

BUY

TP: Rs 2,346 | ▲ 30%

DALMIA BHARAT

| Cement

| 26 April 2024

Disappointments all over; but paving the way for growth

- Q4 revenue grew at a steady 10% YoY supported by ~19% volume growth while realisations weakened 7% YoY/QoQ
- Despite a steep fall in realisation and higher logistics and raw material expenses, EBITDA margin fell only by 160 bps YoY to 15.2%
- We cut FY25/FY26 EBITDA 5%/3% estimating 1HFY25 to be weaker, and lower our TP to Rs 2,346 (from Rs 2,443). Maintain BUY

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Volumes rise, realisations weak: Dalmia Bharat (DBL) reported a 10 % YoY (+20% QoQ) increase in revenue to Rs 43bn in Q4FY24 as focus continues on healthy volume growth of ~19% YoY (+29% QoQ) to 8.8mt. Realisations fell 7% YoY/QoQ to Rs 4,895/t. Cement prices weakened in DBL's key operating regions by 7% QoQ largely due to supply pressure and limited demand growth.

Limited respite in cost savings: Overall cost/tonne dipped 4% YoY (flat QoQ) to Rs 4,114 due to an 8% YoY (flat QoQ) jump in raw material-adjusted energy cost to Rs 2,009/t. The logistics cost was up 16% YoY to Rs1,159/t and was a major negative surprise. The elevated cost was due to higher clinker movement to the split grinding units. Other expenditure rose by 16% YoY increase.

EBITDA falls as cost inflates, realisation weakens: EBITDA fell by ~8% YoY (-16% QoQ) to ~Rs 6.5bn, and EBITDA margin fell to ~15.2% from ~17% in 4QFY23. EBITDA/t fell by 23% to Rs 717 YoY (36% QoQ). The cost reversal in the next couple of quarters will help EBITDA/t to recover partially.

Capacity expansion underway: Debottlenecking expansions at Ariyalur in Tamil Nadu and Kadapa in Andhra Pradesh of 1mt each are complete and currently undergoing trial runs. The 0.5mt debottleneck expansion at Rohtas (Kalyanpur), Bihar, and 2.4mt greenfield expansion at Lanka, Assam, are expected to be complete by H2FY25. Management plans to increase capacity to 49.5mt by FY25-end (excluding 9.4mt capacity from Jaypee acquisition, which is backed by 4mt of clinker).

Maintain BUY: We prune our FY25/FY26 EBITDA estimates by ~5%/3% to factor in expectations of slow demand in the election phase (4QFY24/1HFY25) and capacity additions in FY25. We continue to assign the stock an EV/EBITDA of 12x FY26E but lower our TP to Rs 2,346 (earlier Rs 2,443) which reflects an implied replacement cost of Rs 7.5bn. We maintain a BUY rating on the stock with a 30% upside from the TP. We believe DBL's key focus areas are growth prospects, relatively better margin profile in the medium term and improving balance sheet.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DALBHARA IN/Rs 1,806
Market cap	US\$ 4.1bn
Free float	44%
3M ADV	US\$ 10.7mn
52wk high/low	Rs 2,431/Rs 1,767
Promoter/FPI/DII	56%/12%/8%

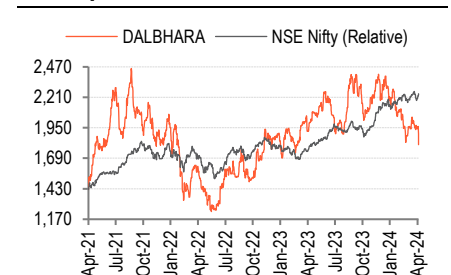
Source: NSE | Price as of 25 Apr 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,46,910	1,70,470	1,93,494
EBITDA (Rs mn)	26,391	30,732	39,137
Adj. net profit (Rs mn)	8,271	10,282	14,886
Adj. EPS (Rs)	43.5	55.6	80.5
Consensus EPS (Rs)	43.5	57.1	79.6
Adj. ROAE (%)	5.3	6.6	9.5
Adj. P/E (x)	41.5	32.5	22.5
EV/EBITDA (x)	12.8	11.8	8.1
Adj. EPS growth (%)	27.4	27.7	44.8

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

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our view
Volumes and realisations	Volumes grew ~19% YoY to 8.8mt (including Jaypee volumes of 0.6mt) in Q4FY24. Management expects 8-9% industry volume growth in FY25 and DBL to grow 1.5x of Indian Cement Industry. Cement price weakened 7.5% QoQ in DBL's key areas of operations (East and South India). DBL indicated that price in 1HFY25 will be weak and expected price to recover in 2HFY25.	DBL's volumes grew 8% YoY to 6.8mt in Q3FY24. Cement prices improved 4% QoQ in the East and South India markets. However, prices weakened and closed near Sep'23 levels by Q3-end. Management expects prices to recover marginally in Q4FY24 and is guiding for 15-16% volume growth in FY24 and FY25.	Focus will continue on volume growth with effective improvement in efficiencies. Revival in prices will boost margins improvement higher and earlier than expected. Sustained pricing in the eastern and southern regions of India will be the key to earnings growth for DBL.
Margins	Average fuel prices (fuel mix of pet coke at 56%) were in the range of US\$ 115-125/t and blended fuel cost was at Rs 1.45/kcal, marginally lower compared to Q3FY24 and sharply lower than Rs2.04k/cal in 4QFY23. Freight cost increased by 4.7%/6.2% YoY/QoQ largely in an effort to retain the market share. The raw material price spiked due to toll charges from Jaiprakash Associates (JPA). Other expenses escalated due to branding cost.	Power and fuel cost declined 25% YoY due to a Rs 53/t fall in fuel consumption cost. Management expects fuel cost to reduce marginally by 3% in Q4FY24 as renewable energy share is back to 25-30% of the total. Freight cost per tonne dipped 2% YoY due to a 20km reduction in lead distance. Management expects EBITDA/t of Rs 1.1k-1.2k in FY25.	Cost escalations are one-time and costs should soften with reversal in logistic cost and with the increasing use of captive power. Additionally, renewable power could provide further respite.
Capacity	Debottlenecking expansions at Ariyalur, Tamil Nadu, and Kadapa, Andhra Pradesh, of 1mt each have been completed. A 0.5mt debottlenecking at Kalyanpur, Bihar, and 2.4mt greenfield expansion at Lanka, Assam, are expected to be complete by H2FY25. Management intends to increase organic capacity to 49.5mt by FY25-end.	Debottlenecking capacity of 0.9mt at Belgaum, Karnataka, was commissioned during Q3FY24. Debottlenecking of 1mt each at Ariyalur, Tamil Nadu, and Kadapa, Andhra Pradesh, are due to be completed by Q4 taking DBL's total capacity in South India to 17mt by FY24. A 0.5mt debottlenecking at Kalyanpur, Bihar, and 2.4mt greenfield expansion at Lanka, Assam, are expected to be completed by H2FY25. Management intends to increase capacity to 46.6mt by Q4FY24 (excluding Jaypee capacity in Central India).	DBL has enough capacity to handle incremental demand given the headroom capacity available and new additions planned. Inorganic growth will further aid efforts to maintain market share.
Capex	DBL expects capex spend of ~Rs 35bn-40bn in FY25 that include spends towards a North East India expansion project, Rohtas Cement plant in Bihar, and maintenance capex. This will be besides the outflow for JP assets which the company expects to be around Rs35bn for 5.2mt of cement.	Capex guidance for FY24 (ex-Jaypee deal) is maintained at ~Rs 30bn and Jaypee acquisition cash outflow is expected to be ~Rs 33bn. Capex guidance for FY25 stands at Rs 30bn-35bn (maintenance capex of ~Rs 2.5bn).	Prudent capex for organic and inorganic capacity addition will be key for growth. Importantly, capex addition has to be without major/no stress on the balance sheet.
Other key points	DBL expects peak gross debt to be about Rs 90bn and net debt about Rs 50bn by FY25. Incentives accrued during Q4FY24 was ~Rs 930mn and incentives collection during Q4FY24 was ~Rs 980mn (~Rs 2.98bn accrued in FY24 and Rs 3.14bn received).	Gross debt as on Q3FY24 stood at Rs 49.2bn, net debt at ~Rs 4.3bn and net debt-to-EBITDA ratio at 0.16x (guided to remain below 2x post the Jaypee deal). Incentive accruals during Q3FY24 were Rs 0.7bn and collections Rs 1.5bn. Incentive	The company must maintain balance sheet health with its expansion needs and it will be a challenge to walk the tight rope.

Parameter	Q4FY24	Q3FY24	Our view
	The Jaypee acquisition is expected to be completed by Q2FY25.	receivables as on 31 Dec 2023 were at Rs 7.2bn.	
		The Jaypee acquisition is expected to be completed by Q4FY24 as some approvals from lenders are still pending.	

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

Fig 2 – Key metrics

(Rs)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volumes (million tonnes)	8.8	7.4	18.9	6.8	29.4
Cement realisations (Rs/t)	4,895	5,286	(7.4)	5,294	(7.5)
Operating costs (Rs/t)*	4,151	4,331	(4.2)	4,154	(0.1)
EBITDA/t (Rs)	717	928	(22.8)	1,113	(35.6)

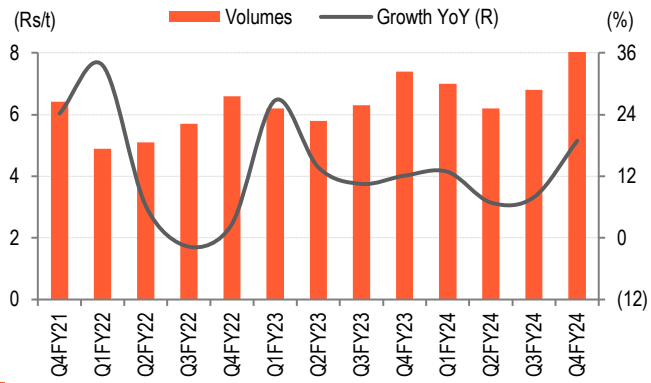
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Net Sales	43,073	39,120	10.1	36,000	19.6
Expenditure					
Change in stock	1,370	1,720	(20.3)	(140)	(1,078.6)
Raw material	6,270	5,320	17.9	5,000	25.4
Purchased products	2,140	460	365.2	1,400	52.9
Power & fuel	7,900	8,710	(9.3)	7,260	8.8
Freight	10,200	8,220	24.1	7,430	37.3
Employee costs	2,020	1,910	5.8	2,210	(8.6)
Other expense	6,630	5,710	16.1	5,090	30.3
Total Operating Expenses	36,530	32,050	14.0	28,250	29.3
EBITDA	6,543	7,070	(7.5)	7,750	(15.6)
EBITDA margin (%)	15.2	18.1	(288bps)	21.5	(633.7)
Other Income	1,200	410	192.7	640	87.5
Interest	940	640	46.9	1,080	(13.0)
Depreciation	3,280	3,360	(2.4)	3,700	(11.4)
Share of profit from associate and joint venture	3,523	3,480	1.2	3,610	(2.4)
PBT	3,523	3,480	1.2	3,610	(2.4)
Non-recurring items	0	3,850		0	0
PBT (after non-recurring items)	3,523	7,330	(51.9)	3,610	(2.4)
Tax	320	1,250	(74.4)	950	(66.3)
PAT	3,203	6,080	(47.3)	2,660	20.4
Minority Interest	-	-	-	-	-
Adjusted PAT	3,153	2,030	55.3	2,630	19.9
NPM (%)	7.3	5.2	213bps	7.3	1.5
Adjusted EPS (Rs)	17.0	11.0	55.3	14.2	19.9

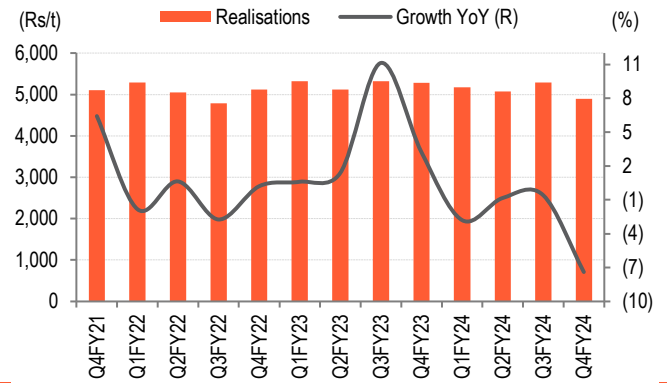
Source: Company, BOBCAPS Research

Fig 4 – Volume gains healthy but lack realisation support



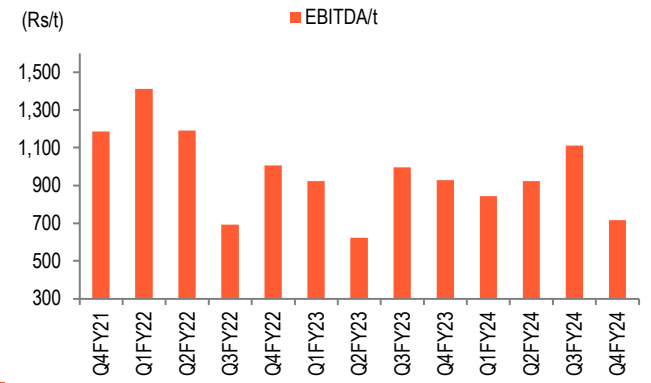
Source: Company, BOBCAPS Research

Fig 5 – Pricing under pressure a negative surprise in 4Q



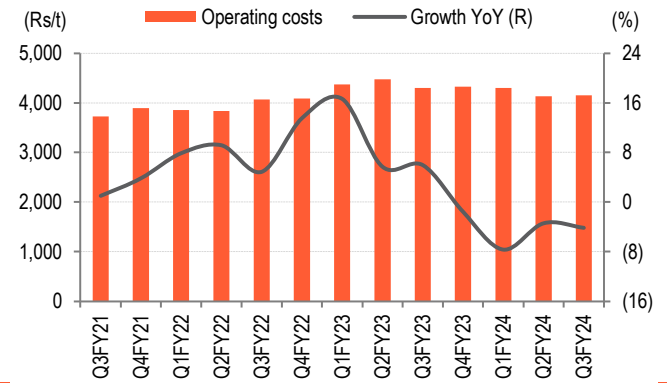
Source: Company, BOBCAPS Research

Fig 6 – Cost escalation impacts EBITDA/t, partial reversal in next couple of quarters



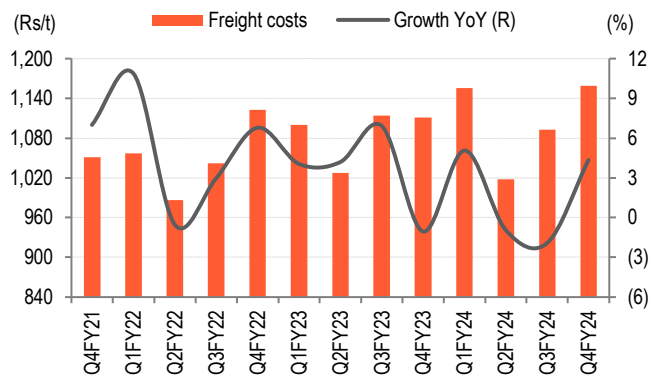
Source: Company, BOBCAPS Research

Fig 7 – Further levers available for operating cost savings



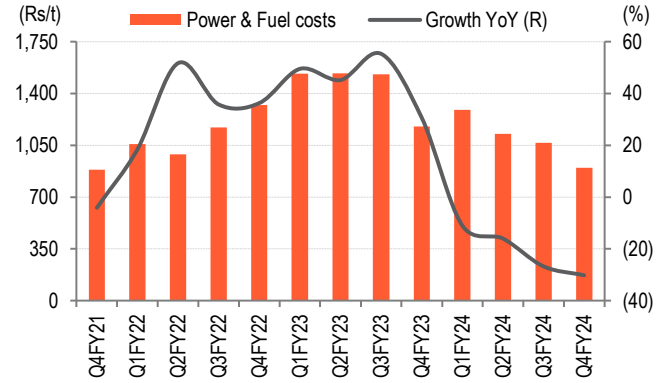
Source: Company, BOBCAPS Research

Fig 8 – Freight cost inches up due to higher clinker movement



Source: Company, BOBCAPS Research

Fig 9 – New coal blocks and green energy to further boost fuel cost savings



Source: Company, BOBCAPS Research

Valuation methodology

DBL's drive to add market share will continue to be supported by the planned capacity expansion in FY25/FY26. The focus is now on sweating the assets and improving capacity utilisation, though in the short term it will be a challenge amid soft demand. The company has retained its focus on improving the balance sheet and controlling debt with good success, but its aggressive capex plans imply intermittent periods of high leverage in the short-to-medium term. Focus on cost controls will reflect in the next couple of quarters as the cost shock in 4Q normalises and reverses adding to the efficiencies even in the absence of desired realisations.

We prune our FY25/FY26 EBITDA estimates by ~5%/3% to factor in expectations of slow demand in the election phase (4QFY24/1HFY25) and capacity additions in FY25. We continue to assign the stock an EV/EBITDA of 12x FY26E and revise our TP to Rs 2,346 (earlier Rs 2,443) which reflects an implied replacement cost of Rs 8.5bn. We maintain our BUY rating on the stock with a 30% upside from the TP. We believe DBL's key focus areas are growth prospects, relatively better margin profile in the medium term and improving balance sheet.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,70,470	1,93,494	1,64,134	1,85,392	3.9	4.4
EBITDA	30,732	39,137	32,269	40,308	(4.8)	(2.9)
Adj PAT	10,282	14,886	11,357	15,641	(9.5)	(4.8)
Adj EPS (Rs)	55.6	80.5	61.4	84.5	(9.5)	(4.8)

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY23	FY24P	FY25E	FY26E
Volumes (mt)	39.20	48.20	48.20	49.5
Realisations (Rs/t)	5,229	5,111	4,996	5,071
Operating costs (Rs/t)*	4,514	4,328	4,182	41,24
EBITDA/t (Rs/t)	931	948	920	1,046

Source: Company, BOBCAPS Research | *Aggregate cost

Fig 12 – Valuation summary

Business (Rs mn)	FY26E
Target FY25E EV/EBITDA (x)	12.0
EBITDA (FY25E)	39,137
Target EV	459,856
Total EV	459,856
Net debt (FY25E)	25,761
Target market capitalisation	434,095
Target price (Rs/sh)	2,346
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	BUY	2,346	12.8	11.8	8.1	82.0	87.0	86.0	5.3	6.6	9.5	6.6	7.7	10.8
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: BOBCAPS Research

Key risks

- Slower-than-expected market recovery and sluggish demand pick up can keep prices lower;
- faster-than-expected fuel cost inflation represents key downside risks to earnings;
- Cost curve remaining inflated, other than fuel cost, can pose risks to earnings.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.9	2,580	2,542	HOLD
Ambuja Cements	ACEM IN	15.4	638	552	HOLD
Dalmia Bharat	DALBHARA IN	4.1	1,806	2,346	BUY
JK Cement	JKCE IN	3.8	4,032	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.1	798	637	SELL
Orient Cement	ORCMNT IN	0.6	229	168	SELL
Shree Cement	SRCM IN	10.5	23,972	27,836	HOLD
Star Cement	STRCEM IN	1.2	230	193	HOLD
The Ramco Cements	TRCL IN	2.3	789	728	SELL
Ultratech Cement	UTCEN IN	34.0	9,684	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Apr 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	1,12,860	1,35,400	1,46,910	1,70,470	1,93,494
EBITDA	24,310	23,160	26,391	30,732	39,137
Depreciation	(12,360)	(13,050)	(14,980)	(15,879)	(16,832)
EBIT	13,500	11,490	14,561	17,447	24,598
Net interest inc./(exp.)	(2,020)	(2,349)	(3,860)	(3,912)	(4,547)
Other inc./(exp.)	1,550	1,380	3,150	2,593	2,293
Exceptional items	(20)	3,850	0	0	0
EBT	11,460	12,991	10,701	13,535	20,051
Income taxes	140	(2,420)	(2,160)	(3,100)	(4,922)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(160)	(400)	(270)	(153)	(243)
Reported net profit	11,440	10,171	8,271	10,282	14,886
Adjustments	(20)	3,850	0	0	0
Adjusted net profit	11,460	6,321	8,271	10,282	14,886

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	15,300	18,120	27,564	30,612	32,870
Other current liabilities	15,810	20,630	15,406	20,362	19,369
Provisions	6,060	3,200	3,450	3,795	4,175
Debt funds	33,600	39,800	48,050	48,993	47,855
Other liabilities	19,620	14,940	16,480	19,686	19,686
Equity capital	390	370	380	370	370
Reserves & surplus	1,57,210	1,56,900	1,66,170	1,51,368	1,64,304
Shareholders' fund	1,58,320	1,58,430	1,66,170	1,52,392	1,65,328
Total liab. and equities	2,48,710	2,55,120	2,77,120	2,75,840	2,89,282
Cash and cash eq.	45,590	32,200	44,550	21,281	22,094
Accounts receivables	6,730	7,000	8,360	9,958	11,608
Inventories	9,450	13,160	12,180	14,300	16,441
Other current assets	23,340	30,300	24,870	26,114	27,419
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	6,128	19,303	19,496
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
Total assets	2,48,710	2,55,120	2,77,120	2,75,840	2,89,282

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	17,430	19,870	28,783	25,718	22,409
Capital expenditures	(12,580)	(36,159)	(23,883)	(21,718)	(13,265)
Change in investments	(16,710)	21,800	(9,380)	16,000	(6,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(29,290)	(14,359)	(33,263)	(5,718)	(19,265)
Equities issued/Others	340	250	(1,800)	871	(243)
Debt raised/repaid	(6,930)	6,200	8,250	943	(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)	2,665	(23,234)	(100)
Cash flow from financing	10,990	(4,261)	7,450	(23,270)	(3,331)
Chg in cash & cash eq.	(870)	1,250	2,970	(3,270)	(186)
Closing cash & cash eq.	45,590	32,200	44,550	21,280	22,094

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	58.7	55.0	43.5	55.6	80.5
Adjusted EPS	58.8	34.2	43.5	55.6	80.5
Dividend per share	5.1	9.1	8.8	10.0	10.0
Book value per share	811.9	856.4	874.6	823.7	893.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	2.9	2.5	2.3	2.1	1.6
EV/EBITDA	13.3	14.8	12.8	11.8	8.1
Adjusted P/E	30.7	52.9	41.5	32.5	22.5
P/BV	2.2	2.1	2.1	2.2	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	101.2	81.4	79.8	77.1	75.5
Interest burden (PBT/EBIT)	85.0	79.6	73.5	77.6	81.5
EBIT margin (EBIT/Revenue)	12.0	8.5	9.9	10.2	12.7
Asset turnover (Rev./Avg TA)	48.1	53.7	55.2	61.7	68.5
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.7	1.8
Adjusted ROAE	8.1	4.7	5.3	6.6	9.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	11.6	20.0	8.5	16.0	13.5
EBITDA	(12.2)	(4.7)	13.9	16.5	27.3
Adjusted EPS	(4.9)	(41.9)	27.4	27.7	44.8
Profitability & Return ratios (%)					
EBITDA margin	21.5	17.1	18.0	18.0	20.2
EBIT margin	12.0	8.5	9.9	10.2	12.7
Adjusted profit margin	10.2	4.7	5.6	6.0	7.7
Adjusted ROAE	8.1	4.7	5.3	6.6	9.5
ROCE	6.8	5.4	6.6	7.7	10.8
Working capital days (days)					
Receivables	22	19	21	21	22
Inventory	31	35	30	31	31
Payables	63	59	83	80	78
Ratios (x)					
Gross asset turnover	0.6	0.6	0.6	0.6	0.7
Current ratio	2.3	2.0	1.9	1.3	1.4
Net interest coverage ratio	6.7	4.9	3.8	4.5	5.4
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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

CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

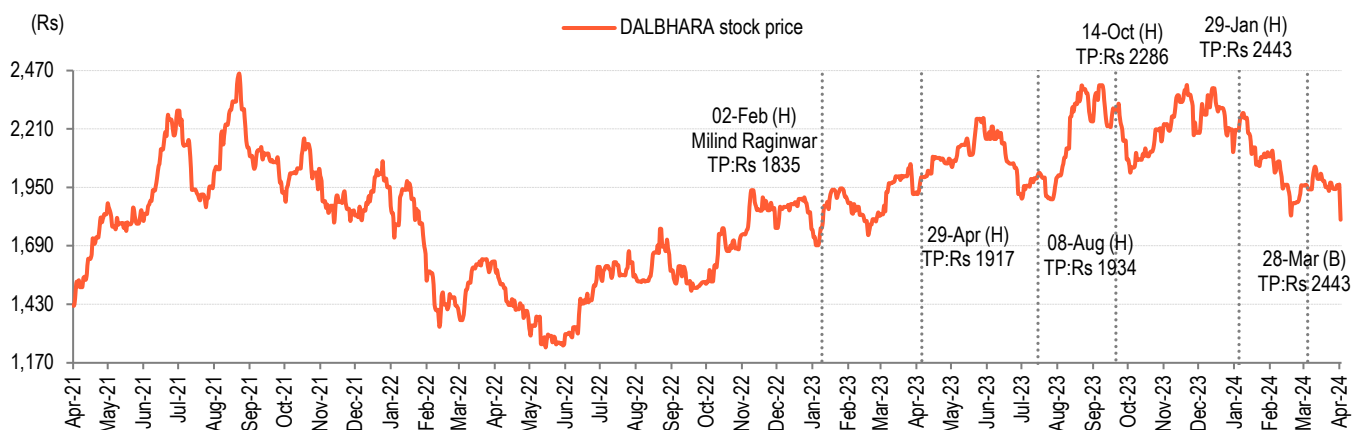
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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