

Dalmia Bharat

Strong growth story

We hosted Dalmia Bharat management for non-deal roadshows in Mumbai. The management remained upbeat on the cement demand outlook. It expects to outpace industry growth, driven by its fast expansions (organic and inorganic). It also noted that while the energy cost is coming down, the industry leaders would partially pass on benefits to gain market share. Dalmia will focus on expanding its footprint in the central region as it ramps up production from the recently-acquired JP assets and later through capacity expansion in the region. It remains committed to producing 100% blended cement by 2026. Its upcoming WHRS/solar capacities will enhance green power consumption to ~30% in FY25E. We maintain our BUY rating on the company, with an unchanged target price of INR 2,350/sh (13x its FY25E consolidated EBITDA). The stock is currently trading at 12x FY25E EBITDA and the replacement cost is ~USD 100/MT. Dalmia remains one of our top picks in the cement sector.

- **Upbeat on demand; costs to come down:** The management expects cement demand in India to grow at ~9% YoY in FY24 (even on the high base of FY23), led by a solid offtake from the infrastructure segment. As the fuel price cool-off has accelerated in the past two months, management expects operating costs to continue to trend down throughout FY24. It expects the industry to pass on some of the cost tailwinds, leading to FY24 NSR correcting by 1-2% YoY. The ongoing expansions by major companies in India will continue to drive industry consolidation over the next 4-5 years.
- **Dalmia's growth plans:** Dalmia is focused on becoming a pan-India player. The recent acquisition of JP Associates' (JPA) plants in the central region is a step towards the same. Dalmia also expects to operate its Maharashtra plants (Murli) at >60% utilization in FY24E as the clinker unit operations have stabilized. The Dalla Super plant is currently under arbitration between JPA and UltraTech. If Dalmia is not able to acquire this unit, it will look to expand the capacity of the other JPA plant in MP. Dalmia would also look to add some capacities in the south over the next 2-3 years. While Dalmia has won limestone mines in Rajasthan, its foray into that market will be back-ended.
- **Focus on greener products and energy:** Dalmia is keen to ramp up blended cement production to 100% by 2026. In FY23, it stood at 84%, impacted by sub-70% blended cement in the south (vs ~100% in the east). In the west and the central region, Dalmia is predominantly focusing on blended cement sales from the start itself. The ongoing WHRS/solar power additions are expected to boost green power consumption share to 30% in FY25E. It already achieved an industry-leading 17% TSR in FY23 and is targeting 100% by 2035.
- **Outlook:** We remain positive about Dalmia's growth prospects. Strong demand tailwinds and ongoing expansions (organic and inorganic) should support its 18% volume CAGR during FY23-25E, in our view. Falling energy costs and rising usage of low-cost green energy should further drive EBITDA margin recovery to INR 1,050/MT in FY25E. Dalmia has recently monetized its non-core assets—Hippo retail and refractory businesses. It is also planning to sell off its IEX investments (~INR 17bn value at CMP). These will both increase focus on the core business of cement and also keep leverage under check as Dalmia has ambitious plans to double capacity to 75mn MT during FY23-27E and reach 110-130mn MT by FY31E. We have maintained our FY24/25E EBITDA estimates and BUY rating.

BUY

CMP (as on 3 July 2023)	INR 2,200
Target Price	INR 2,350
NIFTY	19,323

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,350	INR 2,350
EBITDA revision %	FY24E 0.0	FY25E 0.1

KEY STOCK DATA

Bloomberg code	DALBHARA IN
No. of Shares (mn)	187
MCap (INR bn) / (\$ mn)	412/5,044
6m avg traded value (INR mn)	576
52 Week high / low	INR 2,289/1,292

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.5	17.5	65.8
Relative (%)	1.2	11.2	42.6

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	55.86	55.86
FIs & Local MFs	8.14	8.55
FPIs	12.43	12.87
Public & Others	23.57	22.72
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

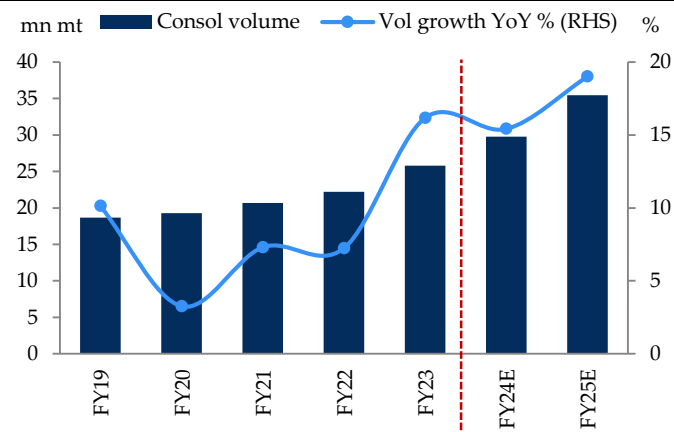
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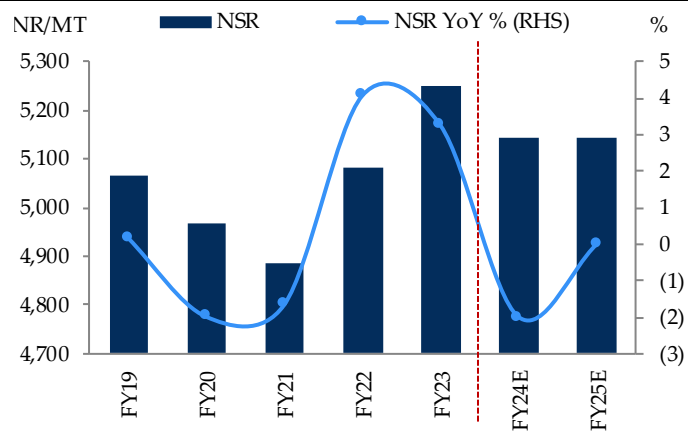
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Consolidated volume is expected to clock 18% CAGR during FY23-25E



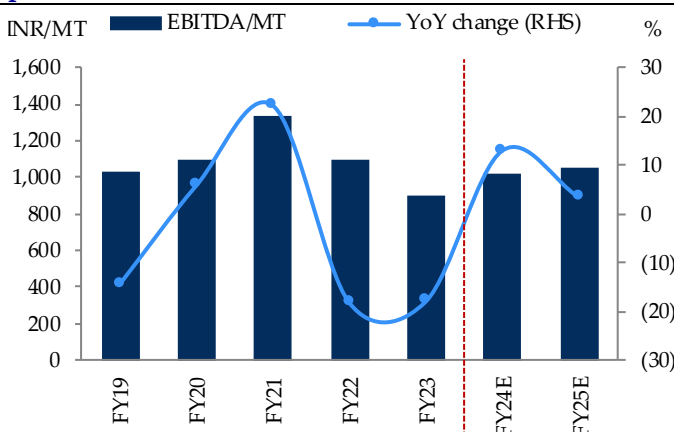
Source: Company, HSIE Research

We estimate NSR to decline in FY24 (lower fuel prices partially passed on)



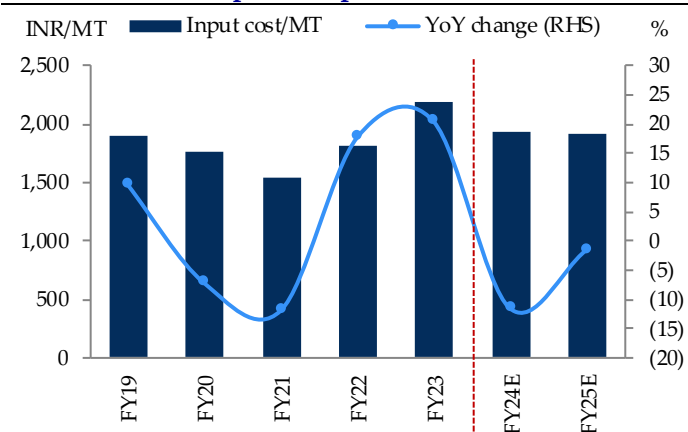
Source: Company, HSIE Research

Margin to rebound in FY24 (sharp correction in fuel prices from elevated levels) and further increase in FY25



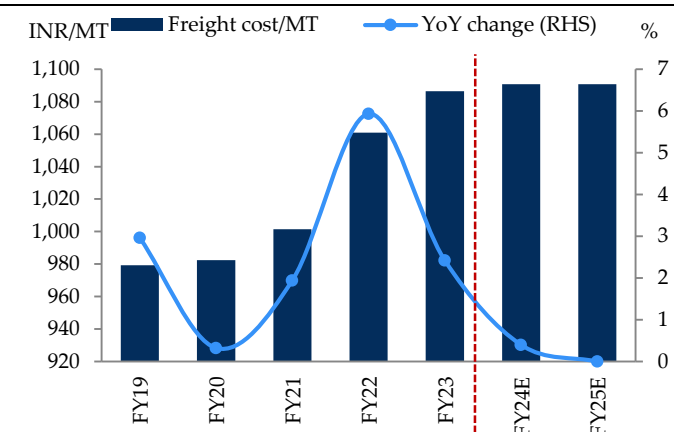
Source: Company, HSIE Research

Input cost to cool by >INR 250 per MT owing to sharp correction in coal/pet coke prices in FY24



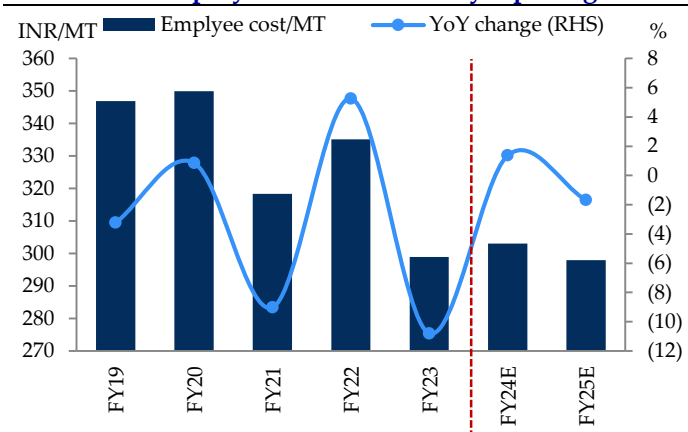
Source: Company, HSIE Research

Freight cost should broadly remain flattish during FY23-25E



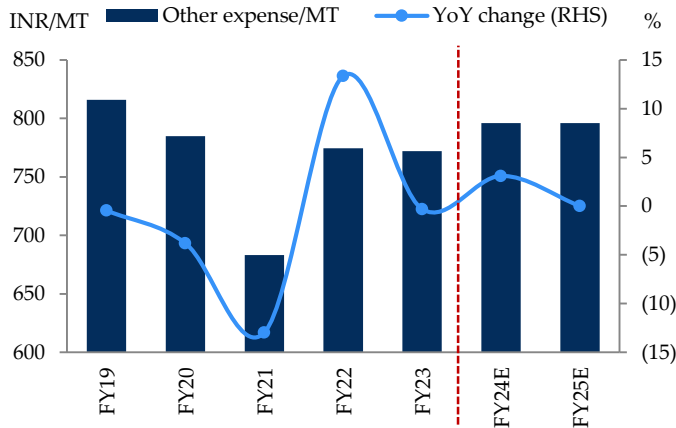
Source: Company, HSIE Research

Unitary employee cost too will be flattish; absolute increase in employee cost absorbed by Op-lev gain



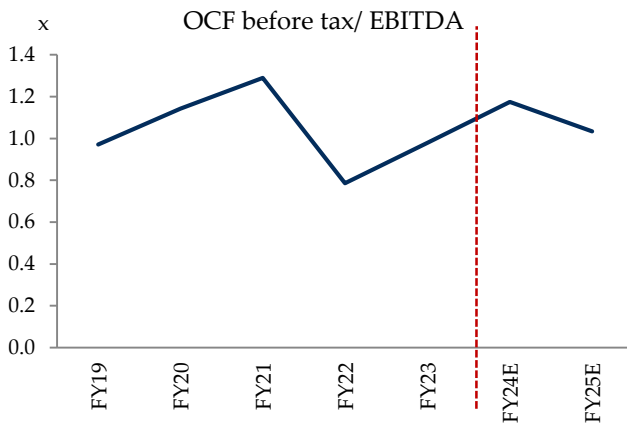
Source: Company, HSIE Research

Other expenses should rise marginally 1-2% CAGR during FY23-25E (ramp up of new plants)



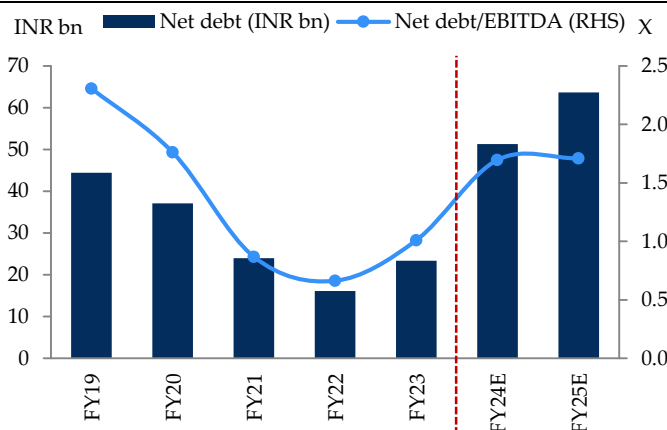
Source: Company, HSIE Research

OCF before tax/ EBITDA continues to be healthy (last five year average is 1.05x)



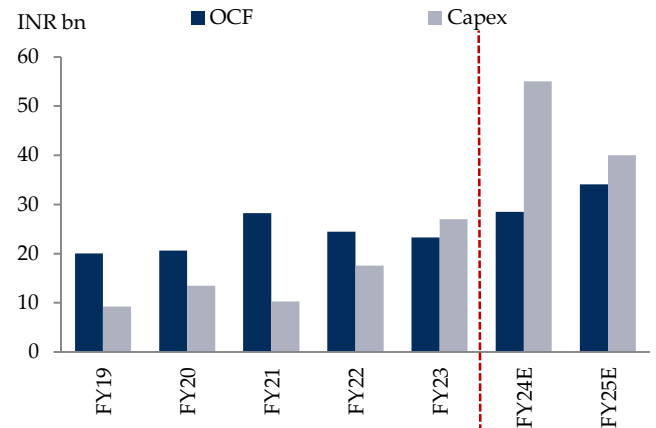
Source: Company, HSIE Research

Due to aggressive Capex plan, we estimate debt to rise; but still at comfortable levels



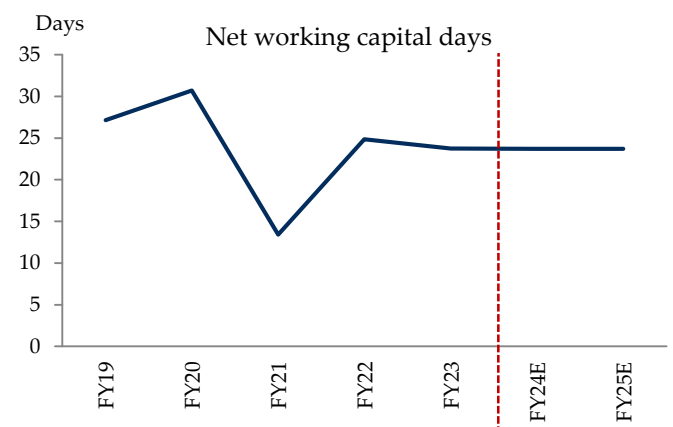
Source: Company, HSIE Research

Internal accruals to fund majority of the ongoing expansion



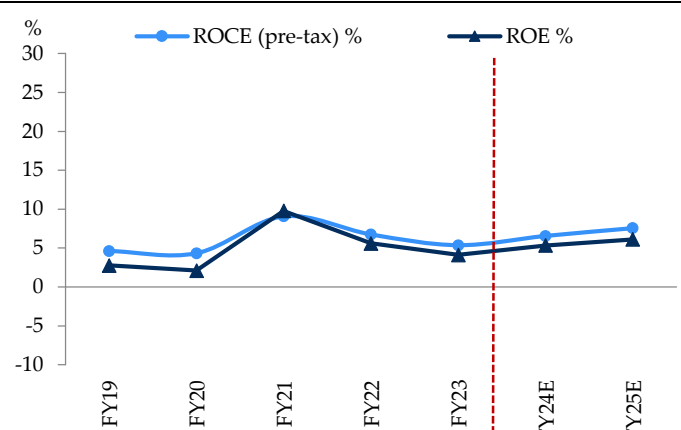
Source: Company, HSIE Research

Don't foresee any major change in working capital days



Source: Company, HSIE Research

Return ratios to rebound from FY23 lows. We expect it to increase in FY24 and FY25 too.



Source: Company, HSIE Research

Key operational assumptions

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Cement Cap (mn MT)	26.5	27.4	30.7	35.9	38.6	50.8	55.0
Sales Volume (mn MT)	18.7	19.3	20.7	22.2	25.8	29.8	35.4
YoY change (%)	10.1	3.3	7.3	7.2	16.2	15.4	19.0
Utilisation (%)	70.6	70.5	67.4	61.9	66.8	58.6	64.4
(Rs/ MT trend)	4,707						
NSR (1)	5,068	4,967	4,884	5,084	5,250	5,145	5,145
YoY change (%)	0.2	(2.0)	(1.7)	4.1	3.3	(2.0)	-
Raw Materials (2)	956	857	745	663	768	713	683
Power & Fuel (3)	940	901	801	1,158	1,427	1,227	1,227
Freight costs (4)	979	982	1,001	1,061	1,086	1,091	1,091
Employee cost (5)	347	350	318	335	299	303	298
Other expense (6)	816	785	683	774	772	796	796
Total Opex (7)= sum(2 thru 6)	4,038	3,876	3,550	3,991	4,352	4,130	4,094
YoY change (%)	1,030	1,091	1,334	1,093	898	1,015	1,051
EBITDA per MT (1-7)	(14.2)	5.9	22.3	(18.1)	(17.8)	13.1	3.5
YoY change (%)	26.5	27.4	30.7	35.9	38.6	50.8	55.0

Source: Company, HSIE Research

Peer set valuations and TP revisions

Rating and target price revision summary

Company	Mcap (INR bn)	CMP (INR/sh)	Rating	TP	Valuation multiple^	EV/EBITDA (x)			EV/MT (INR bn)		
						FY23	FY24E	FY25E	FY23	FY24E	FY25E
UltraTech	2,443.1	8,464	BUY	9,305	16.5	18.3	17.0	15.1	14.5	17.7	16.2
Shree Cem	870.3	24,121	REDUCE	22,600	16.5	25.9	20.9	18.8	15.8	14.8	14.1
Ambuja Cem	865.4	436	ADD	395	14.0	20.0	19.9	18.5	20.5	21.8	21.5
ACC	342.7	1,825	BUY	2,110	11.0	20.2	11.6	9.7	10.8	8.3	8.4
Dalmia Bharat	416.0	2,203	BUY	2,350	13.0	14.3	15.2	12.7	8.6	9.1	8.6
Nuvoco Vistas	110.7	351	BUY	475	10.0	14.2	9.8	8.1	7.2	6.7	6.2
Ramco Cem	221.9	941	ADD	830	12.0	17.9	16.6	14.4	9.6	11.9	10.4
JK Cement	258.8	3,349	REDUCE	2,755	11.0	18.4	16.1	13.2	9.5	11.8	10.1
Birla Corp	95.3	1,237	BUY	1,310	8.5	14.5	10.3	8.5	5.5	6.5	6.5
Heidelberg	39.1	172	REDUCE	160	7.0	15.9	9.1	8.1	6.3	5.3	5.4
Star Cem	59.0	143	ADD	130	8.0	7.6	11.1	8.7	6.3	8.1	6.6
JK Lakshmi	83.2	707	BUY	815	8.0	9.4	8.8	7.2	5.7	6.6	5.6
Orient Cem	26.6	130	BUY	155	7.0	7.9	7.1	7.5	3.4	4.0	4.7
Sagar Cem	24.9	212	ADD	220	7.5	25.8	10.8	7.4	4.8	3.9	3.5
Deccan Cem	7.1	506	ADD	450	6.0	7.8	6.6	6.6	3.4	4.2	2.8

Source: Company, HSIE Research, ^ Target multiples are EV/EBITDA based on Mar-25E. CMP as on date July 3, 2023.

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Revenues	1,01,100	1,12,860	1,35,400	1,53,150	1,82,248
<i>Growth %</i>	<i>5.5</i>	<i>11.6</i>	<i>20.0</i>	<i>13.1</i>	<i>19.0</i>
Raw Material	17,940	17,710	22,850	21,229	24,177
Power & Fuel	16,590	25,700	36,790	36,517	43,456
Freight Expense	18,220	20,560	24,980	32,469	38,638
Employee cost	6,590	7,440	7,710	9,021	10,554
Other Expenses	14,140	17,190	19,910	23,693	28,195
EBITDA	27,620	24,260	23,160	30,220	37,228
<i>EBITDA Margin (%)</i>	<i>27.3</i>	<i>21.5</i>	<i>17.1</i>	<i>19.7</i>	<i>20.4</i>
<i>EBITDA Growth %</i>	<i>31.2</i>	<i>(12.2)</i>	<i>(4.5)</i>	<i>30.5</i>	<i>23.2</i>
Depreciation	12,500	12,350	13,050	15,391	18,154
EBIT	15,120	11,910	10,110	14,829	19,075
Other Income (Including EO Items)	2,040	1,660	5,170	1,062	1,614
Interest	2,950	2,020	2,340	3,836	6,279
PBT	14,210	11,550	12,940	12,054	14,410
Tax	2,370	3,150	2,420	3,074	3,675
Minority Int	130	240	170	390	390
RPAT	11,710	8,160	10,350	8,590	10,346
EO (Loss) / Profit (Net Of Tax)	230	60	3,790	-	-
APAT	11,480	8,100	6,560	8,590	10,346
<i>APAT Growth (%)</i>	<i>414.8</i>	<i>(29.4)</i>	<i>(19.0)</i>	<i>31.0</i>	<i>20.4</i>
AEPS	60.8	43.8	35.5	46.4	55.9
<i>AEPS Growth %</i>	<i>431.6</i>	<i>(28.0)</i>	<i>(19.0)</i>	<i>31.0</i>	<i>20.4</i>

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY21	FY22	FY23	FY24E	FY25E
SOURCES OF FUNDS					
Share Capital	370	370	370	370	370
Reserves And Surplus	1,27,730	1,60,240	1,55,910	1,62,782	1,71,059
Total Equity	1,28,100	1,60,610	1,56,280	1,63,152	1,71,429
Minority Int	340	720	1,160	1,600	2,040
Long-term Debt	22,200	19,790	33,230	78,230	78,230
Short-term Debt	16,190	11,970	5,320	5,320	6,670
Total Debt	38,390	31,760	38,550	83,550	84,900
Deferred Tax Liability	16,590	15,640	16,100	16,340	16,340
Long-term Liab+ Provisions	3,700	3,430	4,060	4,296	4,556
TOTAL SOURCES OF FUNDS	1,87,120	2,12,160	2,16,150	2,68,938	2,79,265
APPLICATION OF FUNDS					
Net Block	1,26,140	1,32,020	1,40,530	1,82,139	1,95,985
Capital WIP	10,060	10,450	18,710	18,710	28,710
Goodwill	10,110	9,330	7,300	5,300	3,300
Other Non-current Assets	4,540	6,700	9,250	9,250	9,479
Total Non-current Investments	28,400	42,970	22,930	22,930	22,930
Total Non-current Assets	1,79,250	2,01,470	1,98,720	2,38,329	2,60,404
Inventories	7,600	9,450	13,160	14,549	17,314
Debtors	5,110	6,730	7,000	9,189	10,935
Cash and Cash Equivalents	14,410	15,680	15,170	32,289	21,274
Other Current Assets (& Loans/adv)	12,490	13,350	21,140	16,140	13,607
Total Current Assets	39,610	45,210	56,470	72,167	63,130
Creditors	8,990	8,500	11,350	13,783	16,402
Other Current Liabilities & Provns	22,750	26,020	27,690	27,774	27,866
Total Current Liabilities	31,740	34,520	39,040	41,557	44,269
Net Current Assets	7,870	10,690	17,430	30,610	18,861
TOTAL APPLICATION OF FUNDS	1,87,120	2,12,160	2,16,150	2,68,938	2,79,265

Source: Company, HSIE Research

Consolidated Cash Flow

YE Mar (INR mn)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	13,610	11,560	13,210	12,104	14,460
Non-operating & EO Items	(1,510)	(1,620)	(5,140)	(1,062)	(1,614)
Interest Expenses	3,190	1,930	2,310	4,884	6,738
Depreciation	12,500	12,360	13,050	15,391	18,154
Working Capital Change	7,810	(5,150)	(770)	4,175	765
Tax Paid	440	240	(140)	(2,834)	(3,675)
OPERATING CASH FLOW (a)	36,040	19,320	22,520	32,659	34,828
Capex	(10,270)	(17,560)	(27,010)	(55,000)	(40,000)
Free Cash Flow (FCF)	25,770	1,760	(4,490)	(22,341)	(5,172)
Investments	6,050	6,380	2,980	-	-
Non-operating Income	1,210	750	770	1,062	1,614
Others					
INVESTING CASH FLOW (b)	(3,010)	(10,430)	(23,260)	(53,938)	(38,386)
Debt Issuance/(Repaid)	(25,340)	(5,800)	6,670	45,000	1,350
Interest Expenses	(3,960)	(2,320)	(2,970)	(4,884)	(6,738)
FCFE	(3,530)	(6,360)	(790)	17,775	(10,560)
Share Capital Issuance	(4,000)	50	-	-	-
Dividend	-	(1,000)	(1,690)	(1,718)	(2,069)
FINANCING CASH FLOW (c)	(33,300)	(9,070)	2,010	38,398	(7,457)
NET CASH FLOW (a+b+c)	(270)	(180)	1,270	17,119	(11,015)

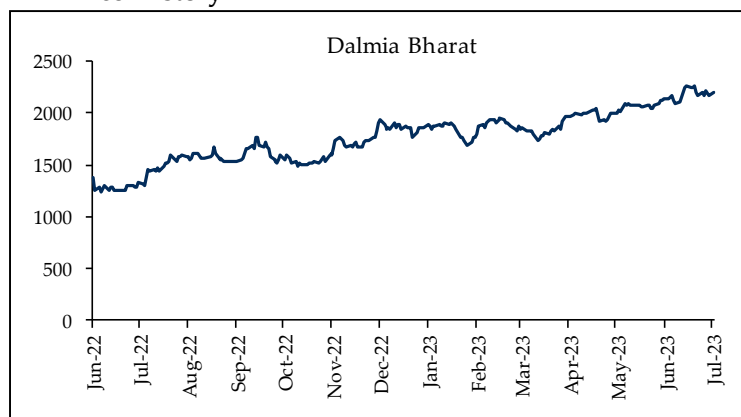
Source: Company, HSIE Research

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
PROFITABILITY %					
EBITDA Margin	27.3	21.5	17.1	19.7	20.4
EBIT Margin	15.0	10.6	7.5	9.7	10.5
APAT Margin	11.4	7.2	4.8	5.6	5.7
RoE	9.8	5.6	4.1	5.3	6.1
RoIC (pre tax)	9.8	6.8	5.5	7.4	8.5
RoCE (pre tax)	9.1	6.7	5.4	6.5	7.5
EFFICIENCY					
Tax Rate %	16.7	27.3	18.7	25.5	25.5
Fixed Asset Turnover (x)	0.6	0.6	0.6	0.6	0.6
Inventory (days)	27	31	35	35	35
Debtors (days)	18	22	19	22	22
Other Current Assets (days)	61	65	82	61	46
Payables (days)	32	27	31	33	33
Other Current Liab & Provns (days)	95	95	86	76	65
Cash Conversion Cycle (days)	(21)	(6)	20	8	5
Net Debt/EBITDA (x)	0.9	0.7	1.0	1.7	1.7
Net D/E	0.2	0.1	0.1	0.3	0.4
Interest Coverage	5.1	5.9	4.3	3.9	3.0
PER SHARE DATA (Rs)					
EPS	60.8	43.8	35.5	46.4	55.9
CEPS	127.0	110.5	106.0	129.6	154.1
Dividend	1.3	9.0	9.0	9.3	11.2
Book Value	680	872	851	891	938
VALUATION					
P/E (x)	35.5	50.3	62.1	47.4	39.4
P/Cash EPS (x)	16.8	19.9	17.4	17.0	14.3
P/BV (x)	3.2	2.5	2.6	2.5	2.4
EV/EBITDA (x)	15.5	17.3	18.3	14.9	12.3
EV/MT (Rs bn)	13.96	12.09	10.85	9.13	8.57
Dividend Yield (%)	0.1	0.4	0.4	0.4	0.5
OCF/EV (%)	8.4	4.6	5.3	7.2	7.6
FCFF/EV (%)	6.0	0.4	(1.1)	(5.0)	(1.1)
FCFE/M Cap (%)	(0.9)	(1.6)	(0.2)	4.4	(2.6)

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Keshav Lahoti, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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