

# Cement

## Geographic isolation: More boon than curse

### North Eastern region – High-price, high-profit cluster

Interspersed in our history are instances when geographical isolation has proven to be more of a boon than a curse – Recall, how the Himalayas protected the Indian-subcontinent from invasion time again. And so is the case for North Eastern Region's (NER) cement linkages. Led by logistics constraints, cement prices and EBITDA/tonne in NER are the highest. The average retail price of tier-I (category A) firms in NER was INR 480/bag in May, ~29% more than the average cement price for the rest of India. As per our analysis, in FY23E, tier-I firms in NER may have earned ~INR 1,200-1600 EBITDA/tonne, ~2x the industry's level. Thus, NER is the last cluster standing where growth meets margin.

### Demand growth – NER ~ 1.4x pan-India level, which may likely sustain

In the past 18 years (FY05-23), NER posted a demand CAGR of ~9% versus pan-India's ~6%, led by central government's special focus on infrastructure development and higher proportion of *Kutcha* houses in NER. Thus, the share of NER in pan-India demand rose to ~3.3% in FY23 from ~2.1% in FY05. And considering the upcoming dam/hydro power projects and border roads, expect demand in NER to post a CAGR of ~10% versus the pan-India average of ~6% in FY23-26E.

The central government's capital spending in NER is budgeted to rise ~62% in FY24E. In FY23, the share of NER in houses completed under the Pradhan Mantri Awaas Yojana-Gramin (PMAY-G) was at ~17%, though NER accounts for only ~3.7% of India's population. And the ratio is expected to be similar for FY24. NER accounts for ~41% of hydro power capacity under execution. Expect a volume CAGR of ~12% over FY23-26E for NER-based firms as inter-regional movement is likely to be range-bound.

### Tier-I segment – Oligopoly dictates price stability

In NER, the tier-I segment is dominated by Dalmia Bharat (DALBHARA IN) and Star Cement (STRCEM IN). Non-NER firms have not been able to establish themselves in the region due to difficulty in continuous servicing. Selling price for most mainland firms is ~INR 30 per bag lower than that of NER firms, and the former incur freight cost of >INR 2,000/tonne. Limestone in NER is primarily available in Meghalaya. Outsiders are not allowed to own land in the state there by restricting the entry of non-NER firms.

### Outlook – FY24 demand likely to exceed local supply

Based on clinker capacity/product mix in NER, the maximum possible cement production may be ~14.4mn tonnes in FY24E versus an estimated cement demand of ~15mn tonnes, unlikely in any other region. Given the lack of major capacity addition by small local firms in NER, absence of brand premium, logistics issues and higher freight costs (drawbacks for mainland firms), STRCEM/DALBHARA with share of ~22%/34% in NER's FY23 capacity may be the key beneficiaries of buoyant demand/price in NER.

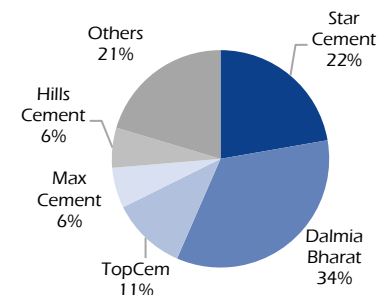
Maintain **Accumulate** on DALBHARA with one-/three-year TPs of INR 2,353/INR 3,111 respectively, on 11x (unchanged) Jun-25E/Jun-27E EV/EBITDA. Upgrade STRCEM to **Buy** from Accumulate with one-/three-year TPs of INR 177/INR 271, on 9x (unchanged) Jun-25E/Jun-27E EV/EBITDA.

### NER forms ~3% of pan-India consumption

Clinker capacity* (mn tonnes)	~9.6
Cement capacity* (mn tonnes)	16.6
Annual consumption* (mn tonnes)	~13
Key limestone cluster	Meghalaya
Per capita consumption* (per Kg)	245
Share in all-India population* (%)	3.7
Share in PMAY-G (FY24E, %)	~17
Share in potential hydro power* (%)	~46
Share in proven limestone reserves# (%)	~1.7

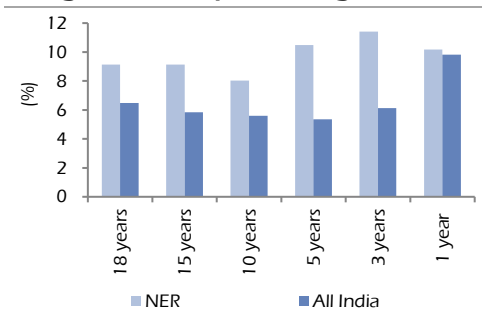
Note: \*As on FY23E, #as on 1 April 2015; Source: Indian Bureau of Mines, Company, Elara Securities Estimate

### Top-three firms have ~67% share



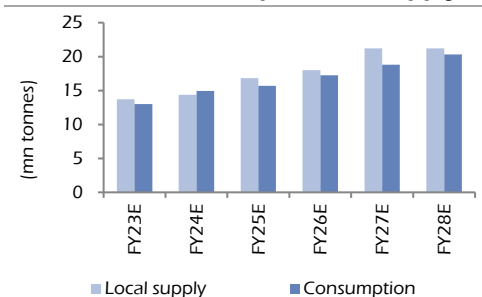
Note: cement capacity share as on FY23; Source: Company, Elara Securities Research

### NER growth 1.4x pan-India growth



Source: Elara Securities Research

### NER – Demand to surpass local supply



Source: Elara Securities Estimate

### Peer valuations

Company	Ticker	Rating	Mcap (INR bn)	CMP (INR)	TP (INR)	Upside (%)
Dalmia Bharat	DALBHARA IN	ACC	396	2,113	2,353	11
Star Cement	STRCEM IN	Buy	58	145	177	22

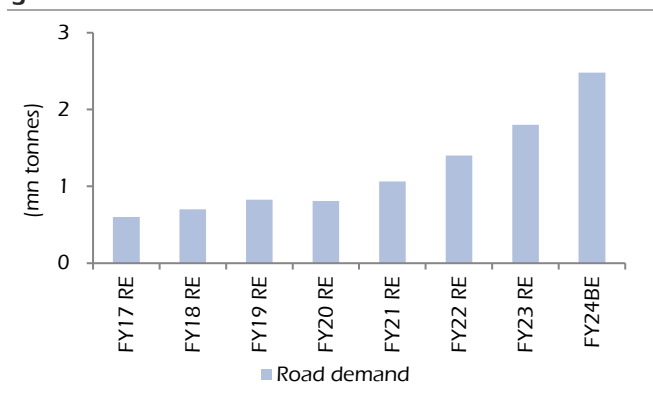
Note: Pricing as on 12 June 2023; ACC= Accumulate; Source: Elara Securities Estimate

**State governments cut cement-intensive spends...**

As per an analysis of the state budgets of NER’s key cement-consuming states, viz. Assam and Meghalaya, the respective state governments have cut cement-intensive capital spending, resulting in ~9% YoY decline in NER’s FY24BE on aggregate basis. This may yield a negative cement demand delta of 0.14mn tonnes, i.e., ~100bp on growth (likely due to fiscal prudence).

In FY24E, Assam’s fiscal deficit is estimated to be 3.7% of the gross state domestic product (GSDP). For FY24, the central government has permitted fiscal deficit of up to 3.5% of GSDP for states, of which 0.5% of the GSDP will be available only upon carrying out certain power sector reforms. As per the revised estimates, in FY23, the fiscal deficit of the state is expected to be 8.15% of the GSDP, significantly higher than the budgeted 3.19% of GSDP. Meghalaya’s fiscal deficit is estimated to be 4.5%.

**Exhibit 3: Roads may contribute ~520bp to FY24E growth**



Source: Union Budget, Elara Securities Estimate

**Exhibit 1: Fiscal prudence leads to spending cut**

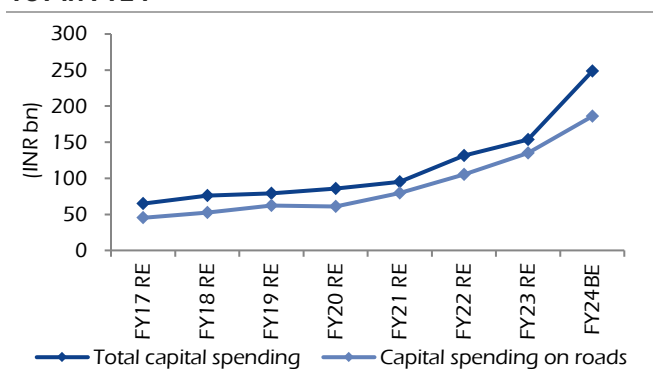
NER (INR bn)	Roads		Irrigation		Urban Infra		Total		Var (%)
	FY23-RE	FY24-BE	FY23-RE	FY24-BE	FY23-RE	FY24-BE	FY23-RE	FY24-BE	
Assam	110	108	21	15	8	4	139	127	(9)
Meghalaya	14	11	1	2	3	3	18	16	(15)
NER	124	119	22	17	11	8	158	143	(9)
<b>Cement demand (mn tonnes)</b>									
Assam	1.05	1.03	0.23	0.16	0.05	0.03	1.32	1.21	(8.34)
Meghalaya	0.13	0.10	0.01	0.02	0.02	0.02	0.16	0.14	(15.63)
NER	1.18	1.13	0.24	0.18	0.07	0.05	1.49	1.35	(9.14)

Note: RE=Revised estimates, BE=Budget estimates; Source: State Budgets, Elara Securities Estimate

**...however, spending by centre on the rise**

Capital spent by the central government in NER witnessed a CAGR of ~21% in the past three years (FY20-23BE) to ~INR 154bn, led by a sharp increase in spend on roads. Capital spending on roads increased at a CAGR of ~31% in FY20-23BE to ~INR 135bn, accounting for ~88% of the capital spending by the central government. In FY24, capital spending by the central government is budgeted to increase a massive ~62%, while on roads, may increase ~38%. Spending on roads by the central government may alone contribute ~520bp (0.7mn tonnes) to growth.

**Exhibit 2: Roads – Spending budget to increase 38% YoY in FY24**



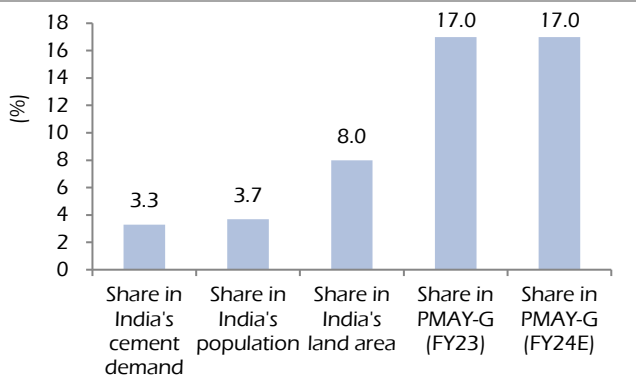
Note: RE=Revised estimates, BE=Budget estimates; Source: Union Budgets, Elara Securities Research

**PMAY to disproportionately benefit NER**

In FY22, ~0.8mn houses were completed under PMAY-G in NER. The central government intends to complete the PMAY-G projects by March 2024. The cumulative target of the government implies ‘house completing target’ of 1.19mn in FY24, thus indicating incremental demand of 2mn tonnes. If the government can achieve its target, this may contribute ~1,540bp to growth.

Note that the cost of unit (house) assistance is shared between the central and state governments in the ratio of 60:40 in plain areas and 90:10 in NER/other hilly states. Thus, PMAY-G program in NER is less dependent on state finances as compared with the rest of India. The share of NER in house completion in FY23 was ~17% and may likely be at similar level in FY24. This should be viewed from the context that NER accounts for ~3.7% of India’s population, ~8% of land area and ~3.3% of India’s cement demand.

Exhibit 4: Centre's focus to bolster demand



Source: Ministry of Rural Development, Elara Securities Estimate

Exhibit 5: PMAY-G FY24 target 1.5x of FY23

Houses (number)	FY23	FY24E	Var (%)
Arunachal Pradesh	9,344	25,829	176.4
Assam	601,535	987,499	64.2
Manipur	6,052	26,146	332.0
Meghalaya	6,996	45,677	552.9
Mizoram	1,020	13,994	1272.0
Nagaland	2,079	18,902	809.2
Sikkim	41	307	648.8
Tripura	157,845	70,282	(55.5)
<b>NER total</b>	<b>784,912</b>	<b>1,188,636</b>	<b>51.4</b>
<b>Cement demand (mn tonnes)</b>	<b>3.9</b>	<b>5.9</b>	<b>51.3</b>
Incremental demand (mn tonnes)	2.0		
Incremental growth (bp)	1,537		

Source: Ministry of Rural Development, Elara Securities Estimate

Under *Pradhan Mantri Awaas Yojana – Urban* (PMAY-U), 0.4mn houses have been cumulatively sanctioned for completion in NER, of which ~46% were already completed as on 8 May 2023. Nearly 8% of the houses were pending for grounding. Our back-of-the envelope calculation indicates that 0.7mn tonnes of cement demand may be generated by PMAY-U through May 2023 to December 2024, if the government meets its target.

Exhibit 7: PMAY-U to generate ~3mn tonnes demand

Houses (number)	Physical progress of houses		
	Sanctioned	Grounded	Completed/delivered
Arunachal Pradesh	9,002	8,358	6,061
Assam	161,519	150,346	82,451
Manipur	56,037	47,990	11,219
Meghalaya	4,758	3,762	1,104
Mizoram	39,811	39,214	6,756
Nagaland	31,968	31,825	12,736
Sikkim	594	449	209
Tripura	94,153	83,257	63,493
<b>NER total</b>	<b>397,842</b>	<b>365,201</b>	<b>184,029</b>
<b>Cement demand (mn tonnes)</b>	<b>3.2</b>	<b>2.9</b>	<b>1.5</b>

Source: Ministry of Housing and Urban Development, Elara Securities Estimate

Hydro power provides multi-decade visibility

As per the Central Electricity Authority, India has a hydro power potential of 133GW, of which NER accounts for ~46%. If all the hydro power potential is capitalized, it may generate ~111mn tonnes of cement demand.

But given many hurdles, what may materialize in the coming decade may be just ~10mn tonnes of cement demand from the projects under execution. This may translate into yearly average cement demand of 1-1.25mn tonnes.

Exhibit 6: About 46% of India's hydro power potential is in NER

States	Identified capacity as per reassessment study (2017-23)	Capacity in operation		Capacity under active construction		Capacity on which construction is held up		Capacity yet to be taken up under construction	
	(MW)	(MW)	(%)	(MW)	(%)	(MW)	(%)	(MW)	(%)
Meghalaya	2,026	322	16	0	0	0	0	1,704	84
Tripura	0	0	0	0	0	0	0	0	0
Manipur	615	105	17	0	0	0	0	510	83
Assam	643	350	54	120	19	0	0	173	27
Nagaland	325	75	23	0	0	0	0	250	77
Arunachal Pradesh	50,394	1,115	2	4,880	10	0	0	44,399	88
Mizoram	1,927	60	3	0	0	0	0	1,867	97
Sikkim	6,051	2,282	38	620	10	417	7	2,732	45
<b>NER total</b>	<b>61,981</b>	<b>4,309</b>	<b>7</b>	<b>5,620</b>	<b>9</b>	<b>417</b>	<b>1</b>	<b>51,635</b>	<b>83</b>
<b>All India</b>	<b>133,410</b>	<b>42,105</b>	<b>32</b>	<b>13,868</b>	<b>10</b>	<b>1,156</b>	<b>1</b>	<b>76,282</b>	<b>57</b>
Share of NER in all India (%)	46	10		41		36		68	146
<b>Estimated cement demand in NER (mn tonnes)</b>	<b>110.7</b>			<b>10.0</b>		<b>0.7</b>		<b>92.2</b>	

Source: Central Electricity Authority, Elara Securities Estimate

### Other central government initiatives

The Northeast special infrastructure development scheme (NESIDS) was approved by the central government as a new central sector scheme on 15 December 2017. Under the scheme guidelines, 100% centre funding is provided to NER's state governments for the projects that involve physical infrastructure in water supply, power, connectivity (to enhance tourism) and social infrastructure for primary/secondary sectors of education/health. In the Union Budget FY24, the allocation to NESIDS has been increased ~2.8x to ~INR 24.5bn. This may accelerate some power projects, which may favourably impact cement demand.

Also, the Ministry of Road Transport and Highways has taken up an ambitious special accelerated road development program (SARDP-NE) to develop the road network in the states of NER. This program envisages providing road connectivity to all the district headquarters in the NER by way of minimum two-lane highway standards. It also seeks to provide road connectivity to backward/remote areas, areas of strategic importance and neighbouring countries.

SARDP-NE will be implemented in three parts:

- **Phase A**, approved by the government, envisages an improvement of ~4,099Kms length (of roads), targeted to be completed by FY24.
- **Phase B** covers 3,723Kms of roads (2,210Kms of national highways; 1,513Kms of state roads). This phase shall commence post the completion of phase A.
- **Arunachal Pradesh Package** for roads & highways, to develop ~2,319Kms of roads, has been approved by the government and is targeted for completion by FY24.

### PM-DevINE to accelerate cement demand in FY23-26

In October 2022, the Union Cabinet approved a new scheme, the Prime Minister's Development Initiative for North-East Region (PM-DevINE) for the remaining four years of the Fifteenth Finance Commission, in FY23-26. PM-DevINE, is a central sector scheme with 100% central funding and will be implemented by the Ministry of Development of Northeastern Region (DoNER).

PM-DevINE will have an outlay of ~INR 66bn for a four-year period, in FY23-26. Efforts will be made to complete PM-DevINE projects by FY26 so that there are no committed liabilities beyond this year. This implies front-loading of the sanctions under the scheme up to FY24. While expenditure may continue to be incurred in FY25-26, the focus will be on completing sanctioned projects.

PM-DevINE will create/support infrastructure, industries, social development projects, livelihood for youth/women, thus generating employment.

PM-DevINE will be implemented by the Ministry of Development of Northeastern Region (DoNER) through the Northeastern Council or Central Ministries/agencies. Measures may be taken to ensure adequate operation and maintenance of the projects sanctioned under PM-DevINE so that they are sustainable. To limit construction risks of time/cost overruns, falling on the government projects may be on engineering-procurement-construction (EPC) basis, to the extent possible.

The objectives of PM-DevINE are to:

- Fund infrastructure convergently, in the spirit of PM *Gati-Shakti*.
- Support social development projects based on felt needs of the NER.
- Enable livelihood for youth and women.
- Bridge the development gaps in various sectors.

PM-DevINE will support infrastructure/social development projects, which may be larger in size, and will also provide end-to-end development solutions instead of isolated projects. Any duplication of support for PM-DevINE projects with other schemes of DoNER/other ministries and departments will be avoided.

PM-DevINE was announced in the Union Budget FY23 to address development gaps in NER. The announcement was yet another instance of the importance being attached to the development of NER by the government.

PM-DevINE is an additionality to the quantum of resources available for the development of NER. It will not be a substitute to existing central/state schemes. The special focus of the central government should accelerate cement demand growth in NER.

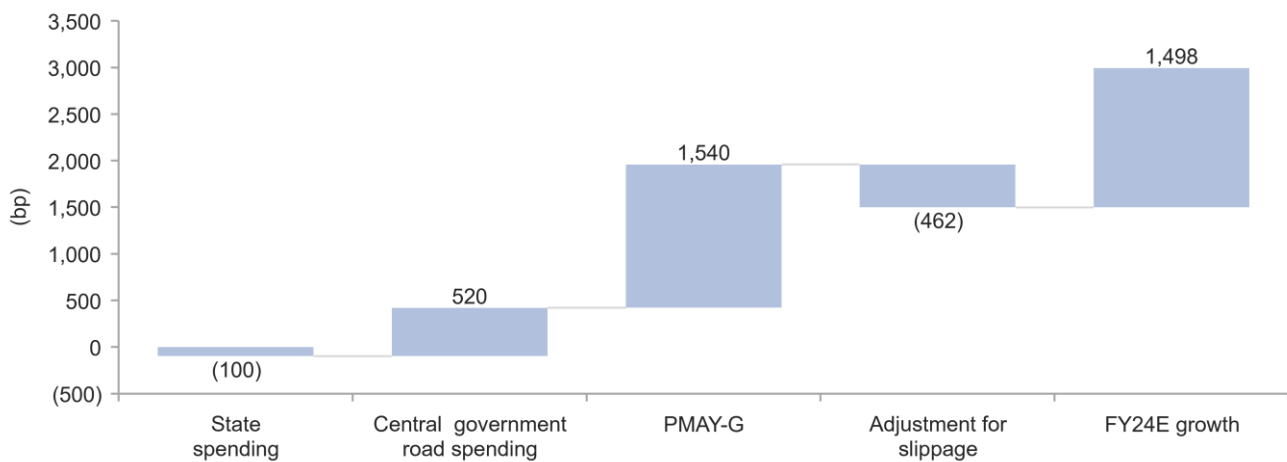
### Lead indicators show double-digit growth in FY24

As indicated earlier, while state spending is expected to result in a negative delta of ~100bp, spending by the centre on roads/PMAY may result in positive demand delta of ~520bp/~1,540bp, respectively. Even if the central government underachieves its target by ~30% for PMAY-G in FY24E, NER may post a volume growth of ~15%.

We have not factored in incremental demand from PMAY-U in our estimates, due to lack of data for estimating base-year/non-government demand. Per our interaction with industry participants, two main projects may generate huge cement demand: 1) dam construction in Arunachal Pradesh and 2) tunnel project in Manipur (~80% work already done). The average cement consumption for dam construction could be at 2,500 tonnes/day. The project may be started in November-December 2023, but discussions are still ongoing. Also, roofing in most houses is of metal sheets. Considering the cost of metals, replacement demand for roofs may likely be for concrete roofs. Also, bamboo houses may shift to concrete houses, which should drive long-term demand, thus catalysing long-term growth for NER.

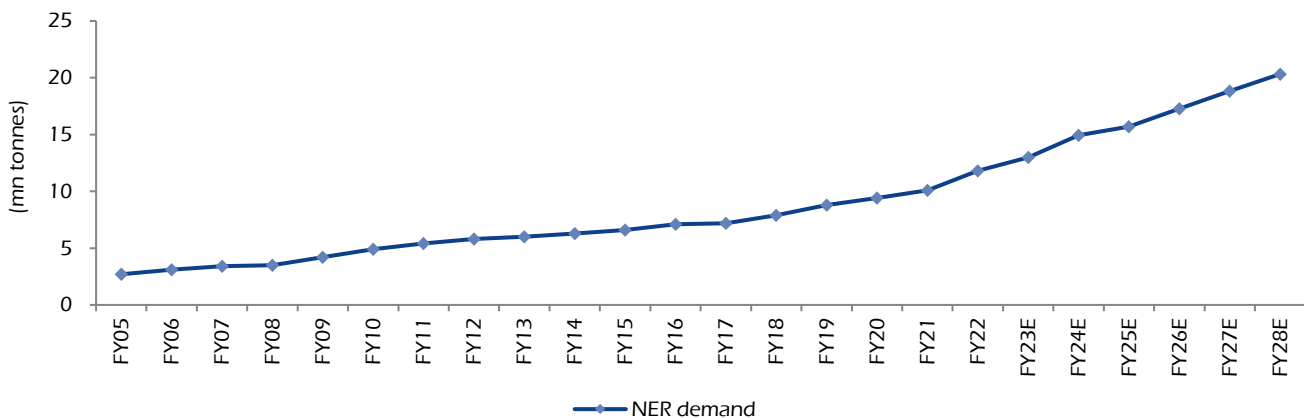
As per Skymet, NER is among the few pockets of India which is likely to receive above average rainfall for the period 9 June to 6 July 2023, which augurs well for rural income and thereby cement demand.

**Exhibit 8: Demand growth likely to be ~15% YoY in FY24E**



Source: Elara Securities Estimate

**Exhibit 9: Disproportionate spending leads to disproportionate growth**

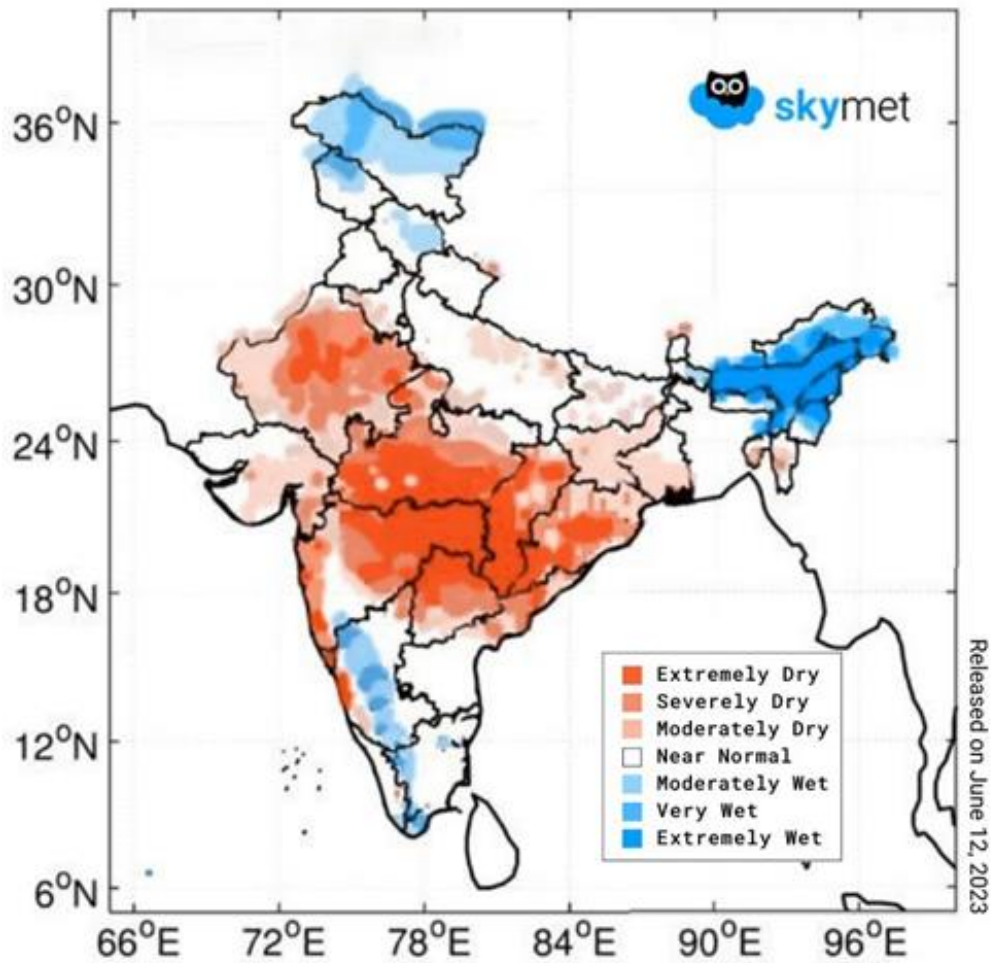


Source: Company, Elara Securities Estimate



Exhibit 10: Good Monsoon to benefit NER

**Skymet Extended Range Prediction System**  
4-Weeks Outlook (valid for June 09 to July 06, 2023)



Source: Skymet, Elara Securities Research

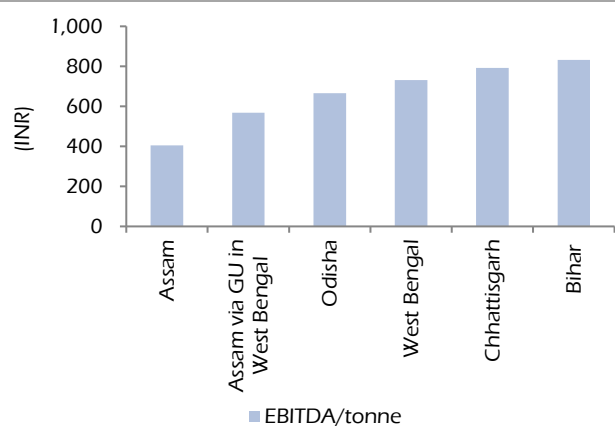
**Exhibit 11: NER – Many projects exceed INR 50bn ticket size**

Company	Projects	Cost (INR bn)	Project status	Industry group	Ownership group	Project type
National Hydro Electric Power Corporation (NHPC)	Dibang Multipurpose Hydro Power Project	319	Under implementation	Conventional Electricity	Central government - commercial enterprises	New unit
Numaligarh Refinery	Numaligarh Refinery Expansion Project	280	Under implementation	Refinery	Central government - commercial enterprises	Expansion
Etalin Hydro Electric Power Co.	Etalin (Arunachal Pradesh) Hydel Power Project	253	Under implementation	Conventional Electricity	Om Prakash Jindal group	New unit
Guwahati Metropolitan Development Authority	Guwahati Metro Rail Project	180	Under implementation	Railway Transport Infrastructure Services	State government - departmental undertaking	New unit
Northeast Frontier Railways	Jiribam-Tupul-Imphal BG Railway Project (Gati Shakti)	143	Under implementation	Railway Transport Infrastructure Services	Central government - commercial enterprises	New unit
Siyom Hydro Power Pvt.	Siyom (Siang Middle) Hydel Power Project	121	Under implementation	Conventional Electricity	Reliance group (Anil Ambani)	New unit
Northeast Frontier Railways	Bairabi-Sairang New BG Railway Project (Gati Shakti)	94	Under implementation	Railway Transport Infrastructure Services	Central government - commercial enterprises	New unit
National Hydro Electric Power Corporation (NHPC)	Tipaimukh Hydel Power Project	92	Under implementation	Conventional Electricity	Central government - commercial enterprises	New unit
Northeast Frontier Railways	Byrnihat-Shillong Railway Project	83	Under implementation	Railway Transport Infrastructure Services	Central government - commercial enterprises	Expansion
Kalai Power Pvt.	Kalai Phase 2 Hydel Power Project	70	Under implementation	Conventional Electricity	Reliance group (Anil Ambani)	New unit
Tato Hydro Power Pvt.	Tato 2 Hydro Power Project	69	Under implementation	Conventional Electricity	Reliance group (Anil Ambani)	New unit
National Hydro Electric Power Corporation (NHPC)	Tawang Stage 2 Hydro Electric Power Project	68	Under implementation	Conventional Electricity	Central government - commercial enterprises	Expansion
Northeast Frontier Railways	Dhansiri-Zubza (Kohima) New BG Rail Line Project (Gati Shakti)	67	Under implementation	Railway Transport Infrastructure Services	Central government - commercial enterprises	New unit
Northeast Frontier Railways	Salona-Khumtai New Rail Line (NL) Project	65	Under implementation	Railway Transport Infrastructure Services	Central government - commercial enterprises	New unit
Attunli Hydro Electric Power Co.	Attunli (Arunachal Pradesh) Hydel Power Project	63	Under implementation	Conventional Electricity	Om Prakash Jindal Group	New unit
National Highways & Infrastructure Development Corporation	Widening and Up-gradation of Aizawl-Tuipang (NH-54) Two Lane Highway Project	62	Under implementation	Road Transport Infrastructure Services	Central government - statutory bodies	New unit
National Hydro Electric Power Corporation (NHPC)	Teesta IV Hydro Power Project	59	Under implementation	Conventional Electricity	Central government - commercial enterprises	New unit
Lanco Teesta Hydro Power	Teesta VI Hydro Power Project	57	Under implementation	Conventional Electricity	Central government - commercial enterprises	New unit
Oil India	Tengakhat-Kathaloni-Dikom Oil & Gas Field Project	57	Under implementation	Crude Oil & Natural Gas	Central government - commercial enterprises	New unit
National Hydro Electric Power Corporation (NHPC)	Tawang Stage 1 Hydro Electric Power Project	53	Under implementation	Conventional Electricity	Central government - commercial enterprises	New unit
Assam Power Generation Corpn.	Margherita Super-critical Coal Based Thermal Power Project	53	Under implementation	Conventional Electricity	Central government - commercial enterprises	New unit
Government Of Mizoram	Mizoram Durtlang-Chaltlang Ropeway Project	50	Under implementation	Tourism	State government	New unit
National Highways & Infrastructure Development Corporation	Dhubri-Phulbari (NH-127B) Four Lane Bridge over Brahmaputra River Project	50	Under implementation	Road Transport Infrastructure Services	Central government - statutory bodies	New unit

Source: CMIE, Elara Securities Research

**NER market not margin-accretive for mainland**

Per our analysis of cement markets' profitability in various states of East India, NER is the least profitable market for Chhattisgarh-based plants, particularly for firms with no split grinding units in West Bengal. Besides high logistics cost, other reasons are low brand premium, higher exposure to non-trade markets, lesser acceptance of Portland Slag Cement (PSC) and premium products. Thus, do not foresee any material increase in inter-regional movement. In the event of material price increase in East India or price fall in NER, expect sharp withdrawal.

**Exhibit 12: NER – Margin-dilutive for Chhattisgarh firms**

Note: Based on Q4FY23 cost structure, GU=Grinding unit; Source: Elara Securities Estimate

**NER firms – Growth to exceed market growth**

Given that NER is not a core market for mainland firms due to high servicing costs/logistics issues, expect volume of non-NER firms in NER to remain stable at ~2.6mn tonnes. Thus, while NER demand may post a CAGR of ~10% in FY23-26E, aggregate volume for NER firms is expected to post a CAGR of ~12% during the same period due to higher market share in incremental volume. As indicated above, in the event of firming up of prices in East India or price fall in NER (if NER firms choose to pass on the incentive benefit), the volume CAGR of NER firms may be ~16%.

**Exhibit 13: NER firms – FY23-26E volume CAGR ~ 12%**

(mn tonnes)	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	CAGR (%)	
							FY23-26E	FY23-28E
NER's market size	13.0	15.0	15.7	17.3	18.8	20.3	9.9	9.4
Outside NER volume	2.6	2.6	2.6	2.6	2.6	2.6	0.0	0.0
Volume available for local firms	10.4	12.4	13.1	14.7	16.2	17.7	12.1	11.3

Source: Company, Elara Securities Estimate

**NER – Capacity addition by tier-I firms**

We estimate NER to have clinker/cement capacity of ~9.6mn tonnes/~16.6mn tonnes in FY23, respectively, with three firms controlling ~66%/~67% of clinker/cement capacity. NER is a market that primarily uses Ordinary Portland Cement (OPC) and Pozzolana Portland Cement (PPC). Thus, the market's cement-to-clinker ratio may unlikely exceed 1.5x. Based on available clinker capacity, the maximum possible cement production may be 13.7mn tonnes for FY23E (14.4mn tonnes in FY24E), assuming a 95% clinker utilization. Rest of the cement grinding capacity may likely depend on clinker purchase from external markets. As there is no nearby source, the cost of production for them is uneconomical. For instance, Bangladesh has only two manufacturers producing clinker at own plants – Chhatak Cement Factory, a government-owned company with limited production capacity and LafargeHolcim Bangladesh (LHBL) situated at Chhatak Bangladesh (sources limestone from India).

In NER, limestone is available mainly in Meghalaya, which forms only 1.4% of pan-India proven limestone reserves. It is DALBHARA/STRCEM that may add capacity in NER, in the medium term. As both the companies enjoy pricing premium in NER, they are unlikely to dilute prices in NER. These two firms are in the process of augmenting capacity in the region. In FY23, DALBHARA added clinker/cement capacity of 0.4mn tonnes/1.5mn tonnes, respectively, and may add another 0.2mn tonnes clinker capacity in FY24, followed by clinker/cement capacity of 3.6mn tonnes/2.4mn tonnes by FY26. Also, STRCEM is in the process of adding: 1) a 3.0mn-tonnes clinker unit in Meghalaya, 2) a 2.0mn-tonnes grinding unit in Guwahati (Assam), and 3) another 2.0mn-tonnes grinding unit at Silchar (Assam), in the next 1-2 years.

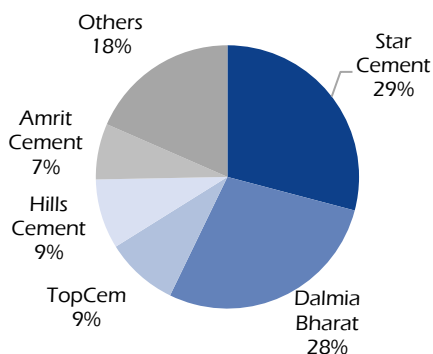
**Exhibit 14: Clinker capacity addition at ~7mn tonnes**

Company	Location	Capacity (mn tonnes)	Expected timeline
<b>Clinker</b>			
Dalmia Bharat	NER	0.2	FY24
Star Cement	Meghalaya	3.0	Q4FY24
Dalmia Bharat	Assam	3.6	FY26
<b>Total</b>		<b>6.8</b>	
<b>Cement</b>			
Star Cement	Guwahati, Assam	2.0	Q3FY24
Star Cement	Silchar, Assam	2.0	Q2FY25
Dalmia Bharat	Assam	2.4	FY26
<b>Total</b>		<b>6.4</b>	

Source: Company, Elara Securities Research

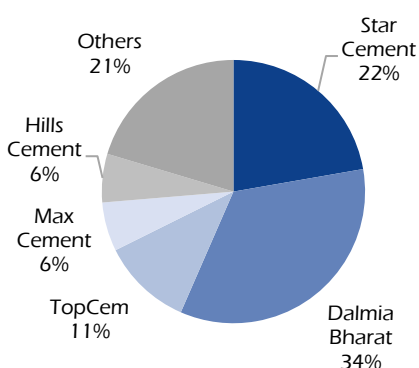


**Exhibit 15: Top two firms command ~57% of NER’s clinker capacity share...**



Note: As on FY23; Source: Company, Elara Securities Research

**Exhibit 16: ....and ~56% of cement capacity**



Note: As on FY23; Source: Company, Elara Securities Research

**New Mining Act – Unlikely to break oligopoly post CY30**

Most of limestone reserves (~84% of proven reserves) in NER are in state of Meghalaya. Land and mineral resources underneath it belong to the locals as the region comes under the Sixth Schedule of the Constitution. Thus, unlike other regions, mines those come for renewal post CY30, may not be auctioned in NER (change in structure unlikely).

**STRCEM/DALBHARA: Set to capitalize on NER opportunity**

Based on available clinker capacity in NER, we believe, the cost competitive supply is likely to be ~14.4mn tonnes in FY24E versus a demand of ~15mn tonnes in the same period. If STRCEM’s clinker capacity addition is delayed, deficit can widen further.

Given the high transportation cost for sourcing clinker and cement from the mainland, non-NER firms are unlikely to be aggressive on prices. Thus, in the listed space, STRCEM and DALBHARA are likely to be the key beneficiaries. With supply likely to pick up in FY25, we believe, the benefits of operating leverage, better consumption norms in new plants and fiscal incentives may offset the impact of any price decline. In case of any material price cut, it may become uneconomical for mainland firms to service NER markets, ensuing market share gain for local firms.

Given no major capacity addition from small local firms in NER, lack of brand premium, logistics concerns, and increased freight cost disadvantages for mainland firms, we believe STRCEM/DALBHARA may be the key beneficiaries of buoyant demand/prices in NER.

In FY23, STRCEM’s/DALBHARA’s were leaders in capacity share, accounted for ~22%/34%, of the capacity in NER. Expect both the firms to have a payback of < six years for their NER expansions.

We maintain **Accumulate** on DALBHARA with one-/three-year TPs of INR 2,353/INR 3,111, respectively, on 11x (unchanged) Jun-25E/Jun-27E EV/EBITDA.

We upgrade STRCEM to **Buy** from Accumulate with one-/three-year TPs of INR 177/INR 271, on 9x (unchanged) Jun-25E/Jun-27E EV/EBITDA.

**Exhibit 17: Attractive payback on favourable market dynamics**

	Star Cement	Dalmia
Capex (INR mn)	21,000	36,420
Incremental volume (mn tonnes)	3.8	4.6
EBITDA/tonne (INR)	1,500	1,500
Incremental EBITDA (INR mn)	5,738	6,885
Payback (years)	3.7	5.3

Source: Company, Elara Securities Estimate

## Company Section

# Star Cement

## Capacity share in NER set to spike

### Volume potential to double in FY23-25E

Star Cement (STRCEM IN), with an aim to strengthen its presence in the North Eastern Region (NER), is incurring a total capex of ~INR 21bn towards: 1) a 3.0mn-tonnes clinker unit in Meghalaya and ~12MW waste heat recovery (WHR) capacity (timeline: January 2024), 2) 2.0mn-tonnes brownfield expansion in Guwahati, Assam (timeline: November 2023) and 3) a 2.0mn-tonnes grinding unit at Silchar, Assam (timeline: August 2024). Post completion, STRCEM's clinker/cement capacity may rise to 5.8/9.7mn tonnes, by FY25E.

### Improvement in market mix to favourably impact margin

Post the completion of the above-mentioned expansions, the capacity share of the high-margin NER market is expected to increase to ~79% in FY25E from ~65% in FY23. Thus, expect STRCEM's blended EBITDA/tonne to improve by INR 264 in FY23-26E of which INR 114 is expected to be due to market mix improvement.

### Expansion in NER to generate RoE ~2x the cost of capital

STRCEM's upcoming plant is expected to generate an incentive income from GST refund of >INR 1.25bn. Also, as the new units will be added to the subsidiaries (effective income tax rate of 15%), STRCEM's consolidated tax rate may reduce to ~23% in FY26E from ~35% in FY23. A reduction in tax rate may add ~700bp to EPS CAGR through FY23-26E. Expect the new plant to generate RoE of 23% once its reaches optimum utilization level.

### P&F set to deflate; WHR/lower fuel prices to trim cost

In Q4FY23, fuel cost of STRCEM stood at INR 2.1/Kcal, which may reduce 10-15% in Q1FY24 and fall further in Q2FY24, led by a declining trend in coal prices. Also, STRCEM has recently commissioned a WHRS of 12.4MW. Once the WHRS stabilizes, it may generate savings of INR 0.4bn (8.5% of FY23 EBITDA).

### Valuations: Upgrade to Buy; TP raised to INR 177

NER, STRCEM's core market, is likely to see demand exceeding cost-efficient supply. Demand growth in NER may exceed pan-India growth, led by the central government's focus on developing the region. STRCEM, which enjoys brand premium and is *en-route* to adding capacity, is well placed to capitalize on buoyancy in the NER market.

STRCEM's vision to reach 20mn tonnes of cement capacity from the existing 5.7mn tonnes in the next 5-10 years provides long-term visibility on volume. Thus, we upgrade STRCEM to **Buy** from Accumulate. We raise FY24E/25E EBITDA estimates ~2%/11% and introduce FY26E. We roll over to June 2025E from March 2025E and increase our one-year TP to INR 177 from INR 149, on 9x (unchanged) June 2025E EV/EBITDA. Also, we assign a three-year TP of INR 271, on 9x June 2027E EV/EBITDA.

## Rating: Buy

Target Price: INR 177

Upside: 22%

CMP: INR 145 (as on 12 June 2023)

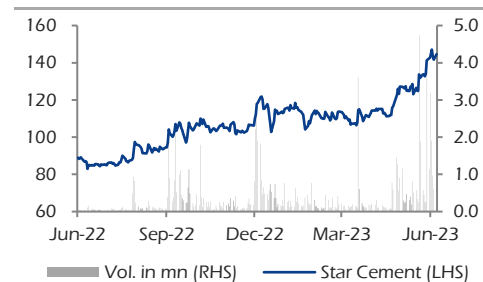
### Key data\*

Bloomberg /Reuters Code	STRCEM IN/STATTABO
Current /Dil. Shares O/S (mn)	412/412
Mkt Cap (INR bn/USD mn)	58/709
Daily Vol. (3M NSE Avg.)	567,699
Face Value (INR)	1

1 USD = INR 82.4

Note: \*as on 12 June 2023; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Promoter	67.4	67.4	67.0	67.1
Institutional Investors	6.4	6.5	6.7	6.8
Other Investors	10.3	10.8	19.9	19.8
General Public	15.9	15.3	6.4	6.3

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	6.8	0.6	14.8
Star Cement	29.9	18.9	63.3

Source: Bloomberg

### Consolidated Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/ton (USD)	EV/EBITDA (x)
March											
FY23	27,012	21.7	4,684	17.3	2,476	0.3	6.1	10.8	23.7	118	11.4
FY24E	32,338	19.7	6,168	19.1	3,424	38.3	8.5	13.2	17.1	99	9.9
FY25E	36,536	13.0	7,451	20.4	3,979	16.2	9.8	13.5	14.7	77	8.0
FY26E	42,638	16.7	8,846	20.7	5,397	35.6	13.4	15.8	10.9	70	6.2

Note: pricing as on 12 June 2023; Source: Company, Elara Securities Estimate

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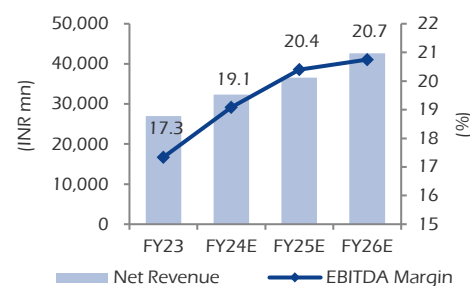
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## Consolidated Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenue	27,012	32,338	36,536	42,638
<b>Operating profit</b>	4,648	6,125	7,403	8,791
Add:- Other operating Income	36	43	48	56
<b>EBITDA</b>	<b>4,684</b>	<b>6,168</b>	<b>7,451</b>	<b>8,846</b>
Add:- Other Income	521	547	574	580
Less :- Depreciation & Amortization	1,311	1,144	1,828	1,953
<b>EBIT</b>	<b>3,894</b>	<b>5,571</b>	<b>6,197</b>	<b>7,473</b>
Less:- Interest Expenses	97	320	512	464
<b>PBT</b>	<b>3,797</b>	<b>5,251</b>	<b>5,684</b>	<b>7,010</b>
Less :- Taxes	1,321	1,826	1,705	1,612
<b>Reported PAT</b>	<b>2,476</b>	<b>3,424</b>	<b>3,979</b>	<b>5,397</b>
<b>Adjusted PAT</b>	<b>2,476</b>	<b>3,424</b>	<b>3,979</b>	<b>5,397</b>
<b>Reported PAT after Minority Interest</b>	<b>2,476</b>	<b>3,424</b>	<b>3,979</b>	<b>5,397</b>
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	404	404	404	404
Reserves	23,760	27,163	31,142	36,539
Borrowings	261	7,751	4,742	3,692
Deferred Tax (Net)	(2,890)	(2,919)	(2,948)	(3,538)
Other liabilities	1,865	1,956	2,052	1,954
<b>Total Liabilities</b>	<b>23,400</b>	<b>34,355</b>	<b>35,391</b>	<b>39,051</b>
Gross Block	17,058	33,558	38,558	39,558
Less:- Accumulated Depreciation	8,149	9,293	11,121	13,074
<b>Net Block</b>	<b>8,909</b>	<b>24,265</b>	<b>27,437</b>	<b>26,484</b>
Add:- Capital work in progress	5,506	1,945	945	795
Non current investments	1,725	1,725	1,725	1,725
Net Working Capital	1,833	1,071	1,182	2,232
Cash & current investments	5,300	5,222	3,976	7,689
Other assets	125	125	125	125
<b>Total Assets</b>	<b>23,400</b>	<b>34,355</b>	<b>35,391</b>	<b>39,051</b>
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Cash profit adjusted for non cash items	4,169	4,342	5,745	7,234
Add/Less : Working Capital Changes	(417)	762	(111)	(1,050)
Operating Cash Flow	3,752	5,104	5,634	6,184
Less:- Capex	(5,694)	(12,939)	(4,000)	(850)
<b>Free Cash Flow</b>	<b>(1,942)</b>	<b>(7,835)</b>	<b>1,634</b>	<b>5,334</b>
Financing Cash Flow	100	7,239	(3,426)	(1,612)
Investing Cash Flow	2,978	518	545	(10)
<b>Net change in Cash</b>	<b>1,135</b>	<b>(78)</b>	<b>(1,246)</b>	<b>3,713</b>
Ratio Analysis	FY23	FY24E	FY25E	FY26E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	21.7	19.7	13.0	16.7
EBITDA Growth	35.7	31.7	20.8	18.7
Adj. PAT Growth	0.3	38.3	16.2	35.6
EBITDA Margin	17.3	19.1	20.4	20.7
Adj. Net Margin	9.2	10.6	10.9	12.7
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	(0.2)	0.1	0.0	(0.1)
ROE (%)	10.8	13.2	13.5	15.8
ROCE (%)	15.6	17.5	16.4	18.5
<b>Per Share data &amp; Valuation Ratios</b>				
Adj. EPS (INR/Share)	6.1	8.5	9.8	13.4
EPS Growth (%)	0.3	38.3	16.2	35.6
P/E Ratio (x)	23.7	17.1	14.7	10.9
EV/EBITDA (x)	11.4	9.9	8.0	6.2
EV/Sales (x)	2.0	1.9	1.6	1.3
P/BV (x)	2.6	2.3	2.0	1.7
EV per tonne (USD)	118	99	77	70

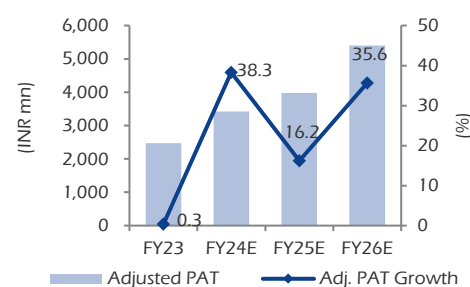
Note: Pricing as on 12 June 2023; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



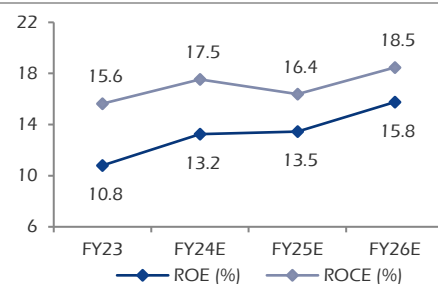
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

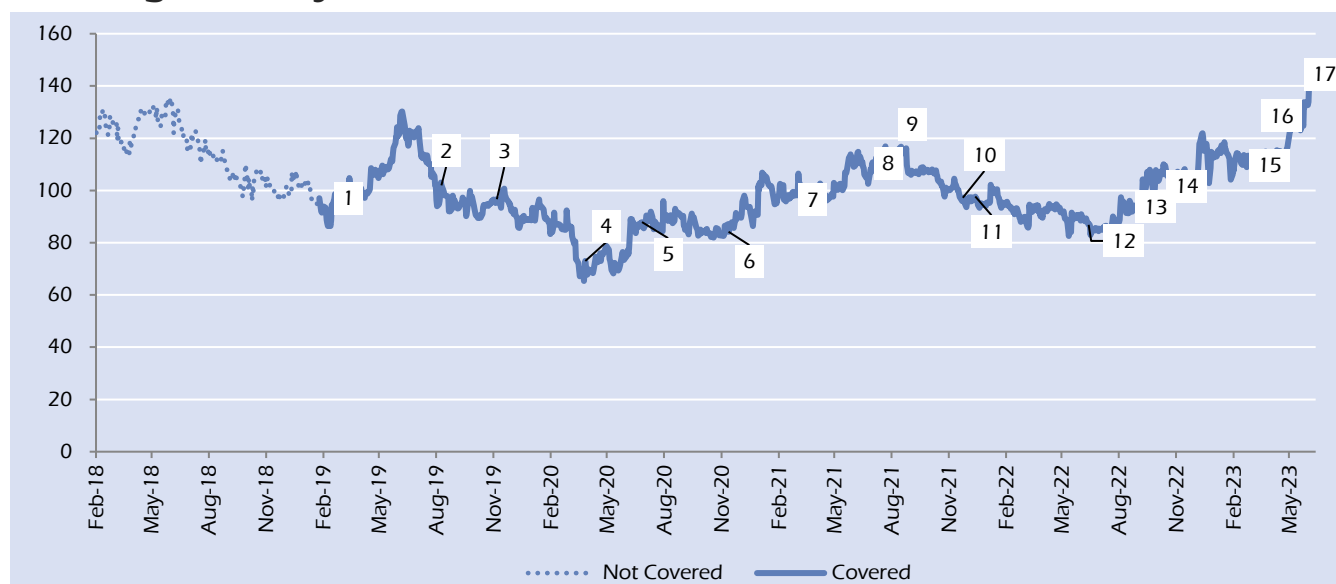
**Exhibit 1: Change in estimates**

(INR mn)	Earlier		Revised		% Change		New
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY26E
Net Revenues	30,829	33,180	32,338	36,536	4.9	10.1	42,638
EBITDA	6,072	6,728	6,168	7,451	1.6	10.7	8,846
PAT	3,361	3,236	3,424	3,979	1.9	23.0	5,397
<b>TP (INR)</b>		<b>149</b>		<b>177</b>		<b>19.1</b>	
<b>Rating</b>		<b>Accumulate</b>		<b>Buy</b>			

Source: Elara Securities Estimate



## Coverage History



	Date	Rating	Target Price	Closing Price
1	28-Jan-2019	Buy	INR 147	INR 91
2	1-Aug-2019	Buy	INR 142	INR 96
3	7-Nov-2019	Buy	INR 140	INR 98
4	27-Mar-2020	Buy	INR 122	INR 73
5	26-Jun-2020	Buy	INR 112	INR 88
6	12-Nov-2020	Buy	INR 119	INR 84
7	9-Feb-2021	Buy	INR 118	INR 96
8	10-Jun-2021	Accumulate	INR 129	INR 110
9	13-Aug-2021	Accumulate	INR 131	INR 116
10	2-Nov-2021	Accumulate	INR 119	INR 100
11	13-Dec-2021	Buy	INR 119	INR 98
12	16-Jun-2022	Accumulate	INR 93	INR 83
13	3-Aug-2022	Accumulate	INR 104	INR 94
14	17-Nov-2022	Accumulate	INR 115	INR 102
15	3-Feb-2023	Accumulate	INR 128	INR 112
16	22-May-2023	Accumulate	INR 149	INR 127
17	12-Jun-2023	Buy	INR 177	INR 145

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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