

HOLD

TP: Rs 1,816 | ▼ 1%

DALMIA BHARAT

| Cement

| 22 October 2024

Challenging phase for Dalmia; valuations factored in

- Revenue declined by 2%/15% YoY/QoQ to ~Rs 31bn in Q2FY25 as focus returned to volume growth over guarding against declining realisations
- Cost savings of 4% driven by lower energy cost, helped partially mitigate EBITDA weakness
- We lower our EBITDA estimates for FY25/FY26/FY27, though valuations factored in the same. Retain HOLD with TP of Rs 1,816 (vs Rs 2,062)

Milind Raginwar

research@bobcaps.in

Focus on volume gains, realisations take a hit: DALBHARA's revenue declined by 2%/15% YoY/QoQ to ~Rs 31bn in Q2FY25 as the focus shifted back to volume growth over guarding against a decline in realisation. Volume grew 8% YoY (-10% QoQ) to 6.7mn tonnes. Realisations fell 9%/6% YoY/QoQ to Rs 4,607/t. Cement prices weakened in DALBHARA's key operating regions in eastern and southern India. For Q2, DALBHARA had a capacity utilisation of 58%.

Lower energy expense was key cost savings driver: Overall cost fell 4% YoY to Rs 3,960/t (flat QoQ). Power expenses (adjusted for raw materials) softened by ~13% YoY to Rs 1,719/t, driving cost savings. The energy cost declined largely due to a US\$ 26/US\$ 5 YoY/QoQ decline in the fuel consumption cost to about US\$ 101/t. Effectively, fuel cost during the quarter was Rs 1.36/kcal (Rs 1.38/kcal in Q1FY25). The logistics cost rose by about ~8% YoY to Rs 1,099/t as it serviced central markets through its eastern India plants. Other expenditure was higher by 4% YoY due to maintenance cost.

EBITDA fell on weak realisations: EBITDA decreased by ~26%/35% YoY/QoQ to ~Rs 4.3bn owing to weak topline, and EBITDA margin fell to ~14.1% from ~19% in Q2FY24. EBITDA/t was lower by 33%/29% YoY/QoQ at Rs 621/t. Effectively, APAT at Rs 460mn was down by 61%/81% YoY/QoQ.

Only organic capacity expansion underway post JAL assets under insolvency: DALBHARA is on track to reach 49.5mn tonnes by FY25-end following 0.5mt debottlenecking at Kalyanpur, Bihar, and 2.4mt greenfield expansion at Lanka, Assam. Debottlenecking clinker capacity of 0.9mt is expected in H2FY25.

Maintain HOLD: We prune our FY25/FY26/FY26 EBITDA estimates by ~16%/13%/5% to factor in expectations of slow growth in H1FY25 and no major alternatives regarding JAL's assets. We continue to assign the stock an EV/EBITDA of 12x 1-year forward but lower our TP to Rs 1,816 (from Rs 2,062) which reflects an implied replacement cost of Rs 7.5bn. We maintain a HOLD rating on DALBHARA.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DALBHARA IN/Rs 1,831
Market cap	US\$ 4.0bn
Free float	44%
3M ADV	US\$ 9.1mn
52wk high/low	Rs 2,431/Rs 1,651
Promoter/FPI/DII	56%/12%/8%

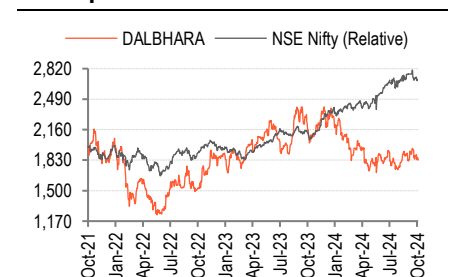
Source: NSE | Price as of 21 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,46,910	1,58,318	1,82,153
EBITDA (Rs mn)	26,390	25,373	31,935
Adj. net profit (Rs mn)	8,540	6,662	10,722
Adj. EPS (Rs)	44.9	36.0	58.0
Consensus EPS (Rs)	44.9	51.0	66.8
Adj. ROAE (%)	5.3	4.2	6.9
Adj. P/E (x)	40.7	50.8	31.6
EV/EBITDA (x)	13.0	15.1	9.8
Adj. EPS growth (%)	31.5	(19.9)	60.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Volumes and realisations	Volume growth of 8.4% YoY to 6.7mn tonnes despite the discontinuation of the JP tolling arrangement implied strong market share chase over realisation gains. Revenue declined 2% YoY as cement prices fell nearly 9% due to weak demand, particularly in South and Eastern India markets with 10-12% YoY/5-7% QoQ decline. Management expects H2FY25 to bounce back at ~8% YoY with full-year growth of ~6%. For Q2, DALBHARA had a capacity utilisation of ~58%.	Volumes growth was restricted to the high single digit as focus shifts to arresting realisation decline. Management expects 8-9% industry volume growth in FY25 and DALBHARA to grow 1.5x of Indian cement industry. Cement price weakened 3% QoQ in DALBHARA's key areas of operations (East and South India) in Q1FY25.	Volume pressure from industry in 2H will sustain pricing pressure in the eastern and southern regions of India. DALBHARA's focus continues to shift between margin to market share over a period of time.
Margins	Energy cost declined 6% YoY to Rs 1,055/t due to a US\$ 26/t YoY decline in pet coke prices to US\$ 101/t (fall of US\$ 5/t QoQ). Fuel cost during the quarter was Rs 1.36/kcal (1.38 kcal in Q1FY25). The logistics cost increased by about 7.6% YoY to Rs 1,099/t as DALBHARA started servicing central markets from Eastern plants.	Average fuel prices were in the range of US\$ 106 a steep fall from ~US\$ 152 YoY (US\$ 115-125/t blended fuel cost in 4QFY24), translating to fuel cost of Rs 1.38/kcal, down from a low of Rs 1.45/kcal compared to Q4FY24, and sharply lower than ~Rs 2.0/kcal in 1QFY24. Management indicated tolling of clinker will continue from JAL. Margins swelled largely due to fuel and logistics cost savings.	Captive coal from mines allocated, and renewable power could provide further respite in cost savings. Logistics cost inflation is a negative surprise and needs to be contained.
Capacity	The company is on track to reach 49.5mn tonnes by FY25 following the commissioning of a 0.5mt debottlenecking unit at Kalyanpur, Bihar, and 2.4mt greenfield expansion at Lanka, Assam. The company expects to commission additional debottlenecking clinker capacity of 0.9mt in H2FY25.	A 0.5mt debottlenecking unit at Kalyanpur, Bihar, and 2.4mt greenfield expansion at Lanka, Assam, are expected to be complete by H2FY25. Management intends to increase organic capacity to 49.5mt by FY25-end. However, with JAL assets currently under insolvency proceedings and no alternative plan, growth plans have taken a backseat, at least for the medium term.	At 58% capacity utilisation DALBHARA has enough capacity to handle incremental demand. However, according to management, it is incurring capex in areas where the plant capacity has high utilisation and in newer geographies.
Capex	Capex during H1FY25 was Rs 13.9bn. DALBHARA is likely to spend ~Rs 30bn to Rs33bn largely on capacity expansion, including acquisition of land for future projects and certain cost reduction projects, including renewable energy and coal blocks. Despite the capex, the company is committed to maintaining a net debt/EBITDA of up to 2x.	DALBHARA expects a capex spend of ~Rs 35bn-40bn in FY25 that includes spends on a North East India expansion project, Rohtas Cement plant in Bihar, and maintenance capex. The company incurred capex of Rs 6.5bn in Q1FY25 to handle inventory build-up, paying GST liabilities and addressing discounts.	Prudent capex for organic and inorganic capacity addition will be key for growth. Importantly, capex addition has to be without major/no stress on the balance sheet.
Other key points	DALBHARA's gross and net debt marginally increased to Rs 47.84bn and Rs 6.44bn respectively in H1FY25. With tolling operations at Jaiprakash Associates (JPA) not viable post the liquidation order, the overall cost now doesn't include any cost of purchased material.	DALBHARA's earlier plans of peak gross debt at ~Rs 90bn and net debt of about Rs 50bn by FY25 will be pushed further till the road map of expansion is clearly addressed post the JAL asset insolvency scenario. Management expects DALBHARA to attain 75mn tonnes of capacity by FY28 but did not provide a clear road map.	DALBHARA must maintain balance sheet health with its expansion needs. With major capex expected in FY26E/FY27E and FY28E, the balance sheet could be impacted.

Parameter	Q2FY25	Q1FY25	Our view
	Management expects DALBHARA to attain 75mn tonnes of capacity by FY28 and shall provide a clear road map within the next nine months.	DALBHARA provided Rs 1.13bn as one-time provision on account of losses from JAL.	
	DALBHARA accrued Rs 0.61bn of incentives in Q2FY25, (actual of Rs 0.20bn received). Total incentives outstanding are Rs 7.79bn (H1FY25). DALBHARA expects actual receipt of Rs 3bn in FY25.		
	DALBHARA received a final tranche of Rs 3.2bn, along with interest, from the divestment of Dalmia Bharat Refractories (DBRL) shares.		

Source: Company, BOBCAPS Research

Fig 2 – Key metrics

(Rs)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Volumes (mn mt)	6.7	6.2	8.1	7.4	(9.5)	6.4	5.3
Cement realisations (Rs/t)	4,607	5,079	(9.3)	4,893	(5.8)	4,813	(4.3)
Operating costs (Rs/t)	3,960	4,129	(4.1)	3,989	(0.7)	4,070	(2.7)
EBITDA/t (Rs)	621	923	(32.7)	877	(29.2)	716	(13.3)

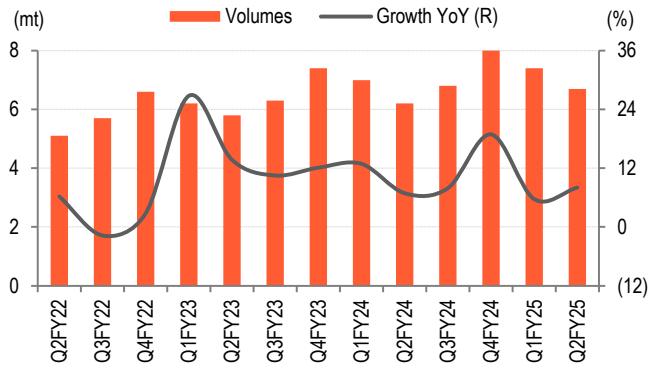
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Net Sales	30,870	31,490	(2.0)	36,210	(14.7)	30,631	0.8
Expenditure							
Change in stock	(830)	(390)	112.8	(800)	3.8	(851)	
Raw material	5,280	4,550	16.0	5,790	(8.8)	5,798	(8.9)
purchased products	0	(1,170)	(100.0)	(1,060)	(100.0)	(912)	(100.0)
Power & fuel	7,070	6,980	1.3	7,570	(6.6)	6,307	12.1
Freight	7,360	6,310	16.6	8,300	(11.3)	6,969	5.6
Employee costs	2,190	2,260	(3.1)	2,280	(3.9)	2,245	(2.4)
Other exp	5,460	4,720	15.7	5,320	2.6	4,522	20.7
Total Operating Expenses	26,530	25,600	3.6	29,520	(10.1)	25,901	2.4
EBITDA	4,340	5,890	(26.3)	6,690	(35.1)	4,731	(8.3)
EBITDA margin (%)	14.1	18.7	(465bps)	18.5	(441.7)	15.4	(139bps)
Other Income	730	850	(14.1)	500	46.0	871	(16.2)
Interest	980	1,010	(3.0)	950	3.2	931	5.3
Depreciation	3,360	4,010	(16.2)	3,170	6.0	3,190	5.3
PBT	730	1,720	(57.6)	3,070	(76.2)	1,481	(50.7)
Non-recurring items	0	0	-	(1,130)	0	0	-
PBT (after non recurring items)	730	1,720	(57.6)	1,940	(62.4)	1,481	(50.7)
Tax	240	480	(50.0)	490	(51.0)	237	1.3
Reported PAT	490	1,240	(60.5)	1,450	(66.2)	1,244	(60.6)
Adjusted PAT	460	1,190	(61.3)	2,540	(81.9)	1,220	(62.3)
NPM (%)	1.5	3.8	(229bps)	7.0	(552.5)	4.0	(249bps)
Adjusted EPS (Rs)	2.5	6.4	(61.3)	13.7	(81.9)	6.6	(62)

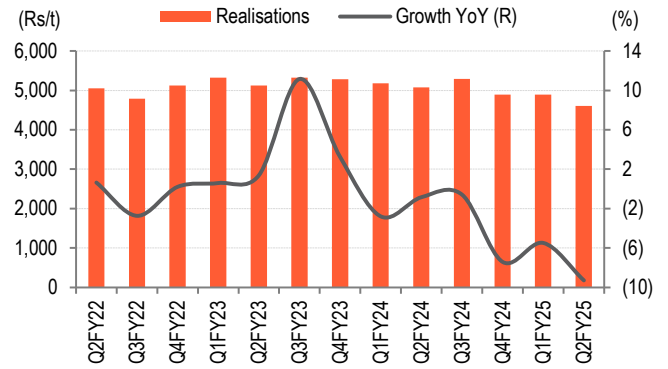
Source: Company, BOBCAPS Research

Fig 4 – Realisations fall sharply as focus shifts to volume



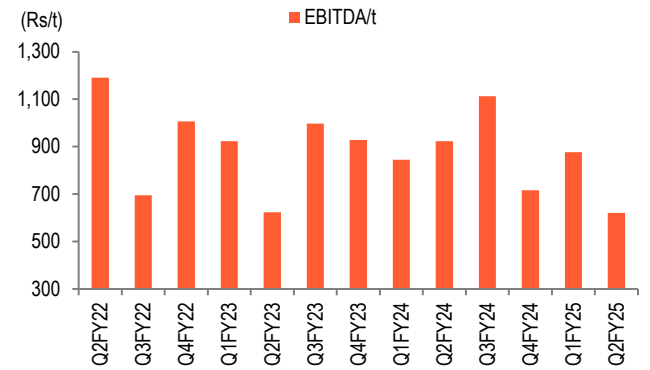
Source: Company, BOBCAPS Research

Fig 5 – Pricing pressure keeps realisations weak



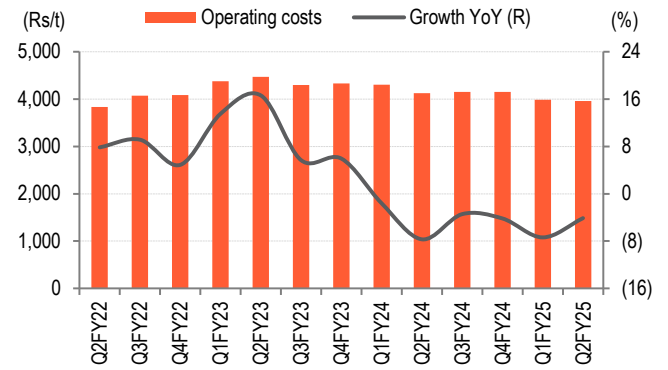
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t only partially guarded by cost savings



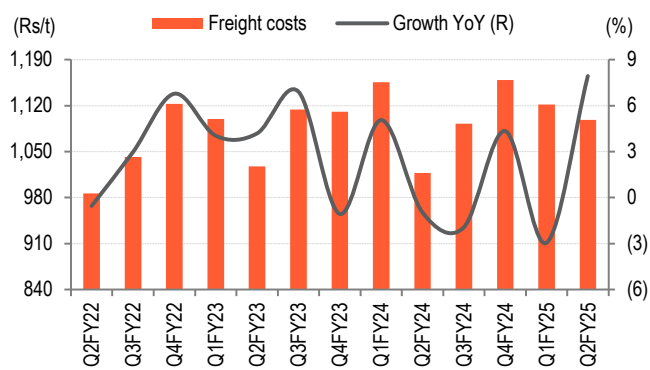
Source: Company, BOBCAPS Research

Fig 7 – Operating cost can soften further, albeit limited



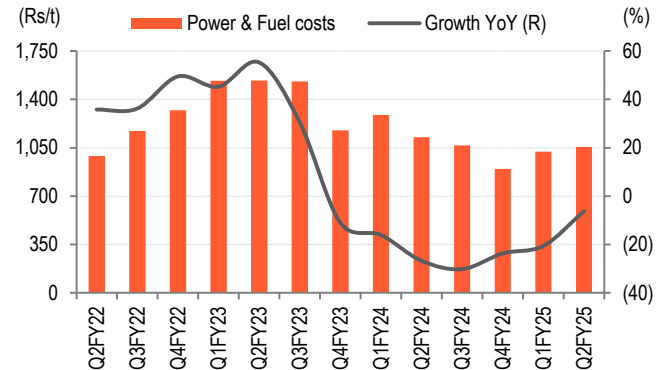
Source: Company, BOBCAPS Research

Fig 8 – Freight cost inflation a cause of concern



Source: Company, BOBCAPS Research

Fig 9 – New coal blocks and green energy may further boost fuel cost savings



Source: Company, BOBCAPS Research

Valuation methodology

DALBHARA's drive to add market share through expansion is likely to receive a setback with the insolvency proceedings of Jaiprakash Associates assets in Central India. Besides losing a key region in the short term, DBL's growth plans could be thwarted. With limited alternative arrangements, this may impact growth for DALBHARA in the short/medium term.

With focus now back-ended for capacity expansion from FY26-FY28 for the first leg of major capacity addition, we believe this may put considerable pressure on the company's balance sheet in the medium term. Cost savings plans notwithstanding, we feel this could lead to considerable concerns for DALBHARA.

We prune our FY25/FY26/FY27 EBITDA estimates by ~16%/13%/5% to factor in expectations of slow growth in H1FY25 and no major alternatives regarding JAL assets. Further, clinker shortages will keep growth plans in check in FY27 till further capacity begins to contribute effectively. We continue to assign the stock an EV/EBITDA of 12x 1-year forward but keenly watch for developments related to the company. We lower our TP to Rs 1,816 (earlier Rs 2,062) which reflects an implied replacement cost of Rs 7.5bn and maintain a HOLD rating on DALBHARA.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,58,318	1,82,153	2,04,625	1,66,930	1,88,979	2,07,477	(5.2)	(3.6)	(1.4)
EBITDA	25,373	31,935	37,679	30,286	36,665	39,667	(16.2)	(12.9)	(5.0)
Adj PAT	6,662	10,722	14,559	9,578	13,706	15,465	(30.4)	(21.8)	(5.9)
Adj EPS (Rs)	36.0	58.0	78.7	51.8	74.1	83.6	(30.4)	(21.8)	(5.9)

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	28.80	32.30	36.18	39.07
Realisations (Rs/t)	5,229	4,996	5,058	5,121
Operating costs (Rs/t)	4,328	4,301	4,263	4,268
EBITDA/t (Rs/t)	948	821	906	963

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	FY27E
Target FY27E EV/EBITDA (x)	11.51
EBITDA (FY27E)	37,679
Target EV	4,33,684
Total EV	4,33,684
Net debt (FY27E)	53,703
Target market capitalisation	3,79,981
Target price (Rs/sh)	1,816
Weighted average shares (mn)	185

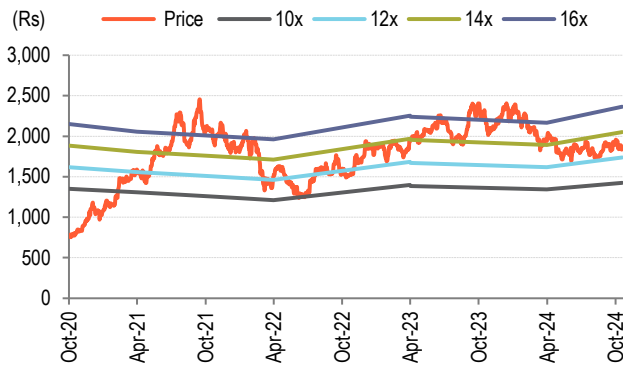
Source: BOBCAPS Research | Valuation and TP based on Sep'26 earnings

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
DALBHARA IN	HOLD	1,816	13.2	15.2	10.0	82.0	87.0	86.0	4.1	6.7	8.6	5.6	8.0	9.5
SRCM IN	HOLD	25,422	21.8	22.4	18.0	182	179	172	8.1	11.0	12.9	10.4	14.0	16.2
ACC IN	HOLD	2,569	14.5	11.8	9.9	140	126	113	13.2	13.3	12.9	17.3	17.2	16.7

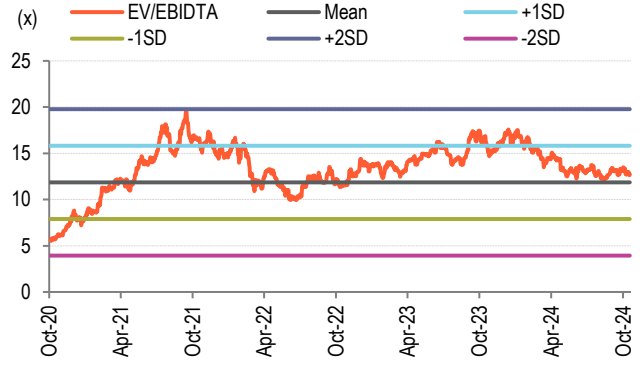
Source: Company, BOBCAPS Research

Fig 14 – EV/EBITDA band: Current valuations may correct on expectations of lower earnings



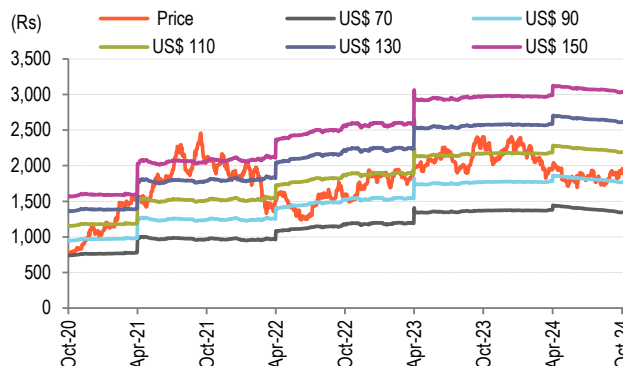
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Current valuations clearly match medium-term earnings profile



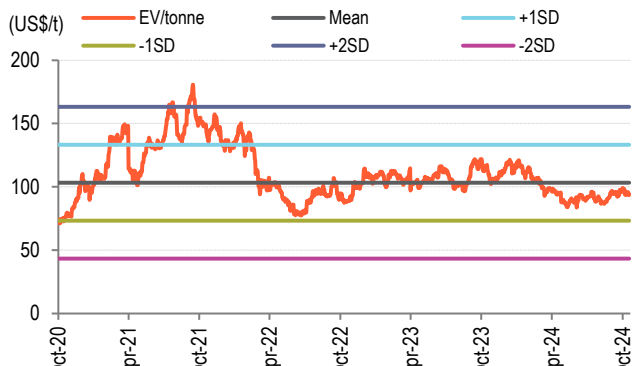
Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: Replacement cost at fair valuations



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd: Valuations stay around mean



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates:

- slower-than-expected market recovery and sluggish demand pickup could keep prices lower; and
- faster-than-expected fuel cost inflation

Key upside risk to our estimates:

- faster addition of capacity.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.1	2,302	2,569	HOLD
Dalmia Bharat	DALBHARA IN	4.0	1,831	1,816	HOLD
JK Cement	JKCE IN	3.9	4,208	4,431	HOLD
JK Lakshmi Cement	JKLC IN	1.1	812	687	SELL
Orient Cement	ORCMNT IN	0.9	352	177	SELL
Shree Cement	SRCM IN	10.4	24,298	25,422	HOLD
Star Cement	STRCEM IN	1.0	208	205	HOLD
The Ramco Cements	TRCL IN	2.3	835	737	SELL
Ultratech Cement	UTCEN IN	37.3	10,869	12,972	BUY

Source: BOBCAPS Research, NSE | Price as of 21 Oct 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	1,35,400	1,46,910	1,58,318	1,82,153	2,04,625
EBITDA	23,160	26,390	25,373	31,935	37,679
Depreciation	(13,050)	(14,980)	(15,130)	(16,113)	(16,999)
EBIT	11,490	14,560	12,836	18,915	24,022
Net interest inc./(exp.)	(2,349)	(3,860)	(4,080)	(4,716)	(5,146)
Other inc./(exp.)	1,380	3,150	2,593	3,093	3,343
Exceptional items	3,850	0	0	0	0
EBT	12,991	10,700	8,756	14,199	18,876
Income taxes	(2,420)	(2,160)	(1,941)	(3,234)	(4,074)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(400)	0	(153)	(243)	(243)
Reported net profit	10,171	8,540	6,662	10,722	14,559
Adjustments	3,850	0	0	0	0
Adjusted net profit	6,321	8,540	6,662	10,722	14,559

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	18,120	20,280	24,247	27,415	29,431
Other current liabilities	20,630	21,130	21,835	20,776	19,769
Provisions	3,200	3,450	3,795	4,175	4,592
Debt funds	39,800	49,610	54,530	58,209	66,391
Other liabilities	14,940	16,480	19,686	20,500	21,346
Equity capital	370	380	370	370	370
Reserves & surplus	1,56,900	1,64,710	1,54,093	1,62,865	1,75,474
Shareholders' fund	1,58,430	1,66,105	1,55,117	1,63,889	1,76,498
Total liab. and equities	2,55,120	2,77,055	2,79,210	2,94,963	3,18,027
Cash and cash eq.	32,200	44,540	10,873	11,964	12,688
Accounts receivables	7,000	8,360	9,211	10,860	12,493
Inventories	13,160	12,180	13,227	15,382	17,105
Other current assets	30,300	24,870	26,114	27,990	30,018
Investments	5,890	5,900	6,900	4,900	6,400
Net fixed assets	96,351	1,07,626	1,04,598	1,03,745	1,02,892
CWIP	18,590	21,887	54,718	64,567	78,771
Intangible assets	51,629	51,692	53,569	55,555	57,659
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,55,120	2,77,055	2,79,210	2,94,963	3,18,027

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	19,870	26,625	20,586	19,320	22,423
Capital expenditures	(36,159)	(23,220)	(40,369)	(21,715)	(26,188)
Change in investments	21,800	(9,380)	29,000	1,000	(2,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(14,359)	(32,600)	(11,369)	(20,715)	(28,188)
Equities issued/Others	250	5	(524)	(243)	(243)
Debt raised/repaid	6,200	9,810	4,920	3,679	8,183
Interest expenses	0	0	0	0	0
Dividends paid	(1,690)	(1,690)	(1,850)	(1,850)	(1,850)
Other financing cash flows	(9,021)	820	(15,429)	(100)	(100)
Cash flow from financing	(4,261)	8,945	(12,884)	1,486	5,990
Chg in cash & cash eq.	1,250	2,970	(3,667)	91	225
Closing cash & cash eq.	32,200	44,540	10,873	11,964	12,688

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	55.0	44.9	36.0	58.0	78.7
Adjusted EPS	34.2	44.9	36.0	58.0	78.7
Dividend per share	9.1	8.9	10.0	10.0	10.0
Book value per share	856.4	874.2	838.5	885.9	954.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	2.3	2.4	1.7	1.4
EV/EBITDA	15.0	13.0	15.1	9.8	7.8
Adjusted P/E	53.6	40.7	50.8	31.6	23.3
P/BV	2.1	2.1	2.2	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	81.4	79.8	77.8	77.2	78.4
Interest burden (PBT/EBIT)	79.6	73.5	68.2	75.1	78.6
EBIT margin (EBIT/Revenue)	8.5	9.9	8.1	10.4	11.7
Asset turnover (Rev./Avg TA)	53.7	55.2	56.9	63.4	66.8
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.8	1.8
Adjusted ROAE	4.7	5.3	4.2	6.9	8.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	20.0	8.5	7.8	15.1	12.3
EBITDA	(4.7)	13.9	(3.9)	25.9	18.0
Adjusted EPS	(41.9)	31.5	(19.9)	60.9	35.8
Profitability & Return ratios (%)					
EBITDA margin	17.1	18.0	16.0	17.5	18.4
EBIT margin	8.5	9.9	8.1	10.4	11.7
Adjusted profit margin	4.7	5.8	4.2	5.9	7.1
Adjusted ROAE	4.7	5.3	4.2	6.9	8.7
ROCE	5.4	6.5	5.6	8.0	9.5
Working capital days (days)					
Receivables	19	21	21	22	22
Inventory	35	30	30	31	31
Payables	59	61	67	67	64
Ratios (x)					
Gross asset turnover	0.6	0.6	0.6	0.7	0.7
Current ratio	2.0	2.0	1.2	1.3	1.3
Net interest coverage ratio	4.9	3.8	3.1	4.0	4.7
Adjusted debt/equity	0.3	0.3	0.4	0.4	0.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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BUY – Expected return >+15%

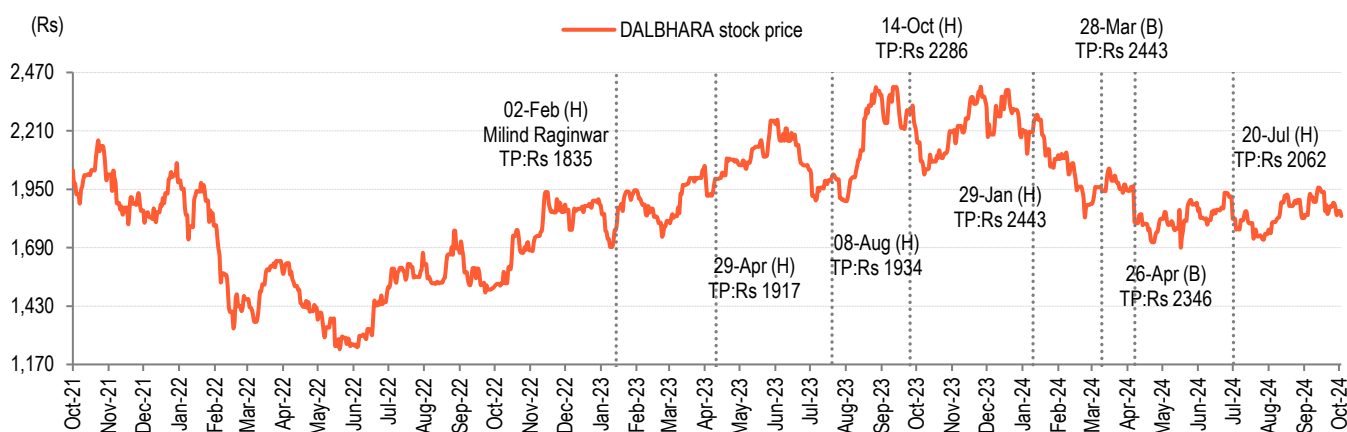
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): DALMIA BHARAT (DALBHARA IN)



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