

HOLD

TP: Rs 2,286 | ▲ 6%

DALMIA BHARAT

| Cement

| 21 October 2023

Cost respite in an otherwise muted quarter

- Q2 volume growth slowed to single digits (7% YoY) owing to fierce competition in key operating regions
- EBITDA grew 56% YoY off a weak base and aided by lower fuel cost, with healthy margin improvement
- Maintain HOLD with an unchanged TP of Rs 2,286, set at 11x FY25E EV/EBITDA

Milind Raginwar | Shree Kirloskar
research@bobcaps.in

Realisations decline, volume growth softens: Dalmia Bharat's (DBL) Q2FY24 revenue growth was muted at 6% YoY (-13.1% QoQ) to Rs 31.5bn because of flat realisations and soft volume growth. Volumes grew just 6.9% YoY (-11.4% QoQ) to 6.2mt while realisations fell ~1% YoY (2% QoQ) to Rs 5,079/t due to continued weakness in southern markets and market share losses in the eastern region.

Cost structure improves: Notwithstanding inflated staff expense of Rs 365/t (+11.9% YoY), overall cost/t was down 8% YoY (-4.1% QoQ) to Rs 4,129 due to a 14% (-5.3% QoQ) decline in energy cost (adjusted to raw material) to Rs 1,985/t and an 4.0% (-8.4% QoQ) decrease in the logistic cost (outward logistic) to Rs 897/t. Management expects a marginal reduction of ~3% in fuel cost in H2FY24.

EBITDA growth off a weak base: Despite weak realisations and subpar volume growth, EBITDA grew 56.2% YoY (-3.4% QoQ) to Rs 5.9bn off a low base, further aided by reduced costs. EBITDA margin expanded 600bps YoY and 185bps QoQ to 18.7% and EBITDA/t stood at Rs 950 (+52.5% YoY/12.5% QoQ).

Capacity expansion underway: DBL closed Q2 with cement capacity of 43.7mn tonnes and is on track to reach 46.6mt by FY24-end. Clinker capacity of 22.2mt is expected to reach 22.9mt by the end of the fiscal. DBL's capex guidance for FY24 is ~Rs 65bn, of which Rs 35bn is earmarked for the Jaypee acquisition and the balance for organic expansion. We retain our EBITDA forecasts but cut FY25 EPS 10% (FY24 unchanged) to accommodate capex-related depreciation and interest cost.

Fairly valued; retain HOLD: With the ongoing expansion by FY24/FY25, DBL's chase for volumes will only intensify, but narrowing the gap between its regional dispatches and capacities will be a challenge. Of late, the company has focused on improving the balance sheet and controlling debt with fair success. However, its aggressive capex spree does imply intermittent periods of higher leverage in the short/medium term. We find current valuations fair and maintain HOLD with an unchanged TP of Rs 2,286 as we continue to value the stock at 11x FY25E EV/EBITDA – an implied replacement cost of Rs 8.4bn/mt.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	DALBHARA IN/Rs 2,158
Market cap	US\$ 4.9bn
Free float	44%
3M ADV	US\$ 9.1mn
52wk high/low	Rs 2,425/Rs 1,511
Promoter/FPI/DII	56%/12%/8%

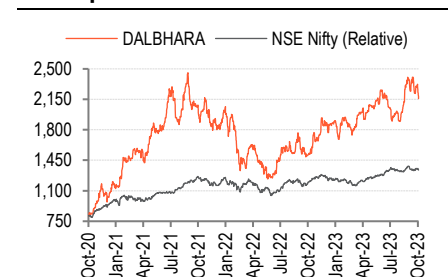
Source: NSE | Price as of 20 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	1,35,400	1,53,921	1,77,753
EBITDA (Rs mn)	23,160	27,895	37,447
Adj. net profit (Rs mn)	6,321	9,537	15,138
Adj. EPS (Rs)	34.2	51.5	81.8
Consensus EPS (Rs)	34.2	53.7	75.5
Adj. ROAE (%)	4.7	6.4	10.1
Adj. P/E (x)	63.2	41.9	26.4
EV/EBITDA (x)	17.6	15.4	11.3
Adj. EPS growth (%)	(41.9)	50.9	58.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY24	Q1FY24	Our view
Volumes and Realisations	<p>Q2 volume growth softened to 7% YoY due to loss of market share in the eastern region (West Bengal and Bihar). Management has made corrections for past pricing decisions taken in the east and expects to see results in terms of volume and market share from Q4.</p> <p>Overall, management expects above-industry volume growth for FY24.</p>	<p>Q1 volume growth was limited to 12% YoY as DBL focused on preserving realisations. Management expects recovery of regional market share from Q2. Volume growth will also be aided by contract manufacturing with Jaypee.</p> <p>Realisations were down in southern states, especially Tamil Nadu (TN). Management believes current prices are unsustainable and forecasts a marginal price hike post monsoon.</p>	<p>We expect volume growth to pick up from H2FY24, but pricing recovery can be a challenge due to oversupply in DBL's two major operating regions of South and East India.</p>
Margins	<p>EBITDA grew by 56.2% YoY (-3.4% QoQ) to Rs 5.9bn due to a weaker Q2FY23 base, improvement in cost structure (overall cost/t down 8% YoY) and price hikes taken in the eastern and southern regions.</p>	<p>Tight pricing in the southern and eastern regions suppressed margins. Further, cost inflation due to plant shutdowns and freight hikes (busy season surcharge continued through the year) added to the woes.</p> <p>States have imposed new surcharges on power consumption which should prompt the company to reduce grid usage and help sustain margin expansion.</p>	<p>Sustained pricing in the eastern and southern regions will be the key to earnings growth for DBL. Cost savings are commendable and with captive power once again turning viable following the reduction in pet coke and thermal coal prices, we could see added respite on margins.</p>
Capacity	<p>DBL expects to add 2.4mt of capacity in the northeast by FY26 with further additions of 0.5mt in Bihar (board approval received) and 2.9mt in the south by end-FY24.</p> <p>The 2mt Sattur plant at TN has been commercialised, taking DBL's total cement capacity to 43.7mt as on Q2FY24.</p> <p>Management aims to reach 46.6mt by the end of FY24.</p> <p>Clinker capacity has been increased to 22.2mt as on Q2FY24 following a 0.5mt debottlenecking activity in TN, and management aims to reach 22.9mt by end-FY24.</p>	<p>Management has guided for cement capacity expansion of 2mt greenfield at Sattur, TN; 1mt brownfield at Ariyalur, TN, and Kadapa, Andhra Pradesh; and 0.9mt debottlenecking at Belgaum, Karnataka, by the end of FY24. This should raise total capacity from 41.6mt as of Q1 to 46.6mt.</p> <p>The Sattur plant is undergoing trial runs and will commence commercial operations at the tail end of Q2.</p> <p>DBL has also entered a contract manufacturing agreement with Jaypee until the acquisition's completion.</p> <p>Management has guided for clinker capacity expansion from 9.2mt to 10.4mt in the south, from 7.7mt to 8.3mt in the east, and from 2.7mt to 2.9mt in the northeast, thus raising total capacity from 21.7mt to ~23mt by end-FY24.</p>	<p>DBL has enough capacity to handle incremental demand. Sweating of assets will be more challenging as the company walks a tightrope to balance cement pricing and higher dispatches in the market.</p>
Capex	<p>Capex guidance for FY24 is ~Rs 65bn, of which Rs 35bn is earmarked for the Jaypee acquisition and the balance Rs 30bn for organic expansion (including expansion projects in the northeast and at RCW).</p>	<p>Capex incurred in Q1FY24 stood at Rs 9bn. Management has guided for budgeted capex of Rs 6bn-7bn in Q2 and Rs 63bn in FY24, of which Rs 35bn will be financed by debt.</p>	<p>Prudent capex for organic and inorganic capacity addition will be key.</p>

Parameter	Q2FY24	Q1FY24	Our view
Other key points	<p>Gross debt has increased by Rs 9bn during Q2FY24 and closing debt stands at Rs 52.9bn. Net debt totalled Rs 15bn (guidance of Rs 30bn-40bn post JPA deal) and net debt/EBITDA at 0.59x (guidance of 1x post JPA deal).</p> <p>Incentive accruals during Q2FY24 were ~Rs 0.5bn and collections ~Rs 0.3bn. Incentive receivables as on 30 Sep 2023 stand at ~Rs 7.8bn</p> <p>The JPA acquisition continues to be delayed with lender approvals pending from ~35 banks. Management expects to conclude the transaction by end-FY24.</p> <p>DBL will be acquiring a 20% additional stake in Calcom Cement via a rights issue, but the legal dispute with the Calcom promoters remains unresolved (judgement in favour of DBL in the High Court, but Calcom can challenge the same in the Supreme Court).</p>	<p>DBL has a target debt level of Rs 70bn-75bn by end-FY24. Debt will be used to finance capex and the Jaypee acquisition. Consequently, financing costs will rise.</p> <p>Depreciation charge has risen due to debottlenecking expenses, with Q2/FY24 depreciation guided to be higher by Rs 540mn/Rs 1.5bn for the same reason.</p> <p>The Jaypee acquisition is expected to be completed by FY24-end, deferred from this quarter due to delays in regulatory and lender approvals.</p>	<p>The company must prioritise balance sheet health against its expansion needs.</p>

Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery System, RCW: Rohtas Cement Works

Fig 2 – Key metrics

(Rs)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (mn mt)	6.2	5.8	6.9	7.0	(11.4)
Cement realisations (Rs/mt)	5,079	5,122	(0.8)	5,177	(1.9)
Operating costs (Rs/mt)*	4,129	4,472	(7.7)	4,306	(4.1)
EBITDA/t (Rs)	950	623	52.5	844	12.5

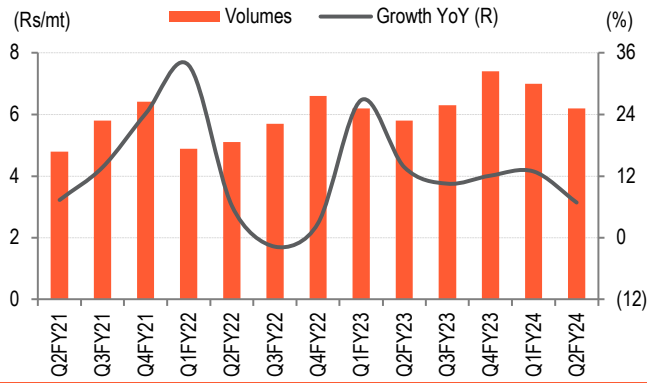
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net Sales	31,490	29,710	6.0	36,240	(13.1)
Expenditure					
Change in stock	(390)	(40)	875.0	(680)	(42.6)
Raw material	4,550	4,420	2.9	5,380	(15.4)
Purchased products	1,170	30	3,800.0	960	21.9
Power & fuel	6,980	8,920	(21.7)	9,020	(22.6)
Freight	6,310	5,960	5.9	8,090	(22.0)
Employee costs	2,260	1,890	19.6	2,220	1.8
Other expense	4,720	4,760	(0.8)	5,150	(8.3)
Total Operating Expenses	25,600	25,940	(1.3)	30,140	(15.1)
EBITDA	5,890	3,770	56.2	6,100	(3.4)
EBITDA margin (%)	18.7	12.7	602bps	16.8	187bps
Other Income	850	380	123.7	570	49.1
Interest	1,010	540	87.0	830	21.7
Depreciation	4,010	3,320	20.8	3,990	0.5
Share of profit from associate and joint venture	0	60	(100.0)	0	0.0
PBT	1,720	350	391.4	1,850	(7.0)
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,720	350	391.4	1,850	(7.0)
Tax	480	(210)	(328.6)	410	17.1
PAT	1,240	560	121.4	1,440	(13.9)
Minority Interest	50	10	400.0	140	(64.3)
Adjusted PAT	1,190	550	116.4	1,300	(8.5)
NPM (%)	3.8	1.9	193bps	3.6	19bps
Adjusted EPS (Rs)	6.4	3.0	116.4	7.0	(8.5)

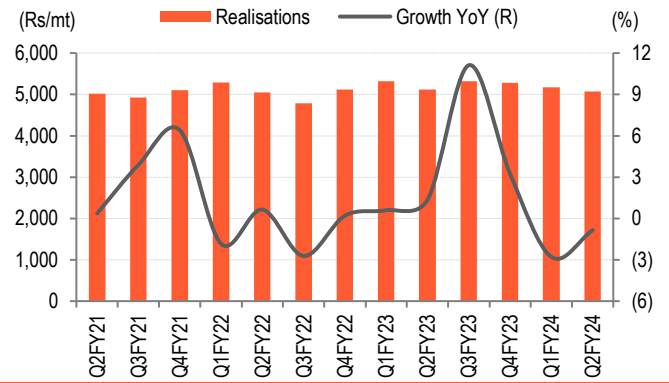
Source: Company, BOBCAPS Research

Fig 4 – Volume growth poor due to competitive pressure



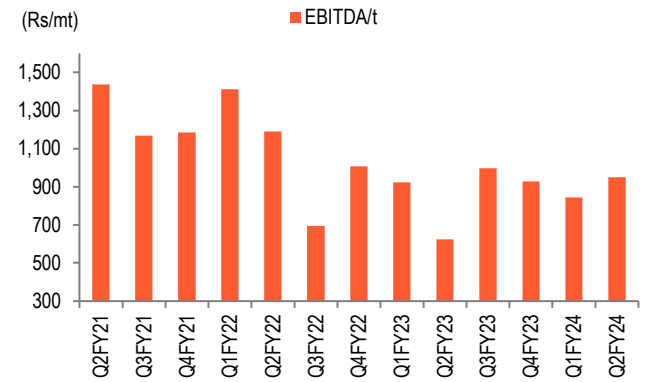
Source: Company, BOBCAPS Research

Fig 5 – Pricing muted in key operating markets



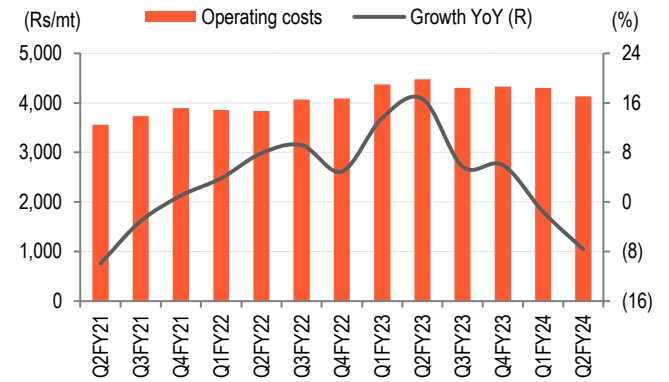
Source: Company, BOBCAPS Research

Fig 6 – Weak base helps in EBITDA/t recovery



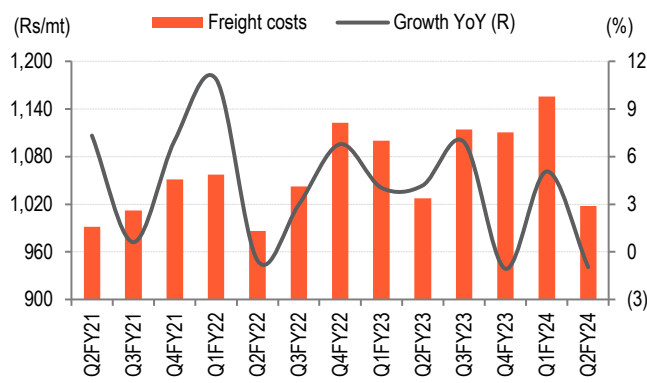
Source: Company, BOBCAPS Research

Fig 7 – Lower operating cost provides respite



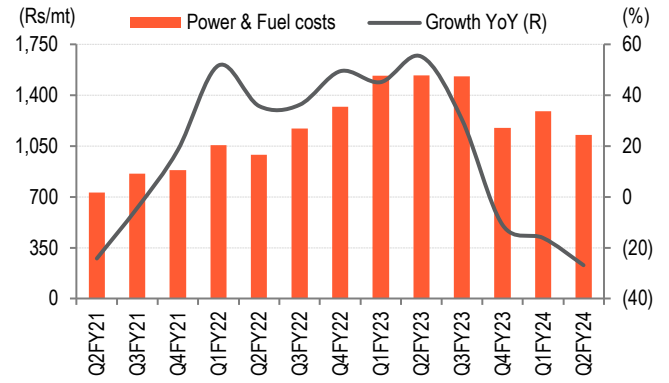
Source: Company, BOBCAPS Research

Fig 8 – Logistic cost softens on better lead management



Source: Company, BOBCAPS Research

Fig 9 – Fuel cost decline key to containing overall cost inflation



Source: Company, BOBCAPS Research

Valuation methodology

With the ongoing capacity expansion by FY24/FY25, DBL's chase for volumes will only intensify, but narrowing the gap between its regional dispatches and capacities will be a challenge. Of late, the company has focused on improving the balance sheet and controlling debt with fair success. However, its aggressive capex spree does imply intermittent periods of higher leverage in the short/medium term.

We maintain our EBITDA forecasts but lower FY25 EPS by 10% (FY24 unchanged) to accommodate higher capex-related depreciation and interest cost. We find current valuations fair and maintain HOLD with an unchanged TP of Rs 2,286 as we continue to value the stock at 11x FY25E EV/EBITDA – an implied replacement cost of Rs 8.4bn/mt.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,53,921	1,77,753	1,53,921	1,77,753	0.0	0.0
EBITDA	27,895	37,447	27,895	37,447	0.0	0.0
Adj PAT	9,537	15,138	9,537	16,933	0.0	(10.6)
Adj EPS (Rs)	51.5	81.8	51.5	91.5	0.0	(10.6)

Source: Company, BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	22.4	24.9	28.1	31.3
Realisations (Rs/mt)	4,956	5,229	5,360	5,440
Operating costs (Rs/mt)	3,951	4,514	4,486	4,431
EBITDA/mt (Rs)	1,095	931	993	1,121

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	FY25E
Target FY25E EV/EBITDA (x)	11
EBITDA (FY25E)	37,357
Target EV	444,554
Total EV	444,554
Net debt (FY25E)	21,685
Target market capitalisation	422,869
Target price (Rs/sh)	2,286
Weighted average shares (mn)	185.0

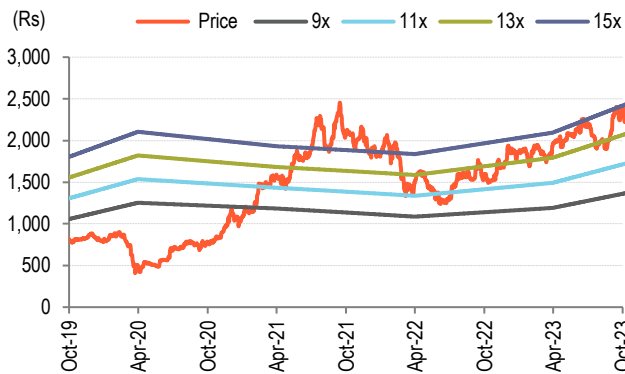
Source: BOBCAPS Research

Fig 13 – 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	HOLD	2,286	17.6	15.4	11.3	126	109	107	4.0	6.3	11.1	5.4	7.2	10.9
SRCM IN	HOLD	24,656	34.4	21.7	16.2	207	205	201	7.5	10.7	14.3	9.4	14.7	18.6
ACC IN	HOLD	2,090	19.1	13.8	8.1	95	94	87	5.1	7.0	11.3	6.7	9.4	14.9

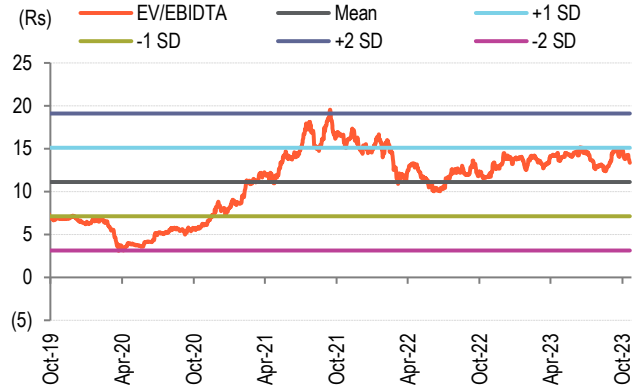
Source: BOBCAPS Research

Fig 14 – Current valuations ahead of earnings growth



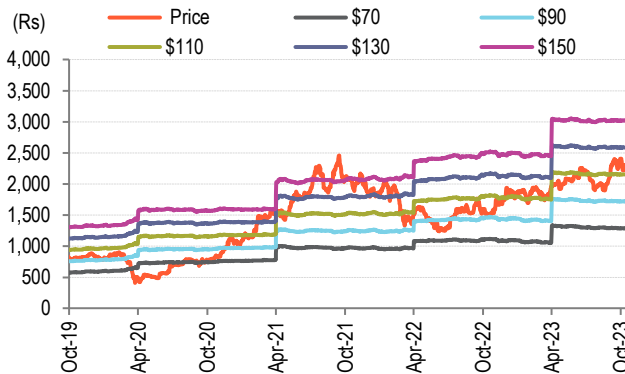
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – We value the stock near mean valuations



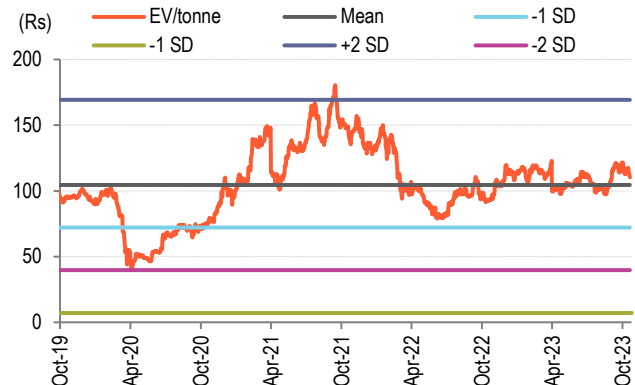
Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – Fairly priced even on the replacement cost method



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – Replacement cost offers limited upside



Source: Company, Bloomberg, BOBCAPS Research

Key risks

- Faster-than-expected cost deflation and better realisations pose upside risks to our earnings estimates.
- Slower-than-expected market recovery, sluggish demand pickup and fuel cost inflation represent key downside risks to earnings.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.5	1,963	1,964	HOLD
Ambuja Cements	ACEM IN	10.4	431	435	HOLD
Dalmia Bharat	DALBHARA IN	4.9	2,158	2,286	HOLD
JK Cement	JKCE IN	3.1	3,302	3,474	HOLD
JK Lakshmi Cement	JKLC IN	1.0	678	551	SELL
Orient Cement	ORCMNT IN	0.5	202	128	SELL
Shree Cement	SRCM IN	11.5	26,085	25,731	HOLD
Star Cement	STRCEM IN	0.9	169	159	HOLD
The Ramco Cements	TRCL IN	2.9	994	585	SELL
Ultratech Cement	UTCEN IN	29.7	8,461	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 20 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	1,01,100	1,12,860	1,35,400	1,53,921	1,77,753
EBITDA	27,700	24,310	23,160	27,895	37,447
Depreciation	(12,500)	(12,360)	(13,050)	(14,225)	(15,078)
EBIT	17,010	13,500	11,490	15,267	24,062
Net interest inc./(exp.)	(3,030)	(2,020)	(2,349)	(3,292)	(4,215)
Other inc./(exp.)	1,810	1,550	1,380	1,597	1,693
Exceptional items	(340)	(20)	3,850	0	0
EBT	13,640	11,460	12,991	11,975	19,848
Income taxes	(1,780)	140	(2,420)	(2,286)	(4,557)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(150)	(160)	(400)	(153)	(153)
Reported net profit	11,710	11,440	10,171	9,537	15,138
Adjustments	(340)	(20)	3,850	0	0
Adjusted net profit	12,050	11,460	6,321	9,537	15,138

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	14,890	15,300	18,120	28,529	30,711
Other current liabilities	15,220	15,810	20,630	21,407	20,362
Provisions	3,170	6,060	3,200	3,520	3,872
Debt funds	40,530	33,600	39,800	48,777	48,993
Other liabilities	17,810	19,620	14,940	19,784	19,686
Equity capital	390	390	370	370	370
Reserves & surplus	1,28,070	1,57,210	1,56,900	1,44,303	1,57,491
Shareholders' fund	1,28,800	1,58,320	1,58,430	1,45,229	1,58,515
Total liab. and equities	2,20,420	2,48,710	2,55,120	2,67,245	2,82,139
Cash and cash eq.	35,400	45,590	32,200	18,062	25,065
Accounts receivables	5,110	6,730	7,000	8,198	9,757
Inventories	7,600	9,450	13,160	15,049	17,513
Other current assets	18,590	23,340	30,300	30,033	31,535
Investments	7,400	13,050	5,890	5,890	9,890
Net fixed assets	95,510	1,01,220	96,351	1,21,658	1,18,630
CWIP	10,070	10,480	18,590	14,872	13,385
Intangible assets	40,740	38,850	51,629	53,484	56,365
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,20,420	2,48,710	2,55,120	2,67,245	2,82,139

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	21,780	17,430	19,870	32,403	19,847
Capital expenditures	(11,630)	(12,580)	(36,159)	(32,627)	(7,056)
Change in investments	(12,170)	(16,710)	21,800	16,706	(5,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(23,800)	(29,290)	(14,359)	(15,922)	(12,056)
Equities issued/Others	(4,010)	340	250	(757)	(55)
Debt raised/repaid	(10,370)	(6,930)	6,200	8,977	217
Interest expenses	0	0	0	0	0
Dividends paid	0	(1,000)	(1,690)	(1,665)	(1,850)
Other financing cash flows	14,840	18,580	(9,021)	(20,469)	(100)
Cash flow from financing	460	10,990	(4,261)	(13,915)	(1,788)
Chg in cash & cash eq.	(1,560)	(870)	1,250	2,567	6,003
Closing cash & cash eq.	35,400	45,590	32,200	18,062	25,065

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	60.1	58.7	55.0	51.5	81.8
Adjusted EPS	61.8	58.8	34.2	51.5	81.8
Dividend per share	0.0	5.1	9.1	9.0	10.0
Book value per share	660.5	811.9	856.4	785.0	856.8

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.0	3.4	3.0	2.8	2.4
EV/EBITDA	14.6	15.9	17.6	15.4	11.3
Adjusted P/E	34.9	36.7	63.2	41.9	26.4
P/BV	3.3	2.7	2.5	2.7	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	87.0	101.2	81.4	80.9	77.0
Interest burden (PBT/EBIT)	82.2	85.0	79.6	78.4	82.5
EBIT margin (EBIT/Revenue)	16.8	12.0	8.5	9.9	13.5
Asset turnover (Rev./Avg TA)	47.1	48.1	53.7	58.9	64.7
Leverage (Avg TA/Avg Equity)	1.8	1.6	1.6	1.7	1.8
Adjusted ROAE	10.3	8.1	4.7	6.4	10.1

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	4.5	11.6	20.0	13.7	15.5
EBITDA	33.0	(12.2)	(4.7)	20.4	34.2
Adjusted EPS	437.9	(4.9)	(41.9)	50.9	58.7
Profitability & Return ratios (%)					
EBITDA margin	27.4	21.5	17.1	18.1	21.1
EBIT margin	16.8	12.0	8.5	9.9	13.5
Adjusted profit margin	11.9	10.2	4.7	6.2	8.5
Adjusted ROAE	10.3	8.1	4.7	6.4	10.1
ROCE	9.5	6.8	5.4	7.2	10.9
Working capital days (days)					
Receivables	18	22	19	19	20
Inventory	27	31	35	36	36
Payables	74	63	59	83	80
Ratios (x)					
Gross asset turnover	0.6	0.6	0.6	0.6	0.7
Current ratio	2.0	2.3	2.0	1.3	1.5
Net interest coverage ratio	5.6	6.7	4.9	4.6	5.7
Adjusted debt/equity	0.3	0.2	0.3	0.3	0.3

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

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Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

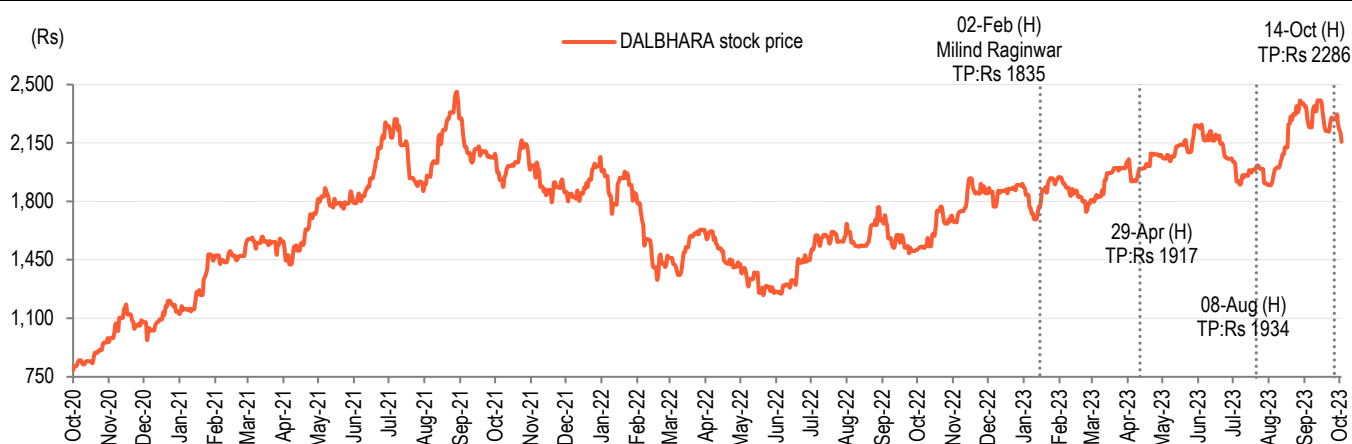
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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



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