16 June 2020

Dalmia Bharat

Slower Q4; East expansion delayed; maintaining a Buy

Rating: **Buy**
Target Price: ₹793
Share Price: ₹560

Hit by the lockdown in Mar, Dalmia's Q4 revenue/EBITDA/PAT fell 12.6%/21.7%/88.6%. The GUs expansion has been delayed by six months. The Rajgangpur clinker line commenced, reducing reliance on purchase of clinker. Requisite approval has been received for the Murli acquisition. The ₹2.71bn buyback has been completed and MF units are expected to be received in 6-9 months. A consumption pick-up and migrant labour are key monitorables. We retain a Buy, with a higher target of ₹793 (8.5x FY22e EV/EBITDA) earlier ₹759.

Lockdown hit Q4 performance. On 0.8m tons lost in Mar'20, Q4 volume dipped 7% y/y to 5.17m tons. Further, the 6.6% y/y drop in realisations pulled down overall revenue 12.6% y/y to ₹24.8bn. Power & fuel cost per ton slipped 9% y/y (on lower pet-coke prices/higher blended and PSC cement sales). Yet, higher raw-material costs (slag prices and purchased clinker) and lower fixed-cost absorption (on low volumes) pushed down EBITDA/ton 12.7% y/y to ₹981 (vs. ₹1,124 a year ago).

Expansion update. On the Covid-19 outbreak, GU expansions in the East (West Bengal, Odisha) have been delayed by six months. For the Murli acquisition, management talked of ₹4bn capex in FY21. The clinker line at Rajgangpur began production, reducing dependence on clinker purchases.

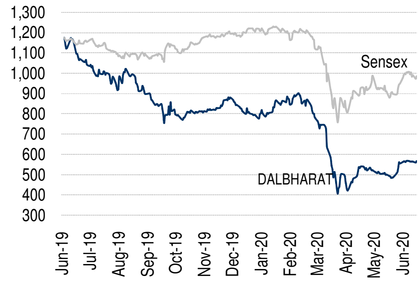
Business outlook, Valuation. At present company's plants are operating 15-20% lower than pre-covid times. Of the earmarked ₹5bn for the buyback, it has so far completed the buyback of 5.31m shares (amounting to ₹2.71bn). Management said raw material prices would be steady and net-debt-to-EBITDA would broadly hold at the current level of 1.34x. We expect volumes to slide 12% in FY21 and grow 12.8% in FY22, with EBITDA/ton of ₹985 and ₹1,051 in FY21 and FY22 (vs. ₹1,072 in FY20). We retain a Buy, with a higher target of ₹793 (8.5x FY22e EV/EBITDA). **Risks:** Rise in raw material prices, extension of the lockdown.

Key data	DALBHARAT IN
52-week high / low	₹1158 / 403
Sensex / Nifty	33605 / 9914
3-m average volume	$2.2m
Market cap	₹108bn / $1420m
Shares outstanding	189m

Shareholding pattern (%)	Mar '20	Dec '19	Sept'19
Promoters	54.3	54.3	54.3
- of which, Pledged	-	-	-
Free float	45.7	45.7	45.7
- Foreign institutions	15.3	14.2	15.3
- Domestic institutions	5.5	6.3	6.2
- Public	24.9	25.3	24.3

Estimates revision (%)	FY21e	FY22e
Sales	(1.8)	(0.3)
EBITDA	2.2	2.8
PAT	NA	35.2

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹m)	85,800	94,840	96,740	86,615	98,464
Net profit (₹ m)	2,920	3,080	2,240	-1,080	564
EPS (₹)	15.1	16.0	11.6	-5.9	3.1
PE (x)	37.0	35.1	48.2	NA	181.9
EV / EBITDA (x)	7.0	7.2	6.4	7.8	6.4
EV / ton ($)	111.3	98.6	93.4	77.9	65.3
RoE (%)	2.9	2.9	2.1	-1.1	0.6
RoCE (%)	3.2	3.6	2.2	0.5	1.5
Dividend yield (%)	0.3	0.4	0.4	0.4	0.4
Net debt/equity (x)	0.3	0.3	0.2	0.3	0.3

Source: Company, Anand Rathi Research

Manish Valecha
Research Analyst

Vibha Jain
Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volume (m tons)	17.0	18.7	19.3	16.9	19.1
Net revenues	85,800	94,840	96,740	86,615	98,464
Growth (%)	15.2	10.5	2.0	-10.5	13.7
Direct costs	45,450	53,700	53,790	47,152	53,480
SG&A	19,990	21,720	21,890	22,530	24,712
EBITDA	**20,360**	**19,420**	**21,060**	**16,933**	**20,272**
EBITDA margins (%)	23.7	20.5	21.8	19.5	20.6
- Depreciation	12,130	12,960	15,280	15,876	17,001
Other income	2,740	2,350	2,170	1,732	1,772
Interest expenses	7,080	5,420	4,380	4,319	4,244
PBT	3,890	3,390	3,570	(1,530)	799
Effective tax rate (%)	25.2	-2.9	33.3	25.0	25.0
+ Associates / (Minorities)	(10)	410	140	(67)	35
Net income	2,920	3,080	2,240	(1,080)	564
Adjusted income	2,920	3,080	2,240	(1,080)	564
WANS	193	193	193	183	183
FDEPS (₹ / sh)	15.1	16.0	11.6	-5.9	3.1
FDEPS growth (%)	562.8	5.5	-27.3	-150.8	-152.2

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e*	FY22e
Share capital	386	386	386	366	366
Net worth	1,03,350	1,06,390	1,05,610	99,166	99,363
Debt	72,730	58,840	57,090	58,090	55,090
Minority interest	(300)	110	250	183	218
DTL / (Assets)	13,930	12,790	12,770	12,770	12,770
Capital employed	**1,89,710**	**1,78,130**	**1,75,720**	**1,70,208**	**1,67,441**
Net tangible assets	91,250	90,860	85,870	93,394	91,393
Net intangible assets	30,110	28,670	27,500	27,500	27,500
Goodwill	19,010	16,200	12,180	12,180	12,180
CWIP (tang. & intang.)	1,730	5,200	17,400	4,000	1,000
Investments (strategic)	970	1,090	1,180	1,180	1,180
Investments (financial)	34,080	23,150	26,980	26,980	26,980
Current assets (ex cash)	32,650	35,520	30,970	30,137	35,339
Cash	3,540	4,690	4,030	1,042	1,045
Current liabilities	23,630	27,250	30,390	26,205	29,177
Working capital	9,020	8,270	580	3,933	6,163
Capital deployed	**1,89,710**	**1,78,130**	**1,75,720**	**1,70,208**	**1,67,441**
Contingent liabilities	4,850	5,520	-	-	-

* assumed remaining buyback of ₹2.29bn to be done at ₹510 per share

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	3,890	3,390	3,570	(1,530)	799
+ Non-cash items	12,130	12,960	15,280	15,876	17,001
Oper. prof. before WC	16,020	16,350	18,850	14,346	17,800
- Incr. / (decr.) in WC	4,610	(750)	(7,690)	3,353	2,230
Others incl. taxes	3,430	1,090	1,350	(382)	200
Operating cash-flow	14,840	16,010	25,190	11,376	15,370
- Capex (tang. + intang.)	4,010	11,790	17,300	10,000	12,000
Free cash-flow	10,830	4,220	7,890	1,376	3,370
Acquisitions					
- Div.(incl. buyback & taxes)	395	470	465	5,364	366
+ Equity raised	-	-	-	-	-
+ Debt raised	(7,120)	(13,890)	(1,750)	1,000	(3,000)
- Fin investments	1,490	(10,810)	3,920	-	-
- Misc. (CFI + CFF)	35	(480)	2,415	(0)	0
Net cash-flow	1,790	1,150	(660)	(2,988)	4

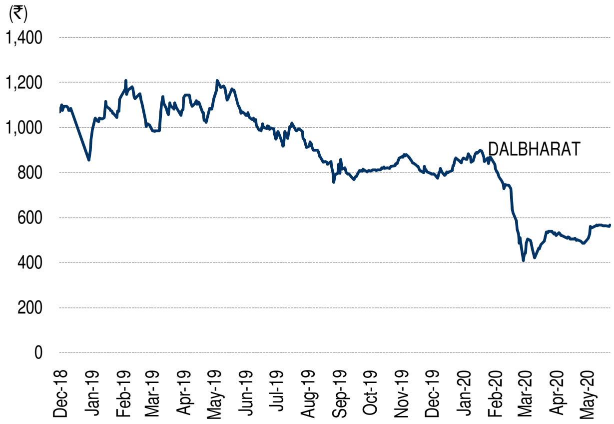
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	37.0	35.1	48.2	NA	181.9
EV / EBITDA (x)	7.0	7.2	6.4	7.8	6.4
EV / Sales (x)	1.7	1.5	1.4	1.5	1.3
P/B (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	2.9	2.9	2.1	-1.1	0.6
RoCE (%) - after tax	3.2	3.6	2.2	0.5	1.5
DPS (₹ / sh)	1.7	2.0	2.0	2.0	2.0
Dividend payout (%) - incl. DDT	13.5	15.3	20.8	NA	65.0
Net debt / equity (x)	0.3	0.3	0.2	0.3	0.3
WC days	38	32	2	17	23
EV / ton ($)	111.3	98.6	93.4	77.9	65.3
NSR / ton (₹)	4,926	4,749	4,691	4,741	4,891
EBITDA / ton (₹)	1,208	999	1,072	985	1,051
Volumes (m tons)	17.0	18.7	19.3	16.9	19.1
CFO : PAT (%)	508.2	519.8	1124.6	-1053.4	2725.7

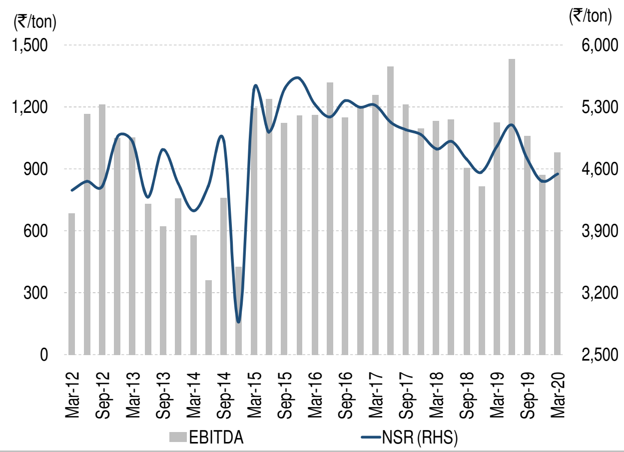
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 –Quarterly per-ton NSR and EBITDA trends



Source: Company, Anand Rathi Research

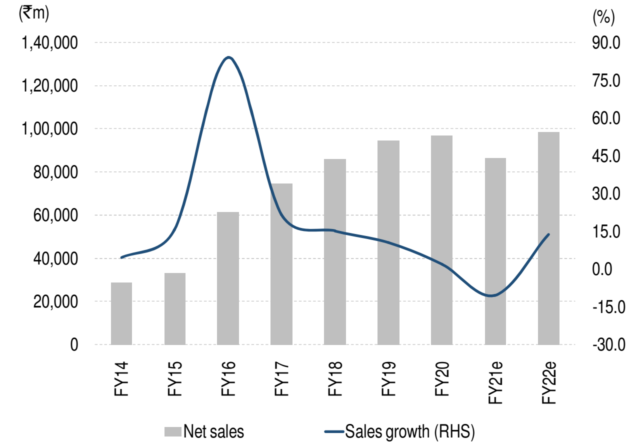
Other key highlights

Revenue growth

Mainly impacted by the lost business days in Mar'20 due to the lockdown, net sales declined ~12.6% y/y to ₹24.8bn. Sales volumes slipped 7.2% y/y to 5.17m tons on 0.8m tons lost sales in Mar'20, whereas realisation per ton declined 6.6% y/y to ₹4,540.

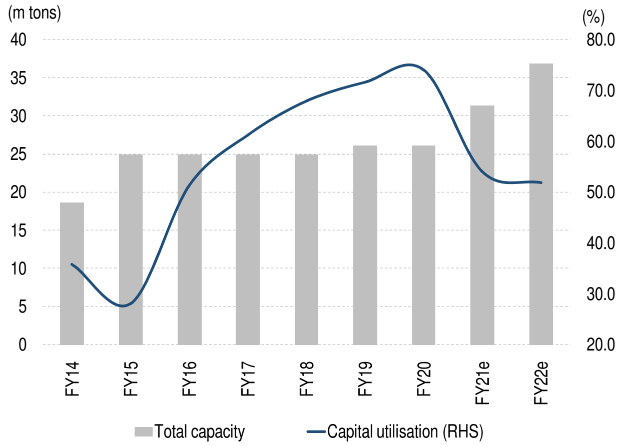
While April was a washout, demand surged in May'20 due to pent-up demand, government road projects to generate employment and rural demand. While the government has announced a stimulus package, management expects a turnaround and consumption pickup to take time.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



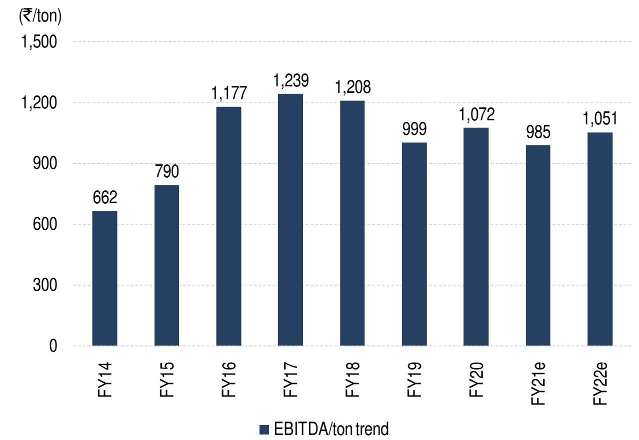
Source: Company, Anand Rathi Research

Operating performance

EBITDA/ton (cement) slid 12.7% y/y to ₹981. Per-ton raw-material, freight and staff costs rose respectively 9%, 5.5% and 13% y/y. The hike in raw material cost stemmed from higher slag prices and purchased clinker. On the drop in pet-coke/coal prices and the higher blended and PSC cement sales, power and fuel costs fell 9% y/y. The overall EBITDA contracted 21.7% y/y to ₹5bn.

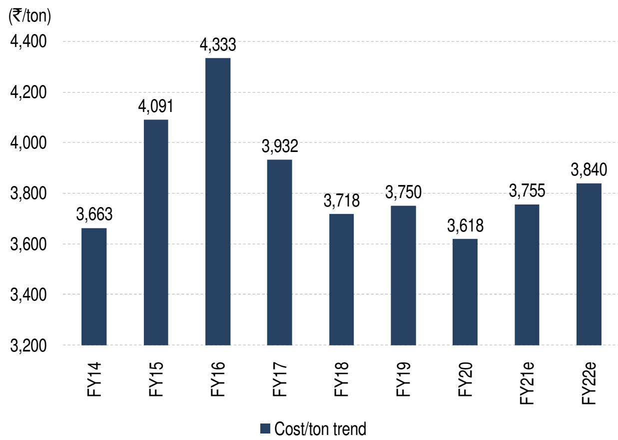
Adj. PAT came at ₹260m (₹2,280m a year ago) on 49.4% y/y higher interest, 5.3% y/y higher depreciation expense and higher tax expense.

Fig 9 – EBITDA-per-ton trend (cement)



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend (cement)



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	18,360	20,690	26,280	23,680	20,990	21,640	28,420	25,370	24,180	24,180	24,830	*(12.6)*	*2.7*
EBITDA	4,410	4,550	5,800	5,230	3,900	3,800	6,490	6,660	4,570	4,570	5,080	*(21.7)*	*11.2*
EBITDA margins (%)	*24.0*	*22.0*	*22.1*	*22.1*	*18.6*	*17.6*	*22.8*	*26.3*	*18.9*	*18.9*	*20.5*	*-238bps*	*156bps*
EBITDA per ton (₹)	1,212	1,096	1,133	1,137	906	817	1,124	1,431	873	873	981	*(12.7)*	*12.4*
Interest	1,970	1,420	1,570	1,620	2,250	720	830	1,160	950	950	1,240	*49.4*	*30.5*
Depreciation	2,930	3,080	3,130	3,050	3,030	3,320	3,560	3,420	4,050	4,050	3,750	*5.3*	*(7.4)*
Other income	920	480	670	430	740	640	540	440	680	680	560	*3.7*	*(17.6)*
PBT	430	530	1,770	990	-640	400	2,640	2,520	250	250	650	*(75.4)*	*160.0*
Tax	250	20	530	470	-670	90	10	1,000	-10	-10	410	*4,000.0*	*NA*
Adj. PAT	180	510	1,240	520	30	310	2,630	1,520	260	260	240	*(90.9)*	*(7.7)*
Associates/(Minorities)	0	-20	-40	-10	40	30	350	50	20	20	-20	*NA*	*NA*
PAT after Asso./MI	180	530	1,280	530	-10	280	2,280	1,470	240	240	260	*(88.6)*	*8.3*

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	%Y/Y	%Q/Q
Realisations (blended)	5,044	4,986	4,822	4,911	4,712	4,562	4,860	5,095	4,461	4,461	4,540	*(6.6)*	*1.8*
EBITDA (Cement)	1,212	1,096	1,133	1,137	906	817	1,124	1,431	873	873	981	*(12.7)*	*12.4*
Sales volumes (m tons)	3.64	4.15	5.18	4.51	4.13	4.47	5.57	4.55	5.10	5.10	5.17	*(7.2)*	*1.4*
Costs													
Raw material	860	773	755	989	1,002	949	916	818	814	814	998	*9.0*	*22.7*
Power & Fuel	846	901	778	898	1,039	1,040	820	1,020	898	898	747	*(9.0)*	*(16.9)*
Freight	879	892	1,017	1,031	949	1,013	932	1,013	1,006	1,006	983	*5.5*	*(2.3)*
Staff	442	378	247	373	400	356	280	380	331	331	317	*13.3*	*(4.3)*
Other expenditure	731	783	913	809	891	765	786	769	765	765	776	*(1.4)*	*1.4*

Source: Company, Anand Rathi Research

Key takeaways and Concall highlights

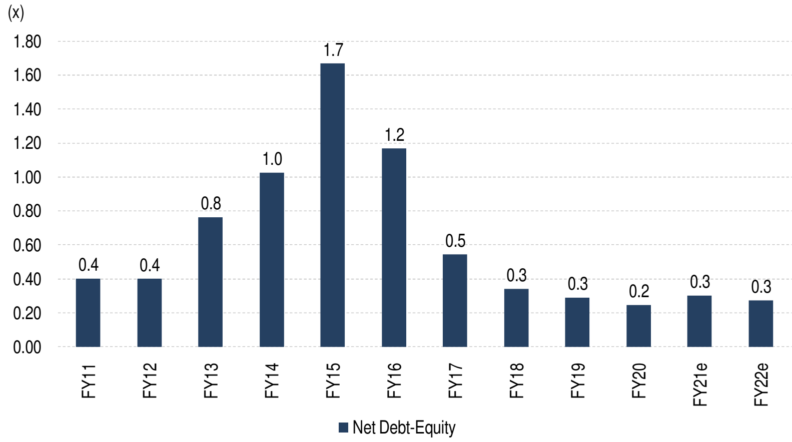
Financials and Other operating highlights

- Q4 FY20 cement volumes declined 7.2% y/y on the lost 800,000 tons due to the lockdown. The company lost ₹1.45bn in EBITDA in Q4.
- A ₹2.03bn incentive was received in Q4 (₹4.09bn for FY20).
- In FY20, accrued incentives were ₹1.25bn which management expects to continue in coming years and to increase further on the commencement of the grinding units in the East. Outstanding incentives receivable on 31st Mar'20 were ₹7.08bn.
- Pet-coke prices were $66 a ton in Q4. ($74 the preceding quarter, $91 a year back).
- Flyash prices were ₹860 a ton (₹880 the previous quarter, ₹860 a year ago).
- Slag prices were ₹1,100 a ton in Q4 FY20 (₹1,010 the quarter prior, ₹1,298 a year back).
- The cash balance includes mutual-fund units of ₹3,440m, the subject matter of third-party fraud. Management expects units to be received in the next six to nine months. The company has determined a fair-market value on these securities (on the reporting date) and ₹300m has been credited to the profit and loss statement under Other income.
- The lead distance, at <300km, is one of the lowest in the industry.
- 5.31m shares have been bought back so far, for ₹2.71bn. The total amount earmarked for the buyback is ₹5bn.
- The Apr/May'20 price increases are a normal industry trend. However prices are still lower than those in Apr/May'19.

Debt and Capex plans

- Gross and net debt on 31st Mar'20 were ₹59bn and ₹28bn. Of the ₹11.5bn due for debt repayment in FY21, the company paid ₹7bn in Q1 FY21. The company incurred ₹6bn debt in Mar'20 and till date has already paid ₹3bn.
- The present net-debt-to-EBITDA is 1.34x and management does not expect any significant change.
- The NCLAT, Delhi, has upheld the order passed by The National Company Law Tribunal (NCLT), Mumbai Bench, approving the Resolution Plan (RP) filed by the company's subsidiary, DCBL to revive Murli Industries (MIL). The company would incur ₹4bn capex in FY21 for the Murli acquisition, with production to start a year from then.
- In FY20, the company incurred ₹16bn capex on the East expansions. The Bengal and Odisha grinding units have been delayed by 6-9 months as Covid-19 curtailed labour and material.

Fig 14 – Net-debt-to-equity



Source: Company, Anand Rathi Research

Demand and Outlook

- At present the industry is operating at 40-45% capacity and company's plants are operating 15-20% lower than pre-covid times. The eastern plants are doing better than the southern plants.
- Sales volumes in Apr/May/Jun reflected pent-up demand, government road projects to generate employment, and rural market demand.
- Management expects pet-coke prices of $60-70 a ton in coming quarters. Slag and flyash prices are expected to be steady.
- The clinker line at Rajgangpur commenced production. This would help reduce reliance on purchases of clinker.
- The refractory division sale will take 6-8 months longer, after secured and unsecured creditor approvals, for which a meeting is to be held on 22nd Jul'20.

Valuations

While the government has announced a stimulus package, management expects a turnaround and consumption pickup will still take some time. It said raw material prices would be steady and the net-debt-to-EBITDA would broadly be maintained at the current 1.34x. The GU expansions in the East have been delayed by six months whereas the Rajgangpur clinker line has commenced, reducing reliance on purchases of clinker.

Requisite approvals have been received for the Murli acquisition. Buyback of ₹2.71bn has been completed so far and further MF units are expected to be received in 9-12 months. A consumption pickup and the migrant labour impact are key monitorables.

Change in estimates

We have broadly maintained our revenue and EBITDA estimates and have raised FY22e PAT 35%.

Fig 13 – Change in estimates

	Old		New		Variance	
(₹ m)	FY21e	FY22e	FY21e	FY22e	% Chg.	% Chg.
Sales	88,240	98,766	86,615	98,464	*(1.8)*	*(0.3)*
EBITDA	16,565	19,719	16,933	20,272	*2.2*	*2.8*
PAT	(1,417)	417	(1,239)	564	*NA*	*35.2*

Source: Anand Rathi Research

At the ruling price, the stock trades at 6.7x FY22e EV/EBITDA and an EV/ton (cement) of $68. We retain our Buy recommendation, with a higher target price of ₹793 based on 8.5x FY22e EV/EBITDA, reflecting an EV/ton of $61.

Fig 16 – Peer comparison – Valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / ton ($)	
	(₹)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Dalmia Bharat	560	NA	181.9	7.8	6.4	80	65
Birla Corp.	512	16.1	11.5	7.5	6.2	56	47
Deccan Cement	228	11.5	6.3	5.2	3.0	16	14
Heidelberg Cement	172	21.5	14.6	9.9	7.5	78	72
India Cement	126	NA	28.2	12.6	9.5	60	61
JK Cement	1,197	28.9	19.5	13.4	10.4	98	93
JK Lakshmi	239	40.2	11.9	9.4	5.3	43	37
Mangalam Cement	184	14.7	7.4	6.9	4.8	35	33
NCL Industries	70	10.5	5.6	5.1	3.4	25	22
Orient Cement	60	78.7	17.8	8.4	6.2	38	35
Ramco Cement	604	34.8	24.0	18.1	13.4	105	101
Sanghi Industries	21	NA	12.9	12.3	7.9	36	36

Source: Anand Rathi Research

Risks

- Extension of the lockdown
- Rise in prices of pet-coke and diesel.

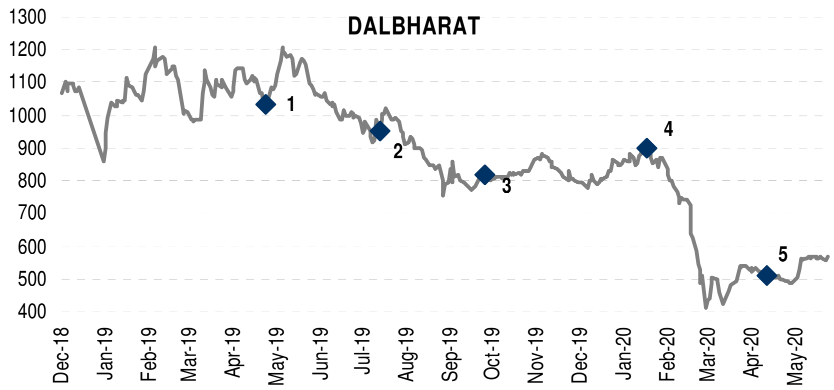
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 16 June 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	16-May-19	Buy	1,361	1,037
2	05-Aug-19	Buy	1,378	986
3	21-Oct-19	Buy	1,270	815
4	10-Feb-20	Buy	1,233	900
5	04-May-20	Buy	759	530

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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