3RD JUNE 2022

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

DALMIA BHARAT

WHAT WE LIKE

LEADING CEMENT PLAYER WITH GOOD INDUSTRY TAILWINDS

~In Cement business **since 1939.**
~**Currently 5th Largest player in the country**
~**Largest producer** of slag and speciality cement
~**Lowest carbon footprint cement player globally**
~**Robust rural demand,** with **housing & Infra boom**
~**8-9%** annual cement demand growth for **FY2023**

LONG TERM CAPEX & CAPITAL ALLOCATION PLANS

~**Grow capacity at 15% CAGR** to reach **110-130m tones** by 2031
~**Ventured into Western Zone**-Murli Plant in Maharashtra
~Reach **48.5MMT** capacity by FY24 (Curr:**35.9MMT**)
~10% of OCF to return- **Dividends & Buyback**
~10% of OCF in **Innovation & Green Energy Fund**
~**Expansion plan in East Zone**
~**Target ROCE of 14-15%**

MASSIVE DELEVERAGING & GETTING MORE FOCUSED

From **8500 Cr debt in FY15**, Dalmia Bharat has managed to **reduce it to 3140 Cr in Q4FY22.** Brought down **debt by Rs.602 Cr** last quarter. This strengthens the Balance Sheet and makes it ready for the huge Capex cycle ahead. Transitioned well from being a conglomerate to a pure Cement Player. Share of their premium product **'DSP' as % of trade sales grew YoY(20% vs 18%).** The losses made in the East during early FY22 were recovered on account of the new products stabilizing.

EFFICIENCY IMPROVEMENT & HIGH EBITDA PER TON

In the last few years, the following initiatives improved efficiency a lot:
~**Increase in the share of blended cement**
~**Strategically located units** that are close to raw material sources and major cement markets
~Multi-fuel kilns to **optimize fuel cost, Increased production** and **use of green fuel**
~**Won bid for Brinda-Sisai Coal Block that will help reduce dependence on external fuel supplies.**

These initiatives have led to the **EBITDA/ton remaining over Rs 1000 consistently** for the last 3-4 years. **We at SSS believe that the above factors have enabled it to compete effectively against other cement industry behemoths.**

WHAT WE DON'T LIKE

COMMODITY BUSINESS- NO PRICING POWER

Cement is a commodity sector with no pricing power. So, cement manufacturers have to combat the volatility of raw material and several other input prices, and also variations in the realization price. **Ultimately it boils down to the lowest cost producer who gets the benefit. One cannot charge a significant premium over others in this industry.**

HIGH CAPITAL INTENSIVE BUSINESS

There is no other way to grow in the cement industry except to increase capacity regularly. And capacity expansion needs **a lot of investment of money and time.** If **demand doesn't pan out** as expected, **it could develop into a difficult situation for the company. Management has delayed capacity expansion plans beyond the 48.5MT by FY24.**

POSSIBILITY OF LOWER CAPACITY UTILIZATION & LOSING MARKET SHARE

Just like Dalmia, **all big Cement players are going for aggressive capacity expansion**. The industry leader Ultratech has recently announced a new capex plan of Rs 12,886 Cr to increase capacity by 22.6 MTPA by FY25. If the industry demand doesn't meet this expectation, one should expect lower capacity utilization for Dalmia Bharat. **We at SSS believe that the major risks remain the dwindling demand in East, Northeast or West and the surging inflation.**

POOR RETURN RATIOS DUE TO LARGE AMORTIZATION OF GOODWILL

Dalmia Cement has done a few acquisitions and restructuring in the past that has **resulted in higher goodwill amortization**. Its impact can be seen in this year's PBT as well. Due to this, the return ratios do not look encouraging. Management aims to stay true to its capital allocation framework, however they also remain open to M&A should an exceptional opportunity presents itself as they have a pan-India vision.

RISING INPUT COSTS & WEAK DEMAND PUT PRESSURE ON MARGINS

The last 4 to 5 quarters saw unprecedented inflationary pressures on the **input costs.** Managed the cost inflationary pressure without being able to pass it on to the consumer but it affected their **EBITDA** margins. The management estimates increased fuel consumption costs in the coming quarters and remain cautious on the margin side.