



Dalmiapuram, Tamil Nadu

Management discussion and analysis

Indian economic overview

India has been growing at an accelerated rate over the last few years, maintaining its position as the world's fastest-growing major economy. Although GDP growth is expected to decline from 8% in FY16 to 7.1% in FY17 as per the Central Statistics Organisation, the near-term outlook for India remains bright on the basis of four key governmental reform measures:

- The implementation of Insolvency and Bankruptcy Code
- The liberalisation of FDI norms across sectors
- The operationalisation of the Goods and Services (GST) Amendment Bill
- The signing of an agreement between the Central Government and the Reserve Bank of India on a monetary policy framework including the setting up of a monetary policy committee and agreeing on a flexible inflation target



The Central Government has also taken a number of steps to attract domestic and foreign investments with a focus on promoting 'Make in India' and building world-class infrastructure. Additional structural reforms to address legacy impediments to growth like GST implementation, clearing of NPAs of public sector banks, increased investment in the education sector and the implementation of the revised 'Housing for All' policy should sustain India's housing and infrastructural growth. The Central Government announced a record budgetary allocation of ₹3.96 lac crore to the infrastructure

sector for FY18, as opposed to ₹2.21 lac crore for FY17 (an increase of almost 80%). The year also witnessed the 'Smart Cities' initiative getting underway, with 60 cities being shortlisted for financing after the first three rounds.

Cement industry overview

India is the world's second largest cement producer, producing 280 MT in FY17.

Demand

The housing sector is the largest consumer of cement in the country, with approximately 60% of the total consumption being contributed by the

housing sector. The Government also laid a keen emphasis on overcoming housing shortage in the country by introducing the 'Housing for All by 2022' scheme, Smart Cities, Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Pradhan Mantri Gramin Awas Yojna (PMGAY) schemes. The target number of houses to be built under the PMGAY scheme increased by 33% to 40 million units. Growth in the infrastructure and construction sectors will also result in increased demand for cement. To reduce logistical constraints, the nation's transportation infrastructure i.e. rail, roads

Budgetary support

- An 80% increase in budgetary allocation towards the infrastructure sector from ₹2.21 lac crore in the earlier Budget, to ₹3.96 lac crore for FY18
- Allocation to the roads and highways sector increased to ₹64,900 crore
- An 8% increase in allocation (₹1,31,000 crore) for laying 3,500 kilometres of railway lines in FY18
- Tax incentives and infrastructure status accorded to affordable housing
- Central Government's projected spending on 'Housing for All' over 2018-24 stands at US\$85 bn

and ports, are receiving a facelift. Projects such as dedicated freight corridors, new airports and ports will drive cement demand.

Supply

The pan-India cement capacity increased to 457 million tonnes by end FY17, from ~440 million tonnes in FY16. India's cement production capacity is expected to touch 510 million tonnes by FY20. This growth is driven largely by the Central Government's renewed focus on infrastructural development and capital investments made towards boosting economic growth. As the economy revives, the country's cement industry is expected to perform better due to improved demand and enhanced capacity utilisation. (Source: IBEF, CSLA, Statista, Edelweiss)

Our regions

Southern India: Currently, South India accounts for 25% of domestic cement demand. The demand in Southern India rose by 6% Y-o-Y on the back of demand growth in Telangana and Andhra Pradesh by more than 20% Y-o-Y in FY17. The main reasons that have boosted growth are improved sentiment, development activities undertaken at the new identified state capital of Amravati, resumption of irrigation projects, innovative land pooling

for construction activities and a greater reliance on more formal sources of funding.

Decisive initiatives in the realm of infrastructural development by the State Governments of Andhra Pradesh and Telangana have raised hopes of a sharp and sustained demand recovery over the next couple of years.

North-Eastern India: The Government is placing a special attention on infrastructure development projects like road, rail, communication and telecom in this region. North-Eastern India is more leveraged to government spending trends than any other region in India. With increased investment in infrastructure by the government and various projects already in the pipeline, the North East India should emerge as the highest growth area in the country.

Eastern India: Eastern India accounts for ~17% of the overall domestic cement output. It is estimated that there is a shortage of 60 million housing units (of which 20 million are in urban areas). Of this, more than 51% of the shortage is in the Eastern and Central regions. Hence, the Eastern region is expected to see the highest capacity addition, going ahead. The Central Government's demonetisation drive in November 2016 resulted in subdued cement prices and volumes for the rest of



Ongoing projects

- Construction of mass rapid transit systems such as metro rails in the Eastern and Central Indian states
- The Indian Railway's marquee dedicated freight corridor project involves construction of two corridors, one each on the Western and Eastern routes, spanning a total length of 3,300 kilometres at a cost of ₹810 billion

FY17. Currently, we are witnessing strong demand growth in Eastern India driven by housing and rejuvenated infrastructure development.

(Source: Indian Express, Business Standard, Motilal Oswal)

Company overview

Dalmia Bharat Limited (DBL) along with its subsidiaries (collectively referred to as 'Dalmia Bharat' or 'the Company' or 'the Group') is a leading player in the Indian domestic cement manufacturing space. With a 11.2% market share in our operating geographies and 25 million tonnes of installed capacity, Dalmia Bharat is a dynamic proxy for the Indian cement industry.

The Company has a manufacturing presence spread across 11 locations in eight Indian states. The Company enjoys steady offtake in Southern and North-Eastern India through its robust portfolio of brands like Dalmia DSP, Dalmia, Dalmia Ultra, Vajram, Dalmia Superroof, Konark, and Dalmia SRPC.

Operational performance

Dalmia Bharat's relentless pursuit for excellence has allowed it to augment operational efficiency and grow sustainably year-after-year. These are the results:

- Among the lowest power consumers (70 units per tonne of cement) in the cement sector
- Lowest carbon footprint in the cement sector
- One of the lowest variable costs per tonne in the industry (₹1320 per tonne)
- One of the highest blended cement ratios in the industry ~80%

The Company's EBITDA per tonne improved from ₹861 in FY15 to ₹1258 in FY17. The Company optimised its product mix, used environment-friendly raw materials and adopted best-in-class practices. The result: overall manufacturing costs (ex-interest, depreciation and tax) as a proportion of revenues declined from 83% in FY15 to 74% in FY17.

Power and fuel costs

Dalmia Bharat has made a concerted effort over the past decade to increase the consumption of economic fuels, which include pet coke, carbon black, wood, charcoal, municipal waste and saw dust. The Group invested in reducing its carbon footprint and strengthening eco-friendliness. Currently, around 80% of its total fuel consumption is being met by these fuels. By prudently changing the raw material mix, the Group increased the consumption of alternative additives (replacing clinker proportionately), many of which are derived from industrial waste. This helped in a reduction of power & fuel cost. Dalmia Bharat was able to moderate power and fuel costs per tonne from ₹649 in FY16 to ₹608 in FY17.

Consolidated financial performance

Gross revenues

Total gross revenues stood at ₹8,348 crore in FY17, increasing by 15% compared to ₹7,262 crore in FY16.

Operating profit

Operating profit or EBITDA increased by 19.5% during FY17 to ₹1,902 crore from ₹1,592 crore in FY16, largely as a result of a growing topline due to higher realisations earned and by reducing operating expenses by the increased use of alternative raw material and alternative economical fuels.

Depreciation

Depreciation for the year under review stood at ₹603 crore compared to ₹581 crore in the previous year, up by 3.7% on a Y-o-Y basis mainly because of the commissioning of the Belgaum and Umrangshu units.

Finance costs

Finance costs for the year under review increased by nearly 21% from ₹730 crore to ₹890 crore mainly because of the commissioning of the Belgaum and Umrangshu units.

Total tax expenses

Total tax expenses for the year stood at ₹276 crore, which included Current Tax payouts worth ₹266 crore and Deferred Tax charges worth ₹24 crore.

Net profit

Consolidated net profit for the year under review stood at ₹345 crore, a 81% increase over the previous year.

Balance sheet analysis

Net worth

The net worth of the Company stood at ₹5,578 crore as on 31st March, 2017, increasing by 9% compared to ₹5,115 crore as on 31st March, 2016.

Loan profile

The total loan funds of the Company stood at ₹8,049 crore while long-term borrowings stood at ₹6,820 crore. Net debt as on 31st March, 2017 stood at ₹5,240 crore.

Inventories

Inventories decreased by 7% to ₹649 crore during the year under review from ₹698 crore in the previous year.

Sundry debtors

Sundry debtors of the Company stood at ₹593 crore in FY17, an increase of 16% over the previous year.

Cash and cash equivalents

The Company had on its books cash and cash equivalents worth ₹2,816 crore as on 31st March, 2017 as compared to ₹2,788 crore in FY16.

Current liabilities

Current liabilities stood at ₹4,237 crore comprising mainly trade payables of ₹954 crore and borrowings of ₹1,220 crore.

Safety

Employee safety is a large focus area for the Company. We actively seek to eliminate work hazards and provide one of the safest work environments to employees. Most of our integrated plants and grinding units were IMS-certified (9901, 14401, & 18001). Key initiatives over the year comprised:

- A single permit system was implemented



for different activities helping monitor, track, reduce person-hours and ensure work was completed in a safe manner.

- Heat proximity suits were procured for workers in high temperature zones.
- Ergonomically designed platforms were erected for safety of tarpaulin and in the fabrication section for opening the lid of the cement and AFR bulkers. These platforms eliminated the use of safety harnesses, making it safer, user-friendly and cost-effective.
- The truck parking yard design has been designed as per international standards. This design helps ergonomics for the driver by reducing the turning radius and avoiding all instances of reversing, collision, run-over instances and bottlenecks in case of a break down. A systematic way of parking ensures designated bays for various sizes of trucks.
- The design parking yard design was developed keeping 15 years of foresight, accounting for quicker turn-around times, compatibility with technology upgrades such as RFID and technology upgrades for commercial vehicles.

Going ahead, the Group is in the process of establishing an enterprise-wide safety function to implement strategies, improve performance and work towards realising its vision of an accident-free workplace.

Research and development

R&D plays a pivotal role in improving product quality and bringing down production costs. Dalmia Bharat has strengthened its R&D competitiveness in terms of operational and manufacturing efficiency. This is how it has made this happen:

- Increasing the use of alternative and economical fuels
- Improving quality through the use of high performance chemicals
- Reorienting the raw design mix
- Increasing fly ash and slag absorption in the manufacture of PPC and PSC varieties respectively

Dalmia Bharat's R&D team constantly strives to moderate clinker composition and make the products more eco-friendly. By leveraging international technologies and collaborations, it has been successful in

improving product design, development and applications. The Company's routine investment in its world-class R&D department (a total of ₹6.5 crore during FY16-17) was instrumental in improving sales and profitability.

Information technology

In order to enhance organisational responsiveness, deliver sustainable and cost-effective solutions and reduce time-to-market, Dalmia Bharat invested in a best-in-class information management platform. During the year, the Company focused on improving mobility and designed apps, which helped improve real-time engagement with customers for online transactions such as placing orders, requesting credit, invoicing and complaints resolution.

The Company successfully migrated more than 95% of its workload from on-premise servers to a state-of-the-art cloud platform. This enabled the cost-efficient rollout of applications, reducing operational overheads.

Additionally, the deployment of an

integrated GRC (Governance, Risk and Compliance) platform spanning functions provides the management with real-time information to make well-informed decisions and manage risk. The IT systems are secured with some of the best breed of security technologies to prevent unauthorised access or data theft.

The Group intends to create innovative operational efficiencies that extend beyond ERP through plant automation, business analytics, real-time information availability and supply chain management, which will ease access and engagement for customers and other stakeholders.

Risk management

At Dalmia Bharat, we are aware of the challenges that a business faces. Our ability to enhance value is dependent on addressing key risks. The Company's robust risk management programme focuses on ensuring that risks identified and addressed prudently. Our goal is to maximise realisations and minimise losses.

Economic risk: Fluctuations in macroeconomic factors can have an adverse impact on the Company's operations. Dalmia monitors all macroeconomic factors proactively and formulates strategies to minimise business impact.

Cost risk: An increase in raw material, power and fuel costs could impact profitability. The Company acknowledges that variable costs comprising raw materials, power and fuel constitute more than 40% of total costs. Green initiatives like a higher production of blended cement with increased use of additives (industrial waste) like fly ash and slag plus optimisation of fuel mix through higher usage of economic fuel resulted in the moderation of power and fuel costs from ₹649 per tonne in FY16 to ₹608 per tonne in FY17.

Logistics risk: Rising logistic costs could impact realisations. The Group established its plants at strategic locations with proximity to all key serving markets and

raw material sources. The Company's enhanced focus on digitisation could help lower the logistics cost and lead time.

Competition risk: The cement industry in India is witnessing rising competition from national players, which could affect margins. At Dalmia Bharat, we possess a diverse product mix catering to every segment and need. Adept marketing initiatives enhanced brand recall and salience. Focus on quality, cost and customer service mitigated competition risk for the Group.

Credit risk: Dalmia Bharat successfully refinanced debt stemming from recently-acquired assets. Cash and cash equivalents stood at a comfortable ₹2,816 crore as on March 31, 2017. The Group's fiscal prudence was reflected in its low weighted average debt cost.

Internal control systems

The Company has a robust internal control system for Risk Management, business operations, financial reporting & compliance with applicable laws and regulations. The roles and responsibilities of all employees and functions have been clearly laid out through a number of detailed standard operating procedure & delegation of power document. SAP-ERP system has been implemented to ensure best in class accounting & financial control. The internal auditor of the Company conducts regular internal audits as per Board approved plan and the Audit Committee conducts periodic reviews to adjudge the adequacy and effectiveness of internal control systems and undertakes corrective measures whenever required.

Outlook

We expect cement demand to be strong due to concerted efforts by the Central and State Governments on Infrastructure development and affordable housing.

Dalmia Bharat has invested in building capabilities and is expected to further sweat the assets and improve utilisation, creating value for all our stakeholders.

Awards and recognitions

- Won the first prize at the Zonal Mines Safety Competition, Kadapa
- Recognised by CII with the 'Environment Health & Safety (EHS) Award – 4 Star Rating' for its Dalmiapuram and Ariyalur units
- Won second prize for 'Best Safety Practices' at an event organised by CII and the Directorate of Factories, Dalmiapuram
- Dalmiapuram Unit received National Level 3rd Position in the competition for the Award for Outstanding Industrial Relations.
- Won the 'CSR implementing agency of the year' at India International CSR Conclave 2017
- Won the Best CSR Award 2017, by World CSR Congress
- Was awarded 3rd Position in the Competition for the Award for Outstanding Industrial Relations FY16, by All India Organisation of Employers (AIOE)