

**SELL**

TP: Rs 1,773 | ▼ 8%

**DALMIA BHARAT**

Cement

12 December 2024

## Excess supply to impact performance; downgrade to SELL

- DALBHARA's presence in East and South India may be hit by excess supply; we factor in 1% price hikes in FY26/FY27 after a dent in FY25
- No major respite in Central India in the near term following the JAL cement assets setback; expansion in North-East to reflect in FY27
- Cut FY26E/FY27E EBITDA by 10%/9% to reflect price pressure. Downgrade to SELL with new TP at Rs 1,773 valued at 12x EV/EBITDA

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**Key areas of operation to face incremental price pressure:** We believe the pricing scenario will be challenging for DALBHARA in FY26/FY27 (improving from weak FY25) as supply pressure is visible in the eastern region (44% of volume). With the changing dynamics in the South (28% volume), with two major cement groups acquiring mid-/large-size companies, supply pressure in this region is likely to increase too. We factor in a 1% price hike in FY26/FY27 after a sharp fall in FY25.

**New increased presence in North-East to provide partial respite:** North-East India (NE) will provide respite with incremental capacity addition by DALBHARA. The company with increased 7.4mnt cement capacity vs 4.7mnt currently will gain size in this region and is unlikely disturb prices. The West (Vidarbha & South/Central Maharashtra) remains under pressure owing to crowding in these regions.

**Continued focus on cost savings with increased RE share:** DALBHARA continues to focus on cost savings by cutting energy costs. The Tamil Nadu grinding unit had 16MW of new solar power plant in 2QFY25 taking renewable energy (RE) capacity to 202MW. Further, DALBHARA has arranged group captive arrangement of 151MW of RE power (in addition to existing 127MW). Due to these arrangements the captive RE power contribution will rise to 45% at FY25-end from 39% currently.

**Focus on balance sheet health to continue:** The new capacity plan of the next leg post FY27 will be ready by FY25-end. DALBHARA's major capex includes adding capacity in NE region with clinkerisation unit by 2HFY26. DALBHARA will invest in Central India to make up for the loss of JAL assets (post liquidation announcement). Management maintains its focus on balance sheet will continue as net debt/EBITDA will be capped at 2x despite all the capex, including any inorganic opportunities.

**Downgrade to SELL:** We prune our FY25/FY26/FY27 EBITDA estimates by 1%/10%/9% to factor in expectations of slow pricing growth and no major substitutes for JAL assets. We continue to assign the stock an EV/EBITDA of 12x 1-year forward but lower our TP to Rs 1,773 (vs Rs 1,816), reflecting an replacement cost (implied) of Rs 7.5bn. We downgrade DALBHARA to SELL from HOLD rating.

### Key changes

	Target	Rating
	▼	▼

Ticker/Price	DALBHARA IN/Rs 1,935
Market cap	US\$ 4.2bn
Free float	44%
3M ADV	US\$ 7.2mn
52wk high/low	Rs 2,431/Rs 1,651
Promoter/FPI/DII	56%/12%/8%

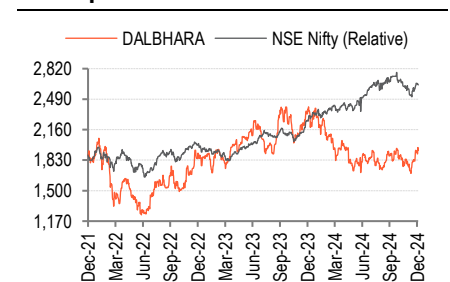
Source: NSE | Price as of 12 Dec 2024

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,46,910	1,54,358	1,73,271
EBITDA (Rs mn)	26,390	25,130	30,023
Adj. net profit (Rs mn)	8,540	6,467	9,640
Adj. EPS (Rs)	44.9	35.0	52.1
Consensus EPS (Rs)	44.9	45.3	62.3
Adj. ROAE (%)	5.3	4.1	6.2
Adj. P/E (x)	43.1	55.4	37.1
EV/EBITDA (x)	13.8	16.0	11.1
Adj. EPS growth (%)	31.5	(22.2)	49.1

Source: Company, Bloomberg, BOBCAPS Research

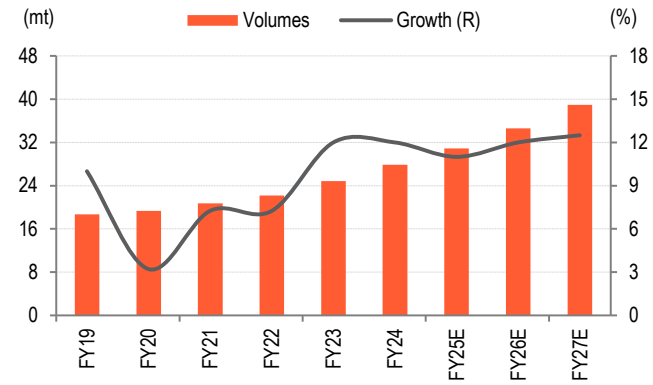
### Stock performance



Source: NSE

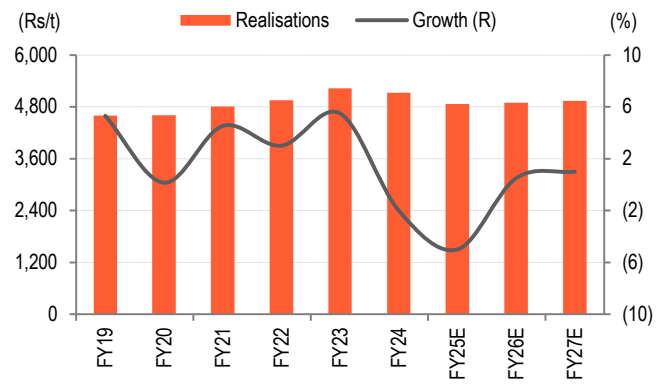


**Fig 1 – Focus to stay on improving market share without dent on margins**



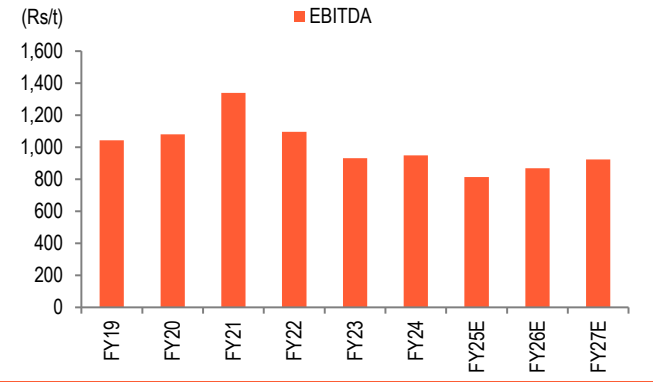
Source: Company, BOBCAPS Research

**Fig 2 – Pricing pressure to continue in key operating regions of East and South India**



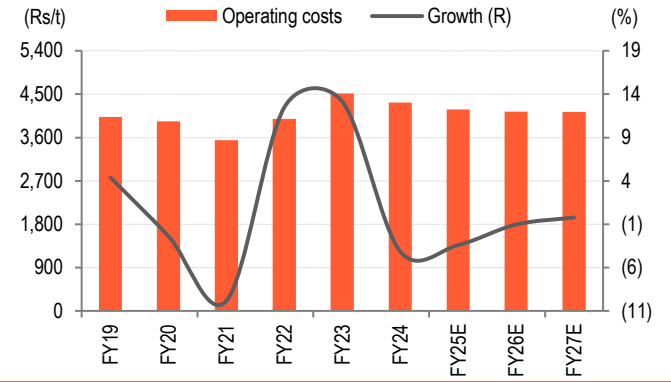
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA/t will be partially guarded by cost savings**



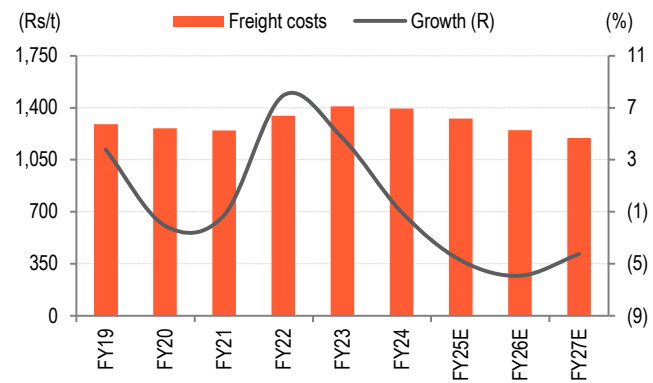
Source: Company, BOBCAPS Research

**Fig 4 – Operating cost could soften further, albeit in a limited way**



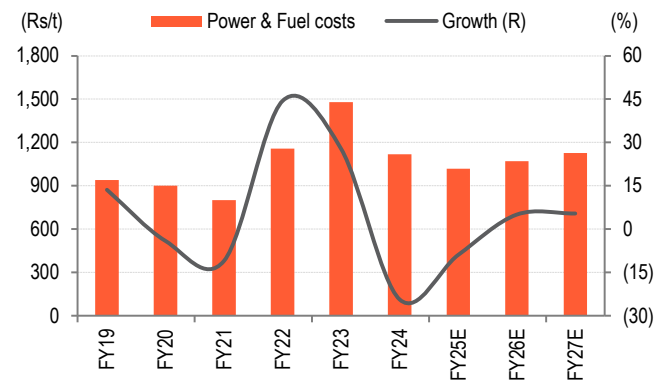
Source: Company, BOBCAPS Research

**Fig 5 – Freight cost savings decline will be slower**



Source: Company, BOBCAPS Research

**Fig 6 – New coal blocks and green energy to further boost fuel cost savings**



Source: Company, BOBCAPS Research

## Valuation methodology

We have maintained earlier DALBHARA's drive to add market share through expansion is likely to receive a setback with limited alternatives for the Jaiprakash Associates (JAL) assets in Central India. To keep investing in the channel network (in the central region), DALBHARA will continue to feed this market from East India as it has limited options in Central region currently. However, this will add to its cost till the time it builds its own facility in the region plans for the same are yet to be formalised.

This coupled with the focus now on capacity expansion from FY26-FY27 for the first leg of major capacity addition, we believe this may put considerable pressure on the company's balance sheet in the medium term. The capacity addition in North East India will contribute fully in FY27 and DALBHARA is unlikely to disturb pricing in the region. Cost savings plans notwithstanding, we feel this could lead to additional concerns for DALBHARA.

The most active regions for DALBHARA are the eastern (44% volume contribution with new capacity addition) and southern regions (28% volume contribution), and they are expected to face severe pricing pressure as these are the most vulnerable regions with excess supply. The changed dynamics discussed in point 1 on page 1 can only add to further concerns. Though DALBHARA has a strong presence in South Tamil Nadu (better pricing area), we feel this may be of limited advantage for the company.

Factoring in the same, we prune our EBITDA estimates for FY25 by ~1%, FY26 by 10% and FY27 by 9% to factor in expectations of slow pricing growth and no major alternatives for the JAL assets. We continue to assign the stock an EV/EBITDA of 12x 1-year forward but keenly watch for developments around the company. We lower our TP to Rs 1,773 (earlier Rs 1,816) which reflects an implied replacement cost of Rs 7.5bn. We downgrade the stock to SELL rating from HOLD.

**Fig 7 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,54,358	1,73,271	1,96,739	1,58,318	1,82,153	2,04,625	(2.5)	(4.9)	(3.9)
EBITDA	25,130	30,023	35,937	25,373	31,935	37,679	(1.0)	(6.0)	(4.6)
Adj PAT	6,467	9,640	13,288	6,662	10,722	14,559	(2.9)	(10.1)	(8.7)
Adj EPS (Rs)	35.0	52.1	71.8	36.0	58.0	78.7	(2.9)	(10.2)	(8.7)

Source: BOBCAPS Research

**Fig 8 – Key assumptions**

	FY24	FY25E	FY26E	FY27E
Volumes (mt)	28.80	30.9	34.6	38.9
Realisations (Rs/t)	5,124	4,868	4,892	4,941
Operating costs (Rs/t)	4,328	4,181	4,138	4,129
EBITDA/t (Rs/t)	948	813	867	923

Source: Company, BOBCAPS Research

**Fig 9 – Valuation summary**

Business (Rs mn)	1-year forward
Target FY27E EV/EBITDA (x)	12.0
EBITDA (FY27E)	35,937
<b>Target EV</b>	<b>4,13,630</b>
Total EV	4,13,630
Net debt (FY27E)	55,895
Target market capitalisation	3,57,735
<b>Target price (Rs/sh)</b>	<b>1,773</b>
Weighted average shares (mn)	185

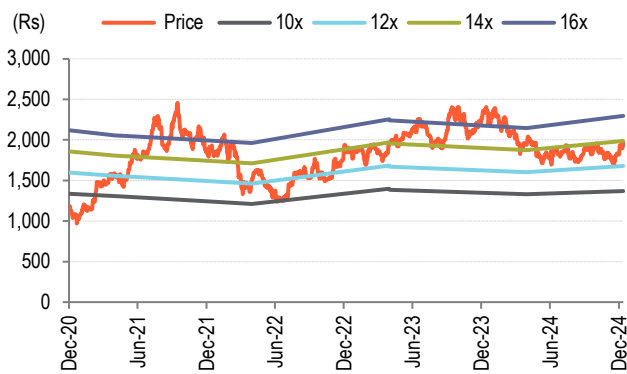
Source: BOBCAPS Research

**Fig 10 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
DALBHARA IN	SELL	1,773	16.0	13.5	11.5	99.1	97.7	97.3	4.0	6.1	7.9	5.5	7.2	8.9
SRCM IN	HOLD	24,140	22.3	21.6	17.8	182	179	172	6.7	10.2	12.8	8.8	13.1	16.1
ACC IN	HOLD	2,398	13.2	11.5	9.5	126.0	115.9	104.8	12.0	13.0	13.0	14.0	15.4	15.2

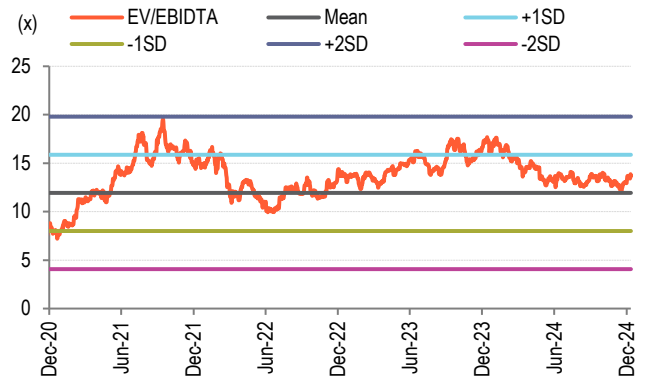
Source: BOBCAPS Research

**Fig 11 – EV/EBITDA band: Current valuations may correct on expectations of lower earnings**



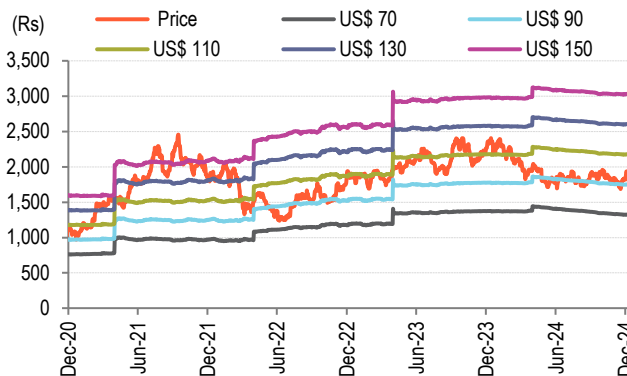
Source: Company, Bloomberg, BOBCAPS Research

**Fig 12 – EV/EBITDA 1Y fwd: Valuations will converge with the mean to align with earnings**



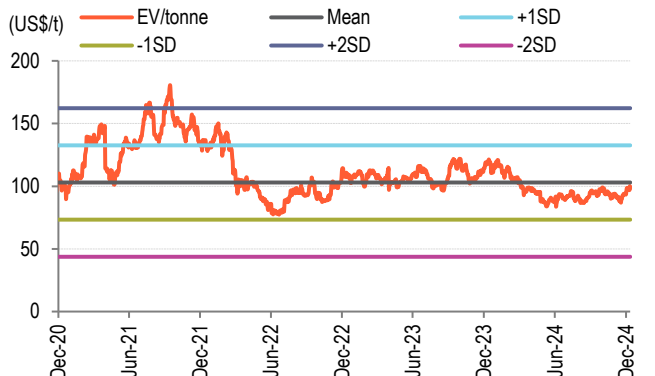
Source: Company, Bloomberg, BOBCAPS Research

**Fig 13 – EV/tonne: Replacement cost reflects earnings**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 14 – EV/tonne 1Y fwd: Valuations stay around mean**



Source: Company, Bloomberg, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- lower-than-expected fuel cost inflation represents key upside risks to earnings;
- faster addition of capacity could lead to upside risk to our earnings estimates; and
- faster-than-expected market recovery and strong demand pickup could reverse prices higher.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>1,35,400</b>	<b>1,46,910</b>	<b>1,54,358</b>	<b>1,73,271</b>	<b>1,96,739</b>
EBITDA	23,160	26,390	25,130	30,023	35,937
Depreciation	(13,050)	(14,980)	(15,130)	(16,113)	(16,999)
EBIT	11,490	14,560	12,593	17,003	22,280
Net interest inc./(exp.)	(2,349)	(3,860)	(4,080)	(4,511)	(4,979)
Other inc./(exp.)	1,380	3,150	2,593	3,093	3,343
Exceptional items	3,850	0	0	0	0
EBT	12,991	10,700	8,513	12,492	17,301
Income taxes	(2,420)	(2,160)	(1,893)	(2,608)	(3,570)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(400)	0	(153)	(243)	(443)
<b>Reported net profit</b>	<b>10,171</b>	<b>8,540</b>	<b>6,467</b>	<b>9,640</b>	<b>13,288</b>
Adjustments	3,850	0	0	0	0
<b>Adjusted net profit</b>	<b>6,321</b>	<b>8,540</b>	<b>6,467</b>	<b>9,640</b>	<b>13,288</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	18,120	20,280	23,758	26,441	28,573
Other current liabilities	20,630	21,130	21,835	20,776	19,769
Provisions	3,200	3,450	3,795	4,175	4,592
Debt funds	39,800	49,610	54,530	58,209	66,391
Other liabilities	14,940	16,480	19,686	20,500	21,346
Equity capital	370	380	370	370	370
Reserves & surplus	1,56,900	1,64,710	1,53,898	1,61,589	1,72,926
Shareholders' fund	1,58,430	1,66,105	1,54,922	1,62,613	1,73,950
<b>Total liab. and equities</b>	<b>2,55,120</b>	<b>2,77,055</b>	<b>2,78,526</b>	<b>2,92,713</b>	<b>3,14,621</b>
Cash and cash eq.	32,200	44,540	10,765	11,037	10,496
Accounts receivables	7,000	8,360	8,975	10,313	11,982
Inventories	13,160	12,180	12,888	14,606	16,403
Other current assets	30,300	24,870	26,114	27,990	30,018
Investments	5,890	5,900	6,900	4,900	6,400
Net fixed assets	96,351	1,07,626	1,04,598	1,03,745	1,02,892
CWIP	18,590	21,887	54,718	64,567	78,771
Intangible assets	51,629	51,692	53,569	55,555	57,659
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>2,55,120</b>	<b>2,77,055</b>	<b>2,78,526</b>	<b>2,92,713</b>	<b>3,14,621</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>19,870</b>	<b>26,625</b>	<b>20,478</b>	<b>18,501</b>	<b>21,358</b>
Capital expenditures	(36,159)	(23,220)	(40,369)	(21,715)	(26,188)
Change in investments	21,800	(9,380)	29,000	1,000	(2,000)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(14,359)</b>	<b>(32,600)</b>	<b>(11,369)</b>	<b>(20,715)</b>	<b>(28,188)</b>
Equities issued/Others	250	5	(524)	(243)	(443)
Debt raised/repaid	6,200	9,810	4,920	3,679	8,183
Interest expenses	0	0	0	0	0
Dividends paid	(1,690)	(1,690)	(1,850)	(1,850)	(1,850)
Other financing cash flows	(9,021)	820	(15,429)	(100)	(100)
<b>Cash flow from financing</b>	<b>(4,261)</b>	<b>8,945</b>	<b>(12,884)</b>	<b>1,486</b>	<b>5,790</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,250</b>	<b>2,970</b>	<b>(3,775)</b>	<b>(728)</b>	<b>(1,041)</b>
<b>Closing cash &amp; cash eq.</b>	<b>32,200</b>	<b>44,540</b>	<b>10,765</b>	<b>11,037</b>	<b>10,496</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	55.0	44.9	35.0	52.1	71.8
Adjusted EPS	34.2	44.9	35.0	52.1	71.8
Dividend per share	9.1	8.9	10.0	10.0	10.0
Book value per share	856.4	874.2	837.4	879.0	940.3

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.7	2.5	2.6	1.9	1.6
EV/EBITDA	15.8	13.8	16.0	11.1	8.7
Adjusted P/E	56.6	43.1	55.4	37.1	26.9
P/BV	2.3	2.2	2.3	2.2	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	81.4	79.8	77.8	79.1	79.4
Interest burden (PBT/EBIT)	79.6	73.5	67.6	73.5	77.7
EBIT margin (EBIT/Revenue)	8.5	9.9	8.2	9.8	11.3
Asset turnover (Rev./Avg TA)	53.7	55.2	55.6	60.7	64.8
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.8	1.8
Adjusted ROAE	4.7	5.3	4.1	6.2	8.2

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	20.0	8.5	5.1	12.3	13.5
EBITDA	(4.7)	13.9	(4.8)	19.5	19.7
Adjusted EPS	(41.9)	31.5	(22.2)	49.1	37.8
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.1	18.0	16.3	17.3	18.3
EBIT margin	8.5	9.9	8.2	9.8	11.3
Adjusted profit margin	4.7	5.8	4.2	5.6	6.8
Adjusted ROAE	4.7	5.3	4.1	6.2	8.2
ROCE	5.4	6.5	5.5	7.2	8.9
<b>Working capital days (days)</b>					
Receivables	19	21	21	22	22
Inventory	35	30	30	31	30
Payables	59	61	67	67	65
<b>Ratios (x)</b>					
Gross asset turnover	0.6	0.6	0.6	0.7	0.7
Current ratio	2.0	2.0	1.2	1.2	1.3
Net interest coverage ratio	4.9	3.8	3.1	3.8	4.5
Adjusted debt/equity	0.3	0.3	0.4	0.4	0.4

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

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**BUY** – Expected return >+15%

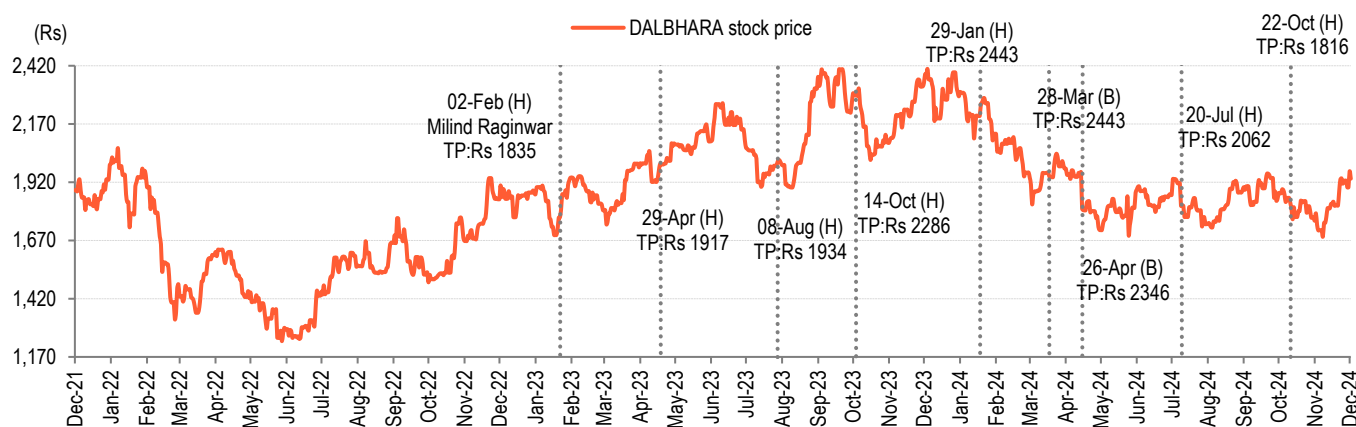
**HOLD** – Expected return from -6% to +15%

**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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