


Lower Realization Hits EBITDA Margins; Retain BUY
Est. vs. Actual for Q2FY25: Revenue – **BEAT**; EBITDA Margin – **MISS**; PAT – **MISS**
Change in Estimates post Q2FY25
FY25E/FY26E: Revenue: -2%/-2%; EBITDA: -8%/-4%; PAT: -20%/-7%

Recommendation Rationale

- The organic capacity expansion plan is progressing well:** The company's total cement grinding capacity is projected to rise to 49.5 mtpa by FY25E from the current 46.6 mtpa, which will support its volume growth going forward. With the current capacity utilization at 58%, there is substantial scope for the company to increase its utilization levels. The company is expected to achieve a volume growth of 9% CAGR over FY24-26E, driven by this capacity expansion and improved utilization.
- Lower realization and negative operating leverage impact EBITDA:** The company's performance during the quarter was impacted by a 6% QoQ and 9% YoY decline in realization, bringing it down to Rs 4,607/tonne, which negatively affected its EBITDA margin. Additionally, plant maintenance and shutdowns further weakened profitability. Current cement prices remained consistent with Q2FY25 levels, and while management anticipates a potential hike in H2FY25, it has ruled out the possibility of any significant price increases. To address the decline, the company is focusing on cost-saving initiatives, targeting a reduction of overall costs by Rs 150-200/tonne over the next two years. By FY26E, it expects to improve EBITDA margins to 18.5%, driven by enhanced operating efficiency, increased sales of premium products, a higher share of trade sales, and stable realization. However, pricing trends will remain a crucial factor to monitor.
- Higher consolidation to benefit large players:** Between 2013 and 2024, the market share of large players increased from 46% to 55%, and by FY26-27, it is expected to rise further to 60%. With the growing pace of consolidation and capacity expansion by top players, their overall market share is set to increase further. This trend will positively influence cement pricing, economies of scale, and supply chain efficiency. The company, being among the top 5 players in the country, is well-positioned to benefit from this consolidation in the medium to long term. Cement demand in its operating regions is expected to remain strong, and the company is projected to achieve double-digit growth going forward.

Sector Outlook: Positive

Company Outlook & Guidance: Management expects H2FY25 to witness 9% volume growth, with EBITDA/tonne in the range of Rs 900-950. Cement prices are projected to trend slightly higher, while operating efficiency is expected to contribute Rs 150-200 in cost savings over the next three years.

Current Valuation: 12.5x FY26E EV/EBITDA (Earlier Valuation: 12.5x FY26E EV/EBITDA).

We revise our estimates downward considering the soft cement prices.

Current TP: Rs 2,040/share (Earlier TP: Rs 2,120/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Outlook: In Q2FY25, the company's performance was subdued due to lower realization, resulting in operating performance below expectations. Despite these challenges, the outlook remains positive due to strong demand drivers, particularly from infrastructure development. Cement demand is anticipated to remain robust, driven by large-scale infrastructure projects and affordable housing initiatives. The cement sector is projected to grow at 1.2 times GDP growth, with India's GDP estimated to grow by 6.5%-7% over the next few years. Given the company's strong positioning in key markets of East and South, exposure to the West region, the government's focus on infrastructure and low-cost housing, increasing real estate demand, new capacity ramp-up, and the company's cost optimization measures, DBL is expected to deliver stable performance moving forward. The company is projected to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 9%/7%/9%/17% over FY24-FY26E. Pricing remains a key factor to monitor closely.

Valuation & Recommendation

The stock is currently trading at 14x and 11x FY25E/FY26E EV/EBITDA and EV/tonne of \$88 and \$85. Valuation remains attractive. **We maintain our BUY rating on the stock** with a TP of Rs 2040/share, implying an upside of 11% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,087	-15	-2	3,031	2%
EBITDA	434	-35	-26	442	(2%)
EBITDA Margin	14.1%	(460bps)	(440bps)	14.6%	(50bps)
Net Profit	46	-67	-61	63	(27%)
EPS (Rs)	2.5	-67	-61	3.4	(27%)

Source: Company, Axis Securities Research

 (CMP as of 21st Oct'24)

CMP (Rs)	1,831
Upside /Downside (%)	11
High/Low (Rs)	2431/1651
Market cap (Cr)	34,239
Avg. daily vol. (6m) Shrs.	4,90,000
No. of shares (Cr)	18.7

Shareholding (%)

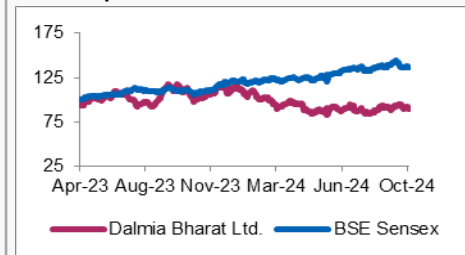
	Mar-24	June-24	Sept-24
Promoter	55.8	55.8	55.8
FIIs	11.4	11.4	8.9
MFs / UTI	8.5	8.5	7.5
Banks / FIIs	0.1	0.1	0.1
Others	24.2	24.2	27.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	14,680	15,094	16,906
EBITDA	2,628	2,453	3,146
Net Profit	827	751	1,133
EPS (Rs)	44	34	60
PER (x)	41	54	30
EV/EBITDA (x)	13	14	11
P/BV (x)	2.1	2.0	1.9
RoE (%)	5%	4%	6%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-2%	-2%
EBITDA	-8%	-4%
PAT	-20%	-7%

Relative performance


Source: Ace Equity.

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Financial Performance

- During the quarter, DBL reported weak operating performance due to lower realization and negative operating leverage. Its Revenue/EBITDA/APAT decreased by 2%/26%/61% YoY, although volume growth was 8%, which was better than expected owing to a lower base last year and the commissioning of new capacity in H1FY25. The company reported a profit of Rs 46 Cr against an estimate of Rs 63 Cr. It recorded an EBITDA margin of 14.1%, the lowest in several years (compared to the estimate of 14.6%), down from 18.7% YoY. The quarter's volume stood at 6.7 mntpa, reflecting an 8% YoY increase. DBL's EBITDA/tonne was Rs 648, down sharply by 32% YoY and 28% QoQ, primarily due to lower realization and negative operating leverage. The company reported a blended realization of Rs 4,607/tonne, down 9% YoY and 6% QoQ. Additionally, the company's cost/tonne decreased by 4% YoY to Rs 3,960, driven by lower freight and inventory adjustments.

Key Concall Highlights

- **Capacity Expansion:** The company's capacity expansion plan is progressing well, with total cement grinding capacity expected to increase to 49.5 mtpa in FY25E from the current 46.6 mtpa, contributing to volume growth. Anticipating a volume growth CAGR of 9% over FY24-26E, the company is also enhancing its clinker capacity from the current 22.4 mtpa to 27.1 mtpa, which is expected to be commissioned in FY26. In Q1FY25, the company successfully commissioned grinding capacity at Ariyalur (Tamil Nadu) and Kadapa (AP), with one unit each. The company aims to reach a capacity of 75 mtpa by FY28 and 110-130 mtpa by FY31. A detailed blueprint of its capacity expansion plan will be shared in the next 9 months.
- **Setting up a Greenfield Unit at Assam** (Clinker capacity of 3.7 mtpa and Grinding Capacity 2.4 mtpa) is anticipated to be commissioned in FY25E, bringing the total cement manufacturing capacity to 49.5 mtpa.
- **Guidance of industry-leading volume growth:** The company has provided guidance for industry-leading volume growth driven by increased demand in its operating region and expects higher consolidation to benefit large players in the future. In the recent quarter, the company recorded a volume growth of 8% YoY. Blended cement sales constituted 86%, with the remaining being OPC. The trade and non-trade mix for the year was 64%/36%, compared to 65%/35% in the previous year. Premium cement accounted for 22% of overall trade sales, consistent with Q1FY25. The company aims to significantly elevate premium cement sales in the future. Capacity utilization during the quarter was 58%.
- **Pricing:** Cement prices experienced a decline in the company's operating regions in Q2FY25 but are currently similar to exit prices from that quarter. During the quarter, blended realization decreased by 9% YoY and 6% QoQ to Rs 4,607. Management has indicated an expectation for prices to trend higher only in H2FY25; however, increased competitive intensity may restrict any significant price hikes. The company envisions cement price growth of 1-2% CAGR in the future, based on historical trends. Prices in the South and East markets have de-grown more than in other regions.
- **Power/Fuel:** Power and fuel costs during the quarter increased by 3% on a per-tonne basis YoY. The company expects a marginal decline in power and fuel costs during the year. On a per Kcal basis, the cost was Rs 1.37, compared to Rs 1.35 in Q1FY25. Fuel consumption costs decreased from \$152/tonne to \$104/tonne in Q2FY25. The company aims to achieve a renewable power capacity of 341 MW by FY25, further aiding in cost rationalization. As of the latest update, the Waste Heat Recovery System (WHRS) and solar capacity stand at 72 MW and 130 MW, respectively.
- **Carbon Negative by 2040:** In line with its commitment towards RE100 by 2030 and becoming carbon negative by 2040, DCBL has signed multiple Group Captive RE Power Agreements, securing 151 MW of renewable energy. This brings the total renewable energy capacity to 278 MW, including the previously secured 127 MW.
- **Freight:** On a per-tonne basis, freight costs decreased by 2% to Rs 1,099. Lead distance stood at 280 km in Q1FY25, compared to 264 km in Q1FY24. The increase in lead distance is attributed to the supply of cement to the Central region market.
- **OCF & Capex:** During H1FY25, the company generated operating cash flow (OCF) of Rs 210 Cr, compared to Rs 681 Cr, due to lower profitability and higher working capital requirements. Total capital expenditure (Capex) in FY25 is expected to be in the range of Rs 3,000-Rs 3,300 Cr. During H1FY25, the company spent Rs 1,380 Cr on Capex.
- **Debt/Cash:** The current gross debt stands at Rs 4,784 Cr, with cash and cash equivalents at Rs 4,140 Cr, including the Mark-to-Market (MTM) value of IEX investment at Rs 2,719 Cr. Net debt is recorded at Rs 644 Cr. On a QoQ basis, net debt increased by Rs 200 Cr, while gross debt rose by Rs 171 Cr.
- **Incentive:** The incentive accrued was Rs 61 Cr in Q2FY25, while the incentive collected amounted to Rs 20 Cr during the same period. The total incentive receivable stood at Rs 719 Cr as of September 30, 2024. For FY25, the company expects incentive accrual in the range of Rs 300 Cr, including incentives due from Murli Industries.
- **Interim dividend:** In line with its capital allocation plan, the company has declared interim dividend of Rs 4/share.

Key Risks to Our Estimates and TP

- Lower realization and demand in its key markets and delay in capacity expansion.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	15,094	16,906	15477	17253	-2%	-2%
EBITDA	2,453	3,146	2655	3260	-8%	-4%
PAT	638	1,133	800	1216	-20%	-7%

Source: Company, Axis Securities Research

Result Review Q2FY25

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg QoQ	% Chg YoY
Net sales	3087	3621	3,149	-15%	-2%
Expenditure	2653	2952	2,560	-10%	4%
EBITDA	434	669	589	-35%	-26%
Other income	73	50	85	46%	-14%
Interest	98	95	101	3%	-3%
Depreciation	336	317	401	6%	-16%
PBT	73	307	172	-76%	-58%
Tax	24	49	48	-51%	-50%
Adjusted PAT	46	141	118	-67%	-61%
EBITDA margin (%)	14.1%	18.5%	18.7%	(460bps)	(440bps)
EPS (Rs)	2.5	7.5	6.3	-67%	-61%

Source: Company, Axis Securities Research

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg QoQ	% Chg YoY
Volume/mtpa	6.70	7.40	6.20	-9%	8.1%
Realization/tonne (Rs)	4607	4893	5,079	-5.8%	-9%
Cost/tonne (Rs)	3960	3989	4,129	-1%	-4%
Raw material/tonne (Rs)	664	818	860	-19%	-23%
Staff Cost/tonne (Rs)	327	308	365	6%	-10%
Power & Fuel/tonne (Rs)	1055	1023	1,126	3%	-6%
Freight/tonne (Rs)	1099	1122	1,018	-2%	8%
Other Expenses /tonne (Rs)	815	719	761	13%	7%
EBITDA/tonne (Rs)	648	904	950	-28%	-32%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	13,540	14,680	15,094	16,906
Other operating income	0	0	0	0
Total income	13,540	14,680	15,094	16,906
Raw Material	1,981	2,703	2,646	2,884
Power & Fuel	3,679	3,116	3,277	3,572
Freight & Forwarding	2,802	3,203	3,479	3,792
Employee benefit expenses	771	871	885	938
Other Expenses	1,991	2,159	2,354	2,573
EBITDA	2,316	2,628	2,453	3,146
Other income	138	326	269	287
PBIDT	2,454	2,954	2,722	3,434
Depreciation	1,305	1,498	1,341	1,540
Interest & Fin Chg.	234	386	385	361
E/o income / (Expense)	-	-	-	-
Pre-tax profit	915	1,070	996	1,534
Tax provision	242	216	229	383
RPAT	673	854	768	1,150
Minority Interests	44	27	17	17
Associates	554	-	-	-
APAT after EO item	1,035	827	751	1,133

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	25,543	27,749	28,475	29,728
Net Block	16,467	17,855	19,238	20,235
CWIP	1,859	2,284	2,284	2,284
Investments	587	588	588	588
Wkg. cap. (excl cash)	881	738	757	851
Cash / Bank balance	285	582	350	389
Misc. Assets	5,464	5,702	5,258	5,381
Capital employed	25,543	27,749	28,475	29,728
Equity capital	37	38	38	38
Reserves	15,591	16,359	16,903	17,942
Minority Interests	116	110	127	144
Borrowings	3,742	4,630	4,735	4,807
DefTax Liabilities	1,634	1,795	1,795	1,795
Other Liabilities and Provision	4,423	4,817	4,878	5,001

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	1,321	1,069	883	1,534
Depreciation	1,305	1,498	1,341	1,540
Interest Expenses	231	386	385	361
Non-operating/ EO item	-95	-304	-269	-287
Change in W/C	-77	46	-19	-94
Income Tax	-14	-54	-229	-383
Operating Cash Flow	2,252	2,635	2,092	2,669
Capital Expenditure	-2,709	-2,827	-3,019	-2,536
Investments	329	-570	500	-
Others	87	47	269	287
Investing Cash Flow	-2,326	-2,750	-2,250	-2,249
Borrowings	-677	1,099	405	72
Interest Expenses	-297	-439	-385	-361
Dividend paid	-169	-169	-94	-94
Others	-33	-13	-	-
Financing Cash Flow	-118	48	-7	-38
Change in Cash	94	107	-232	39
Opening Cash	140	234	341	109
Closing Cash	234	341	109	148

Source: Company, Axis Securities Research

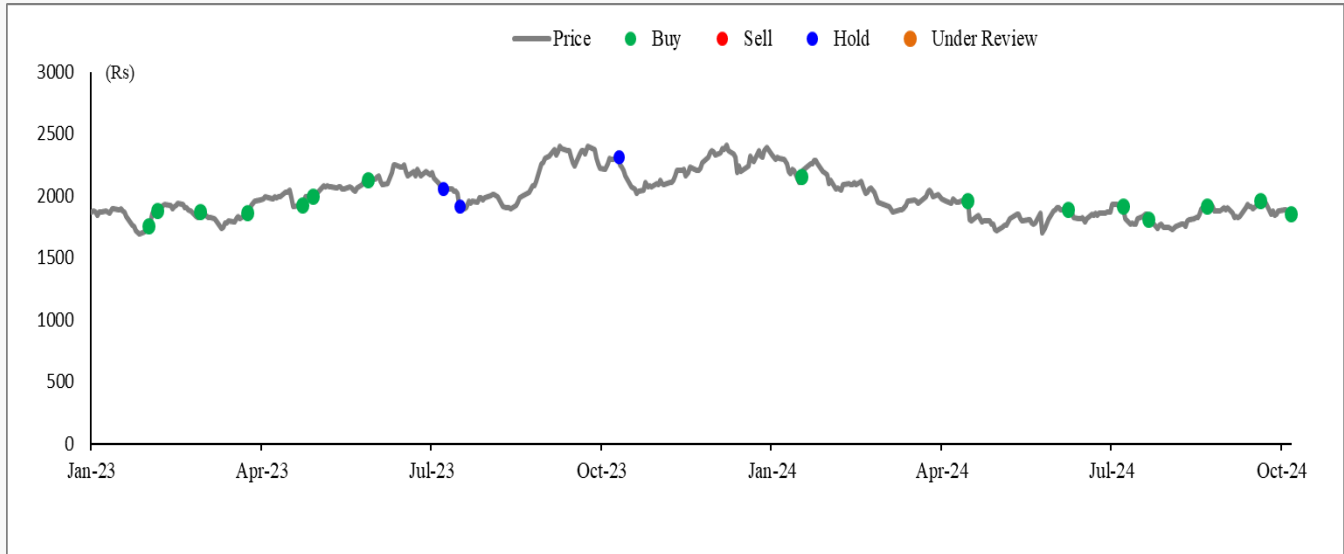
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Sales growth	20%	8%	3%	12%
OPM	17%	18%	16%	19%
Op. profit growth	-5%	13%	-7%	28%
COGS / Net sales	62%	61%	62%	61%
Overheads/Net sales	20%	21%	21%	21%
Depreciation / G. block	5.3%	5.6%	4.6%	4.7%
Effective interest rate	6.3%	8.3%	8.1%	7.5%
Efficiency Ratios				
Total Asset Turnover (x)	0.53	0.53	0.53	0.57
Sales/Gross block (x)	0.55	0.54	0.50	0.52
Sales/Net block(x)	0.82	0.82	0.78	0.84
Working capital/Sales (x)	0.20	0.21	0.14	0.13
Valuation Ratios				
P/BV (x)	2.17	2.07	2.00	1.88
PER (x)	33	41	54	30
EV/Ebitda (x)	15.0	13.1	14.4	11.2
EV/Sales (x)	2.6	2.3	2.3	2.1
EV/Tonne \$ (x)	110	94	87	87
Return Ratios (%)				
ROE	7%	5%	4%	6%
ROCE	6	7	6	8
ROIC	7	8	7	9
Leverage Ratios				
Debt/equity (x)	0.24	0.29	0.29	0.27
Net debt/ Equity (x)	0.04	0.02	0.07	0.07
Debt service coverage ratio (x)	0.31	0.31	0.29	0.39
Interest Coverage ratio (x)	4.91	3.77	3.59	5.25
Cash Flow Ratios				
OCF/Sales	0.17	0.18	0.14	0.16
OCF/Ebitda	0.97	1.00	0.85	0.85
OCF/Capital Employed	0.11	0.12	0.09	0.11
FCF/Sales	-0.03	-0.01	-0.06	0.01
Payout ratio (Div/NP)	16.3	20.4	14.7	8.3
AEPS (Rs.)	55.2	44.1	34.0	60.4
AEPS Growth	27	-20	-23	78
CEPS (Rs.)	125	124	106	143
DPS (Rs.)	9	9	5	5

Source: Company, Axis Securities Research

Dalmia Bharat Price Chart and Recommendation History



Date	Reco	TP	Research
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
24-Jul-23	HOLD	2,015	Result Update
17-Oct-23	HOLD	2,250	Result Update
25-Jan-24	BUY	2,470	Result Update
25-Apr-24	BUY	2,050	Result Update
19-Jun-24	BUY	2,140	Result Update
19-Jul-24	BUY	2,035	Result Update
01-Aug-24	BUY	2,120	Result Update
02-Sep-24	BUY	2,120	Top Picks
01-Oct-24	BUY	2,150	Top Picks
22-Oct-24	BUY	2,040	Result Update

Source: Axis Securities Research

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RATING SCALE: Definitions of ratings

Ratings	Expected absolute returns over 12 – 18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.