

Star Cement

Refer to important disclosures at the end of this report

Northeastern star

CMP	Target Price
Rs 115 as of (March 24, 2023)	Rs 125 (■) 12 months
Rating	Upside
HOLD (■)	8.6 %

We recently interacted with Mr. Manoj Agarwal, CFO, Star Cement (Star), to discuss the latest developments in the cement sector, demand/price trends, and the company's growth plans. Key takeaways:

- **North East Region (NER):** Effective clinker and cement capacity in NER stood at 9mtpa and 12mtpa, respectively, while demand is likely to be around 12.8mtpa. Nearly 65% of demand is contributed by Assam, 11% by Tripura, 6% by Meghalaya, 5% by Manipur, and the remaining by Mizoram and Arunachal Pradesh. Cement demand in the region has increased at a 9% CAGR in the last five years (~400bps higher than the pan-India average). Management expects demand in the region to grow at 10-12% YoY in FY24, with a pick-up in planned infrastructure development in the area. Star leads NER with a market share of ~23% and is likely to retain its leadership position in the medium term, in our view.
- **Project updates:** Star's current cement capacity stands at 5.7mt, with a 2mt grinding unit in the East and the remaining in NER. Star has embarked upon an ambitious capex plan in NER with 3mt clinker capacity expansion at Lumshong, Meghalaya (by Jan-24), and 2mt cement capacity addition each at Guwahati (by Dec-23) and Silchar (by Q3FY25) in Assam. Including 12MW WHRS, the total project cost stands at ~Rs22bn (Rs2bn already spent), which is likely to be spent by FY25E. Capex guidance for FY23 and FY24 stands at Rs5-5.5bn and Rs11-12bn, respectively. Management expects land acquisition for the Silchar plant (50% of the land has already been acquired) to be completed by Jun-23. Post the expansion, the company's capacity is likely to increase by 70% to 9.7mt, which should provide strong volume growth over the medium term. Star is also evaluating M&A opportunities outside NER.
- **Prices:** Management mentioned that cement prices are largely stable QoQ in NER in Q4FY23. The price hike in NER region is likely to be limited in Q1FY24, owing to the rainy season. Management is looking to restructure its sales mix and is trying to push volumes in a better-priced market to improve overall realization. Sales of premium products (higher by Rs20-25/bag) stood at 4-5% of trade sales, and management is looking to double them to 10% in the next 12-18 months.
- **Cost levers:** Commissioning of 12MW WHRS in a month's time is likely to provide savings of Rs40mn p.m. The company is also looking to set up 20MW solar power plant each at two plants in Guwahati. Additionally, higher usage of AFR to 10% in the next few quarters (vs. currently 4-5%) is likely to provide savings of Rs50mn p.a., in our view. Management expects the fuel cost to remain broadly flat sequentially in Q4FY23E; while there will be some savings in freight cost, led by the use of its own fleet and higher operating leverage. Incentive expiry in two plants is likely to reduce EBITDA by Rs100/ton from Jan-23.
- **Guidance:** Management has maintained its volume guidance of 4mt (+18% YoY) in FY23E – implies 6% YoY growth in Q4FY23. To recap, volumes stood at 2.8mt (+25% YoY) in 9MFY23. Management has guided for volume growth of 15-18% YoY in FY24, with EBITDA/ton (including other income) likely to be at Rs1,350-1,400 (vs. Rs1,230 in 9MFY23).

We have a HOLD rating on the stock with a TP of Rs125, based on 8x its Mar-25 EV/E.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	17,199	22,218	26,898	28,655	32,785
EBITDA	3,326	3,453	4,461	4,898	5,611
EBITDA Margin (%)	19.3	15.5	16.6	17.1	17.1
APAT	2,517	2,468	2,305	2,492	3,261
EPS (Rs)	6.1	6.1	5.7	6.2	8.1
EPS (% chg)	(11.9)	0.0	(6.6)	8.1	30.9
ROE (%)	12.8	11.6	10.2	10.1	12.0
P/E (x)	18.8	17.7	18.9	17.5	13.4
EV/EBITDA (x)	13.4	12.1	9.2	7.9	6.9
P/BV (x)	2.3	2.1	2.0	1.8	1.6

Source: Company, Emkay Research. am.emkay@whitemarquesolutions.com use and downloaded at 03/27/2023 12:07 PM

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs. Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	5.7	6.2
Consensus	5.4	5.9
Mean Consensus TP (12M)	Rs 122	

Stock Details

Bloomberg Code	STRCEM IN
Face Value (Rs)	1
Shares outstanding (mn)	404
52-Week H/L	124 / 81
M Cap (Rs bn/USD bn)	46 / 0.56
Daily Avg. Volume (nos.)	287,439
Daily Avg. Turnover (USD mn)	0.4

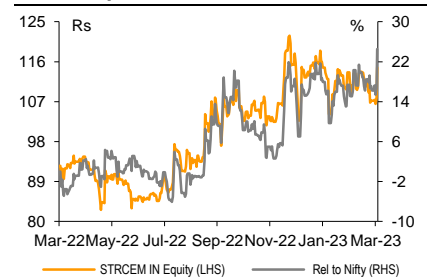
Shareholding Pattern Dec-22

Promoters	67.0%
FIIIs	0.5%
DIIIs	6.2%
Public and Others	26.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	12	13	22
Rel. to Nifty	5	18	15	24

Relative price trend



Source: Bloomberg

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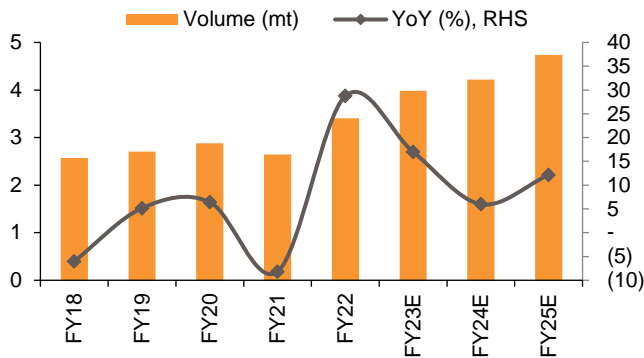
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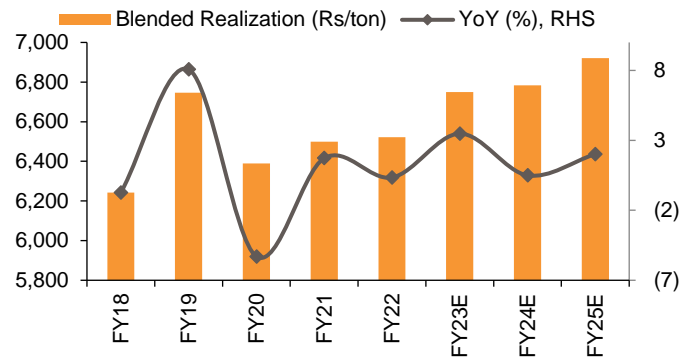
Story in Charts

Exhibit 1: Volumes likely to grow at 9% CAGR over FY23E-25E



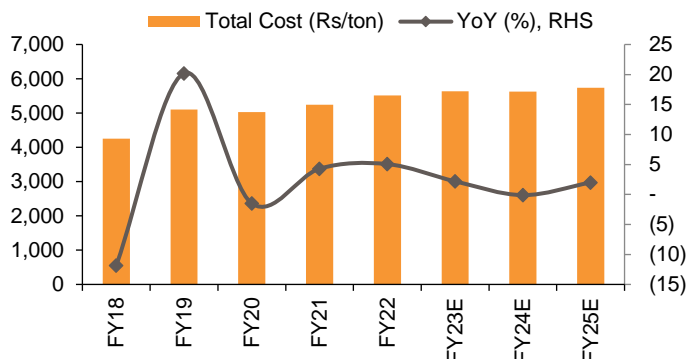
Source: Company, Emkay Research

Exhibit 2: Realization likely to grow at 1.3% CAGR over FY23E-25E



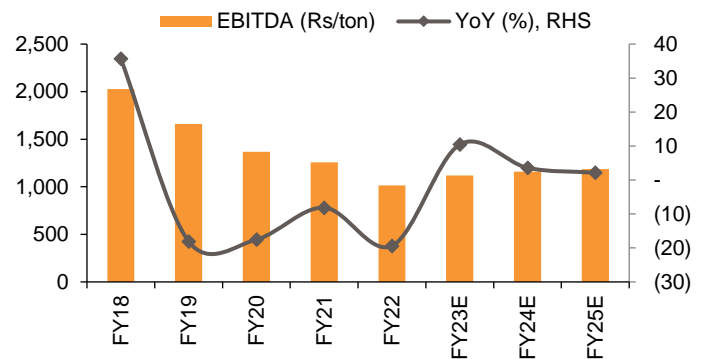
Source: Company, Emkay Research

Exhibit 3: Total Cost/ton likely to grow at 1% CAGR over FY23E-25E



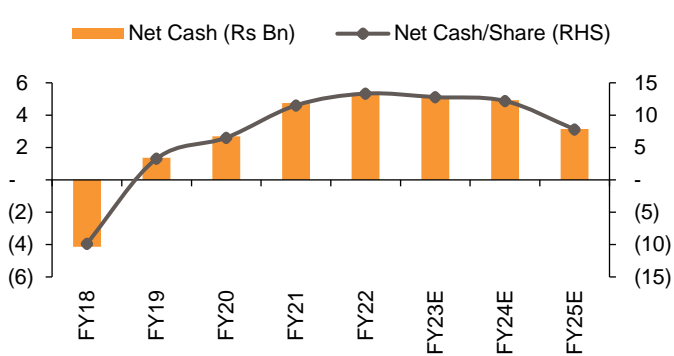
Source: Company, Emkay Research

Exhibit 4: EBITDA/ton to grow at 3% CAGR over the same period



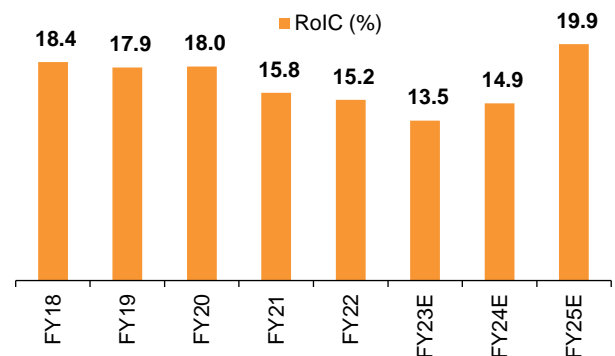
Source: Company, Emkay Research

Exhibit 5: Star's net cash status facilitates future growth



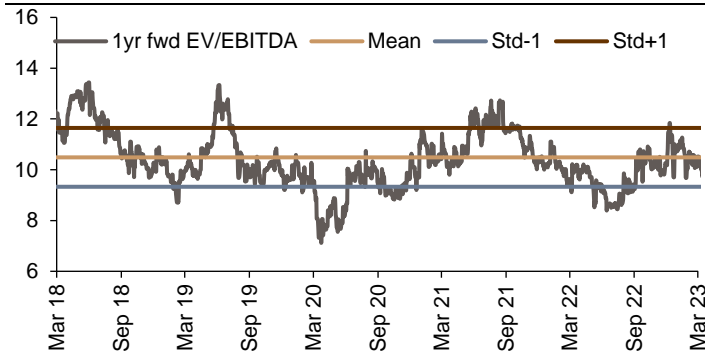
Source: Company, Emkay Research

Exhibit 6: ROIC to gradually improve post FY23E



Source: Company, Emkay Research

Exhibit 7: One-year forward EV/EBITDA (x)



Source: Company, Emkay Research

Exhibit 8: Maintain HOLD, with a TP of Rs125/sh, based on Mar-25E EV/EBITDA, backed by DCF analysis

EV/E method, backed by DCF analysis	Rs bn
Mar-25E EBITDA (Rs bn)	5.6
Implied EV/E multiple (x)	8.0
Enterprise Value	45
Net cash (Mar-24E)	5
Equity value	50
No. of shares (mn)	404
Mar-24 Target Price (Rs)	125

Source: Company, Emkay Research

Annual Analysis

Exhibit 9: Annual financial highlights

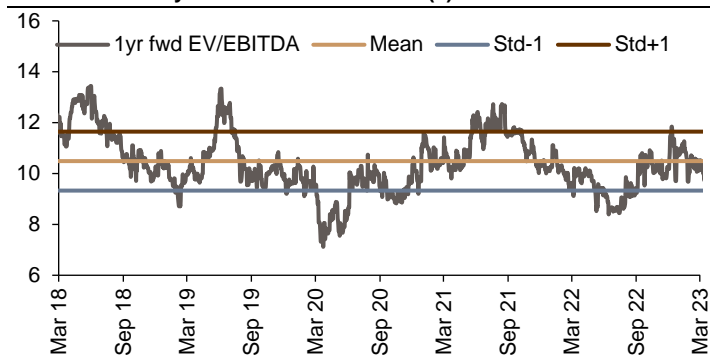
Key Assumptions	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR (%)	
									FY18-22	FY22-25E
Capacity (mt)	4.3	4.3	4.3	5.7	5.7	5.7	5.7	6.2	7.3	2.8
Volumes (mt)	2.6	2.7	2.9	2.6	3.4	4.0	4.2	4.7	7.2	11.6
Utilization (%)	60	63	67	46	60	70	74	76		
Blended Realization (Rs/ton)	6,243	6,747	6,389	6,500	6,523	6,750	6,783	6,920	1.1	2.0
EBITDA (Rs/ton)	2,026	1,660	1,369	1,258	1,014	1,120	1,160	1,185	(15.9)	5.3
P&L (Rs bn)										
Revenue	16	18	18	17	22	27	29	33	8.3	13.8
EBITDA	5	4	4	3	3	4	5	6	(9.8)	17.6
Adj. Net Profit	3	3	3	3	2	2	2	3	(5.6)	9.7
Balance Sheet (Rs bn.)										
Equity	15	17	19	21	22	24	26	29		
Net cash	4	(1)	(3)	(5)	(5)	(5)	(5)	(3)		
Cash Flow (Rs bn)										
OCF before WC change	5	4	4	2	3	3	3	4		
Change in WC	0	3	1	1	1	(1)	(1)	(1)		
Capex	(0)	(1)	(2)	(1)	(2)	(3)	(3)	(5)		
FCF	4	6	3	2	2	(0)	(0)	(2)		
Return ratios (%) – Post tax										
RoE	22.9	18.7	15.9	12.8	11.6	10.2	10.1	12.0		
RoCE	17.7	16.3	15.4	12.8	12.2	10.4	10.3	12.3		
RoIC	18.4	17.9	18.0	15.8	15.2	13.5	14.9	19.9		
Valuations (x)										
PE						18.9	17.5	13.4		
EV/EBITDA						9.2	7.9	6.9		
EV/ton						87	82	76		

Source: Company, Emkay Research

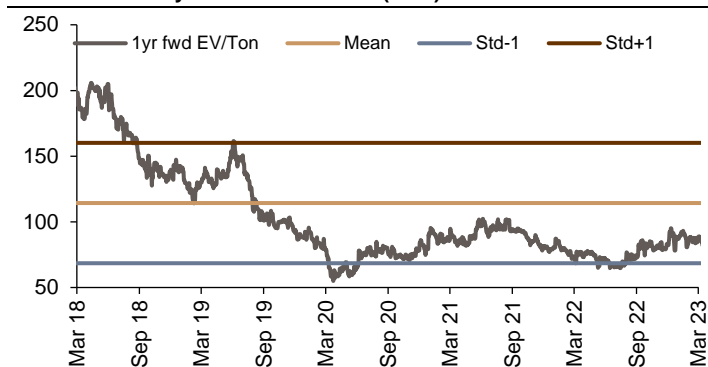
Exhibit 10: Annual analysis on a per-ton basis

(Rs/ton)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Blended realization	6,243	6,747	6,389	6,500	6,523	6,750	6,783	6,920
% YoY	(0.7)	8.1	(5.3)	1.7	0.3	3.5	0.5	2.0
Raw material consumed	1,176	1,614	1,396	1,525	1,685	1,584	1,584	1,630
Power & fuel costs	840	956	1,257	1,280	1,225	1,446	1,410	1,440
Freight costs	1,126	1,341	1,226	1,202	1,255	1,262	1,250	1,287
Staff costs	417	430	439	497	468	496	515	487
Other expenses	690	765	713	743	880	845	869	896
Operating Cost	4,249	5,107	5,031	5,247	5,513	5,634	5,627	5,739
% YoY	(11.8)	20.2	(1.5)	4.3	5.1	2.2	(0.1)	2.0
Other operating income	32	20	11	5	4	4	4	4
Blended EBITDA	2,026	1,660	1,369	1,258	1,014	1,120	1,160	1,185
% YoY	35.7	(18.1)	(17.5)	(8.1)	(19.4)	10.4	3.6	2.1

Source: Company, Emkay Research

Exhibit 11: One-year forward EV/EBITDA (x)

Source: Bloomberg, Emkay Research

Exhibit 12: One-year forward EV/ton (USD)

Source: Bloomberg, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	17,199	22,218	26,898	28,655	32,785
Expenditure	13,873	18,766	22,437	23,757	27,175
EBITDA	3,326	3,453	4,461	4,898	5,611
Depreciation	900	1,216	1,309	1,434	1,521
EBIT	2,426	2,236	3,152	3,464	4,090
Other Income	282	334	499	479	388
Interest expenses	70	133	105	109	113
PBT	2,638	2,437	3,546	3,834	4,366
Tax	121	(31)	1,241	1,342	1,105
Extraordinary Items	(646)	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,871	2,468	2,305	2,492	3,261
Adjusted PAT	2,517	2,468	2,305	2,492	3,261

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	412	404	404	404	404
Reserves & surplus	20,329	21,280	23,239	25,358	28,130
Net worth	20,742	21,684	23,644	25,762	28,534
Minority Interest	0	0	0	0	0
Loan Funds	153	76	76	76	76
Net deferred tax liability	0	0	0	0	0
Total Liabilities	20,895	21,761	23,720	25,838	28,610
Net block	8,203	9,180	8,628	7,450	7,709
Investment	17	1,637	1,637	1,637	637
Current Assets	16,136	15,588	17,902	18,930	19,972
Cash & bank balance	4,904	3,847	3,627	3,387	2,615
Other Current Assets	27	100	100	100	100
Current liabilities & Provision	4,727	5,690	7,492	7,981	9,131
Net current assets	11,409	9,898	10,410	10,949	10,841
Misc. exp	0	0	0	0	0
Total Assets	20,895	21,761	23,720	25,838	28,610

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	2,356	2,103	3,047	3,355	3,977
Other Non-Cash items	0	0	0	0	0
Chg in working cap	749	527	(732)	(778)	(665)
Operating Cashflow	3,253	4,011	2,488	2,778	3,841
Capital expenditure	(1,061)	(1,973)	(2,757)	(3,014)	(5,400)
Free Cash Flow	2,192	2,037	(268)	(236)	(1,559)
Investments	(1)	(1,620)	0	0	1,000
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(780)	(3,260)	(2,257)	(2,535)	(4,012)
Equity Capital Raised	0	(1,237)	0	0	0
Loans Taken / (Repaid)	6	(77)	0	0	0
Dividend paid (incl. tax)	0	0	(346)	(374)	(489)
Other Financing Cash Flow	(345)	(360)	0	0	0
Financing Cashflow	(408)	(1,808)	(451)	(483)	(602)
Net chg. in cash	2,065	(1,057)	(220)	(240)	(773)
Opening cash position	2,838	4,904	3,847	3,627	3,387
Closing cash position	4,904	3,847	3,627	3,387	2,615

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	19.3	15.5	16.6	17.1	17.1
EBIT Margin	14.1	10.1	11.7	12.1	12.5
Effective Tax Rate	4.6	(1.3)	35.0	35.0	25.3
Net Margin	14.6	11.1	8.6	8.7	9.9
ROCE	13.4	12.0	16.1	15.9	16.4
ROE	12.8	11.6	10.2	10.1	12.0
RoIC	16.0	15.1	13.4	14.8	19.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	6.1	6.1	5.7	6.2	8.1
CEPS	8.3	9.1	8.9	9.7	11.8
BVPS	50.3	53.7	58.5	63.7	70.6
DPS	0.0	0.0	0.9	0.9	1.2

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	18.8	17.7	18.9	17.5	13.4
P/CEPS	13.5	12.2	12.5	11.5	9.4
P/BV	2.3	2.1	2.0	1.8	1.6
EV / Sales	2.5	1.8	1.5	1.5	1.3
EV / EBITDA	13.4	12.1	9.2	7.9	6.9
Dividend Yield (%)	0.0	0.0	0.7	0.8	1.1

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)
Net Debt/EBIDTA	(1.4)	(1.6)	(1.2)	(1.0)	(0.6)
Working Cap Cycle (days)	138.1	99.4	92.0	96.3	91.6

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(6.7)	29.2	21.1	6.5	14.4
EBITDA	(15.7)	3.8	29.2	9.8	14.5
EBIT	(19.5)	(7.8)	40.9	9.9	18.1
PAT	(34.5)	31.9	(6.6)	8.1	30.9

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	5,549	7,492	6,661	5,942	6,195
EBITDA	675	1,134	1,241	697	1,084
EBITDA Margin (%)	12.2	15.1	18.6	11.7	17.5
PAT	438	884	676	311	529
EPS (Rs)	1.1	2.2	1.7	0.8	1.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	67.1	67.3	67.4	67.4	67.0
FII	0.2	0.2	0.3	0.4	0.5
DII	6.3	6.1	6.1	6.2	6.2
Public and Others	26.4	26.3	26.2	26.0	26.3

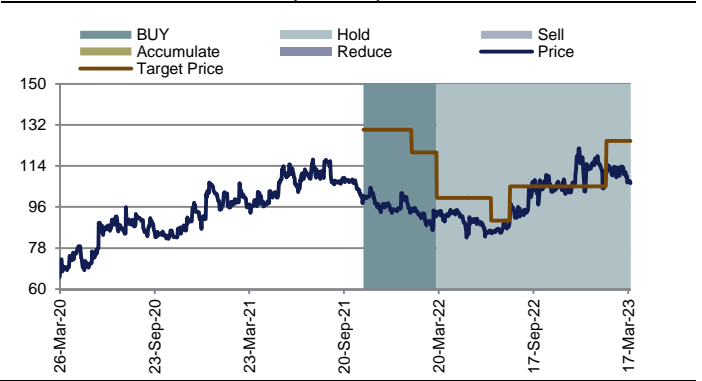
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period (months)	Rating	Analyst
2-Mar-23	113	125	12m	Hold	Dharmesh Shah
5-Feb-23	112	125	12m	Hold	Dharmesh Shah
3-Feb-23	112	125	12m	Hold	Dharmesh Shah
29-Dec-22	114	105	12m	Hold	Dharmesh Shah
5-Dec-22	106	105	12m	Hold	Dharmesh Shah
5-Nov-22	105	105	12m	Hold	Dharmesh Shah
4-Oct-22	104	105	12m	Hold	Dharmesh Shah
4-Sep-22	94	105	12m	Hold	Dharmesh Shah
3-Aug-22	94	105	12m	Hold	Dharmesh Shah
4-Jul-22	85	90	12m	Hold	Dharmesh Shah
28-Jun-22	85	90	12m	Hold	Dharmesh Shah
18-May-22	91	100	12m	Hold	Dharmesh Shah
16-Mar-22	94	100	12m	Hold	Dharmesh Shah
27-Jan-22	94	120	12m	Buy	Dharmesh Shah
31-Dec-21	95	130	12m	Buy	Dharmesh Shah
2-Dec-21	96	130	12m	Buy	Dharmesh Shah
2-Nov-21	100	130	12m	Buy	Dharmesh Shah
27-Oct-21	101	130	12m	Buy	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

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