

Dalmia Bharat Ltd

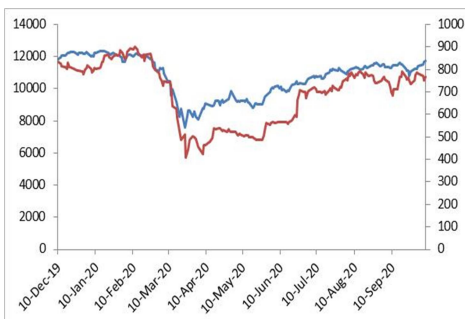
Analyst Recommendation: **BUY**

BSE Code: 542216 NSE: DALBHARAT Reuters Code: DALB.NS Bloomberg Code: DALBHARA:IN

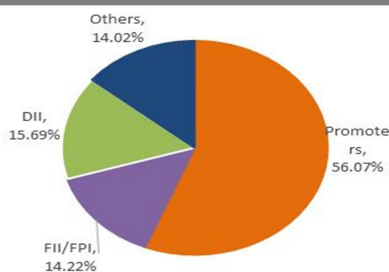
CMP: Rs 1122
2 Year Target: Rs 1405

Face Value	2.0
Market Cap (Rs cr)	20,900
52 week high/low	1195/406
Beta	0.72
Shares O/S (Cr)	18.66
Book Value per Share (Rs)	408.4
Sensex	45,608
Nifty	13,393

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 30th Sep 2020.



Investor's Rationale

- **Ready to play in big leagues:**
Dalmia Bharat is set to expand its capacity from 26MTPA currently to 37MTPA led by i) 8MTPA organic expansion in East and ii) operationalization of 3MTPA capacity at Murlu Industries. Post expansion, the company will become third largest cement company in India with c.7% capacity share in the Indian Cement industry. It also has a significant brownfield potential (6-8MTPA) across South and North East. Additionally, it is looking to enter North with sizable (>3MTPA) capacity in medium term.
- **Keen focus on ES parameters:**
Company has sharpened its focus on the environment and sustainability parameters. It has become a signatory to EP100 and RE100 which mandates i) doubling of energy productivity by 2030 and; ii) 100% renewable power (RE) consumption by 2030. Further, it has an overarching commitment to become carbon negative by 2040. Dalmia Bharat is taking steps towards this direction i) Setting up 30MW of WHR capacity and has plans to increase it further; ii) Identified 30MW of solar power potential; iii) taking steps to increase thermal substitution rate to 20% (5.5% currently); iv) taking steps to increase proportion of blended cement (C:C ratio at 1.58x; blended cement 74% of overall portfolio).
- **Bullish on East:**
Dalmia Bharat has a positive outlook on the Eastern market, driven by i) continued 8-10% YoY growth in the region (per capita consumption at c.200kg vs. national average of c.230kg); ii) recent consolidation (75% capacity with top 6 players) to drive potential upside on cement prices; iii) inherent cost advantages available with the company; iv) expected clinker shortage on limited limestone resource availability

We value the company at 9.5x EV/EBITDA to arrive at a revised target price of INR 1,405..

	FY20	FY21	FY22E	FY23E
Revenue (Rs.Cr)	9,674.0	9,910.8	11,186.0	12,408.1
EBITDA (Rs. cr)	2,106.0	2,787.5	2,884.0	2,914.7
Adj. profit (Rs.Cr)	224.0	881.1	745.8	945.7
Adj. EPS (Rs.)	18.9	11.3	15.4	21.9
P/E (x)	96.5	23.8	28.1	22.1
EV/Net Sales	2.8	2.6	2.2	1.9
EV/EBITDA (x)	12.7	9.3	8.5	7.9
ROE (%)	2.1%	8.2%	6.6%	7.8%
ROIC (%)	2.8%	7.5%	7.3%	9.3%

Capacity expected to reach 37MTPA by FY22E

Dalmia Bharat is expected to reach a cumulative capacity of 37MTPA by FY22E from 26.5MTPA in FY20. This is driven by organic expansion and opportunistic acquisitions.

Growth through organic and inorganic route

- Organic Expansion (8 MTPA) – Company is in the process of setting up 8MTPA (3.1MTPA of clinker) of capacity in East through a mix of green-field and brownfield expansion.
- Inorganic Expansion (4 MTPA) – The acquisitions are done at distressed valuations (USD 55/t for Kalyanpur and USD 20/t for Murli Industries) and the management has relied on internal capabilities to turn around the assets.

Significant greenfield/brownfield expansion potential

- Company has significant brownfield potential across the existing markets of South (4- 5MTPA) and North East (2-3MTPA).
- In the medium to long term, company is looking to enter a relatively attractive market of North. The company has applied for the Environment clearance for 5MTPA capacity in the region. Further, it has got sufficient limestone reserves for the operations.
- The company is currently in process of land acquisition and may announce expansion in FY22E.
- It is looking to set up a sizable capacity (>3MTPA) in the region

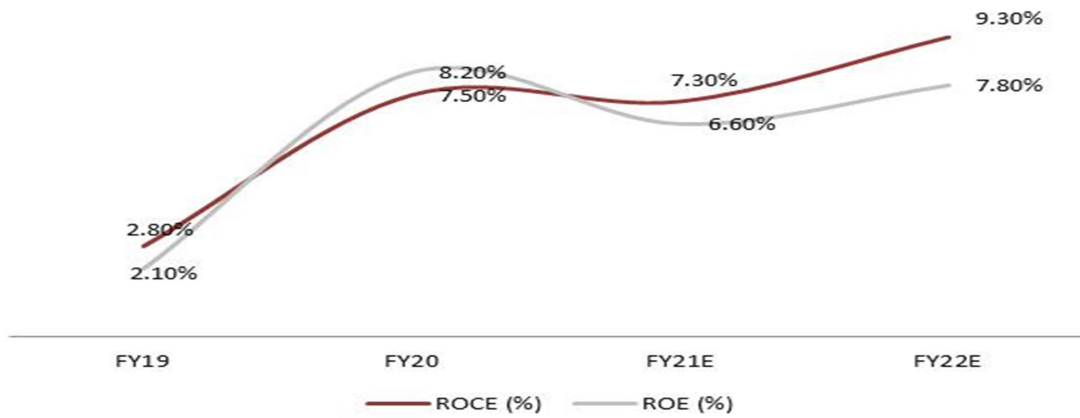
Keen focus on Environment and Sustainability parameters

Dalmia Bharat is the first company globally to join EP100 and RE100. EP100 mandates doubling of energy productivity by 2030, while, RE100 mandates transitioning to 100% renewable power (RE) consumption by 2030.

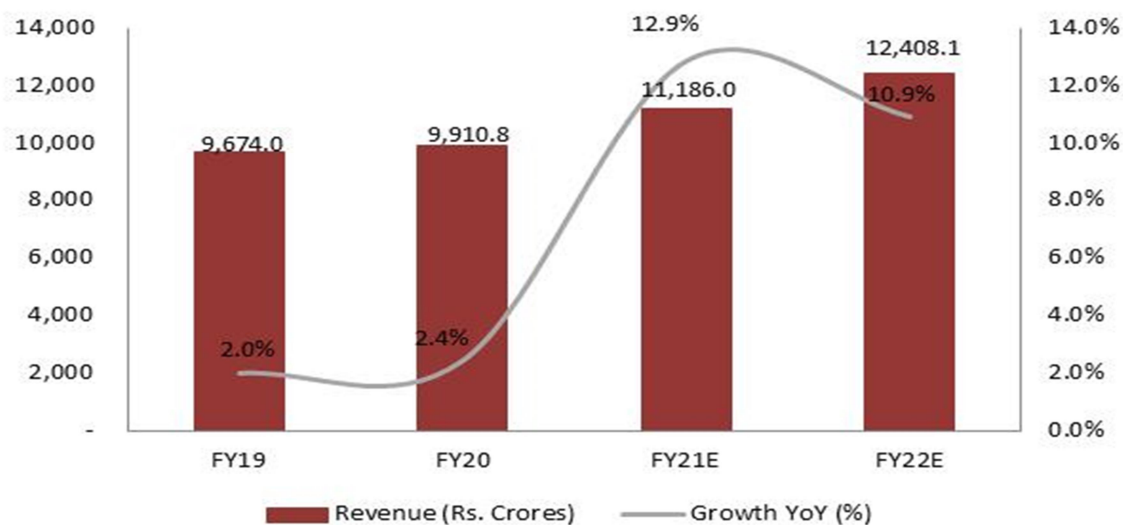
- Company has kick-started its journey towards 100% RE consumption by increasing WHR capacity by 30MW from 9.2MW currently. The company also has 8MW of captive solar generation capacity and has identified another 30MW of potential expansion.
 - Company has committed to become carbon negative by 2040. They target to do it through switching to 100% alternative fuels and biomass by 2035 and carbon capture utilisation.
 - Company is targeting to increase the thermal substitution rate (currently at 5.5%) to 20%. Company is exploring tie ups with Pharma companies, FMCG companies and Municipalities for procurement of waste.
 - Company's cement to clinker ratio is one of the highest at 1.58x and is expected to increase owing to its focus on increasing the proportion of blended cement in the portfolio from 74% in FY20.
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Return ratios to show growth in future

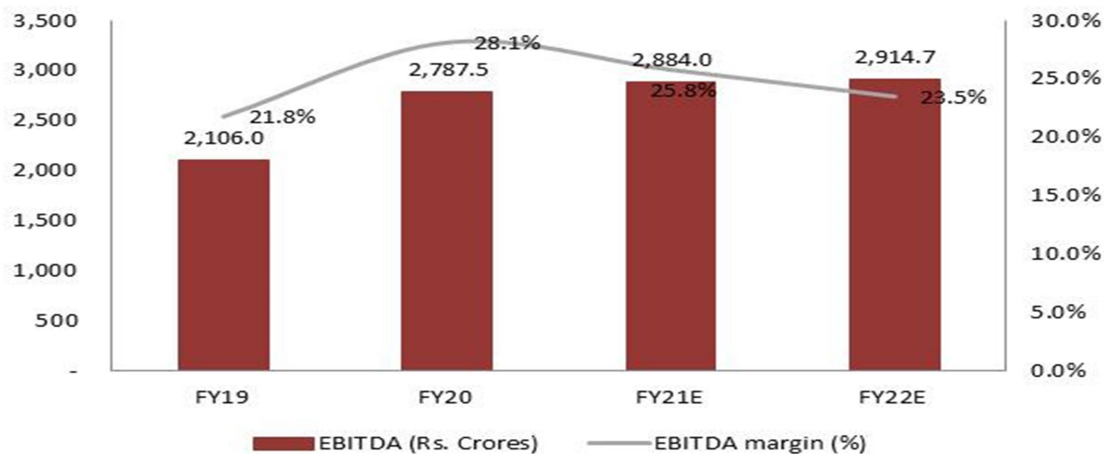
We expect return ratios to experience a dip in FY21 and then outperform the current year levels in FY22.



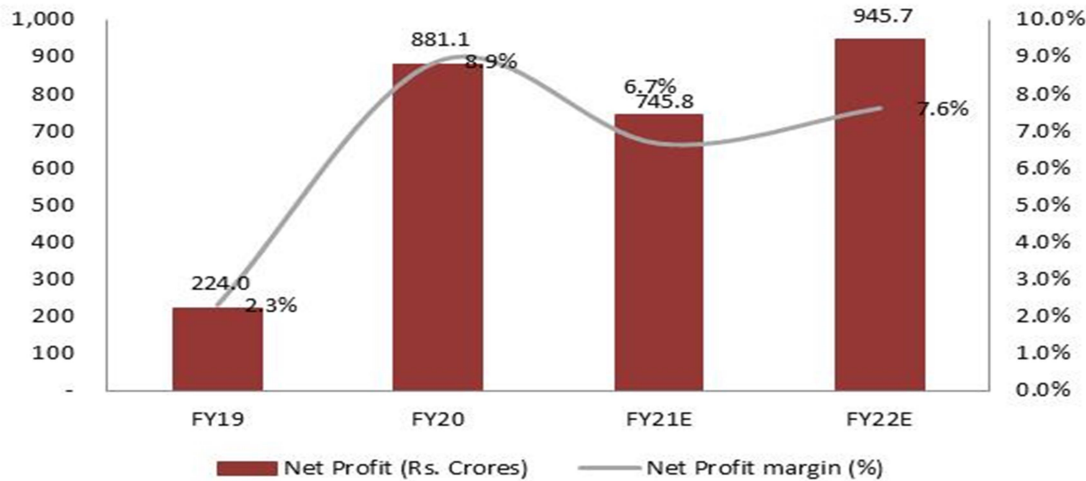
Revenue growth will be consistent moving forward



EBITDA will grow on backdrop of growth in revenue



Net profit will experience a growth trajectory FY22 onwards



Outlook and Valuation

We value the company at 9.5x EV/EBITDA to arrive at a revised target price of INR 1,405.

Dalmia Bharat Ltd - Company Overview

Dalmia Bharat Group has significant market presence in each of the industries that it operates in. It is one of the fastest growing and profitable groups in India. The growth has been exponential in the last five years and is slated to maintain its robustness through continued focus, corporate social responsibility, new brand identity and socio-cultural projects.

In the last decade, the group's sales have grown at a CAGR of 24% to over ₹12,100 Cr in the year 2020. The market cap has also grown to ₹10,000 Cr in the year 2020.

The group is committed to responsible growth and sustainable development and its efforts in undertaking various sustainability initiatives have resulted in recognitions from several notable awarding authorities such as the Government of India and other reputed agencies. These awards have been in the space of Energy Conservation, Energy Efficiency, Safety and Health & Environmental issues.

Key Risks

- Slowdown in economy
- Delays in meeting budgeted targets of capacity expansion



Balance sheet (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Paid up capital	39	38	38	38
Reserves and Surplus	10522	10973	11632	12467
Net worth	10561	11011	11670	12505
Minority interest	25.00	80.10	126.70	185.80
Total Debt	6,049	5,549	5,549	5,549
Other non- current liabilities	1277	1277	1277	1277
Total Liabilities	17912	17917	18622	19516
Assets				
Total fixed assets	14295	13890	13308	12533
Investments	2,816	2,816	2,816	2,816
Goodwill	-	-	-	-
Other non- current assets	-	-	-	-
Inventory	-	-	-	-
Net Current Assets	801	1211	2498	4167
Total Assets	17912	17917	18622	19516

Profit & Loss Account (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
Total operating Income				
	9674	9911	11186	12408
Operating Expenses				
	7568	7123	8302	9493
EBITDA				
	2106	2788	2884	2915
Depreciation				
	1528	1305	1492	1225
EBIT				
	578	1483	1392	1690
Interest cost				
	438	383	500	513
Other Income & Extraordinary Items				
	217	297	291	323
Profit before tax				
	357	1397	1183	1500
Tax				
	119	461	390	495
Profit after tax				
	238	936	792	1005
Minority Interests				
P/L from Associates				
	14.00	55.10	46.60	59.10
Adjusted PAT				
	224	881	746	946



Equity Research

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
Pretax profit	357	1397	1183	1500
Depreciation	1528	1305	1492	1225
Chg in Working Capital	274	-13	-71	-69
Others	244	85	209	190
Tax paid	-66	-461	-390	-495
Cash flow from operating activities	2337	2313	2422	2351
Capex	-1345	-900	-910	-450
Other Investment (Net of Exp)	-415	297	291	323
Cash flow from investing activities	-1760	-603	-619	-127
Other Exp	-519	-711	-500	-513
Inc/Dec in Borrowings	-31	-500	0	0
Dividend(incl Tax)	-93	-103	-87	-111
Cash flow from financing activities	-643	-1314	-588	-623
Net chg in cash	-66	397	1216	1601
Opening Cash	469	403	800	2015
Net chg in cash	403	800	2015	3616

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
Working Capital Ratios				
Receivable Days	15.00	15.00	15.00	15.00
Inventory Days	37.00	37.00	37.00	37.00
Payable Days	40.00	44.00	42.00	41.00
Margin (%)				
EBITDA	21.8%	28.1%	25.8%	23.5%
NPM	2.3%	8.9%	6.7%	7.6%
Return Ratios (%)				
RoE	2.1%	8.2%	6.6%	7.8%
RoIC	2.8%	7.5%	7.3%	9.3%
Valuation(x)				
P/E	96.5	23.8	28.1	22.1
EV/EBITDA	12.7	9.3	8.5	7.9
EV/Net Sales	2.8	2.6	2.2	1.9
Per share data (Rs.)				
EPS	18.9	11.3	15.4	21.9



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

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