

Star Cement

Healthy cash generation to fund large capex

We maintain BUY on Star Cement with a TP of Rs 115. We continue to like Star for its leadership positioning in the lucrative NE region, which drives its industry leading op margin and healthy return ratios. During 4QFY20, good demand in east/NE drove 4% vol growth despite Covid lockdown. Weak pricing however led to profit decline. Even in FY20, weak pricing pulled down profits despite higher utilisation, debt reduction and higher treasury gains. Healthy OCF topped large capex and investor pay-outs (buyback/dividends) and net cash balance doubled YoY.

- Good demand, stable cost in 4QFY20:** Despite Covid lockdown in Mar, Star delivered 4% YoY vol growth in 4QFY20, implying healthy demand across east and NE regions. Even NSR recovered 4% QoQ on good demand traction, narrowing YoY NSR fall to 1%. Lower coal and diesel prices kept opex flat YoY and hence unitary EBITDA contracted a modest 5% YoY to Rs 1,427/MT. While consol rev rose 3% YoY, EBITDA/APAT fell 2/4% YoY.
- FY20 earnings hit on lower pricing across east:** Healthy demand across east drove up Star's FY20 cement sales by 7% YoY (despite covid impact). However, as its clinker sales halved YoY, total sales rose 3% YoY. NSR fell 3% on volatile regional pricing. Even input cost went up on higher fuel cost in FY20. Asset sweating however flattened opex rise to 1% YoY, moderating unitary EBITDA fall to 15% to Rs 1,337/MT. Thus, while consol EBITDA fell 12% YoY, lower int cost and surge in treasury gain slowed APAT fall to 4%.
- Healthy op cash to support its ongoing expansions:** During FY20, Star fast-tracked work on its 2mn MT SGU in Siliguri and capex spend surged to 2.3bn (its highest ever). Healthy OCF of Rs 5.1bn topped capex, buyback of Rs 1bn and div payout of Rs 0.5bn. Thus, net cash doubled to Rs 2.7bn. The Siliguri plant is expected to be operational in 3QFY21 (delayed due to Covid, Rs 0.8bn capex pending in FY21). In FY21, Star will also spend Rs 1bn towards its planned 2mn MT brown-field clinker expansion in Meghalaya (by FY23E, EC awaited), Rs 0.7bn on 12MW WHRS (by end FY22). Overall, Star would be incurring ~Rs 4bn each during FY21-23E, all of which should be funded through internal accruals and hence co should remain net cash.
- Maintain BUY:** The ongoing capex will increase Star's clinker/cement capacity to 5/5.7mn MT by FY23E. We expect 12% consol vol CAGR during FY20-22E driven by capacity ramp-up in east. This should drive 13/12% consol EBITDA/APAT CAGR. We continue to like Star for its leadership positioning in the lucrative NE region, which drives its industry leading op margin and healthy return ratios. We maintain BUY with a revised TP of Rs 115/sh (9x FY22E consol EBITDA, inline its long term mean multiple).

YE Mar (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY19	QoQ (%)	FY18	FY19	FY20P	FY21E	FY22E
Net Sales	5,494	5,344	2.8	4,512	21.8	16,145	18,310	18,439	17,234	21,661
EBITDA	1,246	1,269	(1.8)	940	32.6	5,214	4,492	3,951	3,937	5,004
APAT	858	898	(4.4)	712	20.5	3,307	2,988	2,855	2,746	3,551
AEPS (Rs)	2.1	2.1	(2.8)	1.7	20.5	7.9	7.1	6.9	6.7	8.6
EV/EBITDA (x)						7.8	7.9	8.6	8.8	7.0
EV/MT (Rs bn)						11.09	9.61	9.52	8.04	7.07
P/E (x)						10.9	12.1	12.7	13.2	10.2
RoE (%)						24.1	17.9	15.4	13.7	16.1

Source: Company, HSIE Research, Consolidated Financials

BUY

CMP (as on 26 Jun 2020)	Rs 88
Target Price	Rs 115
NIFTY	10,383

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 100	Rs 115
EBITDA %	FY21E 1.0	FY22E 4.9

KEY STOCK DATA

Bloomberg code	STRCEM IN
No. of Shares (mn)	412
MCap (Rs bn) / (\$ mn)	36/479
6m avg traded value (Rs mn)	19
52 Week high / low	Rs 125/56

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.6	(1.2)	(27.1)
Relative (%)	9.2	13.4	(16.0)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	67.11	66.77
FIs & Local MFs	9.00	8.28
FPIs	0.85	0.24
Public & Others	23.04	24.71
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Despite Covid led loss in the last 10 days, vol grew 4% YoY (+16% QoQ) to 0.87mn MT on good demand across its NE and east markets. Its vol growth is uniform across both these markets.

NSR recovered 4% QoQ on good demand

Opex remained flat YoY and rose 1% QoQ on stable costs. Falling fuel prices drove 2% QoQ input cost moderation. Thus, unitary EBITDA slightly moderated 5% YoY to Rs 1,427/MT

Consol Net sales rose 3% YoY to Rs 5.49bn led by vol growth. However, EBITDA/APAT fell 2/4% to 1.25/0.86bn.

Co continues to enjoy tax holiday in two of its plants till FY23 and FY27 respectively

Quarterly Consolidated Financial Snapshot

Particulars (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net Sales	5,494	5,344	2.8	4,512	21.8
Raw Materials	1,154	1,374	(16.0)	989	16.6
Power and Fuel	1,052	744	41.4	925	13.7
Employee	350	275	27.2	324	8.0
Transport	1,077	1,049	2.7	880	22.3
Other Exp	615	634	(3.0)	453	35.7
EBITDA	1,246	1,269	(1.8)	940	32.6
EBITDA margin (%)	22.7	23.7		20.8	
Depreciation	250	238	5.0	232	7.6
EBIT	996	1,030	(3.3)	708	40.8
Other Income (Including EO Items)	72	34	109	65	10
Interest Cost	20	31	(36.1)	38	(48.8)
PBT - Reported	1,048	1,034	1.4	734	42.8
Tax	180	118	52.1	22	715.8
Tax rate (%)	17.2	11.4		3.0	
(Minority Interest)/ Share of assoc profit	(10)	(18)		-0	
RPAT	858	898	(4.4)	712	20.5
EO (Loss) / Profit (Net Of Tax)	-	-		-	
APAT	858	898	(4.4)	712	20.5
Adj PAT margin (%)	15.6	16.8		15.8	

Source: Company, HSIE Research

Quarterly Consolidated Performance Analysis

Particulars	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
External total sales vol (mn MT)	0.87	0.84	3.9	0.75	16.2
Total sales vol (includes clinker to on-lease units)	0.93	0.89	4.2	0.79	17.5
Rs/MT trend					
NSR	5,933	6,011	(1.3)	5,725	3.6
Raw materials	1,246	1,546	(19.4)	1,256	(0.7)
Power & fuel	1,136	837	35.8	1,174	(3.2)
Freight (including packaging)	1,163	1,179	(1.4)	1,117	4.1
Employee	378	309	22.1	411	(8.1)
Other Exp	664	713	(6.8)	575	15.5
Opex	4,587	4,584	0.1	4,533	1.2
EBITDA	1,427	1,509	(5.4)	1,251	14.1

Source: Company, HSIE Research

We have updated our fin model for FY19/20 P&L, BS and CF statements as reported.

Star's total vol grew 3% YoY in FY20 – driven by strong demand in east/NE regions, while clinker sales halved. We model in 5% vol fall in FY21 on Covid impact, but expect it to surge 33% in FY22E on demand recovery and Siliguri ramp-up

We lower NSR est for FY21/22E to factor in increased sales contribution from East regions (low price base) in FY21/22E.

We cut vol est for FY21E by 4% factoring in higher impact of Covid lockdown on demand. We raise FY22E vol est by 10% factoring in Siliguri ramp-up. We upgrade EBITDA est for FY21/22E by 1/5%.

Operational Trends and Assumptions

Particulars	FY17	FY18	FY19	FY20	FY21E	FY22E
Cement Cap (mn MT)	3.4	3.7	3.7	3.7	5.7	5.7
Sales Volume (mn MT)	2.8	2.6	2.9	3.0	2.8	3.7
YoY change (%)	2.1	(7.5)	9.8	3.3	(5.4)	32.8
Utilisation (%)	83.1	70.6	77.5	80.1	49.1	65.3
(Rs/ MT trend)						
NSR (1)	5,112	5,864	6,098	5,912	5,971	5,790
YoY change (%)	(4.3)	14.7	4.0	(3.1)	1.0	(3.0)
Raw Materials (2)	1,134	1,099	1,455	1,289	1,120	1,103
Power & Fuel (3)	638	785	862	1,160	1,200	1,218
Freight costs (4)	899	1,042	1,209	1,132	1,070	1,081
Employee cost (5)	395	390	388	406	469	387
Other expense (6)	664	655	690	659	747	663
Total Opex (7)= sum(2 thru 6)	3,731	3,970	4,602	4,645	4,606	4,452
YoY change (%)	(6.6)	6.4	15.9	0.9	(0.8)	(3.3)
EBITDA per MT (1-7)	1,472	2,001	1,570	1,337	1,409	1,348
YoY change (%)	1.7	35.9	(21.5)	(14.8)	5.3	(4.3)

Source: Company, HSIE Research

Change in Estimates

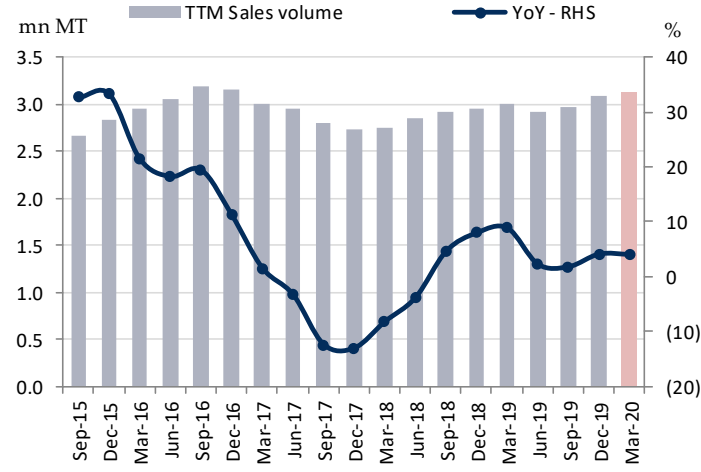
Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Net Revenues	18.0	17.2	(4.1)	21.0	21.7	3.2
EBITDA	3.9	3.9	1.0	4.8	5.0	4.9
APAT	2.7	2.7	3.6	3.5	3.6	2.6
AEPS	7.1	6.7	(6.6)	7.0	8.6	23.2

Source: Company, HSIE Research

Long term op performance trends (TTM basis)

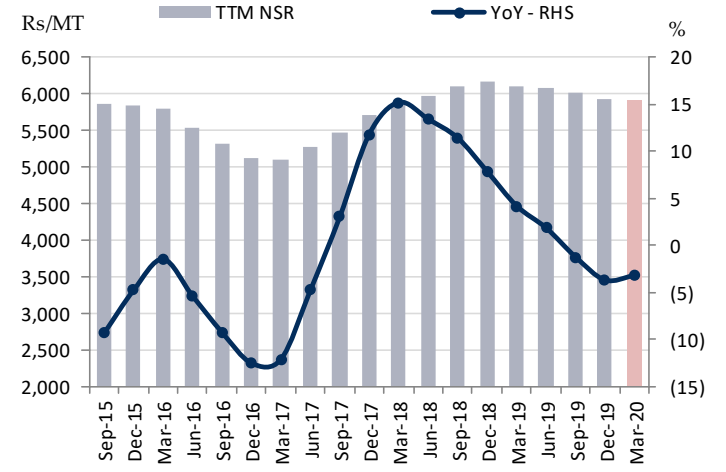
We have plotted Star Cement’s operating metrics on trailing 12-month (TTM) basis, to assess its long term performance trends

Star’s total vol rose 3% in FY20 on strong 7% cement vol growth demand in NE/East, while clinker sales halved



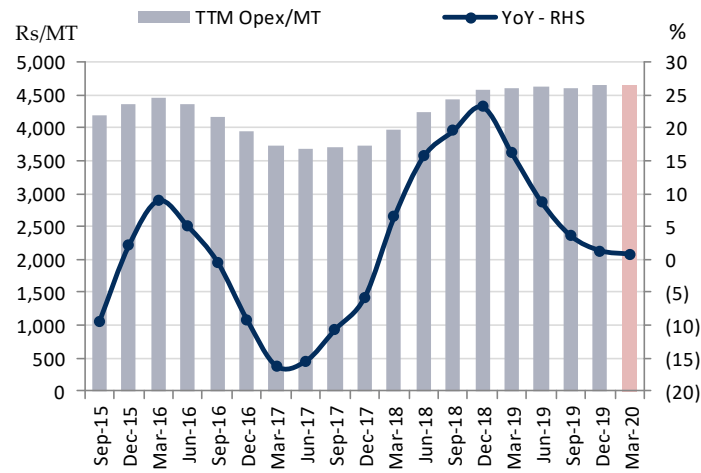
Source: Company, HSIE Research

NSR fell 3% YoY on weak pricing across east and NE markets during 9MFY20



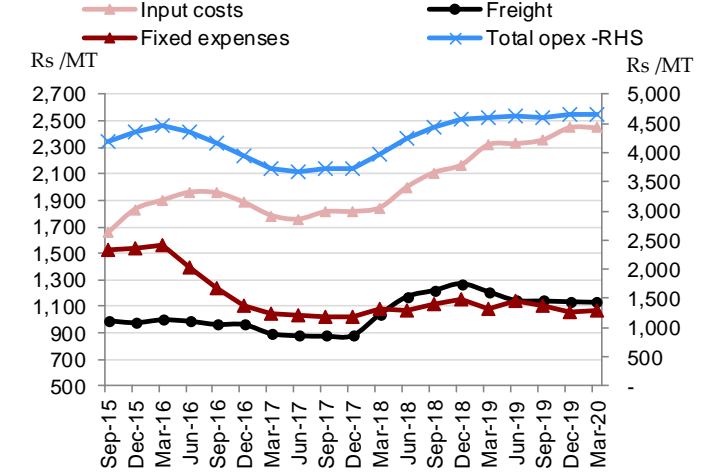
Source: Company, HSIE Research

Lower freight cost and asset sweating moderated higher fixed cost in early FY20 leading to a flattish unitary opex



Source: Company, HSIE Research

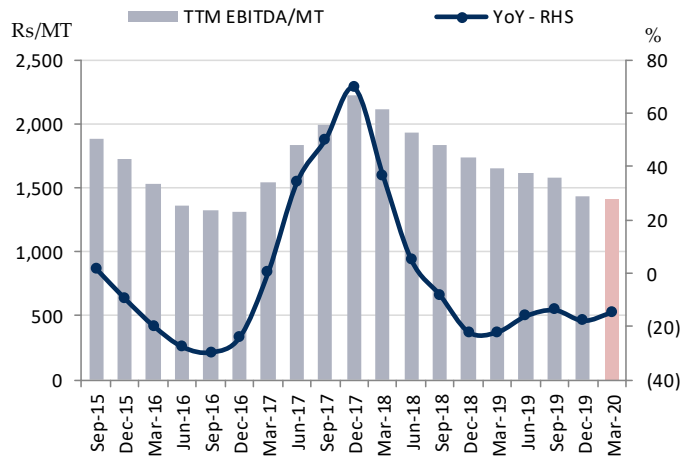
While input costs increased, freight and fixed costs reduced



Source: Company, HSIE Research

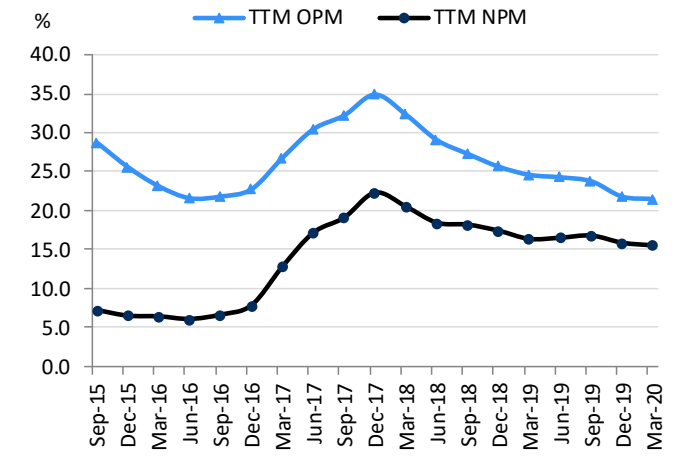
Long term performance trends (TTM basis) continued

Star's unitary EBITDA cooled off to its six year low on weak pricing



Source: Company, HSIE Research

While OPM also fell to seven year low, NPM fell to only 3 year low as Star turned net cash in FY19



Source: Company, HSIE Research

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA			EV/MT (Rs bn)			Net D:E (x)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
UltraTech Cement	1,060	3,861	BUY	4,720	13.6	15.2	12.4	11.07	10.62	9.98	0.4	0.3	0.2	10.4	7.6	9.5
Shree Cement	785	22,524	REDUCE	17,900	21.0	24.4	20.0	17.90	17.45	16.04	(0.3)	(0.3)	(0.3)	13.9	7.9	9.7
Ambuja Cements	373	188	BUY	210	9.7	10.9	9.2	7.06	6.68	6.66	(0.7)	(0.7)	(0.7)	6.8	5.3	6.0
ACC	242	1,289	BUY	1,440	8.1	11.1	9.1	6.15	6.30	6.36	(0.4)	(0.4)	(0.3)	11.6	8.4	10.6
Ramco Cements	151	643	ADD	685	15.9	16.0	11.6	9.76	9.34	8.33	0.6	0.6	0.3	12.8	10.7	12.2
Dalmia Bharat	135	700	BUY	930	8.3	10.8	7.9	6.70	5.87	4.62	0.4	0.4	0.3	2.1	(1.5)	1.3
JK Cement	106	1,372	BUY	1,425	11.1	12.4	10.1	7.99	7.90	8.04	0.9	0.9	0.8	17.4	11.3	15.1
Star Cement	37	88	BUY	115	8.6	8.8	7.0	9.52	8.04	7.07	(0.1)	(0.1)	(0.1)	15.4	13.7	16.1
JK Lakshmi	30	257	BUY	370	6.0	7.7	6.7	3.44	3.44	3.64	0.6	0.5	0.6	16.2	9.0	11.4
Orient Cement	15.7	76	BUY	85	7.2	8.1	6.6	3.43	3.23	3.24	1.1	0.9	0.8	8.0	4.6	9.6
Deccan Cements	3.8	270	BUY	370	4.7	4.3	4.4	1.62	1.42	2.15	(0.0)	(0.1)	0.2	10.1	7.7	12.3

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/CY21E resp

Financials

Consolidated Income Statement

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	15,341	16,145	18,310	18,439	17,234	21,661
<i>Growth %</i>	(2.9)	5.2	13.4	0.7	(6.5)	25.7
Raw Material	3,403	3,025	4,367	4,019	3,233	4,127
Power & Fuel	1,916	2,160	2,587	3,619	3,464	4,556
Freight Expense	2,699	2,869	3,630	3,530	3,088	4,043
Employee cost	1,186	1,074	1,164	1,266	1,355	1,450
Other Expenses	1,991	1,805	2,071	2,054	2,157	2,480
EBITDA	4,146	5,214	4,492	3,951	3,937	5,004
<i>EBITDA Margin (%)</i>	27.0	32.3	24.5	21.4	22.8	23.1
<i>EBITDA Growth %</i>	3.8	25.7	(13.8)	(12.0)	(0.3)	27.1
Depreciation	1,179	1,207	1,056	930	1,072	1,234
EBIT	2,967	4,007	3,435	3,021	2,865	3,770
Other Income (Including EO Items)	24	44	55	287	300	300
Interest	781	525	144	93	80	80
PBT	2,211	3,526	3,346	3,215	3,085	3,990
Tax	139	164	296	342	308	399
Minority Int	62	55	62	18	31	40
RPAT	2,010	3,307	2,988	2,855	2,746	3,551
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-
APAT	2,010	3,307	2,988	2,855	2,746	3,551
<i>APAT Growth (%)</i>	49.4	64.5	(9.6)	(4.4)	(3.8)	29.3
AEPS	4.8	7.9	7.1	6.9	6.7	8.6
<i>AEPS Growth %</i>	49.4	64.5	(9.6)	(2.9)	(3.8)	29.3

Consolidated Balance Sheet

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	419	419	419	412	412	412
Reserves And Surplus	11,040	14,344	16,817	18,159	19,667	21,981
Total Equity	11,460	14,763	17,237	18,571	20,080	22,393
Minority Int	566	621	683	701	731	771
Long-term Debt	3,715	1,988	18	7	900	1,200
Short-term Debt	4,292	2,336	721	104	104	104
Total Debt	8,007	4,324	738	111	1,004	1,304
Deferred Tax Liability	(1,765)	(2,329)	(2,710)	(2,893)	(3,202)	(3,601)
Long-term Liab+ Provisions	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	18,268	17,380	15,947	16,490	18,613	20,867
APPLICATION OF FUNDS						
Net Block	8,632	7,847	7,223	6,961	9,439	8,705
Capital WIP	549	357	743	2,375	1,875	5,475
Goodwill	-	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Investments	15	14	17	16	16	16
Total Non-current Assets	9,195	8,219	7,984	9,353	11,330	14,196
Inventories	1,612	2,946	2,772	2,569	2,413	2,599
Debtors	1,378	1,465	1,438	1,222	1,206	1,516
Cash and Cash Equivalents	201	198	2,113	2,820	3,347	3,368
Other Current Assets	10,651	9,900	5,952	4,725	4,412	4,335
Total Current Assets	13,842	14,509	12,275	11,336	11,378	11,819
Creditors	938	1,889	1,254	958	944	1,187
Other Current Liabilities & Provns	3,832	3,459	3,057	3,241	3,151	3,960
Total Current Liabilities	4,769	5,348	4,311	4,199	4,095	5,147
Net Current Assets	9,072	9,160	7,964	7,137	7,283	6,671
TOTAL APPLICATION OF FUNDS	18,268	17,380	15,947	16,490	18,613	20,867

Source: Company, HSIE Research

Consolidated Cash Flow

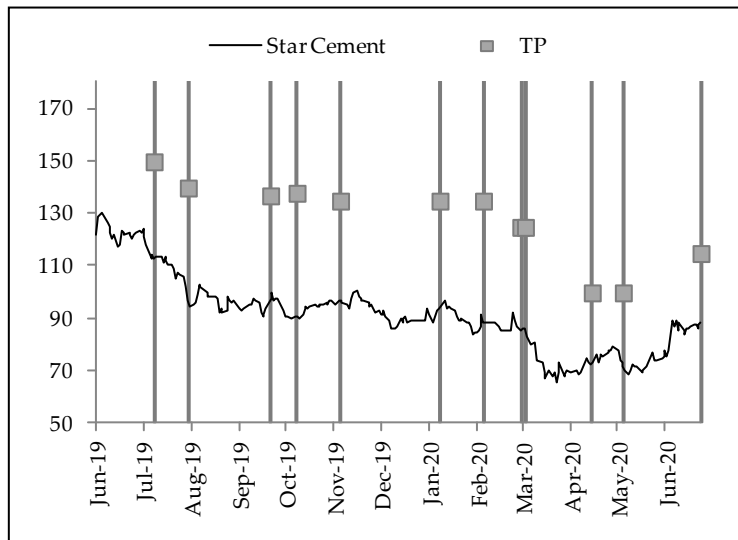
YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	2,148	3,526	3,346	3,215	3,085	3,990
Non-operating & EO Items	(104)	(42)	(50)	(271)	(300)	(300)
Interest Expenses	781	525	144	93	80	80
Depreciation	1,179	1,207	1,056	915	1,072	1,234
Working Capital Change	(81)	(67)	3,043	1,607	381	632
Tax Paid	(282)	(664)	(592)	(505)	(617)	(798)
OPERATING CASH FLOW (a)	3,641	4,485	6,947	5,055	3,702	4,839
Capex	(890)	(324)	(804)	(2,271)	(3,050)	(4,100)
Free Cash Flow (FCF)	2,751	4,161	6,143	2,784	652	739
Investments	(30)	26	(1,153)	755	-	-
Non-operating Income	26	44	30	161	300	300
Others						
INVESTING CASH FLOW (b)	(894)	(253)	(1,926)	(1,355)	(2,750)	(3,800)
Debt Issuance/(Repaid)	(2,042)	(3,685)	(3,598)	(624)	893	300
Interest Expenses	(780)	(522)	(144)	(96)	(80)	(80)
FCFE	(71)	(47)	2,401	2,063	1,464	959
Share Capital Issuance	-	-	-	(1,020)	-	-
Dividend	-	-	(516)	(497)	(1,237)	(1,237)
FINANCING CASH FLOW (c)	(2,822)	(4,208)	(4,258)	(2,238)	(425)	(1,017)
NET CASH FLOW (a+b+c)	(75)	24	763	1,461	527	21
EO Items, Others						
Closing Cash & Equivalents	170	224	961	3,575	3,347	3,368

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY %						
EBITDA Margin	27.0	32.3	24.5	21.4	22.8	23.1
EBIT Margin	19.3	24.8	18.8	16.4	16.6	17.4
APAT Margin	12.7	20.1	16.0	15.4	15.8	16.2
RoE	18.2	24.1	17.9	15.4	13.7	16.1
RoIC	15.6	21.7	20.2	19.6	17.8	20.7
RoCE	15.5	21.7	19.1	18.2	16.2	18.6
EFFICIENCY						
Tax Rate %	6.3	4.7	8.9	10.6	10.0	10.0
Fixed Asset Turnover (x)	1.1	1.6	1.7	1.6	1.3	1.4
Inventory (days)	38	67	55	51	51	44
Debtors (days)	33	33	29	24	26	26
Other Current Assets (days)	253	224	119	94	93	73
Payables (days)	22	43	25	19	20	20
Other Current Liab & Provns (days)	91	78	61	64	67	67
Cash Conversion Cycle (days)	211	203	117	85	83	56
Net Debt/EBITDA (x)	1.9	0.8	(0.3)	(0.7)	(0.6)	(0.4)
Net D/E	0.6	0.3	(0.1)	(0.1)	(0.1)	(0.1)
Interest Coverage	3.8	7.6	23.9	32.4	35.8	47.1
PER SHARE DATA (Rs)						
EPS	4.8	7.9	7.1	6.9	6.7	8.6
CEPS	7.6	10.8	9.6	9.2	9.3	11.6
Dividend	-	1.0	-	1.0	3.0	3.0
Book Value	27.3	35.2	41.1	45.0	48.7	56.2
VALUATION						
P/E (x)	18.0	10.9	12.1	12.7	13.2	10.2
P/Cash EPS (x)	11.3	8.0	8.9	9.6	9.5	7.6
P/BV (x)	3.2	2.4	2.1	1.9	1.8	1.6
EV/EBITDA (x)	10.7	7.8	7.9	8.6	8.8	7.0
EV/MT (Rs Bn)	13.14	11.09	9.61	9.52	8.04	7.07
Dividend Yield (%)	-	1.1	-	1.1	3.4	3.4
OCF/EV (%)	8.2	11.0	19.6	14.8	10.7	13.9
FCFF/EV (%)	6.2	10.2	17.3	8.1	1.9	2.1
FCFE/M Cap (%)	(0.2)	(0.1)	6.6	5.7	4.0	2.7

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Jul-19	114	BUY	150
2-Aug-19	96	BUY	140
22-Sep-19	93	BUY	137
10-Oct-19	91	BUY	138
8-Nov-19	97	BUY	135
10-Jan-20	93	BUY	135
7-Feb-20	89	BUY	135
2-Mar-20	86	BUY	125
5-Mar-20	87	BUY	125
17-Apr-20	73	BUY	100
7-May-20	72	BUY	100
27-Jun-20	88	BUY	115

From 2nd March 2020, we have moved to new rating system

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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