

**IDEA2ACT: Dalmia Bharat**

Reco Price

6-months Target Price

BUY @ ₹ 1900-1935

₹2250

Dalmia Bharat (DBL), is the 5th largest cement player in the country, with clinker-backed cement capacity of 33mtpa (37% in the southern region and 63% in the eastern region, including the Northeast). DBL expanded cement capacity at 5% CAGR over the past 5 years, through organic and inorganic expansion modes. The company is promoted by the Dalmia Group, which has presence in the cement, power, and refractory businesses across the country. The Group also has presence in varied spaces – sugar manufacturing, travel agency, magnesite, and electronics – through 18% stake in Dalmia Bharat Sugar Industries.

Investment Rationale

Divestment in non-core business; capacity additions on track: In line with the capital allocation policy unveiled in July 2021, DBL has: 1) sold part stake in IEX (balance stake to be divested over time) as well as approved divestment of its retail business (Hippo Stores) to promoters for a consideration of Rs1.15bn; 2) declared dividend of Rs4/share (10% of 1HFY22 OCF), given its policy to distribute at least 10% of OCF to shareholders; and 3) strengthened the balance sheet – Rs6.38bn debt repaid in 1H; DBL is now a net-cash company. Further, capacity adds are on track; DBL has commissioned 2.25mtpa in Odisha and begun trial-runs at its Maharashtra plant (3mtpa, COD by Dec 2021). Concrete plans are in place to ramp-up capacity to 48.5mtpa by FY24, at an estimated capex of Rs100bn. Separately, its Murli unit will double the incentives to Rs2bn pa.

Volume growth in-line: Volumes during the quarter are up 6% YoY despite demand pressure in the East markets. Volume growth was driven by the ramp-up of the 4.5mtpa capacity in the East market in the last 12 months. Capacity utilization in 2QFY22 stood at 66% vs. 72% a year ago, due to increase in capacity. Healthy volume growth coupled with tight control over costs was more than offset by weak realisations, leading to 26% YoY and QoQ decline in Ebitda per tonne to Rs1,076 in 2QFY22

Becomes net-cash company: DBL's gross debt reduced by Rs1.62bn during the quarter to Rs31bn, while it has turned net cash with net debt-to-Ebitda at -0.48x (1QFY22: 0.08x). However, based on its robust expansion plan (12.4mtpa over FY22-24E), the Company is likely to clock net debt till FY24ii; we anticipate net debt-to-Ebitda to remain below 0.6x till FY24ii. Cost of borrowing has also reduced, by



140bps YoY to 5.6% (2QFY22) vs. 7.6% (2QFY21). On the other hand, Company's operating cash flow sharply declined by ~52% YoY to Rs7.83bn, due to higher working capital requirement (sharp increase in fuel prices and payment to creditors).

Expansion plans on track: The Company has commissioned cement capacity (line 2) of 2.25mtpa at Kapilas, Odisha (East) by end-Sep '21. It has also commenced trial runs at its 3mtpa cement plant in Maharashtra (erstwhile Murli Industries) and is likely to begin commercial production by Dec-21. With this, DBL's cement capacity by end-Mar '22 will increase to 36mtpa. For the balance 12.4mtpa (as announced till date), the company is progressing well (ordered four cement mills in current month, applied for environmental clearances and finalized sites for greenfield expansion in Tamil Nadu) and is confident about completing the same as per planned schedule. The Company has utilized capex of Rs8bn till 1H, and guided to total capex spend of Rs30bn for full-year FY22E.

Cost pressures unrelenting: Cost has sharply increased due to significantly higher fuel prices (both petcoke and imported coal), diesel and slag prices. However, efficiency measures have helped the company to partially offset the impact of rising costs: i) heat consumption has been lowered, from 770-780 Kcal/kg to 730 Kcal/kg, leading to Rs80/t savings in fuel cost; ii) power consumption per tonne of cement has reduced to 62kwh (one of the lowest); iii) benefit of availability of low-cost inventory as well as procuring domestic coal before increase in auction price; and iv) reduction in lead distance by 12-14km and digitization of logistics which helps to reduce turn-around time.



Outlook and valuation

Sharp fall in cement prices in DBL's core markets impacted its 2Q performance; however, price increases in October in both, the East (Rs15-25/bag: +7% over 2Q) and South (Rs40- 50/bag: +13% over 2Q), are likely to support margins. Persistent cost pressure is a key risk to margins; however, with the likely ramp-up in volumes, the company may be able to pass-on such cost pressures. New capacity





addition (5.25mtpa in 3QFY22) should also drive higher-than industry volume growth. Stock valuations at 12x FY23ii EV/EBITDA are attractive and the stock has potential to re-rate. Thus, we initiate a 'BUY' on the stock with a target price of ₹2250.

Technically, the stock has given a breakout from a downward sloping trendline indicating a trend reversal. The stock has close above its 50-day EMA, while RSI has crossed the midpoint market rising upwards indicating a pickup in momentum.

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Your investment (₹)	10000	10000	10000
Leverage provided	1X	3X	5X
Total Investment (₹)	10000	30000	50000
Stock price	1917	1917	1917
Quantity	5	15	26
Target	2250	2250	2250
Profit per share	333	333	333
Total Profit	1665	4995	8658
ROI	17%	50%	87%

*Note: Does not include the interest cost.

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Date	Stock Name	Reco Price	Target	P/L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
02-Jul-20	ITC	201	235	17%	Target Achieved (₹25+ Dividend 10.15 exdate 6th Jul 2020)
02-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	16%	Target Achieved
13-Aug-20	UPL	480	555	16%	Target Achieved
18-Aug-20	Crompton Consumer	256	299	17%	Target Achieved
28-Aug-20	Sudarshan Chemical	474	557	18%	Target Achieved
14-Sep-20	Apollo Tyres	114.5	138	21%	Target Achieved
01-Oct-20	Manappuram Finance Ltd	155.5	186	20%	Target Achieved
16-Oct-20	Cyient Ltd	370	440	19%	Target Achieved
28-Oct-20	Amara Raja Batteries	770	898	17%	Target Achieved
02-Nov-20	SIS (I) Ltd	363	423	17%	Target Achieved
03-Dec-20	Bharat Electronics	112	139	24%	Target Achieved
16-Dec-20	RBL Bank	233	273	17%	Target Achieved
06-Jan-21	Alembic Pharmaceuticals	1075	1252	-15%	Closed
15-Jan-21	Hindustan Petroleum Corporation Ltd	229	274	20%	Target Achieved
05-Feb-21	State Bank of India	351.5	429	22%	Target Achieved
01-Mar-21	Cummins India	772	914	18%	Target Achieved
10-Mar-21	HCL Tech	962	1140	19%	Target Achieved
10-Mar-21	Eicher Motors	2635	2940	12%	Target Achieved
07-Apr-21	Cyient Ltd	669	789	18%	Target Achieved
03-May-21	Persistent Systems Ltd	1990	2400	21%	Target Achieved
04-May-21	SBI Life Insurance Company Ltd	945	1144	21%	Target Achieved
17-May-21	HG Infra	325	394	21%	Target Achieved
02-Jun-21	Gujarat Gas Limited	532	674	27%	Target Achieved
22-Jun-21	Jindal Stainless (Hisar) Ltd	184	228	24%	Target Achieved
06-Jul-21	Tata Motors Limited	341	410	20%	Target Achieved
26-Jul-21	GSPL	331	394	-5%	Open
06-09-21	Jindal Steel and Power	388	447	15%	Target Achieved
07-10-21	Ashoka Buildcon	98.5	116	18%	Target Achieved

Disclaimer:

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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