HOLD

TP: Rs 1,917 | ⋎ 3%

DALMIA BHARAT | Cement | 29 April 2023

Volumes rise but realisations weak

- **Q4 revenue grew 16% YoY to Rs 39bn buoyed by higher volumes (+12% YoY); realisations up just 3%**
- **Operating cost per tonne increased 6% YoY with continued margin pressure (-200bps YoY)**
- **We tweak estimates and revise our TP to Rs 1,917 (vs. Rs 1,835); retain HOLD as positives appear priced in**

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Revenue growth contributed by volume push: Dalmia Bharat's (DBL) Q4FY23 revenue grew 16% YoY and QoQ to Rs 39.1bn buoyed by higher volumes, though pricing stayed tepid. Volumes rose 12% YoY (+18% QoQ) to 7.4mt while realisation was up just 3% (-1% QoQ) to Rs 5,286/t. Volume growth without strong support from pricing indicates limited demand growth across DBL's active regions

Margin pressure continues: Operating cost per tonne grew 6% YoY (~1% QoQ) to Rs 4,331/t as energy cost/t adjusted for raw material cost grew 11% YoY (~4% QoQ). Ex-input costs, energy cost/t fell 11% YoY (-1% QoQ) to Rs 1,530/t. Fuel cost softened QoQ to Rs 2.1/kcal from Rs 2.4/kcal due to the easing of pet coke prices from the peak of US$ 218/t to US$ 174 in Q4FY23. Logistics cost was flat YoY and QoQ to Rs 1,111/t despite fuel cost softening, owing to the busy season surcharge and withdrawal of railway incentives (post Q2FY23). Other expenditure spiked 21% YoY to Rs 5.7bn due to maintenance work undertaken in Q4.

EBITDA gains muted: EBITDA grew just 4% YoY (10% QoQ) to Rs 7.1bn, and EBITDA margin fell to 18.1% from 20.2% in Q4FY22 driven by higher costs. The surprise was softening of EBITDA margin QoQ by 110bps as realisation gains failed to offset the cost. Reported PAT was flat YoY at Rs 6.1bn. However, excluding one-time gains due to sale of the refractory business, PAT falls 66% to Rs 2bn.

Clarity awaited on capex plans: DBL is planning a 2.2mt cement capacity at Bhilai (Chhattisgarh), along with 3.3mt of clinker which includes capacities at both Babupur and Jaypee Super. Clarity is yet to emerge on the Nigrie facility. The company has altered plans and deferred Bihar unit expansion (2.5 mt).

Maintain HOLD: With the ongoing expansion by FY24, DBL will have enough headroom (56mt) to cater to incremental demand, but narrowing of the gap between dispatches and capacities (~20mt) will be a challenge. We raise our FY24/FY25 EPS estimates by 6%7% and revise our TP of Rs 1,917 (vs. Rs 1,835), set at an unchanged 11x FY25E EV/EBITDA – an implied replacement cost of Rs 8.4bn/mt. Maintain HOLD as positives appear priced in at current valuations.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DALBHARA IN/Rs 1,967
Market cap	US$ 4.4bn
Free float	44%
3M ADV	US$ 7.6mn
52wk high/low	Rs 2,078/Rs 1,213
Promoter/FPI/DII	56%/12%/8%

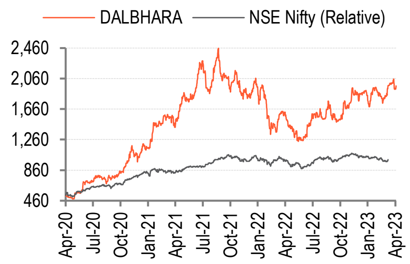
Source: NSE | Price as of 27 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,35,400	1,51,671	1,69,963
EBITDA (Rs mn)	23,160	28,160	35,003
Adj. net profit (Rs mn)	6,580	9,797	15,544
Adj. EPS (Rs)	35.6	53.0	84.0
Consensus EPS (Rs)	35.6	74.0	100.0
Adj. ROAE (%)	4.7	6.6	10.3
Adj. P/E (x)	55.3	37.1	23.4
EV/EBITDA (x)	16.9	14.0	11.1
Adj. EPS growth (%)	(39.5)	48.9	58.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q4FY23	Q3FY23	Our view
Volume and Realisation	Net sales realisation growth has been ~4% YoY led by the stability and strengthening of prices in the east and northeast regions. However, this has not been sufficient to offset the adverse impact of input price inflation. DBL delivered double-digit sales volume growth in its south and east markets.	9MFY23 volume growth was at 17.5% YoY and management expects to deliver growth of at least 1.5x over the industry average in FY24. The company did not hike prices in January and current rates are at par with the Q3FY23 average. Capacity utilisation stood at ~68% in Q3 but has dropped in January. This is expected to rise as demand gathers pace in Q4.	Maintaining volume growth without realisation loss will be a key challenge for DBL. Additionally, building capacity without having adequate dispatches will strain the company.
Margins	Fuel cost was at Rs 2.1/kcal for Q4 and Rs 2.2 for the full year. Management expects ~5% reduction in cost for FY24. Raw material cost has gone up on account of high-cost inventory. During Q4, variable cost was impacted due to consumption of high-cost opening inventory of clinker and cement. Pet coke price spiked US$ 141/t in FY22 to US$ 198 in FY23, a 40% increase. Other expenses increased sequentially in Q4 due to three large components: marketing spends rose by Rs 350mn, packing cost by Rs 200mn and depot expense by Rs 200mn (because of the higher volumes). DBL has taken initiatives such as commissioning of a waste-heat recovery system of 7MW and solar capacity of 4.5MW. Benefits will be accrued from FY24 onwards.	The cost of conventional fuel did soften from US$ 216/t in Q2FY23 to ~US$ 195/t during Q3FY23. The purchase cost during Q3 was ~US$ 185/t and is estimated at ~US$ 180/t in Q4. Fuel cost declined marginally to Rs 2.42/kcal from Rs 2.52/kcal in Q2FY23 due to the fall in pet coke prices. Management expects costs to remain at this level going forward. The fuel mix for the quarter comprised 70% pet coke and 16% coal; the balance was a combination of lignite and alternate fuels. Lead distance for Q3 was at 330km. DBL attributed the increase in logistics cost to the busy season surcharge and withdrawal of railway incentives valid till Q2FY23. Blended cement share in revenue was ~83% and the proportion of premium sales stood at 22%. In South India – traditionally an OPC (Ordinary Portland Cement) market – DBL managed to sustain a blended cement sales mix of ~63%, which was otherwise below 50%.	The company has taken strong cost control initiatives but these have yielded limited success.
Capacity	With the Jaypee acquisition being signed, DBL reassessed its original expansion plan of 49mt and has decided to defer the 2.5mt grinding unit expansion in Bihar. Due to this, the organic expansion changes to 46.6mt and the total expansion, including Jaypee acquisition, changes to 56mt by end-FY24. With respect to grinding units South India, cement capacity will first be expanded by Q1FY24 in Sattur (Tamil Nadu), followed	The acquisition of Jaiprakash Associates' (JPA) cement, clinker and power plants at Reva, Choke, Chunnar, and Sarla has been completed, with the remaining assets expected to be taken over within the next few months. The company commercialised 25MW of renewable power in Q3, which takes its total green capacity to 154MW (~24% of its power mix). DBL indicated that it is on track	Requires clarity on JPA acquistion

Parameter	Q4FY23	Q3FY23	Our view
	by the setup of two cement units in Kadapa and Ariyalur (Telangana). On account of exploration and revalidation of mining leases, DBL has able to build limestone visibility of 18-20 years at its Murli plant. Renewable energy capacity has increased from 17MW in FY19 to 166MW by FY23-end. During FY24, DBL aims to take this to 184MW.	to take renewable power to 173MW by FY23 and 328MW by FY24. Management expects ongoing expansion projects to be completed within the targeted timelines.	
Capex	Capex was close to Rs 27bn during FY23. Budgeted capex for FY24 is in the range of Rs 50bn-55bn including the payment made to JPA for the new acquisition in the central region. In FY25 as well, capex to be incurred on the JPA acquisition would be Rs 8bn-10bn.	DBL incurred capex of Rs 9bn during Q3FY23 and expects to spend a total of Rs 30bn/Rs 32bn in FY23/FY24.	Capex spend is aggressive in our view.
Other key points	Sales-related incentives accrued in Q4 amounted to Rs 0.9bn, which takes the FY23 accrual to Rs 2.7bn. The collections during Q4 have been Rs 0.96bn (FY23: Rs 2.5bn). Average receivables as of 31 March stood at Rs 7bn. Including the Murli plant, management expects incentive accruals to be Rs 2.75bn-Rs 3bn for FY24. Gross debt has increased by Rs 6.2bn and the closing debt as of 31 March stood at Rs 37.6bn. Net debt/EBITDA was 0.3x.	Incentives (sales-related) totalled Rs 0.6bn in Q3FY23 with incentives receivable at ~Rs 7bn. Collections stood at Rs 0.25bn. Gross debt increased by ~Rs 7.6bn to Rs 40.5bn as of end-Q3. Net debt increased by Rs 2.5bn due to capex, and the net debt/EBITDA ratio was at 0.4x. With respect to its investment in Indian Energy Exchange (IEX), management continues to evaluate the same and will take an appropriate decision on divestment.	The balance sheet has been shaped well in the last 3-4 years thanks to the pandemic.

Source: Company, BOBCAPS Research

Fig 2 – Key metrics

(Rs)	Q4FY23	Q4FY22	YoY (%)	Q4FY23	QoQ (%)
Volumes (mn mt)	7.4	6.6	12.1	6.3	17.5
Cement realisations (Rs/mt)	5,286	5,121	3.2	5,325	(0.7)
Operating costs (Rs/mt)*	4,331	4,088	5.9	4,302	0.7
EBITDA/t (Rs)	928	1,006	(7.7)	941	(1.4)

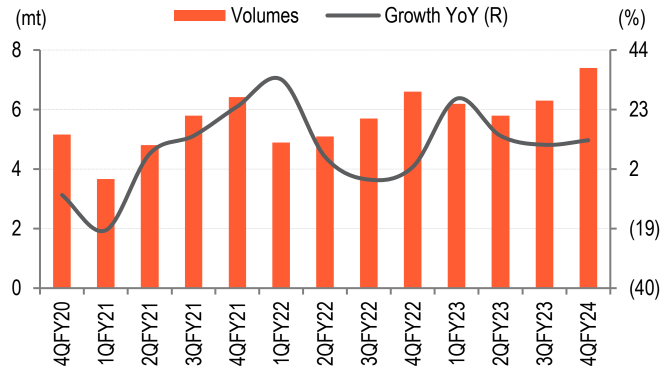
Source: Company, BOBCAPS Research *Aggregate cost

Fig 3 – Quarterly Performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net Sales	**39,120**	**33,800**	**15.7**	**33,550**	**16.6**
Expenditure					
Change in stock	1,720	(650)	(364.6)	(1,240)	(238.7)
Raw material	5,780	4,970	16.3	4,940	17.0
purchased products	0	0		0	
Power & fuel	8,710	8,730	(0.2)	9,640	(9.6)
Freight	8,220	7,410	10.9	7,020	17.1
Employee costs	1,910	1,790	6.7	1,930	(1.0)
Other exp	5,710	4,730	20.7	4,810	18.7
Total Operating Expenses	32,050	26,980	18.8	27,100	18.3
EBITDA	**7,070**	**6,820**	**3.7**	**6,460**	**9.4**
EBITDA margin (%)	18.1	20.2	(210bps)	19.2	(113bps)
Other Income	410	530	(22.6)	350	17.1
Interest	640	450	42.2	690	(7.2)
Depreciation	3,360	3,340	0.6	3,250	3.4
Share of profit from associate and joint venture	5,290	0		20	26,350.0
PBT	8,770	3,560	146.3	2,860	206.6
Non-recurring items	(1,440)	50	0.0	0	
PBT (after non recurring items)	7,330	3,610	103.0	2,860	156.3
Tax	(1,250)	2,390	(152.3)	(740)	68.9
PAT	**6,080**	**6,000**	**1.3**	**2,120**	**186.8**
Minority Interest	(200)	(50)	300.0	(20)	900.0
Parent	5,880	5,950	(1.2)	2,100	180.0
Adjusted PAT	2,030	5,900	(65.6)	2,000	1.5
NPM (%)	5.2	17.5	(1227bps)	6.0	(77.2)
Adjusted EPS (Rs)	**11.0**	**30.3**	**(63.7)**	**10.8**	**1.5**

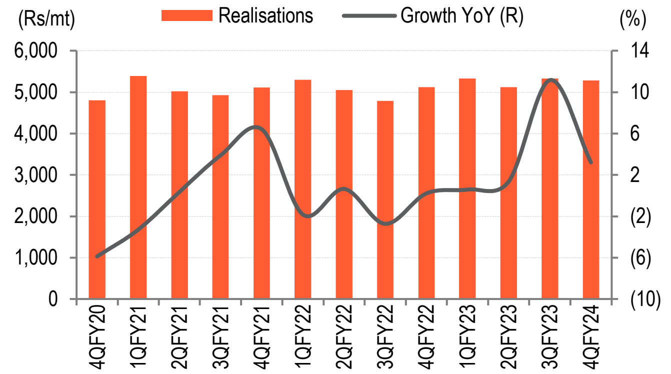
Source: Company, BOBCAPS Research

Fig 4 – Strong volume growth supported by eastern region



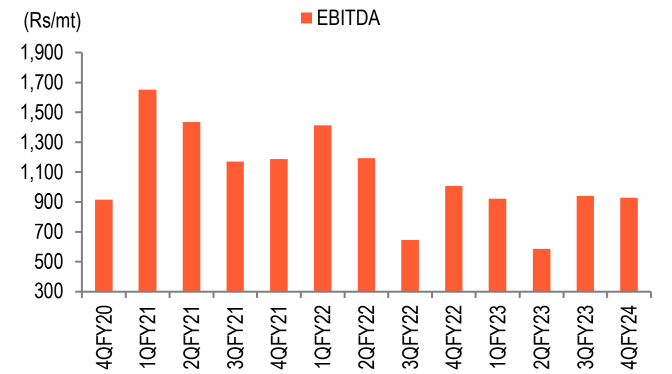
Source: Company, BOBCAPS Research

Fig 5 – Realisations disappointed



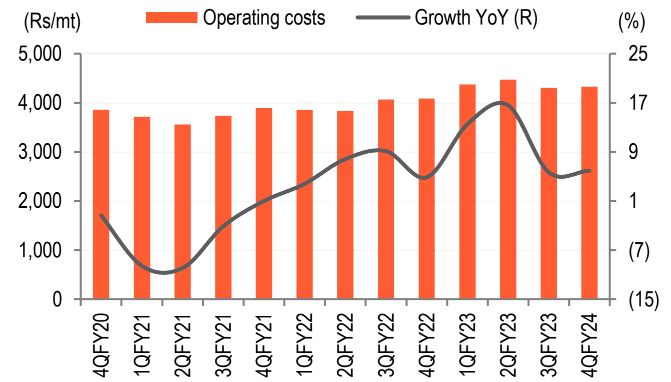
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t has lacked triggers due to cost pressure



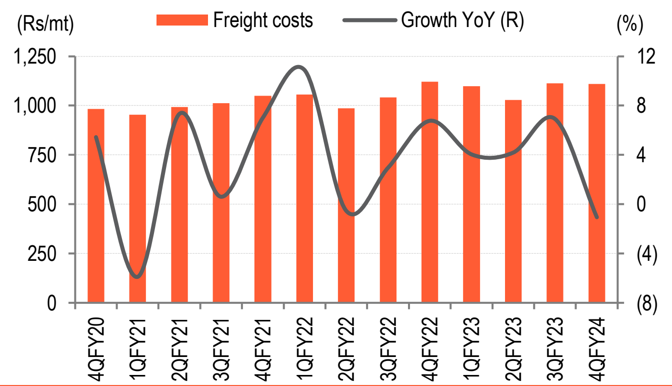
Source: Company, BOBCAPS Research

Fig 7 – Sharp focus on cost reduction



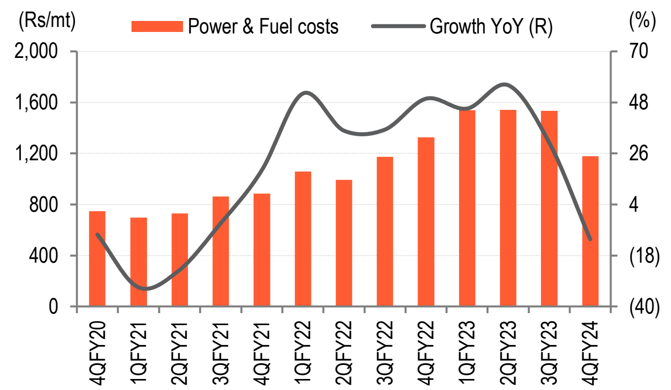
Source: Company, BOBCAPS Research

Fig 8 – Freight cost continues to soften



Source: Company, BOBCAPS Research

Fig 9 – Fuel cost benefits to reflect from Q2FY24



Source: Company, BOBCAPS Research

Valuation methodology

With the ongoing expansion by FY24, DBL will have enough headroom (56mt) to cater to incremental demand. Narrowing of the gap between regional dispatches and capacities (~20mt) will, however, be a challenge. We raise our FY24/FY25 EPS estimates by 6%/7% to Rs 53/Rs 84 to factor in higher volumes going forward.

Sustained balance sheet improvement over the last 3-4 years through a conscious effort to control debt has been a key highlight for DBL, though its relentless capex mode does imply intermittent periods of higher leverage going forward. Overall, we believe the positives are priced in at current valuations of ~11x FY25E EV/EBITDA, capping upsides. Post estimate revision, our TP rises to Rs 1,917 (Rs 1,835 earlier), set at an unchanged 11x FY25E EV/EBITDA which implies a replacement cost of Rs 8.4bn/mt – a 12% premium to the industry average. Maintain HOLD.

[Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	151671	169963	151671	169963	0.0	0.0
EBITDA	28160	35003	27856	34687	1.1	0.9
Adj PAT	9797	15544	9612	15351	1.9	1.3
Adj EPS (Rs)	53	84	52	83	1.9	1.2

Source: BOBCAPS Research

Fig 10 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	22.2	25.7	27.8	30.6
Realisations (Rs/mt)	4,956	5,268	5,333	5,440
Operating costs (Rs/mt)	3,989	4,367	4,446	4,416
EBITDA/mt (Rs)	1,095	901	1011	1,143

Source: Company, BOBCAPS Research

Fig 11 – Valuation summary

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	11
EBITDA	35,003
Target EV	3,78,036
Total EV	378,036
Net debt	23,440
Target market capitalisation	354,596
Target price (Rs/sh)	1916.7
Weighted average shares (mn)	185.0

Source: BOBCAPS Research

Fig 12 – Peer comparison

Ticker	Rating	TP	EV/EBITDA (x)			EV/tonne (US$)			ROE (%)			ROCE (%)		
		(Rs)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
DALBHARA IN	HOLD	1,917	17.1	14.2	11.2	126	127	124	4.5	7.1	10.5	5.3	7.6	10.4
SRCM IN	HOLD	24,656	28	20	15	207	205	201	6	11	14	9	15	18
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: Company, BOBCAPS Research

Key risks

- Faster-than-expected cost deflation and better realisations pose positive risks to our earnings estimates.
- Slower-than-market recovery, sluggish demand pickup and fuel cost inflation represent key downside risks to earnings.
- The agreement with JP Associates for asset acquisition needs further clarity, and any delays in implementation would be a downside risk due to the opportunity cost of time lost.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.0	1,751	2,090	HOLD
Ambuja Cements	ACEM IN	9.4	389	387	HOLD
Dalmia Bharat	DALBHARA IN	4.4	1,967	1,917	HOLD
JK Cement	JKCE IN	2.8	2,925	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	785	551	SELL
Orient Cement	ORCMNT IN	0.3	127	140	HOLD
Shree Cement	SRCM IN	10.5	23,746	24,656	HOLD
Star Cement	STRCEM IN	0.6	116	138	BUY
The Ramco Cements	TRCL IN	2.1	728	534	SELL
Ultratech Cement	UTCEM IN	26.5	7,501	8,310	BUY

Source: BOBCAPS Research, NSE | Price as of 27 Apr 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	**1,01,100**	**1,12,860**	**1,35,400**	**1,51,671**	**1,69,963**
EBITDA	27,700	24,310	23,160	28,160	35,003
Depreciation	(12,500)	(12,360)	(13,050)	(14,355)	(14,714)
EBIT	17,010	13,500	11,490	15,255	21,849
Net interest inc./(exp.)	(3,030)	(2,020)	(2,340)	(2,890)	(2,475)
Other inc./(exp.)	1,810	1,550	1,380	1,450	1,560
Exceptional items	(340)	(20)	3,850	0	0
EBT	13,640	11,460	13,000	12,365	19,374
Income taxes	(1,780)	140	(2,420)	(2,416)	(3,677)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(150)	(160)	(150)	(153)	(153)
Reported net profit	**11,710**	**11,440**	**10,430**	**9,797**	**15,544**
Adjustments	(340)	(20)	3,850	0	0
Adjusted net profit	**12,050**	**11,460**	**6,580**	**9,797**	**15,544**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	14,890	15,300	26,140	27,794	29,494
Other current liabilities	15,220	15,810	13,740	6,451	6,153
Provisions	3,170	6,060	3,200	7,333	8,066
Debt funds	40,530	33,600	38,850	44,535	38,041
Other liabilities	17,810	19,620	10,453	19,784	19,686
Equity capital	390	390	370	370	370
Reserves & surplus	1,28,070	1,57,210	1,56,259	1,44,507	1,58,101
Shareholders' fund	1,28,800	1,58,320	1,57,789	1,45,433	1,59,125
Total liab. and equities	**2,20,420**	**2,48,710**	**2,50,172**	**2,51,329**	**2,60,564**
Cash and cash eq.	35,400	45,590	11,030	13,609	14,601
Accounts receivables	5,110	6,730	7,000	8,085	9,340
Inventories	7,600	9,450	13,160	14,843	16,765
Other current assets	18,590	23,340	21,380	22,916	24,062
Investments	7,400	13,050	30,750	1,400	5,400
Net fixed assets	95,510	1,01,220	1,08,452	1,33,759	1,30,731
CWIP	10,070	10,480	18,590	14,872	14,723
Intangible assets	40,740	38,850	39,810	41,845	44,942
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	**2,20,420**	**2,48,710**	**2,50,172**	**2,51,329**	**2,60,564**

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	**21,780**	**17,430**	**14,329**	**22,657**	**22,102**
Capital expenditures	(11,630)	(12,580)	(25,328)	(32,807)	(8,610)
Change in investments	(12,170)	(16,710)	18,110	24,886	(5,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(23,800)**	**(29,290)**	**(7,218)**	**(7,922)**	**(13,610)**
Equities issued/Others	(4,010)	340	270	(757)	(55)
Debt raised/repaid	(10,370)	(6,930)	5,250	5,685	(6,495)
Interest expenses	0	0	0	0	0
Dividends paid	0	(1,000)	(1,665)	(1,665)	(1,850)
Other financing cash flows	14,840	18,580	(9,716)	(19,884)	(100)
Cash flow from financing	**460**	**10,990**	**(5,861)**	**(16,621)**	**(8,500)**
Chg in cash & cash eq.	**(1,560)**	**(870)**	**1,250**	**(1,885)**	**(8)**
Closing cash & cash eq.	**35,400**	**45,590**	**11,030**	**13,609**	**14,601**

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	60.1	58.7	56.4	53.0	84.0
Adjusted EPS	61.8	58.8	35.6	53.0	84.0
Dividend per share	0.0	5.1	9.0	9.0	10.0
Book value per share	660.5	811.9	852.9	786.1	860.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.6	3.1	2.9	2.6	2.3
EV/EBITDA	13.3	14.5	16.9	14.0	11.1
Adjusted P/E	31.8	33.5	55.3	37.1	23.4
P/BV	3.0	2.4	2.3	2.5	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	87.0	101.2	81.4	80.5	81.0
Interest burden (PBT/EBIT)	82.2	85.0	79.6	81.1	88.7
EBIT margin (EBIT/Revenue)	16.8	12.0	8.5	10.1	12.9
Asset turnover (Rev./Avg TA)	47.1	48.1	54.3	60.5	66.4
Leverage (Avg TA/Avg Equity)	1.8	1.6	1.6	1.7	1.7
Adjusted ROAE	10.3	8.1	4.7	6.6	10.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	4.5	11.6	20.0	12.0	12.1
EBITDA	33.0	(12.2)	(4.7)	21.6	24.3
Adjusted EPS	437.9	(4.9)	(39.5)	48.9	58.7
Profitability & Return ratios (%)					
EBITDA margin	27.4	21.5	17.1	18.6	20.6
EBIT margin	16.8	12.0	8.5	10.1	12.9
Adjusted profit margin	11.9	10.2	4.9	6.5	9.1
Adjusted ROAE	10.3	8.1	4.7	6.6	10.3
ROCE	9.5	6.8	5.5	7.3	10.2
Working capital days (days)					
Receivables	18	22	19	19	20
Inventory	27	31	35	36	36
Payables	74	63	85	82	80
Ratios (x)					
Gross asset turnover	0.6	0.6	0.6	0.6	0.7
Current ratio	2.0	2.3	1.2	1.4	1.5
Net interest coverage ratio	5.6	6.7	4.9	5.3	8.8
Adjusted debt/equity	0.3	0.2	0.2	0.3	0.2

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

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Disclaimer

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

BUY – Expected return >+15%

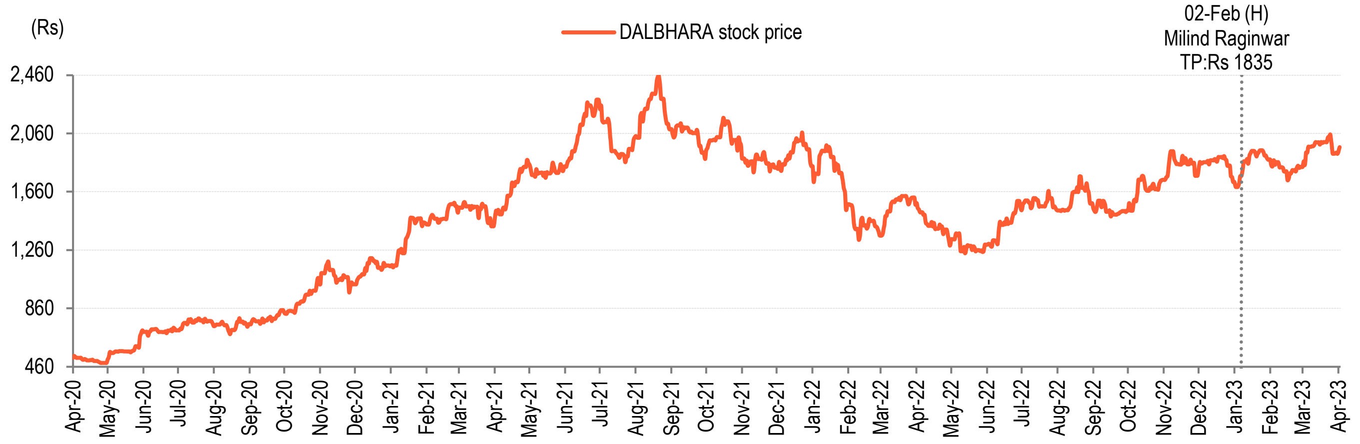
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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