

HOLD**TP: Rs 2,062 | ▲ 13%****DALMIA BHARAT**

| Cement

| 20 July 2024

Growth setback in the shorter term; downgrade to HOLD

- Volume growth takes a back seat as focus shifts to tackling steep fall in realisation, which leads to flat revenue growth. EBITDA up by 10%
- EBITDA margin improves to 18.5% aided by better cost control of 7%, offsetting 7% YoY loss in realisations
- Prune FY25E/FY26E EBITDA by ~1.5%/6% on looming concerns for growth; downgrade to HOLD from BUY with revised TP of Rs 2,062

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Volumes rise, realisations weak: Dalmia Bharat (DBL) reported a flat YoY (-15% QoQ) revenue at Rs 36bn in Q1FY25 as the focus shifted back to guarding against realisation decline rather than volume growth. Volume growth declined ~6% YoY (-16% QoQ) to 7.4mt. Realisations fell 7% YoY (flat QoQ) to Rs 4,895/t. Cement prices weakened in DBL's key operating regions in eastern India but could make up with sales in the southern region where prices were relatively remunerative.

Cost savings driven by lower energy cost: Overall cost/tonne dipped 7%/4% YoY/QoQ to Rs 3,989 due to 12%/8 YoY/QoQ softening in raw material-adjusted energy cost to Rs 1,841/t. The logistics cost stayed low at Rs 970/t, a decline of 1%/2% YoY/QoQ. The elevated cost was due to higher clinker movement to the split grinding units. Other expenditure rose by just 3% YoY and was well controlled. There is more room for cost savings with softening fuel and logistic costs.

EBITDA inflates despite weak realisations as cost provides respite: EBITDA grew by ~10%2% YoY/QoQ to ~Rs 6.7bn, and EBITDA margin rose to ~18.5% from ~17% in Q1FY24 (15.2% in 4QFY24). EBITDA/t rose by 4% YoY to Rs 877. DBL's cost saving measures will help EBITDA/t improve further.

Only organic capacity expansion underway post JAL assets under insolvency: Management expects the 0.5mt debottleneck expansion at Rohtas (Kalyanpur), Bihar, and 2.4mt greenfield expansion at Lanka, Assam, to be completed by H2FY25. Management plans to increase capacity to 49.5mt by FY25-end. The 9.4mt cement capacity (backed by 4mt of clinker) from the Jaypee acquisition is now uncertain due to insolvency proceedings and will be a temporary setback for DBL.

Downgrade to HOLD: We prune our FY25/FY26 EBITDA estimates by ~1.5%/6% to factor in expectations of slow growth due to uncertainty over JAL assets and no major alternative. We continue to assign the stock an EV/EBITDA of 12x 1-year forward but lower our TP to Rs 2,062 (earlier Rs 2,346) which reflects an implied replacement cost of Rs 7.5bn. We downgrade DBL to HOLD from BUY.

Key changes

Target	Rating
▼	▼

Ticker/Price	DALBHARA IN/Rs 1,819
Market cap	US\$ 4.1bn
Free float	44%
3M ADV	US\$ 11.8mn
52wk high/low	Rs 2,431/Rs 1,651
Promoter/FPI/DII	56%/12%/8%

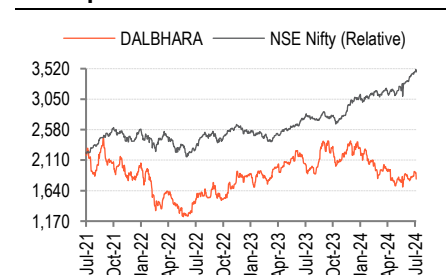
Source: NSE | Price as of 19 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,46,910	1,66,930	1,88,979
EBITDA (Rs mn)	26,390	30,286	36,665
Adj. net profit (Rs mn)	8,540	9,578	13,706
Adj. EPS (Rs)	44.9	51.8	74.1
Consensus EPS (Rs)	44.9	57.1	79.6
Adj. ROAE (%)	5.3	6.0	8.5
Adj. P/E (x)	40.5	35.1	24.5
EV/EBITDA (x)	12.9	12.5	8.5
Adj. EPS growth (%)	31.5	15.2	43.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q1FY25	Q4FY24	Our view
Volumes and realisations	Volumes growth was restricted to high single digit as focus shifts to arresting realisation decline. Management expects 8-9% industry volume growth in FY25 and DBL to grow 1.5x of Indian cement industry. Cement price weakened 3% QoQ in DBL's key areas of operations (East and South India) in Q2FY25.	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.	Focus on realisations will continue as volume growth will be restricted till 2HFY25. Volume pressure from industry in 2H will sustain pricing pressure in the eastern and southern regions of India.
Margins	Average fuel prices were in the range of US\$ 106 a steep fall from ~US\$ 152 YoY (US\$ 115-125/t blended fuel cost in 4QFY24) translating to fuel cost of 1.38x, down from a low of Rs 1.45/kcal compared to Q4FY24, and sharply lower than ~Rs 2.0/kcal in 1QFY24. Management indicated tolling of clinker will continue from JAL. The margins swelled largely due to fuel and logistics cost savings.	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 than Q3FY24 and sharply lower than Rs 2.04/kcal in 4QFY23. Freight cost increased by 4.7%/6.2% YoY/QoQ largely to retain market share. The raw material price spiked due to toll charges from Jaiprakash Associates (JPA). Other expenses escalated due to branding cost.	Captive coal from mines allocated, and renewable power could provide further respite in cost savings. Savings in logistic cost to prove handy.
Capacity	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. However, with JAL assets under insolvency and no alternative plan, growth plans have taken a backseat at least for the medium term.	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.	At 65% capacity utilisation DBL has enough capacity to handle incremental demand. However, with no alternative plan capacity expansion will have to be addressed with more clarity.
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. The company incurred capex of Rs 6.5bn in Q1FY25 to handle inventory build-up, paying GST liabilities and addressing discounts.	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 Rs 35bn for 5.2mt of cement.	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's earlier plans of peak gross debt at ~Rs 90bn and net debt of about Rs 50bn by FY25 will be pushed further till the road map of expansion is clearly addressed post the JAL asset insolvency. Management expects DBL to attain 75mn tonnes of capacity by FY28 but did not provide a clear road map. DBL provided Rs 1.13bn as one-time provision on account of loss from JAL.	DBL expects peak gross debt to be about Rs 90bn and net debt of 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). The Jaypee acquisition is expected to be completed by Q2FY25 as some approvals from lenders are still pending.	The company must maintain balance sheet health with its expansion needs. With major capex expected in FY26/FY27 and FY28, the balance sheet could be impacted.

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

Fig 2 – Key metrics

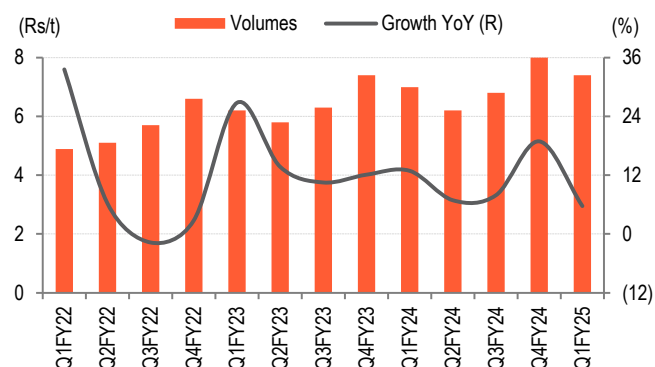
(Rs)	1QFY25	1QFY24	YoY %	4QFY24	QoQ %
Volumes (mn tonnes)	8.8	7.4	18.9	6.8	29.4
Cement realisations (Rs/t)	4,895	5,286	(7.4)	5,294	(7.5)
Operating costs (Rs/t)	4,151	4,331	(4.2)	4,154	(0.1)
EBITDA/t (Rs)	717	928	(22.8)	1,113	(35.6)

Source: Company, BOBCAPS Research

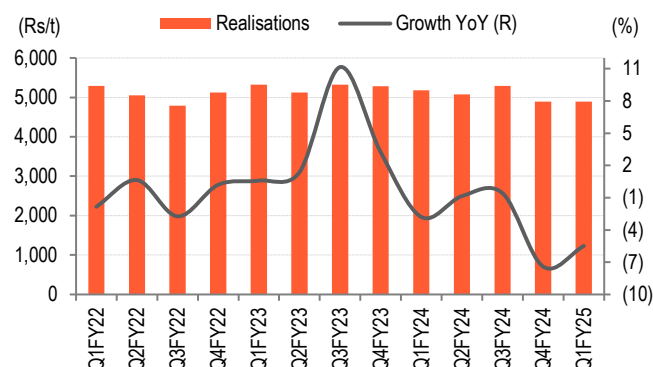
Fig 3 – Quarterly performance

(Rs mn)	1QFY25	1QFY24	YoY %	4QFY24	QoQ %
Net Sales	36,210	36,240	(0.1)	43,073	(15.9)
Expenditure					
Change in stock	(800)	(680)	17.6	1,370	(158.4)
Raw material	5,790	5,380	7.6	6,270	(7.7)
Purchased products	1,060	960	10.4	2,140	(50.5)
Power & fuel	7,570	9,020	(16.1)	7,900	(4.2)
Freight	8,300	8,090	2.6	10,200	(18.6)
Employee costs	2,280	2,220	2.7	2,020	12.9
Other expense	5,320	5,150	3.3	6,630	(19.8)
Total Operating Expenses	29,520	30,140	(2.1)	36,530	(19.2)
EBITDA	6,690	6,100	9.7	6,543	2.2
EBITDA margin (%)	18.5	16.8	164bps	15.2	328.5
Other Income	500	570	(12.3)	1,200	(58.3)
Interest	950	830	14.5	940	1.1
Depreciation	3,170	3,990	(20.6)	3,280	(3.4)
PBT	3,070	1,850	65.9	3,523	(12.9)
Non-recurring items	0	0		0	0
PBT (after non-recurring items)	1,940	1,850	4.9	3,523	(44.9)
Tax	490	410	19.5	320	53.1
PAT	1,450	1,440	0.7	3,203	(54.7)
Adjusted PAT	2,540	1,300	95.4	3,153	(19.4)
NPM (%)	7.0	3.6	343bps	7.3	(30.5)
Adjusted EPS (Rs)	13.7	7.0	95.4	17.0	(19.4)

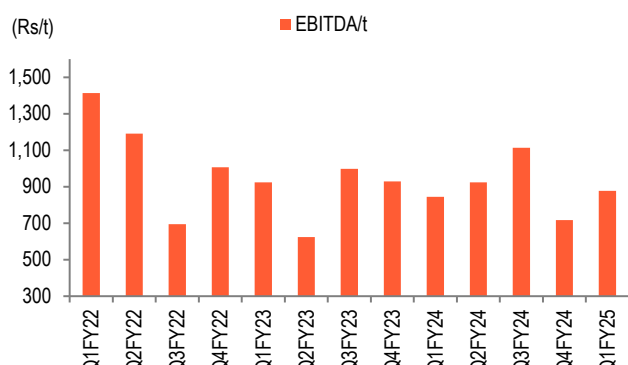
Source: BOBCAPS Research

Fig 4 – Focus returns to realisations

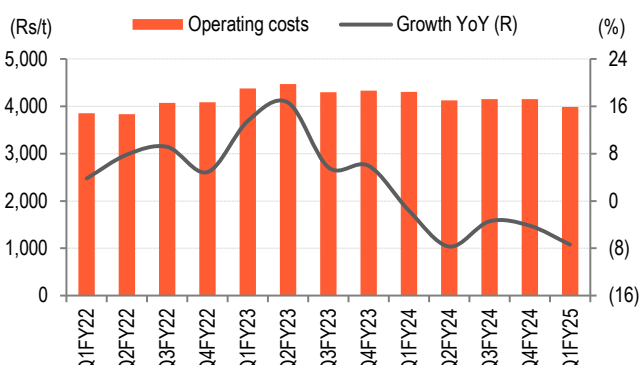
Source: Company, BOBCAPS Research

Fig 5 – Pricing pressure keeps realisations in check

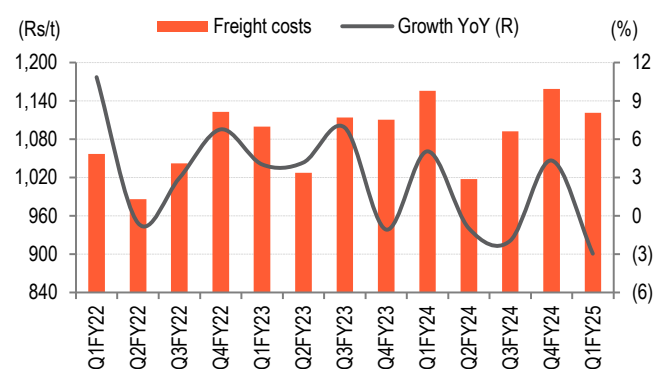
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t guarded by cost savings

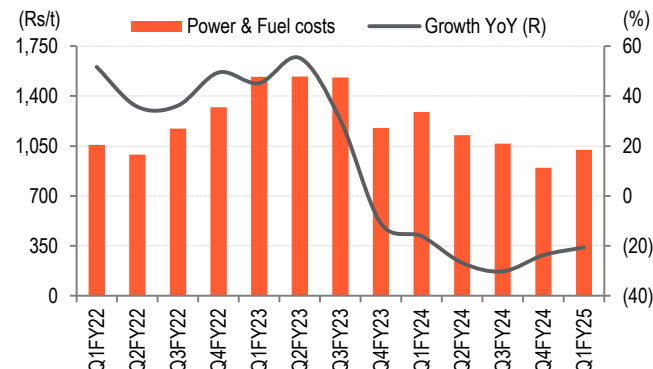
Source: Company, BOBCAPS Research

Fig 7 – Operating cost can soften further, albeit limited

Source: Company, BOBCAPS Research

Fig 8 – Freight cost savings could reverse

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 through expansion is likely to receive a setback with the insolvency proceedings of Jaiprakash Associates assets in Central India. Besides losing a key region in the short term, DBL's growth plans could be thwarted. With limited alternative arrangements, this may impact growth for DBL in the short/medium term.

With focus now back-ended for capacity expansion from FY26-FY28 for the first leg of major capacity addition, this may put considerable pressure on the company's balance sheet in the medium term. Cost savings plans notwithstanding, we feel this could lead to considerable concerns for DBL.

Factoring in the same we prune our FY25/FY26 EBITDA estimates by ~1.5%/3% to build in expectations of slow growth in the medium term. Further, clinker shortages will keep growth plans in check in FY27 till further capacity begins to contribute effectively. We continue to assign the stock an EV/EBITDA of 12x FY26E and revise our TP to Rs 2,062 (earlier Rs 2,346) which reflects an implied replacement cost of Rs 8.0bn. We downgrade the stock to a HOLD rating from BUY as the stock has limited upside from the TP.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,66,930	1,88,979	2,07,477	1,70,470	1,93,494	NA	(2.1)	(2.3)	NA
EBITDA	30,286	36,665	39,667	30,732	39,137	NA	(1.4)	(6.3)	NA
Adj PAT	9,578	13,706	15,465	10,282	14,886	NA	(6.9)	(7.9)	NA
Adj EPS (Rs)	51.8	74.1	83.6	55.6	80.5	NA	(6.9)	(8.0)	NA

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY26E
Volumes (mt)	28.80	32.30	36.18	39.07
Realisations (Rs/t)	5,229	5,111	4,996	5,071
Operating costs (Rs/t)	4,514	4,328	4,182	4,124
EBITDA/t (Rs/t)	948	938	1,013	1,015

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

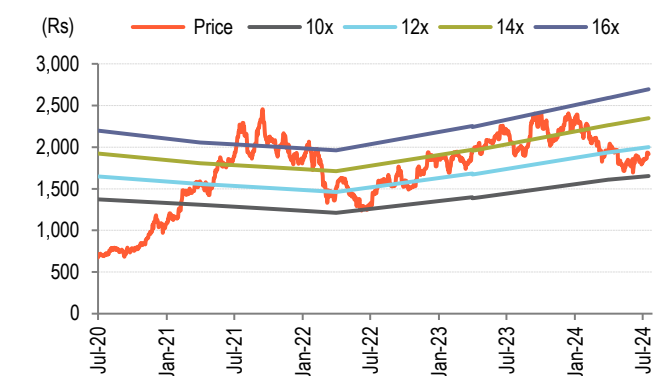
Business (Rs mn)	FY26E
Target FY25E EV/EBITDA (x)	11.51
EBITDA (FY25E)	36,665
Target EV	4,22,009
Total EV	4,22,009
Net debt (FY25E)	47,300
Target market capitalisation	3,74,710
Target price (Rs/sh)	2062.35
Weighted average shares (mn)	185.0

Source: BOBCAPS Research

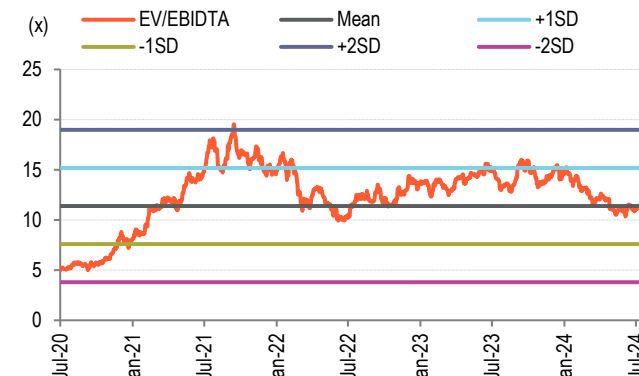
Fig 13 – Peer comparison

Ticker	Rating	TP	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
		(Rs)	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
DALBHARA IN	HOLD	2,062	12.9	12.5	8.5	82.0	87.0	86.0	6.0	8.5	8.9	7.3	9.5	9.7
SRCM IN	HOLD	27,438	19.1	16.1	18.1	208	207	202	12.8	12.5	12.9	15.9	16.9	17.1
ACC IN	HOLD	2,657	13.2	11.5	9.5	140	126	113	14.0	14.2	14.3	17.3	18.2	18.6

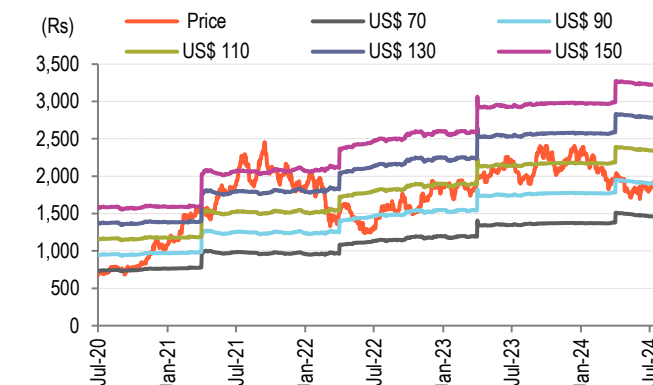
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: Current valuations may correct on expectations of lower earnings

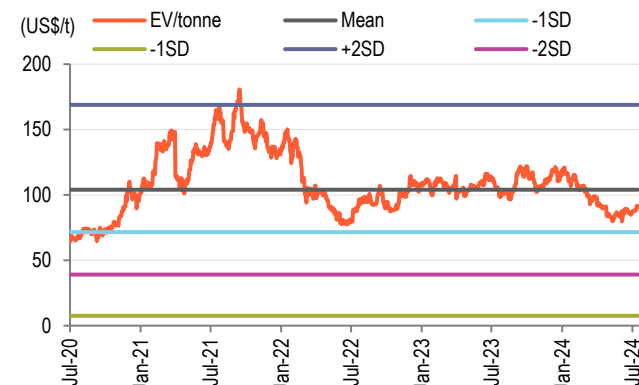
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Current valuations clearly match medium term earning profile

Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: Replacement cost at modest valuations

Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd: Valuations to stay elevated

Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	1,35,400	1,46,910	1,66,930	1,88,979	2,07,477
EBITDA	23,160	26,390	30,286	36,665	39,667
Depreciation	(13,050)	(14,980)	(15,879)	(16,832)	(17,841)
EBIT	11,490	14,560	17,001	22,926	25,169
Net interest inc./(exp.)	(2,349)	(3,860)	(4,363)	(4,901)	(5,146)
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	12,638	18,025	20,023
Income taxes	(2,420)	(2,160)	(2,907)	(4,075)	(4,315)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(400)	0	(153)	(243)	(243)
Reported net profit	10,171	8,540	9,578	13,706	15,465
Adjustments	3,850	0	0	0	0
Adjusted net profit	6,321	8,540	9,578	13,706	15,465

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	18,120	20,280	24,734	27,708	29,552
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	1,57,009	1,68,765	1,82,280
Shareholders' fund	1,58,430	1,66,105	1,58,033	1,69,789	1,83,304
Total liab. and equities	2,55,120	2,77,055	2,82,612	3,01,156	3,24,953
Cash and cash eq.	32,200	44,540	13,024	10,909	11,836
Accounts receivables	7,000	8,360	9,725	11,279	12,683
Inventories	13,160	12,180	13,965	15,975	17,732
Other current assets	30,300	24,870	26,114	29,133	32,646
Investments	5,890	5,900	6,900	8,900	9,400
Net fixed assets	96,351	1,07,626	1,04,598	1,03,745	1,02,892
CWIP	18,590	21,887	54,718	65,661	80,106
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
Total assets	2,55,120	2,77,055	2,82,612	3,01,156	3,24,953

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	19,870	26,625	22,737	21,209	21,866
Capital expenditures	(36,159)	(23,220)	(40,369)	(22,810)	(26,429)
Change in investments	21,800	(9,380)	29,000	(3,000)	(1,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(14,359)	(32,600)	(11,369)	(25,810)	(27,429)
Equities issued/Others	250	5	(524)	(243)	(243)
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)
Cash flow from financing	(4,261)	8,945	(12,884)	1,486	5,990
Chg in cash & cash eq.	1,250	2,970	(1,516)	(3,115)	427
Closing cash & cash eq.	32,200	44,540	13,024	10,909	11,836

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	55.0	44.9	51.8	74.1	83.6
Adjusted EPS	34.2	44.9	51.8	74.1	83.6
Dividend per share	9.1	8.9	10.0	10.0	10.0
Book value per share	856.4	874.2	854.2	917.8	990.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.5	2.3	2.3	1.7	1.4
EV/EBITDA	14.9	12.9	12.5	8.5	7.4
Adjusted P/E	53.2	40.5	35.1	24.5	21.8
P/BV	2.1	2.1	2.1	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	81.4	79.8	77.0	77.4	78.5
Interest burden (PBT/EBIT)	79.6	73.5	74.3	78.6	79.6
EBIT margin (EBIT/Revenue)	8.5	9.9	10.2	12.1	12.1
Asset turnover (Rev./Avg TA)	53.7	55.2	59.7	64.7	66.3
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.8	1.8
Adjusted ROAE	4.7	5.3	6.0	8.5	8.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	20.0	8.5	13.6	13.2	9.8
EBITDA	(4.7)	13.9	14.8	21.1	8.2
Adjusted EPS	(41.9)	31.5	15.2	43.1	12.8

Profitability & Return ratios (%)

EBITDA margin	17.1	18.0	18.1	19.4	19.1
EBIT margin	8.5	9.9	10.2	12.1	12.1
Adjusted profit margin	4.7	5.8	5.7	7.3	7.5
Adjusted ROAE	4.7	5.3	6.0	8.5	8.9
ROCE	5.4	6.5	7.3	9.5	9.7

Working capital days (days)

Receivables	19	21	21	22	22
Inventory	35	30	31	31	31
Payables	59	61	66	66	64

Ratios (x)

Gross asset turnover	0.6	0.6	0.7	0.7	0.8
Current ratio	2.0	2.0	1.2	1.3	1.4
Net interest coverage ratio	4.9	3.8	3.9	4.7	4.9
Adjusted debt/equity	0.3	0.3	0.3	0.3	0.4

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**

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Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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

BUY – Expected return >+15%

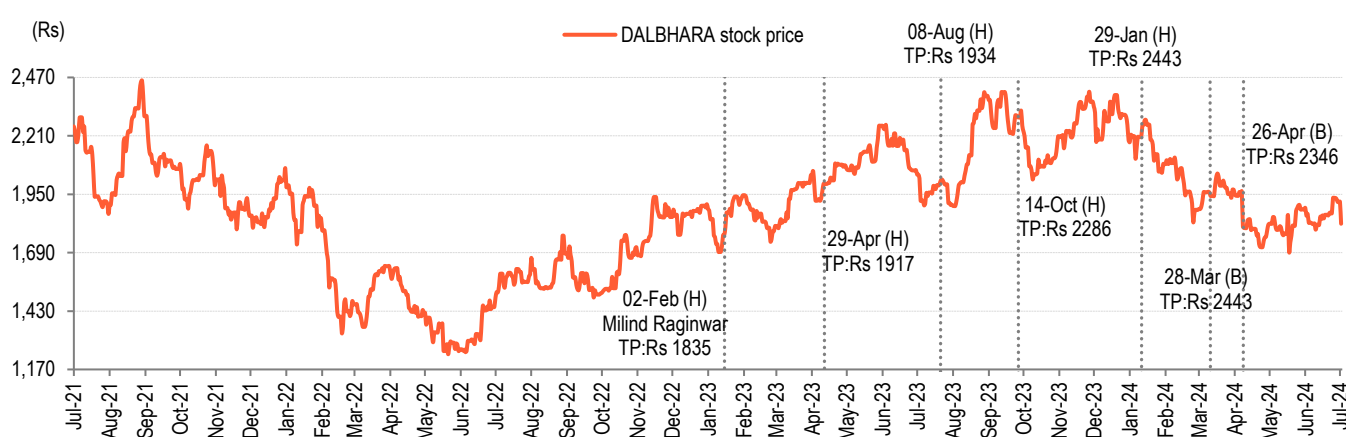
HOLD – Expected return from -6% to +15%

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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