Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Dalmia Bharat Ltd

Multi-year high regional prices warrant an upgrade

Cement	Sharekhan code: DALMIABHA
Reco/View: Buy ↑	CMP: Rs. 2,357
Price Target: Rs. 2,830 ↑	

↑ Upgrade ↔ Maintain ↓ Downgrade

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 29.15
Updated Aug 08, 2023

Medium Risk

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

Source: Morningstar

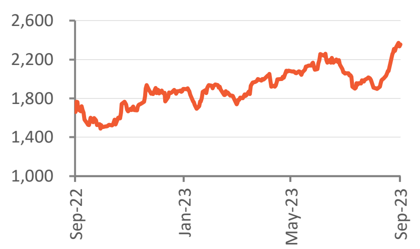
Company details

Market cap:	Rs. 44,182 cr
52-week high/low:	Rs. 2,420 / 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	23.3	9.1	35.4	41.9
Relative to Sensex	20.1	2.3	19.6	30.5

Sharekhan Research, Bloomberg

Summary

- We upgrade Dalmia Bharat to Buy with a revised PT of Rs. 2,830, factoring upwardly revised estimates and rolling forward our valuation to September 2025E earnings.
- Cement prices in Eastern region is hiked by Rs. 70 per bag in two tranches in most states during September till date leading to multi-year high prices for the region.
- Incremental price hike of Rs. 20 per bag in few states in East may be rolled out on September 17th and by month end. Overall demand environment resurrect in August and is expected to sustain in September.
- Company eyes 15-17% y-o-y volume growth for FY2024. 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) is expected to benefit from steep price hikes of Rs. 35/bag undertaken in two tranches in most of the Eastern states during September month till date, leading to multi-year high average cement prices in the Eastern region. Further, the possibility of further price hikes in a few Eastern states w.e.f. September 17th and fag end of September if implemented, would accumulate to a Rs. 90-100/bag price rise in September month. Further, demand environment has improved during August (July was affected by heavy rainfall) and is expected to sustain during September. The company had earlier highlighted a 15-17% y-o-y volume growth target for FY2024. It remains on track to add 4.9 mtpa cement capacity in South India to reach 46.6 mtpa by FY2024 end while it would be expanding capacities in North East, which is expected to be completed by FY2026. JP Associates' cement acquisition is expected to be completed by FY2024-end. The sharp price hike in the Eastern region has led to an upward revision in our earnings estimates, factoring in higher realisations and operational profitability.

- **Eastern cement prices at multi-year high post steep price hikes in September:** As per our channel checks, average cement prices in the Eastern region have seen a sharp increase of Rs. 60/bag during September month till date. Most of the states in the Eastern region saw a Rs. 35/bag each increase in cement prices in two phases, effective September 1st and September 11th. Consequently, the average cement in the Eastern region breached a multi-year high, currently at Rs. 420/bag. For Q2FY2024, the eastern region average cement prices are up 4% q-o-q and 7% y-o-y, led by share price hikes undertaken during September month till date.
- **Price hikes of Rs. 90-100/bag in September cannot be ruled out:** As per our channel checks, a few states in the Eastern region are expected to increase cement prices by Rs. 20/bag w.e.f. September 17, while there are indications of further cement price hikes during the fag end of September. Overall, the cumulative hike of Rs. 90-100/bag in a few Eastern states during September cannot be ruled out at this juncture. We expect Dalmia Bharat to benefit from strong revival in cement prices in the Eastern region, which, if sustained, provides a case for upward revision in earnings estimates.
- **Healthy demand outlook to be supported by expansion plans:** The cement transported through Rail saw a healthy rebound during August with 10.4% y-o-y growth (up 8.8% m-o-m) post a weak July (down 5.9% y-o-y), which was affected by heavy rainfall. Further, cement demand during September is expected to remain healthy. The company expects to grow sales volumes by 15-17% y-o-y in FY2024 (ex-JP Assets). It added a 3.1 MTPA capacity in Eastern India and commenced a trial run of 2 MTPA greenfield split grinding units at Sattur, Tamil Nadu in Q1FY2024. It would add 4.9 MTPA cement capacity in South to reach 46.6 MTPA by the FY2024 end. It will be expanding capacities in North East which is expected to be complete by FY2026.

Revision in estimates – We have materially increased our net earnings estimates for FY2024-FY2025, factoring higher realisations and operational profitability considering the recent steep price rise.

Our Call

Valuation – Upgrade to Buy with a revised PT of Rs. 2,830: Dalmia is expected to benefit from a strong demand environment with a focus on capacity addition plans. Further, the cement prices in the Eastern region have seen a sharp revival, which is expected to improve operational profitability. The company remains committed to its expansion plans, which are expected to drive healthy volume growth led by a supportive demand environment, especially in the Eastern region. We have introduced our FY2026E earnings in this note. Dalmia is currently trading at an EV/EBITDA of 13.4x/11.4x its FY2025E/FY2026E earnings, which we believe provides further room for upside. Hence, we upgrade the stock to Buy with a revised price target (PT) of Rs. 2,830, factoring upwardly revised estimates and rolling forward our valuation to September 2025E earnings.

Key Risks

1) Pressure on cement demand and cement prices in the East, North-east and South of India can affect financial performance; and

2) Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can also impact performance.

Valuation (Consolidated) Rs cr

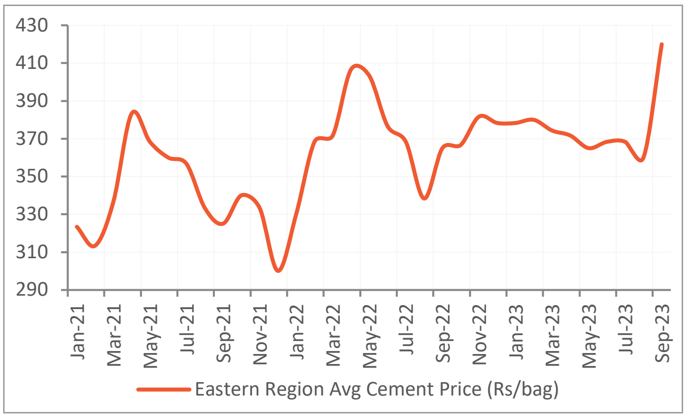
Particulars	FY23	FY24E	FY25E	FY26E
Revenue	13,540	15,664	17,635	20,770
OPM (%)	17.1	20.0	20.0	19.9
Adjusted PAT	477	942	1,080	1,365
% y-o-y growth	-56.6	97.5	14.6	26.5
Adjusted EPS (Rs.)	27.4	50.9	58.4	73.8
P/E (x)	86.2	46.3	40.4	31.9
P/B (x)	2.8	2.6	2.5	2.3
EV/EBITDA (x)	18.8	14.9	13.4	11.4
RoNW (%)	3.2%	5.9%	6.3%	7.5%
RoCE (%)	4.2%	6.0%	6.0%	6.7%

Source: Company; Sharekhan estimates

Cement prices in the East at multi-year high in September

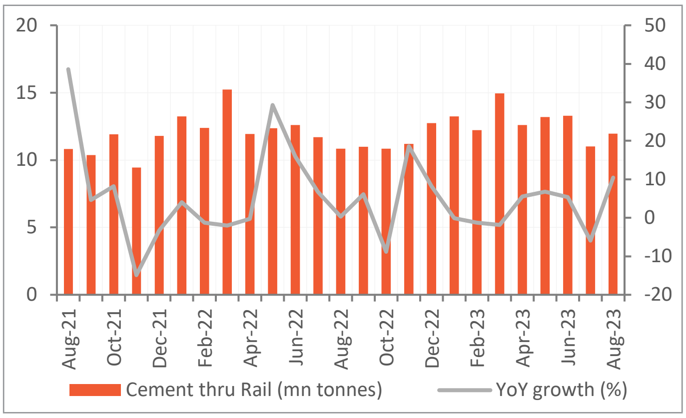
As per our channel checks, average cement prices in the Eastern region have seen a sharp increase of Rs. 60/bag during September month till date. Most states in the Eastern region saw a Rs. 35/bag each rise in cement prices in two phases, effective September 1st and September 11th. Consequently, the average cement price in the Eastern region breached a multi-year high and is currently at Rs. 420/bag. Further, few states are expected to increase cement prices by Rs. 20/bag w.e.f. September 17, while there are indications of further cement price hikes during the fag end of September. Overall, the cumulative hike of Rs. 90-100/bag during September cannot be ruled out at this juncture. For Q2FY2024, the eastern region average cement prices are up 4% q-o-q and 7% y-o-y, led by share price hikes undertaken during September month till date. We expect Dalmia Bharat to benefit from a strong revival in cement prices in the Eastern region, which, if sustained, provides a case for upward revision in earnings estimates.

Eastern region cement price trend



Source: Industry; Sharekhan Research

Cement transported through rail trend



Source: Ministry of Railways; Sharekhan Research

Healthy demand outlook supported by expansion plans

The cement transported through Rail saw a healthy rebound during August with 10.4% y-o-y growth (up 8.8% m-o-m) post a weak July (down 5.9% y-o-y) affected by heavy rainfall. Further, cement demand during September is expected to remain healthy. 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. The company added a 3.1 MTPA capacity in Eastern India in Q1FY2024, taking the total cement capacity to 41.7 MTPA as on July 2023. It commenced a 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 be completed by FY2026.

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.

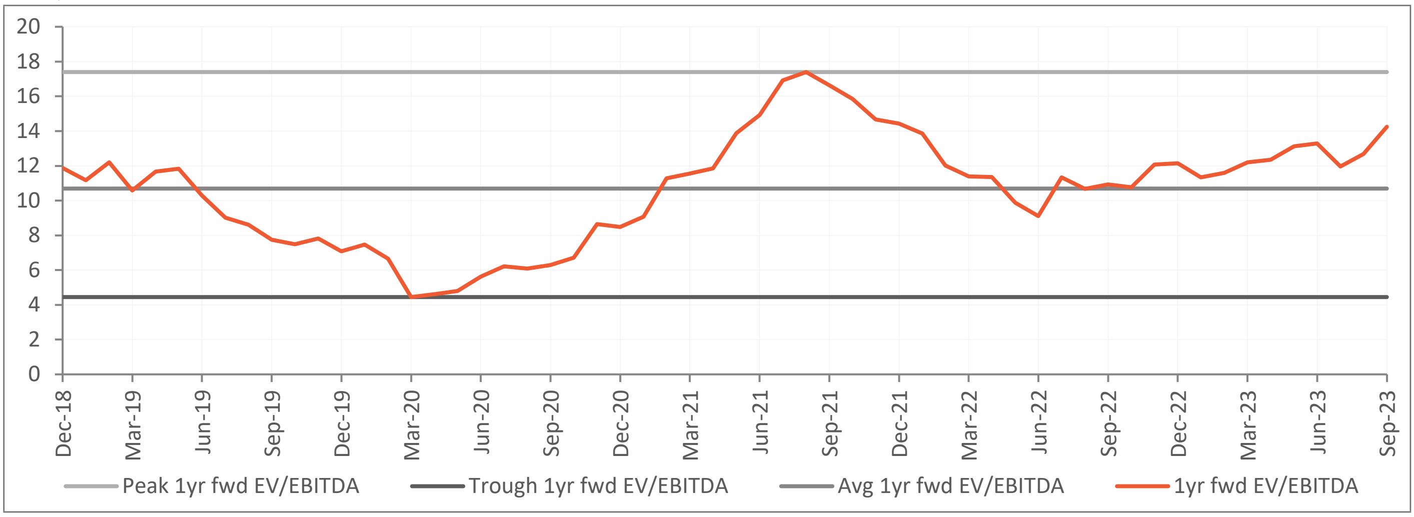
■ Company Outlook – Aggressive expansion plans to help capture high-growth opportunities

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 – Upgrade to Buy with a revised PT of Rs. 2,830

Dalmia is expected to benefit from a strong demand environment with a focus on capacity addition plans. Further, the cement prices in the Eastern region have seen a sharp revival, which is expected to improve operational profitability. The company remains committed on its expansion plans which is expected to drive healthy volume growth led by supportive demand environment, especially in the Eastern region. We have introduced our FY2026E earnings in this note. Dalmia is trading at an EV/EBITDA of 13.4x/11.4x its FY2025E/FY2026E earnings, which we believe provides further room for upside. Hence, we upgrade the stock to Buy with a revised price target (PT) of Rs. 2,830, factoring upwardly revised estimates and rolling forward our valuation to September 2025E earnings.

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	36.7	28.9	20.5	16.6	4.2	3.8	12.1	13.8
Dalmia Bharat	46.3	40.4	14.9	13.4	2.6	2.5	5.9	6.3
Shree Cement	54.6	43.6	21.5	17.3	4.8	4.4	9.1	10.6
The Ramco Cement	41.8	29.6	16.1	13.4	2.9	2.7	7.2	9.5

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

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

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