

Dalmia Bharat

Estimate change



TP change



Rating change


CMP: INR1,618
TP: INR1,815 (+12%)
Buy
Above estimates; energy cost to fall from 3QFY23
Earnings beat led by higher volumes, better realization, and lower OPEX

- DALBHARA's 1QFY23 performance was above our estimates driven by an all-round beat. EBITDA/OPM stood at INR6b/18% (est. INR5b/16%). EBITDA/t at INR945 (est. INR848).
- Variable cost increase for the company is the lowest among its peers due to a higher clinker-to-cement conversion ratio. We raise our FY23/FY24 EBITDA estimate by 10%/2%, which is driving the EPS increase of 26%/3%.
- We like the stock owing to its growth plans, locational advantage in East India, and cost reduction measures. We maintain our Buy rating with a TP of INR1,815 (from INR1,675 earlier), based on 12.5x FY24E EV/EBITDA.

Clocks higher volume growth in South India, EBITDA/t at INR945

- Consolidated revenue/EBITDA/PAT stood at INR33b/INR6b/INR2b (+27%/-18%/-30% YoY and 3%/14%/45% above our estimates). Sales volume rose 27% YoY (2% higher than our estimate). Realization improved by 1% YoY and 4% QoQ to INR5,326/t, with price hikes in East India and the northeast.
- OPEX/t rose 14% YoY due to: a) a 37% increase in variable costs, led by higher fuel consumption cost, and b) a 4% increase in freight cost, led by higher diesel prices and lead distance. However, employee costs/t and other expenses/t declined by 15% and 7% YoY, respectively, on higher volumes.
- EBITDA/t stood at INR945 v/s INR1,458/INR1,035 in 1Q/4QFY22. Interest expense declined by 21% YoY. Profit (after MI) was down 30% YoY.

Highlights from the management commentary

- The government's push toward capital expenditure and its constant focus on infrastructure development will continue to boost demand for cement. The exit cement price in Jun'22 was 3% lower than its 1QFY23 average. There has been some price decline in East India in Jul'22 on account of the monsoons.
- Fuel consumption cost is likely to remain at USD220/t till 2QFY23 as the company is carrying coal inventory. The same will see a downward trend from 3QFY23 onwards (spot petcoke price at USD180-190/t).
- DALBHARA is on course to achieve a clinker/cement capacity of 23.7mtpa/49mtpa by FY24. It is evaluating the best possible opportunities to meet its future organic growth plans. Its long-term growth plan of achieving a capacity of 110-130mtpa by CY31 remains intact.

Valuations attractive, reiterate our Buy rating

- The stock trades at 10.8x FY24E EV/EBITDA, with an EV/t of USD78. It has traded at an average EV/EBITDA of 10.6x/9.4x over the last five/10 years. With an expected improvement in earnings (8% CAGR over FY22-24) and the management's focus on continuous capacity expansions, without leveraging its Balance Sheet, we expect the stock to trade at higher multiples.
- We value DALBHARA at 12.5x FY24E EV/EBITDA to arrive at our TP of INR1,815 (from INR1,675 earlier), implying a potential upside of 12% from current levels. We maintain our Buy rating on the stock.

Bloomberg	DALBHARA IN
Equity Shares (m)	187
M.Cap.(INRb)/(USD\$)	303.2 / 3.8
52-Week Range (INR)	2547 / 1213
1, 6, 12 Rel. Per (%)	15/-16/-24
12M Avg Val (INR M)	503

Financial Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	112.3	128.9	138.1
EBITDA	23.5	22.2	27.6
Adj. PAT	7.4	6.1	7.7
EBITDA Margin (%)	21.0	17.3	20.0
Adj. EPS (INR)	39.6	32.6	41.0
EPS Gr. (%)	-11.8	-17.8	26.0
BV/Sh. (INR)	837.2	859.8	887.8

Ratios

Net D:E	-0.1	-0.0	0.0
RoE (%)	5.2	3.8	4.7
RoCE (%)	6.3	4.0	5.0
Payout (%)	22.7	30.7	31.7

Valuations

P/E (x)	40.9	49.7	39.4
P/BV (x)	1.9	1.9	1.8
EV/EBITDA(x)	11.8	12.9	10.8
EV/ton (USD)	98	90	78
Div. Yield (%)	0.6	0.6	0.8
FCF Yield (%)	0.6	-1.8	-2.5

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	55.9	55.9	56.0
DII	7.3	7.1	5.8
FII	12.6	12.6	13.1
Others	24.2	24.3	25.1

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

MotilalOswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance (Consolidated)

(INR b)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	25.9	25.3	27.3	33.8	33.0	29.2	31.9	34.8	112.3	128.9	32.0	3
YoY Change (%)	36.3	9.2	-0.1	7.3	27.4	15.5	16.5	3.0	11.1	14.7	23.3	
Total Expenditure	18.8	19.8	23.3	27.0	27.2	25.2	26.5	27.7	88.8	106.6	26.9	1
EBITDA	7.1	5.5	4.1	6.8	5.9	3.9	5.4	7.1	23.5	22.2	5.2	14
Margins (%)	27.5	21.7	15.0	20.2	17.7	13.4	16.9	20.4	21.0	17.3	16.1	166
Depreciation	3.0	3.0	3.0	3.3	3.1	3.2	3.2	3.3	12.4	12.8	3.2	
Interest	0.6	0.5	0.4	0.5	0.4	0.5	0.5	0.7	2.0	2.2	0.5	
Other Income	0.3	0.5	0.3	0.5	0.2	0.3	0.3	0.5	1.6	1.3	0.4	
PBT before EO Expense	3.9	2.4	0.9	3.6	2.5	0.5	1.9	3.6	10.8	8.5	1.9	31
Extra-Ord expense	0.0	-0.6	0.0	-3.3	0.0	0.0	0.0	0.0	-3.9	0.0	0.0	
PBT after EO Expense	3.9	3.0	0.9	6.9	2.5	0.5	1.9	3.6	14.7	8.5	1.9	
Tax	1.0	0.9	0.3	0.9	0.6	0.1	0.5	1.0	3.1	2.3	0.5	
Rate (%)	25.1	29.2	36.6	13.2	25.4	27.0	27.0	28.1	21.1	27.0	27.0	
Reported PAT (pre minority)	2.9	2.1	0.6	6.0	1.9	0.4	1.4	2.6	11.6	6.2	1.4	34
Minority + associate	0.1	0.0	0.1	0.1	-0.1	0.1	0.1	0.1	0.2	0.1	0.1	
PAT Adj for EO items	2.8	1.5	0.5	2.6	2.0	0.3	1.3	2.5	7.4	6.1	1.4	45
YoY Change (%)	45.1	-35.5	-70.2	-0.8	-30.0	-78.3	150.8	-4.4	-11.7	-17.8	-52.2	
Per ton analysis (blended) INR/t												
Sales Dispatches (m ton)	4.9	5.1	5.7	6.6	6.2	5.6	6.2	6.8	22.3	24.7	6.1	2
YoY Change (%)	33.6	6.3	-1.7	2.8	26.8	9.4	8.0	3.1	7.7	11.0	24.2	
Net realization	5,299	4,951	4,796	5,121	5,326	5,226	5,176	5,116	5,038	5,208	5,271	1
YoY Change (%)	2.0	2.7	1.6	4.3	0.5	5.6	7.9	-0.1	3.2	3.4	-0.7	
RM Cost	542	655	774	655	677	690	710	768	660	713	750	-10
Employee Expenses	374	388	323	271	319	348	318	284	334	316	305	5
Power, Oil & Fuel	1,063	994	1,175	1,323	1,535	1,635	1,485	1,224	1,153	1,460	1,523	1
Freight and Handling Outward	1,057	1,018	1,042	1,123	1,100	1,080	1,060	1,059	1,064	1,074	1,133	-3
Other Expenses	804	820	765	715	748	772	729	736	771	746	713	5
Total Expenses	3,840	3,875	4,079	4,086	4,381	4,525	4,303	4,072	3,982	4,309	4,423	-1
EBITDA	1,458	1,076	718	1,035	945	701	872	1,044	1,056	899	848	11

Source: Company, MOFSL Estimates



Key takeaways from the conference call

Demand and pricing outlook

- Higher volume growth was driven by better demand in southern region wherein volumes grew by over 30% YoY. Cement capacity utilization improved to 69% in 1QFY23 v/s 64% in 1QFY22.
- Management remains confident over India's growth story. Government's push for capital expenditure as well as constant focus on infrastructure development will continue to boost cement demand.
- Realization s improved in the east and north-east markets; however; it decline in the South markets. Exit 1Q price was lower by ~3% as compared to 1Q average. Cement prices were stable in south in Jul'22, however saw correction in eastern markets due to seasonality impact.

Operational highlights and cost insights

- Average fuel consumption cost increased to USD218/t in 1QFY23 from USD180/t in 4QFY22. Fuel consumption cost is likely to remain at USD220/t till 2QFY23 as the company is carrying and will see downward trend from 3QFY23 onwards as fuel price has started to correct (spot petcoke price is at USD180-190/t).
- Lead distance during the quarter was at 311Km v/s 318km in 4QFY22.
- Trade sales were at 68% v/s 65% in 4QFY22 and blended cement sales stood at 82% v/s 78% in 4QFY22.
- Incentives accrued during 1Q were at INR580m while Incentive received was at INR440m. Incentives receivable stood at INR3.23b as of Jun'22. Incentive income is estimated to be INR2.3b each in FY23/24.
- Murli plant has started production in this calendar year and operating at a +50% utilization.

Capex Update

- The company has commissioned 1.1mtpa cement capacity through debottlenecking at Bokaro, 0.6mtpa in Jharkhand, 0.2mtpa at Adhunik, Meghalaya and 0.3mtpa at Rajgangpur, Odisha. Also, the company has increased combined clinker capacity by 2mtpa at various locations. Company's cement/clinker capacity stood at 37mtpa/20.9mtpa, respectively.
- Capex incurred in 1QFY23 was INR5.25b and budgeted capex for FY23 is INR30-35b for FY23. Balance capacity upgradation (debottlenecking) work at existing plants of 3mtpa is likely to complete in FY23E; whereas; Greenfield expansion in Tamil Nadu (4mtpa), Bihar (2.5mtpa) and brownfield expansion in Jharkhand (2.5mtpa) are expected to get completed in FY24. Land acquisition, equipment ordering and site work has started for these projects. Post completion of these expansions its clinker/cement capacity will increase to 23.7mtpa/49mtpa, respectively.
- Further, mining land acquisition in the east region is underway for ensuring long term raw material availability. Land acquisition is expected to get completed in one and half years and post that within next six months limestone extraction will start.
- The company is working internally and evaluating best possible opportunities for its future organic growth plans (beyond 48.5mtpa cement capacity).The announcement has been delayed by few quarters. Its long-term growth plan of achieving a capacity of 110-130mtpa by CY31 remains intact.

- The company added renewable power capacity to 41MW (comprises 36MW of solar and 5.4MW of WHRS) in 1QFY23. It targets to commission 33MW of WHRS and 35MW of solar power plants in a phased manner to reach at a renewable energy capacity of 173MW in FY23E. All integrated plants except one plant in south will be fully equipped with WHRS facility by FY24.
- It has obtained board approval to purchase existing wind turbine generators in Tamil Nadu with a capacity of 16.5MW (power generation capacity equivalent to 7MW of new wind turbines) from a group company at transaction cost of INR77m (for wind turbine and associated spare parts). The company will also pay lease and license fee of INR2.5m per annum for using 709 acres of land with escalation clause of 10%. The transaction is subject to necessary approvals from governments.

Other key highlights

- The company had net cash of INR2b as of Jun'22 v/s INR14b in Mar'22. Gross debt was at INR30b v/s INR31.4b in Mar'22. Net debt/EBITDA in Jun'22 stood at -0.08x v/s -0.59x in FY22. Its average cost of borrowing was at 5.4% in 1QFY23 v/s 5.7% in 1QFY22.
- Co2 emission came down to 468kg in 1QFY23 from 489kg per ton in FY22. Reduction in CO2 emission is driven by enhancing production of blended cement, increase in share of green power and green fuel, reduction in heat and power consumption (power consumption/t of cement stands at 64kwh, one of the lowest in the world).

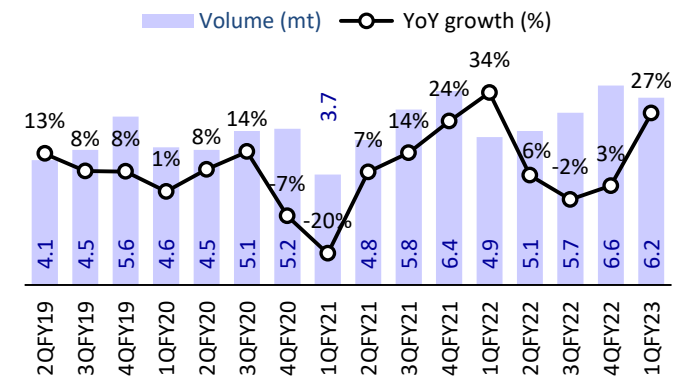
Exhibit 1: Changes to our estimates

(INR b)	Revised		Old		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	129	138	127	136	1%	1%
EBITDA	22	28	20	27	10%	2%
PAT	6	8	5	7	26%	3%
EPS (INR)	32.6	41.0	25.8	39.8	26%	3%

Source: Company, MOFSL

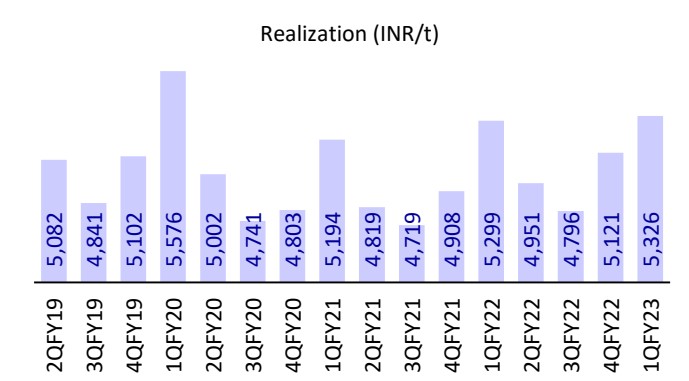
Story in charts

Exhibit 2: Volume up 27% YoY but declined 6% QoQ



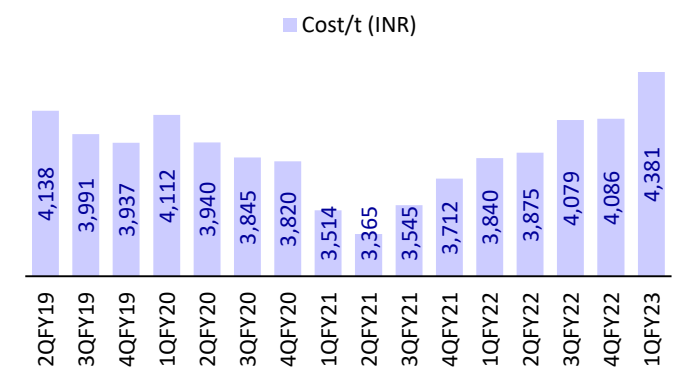
Source: Company, MOFSL

Exhibit 3: Realization up 1% YoY and 4% QoQ



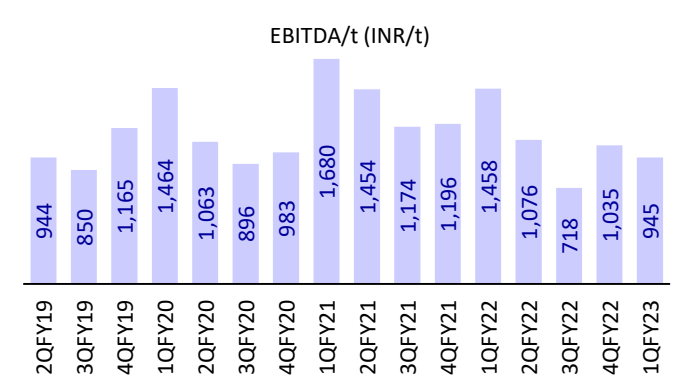
Source: Company, MOFSL

Exhibit 4: Opex/t up 14% YoY...



Source: Company, MOFSL

Exhibit 5: ...leading to a 35% YoY drop in EBITDA/t



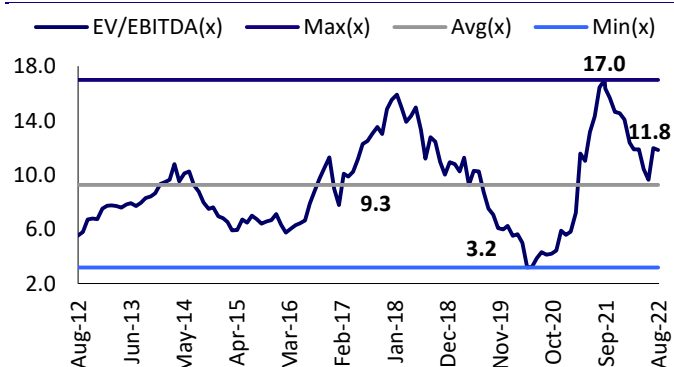
Source: Company, MOFSL

Exhibit 6: Key operating metrics (blended)

	1QFY23	1QFY22	YoY (%)	4QFY22	QoQ (%)
INR/t					
Realization	5,326	5,299	1%	5,121	4%
RM Cost	677	542	25%	655	3%
Staff Cost	319	374	-15%	271	18%
Power and Fuel	1,535	1,063	44%	1,323	16%
Freight and Forwarding	1,100	1,057	4%	1,123	-2%
Other Expenditure	748	804	-7%	715	5%
Total Expenditure	4,381	3,840	14%	4,086	7%
EBITDA	945	1,458	-35%	1,035	-9%

Source: Company, MOFSL

Exhibit 7: One-yr forward EV/EBITDA



Source: Company, MOFSL

Exhibit 8: One-yr forward EV/ton



Source: Company, MOFSL

Financials and valuations (Consolidated)

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	74,470	85,800	94,840	96,740	1,01,100	1,12,300	1,28,859	1,38,090
Change (%)	16.2	15.2	10.5	2.0	4.5	11.1	14.7	7.2
EBITDA	18,940	20,360	19,420	21,060	27,620	23,540	22,248	27,580
Margin (%)	25.4	23.7	20.5	21.8	27.3	21.0	17.3	20.0
Depreciation	12,260	12,130	12,960	15,280	12,500	12,360	12,801	14,758
EBIT	6,680	8,230	6,460	5,780	15,120	11,180	9,447	12,822
Int. and Finance Charges	8,560	7,080	5,510	4,380	2,950	1,970	2,164	3,145
Other Income - Rec.	2,960	2,740	2,440	2,170	1,810	1,550	1,250	1,400
PBT bef. EO Exp.	1,080	3,890	3,390	3,570	13,980	10,760	8,533	11,077
EO Expense/(Income)	0	0	0	0	-3,330	-3,940	0	0
PBT after EO Exp.	1,080	3,890	3,390	3,570	17,310	14,700	8,533	11,077
Current Tax	740	1,080	1,120	1,140	2,120	1,870	2,304	2,991
Deferred Tax	0	-100	-1,220	50	3,330	1,230	0	0
Tax Rate (%)	68.5	27.8	33.0	31.9	12.2	12.7	27.0	27.0
Reported PAT	340	2,910	3,490	2,380	11,860	11,600	6,229	8,086
Minority and Associates	100	10	-410	-140	-130	-240	-130	-400
PAT Adj. for EO items	440	2,920	3,080	2,240	8,400	7,420	6,099	7,686
Change (%)	-76.8	563.6	5.5	-27.3	275.0	-11.7	-17.8	26.0
Margin (%)	0.6	3.4	3.2	2.3	8.3	6.6	4.7	5.6

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	385	385	390	390	374	375	375	375
Total Reserves	95,905	1,02,965	1,06,000	1,05,650	1,27,726	1,56,495	1,60,721	1,65,971
Net Worth	96,290	1,03,350	1,06,390	1,06,040	1,28,100	1,56,870	1,61,095	1,66,346
Deferred capital investment subsidy	1,120	1,200	1,290	1,400	1,240	1,250	1,250	1,250
Deferred Liabilities	12,860	13,250	11,880	12,770	16,590	16,350	16,350	16,350
Minority Interest	-290	-300	110	250	340	720	1,020	1,420
Total Loans	80,390	72,660	58,780	59,500	37,080	31,190	40,190	49,690
Capital Employed	1,90,370	1,90,160	1,78,450	1,79,960	1,83,350	2,06,380	2,19,905	2,35,056
Gross Block	1,69,740	1,62,870	1,66,210	1,66,440	1,86,160	1,99,100	2,29,570	2,64,570
Less: Accum. Deprn.	14,580	22,500	30,470	40,890	49,910	59,030	71,831	86,590
Net Fixed Assets	1,55,160	1,40,370	1,35,740	1,25,550	1,36,250	1,40,070	1,57,739	1,77,980
Capital WIP	1,280	1,730	5,200	17,400	10,060	10,470	10,000	10,000
Current Investment	26,410	34,080	23,150	26,980	32,930	43,990	42,990	40,490
Non-current Investment	990	970	1,090	1,610	7,410	13,060	13,060	13,060
Curr. Assets, Loans and Adv.	27,920	35,510	39,300	37,670	32,210	37,130	39,535	40,055
Inventory	6,520	7,790	10,320	9,740	7,600	9,450	9,532	9,837
Account Receivables	5,300	5,640	5,490	6,640	5,110	6,730	7,061	7,188
Cash and Bank Balance	1,750	3,540	4,690	4,030	2,470	1,600	3,566	3,860
Loans and Advances	14,350	18,540	18,800	17,260	17,030	19,350	19,376	19,170
Curr. Liability and Prov.	21,390	22,500	26,030	29,250	35,510	38,340	43,419	46,529
Account Payables	19,140	20,970	23,430	27,210	32,820	35,680	40,367	43,259
Provisions	2,250	1,530	2,600	2,040	2,690	2,660	3,052	3,271
Net Current Assets	6,530	13,010	13,270	8,420	-3,300	-1,210	-3,884	-6,475
Appl. of Funds	1,90,370	1,90,160	1,78,450	1,79,960	1,83,350	2,06,380	2,19,905	2,35,056

E: MOFSL estimates

Financials and valuations (Consolidated)

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)*								
EPS	2.3	15.2	15.8	11.5	44.9	39.6	32.6	41.0
Cash EPS	66.0	78.1	82.3	89.8	111.7	105.6	100.9	119.8
BV/Share	500.6	536.2	545.6	543.8	684.6	837.2	859.8	887.8
DPS	2.2	1.7	2.0	2.0	1.3	9.0	10.0	13.0
Payout (%)	96.4	11.2	12.5	17.2	3.0	22.7	30.7	31.7
Valuation (x)*								
P/E			102.4	140.9	36.0	40.9	49.7	39.4
Cash P/E			19.7	18.0	14.5	15.3	16.0	13.5
P/BV			3.0	3.0	2.4	1.9	1.9	1.8
EV/Sales			3.5	3.2	2.9	2.5	2.2	2.2
EV/EBITDA			16.9	14.9	10.7	11.8	12.9	10.8
EV/t (USD)			157	150	121	98	90	78
Dividend Yield (%)			0.1	0.1	0.1	0.6	0.6	0.8
Return Ratios (%)								
ROIC	1.5	3.8	2.9	2.8	9.8	6.8	4.4	5.4
RoE	0.6	2.9	2.9	2.1	7.2	5.2	3.8	4.7
RoCE	2.0	4.5	3.5	3.3	9.0	6.3	4.0	5.0
Working Capital Ratios								
Asset Turnover (x)	0.4	0.5	0.5	0.5	0.6	0.5	0.6	0.6
Inventory (Days)	32	33	40	37	27	31	27	26
Debtor (Days)	26	24	21	25	18	22	20	19
Leverage Ratio (x)								
Current Ratio	1.3	1.6	1.5	1.3	0.9	1.0	0.9	0.9
Debt/Equity	0.8	0.7	0.6	0.6	0.3	0.2	0.2	0.3

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,080	3,890	3,390	3,570	13,640	11,460	8,533	11,077
Depreciation	12,260	12,130	12,960	15,280	12,500	12,370	12,801	14,758
Interest and Finance Charges	8,560	7,080	5,510	3,640	3,190	1,930	2,164	3,145
Direct Taxes Paid	-190	-860	-240	-660	440	240	-2,304	-2,991
(Inc.)/Dec. in WC	-280	-3,590	1,500	2,740	7,810	-5,150	4,507	2,811
CF from Operations	21,430	18,650	23,120	24,570	37,580	20,850	25,701	28,800
Others	-2,680	-2,590	-2,220	-1,190	-1,540	-1,480	-1,080	-1,400
CF from Operations incl. EO	18,750	16,060	20,900	23,380	36,040	19,370	24,621	27,400
(Inc.)/Dec. in FA	-3,920	-3,930	-13,290	-13,450	-10,270	-17,560	-30,000	-35,000
Free Cash Flow	14,830	12,130	7,610	9,930	25,770	1,810	-5,379	-7,600
(Pur.)/Sale of Investments	1,680	3,950	10,320	-4,970	6,050	6,330	985	2,492
Others	394	1,350	2,870	300	370	410	1,250	1,400
CF from Investments	-1,846	1,370	-100	-18,120	-3,850	-10,820	-27,765	-31,108
Issue of Shares	-390	40	40	0	-4,000	50	0	0
Inc./(Dec.) in Debt	-9,000	-7,730	-13,870	120	-25,340	-5,800	9,147	9,582
Interest Paid	-8,100	-7,620	-5,420	-4,680	-3,960	-2,320	-2,164	-3,145
Dividend Paid	0	-330	-400	-930	0	-1,000	-1,874	-2,436
Others	0	0	0	-430	-450	-350	0	0
CF from Fin. Activity	-17,490	-15,640	-19,650	-5,920	-33,750	-9,420	5,110	4,002
Inc./Dec. of Cash	-586	1,790	1,150	-660	-1,560	-870	1,967	294
Opening Balance	2,336	1,750	3,540	4,690	4,030	2,470	1,600	3,566
Closing Balance	1,750	3,540	4,690	4,030	2,470	1,600	3,566	3,860

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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