



## Capacity Expansion to Drive Growth; Pricing Remains A Concern

### Summary

Dalmia Bharat Limited (DBL) is one of the established cement players in India. The company expanded its cement capacity from 38.6 MTPA to 44.6 in FY24. In Apr'24, the company also started operations in Ariyalur (Tamilnadu) with a capacity of 1 MTPA. Dalmia is also pursuing the acquisition of Cement assets of Jaiprakash Associates which offers its entry into the central India region and provides ready capacity of 9.4 million tonnes (MnT).

DBL aims to expand its total cement grinding capacity from the current 44.6 million tonnes per annum (MTPA) to 49.5 MTPA (excluding JP Assets) by FY25. In the medium term, the company aims to reach a capacity 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 a Capex of Rs 2,827 Cr during the year. In FY24, its gross debt increased by Rs 888 Cr to Rs 4,651 Cr (as of March 31, 2024) as it availed long-term loans during the year to fund the Capex of the ongoing capacity expansion projects. Net debt, however, declined by Rs 177 Cr and stood at Rs 484 Cr as of March 31, 2024. This decrease was mainly on account of the company's strong operating cash-flows and realisation of part sales proceeds for divestment of our non-core businesses (Refractory/Hippo stores).

### Key Highlights

- **Financial performance:** The company's revenue in FY24 increased by 8% YoY to Rs 14,680 Cr and its sales volume grew robust by 12% during the year. Its average selling price (net of discount and taxes) in FY24, however, declined by 3.3% YoY.
- **EBITDA margins improved due to higher volume & lower costs:** During FY24, the Group recorded EBITDA of Rs 2,628 Cr (vs. Rs 2,316 Cr in the previous year), registering an increase of 13% over FY23. This was primarily on account of lower fuel prices which declined by 24% on a tonne basis to Rs 1,082.
- **Continued focus on producing and promoting blended cement:** In line with its commitment to environmental sustainability, the company continued its focus on producing and promoting blended cement (87% 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) 4<sup>th</sup> 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, 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 companies in 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 capacity of 110-130 MTPA by FY30-31 to become a pan-India player. Its ongoing expansion plan is progressing well and by the end of FY25, its total cement production capacity is expected to reach 49.5 MTPA from the existing capacity of 44.6 MTPA. The company foresees cement demand to be sustained on account of the government's keen focus on infrastructure, low-cost affordable housing, and increasing real estate demand moving forward. Furthermore, various cost optimisation measures undertaken by the company are expected to result in cost savings, thereby positively impacting its margins. However, lower cement prices remain a challenge for the industry as a whole and the same will be determined by market forces. Given this context, we expect the company to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 9%/8%/13%/26% over FY24-FY26E. The stock is currently trading at 12x and 11x FY2E/FY26E EV/EBITDA. **We value the company at 12x FY26E EV/EBITDA to arrive at a TP of Rs 2,140/share, implying an upside potential of 15% from the CMP. We maintain our BUY rating on the stock.**

### Key Financials (Consolidated)

(Rs Cr)	FY24	FY25E	FY26E
Net Sales	14,680	15,666	17,081
EBITDA	2,628	2,999	3,383
Net Profit	827	1,110	1,305
EPS (Rs)	44	59	70
PER (x)	41	30	26
EV/EBITDA (x)	13	12	10
P/BV (x)	2.0	1.9	1.8
ROE (%)	5%	6%	7%

Source: Company, Axis Research

(CMP as of 19<sup>th</sup> June, 2024)

CMP (Rs)	1854
Upside /Downside (%)	15
High/Low (Rs)	2431/1771
Market cap (Cr)	34781
Avg. daily vol. (6m) Shrs.	370660
No. of shares (Cr)	18.7

### Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	55.9	55.8	55.8
FIs	14.1	13.0	11.4
MFs / UTI	6.5	8.0	8.5
Banks / FIs	0.1	0.1	0.1
Others	23.5	23.2	24.2

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
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### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0%	0%
EBITDA	0%	0%
PAT	0%	0%

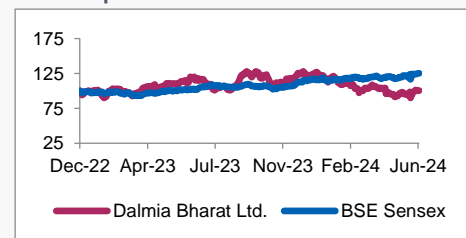
### ESG disclosure Score\*\*

Environmental Disclosure Score	64
Social Disclosure Score	36
Governance Disclosure Score	70
<b>Total ESG Disclosure Score</b>	<b>57</b>
<b>Sector Average</b>	<b>49</b>

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, The Sector average is for NSE500 companies

### Relative performance



Source: Ace Equity, Axis Securities

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