Star Cement Ltd (STRCEM)

Initiating Coverage

Rating: BUY (Target Price: ₹ 262)

Foreseeing Margin Expansion …

Value accretive from eastern expansion

We initiate coverage on Star Cement Ltd (STRCEM) with a "BUY" recommendation and target price of Rs262 based on 10x FY26E EV/EBITDA. Our recommendation is mainly driven by 1). Capacity addition 2). Better volume growth, 3). Higher incentive in-flows, 4). Improved cost efficiency and 5). Increase in premium segment sale. STRCEM's strong presence in the northeast region of India coupled with pricing benefits and higher incentive-based plants has enabled it to deliver better EBITDA/tn in the industry. At 69% of capacity utilisation, STRCEM leading 23% of total northeastern market shares and targeting 30% market share in near-term. The recently commissioned 2mtpa Sonapur grinding unit and 3.3mtpa Lumshnong in Meghalaya, clinker unit to have higher volume addition, going forward. In addition, the company is adding 2mtpa new cement grinding unit at Silchar in Assam, expected to commission in Sep'25. We see a volume growth of 17% CAGR over FY23–FY26E at an average capacity utilisation of 67%. We expect Revenue/EBITDA/PAT growth of 16%/30%/41% CAGR over FY23–FY26E.

Volume to grow at 17% CAGR over FY23–26E: The cement industry in India is forecast to reach 618mtpa (Exhibit: 7) installed capacity in FY24E, which implies a CAGR of ~4% over FY16–FY24E. Whereas, STRCEM's capacity addition is higher than the industry average of ~10% CAGR. Also, the company is aiming to enhance its installed capacity to 10mtpa/20mtpa by the end of FY26E/ FY30E. STRCEM's strong presence in the northeast market has resulted in a volume growth of ~7% CAGR vs. industry CAGR of 6% over FY16–FY24. We are factoring in 68%/67% capacity utilisation for FY25E/FY26E to arrive at a volume CAGR of 17% over FY23–FY26E, mainly driven by strong brand value, demand uptick in its key market regions, capacity ramp-up at the Sonapur Plant and new capacity addition at Silchar in Assam.

Premiumisation, plant incentive and cost optimisation to lead margin expansion: STRCEM's continuous focus on 1). Increase in premium segment sale, 2). Higher usage of green energy (i.e. WHRS + Solar + Biomass) and 3). Cost rationalisation are the key drivers of profit maximisation, going forward. The premium segment sales has grown to 6.5% in Q3FY24 and expects double-digit growth in the next few quarters. The newly-commissioned clinker units at Meghalaya is expected to get SGST benefits of Rs300/tn till FY27, while Guwahati is to fetch Rs1.5bn-1.6bn/ year incentives for next 5-6 years. Current WHRS/solar capacity is 12.3MW/24MW; adding 12MW WHRS at Meghalaya's new clinker line would have further P&F cost savings. We believe, STRCEM to generate EBITDA/tn of Rs1400-1550 in FY25E/FY26E, i.e., 11% CAGR over FY23–FY26E.

Valuation & Outlook: At CMP Rs220, the stock trades at ~16x/~13x/~9x FY24E/25E/26E EV/EBITDA and USD 135/152/114 EV/ton. It traded at an average EV/EBITDA of ~11x in the last six years. With an improvement in profitability, return ratios & balance sheet and a continued focus on capacity addition, we expect it to trade at higher-than-historical multiples, going forward. We value the company at 10x FY26E EV/EBITDA to arrive at a target price of Rs262 (an upside of 19%) and initiate coverage with a **BUY** rating. While, delay in capex plan and incentive, slower-than-expected demand, regional pricing pressure from new entrant are key downside risks to our call.

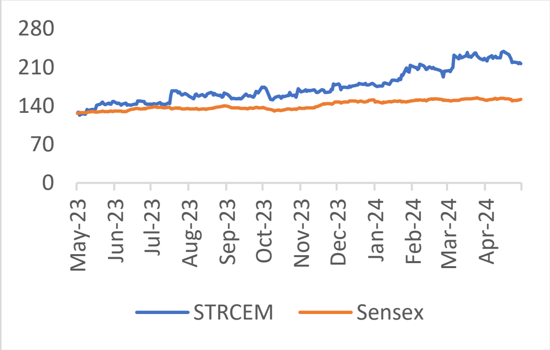
Key Data	
Bloomberg code:	STARCEM IN
Target price (₹)	262
CMP (₹)	220
Upside/ (Downside)	19%
Rating:	BUY
Shares outstanding (mn):	404
Mcap :	Rs.89bn
52-week H/L (Rs):	241/ 122

Price Performance (%)	
1 month	-4.6%
3 months	1.4%
12 months	70.3%

Shareholding Pattern (%)	Sep23	Dec'23	Mar'24
Promoter	66.6	66.5	66.6
FIIs	0.8	1.1	1.5
DIIs	6.1	6.0	6.1
Public/other	26.6	26.5	25.8
Pledge (0.21 mn share)			

Sources: BSE

STRCEM performance vs. Sensex



Sources: BSE

YE March (Rs Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	22,218	27,048	28,738	34,262	42,684
Growth (%)	29.2	21.7	6.2	19.2	24.6
EBITDA	3,453	4,684	5,524	7,590	10,216
EBITDA (%)	3.8	35.7	17.9	37.4	34.6
Adj. PAT	2,468	2,476	3,157	4,955	6,915
Adj. EPS	6.1	6.1	7.8	12.3	17.1
Adj. EPS Growth (%)	34.6	0.3	27.5	57.0	39.6
ROE (%)	11.6	10.8	12.3	16.6	19.4
ROCE (%)	11.4	10.3	10.4	14.2	18.2
P/E (x)	15.8	22.9	28.2	17.9	12.9
P/B (x)	1.8	2.3	3.3	2.8	2.3
EV/EBITDA (x)	9.9	11.3	15.6	12.8	9.0

Sources: Company, ACMIIL research

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Company Overview

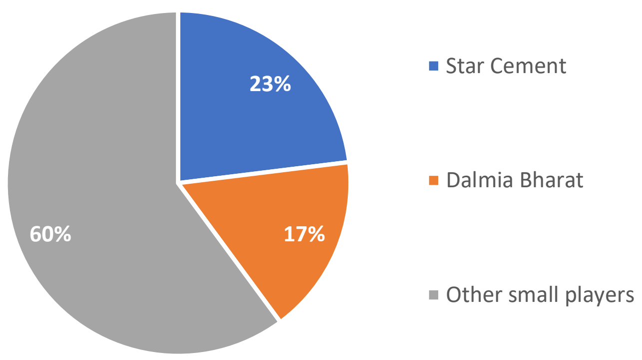
- Incorporated in 2001, STRCEM is one of leading cement-manufacturing companies in the northeast region with a total market share of over 23%. The company has a clinker capacity of 6.1mtpa and cement grinding capacity of 7.67mtpa. In addition, it is planning to take its total cement capacity to ~10mtpa/~30mtpa by FY26E/ FY30E.
- The grinding units (GU) are located strategically in Siliguri in West Bengal (2mtpa), Guwahati in Assam (2mtpa) and Lumshnong in Meghalaya (1.67mtpa). The company has an integrated unit (IU) with 6.1mtpa at Lumshnong, Meghalaya and 51MW of Thermal Power Plant + 12.3MW of WHRS plant. While limestone mines are just 2-3km away from the plant, the coal pit is available in a close proximity.
- STRCEM is primarily into manufacturing of OPC43 grade, OPC53 grade, PPC, ARC, PSC and WSC cements. Both, ARC and WSC, are the premium cements which contribute ~6.5% of total trade segment sales.
- The company has network of 2000-plus dealers and 11000-plus retailers across the northeast region.

Investment Argument

Strategic location benefit and demand-supply dynamic remains healthy

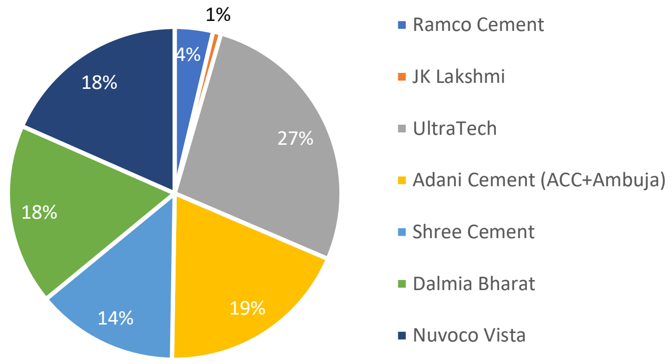
- With 7.67mtpa of cement-installed capacity, STRCEM commands 23% of northeast market share. Also, it caters to markets outside the northeast, such as northern part of West Bengal and eastern part of Bihar. The plants are strategically located in Assam, Meghalaya and the northern part of West Bengal (Siliguri) to cater to the entire northeast and outside regions.
- Except Dalmia Bharat, major industry players' plants are located in Bihar and West Bengal, at a distance of ~900-1050kms from STRCEM's plants at Assam and Meghalaya. We believe that these major players (Ref Exhibit: 2) would not be a threat to STRCEM until unless they come up with a significant capacity addition in Assam or Meghalaya.

Exhibit 1: Cement players' market share in northeast region



Sources: Company, ACMIIL research

Exhibit 2: larger players market share in eastern region

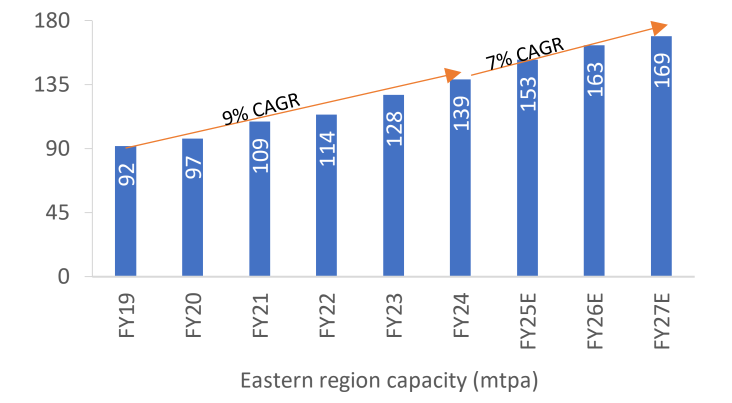


Sources: Company, ACMIIL research

- Out the ~34mtpa capacity in the northeast, ~60% of the total capacity is by small players. However, we do not see any competition intensity in the he region from unorganised players led by capex constrains and less pricing power. With well-established brand equity and strong dealer networking, STRCEM would remain a market leader in the region. Over the years, except STRCEM & DALBHARAT, there has been no major capacity addition by other players in the northeastern region. However, both the companies together will add 6.8mtpa by FY25–26E (9% CAGR) which includes 2mtpa by STRCEM and 4.8mtpa by DALBHARAT. We do not see major players coming into the northeast in near-term and, thus, the regional demand-supply dynamic would remain balanced.

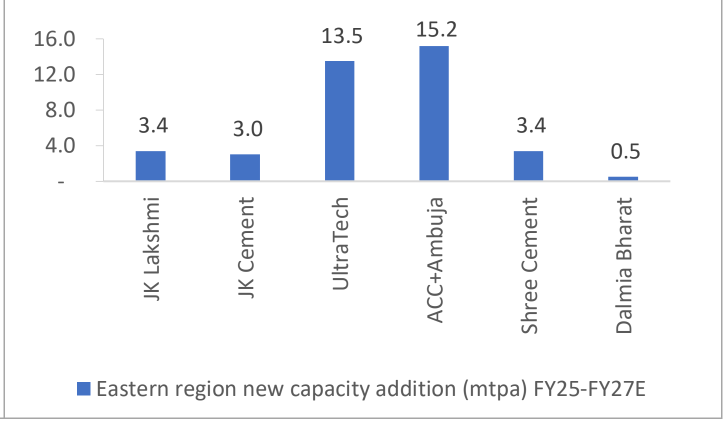
- Large players with substantial capacity are located in the eastern region, such as the states of Bihar, Jharkhand, Chattisgarh, West Bengal and Odisha. And also, their cement plants are located ~900–1050kms away from STRCEM's key markets. We believe existing players would go in for inorganic growth in the region to gain fast market share, while new players would be more attracted towards incentive-based greenfield expansion. Because, the northeastern region is the highest incentive-based region in the country. We do not see quick market share gain of new players as greenfield expansion takes a relatively longer time.

Exhibit 3: Eastern region capacity addition expected at 7% CAGR FY24-FY27



Sources: Company, ACMIIL research

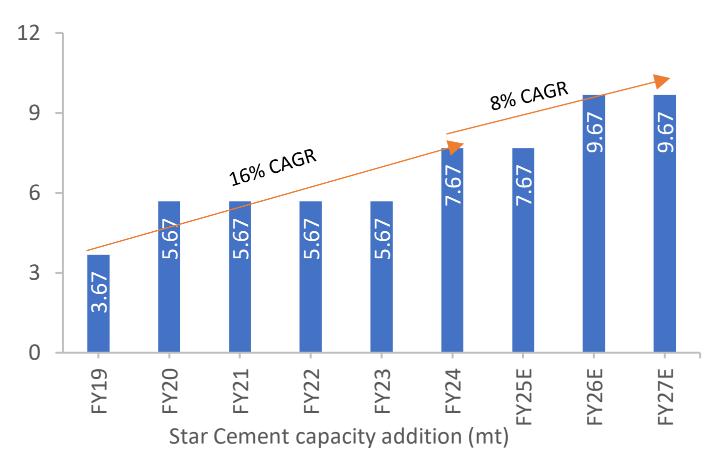
Exhibit 4:… mostly by larger players



Sources: Company, ACMIIL research

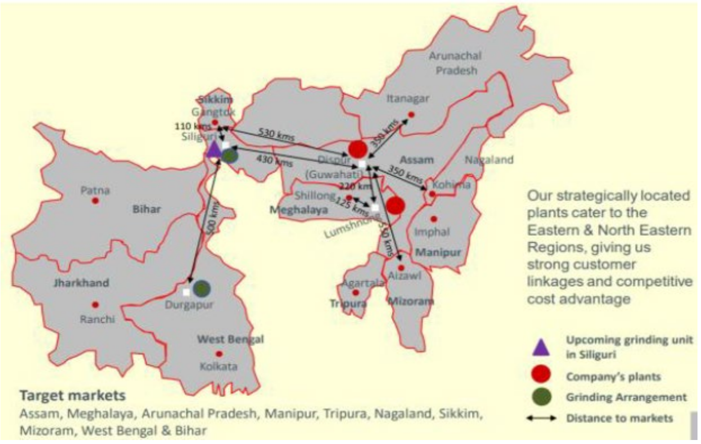
- Large players, such as UltraTech Cement, Adani Cement (ACC + Ambuja), Dalmia Bharat and Shree Cement are aggressively adding capacity in the central and eastern regions through the organic or the inorganic route. However, transportation of cement from the eastern region to the northeastern region may increase the freight cost significantly. Therefore, we believe, the large players would have to fight for a share of the northeastern market relatively more fiercely than others. However, as per the capital allocation plan, Dalmia Bharat would commission 2.5mtpa Greenfield capacity in Assam in FY25E and UltraTech would commission 1.2mtpa Greenfield bulk terminal unit in Assam by FY27E.

Exhibit 5: STRCEM's capacity addition is higher than regional capacity addition, grew at 16% CAGR over FY19-FY24



Sources: Company, ACMIIL research

Exhibit 6: Strategic location of grinding units between clinker unit and key markets

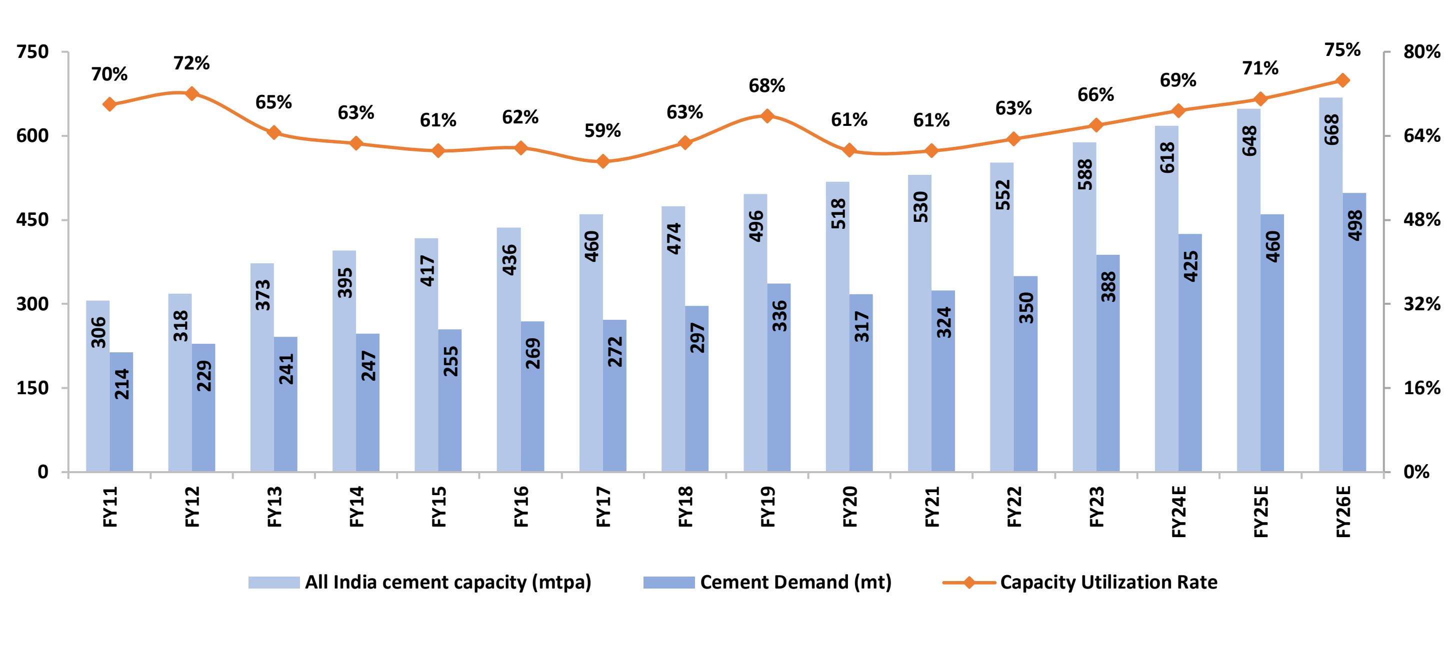


Sources: Company, ACMIIL research

Volume growth of 17% CAGR over FY23-26E

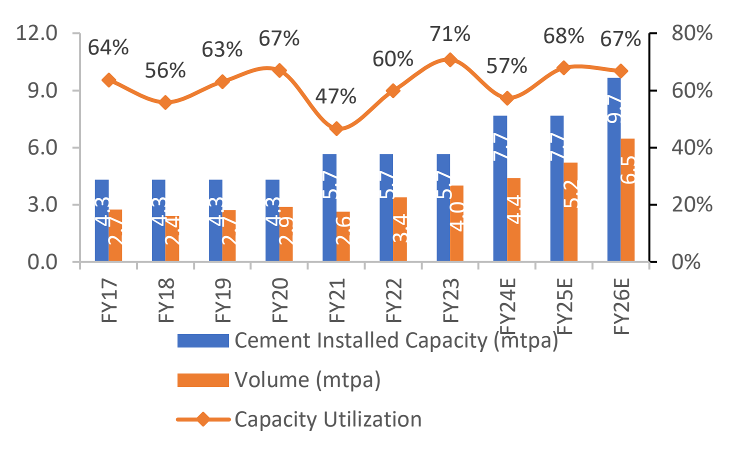
- STRCEM's capacity addition expanded at 11% CAGR over FY16–FY24, which is above the industry's average addition of 5% CAGR. This has helped in strengthening its market share in the northeastern region and increased its footprint in West Bengal (eastern region) as well. In addition, it is targeting to achieve 10mtpa by the end of FY26E, from the existing level of 7.67mtpa. The said 2mtpa incremental capacity is expected to come by FY26E in Silchar in Assam. We believe the existing and upcoming capacity together could accommodate the incremental demand in STRCEM's key market region where per-capita cement consumption is the lowest at ~131/kg and has seen a demand growth of 8.5–9% YoY in FY24.

Exhibit 7: Industry capacity utilization to improve going ahead



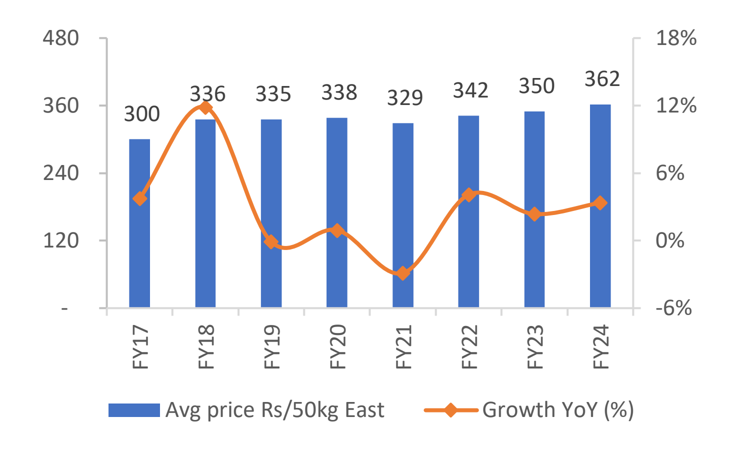
Sources: Company, ACMIIL research

Exhibit 8: STRCEM's volume addition from the newly commissioned Sonapur GU



Sources: Company, ACMIIL research

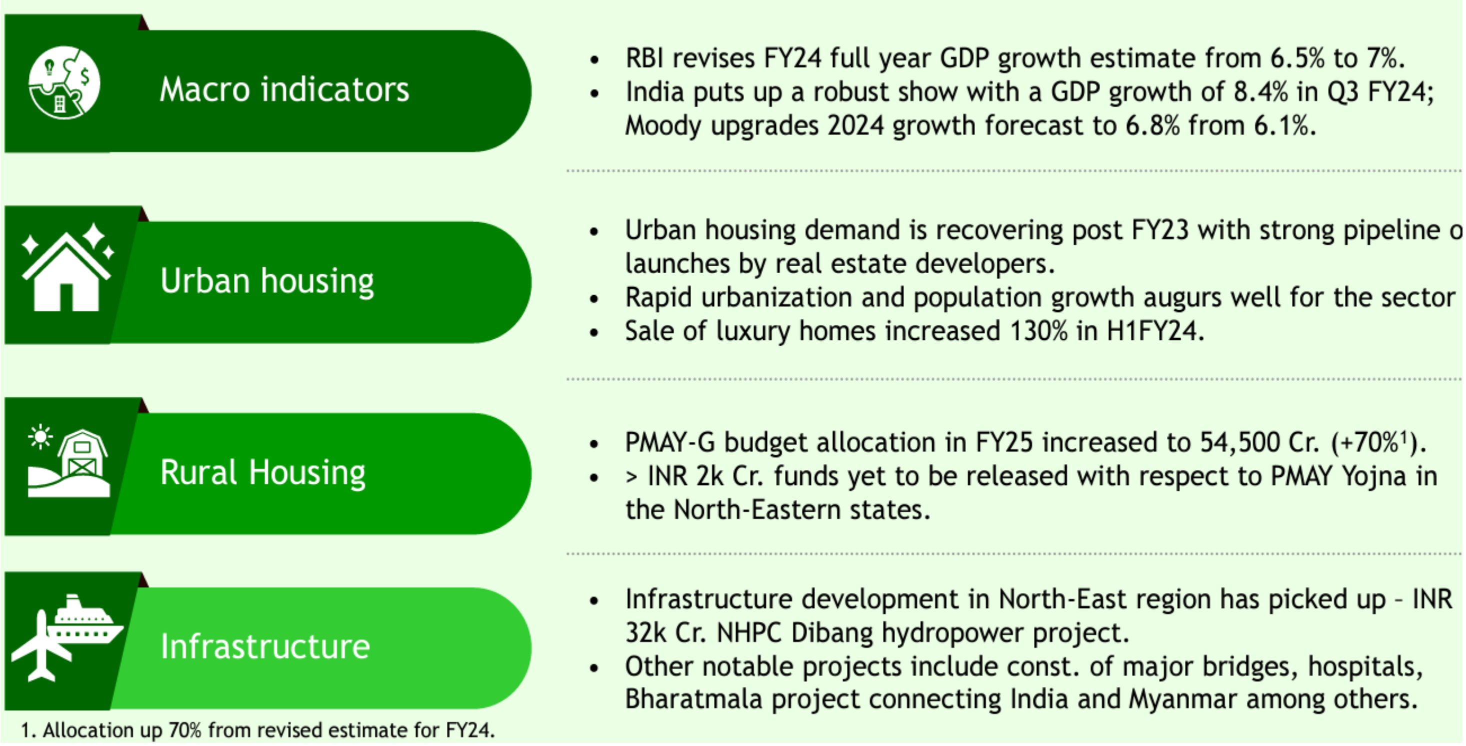
Exhibit 9: Supportive pricing in eastern region



Sources: Company, ACMIIL research

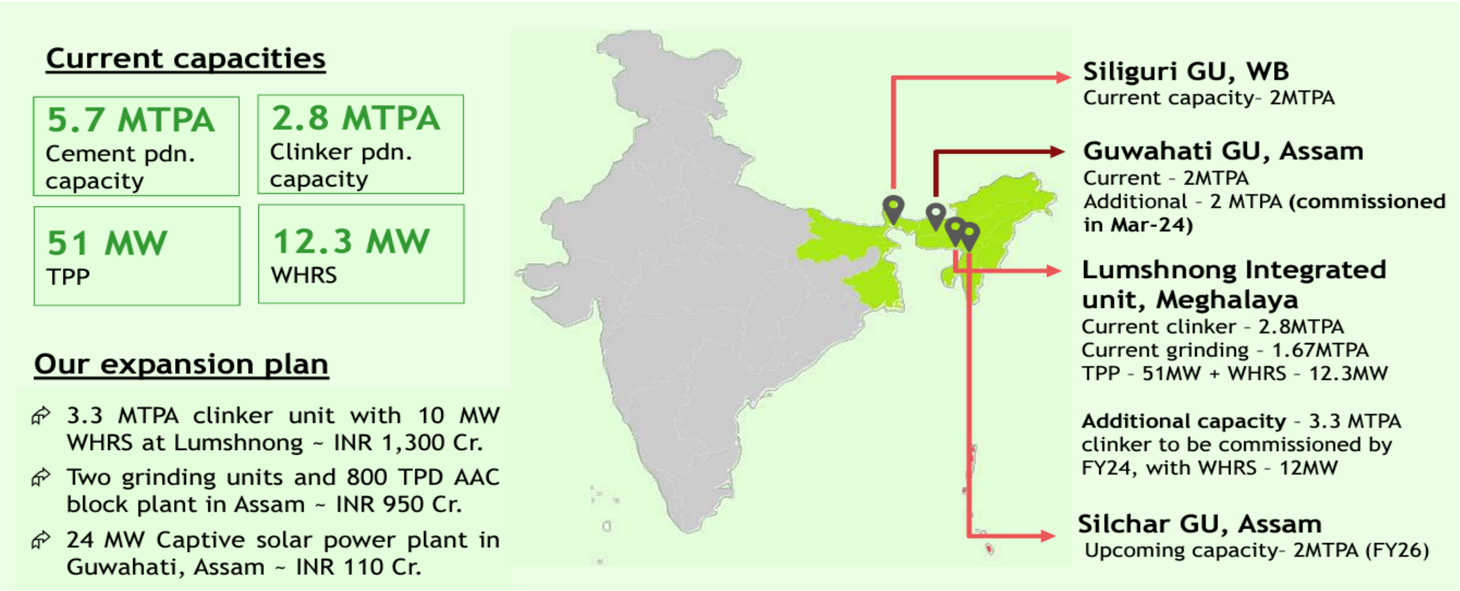
- STRCEM's capacity utilisation stands at ~71% in FY23E vs. industry's average utilisation of ~66%. We believe the overall utilization of STRCEM would improve with the support of by capacity ramp-up at its Sonapur plant. The plants are well poised to cater to the entire northeastern market as well some parts of Bihar, Chhattisgarh and West Bengal. We are factoring in ~73% for capacity utilisation for the existing plant and 55–60% capacity utilisation for new plant to arrive at average utilization of 68%/67% in FY25E/FY26E.

Exhibit 10: Demand drivers firmly in place



Sources: Company, ACMIIL research

Exhibit 11: Current and ongoing capacity details with estimated capex details.

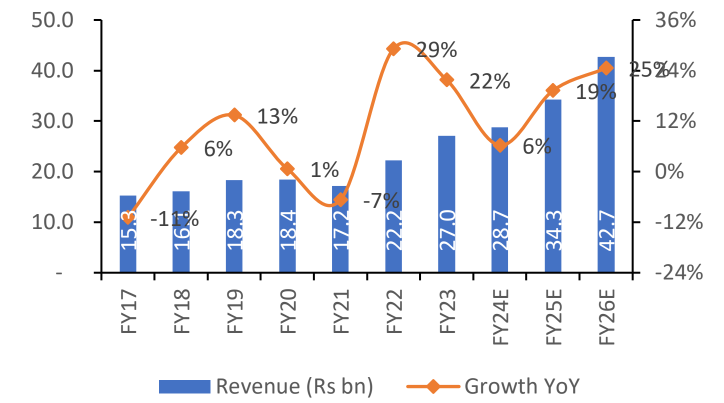


Sources: Company, ACMIIL research, Note: 3.3mtpa new clinker line at Meghalaya already commissioned in 21st Apr'24.

Various cost initiatives to lead margin expansion

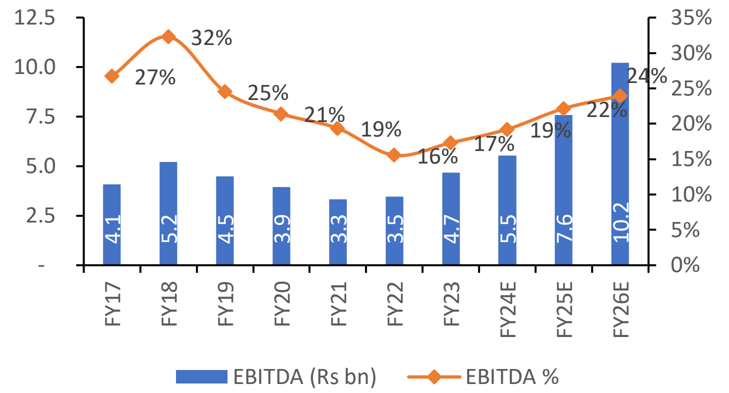
- Despite the the existence of multiple challenges in the industry, such as 1). Pricing pressure, 2). Sluggish demand, 3). Intense competition and 4). Regional issues, STRCEM's revenue has grown at 10% CAGR over FY17–FY23, which is at par with average industry growth during the corresponding period. Also, continuous focus on 1). Increased usage of green energy (WHRS & Solar Power), 2). Better fuel mix, 3). Increase in blending ratio, 4). Logistics cost optimisation and 5) Premiumisation will be the key drivers of margin expansion, going forward. We are estimating Revenue/EBITDA expansion at 22%/36% CAGR over FY24–FY26E, owing to higher volume coupled with cost-efficiency in a weak pricing environment.

Exhibit 12: Revenue at 16% CAGR over FY23–26E



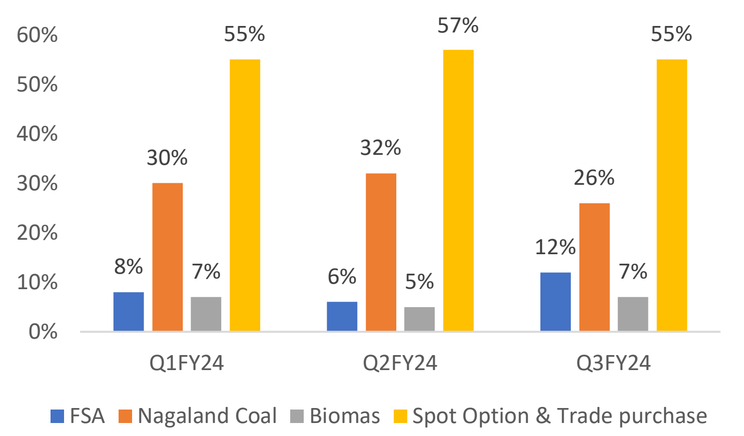
Sources: Company, ACMIIL research

Exhibit 13: Margin expansion led by cost cooling off



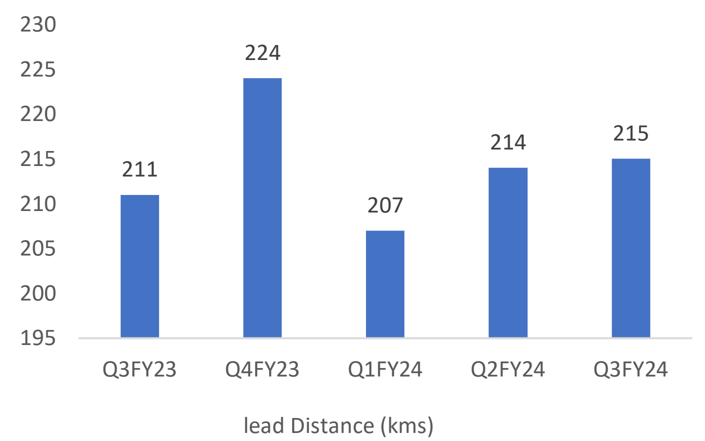
Sources: Company, ACMIIL research

Exhibit 14: Better fuel mix to control energy cost going ahead



Sources: Company, ACMIIL research

Exhibit 15: Avg. lead distance remain at 214kms



Sources: Company, ACMIIL research

- Over the years, STRCEM took several conservation initiatives which involve adopting new technologies and upgrading the existing infrastructure so as to reduce its energy intensity. And, the company strives to improve its operational efficiency through identification and implementation of energy-saving opportunities. It believes in integrating green energy into its operations to not only overcome challenges faced due to unavailability of fuel, but also build resilience against rise in fuel prices. In this endeavour, the company is undertaking feasibility studies for installation of a 20-MW solar power plant.

Exhibit 16: ESG goals and targets

Modules	Target	Present Status
Green energy (Current ~ 25%)	Green energy share of 55% by FY26.	Captive solar plant - 24MW by FY2025. Group captive 26MW project is in planning stage. Existing WHRS- 12.3MW; Upcoming - 12MW (New clinker line)
Thermal Substitution Rate (TSR)	15% by FY25	AFR Feeding system approved by management. Design and Engineering ongoing.
Net Zero Carbon footprint	By 2050	We aim to follow sectoral roadmap to achieve Net Zero concrete by 2050 and we regularly review & monitor our progress to achieve set targets.
Water positivity	2x water positive by 2025	1. Construction of new reservoir with capacity of 1.5 lakh m3 at water catchment area near crusher. 2. Collaboration with communities for rainwater harvesting via pond and to assist in agriculture using drip irrigation.
Mine's 5 Star Rating	All mines to achieve 4-star rating	1.Application submitted. Inspection completed; awaiting final report.
Diversity and Inclusion	10% women of total workforce in 2025 and 12% by 2027	1. Head count raised from 168 in July to 212 in Sept (rising from 8% to 10% of the total workforce)

Sources: Company, ACMIIL research

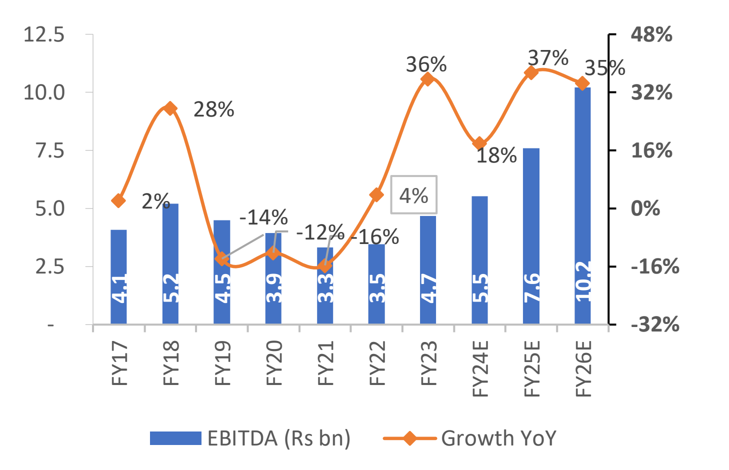
Exhibit 17: Estimating saving from WHRS plant

WHRS Cost Saving Framework	
WHRS (MW)	12
Capex @ Rs10.52 Cr / 1MW	126.2
Cost Saving @ Rs3.6Cr/ 1MW	**43.2**
Dep (@5%)	6.3
EBIT (Rs Cr)	36.9
Tax (@25%)	9.2
EBIT (1-T)	27.7
ROCE	22%

- Also, the company has come up as successful bidder for procuring 0.312million tonne coal per year from Coal India for a period of 10 years from the date of entering into Fuel Supply Agreements (FSA). This is likely to help reduce coal dependency and provide cost comfort.

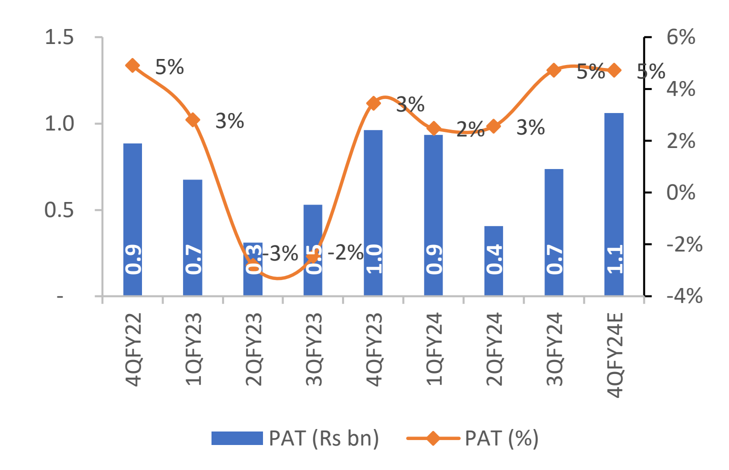
- Gradually lowering the amount of clinker in cement products and using alternative raw materials, such as fly-ash and slag, the company is able to lower its carbon footprint associated with the calcination of limestone. Approximately, 90% of the company's cement portfolio comprises blended cement, which is an integral part of its climate strategy.

Exhibit 18: Expecting EBITDA growth of 36% CAGR over FY24-26E



Sources: Company, ACMIIL research

Exhibit 19: PAT vs. PAT margin

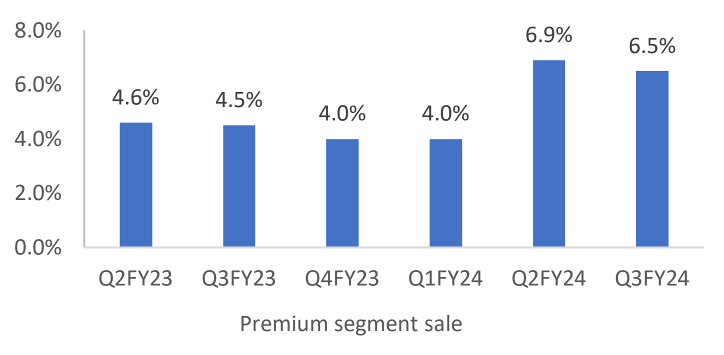


Sources: Company, ACMIIL research

Premiumisation and plant incentive to support EBITDA expansion.

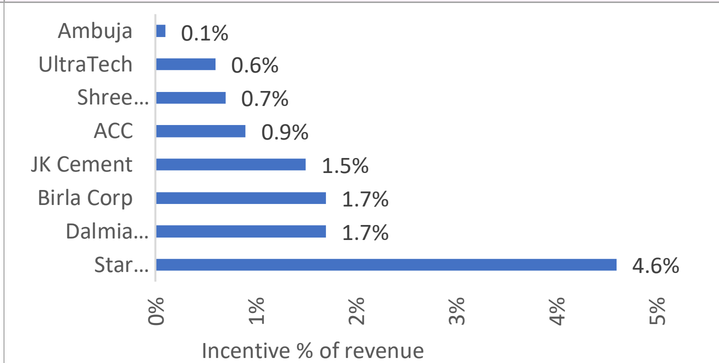
- STRCEM's premium segment sales have grown gradually on QoQ basis. Sales increased from 37% in 2QFY24 47% in 3QFY24. At present, the premium segment sale is ~6.5% of the total trade sales. However, the company is aiming to take it to double digit in the next few quarters. STRCEM is aggressively pursuing sale in its premium portfolio in the market outside Northeast. The company is working on launching new premium products, which are expected to be added to its portfolio in the near term.
- STRCEM is one of the highest incentive-based cement manufacturers in the industry. Around ~4.6% of the total revenue contribution is from incentives as compared to its peers. Its Guwahati and Silchar plants are eligible for SGST refund (i.e., a lower tax rate of ~17%). In addition to this, the recently-commissioned 3.3mt clinker unit at Meghalaya and 2mtpa grinding unit at Sonapur are expected to fetch Rs2.3bn per year of incentives.

Exhibit 20: Gradual increase in premium segment sales



Sources: Company, ACMIIL research

Exhibit 21: …with highest incentive based plants

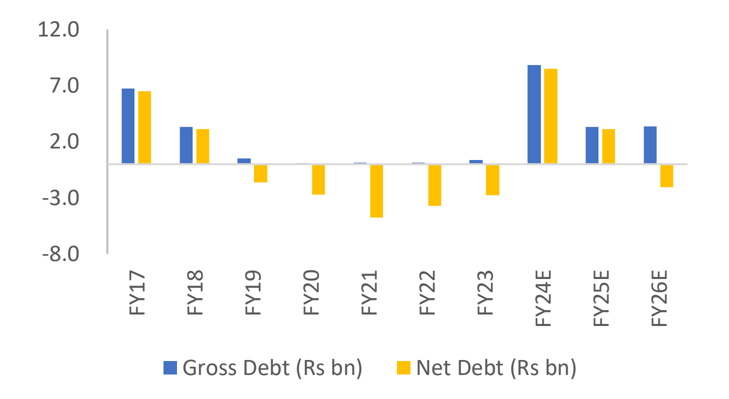


Sources: Company, ACMIIL research

Strong profitability and higher return ratio:

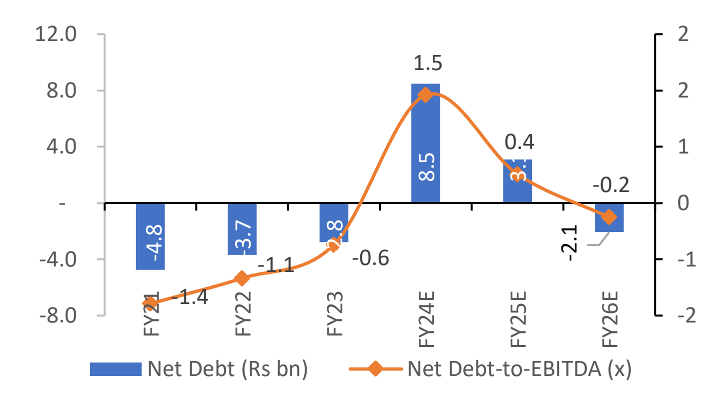
- STRCEM's gross debt level shot up to Rs8.8bn because of higher growth capex in FY24. However, we believe major capex is over and further reduction of debt is expected. And, we assume higher cash generation from the newly-commissioned capacity would help debt reduction going ahead.
- Net-debt/EBITDA deteriorated to 1.5x in FY24E, owing to higher capex. However, we expect net debt/EBITDA to improve to 0.4x in FY25E/-0.2x in FY26Ebacked by higher cash generation; this would lead to substantial debt reduction.

Exhibit 22: Gross debt to shoot up due to higher capex



Sources: Company, ACMIIL research

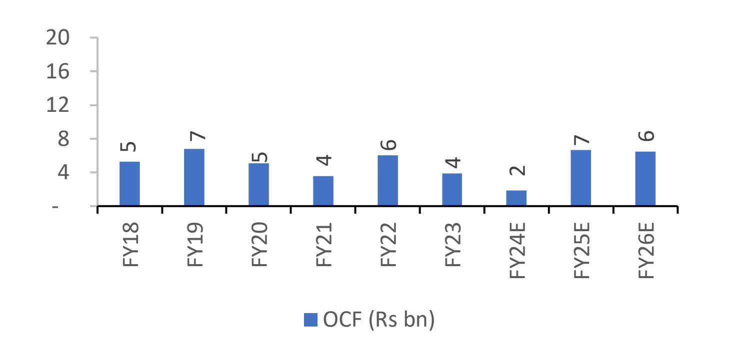
Exhibit 23: Net Debt/EBITDA to improve further



Sources: Company, ACMIIL research

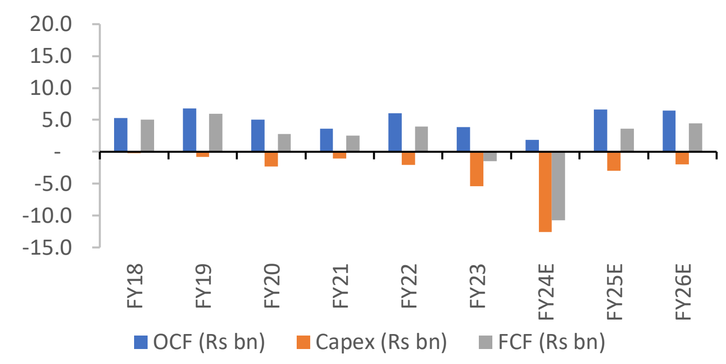
- STRCEM has witnessed a strong OCF generation with an adjusted cumulative OCF of Rs33bn (FY17–FY23), which implies ~4-5mtpa capacity addition through internal accrual. We expect higher OCF generation FY25E onwards led by higher volume and cost benefits. Early ramp-up of Sonapur capacity coupled with improved cost-efficiency would lead higher OCF generating, going forward. Over the past seven years, STRCEM generated positive FCF in the absence of capex. We expect the company to generate Rs13bn of OCF and undertake a capex of Rs5bn over FY25–26E

Exhibit 24: Higher OCF to lead internal accrual capex funding



Sources: Company, ACMIIL research

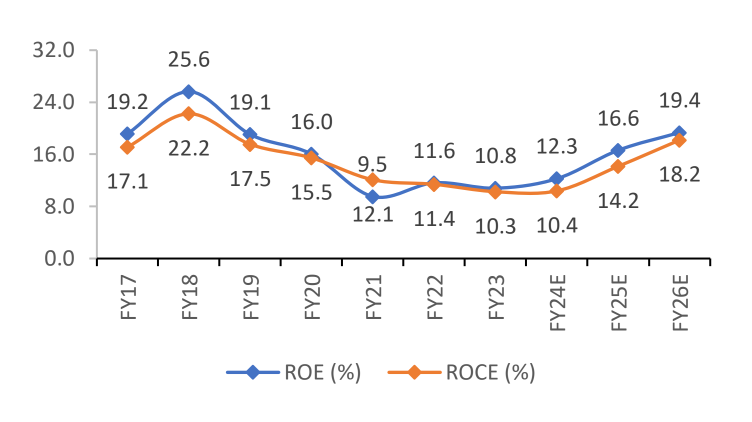
Exhibit 25: OCF, Capex and FCF trend



Sources: Company, ACMIIL research

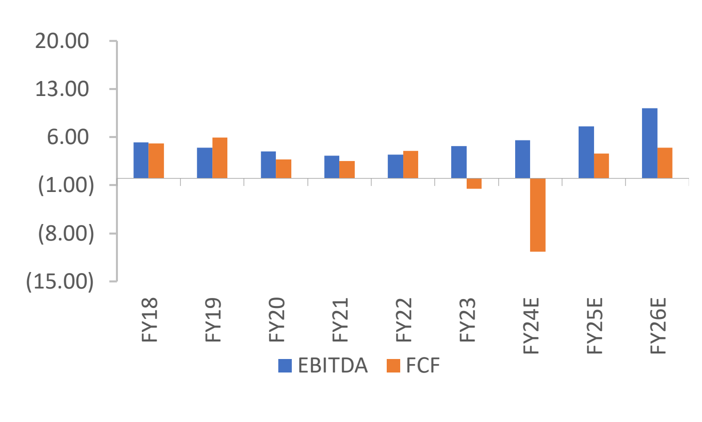
- Significant increase in energy costs (i.e., pet coke/coal prices) and weak realisation during FY22/FY23 resulted in lower profitability and return ratio. However, we believe the return ratio of STRCEM will improve, going forward, led by 1). Higher volume addition from Sonapur ramp-up and new capacity addition at Silchar, 2). Cost reduction 3). Lowering debt and 4). Inherited operating leverage benefits. We expect RoE/RoCE to be 19.4%/18.2% led by improved assets turnover and EBIT margin. STRCEM is already well-positioned in the northeastern region and further capacity addition in the region may dent RoE/RoCE, owing to low-capacity utilisation. However, we do not foresee any significant capacity addition in the region, except at Silchar, and some debottlenecking. Rather, the company may focus on expansion in the eastern region.

Exhibit 26: Profit maximization to lead better return ratio



Sources: Company, ACMIIL research

Exhibit 27: EBITDA & FCF to improve further

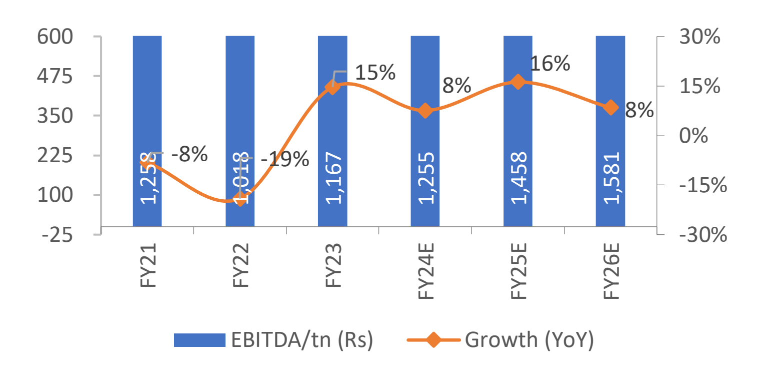


Sources: Company, ACMIIL research

Per tonne Analysis

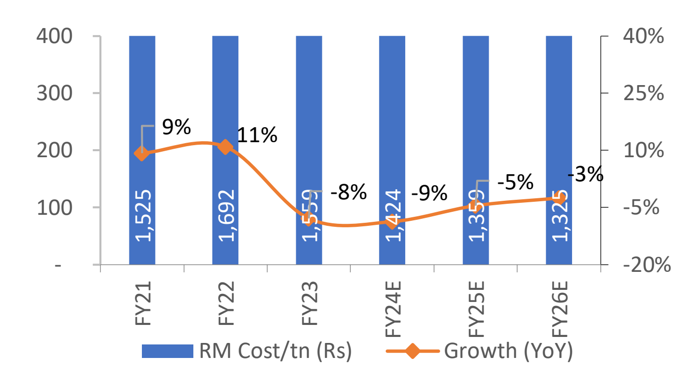
- STRCEM's gross debt level was lower during FY19–FY23 as there was less capacity addition. However, we the gross debt level to shoot up in FY24E and a gradual decline due to higher capex. We expect partially debt repayment to provide comfort going forward backed by new capacity ramp-up, improved realization and cost moderation. FY21/ FY22 it has reported lower EBITDA/tn due to higher energy cost and lower realization. However, we have conservative view with regards to cement prices across the geography and estimating EBITDA/tn of Rs 1255 for FY24E. But we believe, better top-line growth and cost optimisation to expand EBITDA/tn (~12% CAGR over FY24-FY26E) going ahead.

Exhibit 28: EBITDA/tn to moderate going forward



Sources: Company, ACMIIL research

Exhibit 29: Lower RM cost owing to higher blending ratio

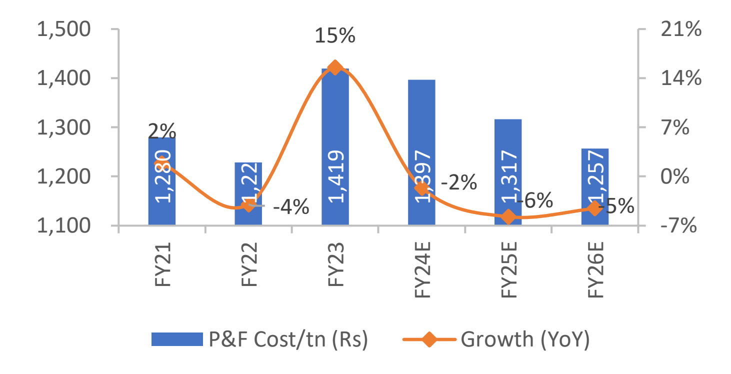


Sources: Company, ACMIIL research

- We believe, further decline in energy cost (international pet-coke and coal), increase usage of captive coal, better fuel mix, stable diesel prices, and reduction in lead distance to rationalise P&F cost and Freight cost per tonne going forward.
- The imported fuel consumption has reduced to 25% in 3QFY24 from 43% in 3QFY23 in the fuel mix. This is primarily led by increase in green energy usage and captive coal sourcing. Also, the company is open for imported or domestic fuel procurement as and when its cheaper. Imported pet-coke and coal prices have come down from its peak of USD 360-370/tn level in Sep'22 to USD 110-120/tn in Mar'24, and expected further correction in near-term, while domestic pet-coke prices have corrected by ~25% YoY to ~Rs13200/tn. But, domestic coal prices remain high (Coal India E-auction prices up by ~17% QoQ).

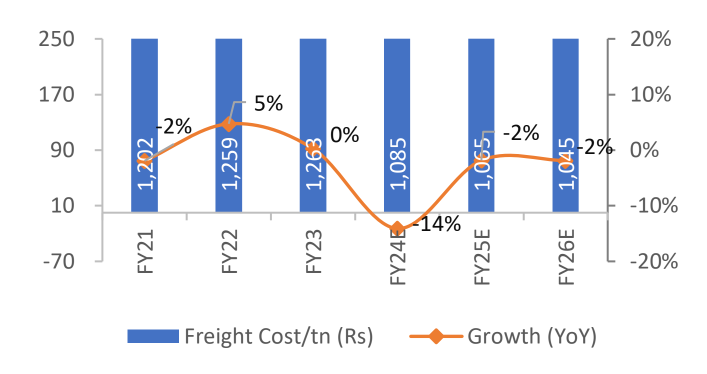
- We believe STRCEM's opex/tn to decline by ~Rs156/~Rs106 per tonne in FY25E/FY26E, mainly led by ~Rs80/ ~Rs60 decline in P&F cost in FY25E/FY26E, coupled with a marginal decline in freight cost, RM cost and other expenses per tonne.

Exhibit 30: Further decline in P&F cost



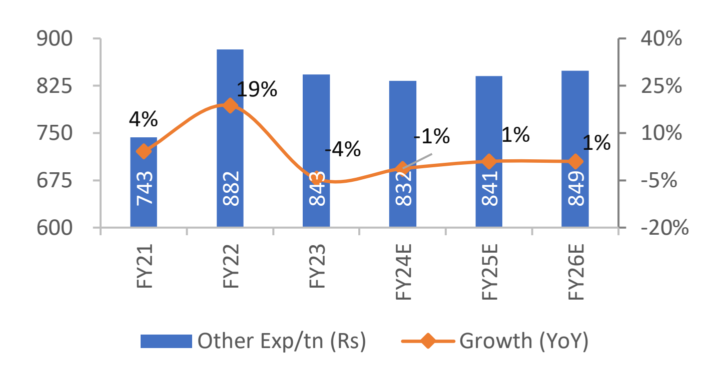
Sources: Company, ACMIIL research

Exhibit 31: Stable diesel price and reduction in lead distance



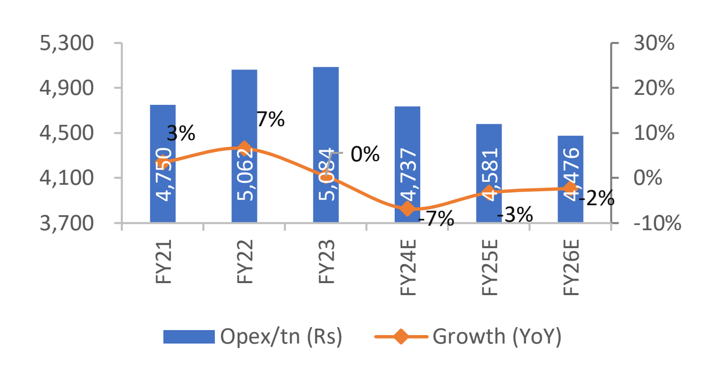
Sources: Company, ACMIIL research

Exhibit 32: Minimal operating leverage benefits



Sources: Company, ACMIIL research

Exhibit 33: Normalisation in overall operating cost



Sources: Company, ACMIIL research

Product Portfolio

Exhibit 34: Better product mix with strong branding have not only enhanced STRCEM's market share but also increased its premium segment sales.

BRAND	PRODUCT DESCRIPTION
	Star Antirust cement is a marque product of Star Cement in the value-added segment, engineered to perfection, developed because of several years of extensive R&D to meet the evolving construction needs. Star Antirust cement imparts anti-rust and anti-corrosive properties in the reinforcing bars hence increasing the tensile strength, durability and service life of the structure. Some of the salient features of star antirust cement that makes customers choose our products consistently are- Prevent Rusting, Faster Setting, Weather Proof, Reduces Seepage and High Coverage. The brand comes both OPC & PPC
	PPC - Anti Rust Cement is a premium segment cement, manufactured either inter-grinding of OPC clinker with gypsum and pozzolanic materials in certain proportions or grinding the OPC clinker, gypsum and Pozzolanic materials separately and blending them thoroughly in certain proportions. Pozzolana is a natural or artificial material containing silica in a reactive form. The application of PPC is in Hydraulic structures, Mass Concreting works, Masonry mortars and plastering, Under aggressive conditions and All other application where OPC is used. This comes as 43 & 53 grade customized for NHPC
	Star Weather Shield Cement – a Premium product of path breaking innovation from Star Cement Ltd. with exceptional weather resistant properties designed to withstand the harshest of weather conditions. Engineered to ensure the longevity and durability of structures. Stopping water seepage while providing unmatched protection. It is bound to be the ideal choice for customers construction needs. Water Resistance, Super High Strength and All Weather Proof are the special features of Weather Shield Cement. It's usage is in Beams, Foundation and Columns & Slabs.

Sources: Company, ACMIIL research

Peer Comparison

Peer Comparision	Market Cap	7 Years CAGR (FY17-FY23)			EV/EBITDA(x)		ROE	ROCE
	(Rs Bn)	Capacity	Revenue	EBITDA	FY25E	FY26E	(%)	(%)
UTCEM	2,855	10.4%	14.1%	11.7%	18.1	15.2	12.3	15.3
ACL	1,524	0.8%	9.9%	7.0%	18.3	14.9	10.1	13.9
ACC	474	1.8%	10.6%	4.0%	12.7	11.3	14.1	17.3
STRCEM	**88**	**6.3%**	**6.7%**	**2.3%**	**12.4**	**10.6**	**10.8**	**16.8**
BCORP	114	10.7%	15.0%	15.5%	9.0	7.9	6.6	9.0
DALBHARA	340	6.4%	9.3%	3.5%	10.7	9.2	5.2	7.1
JKCE	300	6.8%	11.8%	14.6%	15.5	13.6	15.8	15.7
JKLC	92	3.6%	12.8%	14.6%	8.6	7.5	13.1	14.2
SRCM	948	7.4%	18.3%	11.2%	17.9	15.6	12.2	14.7
NUVOCO	114	NA	11.0%	12.1%	8.8	7.9	1.7	5.5

Source: Company, ACMIIL Research

Corporate Governance

Good corporate governance helps to build trust with investors and stakeholders. It also gives a clear idea of the company's direction and business integrity with long-term financial viability, opportunity and returns. Therefore, we are presenting a detailed framework for the benefits of STRCEM's investors; it covers details of directors, remuneration, CSR expenditure and related-party transactions.

Promotors' shareholding:
The promoters' ownership stake in the company stood at 66.59% in FY24. However, there is a marginal decline since FY18. The group has increased its stake in FY22 and again some marginal sales since then. So far, we have not observed any stake sell by the promoters. However, in the month of Mar'24 around 209mn number of share has been pledged by Amritansh Chamaria (a relative of promotor group) for personal use. In the promoters' group Sajjan Bhajanka (11.8%) has the highest holding, followed by Prem Kumar Bhajanka (10.19%), Rajendra Chamaria (4.83%), Divya Agarwal (4.62%), Santosh Bhajanka (4.4%) and Sanjay Agarwal (4.36%).

Board of Directors
As on the date of this report, the board consists of 14 directors, including and headed by an Executive Chairman, four Executive Directors, one Non-Executive Director and eight Independent Directors. Of these, two are women directors. The board members are experts in different disciplines of corporate working. The Independent Directors are expert professionals with high credentials and actively contribute in the deliberations of the board. None of the directors is a member of the board of more than 20 companies or a member of more than 10 board-level committees or the chairperson of more than five such committees. Further, none of the directors is a member of the board in more than seven listed entities. Also, Independent Directors of the company are not serving as an Independent Director in more than seven listed entities. None of the Managing Directors of the company is serving as an Independent Director in not more than three listed entities. The BoD, their detailed designations, qualifications and experience of the directors are as follows:

Mr. Sajjan Bhajanka, Chairman and Managing Director: Mr. Sajjan Bhajanka is the chairman of Star Cement Ltd. He is having 50 years of industry experience in plywood, laminates, ferro-alloys, ferro silica, granite, export and import and cement building materials industry. He is also the chairman of Century Plywood and Shyam Century Ferrous Ltd.

Mr. Tushar Bhajanka, Director: Mr. Tushar Bhajanka is the deputy managing director of Star Cement Ltd. He has completed his M.Phil in Economics from the University of Cambridge and worked as a consultant in London in the initial phase of his career. At present, he is responsible for driving the overall business in Star Cement.

Mr. Rajendra Chamaria: Mr. Rajendra Chamaria is a promoter director of Star Cement Ltd. He has 36 years of experience in cement and concrete sleepers industry. He is a part of Nefa Udyog Ltd that deals in timber and a director at M/s Donypolo Udyog Ltd, which is into concrete business and manufacturing of concrete sleepers.

Mr. Sanjay Agarwal, Managing director: Mr. Sanjay Agarwal has 36 years of business and industrial experience. He is also the Managing Director of Century Plyboards (India) Ltd. He is the key driving force behind the successful marketing of 'Star Cement' and 'Century PF' and its distribution. In addition, he contributes his immensely to the management and in various aspects of the company.

Mr. Prem Kumar Bhajanka, Managing director: Mr. Prem Kumar Bhajanka is a well-known industrialist with an experience of 43 years. He is the Managing director of M/s Century Plyboard (India) Ltd and the promoter director of M/s Namchic Tea estate Pvt Ltd and M/s Lal Pahar Tea Estate Pvt. Ltd.

Mr. Pankaj Kejriwal, Executive director: A chemical engineer by profession, Mr. Pankaj Kejriwal is an alumnus of Chemical technology, Mumbai. His 30-year-long career includes a 22-year stint in the cement industry. He is a member of the research advisory committee of the National Council of Cement and Building Materials (NCCBM).

Mr. Vinit Kumar Tiwari, Chief Executive officer: Mr. Vinit Kumar Tiwari brings with him a rich experience of three decades, working across a multitude of industries. He has spent a large part of his career in the cement industry. An MBA in marketing, he has previously worked with Nuvoco, Ultratech, Greenply Industries Ltd. and Caprihans India Ltd.

Mr. Manoj Agarwal, Chief financial officer: Mr. Manoj Agarwal is a certified fellow chartered accountant (FCA) with varied experience of 27 years, including 12 years in the cement industry. He is responsible for finance and accounts, taxation, statutory compliance and vendor management in Star Cement Ltd.

Details of remuneration

- There was an increase of 9.9% in the median remuneration of employees during the FY23 vs. 3.44% increase in FY22. There were 861 permanent employees (4% increase YoY) on the rolls of company as on 31st Mar'23.

YE March	FY19	FY20	FY21	FY22	FY23
Directors & KMPs Remuneration (Rs mn)	130	151	164	180	256
% of PBT	3.9%	4.7%	6.2%	7.4%	6.7%
Auditors' Remuneration (Rs mn)	2	2	2	2	3
% of PBT	0.1%	0.1%	0.1%	0.1%	0.1%

Source: Company, ACMIIL Research

Contingent Liabilities

YE March (Rs mn)	FY19	FY20	FY21	FY22	FY23
Income tax demand				552	254
Excise duty demand	449	2,998	3,209	89	87
Royalty & cess demand				2,568	3,532
Demand on Custom Duty	64	45	31	39	43
Service tax demand				65	65
Goods & service tax demand				354	356
Others	761				
Total	513	3,043	3,240	3,668	4,337
% of net-worth	3.0%	16.4%	15.6%	16.9%	17.9%

Source: Company, ACMIIL Research

Related Party Transactions (RTP)

YE March (Rs mn)	FY22	FY23
Ordinary course of business		
Sales of goods	343	536
Purchase of goods	10,203	12,622
Services Rendered	1	0
Service Received	110	270
Sale of Investment	-	0
Loan & advances repaid to	432	702
Loan Taken	-	80
Loan Given	2	412
Security deposit Given	-	2
Interest Paid/ Received	44	57
Investment in Equity Share	-	120
Key Management Personnel compensation		
Short-Term Employee Benefits	134	153
Post-Employment Benefits	-	-
Director's Sitting Fees	1	1
Balance Outstanding as at the balance sheet date		
Trade Payables	845	731
Provision for Employees benefit	5	8
Trade Receivables	0	13
Investments	2,778	2,898
Advances Given / Security Deposited	8	2
Loans Taken/ Given	724	515
Guarantees Obtained	3,760	-

Source: Company, ACMIIL Research

CSR Expenses

YE March (Rs mn)	FY21	FY22	FY23
Prescribed Expenditure (2% of Avg. Net Profit)	51	47	40
Total Spends	61	72	65
% of prescribed limit	***121%***	***153%***	***163%***
Avg. Net Profit	2,529	2,344	1,978

Source: Company, ACMIIL Research

ACMIIL vs. Consensus

- Our revenue and margin estimates are slightly lower than Bloomberg consensus for FY24E due to lower realization, however, in-line with consensus for FY25E. We believe higher volume and marginal improvement in realization to lead strong top-line growth and margin expansion because of improved cost efficiency in FY26E. We see 36% EBITDA CAGR over FY24-26E.

Exhibit 35: Bloomberg vs. our estimates (Consolidated financials)

YE March	FY19	FY20	FY21	FY22	FY23	FY2E	FY25E	FY26E
Volume (mt)	2.71	2.88	2.64	3.39	4.01	4.40	5.20	6.46
YoY (%)	12.9	6.3	-8.2	28.3	18.3	9.6	18.3	24.2
Utilization (%)	63	67	47	60	71	57	68	67
Realization (Rs/tn)	6,757	6,400	6,505	6,550	6,739	6,531	6,584	6,606
YoY (%)	0.4	-5.3	1.6	0.7	2.9	-3.1	0.8	0.3
Cost per tonne (Rs)								
Raw Material Cost	1,612	1,396	1,525	1,692	1,559	1,424	1,359	1,325
Employee cost	430	439	497	470	488	539	544	549
P&F Cost	955	1,257	1,280	1,229	1,419	1,397	1,317	1,257
Freight Cost	1,339	1,226	1,202	1,259	1,263	1,085	1,065	1,045
Other Expenses	764	713	743	882	843	832	841	849
Blended EBITDA(Rs/tn)	1,657	1,369	1,258	1,018	1,167	1,255	1,458	1,581

Source: Company, ACMIIL Research

Exhibit 36: Key forecast drivers

YE March	FY24E	FY25E	FY26E
Revenues (Rs bn)			
Consensus	29.1	34.2	40.1
ACMIIL. Est	28.7	34.3	42.7
% Difference	-1.28	0.11	6.35
EBITDA (Rs bn)			
Consensus	5.6	7.5	8.9
ACMIIL. Est	5.5	7.6	10.2
% Difference	-1.29	0.64	15.03
EBITDA Margin (%)			
Consensus	19.2	22.0	22.1
ACMIIL. Est	19.2	22.2	23.9
Difference (bps)	*(0)bps*	*12bps*	*181bps*

Source: Company, ACMIIL Research

Key Risk Analysis

- **Subdued demand:** Indian cement demand has grown by 12.7% YoY in 9MFY24 vs. 12.4% YoY in 9MFY23, the double digit growth mainly led by pre-general election demand. However, we believe the momentum to continue backed by demand uptick from IHB, real estate and various government infrastructure spending. At 72% capacity utilization rate, STRCEM's volume growth remain strong in 9MFY24 (9% YoY) which is at par with industry volume growth. However, lower than anticipated utilization rate, delay in capacity ramp-up of Sonapur plant can be a key downside risk to our volume assumptions.
- **Further decline in cement prices:** All India cement average prices are down by ~5% QoQ in Mar'24 (~Rs22 drop for 50kg bag). However, there is a marginal increase in prices of ~1% MoM in Apr'24. We don't see any meaningful price hike in near-term (i.e. till 2QFY25) due to state general election and summer heat. Also, pricing pressure due to increase in competitive intensity. However, we believe STRCEM's strong brand equity in north-east region coupled with premium segment sale to curb realization pressure to some extent. We are quite conservative on cement price hike and any further cement price decline is a key risk to our assumption.
- **Delay in capex programme:** We are factoring 2mtpa capacity addition at Silchar, Assam in FY26E, Any delay in the planned capex and capacity addition is a key risk to our assumptions.
- **Any increase in cost structure:** The major costs associated with manufacturing cement are 1) power & fuel (P&F), and 2) logistic costs followed by 3) raw material (RM) costs. Power and fuel costs contribute ~30% of the overall operating cost while ~25% is logistic costs and ~22% is raw material costs. A gradual decline in energy costs (pet coke and coal prices both domestic and international) from its peak level in Sep'22 have provided cost respite to the cement manufacturers. We believe STRCEM's P&F costs to be moderate going forward. While, stable diesel prices and a reduction in the lead distance would provide comfort for logistic costs. Any increase in energy cost/ raw material cost/ diesel price/ lead distance are the key risk to our valuation.
- **Delay in incentive:** STRCEM's plants are eligible for state government incentives. ~4.6% of total revenue is incentive and one of the highest among industry. Any delay or near-term expiration in incentive may dent the top-line growth.
- **Large player entry:** Total cement installed capacity in northeast region is ~33-40mtpa, out of which the only large player i.e. Dalmia Bharat capture 17% of total market share and adding 2.5mtpa Greenfield capacity in Assam in FY25E. In addition, UltraTech is commissioning 1.2mtpa Greenfield bulk terminal unit in Assam by FY27E. So, we believe larger players entry in the region may lead increase competition and lose of market share for STRCEM.

Quarterly Performance:

Y/E March (Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24E
Net Sales	**6,661**	**5,933**	**6,195**	**8,300**	**7,605**	**5,853**	**6,514**	**8,766**
Raw Material Cost	1,548	1,604	1,090	1,967	2,003	1,195	1,250	1,816
Employee Cost	491	485	486	558	484	571	545	769
Power & Fuel Cost	1,299	1,073	1,603	1,676	1,731	1,312	1,336	1,767
Freight Cost	1,307	1,174	1,139	1,405	1,260	902	1,101	1,509
Other Expenses	775	901	793	1,032	834	887	794	1,120
Total Expenses	**5,419**	**5,236**	**5,111**	**6,638**	**6,312**	**4,867**	**5,026**	**6,981**
EBITDA	**1,241**	**697**	**1,084**	**1,662**	**1,293**	**986**	**1,488**	**1,786**
EBITDA (%)	*18.6*	*11.7*	*17.5*	*20.0*	*17.0*	*16.8*	*22.8*	*20.4*
Depreciation	304	315	341	351	318	360	365	387
Other Income	141	136	117	127	87	58	41	45
Interest	26	26	33	12	22	32	30	31
PBT (Incl. OEI)	**1,052**	**490**	**828**	**1,427**	**1,040**	**651**	**1,134**	**1,412**
Exceptional items	-	-	-	-	-	-	-	-
PBT (Excl. OEI)	**1,052**	**490**	**828**	**1,427**	**1,040**	**651**	**1,134**	**1,412**
Tax	376	180	299	466	107	244	399	353
Tax rate (%)	*35.8*	*36.7*	*36.1*	*32.6*	*10.3*	*37.5*	*35.2*	*25.0*
Rep. PAT	**676**	**311**	**529**	**961**	**933**	**407**	**735**	**1,059**
Adj. PAT	**676**	**311**	**529**	**961**	**933**	**407**	**735**	**1,059**
Adj. PAT (%)	*10.1*	*5.2*	*8.5*	*11.6*	*12.3*	*6.9*	*11.3*	*12.1*
No. of share	412	412	412	412	412	412	412	412
EPS (Rs)	*1.6*	*0.8*	*1.3*	*2.3*	*2.3*	*1.0*	*1.8*	*2.6*

Source: Company, ACMIIL Research

Per Tonne Analysis	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24E
Volume (mt)	1.0	0.9	0.9	1.2	1.2	0.9	1.0	1.4
Blended Realization (Rs)	6,796	6,659	6,823	6,693	6,533	6,532	6,633	6,454
RM Cost (Rs)	1,579	1,800	1,201	1,586	1,721	1,334	1,273	1,337
Employee cost (Rs)	501	544	536	450	416	638	555	566
P&F Cost (Rs)	1,325	1,204	1,765	1,352	1,487	1,464	1,361	1,301
Freight Cost (Rs)	1,334	1,317	1,255	1,133	1,083	1,007	1,121	1,111
Other Exp (Rs)	791	1,011	873	832	716	990	808	825
Opex (Rs)	5,530	5,877	5,629	5,353	5,423	5,432	5,119	5,140
Blended EBITDA (Rs)	1,267	782	1,194	1,340	1,111	1,100	1,515	1,315

Source: Company, ACMIIL Research

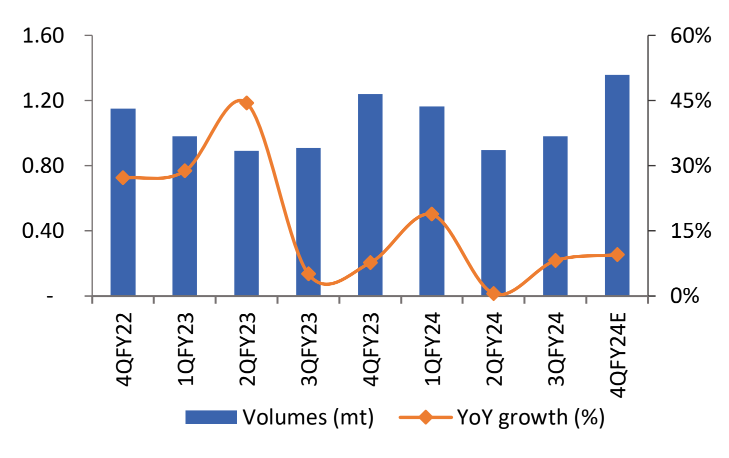
YoY Growth (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24E
Revenue	30.3	45.9	11.7	10.8	14.2	-1.4	5.1	5.6
EBITDA	33.9	-2.8	60.6	46.6	4.1	41.5	37.2	7.5
Adj. PAT	-0.6	-33.3	20.7	8.7	38.0	31.0	39.0	10.2
Adj. EPS	-0.6	-33.3	20.7	8.7	38.0	31.0	39.0	10.2

Source: Company, ACMIIL Research

QoQ Growth (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24E
Revenue	-11.1	-10.9	4.4	34.0	-8.4	-23.0	11.3	34.6
EBITDA	9.5	-43.9	55.6	53.3	-22.2	-23.8	50.9	20.0
Adj. PAT	-23.6	-54.0	70.2	81.8	-3.0	-56.4	80.8	44.1
Adj. EPS	-23.6	-54.0	70.2	81.8	-3.0	-56.4	80.8	44.1

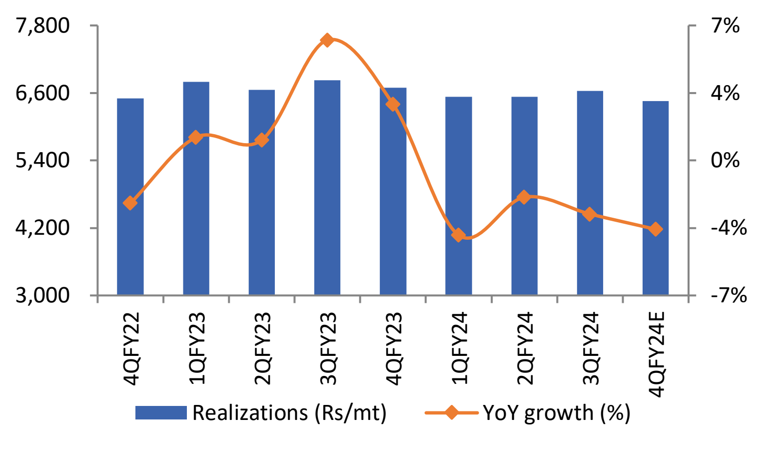
Source: Company, ACMIIL Research

Exhibit 37: Volume addition from new GU at Sonapur



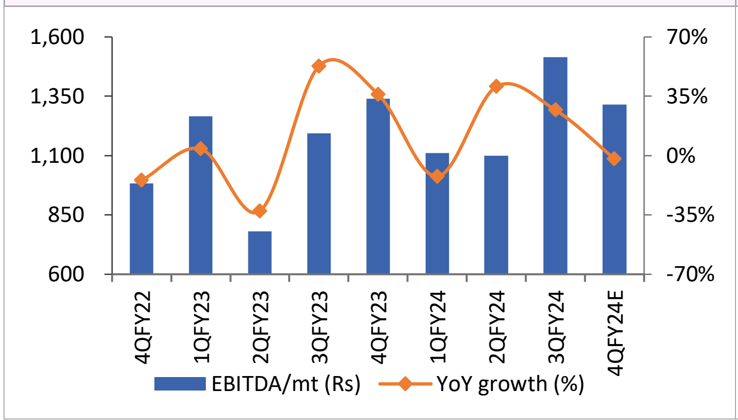
Sources: Company, ACMIIL research

Exhibit 38: It may take several quarter for price revival



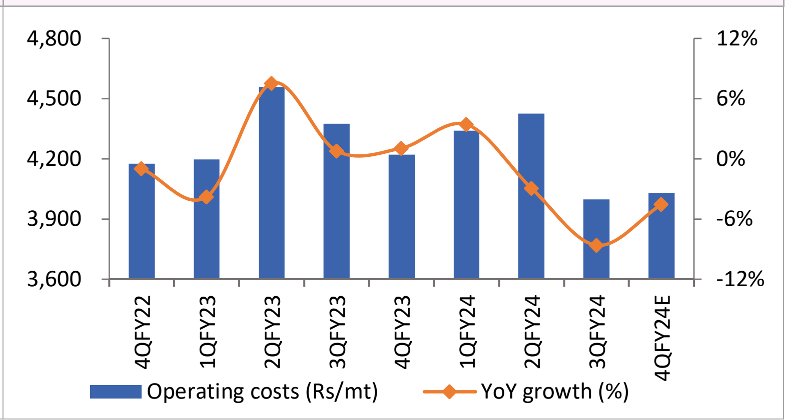
Sources: Company, ACMIIL research

Exhibit 39: Marginal decline in EBITDA/tn due to weak realization



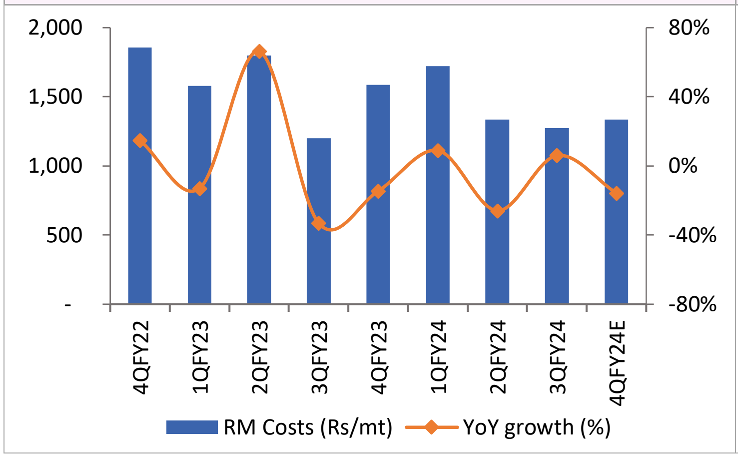
Sources: Company, ACMIIL research

Exhibit 40: Overall cost efficiency to improve further



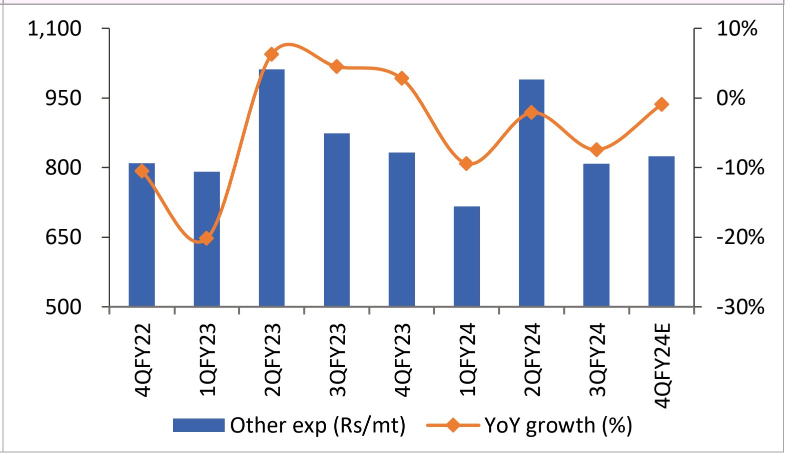
Sources: Company, ACMIIL research

Exhibit 41: RM cost declined despite higher volume



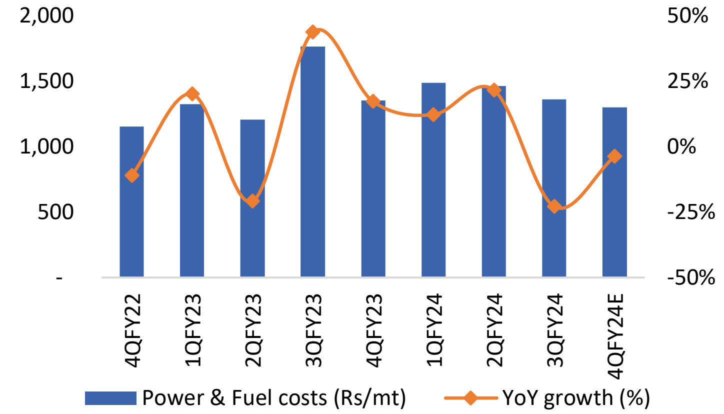
Sources: Company, ACMIIL research

Exhibit 42: Cooling off energy cost and captive coal use impact



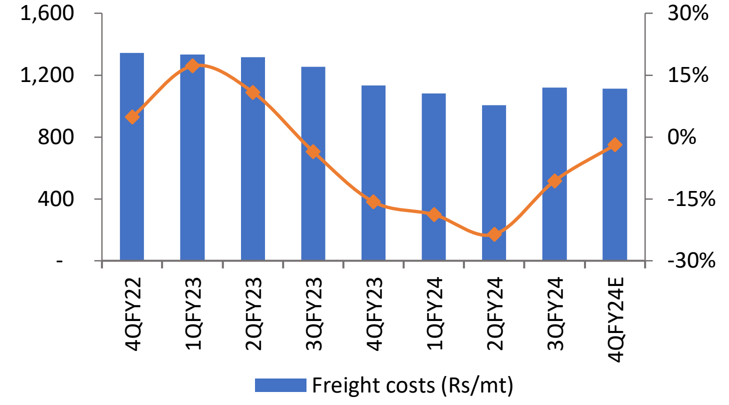
Sources: Company, ACMIIL research

Exhibit 43: Respite in logistic cost led by stable diesel prices



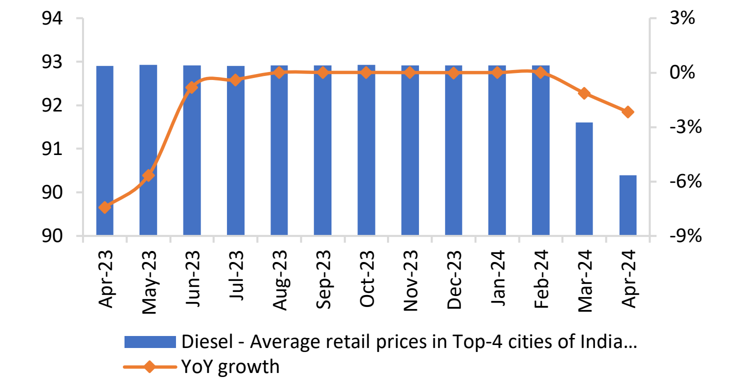
Sources: Company, ACMIIL research

Exhibit 44: Other expenses remained at comfort level



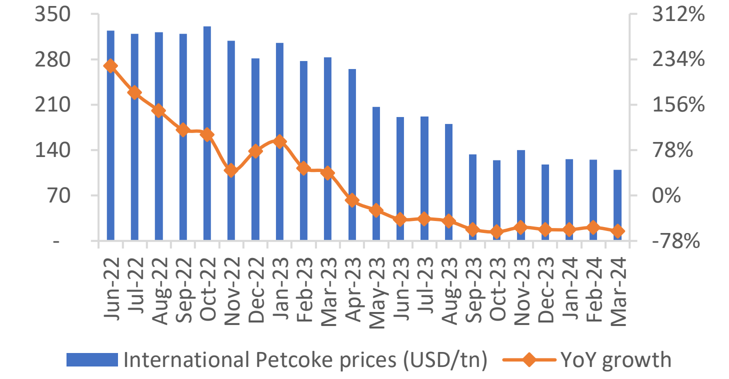
Sources: Company, ACMIIL research

Exhibit 45: Diesel prices fall by 2% YoY in Apr'24



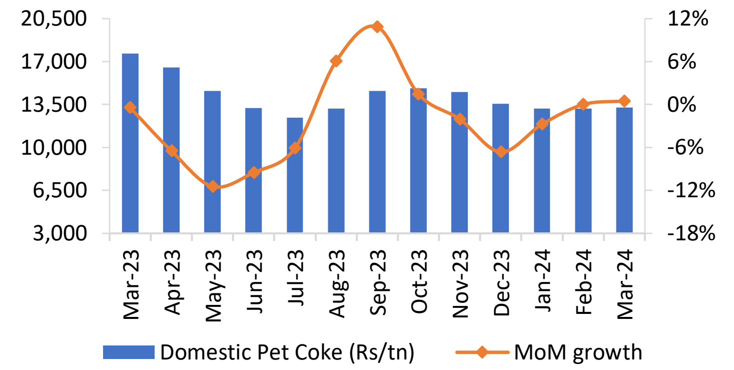
Sources: Company, ACMIIL research

Exhibit 46: International petcoke price fall by ~61% YoY in Mar'24



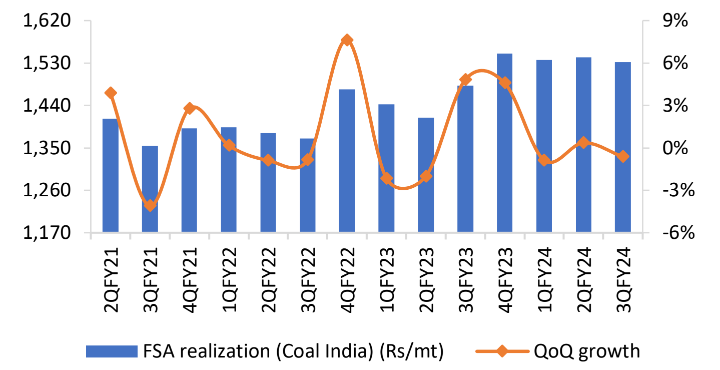
Sources: Company, ACMIIL research

Exhibit 47: Domestic pet-coke prices fall by ~25% YoY in Mar'24



Sources: Company, ACMIIL research

Exhibit 48: CIL's coal prices down by ~1% QoQ in 3QFY24



Sources: Company, ACMIIL research

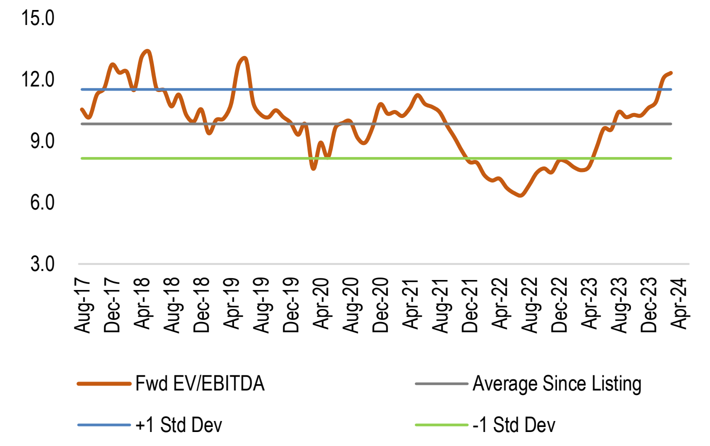
Valuation and View:

At CMP Rs220, The stock trades at 13x/9x FY25E/26E EV/EBITDA. Historically, it has traded at an average EV/EBITDA of 11x. With an improvement in profitability, return ratios & balance sheet and a continued focus on capacity addition, we expect it to trade at higher-than-historical multiples going forward. We value the company at 10x FY26E EV/EBITDA to arrive at a target price of Rs262 (an upside of 19%) and initiate coverage with a **BUY** rating.

Exhibit 49: Valuation Summary

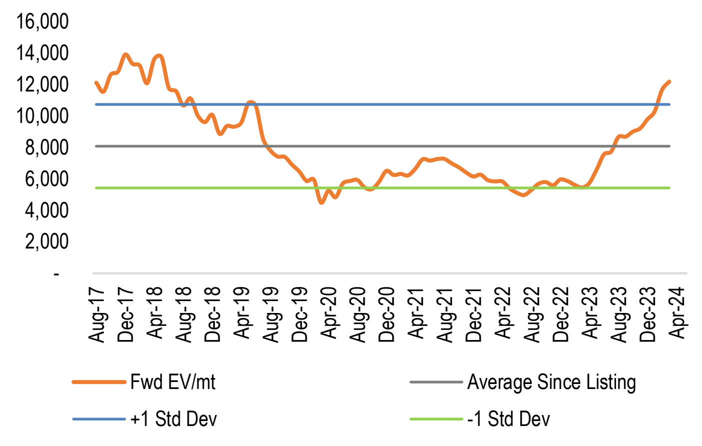
Valuation	Rs (in mn)
FY26e EBITDA (Rs mn)	10,216
Target Multiple (x)	10
EV (Rs mn)	1,02,160
Less: Net Debt (Rs mn)	(3,568)
Equity Value (Rs mn)	1,05,728
No of Shares (in mn)	404
Value of shares (Rs)	**262**
CMP (Rs)	220
Upside / (downside) %	19%

Exhibit 50: 1-year forward EV/EBITDA



Sources: Company, ACMIIL research

Exhibit 51: 1-year forward EV/tonne



Sources: Company, ACMIIL research

Financial Tables (Consolidated)

Income Statement

YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**22,218**	**27,048**	**28,738**	**34,262**	**42,684**
Growth (%)	*29.2*	*21.7*	*6.2*	*19.2*	*24.6*
RM Cost	5,740	6,257	6,264	7,075	8,564
Employee Cost	1,594	1,959	2,370	2,831	3,549
Power & Fuel Cost	4,169	5,697	6,146	6,852	8,119
Freight Cost	4,271	5,067	4,772	5,540	6,749
Other Expenses	2,993	3,384	3,663	4,375	5,486
Total Expenditure	18,766	22,365	23,214	26,672	32,468
EBITDA	**3,453**	**4,684**	**5,524**	**7,590**	**10,216**
Growth (%)	*3.8*	*35.7*	*17.9*	*37.4*	*34.6*
EBITDA margin (%)	*15.5*	*17.3*	*19.2*	*22.2*	*23.9*
Depreciation	1,216	1,311	1,430	1,112	1,139
EBIT	**2,236**	**3,373**	**4,093**	**6,478**	**9,077**
EBIT margin (%)	*10.1*	*12.5*	*14.2*	*18.9*	*21.3*
Other Income	334	521	231	243	255
Interest Expenses	133	97	116	114	111
PBT (Incl. EOI)	2,437	3,797	4,209	6,607	9,221
Exceptional Items	-	-	-	-	-
PBT (Excl. EOI)	2,437	3,797	4,209	6,607	9,221
Tax	(31)	1,321	1,052	1,652	2,305
Effective tax rate (%)	*(1.3)*	*34.8*	*25.0*	*25.0*	*25.0*
Rep. PAT	2,468	2,476	3,157	4,955	6,915
Rep. PAT Growth (%)	*31.9*	*0.3*	*27.5*	*57.0*	*39.6*
Rep. PAT (%)	*11.1*	*9.2*	*11.0*	*14.5*	*16.2*
Adj. PAT	2,468	2,476	3,157	4,955	6,915
Adj. PAT Growth (%)	*(2.0)*	*0.3*	*27.5*	*57.0*	*39.6*
Adj. PAT (%)	*11.1*	*9.2*	*11.0*	*14.5*	*16.2*

Source: Company, ACMIIL Research

Balance Sheet

YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	404	404	404	404	404
Reserves & surplus	21,280	23,760	26,916	31,871	38,787
Net worth	**21,684**	**24,164**	**27,320**	**32,276**	**39,191**
Debt	157	354	8,819	3,323	3,347
Net deferred tax	-	-	-	-	-
Total Liabilities	**21,841**	**24,517**	**36,140**	**35,598**	**42,538**
Net block	9,086	8,772	15,220	25,736	26,597
CWIP	1,091	5,506	10,128	1,500	1,500
Investment	1,673	1,725	1,389	1,389	1,389
Cash & Bank Balances	3,847	3,117	334	214	5,415
Other Current Assets	11,755	12,192	15,892	14,599	17,078
Other Current Liabilities	5,610	6,797	6,824	7,840	9,440
Net Current Assets	1,297	2,292	3,329	5,179	8,868
Total Assets	**21,841**	**24,517**	**36,140**	**35,598**	**42,538**

Source: Company, ACMIIL Research

Cash Flow

YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,570	3,894	4,325	6,721	9,332
Add: Depreciation	1,216	1,311	1,430	1,112	1,139
Add: Interest	-	-	-	-	-
Chg in working cap	2,208	4	(2,843)	463	(1,681)
Tax	31	(1,321)	(1,052)	(1,652)	(2,305)
Operating Cash flow	**6,025**	**3,888**	**1,860**	**6,644**	**6,485**
Capex	(2,053)	(5,401)	(12,564)	(3,000)	(2,000)
Free Cash Flow	3,971	(1,513)	(10,704)	3,644	4,485
Investments	(3,186)	(76)	(499)	1,509	288
Investing Cash flow	**(5,240)**	**(5,478)**	**(13,063)**	**(1,491)**	**(1,712)**
Equity Capital	(8)	-	-	-	-
Debt	235	305	8,496	(5,159)	539
Dividend paid	-	-	-	-	-
Interest Paid	(133)	(97)	(116)	(114)	(111)
Others	(1,944)	652	40	0	0
Financing Cash flow	**(1,850)**	**860**	**8,419**	**(5,273)**	**428**
Net chg in cash	(1,065)	(729)	(2,783)	(120)	5,201
Opening cash position	4,911	3,847	3,117	334	214
Closing cash position	3,847	3,117	334	214	5,415

Source: Company, ACMIIL Research

Key Ratios

YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data (Rs)					
EPS	51.8	5.3	53.0	91.1	17.1
CEPS	103.3	71.5	125.3	167.1	19.9
BVPS	785	777	825	911	97
DPS	10.0	10.0	10.0	10.0	0.0
Valuations (x)					
PER	20.2	212.9	28.5	16.5	12.8
P/CEPS	10.1	15.7	12.0	9.0	11.0
P/BV	1.3	1.4	1.8	1.7	2.3
EV / Sales	1.5	1.4	1.5	1.4	2.1
EV / EBITDA	10.4	15.9	11.2	8.4	9.0
Dividend Yield (%)	-	-	-	-	-
Return Ratio (%)					
RoCE	6.3	4.4	7.0	9.5	18.2
RoE	6.9	0.7	6.6	10.5	19.4
RoIC	10.8	9.7	11.1	13.1	15.7
Gearing Ratio (x)					
Net Debt/ Equity	0.6	0.6	0.5	0.3	-0.1
Net Debt/EBITDA	-1.1	-0.6	1.5	0.4	-0.2
Working Cap Cycle (days)	48	41	30	22	54
Profitability (%)					
EBITDA Margin	15.5	17.3	19.2	22.2	23.9
EBIT Margin	10.1	12.5	14.2	18.9	21.3
Adj. PAT Margin	11.1	9.2	11.0	14.5	16.2

Source: Company, ACMIIL Research

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	<-10%
HOLD	>-10% to 15%

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