22 January 2025

RESEARCH

STAR CEMENT | TARGET: Rs 248 | +15% | BUY

Regional star, geared to spread its wings; upgrade to BUY

BOB ECONOMICS RESEARCH | FY26 BUDGET PREVIEW

Expectations from Budget

ICICI PRUDENTIAL LIFE | TARGET: Rs 706 | +11% | HOLD

Strong growth but VNB margin dwindles

SUMMARY

STAR CEMENT

- Timely capacity expansion (new 4mnt grinding unit by FY27) to help volume growth ahead of industry tapping buoyancy in north-east region
- Focus on improving operating efficiencies through measures to rationalise key costs including energy and logistics to improve margins
- Increase our EBITDA estimates by 7%/8.5% for FY26/FY27 (down 7% for FY25E), upgrade to BUY with revised TP of Rs 248

Click here **for the full report.**

INDIA ECONOMICS: FY26 BUDGET PREVIEW

For the fiscal year 2025-26, Union budget will skilfully balance fiscal consolidation, and measures for advancing growth. We expect centre to achieve or maybe even undershoot (by ~10bps) its fiscal deficit target of 4.9% (% of GDP), owing to expected savings on the expenditure side. From these levels, government is expected to reduce deficit target by ~50bps in FY26BE, thus targeting 4.3-4.4% range in our base case scenario. In order to support growth, amidst slowing global growth scenario, government will focus on boosting consumption (both rural and urban). For this, enhanced spending on MGNREGA, PM KISAN, and PMAY can be expected. In addition, certain tax incentives may also be announced.

Click here **for the full report.**

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ICICI PRUDENTIAL LIFE

- APE grew 28% YoY in Q3 (27% YoY in 9M); RWRP APE rose 18% YoY above the industry growth is a key positive
- VNB margin contracted 220bps QoQ (166bps YoY) in 3Q, we expect margin to remain stable going ahead
- Maintain HOLD and raise TP to Rs 706, 1.8x its Dec'26 P/EV, on stable performance going ahead

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TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 248 | ⮝ 15%

STAR CEMENT | Cement | 21 January 2025

Regional star, geared to spread its wings; upgrade to BUY

- **Timely capacity expansion (new 4mnt grinding unit by FY27) to help volume growth ahead of industry tapping buoyancy in north-east region**
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Timely expansion to tap potential Northeast growth: STRCEM with the commissioning of 4.10mnt clinkerisation unit in 1HFY25 at Lumshnong, Meghalaya, has raised its total clinker capacity to 6.1mnt. This with the 4mnt Guwahati grinding unit (and ~1.6mnt GU at Meghalaya) will help cater to the major NE markets. The 2mnt GU addition in Silchar (4QFY26) and Jorhat (3QFY27) each will help consolidate STRCEM's market share (~26% currently) in the next two years. In the interim, additional clinker will be sold in open markets thus contributing to revenues.

Focus on cost rationalisation to boost margins: The commissioning of additional 2mnt GU at Guwahati will help tap Assam markets cost effectively. This saves clinker travel to Siliguri GU and transporting it back to Assam. Further, the purchase of 120 new trucks implies clinker transport will be with a captive fleet leading to cost savings. With rail sidings at all the major GUs, cement transportation will be by rail saving cost. The new WHRS of 12MW at Meghalaya will lead to power cost savings. We expect at least ~Rs100/tn cost savings with these initiatives by STRCEM.

Well-maintained balance sheet in the expansionary phase: STRCEM has maintained a very lean balance sheet and will do the same in the next two years despite being in an expansionary phase. We estimate debt/equity at below 0.1x and debt/EBITDA at ~0.3x in FY26/FY27 thus maintaining healthy financial strength.

Expanding beyond eastern and north-eastern India: STRCEM was declared a preferred bidder for six limestone blocks in Beawar, Rajasthan, in 1HFY25. The estimated geological LS resources are ~63.9mn tonnes spread over ~95.7 hectares. STRCEM is diversifying into other regions to derisk regional concentration.

Earnings and Rating revised: We raise our FY26/FY27 EBITDA estimates by 7%/8.5% (cut 7% for FY25). The government's focus on infrastructure in core NE markets will boost volumes for STRCEM. Our EBITDA/PAT 3-year CAGR is now at 21%/11%. We assign a 10x (9x earlier) 1-year EV/EBITDA to the stock, with a revised TP of Rs 248 to factor in healthy growth and earnings visibility. Our TP implies replacement cost valuation is in line with industry average of Rs 7.5bn/mnt.

Key changes

Target	Rating
▲	▲

Ticker/Price	STRCEM IN/Rs 215
Market cap	US$ 1.0bn
Free float	33%
3M ADV	US$ 5.2mn
52wk high/low	Rs 256/Rs 171
Promoter/FPI/DII	67%/1%/6%

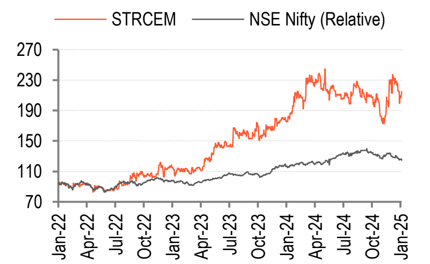
Source: NSE | Price as of 21 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,882	32,494	38,826
EBITDA (Rs mn)	5,552	5,173	8,449
Adj. net profit (Rs mn)	2,940	1,866	3,555
Adj. EPS (Rs)	7.0	4.5	8.5
Consensus EPS (Rs)	7.0	7.7	10.0
Adj. ROAE (%)	11.5	6.7	11.8
Adj. P/E (x)	30.6	48.3	25.3
EV/EBITDA (x)	16.3	17.8	10.5
Adj. EPS growth (%)	18.7	(36.5)	90.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

FY26 BUDGET PREVIEW

21 January 2025

Expectations from Budget

Sonal Badhan
Economist

For the fiscal year 2025-26, Union budget will skilfully balance fiscal consolidation, and measures for advancing growth. We expect centre to achieve or maybe even undershoot (by ~10bps) its fiscal deficit target of 4.9% (% of GDP), owing to expected savings on the expenditure side. From these levels, government is expected to reduce deficit target by ~50bps in FY26BE, thus targeting 4.3-4.4% range in our base case scenario. In order to support growth, amidst slowing global growth scenario, government will focus on boosting consumption (both rural and urban). For this, enhanced spending on MGNREGA, PM KISAN, and PMAY can be expected. In addition, certain tax incentives may also be announced.

Driving investment growth will be another focus area for the government. We thus expect Rs 1-1.5 lakh crore incremental increase in capex for the next year over the revised estimate for FY25. Markets will also keep a watchful eye on government's borrowing program, which is anticipated to increase only marginally next year (to ~Rs 15 lakh crore). As a result, bond yields will remain stable..

Expectations from FY26 Budget

Consolidation amidst supporting growth

In the latest budget presentation for 2025-26 (FY26) government is expected to announce significant measures to boost domestic consumption and private investment, as the economy braces for headwinds from muted global growth. This agenda will be achieved without compromising upon the fiscal health of the government, as it has shown commitment towards fiscal consolidation even in the past. Normalisation of nominal GDP, higher revenue growth following revival in consumption, and rationalisation of subsidies will give the government much needed fiscal room to lower deficit levels.

Quality of expenditure is unlikely to be compromised upon for two reasons—one, to crowd in private investments by boosting government capex, and two, to support growth and maintain continuity of key social schemes. We thus expect central government to announce ~50bps reduction in fiscal deficit target for FY26.

Challenges that may emerge include: Tariffs announced by President-elect Donald Trump leading to rise in commodity prices/dent export growth, and imported inflation risk due to stronger US$. We give here our expectations, which have been placed forth keeping in mind the practical side of fiscal space that will be available.

HOLD
TP: Rs 706 | ⮝ 11%

ICICI PRUDENTIAL LIFE | Insurance | 22 January 2025

Strong growth but VNB margin dwindles

- **APE grew 28% YoY in Q3 (27% YoY in 9M); RWRP APE rose 18% YoY above the industry growth is a key positive**
- **VNB margin contracted 220bps QoQ (166bps YoY) in 3Q, we expect margin to remain stable going ahead**
- **Maintain HOLD and raise TP to Rs 706, 1.8x its Dec'26 P/EV, on stable performance going ahead**

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APE growth strong: IPRU's APE grew 28% YoY to Rs 24.4bn at end-Q3FY25 and 27% YoY in 9MFY25. Linked APE rose 42% YoY to Rs 12bn, owing to buoyant equity markets while non-linked APE de-grew 24% YoY to Rs 3.96bn in Q3FY25. Annuity and group funds saw robust growth of 50% YoY and 348% YoY. Protection APE grew 9% YoY to Rs 3.9bn in Q3FY25. Gross premium increased 23% YoY to Rs 126.6bn. Retail weighted received premium was at Rs 55.4bn, up 18% YoY in 9MFY25 vs. industry growth of 13% YoY. We expect APE to grow at a CAGR of 17% in FY24-FY27E.

Low VNB margin norm to stay: IPRU's VNB margin contracted 220bps QoQ and 166bps YoY to 21.5% in Q3FY25. This was largely on account of product mix change towards low yielding products like ULIPs. Protection share declined to 17% vs. 20% in 9MFY24 with retail protection share stable at 6% in 9MFY25. We expect VNB margins to be in the range of 24-25% in FY25E-FY27E. The company continues to focus on the Annuity and Retail protection segments. Management indicated that the non-par plans have been repriced in line with the yields in Oct'24.

Bancassurance grows: APE from bancassurance grew strong at 19% YoY in Q3FY25 to Rs 6.1bn, accounting for 28% in the mix. Both agency and direct channel increased 26% YoY and 23% YoY, constituting 30% and 15% of the distribution mix respectively. The company continues to focus on its proprietary channels – agency and direct channels.

Assume coverage on IPRU with HOLD: Strong APE growth continues for the company with diversified product mix and minimum impact of surrender value regulations. We remain positive on aggressive growth, market share increase and continued increase in the share of group business but would remain watchful on the low VNB margins and higher expenses. Going forward, the ability of the company to sustain the strong premium growth momentum and maintain VNB margin would be a key driver for the stock's re-rating. Hence, we assume coverage on IPRU with a HOLD rating with a TP of Rs 706 (previously Rs 650), implying 1.8x its Dec'26 P/EV.

Key changes

Target	Rating
▲	◄►

Ticker/Price	IPRU IN/Rs 636
Market cap	US$ 10.5bn
Free float	27%
3M ADV	US$ 8.5mn
52wk high/low	Rs 797/Rs 475
Promoter/FPI/DII	73%/15%/7%

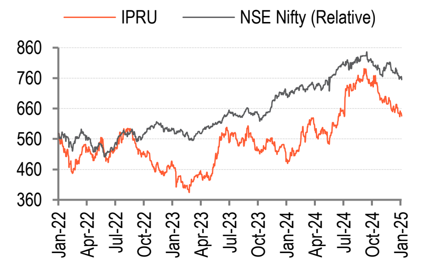
Source: NSE | Price as of 21 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
NBP (Rs mn)	1,86,788	2,15,179	2,43,153
APE (Rs mn)	90,460	1,08,552	1,27,549
VNB (Rs mn)	22,253	25,835	31,249
Embedded Value (Rs mn)	4,23,358	4,83,465	5,53,975
VNB margin (%)	24.6	23.8	24.5
EVPS (Rs)	294.3	336.1	385.4
EPS (Rs)	5.9	5.1	6.6
Consensus EPS (Rs)	5.9	8.0	10.0
P/EV (x)	2.2	1.9	1.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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