

**HOLD** Dalmia Bharat**Sustenance of price hikes imperative for earnings upgrade****Cement** ▶ Company Update ▶ **September 28, 2023****TARGET PRICE (Rs): 2,525**

**Dalmia Bharat is expected to benefit from the sharp price hike of ~Rs45-50/bag in Sep-23, in the East. Besides, the South has announced price hikes, of Rs70-80/bag wef Oct-23. Both regions contribute more than 80% of Company volume. Absorption/sustenance of the price hikes is a key monitorable. Dalmia targets increasing capacity to 75/110-130mt by FY27/31, resp. (~15% CAGR), with ~80% of upcoming capex likely to be funded via internal accruals over FY23-26E. This will keep Company's balance sheet (BS) at a comfortable level, with net debt-to-EBITDA under 1.5x. Factoring-in the higher realization, we raise FY24-26E EBITDA by 6-9%. Given Company's growth visibility and strong BS, we nudge up our target EV/E by one notch to 12x (earlier 11x) and revise Sep-24E TP to Rs2,525/sh, post quarterly roll-over; we maintain HOLD.**

**Dalmia Bharat: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,12,860	1,35,400	1,51,487	1,81,282	2,04,323
EBITDA	24,260	23,160	31,289	38,550	45,025
Adj. PAT	7,630	6,040	10,237	13,662	16,677
Adj. EPS (Rs)	59.9	52.5	54.6	72.9	89.0
EBITDA margin (%)	21.5	17.1	20.7	21.3	22.0
EBITDA growth (%)	(12.8)	(4.5)	35.1	23.2	16.8
Adj. EPS growth (%)	(9.0)	(12.2)	3.9	33.5	22.1
RoE (%)	5.4	4.2	6.4	8.0	9.1
RoIC (%)	13.7	10.8	13.3	13.0	13.0
P/E (x)	57.3	72.6	42.8	32.1	26.3
EV/EBITDA (x)	17.4	19.2	14.4	12.6	10.6
P/B (x)	2.8	2.8	2.7	2.5	2.3
FCFF yield (%)	0.4	(1.0)	(0.4)	(6.4)	3.5

Source: Company, Emkay Research

**Sharp price hikes in Sep-23 sustaining in the East; announcement for the South**

Our channel checks suggest that price hikes of Rs45-50/bag in the East (vs announcement of Rs70/bag) have been absorbed during Sep-23. To recap, prices in East India have declined by Rs25-30/bag since start-CY23 till Aug-23. Besides, the industry has announced price hikes of Rs70-80/bag in the South and Rs5-20/bag in other regions, during Oct-23. Such price hikes sustaining would provide growth impetus to Dalmia's earnings, specifically from H2FY24, as East+South contribute over 80% of its volume.

**Focus on cost improvement by tracing the path to sustainability**

Company has one of the best clinker-to-cement (CC) ratios, at ~1.75x (vs. industry average of 1.4-1.5x), owing to greater presence in the East. Further, Company is constantly undertaking measures to reduce the clinker factor through higher share of blended cement (targets 100% blended cement by FY26 vs 85% currently). Also, Company is looking to allocate ~10% of the OCF towards the green energy fund, with commitment to transition to 100% renewable power by 2030, and becoming carbon negative by 2040.

**Well placed to seize long-term growth opportunities, backed by a strong BS**

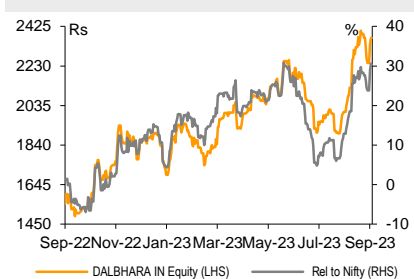
Company's clinker/cement grinding capacity stands at 21.7/43.7mt, respectively. Dalmia has recapitulated its stance of aggressively increasing capacity to 75/110-130mt by FY27/31 (CAGR: ~15% during FY23-31). The successful acquisition of JP's cement assets is a step towards enhancing presence in the central region and supporting its journey to become a Pan-India player. We believe the company will incur capex of Rs113bn (including the JP assets acquisition) during FY23-26E of which ~80% would be funded via internal accruals. Accordingly, we expect net debt to remain at comfortable levels, with net debt-to-EBITDA at lower than 1.5x.

Target Price – 12M	Sep-24
<b>Change in TP (%)</b>	<b>18.8</b>
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	8.0
CMP (28-Sep-23) (Rs)	2,337.8

Stock Data	Ticker
52-week High (Rs)	2,425
52-week Low (Rs)	1,476
Shares outstanding (mn)	187.5
Market-cap (Rs bn)	438
Market-cap (USD mn)	5,270
Net-debt, FY24E (Rs mn)	11,306
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	629.1
ADTV-3M (USD mn)	7.6
Free float (%)	42
Nifty-50	19,524
INR/USD	83.2
<b>Shareholding, Jun-23</b>	
Promoters (%)	55.9
FPIs/MFs (%)	13.9/8.9

**Price Performance**

(%)	1M	3M	12M
Absolute	15.1	5.3	53.5
Rel. to Nifty	13.8	2.4	32.5

**1-Year share price trend (Rs)****Dharmesh Shah**

dharmesh.shah@emkayglobal.com  
+91 22 6612 1255

**Cheragh Sidhwa**

cheragh.sidhwa@emkayglobal.com  
+91 22 66121219

## Exhibit 1: Annual Financials

Key Assumptions	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E	FY26E	CAGR (%)	
									FY19-23	FY23-26E
Cement Capacity (mt)	25	26.1	30.8	35.9	39	47	56	58	11.5	14.8
Volumes (mt)	19	19	21	22	26	28	34	37	8.4	12.9
Utilization (%)	75	74	67	62	67	61	60	63		
Blended Realization (Rs/ton)	5,047	4,967	5,088	5,084	5,258	5,324	5,404	5,512	1.0	1.6
<b>EBITDA/ton (Rs)</b>	<b>1,016</b>	<b>1,092</b>	<b>1,346</b>	<b>1,093</b>	<b>899</b>	<b>1,100</b>	<b>1,149</b>	<b>1,215</b>	<b>(3.0)</b>	<b>10.5</b>
<b>P&amp;L (Rs bn)</b>										
Revenue	95	96	105	113	135	151	181	204	9.3	14.7
EBITDA	19	21	28	24	23	31	39	45	4.5	24.8
Adj. Net Profit	3	2	9	8	7	10	14	17	20.7	36.6
<b>Balance Sheet (Rs bn)</b>										
Equity	106	106	126	157	156	165	177	191		
Net Debt	31	28	9	(14)	7	11	48	38		
Net Debt:EBITDA (x)	1.6	1.3	0.3	(0.6)	0.3	0.4	1.2	0.8		
Net Debt:Equity (x)	0.3	0.3	0.1	(0.1)	0.0	0.1	0.3	0.2		
<b>Cash Flow (Rs bn)</b>										
OCF before NWC change	15	16	27	24	22	26	30	34		
Change in NWC	(2)	3	8	(5)	(1)	1	(2)	(1)		
Capex	(9)	(14)	(13)	(18)	(27)	(30)	(63)	(21)		
<b>FCF</b>	<b>5</b>	<b>6</b>	<b>21</b>	<b>1</b>	<b>(6)</b>	<b>(3)</b>	<b>(35)</b>	<b>12</b>		
<b>Return ratios</b>										
RoE (%)	2.9	2.1	7.5	5.4	4.2	6.4	8.0	9.1		
RoCE (%)	4.7	2.9	5.8	4.6	4.0	5.9	7.0	7.7		
<b>RoIC (%)</b>	<b>13.4</b>	<b>12.8</b>	<b>19.1</b>	<b>13.7</b>	<b>10.8</b>	<b>13.3</b>	<b>13.0</b>	<b>13.0</b>		
<b>Valuations (x)</b>										
PER						42.8	32.1	26.3		
EV/EBITDA						14.4	12.6	10.6		
EV/ton						130	117	110		

Source: Company, Emkay Research

## Exhibit 2: Annual analysis on a per-ton basis

(Rs/ton)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Blended realization</b>	<b>5,047</b>	<b>4,967</b>	<b>5,088</b>	<b>5,084</b>	<b>5,258</b>	<b>5,324</b>	<b>5,404</b>	<b>5,512</b>
% YoY	(0.2)	(1.6)	2.4	(0.1)	3.4	1.3	1.5	2.0
Raw material costs	956	857	861	663	769	819	843	857
Power & fuel costs	940	901	809	1,158	1,429	1,203	1,226	1,251
Freight costs	979	982	1,009	1,061	1,088	1,146	1,160	1,184
Staff costs	347	350	345	335	299	314	287	273
Other expenses	810	785	719	774	773	742	738	732
<b>Operating costs</b>	<b>4,032</b>	<b>3,875</b>	<b>3,742</b>	<b>3,991</b>	<b>4,359</b>	<b>4,224</b>	<b>4,255</b>	<b>4,297</b>
% YoY	4.3	(3.9)	(3.4)	6.6	9.2	(3.1)	0.7	1.0
<b>Blended EBITDA</b>	<b>1,016</b>	<b>1,092</b>	<b>1,346</b>	<b>1,093</b>	<b>899</b>	<b>1,100</b>	<b>1,149</b>	<b>1,215</b>
% YoY	(14.6)	7.5	23.3	(18.8)	(17.7)	22.3	4.5	5.7

Source: Company, Emkay Research

**Exhibit 3: We increase FY24-26E EBITDA by 6-9%, factoring-in the higher realization**

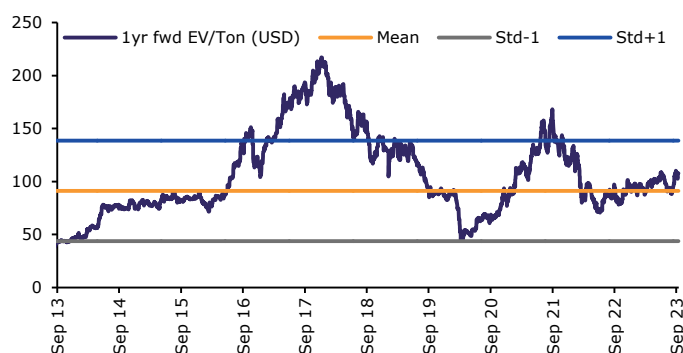
Earnings revision	FY24E			FY25E			FY26E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue (Rs mn)	1,50,783	1,51,487	0.5	1,81,287	1,81,282	(0.0)	2,04,023	2,04,323	0.1
<b>EBITDA (Rs mn)</b>	<b>28,795</b>	<b>31,289</b>	<b>8.7</b>	<b>36,398</b>	<b>38,550</b>	<b>5.9</b>	<b>42,667</b>	<b>45,025</b>	<b>5.5</b>
PAT (Rs mn)	8,398	10,237	21.9	11,991	13,662	13.9	14,852	16,677	12.3

Source: Emkay Research

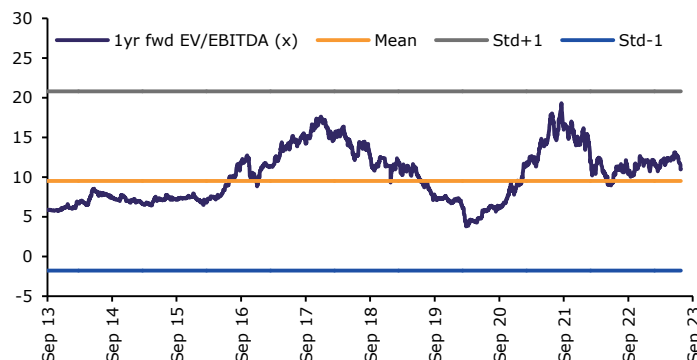
**Exhibit 4: We maintain HOLD on Dalmia Bharat, with TP of Rs2,525/share, based on Sep-24E EV/E of 12x**

EV/E valuation, backed by DCF analysis	Sep-24E
Sep-25E EBITDA (Rs bn)	42
EV/E (x)	12
<b>Enterprise Value (Rs bn)</b>	<b>501</b>
Net debt (Sep-24E; Rs bn)	28
<b>Equity value (Rs bn)</b>	<b>473</b>
No. of shares (mn)	187
<b>Sep-24E Target Price (Rs/share)</b>	<b>2,525</b>

Source: Emkay Research

**Exhibit 5: One-year forward EV/ton**

Source: Bloomberg, Emkay Research

**Exhibit 6: One-year forward EV/EBITDA**

Source: Bloomberg, Emkay Research

## Dalmia Bharat: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>1,12,860</b>	<b>1,35,400</b>	<b>1,51,487</b>	<b>1,81,282</b>	<b>2,04,323</b>
Revenue growth (%)	7.3	20.0	11.9	19.7	12.7
<b>EBITDA</b>	<b>24,260</b>	<b>23,160</b>	<b>31,289</b>	<b>38,550</b>	<b>45,025</b>
EBITDA growth (%)	(12.8)	(4.5)	35.1	23.2	16.8
Depreciation & Amortization	12,360	13,050	15,254	16,098	17,271
<b>EBIT</b>	<b>11,900</b>	<b>10,110</b>	<b>16,035</b>	<b>22,452</b>	<b>27,754</b>
EBIT growth (%)	(21.8)	(15.0)	58.6	40.0	23.6
Other operating income	0	0	0	0	0
Other income	1,550	1,380	1,823	1,367	1,381
Financial expense	1,970	2,340	3,383	4,567	5,634
<b>PBT</b>	<b>11,480</b>	<b>9,150</b>	<b>14,475</b>	<b>19,252</b>	<b>23,501</b>
Extraordinary items	3,570	3,810	0	0	0
Taxes	3,610	2,420	3,604	4,871	5,946
Minority interest	240	690	633	719	878
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>11,200</b>	<b>9,850</b>	<b>10,237</b>	<b>13,662</b>	<b>16,677</b>
PAT growth (%)	(9.0)	(12.1)	3.9	33.5	22.1
<b>Adjusted PAT</b>	<b>7,630</b>	<b>6,040</b>	<b>10,237</b>	<b>13,662</b>	<b>16,677</b>
<b>Diluted EPS (Rs)</b>	<b>59.9</b>	<b>52.5</b>	<b>54.6</b>	<b>72.9</b>	<b>89.0</b>
Diluted EPS growth (%)	(9.0)	(12.2)	3.9	33.5	22.1
<b>DPS (Rs)</b>	<b>9.0</b>	<b>9.0</b>	<b>8.2</b>	<b>10.9</b>	<b>13.3</b>
<b>Dividend payout (%)</b>	<b>15.0</b>	<b>17.1</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>
EBITDA margin (%)	21.5	17.1	20.7	21.3	22.0
EBIT margin (%)	10.5	7.5	10.6	12.4	13.6
Effective tax rate (%)	31.4	26.4	24.9	25.3	25.3
<b>NOPLAT (pre-IndAS)</b>	<b>8,158</b>	<b>7,436</b>	<b>12,042</b>	<b>16,772</b>	<b>20,732</b>
Shares outstanding (mn)	187.1	187.5	187.5	187.5	187.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	11,480	9,150	14,475	19,252	23,501
Others (non-cash items)	350	(5,150)	(58)	0	0
Taxes paid	240	(140)	(3,604)	(4,871)	(5,946)
Change in NWC	(5,150)	(770)	1,406	(1,740)	(705)
<b>Operating cash flow</b>	<b>19,370</b>	<b>22,520</b>	<b>28,400</b>	<b>31,220</b>	<b>37,497</b>
Capital expenditure	(17,560)	(27,010)	(30,000)	(62,540)	(20,830)
Acquisition of business	6,330	2,980	3,400	0	0
Interest & dividend income	750	770	1,823	1,367	1,381
<b>Investing cash flow</b>	<b>(10,480)</b>	<b>(23,260)</b>	<b>(24,777)</b>	<b>(61,173)</b>	<b>(19,449)</b>
Equity raised/(repaid)	50	0	0	0	0
Debt raised/(repaid)	(5,800)	6,670	0	38,000	(8,000)
Payment of lease liabilities	(350)	0	0	0	0
Interest paid	(2,670)	(3,300)	(3,383)	(4,567)	(5,634)
Dividend paid (incl tax)	(1,000)	(1,690)	(1,536)	(2,049)	(2,502)
Others	(980)	310	0	0	0
<b>Financing cash flow</b>	<b>(10,400)</b>	<b>1,990</b>	<b>(4,919)</b>	<b>31,383</b>	<b>(16,136)</b>
Net chg in Cash	(1,510)	1,250	(1,296)	1,430	1,912
OCF	19,370	22,520	28,400	31,220	37,497
Adj. OCF (w/o NWC chg.)	24,520	23,290	26,993	32,960	38,202
FCFF	1,810	(4,490)	(1,600)	(31,320)	16,667
FCFE	(3,990)	2,180	(1,600)	6,680	8,667
OCF/EBITDA (%)	79.8	97.2	90.8	81.0	83.3
FCFE/PAT (%)	(52.3)	36.1	(15.6)	48.9	52.0
<b>FCFF/NOPLAT (%)</b>	<b>22.2</b>	<b>(60.4)</b>	<b>(13.3)</b>	<b>(186.7)</b>	<b>80.4</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	374	375	375	375	375
Reserves & Surplus	1,56,496	1,55,905	1,64,607	1,76,219	1,90,395
<b>Net worth</b>	<b>1,56,870</b>	<b>1,56,280</b>	<b>1,64,982</b>	<b>1,76,594</b>	<b>1,90,770</b>
Minority interests	720	1,160	1,160	1,160	1,160
Deferred tax liability (net)	20,340	16,340	16,282	16,282	16,282
<b>Total debt</b>	<b>31,400</b>	<b>37,630</b>	<b>37,630</b>	<b>75,630</b>	<b>67,630</b>
<b>Total liabilities &amp; equity</b>	<b>2,09,330</b>	<b>2,11,410</b>	<b>2,20,054</b>	<b>2,69,666</b>	<b>2,75,842</b>
Net tangible fixed assets	1,05,320	1,23,260	1,43,006	1,91,908	1,96,637
Net intangible assets	25,560	24,430	24,430	24,430	24,430
Net ROU assets	1,120	1,870	1,870	1,870	1,870
Capital WIP	10,360	18,590	13,590	11,130	9,960
Goodwill	8,070	7,300	7,300	7,300	7,300
Investments [JV/Associates]	13,030	7,070	7,070	7,070	7,070
<b>Cash &amp; equivalents</b>	<b>45,610</b>	<b>31,020</b>	<b>26,324</b>	<b>27,754</b>	<b>29,666</b>
Current assets (ex-cash)	37,970	41,890	42,875	48,220	52,267
Current Liab. & Prov.	39,380	44,020	46,411	50,016	53,358
<b>NWC (ex-cash)</b>	<b>(1,410)</b>	<b>(2,130)</b>	<b>(3,536)</b>	<b>(1,796)</b>	<b>(1,091)</b>
<b>Total assets</b>	<b>2,09,330</b>	<b>2,11,410</b>	<b>2,20,054</b>	<b>2,69,666</b>	<b>2,75,842</b>
Net debt	(14,210)	6,610	11,306	47,876	37,964
Capital employed	2,09,330	2,11,410	2,20,054	2,69,666	2,75,842
<b>Invested capital</b>	<b>1,40,330</b>	<b>1,54,730</b>	<b>1,73,070</b>	<b>2,23,712</b>	<b>2,29,146</b>
BVPS (Rs)	838.3	833.6	880.0	941.9	1,017.5
Net Debt/Equity (x)	(0.1)	0.0	0.1	0.3	0.2
Net Debt/EBITDA (x)	(0.6)	0.3	0.4	1.2	0.8
Interest coverage (x)	6.8	4.9	5.3	5.2	5.2
<b>RoCE (%)</b>	<b>6.8</b>	<b>5.5</b>	<b>8.3</b>	<b>9.7</b>	<b>10.7</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	57.3	72.6	42.8	32.1	26.3
P/CE(x)	21.9	23.0	17.2	14.7	12.9
P/B (x)	2.8	2.8	2.7	2.5	2.3
EV/Sales (x)	3.8	3.3	3.0	2.7	2.3
EV/EBITDA (x)	17.4	19.2	14.4	12.6	10.6
EV/EBIT(x)	35.6	44.0	28.0	21.7	17.2
EV/IC (x)	3.0	2.9	2.6	2.2	2.1
FCFF yield (%)	0.4	(1.0)	(0.4)	(6.4)	3.5
FCFE yield (%)	(0.9)	0.5	(0.4)	1.4	1.8
Dividend yield (%)	0.4	0.4	0.4	0.5	0.6
<b>DuPont-RoE split</b>					
Net profit margin (%)	6.8	4.5	6.8	7.5	8.2
Total asset turnover (x)	0.6	0.6	0.7	0.7	0.7
Assets/Equity (x)	1.4	1.3	1.3	1.4	1.5
<b>RoE (%)</b>	<b>5.4</b>	<b>3.9</b>	<b>6.4</b>	<b>8.0</b>	<b>9.1</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	7.2	5.5	7.9	9.3	10.1
IC turnover (x)	0.8	0.9	0.9	0.9	0.9
<b>RoIC (%)</b>	<b>13.7</b>	<b>10.8</b>	<b>13.3</b>	<b>13.0</b>	<b>13.0</b>
<b>Operating metrics</b>					
Core NWC days	(4.6)	(5.7)	(8.5)	(3.6)	(1.9)
<b>Total NWC days</b>	<b>(4.6)</b>	<b>(5.7)</b>	<b>(8.5)</b>	<b>(3.6)</b>	<b>(1.9)</b>
Fixed asset turnover	0.5	0.6	0.6	0.6	0.6
Opex-to-revenue (%)	65.5	68.3	64.0	63.1	62.4

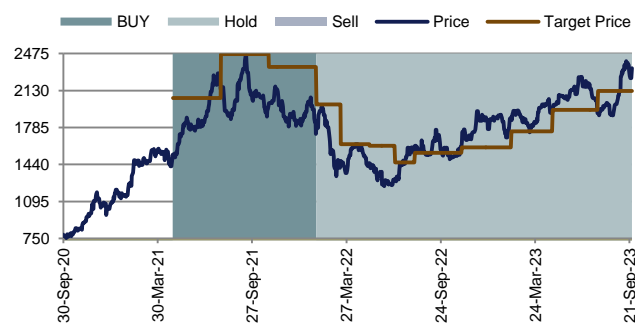
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
18-Sep-23	2,369	2,125	Hold	Dharmesh Shah
22-Jul-23	1,921	2,125	Hold	Dharmesh Shah
17-Jun-23	2,255	1,950	Hold	Dharmesh Shah
03-Jun-23	2,139	1,950	Hold	Dharmesh Shah
04-May-23	2,024	1,950	Hold	Dharmesh Shah
26-Apr-23	1,934	1,950	Hold	Dharmesh Shah
27-Mar-23	1,869	1,750	Hold	Dharmesh Shah
02-Mar-23	1,846	1,750	Hold	Dharmesh Shah
06-Feb-23	1,885	1,750	Hold	Dharmesh Shah
05-Feb-23	1,868	1,600	Hold	Dharmesh Shah
29-Dec-22	1,855	1,600	Hold	Dharmesh Shah
12-Dec-22	1,906	1,600	Hold	Dharmesh Shah
05-Dec-22	1,886	1,600	Hold	Dharmesh Shah
05-Nov-22	1,743	1,600	Hold	Dharmesh Shah
03-Nov-22	1,654	1,600	Hold	Dharmesh Shah
04-Oct-22	1,596	1,550	Hold	Dharmesh Shah
04-Sep-22	1,535	1,550	Hold	Dharmesh Shah
05-Aug-22	1,616	1,550	Hold	Dharmesh Shah
04-Jul-22	1,318	1,460	Hold	Dharmesh Shah
28-Jun-22	1,302	1,460	Hold	Dharmesh Shah
10-May-22	1,422	1,615	Hold	Dharmesh Shah
16-Mar-22	1,474	1,630	Hold	Dharmesh Shah
28-Jan-22	1,785	2,000	Hold	Dharmesh Shah
31-Dec-21	1,848	2,350	Buy	Dharmesh Shah
02-Dec-21	1,848	2,350	Buy	Dharmesh Shah
29-Oct-21	2,012	2,350	Buy	Dharmesh Shah
05-Sep-21	2,229	2,470	Buy	Dharmesh Shah
29-Jul-21	2,135	2,470	Buy	Dharmesh Shah
06-Jun-21	1,791	2,060	Buy	Dharmesh Shah
01-May-21	1,506	2,060	Buy	Dharmesh Shah
28-Apr-21	1,510	2,060	Buy	Dharmesh Shah

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com



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