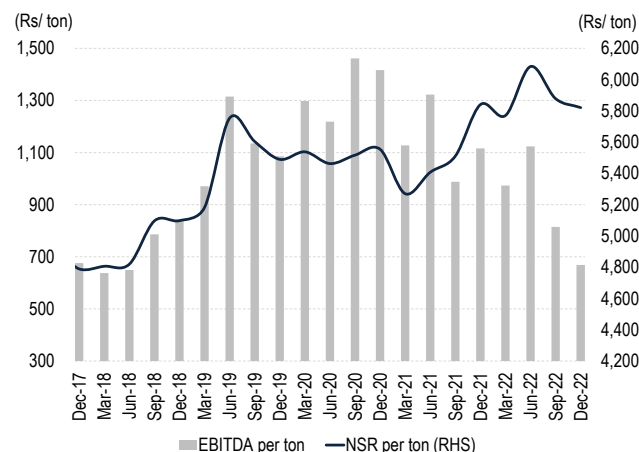
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	374	375	375	375	375
Net worth	128,100	160,610	166,667	175,130	188,595
Debt	37,130	31,220	31,220	33,220	19,220
Minority interest	340	720	836	992	1,232
DTL / (Assets)	16,590	15,640	15,640	15,640	15,640
Capital employed	182,160	208,190	214,363	224,982	224,688
Net tangible assets	98,240	105,340	110,608	136,667	140,031
Net intangible assets	27,900	26,680	26,680	26,680	26,680
Goodwill	10,110	9,330	9,330	9,330	9,330
CWIP (tang. & intang.)	10,060	10,450	20,400	8,800	5,000
Investments (strategic)	7,410	13,060	13,060	13,060	13,060
Investments (financial)	32,930	43,990	33,990	33,990	33,990
Current assets (excl. cash)	29,740	35,530	40,849	46,600	52,142
Cash	2,470	1,600	8,093	4,360	5,442
Current liabilities	36,700	37,790	48,647	54,506	60,988
Working capital	(6,960)	(2,260)	(7,798)	(7,905)	(8,846)
Capital deployed	182,160	208,190	214,363	224,982	224,688
Contingent liabilities	5060	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	30.1	44.4	50.6	37.9	24.9
EV / EBITDA (x)	13.8	15.9	14.6	11.9	9.1
EV / Sales (x)	3.7	3.2	2.6	2.4	2.0
P/B (x)	2.8	2.3	2.2	2.1	1.9
RoE (%)	10.3	5.7	4.4	5.6	8.0
RoCE (%) - after tax	6.7	3.6	3.3	4.2	6.1
DPS (Rs / sh)	1.3	9.0	6.0	6.0	6.0
Dividend payout (%) - incl. DDT	2.1	20.6	15.7	11.7	7.7
Net debt / equity (x)	0.0	-0.1	-0.1	0.0	-0.1
WC days	-25	-7	-21	-19	-19
EV / tonne (\$)	161.9	115.9	105.3	87.6	83.9
NSR / tonne (Rs)	4,874	5,073	5,253	5,303	5,353
EBITDA / tonne (Rs)	1,265	982	940	1,058	1,202
Volumes (m tonnes)	20.7	22.2	25.4	28.3	31.4
CFO : PAT (%)	319.1	207.1	370.4	272.6	223.5

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trends



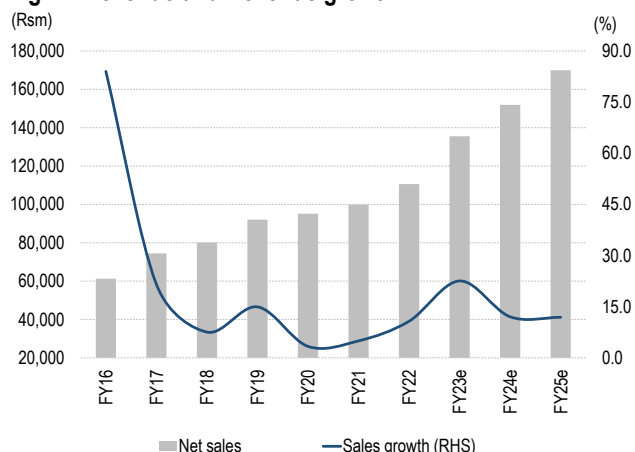
Source: Company, Anand Rathi Research

Other key highlights

Revenue growth

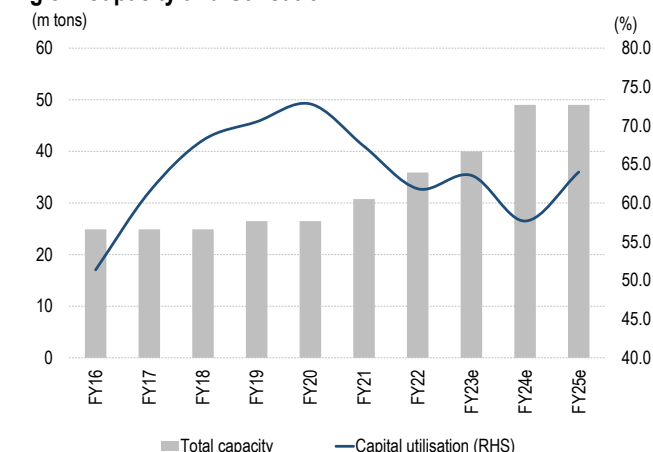
Dalmia’s Q3 revenue grew 22.7% y/y to Rs33.6bn. Healthy demand across operating regions and stable pricing environment led cement volumes to grow 10.5% y/y to 6.3m tons and Per-tonne realisation 11.2% y/y to Rs5,325. Further the share of blended cement grew to highest ever at 83%. It operated at 68% capacity in Q3 FY23.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



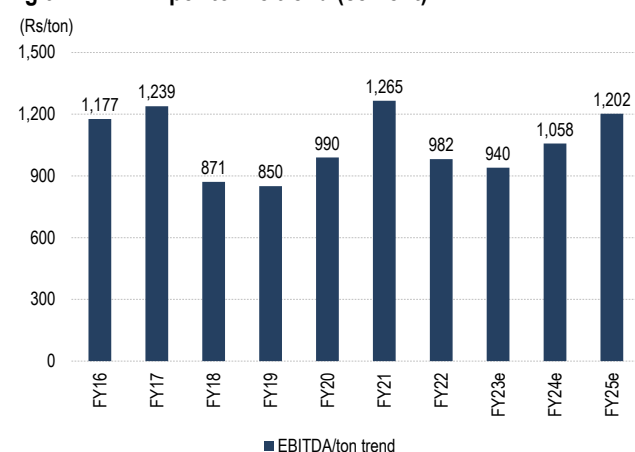
Source: Company, Anand Rathi Research

Operating performance

EBITDA was Rs6.4bn, up ~57.5% y/y. EBITDA/tonne grew 44% y/y to Rs1022. High pet-coke and imposition of busy season surcharge led to power & fuel cost per tonne rising 59% y/y and 7.2%. Other expenditure grew 11% and staff costs 5% y/y on an absolute basis.

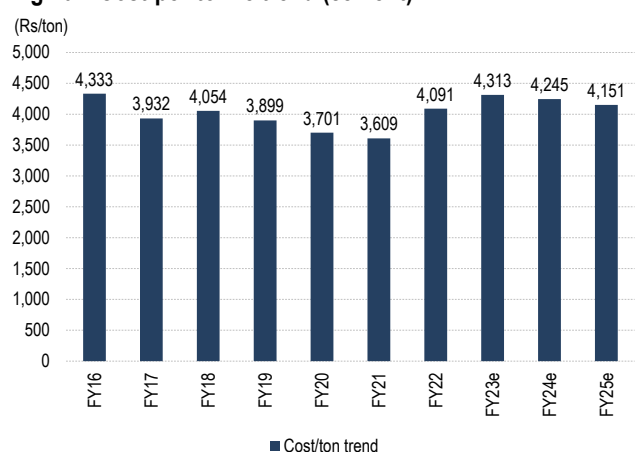
Reported PAT after MI (continuing + discontinued operations) grew 158% y/y to Rs2170m.

Fig 9 – EBITDA-per-tonne trend (cement)



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-tonne trend (cement)



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Sales	19,010	23,130	28,570	31,510	25,910	25,810	27,340	33,800	33,020	29,710	33,550	22.7	12.9
EBITDA	6,150	6,980	6,910	7,680	7,130	6,210	4,090	6,830	5,860	3,790	6,440	57.5	69.9
EBITDA margins (%)	32	30	24	24	28	24	15	20	18	13	19	424bps	644bps
EBITDA / tonne (Rs)	1,664	1,450	1,167	1,195	1,458	1,206	711	1,035	945	653	1,022	43.9	56.4
Interest	730	720	910	600	560	500	450	460	440	560	680	51.1	21.4
Depreciation	2,980	2,990	3,290	3,270	2,970	3,030	3,020	3,330	3,120	3,320	3,250	7.6	(2.1)
Other income	550	400	460	390	260	450	310	530	220	380	350	12.9	(7.9)
PBT	2,990	3,670	3,170	4,200	3,860	3,070	930	3,610	2,520	290	2,860	207.5	886.2
Tax	1,080	1,360	1,340	(2,200)	970	920	350	910	640	(210)	740	111.4	NA
PAT (continuing oper.)	1,880	2,320	1,830	6,380	2,890	2,150	580	2,700	1,880	500	2,120	265.5	324.0
PAT (Discontinued oper.)	(30)	-	-	(20)	(110)	(130)	320	10	-	(90)	40	(87.5)	L2P
Adj. PAT	1,880	2,320	1,830	6,380	2,780	2,080	900	2,670	1,880	410	2,160	140.0	426.8
Associates / (Minorities)	20	-	(10)	(110)	(90)	(40)	(60)	(50)	80	50	10	L2P	(80.0)
PAT after Asso./ MI	1,900	2,320	1,820	6,270	2,690	2,040	840	2,620	1,960	460	2,170	158.3	371.7

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

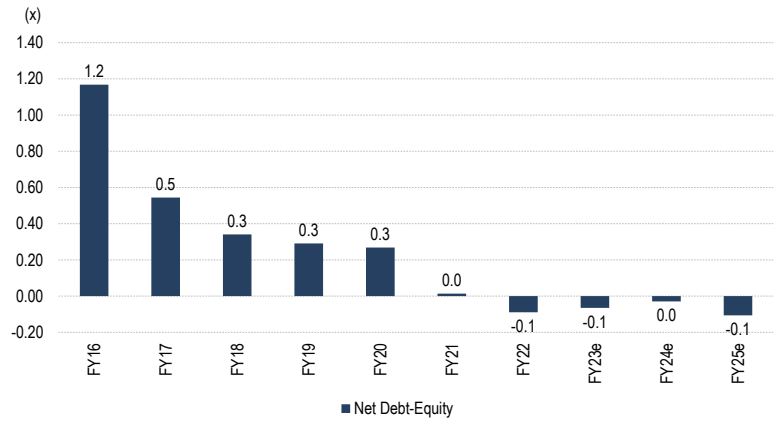
(Rs per tonne)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Realisations	5,189	4,815	4,717	4,900	5,284	5,047	4,788	5,112	5,326	5,122	5,325	11.2	4.0
EBITDA (cement)	1,664	1,450	1,167	1,195	1,458	1,206	711	1,035	945	653	1,022	43.9	56.4
Sales volumes (m tons)	3.66	4.80	5.80	6.42	4.89	5.10	5.70	6.60	6.20	5.80	6.30	10.5	8.6
Costs													
Raw material	699	673	747	807	832	647	625	662	708	762	783	25.3	2.7
Power & Fuel	686	721	860	877	1,063	994	1,175	1,323	1,535	1,538	1,530	30.2	(0.5)
Staff	443	329	303	273	374	388	323	271	319	326	306	(5.1)	(6.0)
Freight	948	985	1,012	1,044	1,057	986	1,042	1,123	1,100	1,028	1,114	6.9	8.4
Other expenditure	590	633	733	759	804	820	765	715	748	817	765	0.0	(6.4)

Source: Company, Anand Rathi Research

Key takeaways; Concall highlights

- Utilisation for the cement sector as a whole was 64-66% in 9M FY23; for Dalmia Bharat in Q3 FY23, it was 68%.
- The company signed definitive agreements with Jaiprakash Associates and its associates to acquire 5.2m-tonne cement and 3.3m-tonne clinker capacities along with a 280MW TPP (including transfer of a 180 MW TPP to an SPV, of which a 57% stake would be held by Dalmia) at an EV of Rs32.3bn.
- The Murli plant operated at 55% capacity in Jan'23. Its profitability is expected to be at the company's level in 9-12 months with increasing stability in West India prices.
- Sales of blended cement were 83% of sales volume (the highest) where the share of blended cement in the South rose to 63% (from 50% a year back). The company targets 100% low-carbon cement across regions.
- The premium cement share was 22% of trade sales (20% in Q2 FY23).
- The consumption cost of fuel declined to \$195 a tonne (\$216 the previous quarter). The purchase cost in Q3 FY23 was \$185/ton, expected to slip to \$180 in Q4. On a kcal basis, fuel cost was Rs2.42 (Rs2.52 the prior quarter). A similar q/q drop is expected in Q4 FY23.
- The share of petcoke and domestic coal in the fuel mix in Q3 was 70:16
- The company is firm regarding its carbon-negative roadmap. It installed 25 MW renewable energy capacity in Q3 FY23.
- By end-FY23 and FY24, it aims at renewable energy capacity of respectively 173MW and 328MW. At present, the proportion of renewable energy in the power mix is 24%; the company expects that to arise to 36% in the next two years.
- It has a WHRS at all plants except one, which will be installed in FY24. Except at plant, petcoke is economical at the others.
- CO₂ emissions were brought down to 462kg/tonne of cement in Q3 FY23. The lead distance was 330km. The share of rail was 17%. The busy-season surcharge imposed trimmed EBITDA by Rs65/tonne.
- Accrued incentives in Q3 FY23 and 9M FY23 were Rs610m and 1.8bn respectively, and the company collected incentives of Rs250m and 1.53bn. Incentives receivable at 31st Dec'22 were Rs7bn.
- Gross debt at 31st Dec'22 was Rs40.5bn, and net debt/EBITDA 0.39x. Net debt/EBITDA was guided to be under 2x. Gross and net debt increased in Q3 FY23 by respectively Rs7.6bn and Rs2.47bn.
- The company is evaluating its IEX investment and will divest at an opportune time.
- The company aims to be an all-India manufacturer and increase capacity to 110m-130m tonnes by FY31 (70m-75m tonnes by FY27), at a 15% CAGR in the next decade. In the first phase, it is expanding cement capacity to 49m tonnes and clinker capacity to 23.7m tonnes by FY24.
- It is awaiting requisite approvals from the government to acquire a limestone mine (150m tonnes), then acquire land.
- It spent Rs21bn capex in 9M FY23 and will spend Rs30bn-32bn in FY23.

Fig 13 – Net-debt-to-equity



Source: Company, Anand Rathi Research

Valuations

Aiming at 110m-130m tonne cement capacity by FY31, Dalmia Bharat is expanding capacity to 49m tonnes by FY24 in regions where it operates. Also, with all-India operations in mind, it will expand into the North and Central regions in the next phase of expansion, keeping net-debt-to-EBITDA below 2x.

Its entry to the stable demand-pricing (Central) region would be positive, reducing its market mix of the low-utilization South. Its greater focus on expanding the share of green energy, improving return ratios and divesting non-core assets are other positives.

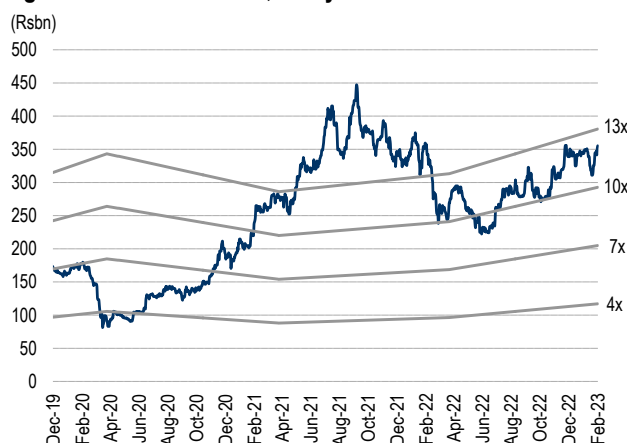
Fig 14 – Change in estimates

(Rs m)	Old			New			Variance %		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Sales	130,816	148,879	169,466	135,544	151,867	169,928	3.6	2.0	0.3
EBITDA	24,806	29,593	35,191	24,104	30,092	37,910	(2.8)	1.7	7.7
PAT	7,386	9,236	12,259	7,181	9,587	14,590	(2.8)	3.8	19.0

Source: Anand Rathi Research

We retain our Buy recommendation, with a higher target price of Rs2,536 based on 12x FY25e EV/EBITDA.

Fig 15 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 16 – EV/EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risks

- Demand slowdown
- Rise in prices of pet-coke and diesel.

Fig 17 – Peer comparison – Valuations

	CMP (Rs)	P/E(x)			EV / EBITDA (x)			EV / ton (\$)		
		FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Dalmia Bharat	1,940	50.6	37.9	24.9	14.6	11.9	9.1	105	88	84
Birla Corp.	902	174.7	13.8	10.6	14.1	7.5	6.2	62	59	54
Deccan Cement	469	11.3	8.9	7.9	6.0	6.1	5.8	36	47	40
Heidelberg Cement	177	22.7	17.5	13.2	11.2	8.7	6.6	71	62	59
India Cement	196	NA	NA	29.7	NA	21.8	12.6	74	76	77
JK Cement	2,803	33.4	24.1	19.0	17.6	14.0	11.3	195	173	154
JK Lakshmi	758	21.3	18.9	16.7	10.4	9.4	8.1	94	91	83
Mangalam Cement	273	10.0	7.6	5.6	5.4	4.1	3.0	33	30	25
Orient Cement	123	19.5	13.1	10.6	7.4	6.1	5.7	40	44	50
Prism Johnson	104	NA	33.3	20.7	17.3	10.3	8.2	78	76	72
Ramco Cement	730	62.9	41.3	26.0	22.1	17.6	13.4	133	127	123
Sagar Cement	214	NA	35.8	15.5	19.1	8.9	6.3	56	54	49
NCL Industries	174	14.7	7.8	6.7	7.6	4.6	3.7	38	35	30
Sanghi Industries	63	NA	40.3	22.8	13.1	10.2	8.6	63	61	59
Star Cement	113	20.6	20.1	20.2	10.5	11.0	9.3	100	87	70

Source: Company, Anand Rathi Research

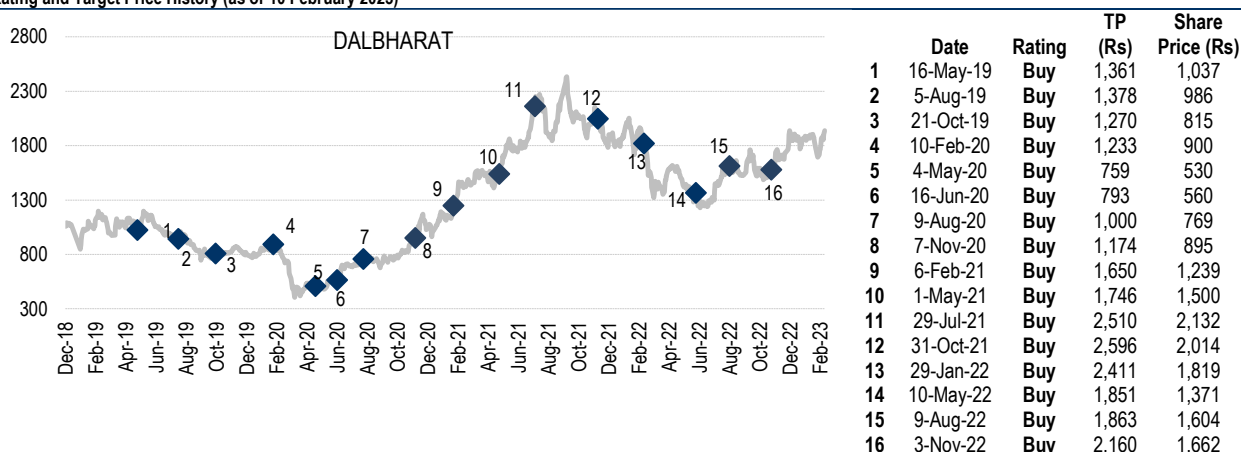
Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
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