

**HOLD**  
 TP: Rs 205 | ▼ 4%

**STAR CEMENT**

Cement

12 August 2024

**Weak quarter; but performance to improve in medium term**

- Revenue stayed flat as volume fell marginally, and realisations remained flat YoY/QoQ at Rs 6,508/t
- EBITDA fell ~10% YoY to Rs 1.2bn as overall operating cost increased by ~2% YoY to Rs 5,502/t, which was a negative surprise
- We cut FY25/FY26 earnings estimates and introduce FY27 earnings. Maintain HOLD at 9x 1-year EV/EBITDA with TP of Rs 205 (from Rs 210)

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**Revenue stayed flat amid flat realisations and volumes:** STRCEM's revenue fell 1.2% YoY (down ~18% QoQ) to Rs 7.5bn in Q1FY25 as volume stayed flat (fell ~18% QoQ) at 1.15mnt. Northeast India volume was 74% and eastern India's volume contributed 24%. Realisations stayed flat YoY/QoQ at Rs 6,508/t (Rs 6,533/t in Q1FY24).

**Fall in EBITDA as operating cost spikes:** Operating cost jumped by ~2%/6% YoY/QoQ to Rs 5,502/t driven by inventory. Raw material-adjusted cost rose 14% YoY to Rs 1,477/t due to higher clinker purchase of Rs 300mn on clinker unit stabilisation. Logistic cost jumped by ~50% YoY to Rs 1,628/t due to higher clinker movement. Energy expenses fell by ~23% YoY to Rs 2,469/t (+~7% QoQ) due to softening fuel cost. Other expenditure rose by ~24% YoY to Rs 0.99bn due to non-recurring expenses of Rs 60mn. Effectively, EBITDA fell by ~10% YoY to ~Rs 1.2bn and EBITDA margin fell by 150bps to 15.5% from 17% in 1QFY24. EBITDA/t fell ~10% YoY to ~ Rs 1,006 in Q1FY25. Adj PAT fell sharply by 67% YoY to Rs 0.31bn on account of higher depreciation provision due to capacity expansion.

**Capacity expansion plans:** STRCEM expects WHRS to start from Oct'24 in two phases. The first phase of 6 megawatt (MW) will start in Oct'24 and in the second phase another 6MW will start from Nov'24. STRCEM plans to add a 2mnt grinding unit (GU) at Silchar (Assam) in Q3FY26 and another 2mnt in Jorhat by Q2FY26.

**Growth prospects intact:** Though we cut our FY25 EBITDA estimates sharply by 18% to factor in a weak 1H, we lower our FY26 estimates by 8% as the government's focus on infrastructure in STRCEM's core Northeast India market is likely to propel volumes. We introduce FY27 earnings forecasts with EBITDA/PAT three-year CAGR of 21%/23%. We assign 9x (unchanged) 1-year EV/EBITDA to the stock, which gives us a revised TP of Rs 205 (from Rs 210).

**Upside capped, retain HOLD:** Current valuations of 11x/9x FY26E/FY27E EV/EBITDA cap upside potential and, hence, we maintain our HOLD rating. Our TP implies replacement cost valuation of Rs 7.5bn/mnt – in line with the industry average.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	STRCEM IN/Rs 214
Market cap	US\$ 1.1bn
Free float	33%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 256/Rs 147
Promoter/FPI/DII	67%/1%/6%

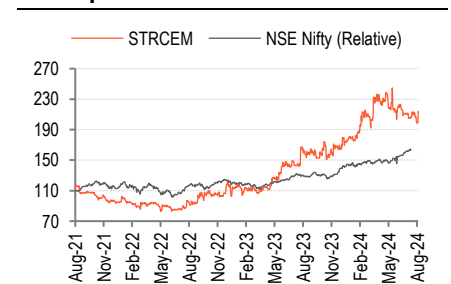
Source: NSE | Price as of 12 Aug 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	29,107	34,225	41,885
EBITDA (Rs mn)	5,563	6,309	8,161
Adj. net profit (Rs mn)	2,951	3,031	4,255
Adj. EPS (Rs)	7.0	7.2	10.1
Consensus EPS (Rs)	7.0	9.4	10.8
Adj. ROAE (%)	11.5	10.7	13.5
Adj. P/E (x)	30.4	29.6	21.1
EV/EBITDA (x)	16.2	14.3	10.9
Adj. EPS growth (%)	19.1	2.7	40.4

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

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q1FY25	Q4FY24	Our view
Volume and realisation	Volume for Q1FY25 came in at 1.15mnt of cement. In Northeast India, STRCEM sold 0.85mnt in Q1FY25 vs 0.84mnt in Q1FY24. For outside the Northeast, STRCEM sold 0.30mnt in Q1FY25 vs 0.33mnt in Q1FY24. In terms of blend mix, STRCEM sold 9% of OPC and 91% of PPC. Trade volume share was at 84% and premium segment sales were ~9.2% in Q1FY25.	Volumes for Q4FY24 were at 1.4mnt and management expects ~20% growth in FY25. Trade volume share stood at 85% and blended cement was about 90%. Premium segment sales were ~6-7% in 4QFY24.	NE market was in degrowth mode of ~5% while STRCEM grew by 3% in Q1FY25. We expect volumes to recover after 2HFY25 given the government's focus on building up infrastructure in India's northeast region.
Margins	The fuel mix was ~60% FSA and spot contract from Coal India, 20% Nagaland coal, 20% biomass. Fuel cost stood at Rs 1.5/kcal while the lead distance was 207km.  Profitability stayed low mainly on account of outside clinker purchase during Q1FY25. Second impact was of political donations of Rs 0.06bn made in Q1FY25. The third impact was of manpower cost as STRCEM had to capitalise project cost coming into operations.	Cement prices were unchanged in the northeast while dropping by ~Rs 15/bag in other regions at the end of Q4FY24. Management expects the status quo to be maintained in Q4. The fuel mix was ~4% FSA, 36% Nagaland coal, 10% biomass, and 50% spot option. Fuel cost stood at Rs 1.7/kcal while the lead distance was 227km.	We believe cost saving initiatives and better capacity utilisation at Siliguri in West Bengal and operations at Meghalaya clinker unit and Guwahati grinding unit will likely aid margins.
Capacity	STRCEM expects WHRS to start from Oct'24 in two phases. The first phase of 6MW will start in Oct'24 and in the second phase another 6MW will start from Nov'24. STRCEM plans to add a 2mnt grinding unit at Silchar (Assam) in Q3FY26 and another 2mnt in Jorhat by Q2FY26.	The 2mnt Guwahati grinding unit and 3mnt Meghalaya clinker plant were commissioned in Q4FY24/Q1FY25. Commissioning of the 2mnt Silchar grinding unit is due in H2FY26.	Capacity expansion at the appropriate time will help STRCEM stay on the growth trajectory.
Capex	STRCEM expects capex of ~Rs 8.35bn during FY25 of which Rs 1.1bn was spent in Q1FY25. Completion of silo and crusher for the new clinker plant is ~Rs 1bn. Investment in filters of Rs 3bn, investments in AAC blocks of Rs 0.55bn, Rs 1bn in land filling, Rs 0.7bn for wagons to transport cheaper fly ash, Rs 0.23bn for group captive power purchase agreement and Rs 10bn-15bn for general operations. STRCEM has indicated ~Rs 6.7bn of capex in FY26.	Capex incurred on the Lumshnong plant totals ~Rs 10bn till Q4FY24, with ~Rs 1bn-2bn expected in FY25 completing total capex of Rs 12.5bn. Capex for the Silchar plant stood at ~Rs 0.3bn as of Q4FY24 and management expects to spend Rs 3bn in FY25. STRCEM will spend Rs 10bn in FY25. The expected capex for the new GU announced in Jorhat, Upper Assam, is Rs 4.5bn over the next two to three years.	The company has managed capital expenditure well with minimum burden on the balance sheet. It has targeted growth with new additions in lucrative markets like Assam.
Other key points	1) Gross debt was at Rs 2.4bn and by FY25-end STRCEM expects debt to be at Rs 3.5bn.  2) STRCEM has given guidance of ~Rs 1,500 EBITDA/t. Expenditure made in purchasing clinker is non-recurring expenses which will increase EBITDA/t by ~Rs 250/t. GST effect will have a benefit of ~Rs 300/t, which will take effect from Q2FY25.	Management expects Rs 1.5bn-2bn worth of incentives for the Guwahati GU to be received in FY25. GST credit spent in the new project will be adjusted. In Q1FY25 and from Q2, the company will receive GST benefits.	Non-recurring expenses had an impact on Q1 earnings. Though we expect earnings to normalise, H1FY25 is expected to be weaker than estimated. Hence, we reduce our earnings forecasts.

Source: Company, BOBCAPS Research | OPC: Ordinary Portland Cement; PPC: Portland Pozzolana Cement; FSA: Fuel Supply Agreement; WHRS: Waste heat recovery system; AAC: Autoclaved Aerated Concrete

**Fig 2 – Key metrics**

	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	Q1FY25E	Deviation (%)
Volumes (million tonnes)	1.2	1.2	(0.9)	1.4	(18.2)	1.15	0.3
Cement realisations (Rs/t)	6,508	6,533	(0.4)	6,474	0.5	6,374	2.1
Operating costs (Rs/t)	5,502	5,423	1.5	5,201	5.8	5,103	7.8
EBITDA/t (Rs)	1,006	1,111	(9.4)	1,274	(21.0)	1,271	(20.8)

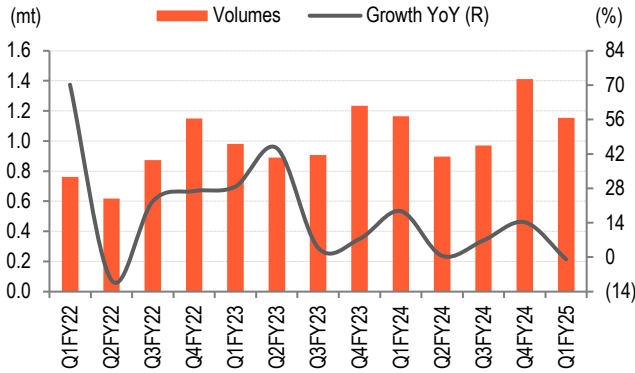
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	Q1FY25E	Deviation (%)
<b>Net Sales</b>	7,510	7,605	(1.2)	9,135	(17.8)	7,330	2.5
<b>Expenditure</b>							
Change in stock	(174)	81	NA	498	NA	71	NA
Raw material	1,879	1,922	(2.3)	1,594	17.9	1,321	42.2
Purchased products	0	0	-	0	-	0	-
Power & fuel	1,145	1,731	(33.8)	1,172	(2.3)	1,013	13.0
Freight	1,878	1,260	49.0	2,406	(21.9)	1,898	(1.0)
Employee costs	622	510	22.0	548	13.6	556	11.9
Other exp	999	808	23.7	1,120	(10.8)	1,010	(1.1)
Total Operating Expenses	6,349	6,312	0.6	7,338	(13.5)	5,869	8.2
<b>EBITDA</b>	<b>1,161</b>	<b>1,293</b>	<b>(10.2)</b>	<b>1,797</b>	<b>(35.4)</b>	<b>1,461</b>	<b>(20.5)</b>
EBITDA margin (%)	15.5	17.0	(154bps)	19.7	(421bps)	19.9	(447bps)
Other Income	14	87	(84.1)	78	(82.3)	75	(81.5)
Interest	59	22	163.1	42	42.1	0	-
Depreciation	725	318	128.1	423	71.7	425	70.7
PBT	391	1,040	(62.4)	1,411	(72.3)	1,111	(64.8)
Non-recurring items	-	-	-	-	-	-	-
PBT (after non recurring items)	391	1,040	(62.4)	1,411	(72.3)	1,111	(64.8)
Tax	81	107	(24.5)	535	(84.9)	156	(48.1)
Reported PAT	310	933	(66.8)	877	(64.7)	956	(67.6)
<b>Adjusted PAT</b>	<b>310</b>	<b>933</b>	<b>(66.8)</b>	<b>877</b>	<b>(64.7)</b>	<b>956</b>	<b>(67.6)</b>
NPM (%)	4.1	12.3	(814bps)	9.6	(547bps)	13.0	(891bps)
<b>Adjusted EPS (Rs)</b>	<b>0.8</b>	<b>2.3</b>	<b>(66.8)</b>	<b>2.1</b>	<b>(64.7)</b>	<b>2.3</b>	<b>(67.6)</b>

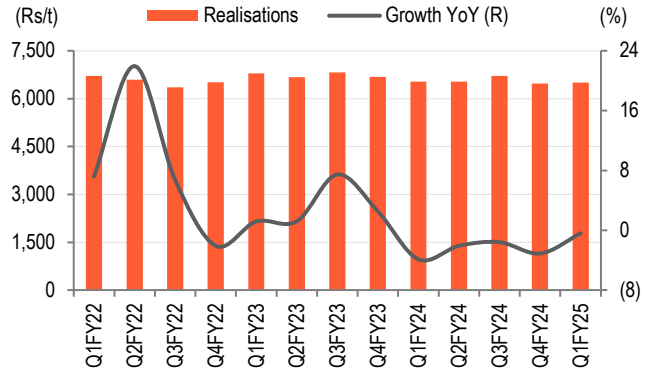
Source: Company, BOBCAPS Research

**Fig 4 – Volume growth was muted due to weak demand, however STRCEM increased its presence in NE markets**



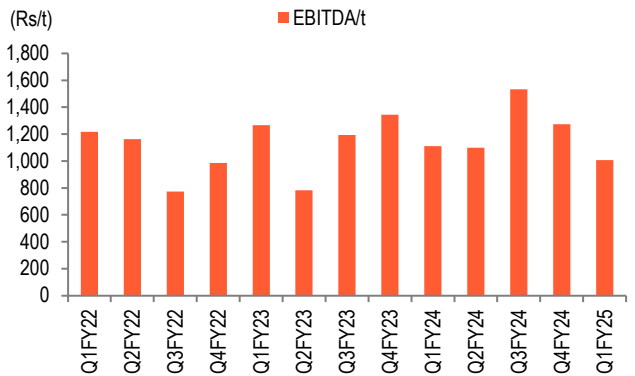
Source: Company, BOBCAPS Research

**Fig 5 – Realisation well maintained with better regional mix**



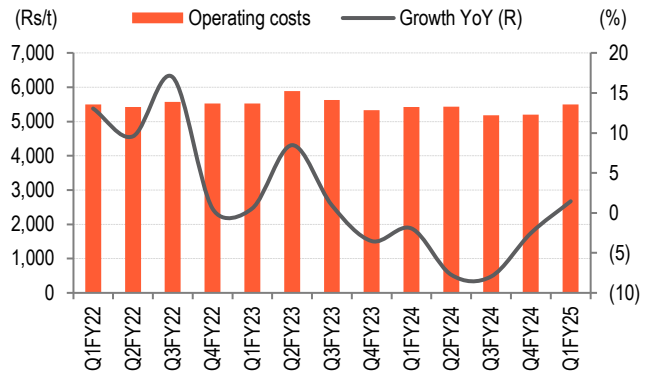
Source: Company, BOBCAPS Research

**Fig 6 – Non-recurring expenses dent EBITDA/t**



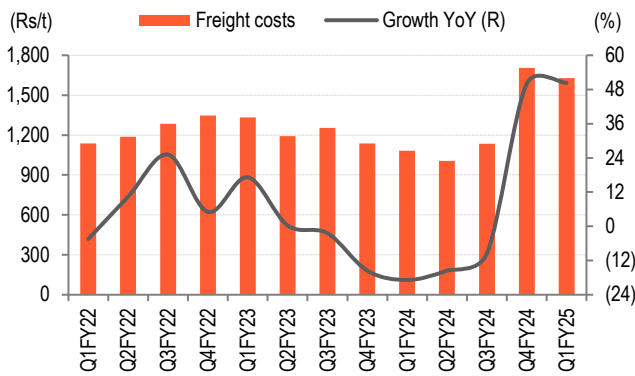
Source: Company, BOBCAPS Research

**Fig 7 – Normalisation of expenses to drive better show from 2HFY25**



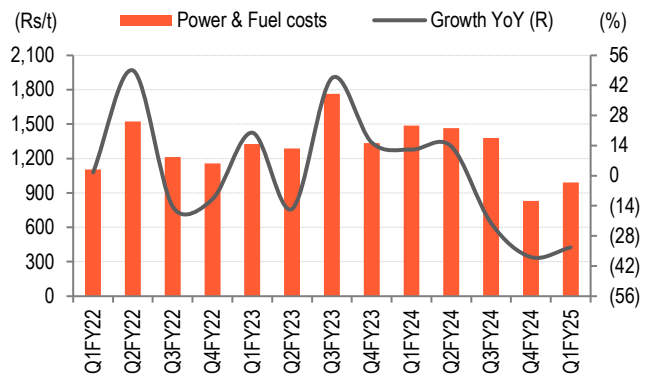
Source: Company, BOBCAPS Research

**Fig 8 – No major respite in cost despite rationalisation in lead distance**



Source: Company, BOBCAPS Research

**Fig 9 – Power cost savings remain a focus area and major lever of efficiency improvement**



Source: Company, BOBCAPS Research

## Valuation methodology

Though we cut our FY25 EBITDA estimates sharply by 18% to factor in weak 1H, we cut our FY26 estimates by 8% as we expect the government's infrastructure focus in STRCEM's core Northeast India market to likely propel volumes. We introduce FY27 earnings with EBITDA/PAT three-year CAGR of 21%/23%. We assign 9x (unchanged) 1-year EV/EBITDA to the stock, which gives us a revised TP of Rs 205 (from Rs 210).

We believe timely capacity expansion will help STRCEM to stay on the growth trajectory and aid earnings as demand recovers. Better cost efficiencies will help EBITDA margins in FY25-FY26-FY27 to stay around 18-19% range and healthy balance sheet management will keep the ROE/ROCE band at 14-15%. However, current valuations of 11x/9x FY26E/FY27E EV/EBITDA cap upside potential and, hence, we maintain our HOLD rating. Our TP implies a replacement cost valuation of Rs 7.5bn/mnt – in line with the industry average.

**Fig 10 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	34,225	41,885	49,937	36,147	43,600	NA	(0.05)	(0.04)	NA
EBITDA	6,309	8,161	9,881	7,690	8,860	NA	(0.18)	0.08	NA
Adj PAT	3,031	4,255	5,547	4,009	4,525	NA	(0.25)	(0.07)	NA
Adj EPS (Rs)	7.2	10.1	13.2	10	11	NA	(0.25)	(0.06)	NA

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mnt)	4.6	5.1	6.1	7.3
Realisations (Rs/t)	6,970	6,498	6,661	6,727
Operating costs (Rs/t)	5,163	5,474	5,510	5,521
EBITDA/t (Rs/t)	1,220	1,227	1,324	1,354

Source: Company, BOBCAPS Research

**Fig 12 – Valuation summary**

(Rs mn)	1-year Forward
Target EV/EBITDA (x)	9.0
EBITDA	8,161
Target EV	77,041
Total EV	77,041
Net debt	(563)
Target market capitalisation	77,604
<b>Target price (Rs/sh)</b>	<b>205</b>
Weighted average shares (mn)	404

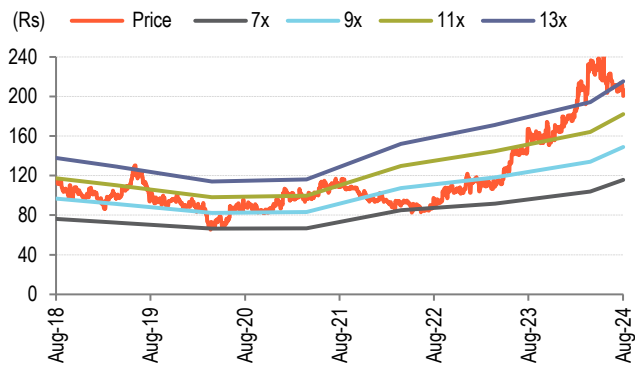
Source: BOBCAPS Research| Note: 1-year forward estimates include partial FY27 earnings

**Fig 13 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
STRCEM IN	HOLD	205	16.2	14.3	10.9	139	144	112	11.5	10.7	13.5	16.5	13.2	16.1
ORCMNT IN	SELL	177	15.7	14.9	12.6	114	111	110	10.4	11.4	12.6	13.9	14.5	16.1
JKLC IN	SELL	687	11	13	10.5	81	84	93	14.4	12.8	13.1	19.1	15.4	14.7

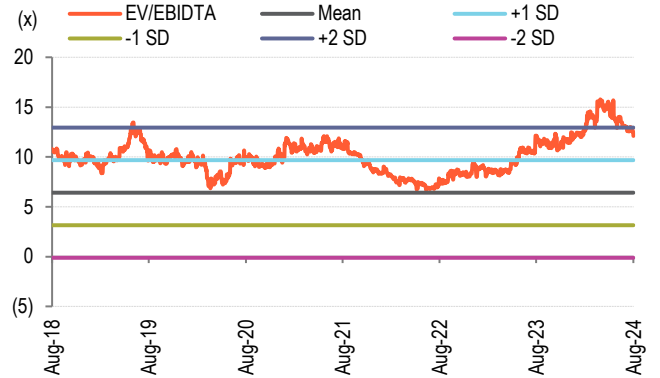
Source: BOBCAPS Research

**Fig 14 – EV/EBITDA band: Valuations price in the earnings expectations**



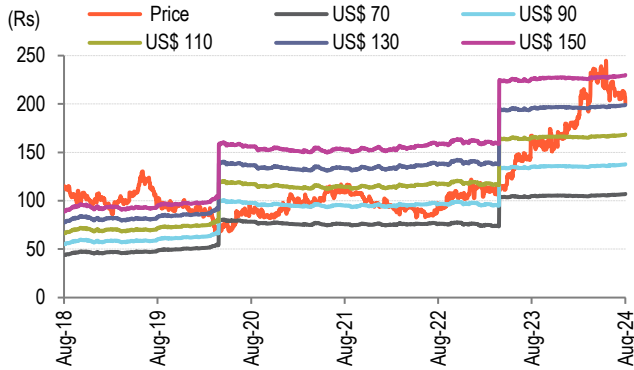
Source: Bloomberg, BOBCAPS Research

**Fig 15 – EV/EBITDA 1Y fwd: Current valuations keep no further headroom**



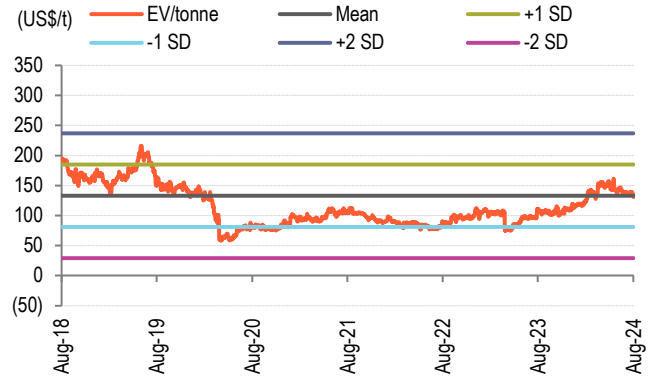
Source: Bloomberg, BOBCAPS Research

**Fig 16 – EV/tonne: Replacement cost has inflated too**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 17 – EV/tonne: 1Y forward valuations are pricey**



Source: Company, Bloomberg, BOBCAPS Research

### Key risks

- Strong demand revival in Northeast India and further cost relief contributed by easing energy prices are key upside risks to our estimates.
- Fierce competitive pressure from companies in the eastern region can strain pricing, representing a downside risk to our estimates.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>25,756</b>	<b>29,107</b>	<b>34,225</b>	<b>41,885</b>	<b>49,937</b>
EBITDA	4,684	5,563	6,309	8,161	9,881
Depreciation	(1,311)	(1,466)	(2,598)	(2,951)	(3,154)
EBIT	3,894	4,362	4,044	5,557	7,116
Net interest inc./(exp.)	(96)	(126)	(242)	(217)	(194)
Other inc./(exp.)	521	265	334	347	390
Exceptional items	0	0	0	0	0
EBT	3,798	4,236	3,802	5,341	6,922
Income taxes	(1,321)	(1,285)	(771)	(1,086)	(1,375)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>2,477</b>	<b>2,951</b>	<b>3,031</b>	<b>4,255</b>	<b>5,547</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,477</b>	<b>2,951</b>	<b>3,031</b>	<b>4,255</b>	<b>5,547</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	2,820	2,387	2,834	3,423	4,065
Other current liabilities	3,972	4,909	5,024	5,778	5,836
Provisions	97	158	100	110	121
Debt funds	261	1,469	3,157	2,557	2,307
Other liabilities	0	0	0	0	0
Equity capital	404	404	404	404	404
Reserves & surplus	23,760	26,697	29,268	33,059	38,142
Shareholders' fund	24,164	27,101	29,672	33,463	38,546
<b>Total liab. and equities</b>	<b>31,314</b>	<b>36,024</b>	<b>40,788</b>	<b>45,331</b>	<b>50,875</b>
Cash and cash eq.	3,117	973	2,524	3,120	7,164
Accounts receivables	1,047	1,508	1,969	2,352	2,805
Inventories	3,741	3,350	2,813	3,443	4,104
Other current assets	4,377	3,397	4,511	4,824	5,307
Investments	1,725	20	1,637	1,637	1,637
Net fixed assets	8,850	19,622	22,370	24,124	23,675
CWIP	5,506	4,691	2,259	2,859	2,919
Intangible assets	60	62	64	67	69
Deferred tax assets, net	2,890	2,401	2,641	2,905	3,196
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>31,314</b>	<b>36,024</b>	<b>40,788</b>	<b>45,331</b>	<b>50,875</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>4,543</b>	<b>6,381</b>	<b>4,856</b>	<b>6,968</b>	<b>7,525</b>
Capital expenditures	(5,394)	(11,426)	(2,916)	(5,307)	(2,767)
Change in investments	(89)	1,706	(1,617)	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(5,482)</b>	<b>(9,720)</b>	<b>(4,533)</b>	<b>(5,307)</b>	<b>(2,767)</b>
Equities issued/Others	422	405	0	0	0
Debt raised/repaid	207	1,208	1,688	(600)	(250)
Interest expenses	8	9	10	10	10
Dividends paid	(419)	(419)	(419)	(419)	(419)
Other financing cash flows	-	0	(41)	(45)	(45)
<b>Cash flow from financing</b>	<b>210</b>	<b>1,195</b>	<b>1,227</b>	<b>(1,064)</b>	<b>(714)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(729)</b>	<b>(2,144)</b>	<b>1,550</b>	<b>597</b>	<b>4,043</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,118</b>	<b>973</b>	<b>2,524</b>	<b>3,120</b>	<b>7,164</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	5.9	7.0	7.2	10.1	13.2
Adjusted EPS	5.9	7.0	7.2	10.1	13.2
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	57.6	64.6	70.8	79.8	91.9

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	3.4	3.1	2.6	2.1	1.8
EV/EBITDA	18.6	16.2	14.3	10.9	9.1
Adjusted P/E	36.2	30.4	29.6	21.1	16.2
P/BV	3.7	3.3	3.0	2.7	2.3

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	65.2	69.7	79.7	79.7	80.1
Interest burden (PBT/EBIT)	97.5	97.1	94.0	96.1	97.3
EBIT margin (EBIT/Revenue)	15.1	15.0	11.8	13.3	14.3
Asset turnover (Rev./Avg TA)	87.7	86.4	89.1	97.3	103.8
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.4	1.4	1.3
<b>Adjusted ROAE</b>	<b>10.8</b>	<b>11.5</b>	<b>10.7</b>	<b>13.5</b>	<b>15.4</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	23.2	13.0	17.6	22.4	19.2
EBITDA	35.7	18.8	13.4	29.4	21.1
Adjusted EPS	0.4	19.1	2.7	40.4	30.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.3	19.1	18.4	19.5	19.8
EBIT margin	14.4	15.0	11.8	13.3	14.2
Adjusted profit margin	9.6	10.1	8.9	10.2	11.1
Adjusted ROAE	10.8	11.5	10.7	13.5	15.4
ROCE	16.9	16.5	13.2	16.1	18.5
<b>Working capital days (days)</b>					
Receivables	15	19	21	21	21
Inventory	53	42	30	30	30
Payables	46	37	37	37	37
<b>Ratios (x)</b>					
Gross asset turnover	1.6	1.0	1.0	1.1	1.2
Current ratio	1.8	1.2	1.5	1.5	1.9
Net interest coverage ratio	40.6	34.6	16.7	25.6	36.7
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

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

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**BUY** – Expected return >+15%

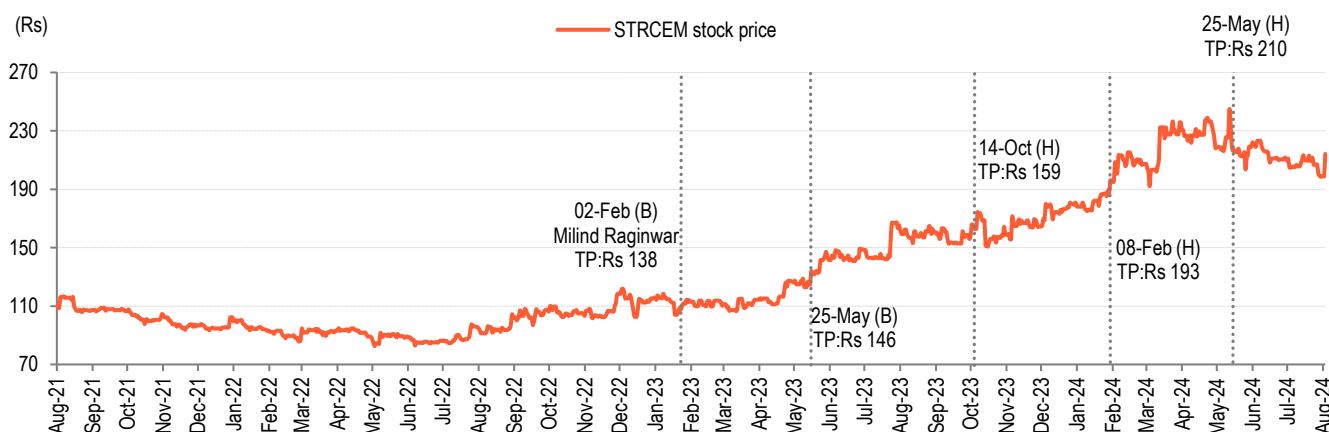
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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