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Q2FY20 result review and earnings revision

Cement

Target price: Rs910

Earnings revision

(%)	FY20E	FY21E
Sales	↑ 1.5	↑ 0.8
EBITDA	↑ 1.5	↑ 2.0
EPS	↓ 3.0	↑ 5.2

Target price revision

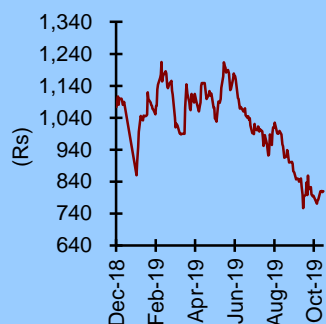
Rs910 from Rs890

Shareholding pattern

	Jan '19	Mar '19	Jun '19
Promoters	53.7	54.3	54.3
Institutional investors	21.7	21.3	20.7
MFs and others	4.9	3.6	3.7
Banks/FIs/Ins.	1.0	0.8	0.8
FIs	15.8	16.9	16.2
Others	24.6	24.4	25.0

Source: CMIE

Price chart



Dalmia Bharat

ADD

Maintained

Rs810

Volumes surprise; margins in-line

Dalmia Bharat's (DALBHARA) Q2FY20 EBITDA increased 22% YoY to Rs4.8bn vs our estimate of Rs4.4bn owing to higher volumes which surprised positively with 8% YoY growth (I-Sec: flat volumes YoY). Total cost/te declined 4.8% YoY (I-Sec: 3.3% YoY decline); while cement realisation declined 7.4% QoQ vs our estimate of 6.6% QoQ decline. Blended EBITDA/te increased 13% YoY to Rs1,063/te, in-line with our estimates. Consolidated EBITDA to OCF conversion was better at 80% in H1FY20 vs 30% in H1FY19 with FCF of Rs1.2bn post capex spend of Rs7bn in H1FY20. Factoring higher volumes, we increase our FY20E-FY21E EBITDA by 1-2% and raise our target price to Rs910/share (earlier: Rs890/share) based on 8X FY21E EV/E. Maintain ADD.

- **Revenue grew 7% YoY to Rs22.4bn (I-Sec: Rs20.9bn):** Cement volumes surprised positively with 8% growth YoY to 4.47mnte aided by acquisition of Kalyanpur Cements and better demand in key markets of Tamil Nadu and Odisha. Cement realisation declined 7.4% QoQ (flat YoY) to Rs4,716/te (I-Sec: Rs4,758/te) owing to sharp price correction in its key markets of South and East. Management expects demand to strengthen in H2FY20 post festive season and pricing to improve. Refractories and other business revenue declined 16% YoY to Rs1.3bn.
- **Blended EBITDA/te increased 13% YoY to Rs1,063/te, in-line with our estimates.** Total cost/te declined 4.8% YoY/ remained flat QoQ in Q2FY20. Raw material plus power & fuel cost/te declined 5% YoY led by 21% YoY decline in slag and petcoke prices partly offset by 12% YoY increase in fly ash prices. Freight cost/te declined 3% YoY with lower diesel prices and lead distance remaining <300kms. Reported PAT stood at Rs270mn, in-line with our estimates.
- **Consolidated EBITDA to OCF conversion stood strong at 80% in H1FY20 vs 30% in H1FY19.** DALBHARA generated consolidated FCF of Rs1.2bn post capex spend of Rs7bn in H1FY20. DALBHARA's net debt increased Rs470mn QoQ to Rs33.7bn as of Sep'19-end. We expect net debt to increase over FY20E-FY21E and peak out at Rs34bn by FY21E. The matter pertaining to third-party fraud for Rs3.4bn MF units is currently under investigation by SEBI and EOW. The management expects to recover full amount over next 6-9 months.
- **Expansion / strategic acquisition to support volume growth:** Management has guided to commission 3.1mnte clinker unit and 3.5mnte grinding capacity at West Bengal and Bokaro by Mar'20. The remaining grinding units are likely to be commissioned by H2FY21E. NCLT approved the company's resolution plan for revival of Murli Industries in Jul'19. Management is in discussion with the government for approval of two conditions (relating to reviving limestone mines and incentives) and expects to get possession of Murli by Dec'19 and to operationalise the plant by Q3FY21E.
- **We factor-in 9% volume CAGR over FY19-FY22E** and expect blended EBITDA/te to increase to Rs1,244/te by FY22E from Rs1,040/te in FY19 (Rs1,263/te in H1FY20). Pricing may remain volatile in the company's key market of South (low-utilisation) and East (more capacity additions) over the next few years, in our view.

Market Cap	Rs156bn/US\$2.2bn	Year to Mar	2019	2020E	2021E	2022E
Reuters/Bloomberg	DALA.BO/DALBHARA IN	Revenue (Rs mn)	94,840	1,00,612	1,11,932	1,25,912
Shares Outstanding (mn)	193.0	EBITDA (Rsmn)	19,420	24,186	26,908	30,321
52-week Range (Rs)	1214/757	Net Income (Rs mn)	3,080	4,603	5,866	8,042
Free Float (%)	45.7	% Chg YoY	5.5	47.1	27.4	37.1
FII (%)	16.2	P/E (x)	50.5	34.3	26.9	19.6
Daily Volume (US\$'000)	2,302	CEPS (Rs)	83.5	101.5	112.0	126.8
Absolute Return 3m (%)	(18.8)	EV/E (x)	9.6	7.8	7.0	5.8
Absolute Return 12m (%)	NA	Dividend Yield	0.2	0.4	0.5	0.6
Sensex Return 3m (%)	1.4	RoCE (%)	4.7	4.3	4.9	6.0
Sensex Return 12m (%)	14.4	RoE (%)	2.9	4.2	5.2	6.8

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Key takeaways from conference call

- **Demand:** Management expects demand growth of 3-4% YoY in FY20 owing to likely pick-up in government spending in H2FY20.
- **Incentives accrued stood at Rs300-350mn in Q2FY20** and the management expects the same to be in the range of ~Rs1-1.2bn in FY20. DALBHARA received incentives of Rs770mn and Rs2bn in Q2FY20 and H1FY20, respectively. Accordingly, outstanding incentive receivables as of Sep'19-end stood at ~Rs8bn. Earlier, the management guided to receive incentives of Rs4.5bn in FY20.
- **Input prices:** Average petcoke consumption price for the company declined 21% YoY / 3% QoQ to US\$84/te in Q2FY20. Power consumption stood at 70kWh/te in Q2FY20. Slag prices declined 21% YoY / 7% QoQ to Rs1,095/te; while fly ash prices increased 12% YoY / flat QoQ to Rs880/te in Q2FY20 owing to sources of fly ash from distant sources for one of the South plant. The management expects benefit of fall in input prices to continue in coming quarters.
- **Average lead distance** remained below 300km in Q2FY20.
- **Trade: Non-trade mix** ratio stood at 60:40 in Q2FY20.
- **Dalmia DSP (erstwhile Kalyanpur Cement)** operated at 50% capacity utilisation in H1FY20 and targeting it to increase to 70% by Mar'20.
- **In Q2FY19, DALBHARA reversed the provision of Rs300mn** based on favourable order given by the Director General of Foreign Trade in one of its step down subsidiary. Accordingly, it has credited Rs130mn, Rs70mn and Rs100mn in other expenses, other income and interest cost, respectively.
- **Depreciation has increased 34% YoY/ 19% QoQ to Rs4.1bn in Q2FY20.** Depreciation is higher by Rs670mn in Q2FY20 owing to re-evaluation of life of certain assets. Accordingly, DALBHARA has booked deferred tax credit of Rs290mn on higher reversal of depreciation during tax holiday period.
- **Interest cost declined 54% YoY** to Rs1bn on decline in debt and lower forex. Average cost of debt stood flat YoY at 8.3% in Q2FY20.
- **Capex:** DALBHARA has incurred capex of Rs12.5bn out of Rs30bn East expansion till date. The Company has guided to spent another Rs7-8bn in H2FY20 and Rs10-12bn in FY21E. Besides, Murli Industries revival will cost Rs8bn separately including the acquisition cost.
- **Cash and cash equivalents of Rs20.2bn as of Sep'19** includes MF units worth Rs3.4bn, which are a subject matter of third-party fraud. In Aug'19, Supreme Court directed clearing agent, NSE to honour F&O contracts relating to these securities matured in Jun'19. However, court has also clarified that payments so made shall be without prejudice to the rights and contentions of the parties and subject to final outcome and directions which would be passed in the matter. The matter is now likely to be listed on 25th Oct'19. The matter is currently under investigation by SEBI and EOW and also by DALBHARA through an independent firm of chartered accountants. The management expect to recover units in 6-9 months.
- **The company has reported loss of Rs1.4bn and Rs2.7bn in Q2FY20 and H1FY20, respectively,** in comprehensive income on MTM of its investments.

Table 1: Q2FY20 result review*(Rs mn, year ending March 31)*

	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	I-Sec estimates	% variance
Net Sales	22,360	20,990	6.5	24,440*	(8.5)	20,882	7.1
Volumes	4.47	4.13	8.2	4.55	(1.8)	4.13	8.2
Blended realisations	5,002	5,082	(1.6)	5,371	(6.9)	5,056	(1.1)
Raw Materials	3,760	3,550	5.9	3,300*	13.9	3,337	12.7
Personnel Cost	1,690	1,650	2.4	1,730	(2.3)	1,733	(2.5)
Power and Fuel	4,300	4,290	0.2	4,640	(7.3)	3,711	15.9
Freight and Selling	4,130	3,920	5.4	4,610	(10.4)	4,096	0.8
ther Expenses	3,730	3,680	1.4	3,500	6.6	3,643	2.4
Total Expenses	17,610	17,090	3.0	17,780	(1.0)	16,520	6.6
EBITDA*	4,750	3,900	21.8	6,660	(28.7)	4,362	8.9
EBITDA/te	1,063	944	12.5	1,464	(27.4)	1,056	0.6
Interest	1,030	2,250	(54.2)	1,160	(11.2)	930	10.8
Depreciation	4,060	3,030	34.0	3,420	18.7	3,437	18.1
Other Income	490	740	(33.8)	440	11.4	440	11.4
Recurring pre-tax income	150	(640)	(123.4)	2,520	(94.0)	435	(65.5)
Extraordinary income/(expense)*	-	-	-	-	-	-	-
Taxation	(210)	(670)	(68.7)	1,000	(121.0)	117	(279.0)
Minority Interest	90	40	125.0	50	80.0	44	104.5
Reported Net Income	270	(10)	NA	1,470	(81.6)	273	(1.2)
Recurring Net Income	270	(10)	NA	1,470	(81.6)	273	(1.2)

Source: Company data, I-Sec research; adjusted Rs930mn relating sale of investment considered as stock in trade in inventory

Table 2: Historical quarterly analysis on per-tonne basis

<i>(Rs/te)</i>	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Blended realisation	5,082	4,841	5,022	5,371	5,002
Raw materials consumed	860	817	1,118	725	841
Power & fuel	1,039	1,040	820	1,020	962
Freight cost	949	1,013	932	1,013	924
Staff cost	400	356	280	380	378
Other expenses	949	765	786	769	834
Total costs/te	4,138	3,991	3,937	3,908	3,940
EBITDA/te –blended	944	850	1,084	1,464	1,063

Source: Company data, I-Sec research

Table 3: DALBHARA generated FCF of Rs1.2bn in H1FY20

<i>(Rs mn)</i>	H1FY19	H1FY20	% YoY
Operating Cash flow	6,760	9,200	36.1
Working Capital changes	(5,160)	(1,030)	NA
Capital Commitments	(4,130)	(6,960)	NA
Net Operating FCF	(2,530)	1,210	NA
Investing Activities	4,470	5,400	20.8
Inc(Dec) in Borrowings	(3,670)	(6,460)	NA
Dividend paid	-	(470)	NA
Change in Cash & Bank	(1,730)	(320)	NA

Source: Company data, I-Sec research

Table 4: Consolidated EBITDA to OCF conversion stood strong at 80% in H1FY20

<i>(Rs mn)</i>	H1FY20	H1FY19	% YoY
OCF before w/cap changes	11,660	9,170	27.2
W/cap changes	(1,030)	(5,160)	NA
Taxes paid	(340)	(150)	NA
OCF	10,290	3,860	166.6
EBITDA	11,410	9,130	6.0
EBITDA:OCF	90%	42%	
Interest	(2,120)	(2,260)	NA
Other income	930	1,170	20.5
EBITDA:OCF (post int./OI)	80%	30%	

Table 5: Per tonne estimates

	FY18	FY19	FY20E	FY21E	FY22E
Blended realisation	5,059	5,077	5,062	5,097	5,165
YoY change (%)	4.9%	0.4%	-0.3%	0.7%	1.3%
Cement realisation	4,800	4,744	4,792	4,839	4,914
YoY change (%)	5.2%	-1.2%	1.0%	1.0%	1.5%
Raw Material Consumed	900	956	816	840	865
Power and Fuel	828	940	941	953	972
Employees expenses	359	347	344	342	336
Freight and Forwarding	951	979	956	969	988
Other Expenses	820	816	788	767	759
Total Operating Expenses	3,858	4,037	3,845	3,871	3,921
YoY change (%)	6.2%	4.6%	-4.8%	0.7%	1.3%
EBITDA	1,200	1,040	1,217	1,225	1,244
YoY change (%)	-3.1%	-13.4%	17.0%	0.7%	1.5%

Source: Company data, I-Sec research

Table 6: Performance trend and assumptions

('mnte)

	FY18	FY19	FY20E	FY21E	FY22E
Capacity	24.9	24.9	26.8	34.2	36.8
Production	17.0	18.7	19.9	22.0	24.4
Capacity utilisation (%)	73	80	82	78	73
Sales	17.0	18.7	19.9	22.0	24.4
Growth (%)	10.9%	10.1%	6.4%	10.5%	11.0%
Realisation (Rs/te)	4,800	4,744	4,792	4,839	4,914
Growth (%)	5.2%	-1.2%	1.0%	1.0%	1.5%

Source: Company data, I-Sec research

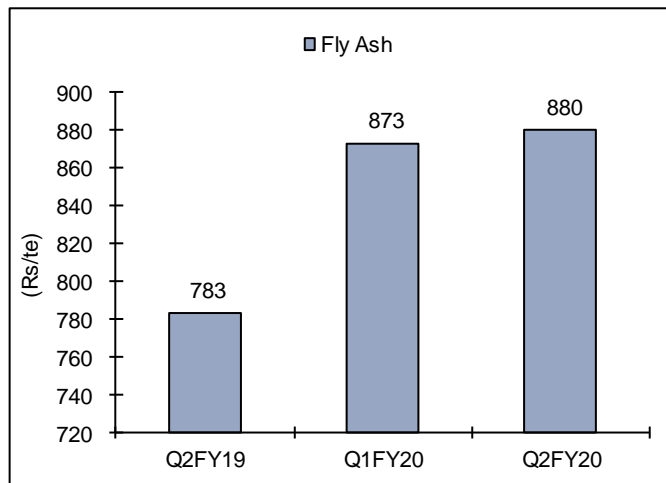
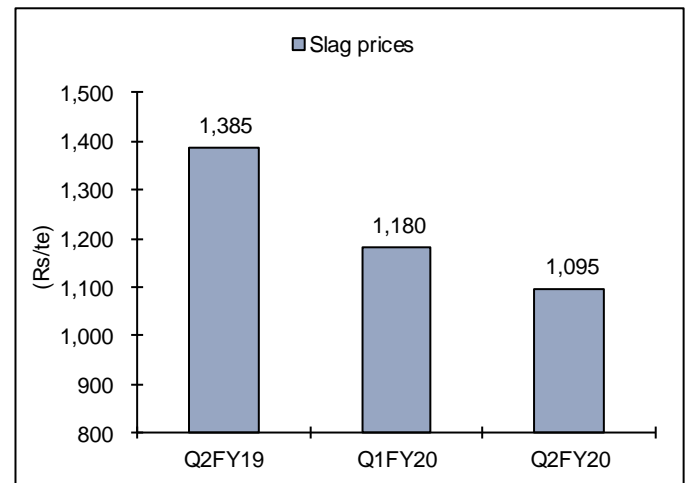
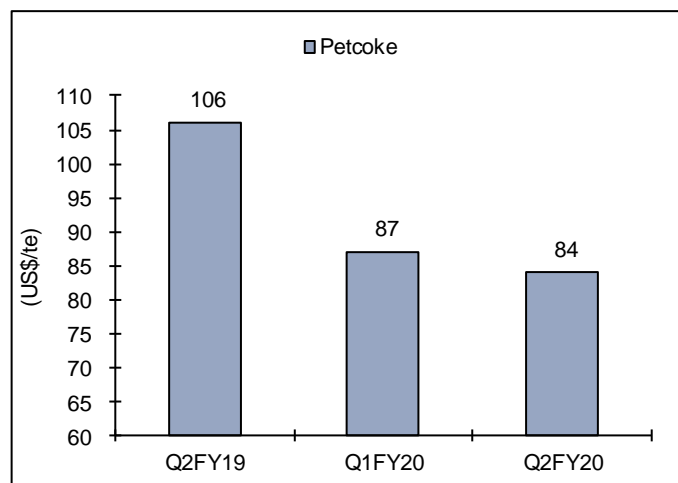
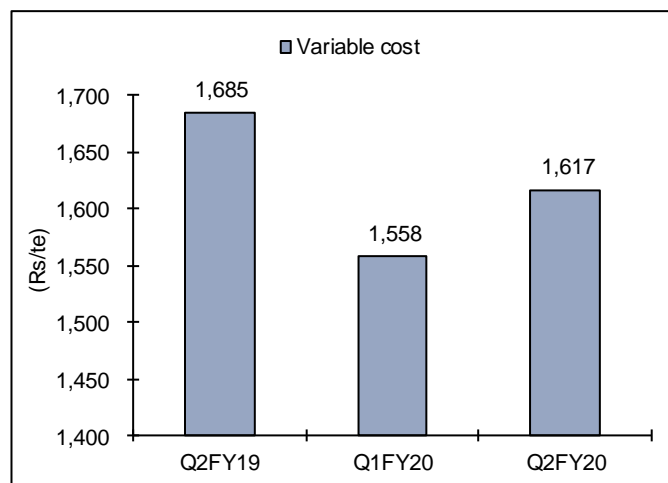
Chart 1: Fly ash prices increased 12.4% YoY / 1% QoQ in Q2FY20**Chart 2: Slag prices declined 21% YoY and 7% QoQ in Q2FY20**

Chart 3: Petcoke prices declined 21% YoY and 3% QoQ in Q2FY20

Source: Company data, I-Sec research

Chart 4: Variable cost declined 4% YoY and increased 4% QoQ in Q2FY20

Valuation methodology and key risks

Factoring higher volumes, we increase our FY20E-FY21E EBITDA by 1-2% and raise our target price Rs910/share (earlier: Rs890/share) based on 8XFY21E EV/E. Maintain ADD.

Table 7: Valuations based on 8x FY21E EV/E

EBITDA	26,908
Target EV/ EBITDA multiple (x)	8
Target EV (Rs mn)	215,262
Net debt / (cash) (Rs mn)	37,362
Target value (Rs mn)	177,900
No. of shares (mn)	195
Target price per share (Rs)	910

Source: I-Sec research

Table 8: Earnings revision

(Rs mn)

	FY20E			FY21E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	1,00,612	99,099	1.5	1,11,932	1,11,080	0.8
EBITDA	24,186	23,830	1.5	26,908	26,391	2.0
PAT	4,603	4,747	(3.0)	5,866	5,577	5.2

Source: I-Sec research

Chart 5: Rolling EV/EBITDA

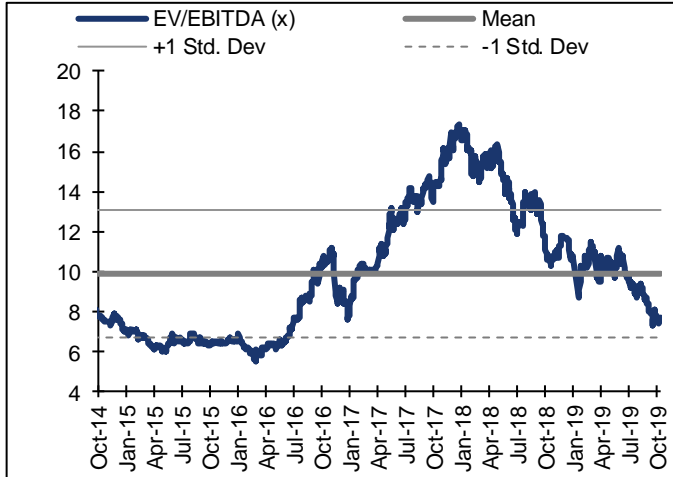
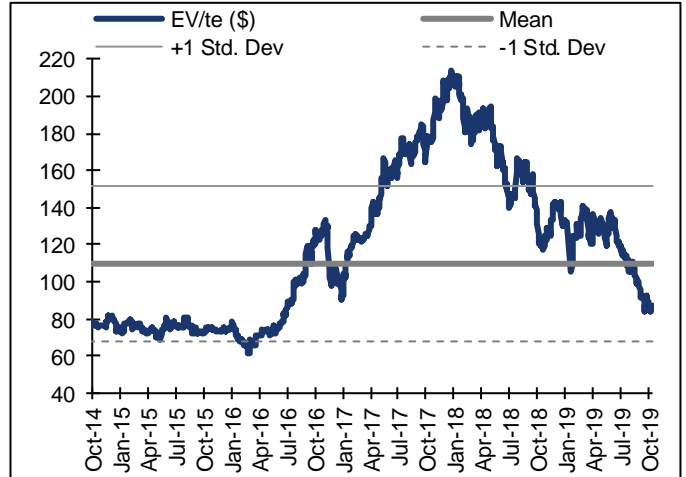


Chart 6: Rolling EV/te



Source: I-Sec research

Financial summary (consolidated)

Table 9: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Income (Sales)	94,840	1,00,612	1,11,932	1,25,912
Operating Expenses	75,420	76,426	85,025	95,591
EBITDA	19,420	24,186	26,908	30,321
% margin	20.5	24.0	24.0	24.1
Depreciation & Amortisation	12,960	15,198	15,967	16,688
Gross Interest	5,510	4,250	4,120	3,724
Other Income	2,440	1,812	1,526	1,450
Recurring PBT	3,390	6,549	8,346	11,358
Add: Extraordinaries	-	-	-	-
Less: Taxes	(100)	1,740	2,253	3,067
- Current tax	1,120	1,965	2,504	3,407
- Deferred tax	(1,220)	(224)	(250)	(341)
Add: Associate Income	-	-	-	-
Less: Minority Interest	(410)	(206)	(227)	(249)
Net Income (Reported)	3,080	4,603	5,866	8,042
Recurring Net Income	3,080	4,603	5,866	8,042

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Total Current Assets	40,200	39,600	43,304	49,639
Current Liab. & Prov.	25,960	25,474	25,975	29,126
Net Current Assets	14,240	14,126	17,330	20,513
Investments of which	24,240	19,240	16,240	16,240
Strategic/Group	1,070	1,070	1,070	1,070
Marketable	23,170	18,170	15,170	15,170
Net Fixed Assets*	1,24,740	1,27,542	1,32,074	1,22,386
Goodwill	16,200	16,200	16,200	16,200
Total Assets	1,79,420	1,77,108	1,81,844	1,75,339
of which cash & cash equivalents	27,860	20,656	18,918	20,493
Liabilities				
Borrowings	58,780	52,780	52,780	39,780
Deferred Tax Liability & Other liabilities	12,790	12,566	12,315	11,975
Minority Interest	110	110	110	110
Deferred capital investment subsidy	1,290	1,290	1,290	1,290
Equity Share Capital	390	390	390	390
Face value per share (Rs)	2	2	2	2
Reserves & Surplus	1,06,000	1,09,912	1,14,899	1,21,734
Net Worth	1,06,390	1,10,302	1,15,289	1,22,124
Total Liabilities	1,79,420	1,77,108	1,81,844	1,75,339

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Dec-18	Mar-19	Jun-19	Sep-19
Net sales	21,750	27,970	24,440	22,360
% growth (YoY)	5	6	3	7
Recurring EBITDA	3,800	6,040	6,660	4,750
Margin (%)	17.5	21.6	27.3	21.2
Other income	640	630	440	490
Recurring Net Income	280	1,830	1,470	270

Source: Company data

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Cashflow	13,980	18,025	20,343	23,254
Working Capital changes	1,500	(2,350)	(2,227)	(1,923)
Capital Commitments	(13,290)	(18,000)	(20,500)	(7,000)
Net Operating FCF	2,190	(2,325)	(2,384)	14,331
Investing Activities	11,690	6,812	4,526	1,450
Issue of Share Capital	40	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(13,870)	(6,000)	-	(13,000)
Dividend paid	(400)	(690)	(880)	(1,206)
Others	-	-	-	-
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	(350)	(2,204)	1,262	1,575

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	16	24	30	41
Diluted Recurring EPS	16	24	30	41
Diluted Recurring CEPS	84	102	112	127
Dividend per share	2.0	3.0	3.8	5.2
Book Value	554	566	591	626
Growth Ratios (% YoY)				
Operating Income	10.5	6.1	11.3	12.5
EBITDA	(4.6)	24.5	11.3	12.7
Recurring Net Income	5.5	49.4	27.4	37.1
Diluted Recurring EPS	5.5	47.1	27.4	37.1
Diluted Recurring CEPS	6.6	21.5	10.3	13.3
Valuation Ratios (x)				
P/E	50.5	34.3	26.9	19.6
P/CEPS	9.7	8.0	7.2	6.4
P/BV	1.5	1.4	1.4	1.3
EV / EBITDA	9.6	7.8	7.0	5.8
EV / te (US\$)	116	109	86	74
EV / Operating Income	2.0	1.9	1.7	1.4
Operating Ratios (%)				
Raw Material / Sales	20.4	16.4	16.7	16.9
Other expenses / Sales	16.1	15.6	15.1	14.7
Other Income / PBT	72.0	27.7	18.3	12.8
Effective Tax Rate	(2.9)	26.6	27.0	27.0
NWC / Total Assets	0.1	0.1	0.1	0.1
Inventory (x)	4.6	3.9	4.0	4.0
Receivables (days)	21	20	20	20
Payable (days)	44	42	41	41
D/E Ratio (x)	0.3	0.3	0.3	0.2
Profitability Ratios (%)				
Rec. Net Income Margins	3.2	4.6	5.2	6.4
RoCE	4.7	4.3	4.9	6.0
RoNW	2.9	4.2	5.2	6.8
Dividend Payout	12.5	12.5	12.5	12.5

Source: Company data, I-Sec research

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ANALYST CERTIFICATION

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