

RESEARCH**DALMIA BHARAT | TARGET: Rs 1,773 | -8% | SELL**

Excess supply to impact performance; downgrade to SELL

GODREJ CONSUMER PRODUCTS | TARGET: Rs 1,163 | +2% | HOLD

Headwinds: Inflation, innovation from competition, and weather

SUMMARY**DALMIA BHARAT**

- 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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GODREJ CONSUMER PRODUCTS

- Extreme weather patterns impacted sales of Household Insecticides (HI). Soap volumes were soft on destocking due to price rises
- GCPL expects soap volumes to recover in the "next few months" as inventory and consumption align
- Soap volume recovery may require aggressive pricing resulting in margin pressure until savings initiatives come through in FY26. HOLD

[Click here](#) for the full report.



SELL

TP: Rs 1,773 | ▼ 8%

DALMIA BHARAT

Cement

12 December 2024

Excess supply to impact performance; downgrade to SELL

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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%

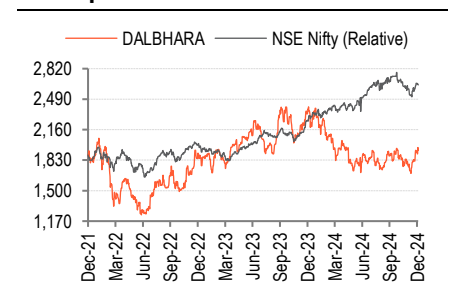
Source: NSE | Price as of 12 Dec 2024

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



HOLD
 TP: Rs 1,163 | ▲ 2%

GODREJ CONSUMER PRODUCTS

Consumer Staples

12 December 2024

Headwinds: Inflation, innovation from competition, and weather

- Extreme weather patterns impacted sales of Household Insecticides (HI). Soap volumes were soft on destocking due to price rises
- GCPL expects soap volumes to recover in the “next few months” as inventory and consumption align
- Soap volume recovery may require aggressive pricing resulting in margin pressure until savings initiatives come through in FY26. **HOLD**

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Domestic headwinds: GCPL indicated flat domestic underlying volume growth (UVG) due to weather-driven weakness in Household Insecticides and destocking leading to volume weakness in soaps. Domestic margins are below the normal 24%-27% range. International is in line with expectations as margin focus has continued. We cut EBITDA forecasts for FY25-FY27 by 4%-8%.

Palm oil, inflation, competition impacting soap sales and margins: Palm oil and derivative prices are up ~30% YoY. We estimate a 180bps impact on group gross margins. While GCPL has taken pricing, HUVR has a 7-10% pricing edge due to the partial substitution of palm oil with Stratos. HUVR’s cost advantage is more meaningful during inflationary periods such as the current. We assume GCPL is prioritising market share over margins – the impact on our margin forecasts is higher vs sales. We estimate 9% required pricing to offset absolute palm inflation, and forecast 50%-60% recovery in soap margins in FY26.

Unfavourable weather impacting HI: HIs account for a third of the India business. 3QFY25 demand was adversely impacted on (1) extreme weather patterns impacting insect breeding; and (2) government interference at a larger-than-usual scale in insecticides control due to floods in Southern India, which restricted individual household consumption.

FY25-FY27 earnings revisions: We lower our forecasts for sales by 4-5% and EBITDA by 4-8%. Volume elasticity due to inflation-driven pricing and a rise in the relative price index due to HUVR’s reduced palm exposure is likely impacting GCPL’s soap sales. GCPL expects to offset this disadvantage with cost-saving programs over FY26.

Our view: Margin risk in 2HFY25 has eventuated with weaker soap sales and insufficient pricing. GCPL soap margins and sales likely to remain under pressure until savings initiatives come through starting FY26. We value GCPL at 51x 12M to Sep’26 EPS with a TP of Rs 1,163 (down from Rs 1,299). Maintain **HOLD**.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	GCPL IN/Rs 1,135
Market cap	US\$ 13.7bn
Free float	37%
3M ADV	US\$ 23.1mn
52wk high/low	Rs 1,542/Rs 1,020
Promoter/FPI/DII	63%/23%/14%

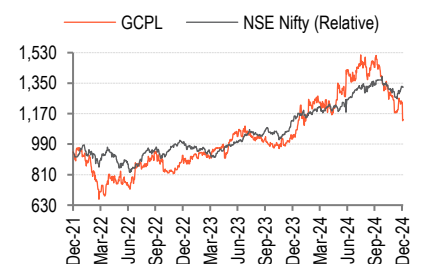
Source: NSE | Price as of 11 Dec 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	140,961	143,188	159,747
EBITDA (Rs mn)	29,435	31,546	38,095
Adj. net profit (Rs mn)	19,763	21,064	26,275
Adj. EPS (Rs)	19.3	20.6	25.7
Consensus EPS (Rs)	19.3	20.0	26.0
Adj. ROAE (%)	15.7	15.3	17.6
Adj. P/E (x)	58.7	55.1	44.2
EV/EBITDA (x)	39.4	36.8	30.5
Adj. EPS growth (%)	12.5	6.6	24.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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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

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