20TH AUG 2021

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 4th Largest player in the country**
~**Largest producer** of slag and specialty cement
~**Lowest carbon footprint cement player globally**
~**Housing & Infra boom** can provide long tailwinds

LONG TERM CAPEX & CAPITAL ALLOCATION PLANS
~**Grow capacity at 15% CAGR** for 10 years
~**10%** of OCF to return- **Dividends & Buyback**
~**10%** of OCF in **Innovation & Green Energy Fund**
~Balance to **fund growth & maintenance capex**
~**Target ROCE of 14-15%**

MASSIVE DELEVERAGING & GETTING MORE FOCUSED
From **8500 Cr debt in FY15**, Dalmia Bharat has managed to **reduce it to 3200 Cr in Q1FY22**. This strengthens the Balance Sheet and makes it ready for the huge Capex cycle ahead. Plus, Dalmia has **transitioned well** from a conglomerate having interests in Sugar, Cement, and Refractories to **a pureplay Cement Player**.

EFFICIENCY IMPROVEMENT & HIGH EBITDA/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**
These initiatives have lead to the **EBITDA/ton remaining over 1000 consistently** for the last 3 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.**

POSSIBILITY OF LOWER CAPACITY UTILIZATION & LOSING MARKET SHARE
Just like Dalmia, **all big Cement players are going for aggressive capacity expansion**. If the industry demand doesn't meet this expectation, one should expect lower capacity utilization for Dalmia Bharat. In the last quarter, **they have lost market share in their key market (East)**. We at SSS believe that it would be more because of COVID-related disturbance and things should stabilize going forward.

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**. Due to this, **the Return Ratios do not look encouraging**. If the company in the future, goes for another aggressive acquisition, **it could further impact the performance metrics**. However, if they walk the talk and stick to their capital allocation plan, **return ratios are bound to move up from current levels.**