

Dalmia Bharat Ltd – Under Review

Outperformance on all parameters!

Dalmia delivered a robust set of numbers for the quarter outperforming on all parameters. Against the backdrop of a benign demand scenario, the company delivered a sturdy growth in volumes of 8.2% YoY, scaling to 4.47 MT (est. of 4.2 MT). Weak pricing scenario in both, East and South during Q2FY20, dragged the net realization/tonne of Dalmia which was down 1.6% YoY/10.3% QoQ. However, Dalmia managed to reduce raw material and P&F costs (down 5.4% YoY) due to decline in slag and pet-coke prices while there were marginal savings on freight cost due to channel and route optimization (down 1.5% YoY). This dovetailed into improvement in EBITDA margins by 266 bps YoY. EBITDA/tonne increased by 12.5% YoY and stood at Rs 1,063 (est. of Rs 1,076). Absolute operating profit came in at Rs 4.75 bn (+21.8% YoY/-28.7% QoQ) as compared to our estimates of Rs 4.49 bn.

Depreciation charge was higher by Rs 640 mn sequentially as the company had revalued the PPE in NER and changed the depreciation method from straight line to written down value.

Dalmia continued to repay gross debt to the tune of Rs 2.18 bn for the quarter and Rs 6.22 bn for H1FY20 translating into net debt/EBITDA of 1.55x.

Going ahead, we factor in volume/EBITDA CAGR of 9.5%/16.5% over FY19-FY21E. Further, we reckon balance sheet to further strengthen despite the on-going capex and estimate net debt/EBITDA to decline to 0.9x and net debt/equity at 0.21x by FY21.

The case w.r.t third party fraud of mutual fund units of the company worth Rs 3.44 bn continues to remain under investigation. Due to lack of clarity on the same, we have kept the stock “**UNDER REVIEW**”.

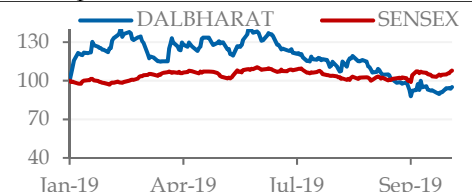
CMP (Rs): 810		12-mts Target (Rs): NA	Upside: NA
Stock data (As on Oct 18, 2019)		Sector: Cement	
Sensex:	39,298	Stock performance 	
52 Week h/l (Rs)	1,220/750		
Market cap (Rs bn)	156		
EV (Rs bn)	187		
6m Avg t/o (Rs mn):	107		
FV (Rs):	2		
Div yield (%):	0.2		
Bloomberg code:	DALBHARA IN		
BSE code:	542216		
NSE code:	DALBHARAT		
		Shareholding pattern (As of Jun'19 end)	
		Promoter	54.3%
		FII+DII	20.7%
		Others	25.0%

Exhibit 1: Result table (consolidated)

Y/e 31 Mar (Rs mn)	Q2 FY20	Q1 FY20	% QoQ	Q2 FY19	% YoY
Revenue	22,360	25,370	(11.9)	20,990	6.5
Operating profit	4,750	6,660	(28.7)	3,900	21.8
OPM (%)	21.2	26.3	(500) bps	18.6	266 bps
Other Income	490	440	11.4	740	(33.8)
Depreciation	4,060	3,420	18.7	3,030	34.0
Interest	1,030	1,160	(11.2)	2,250	(54.2)
PBT	150	2,520	(94.0)	(640)	-
Tax	(210)	1,000	-	(670)	-
Minority Interest	90	50	80.0	40	125.0
Reported PAT	270	1,470	(81.6)	(10)	-

Source: Company, YES Sec – Research

Exhibit 2: Per tonne analysis (consolidated)

	Q2 FY20	Q1 FY20	% QoQ	Q2 FY19	% YoY
Volumes (in MT)	4.47	4.55	(1.8)	4.13	8.2
Net realization	5,002	5,576	(10.3)	5,082	(1.6)
Raw material cost	931	1,042	(10.7)	961	(3.2)
Employee cost	378	380	(0.6)	400	(5.4)
Power and fuel cost	962	1,020	(5.7)	1,039	(7.4)
Freight cost	834	901	(7.4)	847	(1.5)
Other expenses	834	769	8.5	891	(6.4)
EBITDA	1,063	1,464	(27.4)	944	12.5

Source: Company, YES Sec – Research

CON-CALL AND PRESENTATION HIGHLIGHTS

- ✓ Witnessing the subdued demand scenario in H1FY20 owing to elections, elongated and heavy monsoons, early onset of festive season and liquidity crunch, management has further downgraded demand growth expectation of industry to 3-4% in FY20 as against earlier guidance of 6%, provided demand picks up in second half.
- ✓ Price volatility in East and South continued during Q2FY20 dragging the realization of company. Prices should get better in East as demand gradually picks up.

- ✓ Raw material and energy costs for the company declined due to softening of slag and pet-coke prices respectively. Exit price of pet-coke was below ~\$80/tonne. Company expects further realization of low cost inventory of pet-coke in Q3FY20 with quantum of benefit to the extent of 5% sequentially.
- ✓ Commissioning of Rajgangpur clinker line (3.1 MTPA) and grinding lines at West Bengal (2.5 MTPA) and Bokaro (1 MTPA) should be done by March 2020. Further, possession of Murli Industries is expected by Dec 2019.
- ✓ Plans of divesting refractory business on the cards.
- ✓ Capacity utilization of Kalyanpur stood at ~55% during the quarter and it should be ramped up to ~70% by FY20E.
- ✓ Recovery of mutual fund units worth Rs 3.44 bn is expected within 6-9 months.
- ✓ Gross debt reduction for H1FY20 was Rs 6.22 bn while net debt/EBITDA declined to 1.55x.

Exhibit 3: Revision in estimates (consolidated)

	FY20E		% change	FY21E		% change
	Revised	Old		Revised	Old	
Cement Volumes (MT)	19.8	19.8	0.4	22.4	22.1	1.3
Net sales (Rs mn)	103,047	105,193	(2.0)	118,724	119,997	(1.1)
EBITDA (Rs mn)	22,402	22,553	(0.7)	26,356	26,287	0.3
Realization/tonne (Rs)	5,199	5,326	(2.4)	5,302	5,430	(2.4)
EBITDA/tonne (Rs)	1,130	1,142	(1.0)	1,177	1,189	(1.0)

Source: Company, YES Sec – Research

Exhibit 4: Operating Metrics (consolidated)

Per tonne	FY17	FY18	FY19	FY20E	FY21E
Cement volumes (MT)	15.3	17.0	18.7	19.8	22.4
Net realizations	4,867	5,060	5,076	5,199	5,302
Raw material cost	852	984	1,079	1,036	1,067
Employee cost	386	364	347	347	344
Power and fuel cost	677	828	940	977	997
Freight cost	890	870	855	898	916
Other expenses	825	825	816	811	802
EBITDA	1,238	1,188	1,039	1,130	1,177

Exhibit 5: Income statement (consolidated)

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	74,470	85,810	94,840	103,047	118,724
Growth (%)	16.2	15.2	10.5	8.7	15.2
EBITDA	18,940	20,140	19,420	22,402	26,356
EBITDA margin (%)	25.4	23.5	20.5	21.7	22.2
Growth (%)	19.0	6.3	(3.6)	15.4	17.7
D&A	12,260	12,130	12,960	14,391	15,721
Other income	2,960	2,780	2,440	1,760	1,215
EBIT	9,640	10,790	8,900	9,770	11,850
EBIT margin (%)	12.9	12.6	9.4	9.5	10.0
Interest	8,560	6,900	5,510	4,648	3,729
PBT	1,080	3,890	3,390	5,122	8,121
Tax	740	980	(110)	1,024	1,624
Minority Interest	(100)	(10)	420	200	200
Net profit	440	2,920	3,080	3,897	6,297
NPAT margin (%)	0.6	3.4	3.2	3.8	5.3
EPS (Rs)	2.3	15.2	16.0	20.3	32.8
Growth (%)	(89.3)	563.6	5.5	26.5	61.6

Source: Company, YES Sec - Research

Exhibit 6: Balance sheet (consolidated)

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	384	384	384	384	384
Reserves	95,906	102,966	106,000	109,411	114,923
Net worth	96,290	103,350	106,384	109,795	115,307
Minority Interest	(290)	(300)	120	320	520
Non-current liabilities					
Long term borrowings	62,550	54,640	40,150	34,150	21,150
Deferred tax liabilities	13,720	14,220	12,790	12,790	12,790
Current Liabilities					
Short term borrowings	12,330	8,630	9,080	9,584	10,749
Trade Payables	8,900	9,330	8,770	8,931	10,392
Other Current Liabilities	15,750	20,750	24,240	22,770	19,585
Total Equity and Liabilities	212,620	213,360	205,384	202,190	194,344
Non-current assets					
PPE	94,500	91,250	90,860	89,869	98,857
CWIP	1,280	1,680	5,010	17,320	9,320
Non-current investments	990	970	1,090	1,090	1,090
Current Assets					
Current investments	26,410	34,080	23,150	15,150	10,150
Inventories	6,520	7,790	10,320	10,510	12,229
Trade Receivables	5,300	5,240	5,490	5,965	6,873
Cash and cash equivalents	1,380	3,230	2,804	2,037	1,285
Other bank balances	370	310	1,890	1,890	1,890
Total assets	212,620	213,360	205,384	202,190	194,344

Source: Company, YES Sec - Research

Exhibit 7: Cash Flow statement (consolidated)

Y/e 31 Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	1,080	3,890	3,390	5,122	8,121
D&A	12,260	12,130	12,960	14,391	15,721
(Incr)/Decr in Working Capital	(280)	(4,810)	843	196	(1,166)
Tax	(190)	(820)	110	(1,024)	(1,624)
Cash from ops.	18,750	14,840	21,721	23,333	24,781
(Incr)/ Decr in PP&E	(4,160)	(4,010)	(11,840)	(20,000)	(11,000)
(Pur.)/ Sale of Inv. (net)	1,570	(1,400)	10,930	8,000	5,000
Cash Flow from Inv.	(1,390)	1,870	(2,610)	(12,000)	(6,000)
(Decr)/Incr in debt	(9,000)	(7,690)	(13,643)	(6,966)	(15,019)
Dividend	-	(330)	(384)	(486)	(785)
Cash Flow from Fin.	(17,490)	(14,860)	(19,537)	(12,101)	(19,533)
Incr/(Decr) in cash	(130)	1,850	(426)	(767)	(752)
Cash at begn. of year	1,510	1,380	3,230	2,804	2,037
Cash at end of year	1,380	3,230	2,804	2,037	1,285

Exhibit 8: Ratios (consolidated)

Y/e 31 Mar	FY17	FY18	FY19	FY20E	FY21E
ROE (%)	0.5	2.8	2.9	3.5	5.5
ROCE (%)	5.5	6.1	5.4	6.0	7.7
Net debt to equity (x)	0.5	0.3	0.3	0.3	0.2
Net debt to EBITDA (x)	2.8	1.7	1.6	1.5	0.9
Interest coverage (x)	1.1	1.6	1.6	2.1	3.2
EV/EBITDA (x)	11.9	14.1	11.4	8.3	7.3
EV/tonne (\$)	135	169	121	102	93

Source: Company, YES Sec - Research

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