Stock Update

Company Update

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 Mar 08, 2023

High Risk

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

Source: Morningstar

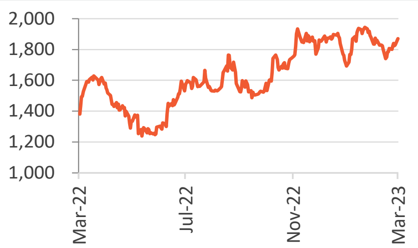
Company details

Market cap:	Rs. 35,063 cr
52-week high/low:	Rs. 1,989/1,213
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	1.9	0.8	22.7	35.4
Relative to Sensex	4.1	6.2	20.8	35.3

Sharekhan Research, Bloomberg

Dalmia Bharat Ltd

Adhering to non-core divestments

Cement	Sharekhan code: DALMIABHA
Reco/View: Buy ↔	CMP: **Rs. 1,870** / Price Target: **Rs. 2,250** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain our Buy rating on Dalmia Bharat with an unchanged PT of Rs. 2,250, considering its strong growth potential led by capacity additions.
- The company announced divestment of its refractory business to promoter group entity for Rs. 800 crore, valuing at ~24x EV/EBITDA. Post-tax profit of Rs. 348 crore from the transaction to be accounted in FY2023.
- Proceeds from the sale of the refractory business, redemption of NCDs in Hippo Stores, and expected divestment of the balance 15% stake in IEX to aid in financing its growth plans.
- The company remains committed to achieving 75 MT and 110-130 MT cement capacities by FY2027 and 2031, while it would reach 54 MT cement capacity by FY2024, exceeding 49 MT target. Net Debt to EBITDA to remain below 2x.

Dalmia Bharat Limited (Dalmia) during its conference call on the refractory business sale highlighted its continued focus on non-core asset divestments, capacity expansion plans, and long-term outlook on cement demand. The company announced the sale of its entire 42.36% stake in Dalmia Bharat Refractories to a promoter group company for Rs. 800 crore (valued at ~24x EV/EBITDA). Proceeds from sale of the refractory business, redemption of NCDs in Hippo Stores, and expected divestment of the balance 15% stake in IEX would aid in financing its growth plans going ahead. The company re-iterated its capacity target of 75mtpa and 110-130mtpa by FY2027 and 2031, while it would reach 54mtpa by FY2024, exceeding the earlier target of 49mtpa due to the acquisition of JP Assets. The company remains optimistic on cement demand over the decade, led by infrastructure and housing demand. We believe the current divestment of the refractory business re-affirms its non-core asset divestment plans, reassuring its focus on becoming a pan-India cement player with a significant presence in every region along with maintaining balance sheet strength.

- **Refractory business monetisation:** The company has entered into a binding agreement to sell its entire 42.36% stake in Dalmia Bharat Refractories for Rs. 800 crore to Sarvapriya Healthcare Solutions, a promoter group company. Its Indian refractory business is valued at Rs. 1,876 crore by the independent valuation firm, assigning ~24x EV/EBITDA. It would be receiving Rs. 160 crore (20% payment) during April 2023 and balance Rs. 320 crore each (40% payment each) through the redemption of NCDs (coupon rate of 8.5% p.a. payable quarterly) on or before December 2023 and September 2024.
- **Sticking to non-core divestments:** The company has remained on track to achieve divestments of non-core assets. During FY2022, it had divested a 5.2% stake in IEX for Rs. 614 crore, while it sold Hippo stores for Rs. 155 crore on slump sale basis. Apart from the recent divestment of the refractory business, it would be gradually divesting its balance 15% stake in IEX. Fund receipts from the refractory sale along with redemption of Rs. 120 crores NCDs in Hippo stores would help financing its growth plans and is in-line with its capital allocation strategy.
- **Capacity expansion plans remain intact:** The company re-iterated its expansion plans to reach 75mtpa cement capacity by FY2027 and 110-130mtpa by 2031. The recent acquisition of JP Assets would help it reach 54mtpa cement capacity by FY2024, exceeding its earlier target of 49mtpa by FY2024. The company remains optimistic on cement demand over a decade, driven by infrastructure and housing. The company remains mindful of achieving strong balance sheet with net debt to EBITDA target of less than 2x during its growth journey.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 2,250: Dalmia continues to remain focused on its growth plans and adhering to its commitment of divestment of non-core assets balancing growth while maintaining its balance sheet health. The company remains committed on growing its capacity at a 14-15% CAGR over the decade to reach 110-130mtpa capacity by 2031 with a target net debt to EBITDA below 2x. The company remains focused on being a pan-India pure play cement company with a significant presence in every market, wherein it operates over the long term. Dalmia is currently trading at an EV/EBITDA of 12x/11x its FY2024E/FY2025E earnings, which we believe provides further room for upside, considering a 17% CAGR in net earnings over FY2023E-FY2025E. Hence, we retain our Buy rating 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, Northeast, and South of India can affect financial performance
- 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	13,369	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)	37.1	51.5	42.5	39.3
P/B (x)	2.2	2.1	2.0	1.9
EV/EBITDA (x)	13.1	14.1	11.6	10.6
RoNW (%)	6.5%	4.2%	4.9%	5.1%
RoCE (%)	7.8%	4.5%	5.0%	5.1%

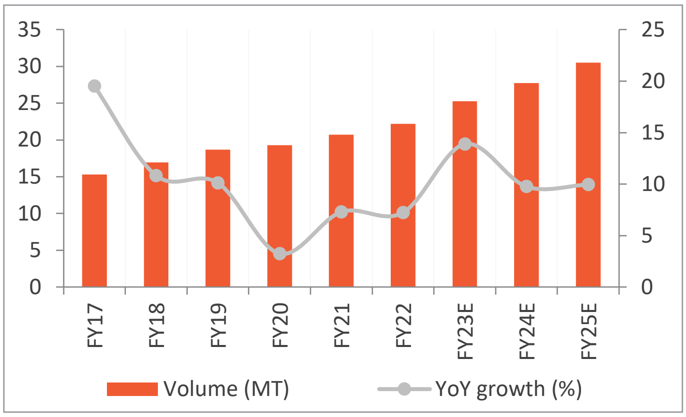
Source: Company; Sharekhan estimates

Key conference call takeaways:

- **Outlook:** The company remains bullish on India's growth story. Infrastructure and housing are expected to drive decadal cement demand growth. The company remains committed on its 75MT capacity target for FY2027 and 110-130MT capacity target by 2031, while it would be exceeding its 49MT capacity target by March 2024 with the acquisition of JP Assets leading to 54MT capacity by March 2024. The company's focus would be 1) to become a pan-India player, 2) have a significant presence in every market, and 3) strong balance sheet by keeping net debt to EBITDA below 2.
- **Refractory business divestment:** Dalmia Cement (Bharat) Limited (DCBL), a wholly owned subsidiary of the company, has entered into a binding agreement to sell its entire investment of 1.87 crore equity shares (42.36% stake) of Dalmia Bharat Refractories (DBRL), an associate company, at a consideration of Rs. 800 crore to Sarvapriya Healthcare Solutions, a promoter group company. The transaction will be consummated within 30 days i.e., on or before April 25, 2023. The consideration for the same shall be received by DCBL as follows: 1) 20% payment i.e., Rs. 160 crore on the date of consummation of transaction, 2) 40% payment i.e., Rs. 320 crore by way of NCDs redeemable on or before December 31, 2023, and 3) 40% payment i.e., Rs. 320 crore by way of NCDs redeemable on or before September 30, 2024.
- **Valuation:** The board appointed an analytics company to assess the fair value of DCL's stake and it has taken opinion from D&A Financial services (category 1 investment banker) on fairness of valuation arrived by the valuation firm. The valuer has valued the company at Rs. 1,876 crore, based on which a 42.36% stake is valued at Rs. 800 crore. The company is valued at ~24x EV/EBITDA.
- **Profit and tax booking:** The company would be generating Rs. 398 crore profit from the transaction (Rs. 800 crore sales value minus Rs. 402 crore book value as of December 2022). The long-term capital gains tax is estimated at Rs. 50 crore. The post tax profit will be booked in the current fiscal year, while actual cash inflows and tax outflows will happen in FY2024.
- **Indemnities:** DBRL would be providing Rs. 500 crore indemnities for 27 months for unforeseen/undisclosed liabilities. The business indemnities are for 27 months, tax indemnities for seven years, and fundamental indemnities for 11 years.
- **Cash inflows:** The company would be receiving Rs. 160 crore in April 2023, Rs. 440 crore (Rs. 320 crore NCD redemption from refractory sale plus Rs. 120 crore NCD redemption from Hippo stores sale) in December 2023, and Rs. 320 crore in September 2024 through NCD redemption from refractory sale. Further, it will be gradually divesting its stake in IEX. Cash inflows will help in financing its growth plans.
- **Non-core divestments:** The company had earlier reduced its stake in IEX to 15% from 20%, offloading 5.2% stake for Rs. 614 crore. The company also completed slump sale of Hippo stores for Rs. 155 crore. In FY2022, the company combined DCBL's refractory business received through Dalmia OCL to create Dalmia Bharat Refractories Limited (DBRL). In January 2023, the company had transferred the Indian refractory business to RHI Magnesita India (RHIM) for a consideration of 1) 2.7 crore shares (14.36% stake) of RHIM worth Rs. 1,708 crore and 2) lumpsum amount of Rs. 393.29 crore. The balance refractory business in Germany and China is in the process of divestment. DBRL also holds Rs. 125 crore worth of shares in DBL, small assets, and tax liabilities on transaction and other transaction costs and liabilities, which are factored in arriving at the value.

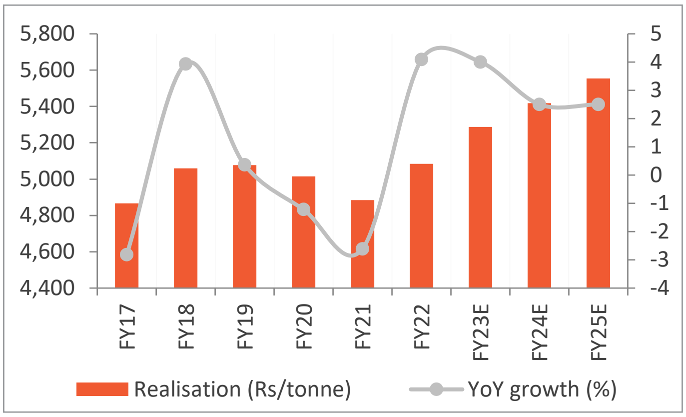
Financials in charts

Volume trend



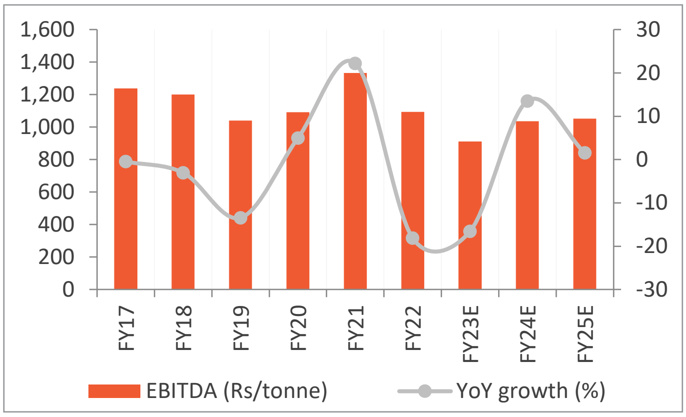
Source: Company, Sharekhan Research

Realisation trend



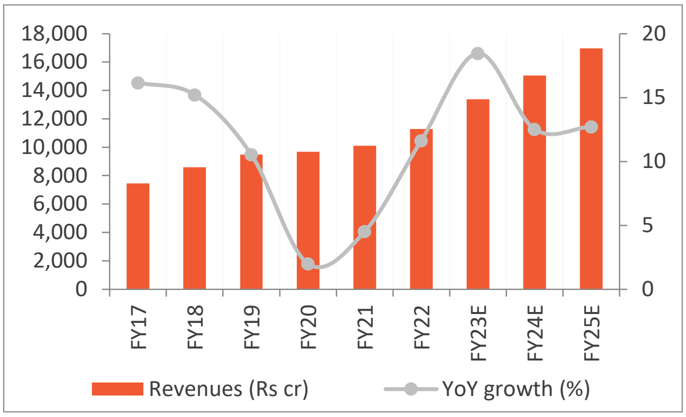
Source: Company, Sharekhan Research

EBITDA/tonne trend



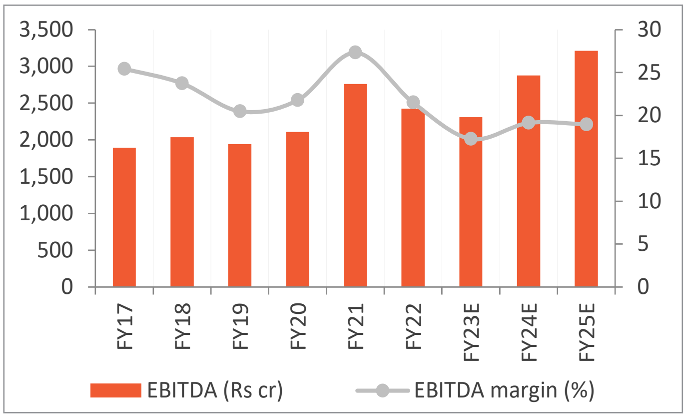
Source: Company, Sharekhan Research

Revenue trend



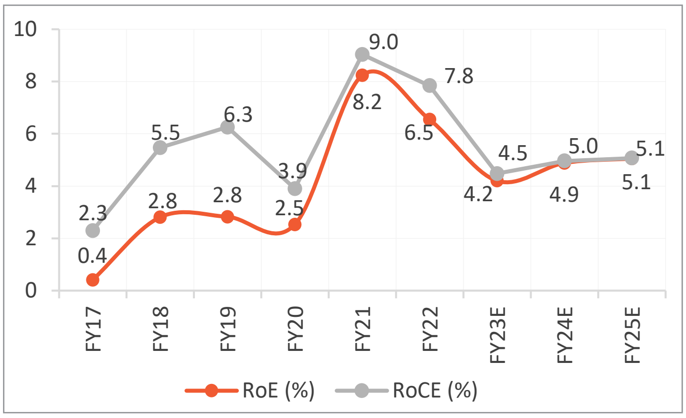
Source: Company, Sharekhan Research

Operating profit trend



Source: Company, Sharekhan Research

Return ratios trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens the 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 labourers 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.

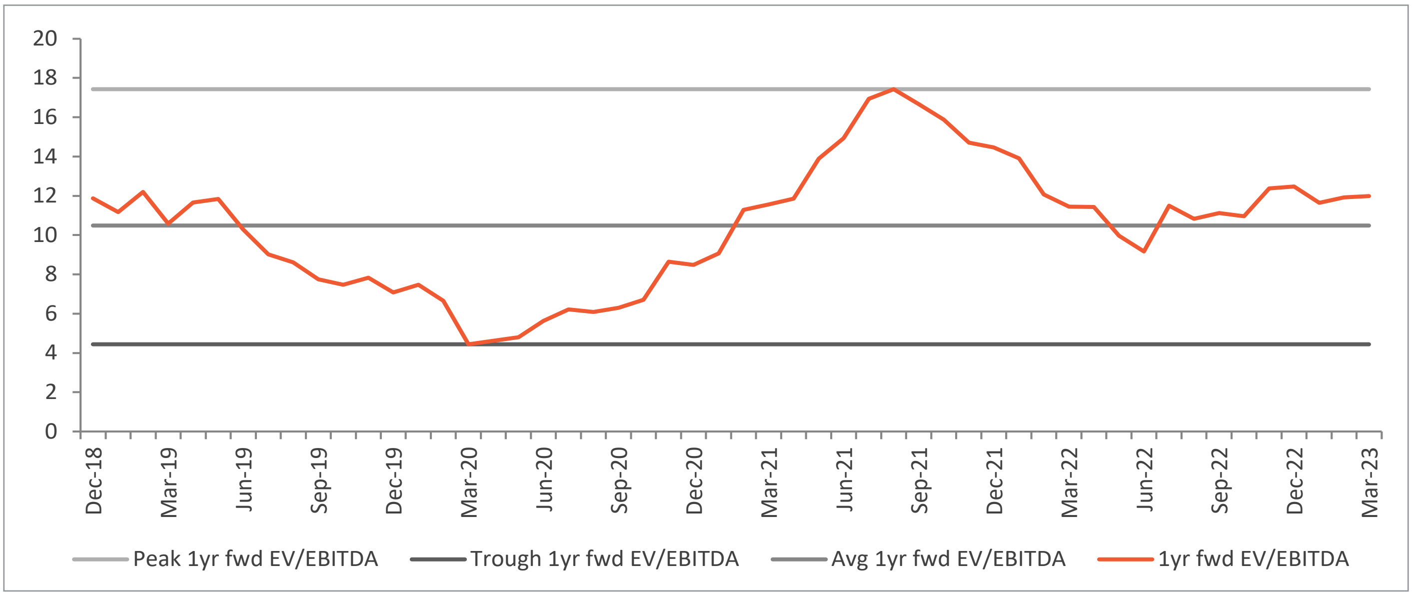
■ Company outlook - Aggressive expansion plans to help capture high-growth opportunities

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 a 14-15% CAGR to reach 110-130 million tonne 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 and innovation fund (10% of OCF). It targets to reach 48.5 million tonne of cement capacity (currently 35.9 million tonne) in the next three years, initially expanding in the Southern and Northeast regions.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 2,250

Dalmia continues to remain focused on its growth plans and adhering to its commitment of divestment of non-core assets balancing growth while maintaining its balance sheet health. The company remains committed on growing its capacity at a 14-15% CAGR over the decade to reach 110-130mtpa capacity by 2031 with a target net debt to EBITDA below 2x. The company remains focused on being a pan-India pure play cement company with a significant presence in every market, wherein it operates over the long term. Dalmia is currently trading at an EV/EBITDA of 12x/11x its FY2024E/FY2025E earnings, which we believe provides further room for upside, considering a 17% CAGR in net earnings over FY2023E-FY2025E. Hence, we retain our Buy rating with an unchanged 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

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech Cement	44.7	33.4	21.6	16.8	4.0	3.6	9.3	11.3
Dalmia Bharat	51.5	42.5	14.1	11.6	2.1	2.0	4.2	4.9
Shree Cement	75.5	58.2	28.6	22.3	5.1	4.8	6.9	8.4
The Ramco Cement	64.2	26.2	21.2	13.7	2.6	2.4	4.1	9.6

Source: Company; Sharekhan Research

About company

Dalmia started its journey in 1939 and has a legacy of eight decades. The company possesses India's fourth-largest installed cement manufacturing capacity of 37MT spread across 14 manufacturing plants in 10 states. The company's addressable market spans 22 states in East, Northeast, and Southern India. Dalmia comprises ~5% of the country's cement capacity. The company 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 the medium and long term. The company would increase its cement capacity to 40 MT by FY2023 and 48.5 MT by FY2024 from 35.9 MT currently. The company has outlined its capital allocation strategy over the next decade to increase capacity at a 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. The company 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, 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

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 Ltd.	1.71
6	DHARTI COMMERCIAL TRADING PVT. LTD.	1.68
7	INVESTOR EDUCATION & PROTECTION FD	1.64
8	Franklin Resources Inc.	1.64
9	D S TRUST	1.54
10	J. H. DALMIA TRUST	1.38

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

Sharekhan

by BNP PARIBAS

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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com;

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