

Dalmia Bharat

Estimate change

TP change

Rating change



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Bloomberg	DALBHARA IN
Equity Shares (m)	187
M.Cap.(INRb)/(USDb)	360.2 / 4.4
52-Week Range (INR)	2289 / 1478
1, 6, 12 Rel. Per (%)	-20/-5/6
12M Avg Val (INR M)	538

Financial Snapshot (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	135.4	147.8	166.0
EBITDA	23.2	28.2	34.4
Adj. PAT	6.9	8.1	11.3
EBITDA Margin (%)	17.1	19.1	20.7
Adj. EPS (INR)	36.5	43.3	60.4
EPS Gr. (%)	-16.5	18.6	39.5
BV/Sh. (INR)	833.6	863.9	911.3

Ratios

Net D:E	0.0	0.0	0.0
RoE (%)	4.3	5.1	6.8
RoCE (%)	4.2	5.4	6.8
Payout (%)	24.6	30.0	21.5

Valuations

P/E (x)	52.6	44.3	31.8
P/BV (x)	2.3	2.2	2.1
EV/EBITDA(x)	15.0	12.7	10.2
EV/ton (USD)	110	94	92
Div. Yield (%)	0.5	0.7	0.7
FCF Yield (%)	-1.2	0.6	0.9

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	55.9	55.9	55.9
DII	8.9	8.7	7.3
FII	13.9	12.8	12.6
Others	21.4	22.6	24.2

FII Includes depository receipts

CMP: INR1,921

TP: INR2,400 (+25%)

Buy

Disappointing performance; higher opex drags EBITDA/t

External approvals delay progression of JPA deal; expected to close by end-FY24

- DALBHARA's 1QFY24 EBITDA came in at INR6.1b vs. estimated INR7.2b and EBITDA/t stood at INR875 vs. estimated INR1,001 due to higher opex. Adj. PAT (after MI) came in at INR1.3b vs. estimated INR2.3b.
- The acquisition deal for the cement assets of JP group is experiencing delays due to pending external approvals. However, the deal, with the exception of JP super Dalla clinker plant (currently under arbitration between UTCM and JP group), will likely be completed by the end of FY24 (earlier guidance of 1QFY24). The company has initiated a tolling arrangement with certain plants of JP Group located in central India.
- We cut our EBITDA estimate by 5% for FY24/FY25 (each), while PAT estimate is being reduced by 15%/11% for FY24/25, due to higher depreciation. We have yet not factored JP asset acquisition into our assumptions. We reiterate our BUY rating with a revised TP of INR2,400 (vs. INR2,550 earlier).

Sales volume was up 12% YoY; EBITDA/t down 7% YoY/8% QoQ

- Consolidated revenue/EBITDA/adj. PAT stood at INR36b/INR6.1b/INR1.3b (up 10%/up 4%/down 33% YoY, and 3%/15%/45% below our estimates) in 1QFY24. Sales volumes at 7mt grew 12% YoY (down 3% vs. our estimate). Realization at INR5,199/t declined 2% YoY/QoQ (down 1% vs. our estimate).
- Opex/t was down by a mere 1% YoY as decline in variable cost (down 5% YoY/4% QoQ) was offset by higher freight costs (up 6% YoY/4% QoQ due to levy of busy season surcharge by railways and some changes in inter-regional movement). Absolute employee expense was up 12% YoY/16% QoQ, due to annual increments and new capacities.
- OPM was down 90bp YoY to 16.8% and EBITDA/t declined 7% YoY/8% QoQ, due to higher opex and lower realization. Depreciation increased 28% YoY/19% QoQ due to INR570m impact of accelerated depreciation on a few components. There will be a further impact of INR540m in 2Q/3QFY24.

Highlights from the management commentary

- Fuel consumption cost stood at INR1.98/Kcal vs. INR2.06/Kcal in 4QFY23. Fuel cost/t is likely to decline USD20/t in 2Q and further USD5-10/t after that.
- The company lost market share in the East region as it tried to improve prices, which in turn adversely impacted its clinker conversion ratio (1.71x vs. 1.74x in 4QFY23). The lost market share in this market will be recouped in FY24.
- Capex stood at INR9.1b in 1QFY24. The total capex is estimated to be INR63b in FY24 (includes INR33-35b for JP cement assets acquisition). Gross debt stood at INR43.9b and exit-FY24 debt is estimated to be INR65-70b.

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View and valuations

- The stock trades at 12.7x/10.2x FY24E/FY25E EV/EBITDA. It has traded at an average EV/EBITDA of 10x/9.5x in the last 5/10 years. Capacity expansion without leveraging the balance sheet and divestment of non-core assets should help rerating in valuation multiples.
- We value DALBHARA at 13x FY25E EV/EBITDA to arrive at a revised TP of INR2,400 (INR2,550 earlier). We reiterate our BUY rating on the stock.

Quarterly Performance (Consolidated)

(INR b)

Y/E March	FY23				FY24				FY23	FY24E	FY24	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	33.0	29.7	33.6	39.1	36.2	33.0	35.3	43.2	135.4	147.8	37.5	-3
YoY Change (%)	27.4	15.1	22.7	15.7	9.8	11.1	5.3	10.5	20.0	9.2	13.6	
Total Expenditure	27.2	25.9	27.1	32.1	30.1	27.3	28.6	33.6	112.2	119.6	30.3	-1
EBITDA	5.9	3.8	6.4	7.1	6.1	5.7	6.8	9.7	23.2	28.2	7.2	-15
Margins (%)	17.7	12.8	19.2	18.1	16.8	17.2	19.2	22.4	17.1	19.1	19.2	-232bp
Depreciation	3.1	3.3	3.3	3.4	4.0	4.0	4.0	3.5	13.1	15.5	3.5	15
Interest	0.5	0.6	0.7	0.6	0.8	0.8	0.8	0.7	2.3	3.2	0.7	22
Other Income	0.2	0.4	0.4	0.4	0.6	0.4	0.4	0.6	1.4	1.9	0.3	104
PBT before EO Expense	2.5	0.3	2.9	3.5	1.9	1.3	2.3	6.1	9.2	11.5	3.3	-44
Extra-Ord expense	0.0	0.0	0.0	-3.9	0.0	0.0	0.0	0.0	-3.9	0.0	0.0	
PBT after EO Expense	2.5	0.3	2.9	7.3	1.9	1.3	2.3	6.1	13.0	11.5	3.3	-44
Tax	0.6	-0.2	0.7	1.3	0.4	0.3	0.6	1.6	2.4	2.9	0.9	
Prior period tax adjustment	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	0.0	0.0	
Rate (%)	25.5	23.3	25.5	36.5	22.2	25.6	25.6	26.7	29.6	25.6	25.6	
Reported PAT (pre minority)	1.9	0.5	2.1	6.1	1.4	0.9	1.7	4.4	10.6	8.5	2.5	-42
Minority + associate	-0.1	-0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.4	0.1	
PAT Adj for EO items	2.0	0.3	2.0	2.6	1.3	0.9	1.6	4.4	6.9	8.1	2.4	-45
YoY Change (%)	-30.4	-87.4	286.5	-1.9	-33.3	218.1	-22.0	67.1	-16.5	18.6	20.7	-3
Per ton analysis (blended) INR/t												
Sales Dispatches (m ton)	6.2	5.8	6.3	7.4	7.0	6.4	6.9	8.3	25.7	28.7	7.2	-3
YoY Change (%)	26.8	13.7	10.5	12.1	12.4	10.6	9.9	12.8	15.3	11.5	15.8	
Net realization	5,326	5,122	5,325	5,286	5,199	5,149	5,099	5,180	5,268	5,158	5,226	-1
YoY Change (%)	0.5	1.2	11.0	3.2	-2.4	0.5	-4.2	-2.0	4.1	-2.1	-1.9	
RM Cost	677	760	587	1,014	812	880	871	841	771	850	850	-4
Employee Expenses	319	326	306	258	319	311	298	236	300	288	282	13
Power, Oil & Fuel	1,535	1,538	1,530	1,177	1,294	1,144	1,044	1,106	1,432	1,145	1,277	1
Freight and Handling Outward	1,100	1,028	1,114	1,111	1,161	1,101	1,130	1,140	1,090	1,134	1,105	5
Other Expenses	748	817	765	772	739	827	780	697	775	756	712	4
Total Expenses	4,381	4,469	4,303	4,331	4,324	4,263	4,123	4,020	4,367	4,173	4,226	2
EBITDA	945	653	1,022	955	875	886	977	1,160	901	985	1,001	-13

Source: Company, MOFSL Estimates



Key takeaways from the conference call

Demand and pricing outlook

- While demand growth looks robust, price is range-bound. In 1QFY24, pan-India demand grew between 8% and 10% YoY. DALBHARA's performance in the Southern region was significantly better, resulting in a notable improvement in market share. It is expecting volume growth of 15-17% in FY24 (ex-additional volume from JPA under tolling arrangement).
- Exit-cement prices are weaker in the East and a few pockets of the South region (down by INR5/bag). The company tried to improve prices in the Eastern region, which led to a loss in market share. This also led to a decline in clinker conversion ratio, and thus, higher energy costs.
- South and North-East markets have been performing well in terms of premium product sales and trade mix. North-East has registered a CAGR of ~15% over the last few years and the demand in the region is expected to grow at 20-25% going forward. This led to the announcement of capacity addition in the region.

Operational highlights and cost insights

- Employee cost increased due to annual increment and rise in headcounts on account of commissioning of new capacity at different locations.
- Raw material costs increased ~9% to INR768/t, primarily driven by higher slag/fly ash prices, which surged by 20% and 9%, respectively. Additionally, freight costs increased due to two factors: 1) a busy season surcharge imposed by railways and 2) the shutdown of a plant for de-bottlenecking, resulting in clinker being supplied from longer distances.
- Energy cost increased 1% QoQ, despite fuel price correction, mainly due to higher power cost. The company realized the benefit of USD10/t in pet coke prices, which positively impacted its operations. However, there was also an increase in power cost for two main reasons: 1) higher power rates in few states due to increase in fuel surcharge, and 2) higher usage of grid power as captive power became expensive at that time, primarily due to higher fuel rates.
- Current spot price of pet coke is at USD115/t and the benefits of lower prices are expected to accrue from mid-3QFY24. Pet coke consumption cost is expected to decline by USD20/t in 2Q and further USD5-15/t after that. Fuel consumption cost/kcal stood at INR1.98 vs. INR2.06 in 4QFY23.
- Captive power has now become a viable option, leading to a significant increase in its usage once again. The increase in grid power consumption was mostly in the South region.
- Other expenses increased due to plant shutdown cost, increase in sales commission, and depot charges.
- Blended cement sales stood at 88% for the entire company and ~75% in South India. C:C ratio stood at 1.71x vs. 1.74x in 4QFY23. Trade volumes were at 63%. Premium products sale increased to 21% of total sales vs. 19% in 4QFY23. Rail: Road mix: 16%:84%. Its RE capacity increased to - 170MW (4MW of WHRS capacity was commissioned in 1QFY24). Increase in green power and higher blended cement will help overall cost reduction in the future.

- Incentives accrued stood at INR770mn in 1QFY24, and incentives received stood at INR390mn. The average incentives receivable stood at INR7.4b as of Jun'23. For FY24, total incentives received should be between INR2.75b and INR3.0b.
- **Depreciation:** Certain components of plant and equipment have been replaced under de-bottlenecking, which led to accelerated depreciation of INR570m in 1Q and another INR540m is expected to be accounted for in the next two quarters. Excluding one-offs, depreciation in FY24 should be higher by INR1.2-1.5b due to capacity additions.

Expansion plans and capex

- It commissioned 2.25mt grinding capacity (line-II) in Jharkhand and 0.6mtpa in West Bengal (through debottlenecking) in 1QFY24. It has started trial-run production of 2mtpa greenfield grinding unit in Tamil Nadu. Grinding capacity has increased to 41.7mtpa and this will further increase to 46.6mtpa by Mar-24 through organic expansions.
- Certain external approvals are still pending to complete the acquisition of cement plants of JP group. This acquisition, except for JP Super Dalla, clinker plant which is under arbitration, is expected to complete by FY24-end (earlier guidance was of 1QFY24).
- However, the company has initiated tolling arrangements with a few of the JP plants in the Central region. It has also started appointing dealers, setting up distribution network and making logistics arrangement which will expedite the ramp-up of capacity utilization once the acquisition gets completed. Under the tolling arrangement, JP plants are operating as a contract manufacturer and the cement is being sold under the Dalmia brand.
- The company also announced its expansion plans in the Northeast and the same is likely to complete by FY26. Capex stood at INR9.1b in 1QFY24; further INR6-7b will be spent in 2Q and an estimated capex for FY24 is INR63b (including INR33-35b for JP acquisition). Capex in FY25 is estimated to be INR30-35b as of now.

Other key highlights

- Gross debt increased by INR6.2b to INR44b. Net debt to EBITDA increased to 0.52x vs. 0.29x as of Mar'23. Exit debt at FY24-end should be at INR65-70b, if the acquisition of JP plant gets completed by mar-24.
- The company has received INR1.6b as part of the divestment of its Refractory business. To cover the remaining amount, NCDs have been issued. Also, INR1.2b will be received in Dec'23 as part of the divestment of Hippo stores. Its investment into equity shares of IEX is also a non-core asset and will be divested later, though the company did not share any timelines for the same.

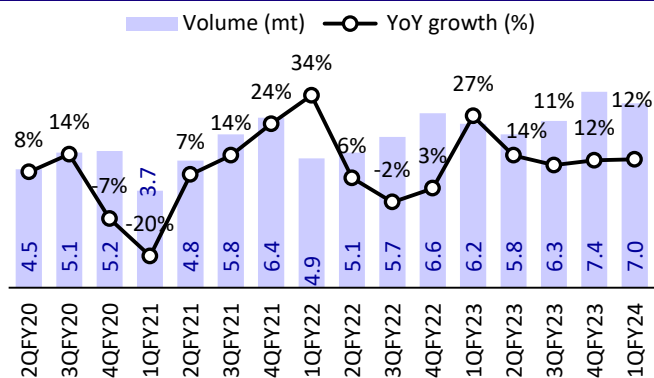
Exhibit 1: Revisions to our estimates

(INR b)	Revised		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	148	166	150	168	(1)	(1)
EBITDA	28	34	30	36	(5)	(5)
PAT	8	11	10	13	(15)	(11)
EPS (INR)	43.3	60.4	51.1	67.8	(15)	(11)

Source: Company, MOFSL estimates

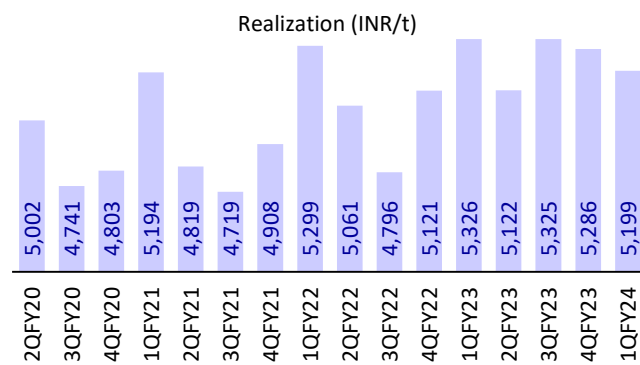
Story in charts

Exhibit 2: Sales volume was up 12% YoY



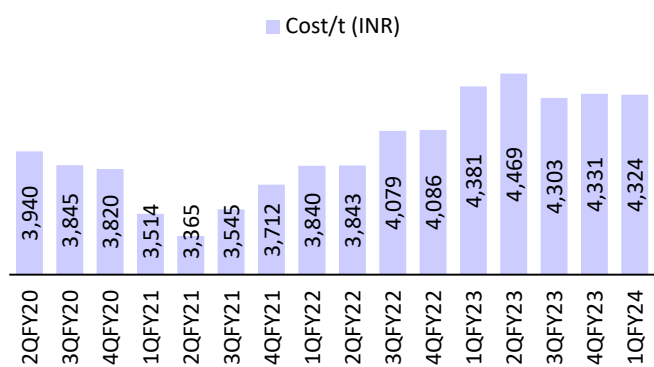
Source: Company, MOFSL

Exhibit 3: Realization declined 2% YoY/QoQ (both)



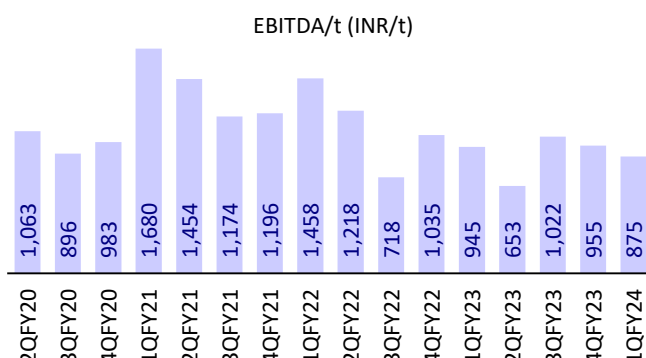
Source: Company, MOFSL

Exhibit 4: Opex/t declined 1% YoY, remains flat QoQ



Source: Company, MOFSL

Exhibit 5: EBITDA/t declined 7%/8% YoY/QoQ



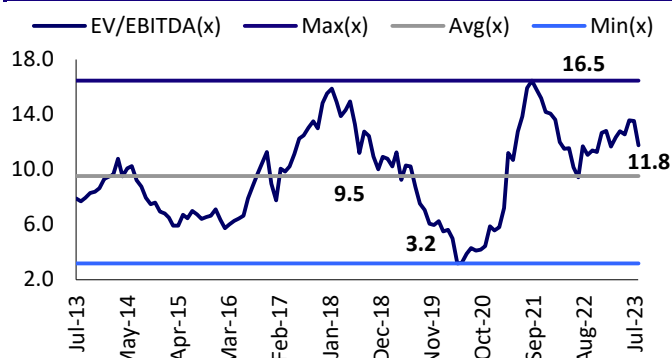
Source: Company, MOFSL

Exhibit 6: Key operating metrics (blended)

INR/t	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)
Realization	5,199	5,326	-2%	5,286	-2
RM Cost	812	677	20%	1,014	-20
Staff Cost	319	319	0%	258	23
Power and Fuel	1,294	1,535	-16%	1,177	10
Freight and Forwarding	1,161	1,100	6%	1,111	4
Other Expenditure	739	748	-1%	772	-4
Total Expenditure	4,324	4,381	-1%	4,331	0
EBITDA	875	945	-7%	955	-8

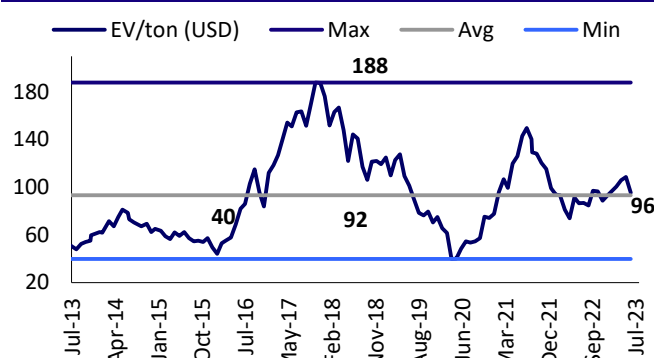
Source: Company, MOFSL

Exhibit 7: One-year forward EV/EBITDA



Source: Company, MOFSL

Exhibit 8: One-year forward EV/ton



Source: Company, MOFSL

Financials and valuations (Consolidated)

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	85,800	94,840	96,740	1,01,100	1,12,860	1,35,400	1,47,819	1,65,987
Change (%)	15.2	10.5	2.0	4.5	11.6	20.0	9.2	12.3
EBITDA	20,360	19,420	21,060	27,620	24,260	23,160	28,232	34,431
Margin (%)	23.7	20.5	21.8	27.3	21.5	17.1	19.1	20.7
Depreciation	12,130	12,960	15,280	12,500	12,350	13,050	15,539	16,985
EBIT	8,230	6,460	5,780	15,120	11,910	10,110	12,693	17,447
Int. and Finance Charges	7,080	5,510	4,380	2,950	2,020	2,340	3,170	3,731
Other Income - Rec.	2,740	2,440	2,170	1,810	1,600	1,380	1,930	2,045
PBT bef. EO Exp.	3,890	3,390	3,570	13,980	11,490	9,150	11,453	15,761
EO Expense/(Income)	0	0	0	-3,330	20	-3,850	0	0
PBT after EO Exp.	3,890	3,390	3,570	17,310	11,470	13,000	11,453	15,761
Current Tax	1,080	1,120	1,140	2,120	250	320	2,932	4,035
Deferred Tax	-100	-1,220	50	3,330	2,900	2,100	0	0
Tax Rate (%)	32.1	-2.1	27.5	40.4	26.5	29.6	25.6	25.6
Reported PAT	2,910	3,490	2,380	11,860	8,320	10,580	8,521	11,726
Minority and Associates	10	-410	-140	-130	-240	-190	-400	-400
PAT Adj. for EO items	2,920	3,080	2,240	8,400	8,203	6,850	8,121	11,326
Change (%)	563.6	5.5	-27.3	275.0	-2.3	-16.5	18.6	39.5
Margin (%)	3.4	3.2	2.3	8.3	7.3	5.1	5.5	6.8

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	385	390	390	374	375	375	375	375
Total Reserves	1,02,965	1,06,000	1,05,650	1,27,726	1,60,235	1,55,905	1,61,589	1,70,477
Net Worth	1,03,350	1,06,390	1,06,040	1,28,100	1,60,610	1,56,280	1,61,964	1,70,852
Deferred capital investment subsidy	1,200	1,290	1,400	1,240	1,250	1,660	1,660	1,660
Deferred Liabilities	13,250	11,880	12,770	16,590	15,640	16,100	16,100	16,100
Minority Interest	-300	110	250	340	720	1,160	1,560	1,960
Total Loans	72,660	58,780	59,500	37,080	31,190	37,420	45,920	46,920
Capital Employed	1,90,160	1,78,450	1,79,960	1,83,350	2,09,410	2,12,620	2,27,204	2,37,492
Gross Block	1,62,870	1,66,210	1,66,440	1,86,160	2,00,360	2,16,590	2,61,270	2,78,240
Less: Accum. Deprn.	22,500	30,470	40,890	49,910	59,020	68,760	82,269	97,223
Net Fixed Assets	1,40,370	1,35,740	1,25,550	1,36,250	1,41,340	1,47,830	1,79,001	1,81,017
Capital WIP	1,730	5,200	17,400	10,060	10,450	18,710	7,000	18,000
Current Investment	34,080	23,150	26,980	32,930	43,990	29,350	38,250	38,250
Non-current Investment	970	1,090	1,610	7,410	13,060	5,900	5,900	5,900
Curr. Assets, Loans and Adv.	35,510	39,300	37,670	32,210	37,840	53,400	43,286	46,241
Inventory	7,790	10,320	9,740	7,600	9,460	13,160	14,174	15,917
Account Receivables	5,640	5,490	6,640	5,110	6,730	7,000	8,100	9,095
Cash and Bank Balance	3,540	4,690	4,030	2,470	1,600	2,850	1,007	1,152
Loans and Advances	18,540	18,800	17,260	17,030	20,050	30,390	20,005	20,077
Curr. Liability and Prov.	22,500	26,030	29,250	35,510	37,270	42,570	46,233	51,916
Account Payables	20,970	23,430	27,210	32,820	34,600	39,370	42,739	47,993
Provisions	1,530	2,600	2,040	2,690	2,670	3,200	3,494	3,923
Net Current Assets	13,010	13,270	8,420	-3,300	570	10,830	-2,947	-5,674
Appl. of Funds	1,90,160	1,78,450	1,79,960	1,83,350	2,09,410	2,12,620	2,27,204	2,37,492

E: MOFSL estimates

Financials and valuations (Consolidated)

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)*								
EPS	15.2	15.8	11.5	44.9	43.8	36.5	43.3	60.4
Cash EPS	78.1	82.3	89.8	111.7	109.7	106.1	126.2	151.0
BV/Share	536.2	545.6	543.8	684.6	857.2	833.6	863.9	911.3
DPS	1.7	2.0	2.0	1.3	9.0	9.0	13.0	13.0
Payout (%)	11.2	12.5	17.2	3.0	20.6	24.6	30.0	21.5
Valuation (x)*								
P/E		121.6	167.2	42.8	43.9	52.6	44.3	31.8
Cash P/E		23.4	21.4	17.2	17.5	18.1	15.2	12.7
P/BV		3.5	3.5	2.8	2.2	2.3	2.2	2.1
EV/Sales		4.1	3.8	3.5	3.0	2.6	2.4	2.1
EV/EBITDA		19.9	17.6	12.7	13.8	15.0	12.7	10.2
EV/t (USD)		178	171	140	114	110	94	92
Dividend Yield (%)		0.1	0.1	0.1	0.5	0.5	0.7	0.7
Return Ratios (%)								
ROIC	3.6	4.5	3.0	6.7	6.0	4.5	5.5	7.2
RoE	2.9	2.9	2.1	7.2	5.7	4.3	5.1	6.8
RoCE	4.2	5.3	3.5	6.1	5.6	4.2	5.4	6.8
Working Capital Ratios								
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.5	0.6	0.7	0.7
Inventory (Days)	33	40	37	27	31	35	35	35
Debtor (Days)	24	21	25	18	22	19	20	20
Leverage Ratio (x)								
Current Ratio	1.6	1.5	1.3	0.9	1.0	1.3	0.9	0.9
Debt/Equity	0.7	0.6	0.6	0.3	0.2	0.2	0.3	0.3

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	3,890	3,390	3,570	13,640	11,620	13,210	11,453	15,761
Depreciation	12,130	12,960	15,280	12,500	12,360	13,050	15,539	16,985
Interest and Finance Charges	7,080	5,510	3,640	3,190	1,930	2,310	3,170	3,731
Direct Taxes Paid	-860	-240	-660	440	240	-140	-2,932	-4,035
(Inc.)/Dec. in WC	-3,590	1,500	2,740	7,810	-5,150	-770	11,832	2,724
CF from Operations	18,650	23,120	24,570	37,580	21,000	27,660	39,062	35,165
Others	-2,590	-2,220	-1,190	-1,540	-1,680	-5,140	-1,930	-2,045
CF from Operations incl. EO	16,060	20,900	23,380	36,040	19,320	22,520	37,132	33,120
(Inc.)/Dec. in FA	-3,930	-13,290	-13,450	-10,270	-17,560	-27,010	-35,000	-30,000
Free Cash Flow	12,130	7,610	9,930	25,770	1,760	-4,490	2,132	3,120
(Pur.)/Sale of Investments	3,950	10,320	-4,970	6,050	6,380	2,980	-8,907	-11
Others	1,350	2,870	300	370	410	1,080	1,930	2,045
CF from Investments	1,370	-100	-18,120	-3,850	-10,770	-22,950	-41,977	-27,966
Issue of Shares	40	40	0	-4,000	50	0	0	0
Inc./(Dec.) in Debt	-7,730	-13,870	120	-25,340	-5,800	6,670	8,609	1,160
Interest Paid	-7,620	-5,420	-4,680	-3,960	-2,320	-2,970	-3,170	-3,731
Dividend Paid	-330	-400	-930	0	-1,000	-1,690	-2,437	-2,437
Others	0	0	-430	-450	-350	-330	0	0
CF from Fin. Activity	-15,640	-19,650	-5,920	-33,750	-9,420	1,680	3,002	-5,009
Inc./Dec. of Cash	1,790	1,150	-660	-1,560	-870	1,250	-1,843	146
Opening Balance	1,750	3,540	4,690	4,030	2,470	1,600	2,850	1,007
Closing Balance	3,540	4,690	4,030	2,470	1,600	2,850	1,007	1,152

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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