Axis Annual Analysis 2023

Dalmia Bharat Limited

AXIS SECURITIES

Dalmia Bharat Ltd
Cement

HOLD
Target Price
2230

Becoming a Pan-India Player Through Aggressive Capacity Expansion

Summary

Dalmia Bharat Limited (DBL) –is one of the established cement playersin India. The company expanded its cement capacity from 35.9 MTPA to 38.6 MTPA. In Apr'23, the companyalso started operations ata second cement line in Bokaro, Jharkhand, with a capacity of 2.5 MTPA. It also signed the definitive agreement for the acquisition of the strategically located cement assets of Jaiprakash Associates Limited, (9.4 mtpa Grinding and 6.7 mtpa Clinker capacity at an enterprise valueof Rs5,670 Cr). This will enable the company to enter the lucrative growth market of central India.

DBLaims to expand its total cement grinding capacity from the current 41 MTPA to 46MTPA, excluding JP Assets by FY24. In the medium term, the company aims to reach acapacity of 75 mtpa by FY27.Its long-term goal is to reach 110-130 mtpa capacity by FY30-31 to capture further growth opportunities and become a pan-India player.

The company undertook Capexof Rs 2,814 Cr during the year. In FY23, its gross debt increased by Rs 623 Cr to Rs 3,763 Cr, up 19.8%owing to term loans it availed to fund ongoing capacity expansion projects. Consequently, its Net Debt/Equity increased to 0.04 in FY23 from (0.09) in FY22.

Key Highlights

- **Encouraging financial performance:** The company's revenue in FY23increasedby a healthy 20% YoY to Rs 13,540 Cr. Its sales volume, too, experienced robust growth of 15% during the year.. The company's average selling price (net of discount and taxes) in FY23 increased by 3.7% YoY.
- **EBITDA margins got impacted due to high costs:** During FY23, the Group recorded EBITDA of Rs 2,316 Cr (vs. Rs 2,426 Cr in the previous year), registering a decline of 4.5% over FY22. This was primarily on account of higher fuel prices which adversely impacted the variable cost of production.
- **Continued focus on producing and promoting blended cement:** In line with its commitment to environmental sustainability, the company continued to focus on producing and promoting blended cement (84% of sales). It aims to produce 100% blended cement by FY26 and achieve a 100% transition to renewable energy by 2030.

Key Competitive Strengths:a) The 4th largest cement producer in India; b) Largest producer of slag and speciality cement in India; c) Robust sales and distribution network; d) Improving financial position; e) Experienced and competent management bandwidth, and f) Diverse product portfolio for Retail and Institutional clients.

Strategies Implemented:a)Efficient use of capital through judicious allocation to technology-led investments and branding; b) Capacity expansion to capitalize on growing markets; c) Focus on selling blended Cement; d) Securing long-term raw material supply (including limestone); e) Proactively investing in building competent human capital

Growth Drivers: a)Rural Housing; b) Affordable Housing; c) The government's keen focus on infrastructure development including roads, railways, highways, metros, airports, irrigation, and water projects; d) Real estate growth e) Increase in private Capex

Key focus areas moving forward:a)To become a pan-India cement company; b) Establish a significant presence in every market in its operating region; c) Grow capacity to 130 MTPA by 2030; d) Emerge as one of the most profitable and environment-friendly companiesin India; e) Maintain a robust balance sheet; f) Build a great organizational culture and robust value system.

Outlook & Recommendation: The company is working to reach a cement grinding capacityof 110-130 mtpa by FY30-31 to become a pan-India player. The recent signing of a definitive agreement to acquireJP assets (acquisition underway) will allow the company to cater to the high-growth marketof central India.Apart from the ongoing expansion plan, thecompany has also announced Capex to add capacity toits existing units in North East India (3.6 mtpa Clinker and 2.4 mtpa Grinding Unit) to capture the rising cement demand in the region.The government's keen focus on infrastructure,low-cost affordable housing, and increasing real estate demand will keep cement demand at an elevated level moving ahead.Given this, we expect the company to grow its Volume/Revenue/EBITDA/APAT at CAGR of 13%/15%/17%/26% over FY22-FY25E.The stock is currently trading at 12x and 10x FY24E/FY25E EV/EBITDA. We value the company at 11x FY25E EV/EBITDA to arrive at a TP of Rs 2,230/share, implying an upside potential of 8% from the CMP. We hence change our rating from **BUY** to **HOLD**..

Key Financials (Consolidated)

(RsCr)	FY23	FY24E	FY25E
Net Sales	13,540	15,257	16,955
EBITDA	2,316	3,262	3,839
Net Profit	1,183	1,347	1,619
EPS (Rs)	55	72	86
PER (x)	28	29	24
EV/EBITDA (x)	12.6	12.7	10.7
P/BV (x)	1.8	2.4	2.2
ROE (%)	7%	8%	9%

Source: Company, Axis Research

(CMP as of 12th July 2023)

CMP (Rs)	2058
Upside /Downside (%)	8
High/Low (Rs)	2289/1415
Market cap (Cr)	39517
Avg. daily vol. (6m) Shrs.	139
No. of shares (Cr)	18.7

Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	56	56	56
FIIs	12.3	12.0	13.0
MFs / UTI	6.2	6.2	6.7
Banks / FIs	0.1	0.06	0.06
Others	25.5	25.6	24.6

Financial & Valuations

Y/E Mar (RsCr)	FY23	FY24E	FY25E
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Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	0%	1%
EBITDA	-1%	3%
PAT	-3%	-3%

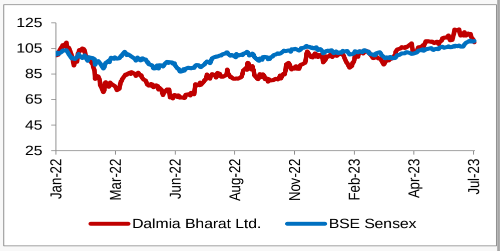
ESG disclosure Score**

Environmental Disclosure Score	64
Social Disclosure Score	36
Governance Disclosure Score	70
Total ESG Disclosure Score	**57**
Sector Average	**47**

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, Sector average is for NSE500 companies

Relative performance



Source: Ace Equity, Axis Securities

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Company Overview

Dalmia Bharat Limited (DBL) started its journey in 1939 and emerged as one of the fastest-growing players in the Indian cement sector. It commands a 5% share of all of India's capacity in the areas where it operates. DBL has a total cement production capacity of 38.6 MTPA, a clinker capacity of 21.7 MTPA, and a power generation capacity of 364 MW as of 31st March, 2023.The company's operations span 14 locations in India through its 9 integrated plants and 5 grinding Units and a robust network of over 40,000 channel partners spread across the country. DBL is the pioneer in the production of not only slag cement but also specialty cement in India. The company has more than doubled its capacity in the last 10 years through both organic and inorganic routes to 38.6 MTPA in FY23 from 9 MTPA in FY14. Today, it stands as the 4th largest cement-producing company in India.

Product & Brand Portfolio

DBL's brand portfolio comprises an ordinary and premium range of products assuring superior quality for general as well as for specialized construction and environments. The company produces all three cement variants namely OPC, PPC, and PSC. Apart from these, it also produces PCC (Portland Composite cement). At present, it sells cement under two categories – Retail and Institutional, comprising 6 brands namely Dalmia DSP, Dalmia Cement, Konark Cement, Dalmia Infrapro, Dalmia Infragreen, and Dalmia Instapro.

FY23 Performance Round-up

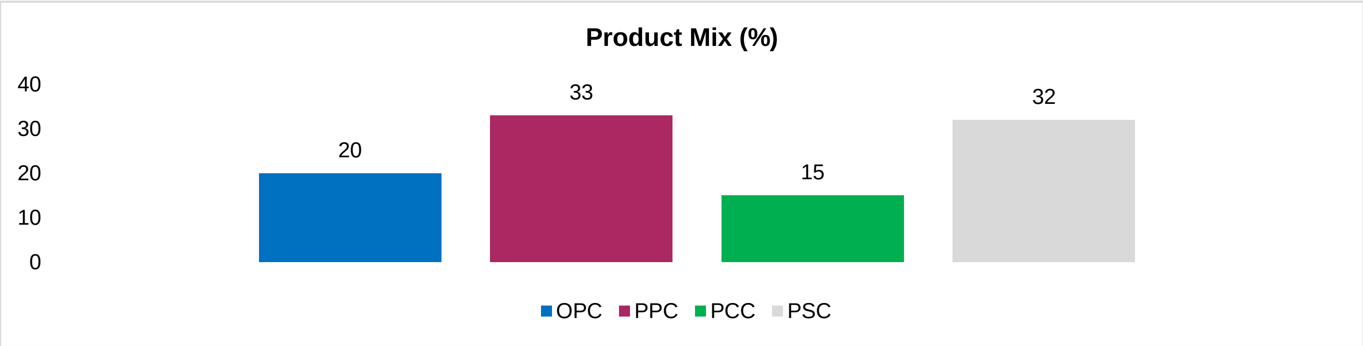
- **Revenue growth:**For FY23, the company's revenue increased 20% YoY to reach Rs 13,540Cr. The company's sales volume experienced robust growth of 15%, positioning it as the second-leading company within the industry in India.The average selling price (net of discount and taxes) increased by 3.7% in FY23 over FY22.
- **EBITDA margins impacted by high cost:**During FY23, the Group recorded EBITDA of Rs 2,316 Cr (vs. Rs 2,426 Cr in the previous year), registering a decline of 4.5% YoY. This is primarily on account of higher fuel prices adversely impacting the variable cost of production.
- **Capital and funding:**Total equity during the year marginally decreased by 2.4% while total capital employed marginally increased by 1.2%. Gross debt increased by Rs 623 Crto Rs 3,763 Cr as of March 31, 2023, up 19.8%owing to availing term loans to fund the capital expenditure for ongoing capacity expansion projects. The company's Net Debt/Equity for FY23 stood at 0.04 from (0.09) reported in FY22.
- **Increase in interest expense:**Finance cost increased by Rs 32 Cr to Rs 234 Cr, mainly due to anincrease in gross debtduringtheyearas well as due to a higher weighted average cost of total borrowings which increased from 5.6% per annum in FY22 to 6.9% per annum in FY23 on account of an increase in the repo rate.
- **Capex**:The company spent Rs 2,814 Cr towards Capex during the year under review.
- **Dividend**:During the year, the company declared Rs 9/share as a dividend for its shareholders.
- **Other Income:**Other income was reduced by Rs 22 Cr to Rs 138 Cr mainly attributed to lower dividend income and write-back of liabilities nolonger required.
- **Divestment of Dalmia Bharat Refractories Limited:**The company has sold off its entire stake in Dalmia Bharat Refractories Limited to Sarvapriya Healthcare Solutions Private Limited, a promoter group company for a total consideration of Rs 800 Cr on April 25, 2023.

Key Subsidiary Performance Analysis

Particulars (Rs Cr)	FY22	FY23	Change	Comment/Analysis
Revenues				
Dalmia Cement (Bharat) Limited	9760	12187	25%	Higher owing to increased revenueand price realization.
Calcolm Cement India Limited	1158	1266	9%	Higher owing to increased revenueand price realization.
Alsthom Industries Limited	261	336	29%	Higher owing to increase in revenueand price realization.
Vinay Cement Limited	24	13	-46%	
Net Worth				
Dalmia Cement (Bharat) Limited	11343	12094	7%	NW increased owing to higher profits during the year
Dalmia Power Limited	1511	1166	-23%	
Calcolm Cement India Limited	366	478	31%	NW increased owing to higher profits during the year.
Alsthom Industries Limited	100	148	48%	NW increased owing to higher profits during the year.
Dalmia Bharat Green Vision Limited	97	346	257%	Capital infusion
PAT				
Dalmia Cement (Bharat) Limited	665	421	-37%	Lower owing to higher costs of operation.
Dalmia Power Limited	131	54	-59%	
Calcolm Cement India Limited	96	228	137%	Higher owing to higher profits during the year.
Alsthom Industries Limited	22	52	136%	Higher owing to higher profit during the year.
Vinay Cement Limited	29	8	-72%	
Ascension Mercantile Private Limited	0	(14)	-14%	

Source: Company; Axis Securities

Exhibit 1: Product Mix



Source: Company, Axis Securities

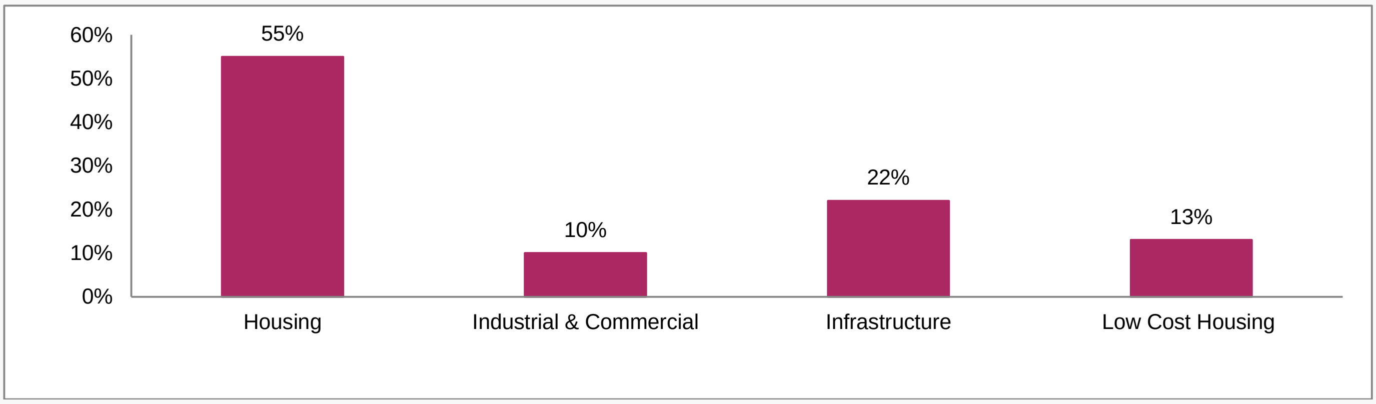
Cost OptimizationMeasures

- **Power/Fuel Cost**:In FY23, the company's Power & Fuel costs increased by 24% to Rs 1,432/tonne against Rs 1,153/tonne in FY23.The company has implemented several cost optimisation measuressuch as using low-cost additives like red mud in clinker manufacturing, using green fuel to reduce fossil fuel dependency (TSR>15%), utilizing the lowest coal including local coal in NE plants, maximising the usage of chemical gypsum and wet or conditioned fly ash, and securing long-term contracts for fly ash and slag.
- **Freight/Forwarding Cost**:Freight & forwarding cost per tonne was higher by 3% at Rs 1,090/tonne against Rs 1,057/tonne in FY22 on account of the increase in fuel prices. The company enforced stock transfer through higher-sized vehicles to improve efficiency and institutionalized reverse auctions across plants. The company has an extensive fleet of 8000+ trucks serving 200+ districts. With 300+ warehouses, there is a daily truck movement of 2,300+ vehicles
- **Raw Material Cost:**The cost of raw materials consumed increased by 10% in FY23 owing to higher costs.To reduce the risks associated with the supply chain of raw materials, the company has strategically placed captive mines and plants for the smooth supply of raw materials.

Key Growth Drivers

- **Infrastructure push by the government:**The Government of India has been consistently investing in infrastructure to drive the country's development agenda. It has earmarked Rs 10 Tn as capital expenditure for Budget 2023- 24, an increase of 33% above FY23 budget estimates and 37% above revised estimates of FY22. The consistent rise in capital spending is a positive indicator for cement consumption in the coming years. Furthermore, initiatives like National Infrastructure Pipeline and PM GatiShakti are likely to drive the construction activities in the country, fuelling more demand for cement.
- **Housing rebound:** The country's housing sector experienced a prolonged cycle of slowdown in the pre-COVID period, resulting in high inventories and lower launches from the real estate sector. However, in the post-pandemic era, the sector rebounded, which was facilitated by increased preference towards home ownership, a favourable interest rate regime, and registration and stamp duty benefits offered by several state governments across the country. Furthermore,the government's increased outlay towards 'Housing for All' provided a fillip to housing demand in the country. The Union Budget 2023-24 outlined an investment of Rs54,487 Cr for PMAY - Grameen and Rs25,103 Cr for PMAY – Urban, registering a cumulative 66% growth over the previous year
- **Industrialization:** The rapid pace of industrialization in India is expected to play a key role in driving the growth of the cement industry. The growth of industries leads to demand for the construction of factories, warehouses and other infrastructure. With the growth of manufacturing, infrastructure, and transportation sectors, there has been a significant increase in the demand for cement.
- **Commercial RealEstate:** The growth of the construction industry in India, particularly in the commercial sector, has led to an increased demand for cement. With a growing economy and increasing urbanisation, demand for commercial buildings such as offices, malls, hotels, and hospitals has surged and this trend will keep cement demand at an elevated level.

Exhibit 2: Cement consumption trend – segment-wise: Housing remains the largest cement consumer



Source: Company, Axis Securities

Key Operational Activities During the Year

Growth and expansion: The company aims to expand into newer avenues of growth with a wide range of products while establishing a stronger presence in the existingmarket and emerging as a pan-India pure-play cement company. From an installed manufacturing capacity of 38.6 MTPA at the end of FY23, it targets to achieve a manufacturing capacity of 75 MTPA by FY27 and 110-130 MTPA by FY31 through a mix of greenfield, brownfield, and inorganic growth initiatives. Its consistent revenue growth without compromising on margins and profitability speaks volumes about its prudent capital deployment and robust financials.

In Apr'23, the company also started operations at its second cement line in Bokaro (Jharkhand), with a capacity of 2.5 MTPA. The companyalso signed the definitive agreement for the acquisition of strategiccement assets of Jaiprakash Associates Limited, which will enable it to enter the lucrative growth market of central India.

Consumption of renewable energy: The company won a bid for Mandla Coal North Mine to improve on captive coal consumption. The company added103 MW of renewable energy capacity during the year and achieved the highest blending ratio during FY22-23. In its bid to continuously explore the use of sustainable alternatives for its process inputs, the company successfully increased its renewable energy capacity by 2.5x to 166 MW YoY.

Debt Levels:Net debt to EBITDA remained significantly lower than the stated target of 2x despite an 8% increase in capacity due to disciplined fund allocation as per the laid-out capital allocation framework and treasury policy.

Investment in innovation and technology in natural capital:The company has invested in low and zero-carbon technologies that enhance resources and energy efficiency. Its aim is to increase the proportion of environment-friendly blended cement in its product mix to 80%. The companyis India's largest producer of Portland Slag Cement (PSC), which is the most sustainable and lowest carbonfootprintcementavailableatanindustrialscale.

Sales &Distribution

- **Marketing and Branding:** During the year, the company undertook numerous initiatives to engage with its customers and strengthen its brand visibility across markets. Italso undertook a flagship campaign Shubh Shubh Banao – focused on curating emotional engagement to depict the feeling of 'auspicious' for its channel partners.This one-of-a-kind activation campaign has spread positive word of mouth in the market and successfully touched 3,000+ stakeholders in 66 cities.

Supply Chain & Logistics

- **Green Supply chain initiatives**:DBL is implementing a "green" supply chain initiative by deploying the nation's first fleet of LNG trucks in partnership with GreenLine Logistics6. It has ordered 35 LNG trucks for its Chandrapur Plant in Maharashtraand an additional 25 trucks will be deployed in Tamil Nadu in Apr'23. By adding LNG and EV trucks, the company aims to replace 10% of its current fleet of 3,000 vehicles with LNG trucks by the end of FY24.This will help it reduce transportation fleet emissions. GreenLine Logistics' LNG trucks reduce CO_2 emissions by about 28% and lower other harmful emissions by up to 100%, making it a more environmentally-friendly option
- **Logistic optimization efforts:**The company aims to reduce dependency on roadways and increase rail efficiency. It is also inductingpan-India fleet players by bringing in large transporters. Lease-based rakes from railways for the transfer of raw materials from plants. Partner with OEMs to introduce electric vehicles and CNG vehicles. Digitisation to enhance logistics efficiency.
- **Effective freight management:** The company is focusing on achieving efficient freight management across its value chains. It has implemented an effective approach to fleet and asset management, resulting in continuous improvement in efficiency and productivity, reduced costs, and increased employee, and customer satisfaction.

Key Strategies Moving Forward

Sustainable Growth

The focus remains on innovation and sustainability. The company is investing in cutting-edge technologies, leveraging digitisation, and fostering a culture of continuous improvement. It is also steadfast in its commitment to sustainability, reducing its environmental footprint, promoting circular economy practicesand contributing to a greener future.

Organic & Inorganic capacity expansion

The company's future growth roadmap features a mix of organic and inorganic opportunities with a focus on premium products, raw material security, and renewable energy. A few priorities for FY24 include the timely completion of its ongoing Capex and the successful integration of the Jaypee Cement asset. A rapid increase in installed cement capacity by almost 1.5 times from 26.5 MnT in FY20 to 41.1 MnT at present is a testament to the company's well-directed approach. It aims to become a pure-play pan-IndiaCement Manufacturing Company by 2031 with acapacity of 110-130 mtpa.

To achieve a significant presence in every market where Dalmia operates

- Becoming the market leader in the highly attractive East India market
- Strengthening price realization by focusing on the sale of premium cement and deepening its market reach by expanding its distribution network and increasing retail sales.
- Continue to enhance existing brands and introduce new brands as per changing customer needs.

Maintaining a Strong Balance Sheet with a High standard of corporate governance

- Continued focus on building enhanced transparency and embracing the highest standards of governance
- Developed a formal Capital Allocation Policy and a Treasury Policy
- Released Corporate Governance Guidelines, a Code of Conduct, and Financial Ethics.

Business Outlook

- Over the past few years, India has focused on strengthening its infrastructure backbone to drive overall growth and development. The Union Budget FY24 raised the allocation for essential infrastructure by 33%, while the Pradhan Mantri Awas Yojana (PMAY) received a 66% higher outlay. Additionally, there is a record-high outlay allocated for railways for the next 10 yearsand there are plans to build 50 new airports. Significant public spending on infrastructure has also created an enabling environment for private investors. The real estate sector has been showing strong traction with low inventory levels and the launch of various new projects.
- The cement demand is closely linked to overall economic growth, particularly in the housing and infrastructure sector. Keeping this in view, the government continues to provide thrust to infrastructure creation and development, thereby providing new growth avenues to the cement industry.
- The company strongly believes that despite challenges, the cement sector is poised to deliver robust growth moving forward. This is driven by robust growth anticipated from the individual housing segment, buoyed by the growth in rural income and the government's focus on the affordable housing segment. The government's push towards infrastructure and the boom in the industrial sector demand, driven by increased warehouse requirements for e-commerce and data centres for back offices are expected to further add to cement demand in the country. The demand for cement will remain strong in the years ahead, which bodes well for its strategic objectives to expand its footprint across the country.

Risks & Mitigation

- **Input cost Risk:** The company is exposed to the risk of inflation and fluctuations in the cost of coal, petcoke, power and other fuels which are market driven.
  - ✓ **Mitigation:** The cement industry is energy-intensive, fluctuations in fuel price are paramount in production cost and hence well-designed plans have been laid down to tackle the input cost risks.
- **Climate Risk:** Climate risk impacts vary across locations, operations, inventory, supply chain, and continuity plans. These exposures significantly influence corporate operations.
  - ✓ **Mitigation:** The company plans to be carbon-negative by FY40, divided into short-term and mid-term goals. It has allocated resources aligned with carbon-negative targets. It hasa leadership position in the industry to mitigate future carbon emission liability,and a carbon-negative roadmap is integral to the organisational strategy.
- **Cyber Security:** Loss of valuable information and disruption of business operations
  - ✓ **Mitigation:** The company takes 24/7 cyber security efforts by its IT team, allocates resources to mitigate cyber security risks,and Addresses the ongoing challenge of keeping up with advancements and one-on-one battles in cyberspace.
- **Logistic Risk:**This includesmanaging the infrastructure to cater to growing needs, increased logistics costs, evolving regulatory mandates for zero carbon targets, limited government support towards rail freight requirements of the cement industry, restrictions of heavy vehicle movement during peak hours, and agitations/strikes by transportation unions.
  - ✓ **Mitigation:** The company has adopted measures such as rate contracts with transporters, implementation of a supply chain optimiser tool, conversion of HSD Trucks to CNG/LNG Trucks, launch of e-trucks, utilisation of other company’s railway sidings and increased fleet capability among others.
- **Macro-Economic Risk:** Macroeconomic uncertainty results in inflation, supply chain disruption, reduced market demand, higher interest rates, and social unrest.
  - ✓ **Mitigation:** The company is a) Implementing an Enterprise Risk Management system,b) Ensuring an uninterrupted supply chain,c) Timely adjusting the market mix,d) Ensuring efficient financial management
- **Circular Economy:** All waste, including clothing, scrap metal, and outdated electronicsis recycled or utilised efficiently, reducing the need for new natural resources.
  - ✓ **Mitigation:** Utilising city waste as an alternative energy source to replace fossil fuel, aiming for 100% green fuel usage by 2035, Striving for a low CO_2 footprint and aiming to become a 100% blended cement producer by 2026, Investing in advanced technology, such as the Chlorine bypass duct, to achieve 100% replacement of fossil fuels

Progress on sustainability

As a socially and environmentally responsible company, DBL consistently adopts sustainable practices. It follows the philosophy of "Clean and Green is profitable and Sustainable" which makes Dalmia cement a powerful and distinctive brand as an environmentally responsible group. Some of the key Sustainability practices and achievements are as follows:

Climate and energy:

- Scope 1 - 15.20% reduction against the 2019 baseline
- Scope 2 - 17.85% reduction against the 2019 baseline
- The company has achieved a carbon footprint of 463 KgCO2 /t cementitious material against the baseline of 546 KgCO2 /t cementitious material
- The companyis on the trajectory to achieve the target of being carbon negative by 2040

Renewable energy: 29% is the share of non-fossil power consumption out of the total power share.

Energy productivity: 54% energy productivity improvement compared to the 2010 baseline.The company is inline with its target of doubling energy productivity.

Alternative (green) fuels: 17% Thermal Substitution Rate was achieved this year by replacing fossil fuels withindustrial wastes, municipal solid waste, renewable biomass (bamboo/plantation), and hazardous waste.

Electric vehicles: The company has purchased 22 heavy-duty electric trucks for the transportation of its raw materials

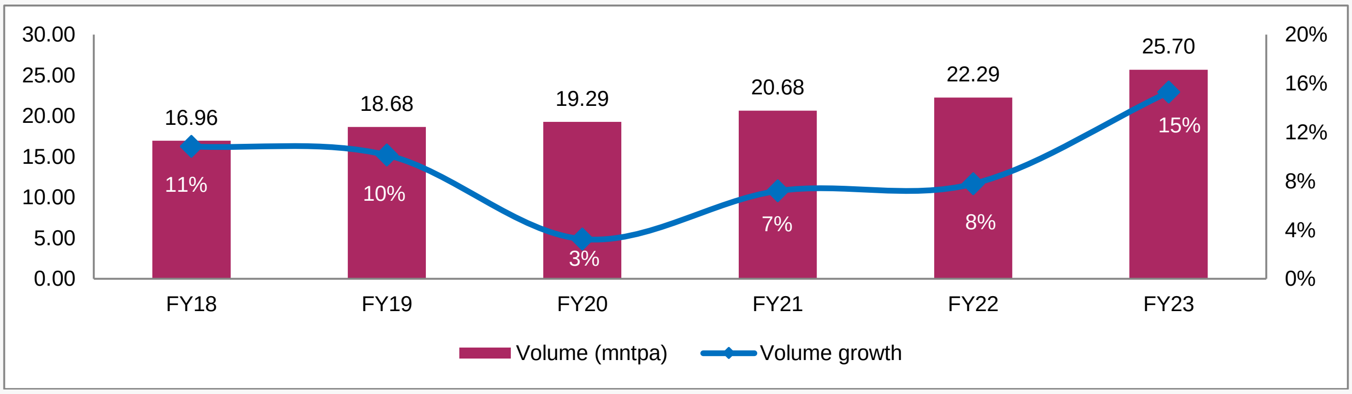
Blended cement (low-carbon cement): 84% blended cement share was achieved this year using 10.99 Mn tonnes of alternative raw materials like flyash, slag and others.

Profitability Analysis (Rs Cr)

Particulars	FY22	FY23	Change	Comments/Analysis
Sales	11,286	13,540	20%	Revenue increased on the back of higher volume and selling prices during theYear
Raw Materials/Others	1,472	1,981	35%	Increased owing to higher volume and rise in raw material costs
Gross Profits	4,889	5,078	4%	GP growth was led by sales but was impacted by higher costs
Operating Expenses	6,397	8,462	32%	Increase in cost due to high fuel prices
Interest	197	232	18%	Due to the increase in debt levels and repo rates
EBIT	1,350	1,149	-15%	EBIT impacted due to high costs during the year
PAT	815	1,035	27%	PAT is higher owing to the profit accrued on the divestment of DBRL – an associate company
EPS	43.6	55.2	27%	EPS in line with PAT

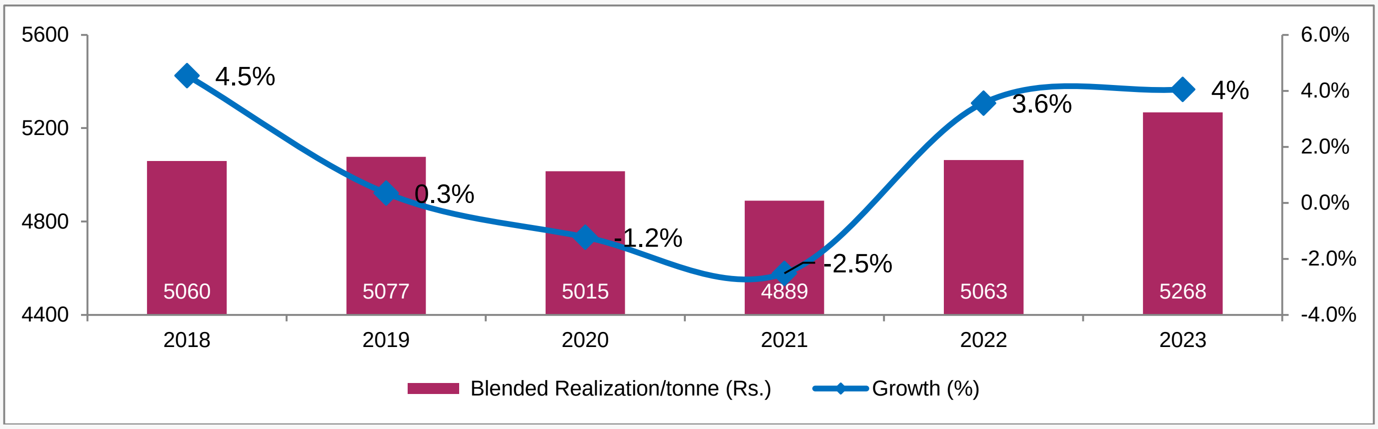
Source: Company; Axis Securities

Exhibit 3: Volume and Growth Trend



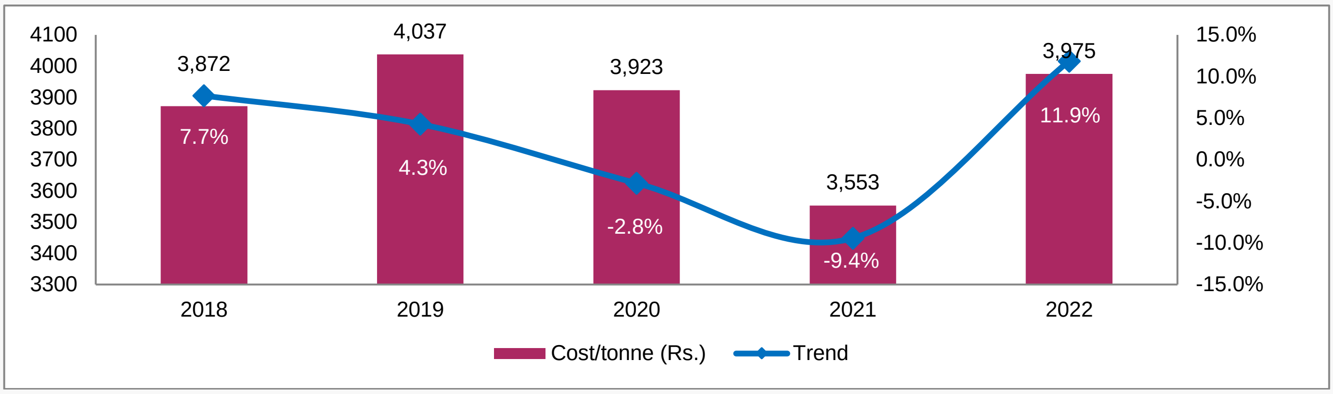
Source: Company, Axis Securities

Exhibit 4: Realization/tonne and Growth Trend



Source: Company, Axis Securities

Exhibit 5: Cost/tonne Trend



Source: Company, Axis Securities

Growth Indicators (Rs Cr)

Particulars	FY22	FY23	Change	Comments/Analysis
Revenue	11,286	13,540	20%	An increase in volume and selling price lead to revenue growth
EBITDA	2,426	2,316	-4%	EBITDA impacted by high operating expenses
PAT	815	1,035	27%	PAT is higher owing to the profit accrued on the divestment of DBRL – an associate company
EPS	43.6	55.2	27%	EPS in line with PAT
Volume	22.29	25.70	15%	Growth owing to an increase in capacity and better demand in its operating regions of South and East India

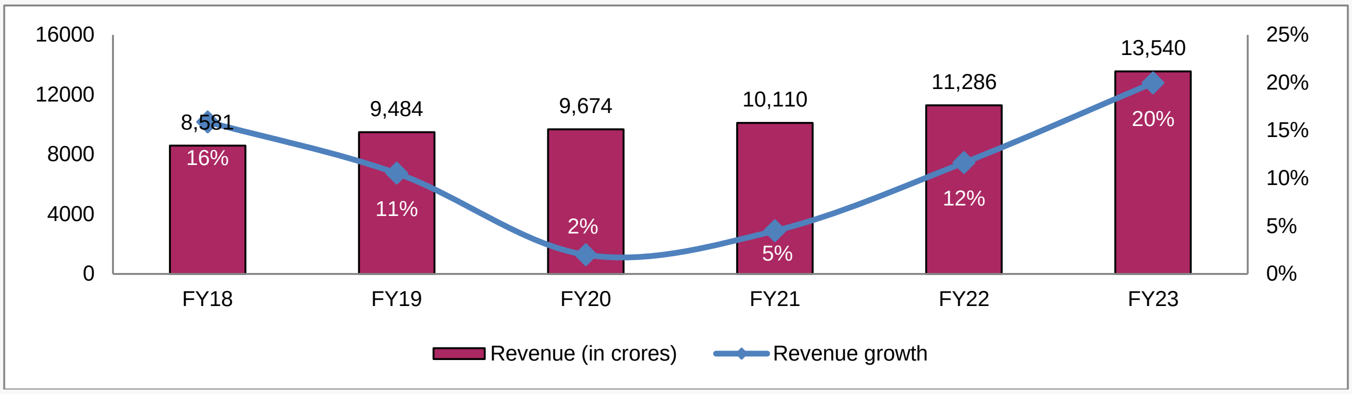
Source: Company; Axis Securities

Profitability Margins

Particulars	FY22	FY23	Change	Comments/Analysis
GPM	43%	38%	-500 bps	Margins impacted by high raw materialand fuelcosts during the year
EBITDAM	22%	17%	-500 bps	Margins impacted by high operating expenses due to rise in fuel costs
PATM	7.2%	7.6%	40 bps	Higher owing to profit accrued on the divestment of DBRL, an associate company.

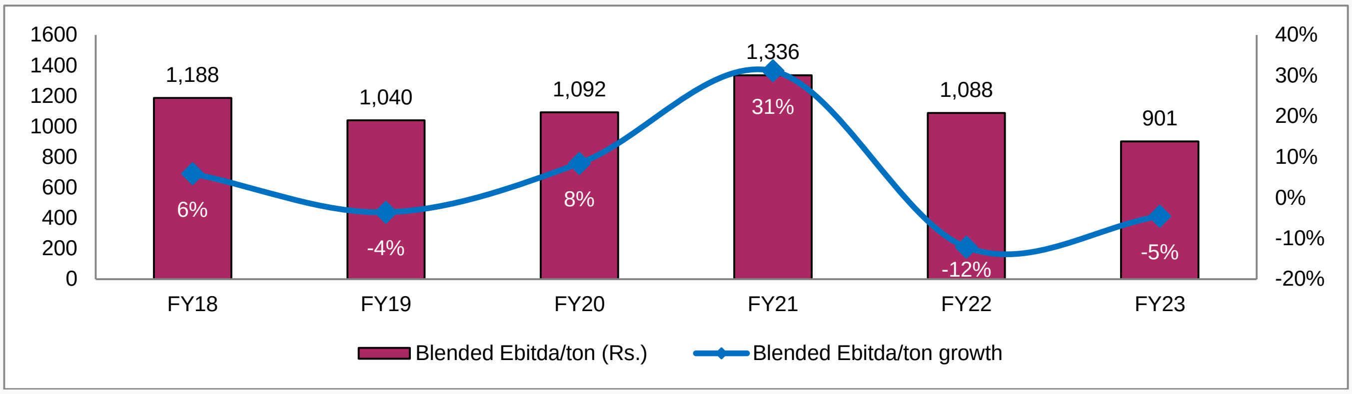
Source: Company; Axis Securities

Exhibit 6: Revenue and Revenue Growth Trend



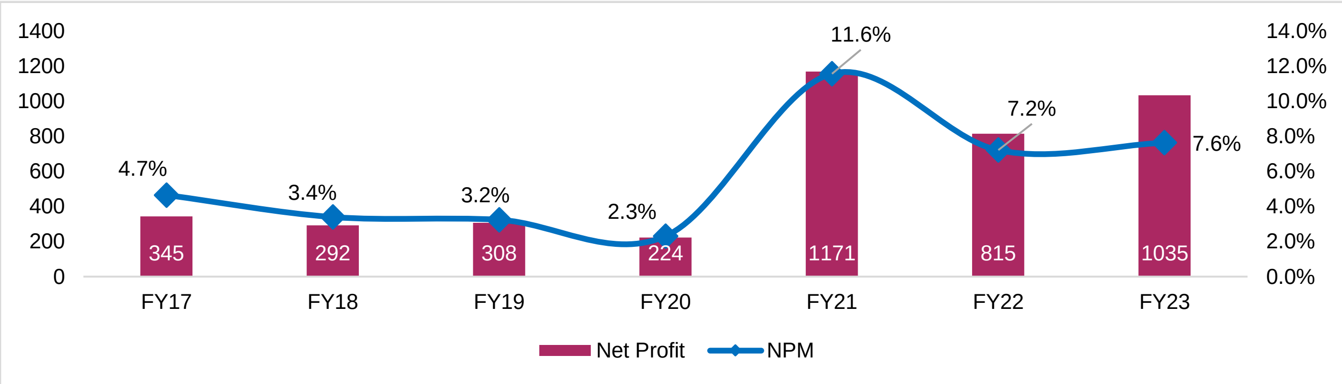
Source: Company, Axis Securities

Exhibit 7: Blended EBITDA/tonne Trend



Source: Company, Axis Securities

Exhibit 8: Net Profit and NPM Trend



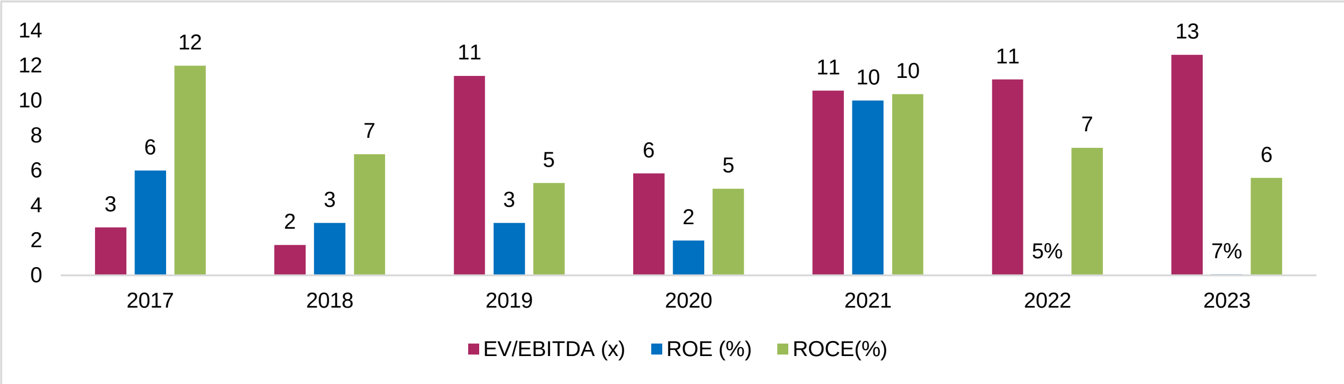
Source: Company, Axis Securities

Financial Ratios

Particulars	FY22	FY23	Change	Comments/Analysis
ROE	5.2%	6.6%	140bps	Higher owing to higher profit during the year
ROCE	7%	6%	-100bps	Impacted owing to lower EBIT during the year
Asset Turn	0.5	0.5	-	Remained flat owing to new fixed asset addition during the year
Net Debt/Equity	-0.09	0.04	-	Due to the increase in debt levels
EV/EBITDA	11	12.5	-	EV/EBITDA was higher owing to higher prices and lower EBITDA

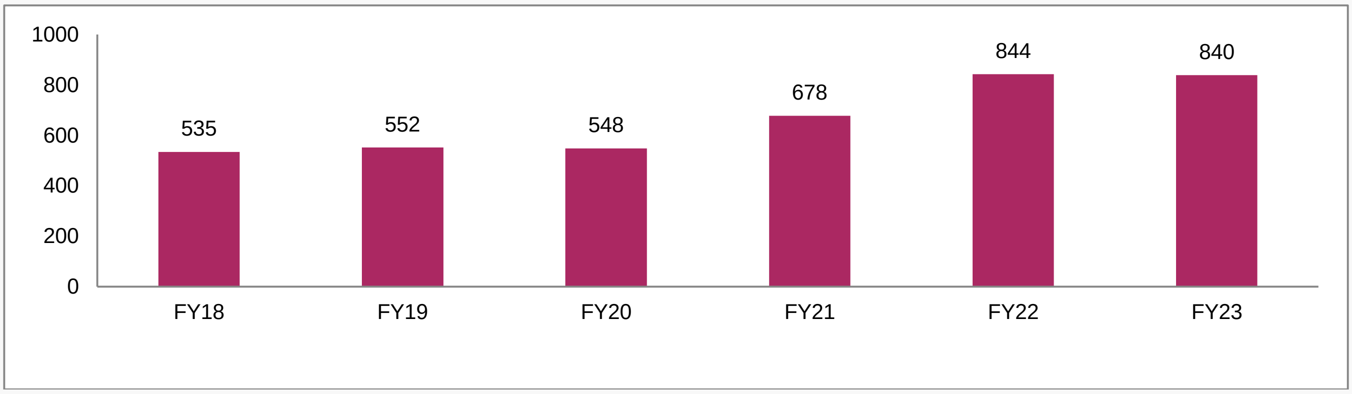
Source: Company; Axis Securities

Exhibit 9: EV/EBITDA, ROE& ROCE Trend



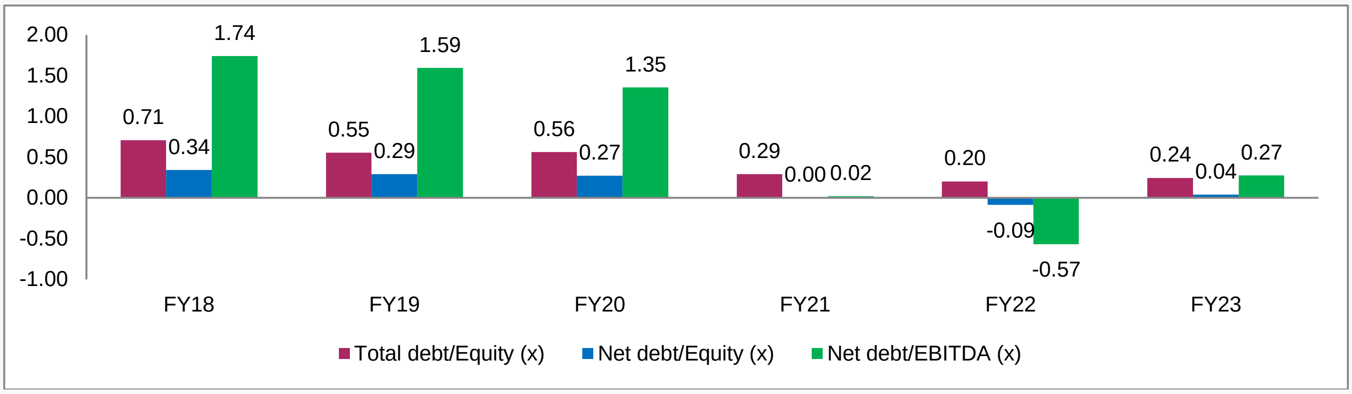
Source: Company, Axis Securities

Exhibit 10: Book Value (Rs)



Source: Company, Axis Securities

Exhibit 11: Leverage Ratio



Source: Company, Axis Securities

Key Balance Sheet Takeaways

Working Capital Management

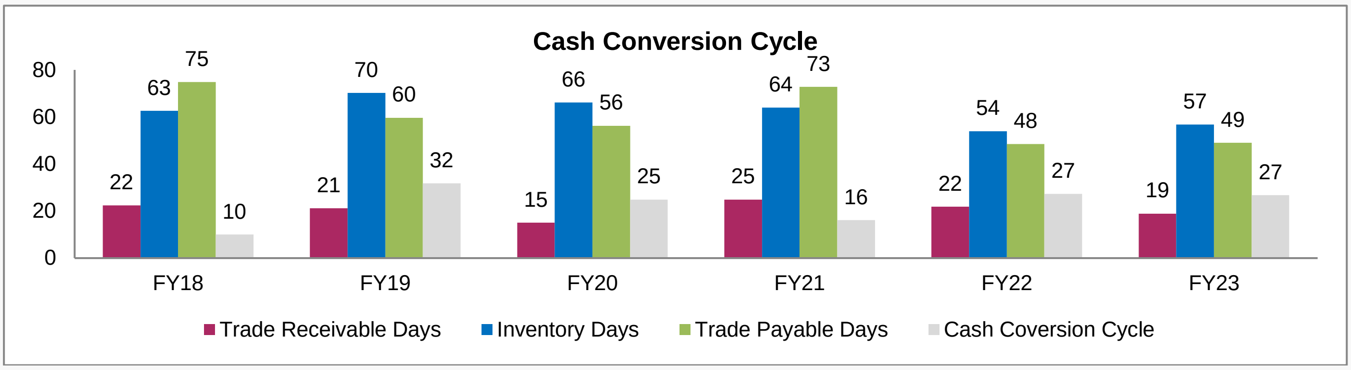
- During the year, the company's cash conversion cycle improved from 28 days in FY22 to 27 days in FY23 due to robust working capital management. This was on account of lower debtors and higher payable days. During the year, OCF to EBITDA improved to 97% from 80% in FY22.
- From FY19-FY23, 67% of the total OCF (Rs 8,197 Cr) was utilized towards the company'sCapex program. During this period,cement production capacity increased from 18.86 mtpa to 25.7 mtpabetween FY19-23.Overall Capex intensity during this period can be termed medium to high.While CFO remained the major source of funding for the company, it generated an FCFof Rs 4,024 Crduring FY19-FY23.

Cash Conversion Cycle

Particulars	FY22	FY23	Change	Comments/Analysis
Inventory Days	54	57	3	Increase in days due to increase in inventory of fuel
Trade Receivables	22	19	-3	Receivable days declined due to better monitoring of credit drivers
Trade Payables	48	49	-1	Increase in days due to increasing in fuel creditors
Cash Conversion Cycle	**28**	**27**	-1	Maintained the same level of CCC

Source: Company; Axis Securities

Exhibit 12: Cash Conversion Cycle

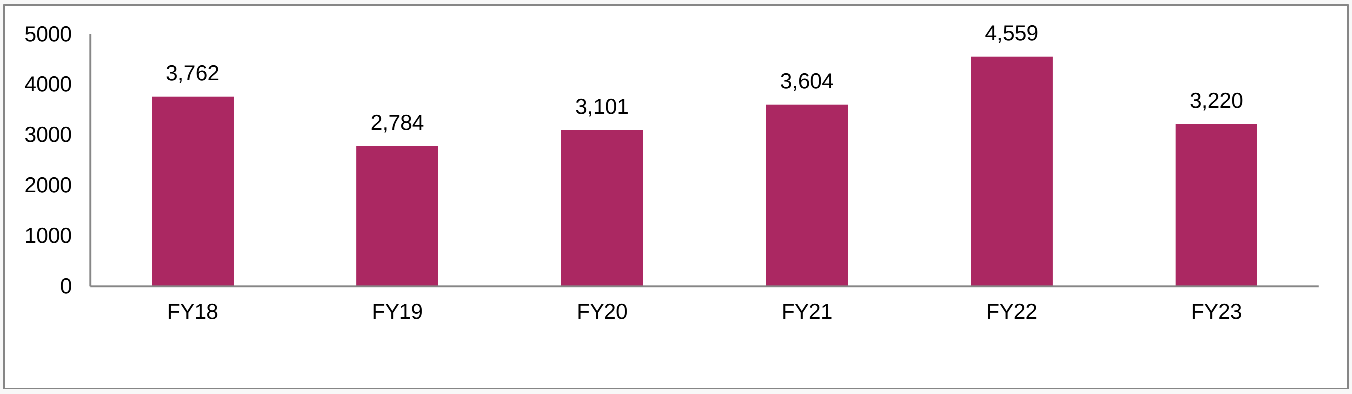


Source: Company, Axis Securities

Key Balance Sheet Takeaways (Cont...)

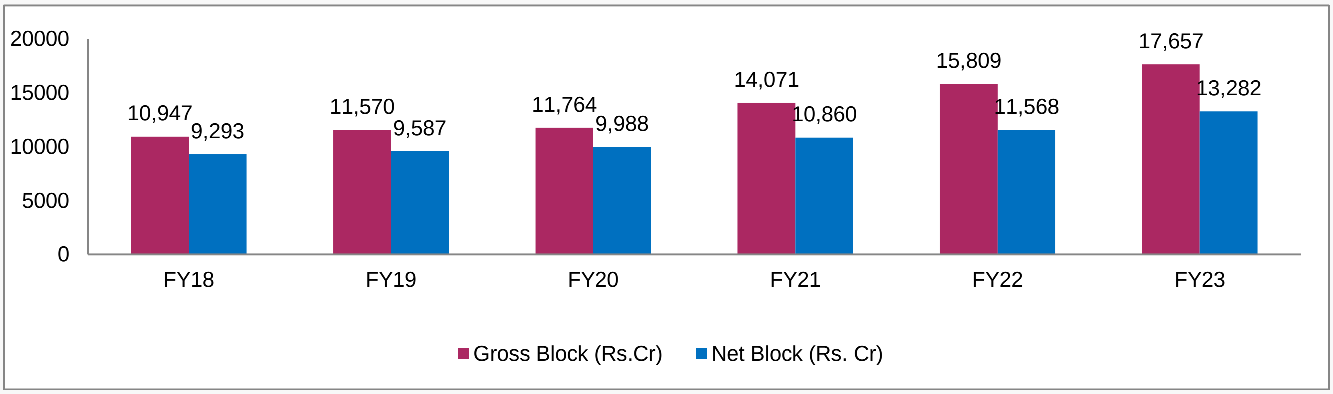
- **Debt Levels:**The company increased its long-term debt by 21% from Rs 3,176 Cr to Rs 3,855Cr as it availed term loans to fund the capital expenditure for ongoing capacity expansion projects. The Net Debt/EBITDA stood at 0.27x during the year.
- **Fixed Capital Formation:** Gross fixed capital formation improved from Rs14,944 Cr in FY22 to Rs 16,467 Cr in FY23, an improvement of 10% as the company is in the process of expanding its existing cement production capacity.
- **Capex plans:**The company spent Rs 2,814 Cr towards Capex duringFY23. From an installed manufacturing capacity of 38.6 MTPA at the end of FY23, it targets to achieve 75 MTPA by FY27 and 110-130 MTPA by FY31 through a mix of greenfield, brownfield and inorganic growth initiatives.
- **Cash and liquidity position:** The company's liquidity position has declined compared to the last year with total cash/cash equivalent standing at Rs 3,220 Cr against Rs 4,559 Cr, a decrease of 29% owing to lower profit.

Exhibit 13: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 14: Gross & Net Block



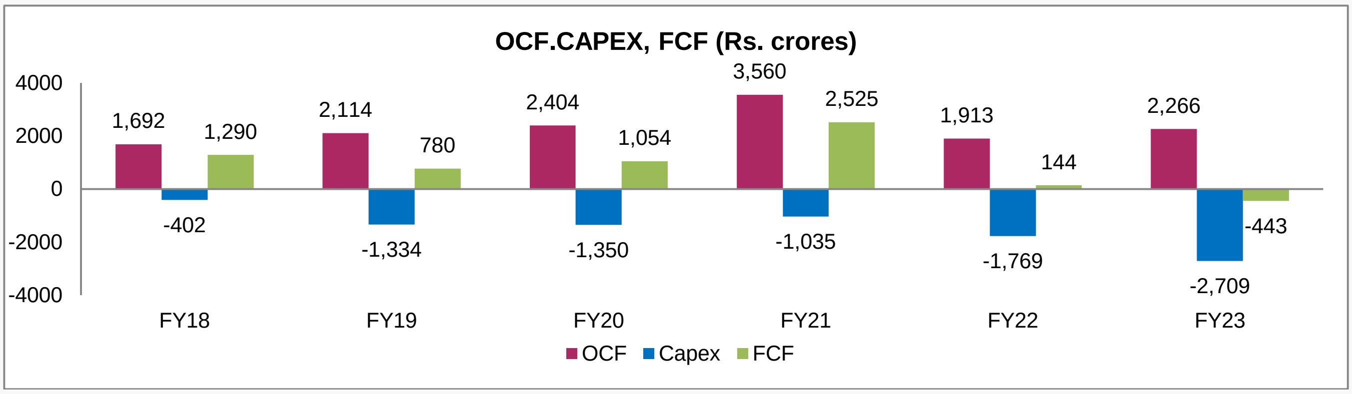
Source: Company, Axis Securities

Key Cash Flow Takeaways

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis
PBT	1,162	1,321	20%	Higher owing to profit accrued on the divestment of DBRL,an associate company.
Non-cash expenses	-157	-95	39%	
Depreciation	1,237	1,305	5%	Depreciation is as per the depreciation policy of the company
Finance Cost	193	231	20%	Due to an increase in debt levels as well as repo rates
Working Capital Adjustments	-515	-77	-85%	Reduced owing to better management of working capital
CFO	1,937	2,252	16%	Higher owing to an increase in sales and the divestment of DBRL, an associate company.
CFI	-1,043	-2,326	-122%	Due to the increase in Capex
CFF	-942	168	NA	Increase in borrowings to fund the Capex
Capex	-1,769	-2,709	-53%	Increased capacity expansion
Free Cash Flow Generation	168	-457	-172%	Reduced owing to higher Capex during the year

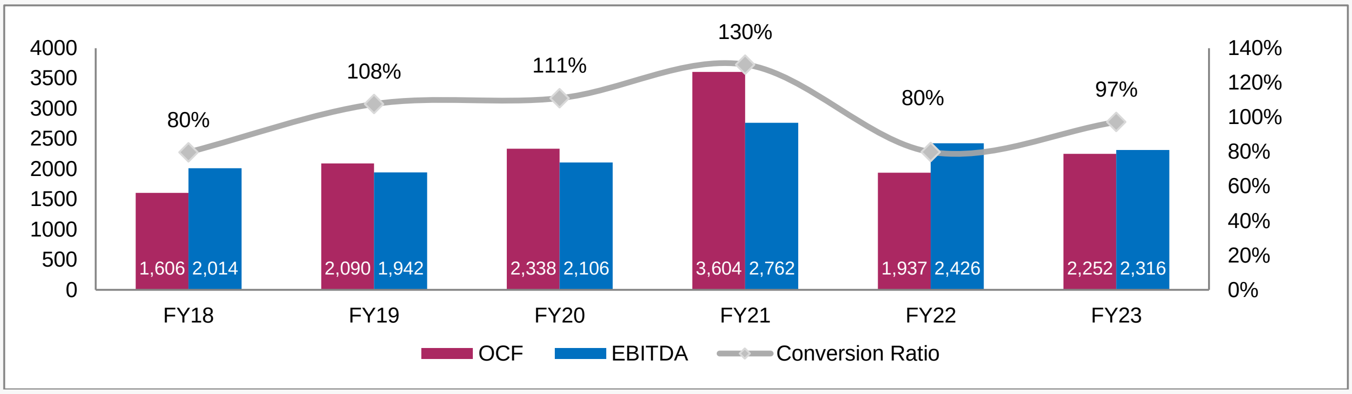
Source: Company; Axis Securities

Exhibit 15: OCF, Capex, FCF Trend (in Cr)



Source: Company, Axis Securities

Exhibit 16: OCF, EBITDA, and Conversion ratio trend (Cr)



Source: Company, Axis Securities

Forex Analysis

- Foreign currency risk is the risk that the fair value or future cash flows of exposure will fluctuate because of the changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating and financingactivities and the same are hedged in line with established risk management policies of the Group including the use of foreign exchange forward contracts, and options and interest rate swaps.
- During the year, Forex earnings were nil and the outgo was Rs 2.67 Cr against Rs2.52 Cr outgo in FY22.
- No hedging activity was undertaken during the year under review. There is no outstanding forward contract and unhedged foreign currency exposure at the year-end

Source: Company; Axis Securities; Since Forex exposure of the company is low, no specific comments are required.

Contingent Liability Analysis

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis
Demands raised/ show cause notices issued by following authorities in dispute (including cases which have been remanded back for re-assessment):				
Market fee	119	137	18	Levy of market fee on the sale of cement within the market notified by Mineral Area Development Authority
Rat hole mining matter	116	116	0	
Stamp duty	86	86	0	Stamp duty on royalty payable on the extraction of limestone and dolomite
Excise and Service tax	54	57	3	The demand forexcise duty disputing the valuation of goods, denial of cenvat credit on input and input services
Mines and Minerals	56	56	0	Demand in respect of limestone
Income tax matters	50	46	-4	Disallowance of expenses relating to exempt income, non-consideration of subsidy as capital receipt
Sales tax/ VAT/ Entry tax/ GST matters	48	41	-7	The demand forentry tax on entry of goods, CST by treating stock transfers as inter-state sales, Denial of GST input tax credit
Lease rent	21	22	1	The demand forexcess annual lease rent on mining lease in addition to surface rent
Customs	18	18	0	Relating to the coal classification dispute
Subsidy/ incentive receivable	18	18	0	
Other matters	56	66	10	Other claims related to royalty on coal, electricity duty, vendor claims etc.
Total	**642**	**663**	**21**	

Source: Company; Axis Securities

Corporate Social Responsibility

- Dalmia Bharat Grouphas always been inspired by the principles of trusteeship as propagated by Mahatma Gandhi. The company's commitment to giving back to society has been an integral part of its business philosophy for over eight decades. The company believe in responsibly conducting its operations and creating a positive impact on all its stakeholders through its CSR initiatives.
- The company conducted external need assessment studies in its neighbouring communities and internally brainstormed to understand its business risks to identify the most crucial social and environmental issues. The insights gathered from these exercises enabled it to focus its efforts on addressing critical challenges related to livelihoods, water, energy, and access to basic amenities.
- During FY23, the company spent Rs 17.5 Cr on CSR.

Corporate Governance Philosophy

The company prioritises integrity, fairness, and transparency in dealing with all its stakeholders. The company's policies, actions and disclosures go much beyond compliance with applicable laws and regulations, to demonstrate the highest standards of ethical conduct and accountability. Governance thus plays a key role in driving efficiency, promoting an open culture and fostering sustainable value creation.

The company has put in place a code of conduct and robust corporate governance policies. The company's Board of Directors is responsible for overseeing implementation and adherence through delegated authorities to its respective Committees with defined roles and responsibilities.

The Board reviews its strategies in various areas, including succession planning, talent management, acquisitions, financial planning, capital allocation, divestment, business roadmap, EHS and preventive safety measures. Furthermore, the strategies are regularly evaluated to ensure their alignment with the prevailing external environment, and accordingly, course correction measures are undertaken, as and when necessary.

The companyembraces the Dalmia way of life and hascreated a code of conduct to guide its employees and stakeholders on how to conduct business ethically and how to treat others with respect. The company has a zero-tolerance policy towards activities that harm its reputation and take strict action against financial fraud, corruption, harassment, and other misconduct. The company has zero tolerance for negative workplace politics, gossip, racism, and similar activities.

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E
Net sales	13,540	15,257	16,955
Other operating income	0	0	0
Total income	13,540	15,257	16,955
Raw Material	1,981	2,303	2,498
Power & Fuel	3,679	3,356	3,658
Freight & Forwarding	2,802	3,250	3,575
Employee benefit expenses	771	810	858
Other Expenses	1,991	2,277	2,527
EBITDA	**2,316**	**3,262**	**3,839**
Other income	138	172	170
PBIDT	2,454	3,434	4,008
Depreciation	1,305	1,403	1,615
Interest & Fin Chg.	234	244	257
E/o income / (Expense)	-	-	-
Pre-tax profit	915	1,787	2,137
Tax provision	242	435	513
RPAT	673	1,352	1,624
Minority Interests	44	30	30
Associates	554	25	25
APAT	**1,183**	**1,347**	**1,619**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E
Total assets	25,543	26,808	28,199
Net Block	16,467	18,569	19,178
CWIP	1,859	1,859	1,859
Investments	587	587	587
Wkg. cap. (excl cash)	881	892	989
Cash / Bank balance	285	152	224
Misc. Assets	5,464	4,749	5,362
Capital employed	25,543	26,808	28,199
Equity capital	37	37	37
Reserves	15,591	16,663	17,843
Minority Interests	116	146	176
Borrowings	3,742	3,820	3,888
Def Tax Liabilities	1,634	1,634	1,634
Other Liabilities and Provision	4,423	4,508	4,621

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E
Profit before tax	1,321	1,787	2,137
Depreciation	1,305	1,403	1,615
Interest Expenses	231	244	257
Non-operating/ EO item	-95	-172	-170
Change in W/C	-77	-11	-97
Income Tax	-14	-435	-513
Operating Cash Flow	2,252	2,816	3,228
Capital Expenditure	-2,709	-3,662	-2,543
Investments	329	800	-500
Others	87	172	170
Investing Cash Flow	-2,326	-2,689	-2,874
Borrowings	-677	78	68
Interest Expenses	-297	-244	-257
Dividend paid	-169	-94	-94
Others	-33	-	-
Financing Cash Flow	-118	-26	-28
Change in Cash	94	-133	72
Opening Cash	140	234	101
Closing Cash	234	101	173

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E Mar	FY23	FY24E	FY25E
Operational Ratios			
Sales growth	20%	13%	11%
OPM	17%	21%	23%
Op. profit growth	-5%	41%	18%
COGS / Net sales	62%	58%	57%
Overheads/Net sales	20%	20%	20%
Depreciation / G. block	5.3%	5.0%	5.3%
Effective interest rate	6.3%	6.4%	6.6%
Efficiency Ratios			
Total Asset Turnover (x)	0.53	0.57	0.60
Sales/Gross block (x)	0.55	0.54	0.55
Sales/Net block(x)	0.82	0.82	0.88
Working capital/Sales (x)	0.20	0.12	0.14
Valuation Ratios			
P/BV (x)	1.82	2.36	2.20
PER (x)	28	30	25
EV/Ebitda (x)	12.6	12.7	10.7
EV/Sales (x)	2.2	2.7	2.4
EV/Tonne $ (x)	92	108	107
Return Ratios (%)			
ROE	7%	8%	9%
ROCE	6	9	11
ROIC	7	10	12
Leverage Ratios			
Debt/equity (x)	0.24	0.23	0.22
Net debt/ Equity (x)	0.04	0.10	0.06
Debt service coverage ratio (x)	0.31	0.53	0.62
Interest Coverage ratio (x)	4.91	8.31	9.33
Cash Flow Ratios (%)			
OCF/Sales	0.17	0.18	0.19
OCF/Ebitda	0.97	0.86	0.84
OCF/Capital Employed	0.11	0.13	0.14
FCF/Sales	-0.03	-0.06	0.04
Payout ratio (Div/NP)	16.3	7.0	5.8
AEPS (Rs.)	55.2	71.8	86.4
AEPS Growth	27	30	20
CEPS (Rs.)	125	147	172
DPS (Rs.)	9	5	5

Source: Company, Axis Securities

Dalmia BharatPrice Chart and Recommendation History

Date	Reco	TP	Research
31-Jan-22	HOLD	1,945	Result Update
11-May-22	BUY	1,635	Result Update
16-Jun-22	BUY	1,635	AAA
05-Aug-22	BUY	1,820	Result Update
01-Sep-22	BUY	1,850	Top Picks
01-Oct-22	BUY	1,850	Top Picks
01-Nov-22	BUY	1,850	Top Picks
03-Nov-22	BUY	1,900	Result Update
01-Dec-22	BUY	2,070	Top Picks
01-Jan-23	BUY	2,070	Top Picks
07-Feb-23	BUY	2,120	Result Update
01-Mar-23	BUY	2,120	Top Picks
28-Mar-23	BUY	2,260	Result Update
01-Apr-23	BUY	2,120	Top Picks
27-Apr-23	BUY	2,230	Result Update
02-May-23	BUY	2,260	Result Update
01-Jun-23	BUY	2,350	Top Picks
13-Jul-23	HOLD	2,230	AAA

Source: Axis Securities

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Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

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