

Dalmia Bharat Ltd

BUY

CMP Rs 1,506

Target Rs 2,213

Upside 47%

Our View:

- ✓ Dalmia's Q4FY21 performance was slightly ahead of our estimates with volumes at 6.42 MT (+24% y/y and 3.5% ahead of our est.) while healthy beat on EBITDA which came in at Rs 7.76 bn (+53% y/y and 11.6% ahead of our est). Although cost line items were broadly in-line with estimates, blended NSR/te was ~4% above our expectations which led to overall beat on EBITDA level.
- ✓ Company completed 2.25 MTPA brownfield expansion at Bengal during the quarter resulting into total capacity of 30.75 MTPA as of FY21. Dalmia plans to commission incremental ~7.8 MTPA capacity over next 15-18 months along with setting up of ~38 MW WHRS
- ✓ We upgrade our EBITDA estimates by 3.2%/6.2% for FY22E/FY23E respectively. This is primarily on the back of better pricing outlook in Eastern markets as compared to our previous expectations. Accordingly, we factor in volume/EBITDA CAGR of 12.5%/7.5% over FY21-FY23E. Further, Dalmia is set on its journey to become a net cash company as we envisage net cash reserves of ~Rs 23.7 bn by FY23E despite capex of ~Rs 21 bn over FY21-FY23E.
- ✓ We believe there is significant valuation re-rating on the cards for Dalmia as (1) company turns cash rich over next two years and (2) management unveils its formal capital allocation framework and plans to double its capacity (we expect the announcement over next two quarters).
- ✓ At CMP of Rs 1,506, Dalmia is trading at EV/EBITDA of ~8x on FY23E. We remain confident about the valuation re-rating curve of the company and assign an EV/EBITDA multiple of 12x on FY23E and arrive at TP of Rs 2,213/share with potential upside of 47% (previous TP of Rs 1,987). **We have a conviction BUY rating on the stock.**
- ✓ **Key Risk:** Further lockdowns across states due to second wave of COVID would hamper volume growth and timelines of capex commissioning.

CON-CALL HIGHLIGHTS

- ✓ Although demand was robust in Q4FY21, there has been uncertainty and volatility in cement industry over last 3 weeks due to second wave of COVID. However, from a longer term perspective, management is very optimistic that India is on the cusp of huge capex up-cycle and as a result cement industry is likely to witness sturdy growth in coming years (historically cement growth has been 200-300 bps higher than GDP growth during upcycles). Company believes that top 4-5 cement players will be key beneficiaries as they possess ~50% share of total industry.

Exhibit 1: Result table

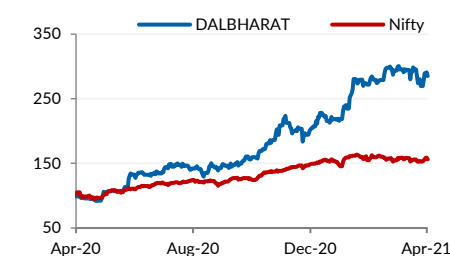
Y/e 31 Mar (Rs mn)	Q4FY21	Q3FY21	qoq(%)	Q4FY20	yoy (%)
Revenue	32,810	28,570	14.8	24,830	32.1
Operating Profit	7,760	6,910	12.3	5,080	52.8
OPM (%)	23.7	24.2	(53) bps	20.5	319 bps
Other Income	400	460	(13.0)	560	(28.6)
Depreciation	3,300	3,290	0.3	3,750	(12.0)
EBIT	4,860	4,080	19.1	1,890	157.1
Interest	580	910	(36.3)	1,240	(53.2)
PBT	4,280	3,170	35.0	650	558.5
Tax	(2,120)	1,340	-	410	-
PAT	6,270	1,820	244.5	260	-

Source: Company, YES Sec - Research

Stock data (as on Apr 30, 2021)

Nifty	14,631
52 Week h/l (Rs)	1690 / 475
Market cap (Rs/USD mn)	281864 / 3804
Outstanding Shares	187
6m Avg t/o (Rs mn):	270
Div yield (%):	0.1
Bloomberg code:	DALBHARA IN
NSE code:	DALBHARAT

Stock performance



	1M	3M	1Y
Absolute return	-5.2%	30.4%	188.8%

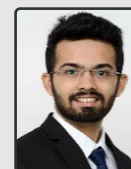
Shareholding pattern (As of March'21 end)

Promoter	56.07%
FII+DII	17.46%
Others	26.38%

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- ✓ Volume growth for the company during the year stood at 7% y/y. It would have been +9% y/y if volumes from trial runs of BCW were to be included in the no.s.
- ✓ During FY21, company enhanced their annual production capacity by 4.25 MTPA (+16.4% y/y) to 30.75 MTPA.
- ✓ Restored Mutual Fund units were credited in company's account in early April 2021. Total sum was Rs 3,900 mn of which company has sold units worth Rs 2,780 mn.
- ✓ A formal capital allocation framework and plans to double capacity have been kept on hold currently due to prevailing uncertainties created by second wave of COVID.
- ✓ Prices of raw materials have been on an upward trajectory primarily due to surge in slag prices and increase of international coal/pet-coke prices (current spot prices of pet-coke at ~\$130-135/te).
- ✓ In terms of capacity addition, company expects to commission 2.25 MTPA brownfield unit at Odisha by H1FY22E, 3 MTPA Murlu unit by H2FY22E and 2.5 MTPA Greenfield Bihar unit in FY23E. However, timelines of commissioning may get delayed if COVID scenario worsens over the next quarter.
- ✓ Company has budgeted Rs 4-4.5 Bn for Murali commissioning of which Rs 1.7 Bn is expensed and balance will be spent over 12-15 months. For East expansion, company had allocated Rs 32 Bn of which they have spent Rs 22.50 Bn while balance would be spent evenly over next 24 months.
- ✓ Trade sales for FY21 stood at 69% Vs 62% in FY20. Blended cement composition stood at 84% in FY21 (100% in East).
- ✓ Gross debt reduction of Rs 22.2 bn during FY21 while net debt/EBITDA stood at 0.04x.

Exhibit 2: Per tonne analysis (blended)

Per te (in Rs)	Q4FY21	Q3FY21	qoq(%)	Q4FY20	yoy (%)
Cement volumes (MT)	6.42	5.80	10.7	5.17	24.2
Net realization	5,111	4,926	3.8	4,803	6.4
Raw Material cost	1,000	962	3.9	1,114	(10.2)
Employee cost	302	303	(0.4)	317	(4.7)
Power and fuel cost	885	860	2.8	747	18.5
Freight cost	921	876	5.1	867	6.2
Other expenses	794	733	8.4	776	2.4
EBITDA	1,209	1,191	1.5	983	23.0

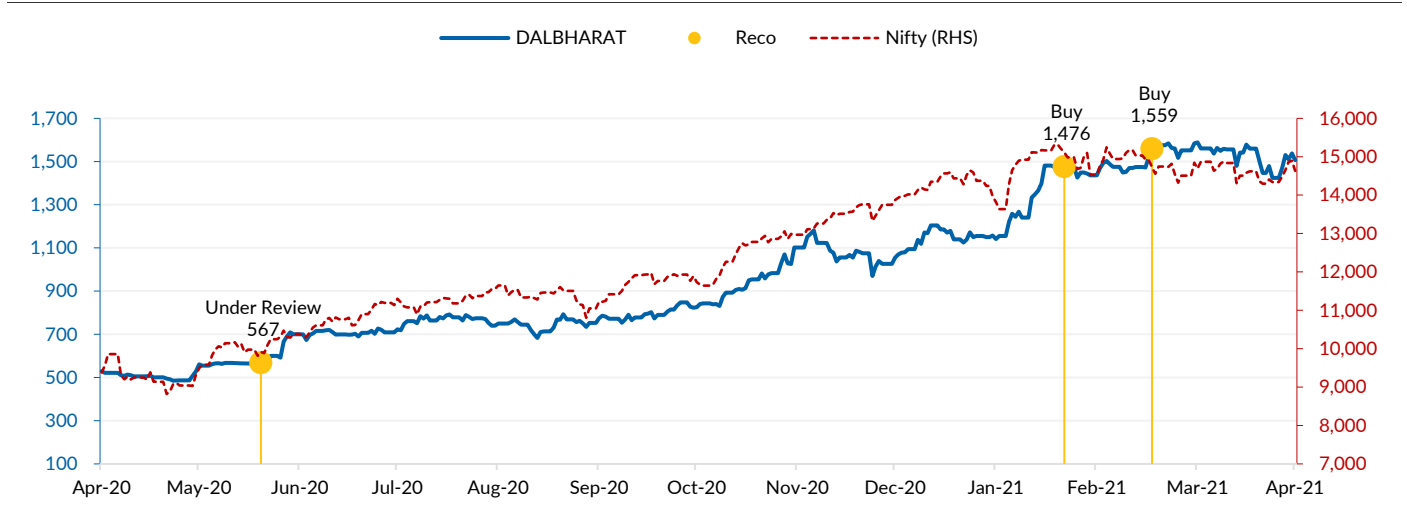
Source: Company, YES Sec - Research

Exhibit 3: Financial Summary

Y/e 31 Mar (In Rs mn)	FY20A	FY21A	FY22E	FY23E
Cement volumes (MT)	19.29	20.70	22.81	26.21
Revenues	96,740	105,220	116,351	134,975
EBITDA	21,060	27,830	28,445	32,136
EBITDA/te (Rs)	1,092	1,344	1,247	1,226
Inv. In PPE	(13,480)	(10,460)	(12,000)	(9,000)
Net debt	28,490	1,130	(8,534)	(23,765)
Net debt/Equity (x)	0.27	0.01	(0.06)	(0.16)
Net debt/EBITDA (x)	1.35	0.04	(0.30)	(0.74)
ROE (%)	2.12	9.75	8.09	8.94
ROCE (%)	4.94	12.89	14.30	17.17
EV/EBITDA (x)	7.7	10.1	9.5	7.9
EV/ton (\$)	89	121	109	88

Source: Company, YES Sec - Research

Recommendation Tracker



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