

Dalmia Bharat

Refer to important disclosures at the end of this report

Divestment of non-core refractory business

Dalmia Bharat's (Dalmia's) board has approved the sale of its entire 42.36% stake (owned through its subsidiary) in Dalmia Bharat Refractories (DBRL) to Sarvapriya Healthcare Solutions Private Ltd. (Sarvapriya, a promoter group company) for Rs8bn. The said transaction is largely in line with the company's strategy of making Dalmia a pure-play cement company and exiting the non-core business/investments.

- **Transaction details:** Dalmia Cement (Bharat) Ltd (DCBL), a wholly-owned subsidiary of Dalmia, has entered into a binding agreement to sell its entire investment of 18.7mn shares (42.36% stake) of DBRL (an associate company) for a consideration of Rs8bn to Sarvapriya, a promoter group company. To recap, DBRL had executed a business transfer agreement with RHI Magnesita India (RHI) in Nov-22, for transfer of its 100% shareholding in Dalmia OCL (refractory business arm of DBRL) for a total consideration of Rs21bn (Rs3.9bn cash and 27mn shares in RHI at Rs632.5/sh, totaling Rs17bn). The transaction was concluded on Jan23.
- **Consideration details:** The transaction is likely to be consummated within 30 days (i.e., on or before 25-Apr-2023) and consideration for the transfer of investment shall be received by DCBL as follows: i) Rs1.6bn (20%) payment on the date of consummation of the transaction; ii) Rs3.2bn (40%) each, by way of non-convertible debentures (NCDs), redeemable by Dec-23 and Sep-24, respectively. The NCDs will carry coupon of 8.5% p.a., payable on quarterly basis. Management does not see any risk related to the timeline or execution of the said transaction.
- **Concall takeaways:**
 - Dalmia has transferred its refractory business in DCBL, at a valuation of Rs3.6bn that has a carrying value of Rs4bn, as of Dec-22. Long-term capital gains tax of Rs500mn (on gain of Rs4bn) will be accounted in the FY23 P&L, while tax outflow is likely to happen in FY24.
 - Dalmia will receive Rs1.2bn in Sep-23, on redemption of NCDs received, on account of sale of Hippo stores (organized hardware retailer). Company has also reduced its stake in IEX, from 20% to 15% in May-21, and is evaluating further dilution.
 - Lock-in period for RHI shares is six months, completing in Aug-23.
 - Company has re-iterated its strategy of: 1) making Dalmia a pure-play cement company; 2) attaining pan-India presence with significant market share; and 3) net Debt/EBITDA at 2x (except in relation to M&A opportunities).
 - Dalmia has re-iterated its capacity target of 75mt/110-130mt by FY27/FY31, respectively. Besides, the company is now targeting 54mt capacity by FY24 (vs earlier guidance of 49mt) owing to acquisition of JPA assets.

We have a HOLD rating on the stock, with TP of Rs1,750/sh, based on 9x its FY25E EV/E.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	105,220	112,860	133,127	149,618	170,912
EBITDA	27,830	24,260	23,935	31,417	37,779
EBITDA Margin (%)	26.4	21.5	18.0	21.0	22.1
APAT	8,640	7,630	7,409	12,164	16,482
EPS (Rs)	46.2	40.8	39.6	65.0	88.1
EPS (% chg)	302.0	(11.7)	(2.9)	64.2	35.5
ROE (%)	7.5	5.4	4.7	7.4	9.4
P/E (x)	40.4	45.7	47.1	28.7	21.2
EV/EBITDA (x)	12.9	13.8	14.6	11.3	9.3
P/BV (x)	2.8	2.2	2.2	2.1	1.9

Source: Company, Emkay Research

CMP	Target Price
Rs 1,864 as of (March 27, 2023)	Rs 1,750 (■) 12 months
Rating	Upside
HOLD (■)	(6.1) %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	39.6	65.0
Consensus	42.5	62.2
Mean Consensus TP (12M)	Rs 2,153	

Stock Details

Bloomberg Code	DALBHARA IN	
Face Value (Rs)	2	
Shares outstanding (mn)	187	
52 Week H/L	1,990 / 1,213	
M Cap (Rs bn/USD bn)	349 / 4.24	
Daily Avg Volume (nos.)	267,950	
Daily Avg Turnover (USD mn)	6.0	

Shareholding Pattern Dec '22

Promoters	55.9%
FIIIs	12.4%
DIIIs	8.1%
Public and Others	23.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	-	22	37
Rel. to Nifty	4	7	22	38

Relative price trend



Source: Bloomberg

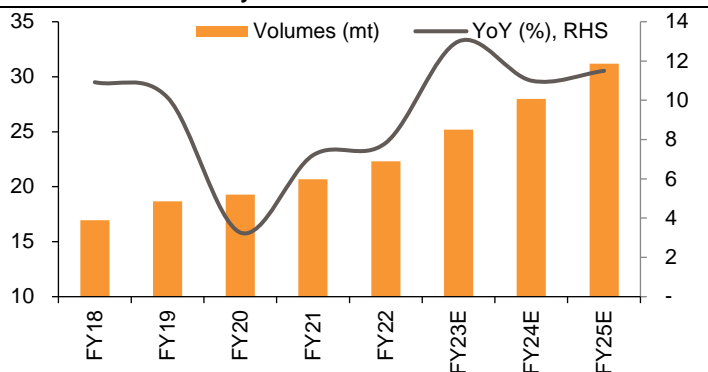
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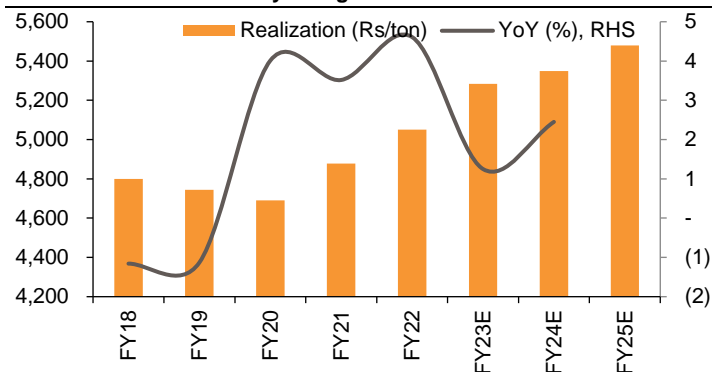
Story in Charts

Exhibit 1: Volumes likely to clock 11% CAGR over FY23E-25E



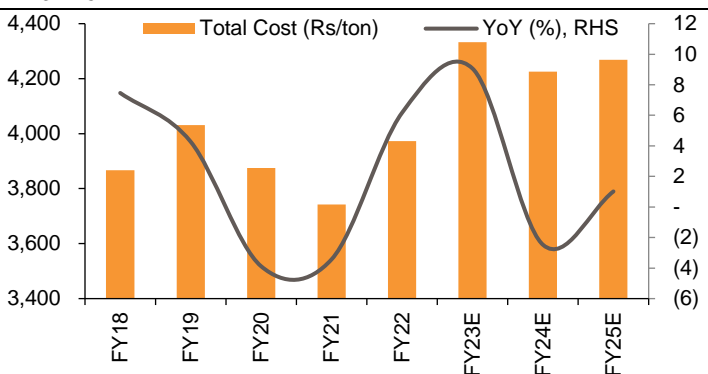
Source: Company, Emkay Research

Exhibit 2: Realization likely to register 2% CAGR over FY23E-25E



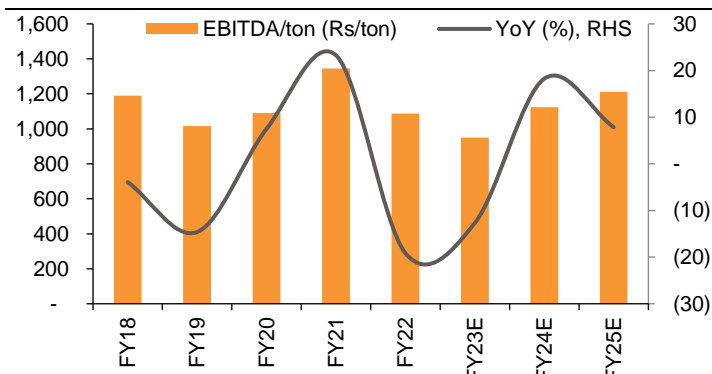
Source: Company, Emkay Research

Exhibit 3: Total cost/ton estimated to de-grow, at 1% CAGR over FY23E-25E



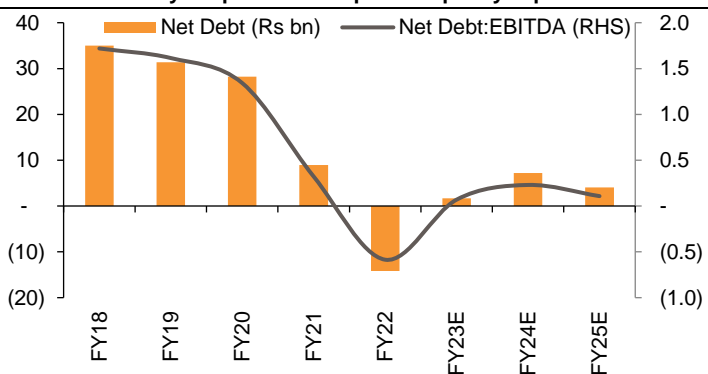
Source: Company, Emkay Research

Exhibit 4: EBITDA/ton to log 13% CAGR over FY23E-25E



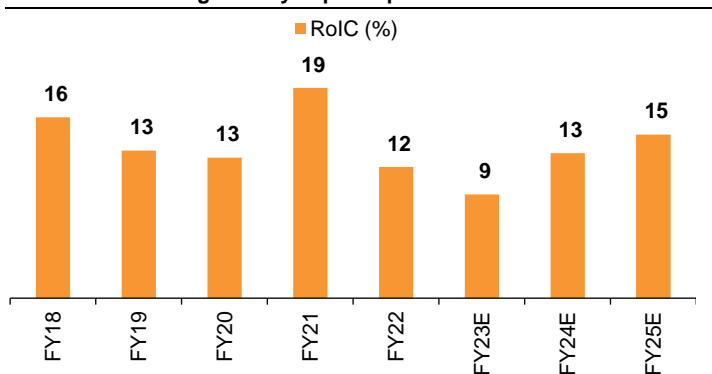
Source: Company, Emkay Research

Exhibit 5: Healthy BS provides scope for capacity expansion



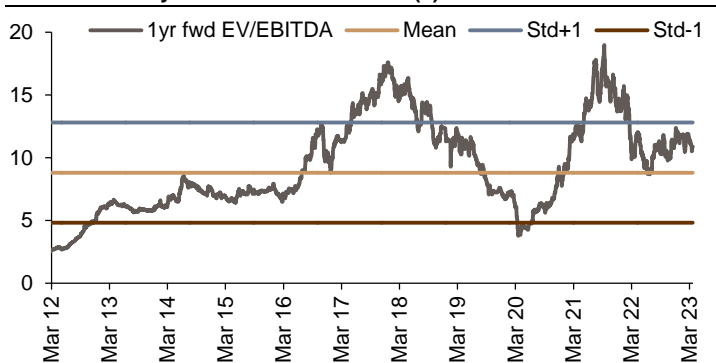
Source: Company, Emkay Research

Exhibit 6: ROIC to gradually improve post FY23E



Source: Company, Emkay Research

Exhibit 7: One-year forward EV/EBITDA (x)



Source: Company, Emkay Research

Exhibit 8: We maintain HOLD on Dalmia, with TP of Rs1,750/sh, based on Mar-25E EV/EBITDA, backed by DCF analysis

EV/E method, backed by DCF analysis	(Rs bn)
Mar-25E EBITDA	38
Implied EV/E (x)	9
Enterprise Value	334
Net Debt (Mar-24E)	6
Equity value	328
No. of shares (mn)	187
Mar-24 Target Price (Rs/share)	1,750

Source: Company, Emkay Research

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Annual Analysis

Exhibit 9: Annual financial highlights

Key Assumptions	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR (%)	
									FY18-22	FY22-25E
Capacity (mt)	25	25	26.1	30.8	36.0	36	42	46	9.6	8.1
Volumes (mt)	17	19	19	21	22	25	28	31	7.1	11.8
Utilization (%)	68	75	74	67	62	70	67	69		
Blended Realization (Rs/ton)	5,056	5,047	4,967	5,088	5,061	5,283	5,349	5,480	0.0	2.7
EBITDA (Rs/ton)	1,189	1,016	1,092	1,346	1,088	950	1,123	1,211	(2.2)	3.6
P&L (Rs bn)										
Revenue	86	95	96	105	113	133	150	171	7.1	14.8
EBITDA	20	19	21	28	24	24	31	38	4.5	15.9
Adj. Net Profit	3	3	2	9	8	7	12	16	27.1	29.3
Balance Sheet (Rs bn.)										
Equity	103	106	106	126	157	159	169	183		
Net debt	35	31	28	9	(14)	2	7	4		
Cash Flow (Rs bn)										
OCF before WC change	13	15	16	27	24	20	26	31		
Change in WC	(5)	(2)	3	8	(5)	(2)	(1)	0		
Capex	(4)	(9)	(14)	(13)	(18)	(28)	(29)	(26)		
FCF	5	5	6	21	1	(10)	(4)	6		
Return ratios (%) – Post tax										
RoE	2.9	2.9	2.1	7.5	5.4	4.7	7.4	9.4		
RoCE	4.3	4.7	2.9	5.8	4.6	4.3	6.2	7.7		
RoIC	16.4	13.4	12.8	19.1	11.9	9.4	13.2	14.9		
Valuations (x)										
P/E						47.1	28.7	21.2		
EV/EBITDA						14.6	11.3	9.3		
EV/ton						134	117	107		

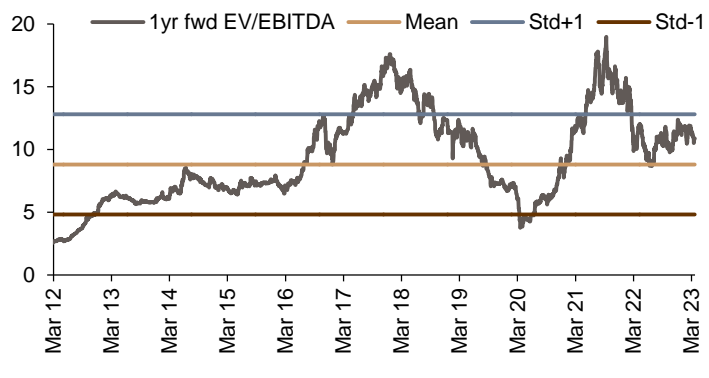
Source: Company, Emkay Research

Exhibit 10: Annual analysis on a per-ton basis

(Rs/ton)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Blended realization	5,056	5,047	4,967	5,088	5,061	5,283	5,349	5,480
% YoY	4.6	(0.2)	(1.6)	2.4	(0.5)	4.4	1.2	2.5
Raw materials consumed	897	956	857	861	660	672	682	692
Power & fuel costs	828	940	901	809	1,152	1,495	1,389	1,421
Freight costs	952	979	982	1,009	1,056	1,089	1,097	1,118
Staff cost	359	347	350	345	334	308	294	279
Other expenses	830	810	785	719	771	769	764	759
Operating Cost	3,866	4,032	3,875	3,742	3,973	4,333	4,226	4,269
% YoY	7.5	4.3	(3.9)	(3.4)	6.2	9.1	(2.5)	1.0
Blended EBITDA	1,189	1,016	1,092	1,346	1,088	950	1,123	1,211
% YoY	(3.9)	(14.6)	7.5	23.3	(19.2)	(12.7)	18.2	7.8

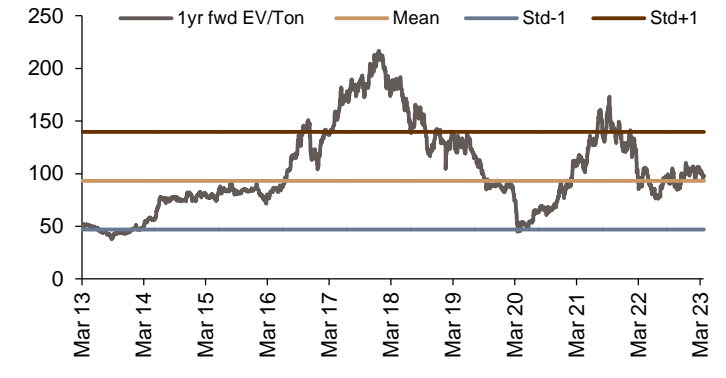
Source: Company, Emkay Research

Exhibit 11: 1-year forward EV/EBITDA (x)



Source: Bloomberg, Emkay Research

Exhibit 12: 1-year EV/ton (USD)



Source: Bloomberg, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	105,220	112,860	133,127	149,618	170,912
Expenditure	77,390	88,600	109,192	118,202	133,133
EBITDA	27,830	24,260	23,935	31,417	37,779
Depreciation	12,620	12,360	12,947	13,355	14,071
EBIT	15,210	11,900	10,989	18,062	23,708
Other Income	1,820	1,550	1,321	1,361	1,429
Interest expenses	2,950	1,970	2,374	2,774	2,672
PBT	14,080	11,480	9,936	16,648	22,465
Tax	5,320	3,610	2,237	4,212	5,684
Extraordinary Items	3,670	3,570	0	0	0
Minority Int./Income from Assoc.	(120)	(240)	(291)	(272)	(299)
Reported Net Income	12,310	11,200	7,409	12,164	16,482
Adjusted PAT	8,640	7,630	7,409	12,164	16,482

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	374	374	374	374	374
Reserves & surplus	125,886	156,496	158,141	168,480	182,490
Net worth	126,260	156,870	158,515	168,854	182,864
Minority Interest	370	720	720	720	720
Loan Funds	45,390	31,400	44,400	44,400	39,400
Net deferred tax liability	16,340	20,340	19,596	19,596	19,596
Total Liabilities	188,360	209,330	223,231	233,570	242,579
Net block	139,620	141,740	142,794	150,939	169,098
Investment	34,140	57,040	52,388	47,388	47,388
Current Assets	34,960	39,570	39,645	41,788	43,229
Cash & bank balance	3,110	1,600	3,379	2,823	974
Other Current Assets	4,080	4,940	4,940	4,940	4,940
Current liabilities & Provision	29,740	39,380	35,956	38,404	42,494
Net current assets	5,220	190	3,690	3,384	734
Misc. exp	0	0	0	0	0
Total Assets	188,360	209,330	223,231	233,570	242,579

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	14,080	13,260	8,324	15,015	20,737
Other Non-Cash items	(1,880)	350	(744)	0	0
Chg in working cap	7,520	(5,150)	(1,721)	(250)	800
Operating Cashflow	35,960	21,070	18,943	26,683	32,596
Capital expenditure	(13,400)	(17,560)	(28,000)	(29,000)	(25,730)
Free Cash Flow	22,560	3,510	(9,057)	(2,317)	6,866
Investments	6,470	6,330	4,653	5,000	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(5,700)	(10,480)	(22,027)	(22,639)	(24,301)
Equity Capital Raised	(4,000)	50	(4,653)	0	0
Loans Taken / (Repaid)	(22,310)	(5,800)	13,000	0	(5,000)
Dividend paid (incl tax)	0	(1,000)	(1,111)	(1,825)	(2,472)
Other Financing Cash Flow	(460)	(2,680)	0	0	0
Financing Cashflow	(31,180)	(12,100)	4,863	(4,599)	(10,144)
Net chg in cash	(920)	(1,510)	1,779	(556)	(1,850)
Opening cash position	4,030	3,110	1,600	3,379	2,823
Closing cash position	3,110	1,600	3,379	2,823	974

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	26.4	21.5	18.0	21.0	22.1
EBIT Margin	14.5	10.5	8.3	12.1	13.9
Effective Tax Rate	37.8	31.4	22.5	25.3	25.3
Net Margin	8.3	7.0	5.8	8.3	9.8
ROCE	9.3	6.8	5.7	8.5	10.6
ROE	7.5	5.4	4.7	7.4	9.4
RoIC	7.0	5.8	6.0	9.2	11.1

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	46.2	40.8	39.6	65.0	88.1
CEPS	113.6	106.8	108.8	136.4	163.3
BVPS	674.8	838.3	847.1	902.4	977.3
DPS	1.3	9.0	5.9	9.8	13.2

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	40.4	45.7	47.1	28.7	21.2
P/CEPS	16.8	17.9	17.5	14.0	11.7
P/BV	2.8	2.2	2.2	2.1	1.9
EV / Sales	3.4	3.0	2.6	2.4	2.1
EV / EBITDA	12.9	13.8	14.6	11.3	9.3
Dividend Yield (%)	0.1	0.5	0.3	0.5	0.7

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.1	(0.1)	0.0	0.0	0.0
Net Debt/EBIDTA	0.3	(0.6)	0.1	0.2	0.1
Working Cap Cycle (days)	7.3	(4.6)	0.9	1.4	(0.5)

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	9.8	7.3	18.0	12.4	14.2
EBITDA	32.1	(12.8)	(1.3)	31.3	20.3
EBIT	163.1	(21.8)	(7.7)	64.4	31.3
PAT	449.6	(9.0)	(33.9)	64.2	35.5

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	27,340	33,800	33,020	29,710	33,550
EBITDA	4,090	6,830	5,860	3,790	6,440
EBITDA Margin (%)	15.0	20.2	17.7	12.8	19.2
PAT	520	2,010	1,960	550	2,000
EPS (Rs)	2.8	10.7	10.5	2.9	10.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	56.0	55.9	55.9	55.9	55.9
FII	13.5	12.6	12.6	12.3	12.4
DII	6.5	7.1	7.3	8.2	8.1
Public and Others	24.1	24.4	24.3	23.6	23.6

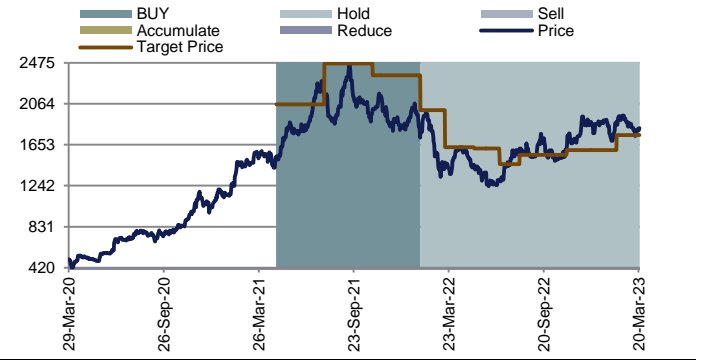
Source: Capitaline

RECOMMENDATION HISTORY - Details

Date	CMP (Rs/sh)	TP (Rs/sh)	Period	Rating	Analyst
2-Mar-23	1,846	1,750	12m	Hold	Dharmesh Shah
6-Feb-23	1,885	1,750	12m	Hold	Dharmesh Shah
5-Feb-23	1,868	1,600	12m	Hold	Dharmesh Shah
29-Dec-22	1,855	1,600	12m	Hold	Dharmesh Shah
12-Dec-22	1,906	1,600	12m	Hold	Dharmesh Shah
5-Dec-22	1,886	1,600	12m	Hold	Dharmesh Shah
5-Nov-22	1,743	1,600	12m	Hold	Dharmesh Shah
3-Nov-22	1,654	1,600	12m	Hold	Dharmesh Shah
4-Oct-22	1,596	1,550	12m	Hold	Dharmesh Shah
4-Sep-22	1,535	1,550	12m	Hold	Dharmesh Shah
5-Aug-22	1,616	1,550	12m	Hold	Dharmesh Shah
4-Jul-22	1,318	1,460	12m	Hold	Dharmesh Shah
28-Jun-22	1,302	1,460	12m	Hold	Dharmesh Shah
10-May-22	1,422	1,615	12m	Hold	Dharmesh Shah
16-Mar-22	1,474	1,630	12m	Hold	Dharmesh Shah
28-Jan-22	1,785	2,000	12m	Hold	Dharmesh Shah
31-Dec-21	1,848	2,350	12m	Buy	Dharmesh Shah
2-Dec-21	1,848	2,350	12m	Buy	Dharmesh Shah
29-Oct-21	2,012	2,350	12m	Buy	Dharmesh Shah
5-Sep-21	2,229	2,470	12m	Buy	Dharmesh Shah
29-Jul-21	2,135	2,470	12m	Buy	Dharmesh Shah
6-Jun-21	1,791	2,060	12m	Buy	Dharmesh Shah
1-May-21	1,506	2,060	12m	Buy	Dharmesh Shah
28-Apr-21	1,510	2,060	12m	Buy	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY - Trend



Source: Bloomberg, Company, Emkay Research

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