HOLD
TP: Rs 201 | ⮝ 3%

STAR CEMENT | Cement | 12 November 2024

Clinker unit stabilisation issues impact performance in Q2

- **Revenue rose 10% backed by healthy 9% volume gains and realisations remained flat YoY/QoQ at Rs 6,560/t with improved regional mix**
- **EBITDA fell ~3%/18% YoY/QoQ to Rs 956bn as overall operating cost increased by ~3% YoY to Rs 5,583/t, which was a negative surprise**
- **We cut FY25/FY26/FY27 earnings estimates to factor in weak 1HFY25. Maintain HOLD at 9x 1-year EV/EBITDA with TP of Rs 201 (from Rs 205)**

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Revenue jumps 10% in challenging quarter driven by volume: STRCEM's revenue rose ~10% YoY to Rs 6.4bn in Q2FY25 (down ~15% QoQ). The volume was 9% higher YoY at 0.98mn tonnes. The realisation too stayed flat YoY/QoQ at Rs 6,560/t and was commendable. Northeast India volume was 78% (74% in Q1FY25) and eastern India's volume contributed 22%.

Fall in EBITDA as operating cost spikes: Overall cost increased by ~3%2% YoY/QoQ to Rs 5,583/t driven by inventory-adjusted raw material cost that shot up by ~20% YoY to Rs1,609/t YoY owing to clinker stabilisation issues. This is likely to be non-recurring expenses and normalise gradually over a period. Raw material (RM) cost-adjusted energy expenses stayed flat YoY at Rs 2,801 (6% decline QoQ) due to softening fuel cost. Logistic cost hardened by ~8% YoY to Rs 1,091/t versus Rs 1,007/t that requires further management clarity. EBITDA fell by ~10% YoY to ~Rs 1.2bn and EBITDA margin fell by 150bps to 15.5% from 17% in 2QFY24. EBITDA/t fell ~10% YoY to ~ Rs 1,006 in Q2FY25.

Capex guidance revised downwards: STRCEM plans to add a 2mnt grinding unit (GU) at Silchar (Assam) in Q3FY26 and 2mnt in Jorhat beyond FY27. Capex guidance for FY26 was Rs 4.5bn towards the Silchar GU and new clinker plant WHRS. STRCMT has reduced its capex guidance for FY25 from Rs 8.35bn.

Growth prospects intact: We cut FY25/FY26/FY27 EBITDA estimates by 12%/3%/2% to factor in a weak 1HFY25. However, the government's focus on infrastructure in STRCEM's core Northeast India market will boost volumes for STRCEM, in our view. Effectively, our EBITDA/PAT three-year CAGR is 21%/14%. We assign 9x (unchanged) 1-year EV/EBITDA to the stock, which gives us a revised TP of Rs 201 (from Rs 210). As the current valuations of 10x/9x FY26E/FY27E EV/EBITDA cap upside potential 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 195
Market cap	US$ 968.5mn
Free float	33%
3M ADV	US$ 1.2mn
52wk high/low	Rs 256/Rs 155
Promoter/FPI/DII	67%/1%/6%

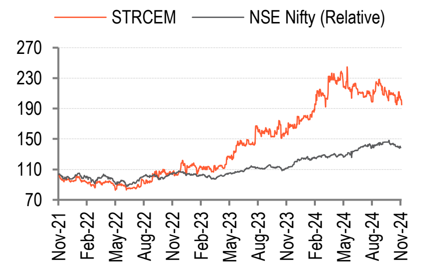
Source: NSE | Price as of 11 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,882	32,782	40,436
EBITDA (Rs mn)	5,388	5,546	7,885
Adj. net profit (Rs mn)	2,776	2,425	4,035
Adj. EPS (Rs)	6.6	5.8	9.6
Consensus EPS (Rs)	6.6	7.8	10.0
Adj. ROAE (%)	10.9	8.7	13.2
Adj. P/E (x)	29.4	33.7	20.3
EV/EBITDA (x)	15.3	15.0	10.2
Adj. EPS growth (%)	12.1	(12.6)	66.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1FY25	Our view
Volume and realisation	Sale of cement in Q2FY25 was 0.96mnt vs 0.89mnt YoY. Northeast India volume was 0.75mnt in Q2FY25 vs 0.67mnt in Q2FY24 and outside volumes at 0.21mnt in Q2FY25 vs 0.22mnt in Q2FY24. STRCEM sold 10% of OPC and 90% of PPC. Trade volume share was at 85% and premium segment sales was 10.6% in Q2FY25 Management expects volume growth of 11-12% in H2FY25.	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 84% and premium segment sales ~9.2% in Q1FY25.	Shift back to core markets helps STRCEM with steady performance. We expect volumes to recover after 2HFY25 given the government's focus on building up infrastructure in India's northeast region and resolution of clinkerisation unit issues.
Margins	Fuel mix was at 55% FSA from Coal India, 18% bio mass, rest from spot contract in Nagaland. Fuel cost stood at Rs 1.5/kcal and expects to continue/decline in H2 while the lead distance increased to 218km from 207km a quarter ago. One-time expense of Rs 30mn was ex gratia incurred, thus employee cost was high. Line 3 of the Meghalaya clinker plant with a capacity of 3.3mnt had stabilisation issues, hence STRCEM had to purchase clinker from the open market at higher cost.	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 from 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.	We expect the delays in stabilisation of the clinker unit and the setback thereof may be resolved in the 2HFY25 restoring cost structure to normalcy.
Capacity	Capacity utilisation in Q3 to be 70% and Q4 90%. 12MW WHRS to be commissioned in phases, 6MW by Nov end and 6MW by Dec-end 2025. AAC block to be commissioned in Dec'24 and is eligible for state and central subsidy. Silchar plant to be commissioned by Dec'26 and Jorhat plant to be commissioned by Dec'27.	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.	Capacity expansion at the appropriate time will help STRCEM stay on the growth trajectory. Delays in the GU unit are positive for STRCEM.
Capex	STRCEM incurred a capex of Rs 3.37bn for H1FY25 and intends to spend Rs 6.50bn in FY25. Capex guidance for FY26 was Rs 4.50bn towards the Silchar GU and new clinker plant WHRS. Further, STRCMT has reduced the capex guidance for FY25.	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.	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	Borrowings were Rs 3.5bn at H1FY25-end. STRCEM recorded incentives of Rs 0.37bn in Q2FY25 and expects to receive Rs 0.5bn in each of the H2 quarters.	1) Gross debt was Rs 2.4bn and STRCEM expects debt to be Rs 3.5bn by end-FY25. 2) STRCEM has guided for EBITDA/t of ~Rs 1,500. 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.	Incentives will help 2HFY25 earnings move faster than expected.

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

	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	2QFY25E	Deviation (%)
Volumes (million tonnes)	1.0	0.9	7.4	1.2	(16.6)	0.98	(1.6)
Cement realisations (Rs/t)	6,560	6,532	0.4	6,508	0.8	6,508	0.8
Operating costs (Rs/t)	5,583	5,432	2.8	5,502	1.5	5,560	0.4
EBITDA/t (Rs)	977	1,100	(11.2)	1,006	(2.9)	948	3.1

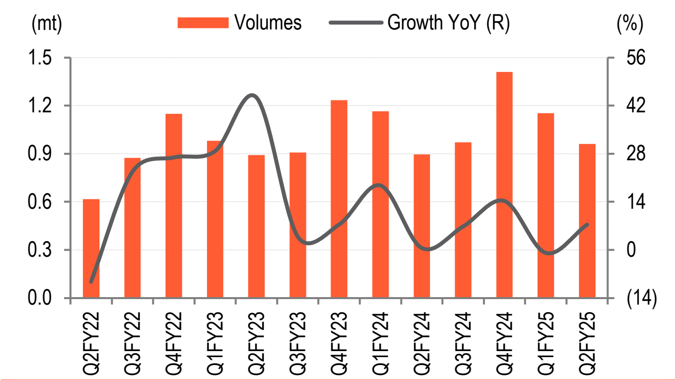
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	2QFY25E	Deviation (%)
Net Sales	**6,415**	**5,853**	**9.6**	**7,510**	**(14.6)**	**6,365**	**0.8**
Expenditure							
Change in stock	(40)	(105)	NA	(174)	NA	(301)	NA
Raw material	1,614	1,300	24.2	2,454	(34.2)	1,507	7.1
Purchased products	-	-	0.0	-	0.0	-	-
Power & fuel	1,166	1,312	(11.1)	1,145	1.8	1,071	8.9
Freight	1,067	902	18.3	1,303	(18.1)	1,669	(36.1)
Employee costs	646	571	13.0	622	3.8	551	17.2
Other exp	1,008	887	13.6	999	0.8	941	7.1
Total Operating Expenses	5,460	4,867	12.2	6,349	(14.0)	5,437	0.4
EBITDA	**956**	**986**	**(3.0)**	**1,161**	**(17.7)**	**927**	**3.1**
EBITDA margin (%)	14.9	16.8	(194.3bps)	15.5	(56.5bps)	14.6	32.6bps
Other Income	16	58	(71.7)	14	18.1	21	(22.2)
Interest	71	32	119.2	59	20.6	61	16.6
Depreciation	825	360	129.2	725	13.8	715	15.4
PBT	76	651	(88.4)	391	(80.6)	172	(56.1)
Non-recurring items	-	-	0.0	-	0.0	-	-
PBT (after non recurring items)	76	651	(88.4)	391	(80.6)	172	(56.1)
Tax	19	244	(92.2)	81	(76.6)	24	(21.6)
Reported PAT	25.0	37.5	(1246bps)	20.7	436bps	14.0	-
Adjusted PAT	**57**	**407**	**(86.1)**	**310**	**(81.7)**	**148**	**(61.8)**
NPM (%)	57	407	(86.1)	310	(81.7)	148	(61.8)
Adjusted EPS (Rs)	**0.9**	**6.9**	**(607bps)**	**4.1**	**(324bps)**	**2.3**	**(145bps)**

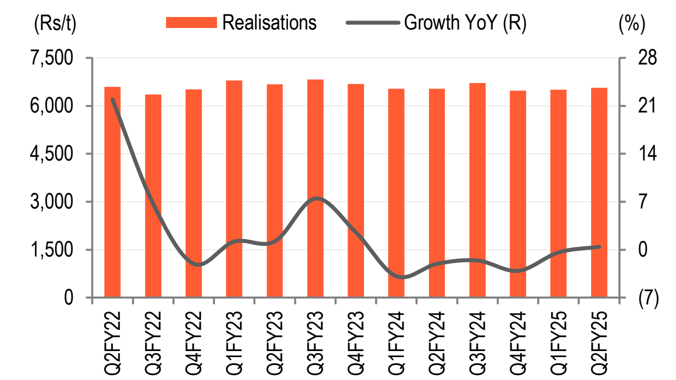
Source: Company, BOBCAPS Research

Fig 4 – Overall demand uptick awaited



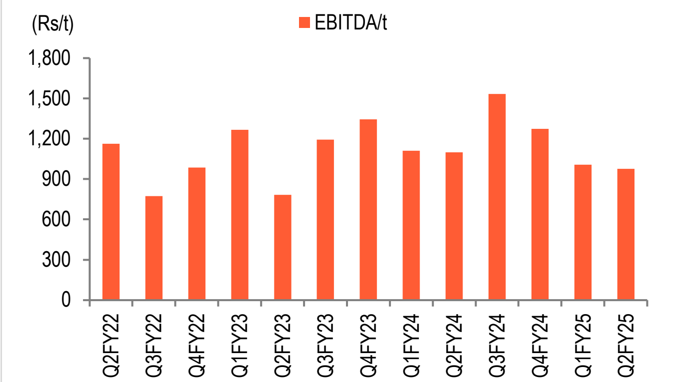
Source: Company, BOBCAPS Research

Fig 5 – Realisation well maintained with better regional mix



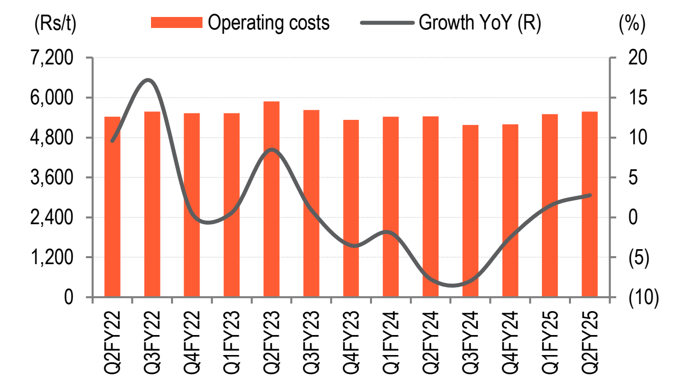
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t relatively better than peers



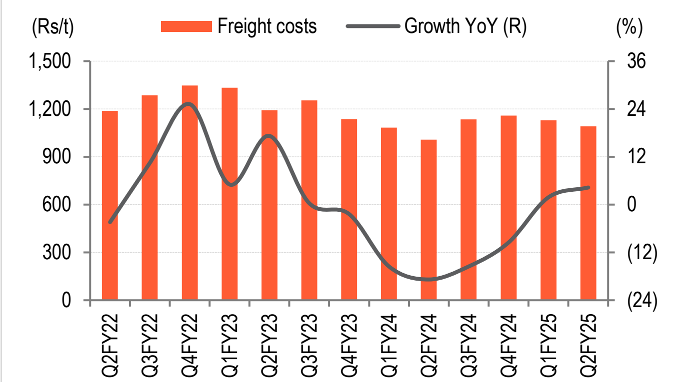
Source: Company, BOBCAPS Research

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



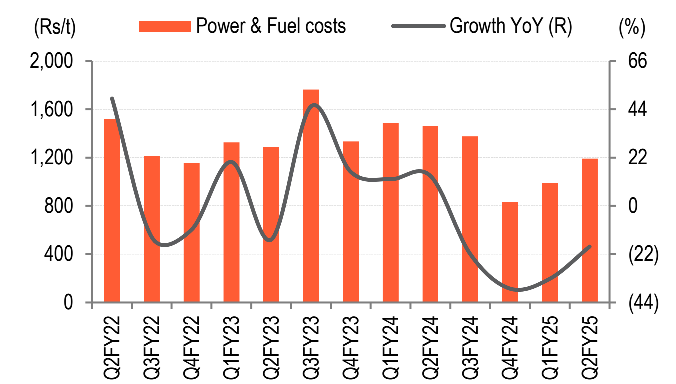
Source: Company, BOBCAPS Research

Fig 8 – Respite in cost only after clinkerisation unit stabilises



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

We cut FY25/FY26/FY27 EBITDA estimates by 12%/3%/2% to factor in weak 1HFY25. However, the government's focus on infrastructure in STRCEM's core Northeast India market will boost its volumes, in our view. Effectively, our EBITDA/PAT three-year CAGR is 21%/14%. We believe timely capacity expansion will help STRCEM stay on the growth trajectory and aid earnings as demand recovers. Also, we expect the delays in stabilisation of the clinker unit and subsequent setback may be resolved in 2HFY25, restoring the cost structure to normal. Additionally, better cost efficiencies will help EBITDA margins in FY25/FY26/FY27 to stay at the 18-19% range and healthy balance sheet management will keep the ROE/ROCE band at 14-15%.

However, as the current valuations of 10x/9x for FY26E/FY27E EV/EBITDA cap upside potential we maintain our HOLD rating. We assign 9x (unchanged) 1-year EV/EBITDA to the stock, which gives us a revised TP of Rs 201 (from Rs 210). Our TP implies 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	32,782	40,436	48,798	34,225	41,885	49,937	(4.2)	(3.5)	(2.3)
EBITDA	5,546	7,885	9,685	6,309	8,161	9,881	(12.1)	(3.4)	(2.0)
Adj PAT	2,425	4,035	5,390	3,031	4,255	5,547	(20.0)	(5.2)	(2.8)
Adj EPS (Rs)	5.8	9.6	12.9	7.2	10.1	13.2	(19.6)	(4.7)	(2.6)

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mnt)	4.6	4.9	5.9	7.1
Realisations (Rs/t)	6,970	6,498	6,661	6,727
Operating costs (Rs/t)	5,202	5,584	5,515	5,521
EBITDA/t (Rs/t)	1,182	1,127	1,326	1,359

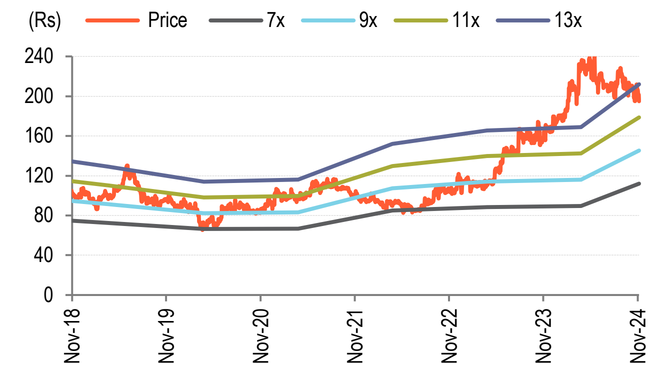
Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	1-year Forward
Target EV/EBITDA (x)	9.00
EBITDA	9,685
Target EV	90,551
Total EV	90,551
Net debt	(221)
Target market capitalisation	90,771
Target price (Rs/sh)	**201**
Weighted average shares (mn)	404

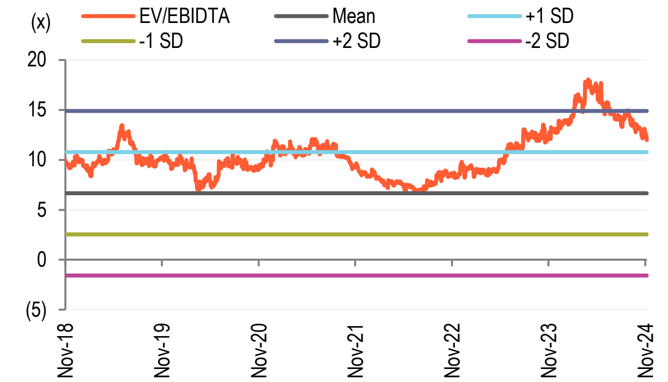
Source: BOBCAPS Research| Note: 1-year forward estimates include partial FY27 earnings

Fig 13 – EV/EBITDA band: Valuations price in the earnings expectations



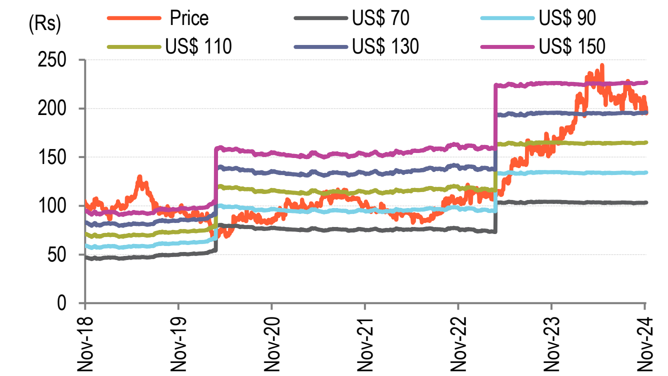
Source: Bloomberg, BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: Current valuations moderation will allow headroom for investor returns



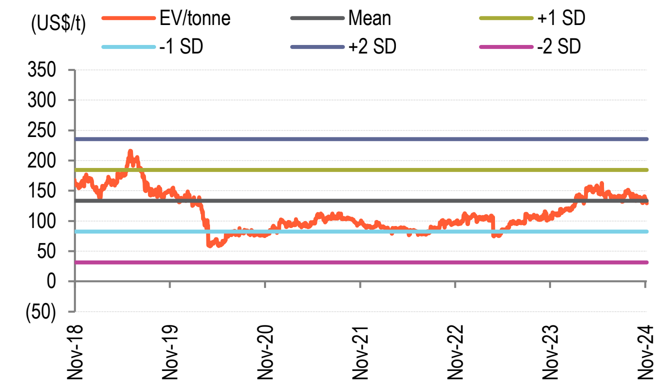
Source: Bloomberg, BOBCAPS Research

Fig 15 – EV/tonne: Replacement cost will stay inflated for efficient companies in the sector



Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: 1Y forward valuations are relatively modest



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 eastern India can strain pricing, representing a downside risk to our estimates.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**25,756**	**28,882**	**32,782**	**40,436**	**48,798**
EBITDA	4,684	5,388	5,546	7,885	9,685
Depreciation	(1,311)	(1,466)	(2,598)	(2,951)	(3,154)
EBIT	3,894	4,186	3,282	5,281	6,920
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	4,060	3,040	5,064	6,726
Income taxes	(1,321)	(1,285)	(615)	(1,029)	(1,336)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**2,477**	**2,776**	**2,425**	**4,035**	**5,390**
Adjustments	0	0	0	0	0
Adjusted net profit	**2,477**	**2,776**	**2,425**	**4,035**	**5,390**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,820	2,404	2,765	3,304	3,970
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	26,522	28,487	32,058	36,984
Shareholders' fund	24,164	26,926	28,891	32,462	37,388
Total liab. and equities	**31,314**	**35,866**	**39,937**	**44,211**	**49,621**
Cash and cash eq.	3,117	816	1,875	201	2,528
Accounts receivables	1,047	1,508	1,886	2,271	2,741
Inventories	3,741	3,350	2,694	3,324	4,011
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	4,859	6,459
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
Total assets	**31,314**	**35,866**	**39,937**	**44,211**	**49,621**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**4,543**	**6,224**	**4,365**	**6,697**	**7,348**
Capital expenditures	(5,394)	(11,426)	(2,916)	(7,307)	(4,307)
Change in investments	(89)	1,706	(1,617)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(5,482)**	**(9,720)**	**(4,533)**	**(7,307)**	**(4,307)**
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)
Cash flow from financing	**210**	**1,195**	**1,227**	**(1,064)**	**(714)**
Chg in cash & cash eq.	**(729)**	**(2,302)**	**1,059**	**(1,674)**	**2,327**
Closing cash & cash eq.	**3,118**	**816**	**1,875**	**201**	**2,528**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	5.9	6.6	5.8	9.6	12.9
Adjusted EPS	5.9	6.6	5.8	9.6	12.9
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	57.6	64.2	68.9	77.4	89.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.1	2.9	2.5	2.0	1.6
EV/EBITDA	16.8	15.3	15.0	10.2	8.3
Adjusted P/E	33.0	29.4	33.7	20.3	15.2
P/BV	3.4	3.0	2.8	2.5	2.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	65.2	68.4	79.8	79.7	80.1
Interest burden (PBT/EBIT)	97.5	97.0	92.6	95.9	97.2
EBIT margin (EBIT/Revenue)	15.1	14.5	10.0	13.1	14.2
Asset turnover (Rev./Avg TA)	87.7	86.0	86.5	96.1	104.0
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.4	1.4	1.3
Adjusted ROAE	10.8	10.9	8.7	13.2	15.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	23.2	12.1	13.5	23.3	20.7
EBITDA	35.7	15.0	2.9	42.2	22.8
Adjusted EPS	0.4	12.1	(12.6)	66.4	33.6
Profitability & Return ratios (%)					
EBITDA margin	17.3	18.5	16.9	19.5	19.8
EBIT margin	14.4	14.4	10.0	13.0	14.2
Adjusted profit margin	9.6	9.6	7.4	10.0	11.0
Adjusted ROAE	10.8	10.9	8.7	13.2	15.4
ROCE	16.9	15.9	10.9	15.7	18.5
Working capital days (days)					
Receivables	15	19	21	21	21
Inventory	53	42	30	30	30
Payables	46	37	37	37	37
Ratios (x)					
Gross asset turnover	1.6	1.0	0.9	1.0	1.2
Current ratio	1.8	1.2	1.4	1.2	1.5
Net interest coverage ratio	40.6	33.2	13.6	24.4	35.7
Adjusted debt/equity	0.0	0.1	0.1	0.1	0.1

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

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Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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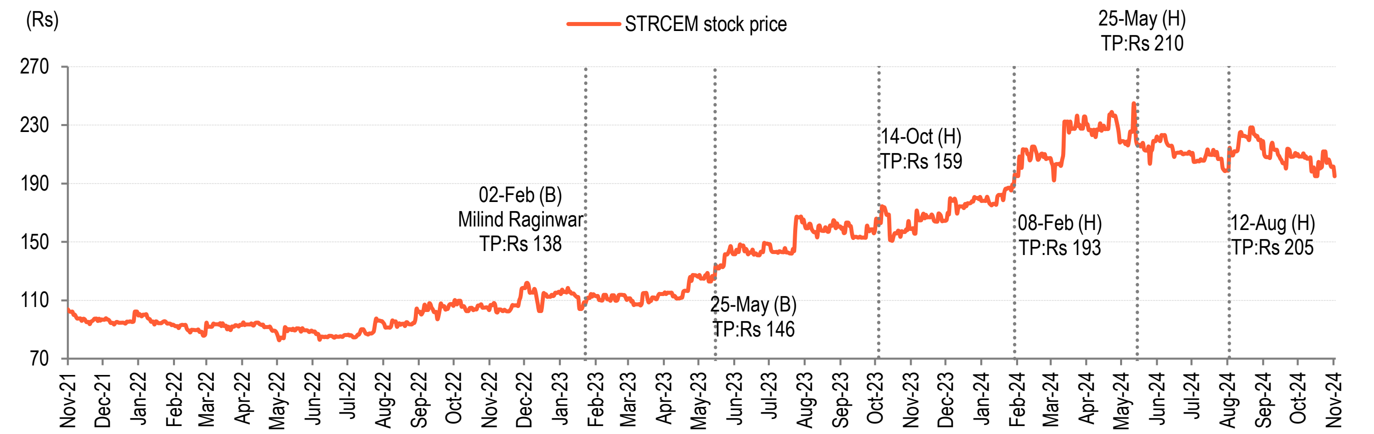
Ratings and Target Price (3-year history): STAR CEMENT (STRCEM IN)



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

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