Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

Company details

Market cap:	Rs. 35,537 cr
52-week high/low:	Rs. 2429/1797
NSE volume: (No of shares)	2.0 lakh
BSE code:	542216
NSE code:	DALMIABHA
Free float: (No of shares)	8.3 cr

Shareholding (%)

Promoters	55.8
FII	13.0
DII	11.2
Others	20.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-9.0	-13.2	-18.1	5.3
Relative to Sensex	-7.7	-15.5	-26.1	-19.8

Sharekhan Research, Bloomberg

Stock Update

Company Update

Dalmia Bharat Ltd

Regional cement price correction fairly factored in; Retain Buy

Cement	Sharekhan code: DALMIABHA		
Reco/View: Buy ↔	CMP: **Rs. 1,895**	Price Target: **Rs. 2,600** ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We retain a Buy on Dalmia Bharat with a revised PT of Rs. 2,600, as we factor in downwardly revised estimates and consider ~20% price correction in over two months offer buying opportunity with regional cement price correction fairly factored-in.
- As per our channel checks, trade cement prices in the East corrected by ~12% Q-o-Q in Q4FY2024, led by a sharp correction in March 2024, compared to ~ a 7% Q-o-Q dip in Pan-India trade cement prices.
- Eastern cement demand has been healthy during Jan-Feb 2024 and is expected to result in double-digit volume growth for Dalmia in Q4. EBITDA/tonne impact is to be limited up to Rs. 200/tonne q-o-q.
- It remains on track to close FY2024 with 46.6 MTPA cement capacity while staying committed to 75 MTPA and 110-130 MTPA by FY2027 and 2031, respectively. JP asset deal closure is likely to get delayed from March 2024-end.

Dalmia Bharat (Dalmia) is expected to be affected by weak regional prices during Q4FY2024, although healthy double-digit y-o-y volume growth and contained opex/tonne would limit the negative impact on EBITDA/tonne. As per our channel checks, trade cement prices in the East declined by ~12% q-o-q in Q4FY2024 owing to a sharp reduction in March 2024 (almost Rs. 50/bag decline m-o-m), while pan-India cement prices are down ~7% q-o-q in Q4FY2024. However, cement demand has remained healthy during Jan-Feb 2024, which is expected to drive double-digit y-o-y volume growth for Dalmia during Q4FY2024 as against 8% y-o-y in Q3FY2024. We estimate up to Rs. 200/tonne q-o-q impact on EBITDA/tonne led by a sharp reduction in Eastern region cement prices. Dalmia's stock price has seen ~20% price correction in over two months, which we believe fairly factors in the near-term pressure on regional cement prices and offers a buying opportunity. Hence, we have retained Buy on the stock with a revised PT of Rs. 2600, factoring downwardly revised earnings estimates.

- **Eastern cement prices see significant decline in Q4FY2024:** As per our channel checks, average trade cement prices in the Eastern region have seen a sharp decline of almost Rs. 50/bag m-o-m during March 2024 as against almost Rs. 25/bag m-o-m correction in pan-India trade prices. For Q4FY2024, the Eastern region witnessed a price decline of 11.8% q-o-q (down 3.9% y-o-y) as against a pan-India price dip of 6.7% q-o-q (down 3.2% y-o-y). Dalmia Bharat is expected to see a higher than anticipated q-o-q drop in blended realisations during Q4FY2024 owing to its material presence in Eastern region.
- **Healthy demand and contained opex may limit pressure on EBITDA/tonne in Q4:** Cement demand in the East has been healthy during January and February 2024, which we expect would result in double-digit y-o-y volume growth (including JP tolling volumes) for Dalmia Bharat in Q4FY2024 as compared to 8% y-o-y volume growth in Q3FY2024. Further, P&F costs per tonne basis may see a further 2-3% q-o-q dip in Q4FY2024. Hence, overall, we estimate up to almost Rs. 200/tonne
- **Organic expansions are on track, although JP Asset closure is delayed:** The company remains on track to add 2 MTPA cement capacity in South (TN & AP) to close FY2024 with 46.6 MTPA cement capacity. Further, it remains committed to achieving 49.5 MTPA/75 MTPA cement capacities by FY2025/FY2027 end while its overall vision of becoming a pan-India cement player by 2031 with a cement capacity of 110-130 MTPA stay intact. However, the closure of 9.4 MTPA JP Assets is delayed, awaiting lenders' approvals, which was expected by March 2024.

Revision in estimates – We have trimmed down our Revenues/Operating profit/net earnings estimates by ~1%/5%/13% for FY2024E/FY2025E/FY2026E, factoring in a downward revision in blended realisations.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2,600: Dalmia is expected to benefit from a strong demand environment focusing on capacity addition plans. 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. During the expansion phase, it remains mindful of maintaining healthy operational profitability and contained leverage. However, material correction in cement prices in the Eastern region during Q4FY2024 has led to ~20% stock price correction in over two months. Dalmia is trading at an EV/EBITDA of 12.5x/10.7x in its FY2025E/FY2026E earnings. We believe the correction in regional cement prices is fairly factored in and provides and opportunity to Buy. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 2,600, as we factor in downwardly revised earnings estimates.

Key Risks

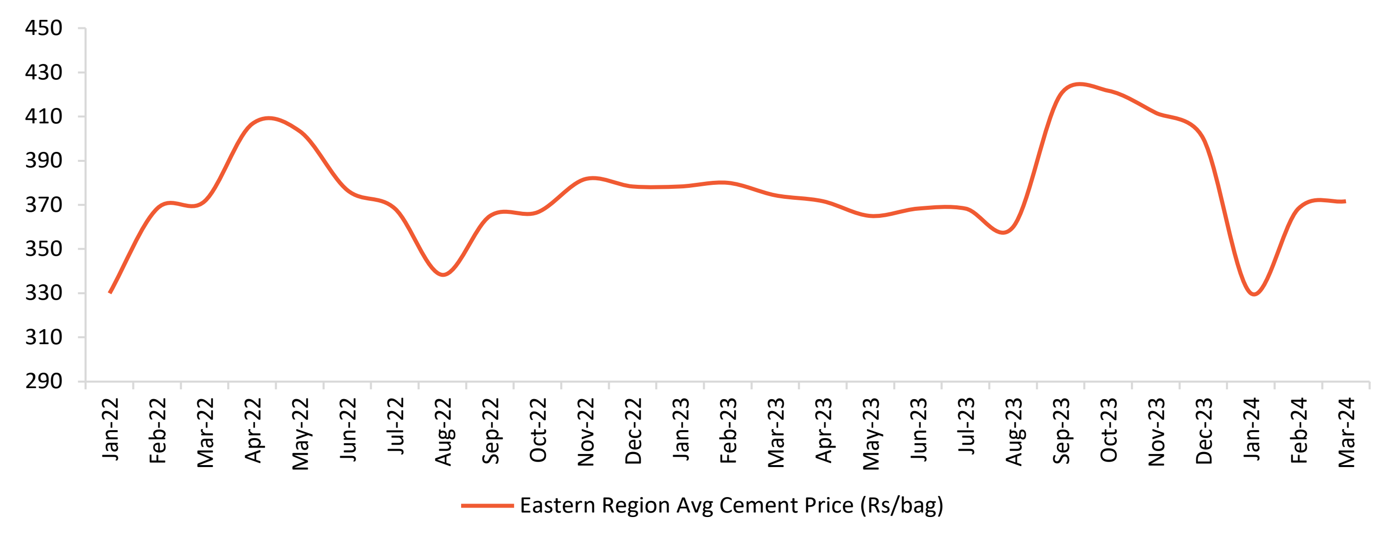
- Pressure on cement demand and prices in the East, North-east and South of India can affect financial performance; and
- Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can also affect performance.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	13,540	14,519	16,809	19,798
OPM (%)	17.1	19.0	18.7	18.5
Adjusted PAT	477	725	843	1,079
% y-o-y growth	-56.6	52.0	16.2	28.1
Adjusted EPS (Rs.)	27.4	39.2	45.5	58.3
P/E (x)	69.3	48.3	41.6	32.5
P/B (x)	2.2	2.2	2.1	1.9
EV/EBIDTA (x)	15.1	14.0	12.5	10.7
RoNW (%)	3.2%	4.5%	5.1%	6.1%
RoCE (%)	4.2%	5.4%	5.5%	6.2%

Source: Company; Sharekhan estimates

East price -3.9%/-11.8% (Q4FY24 vs. Q4FY23/Q3FY24)



Source: Industry; Sharekhan Research

Regional Price Trend during Mar'24/Q4FY24

Price trend (Rs/bag)	Mar-24	MoM (%)	YoY (%)	Q4FY24	YoY (%)	QoQ (%)
West	360	-3.0	-8.0	372	-5.7	-6.5
North	350	-6.0	-6.3	368	-2.2	-4.4
Central	363	-4.0	-4.9	373	-2.7	-4.2
South	353	-6.1	-4.1	370	-1.4	-6.4
East	330	-12.4	-11.8	363	-3.9	-11.8
Pan India	**351**	**-6.3**	**-7.0**	**369**	**-3.2**	**-6.7**

Source: Industry; 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 rising over the past 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.

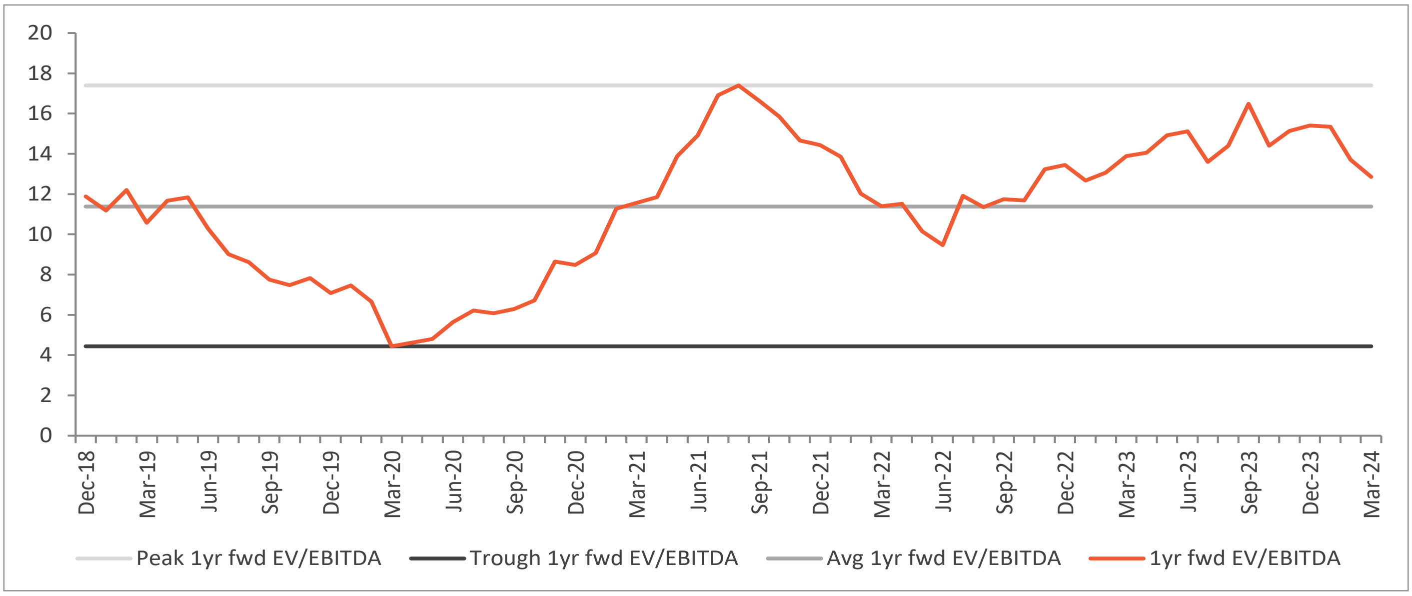
■ Company outlook - Aggressive expansion plans to help capture high-growth opportunities

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 Eastern regions.

■ Valuation - Retain Buy with a revised PT of Rs. 2,600

Dalmia is expected to benefit from a strong demand environment with a focus on capacity addition plans. 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. During the expansion phase, it remains mindful of maintaining healthy operational profitability and contained leverage. However, material correction in cement prices in the Eastern region during Q4FY2024 has led to ~20% stock price correction in over two months. Dalmia is currently trading at an EV/EBITDA of 12.5x/10.7x its FY2025E/FY2026E earnings. We believe the correction in regional cement prices is fairly factored in and provides and opportunity to Buy. Hence, we retain Buy on the stock with a revised price target (PT) of Rs. 2,600, as we factor in downwardly revised earnings estimates.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
UltraTech Cement	31.9	26.1	18.2	15.1	4.2	3.7	13.8	14.9
Dalmia Bharat	41.6	32.5	12.5	10.7	2.1	1.9	5.1	6.1
Shree Cement	31.2	25.9	15.0	12.4	3.9	3.5	13.4	14.3
The Ramco Cement	32.3	25.3	12.8	11.2	2.5	2.3	7.9	9.3

Source: Company; 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 43.7 MT spread across 15 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 170 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 46.6 MT by FY2024 excluding JP Associates' assets from current 43.7 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

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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