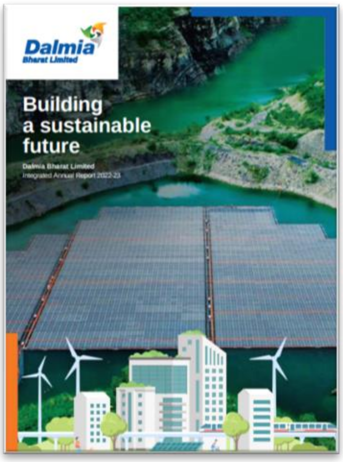
Dalmia Bharat

BSE SENSEX	S&P CNX
63,168	18,755



Stock Info

Bloomberg	DALBHARA IN
Equity Shares (m)	187
M.Cap.(INRb)/(USDb)	420.2 / 5.1
52-Week Range (INR)	2289 / 1213
1, 6, 12 Rel. Per (%)	6/17/55
12M Avg Val (INR M)	528
Free float (%)	44.1

Financials Snapshot (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	135.4	150.5	169.0
EBITDA	23.2	29.9	36.2
Adj. PAT	7.2	9.6	12.7
EBITDA Margin (%)	17.1	19.9	21.4
Adj. EPS (INR)	38.4	51.1	67.7
EPS Gr. (%)	-12.3	33.0	32.5
BV/Sh. (INR)	833.6	871.6	926.3
Ratios			
Net D:E	0.0	0.0	0.0
RoE (%)	4.5	6.0	7.5
RoCE (%)	4.2	6.1	7.1
Payout (%)	23.4	25.5	19.2
Valuations			
P/E (x)	58.3	43.8	33.1
P/BV (x)	2.7	2.6	2.4
EV/EBITDA(x)	17.5	14.0	11.2
EV/ton (USD)	128	109	106
Div. Yield (%)	0.4	0.6	0.6
FCF Yield (%)	-1.1	0.9	1.1

CMP: INR2,240 TP: INR2,550 (+14%) BUY

Rapid expansion plan, cost-saving efforts to boost profitability

DALBHARA in its FY23 annual report highlighted: a) long-term expansion plans – grinding capacity of 75mtpa/110-130mtpa by FY27/FY31; b) sustainability initiatives to improve profitability – reduction in clinker factor to 58.5%, rise in blended cement mix to 84%, increase in thermal substitution rate (TSR) to 17% and increase in renewable energy (RE) share to 29% (including RE share of grid electricity consumed); c) initiatives toward logistics optimization; and d) maintaining leverage at a comfortable level – net debt-to-EBITDA below 2x.

Aims to become pan-India cement player through rapid expansion

- DALBHARA commissioned clinker/cement capacity of 2.8mtpa/2.7mtpa through debottlenecking at various plants in FY23. In Apr'23-end, the company commissioned grinding capacity of 2.5mtpa at Bokaro, Jharkhand (line-II), taking its total grinding capacity to 41.1mtpa.
- In FY23, it signed a definitive agreement with Jaiprakash Associates (JPA) to acquire JPA's cement assets located in central India. Further, recently the company announced its plan to set up clinker/cement capacity of 3.6mtpa/ 2.4mtpa at its northeast plant at a total capex of INR36.4b.
- The company has set an aggressive target of increasing its grinding capacity to 75mtpa/110-130mtpa by FY27/FY31 through organic and inorganic routes. Currently, it has a major presence in east and south India. It intends to establish its presence in the west, central and north India by FY24-end. In a recent article, the management indicated that the company is doing its largest capex ever.

Strong volume growth; but high energy cost hits profitability in FY23

- DALBHARA's consolidated revenue grew 20% YoY to INR135.4b, aided by an increase in sales volume/realization by ~16%/4% YoY. However, consolidated EBITDA declined 5% YoY to INR23.2b and OPM dropped 4.4pp YoY to 17% due to significant cost pressures. EBITDA/t declined 17.5% YoY to INR901.
- Operating cost/t increased 9.4% YoY to INR4,367/t due to a sharp increase in raw material costs and energy prices, higher diesel prices, and re-imposition of busy season surcharge on railway freight, which was partly offset by cost reduction initiatives and higher volume.
- The company has taken several initiatives to reduce operating costs. The key cost-saving measures include: 1) increase in green power share to 29% vs. 17% in FY22, 2) increase in TSR to 17% vs. 13% in FY22, 3) reduction in clinker factor and increase in blended cement in product mix, and 4) savings in logistics costs through a digital bidding platform for transporters and the use of heavy-duty electric trucks for transportation of raw materials. It also secured two coal blocks, namely Brinda Sesai (East) and Mandala North (Central), which will provide fuel security and cost optimization for kilns.
- Earnings before tax and exceptional items declined 20% YoY to INR9.15b and adjusted PAT (adjusted for share of exceptional profit on sale of investment by an associate) declined 12% YoY to INR7.2b.

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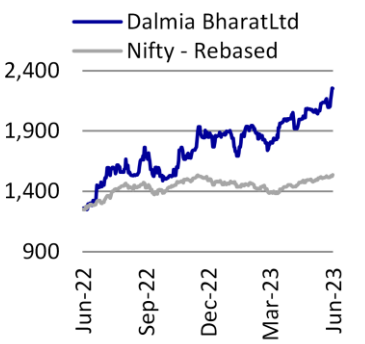
Mudit Agarwal - Research analyst (Mudit.Agarwal@MotilalOswal.com)

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	55.9	55.9	55.9
DII	8.7	8.3	7.1
FII	12.8	12.4	12.6
Others	22.6	23.4	24.3

FII Includes depository receipts

Stock performance (one-year)



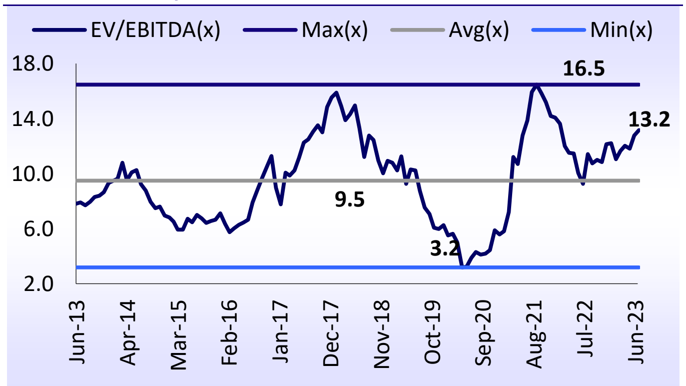
Operating cash flows should support organic growth

- DALBHARA recorded FCF outflow of INR4.5b after capex of INR27b. The company's cumulative OCF stood at INR78b during FY21-23 (vs. INR60b over FY18-20). FCF stood at INR23b during FY21-23 after capex of INR55b (vs. INR30b during FY18-20 after capex of INR31b).
- We expect OCF to improve in FY24-25, driven by improvement in profitability amid lower fuel prices and higher volume. We estimate a capex of INR35b/ INR30b in FY24/FY25. However, we have not yet factored in JPA cement asset acquisition in our estimates, pending requisite approvals.
- DALBHARA's consolidated net debt stood at INR5.2b in FY23 vs. net cash of INR14.4b in FY22. However, net debt, excluding investment in IEX, stood at INR22.3b vs. INR15.5b in FY22. Its net debt-to-EBITDA ratio was at 0.23x vs. (0.59x) in FY22. The management targets to keep the ratio at <= 2x. We estimate the company would generate sufficient operating cash flows to fund its organic growth plans.

Valuation and view: Leverage at comfortable level; reiterate BUY

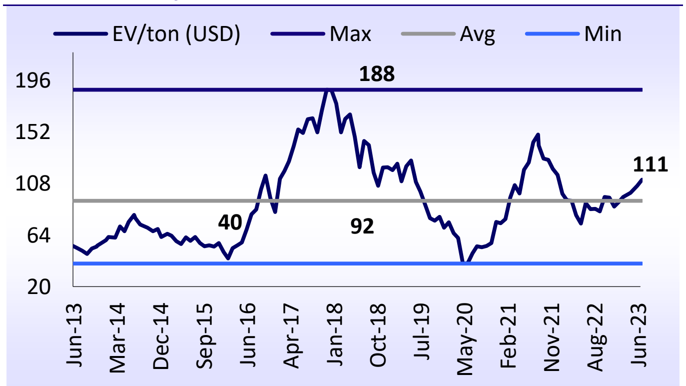
- The management has outlined its future roadmap, which focuses on expansion (through mix of organic and inorganic routes), higher share of premium products and RE, and raw material security. Some of its priorities in FY24 include the timely completion of ongoing expansion and the successful integration of JPA cement assets.
- The stock trades at 14x/11.2x FY24E/FY25E EV/EBITDA ratio and an EV/t of USD109/USD106. It traded at an average one-year forward EV/EBITDA ratio of 10x/9.5x in the last 5/10 years. With an expected improvement in earnings (25% CAGR over FY23-25E) and its focus on capacity expansions without leveraging the balance sheet, we expect the stock to trade at higher multiples.
- We value DALBHARA at 13x FY25E EV/EBITDA to arrive at a TP of INR2,550, an upside of 14% from current levels. We maintain our BUY rating on the stock.

Exhibit 1: One-year forward EV/EBITDA



Source: MOFSL, Company

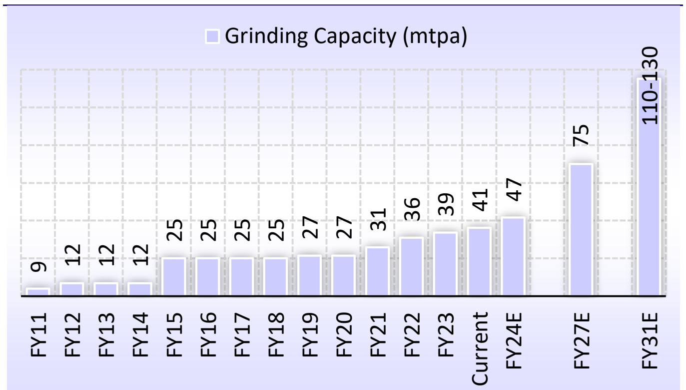
Exhibit 2: One-year forward EV/t



Source: MOFSL, Company

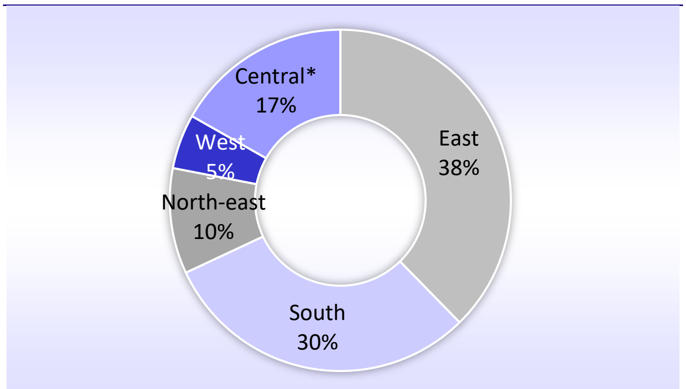
STORY IN CHARTS

Exhibit 3: DALBHARA targets 14-15% CAGR in capacity over FY21-31E vs. 13% CAGR achieved over FY11-21



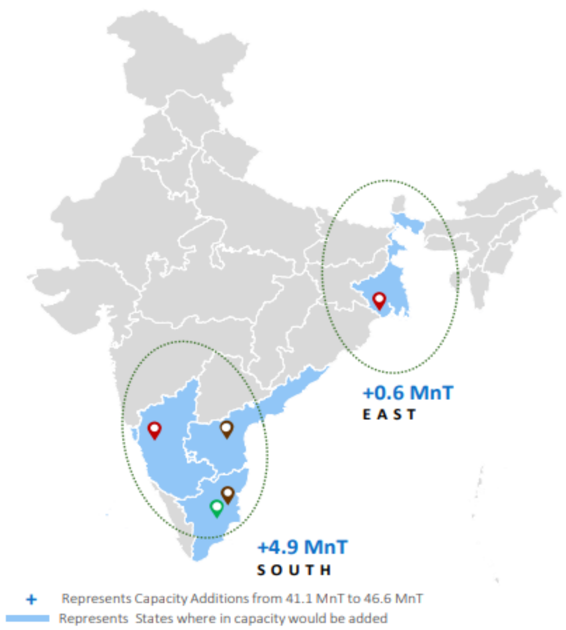
Source: MOFSL, Company; FY24E closing capacity is excluding pending acquisition of JPA cement asset

Exhibit 4: DALBHARA's grinding capacity regional break-up by FY24E



Source: MOFSL, Company; *acquisition of JPA cement asset in central India is under process

Exhibit 5: Snapshot of DALBHARA's capacity expansion plan to reach 46.6mtpa by FY24E



Region	Plant	Capacity
Closing Capacity FY22		**35.9**
East	Bokaro, JH	0.6
North East	Adhunik, ML	0.2
East	Rajgangpur, OR	0.3
East	Kapilas, OR	0.3
North East	Calcom, AS	1.3
East	Bokaro Line 2, JH	2.5
Capacity as in April 2023		**41.1**
East	Medinipur , WB	0.6
South	Sattur, TN	2.0
South	Belgaum, KA	0.9
South	Ariyalur, TN	1.0
South	Kadapa, AP	1.0
Closing Capacity FY24**		**46.6**

Debottlenecking Brownfield Greenfield

NOTE

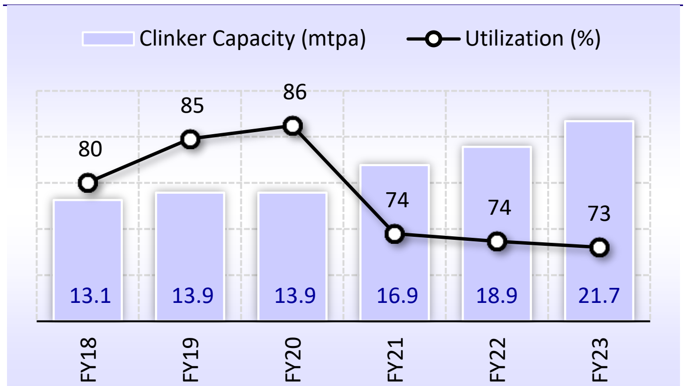
*The Bihar Grinding Unit with a capacity of 2.5 MnT has been deferred

**the closing capacity is excluding the acquisition of cement assets of Jaiprakash Associates

46

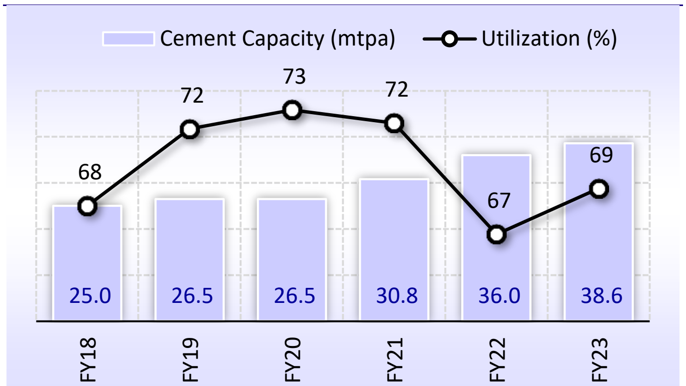
Source: MOFSL, Company

Exhibit 6: Clinker capacity utilization stood at 73% in FY23



Source: MOFSL, Company

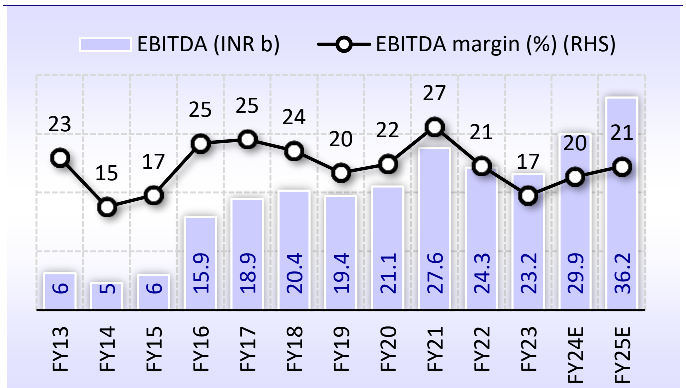
Exhibit 7: Cement utilization stood at 69% in FY23



Source: MOFSL, Company

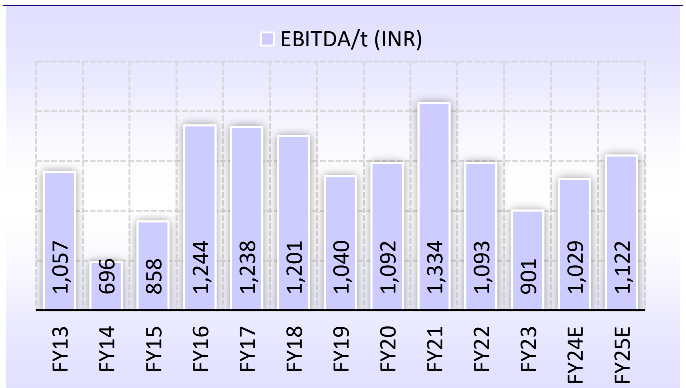
STORY IN CHARTS

Exhibit 8: EBITDA declined 5% YoY; OPM down 4.4pp



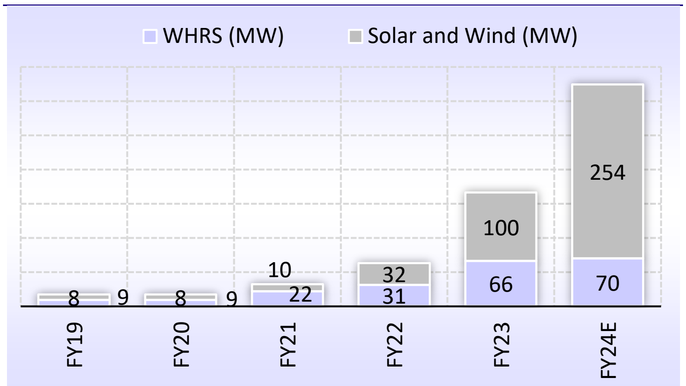
Source: MOFSL, Company

Exhibit 9: EBITDA/t at INR901 down 17.5% YoY in FY23



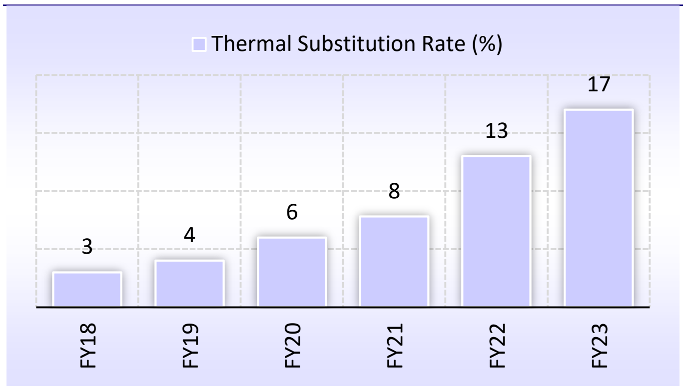
Source: MOFSL, Company

Exhibit 10: Increasing green power portfolio



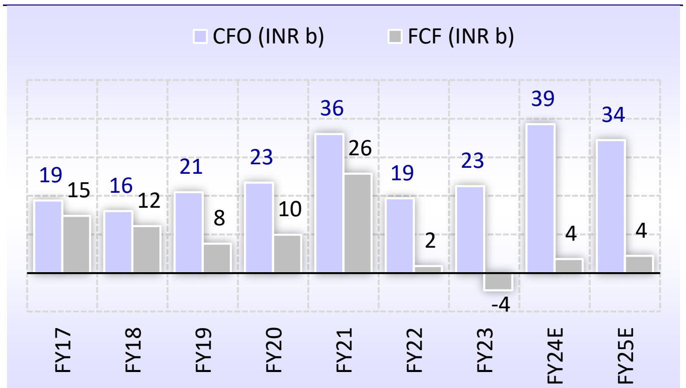
Source: MOFSL, Company

Exhibit 11: Increasing TSR and utilizing more alternative fuel



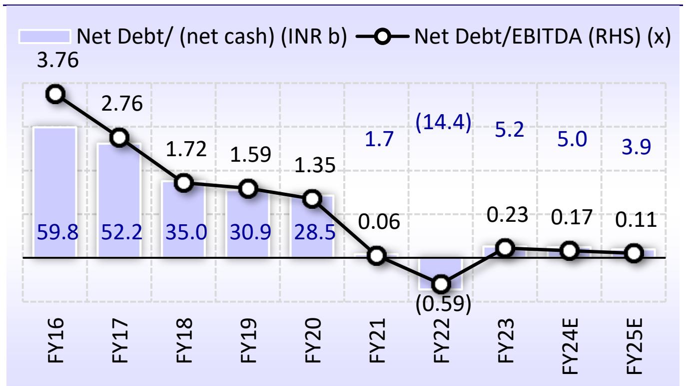
Source: MOFSL, Company

Exhibit 12: OCF will support organic growth



Source: MOFSL, Company

Exhibit 13: Net debt surged in FY23 due to higher capex



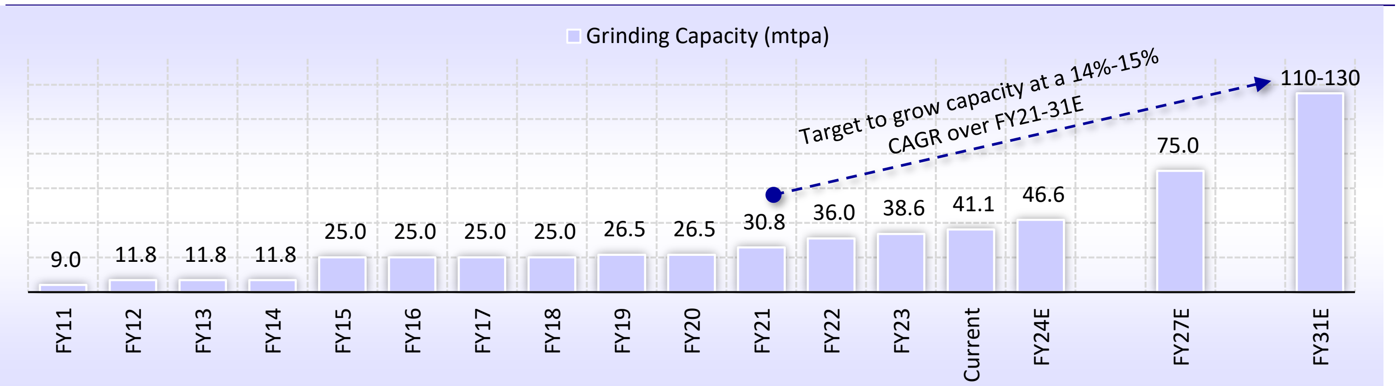
Source: MOFSL, Company

Consistent capacity growth; aspires to be a pan-India player

Targets to increase grinding capacity to +75mtpa by FY27

- DALBHARA has been consistent in capacity expansion over the past decade. The company's grinding capacity has seen a CAGR of ~15% since FY14. Currently, its clinker/cement capacity stood at 21.7mtpa/41.1mtpa across 14 cement plants and grinding units, which are spread across 10 states.
- In FY23, DALBHARA commissioned clinker/cement capacity of 2.8mtpa/2.7mtpa through debottlenecking at various plants at a total capex of INR3.9b. In Apr'23-end, the company commissioned grinding capacity of 2.5mtpa at Bokaro, Jharkhand (line-II).
- As per capacity expansion plan (till FY24) outlined in Jul'21 under the capital allocation policy, it will add clinker/cement capacity of 2.0mtpa/5.5mtpa through a mix of greenfield, brownfield and debottlenecking, for which work is under-progress. After the completion of ongoing expansion plans, the company's clinker/cement capacity will increase to 23.7mtpa/46.6mtpa by FY24.
- In FY23, DALBHARA signed a definitive agreement with JPA to acquire JPA's cement assets located in central India. The company is acquiring clinker/cement/CPP capacity of 6.7mtpa/9.4mtpa/280MW at an enterprise value of INR58.36b (USD75/t). These assets are strategically located in central India, a high-growth market. The acquisition is considered as a step toward the company's aspiration to become a pan-India player. Following the acquisition, the company's grinding capacity will rise to 56mtpa by FY24E.
- Further, the company recently announced a capex plan of INR36.4b for setting up a new clinker unit of 3.6mtpa at its Umrangso unit and grinding capacity of 2.4mtpa at its Lanka unit in Assam. The expansion is likely to be completed by FY25-26 and the capex will be funded through a mix of debt, equity and internal accruals.
- DALBHARA targets to increase its grinding capacity to 75mtpa/110-130mtpa by FY27/FY31 through organic and inorganic routes. Currently, it has a major presence in east and south India. It intends to establish its presence in the west, central and north India by the end of FY24. In a recent article, the management has indicated that the company is doing its largest capex in its history.

Exhibit 14: DALBHARA targets to grow capacity at a CAGR of 14%-15% over FY21-31E vs. 13% CGAR achieved over FY11-21



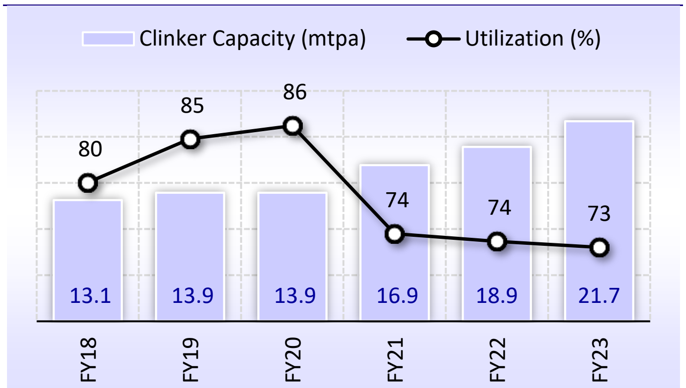
Source: MOFSL, Company

Strong volume growth; but high energy cost hits profitability

Sales volume up ~16% YoY; cement capacity utilization stood at 69%

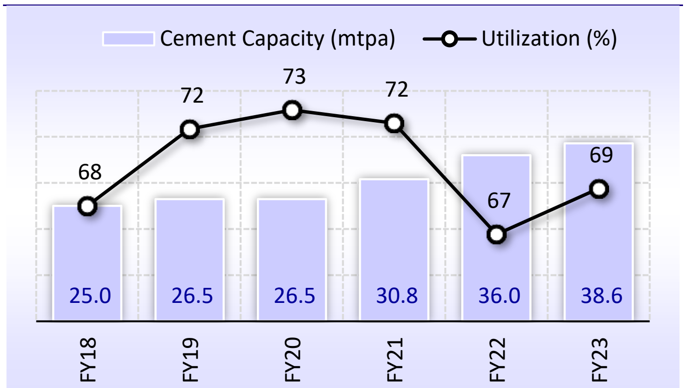
- DALBHARA's consolidated revenue grew 20% YoY to INR135.4b, driven by ~16% YoY increase in sales volume and ~4% increase in realization. The company's clinker/cement capacity utilization stood at 73%/69%. The company maintained its strong leadership in the south, east and northeast markets.
- The drop in clinker utilization was partly owing to a reduction in clinker factor (reduced to 58.5% in FY23 from 61.3% in FY22) and increase of blended cement in product mix (blended cement share stood at 84% in FY23 vs. 80% in FY22).
- Consolidated other operating income (OOI) grew 34% YoY to INR3b. Within OOI, incentives/subsidies on sales of finished goods increased 32% YoY to INR2.3b.
- The management expects industry demand to grow by 7-9% YoY to ~425mt in FY24. The Road sector is expected to contribute more to this growth as both the Ministry of Road Transport and Highways and the National Highways Authority of India (NHAI) have reported a YoY increase of 25% and 14% in their total outlays, respectively.

Exhibit 15: Clinker capacity utilization stood at 73% in FY23



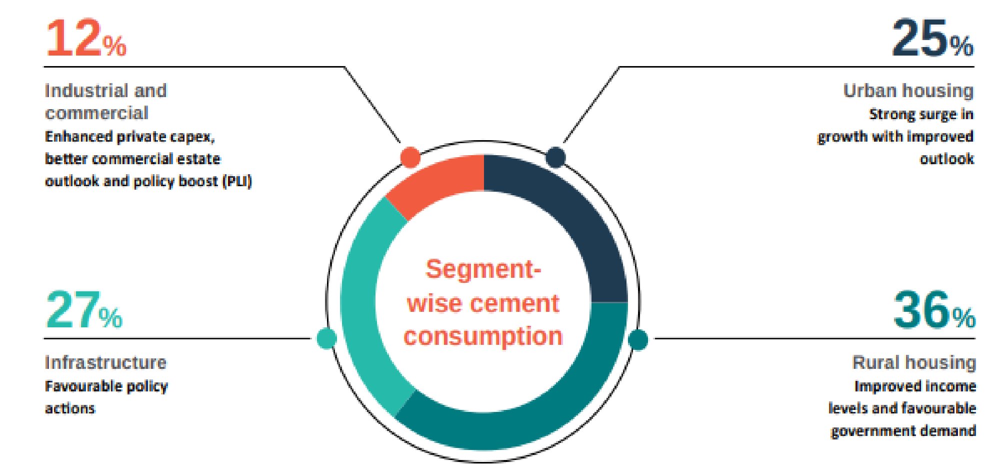
Source: MOFSL, Company

Exhibit 16: Cement utilization stood at 69% in FY23



Source: MOFSL, Company

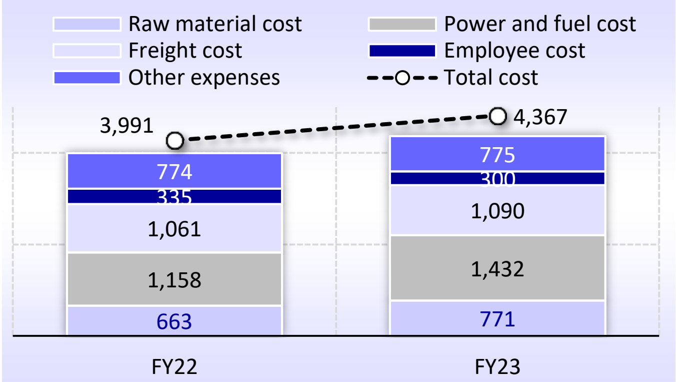
Exhibit 17: Segment-wise break-up of cement consumption in FY24E



Source: MOFSL, Company

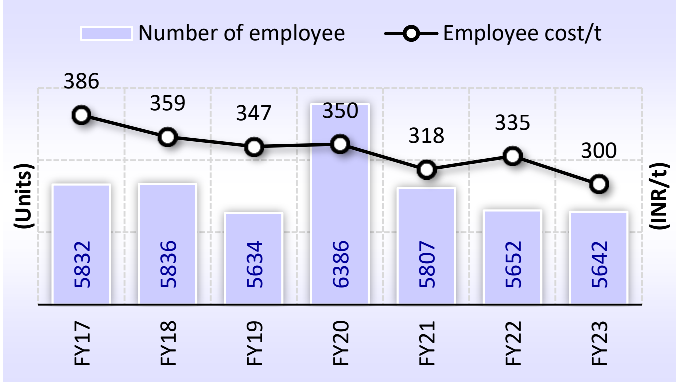
- Operating cost/t increased 9.4% YoY to INR4,367/t due to a significant increase in raw material costs and energy prices, higher diesel prices, and re-imposition of busy season surcharge on railway freight, which was partly offset by cost reduction initiatives and higher volume.
- The key cost-saving measures include: 1) increase in green power share to 29% vs. 17% in FY22, 2) increase in TSR to 17% vs. 13% in FY22, 3) reduction in clinker factor and increase in blended cement in product mix, 4) savings in logistics costs through a digital bidding platform for transporters and the use of heavy-duty electric trucks for transportation of raw materials.

Exhibit 18: Total cost/t increased 9.4% YoY in FY23



Source: Company, MOFSL

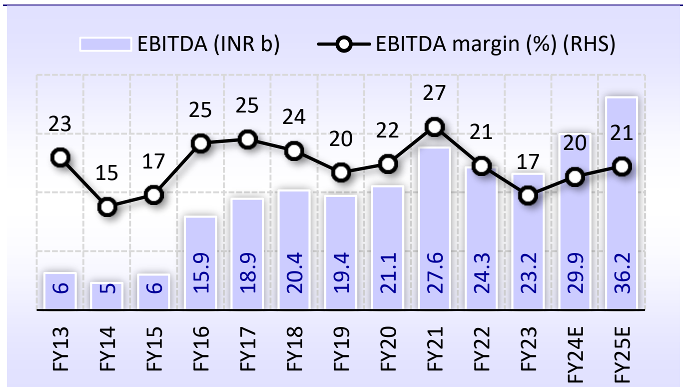
Exhibit 19: Employee cost/t down aided by higher volume



Source: Company, MOFSL

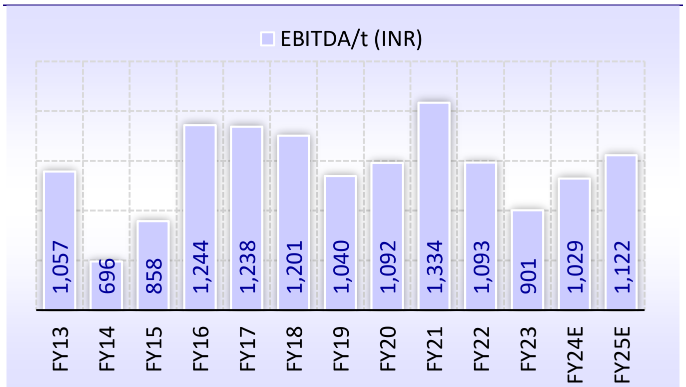
- Consolidated EBITDA declined 5% YoY to INR23.2b and OPM dropped 4.4pp YoY to 17% due to cost pressures. EBITDA/t declined 17.5% YoY to INR901.

Exhibit 20: EBITDA declined 5% YoY; OPM down 4.4pp



Source: MOFSL, Company

Exhibit 21: EBITDA/t at INR901 down 17.5% YoY in FY23



Source: MOFSL, Company

Exhibit 22: Opex/t up 9% YoY in FY23 led by 21% increase in variable costs, which partly offset by positive operating leverage

Particulars (per ton)	FY19	FY20	FY21	FY22	FY23	Change YoY (%)
Sales Volume (mt)	18.7	19.3	20.7	22.2	25.7	15.8
Blended Realization	**5,077**	**5,015**	**4,884**	**5,084**	**5,268**	**3.6**
Raw Material Cost (incl. Change-in-inventory)	956	905	745	663	771	16.3
Power and Fuel	940	901	801	1,158	1,432	23.7
Freight Cost	979	982	1,001	1,061	1,090	2.8
Employee Benefits Expense	347	350	318	335	300	-10.5
Other Expenses	816	785	683	774	775	0.0
Total Expenses	4,037	3,923	3,550	3,991	4,367	9.4
Blended EBITDA	**1,040**	**1,092**	**1,334**	**1,093**	**901**	**-17.5**

Source: MOFSL, Company

- Earnings before tax and exceptional items declined 20% YoY to INR9.15b and adjusted PAT (adjusted for share of exceptional profit on sale of investment by an associate) declined 12% YoY to INR7.2b.

Exhibit 23: Common-size analysis – raw material costs and power & fuel expenses increased in FY23; depreciation declined

Particulars (INR b)	FY19	%	FY20	%	FY21	%	FY22	%	FY23	%
Net Revenue	**94.8**	**100**	**96.7**	**100**	**101.1**	**100**	**112.9**	**100**	**135.4**	**100**
Raw Materials (incl. Change-in-inventory)	17.9	19	17.5	18	15.4	15	14.7	13	19.8	15
Power and Fuel	17.6	19	17.4	18	16.6	16	25.7	23	36.8	27
Freight and forwarding	18.3	19	19.0	20	20.7	21	23.6	21	28.0	21
Other Expenses	15.2	16	15.1	16	14.1	14	17.2	15	19.9	15
Personnel Cost	6.5	7	6.8	7	6.6	7	7.4	7	7.7	6
EBITDA	**19.4**	**20**	**21.1**	**22**	**27.6**	**27**	**24.3**	**21**	**23.2**	**17**
Depreciation	13.0	14	15.3	16	12.5	12	12.4	11	13.1	10
EBIT	**6.5**	**7**	**5.8**	**6**	**15.1**	**15**	**11.9**	**11**	**10.1**	**7**
Other Income	2.4	3	2.2	2	1.8	2	1.6	1	1.4	1
Financial Charges	5.5	6	4.4	5	3.0	3	2.0	2	2.3	2
PBT (Before Exceptional Items)	**3.4**	**4**	**3.6**	**4**	**14.0**	**14**	**11.5**	**10**	**9.2**	**7**
Share of profit/(Loss) in associate and JV	-	-	-	-	-0.0	-	0.1	-	0.3	-
Exceptional items	-	-	-	-	-3.3	-	0.0	-	-3.9	-
PBT	**3.4**	**4**	**3.6**	**4**	**10.7**	**11**	**11.5**	**10**	**5.3**	**4**
Tax	-0.1	0	1.2	1	5.5	5	3.2	3	2.4	2
PAT	**3.5**	**4**	**2.4**	**2**	**5.2**	**5**	**8.4**	**7**	**2.9**	**2**
Minority Interest	0.4	-	0.1	-	0.1	-	0.3	-	0.4	-
Adj. PAT*	**3.1**	**3**	**2.2**	**2**	**8.4**	**8**	**8.2**	**7**	**7.2**	**5**

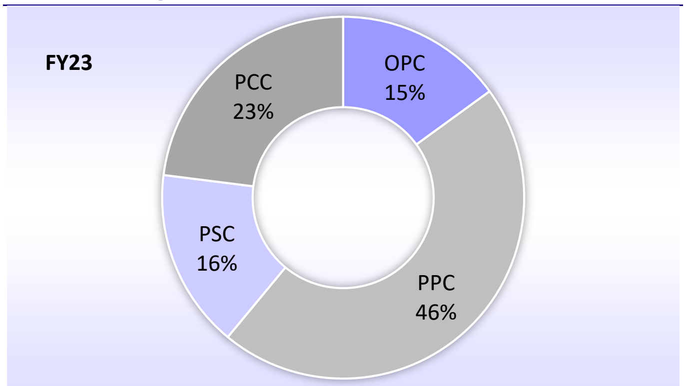
Source: MOFSL, Company; *Note: FY21 PAT is adjusted for DTL reversal and FY23 PAT adjusted for share of exceptional gain on sale of investment by an associate

Key cost analysis and cost optimization measures

DALBHARA implemented several cost optimization measures: 1) using low-cost additives, 2) increased use of renewable power and green fuel in the process, 3) utilizing the lowest coal, including local coal in north-east plants, and 3) maximizing the usage of chemical gypsum and wet/conditioned fly ash.

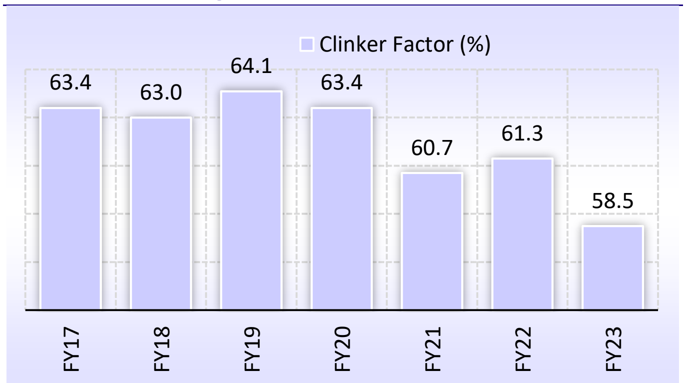
- The company is continuously taking steps to reduce the clinker factor and increase the share of blended cement in its product mix. The company's clinker factor percentage stood at 58.5% in FY23 vs. Indian average at ~68%.

Exhibit 24: Higher blended cement share…



Source: MOFSL, Company

Exhibit 25: …driving reduction in clinker factor

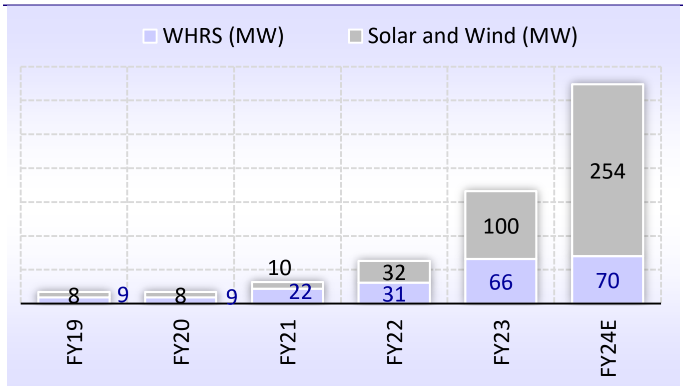


Source: MOFSL, Company

- DALBHARA is aggressively expanding its RE capacity by adding solar power plants and WHRS (added 103MW in FY23). It also sources renewable electricity from the grid and Indian Energy Exchange (IEX) and started purchasing hydel power to meet its RE commitment. DALBHARA's green power share (including RE source from the Grid) stood at 29% vs. 17% in FY22 (RE share from captive sources stood at 21% vs. 10% in FY22). Its green power installed capacity as of Mar'23 was 166MW (66MW of Solar power and 100MW of WHRS). The company plans to further increase its RE capacity (through a combination of solar and wind power capacities) to 324MW in FY24.
- The company significantly increased its TSR to 17% (India average ~4%) from 13% in FY22. The company is installing a chlorine bypass duct to remove chlorine from the system and achieve 100% replacement of fossil fuels. Key initiatives to increase utilization of green fuel:
  - Belgaum and Kadapa plants now have fully operational chloride bypass systems to increase TSR. Kadapa's green fuel (GF) utilization has increased by 12pp to ~25% and Belgaum's by 10pp to 26%. It plans to augment shredding capacity for GF in FY24 to further enhance its consumption.
  - Chandrapur Cement work has a new GF feeding system and has achieved a TSR of ~12% since Jan'23.
  - In the Tamil Nadu cluster, the company has augmented clinker capacity and GF shredding systems for Dalmiapuram Line 2 and Ariyalur. It will install chloride bypass systems to achieve a TSR of 35% by 2QFY24.
  - In the east region, the company has ordered a chloride bypass system for its Rajgangpur unit, which will be commissioned by Q3FY24.

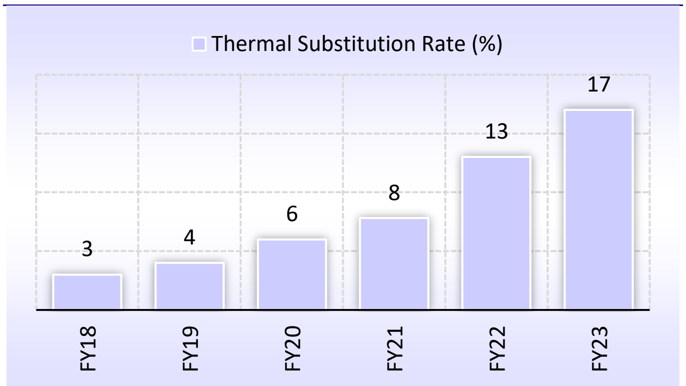
After installing chlorine bypass system, TSR increased by 10-12pp at two of its plants (Kadapa and Belgaum).

Exhibit 26: Increasing green power portfolio



Source: MOFSL, Company

Exhibit 27: Increasing TSR and utilizing more alternative fuel



Source: MOFSL, Company

- The company developed a digital bidding platform for shipment freight rationalization, which involves transactional level freight bidding based on sensing demand (orders) and supply (fleet availability) gaps in the market. Apart from that the company contracted for the development of 218 green vehicles. Out of these, the company has already deployed 16 vehicles and is planning to deploy the remaining 202 vehicle in FY24. It aims to decrease logistics costs for cement and inbound materials by 10%. Additionally, it aims to cut down carbon emissions by 2,000 metric tonnes in FY24 through logistics operations.

DALBHARA achieved savings of INR60m annually through freight optimization using a digital bidding platform.

Exhibit 28: Margin improved by 53bp YoY due to lower other expenses; packing expenses witnessed highest decrease

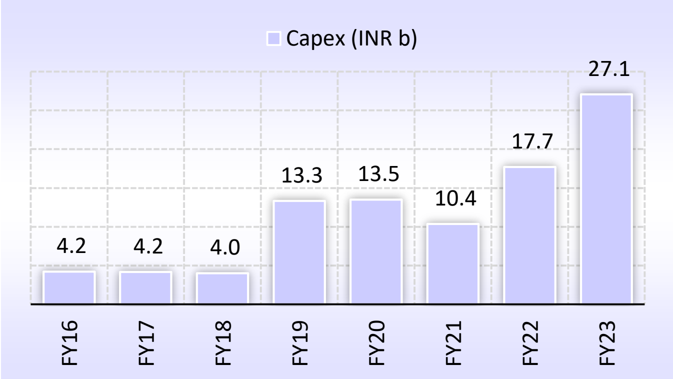
Other Expenses (INR m)	FY20	% of Revenue	FY21	% of Revenue	FY22	% of Revenue	FY23	% of Revenue	Change YoY (bp)
Packing materials	3,440	3.6	3,980	3.9	4,870	4.3	5,120	3.8	-53
Stores Consumed	490	0.5	340	0.3	430	0.4	800	0.6	21
Repairs	2,700	2.8	2,120	2.1	2,820	2.5	3,410	2.5	2
Rent	1,540	1.6	2,010	2.0	2,060	1.8	2,630	1.9	12
Rates and taxes	840	0.9	950	0.9	1,200	1.1	1,090	0.8	-26
Advertisement and sales promotion	1,980	2.0	1,100	1.1	1,460	1.3	1,890	1.4	10
Other miscellaneous expenses	4,150	4.3	3,640	3.6	4,350	3.9	4,970	3.7	-18
Total	**15,140**	**15.7**	**14,140**	**14.0**	**17,190**	**15.2**	**19,910**	**14.7**	**-53**

Source: MOFSL, Company

Capex, return ratios and cash flows

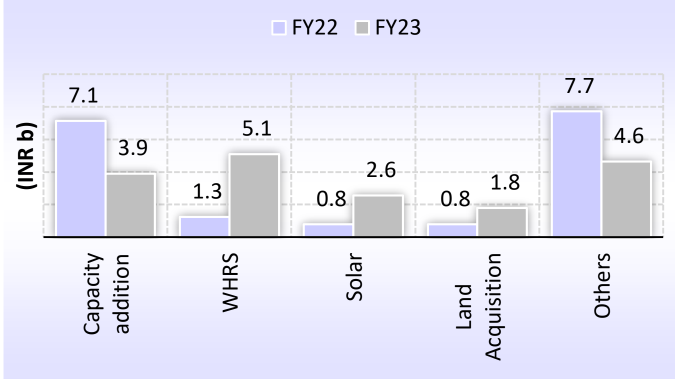
- In FY23, DALBHARA capitalized property, plant and equipment (PPE) of INR17.98b. Capex has been scaled up significantly over the past two years, given the robust capacity expansion plan and sustainability initiatives. Capital work in progress (CWIP) stood at INR18.59b as of Mar'23, largely attributed to (a) installation of pyro upgrade at various plants across the Group, and (b) capacity enhancement/ upgrade of cement mills.

Exhibit 29: Capex increases in last two years



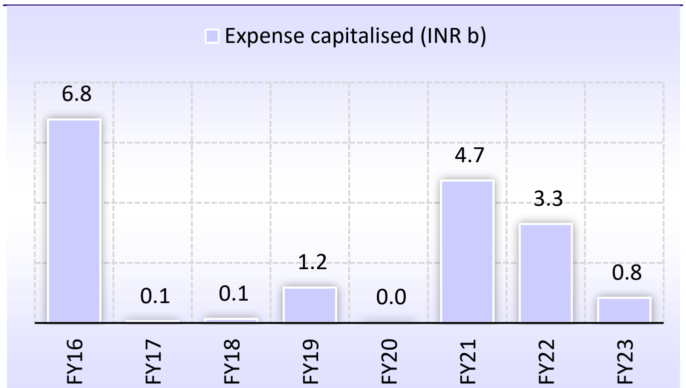
Source: MOFSL, Company

Exhibit 30: Capex capitalized in PPE and intangibles assets



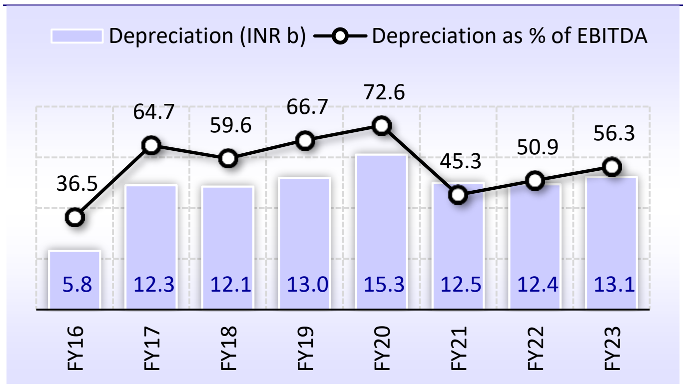
Source: MOFSL, Company; Note: Others mainly consisting of routine maintenance and efficiency/productivity improvement capex

Exhibit 31: Expenses capitalized over the years



Source: MOFSL, Company

Exhibit 32: Depreciation increased in FY23



Source: MOFSL, Company; Depreciation including amortization of Goodwill

- DALBHARA's ROE has declined 114bp YoY to 4.5% (ROE stood at 5.8% adjusted for amortization of Goodwill) in FY23, mainly due to EBIT margin contraction by 3.1pp YoY to 7.5% amid higher input costs, which were partly offset by higher volume growth and improvement in realization. We expect the assets-turnover ratio to improve to 0.6x in FY24/FY25 vs. 0.5x in FY23, while the asset-equity ratio to increase to 1.7x in FY24/FY25 v/s 1.6x in FY23. We estimate ROE to improve to 6%/7.5% in FY24/25, led by improvement in profit margin.

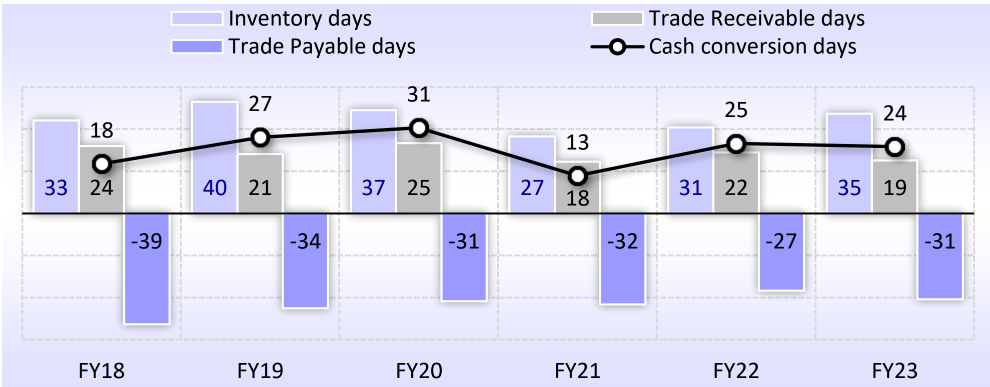
Exhibit 33: Du-pont analysis: Lower profitability to adversely impact RoE

(%)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
PAT/PBT	75.1	90.9	62.7	60.1	71.4	78.7	71.4	72.1
PBT/EBIT	47.3	52.5	61.8	92.5	96.5	90.5	92.7	93.9
EBIT/Sales	9.6	6.8	6.0	15.0	10.6	7.5	9.6	11.1
Asset turnover (x)	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Assets/Equity (x)	2.1	2.0	2.0	1.8	1.6	1.6	1.7	1.7
RoE	**2.9**	**2.9**	**2.1**	**7.2**	**5.7**	**4.5**	**6.0**	**7.5**

Source: MOFSL, Company

- DALBHARA's receivable days declined to 19 in FY23 from 22 in FY22. While inventory days increased to 35 in FY23 from 31 in FY22 due to higher fuel inventories (sharp increase in fuel prices). Trade payable days increased to 31 in FY23 from 27 in FY22. DALBHARA's cash conversion cycle almost remained flat YoY at 24 days in FY23 (last five-year average at 23 days).

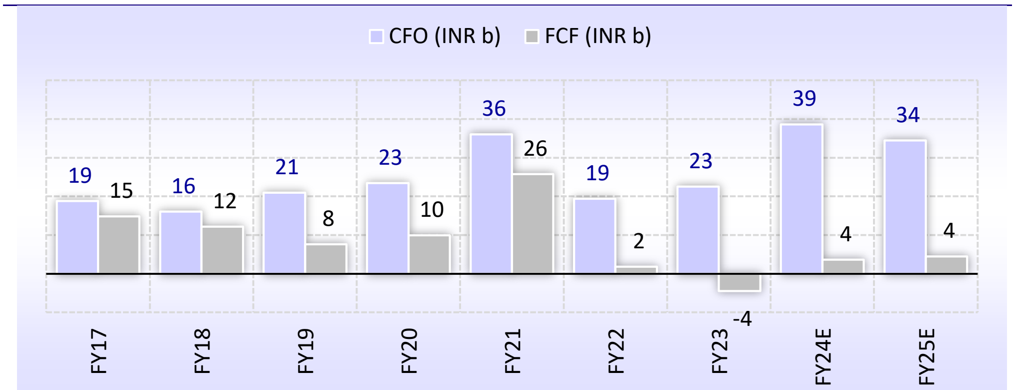
Exhibit 34: DALBHAR's cash conversion cycle broadly stable YoY in FY23



Source: MOFSL, Company

- DALBHARA reported FCF outflow of INR4.5b after capex of INR27b. The company's cumulative OCF stood at INR78b during FY21-23 (vs. INR60b over FY18-20). FCF stood at INR23b during FY21-23 after capex of INR55b (vs. INR30b during FY18-20 after capex of INR31b). Going forward, we expect OCF to improve, driven by improvement in profitability amid lower fuel prices and higher volume. We estimate a capex of INR35b/INR30b in FY24/FY25. However, we have not yet factored in JPA cement asset acquisition in our estimates, pending requisite approvals. The company's key priorities for FY24 include the timely completion of ongoing capex and the successful integration of the JPA cement assets.

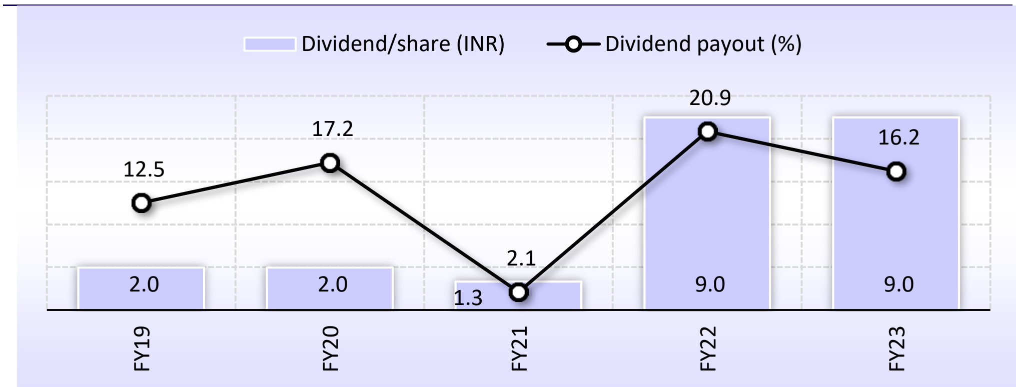
Exhibit 35: DALBHARA OCF will support its organic growth plan



Source: MOFSL, Company

- DALBHARA under its capital allocation framework earmarked up to 10% of the operating cash flow to be paid out to shareholders in dividends and share buybacks. Dividend payout as a % of consolidated net profits (reported) was 16.2% in FY23 vs. 20.9% in FY22.

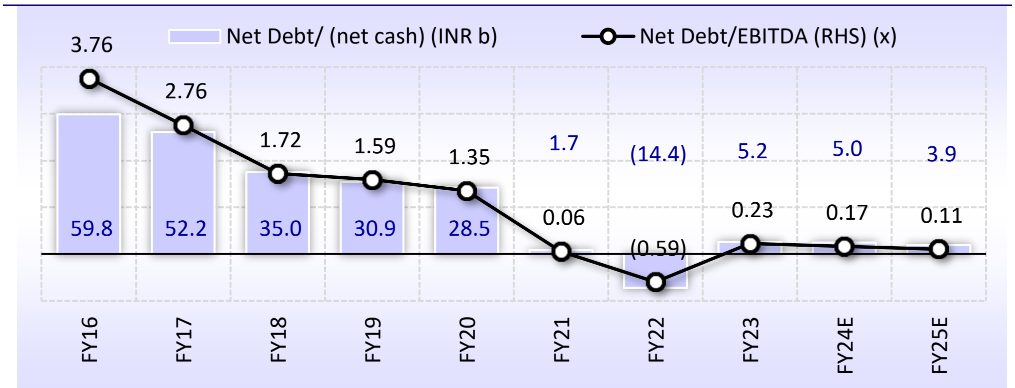
Exhibit 36: Dividend payout scaled up over the past two years



Source: MOFSL, Company

- DALBHARA's consolidated net debt stood at INR5.2b in FY23 vs. net cash of INR14.4b in FY22. However, net debt, excluding investment in IEX of INR17b, stood at INR22.3b vs. INR15.5b in FY22. Its net debt-to-EBITDA ratio stood at 0.23x vs. (0.59x) in FY22. The management targets to keep the ratio at equal to or below 2x.
- The company has divested its entire stake in Dalmia Bharat Refractories (DBRL), an associate company, to Sarvapriya Healthcare Solutions, a promoter group company, for a total consideration of INR8b. The investment is classified as an asset held for sale in the financials. As per the management, it has received a cash consideration of INR1.6b, and for the balance INR6.4b, NCDs carrying a coupon of 8.5% p.a. payable quarterly have been issued. NCDs are redeemable in two tranches of INR3.2b each — the first redeemable on or before 31st Dec'23 and the second on or before 30th Sep'24.

Exhibit 37: Net debt surged due to higher capex and fair value loss on investment held in equity share; however, leverage is estimated at comfortable level



Source: MOFSL, Company; Note: Net-debt is including investment in IEX

Other important points

- Contingent liabilities under various matters (in aggregate) stood at INR6.6b vs. INR6.4b in FY22. These cases are sub-judice under various forums/authorities at various stages and the cash outflows for the same could be determined only on receipt of judgments in those cases.

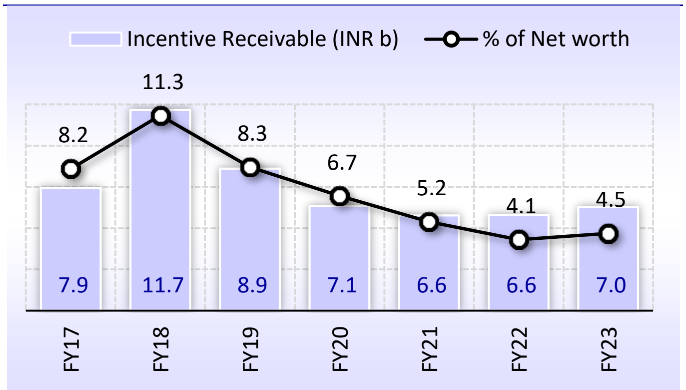
Exhibit 38: Contingent liabilities for judgment pending

Matters related to contingent liabilities	FY22 (INR b)	FY23 (INR b)
Market fee	1.2	1.4
Rat hole mining matte	1.2	1.2
Stamp duty on royalty payable on extraction of limestone	0.9	0.9
Excise and Service tax	0.5	0.6
Demand in respect of limestone	0.6	0.6
Income tax matters	0.5	0.5
Sales tax/ VAT/ Entry tax/ GST matters	0.5	0.4
Lease rent	0.2	0.2
Customs	0.2	0.2
Subsidy/ incentive receivable	0.2	0.2
Other matters	0.6	0.7
Total	**6.4**	**6.6**
% of Net worth	**4.0**	**4.2**

Source: MOFSL, Company

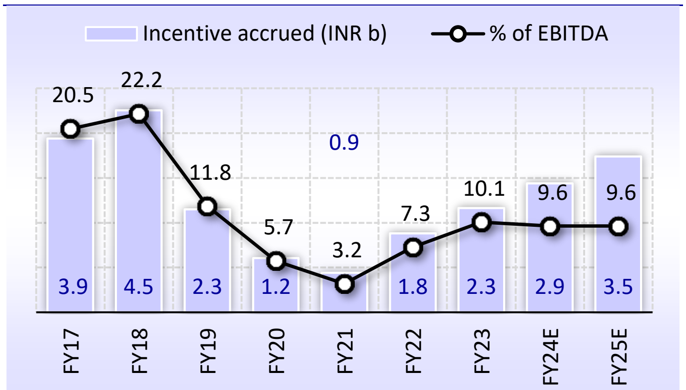
- DALBHARA's subsidy/incentive income against capital investment (under various state government investment promotion schemes) increased by 32% YoY to INR2.3b in FY23. While total subsidy/incentive receivables (combined long-term and short-term) from the government stood at INR7b in FY23 vs. INR6.6b in FY22. The management expects incentive accruals (including at Murli) would be in the range of INR2.75-3.0b for FY24.

Exhibit 39: Incentive receivable stood at INR7b



Source: Company, MOFSL

Exhibit 40: Incentive income as a % of EBITDA stood at ~10%



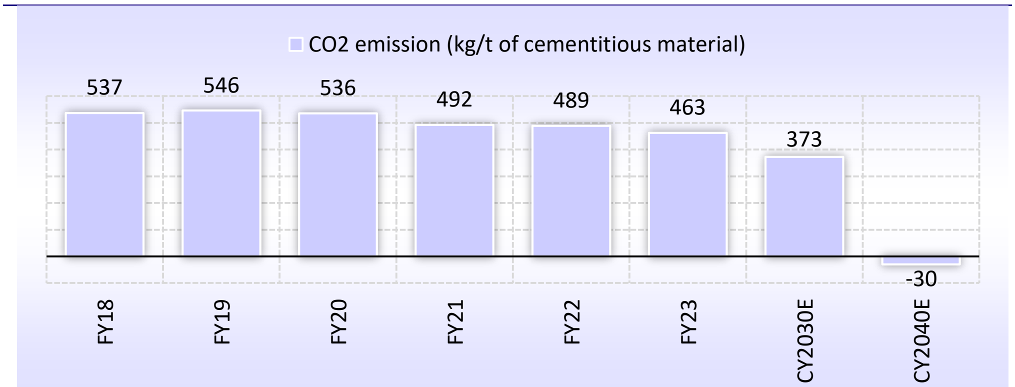
Source: Company, MOFSL

Key sustainability development and initiatives

The company is adopting industry-best sustainability practices:

- The percentage of recycled or reused input material to total material used in production (alternative raw material rate) increased by 2pp YoY to 42% in FY23. Its blended cement share increased to 84% in FY23.
- The company achieved TSR of 17% vs. 13% in FY22. This was achieved through the substitution of fossil fuels with various environmental-friendly alternatives, such as industrial wastes, municipal solid waste, renewable biomass (including bamboo and plantation sources), and hazardous waste.
- The company is using 29% renewable power in total energy consumption.
- The company achieved 31% recycled water usage and become 14x water positive. It targets to become 20x water positive by FY25.
- DALBHARA is signatory to RE100, EP100 and EV100 collectively. It is committed to doubling energy productivity (EP100), 100% use of renewable energy (RE100) and a significant transition toward electric vehicles (EV100) by CY30.
- In FY23, the company reduced net CO_2 emissions by 5.31% YoY to 463Kg/t of cementitious material.
- It spent INR175m on CSR projects vs. INR130m in FY22.

Exhibit 41: DALBHARA commits to becoming carbon negative by CY40



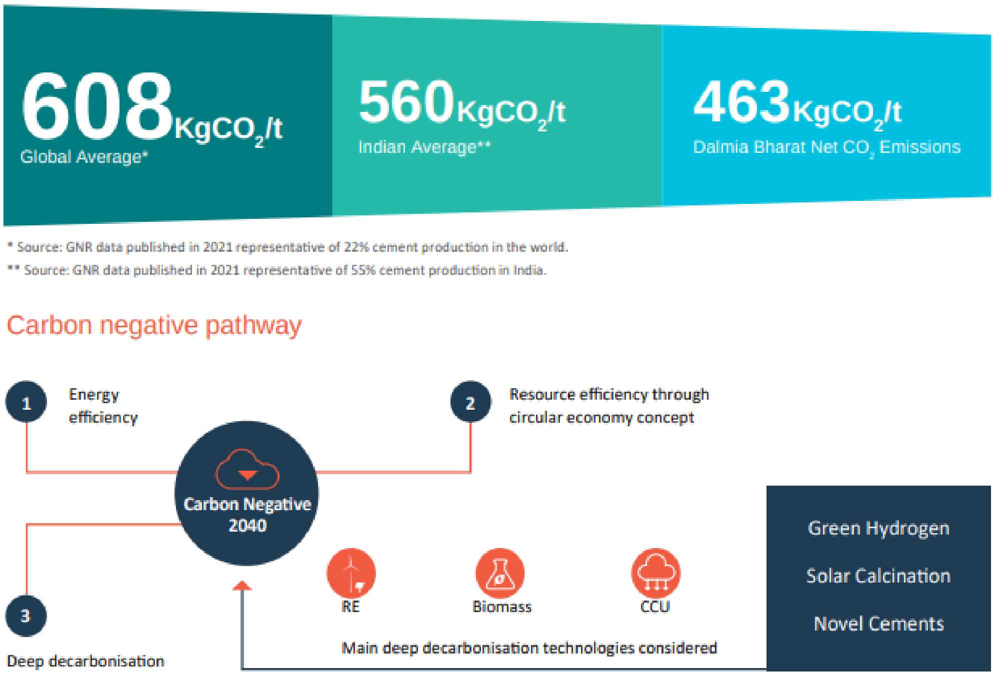
Source: MOFSL, Company

Exhibit 42: Key sustainability targets and achievements as of FY23

Aspect	Target	Achievement FY23
Climate change mitigation	• Reduce Scope 1 GHG emissions 32% per tonne of cementitious material by FY34 from a FY19 base year and scope 2 GHG emissions 61.9% per tonne of cementitious material within the same timeframe validated by SBTi • Carbon negative by 2040	• Scope 1 - 15.20% reduction against 2019 baseline • Scope 2 - 17.85% reduction against 2019 baseline • We have achieved carbon footprint of 463 KgCO_2/t cementitious material against baseline of 546 KgCO_2/t cementitious material • We are in the trajectory to achieve the target of being carbon negative by 2040
Renewable energy	Usage of 100% renewable power under fossil free electricity initiative by 2030 (RE 100)	29% is the share of non-fossil power consumption out of the total power share
Energy productivity	To double the energy productivity by 2030 (EP 100), baseline 2010-11	54% energy productivity improvement compared to 2010 baseline We are in-line with our target of doubling energy productivity
Alternative (green) fuels	100% Thermal Substitution Rate i.e. using 100% alternative (green) fuel for generating heat to replace fossil fuel by 2035	17% Thermal Substitution Rate achieved this year by replacing fossil fuels by industrial wastes, municipal solid waste, renewable biomass (bamboo/plantation), hazardous waste
Electric vehicles	Use of electric vehicles for significant EV transition by 2030 (EV 100)	We have purchased 22 heavy duty electric trucks for transportation of our raw materials
Blended cements (low-carbon cements)	Switch to 100% blended cement production by 2026	84% blended cement share achieved this year using 10.99 million tonnes alternative raw materials like fly-ash, slag and others

Source: MOFSL, Company

Exhibit 43: In the cement industry DALBHARA's carbon emission is below global as well as India average

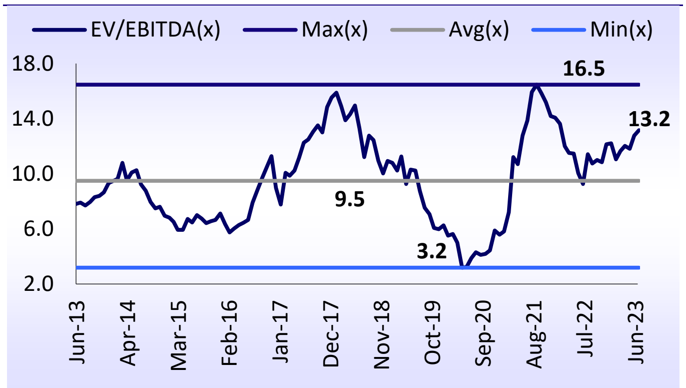


Source: MOFSL, Company

Leverage at comfortable level, reiterate Buy

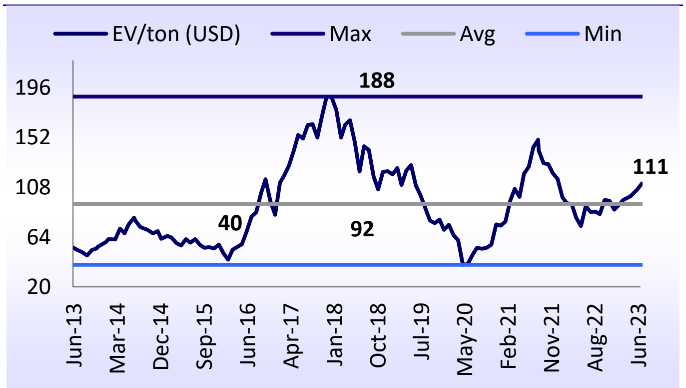
- DALBHARA has increased its capacity to 41.1mtpa (15% CAGR since FY14) and has set an ambitious target of achieving a grinding capacity of 75mtpa by FY27 and 110-130mtpa by FY31.
- Despite the significant expansion, the company's leverage remains low, thanks to strong volume growth (~16% CAGR), improvement in profitability (EBITDA CAGR of 20%) and focus over divestment of non-core assets (divested entire investment in refractory business, wholesaler business for all construction and building materials (Hippo Stores) and partly in IEX). In FY23, its net debt stood at INR5.2b and net debt-to-EBITDA ratio at 0.23x. Net debt, excluding investment in IEX, stood at INR22.3b and the ratio at 1x. Even after considering JPA cement asset acquisition, the ratio will remain below 2x.
- The stock trades at 14x/11.2x FY24E/FY25E EV/EBITDA ratio and an EV/t of USD109/USD106. It has traded at an average one-year forward EV/EBITDA ratio of 10x/9.5x in the last five/10 years. With an expected improvement in earnings (25% CAGR over FY23-25E) and its focus on capacity expansions without leveraging its balance sheet, we expect the stock to trade at higher multiples.
- We value DALBHARA at 13x FY25E EV/EBITDA to arrive at a TP of INR2,550, an upside of 14% from current levels. We maintain our BUY rating on the stock.

Exhibit 44: One-year forward EV/EBITDA



Source: MOFSL, Company

Exhibit 45: One-year forward EV/t



Source: MOFSL, Company

Financials and Valuations (Consolidated)

Income Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Net Sales	**85,800**	**94,840**	**96,740**	**1,01,100**	**1,12,860**	**1,35,400**	**1,50,534**	**1,69,026**
Change (%)	15.2	10.5	2.0	4.5	11.6	20.0	11.2	12.3
EBITDA	**20,360**	**19,420**	**21,060**	**27,620**	**24,260**	**23,160**	**29,895**	**36,182**
Margin (%)	23.7	20.5	21.8	27.3	21.5	17.1	19.9	21.4
Depreciation	12,130	12,960	15,280	12,500	12,350	13,050	15,440	17,445
EBIT	**8,230**	**6,460**	**5,780**	**15,120**	**11,910**	**10,110**	**14,454**	**18,738**
Int. and Finance Charges	7,080	5,510	4,380	2,950	2,020	2,340	3,078	3,323
Other Income - Rec.	2,740	2,440	2,170	1,810	1,600	1,380	2,030	2,180
PBT bef. EO Exp.	**3,890**	**3,390**	**3,570**	**13,980**	**11,490**	**9,150**	**13,406**	**17,595**
EO Expense/(Income)	0	0	0	-3,330	20	-3,850	0	0
PBT after EO Exp.	**3,890**	**3,390**	**3,570**	**17,310**	**11,470**	**13,000**	**13,406**	**17,595**
Current Tax	1,080	1,120	1,140	2,120	250	320	3,432	4,504
Deferred Tax	-100	-1,220	50	3,330	2,900	2,100	0	0
Tax Rate (%)	32.1	-2.1	27.5	40.4	26.5	29.6	25.6	25.6
Reported PAT	**2,910**	**3,490**	**2,380**	**11,860**	**8,320**	**10,580**	**9,974**	**13,091**
Minority and Associates	10	-410	-140	-130	-240	-190	-400	-400
PAT Adj. for EO items	**2,920**	**3,080**	**2,240**	**8,400**	**8,203**	**7,198**	**9,574**	**12,691**
Change (%)	563.6	5.5	-27.3	275.0	-2.3	-12.3	33.0	32.5
Margin (%)	3.4	3.2	2.3	8.3	7.3	5.3	6.4	7.5

Balance Sheet								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	385	390	390	374	375	375	375	375
Total Reserves	1,02,965	1,06,000	1,05,650	1,27,726	1,60,235	1,55,905	1,63,042	1,73,295
Net Worth	**1,03,350**	**1,06,390**	**1,06,040**	**1,28,100**	**1,60,610**	**1,56,280**	**1,63,417**	**1,73,670**
Deferred capital investment subsidy	1,200	1,290	1,400	1,240	1,250	1,660	1,660	1,660
Deferred Liabilities	13,250	11,880	12,770	16,590	15,640	16,100	16,100	16,100
Minority Interest	-300	110	250	340	720	1,160	1,560	1,960
Total Loans	72,660	58,780	59,500	37,080	31,190	37,420	46,920	51,920
Capital Employed	**1,90,160**	**1,78,450**	**1,79,960**	**1,83,350**	**2,09,410**	**2,12,620**	**2,29,657**	**2,45,310**
Gross Block	1,62,870	1,66,210	1,66,440	1,86,160	2,00,360	2,16,590	2,61,270	2,78,240
Less: Accum. Deprn.	22,500	30,470	40,890	49,910	59,020	68,760	82,170	97,585
Net Fixed Assets	**1,40,370**	**1,35,740**	**1,25,550**	**1,36,250**	**1,41,340**	**1,47,830**	**1,79,100**	**1,80,655**
Capital WIP	1,730	5,200	17,400	10,060	10,450	18,710	7,000	18,000
Current Investment	**34,080**	**23,150**	**26,980**	**32,930**	**43,990**	**29,350**	**38,250**	**38,250**
Non-current Investment	970	1,090	1,610	7,410	13,060	5,900	5,900	5,900
Curr. Assets, Loans and Adv.	**35,510**	**39,300**	**37,670**	**32,210**	**37,840**	**53,400**	**46,489**	**55,371**
Inventory	7,790	10,320	9,740	7,600	9,460	13,160	14,435	16,208
Account Receivables	5,640	5,490	6,640	5,110	6,730	7,000	8,248	9,262
Cash and Bank Balance	3,540	4,690	4,030	2,470	1,600	2,850	3,716	9,728
Loans and Advances	18,540	18,800	17,260	17,030	20,050	30,390	20,090	20,173
Curr. Liability and Prov.	**22,500**	**26,030**	**29,250**	**35,510**	**37,270**	**42,570**	**47,082**	**52,866**
Account Payables	20,970	23,430	27,210	32,820	34,600	39,370	43,524	48,871
Provisions	1,530	2,600	2,040	2,690	2,670	3,200	3,558	3,995
Net Current Assets	**13,010**	**13,270**	**8,420**	**-3,300**	**570**	**10,830**	**-593**	**2,505**
Appl. of Funds	**1,90,160**	**1,78,450**	**1,79,960**	**1,83,350**	**2,09,410**	**2,12,620**	**2,29,657**	**2,45,310**

E: MOFSL estimates

Financials and Valuations (Consolidated)

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)*								
EPS	**15.2**	**15.8**	**11.5**	**44.9**	**43.8**	**38.4**	**51.1**	**67.7**
Cash EPS	78.1	82.3	89.8	111.7	109.7	108.0	133.4	160.7
BV/Share	536.2	545.6	543.8	684.6	857.2	833.6	871.6	926.3
DPS	1.7	2.0	2.0	1.3	9.0	9.0	13.0	13.0
Payout (%)	11.2	12.5	17.2	3.0	20.6	23.4	25.5	19.2
Valuation (x)*								
P/E		141.7	194.9	49.9	51.1	58.3	43.8	33.1
Cash P/E		27.2	24.9	20.0	20.4	20.7	16.8	13.9
P/BV		4.1	4.1	3.3	2.6	2.7	2.6	2.4
EV/Sales		4.7	4.5	4.1	3.5	3.0	2.8	2.4
EV/EBITDA		22.9	20.5	14.9	16.3	17.5	14.0	11.2
EV/t (USD)		205	198	163	134	128	109	106
Dividend Yield (%)		0.1	0.1	0.1	0.4	0.4	0.6	0.6
Return Ratios (%)								
RoIC	3.6	4.5	3.0	6.7	6.0	4.5	6.3	7.7
RoE	2.9	2.9	2.1	7.2	5.7	4.5	6.0	7.5
RoCE	4.2	5.3	3.5	6.1	5.6	4.2	6.1	7.1
Working Capital Ratios								
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.5	0.6	0.7	0.7
Inventory (Days)	33	40	37	27	31	35	35	35
Debtor (Days)	24	21	25	18	22	19	20	20
Leverage Ratio (x)								
Current Ratio	1.6	1.5	1.3	0.9	1.0	1.3	1.0	1.0
Debt/Equity ratio	0.7	0.6	0.6	0.3	0.2	0.2	0.3	0.3

Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	3,890	3,390	3,570	13,640	11,620	13,210	13,406	17,595
Depreciation	12,130	12,960	15,280	12,500	12,360	13,050	15,440	17,445
Interest and Finance Charges	7,080	5,510	3,640	3,190	1,930	2,310	3,078	3,323
Direct Taxes Paid	-860	-240	-660	440	240	-140	-3,432	-4,504
(Inc.)/Dec. in WC	-3,590	1,500	2,740	7,810	-5,150	-770	12,165	2,763
CF from Operations	**18,650**	**23,120**	**24,570**	**37,580**	**21,000**	**27,660**	**40,657**	**36,621**
Others	-2,590	-2,220	-1,190	-1,540	-1,680	-5,140	-2,030	-2,180
CF from Operations incl. EO	**16,060**	**20,900**	**23,380**	**36,040**	**19,320**	**22,520**	**38,627**	**34,441**
(Inc.)/Dec. in FA	-3,930	-13,290	-13,450	-10,270	-17,560	-27,010	-35,000	-30,000
Free Cash Flow	**12,130**	**7,610**	**9,930**	**25,770**	**1,760**	**-4,490**	**3,627**	**4,441**
(Pur.)/Sale of Investments	3,950	10,320	-4,970	6,050	6,380	2,980	-8,909	-11
Others	1,350	2,870	300	370	410	1,080	2,030	2,180
CF from Investments	**1,370**	**-100**	**-18,120**	**-3,850**	**-10,770**	**-22,950**	**-41,879**	**-27,831**
Issue of Shares	40	40	0	-4,000	50	0	0	0
Inc./(Dec.) in Debt	-7,730	-13,870	120	-25,340	-5,800	6,670	9,633	5,163
Interest Paid	-7,620	-5,420	-4,680	-3,960	-2,320	-2,970	-3,078	-3,323
Dividend Paid	-330	-400	-930	0	-1,000	-1,690	-2,437	-2,437
Others	0	0	-430	-450	-350	-330	0	0
CF from Fin. Activity	**-15,640**	**-19,650**	**-5,920**	**-33,750**	**-9,420**	**1,680**	**4,118**	**-598**
Inc./Dec. in Cash	**1,790**	**1,150**	**-660**	**-1,560**	**-870**	**1,250**	**866**	**6,013**
Opening Balance	1,750	3,540	4,690	4,030	2,470	1,600	2,850	3,716
Closing Balance	**3,540**	**4,690**	**4,030**	**2,470**	**1,600**	**2,850**	**3,716**	**9,728**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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