Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Dalmia Bharat Ltd

Weak pricing environment fairly factored in; Retain Buy

Cement	Sharekhan code: DALMIABHA
Reco/View: Buy ⇔	CMP: Rs. 1,804
Price Target: Rs. 2,250 ↓	

↑ Upgrade ⇔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

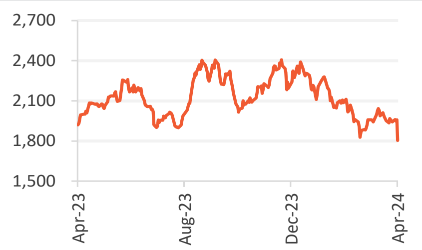
Company details

Market cap:	Rs. 33,837 cr
52-week high/low:	Rs. 2,429/1,767
NSE volume: (No of shares)	2.0 lakh
BSE code:	542216
NSE code:	DALMIABHA
Free float: (No of shares)	8.3 cr

Shareholding (%)

Promoters	55.8
FII	11.4
DII	12.8
Others	20.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.9	-18.2	-12.2	-6.0
Relative to Sensex	-10.5	-23.3	-28.3	-29.7

Sharekhan Research, Bloomberg

Summary

- We retain our BUY rating on Dalmia Bharat Limited with a revised PT of Rs. 2,250, factoring downwardly revised estimates while expecting improvement in the cement pricing environment post H1FY2025.
- In Q4FY2024, the company reported a beat in consolidated revenue, led by strong volume growth, although operational profitability missed our estimates due to weak realisations and higher-than-expected opex per tonne.
- Management targets to grow at 1.5x of the industry's volume growth for FY2025, while cement prices may not revive in H1FY2025. The focus is on retaining the market share.
- The company remains on track to increase its organic cement capacity to 49.5mtpa by FY2025, excluding JP Assets. It would be revisiting its medium-term capacity expansion plans over the next few quarters.

Dalmia Bharat Limited (Dalmia) reported better-than-expected consolidated revenue at Rs. 4,307 crore (up 10% y-o-y) for Q4FY2024, while it missed on the operational profitability front owing to a weak pricing environment and increased opex/tonne. Cement sales volumes surprised positively with an 18.5% y-o-y jump (up ~12% y-o-y, excluding JP tolling volumes) as the company regained its lost market share during H1FY2024. However, EBITDA/tonne at Rs. 742 (down 22% y-o-y) came in lower than our expectation of Rs. 911, owing to higher-than-expected reduction in blended realisations (down 7.2% y-o-y) and higher-than-expected opex/tonne (driven by increased raw-material costs). Consolidated net profit at Rs. 315 crore (up 54% y-o-y) came in above our estimates on account of lower-than-estimated interest costs and depreciation. The company remains on track to increase its organic cement capacity to 49.5mtpa by FY2025, excluding JP Assets (expected to close the deal during Q2FY2025). The company would be revisiting its medium-term capacity expansion plans (75mtpa by FY2027) over the next few quarters.

Key positives

- Cement volumes grew 18.5% y-o-y (~12% y-o-y adjusted for JP tolling volumes) for Q4, which helped it regain its lost market share during H1FY2024.
- Lower interest expense (down 13% q-o-q), reduced depreciation (down 11% q-o-q), and higher other income (up 100% q-o-q) led to better-than-expected consolidated net profit.

Key negatives

- EBITDA/tonne at Rs. 742 came in below our estimates on account of lower-than-estimated realisations and higher-than-estimated raw-material costs.
- Cement prices in its region of operations are 1-2% lower in April 2024 compared to the Q4FY2024 average. Cement prices may not rise during H1FY2025.

Management Commentary

- Cement demand is expected to grow 8.5-9% y-o-y in FY2025, while it targets to grow its cement sales volume (excluding JP Assets) at 1.5x of the industry's growth during FY2025. JP Assets' volume sales may bring in incremental 4-5% volumes.
- Cement prices dropped 7.5% q-o-q in Q4FY2024; while in March 2024, cement prices were 9-10% lower than Q4 average prices. Cement prices in April 2024 are 2% lower than the Q4FY2024 average.
- The acquisition of 9.4mtpa worth JP Assets is expected to close by Q2FY2025 as against the earlier target of March 2024 due to the delay in receipt of NoC from banks. The company expects JP Assets' operational profitability to be at par with the company in two years.

Revision in estimates – We have lowered our operating profit estimates for FY2025-FY2026, factoring in the expected delay in the revival of cement prices.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 2,250: Dalmia is expected to benefit from a strong demand environment while focusing on capacity addition plans. However, weak cement prices in the eastern and southern regions are expected to weigh on operational profitability in the near term. The company is expected to revisit its medium-term capacity expansion plans over the next few quarters. The company's focus remains on maintaining market share while gradually improving upon cost efficiencies. Dalmia is currently trading at an EV/EBITDA of 12.8x/10.9x its FY2025E/FY2026E earnings. We retain our BUY rating on the stock with a revised price target (PT) of Rs. 2,250, factoring downwardly revised estimates while expecting improvement in the cement pricing environment post-H1FY2025.

Key Risks

1) Pressure on cement demand and prices in the East, Northeast and South India can affect financial performance.

2) Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can also affect the company's performance.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	13,552	14,691	16,591	19,782
OPM (%)	17.2	18.0	16.7	16.8
Adjusted PAT	477	770	863	1,109
y-o-y growth (%)	-56.6	61.4	12.1	28.4
Adjusted EPS (Rs.)	27.4	43.5	45.4	58.3
P/E (x)	66.0	41.5	39.7	30.9
P/B (x)	2.1	2.1	2.0	1.9
EV/EBITDA (x)	14.3	12.8	12.8	10.9
RoNW (%)	3.2%	5.2%	5.2%	6.3%
RoCE (%)	4.2%	6.4%	6.1%	6.7%

Source: Company; Sharekhan estimates

Operational profitability lags while volume growth outperforms

Dalmia reported consolidated net revenue of Rs. 4,307 crore, up 10% y-o-y (up 19.5% q-o-q), which was 4% above our estimate. Cement volumes increased by 18.5% y-o-y (+29.4% q-o-q) to 8.8 mn tonne, while blended realisations were lower 7.2% y-o-y (-7.6% q-o-q) at Rs. 4,889/tonne. Blended consolidated EBITDA/tonne at Rs. 742 (-22.3% y-o-y, -35.1% q-o-q) was lower than our estimate of Rs. 911/tonne on account of a decline in realisation and higher opex/tonne. On the cost front, power and fuel costs stood at Rs. 897/tonne (-23.5% y-o-y, -15.9% q-o-q), freight cost stood at Rs. 1,158/tonne (+4.7% y-o-y, +6.1% q-o-q), and other expense stood at Rs. 753/tonne (-2.0% y-o-y, +0.7% q-o-q). Overall, consolidated operating profit declined by 7.9% y-o-y (-16.0% q-o-q) at Rs. 654 crore, which was 14% lower than our estimate. Higher other income (up 3.2x y-o-y) and lower effective tax rate led to consolidated adjusted net profit growth of 54.4% y-o-y (up 19.8% q-o-q) at Rs. 315 crore (36% higher than our estimate).

Key conference call takeaways:

- **Outlook:** Cement demand is expected to grow at 8.5-9% y-o-y in FY2025, while it targets to grow its cement sales volume (excluding JP Assets) at 1.5x of the industry's growth during FY2025. JP Assets' volume sales may bring in incremental 4-5% volumes.
- **Cement prices:** Cement prices dropped by 7.5% q-o-q in Q4FY2024; while in March 2024, cement prices were 9-10% lower than Q4 average prices. Cement prices in April 2024 are 2% lower than the Q4FY2024 average. The company, however, did not witness any increase in cement prices in Q1FY2025.
- **Capacity additions:** The company commenced the trial run of 1 mtpa capacity each at Ariyalur and Kadapa in March 2024 and the same is expected to get commissioned in Q1FY2025. The current cement capacity stands at 44.6 mtpa. Cement capacity at the end of FY2025 is estimated at 58.9 mtpa, including JP Assets. The company is likely to firm up its medium-term capacity targets over the course of the next two quarters.
- **Opex:** The increase in raw-material costs was led by higher fly ash and slag costs. P&F costs declined y-o-y due to a $48 y-o-y decline in fuel cost. Power consumption cost stood at Rs. 1.45 per Kcal unit. The company expects P&F cost to decline by 1-2% q-o-q in Q1FY2025. The increase in logistics cost was due to higher lead distance to regain market share.
- **Incentives:** Incentives accrued and collected during Q4FY2024 stood at Rs. 93 crore and Rs. 98 crore, respectively; while for FY2024, incentives accrued and collected stood at Rs. 298 crore and Rs. 314 crore, respectively. Closing outstanding incentives stand at Rs. 701 crore. The company expects incentives accrual of Rs. 300 crore in FY2025.
- **Other income:** Higher other income was on account of increased treasury income, Rs. 14 crore dividend receipt, Rs. 22 crore interest subvention, Rs. 11 crore IT refunds, and Rs. 9 crore claim receipt.
- **Depreciation:** The company has changed its depreciation policy from WDV to SLM for its Northeast plants. Depreciation for FY2025 is estimated at Rs. 1,350-1,400 crore.
- **Capex:** Capex incurred during FY2024 was Rs. 2,827 crore. The company estimates FY2025 capex to be at Rs. 3,500-4,000 crore.
- **Debt:** By FY2025-end, the company estimates peak debt of Rs. 9,000 crore and net debt of Rs. 5,000 crore. Closing gross debt for FY2024 stands at Rs. 4,651 crore.
- **JP Assets:** The acquisition of 9.4 mtpa worth JP Assets is expected to close by Q2FY2025 as against the earlier target of March 2024 due to the delay in the receipt of NoC from banks. JP tolling volumes for Q4 and FY2024 were 0.6 mn tonne and 1.4 mn tonne, respectively. The company expects JP Assets' operational profitability to be at par with the company in two years.
- **Other highlights:** Trade sales mix stood at 65% in Q4FY2024 versus 63% in Q3FY2024. Blended cement mix was 87% in Q4FY2024 versus 84% in Q3FY2024. Premium cement mix stands at 21% of overall sales. CC ratio stands at 1.67x. Pet coke fuel mix is 56% and green power mix is 28%.

Results (Consolidated) **Rs cr**

Particulars	Q4FY24	Q4FY23	Y-o-Y %	Q3FY24	Q-o-Q %
Net Sales	**4307**	**3915**	**10.0%**	**3604**	**19.5%**
Total Expenditure	3653	3205	14.0%	2825	29.3%
Operating profits	**654**	**710**	**-7.9%**	**779**	**-16.0%**
Other Income	120	38	215.8%	60	100.0%
EBIDTA	774	748	3.5%	839	-7.7%
Interest	94	64	46.9%	108	-13.0%
PBDT	680	684	-0.6%	731	-7.0%
Depreciation	328	336	-2.4%	370	-11.4%
PBT	**352**	**348**	**1.1%**	**361**	**-2.5%**
Tax	32	125	-74.4%	95	-66.3%
Extraordinary items	0	-385	-	0	-
Minority Interest	5	20	-	3	-
Reported Profit After Tax	315	589	-46.5%	263	19.8%
Adjusted PAT	**315**	**204**	**54.4%**	**263**	**19.8%**
EPS (Rs.)	17	11	54.4%	14	19.8%
			BPS		**BPS**
OPM	15.2%	18.1%	-295	21.6%	-643
PAT margin	7.3%	5.2%	210	7.3%	2
Tax rate	9.1%	35.9%	-2683	26.3%	-1722

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens outlook

The cement industry has seen sustained improvement in demand over the past 15 years, barring a couple of years, while regional cement prices have been rising over the past five years. Amid COVID-19-led disruptions, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand is expected to pick up from Q3FY2021, with laborers returning to project sites. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. The government's Rs. 111-lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

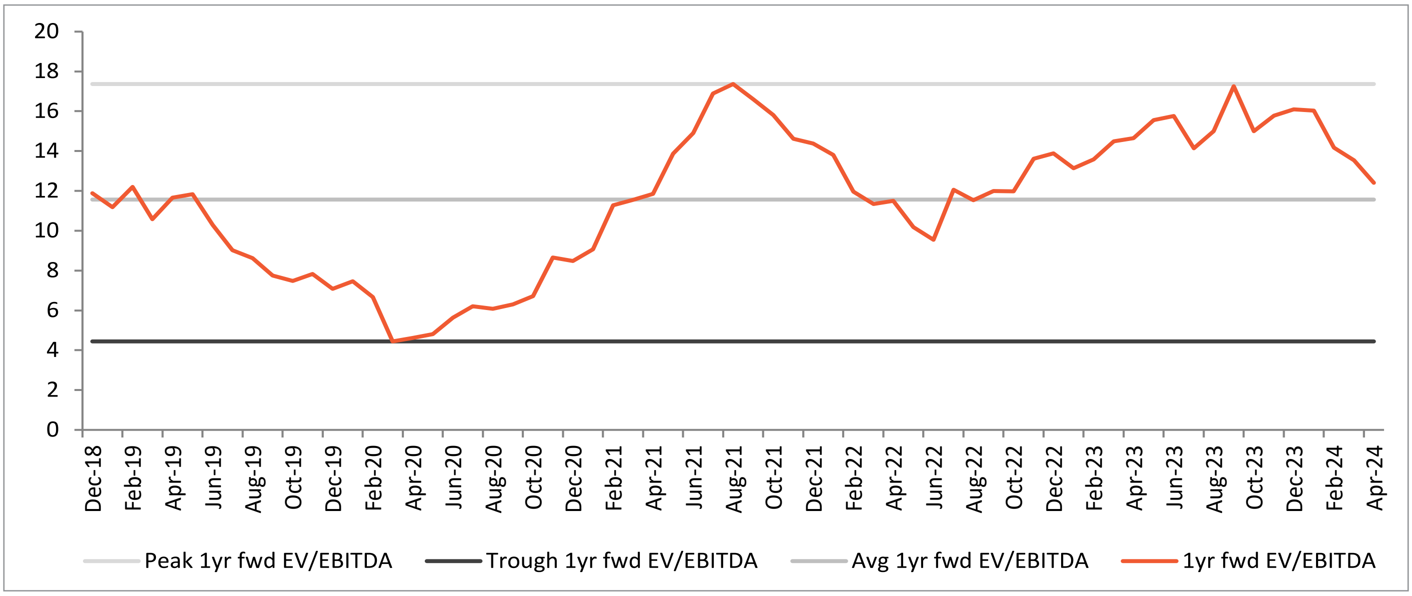
■ Company outlook - Aggressive expansion plans to help capture high-growth opportunities

Dalmia is on a solid growth trajectory for the next five years, with capacity expansion plans lined up for the medium and long term. The company has outlined its capital allocation strategy over the next decade to increase capacity at a 14-15% CAGR to reach 110-130 mn tonne by 2031, which would be done through both organic and inorganic routes, maintaining net debt/EBITDA below 2x (unless a significant ticket-size acquisition is done). The company also highlighted allocation towards shareholders' returns (10% of OCFs) and a green and innovation fund (10% of OCF). The company targets to reach 48.5 mn tonne of cement capacity (currently 35.9 mn tonne) in the next three years, initially expanding in the Southern and Northeastern regions.

■ Valuation - Retain BUY with a revised PT of Rs. 2,250

Dalmia is expected to benefit from a strong demand environment while focusing on capacity addition plans. However, weak cement prices in the eastern and southern regions are expected to weigh on operational profitability in the near term. The company is expected to revisit its medium-term capacity expansion plans over the next few quarters. The company's focus remains on maintaining market share while gradually improving upon cost efficiencies. Dalmia is currently trading at an EV/EBITDA of 12.8x/10.9x its FY2025E/FY2026E earnings. We retain our BUY rating on the stock with a revised PT of Rs. 2,250, factoring downwardly revised estimates while expecting improvement in the cement pricing environment post-H1FY2025.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
UltraTech Cement	32.6	26.6	18.6	15.4	4.2	3.7	13.8	14.9
Dalmia Bharat	39.7	30.9	12.8	10.9	2.0	1.9	5.2	6.3
Shree Cement	30.1	24.9	14.4	11.9	3.8	3.4	13.4	14.3
The Ramco Cement	31.9	25.0	12.7	11.1	2.4	2.2	7.9	9.3

Source: Company; Sharekhan Research

About company

Dalmia started its journey in 1939 and has a legacy of eight decades. The company possesses India's fourth-largest installed cement manufacturing capacity of 44.6 mn tonne, spread across 15 manufacturing plants in 10 states. The company's addressable market spans 22 states in East, Northeast, and Southern India. Dalmia accounts for ~5% of the country's cement capacity. The company has a captive renewable power generation capacity of 185MW (including solar and waste heat recovery plants).

Investment theme

Dalmia is on a solid growth trajectory for the next five years, with capacity expansion plans lined up for the medium and long term. The company would increase its cement capacity to 9.5 mn tonne by FY2025, excluding JP Associates' assets from 44.6 mn tonne currently. The company has outlined its capital-allocation strategy over the next decade to increase capacity at a 14-15% CAGR to reach 110-130 mn tonne by 2031, which would be done through both organic and inorganic routes, maintaining net debt/EBITDA below 2x. The company aims to become a large pan-India player through both organic and inorganic routes.

Key Risks

- Pressure on cement demand and cement prices in the east, northeast, and west can affect the company's financial performance.
- Macroeconomic challenges leading to lower government spending on infrastructure and housing sectors can negatively affect the company's performance.

Additional Data

Key management personnel

Mr. Paul Heinz Hugentobler	Chairman
Mr. Gautam Dalmia	MD
Mr. Puneet Yadu Dalmia	CEO,MD

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Rama Investment Co Pvt Ltd	32.47
2	Shree Nirman Ltd	8.28
3	Sita Investment Co Ltd	7.41
4	Keshav Power Pvt Ltd	1.85
5	Dalmia Bharat Sugar & Industries L	1.71
6	DHARTI COMMERCIAL TRADING PVT LT	1.68
7	INVESTOR EDUCATION & PROTECTN FD	1.64
8	Franklin Resources Inc	1.64
9	D S TRUST	1.54
10	J H DALMIA TRUST	1.38

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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