



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

Updated Jul 08, 2023

29.15

Medium Risk

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

Source: Morningstar

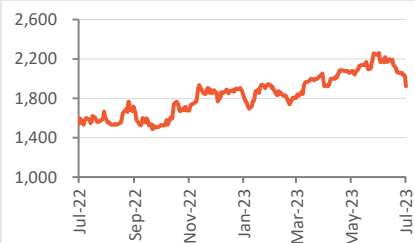
Company details

Market cap:	Rs. 36,021 cr
52-week high/low:	Rs. 2,289 / 1,478
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	13.9
DII	9.0
Others	21.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-15.0	0.0	8.6	24.6
Relative to Sensex	-19.9	-11.8	-0.8	4.9

Sharekhan Research, Bloomberg

Dalmia Bharat Ltd

Headwinds blow in core markets, cause Downgrade

Cement	Sharekhan code: DALMIABHA
Reco/View: Hold	CMP: Rs. 1,921
Price Target: Rs. 2,100	
Upgrade	Maintain
Downgrade	

Summary

- We downgrade Dalmia Bharat to Hold with a revised PT of Rs. 2,100, considering its strong growth potential, factoring downwardly revised estimates and lowering valuation multiple to factor in challenges in its core East region.
- In Q1FY2024, the company reported a miss on operational profitability led by higher-than-estimated power & fuel and freight costs. Higher depreciation and interest expenses led PAT to severely miss mark.
- The management eyes a 15-17% y-o-y volume growth for FY2024 while it would be taking corrective actions in re-gaining market share in East and better cost efficiencies.
- It would add a 4.9 MTPA capacity in South India to reach 46.6 MTPA by FY2024 end. JP Assets' acquisition completion gets delayed to FY2024-end.

Dalmia Bharat (Dalmia) reported lower-than-expected operational performance led by higher-than-estimated operating costs during Q1FY2024. Consolidated revenues stood at Rs. 3,624 crore (up 9.8% y-o-y) led by a volume growth of 12.3% y-o-y at 7.0 MT, while blended realisation declined 2.3% y-o-y. EBITDA/tonne stood at Rs. 872 (down 7.3% y-o-y), lower than our estimate of Rs. 990/tonne. Higher power & fuel costs (increased power rates in South and change in the CC ratio due to market share loss in the East) and freight costs (busy season surcharge by Indian Rail and inter-unit clinker transfer) led to a miss on operational profitability. Overall, consolidated operating profit was up 4.1% y-o-y at Rs. 610. Higher depreciation (one-off charge due to de-bottlenecking) and higher interest expenses (increase in gross debt) led to 34% y-o-y dip in adjusted profit at Rs. 130 crore (much lower than our estimate). It added 3.1 MTPA cement capacity in the East in Q1 taking total cement capacity to 46.6 MTPA and will be adding 4.9 MTPA in South to reach 46.6 MTPA by FY2024 end. JP Associates' cement acquisition is expected to be completed by FY2024-end. It targets 15-17% volume growth for FY2024 while it would be taking corrective actions in re-gaining market share in East and improvement in cost efficiencies.

Key positives

- Market share gains in South and North East aided in 12% y-o-y volume growth for Q1FY2024.
- Saving in fuel costs of ~15% is expected to get reflected in Q2FY2024 due to decline in pet coke prices and decline in CPP power rates.
- Added 3.1 MTPA cement capacity in Q1FY2024 and on track to reach 46.6 MTPA by FY2024 end.

Key negatives

- EBITDA/tonne surprised negatively led by higher-than-estimated power & fuel costs and freight costs. Higher depreciation and interest expense aided net earnings miss.
- Market share loss in the East as it experimented with pricing discipline which did not work out in its favour.
- Delay in completion of JP Asset acquisition which is now expected by FY2024 end from Q1FY2024 earlier.

Management Commentary

- The company expects to grow sales volumes by 15-17% y-o-y during FY2024 excluding volumes from JP Assets. It targets to grow at par with Industry leaders and above the industry average during FY2024. It expects ~15% savings to be reflected in fuel costs in Q2FY2024.
- Gross debt increased by Rs. 624 crores in Q1FY2024 to Rs. 4386 crores. The gross debt is expected to touch Rs. 6500-7,000 crore by FY2024 end.
- It incurred a Rs. 900 crore capex in Q1FY2024 and would incur Rs. 6300 crore capex in FY2024 which includes Rs. 3500 crore capex for JP Assets. The capex for FY2025 is estimated at Rs. 3500 crore.

Revision in estimates – We have lowered our net earnings estimates for FY2024-FY2025 factoring lower operational profitability, higher depreciation and interest expenses.

Our Call

Valuation – Downgrade to Hold with a revised PT of Rs. 2,100: Dalmia is expected to benefit from a strong demand environment with a focus on capacity addition plans. However, in the near term, it would be taking corrective actions in re-gaining market share in East and improve upon cost efficiencies. Further, JP Assets acquisition has been delayed with want of lenders' approvals. The stock has corrected by ~15% over trailing one month led by weak pricing environment in East and Southern markets and weak Q1FY2024 operational performance. Dalmia is currently trading at an EV/EBITDA of 14x/12x its FY2024E/FY2025E earnings, which is higher than its historical average. We downgrade the stock to Hold with a revised price target (PT) of Rs. 2,100, factoring downwardly revised estimates and lowering valuation multiple to factor in challenges in its core East region.

Key Risks

- Pressure on cement demand and cement prices in the East, North-east and South of India can affect financial performance; and
- Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can also impact performance.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	11,286	13,540	15,282	17,204
OPM (%)	21.5	17.1	18.5	18.6
Adjusted PAT	1,100	477	721	816
% y-o-y growth	14.3	-56.6	51.0	13.3
Adjusted EPS (Rs.)	59.5	27.4	38.9	44.1
P/E (x)	32.3	70.2	49.3	43.6
P/B (x)	2.2	2.3	2.2	2.1
EV/EBITDA (x)	13.5	15.3	13.7	12.4
RoNW (%)	7.6%	3.2%	4.5%	4.9%
RoCE (%)	5.6%	4.2%	5.1%	5.1%

Source: Company; Sharekhan estimates

Higher opex leads to miss on operational profitability

Dalmia Bharat reported consolidated net revenues of Rs. 3624 crore, up 9.8% y-o-y (down 7.4% q-o-q) which was in-line with our estimate. Cement volumes were up 12.3% y-o-y (-5.8% q-o-q) at 7.0 million tonnes, while blended realizations were down 2.3% y-o-y (-1.6% q-o-q) at Rs. 5178/tonne. Blended consolidated EBITDA/tonnes at Rs. 872 (-7.3% y-o-y, -8.4% q-o-q) was lower than our estimate of Rs. 990/tonne on account of higher Opex/tonne. On the cost front, power & fuel costs stood at Rs. 1289/tonne (-15.7% y-o-y, +10% q-o-q), freight costs at Rs. 1156/tonne (+5.6% y-o-y, +4.5% q-o-q) and other expense stood at Rs. 736/tonne (-1.2% y-o-y, -4.2% q-o-q). Overall, consolidated operating profit rose by 4.1% y-o-y (-13.7% q-o-q) at Rs. 610 crore which was 12% lower than our estimate. Higher interest expense (up 77% y-o-y, up 30% q-o-q) and higher depreciation (up 28% y-o-y, up 19% q-o-q) led to adjusted consolidated net profit decline of 33.7% y-o-y (-36.3% q-o-q) at Rs. 130 crore (39% lower than our estimate).

Key conference call takeaways

- ♦ **Outlook:** The company expects to grow sales volumes by 15-17% y-o-y in FY2024 excluding volumes from JP Assets. It targets to grow at par with Industry leaders and above the industry average in FY2024. It expects ~15% savings to be reflected in fuel costs in Q2FY2024.
- ♦ **Q1FY2024 performance:** Sales volumes increased 12% y-o-y although it could have done much better. Power and fuel costs were higher due to purchase of grid power in Southern region as consumption from CPP became unviable and change in CC ratio due to market share loss in Eastern region. Freight costs were higher due to levy of busy season surcharge by Indian Railways and inter movement of clinker. Other expense increased y-o-y due to plant shutdowns, sales commissions etc. Depreciation increased y-o-y on account of one-off accelerated depreciation charge of Rs. 57 crores related to de-bottlenecking (another Rs. 54 crores would be charged over next two quarters). Hence, depreciation for FY2024 would be higher by Rs. 120-150 crores.
- ♦ **Capacity expansion:** The company added a 3.1 MTPA capacity in Eastern India in Q1FY2024 taking total cement capacity to 41.7 MTPA as on July 2023. It commenced trial run of 2 MTPA greenfield split grinding unit at Sattur, Tamil Nadu. It would be adding 4.9 MTPA cement capacity in South to reach 46.6 MTPA by FY2024 end. It will be expanding capacities in North East for which necessary approvals have and been received and equipment orders placed. The same is expected to complete by FY2026.
- ♦ **JP Assets:** It is still awaiting lenders' approvals for the acquisition and expects to close the acquisition by FY2024 end.
- ♦ **Debt:** Gross debt increased by Rs. 624 crores in Q1FY2024 to Rs. 4386 crores. The gross debt is expected to touch Rs. 6500-7000 crore by FY2024 end.
- ♦ **Capex:** It incurred Rs. 900 crore capex in Q1FY2024 and would incur Rs. 6300 crore capex in FY2024 which includes Rs. 3,500 crore capex for JP Assets. The capex for FY2025 is estimated at Rs. 3500 crore.
- ♦ **Incentives:** Incentives accrued in Q1FY2024 was Rs. 77 crores and collections were Rs. 39 crores. Outstanding incentives as on June 2023 is Rs. 740 crores. For FY2024, incentives are estimated at Rs. 275-300 crore.
- ♦ **Refractory business divestment:** It sold off 1.87 crore shares in Dalmia Bharat Refractories to a promoter group entity at Rs. 800 crore of which it received 20% (Rs. 160 crore) in cash. It has allotment of NCDs for balance 80% of which first tranche of 60% would be redeemed in December 2023 and balance 40% in September 2024.
- ♦ **Other highlights:** For Q1FY2024, trade mix was 64%, Premium product sales mix was 21% of total sales, lead distance 284 kms and CC ratio 1.71x.

Results (Consolidated)

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Net Sales	3624	3302	9.8%	3912	-7.4%
Total Expenditure	3014	2716	11.0%	3205	-6.0%
Operating profits	610	586	4.1%	707	-13.7%
Other Income	57	25	128.0%	41	39.0%
EBIDTA	667	611	9.2%	748	-10.8%
Interest	83	47	76.6%	64	29.7%
PBDT	584	564	3.5%	684	-14.6%
Depreciation	399	312	27.9%	336	18.8%
PBT	185	252	-26.6%	348	-46.8%
Tax	41	64	-35.9%	125	-67.2%
Extraordinary items	0	0	-	-385	-
Minority Interest	14	9	-	20	-
Reported Profit After Tax	130	196	-33.7%	589	-77.9%
Adjusted PAT	130	196	-33.7%	204	-36.3%
EPS	7	10	-33.7%	11	-36.3%
			bps		bps
OPMs	16.8%	17.7%	-91	18.1%	-124
PAT	3.6%	5.9%	-235	5.2%	-163
Tax rate	22.2%	25.4%	-323	35.9%	-1376

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Improving demand brightens 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 laborers 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.

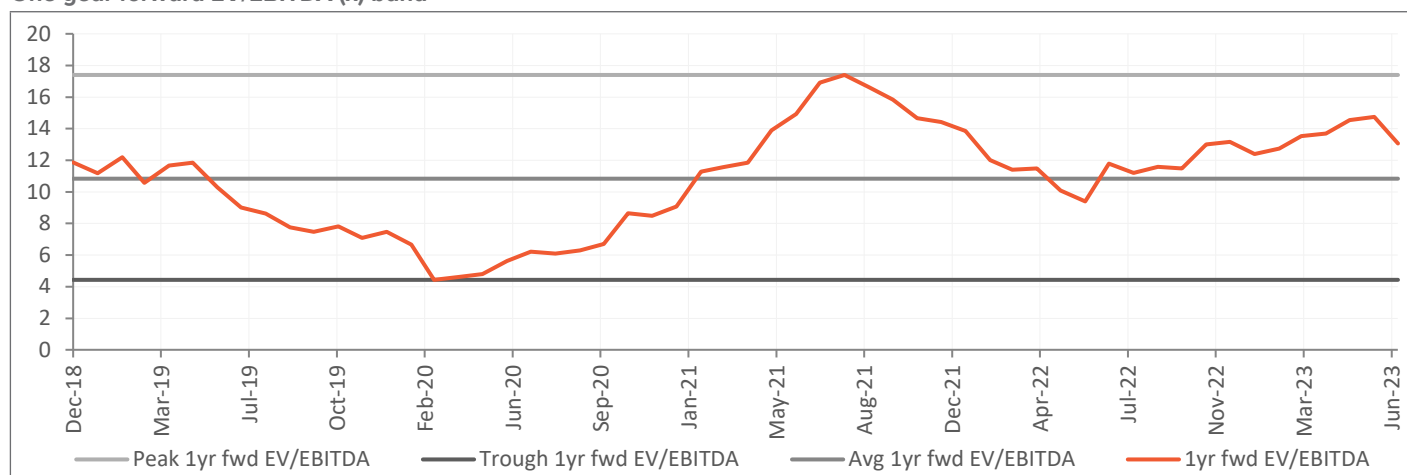
■ Company Outlook – Aggressive expansion plans to help capture high-growth opportunities

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 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 (unless a significant ticket size acquisition is done). It also highlighted allocation towards shareholders' returns (10% of OCFs) and a green & innovation fund (10% of OCF). It targets to reach 48.5 million tonnes of cement capacity (currently 35.9 million tonnes) in the next three years, initially expanding in the Southern and North East regions.

■ Valuation – Downgrade to Hold with a revised PT of Rs. 2,100

Dalmia is expected to benefit from a strong demand environment with a focus on capacity addition plans. However, in the near term, it would be taking corrective actions in re-gaining market share in East and improve upon cost efficiencies. Further, JP Assets acquisition has been delayed with want of lenders' approvals. The stock has corrected by ~15% over trailing one month led by weak pricing environment in East and Southern markets and weak Q1FY2024 operational performance. Dalmia is currently trading at an EV/EBITDA of 14x/12x its FY2024E/FY2025E earnings, which is higher than its historical average. We downgrade the stock to Hold with a revised price target (PT) of Rs. 2,100, factoring downwardly revised estimates and lowering valuation multiple to factor in challenges in its core East region.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech Cement	34.6	27.3	19.3	15.6	4.0	3.6	12.1	13.8
Dalmia Bharat	49.3	43.6	13.7	12.4	2.2	2.1	4.5	4.9
Shree Cement	53.2	42.5	19.9	16.0	4.3	4.0	8.3	9.7
The Ramco Cement	33.8	28.0	15.2	13.4	2.9	2.6	8.8	9.8

Source: Sharekhan Research

About company

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

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 L	1.71
6	DHARTI COMMERCIAL TRADING PVT LT	1.68
7	INVESTOR EDUCATION & PROTECTN FD	1.64
8	Franklin Resources Inc	1.64
9	D S TRUST	1.54
10	J H DALMIA TRUST	1.38

Source: Bloomberg

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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 deteriorating 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

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

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