

## Dalmia Bharat Ltd.

BUY

Choice

## Cost reduction to drive growth

**Dalmia Bharat Ltd. Q1FY25 consolidated volumes came in at 7.4mnt, down 15.9% QoQ but up 5.7% YoY. The QoQ decline was due to elections, heatwaves, water shortages, and floods in certain regions. Management anticipates that Dalmia Bharat's volumes will grow by 1.5 times the industry growth in FY25E. The consolidated revenue for Q1FY25 stands at INR36,210mn, down 15.9% QoQ and flattish YoY, impacted by lower volume and realization. For the quarter, EBITDA/t stands at INR904/t, up 21.6% QoQ and 3.7% YoY. The improvement in EBITDA/t is mainly attributed to lower cost. PAT for the quarter stood at INR1,449mn, down 54.7% QoQ but up 0.7% YoY. EPS for the quarter is INR7.5. Net Debt/EBITDA stood at 0.17x.**

- **Total cost/t to reduce by 150-200/t:** The total cos/t for the quarter was INR3,989/t, down 3.9% QoQ and 7.4% YoY. Management has projected a further reduction in total cost/t by INR150-200/t over the next two years. This cost reduction will be driven by a decrease in variable costs, largely due to an increased share of RE power. The company has entered into several renewable power agreements under the group captive arrangement, securing 127MW of renewable power through solar and wind energy. These renewable power plants are expected to be commissioned in FY25E and FY26E, with management aiming to achieve about a 50% share of RE power by Q4FY25E. Additionally, management is committed to reducing logistic costs by shortening lead distances and implementing other initiatives such as direct dispatches. They see potential for a reduction of INR50-100/t in logistic costs. Further cost reductions are anticipated from a decrease in fuel costs. Fuel costs for Q1 were INR 1.38/kcal, and it is expected to improve by an additional 1-2% in the coming year.
- **Near-term capacity expansion plans:** For FY25E, management has outlined a capex plan ranging from INR35,000mn to INR40,000mn, primarily focused on organic expansion, efficiency improvements, land acquisition, and maintenance. The company has commissioned 1mnt of cement capacity each at Kadapa and Ariyalur, bringing its total capacity in the South to 17mnt. Additionally, they are in the advanced stages of completing a 2.9mnt cement expansion in Assam and Bihar. Dalmia Bharat aims to achieve a total capacity of 58.9mtpa by the end of FY25E. The company is committed to reaching a milestone of 75mtpa cement capacity by FY27E and is working towards a long-term goal of 110-130mtpa by FY31E, implying a CAGR of 14-17% in capacity addition.
- **Realization is expected to remain soft:** During the quarter, cement prices experienced a decline, leading management to anticipate continued pressure on prices. Realization for the quarter was INR4,893/t, remaining flat QoQ but down 5.5% YoY. Cement prices have shown continuous weakness over the past 7-8 quarters, with average Pan-India prices softer by 2% to 3% QoQ. Exit prices in June were another 3% lower compared to the Q1 average. Cement prices are expected to remain soft until the monsoon quarter, with an anticipated price increase in the industry starting from Q3FY25E.

**View and Valuation:** The continuity of the incumbent government ensures stability in policies and an increased focus on infrastructure spending, which bodes well for the long-term prospects of the cement sector. The government's infrastructure initiatives are driving real estate growth and attracting private investment. This raises entry barriers, favoring established firms with strong supply chains and brand recognition. As a result, the industry is experiencing consolidation, with larger players solidifying their positions. Management expects the cement industry to grow by around 8% in FY25E, with Dalmia Bharat's volumes projected to grow at 1.5 times the industry rate. We expect Revenue/EBITDA/PAT to grow at a CAGR of 11%/15%/9% respectively over FY24-FY26E. Our target EV/EBITDA multiple remains unchanged at 12x, ascribing a target price of INR2,005, maintaining our rating to BUY.

## Financial Snapshot

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue (Rs. Mn.)	1,12,820	1,35,430	1,46,910	1,57,374	1,79,428
EBITDA (Rs. Mn.)	24,297	23,187	26,281	29,644	34,657
EBITDA Margins (%)	21.5	17.1	17.9	18.8	19.3
PAT	11,567	10,577	8,539	8,117	10,073
PAT Margins (%)	10.3	7.8	5.8	5.2	5.6
EPS	62.5	55.4	44.1	43.9	54.4

Source: Company, CEBPL

July 20, 2024

CMP (Rs.)	1,815
Target Price (Rs.)	2,005
Potential Upside (%)	10.5

## Company Info

BB Code	DALBHARA IN EQUITY
ISIN	INE00R701025
Face Value (Rs.)	2.0
52 Week High (Rs.)	2,428.9
52 Week Low (Rs.)	1,664.2
Mkt Cap (Rs. bn.)	340.8
Mkt Cap (\$ bn.)	4.07
Shares o/s (Mn.)/F.Float	187.5/42
FY24 EPS (Rs.)	44.1
FY26E EPS (Rs.)	54.4

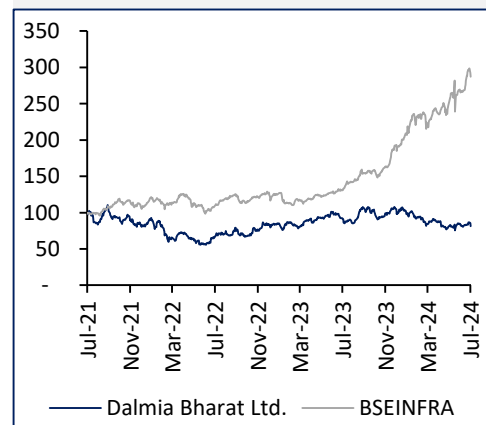
## Shareholding Pattern (%)

	Mar-24	Dec-23	Sep-23
Promoters	55.84	55.84	55.86
FII's	11.37	12.96	14.13
DII's	12.63	11.03	9.42
Public	20.16	20.17	20.59

## Relative Performance (%)

YTD	3Y	2Y	1Y
BSE INFRA	187.3	161.4	117.7
Dalmia Bharat	(18.7)	20.0	(11.0)

## Rebased Price Performance



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## Sequential Operating Performance

Operating Metrics Rs./t	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Blended Realisation	5,291	5,177	5,079	5,295	4,894	4,893
Raw Material Cost	719	769	734	735	713	782
Employee Cost	258	317	365	325	230	308
Power & Fuel Cost	1,177	1,289	1,126	1,068	898	1,023
Freight & Handling Expense	1,111	1,156	1,018	1,093	1,159	1,122
Other Expenses	772	736	761	749	753	719
Total Costs	4,331	4,306	4,129	4,155	4,151	3,989
<b>EBITDA</b>	<b>959</b>	<b>871</b>	<b>950</b>	<b>1,140</b>	<b>743</b>	<b>904</b>

Source: Company, CEBPL

## CEBPL Estimates vs Actual for Q1FY25

Dalmia Bharat (INR Mn.)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Volumes	7.4	7.0	5.7	8.8	(15.9)	7.6	(2.1)
Revenues	36,210	36,240	(0.1)	43,070	(15.9)	36,405	(0.5)
RM Cost	5,790	5,380	7.6	6,270	(7.7)		
Power and Fuel Cost	7,570	9,020	(16.1)	7,900	(4.2)		
Employee Cost	2,280	2,220	2.7	2,020	12.9		
Freight Exp	8,300	8,090	2.6	10,200	(18.6)		
EBITDA (INR Mn.)	6,689	6,099	9.7	6,539	2.3	6,176	8.3
EBITDA Margin (%)	18.5	16.8	164 bps	15.2	329 bps	17.0	151 bps
Depreciation	3,170	3,990	(20.6)	3,280	(3.4)		
EBIT (INR Mn.)	4,019	2,679	50.0	4,459	(9.9)	3,406	18.0
EBIT Margin (%)	11.1	7.4	371 bps	10.4	75 bps	9.4	175 bps
Interest	950	830	14.5	940	1.1		
Other Income	500	570	(12.3)	1,200	(58.3)		
PBT	1,939	1,849	4.9	3,519	(44.9)		
Tax	490	410	19.5	319	53.6		
PAT (INR Mn.)	1,449	1,439	0.7	3,200	(54.7)	1,755	(17.4)
Basic EPS (INR)	7.5	6.9		16.8		9.5	

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
NSR /t	4,893	5,177	(5.5)	4,894	0.0
Cement Cost /t	3,989	4,306	(7.4)	4,151	(3.9)
EBITDA/t	904	871	3.7	743	21.6

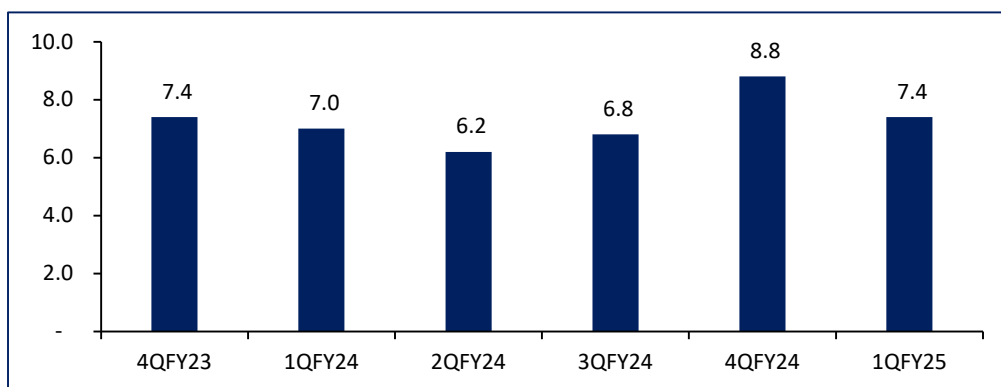
Source: Company, CEBPL

## Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	1,45,534	1,57,374	8.1	1,59,984	1,79,428	12.2
Gross Profit Margin (%)	84	83.4	(83)bps	84.8	82.7	(211)bps
EBITDA	28,803	29,644	2.9	33,127	34,657	4.6
EBITDA Margin (%)	19.8	18.8	(95)bps	20.7	19.3	(139)bps
EPS	42.3	43.9	3.7	47.4	54.4	14.9

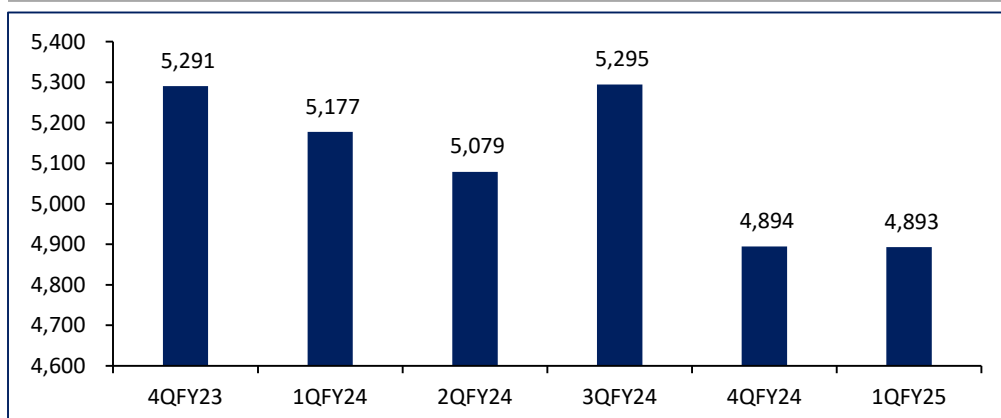
Source: Company, CEBPL

## Sales Volume (MT)



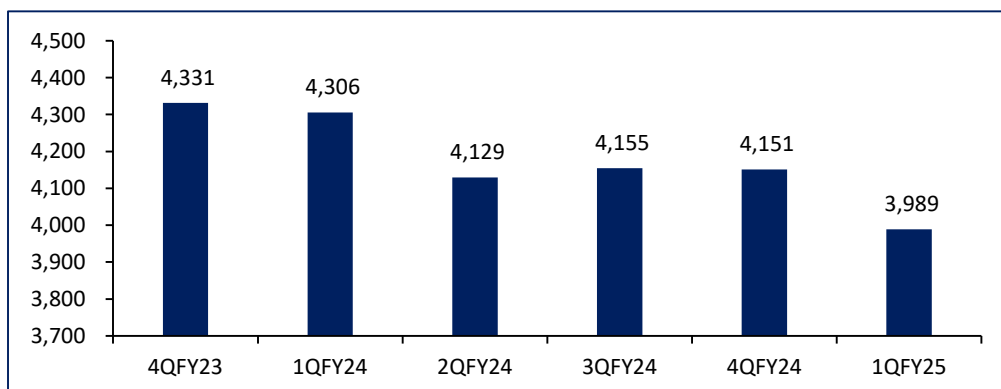
Source: Company, CEBPL

## Sales Realisation per Tonne



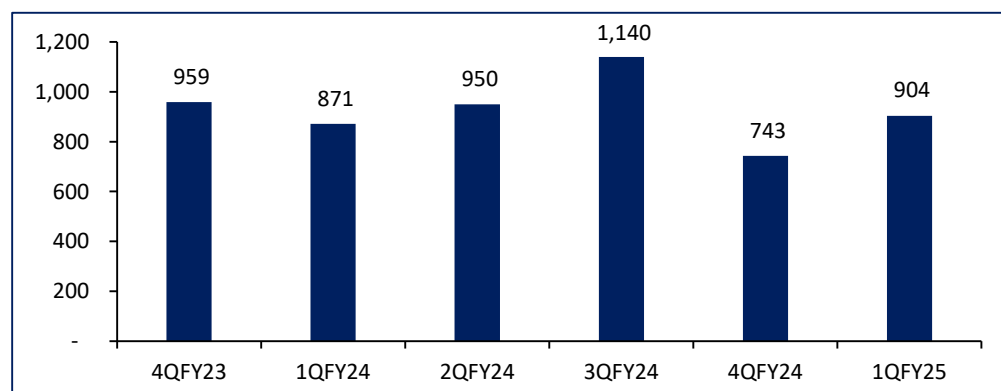
Source: Company, CEBPL

## Total Costs per Tonne



Source: Company, CEBPL

## EBITDA per Tonne



Source: Company, CEBPL

## Management Call - Highlights

- Regarding its organic expansion, Dalmia Bharat's current capacity stands at 46.6mnt, and the company is targeting to reach 49.5mnt by the end of the FY25E.
- The reduction in raw material costs has been driven by optimization of mining costs and improvements in usage and procurement efficiencies.
- Power and fuel cost/t for the quarter stood at 1,023/t, up 14.0% QoQ but down 20.6% YoY. The YoY decline in power and fuel cost was mainly due to \$46 decline in the fuel consumption cost. Fuel cost during the quarter stood at 1.38/kcal.
- Dalmia Bharat is working to improve cement to clinker ratio and increase the share of renewable power. Currently, renewable power share stood at 35%.
- Dalmia Bharat accrued INR740mn in incentives during the quarter and collected INR450mn, with an outstanding balance of INR 7,340mn. For FY25E, management expects total incentive accruals and collections to be around INR3,000mn.
- Starting from early June 2024, tolling operations at Jaiprakash Associates Ltd (JAL) plants are being conducted on a job work basis. As a result, the cost of material purchases is now included in the "Cost of Raw Material Consumed" rather than "Purchase of Stock in Trade."
- In alignment with its commitment to RE100 by 2030 and becoming carbon negative by 2040, the company has executed multiple Renewable Power Agreements under a group captive arrangement for 127 MW in Tamil Nadu, Karnataka, and Maharashtra.

## Financial Summary (Consolidated in Rs. Mn.)

Income Statement (Rs. Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,12,820	1,35,430	1,46,910	1,57,374	1,79,428
Gross profit	98,100	1,15,620	1,19,880	1,31,296	1,48,447
<b>EBITDA</b>	<b>24,297</b>	<b>23,187</b>	<b>26,281</b>	<b>29,644</b>	<b>34,657</b>
Depreciation	12,360	13,050	14,980	17,197	18,984
<b>EBIT</b>	<b>13,517</b>	<b>11,497</b>	<b>14,521</b>	<b>16,128</b>	<b>17,879</b>
Other income	1,580	1,360	3,150	2,552	2,206
Interest expense	2,010	2,330	3,860	4,089	4,548
<b>PAT</b>	<b>11,567</b>	<b>10,577</b>	<b>8,539</b>	<b>8,117</b>	<b>10,073</b>
EPS (Rs.)	62.5	55.4	44.1	43.9	54.4

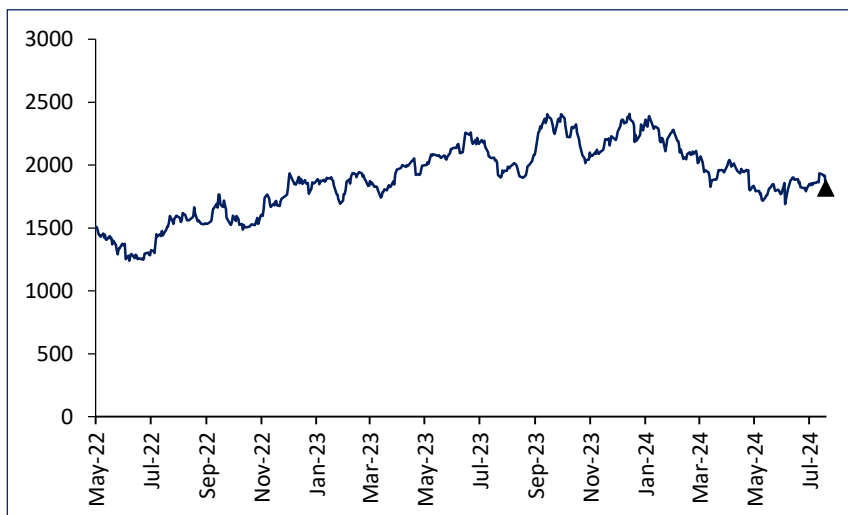
Balance Sheet (Rs. Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	1,39,060	1,47,980	1,58,450	1,81,253	1,94,769
Capital Work in Progress	10,360	18,590	22,840	20,556	18,500
Investments	57,050	44,220	44,600	40,917	46,651
Cash & Cash equivalents	1,600	2,850	5,820	5,012	4,649
Loans & Advances and Other Assets	20,470	21,490	24,620	23,797	27,132
Net Working Capital	7,680	8,810	8,800	5,130	5,922
<b>Total assets</b>	<b>2,36,220</b>	<b>2,43,940</b>	<b>2,65,130</b>	<b>2,76,666</b>	<b>2,97,624</b>
Shareholder's funds	1,57,590	1,57,440	1,65,070	1,73,187	1,83,260
Borrowings	31,190	37,420	46,300	48,100	49,430
Deffered Tax	16,350	16,200	17,590	19,672	23,326
Other Liabilities & Provisions	31,090	32,880	35,010	35,707	41,608
<b>Total equity &amp; liabilities</b>	<b>2,36,220</b>	<b>2,43,940</b>	<b>2,65,130</b>	<b>2,76,666</b>	<b>2,97,624</b>
Capital Employed	2,25,300	2,31,300	2,34,300	2,25,300	2,31,300
Invested Capital	1,39,060	1,47,980	1,58,450	1,81,253	1,94,769

Cash Flows (Rs. Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	19,370	22,520	26,350	39,752	31,712
Cash flows from Investing	(10,480)	(23,260)	(27,500)	(41,387)	(33,887)
Cash flows from financing	(9,420)	1,680	2,220	(2,289)	(3,218)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Revenues	7.2	20.0	8.5	7.1	14.0
Gross Profit	12.2	17.9	3.7	9.5	13.1
EBITDA	(12.9)	(4.6)	13.3	12.8	16.9
EBIT	(21.0)	(14.9)	26.3	11.1	10.9
<b>Margin Ratios (%)</b>					
Gross Profit Margin	87.0	85.4	81.6	83.4	82.7
EBITDA Margin	21.5	17.1	17.9	18.8	19.3
EBIT Margin	12.0	8.5	9.9	10.2	10.0
<b>Profitability (%)</b>					
Return on equity	7.3	6.7	5.2	4.7	5.5
Return on invested capital	5.7	5.0	6.0	6.2	6.4
Return on capital employed	7.2	5.9	6.9	7.3	7.7
<b>Valuation</b>					
OCF / IC (%)	11.0	13.0	14.4	20.3	15.1
EV / EBITDA (x)	12.7	14.5	12.6	11.4	9.7
EV/IC (x)	1.7	1.9	1.8	1.7	1.6

Source: Company, CEBPL

## Historical recommendations and target price: DALBHARA



### Dalmia Bharat Ltd.

1. 20-05-2022	OUTPERFORM,	Target Price: Rs. 1,664
2. 05-08-2022	ADD,	Target Price: Rs. 1,792
3. 04-11-2022	ADD,	Target Price: Rs. 1,869
4. 06-02-2023	NEUTRAL,	Target Price Rs. 1,911
5. 26-04-2023	ADD,	Target Price Rs. 2,030
6. 22-07-2023	NEUTRAL,	Target Price Rs. 1,872
7. 17-10-2023	ADD,	Target Price Rs. 2,515
8. 26-01-2024	ADD,	Target Price Rs. 2,510
9. 25-04-2024	BUY,	Target Price Rs. 1,945
10. 20-07-2024	BUY,	Target Price Rs. 2,005

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<b>REDUCE</b>	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
<b>SELL</b>	The security expected to show Below 0% next 12 months

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