

**BUY**

TP: Rs 2,443 | ▲ 25%

**DALMIA BHARAT**

| Cement

| 28 March 2024

**All set for healthy growth; upgrade to BUY**

- DBL gears up for healthy business growth backed by 20% clinker capacity addition by FY26 across its operations
- Expects EBITDA margin to improve ~300bps to 21.7% in FY26E from 18.5% expected in FY24
- We upgrade DBL to BUY, valuing it at 12x FY26E EV/EBITDA (currently trading at ~10x) and arrive at a TP of Rs2,443 (unchanged)

**Set to grab growth opportunities:** DBL is set to tap growth opportunities by consolidating its presence in East/North-East, West and South India. DBL plans to address the clinker shortage by enhancing capacity in its major regions of operations to 27.1mn tonnes in FY26 from 22.9mn tonnes currently. The company plans to raise cement capacity to ~49.5mn tonnes in FY26 from 43.7mn tonnes currently. The timely clinker addition will help DBL address shortages/external purchase (raising costs), rationalise costs and improve margins.

**Calibrated growth across regions:** DBL's current capacity utilisation (3QFY24) is 60-65%. Though DBL plans to increase capacity (to 49.5mn tonnes of cement capacity by FY26E), it has indicated its growth plans will be in line with demand across its operating regions. DBL will focus on improving capacity addition while continuing to tap organic and inorganic growth opportunities. Management expects this to help DBL maintain balance on improved asset sweating and the timely addition of capacities to tap growth.

**Focus on cost-saving initiatives:** DBL will enhance its alternative energy sources to 202MW by FY24 and 328MW by FY25 from 166MW in FY23 (66MW from waste heat recovery systems and 100MW from solar energy). It expects to add further renewable energy sources to reach 380MW by FY26. Also, it has applied for a coal block in Central India to rationalise its costs further (though not instantly). We expect these measures to improve DBL's EBITDA margin to 21.7% in FY26E from ~17% in FY23.

**No major balance sheet stress:** Our estimates indicate net debt will hover at ~Rs30bn over the next three years (FY24E-FY26E) and debt/EBITDA to stay at ~1x despite capacity additions indicating no major balance sheet stress for the company.

**Upgrade to BUY:** Given its healthy margins, focus on calibrated growth and limited balance sheet stress, we feel DBL is poised for balanced growth. Factoring in the same, we value DBL at 12x FY26E EV/EBITDA (unchanged) to arrive at a TP of Rs2,443 (25% upside). We upgrade DBL to BUY (from HOLD).

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**Key changes**

Target	Rating
◀▶	▲

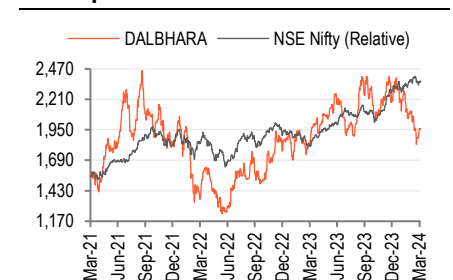
Ticker/Price	DALBHARA IN/Rs 1,958
Market cap	US\$ 4.4bn
Free float	44%
3M ADV	US\$ 9.6mn
52wk high/low	Rs 2,431/Rs 1,803
Promoter/FPI/DII	56%/12%/8%

Source: NSE | Price as of 27 Mar 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,35,400	1,46,036	1,64,134
EBITDA (Rs mn)	23,160	26,958	32,269
Adj. net profit (Rs mn)	6,321	7,696	11,357
Adj. EPS (Rs)	34.2	41.6	61.4
Consensus EPS (Rs)	34.2	46.8	65.0
Adj. ROAE (%)	4.7	5.2	7.8
Adj. P/E (x)	57.3	47.1	31.9
EV/EBITDA (x)	16.0	14.6	12.3
Adj. EPS growth (%)	(41.9)	21.8	47.6

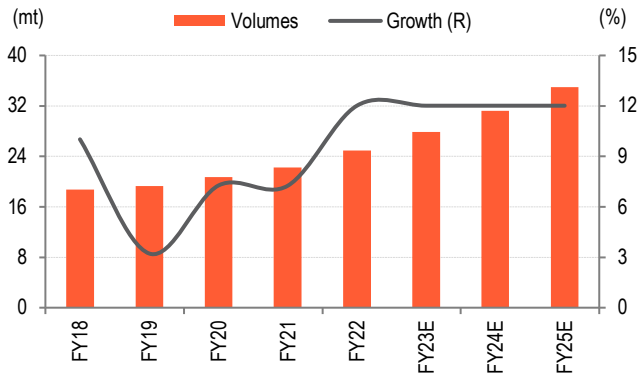
Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE

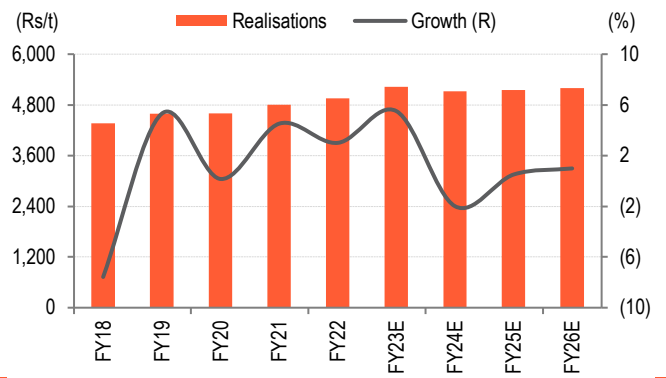


**Fig 1 – Volume growth to tap increment demand**



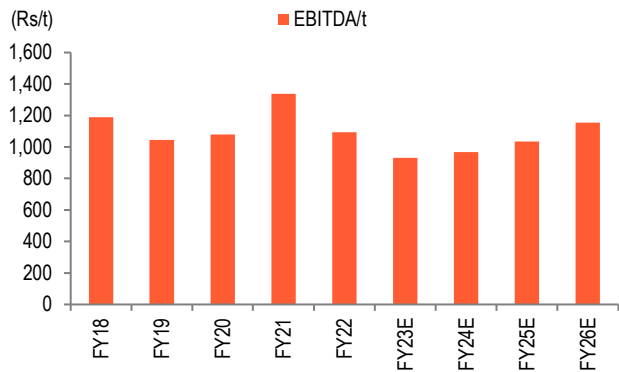
Source: Company, BOBCAPS Research

**Fig 2 – We stay conservative on realisation gains**



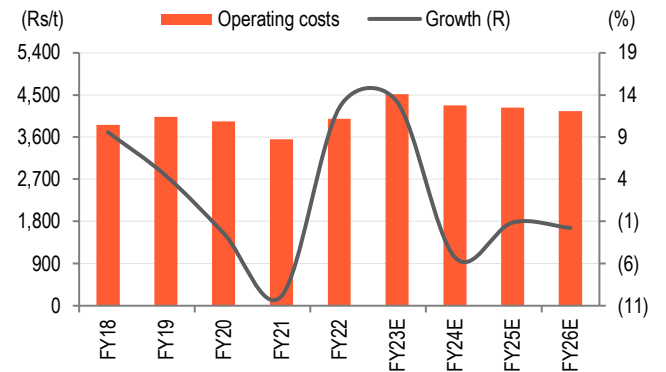
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA/tonne to be driven by cost savings**



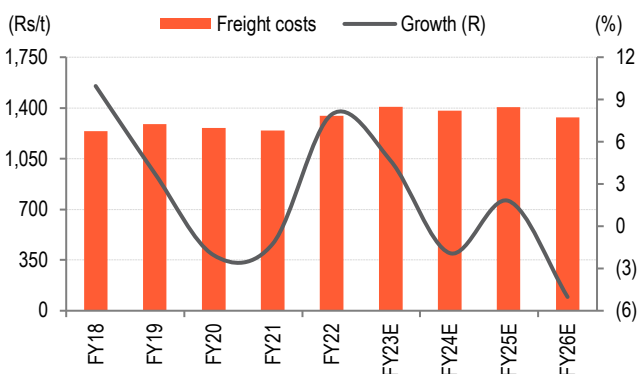
Source: Company, BOBCAPS Research

**Fig 4 – Operating cost rationalisation from energy cost savings**



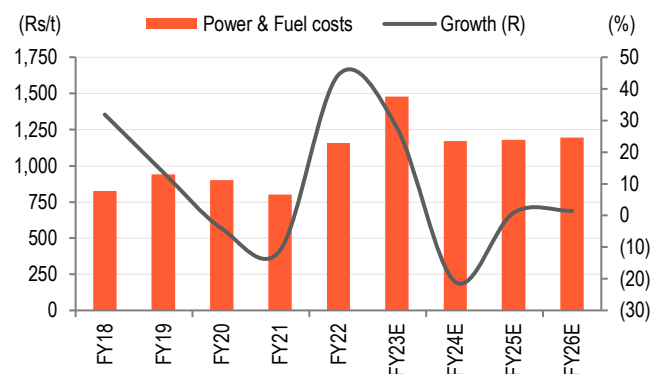
Source: Company, BOBCAPS Research

**Fig 5 – Focus on volume to help cost savings**



Source: Company, BOBCAPS Research

**Fig 6 – Energy cost savings from lower fuel cost**



Source: Company, BOBCAPS Research

## Valuation methodology

DBL will continue to drive market share supported by planned capacity expansion in FY25/FY26. Given its push for calibrated capacity addition the company is focusing on improving capacity utilisation (currently 60-65%) without losing inorganic or organic growth opportunities. We believe this will help DBL to narrow the gap between its regional dispatches and capacities. Also, the company has been able to improve its balance sheet and control debt fairly successfully.

We prune our FY24/FY25 EBITDA estimates by ~2%/5% to factor in its expectations of slow demand in the election phase (4QFY24/1HFY25), but we maintain our FY26 estimates for the company. Assigning the stock an EV/EBITDA of 12x FY26E (we have started assigning a higher multiple since 3QFY24 compared to 11x earlier), we maintain our TP at Rs 2,443 which reflects an implied replacement cost of Rs 8.6bn. We upgrade the stock's rating to BUY, from HOLD, with a 25% upside from the TP. We believe DBL's key focus areas are growth prospects, relatively better margin profile and improving balance sheet.

**Fig 7 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	146,036	164,134	185,392	149,452	167,161	188,816	(2.3)	(1.8)	(1.8)
EBITDA	26,958	32,269	40,308	27,584	34,057	40,303	(2.3)	(5.2)	0.0
Adj PAT	7,696	11,357	15,641	8,083	12,048	15,606	(4.8)	(5.7)	0.2
Adj EPS (Rs)	41.6	61.4	84.5	43.7	65.1	84.4	(4.8)	(5.7)	0.2

Source: BOBCAPS Research

**Fig 8 – Key assumptions**

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	24.9	27.8	31.2	34.9
Realisations (Rs/t)	5,318	5,124	5,150	5,201
Operating costs (Rs/t)	4,514	4,276	4,228	4,153
EBITDA/t (Rs)	931	968	1,035	1154

Source: Company, BOBCAPS Research

**Fig 9 – Valuation summary**

Business (Rs mn)	FY26E
Target FY26E EV/EBITDA (x)	12.00
EBITDA (FY26E)	40,308
<b>Target EV</b>	<b>484,702</b>
Total EV	484,702
Net debt (FY26E)	32,512
Target market capitalization	452,190
<b>Target price (Rs/sh)</b>	<b>2,444</b>
Weighted average shares (mn)	185.0

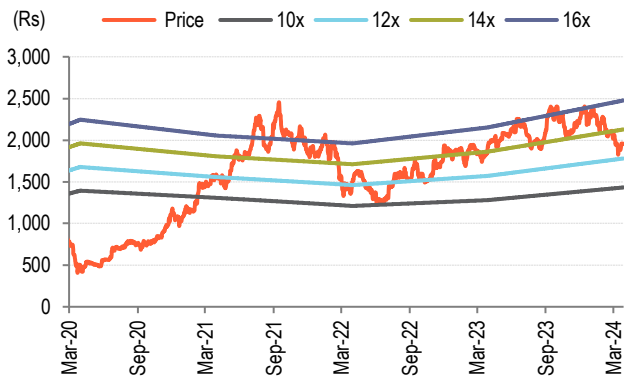
Source: BOBCAPS Research

**Fig 10 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
DALBHARA IN	BUY	2,243	16.0	14.6	12.3	126	109	107	4.7	5.2	7.8	5.4	6.8	8.7
SRCM IN	HOLD	27,836	36.7	22.1	17.8	208	207	202	7.5	11.7	12.4	9.4	15.3	16.6
ACC IN	HOLD	2,542	24.4	14.6	11.5	161	142	134	7.9	12.8	14.7	7.9	17.5	19.2

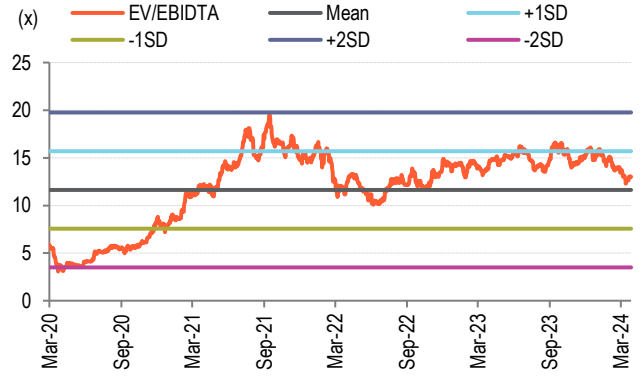
Source: Company, BOBCAPS Research

**Fig 11 – EV/EBITDA band: Current valuations leave room for upside**



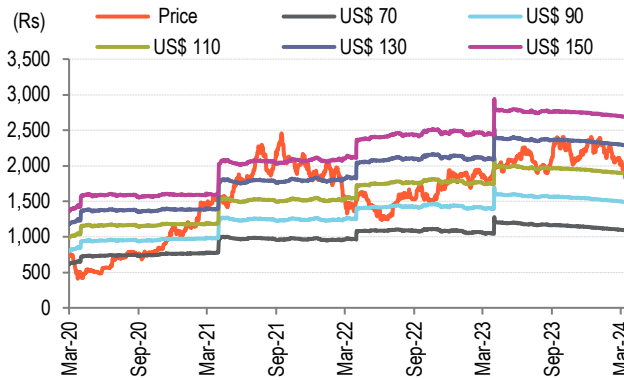
Source: Company, Bloomberg, BOBCAPS Research

**Fig 12 – EV/EBITDA 1Y fwd: Forward earnings at mean valuations, better earnings/growth leave space for upside**



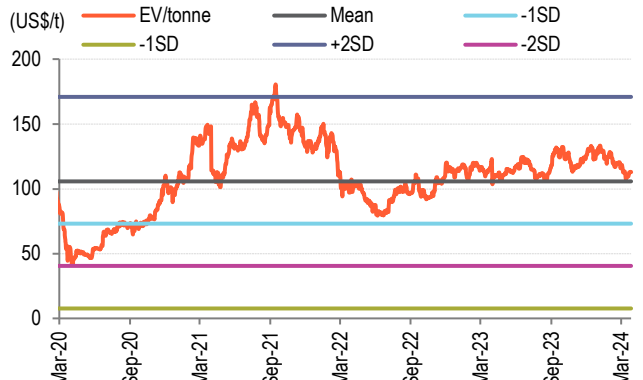
Source: Company, Bloomberg, BOBCAPS Research

**Fig 13 – EV/tonne: Replacement cost at modest valuations**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 14 – EV/tonne 1Y fwd: Valuations to stay elevated**



Source: Company, Bloomberg, BOBCAPS Research

### Key risks

Key downside risks to our estimates are:

- Slower-than-expected market recovery and sluggish demand pickup represent key downside risks to earnings.
- Higher-than-expected fuel cost inflation will stress earnings further.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.6	2,454	2,542	HOLD
Ambuja Cements	ACEM IN	14.5	602	552	HOLD
Dalmia Bharat	DALBHARA IN	4.4	1,958	2,443	BUY
JK Cement	JKCE IN	3.8	4,054	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.2	868	637	SELL
Orient Cement	ORCMNT IN	0.5	201	168	SELL
Shree Cement	SRCM IN	11.4	25,939	27,836	HOLD
The Ramco Cements	TRCL IN	2.3	816	728	SELL
Ultratech Cement	UTCEN IN	33.8	9,623	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 27 Mar 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>1,12,860</b>	<b>1,35,400</b>	<b>1,46,036</b>	<b>1,64,134</b>	<b>1,85,392</b>
EBITDA	24,310	23,160	26,958	32,269	40,308
Depreciation	(12,360)	(13,050)	(15,138)	(16,046)	(17,009)
EBIT	13,500	11,490	14,470	18,816	25,592
Net interest inc./(exp.)	(2,020)	(2,349)	(3,892)	(3,912)	(4,547)
Other inc./(exp.)	1,550	1,380	2,650	2,593	2,293
Exceptional items	(20)	3,850	0	0	0
EBT	11,460	12,991	10,578	14,905	21,044
Income taxes	140	(2,420)	(2,729)	(3,394)	(5,161)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(160)	(400)	(153)	(153)	(243)
<b>Reported net profit</b>	<b>11,440</b>	<b>10,171</b>	<b>7,696</b>	<b>11,357</b>	<b>15,641</b>
Adjustments	(20)	3,850	0	0	0
<b>Adjusted net profit</b>	<b>11,460</b>	<b>6,321</b>	<b>7,696</b>	<b>11,357</b>	<b>15,641</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	15,300	18,120	27,311	29,231	31,244
Other current liabilities	15,810	20,630	21,407	20,362	19,369
Provisions	6,060	3,200	3,520	3,872	4,259
Debt funds	33,600	39,800	48,777	48,993	47,855
Other liabilities	19,620	14,940	19,784	19,686	19,686
Equity capital	390	370	370	370	370
Reserves & surplus	1,57,210	1,56,900	1,42,462	1,51,870	1,65,560
Shareholders' fund	1,58,320	1,58,430	1,43,388	1,52,894	1,66,584
<b>Total liab. and equities</b>	<b>2,48,710</b>	<b>2,55,120</b>	<b>2,64,187</b>	<b>2,75,038</b>	<b>2,88,997</b>
Cash and cash eq.	45,590	32,200	16,221	14,175	15,343
Accounts receivables	6,730	7,000	7,768	8,984	10,444
Inventories	9,450	13,160	14,261	16,125	18,348
Other current assets	23,340	30,300	30,033	31,535	33,111
Investments	13,050	5,890	5,890	9,890	14,890
Net fixed assets	1,01,220	96,351	1,21,658	1,18,630	1,17,777
CWIP	10,480	18,590	14,872	19,334	19,527
Intangible assets	38,850	51,629	53,484	56,365	59,557
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>2,48,710</b>	<b>2,55,120</b>	<b>2,64,187</b>	<b>2,75,038</b>	<b>2,88,997</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>17,430</b>	<b>19,870</b>	<b>30,562</b>	<b>16,747</b>	<b>22,764</b>
Capital expenditures	(12,580)	(36,159)	(32,627)	(13,005)	(13,265)
Change in investments	(16,710)	21,800	16,706	(5,000)	(6,000)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(29,290)</b>	<b>(14,359)</b>	<b>(15,922)</b>	<b>(18,005)</b>	<b>(19,265)</b>
Equities issued/Others	340	250	(757)	(55)	(243)
Debt raised/repaid	(6,930)	6,200	8,977	217	(1,138)
Interest expenses	0	0	0	0	0
Dividends paid	(1,000)	(1,690)	(1,665)	(1,850)	(1,850)
Other financing cash flows	18,580	(9,021)	(20,469)	(100)	(100)
<b>Cash flow from financing</b>	<b>10,990</b>	<b>(4,261)</b>	<b>(13,915)</b>	<b>(1,788)</b>	<b>(3,331)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(870)</b>	<b>1,250</b>	<b>726</b>	<b>(3,046)</b>	<b>168</b>
<b>Closing cash &amp; cash eq.</b>	<b>45,590</b>	<b>32,200</b>	<b>16,221</b>	<b>14,175</b>	<b>15,343</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	58.7	55.0	41.6	61.4	84.5
Adjusted EPS	58.8	34.2	41.6	61.4	84.5
Dividend per share	5.1	9.1	9.0	10.0	10.0
Book value per share	811.9	856.4	775.1	826.5	900.5

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.1	2.7	2.7	2.4	1.8
EV/EBITDA	14.4	16.0	14.6	12.3	8.2
Adjusted P/E	33.3	57.3	47.1	31.9	23.2
P/BV	2.4	2.3	2.5	2.4	2.2

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	101.2	81.4	74.2	77.2	75.5
Interest burden (PBT/EBIT)	85.0	79.6	73.1	79.2	82.2
EBIT margin (EBIT/Revenue)	12.0	8.5	9.9	11.5	13.8
Asset turnover (Rev./Avg TA)	48.1	53.7	56.2	60.9	65.7
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.8	1.8
Adjusted ROAE	8.1	4.7	5.2	7.8	9.9

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	11.6	20.0	7.9	12.4	13.0
EBITDA	(12.2)	(4.7)	16.4	19.7	24.9
Adjusted EPS	(4.9)	(41.9)	21.8	47.6	37.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	21.5	17.1	18.5	19.7	21.7
EBIT margin	12.0	8.5	9.9	11.5	13.8
Adjusted profit margin	10.2	4.7	5.3	6.9	8.4
Adjusted ROAE	8.1	4.7	5.2	7.8	9.9
ROCE	6.8	5.4	6.8	8.7	11.2
<b>Working capital days (days)</b>					
Receivables	22	19	19	20	21
Inventory	31	35	36	36	36
Payables	63	59	84	81	79
<b>Ratios (x)</b>					
Gross asset turnover	0.6	0.6	0.6	0.6	0.7
Current ratio	2.3	2.0	1.3	1.3	1.4
Net interest coverage ratio	6.7	4.9	3.7	4.8	5.6
Adjusted debt/equity	0.2	0.3	0.3	0.3	0.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

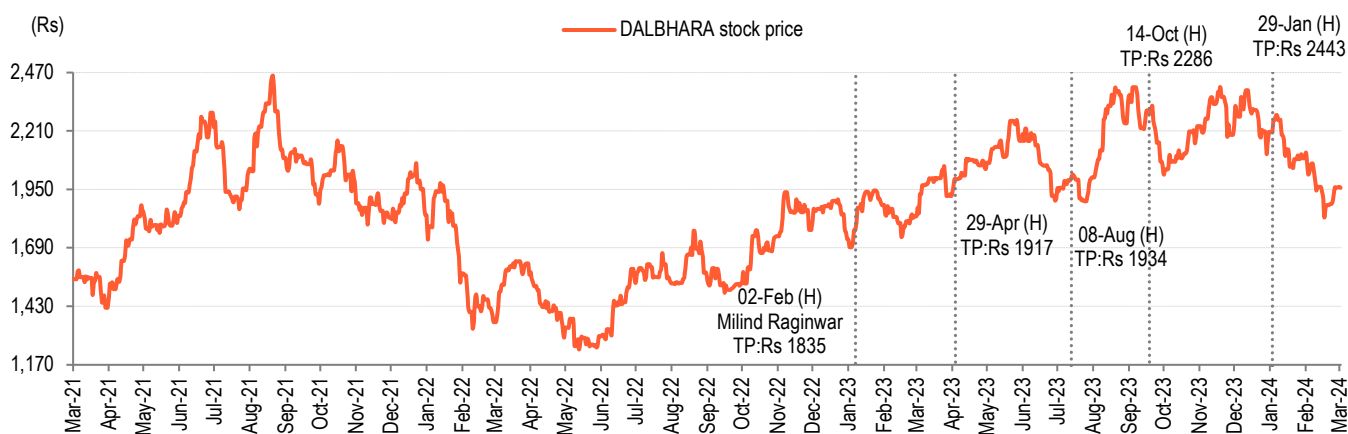
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): DALMIA BHARAT (DALBHARA IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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