

Dalmia Bharat

Long-term growth story intact

We maintain a BUY rating on Dalmia Bharat with an unchanged target price of INR 2,205/share (12x its Sep-26E consolidated EBITDA). We interacted with Mr Puneet Dalmia (Managing Director and CEO) to understand market dynamics and Dalmia's growth plans. The company remains committed to growing faster than the industry and scaling capacity to 75mn MT by 2027. Despite the recent setback as Jaiprakash Associates (JPA) went into NCLT, Dalmia remains hopeful and will be rebidding. Meanwhile, it has cancelled the tolling arrangement but continues serving the central market through its Odisha plant. While demand and pricing scenarios are weak in the near term, the long-term outlook for the sector remains strong. The ongoing consolidation should subsequently boost the EBITDA margin for the cement majors to >INR 1,500/MT over the next 3-5 years. Dalmia is working on various levers to regain industry-leading volume growth and drive-up margins through cost reductions.

- Change in central market strategy:** Dalmia was sourcing cement from JPA under a tolling arrangement in a bid to seed the central market. However, as the lenders of JPA moved the company to NCLT, Dalmia's hope of acquiring its cement business from JPA is now contingent upon the proceedings of NCLT. If required, Dalmia will participate in a re-bidding process. In the interim, it has cancelled the tolling arrangements and is now sourcing cement from its own Odisha factory. It will continue to supply to its dealer network in the central region and will take a call once the JPA sell-off is concluded. There is no meaningful change in the cost of sales under the new arrangement as against the tolling from the JPA plant.
- Focus on distribution to bolster growth:** Dalmia lost market share during FY24 (and also missed its growth guidance) owing to its deviation in the price discount policy vs peers in the eastern region and later the debottlenecking across various plants leading to production disruptions. Dalmia is now working on various strategies that include aggressive marketing and distribution strengthening. It has also started settling price discounts with dealers in 15 days as against the earlier practice of more than three months. This is to reduce stress at the dealers' level. The company believes this will also bring transparency to the system. The management reiterated that its volume growth guidance is ~1.5x industry. In the past 5/10 years, Dalmia's consolidated volume grew at 9/16% CAGRs.
- Long-term outlook is very strong despite near-term weakness:** Dalmia is convinced that the industry's margin will expand meaningfully over the next few years driven by the ongoing capacity consolidation. The average margin for the large players should move up to > INR 1,500/MT vs ~INR 1,000/MT in FY24. However, this will be "a bumpy road to paradise". In the near term, the pricing situation is weak and this could lead to Q2FY25 margin compression by ~150-200/MT QoQ. Dalmia believes near-term weakness is good as the reduction in the industry profitability should slow down expansions by leveraged companies.
- Recent acquisition costs:** Management expects that good assets (efficient plant, large limestone reserves) can command a higher acquisition value of > USD 100/MT given the strong view that the industry margin will see a major bump up in the next few years.
- Sufficient limestone reserves:** Dalmia reiterated there are no constraints in limestone reserves across its plant locations as against recent reports.

BUY

CMP (as on 30 Aug 2024) INR 1,889

Target Price INR 2,205

NIFTY 25,236

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,205	INR 2,205
EBITDA revision %	FY25E	FY26E
	-	-

KEY STOCK DATA

Bloomberg code	DALBHARA IN
No. of Shares (mn)	188
MCap (INR bn) / (\$ mn)	355/4,229
6m avg traded value (INR mn)	945
52 Week high / low	INR 2,431/1,651

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.0	(6.6)	(9.2)
Relative (%)	(4.5)	(20.2)	(35.8)

SHAREHOLDING PATTERN (%)

	Mar-24	Jun-24
Promoters	55.84	55.84
FIs & Local MFs	12.63	13.61
FPIs	11.37	9.43
Public & Others	20.16	21.12

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

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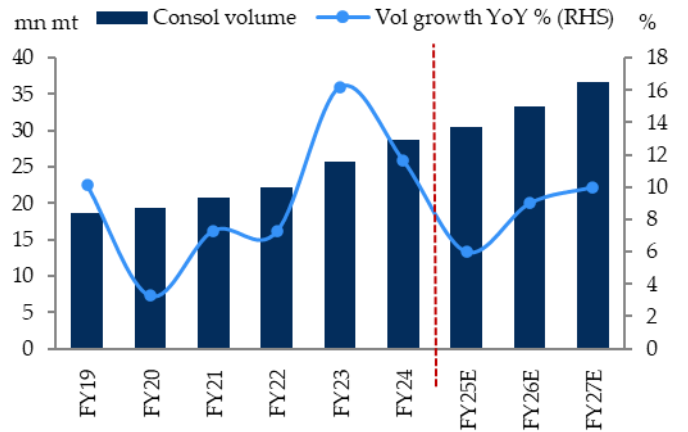
- **Stake sales in IEX:** The Company was earlier planning to sell its stake in IEX (current value INR 26bn) to fund its JPA acquisitions. With JPA assets moving into NCLT, the company is not in a hurry to liquidate its stake in IEX and will take a call in the next year.
- **Expansion target intact:** Dalmia maintained that it will be able to achieve a capacity of 75mn MT FY27- FY28, i.e. additions of 25mn MT, beyond the ongoing expansion in the NE region. It will be taking up both greenfield expansions in newer markets as well as brownfield expansions.
- **Maintain BUY with unchanged target price:** We estimate Dalmia to deliver 8.3% volume CAGR during FY24-27E and its EBITDA margin to expand to INR 1,034/MT by FY27E, supported by realisation improving FY26 onwards, fuel cost moderation, and various cost reduction efforts. We estimate revenue and EBITDA to grow at 8/13% CAGRs. On the expansion front, we are building in cumulative Capex of INR 114bn during FY25-27E. Its net debt to EBITDA should remain under 2x. Dalmia will be announcing the next phase of organic Capex over the next few quarters. Even if Dalmia expedites its Capex (ahead of our estimates), the liquidation of IEX shares (current value INR 26bn) should moderate the balance sheet impact. We maintain our BUY rating with an unchanged target price of INR 2,205/share, valuing it at 12x its Sep'26E consolidated EBITDA.

Key operational assumptions

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cement Cap (mn MT)	25.0	26.5	27.4	30.7	35.9	38.6	44.6	49.5	49.5	49.5
Sales Volume (mn MT)	17.0	18.7	19.3	20.7	22.2	25.8	28.8	30.5	33.3	36.6
<i>YoY change (%)</i>	10.8	10.1	3.3	7.3	7.2	16.2	11.6	6.0	9.0	10.0
<i>Utilisation (%)</i>	67.8	70.6	70.5	67.4	61.9	66.8	61.5	60.7	67.3	74.0
(Rs/ MT trend)										
NSR	5,059	5,068	4,967	4,884	5,084	5,255	5,103	4,924	4,973	5,023
<i>YoY change (%)</i>	3.9	0.2	(2.0)	(1.7)	4.1	3.4	(2.9)	(3.5)	1.0	1.0
Input cost	1,729	1,896	1,758	1,547	1,821	2,195	2,021	1,916	1,875	1,875
Logistics costs	951	979	982	1,001	1,061	1,086	1,113	1,090	1,096	1,107
Fixed cost	1,178	1,163	1,135	1,001	1,109	1,071	1,052	1,001	990	1,008
Total Opex	3,858	4,038	3,876	3,550	3,991	4,352	4,186	4,008	3,961	3,989
<i>YoY change (%)</i>	6.3	4.7	(4.0)	(8.4)	12.4	9.0	(3.8)	(4.3)	(1.2)	0.7
EBITDA	1,201	1,030	1,091	1,334	1,093	903	917	917	1,013	1,034

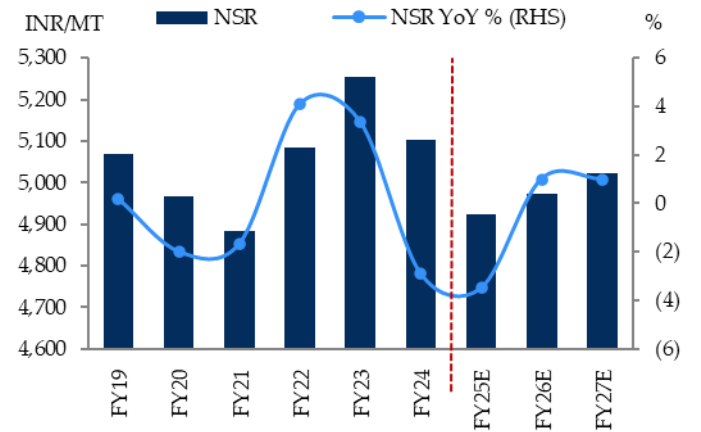
Source: Company, HSIE Research

Consolidated volume is expected to clock 8% CAGR during FY24-27E



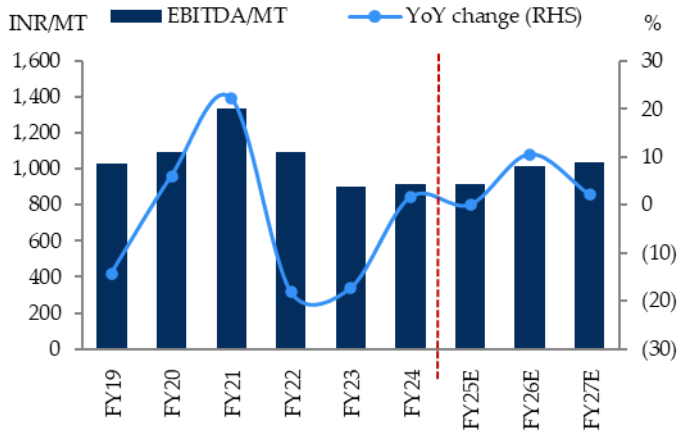
Source: Company, HSIE Research

We estimate NSR to decline in FY25E (weak pricing), it will increase in FY26/27E



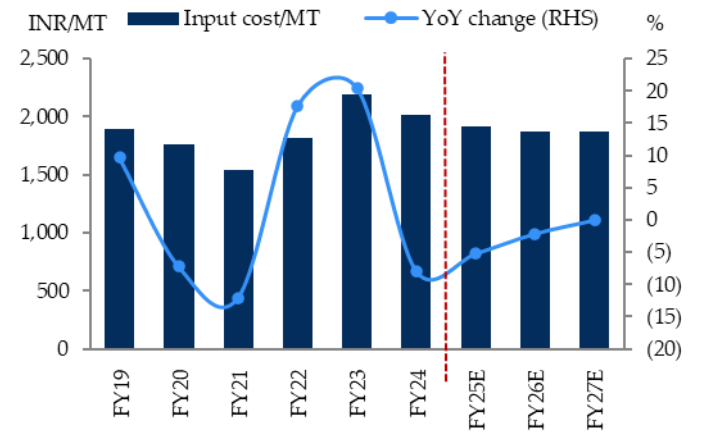
Source: Company, HSIE Research

Margin to remain stable in FY25E (lower cost to offset pricing decline), it will gradually increase from FY26E



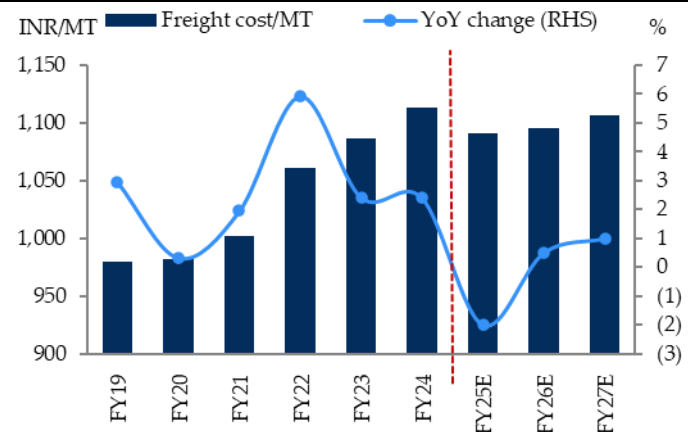
Source: Company, HSIE Research

Input cost to cool off by ~INR 100 per MT owing to lower fuel prices in FY25E



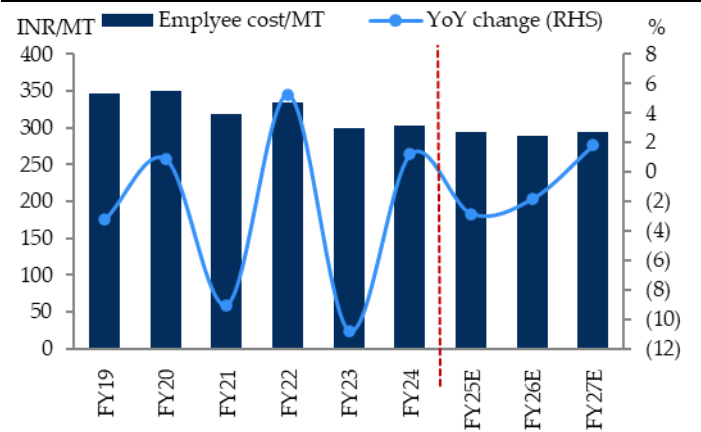
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Freight cost should broadly remain stable during FY25E-27E



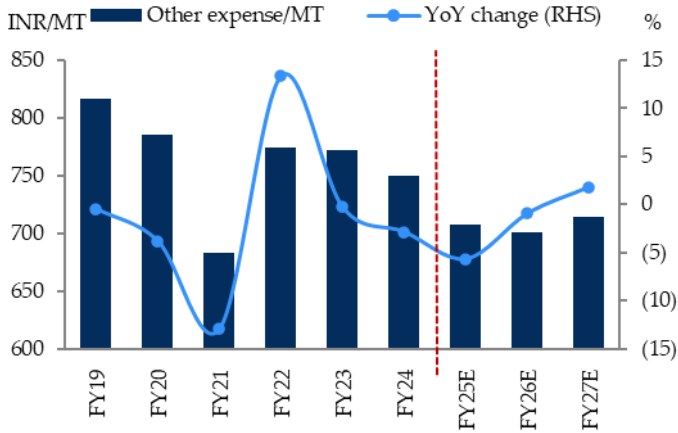
Source: Company, HSIE Research

Unitary employee cost to decline marginally (Op-lev gain)



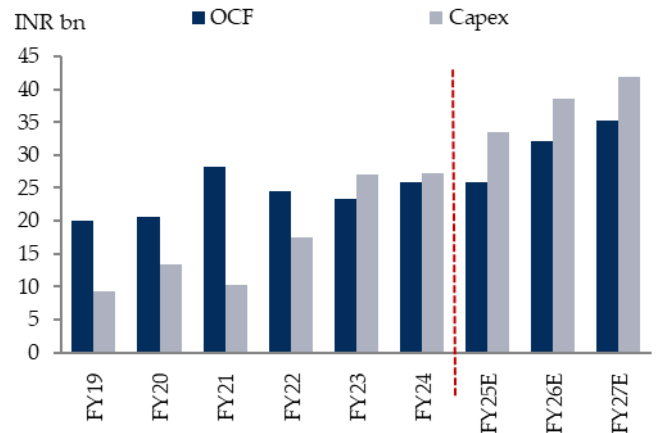
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Other expenses will also decline (Op-lev gain)



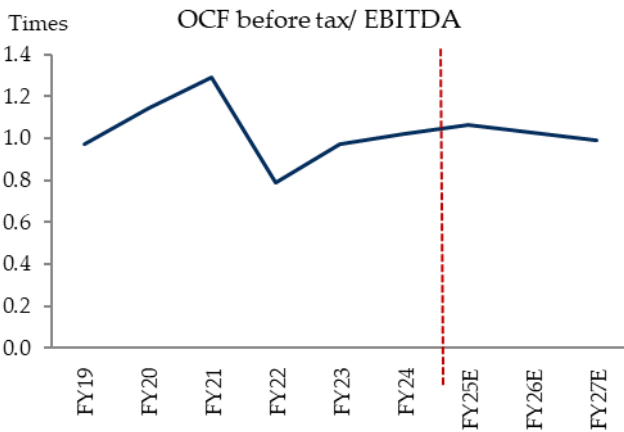
Source: Company, HSIE Research

Internal accruals to fund majority of the Capex



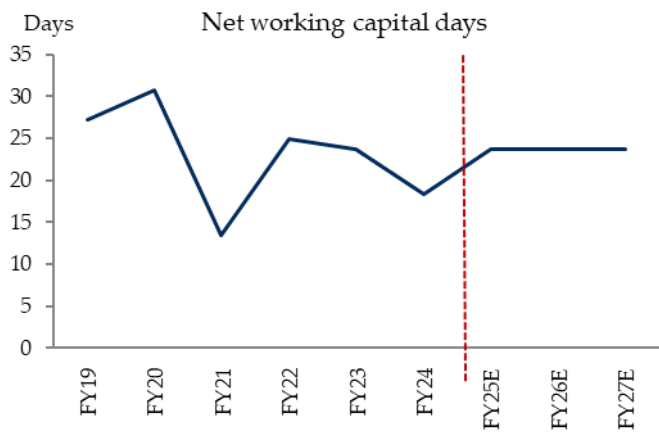
Source: Company, HSIE Research

OCF before tax/ EBITDA continues to be healthy



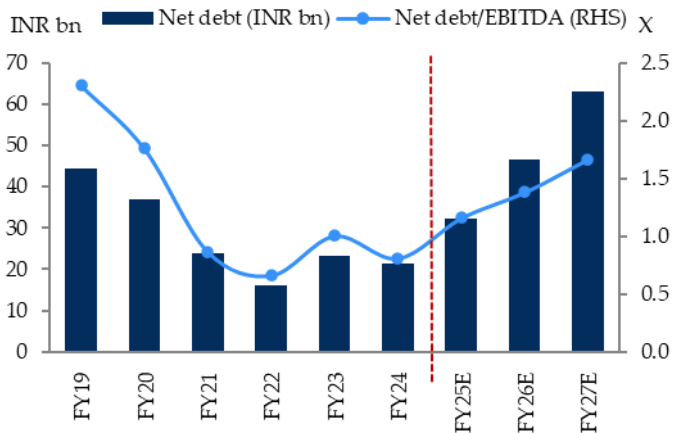
Source: Company, HSIE Research

Working capital to remain stable



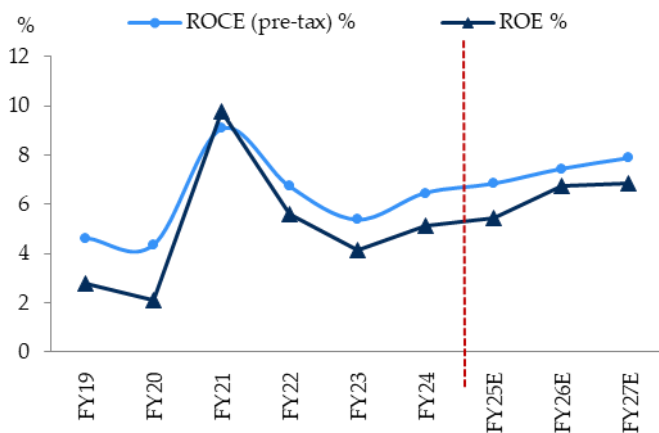
Source: Company, HSIE Research

Due to aggressive Capex plan, net debt/EBITDA will increase; but still at comfortable levels



Source: Company, HSIE Research

Return ratios to improve (still sub-par)



Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	1,35,520	1,46,910	1,50,274	1,65,437	1,83,800
<i>Growth %</i>	<i>20.1</i>	<i>8.4</i>	<i>2.3</i>	<i>10.1</i>	<i>11.1</i>
Raw Material	22,850	31,470	28,079	30,912	34,683
Power & Fuel	36,790	31,160	30,387	31,466	33,920
Freight Expense	24,980	27,590	33,273	36,449	40,494
Employee cost	7,710	8,710	8,971	9,599	10,751
Other Expenses	19,910	21,590	21,590	23,317	26,115
EBITDA	23,280	26,390	27,974	33,694	37,836
<i>EBITDA Margin (%)</i>	<i>17.2</i>	<i>18.0</i>	<i>18.6</i>	<i>20.4</i>	<i>20.6</i>
<i>EBITDA Growth %</i>	<i>(4.0)</i>	<i>13.4</i>	<i>6.0</i>	<i>20.4</i>	<i>12.3</i>
Depreciation	13,050	14,980	13,477	15,962	16,875
EBIT	10,230	11,410	14,498	17,732	20,961
Other Income (Including EO Items)	1,260	3,150	2,000	1,436	1,147
Interest	2,340	3,860	3,842	2,784	4,637
PBT	9,150	10,700	12,655	16,384	17,471
Tax	2,420	2,160	3,164	4,096	4,368
Minority Int	170	270	270	270	270
RPAT	10,350	8,260	9,221	12,018	12,833
EO (Loss) / Profit (Net Of Tax)	3,790	(10)	-	-	-
APAT	6,560	8,270	9,221	12,018	12,833
<i>APAT Growth (%)</i>	<i>(19.0)</i>	<i>26.1</i>	<i>11.5</i>	<i>30.3</i>	<i>6.8</i>
AEPS	35.5	43.5	48.5	63.3	67.5
<i>AEPS Growth %</i>	<i>(19.0)</i>	<i>22.7</i>	<i>11.5</i>	<i>30.3</i>	<i>6.8</i>

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital	370	380	380	380	380
Reserves And Surplus	1,55,910	1,63,590	1,70,967	1,80,582	1,90,848
Total Equity	1,56,280	1,63,970	1,71,347	1,80,962	1,91,228
Minority Int	1,160	1,100	1,370	1,640	1,910
Long-term Debt	33,230	46,060	46,060	56,060	71,060
Short-term Debt	5,320	1,990	6,850	6,850	6,850
Total Debt	38,550	48,050	52,910	62,910	77,910
Deferred Tax Liability	16,100	17,580	17,950	17,950	17,950
Long-term Liab+ Provisions	4,060	4,030	4,294	4,294	4,294
TOTAL SOURCES OF FUNDS	2,16,150	2,34,730	2,47,871	2,67,756	2,93,292
APPLICATION OF FUNDS					
Net Block	1,40,530	1,52,040	1,59,063	1,68,602	1,58,671
Capital WIP	18,710	23,950	38,950	53,950	88,950
Goodwill	7,300	5,270	3,270	1,270	1,270
Other Non-current Assets	9,250	11,390	11,693	12,862	14,149
Total Non-current Investments	22,930	23,790	23,790	23,790	23,790
Total Non-current Assets	1,98,720	2,16,440	2,36,766	2,60,474	2,86,830
Inventories	13,160	12,180	14,276	15,717	17,461
Debtors	7,000	8,360	9,016	9,926	11,028
Cash and Cash Equivalents	15,170	26,660	20,519	16,388	14,839
Other Current Assets (& Loans/adv)	21,140	13,480	10,946	11,690	12,859
Total Current Assets	56,470	60,680	54,758	53,720	56,187
Creditors	11,350	13,160	13,525	14,889	16,542
Other Current Liabilities & Provns	27,690	29,230	30,129	31,549	33,183
Total Current Liabilities	39,040	42,390	43,653	46,438	49,725
Net Current Assets	17,430	18,290	11,105	7,282	6,462
TOTAL APPLICATION OF FUNDS	2,16,150	2,34,730	2,47,871	2,67,756	2,93,292

Source: Company, HSIE Research

Consolidated Cash Flow

YE Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	13,210	10,690	12,655	16,384	17,471
Non-operating & EO Items	(5,140)	(3,100)	(2,000)	(1,436)	(1,147)
Interest Expenses	2,310	3,860	4,543	5,212	6,337
Depreciation	13,050	14,980	13,477	15,962	16,875
Working Capital Change	(770)	460	1,006	(1,478)	(2,015)
Tax Paid	(140)	(540)	(2,794)	(4,096)	(4,368)
OPERATING CASH FLOW (a)	22,520	26,350	26,887	30,548	33,153
Capex	(27,010)	(27,230)	(33,500)	(38,500)	(41,945)
Free Cash Flow (FCF)	(4,490)	(880)	(6,613)	(7,952)	(8,792)
Investments	2,980	(4,670)	-	-	-
Non-operating Income	770	4,400	2,000	1,436	1,147
Others					
INVESTING CASH FLOW (b)	(23,260)	(27,500)	(31,501)	(37,064)	(40,798)
Debt Issuance/(Repaid)	6,670	8,890	4,860	10,000	15,000
Interest Expenses	(2,970)	(4,520)	(4,543)	(5,212)	(6,337)
FCFE	(790)	3,490	(6,296)	(3,164)	(129)
Share Capital Issuance	-	30	-	-	-
Dividend	(1,690)	(1,690)	(1,844)	(2,404)	(2,567)
FINANCING CASH FLOW (c)	2,010	2,710	(1,527)	2,384	6,096
NET CASH FLOW (a+b+c)	1,270	1,560	(6,141)	(4,132)	(1,548)

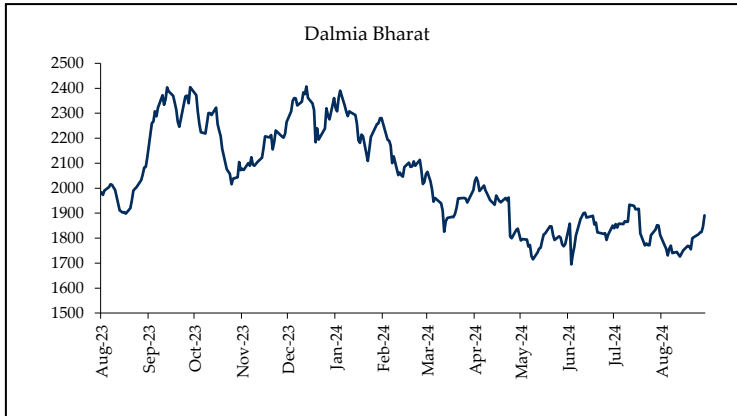
Source: Company, HSIE Research

Key Ratios

	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY %					
EBITDA Margin	17.2	18.0	18.6	20.4	20.6
EBIT Margin	7.5	7.8	9.6	10.7	11.4
APAT Margin	4.8	5.6	6.1	7.3	7.0
RoE	4.1	5.1	5.5	6.8	6.8
RoIC (pre-tax)	5.5	6.2	7.8	9.2	10.8
RoCE (pre-tax)	5.4	6.4	6.8	7.4	7.9
EFFICIENCY					
Tax Rate %	26.4	20.2	25.0	25.0	25.0
Fixed Asset Turnover (x)	0.7	0.6	0.6	0.6	0.7
Inventory (days)	35	30	35	35	35
Debtors (days)	19	21	22	22	22
Other Current Assets (days)	82	62	55	54	54
Payables (days)	31	33	33	33	33
Other Current Liab & Provns (days)	86	83	84	79	74
Cash Conversion Cycle (days)	20	(3)	(5)	(1)	3
Net Debt/EBITDA (x)	1.0	0.8	1.2	1.4	1.7
Net D/E	0.1	0.1	0.2	0.3	0.3
Interest Coverage	4.4	3.0	3.8	6.4	4.5
PER SHARE DATA (Rs)					
EPS	35.5	43.5	48.5	63.3	67.5
CEPS	106.0	122.4	119.5	147.3	156.4
Dividend	9.0	9.0	9.7	12.7	13.5
Book Value	851	869	909	961	1,017
VALUATION					
P/E (x)	53.3	42.3	37.9	29.1	27.2
P/Cash EPS (x)	14.9	15.0	15.4	12.5	11.8
P/BV (x)	2.2	2.1	2.0	1.9	1.8
EV/EBITDA (x)	15.7	13.6	13.0	11.0	9.8
EV/MT (Rs bn)	9.36	8.57	8.13	7.56	7.54
Dividend Yield (%)	0.5	0.5	0.5	0.7	0.7
OCF/EV (%)	6.2	7.3	7.4	8.2	9.0
FCFF/EV (%)	(1.2)	(0.2)	(1.8)	(2.1)	(2.4)
FCFE/M Cap (%)	(0.2)	1.0	(1.8)	(0.9)	(0.0)

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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