

BUY

TP: Rs 146 | ▲ 17%

STAR CEMENT

| Cement

| 25 May 2023

Moving in the right direction

- Q4 volume gains steady at 7% YoY; realisation gains at 3%, indicating healthy demand in key areas
- Cost inflation well controlled with overall cost softening 4-5%; expect more benefits from alternate fuel and lower coal expenses
- We tweak EPS estimates and revise our TP to Rs 146 (from Rs 138); maintain BUY

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Realisations steady despite healthy volume growth: STRCEM's revenue grew by 10%/33% YoY/QoQ to Rs 8.3bn in Q4FY23 as volumes increased by 7%/36% YoY/QoQ to 1.2mn tonnes. Despite the volume gains, realisations grew by 3% YoY to Rs 6,680/t. Sales in the northeast market formed 74% of the company's total in Q4 vs. 70% in Q4FY22, helping steady realisations YoY and QoQ.

Overall cost declines: Overall cost declined by 4%/5% YoY/QoQ to Rs 5,335/t. Energy cost increased 16% YoY but declined 24% QoQ to Rs 1,335/t due to lower power cost from WHRS contribution. Raw material cost (adj. for inventory) fell by 11% YoY (+33% QoQ) to Rs 1,593/t, and logistics cost softened 20%/9% YoY/QoQ to Rs 1,137/t as STRCEM operated its own fleet. Other expenditure grew by 18%/38% YoY/QoQ to Rs 1.1bn due to higher packing cost, CSR, and employee expense regrouping.

Margin expansion: EBITDA increased 47%/53% YoY/QoQ to Rs 1.7bn and EBITDA margin rose to 20.1% from 15.1% in Q4FY22 (17.5% in Q3FY23). EBITDA/t expanded to Rs 1,346 vs. Rs 986 in Q4FY22 (Rs 1,194 in Q3FY23). Despite higher EBITDA, adj. PAT grew only 9% YoY (+82% QoQ) to Rs 961mn as tax expenses moved up due to the end of the sunset clause extended to the Guwahati unit and to subsidiary Star Cement Meghalaya

Capacity expansion plans: The grinding unit in Guwahati is due to be commissioned by Nov'23 and that in Silchar by H1FY25. The Meghalaya clinker plant (3mt) is scheduled by Jan'24.

Maintain BUY: We continue to prefer STRCEM in the cement sector for its strong presence in the remunerative northeastern market, balance sheet health despite being in capex mode and plans to derisk revenue. High demand in the core region owing to a government-led infrastructure focus is likely to trigger healthy realisations, aiding better ROE/ROCE (13-14% in FY25E). We tweak estimates and maintain BUY with a revised TP of Rs 146 (vs. Rs 138), ascribing an unchanged 8x FY25E EV/EBITDA multiple to the stock (Rs 6.7bn/mt replacement cost).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	STRCEM IN/Rs 125
Market cap	US\$ 636.4mn
Free float	33%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 132/Rs 81
Promoter/FPI/DII	67%/1%/6%

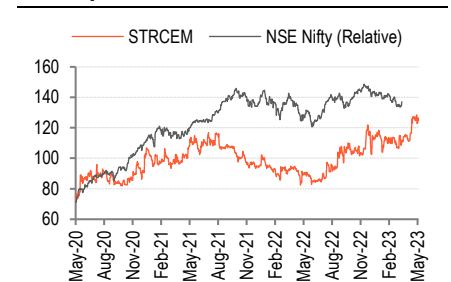
Source: NSE | Price as of 24 May 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	27,048	32,869	39,868
EBITDA (Rs mn)	5,205	5,405	7,043
Adj. net profit (Rs mn)	2,477	2,588	3,680
Adj. EPS (Rs)	5.9	6.2	8.8
Consensus EPS (Rs)	5.9	6.4	7.6
Adj. ROAE (%)	10.8	10.3	13.2
Adj. P/E (x)	21.1	20.2	14.2
EV/EBITDA (x)	9.5	10.2	7.2
Adj. EPS growth (%)	0.4	4.5	42.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY23	Q3FY23	Our view
Volume and Realisation	<p>Volumes for FY23 stood at 4mt, and management expects 12-13% volume growth for FY24.</p> <p>Capacity utilisation was ~73% at the Siliguri (West Bengal) plant.</p> <p>Trade share stood at ~87%. Premium product sales formed 4% of the mix, and STRCEM plans to launch a new brand by Q1FY24-end.</p> <p>Volume contribution from the northeast was at 74% in Q4FY23 vs. 70% in Q4FY22.</p>	<p>STRCEM has a volume target of 4mt or more for FY23 and anticipates double-digit volume growth for FY24.</p> <p>Prices were raised by Rs 10/bag in mid-December (with no other hikes in Q3) and will thus reflect in Q4FY23.</p> <p>Capacity utilisation stood at ~55% at Siliguri plant. Management expects improvement to 65% in Q4FY23.</p> <p>Trade share stood at 92% Premium product sales formed 4.5% of the mix.</p>	<p>Volume gains will flow from incremental capacity addition and healthy demand given a government focus on infrastructure development in the northeast region.</p> <p>The shift towards other non-core markets is a positive step to enhance growth and derisk earnings.</p>
Margins	<p>Blended fuel cost stood at Rs 2.1/kcal in Q4FY23. With reduction in coal price, management expects blended cost of Rs 1.9/kcal in Q1FY24 and full benefits to reflect from Q2FY24.</p> <p>Nagaland coal formed ~25% of the fuel mix, auction coal 45-47%, alternate fuel and raw material 25% (15% biomass).</p>	<p>Blended fuel cost was stable QoQ at Rs 2.1/kcal, and the company expects a 10% reduction in Q4 after commissioning of the waste heat recovery system (WHRS).</p> <p>Nagaland coal formed ~25%, linkage coal 5-6%, imported/auction coal 50% and biomass 20%.</p>	<p>Linkage coal remains at 5% but non-availability from Coal India implies the need to opt for alternate fuel sources.</p>
Capacity	<p>The next phase of expansion is to be announced in Q2FY24 which will be in regions outside the northeast.</p> <p>The long-term goal (5-10 years) is to reach capacity of 20mt.</p>	<p>The grinding unit in Guwahati is scheduled to be commissioned by Oct-Nov'23, the clinker plant by Jan'24, and grinding unit in Silchar by Aug'24.</p>	<p>Capacity expansion plans are on track. Exploring new plans reveals strong management confidence that the existing capacity will deliver on expectations.</p>
Capex	<p>Capex incurred till date was Rs 4.3bn for expansion projects.</p> <p>For FY24 and FY25, the outlay is guided at Rs 13bn and Rs 4bn respectively.</p>	<p>Total capex of Rs 21bn is envisaged for capacity expansion. Rs 2bn was incurred in Q3 with ~Rs 3bn guided for Q4FY23. FY24 will be capex-heavy at ~Rs 11.5bn (Rs 5bn in FY25).</p>	<p>Balance sheet health has been maintained despite capex mode.</p>
Other key points	<p>Peak debt is guided to remain below Rs 5bn, and STRCEM aims to become debt-free by Mar'25.</p> <p>The WHRS was commissioned in Q4FY23 but full utilisation is expected from May'23 onwards, with expected benefits of Rs 400mn for FY24. Subsidy incentive for FY23 was Rs 1.25bn; management does not anticipate any major subsidy in FY24 (Rs 0.26bn-0.27bn). Once the grinding and clinker units are commissioned, subsidy benefits of Rs 1.5bn-1.6bn would accrue.</p>	<p>STRCEM operates at zero gross debt. Net cash is at ~Rs 5.5bn against ~Rs 7.5bn in Q2FY23</p> <p>The WHRS is due to come online in Feb'23, with savings guided at Rs 450mn-480mn p.a.</p>	<p>The company is strategically moving in the right direction to improve operational efficiencies without adding further debt on the books.</p>

Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery System

Fig 2 – Key metrics

(Rs)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Volumes (mn mt)	1.2	1.2	7.4	0.9	36.0
Cement realisations (Rs/mt)	6,680	6,515	2.5	6,823	(2.1)
Operating costs (Rs/mt)	5,335	5,529	(3.5)	5,629	(5.2)
EBITDA (Rs/mt)	1,346	986	36.5	1,194	12.7

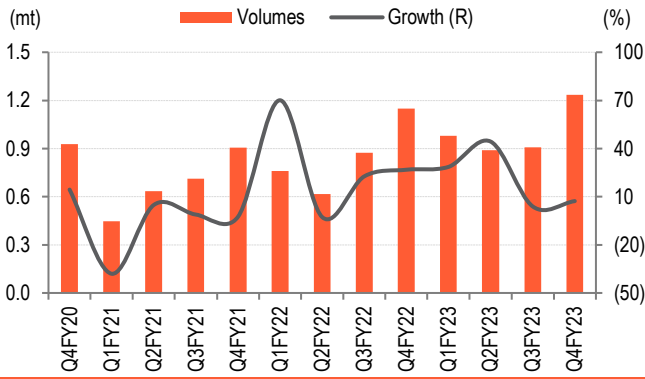
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net Sales	8,250	7,492	10.1	6,195	33.2
Expenditure					
Change in stock	99	270	(63.1)	(349)	(128.4)
Raw material	1,868	1,795	4.1	1,440	29.7
purchased products	0	0	-	0	-
Power & fuel	1,649	1,329	24.0	1,603	2.9
Freight	1,405	1,629	(13.8)	1,139	23.3
Employee costs	476	411	15.7	486	(2.2)
Other expenses	1,092	925	18.1	793	37.8
Total Operating Expenses	6,589	6,359	3.6	5,111	28.9
EBITDA	1,662	1,134	46.6	1,084	53.3
EBITDA margin (%)	20.1	15.1	501bps	17.5	264bps
Other Income	127	92	38.6	117	8.6
Interest	12	24	(50.1)	33	(64.4)
Depreciation	351	351	(0.2)	341	2.9
PBT	1,427	851	67.8	828	72.4
Non-recurring items	-	-	-	-	-
PBT (after non-recurring items)	1,427	851	67.8	828	72.4
Tax	466	(34)	(1,483.3)	299	55.8
Tax Rate (%)	32.6	(4.0)	-	36.1	-
Reported PAT	961	884	8.7	529	81.8
Adjusted PAT	961	884	8.7	529	81.8
NPM (%)	11.7	11.8	(15bps)	8.5	312bps
Adjusted EPS (Rs)	2.4	2.2	8.7	1.3	81.8

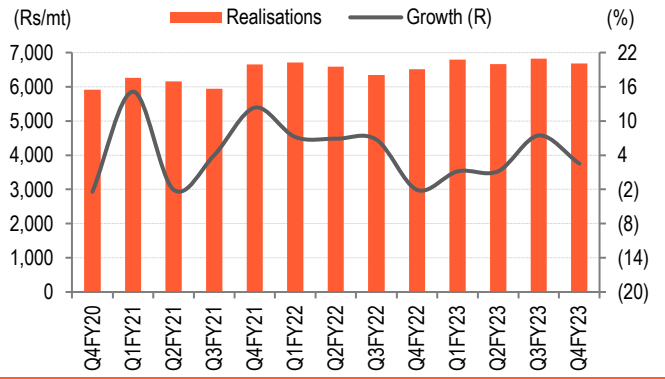
Source: Company, BOBCAPS Research

Fig 4 – Healthy volume gains to continue



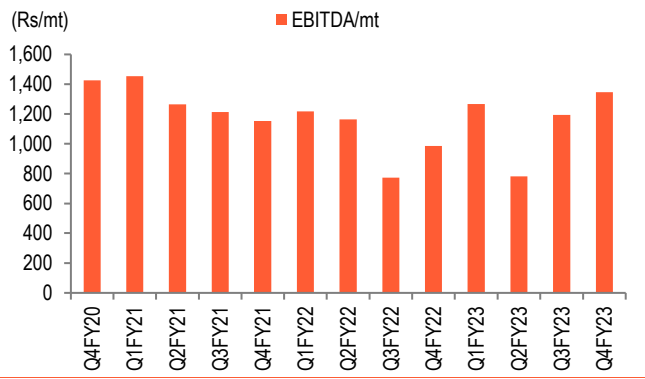
Source: Company, BOBCAPS Research

Fig 5 – Realisations up 3% YoY



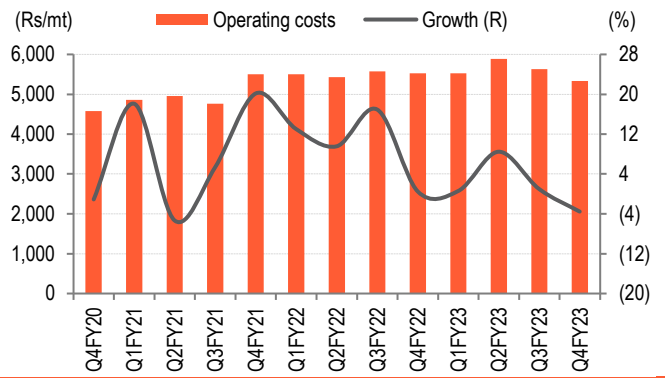
Source: Company, BOBCAPS Research

Fig 6 – Improvement in EBITDA/tonne



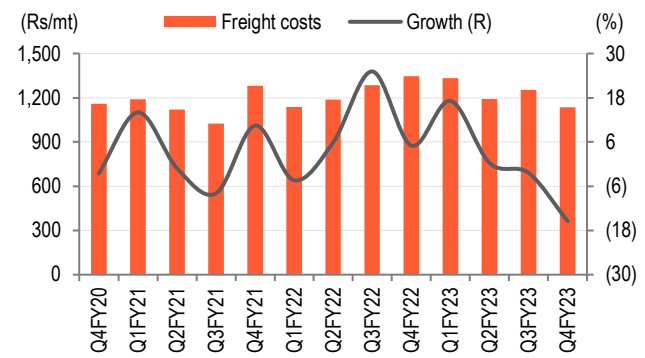
Source: Company, BOBCAPS Research

Fig 7 – Overall cost structure softening



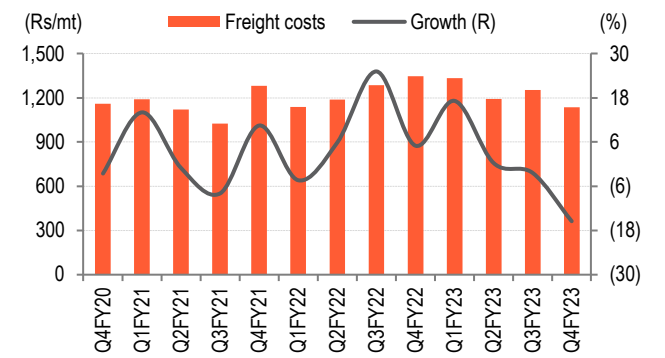
Source: Company, BOBCAPS Research

Fig 8 – Freight cost moving down after hitting a peak



Source: Company, BOBCAPS Research

Fig 9 – Fuel cost savings to fully reflect from Q2FY24



Source: Company, BOBCAPS Research

Valuation methodology

We continue to prefer STRCEM in the cement sector for its strong presence in the remunerative northeastern market, balance sheet health despite being in capex mode and plans to derisk revenue. High demand in the core region owing to a government-led infrastructure focus is likely to support healthy realisations, aiding better ROE/ROCE (13-14% in FY25E). With the industry cost structure staying elevated, we believe competitors will find it difficult to tap the far-flung northeast market without a base in the region, offering stronger earnings visibility for STRCEM. Geographical diversification by way of entry into West Bengal and the eastern regions will further derisk earnings.

We tweak estimates and maintain BUY with a revised TP of Rs 146 (vs. Rs 138), ascribing an unchanged 8x FY25E EV/EBITDA multiple to the stock (Rs 6.7bn/mt replacement cost).

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	32,869	39,868	32,869	39,868	0.0	0.0
EBITDA	5,405	7,043	5,405	7,010	0.0	0.5
Adj PAT	2,588	3,680	2,606	3,595	(0.7)	2.4
Adj EPS	6.2	8.8	6.2	8.6	0.0	2.3

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	3.3	4.0	4.6	5.6
Realisations (Rs/mt)	6,015	6,739	6,970	6,970
Operating costs (Rs/mt)	5,694	5,572	6,031	5,908
EBITDA/mt (Rs)	1,048	1,167	1,177	1,259

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	FY25E
Target EV/EBITDA (x)	8
EBITDA	7,043
Target EV	57,404
Total EV	57,404
Net debt	(1,535)
Target market capitalisation	58,939
Target price (Rs/sh)	146
Weighted average shares (mn)	404

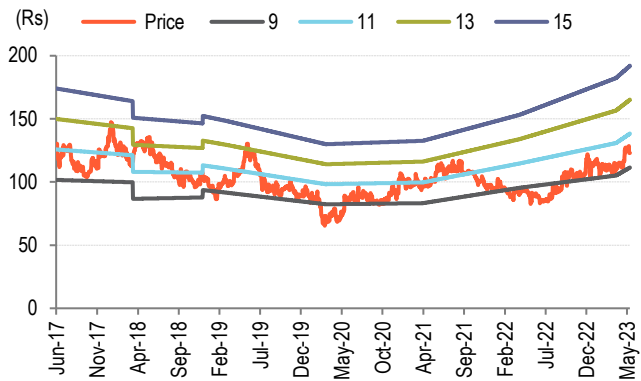
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
STRCEM IN	BUY	146	9.5	10.2	7.2	110	123	113	10.8	10.3	13.2	16.8	14.8	18.1
ORCMNT IN	HOLD	140	7.5	5.6	4.3	42	40	39	7.8	10.5	14.6	10.6	14.1	19.0
JKLC IN	SELL	551	12.4	10.9	9.8	87	86	94	12.7	13.6	14.6	16.8	17.7	17.4

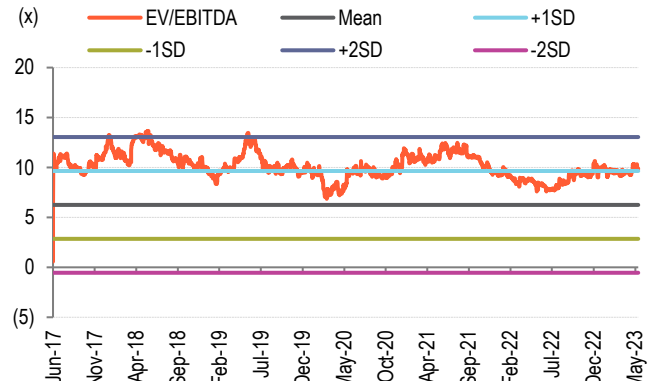
Source: BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: Trading at a discount



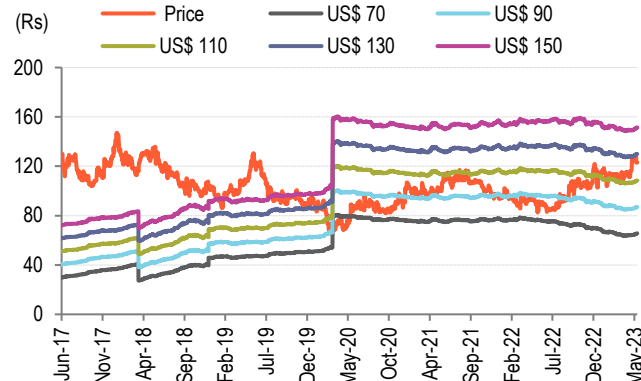
Source: Company, BOBCAPS Research

Fig 15 – EV/EBITDA SD band



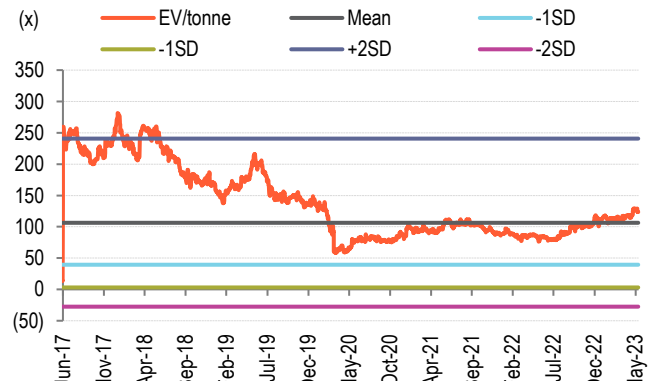
Source: Company, BOBCAPS Research

Fig 16 – EV/t



Source: Company, BOBCAPS Research

Fig 17 – EV/t SD band



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Unexpected demand tapering in the key North-east region
- Increasing competitive intensity in the key area of operations
- Continued concerns of coal availability and cost inflation

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.1	1,780	1,964	HOLD
Ambuja Cements	ACEM IN	10.2	422	375	HOLD
Dalmia Bharat	DALBHARA IN	4.6	2,049	1,917	HOLD
JK Cement	JKCE IN	2.8	2,942	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.0	699	551	SELL
Orient Cement	ORCMNT IN	0.3	124	140	HOLD
Shree Cement	SRCM IN	10.5	23,991	24,656	HOLD
Star Cement	STRCEM IN	0.6	125	146	BUY
The Ramco Cements	TRCL IN	2.5	883	585	SELL
Ultratech Cement	UTCEM IN	26.9	7,654	8,678	BUY

Source: BOBCAPS Research, NSE | Price as of 24 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	17,186	22,187	27,048	32,869	39,868
EBITDA	3,326	3,453	5,205	5,405	7,043
Depreciation	(900)	(1,216)	(1,311)	(1,480)	(1,587)
EBIT	2,708	2,570	3,894	4,131	5,608
Net interest inc./(exp.)	(70)	(133)	(97)	(343)	(215)
Other inc./(exp.)	282	334	0	206	152
Exceptional items	(646)	0	0	0	0
EBT	1,993	2,437	3,797	3,788	5,393
Income taxes	(120)	31	(1,320)	(1,200)	(1,713)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,872	2,468	2,477	2,588	3,680
Adjustments	646	0	0	0	0
Adjusted net profit	2,518	2,468	2,477	2,588	3,680

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	985	1,146	2,145	2,788	3,332
Other current liabilities	3,643	4,501	4,555	5,093	5,857
Provisions	99	66	97	80	88
Debt funds	153	54	411	5,057	1,157
Other liabilities	0	0	0	0	0
Equity capital	412	404	404	404	404
Reserves & surplus	20,329	21,280	23,760	25,891	29,111
Shareholders' fund	20,741	21,684	24,164	26,295	29,515
Total liab. and equities	25,621	27,451	31,371	39,312	39,948
Cash and cash eq.	4,717	3,847	3,117	2,330	2,692
Accounts receivables	1,317	1,287	1,047	1,936	2,348
Inventories	2,347	1,953	3,741	2,882	3,277
Other current assets	4,189	4,863	2,764	5,150	5,202
Investments	17	1,637	1,725	1,637	1,637
Net fixed assets	8,219	9,225	8,336	19,094	19,588
CWIP	1,266	1,091	7,738	3,091	1,691
Intangible assets	10	10	12	14	17
Deferred tax assets, net	3,539	3,539	2,890	3,179	3,497
Other assets	0	0	0	0	0
Total assets	25,622	27,451	31,371	39,312	39,948

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	3,455	4,333	6,072	2,527	5,406
Capital expenditures	(1,173)	(1,959)	(7,071)	(7,593)	(683)
Change in investments	(1)	(1,620)	(89)	89	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,174)	(3,579)	(7,160)	(7,505)	(683)
Equities issued/Others	20	420	422	0	0
Debt raised/repaid	20	(99)	357	4,647	(3,900)
Interest expenses	6	7	8	9	10
Dividends paid	(419)	(419)	(419)	(419)	(419)
Other financing cash flows	(3)	(1,525)	-	(37)	(41)
Cash flow from financing	(383)	(1,624)	359	4,190	(4,360)
Chg in cash & cash eq.	1,897	(870)	(729)	(788)	363
Closing cash & cash eq.	4,717	3,847	3,118	2,330	2,692

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	4.5	5.9	5.9	6.2	8.8
Adjusted EPS	6.0	5.9	5.9	6.2	8.8
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	49.5	51.7	57.6	62.7	70.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	2.8	2.2	1.8	1.7	1.3
EV/EBITDA	14.4	14.0	9.5	10.2	7.2
Adjusted P/E	20.8	21.2	21.1	20.2	14.2
P/BV	2.5	2.4	2.2	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	94.0	101.3	65.2	68.3	68.2
Interest burden (PBT/EBIT)	97.4	94.8	97.5	91.7	96.2
EBIT margin (EBIT/Revenue)	15.8	11.6	14.4	12.6	14.1
Asset turnover (Rev./Avg TA)	69.9	83.6	92.0	93.0	100.6
Leverage (Avg TA/Avg Equity)	1.2	1.3	1.3	1.4	1.4
Adjusted ROAE	12.4	11.6	10.8	10.3	13.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	(6.6)	29.1	21.9	21.5	21.3
EBITDA	(15.8)	3.8	50.8	3.8	30.3
Adjusted EPS	(11.8)	(2.0)	0.4	4.5	42.2
Profitability & Return ratios (%)					
EBITDA margin	19.3	15.5	18.9	16.4	17.6
EBIT margin	15.7	11.6	14.1	12.6	14.1
Adjusted profit margin	14.7	11.1	9.2	7.9	9.2
Adjusted ROAE	12.4	11.6	10.8	10.3	13.2
ROCE	13.4	12.1	16.8	14.8	18.1

Working capital days (days)

	FY21A	FY22A	FY23P	FY24E	FY25E
Receivables	28	21	14	22	22
Inventory	50	32	50	32	30
Payables	26	22	35	37	37

Ratios (x)

	FY21A	FY22A	FY23P	FY24E	FY25E
Gross asset turnover	1.2	1.4	1.7	1.1	1.3
Current ratio	2.7	2.1	1.6	1.5	1.5
Net interest coverage ratio	38.8	19.3	40.2	12.0	26.1
Adjusted debt/equity	0.0	0.0	0.0	0.2	0.0

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

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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): STAR CEMENT (STRCEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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