Dalmia Bharat

Play on size and attractive valuations

- India's 4th largest cement producer
- Key player in East, South and North East
- Low cost cement producer
- Attractive Valuations
- Margins rank in Top-4

- Comfortable B/S
- Margins near lows in East region
- Strong earnings growth

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Dalmia Bharat

Rating: BUY | CMP: Rs1,118 | TP: Rs1,480 | Mcap: Rs208.9bn

We initiate coverage on Dalmia Bharat (DALBHARA) with BUY rating, underpinned by strong earnings growth and compelling valuations post mutual fund fiasco. DALBHARA is India's 4th largest cement producer with capacity of 29.6mnt, spread over East, South and West region. In South (40% volume share), more than 75% volumes come from profitable states of Tamil Nadu, Karnataka and Kerala while volatile and oversupply prone states of AP & Telangana constitute only 25% of volumes. In East (50% of volumes), the company enjoys logistics edge over peers with integrated operations in Odisha. Led by strong market positioning and competitive cost structure, DALBHARA's margins rank in top quartile of the sector. To further consolidate its position in East region, company is expanding East plant's capacity by 75% or 8mnt with its All-India capacity increasing by 27% to 37.5mnt. This would drive 13%/31% CAGR in EBITDA/PAT for FY20-FY23E. We value the stock at Rs1,480, EV/EBITDA of 9.0x FY23e (25% discount to pre-MF episode valuations of 12.0x).

- **Logistics advantage allay overcapacity concerns in East operations:** Although East region would witness flooding of capacity over next couple of years, DLBHARA's Odisha plant would sustain Rs950/t EBIDTA (Best in region) due to advantages in 1) logistics with lead distance lower by 250kms over peers in major cement consuming states of the region, 2) high blending ratio and 3) strong network of split Grinding units (GUs).

- **Steady margins and double digit volume growth to drive 13% EBITDA CAGR in FY20-FY23e:** Led by 12% volume growth and stable margins, we expect EBITDA to grow at a CAGR of 12.6% over FY20-FY23e. Commissioning of capacity in East would improve RoCE to 14.8% in FY23e. While, RoE would remain at 14% due to higher estimated tax rate.

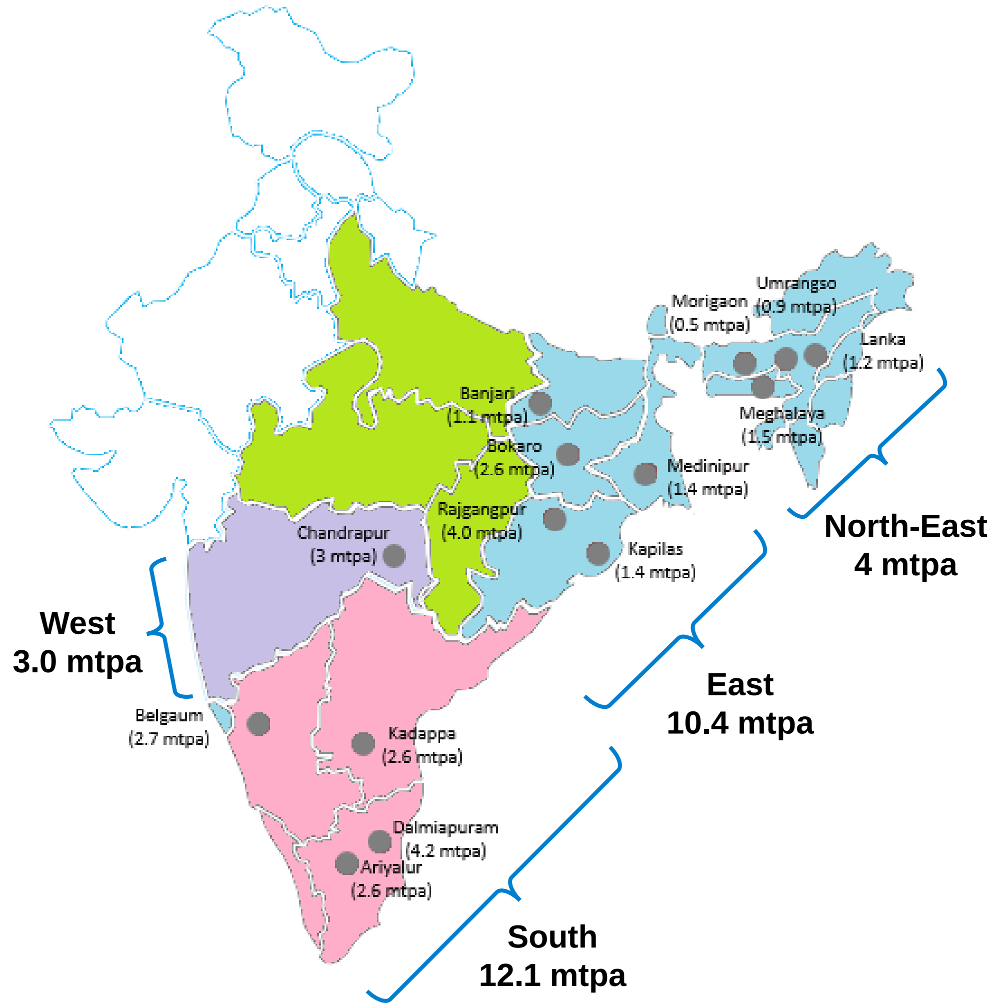
- **Mutual fund fiasco factored in valuation:** Stock underperformed peers by ~30% since MF episode in Feb'2019. Its broker, Allied Financial Services allegedly transferred MF Investments worth Rs3.7bn to be use as collateral against trades in derivatives. Post this lapse, the company has placed rigorous risk management processes to check any such recurrence, which will help regain investor confidence improve valuations.

	Y/e March	2020	2021E	2022E	2023E
Income Statement (Rs m)	Net Sales	96,740	1,05,409	1,22,561	1,36,269
	Growth (%)	*2.0*	*9.0*	*16.3*	*11.2*
	EBITDA	20,830	27,233	26,251	29,763
	Growth (%)	*6.8*	*30.7*	*-3.6*	*13.4*
	Margin (%)	*21.5*	*25.8*	*21.4*	*21.8*
	EBIT	7,750	14,249	12,145	15,206
	Net Interest	4,150	3,563	3,819	3,328
	Depreciation	13,080	12,984	14,106	14,557
	PBT	3,570	12,412	10,468	14,284
	Total Tax	1,190	4,344	3,664	4,999
	Adj. PAT	4,090	7,918	6,654	9,135
	Growth (%)	*34.1*	*93.6*	*-16.0*	*37.3*
Balance Sheet (Rs m)	Gross Block	1,87,440	2,12,752	2,21,713	2,31,737
	Investments	29,480	35,005	35,031	35,053
	Inventories	9,740	10,108	11,752	13,067
	Trade receivables	3,970	4,332	5,373	5,973
	Cash & Bank Balance	4,030	9,768	17,183	22,847
	Equity Share Capital	390	378	378	378
	Total Net worth	1,05,610	1,14,609	1,20,889	1,29,650
	Borrowings	60,490	62,171	56,886	43,257
	Trade payables	8,320	9,241	10,745	11,947
Cash Flow (Rs m)	Net cash from Op. activities	23,370	26,666	24,383	26,322
	Net Cash from Invt. activities	-17,600	-14,616	-7,490	-3,327
	Net cash from Fin. activities	-5,910	-6,312	-9,477	-17,331
	Net change in cash	-140	5,738	7,416	5,663
	Free Cash Flow	9,870	14,894	15,422	21,258
Key Ratios	EPS (Rs)	21.2	42.4	35.6	48.9
	BPVS (Rs)	547.3	613.6	647.2	694.1
	DPS (Rs)	2.0	2.0	2.0	2.0
	RoCE (%)	12.1	15.4	13.0	14.8
	RoE (%)	14.4	17.4	13.2	13.9
	Net Debt : Equity (x)	0.3	0.2	0.1	-0.1
	Net Working Capital (Days)	20.3	18.0	19.0	19.0
	PE (x)	52.8	26.4	31.4	22.9
	P/B (x)	2.0	1.8	1.7	1.6
	EV / EBITDA (x)	11.8	8.4	8.2	6.6
	EV / Tonne ($)	132.2	95.0	82.8	70.4
	Net Debt/EBITDA (x)	1.6	0.9	0.4	-0.3

DALBHARA, India's 4th largest cement producer with capacity of ~29mnt

Dalmia Bharat Ltd. (DALBHARA) is India's 4th largest cement producer with strong presence in East and South India. Over FY05-FY21, DALBHARA has grown from a 1.2mtpa single-location cement company in South to a 29.6mtpa player through organic and inorganic expansions having presence in 11 states across the West, South, East and North East regions with 15 plants.

- In South, >50% of its capacity is located in supply deficit and highly attractive market of Tamil Nadu, while balance has logistical advantage in Andhra Pradesh and Karnataka.
- DALBHARA plans to expand its capacity by 27% to 37.5mtpa by 2023 via expansion in East region.
- In East, company commands 12.5% market share and is currently fifth largest player. Post 7.8mtpa expansion, it will gain third position with 17% market share.
- DALBHARAT is market leader with 25% share in North east and margins in excess of Rs1,400/t
- It entered Maharashtra with acquisition of 3mtpa plant of Murali Industries through IBC route.
- New Waste heat plant of 30MW would increase the share of renewable energy from 7% to ~17% in FY23e.



Source: Industry, PL Research

Story of small to large (1.2MT in 2005 to a target of 37.5MT by March-23)

2005

- 1.2mnt capacity in South
- 1 plant, 1 state

2006-08

- Acquired 21.7% strategic stake in OCL India
- 3.5 mtpa capacity
- 3 plant, 1 state

2009-11

- Commissioned Kadapa (AP), Ariyalur (TN) and Meghalaya plants
- Increase stake in OCL to 45.4% from 21.7%
- KKR invested Rs5bn for 15% stake
- 9 mtpa capacity
- 5 plant, 3 state

2012-14

- Inorganic Expansion by acquiring Calcom Cement (North East), Adhunik Cement (North East) and Jaypee Bokaro (East)
- Commissioned Medinipur (WB) unit
- 11.8 mtpa capacity

2015-16

- Commissioned Belagum (Karnataka) and Assam plants
- Acquisition of OCL (East)

2017

- Acquired back KKR's stake
- Commissioned 8MW Solar power projects
- 25.0 mtpa capacity

2018

- Inorganic Expansion by acquiring Kalyanpur cement and Murli Industries from NCLT
- Commissioned 9.2 MW WHRS at Rajgangpur (Odisha)
- Announced 7.8 mtpa brownfield expansion in East

2019

- Group restructuring completed with merger of all operations in OCL
- Commissioned Dalmia DSP in Mar'19
- 26.5mnt cement capacity

2020

- Completed acquisition of 3mnt Murli Industries in Sep'20
- Commissioned 3.0mtpa Kiln in Odisha in Oct'20

Target

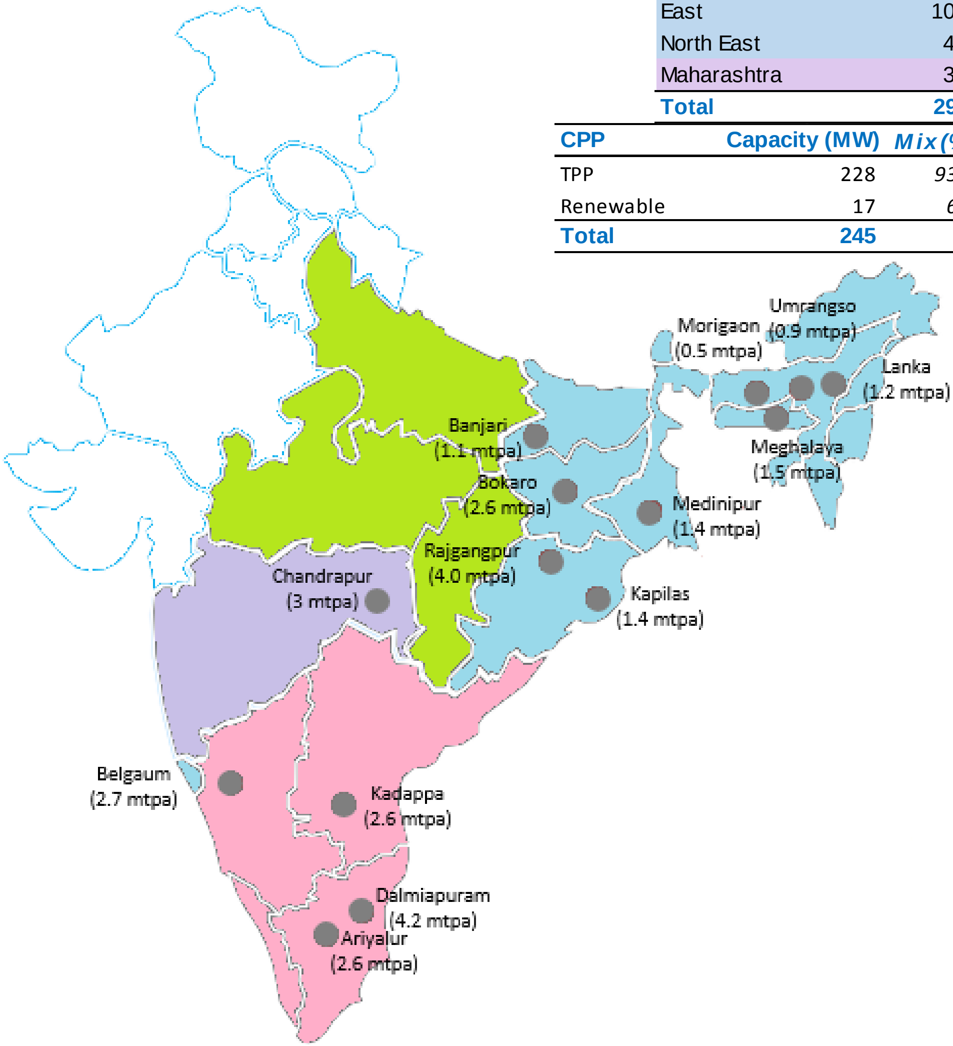
- Target 37.5mnt capacity by Mar-2023

Organic/inorganic expansion to increase capacity by ~27% in FY23e

Current

Region	Cement Capacity (mnt)
South	12.1
East	10.4
North East	4.1
Maharashtra	3.0
Total	**29.6**

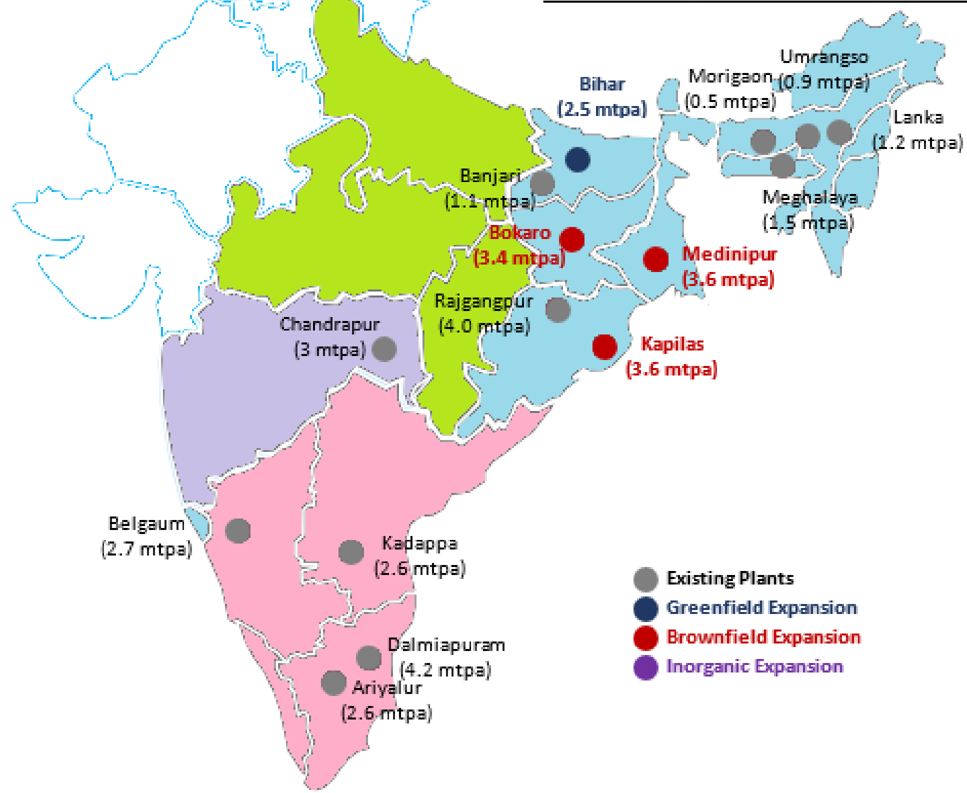
CPP	Capacity (MW)	Mix (%)
TPP	228	93.1
Renewable	17	6.9
Total	**245**	



Post Expansion

Region	Cement Capacity (mnt)	Gr (%)
South	12.1	-
East	18.2	75.0
North East	4.1	-
Maharashtra	3.0	-
Total	**37.4**	**26.4**

CPP	Capacity (MW)	Mix (%)
TPP	228	82.9
Renewable	47	17.1
Total	**275**	



Source: Company, PL Research

East region - Margins near lows; strong volume outlook offsets low margins

- **Best placed on volume growth:** Demand in the region grew at a 5-year CAGR of 9.7% led by individual house building (IHB) and steep increase in Govt spending. We expect demand to grow at 10% in FY21-FY23 on the back of rising income levels and sustained focus of respective state and central govts on infrastructure spending. Continuous growth over the years made East the largest region in India with 25% share in total demand.

- **Strong volumes to make up for low margins:** Prices in the region fell to near 7-year low in FY20 due to incessant capacity addition and intense competition. This led region's average margins fall to decade low of Rs750-800/t. We believe that region's margins would remain at current levels for next couple of years due to no change in competition landscape. Players like DALBHARA, Ultratech and Shree cement would benefit most due to their upcoming capacities and efficient operations.

- **Utilisation rates to remain upwards of 80%:** East Region is expected to see sizeable capacity addition of 8mnt/year in FY20-FY23e. Region's cement capacity utilisation at 80.5%/83.6% would outperform national average of 73%/ 76% in FY22e/FY23e as strong demand growth would help contain the supply pressure. However, clinker capacity utilisation would continue to outpace cement utilisation rates by 500bps due to incommensurate increase in clinker capacity. Shortage of slag (due to inadequate steel capacity expansion) could constrain the cement production in FY22.

- **North-East (NE), a cash cow:** North East is 8mnt market with Top-3 players controlling nearly 60% of the market. High consolidation and limited interest for capacity addition (due to local issues) help sustain margins in range of Rs1,450-1,500/t. Although flow of cement in the region has increased from East region, particularly West Bengal, but we don't expect much impact due to high logistics costs and low scale.

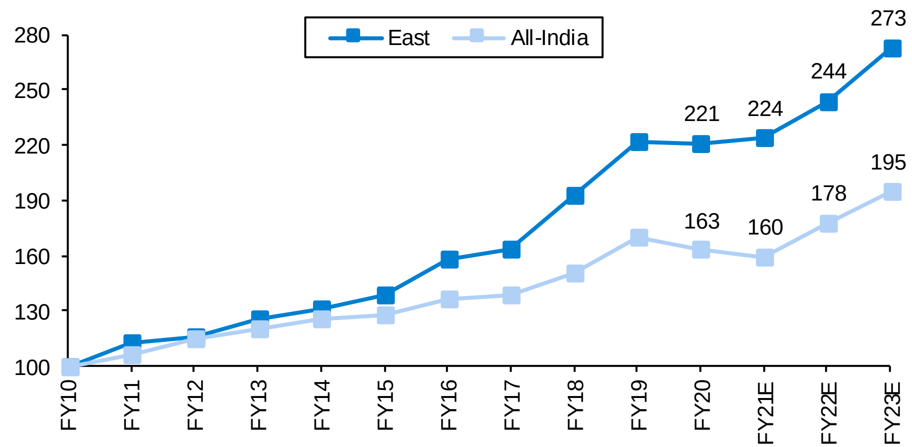
East region - Players in investment phase with focus on market share

Strong demand growth to keep capacity utilisation above 80% despite elevated capacity addition

In mn tonnes	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Year end capacity	38.8	46.5	47.6	52.1	63.6	66.6	74.5	80.1	82.1	90.1	100.6	107.8	115.8
Capacity addition	3.0	7.7	1.2	4.5	11.5	3.0	7.9	5.6	2.0	8.0	10.5	7.2	8.0
Effective capacity for the year	37.6	43.8	47.6	49.5	53.7	61.5	67.4	75.0	80.7	85.0	91.2	99.0	107.8
Cement production	33.9	35.0	37.8	39.4	41.8	48.7	50.9	61.7	72.4	71.8	72.6	79.6	89.8
Region's consumption	40.3	41.5	45.1	47.2	49.9	56.8	58.7	69.2	79.8	79.4	80.4	87.6	98.1
% Growth	*12.4*	*2.9*	*8.6*	*4.7*	*5.8*	*13.8*	*3.3*	*18.0*	*15.3*	*(0.5)*	*1.2*	*9.0*	*12.0*
Net inter-regional outflow/(inflow)	(6.4)	(6.5)	(7.3)	(7.8)	(8.1)	(8.1)	(7.8)	(7.6)	(7.5)	(7.6)	(7.8)	(8.1)	(8.3)
Surplus/(Deficit)	3.7	8.7	9.8	10.1	11.9	12.8	16.5	13.3	8.3	13.2	18.5	19.5	17.9
Capacity utilisation (%)	90.2	80.0	79.4	79.5	77.8	79.2	75.5	82.2	89.7	84.5	79.7	80.3	83.4

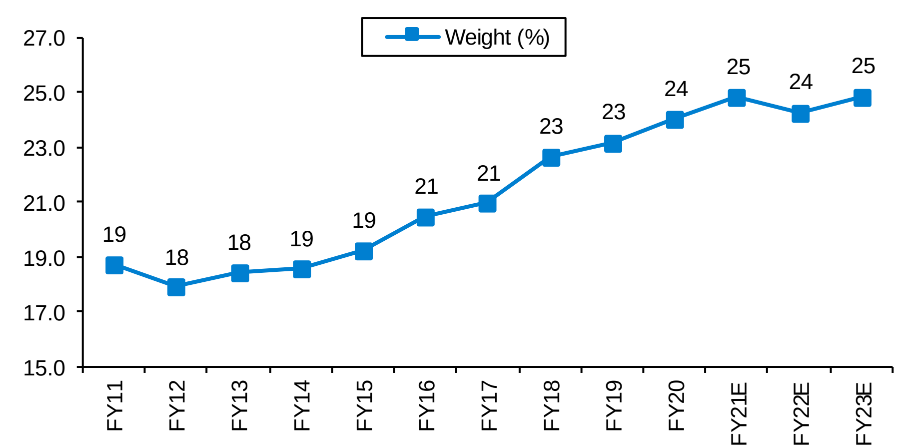
Source: Industry, PL

East region's demand growth outpaced All-India growth by a wide margin



Source: Industry, PL Research

East- Largest region with ~25% share of India's demand



Source: Industry, PL Research

East region to see ~26mnt of new capacity in FY21e-FY23e

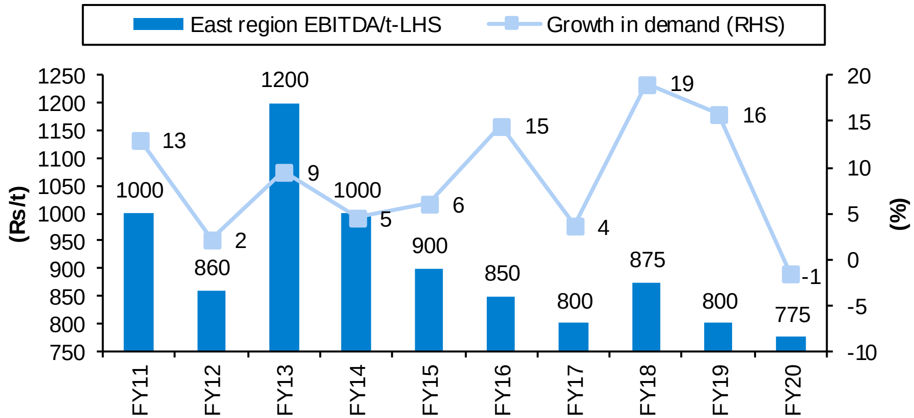
Players	FY21E		FY22E		FY23E	
	mn tonnes	Expected time	mn tonnes	Expected time	mn tonnes	Expected time
Nuvoco cement- Bihar (GU)					1.2	Q2
Shree cement-Odisha (GU)	3.0	Q4				
Shree cement-Purulia, WB (GU)					3.0	Q1
ACC-Sindri, Jharkhand (GU)	1.4	Q4				
Dalmia Cement-WB (GU)	2.3	Q4				
Dalmia Cement-Bokaro, Jharkhand (GU)	0.8	Q3				
Ramco cement-Odisha (GU)	1.0	Q3				
Dalmia Cement-Odisha (GU)			2.3	Q1		
Ultratech-Odisha (GU)			2.2	Q4		
Ultratech-West Bengal (GU)			0.6	Q2		
Ultratech-Bihar (GU)			0.6	Q2		
Star cement-West Bengal (GU)	2.0	Q4				
Sagar Cement-Odisha (GU)					1.5	Q1
Nuvoco-Jojobera,Jharkhand (GU)			1.5	Q4		
Dalmia-Bihar (GU)					2.3	Q4
Total	**10.5**		**7.2**		**8.0**	

Source: Industry, PL Research

- 85% of the expected capacity addition would come from existing players. This will help in limiting downside risk to prices
- DALBHARA would consolidate its locational advantage with addition of 7.8mnt in the region, 30% of the total upcoming capacity in the region.
- Against 26mnt of cement capacity, mere 7mnt of clinker capacity would be added. This would limit effective cement production in the region.

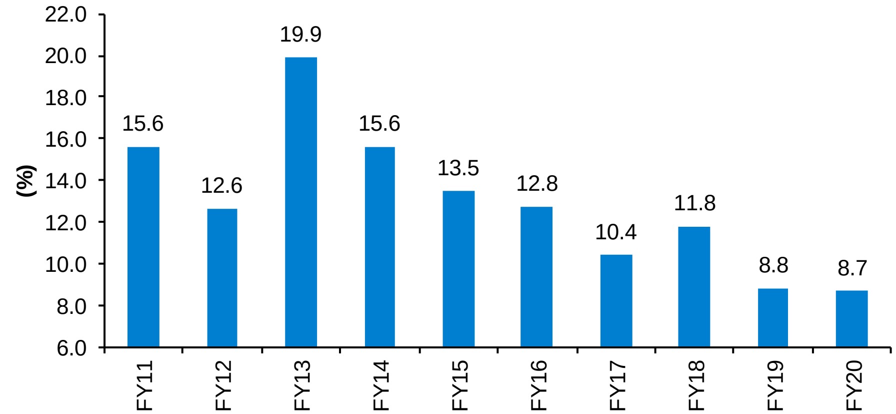
Margins and RoEs fell to near decade low in the East region

Weak margins offset by strong volume growth



Source: Industry, PL Research

RoEs dropped to record low due to low margins and high capital base



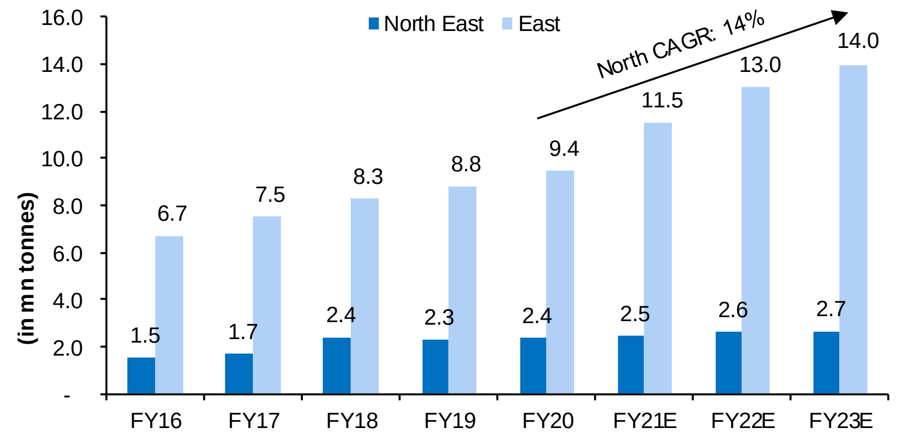
Source: Industry, PL Research

- Led by intense competition, margins fell to decade low in eastern region.
- RoEs fell below 9% due to low margins and high capex cost. Capex cost increased due to acquisition of Lafarge and Emami plants by Nuvoco (largest player with ~20% market share in region's capacity).
- We believe that margins would remain at current levels for a couple of years as the race for market share would continue with upcoming capacities.

DALBHARA gearing up to capitalise growth opportunities in East

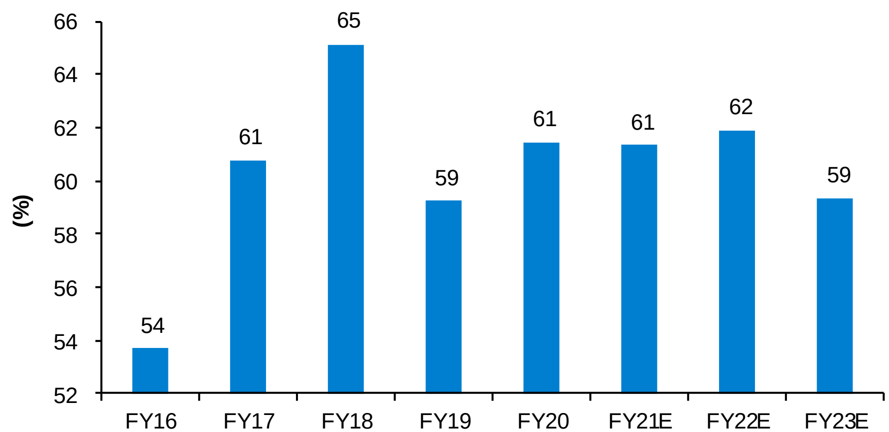
- DALBHARA would further consolidate its locational advantage in East with new capacity of 7.8mnt. This will increase capacity of its East region by 75% to 18mnt with capex of Rs32bn.
- A new 3mnt clinker line in Rajgangpur, Odisha will feed its well spread-out satellite grinding units in Odisha, West Bengal, Bihar and Jharkhand.
- Expansion would help East volumes to grow at a CAGR of 14% in FY20-FY23e.
- Volumes in NE would grow at CAGR of 4% in FY20-23e, at par with industry.
- Led by strong prices, East region's EBITDA/t is expected to increase by 13% YoY in FY21e at ~Rs1,130. We expect margins to normalise to ~Rs950/Rs980in FY22e/FY23e due to increased competition, volume push and cost pressures. NE operations would continue to maintain margins at Rs1,500/t in FY21-FY23e.

DALBHARA's East volumes to grow at a CAGR of 14% in FY20-FY23e



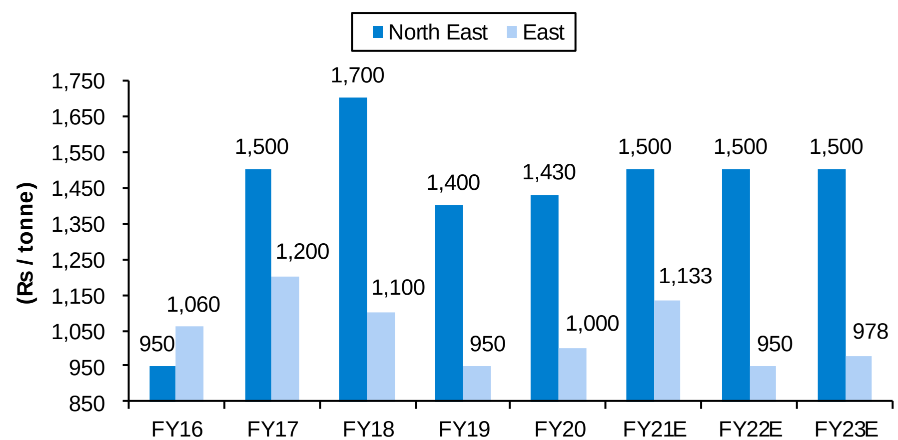
Source: PL Research

East (incl NE) region's estimated share in EBITDA to remain intact at ~60%



Source: Industry, PL Research

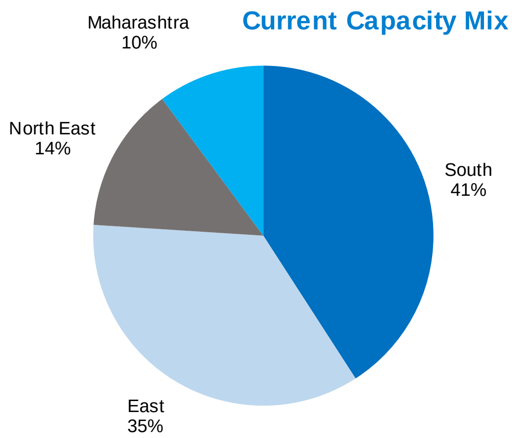
Margins in East to settle at Rs950-980/t; NE to sustain at Rs1,500/t

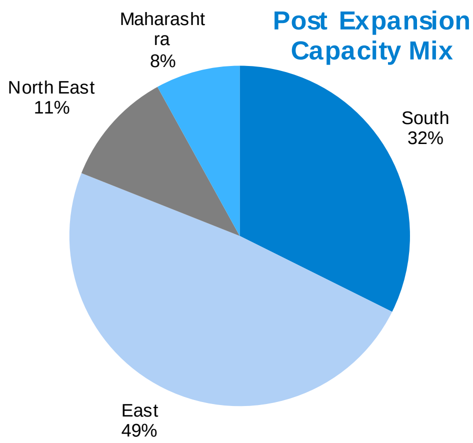


Source: Industry, PL Research

3rd largest player in East by FY23e, Will maintain market leadership in NE

East region's share in DALBHARA's capacity to increase to 49% in FY23e





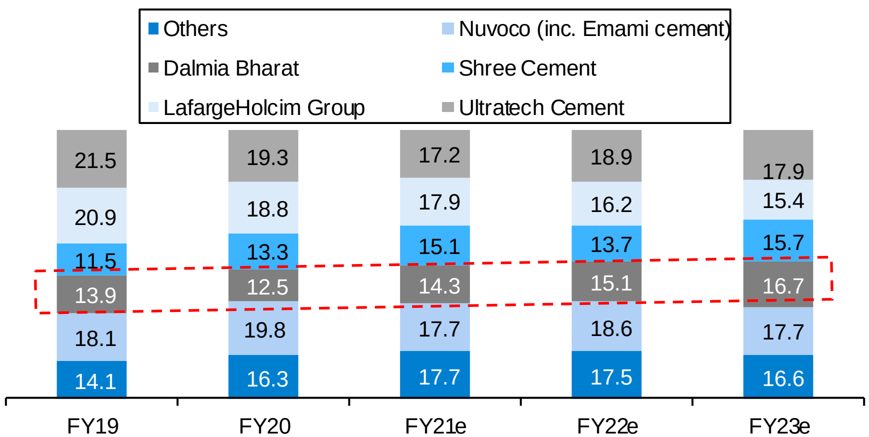
Source: Company, PL Research

Capex of Rs32bn over FY19-FY23e to expand capacity in East by 7.8mnt

Location	Cement Capacity (mnt)	Expected Commissioning
Medinipur (West Bengal)	2.3	Q4FY21e
Bokaro (Jharkhand) debottlenecking	0.8	Q4FY21e
Kapilas (Odisha)	2.3	Q1FY22e
Bihar	2.5	Q4FY23e
Total	**7.8**	

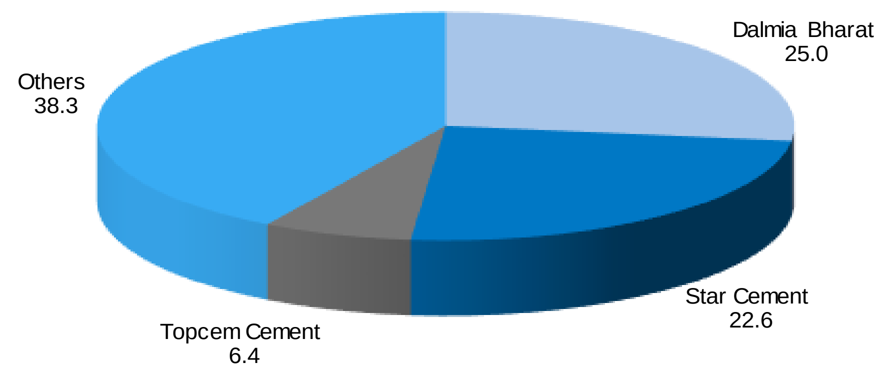
Source: Company, PL Research

3rd largest player in East region in FY23 with 16.7% market share in capacity



Source: Industry, PL Research

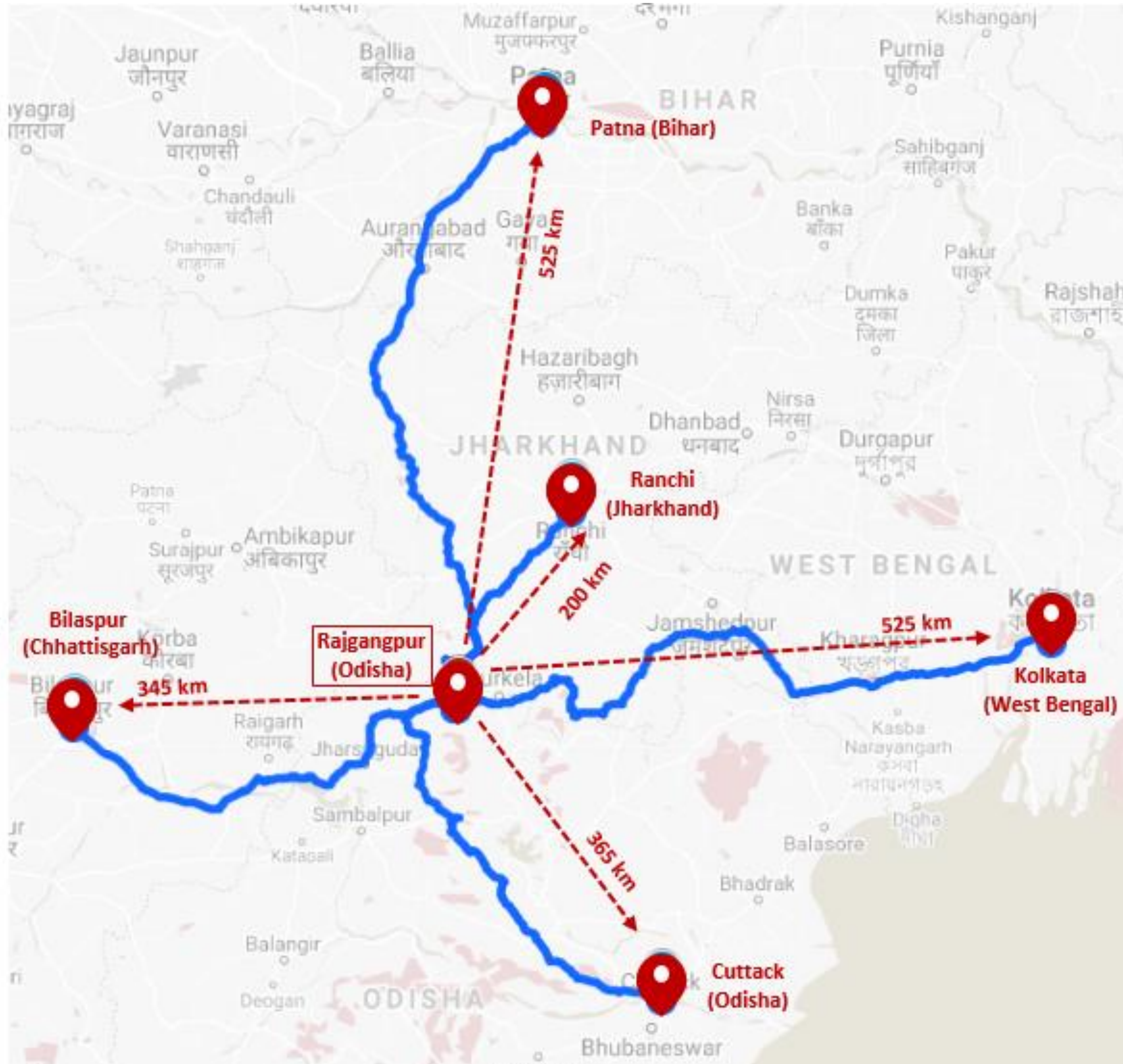
Dominant player in North East with 25% share in region's demand



Source: Industry, PL Research

DALBHARA's East operations competitive by 250kms over its peers

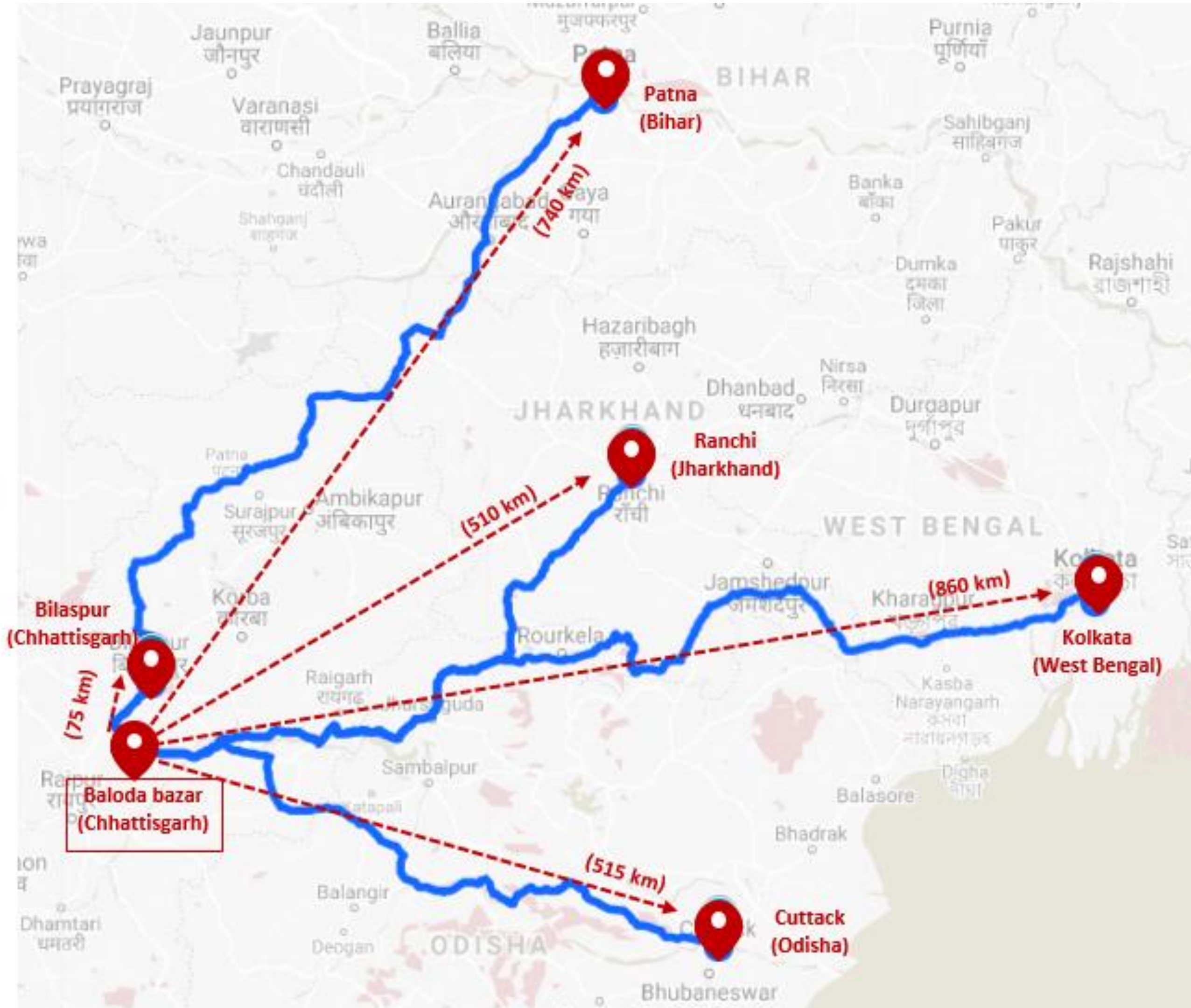
- DALBHARA's integrated cement plant in Rajganpur is the largest plant in Odisha, contributing ~70% of state's clinker production due to shortage of limestone deposits. Clinker requirement of its satellite grinding units in West Bengal (WB) and Odisha are met through this unit. Post ongoing expansion, clinker capacity increased to 6mnt with its share rising to ~75% (including upcoming expansion of 1mnt by Shiva cement, subsidiary of JSW cement).
- Rajgangapur plant is located in central of East region against Chhattisgarh based plants which are located in south of East region, far off from key consuming markets of WB, Bihar and Odisha.
- Barring Chhattisgarh (a low price market and small in size), Rajganpur plant enjoys logistics advantage over Chhattisgarh based plants by an average of 250kms across major cement consuming markets. Assuming cement: clinker ratio of 1.6x and freight rate of Rs2.3/ton km, East operations are competitive by Rs360/t.



Source: PL Research

DALBHARA's East operations competitive by 250kms over its peers

- Benefitted by its location in center of East region, Rajgangpur plant enjoys significant logistics advantage over Chhattisgarh plants with lead distance lower by 250kms, translating freight cost lower by Rs360/t.

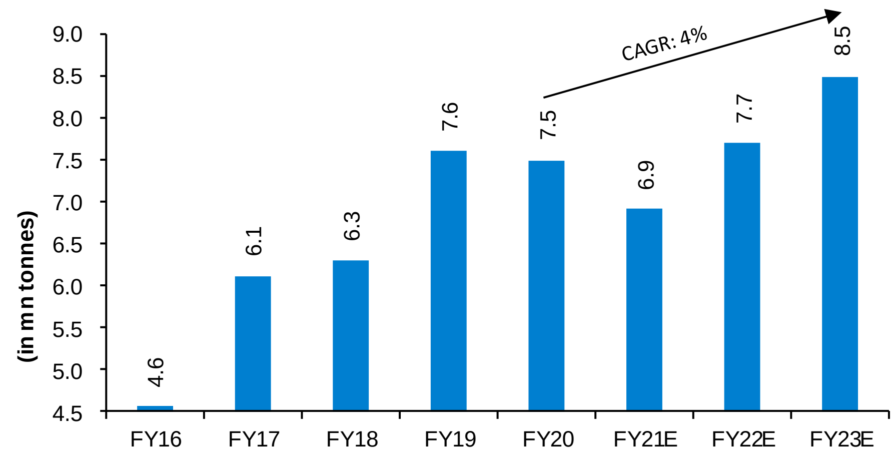


Source: PL Research

DALBHARA – South India - Strong regional presence

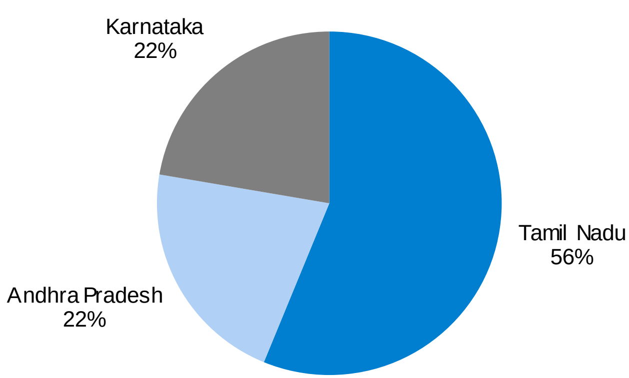
- South constitutes 41% of DALBHARA's total capacity at 12mnt. ~55% of capacity is placed in structurally supply deficit states of Tamil Nadu and Kerala. While, rest of the capacity is located in AP, Telangana and Karnataka
- Based on our estimates, volumes in Tamil Nadu and Kerala enjoy highest margins in India at Rs1,500/t, nearly 60% above rest of South.
- South region's volumes are expected to grow at a CAGR of 4% in FY20-FY23e, below region's growth due to limestone constraints in Tamil Nadu plants. Utilisation rates would rise to highest ever levels in FY23 to 70%, +830bps over FY20.
- EBITDA would grow at a CAGR of 10.8% in FY20-FY23e. We expect EBITDA/t at Rs1,253/Rs1,260 in FY22e/FY23e.

DALBHARA's South volumes to grow at CAGR of 4% in FY20-FY23e



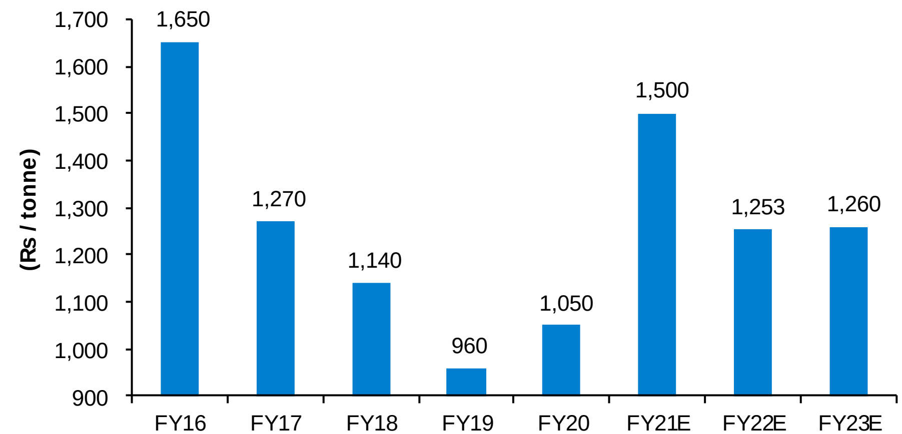
Source: PL Research

DALBHARA's state wise capacity mix in South region



Source: Industry, PL Research

Region's estimated margins to stabilise at Rs1,250/Rs1,260 in FY22/FY23



Source: Industry, PL Research

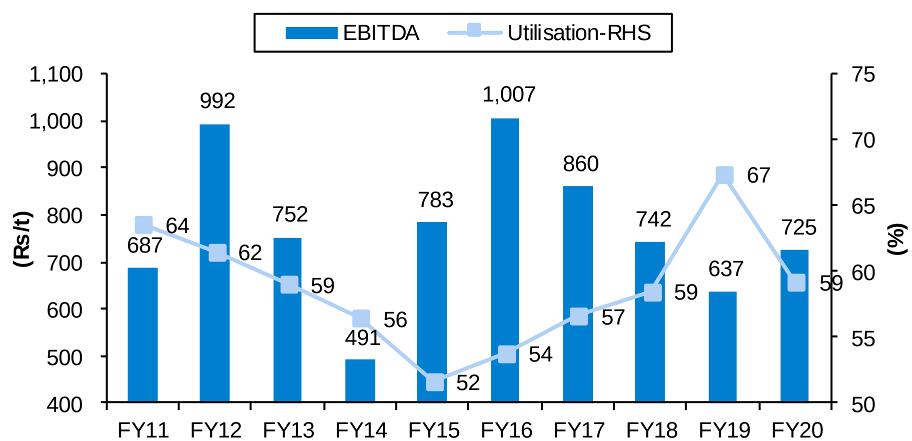
South Region: Low capacity utilisation, a recipe for volatile margins

Low base and somber capacity addition to aid expand utilisation rates

In mn tonnes	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Year end capacity	120.9	125.2	141.6	143.2	145.9	150.5	150.5	152.7	160.7	162.7	165.0	170.0	170.0
Capacity addition	24.7	4.3	16.4	1.6	2.7	4.5	-	2.3	8.0	2.0	2.3	5.0	-
Effective capacity for the year	110.0	121.8	133.3	139.3	144.1	147.6	150.3	151.5	154.8	160.1	162.6	166.1	169.7
Cement production	69.9	74.9	78.7	78.7	74.5	79.4	85.1	88.6	104.3	94.8	88.3	99.4	107.3
Region's consumption	58.8	62.2	65.0	64.3	59.3	60.7	65.0	67.3	80.9	72.2	67.9	78.1	85.1
% Growth	*(0.3)*	*5.7*	*4.5*	*(1.0)*	*(7.8)*	*2.4*	*7.0*	*3.6*	*20.1*	*(10.7)*	*(6.0)*	*15.0*	*9.0*
Net inter-regional outflow/(inflow)	11.0	12.6	13.5	14.1	15.0	18.5	19.9	21.0	23.1	22.3	20.1	21.0	21.9
Surplus/(Deficit)	40.1	46.9	54.6	60.7	69.6	68.1	65.1	62.8	50.5	65.3	74.4	66.7	62.4
Capacity utilisation (%)	63.6	61.5	59.0	56.5	51.7	53.8	56.7	58.5	67.4	59.2	54.3	59.8	63.2

Source: Industry, PL Research

EBITDA/t of industry in South region



Source: Industry, PL Research

- Margins in the region have been volatile due to intense competition and low utilisation.
- Profitability of the region has been largely driven by discipline as industry suffered from weak demand and overcapacity.
- We believe that Tamil Nadu and Kerala focused players would continue to benefit due to limited capacity.

Acquisition of Murli- Gateway to Maharashtra at low acquisition cost

- Murli industries commissioned 3mnt integrated cement plant in Chandrapur, Maharashtra along with 50MW CPP in Mar’2010 at a capex of Rs8.2bn. Due to over leverage and inability to pay interest cost, the company got referred to corporate insolvency resolution process (CIRP) in 2017.
- Dalmia successfully completed the acquisition of Murli Industries in Sep’20 through IBC route for a consideration of Rs4.0bn
- Including investment of Rs4bn on plant renovation, acquisition is attractively placed with cost of mere US$36/t. The cost does not factor any realisable value for solvent and paper businesses.
- It would take a year’s time to stabilize the operations. Hence, we expect meaningful volume contribution in FY23e only with CU at 67%.
- Limited life of captive limestone mines at 10 years remains a concern. However, auction of new mines by Govt and strong availability in merchant mining would well address these concerns.
- GST incentives remains as most attractive part of the transaction. Income from incentives translates to ~Rs415/t.
- We factor in conservative EBITDA estimate of Rs150/Rs600 per ton in FY22e/FY23e

Particulars	Details
Plant Location	Chandrapur District, Maharashtra
Capacity	3.0mtpa Cement plant
	50MW Captive Thermal Power Plant
Payment to acquire Murli Industries	Rs4.02bn via internal accrual and loans
Additional capex for modernisation	Rs4.0 bn to be spent on modernisation and efficiency improvements
Commissioning & ramp-up period	10-12 months
Incentives	Received permissions to avail sales incentives to the tune of Rs11bn till 2032
Limestone mine	Received permissions for renewal of Naranda limestone Mine located at Chandrapur (Maharashtra)
Target Market	Nagpur and Vidarbha region and Maharashtra

Source: Industry, PL Research

Financial Analysis

- We expect cement revenue to grow at a CAGR of 12% in FY20-FY23E, primarily led by volumes which is expected to grow at a CAGR of 12%. Realisations would improve marginally by 0.8% as better realisations in South and NE would be partially offset by flat realisations in East.
- Expansion in East and acquisition of Murli industries would drive growth of ~83% of the volume growth.
- We expect margins in East operations to remain at Rs950/t and Rs980/t in FY22e and FY23e respectively due to strong volumes push and intense competition. While, South/NE would maintain EBITDA/t at Rs1,250/Rs1,500 in FY22e/FY23e. Margins in acquired facilities of Murli are expected at Rs600/t in FY23e due to higher CU. Overall, EBITDA/t is expected at Rs1,087/Rs1,093 in FY22e/FY23e against Rs1,072/Rs1,300 in FY20/FY21e.
- EBITDA is expected to grow at CAGR of 12.6% in FY20-FY23e at Rs29.8bn on the back of 12% volume growth and 0.7% increase in EBITDA/t.
- Driven by better operating performance and lower interest cost, PAT would grow at a CAGR of 31% to Rs9.1bn.
- Led by ramp-up of new capacities, RoCE would improve to 14.8% in FY23e. While, RoE would remain at 14% due to higher estimated tax rate of 26% against 14% in FY20.

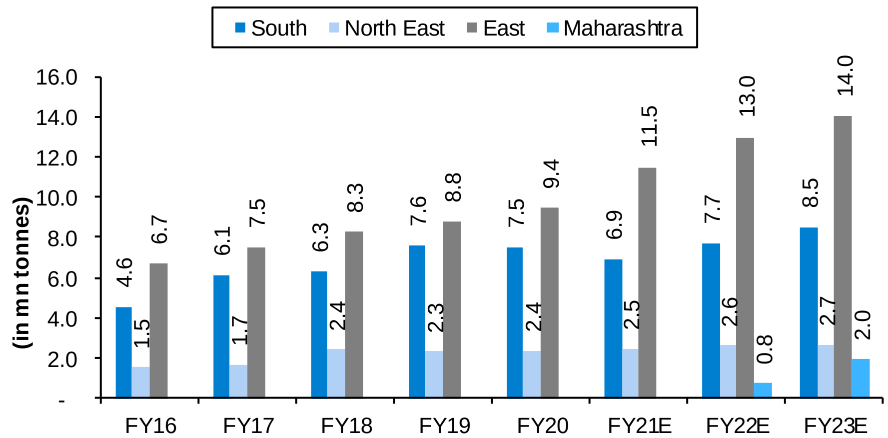
Key Financials

Y/e Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Revenues	**96,740**	**1,05,409**	**1,22,561**	**1,36,269**
YoY Growth (%)	*2.0*	*9.0*	*16.3*	*11.2*
Total Expenses	75,910	78,176	96,309	1,06,506
YoY Growth (%)	*0.8*	*3.0*	*23.2*	*10.6*
EBITDA	**20,830**	**27,233**	**26,251**	**29,763**
YoY Growth (%)	*6.8*	*30.7*	*-3.6*	*13.4*
Depreciation	13,080	12,984	14,106	14,557
EBIT	**7,750**	**14,249**	**12,145**	**15,206**
Interest	4,150	3,563	3,819	3,328
Other Income	2,170	1,726	2,141	2,407
PBT	**3,570**	**12,412**	**10,468**	**14,284**
Tax	1,190	4,344	3,664	4,999
Tax Rate (%)	*33.3*	*35.0*	*35.0*	*35.0*
Reported PAT	**2,240**	**7,918**	**6,654**	**9,135**
YoY Growth (%)	*-27.3*	*253.5*	*-16.0*	*37.3*
Adj. PAT	**4,090**	**7,918**	**6,654**	**9,135**
YoY Growth (%)	*34.1*	*93.6*	*-16.0*	*37.3*
Operating Metrics				
Realisation (Rs/t)	4,686	4,790	4,847	4,797
Cost (Rs/t)	3,614	3,490	3,760	3,704
EBITDA (Rs/t)	1,072	1,301	1,087	1,093

Source: Company, PL Research

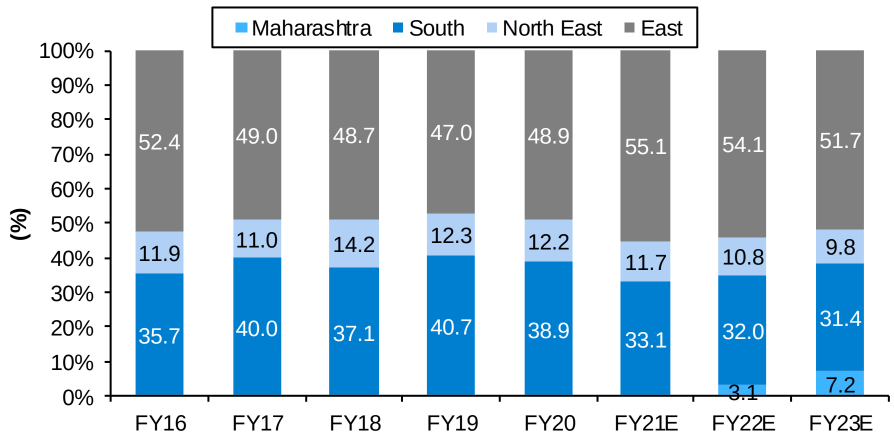
East to drive growth; margins at par with best in the respective regions

DALBHARA's region wise volumes-East to drive growth



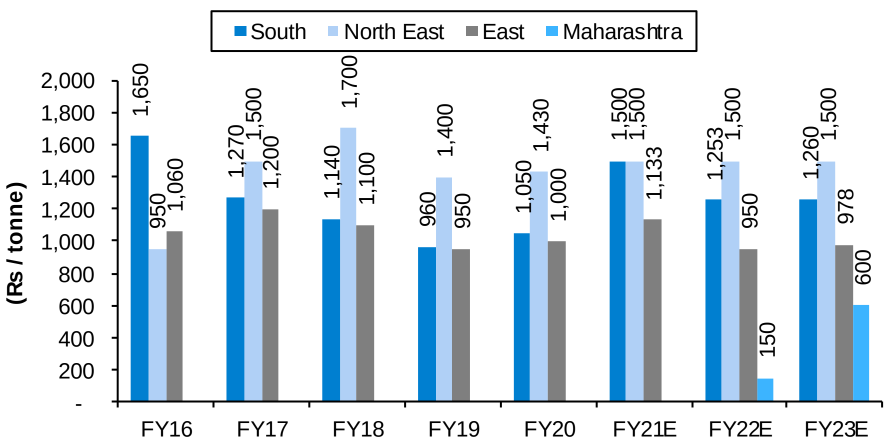
Source: PL Research

East dominates volumes followed by South



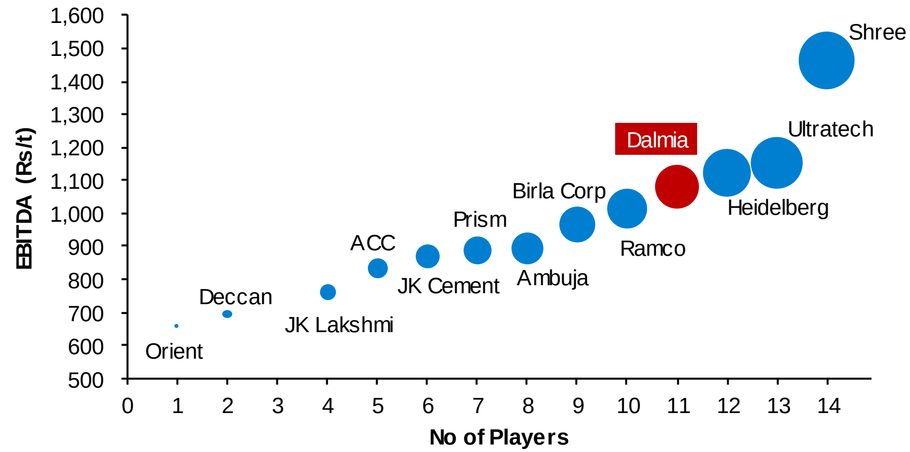
Source: PL Research

DALBHARA's estimated region-wise EBITDA/t – at par with top players



Source: PL Research

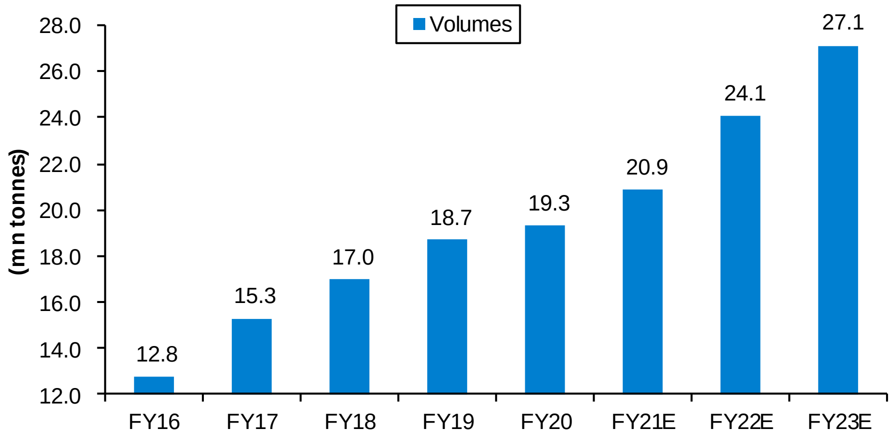
DALBHARA ranks among Top-4 on EBITDA/t



Source: Industry, PL Research

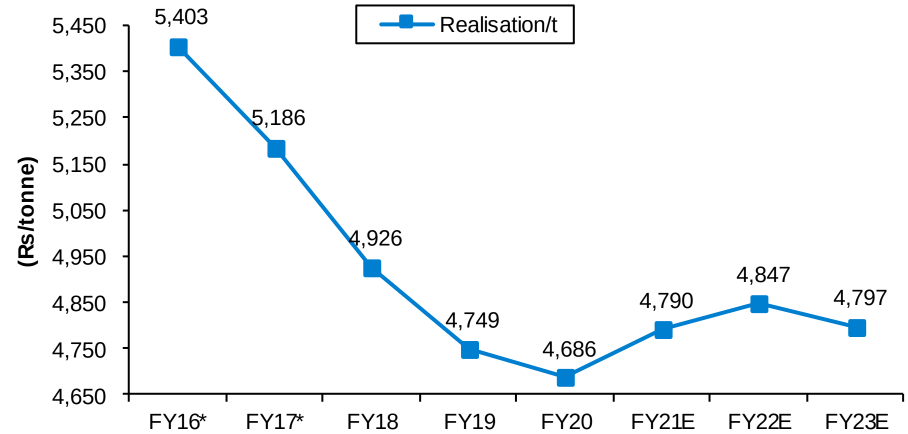
Combination of strong volume growth and healthy margins

Expansions to drive 12% CAGR in volumes for FY20-FY23e



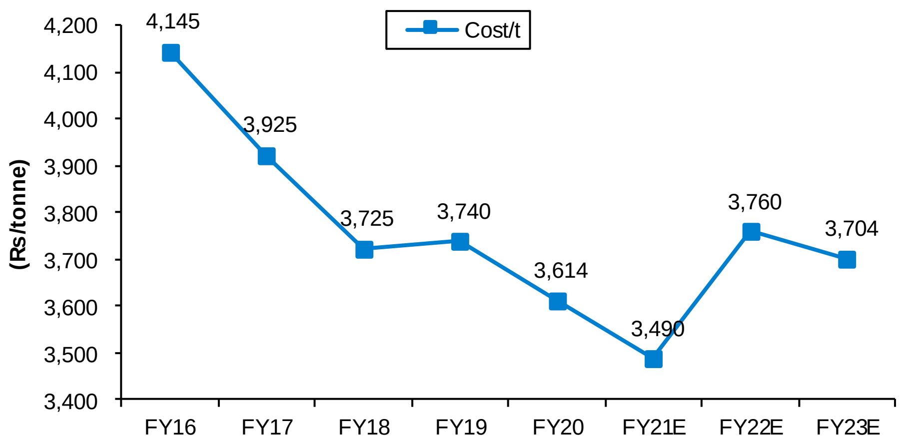
Source: Company, PL

Factoring nominal rise in realisations due to higher share of East region



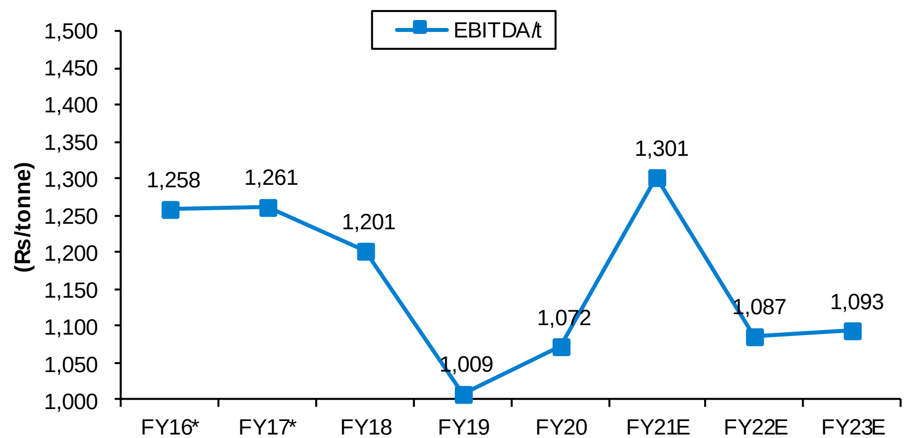
*Source: Company, PL | *includes excise duty*

Cost to inch up by 8% in FY22e due to higher energy and slag/fly ash costs



Source: Company, PL

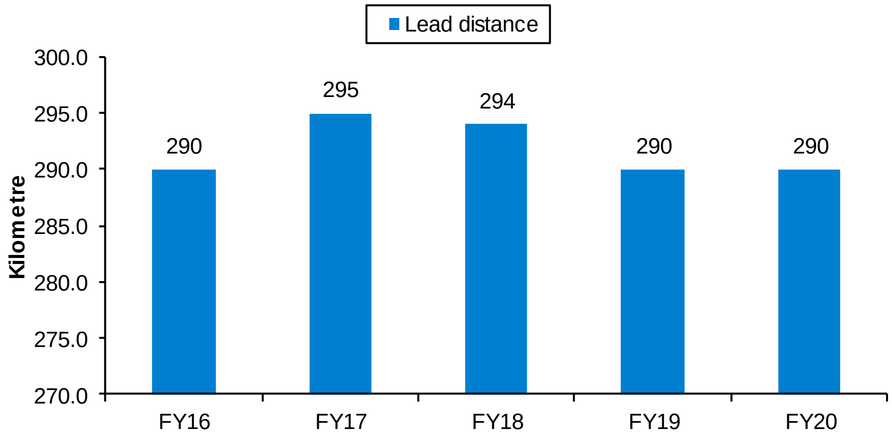
Higher costs to stabilise EBITDA/t at Rs1,100/t



*Source: Company, PL | * includes excise duty*

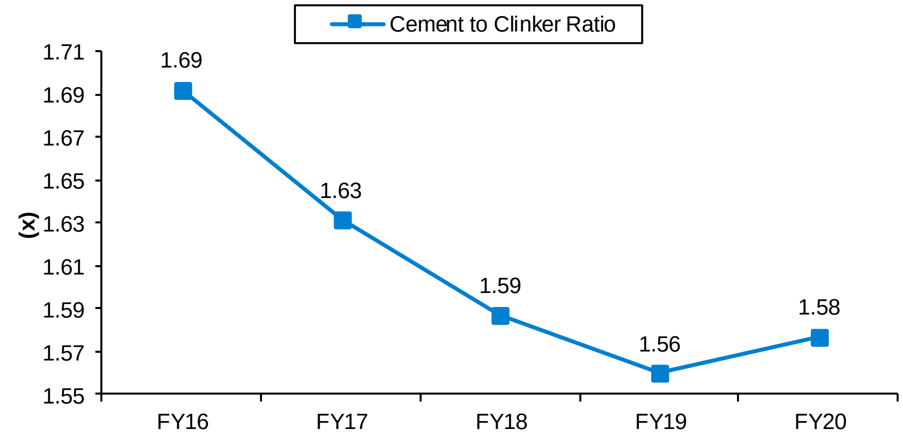
Enjoys competitive edge with low lead distance and high cement/clinker mix

DALBHARA's lead distance lower by 1/3rd over peers average of 430km



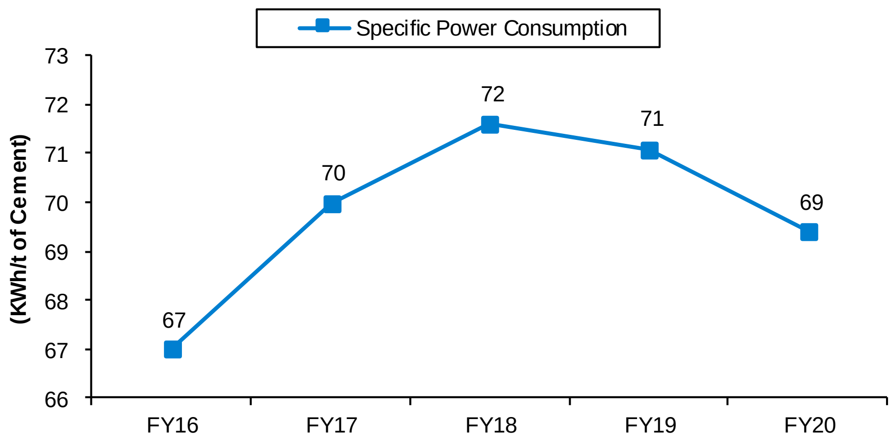
Source: Company, PL

With the capacity addition in East, CC ratio to remain elevated at 1.6x



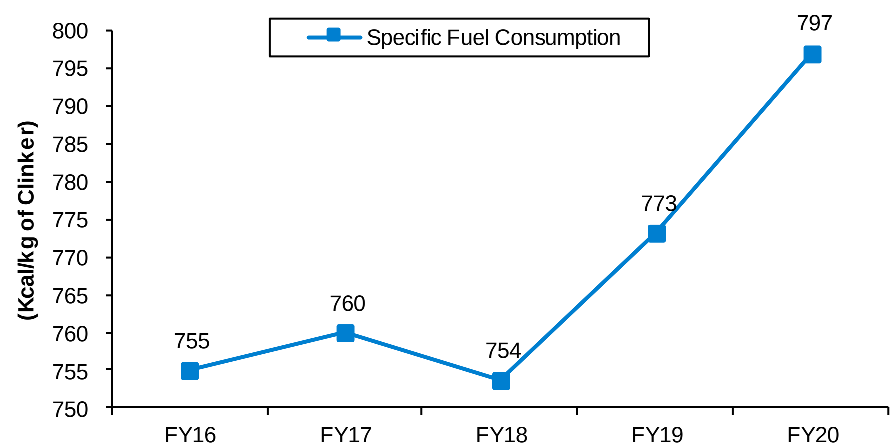
Source: Company, PL | CC = Cement to Clinker ratio

Leads the industry with <70 units consumption



Source: Company, PL

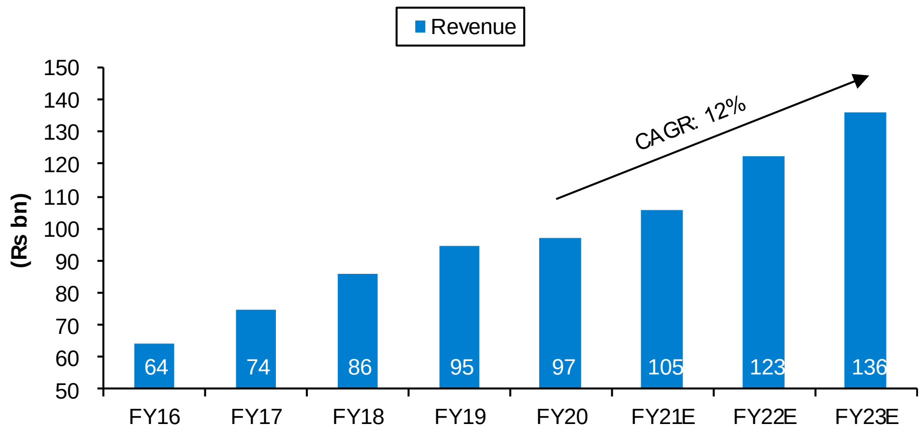
New unit and modernisation of Bihar unit to lower consumption to 750kcal



Source: Company, PL

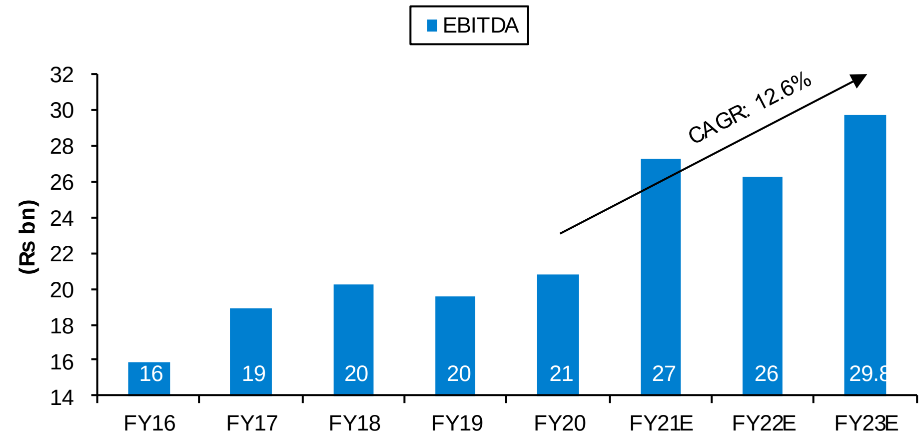
Double Digit growth in sales/EBITDA to drive 31% PAT CAGR over FY20-23e

Volumes to drive 12% CAGR in revenue for FY20-FY23e



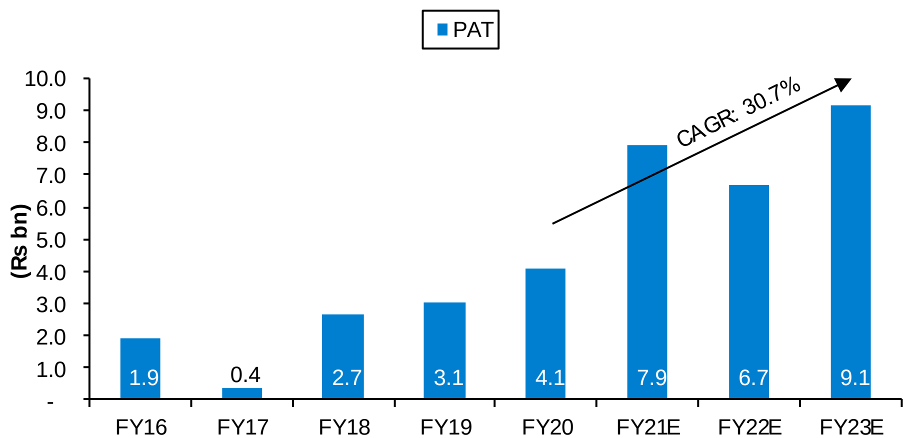
Source: Company, PL

EBITDA to grow at 12.6% CAGR in FY20-FY23e



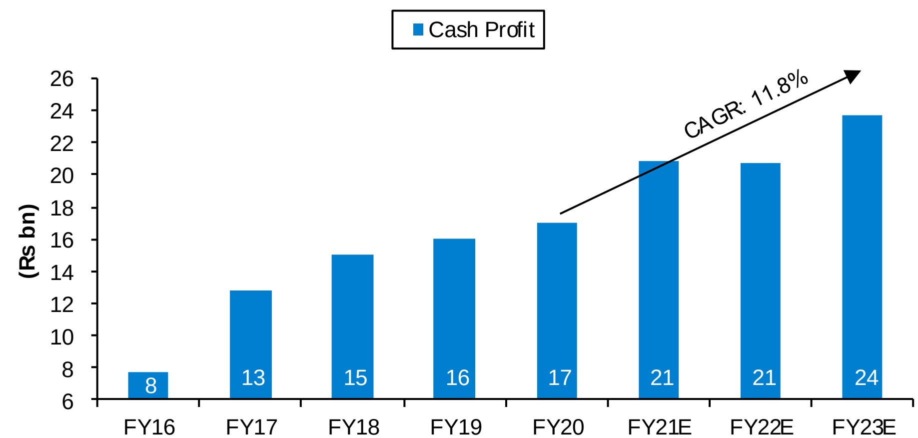
Source: Company, PL

PAT CAGR of 31% in FY20-FY23e led by EBITDA and lower interest cost



Source: Company, PL

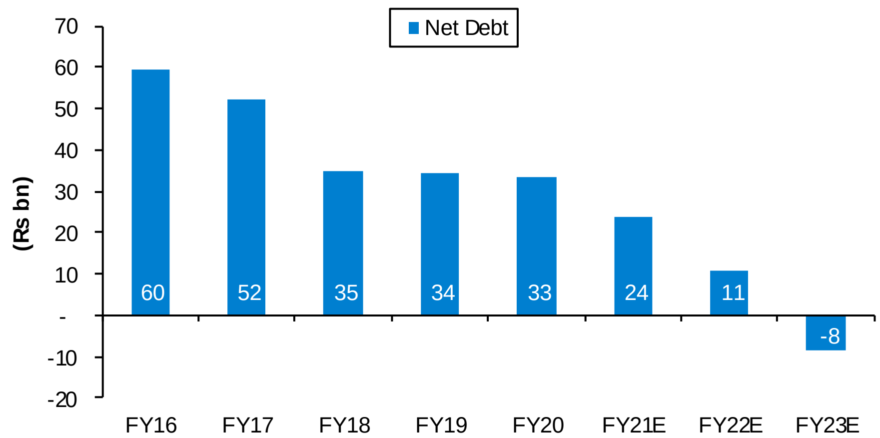
Cash profits to grow at 11.8% CAGR in FY20-FY23e



Source: Company, PL

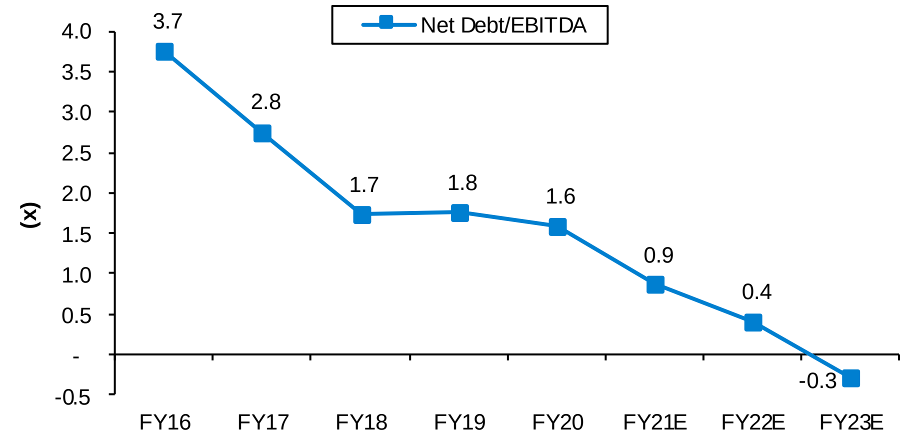
Comfortably placed on debt gearing with completion of ongoing capex

Set to become net cash (adjusted for MF investments in dispute) in FY23e



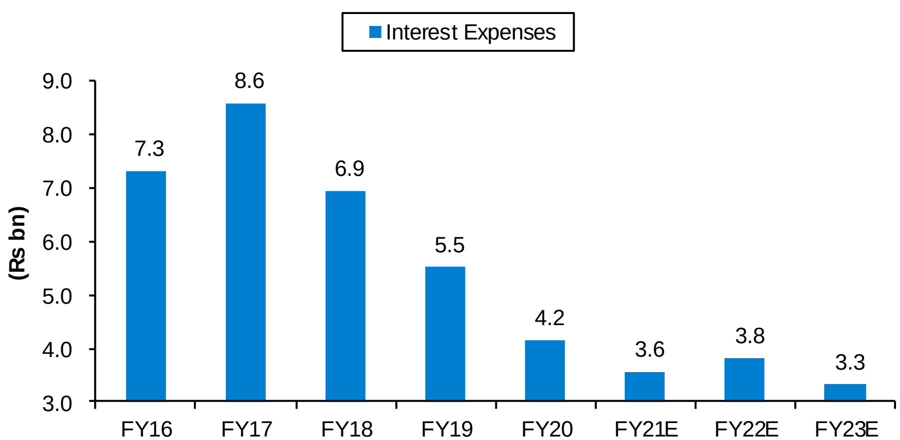
Source: Company, PL

Low Net debt/EBITDA to expedite new expansions in other regions



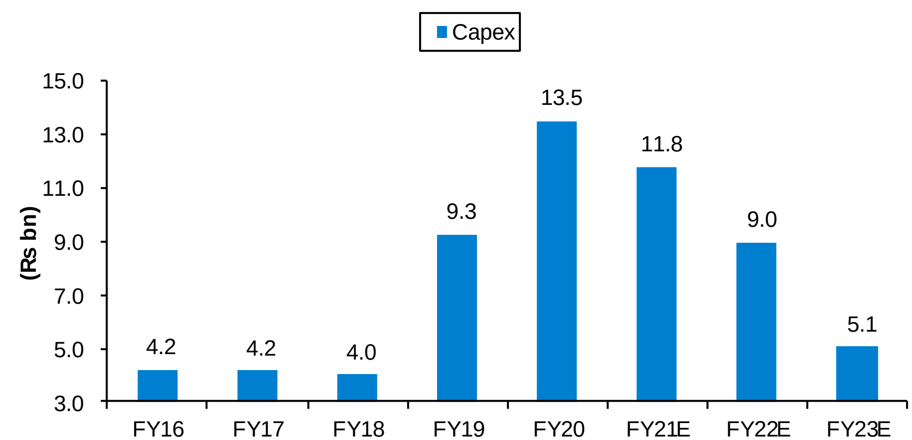
Source: Company, PL | x= Number of times

Interest cost to come down due to debt reduction and end of capex cycle



Source: Company, PL

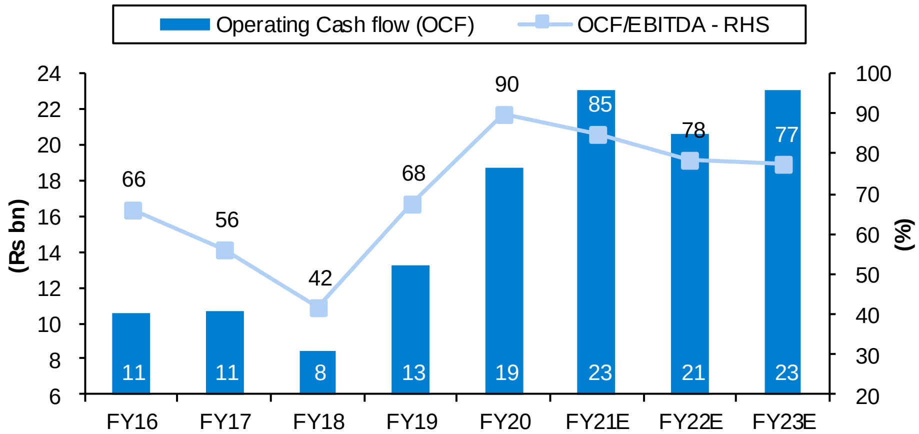
Capex to taper off in FY22e with commissioning of 2/3rd of new capacity



Source: Company, PL

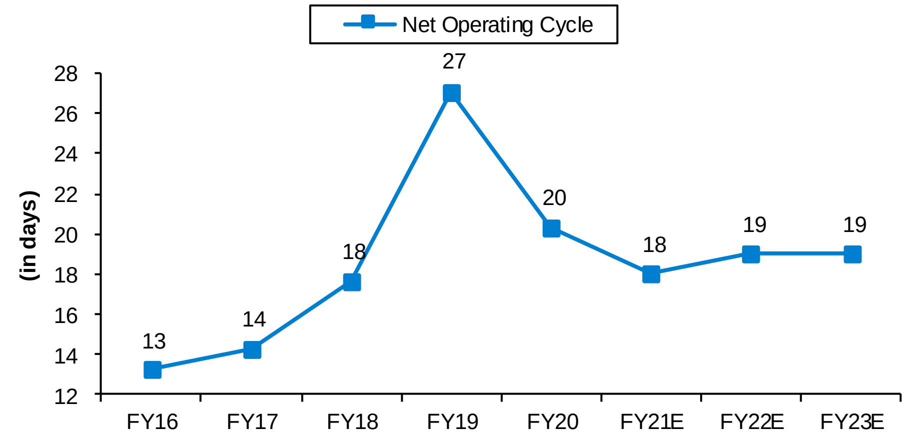
Better EBITDA conversion and low working capital drive expansion in RoCE

Steady OCFs with near 80% EBITDA conversion rate



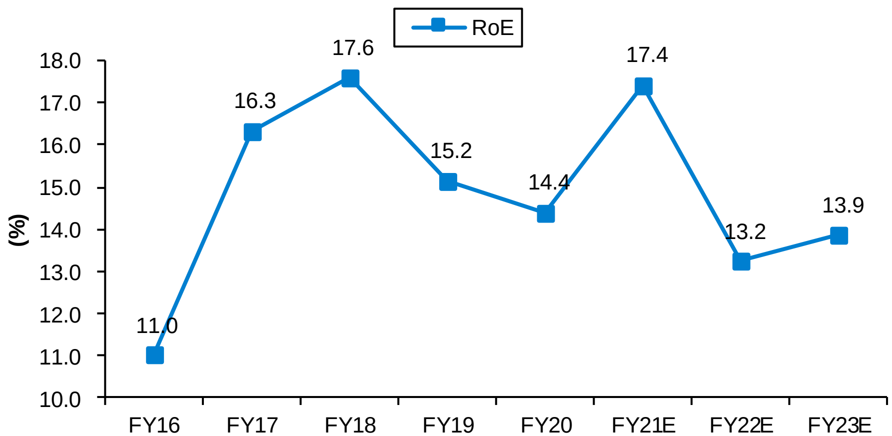
Source: Company, PL | OCF-Operating Cash flow (net of Interest)

Net Operating cycle would normalise to 19 days due to lower debtor days



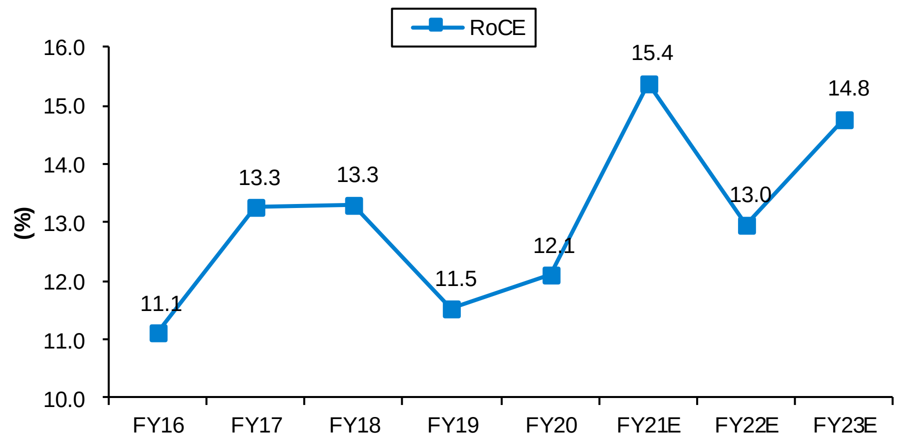
Source: Company, PL

RoE to remain at ~14% due to higher tax rate



Source: Company, PL

RoCE to improve to 14.8% in FY23e on the back of new capacities



Source: Company, PL

Focussed management team

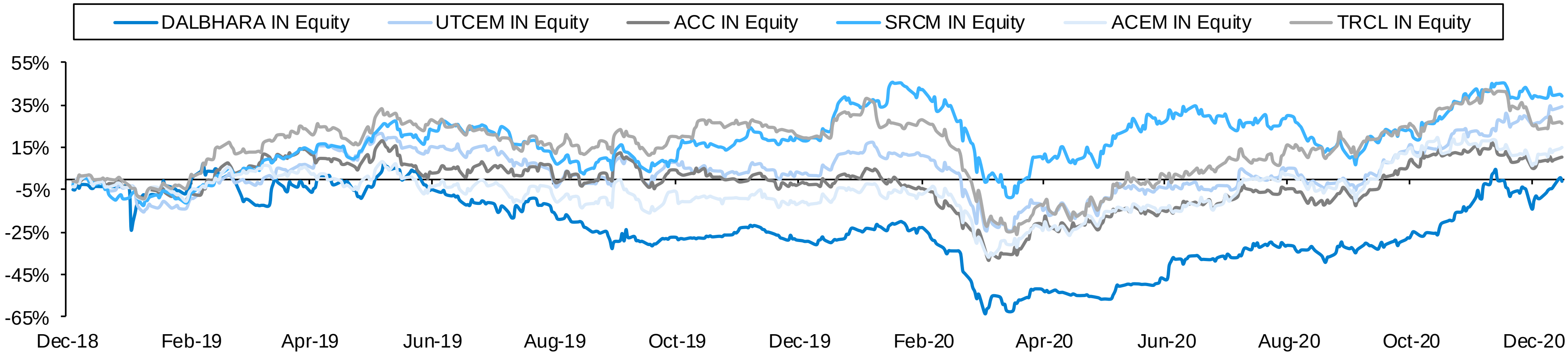
Particulars	Details
Gautam Dalmia *Managing Director*	> Over 28 years of experience in Cement and Sugar Industry > Holds a B.Sc and an M.S degree in Electrical Engineering from Columbia University
Puneet Yedu Dalmia *Managing Director*	> Over 23 years of experience in Cement Industry > Holds B.Tech from IIT-Delhi and Gold-Medalist, M.B.A. from IIM-Bangalore
Mahendra Singhi *MD & CEO (Dalmia Cement Bharat Ltd.)*	> Over 40 years of experience in Cement sector > Chartered Accountant and a Science and Law graduate
Rajiv Bansal *Senior Executive Director*	> Over 26 years of experience in power generation, Telecom, IT services and Internet start-up > Chartered Accountant and CWA
Ujjwal Batria *COO (Dalmia Cement Bharat Ltd.)*	> Has over 33 years experience in Cement and Metals industry > Holds a Bachelor's degree in Mechanical Engineering from BIT Mesra

- Sound management pedigree is manifested in sizeable operations, margins in top league and comfortable B/S
- Admittedly, MF fiasco turned out to be a miss on management's part. But, we believe that development would strengthen its risk management processes to avoid any such events in the future.

Source: Company, PL Research

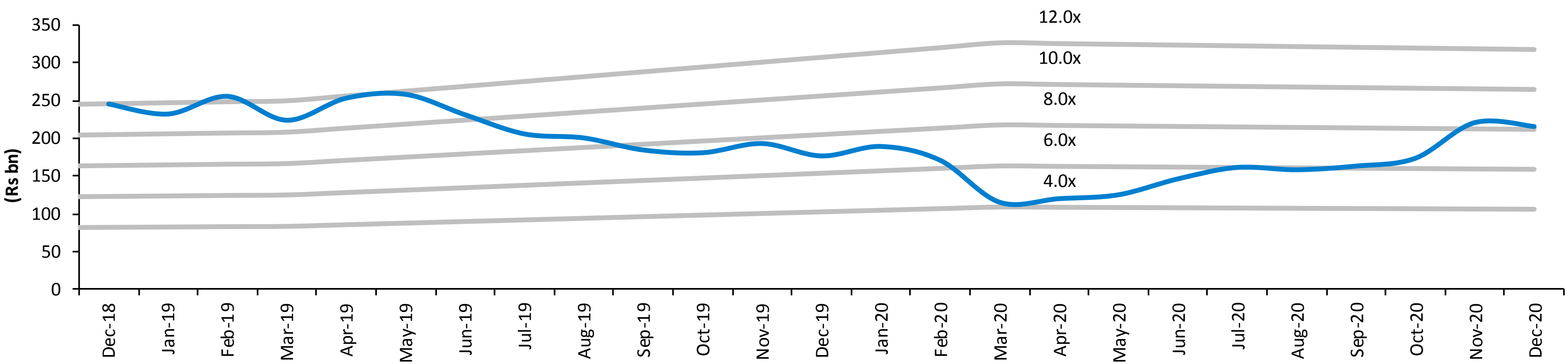
Underperformance post MF fiasco provides strong entry opportunity

DALBHARA's stock price underperformed peers by a wide margin



Source: Bloomberg, PL

DALBHARA's 1-year forward EV/EBITDA rolling chart-Gone through the phase of de-rating



Source: Bloomberg, PL

Valuation and Recommendation

Key Financials

Key Financials (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	64,113	74,470	85,800	94,840	96,740	1,05,409	1,22,561	1,36,269
Growth (%)	*82.4*	*16.2*	*15.2*	*10.5*	*2.0*	*9.0*	*16.3*	*11.2*
EBITDA	15,916	18,940	20,210	19,510	20,830	27,233	26,251	29,763
Growth (%)	*164.2*	*19.0*	*6.7*	*(3.5)*	*6.8*	*30.7*	*(3.6)*	*13.4*
PAT	1,899	290	2,650	3,050	4,090	7,918	6,654	9,135
EPS (Rs)	23.2	1.5	13.8	15.8	21.2	42.4	35.6	48.9
Growth (%)	*2,695.8*	*-93.5*	*812.5*	*14.9*	*34.0*	*100.0*	*-16.0*	*37.3*
Net DPS (Rs)	2.0	2.2	1.7	2.0	2.0	2.0	2.0	2.0

Valuation

Profitability and Valuation	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
EBITDA margin (%)	*24.8*	*25.4*	*23.6*	*20.6*	*21.5*	*25.8*	*21.4*	*21.8*
RoE (%)	*11.0*	*16.3*	*17.6*	*15.2*	*14.4*	*17.4*	*13.2*	*13.9*
RoCE (%)	*11.1*	*13.3*	*13.3*	*11.5*	*12.1*	*15.4*	*13.0*	*14.8*
EV/Sales (x)	*2.4*	*3.6*	*2.9*	*2.6*	*2.5*	*2.2*	*1.8*	*1.4*
EV/EBITDA (x)	*9.5*	*14.1*	*12.4*	*12.6*	*11.8*	*8.4*	*8.2*	*6.6*
EV/Tonne ($)	*86.3*	*152.6*	*143.0*	*132.9*	*132.2*	*95.0*	*82.8*	*70.4*
P/E (x)	*48.1*	*740.9*	*81.2*	*70.7*	*52.8*	*26.4*	*31.4*	*22.9*
P/BV (x)	*2.0*	*2.2*	*2.1*	*2.0*	*2.0*	*1.8*	*1.7*	*1.6*
Net Dividend yield (%)	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*

Relative valuation

Company Name	Price (Rs/Share)	M.cap (Rs bn)	P/E			EV/EBITDA			P/B			EV/t (US$)		
			FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e	FY21e	FY22e	FY23e
Companies >10mtpa capacity														
Ultratech	5,327	1,541.7	31.5	27.7	22.8	16.4	15.1	12.8	3.5	3.2	3.2	189	173	149
Shree Cement	24,034	862.2	42.8	36.1	35.2	21.6	20.0	17.8	5.8	5.1	5.1	212	208	194
ACC	1,641	309.0	21.4	19.8	19.4	11.4	10.5	10.3	2.4	2.2	2.2	103	101	100
Dalmia Bharat	1,137	208.9	26.4	31.4	22.9	11.8	8.4	8.2	1.8	1.7	1.7	95	83	70
Ambuja	253	504.8	21.9	23.4	20.6	12.7	12.0	10.4	2.2	2.1	2.1	124	116	111
Ramco Cements	798	187.3	21.5	26.2	22.4	13.8	15.0	13.0	3.2	2.9	2.9	150	140	137
Birla Corporation	735	56.3	11.4	10.6	8.7	6.3	5.8	5.2	1.1	1.0	0.9	73	59	58
India Cements	176	54.4	38.4	27.6	18.1	11.1	9.9	8.6	1.0	1.0	1.1	76	74	73
JK Cement	1,962	161.6	31.3	23.4	19.1	13.6	11.5	10.4	4.6	3.9	3.3	163	155	150
JK Lakshmi	345	40.2	14.3	13.8	12.3	6.7	6.1	5.2	2.0	1.8	1.8	58	52	46
Companies <10mtpa capacity														
Orient Cement	89	18.3	15.0	13.8	12.2	15.0	13.8	12.2	1.5	1.4	1.2	45	44	42
Prism Johnson	87	44.9	121.7	45.3	35.7	13.7	11.0	10.1	3.9	3.7	3.6	128	122	113
HeidelbergCement India	230	52.1	18.6	17.5	16.2	9.2	8.4	7.4	3.6	3.4	3.4	110	104	97
Star Cement	102	44.0	18.8	14.6	12.7	11.5	9.0	8.1	2.1	1.9	1.7	86	82	77
Sagar Cement	662	15.5	14.5	15.1	10.5	6.6	6.0	5.4	1.4	1.3	1.2	50	37	34

- DALBHARA trades at steep discount compared to its peers having capacity>20mnt like Ultratech (UTCEM), Shree cement, ACC, Ambuja cement and Ramco cement.
- We expect EV/EBITDA multiples to rerate at 9.0x 1-yr forward (25% discount to multiples pre MF issue) in wake of strong earnings growth, MF fiasco now behind and ideal option play on new capacities in north/other regions.

Source: Bloomberg, PL Research

Financials

Income Statement & Balance Sheet

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**96,740**	**1,05,409**	**1,22,561**	**1,36,269**
YoY gr. (%)	*2.0*	*9.0*	*16.3*	*11.2*
Cost of Goods Sold	17,460	19,089	23,701	26,147
Gross Profit	79,280	86,320	98,860	1,10,122
Margin (%)	*82.0*	*81.9*	*80.7*	*80.8*
Employee Cost	6,750	6,831	7,241	7,603
Other Expenses	4,800	3,912	4,440	4,761
EBITDA	**20,830**	**27,233**	**26,251**	**29,763**
YoY gr. (%)	*6.8*	*30.7*	*(3.6)*	*13.4*
Margin (%)	*21.5*	*25.8*	*21.4*	*21.8*
Depreciation and Amortization	13,080	12,984	14,106	14,557
EBIT	**7,750**	**14,249**	**12,145**	**15,206**
Margin (%)	*8.0*	*13.5*	*9.9*	*11.2*
Net Interest	4,150	3,563	3,819	3,328
Other Income	2,170	1,726	2,141	2,407
Profit Before Tax	**3,570**	**12,412**	**10,468**	**14,284**
Margin (%)	*3.7*	*11.8*	*8.5*	*10.5*
Total Tax	1,190	4,344	3,664	4,999
Effective tax rate (%)	*33.3*	*35.0*	*35.0*	*35.0*
Profit after tax	**2,380**	**8,068**	**6,804**	**9,285**
Minority interest	140	150	150	150
Share Profit from Associate	-	-	-	-
Adjusted PAT	**4,090**	**7,918**	**6,654**	**9,135**
YoY gr. (%)	*34.1*	*93.6*	*(16.0)*	*37.3*
Margin (%)	*4.2*	*7.5*	*5.4*	*6.7*
Extra Ord. Income / (Exp)	(2,200)	-	-	-
Reported PAT	**2,240**	**7,918**	**6,654**	**9,135**
YoY gr. (%)	*(27.3)*	*253.5*	*(16.0)*	*37.3*
Margin (%)	*2.3*	*7.5*	*5.4*	*6.7*
Other Comprehensive Income	(2,110)	-	-	-
Total Comprehensive Income	270	8,068	6,804	9,285
Equity Shares O/s (m)	**193**	**187**	**187**	**187**
EPS (Rs)	**21.2**	**42.4**	**35.6**	**48.9**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	**1,87,440**	**2,12,752**	**2,21,713**	**2,31,737**
Tangibles	1,87,440	2,12,752	2,21,713	2,31,737
Intangibles	-	-	-	-
Acc: Dep / Amortization	**61,890**	**74,874**	**88,981**	**1,03,538**
Tangibles	61,890	74,874	88,981	1,03,538
Intangibles	-	-	-	-
Net fixed assets	**1,25,550**	**1,37,878**	**1,32,733**	**1,28,200**
Tangibles	1,25,550	1,37,878	1,32,733	1,28,200
Intangibles	-	-	-	-
Capital Work In Progress	19,330	9,790	9,790	4,830
Goodwill	-	-	-	-
Non-Current Investments	2,500	2,513	2,540	2,561
Net Deferred tax assets	(12,770)	(14,632)	(16,202)	(17,916)
Other Non-Current Assets	2,040	2,040	2,040	2,040
Current Assets				
Investments	26,980	32,491	32,491	32,491
Inventories	9,740	10,108	11,752	13,067
Trade receivables	3,970	4,332	5,373	5,973
Cash & Bank Balance	4,030	9,768	17,183	22,847
Other Current Assets	4,190	4,590	5,090	5,590
Total Assets	**2,06,110**	**2,21,310**	**2,26,843**	**2,25,500**
Equity				
Equity Share Capital	390	378	378	378
Other Equity	1,05,220	1,14,231	1,20,512	1,29,273
Total Networth	**1,05,610**	**1,14,609**	**1,20,889**	**1,29,650**
Non-Current Liabilities				
Long Term borrowings	60,490	62,171	56,886	43,257
Provisions	1,400	2,340	2,340	2,340
Other non current liabilities	2,190	1,940	1,690	1,440
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	8,320	9,241	10,745	11,947
Other current liabilities	15,080	15,977	17,540	18,249
Total Equity & Liabilities	**2,06,110**	**2,21,310**	**2,26,843**	**2,25,500**

Cash Flow & Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	3,570	12,412	10,468	14,284
Add. Depreciation	15,280	12,984	14,106	14,557
Add. Interest	3,640	3,563	3,819	3,328
Less Financial Other Income	2,170	1,726	2,141	2,407
Add. Other	(1,200)	(1,156)	(1,471)	(1,737)
Op. profit before WC changes	21,290	27,803	26,921	30,433
Net Changes-WC	2,740	1,345	(445)	(826)
Direct tax	(660)	(2,482)	(2,094)	(3,285)
Net cash from Op. activities	**23,370**	**26,666**	**24,383**	**26,322**
Capital expenditures	(13,380)	(15,772)	(8,961)	(5,064)
Interest / Dividend Income	750	1,156	1,471	1,737
Others	(4,970)	-	-	-
Net Cash from Invt. activities	**(17,600)**	**(14,616)**	**(7,490)**	**(3,327)**
Issue of share cap. / premium	-	(4,045)	-	-
Debt changes	(310)	1,681	(5,285)	(13,629)
Dividend paid	(930)	(386)	(374)	(374)
Interest paid	(4,670)	(3,563)	(3,819)	(3,328)
Others	-	-	-	-
Net cash from Fin. activities	**(5,910)**	**(6,312)**	**(9,477)**	**(17,331)**
Net change in cash	**(140)**	**5,738**	**7,416**	**5,663**
Free Cash Flow	9,870	14,894	15,422	21,258

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	21.2	42.4	35.6	48.9
CEPS	89.0	111.9	111.1	126.8
BVPS	547.3	613.6	647.2	694.1
FCF	51.2	79.7	82.6	113.8
DPS	2.0	2.0	2.0	2.0
Return Ratio(%)				
RoCE	12.1	15.4	13.0	14.8
ROIC	3.8	7.2	6.2	8.2
RoE	14.4	17.4	13.2	13.9
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.1	(0.1)
Net Working Capital (Days)	20	18	19	19
Valuation(x)				
PER	52.8	26.4	31.4	22.9
P/B	2.0	1.8	1.7	1.6
P/CEPS	12.6	10.0	10.1	8.8
EV/EBITDA	11.8	8.4	8.2	6.6
EV/Sales	2.5	2.2	1.8	1.4
Dividend Yield (%)	0.2	0.2	0.2	0.2

Quarterly & Key Operating Metrics

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	**24,180**	**24,830**	**19,740**	**24,100**
YoY gr. (%)	*11.7*	*(12.6)*	*(22.2)*	*7.8*
Raw Material Expenses	4,310	5,160	3,510	3,920
Gross Profit	19,870	19,670	16,230	20,180
Margin (%)	*82.2*	*79.2*	*82.2*	*83.7*
EBITDA	**4,570**	**5,080**	**6,140**	**7,020**
YoY gr. (%)	*20.3*	*(21.7)*	*(7.8)*	*47.8*
Margin (%)	*18.9*	*20.5*	*31.1*	*29.1*
Depreciation / Depletion	4,050	3,750	3,010	3,020
EBIT	**520**	**1,330**	**3,130**	**4,000**
Margin (%)	*2.2*	*5.4*	*15.9*	*16.6*
Net Interest	950	1,240	730	730
Other Income	680	560	550	410
Profit before Tax	**250**	**650**	**2,950**	**3,680**
Margin (%)	*1.0*	*2.6*	*14.9*	*15.3*
Total Tax	(10)	410	1,070	1,360
Effective tax rate (%)	*(4.0)*	*63.1*	*36.3*	*37.0*
Profit after Tax	**260**	**240**	**1,880**	**2,320**
Minority interest	20	(20)	(20)	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**240**	**260**	**1,900**	**2,320**
YoY gr. (%)	*(14.3)*	*(88.6)*	*29.3*	*759.3*
Margin (%)	*1.0*	*1.0*	*9.6*	*9.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**240**	**260**	**1,900**	**2,320**
YoY gr. (%)	*(14.3)*	*(88.6)*	*29.3*	*759.3*
Margin (%)	*1.0*	*1.0*	*9.6*	*9.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**240**	**260**	**1,900**	**2,320**
Avg. Shares O/s (m)	195	195	195	195
EPS (Rs)	**1.2**	**1.3**	**9.7**	**11.9**

Y/e Mar		FY20	FY21E	FY22E	FY23E
Volumes (m tonnes)		19.3	20.9	24.1	27.1
	YoY Growth (%)	*3.3*	*8.1*	*15.3*	*12.7*
Rs/tonne					
Realisation		4,668	4,774	4,830	4,782
	YoY Growth (%)	*0.1*	*2.4*	*1.2*	*-1.0*
Raw material		905	915	985	965
Employee Cost		350	327	301	281
Power and fuel		901	805	956	919
Freight cost		982	1,012	1,042	1,053
Other expenses		797	689	720	713
Total cost		3,935	3,748	4,005	3,930
	YoY Growth (%)	*-2.4*	*-4.8*	*6.9*	*-1.9*
EBITDA		**1,080**	**1,306**	**1,092**	**1,098**
	YoY Growth (%)	*3.4*	*20.9*	*-16.4*	*0.6*

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