

Retail Equity Research

Dalmia Bharat Limited

Cement

BSE CODE: 542216 NSE CODE: DALBHARAT
Bloomberg CODE: DALBHARA:IN SENSEX: 51,309

Buy

12M Investment period Rating as per Mid Cap
CMP Rs.1,363 TARGET Rs.1,650 RETURN 21%
(Closing: 10-02-21)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Strong margin & volumes amid challenges

Dalmia Bharat Ltd (DBL) is the fourth largest cement company in India with a capacity of ~28MT, focusing in South with 12.1MT and East & North-East with 15.9MT.

- We upgrade to Buy rating with a revised Target of Rs.1,650 (earlier Rs.1,000) considering strong performance and positive demand outlook.
- Q3FY21 revenue grew by 18%YoY mainly aided by improvement in volumes (+14%ToY). EBITDA growth was robust at 51%YoY due to sharp improvement in EBITDA margin by 530bps YoY to 24%.
- Out of 8MT capacity expansion in East, 1.1MT completed, 2.25MT under trial run and balance would be completed within 12-24 months. Total capacity would be ~37MT post expansion.
- For Murli Industries (acquisition-3MT), commercial production is expected in Q2FY22, will strengthen DBL's presence in Western region.
- Debt repayment was strong (Rs.1,379 in 9MFY21) along with ongoing expansion and net Debt to EBITDA stands at comfortable level of 0.56x. DBL also has plans to double its capacity to ~55-60MT.
- Demand outlook is positive given GoI's strong focus on infra & housing in the Union budget. We value DBL at 10x FY23E EV/EBITDA.

Strong volumes amidst challenges...

DBL reported revenue growth of 18%YoY mainly aided by volume growth of 14%YoY (better than industry) on the back of demand from rural and pick up in government infra and low cost housing projects. Demand in the East region continued while demand revival were visible in South region also. Blended realisation grew by ~5% YoY. The ongoing capacity expansion and the ramp up in recent acquisitions will support future volume growth. For Kalyanpur cement (acquisition), capacity utilization improved to 62% Vs 35% QoQ. We increase our volume assumptions and factor revenue growth of ~13% CAGR over FY21E-23E supported by capacity expansion/acquisitions and improvement in premium mix.

Strong EBITDA margin aided by cost reduction

Controlling discretionary spending coupled with benign fuel costs resulted in EBITDA margin improvement of 530bps YoY to 24%. EBITDA growth was robust at 51%YoY and on a per ton basis improved to Rs.1,191 Vs. Rs.896 YoY. Power & Fuel expenses and Other expenses declined by -4%YoY each and employee expenses by -8%YoY. Freight expenses was flat though slight increase in lead distance due to sales in new region. Pet coke prices started to increase since Q1FY21 (after declining ~20% from the peak in June 2019), which along with normalisation of discretionary spends is likely to impact the margins negatively in the coming quarters. However, setting up of Waste Heat Recovery (WHR)-30MW by FY23 and green power will reduce fuel cost. Additionally, the ramp up in the new clinker capacity (at 70% utilization now) will reduce raw material cost (cost advantage of ~Rs.70-75 per ton of clinker). The improvement in premium mix (grew by 60%YoY to 18%) will support realisation. Expect EBITDA/Ton to improve to Rs.1,235 Vs Rs.1,092 in FY20. Reduction in debt will add to earnings growth. Any adverse price movements of cement, fuel and RM are the key risks.

Valuation & Outlook

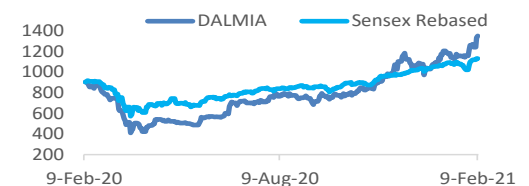
Demand outlook is positive given GoI's strong focus on infra & housing. DBL's capacity expansion will support to continue its volume growth above industry. The stock currently trades at ~10x 1Yr Fwd EV/EBITDA. We value DBL at 10x FY23 EV/EBITDA to arrive at a revised Target of Rs.1,650 (Rs1,000 earlier) and upgrade to Buy rating.

Company Data	
Market Cap (Rs.cr)	26,003
Enterprise Value (Rs.cr)	28,122
Outstanding Shares (cr)	18.7
Free Float	44%
Dividend Yield	0.2%
52 week high Rs.	1370
52 week low Rs.	406
6m average volume (cr)	0.02
Beta	1.04
Face value Rs.	2

Shareholding %	Q1FY21	Q2FY21	Q3FY21
Promoters	55.8	56.1	56.1
FII's	14.2	14.2	13.5
MFs/Insti	3.9	3.6	3.9
Public	14.5	14.0	14.5
Others	11.7	12.1	11.9
Total	100	100	100
Promotor pledge	NIL	NIL	NIL

Price Performance	3 Month	6 Month	6 Month
Absolute Return	48.8%	70.4%	49.5%
Absolute Sensex	17.7%	34.0%	25.3%
Relative Return*	31.1%	36.4%	24.2%

*over or under performance to benchmark index



Consolidated (cr)	FY21E	FY22E	FY22E
Sales	10,167	11,329	12,876
Growth (%)	5.1	11.4	13.7
EBITDA	2,608	2,637	3,039
EBITDA Margin (%)	25.7	23.3	23.6
Adj. PAT	786	884	1,166
Growth (%)	230.5	12.4	31.9
Adj. EPS	42.1	47.4	62.5
Growth (%)	230.5	12.4	31.9
P/E	33.1	29.4	22.3
P/B	2.2	2.1	1.9
EV/EBITDA	10.8	10.5	8.3
ROE (%)	7.2	7.5	9.2
D/E	0.5	0.4	0.2

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q3FY21	Q3FY20	YoY Growth (%)	Q2FY21	QoQ Growth (%)	9MFY21	9MFY20	YoY Growth (%)
Sales	2,857	2,418	18.2%	2,410	18.5%	7,241	7,191	0.7%
EBITDA	691	457	51.2%	702	-1.6%	2,007	1,598	25.6%
EBITDA margins %	24.2%	18.9%	530bps	29.1%	(490bps)	27.7%	22.2%	550bps
Depreciation	329	405	-18.8%	302	8.9%	932	1,153	-19.2%
EBIT	362	52	596.2%	400	-9.5%	1,075	445	141.6%
Interest	91	95	-4.2%	73	24.7%	250	283	-11.7%
Other Income	46	68	-32.4%	41	12.2%	142	161	-11.8%
Exceptional Items	0	0	0.0%	0	0.0%	0	0	0.0%
PBT	317	25	1168.0%	368	-13.9%	980	292	235.6%
Tax	134	-1	-13500.0%	136	-1.5%	377	78	NA
Share of profit from associates	0	0	0.0%	0	0.0%	0	0	0.0%
Minority interest	1	2	0.0%	0	0.0%	-1	16	0.0%
Reported PAT	182	24	658.3%	232	-21.6%	604	198	205.1%
Adjustments	0	0	0.0%	0	0.0%	0	-3	0.0%
Adj PAT	182	24	658.3%	232	-21.6%	604	195	209.7%
No. of Shares	18.7	19.3	-3.2%	19.3	-3.2%	18.7	18.7	0.0%
Adj EPS (Rs)	9.7	1.2	683.4%	12.4	-21.6%	32.0	10.1	216.8%

Per Tonne Analysis

	Q3FY21	Q3FY20	YoY Growth (%)	Q2FY21	QoQ Growth (%)
Cement Volume (MT)	5.80	5.10	13.7%	4.80	20.8%
Cost of materials consumed	826	845	-2.3%	817	1.1%
Employee Expenses	303	331	-8.4%	352	-13.8%
Power & Fuel	860	898	-4.2%	729	18.0%
Freight & forwarding	1,012	1,006	0.6%	992	2.1%
Other expenses	733	765	-4.2%	669	9.6%
Total expenses	3,734	3,845	-2.9%	3,558	5.0%
Realisation (inc. RMC)	4,926	4,741	3.9%	5,021	-1.9%
EBITDA	1,191	896	33.0%	1,463	-18.5%

Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change %	
	FY21E	FY22E	FY21E	FY22E	FY23E	FY21E	FY22E
Revenue	9,539	10,507	10,167	11,329	12,876	6.6%	7.8%
EBITDA	2,590	2,548	2,608	2,637	3,039	0.7%	3.5%
Margins (%)	27.2	24.3	25.7	23.3	23.6	(150bps)	(100bps)
Adj. PAT*	846	784	786	884	1,166	-7.0%	12.8%
EPS	45.0	42.0	42.1	47.4	62.5	-6.4%	12.8%



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	8,582	9,484	9,674	10,167	11,329	12,876
% change	15.9	10.5	2.0	5.1	11.4	13.7
EBITDA	2,030	1,942	2,106	2,608	2,637	3,039
% change	6.7	-4.3	8.5	23.9	1.1	15.2
Depreciation	1,213	1,296	1,528	1,253	1,392	1,488
EBIT	817	646	578	1,355	1,245	1,551
Interest	705	551	438	327	315	250
Other Income	277	235	217	194	234	234
PBT	389	330	357	1,222	1,164	1,534
% change	-45.1	-15.2	8.2	242.4	-4.8	31.9
Tax	98.0	-11.0	119.0	436.0	279.2	368.3
Tax Rate (%)	25.2%	-3.3%	22.0%	24.0%	24.0%	24.0%
Reported PAT	291.1	299.0	238.0	786.5	884.3	1166.2
Adj*	0	0	0	0	0	0
Adj PAT	291.1	299.0	238.0	786.5	884.3	1166.2
% change	-20.9	2.7	-20.4	230.5	12.4	31.9
No. of shares (cr)	8.9	19.3	19.3	18.7	18.7	18.7
Adj EPS (Rs.)	15	16	12	42	47	62
% change	-20.9	-52.7	-20.4	230.5	12.4	31.9
DPS (Rs.)	3	2	2	2	2	2
CEPS (Rs.)	169.1	82.7	91.6	109.2	121.9	142.1

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Deprn.	1,504	1,595	1,766	2,040	2,276	2,654
Non-cash adj.	-56	-112	117	436	279	368
Other adjustments	607	562	319	-109	36	-118
Changes in W.C	-585	-35	718	57	-566	-134
C.F. Operation	1,469	2,010	2,920	2,424	2,026	2,771
Capital exp.	-389	-4051	-1611	-998	-1600	-200
Change in inv.	-757	1,077	-392	0	0	0
Other invest.CF	0	0	0	0	0	0
C.F - Investment	-1,146	-2,974	-2,003	-998	-1,600	-200
Issue of equity	6636	0	0	-406	405	0
Issue/repay debt	-1,853	-1,949	-511	-1,126	-716	-1,849
Dividends paid	-27	-23	-45	-45	-44	-44
Other finance.CF	523	0	0	0	0	0
C.F - Finance	8733	-1971	-556	-1577	-355	-1893
Chg. in cash	6,840	-2,936	361	-151	72	678
Closing cash	323	280	266	115	186	864

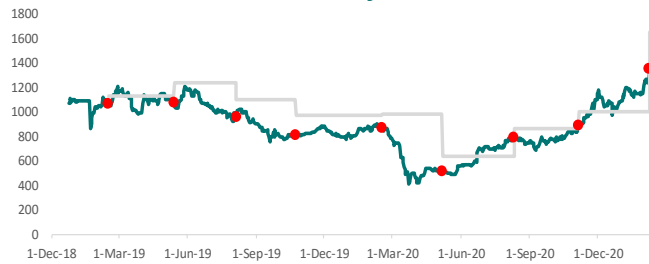
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	323	280	266	115	186	864
Accounts Receivable	524	549	397	557	621	706
Inventories	779	1,032	974	937	1,091	1,207
Other Cur. Assets	1,128	1,227	1,334	1,335	1,456	1,636
Investments	3,501	2,424	2,816	2,816	2,816	2,816
Gross Fixed Assets	11,022	11,854	12,362	13,962	16,262	16,662
Net Fixed Assets	9,125	9,086	8,587	9,134	10,240	9,340
CWIP	168	501	1,702	1,200	500	300
Intangible Assets	4,912	4,506	4,006	3,706	3,507	3,319
Def. Tax (Net)	-1,422	-1,279	-1,277	-1,277	-1,277	-1,277
Other Assets	876	932	529	571	605	688
Total Assets	19,914	19,259	19,334	19,094	19,747	19,600
Current Liabilities	2,984	3,123	3,377	3,510	3,302	3,547
Provisions	156	311	281	326	341	388
Debt Funds	6,322	4,923	4,850	4,050	3,650	2,050
Other Liabilities	117	263	265	311	311	350
Equity Capital	6,654	39	39	37	37	37
Reserves & Surplus	3,681	10,600	10,522	11,265	12,106	13,228
Shareholder's Fund	10,335	10,639	10,561	10,897	12,143	13,266
Total Liabilities	19,914	19,259	19,334	19,094	19,747	19,600
BVPS (Rs.)	1,162	402	403	461	506	566

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab. & Return						
EBITDA margin (%)	23.7	20.5	21.8	25.7	23.3	23.6
EBIT margin (%)	9.5	6.8	6.0	13.3	11.0	12.0
Net profit mgn.(%)	3.4	3.2	2.5	7.7	7.8	9.1
ROE (%)	3.8	2.9	2.2	7.2	7.5	9.2
ROCE (%)	4.7	3.3	2.7	4.4	5.6	6.5
W.C & Liquidity						
Receivables (days)	23.8	20.6	17.8	17.1	19.0	18.8
Inventory (days)	30.4	34.9	37.8	34.3	32.7	32.6
Payables (days)	113.7	93.3	89.4	89.3	81.1	80.9
Current ratio (x)	1.6	1.3	1.2	1.1	1.2	1.5
Quick ratio (x)	0.2	0.2	0.1	0.1	0.2	0.3
Turnover & Leverage						
Gross asset T.O (x)	0.8	0.8	0.8	0.8	0.7	0.8
Total asset T.O (x)	0.5	0.5	0.5	0.5	0.6	0.7
Int. coverage ratio (x)	1.2	1.2	1.3	4.1	3.9	6.2
Adj. debt/equity (x)	0.7	0.6	0.6	0.5	0.4	0.2
Valuation						
EV/Sales (x)	3.4	3.1	3.0	2.8	2.4	2.0
EV/EBITDA (x)	14.5	15.0	13.7	10.8	10.5	8.3
P/E (x)	41.1	87.0	109.3	33.1	29.4	22.3
P/BV (x)	1.2	2.4	2.5	2.2	2.1	1.9

Recommendation Summary



Source: Bloomberg, Geojit Research

Dates	Rating	Target
5-Aug-19	Accumulate	1100
24-Oct-19	Buy	975
17-Feb-20	Buy	985
7-May-20	Buy	640
13-Aug-20	Accumulate	865
09-Nov-20	Accumulate	1,000
10-Feb-21	Buy	1,650

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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