

HOLD

TP: Rs 1,835 | ▼ 1%

DALMIA BHARAT

| Cement

| 07 February 2023

Strong quarter; capacity addition on track

- Q3 revenue up 23% YoY backed by double-digit volume growth (11%) and equally strong realisation gains
- EBITDA growth at 57% YoY with margin up 420bps on higher sales of blended cement and premium products
- Positives in the price; maintain HOLD with an unchanged TP of Rs 1,835, set at 11x FY25E EV/EBITDA

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High realisations and volumes: Dalmia Bharat's (DBL) Q3FY23 revenue grew 23% YoY (+13% QoQ) to Rs 33.5bn buoyed by higher volumes and realisations. Volumes increased 11% YoY (+9% QoQ) to 6.3mt and realisations were also up 11% YoY (+4% QoQ). Volume growth was strong across regions even as pricing was stable, with the eastern market showing steady recovery in pricing.

Cost escalation continues; likely to moderate from Q4: Operating cost per tonne grew 6% YoY (-4% QoQ) to Rs 4,302/t as energy cost/t adjusted for raw material cost grew 9% YoY (-8% QoQ). Ex-input costs, energy cost/t rose 31% YoY (-1% QoQ) to Rs 1,530/t. Fuel cost softened QoQ from Rs 2.52/kcal to Rs 2.42/kcal due to the easing of pet coke prices from the peak. Logistics cost increased by 7% YoY (+8% QoQ) due to the busy season surcharge and withdrawal of railway incentives (valid till Q2FY23). Other expenditure grew 11% YoY to Rs 4.8bn, in line with the rise in volume.

EBITDA rebounds QoQ: EBITDA soared 57% YoY and 71% QoQ to Rs 6.5bn, and DBL's EBITDA margin rose to 19.2% from 15% in Q3FY22, led by higher revenue share of blended cement (PPC) at ~83% and premium products at 22%. Adj. PAT grew 3x YoY to Rs 2bn.

Committed to expansion capex: DBL incurred capex of Rs 9bn during Q3FY23 and expects to spend Rs 30bn/Rs 32bn in FY23. The company expects ongoing projects to be completed within the targeted timelines. In Q3, it commercialised 25MW of renewable power, which takes the total green energy capacity to 154MW (including the waste heat recovery system).

Maintain HOLD: With the ongoing 5mt expansion by FY25E, DBL will have enough headroom (48 mt) to cater to incremental demand. Narrowing of the gap between regional dispatches and capacities (~20mt) should boost margins and take return ratios from the current ~5% to an estimated 10% in FY25. However, we believe the **positives are priced in** at current valuations of ~11x FY25E EV/EBITDA, capping upsides. We maintain HOLD with a TP of Rs 1,835, set at 11x FY25E EV/EBITDA, implying a replacement cost of Rs 8.4bn/mt (12% premium to the industry average).

Key changes

Target	Rating
◀ ▶	◀ ▶

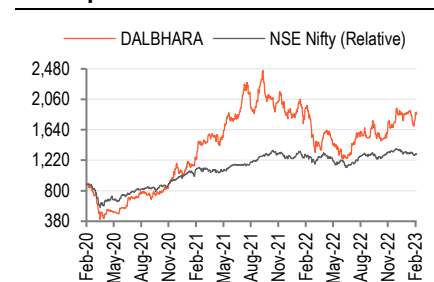
Ticker/Price	DALBHARA IN/Rs 1,853
Market cap	US\$ 4.4bn
Free float	44%
3M ADV	US\$ 6.4mn
52wk high/low	Rs 2,015/Rs 1,213
Promoter/FPI/DII	56%/12%/8%

Source: NSE | Price as of 7 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	112,860	132,995	151,671
EBITDA (Rs mn)	24,310	21,953	27,856
Adj. net profit (Rs mn)	11,460	6,387	9,612
Adj. EPS (Rs)	58.8	32.8	49.3
Consensus EPS (Rs)	58.8	37.1	60.9
Adj. ROAE (%)	8.1	4.5	7.1
Adj. P/E (x)	31.5	56.6	37.6
EV/EBITDA (x)	14.4	17.0	14.1
Adj. EPS growth (%)	(4.9)	(44.3)	50.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Earnings call highlights

Volumes and Realisations

- 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.

Margins

- 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 Q4FY23.
- 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 Q3FY23 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%.

Capex and Capacity

- DBL incurred capex of Rs 9bn during Q3FY23 and expects to spend a total of Rs 30bn/Rs 32bn in FY23.
- Management expects ongoing expansion projects to be completed within the targeted timelines.
- 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 to take renewable power to 173MW by FY23 and 328MW by FY24.

Other key points

- Incentives (sales related) towards totalled Rs 0.61bn 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 0.39x.
- With respect to its investment in Indian Energy Exchange (IEX), management continues to evaluate the same and will take an appropriate decision on divestment.

Fig 1 – Key metrics

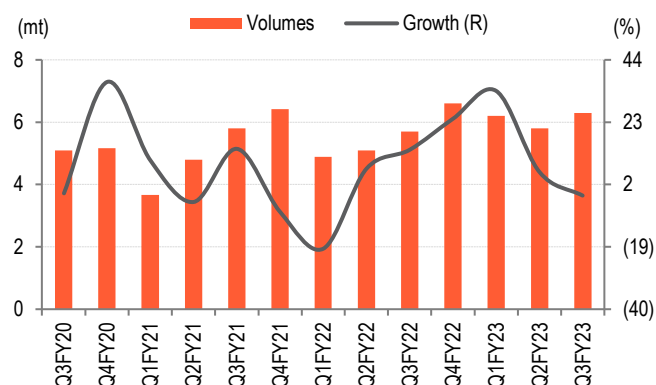
(Rs)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Volumes (mt)	6.3	5.7	10.5	5.8	8.6
Cement realisations (Rs/t)	5,325	4,791	11.1	5,122	4.0
Operating costs (Rs/ft)*	4,302	4,070	5.7	4,472	(3.8)
EBITDA/t (Rs)	941	644	46.0	587	60.2

Source: Company, BOBCAPS Research

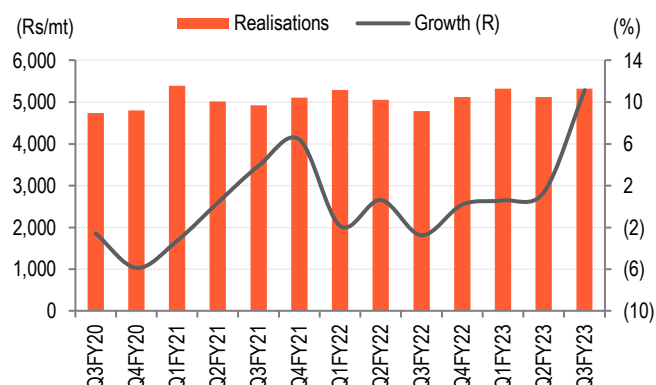
Fig 2 – Quarterly performance

Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Net Sales	33,550	27,310	22.8	29,710	12.9
Expenditure					
Change in stock	(1,240)	830	(249.4)	(40)	3,000.0
Raw material	4,940	3,580	38.0	4,450	11.0
Purchased products	0	0	-	0	-
Power & fuel	9,640	6,680	44.3	8,920	8.1
Freight	7,020	5,940	18.2	5,960	17.8
Employee costs	1,930	1,840	4.9	1,890	2.1
Other expenditure	4,810	4,330	11.1	4,760	1.1
Total Operating Expenses	27,100	23,200	16.8	25,940	4.5
EBITDA	6,450	4,110	56.9	3,770	71.1
EBITDA margin (%)	19.2	15.0	420bps	12.7	650bps
Other Income	350	300	16.7	380	(7.9)
Interest	690	460	50.0	540	27.8
Depreciation	3,250	3,020	7.6	3,320	(2.1)
PBT	2,860	930	207.5	290	886.2
Non-recurring items	0	0	-	0	-
PBT (after non-recurring items)	2,860	930	207.5	290	886.2
Tax	740	200	270.0	(210)	(452.4)
Reported PAT	2,120	730	190.4	500	324.0
Adjusted PAT	2,000	650	207.7	550	263.6
NPM (%)	1.6	0.5	105bps	0.5	113bps
Adjusted EPS (Rs)	22.5	7.3	208.2	6.2	262.9

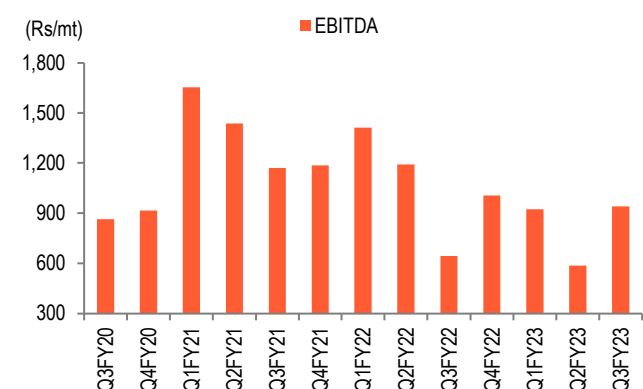
Source: Company, BOBCAPS Research

Fig 3 – Double-digit volume push from eastern region

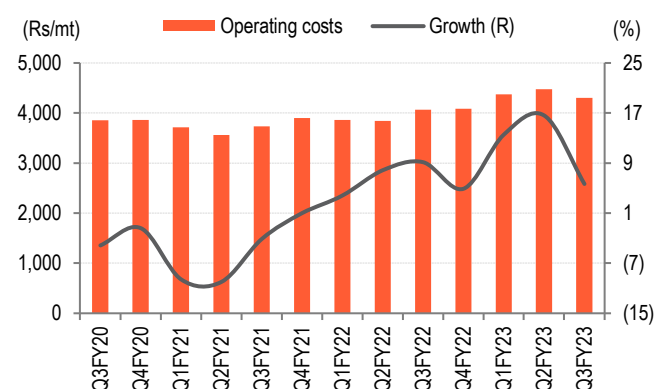
Source: Company, BOBCAPS Research

Fig 4 – Pricing driven by hikes in the eastern region

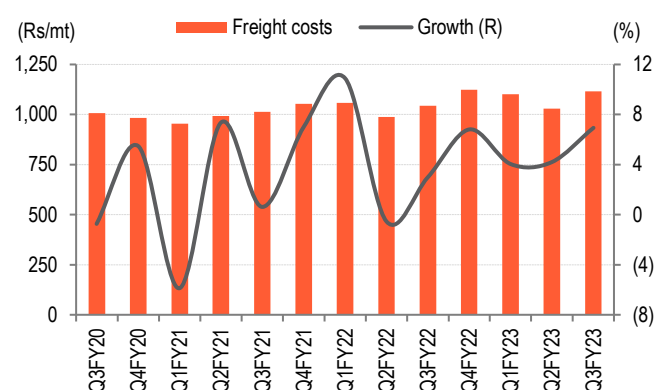
Source: Company, BOBCAPS Research

Fig 5 – Strong EBITDA/t recovery in Q3FY23

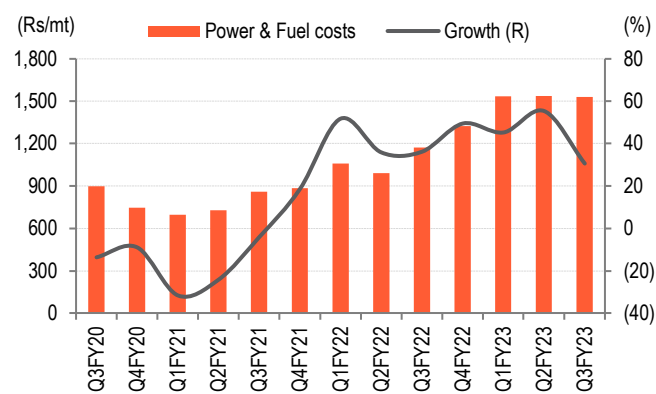
Source: Company, BOBCAPS Research

Fig 6 – Softer fuel cost helps moderate cost inflation

Source: Company, BOBCAPS Research

Fig 7 – Logistic cost higher due to withdrawal of concessions

Source: Company, BOBCAPS Research

Fig 8 – Fuel cost tailwinds to aid performance

Source: Company, BOBCAPS Research

Valuation methodology

With the ongoing 5mt expansion drive by FY25E, we believe DBL will have enough capacity headroom (~48mn tonnes) to cater to incremental demand. Apart from cost-saving initiatives, a narrowing of the gap between regional dispatches and DBL's capacities (~20mt) should help drive margins, boosting ROE/ROCE from the current ~5% to an estimated 10% in FY25.

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. We model for a revenue/EBITDA/PAT CAGR of 14.6%/12.6%/10.2% for the company over FY22-FY25.

In our view, the above factors are priced in at current valuations of ~11x FY25E EV/EBITDA, limiting stock movement either way. We thus maintain our HOLD rating. Our TP remains unchanged at Rs 1,835 based on 11x FY25E EV/EBITDA and implies a replacement cost of Rs 8.4bn/mt, which is a 12% premium to the industry average considering the likely improvement in return ratios.

Fig 9 – Key assumptions

Parameter	FY22	FY23E	FY24E	FY25E
Volumes (mt)	22.2	24.86	27.85	30.63
Realisations (Rs/mt)	4,956	5,229	5,333	5,440
Operating costs (Rs/mt)	3,989	4,466	4,446	4,416
EBITDA/mt (Rs)	1,095	883	1000	1,132

Source: Company, BOBCAPS Research

Fig 10 – Valuation summary

(Rs mn)	FY25E
Target EV/EBITDA (x)	11
EBITDA	34,687
Target EV	3,81,556
Total EV	3,81,556
Net debt	23,683
Target market capitalisation	3,57,873
Target price (Rs/sh)	1,835
Weighted average shares (mn)	195

Source: BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
DALBHARA IN	HOLD	1,835	17.3	14.3	11.3	131	138	135	4.4	7.0	10.4	5.3	7.6	10.4
SRCM IN	HOLD	24,656	27.8	19.3	15.1	207	205	201	6.4	10.8	13.6	9.2	14.6	18.0
ACC IN	HOLD	2,090	23.3	15.8	9.4	120	107	100	5.3	7.0	11.3	7.0	9.4	14.9

Source: BOBCAPS Research

Key risks

- 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.
- Faster-than-expected cost deflation and better realisations pose positive risks to our earnings estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.5	1,994	2,090	HOLD
Ambuja Cement	ACEM IN	9.2	384	387	HOLD
Dalmia Bharat	DALBHARA IN	4.4	1,853	1,835	HOLD
JK Cement	JKCE IN	2.5	2,635	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	748	551	SELL
Orient Cement	ORCMNT IN	0.3	121	140	HOLD
Shree Cement	SRCM IN	10.6	24,262	24,656	HOLD
Star Cement	STRCEM IN	0.6	113	138	BUY
The Ramco Cements	TRCL IN	2.0	701	534	SELL
Ultratech Cement	UTCEN IN	24.7	7,072	8,310	BUY

Source: BOBCAPS Research, NSE | Price as of 7 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	101,100	112,860	132,995	151,671	169,963
EBITDA	27,700	24,310	21,953	27,856	34,687
Depreciation	(12,500)	(12,360)	(12,978)	(14,276)	(14,633)
EBIT	17,010	13,500	10,625	15,030	21,614
Net interest inc./(exp.)	(3,030)	(2,020)	(2,480)	(2,890)	(2,475)
Other inc./(exp.)	1,810	1,550	1,650	1,450	1,560
Exceptional items	0	0	0	0	0
EBT	13,980	11,480	8,145	12,140	19,139
Income taxes	(1,780)	140	(1,656)	(2,375)	(3,635)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(150)	(160)	(102)	(153)	(153)
Reported net profit	12,050	11,460	6,387	9,612	15,351
Adjustments	0	0	0	0	0
Adjusted net profit	12,050	11,460	6,387	9,612	15,351

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	14,890	15,300	25,930	27,847	29,550
Other current liabilities	15,220	15,810	6,114	6,451	6,153
Provisions	3,170	6,060	6,666	7,333	8,066
Debt funds	40,530	33,600	36,748	44,535	38,041
Other liabilities	17,810	19,620	19,991	19,784	19,686
Equity capital	390	390	390	390	390
Reserves & surplus	128,070	157,210	132,342	140,099	153,400
Shareholders' fund	128,800	158,320	133,081	141,045	154,444
Total liab. and equities	220,420	248,710	228,530	246,995	255,939
Cash and cash eq.	35,400	45,590	24,393	13,662	14,358
Accounts receivables	5,110	6,730	8,109	9,463	10,854
Inventories	7,600	9,450	11,242	12,962	14,698
Other current assets	18,590	23,340	23,099	22,916	24,062
Investments	7,400	13,050	3,050	3,050	7,050
Net fixed assets	95,510	101,220	108,452	133,759	130,731
CWIP	10,070	10,480	10,375	9,338	9,244
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	220,420	248,710	228,530	246,995	255,939

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	22,120	17,450	14,496	18,771	21,961
Capital expenditures	(11,630)	(12,580)	(17,113)	(35,487)	(8,666)
Change in investments	(12,170)	(16,710)	31,000	10,346	(5,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(23,800)	(29,290)	13,887	(25,142)	(13,666)
Equities issued/Others	(4,010)	340	(473)	54	(55)
Debt raised/repaid	(10,370)	(6,930)	3,148	7,787	(6,495)
Interest expenses	0	0	0	0	0
Dividends paid	0	(1,000)	(1,755)	(1,755)	(1,950)
Other financing cash flows	14,500	18,560	(29,500)	(100)	(100)
Cash flow from financing	120	10,970	(28,580)	5,986	(8,600)
Chg in cash & cash eq.	(1,560)	(870)	(197)	(385)	(304)
Closing cash & cash eq.	35,400	45,590	24,393	13,662	14,358

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	61.8	58.8	32.8	49.3	78.7
Adjusted EPS	61.8	58.8	32.8	49.3	78.7
Dividend per share	0.0	5.1	9.0	9.0	10.0
Book value per share	660.5	811.9	682.5	723.3	792.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	3.6	3.1	2.8	2.6	2.3
EV/EBITDA	13.2	14.4	17.0	14.1	11.1
Adjusted P/E	30.0	31.5	56.6	37.6	23.5
P/BV	2.8	2.3	2.7	2.6	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	87.3	101.2	79.7	80.4	81.0
Interest burden (PBT/EBIT)	82.2	85.0	76.7	80.8	88.5
EBIT margin (EBIT/Revenue)	16.8	12.0	8.0	9.9	12.7
Asset turnover (Rev./Avg TA)	47.1	48.1	55.7	63.8	67.6
Leverage (Avg TA/Avg Equity)	1.8	1.6	1.6	1.7	1.7
Adjusted ROAE	10.4	8.1	4.5	7.1	10.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	4.5	11.6	17.8	14.0	12.1
EBITDA	33.0	(12.2)	(9.7)	26.9	24.5
Adjusted EPS	437.9	(4.9)	(44.3)	50.5	59.7
Profitability & Return ratios (%)					
EBITDA margin	27.4	21.5	16.5	18.4	20.4
EBIT margin	16.8	12.0	8.0	9.9	12.7
Adjusted profit margin	11.9	10.2	4.8	6.3	9.0
Adjusted ROAE	10.4	8.1	4.5	7.1	10.5
ROCE	9.5	6.8	5.3	7.6	10.4
Working capital days (days)					
Receivables	18	22	22	23	23
Inventory	27	31	31	31	32
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	1.7	1.4	1.5
Net interest coverage ratio	5.6	6.7	4.3	5.2	8.7
Adjusted debt/equity	0.3	0.2	0.3	0.3	0.2

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

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

BUY – Expected return >+15%

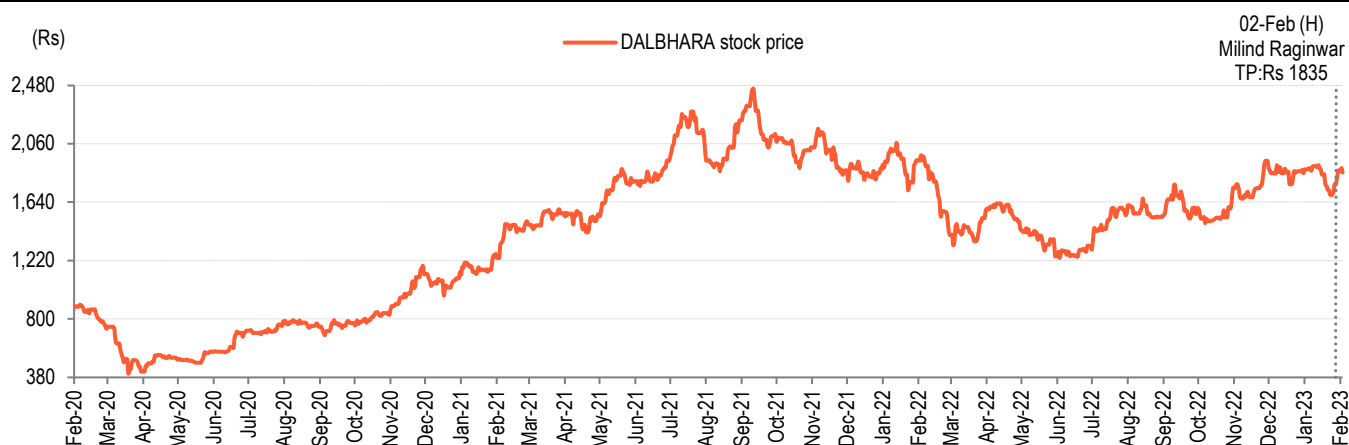
HOLD – Expected return from -6% to +15%

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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