RESULT REVIEW

BUY
TP: Rs 248 | ⮝ 16%

STAR CEMENT | Cement | 07 February 2025

Challenges behind, geared for next leap; maintain BUY

- **Revenues rose ~10%/12% YoY/QoQ in Q3FY25 backed by volume gains though realisations stayed flat**
- **EBITDA margin maintained at ~14.5% QoQ despite challenges and non-recurring expenses, fell sharply from 22.8% YoY**
- **EBITDA estimates and earnings retained for FY25E/FY26E/FY27E. Value at 10x 1-year EV/EBITDA with unchanged TP of Rs 248**

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Revenue jumps 10% driven by volume in a challenging quarter: STRCEM's revenue rose ~10%/12% YoY/QoQ to Rs 7.2bn in Q3FY25. The volume was higher by ~9%/8% YoY/QoQ at 1.06mn tonnes. Despite this the realisations stayed flat YoY (up 1.5% QoQ) at Rs 6,736/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 shot up by ~9%/1% YoY/QoQ to Rs 5,759/t which was a negative surprise. This was driven by clinker purchases of Rs 300mn included in raw material cost that shot up by ~40% YoY to Rs 1,804/t. This is likely to be non-recurring expenses and normalise over a period gradually. Energy cost adjusted to raw material expenses increased by 8%/3% YoY/QoQ to Rs 2,880/t partially offset by the softening fuel cost. The logistic cost at Rs 1,144/t is flat YoY (impacted following in-house clinker movement leading to higher inter-unit logistic cost to feed units in Assam). EBITDA fell by ~30% YoY to ~Rs 1.04bn and EBITDA margin fell sharply to 14.5% from 22.8% YoY (flat QoQ). Despite the challenges and non-recurring expenses, EBITDA/t stayed at ~ Rs 977 vs 1,534 YoY (flat QoQ).

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 to ~Rs 6.4bn for FY25 from Rs 8.35bn planned earlier.

Growth prospects intact: We maintain our FY25/FY26/FY27 EBITDA estimates for FY25. The government's focus on infrastructure in core Northeast India markets will boost volumes for STRCEM. Our EBITDA/PAT 3-year CAGR is now at 21%/11%. We continue to assign a 10x 1-year EV/EBITDA to the stock, and retain TP of Rs 248 to factor in healthy growth and earnings visibility. Our TP implies replacement cost valuation is in line with the industry average of Rs 7.5bn/mnt.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	STRCEM IN/Rs 214
Market cap	US$ 1.0bn
Free float	33%
3M ADV	US$ 5.4mn
52wk high/low	Rs 256/Rs 172
Promoter/FPI/DII	67%/1%/6%

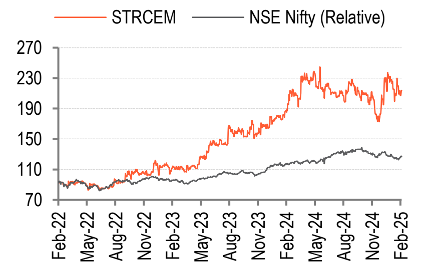
Source: NSE | Price as of 6 Feb 2025

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	4.8	8.3
Adj. ROAE (%)	11.5	6.7	11.8
Adj. P/E (x)	30.5	48.0	25.2
EV/EBITDA (x)	16.2	17.7	10.5
Adj. EPS growth (%)	18.7	(36.5)	90.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Volume and realisation	Sale of cement in Q3FY25 was 1.06mnt vs 0.9mnt YoY. Northeast India volume was 0.83mnt in Q3FY25 vs 0.73mnt in Q3FY24 and outside volumes at 0.231mnt in Q3FY25 vs 0.238mnt in Q3FY24. STRCEM sold 11% of OPC and 89% of PPC. Trade volume share was 81% and premium segment sales 12% in Q3FY25 Management expects volume growth of 10% in Q4FY25 and 7-8% in FY25. Further, management has guided for 6-7% industry growth in FY26 and expects STRCEM to grow at 12-15%.	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 10.6% in Q2FY25. Management expects volume growth of 11-12% in H2FY25.	We expect volumes to recover after a lull in FY25 given the government's focus on building up infrastructure in India's northeast region and resolution of clinkerisation unit issues.
Margins	Fuel mix from Coal India was at 50% FSA, 30% bio mass, 20% from Nagaland. Fuel cost stood at Rs 1.5/kcal. Lead distance increased to 222km from 218km QoQ. One-time maintenance shut down cost of Rs 0.10bn was incurred and additional cost to purchase clinker from outside of Rs 0.30bn which shall not occur again in Q4FY25.	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.	We expect the delays in stabilisation of the clinker unit and subsequent setback may be resolved in Q4FY25 restoring the cost structure to normalcy.
Capacity	Capacity utilisation of Siliguri plant was at 45% in Q3FY25 and management expects it to improve in Q4FY25. 12MW WHRS to be operational in Q4FY25 and AAC block to be commissioned in Q4FY25.	Capacity utilisation in Q3 to be 70% and in 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.	Capacity expansion at the appropriate time will help STRCEM stay on the growth trajectory.
Capex	Management's guidance for the commissioning of the Silchar Plant in FY26 and for the Jorhat Plant in FY27 remains the same. STRCEM incurred a capex of Rs 4bn-4.4bn in 9MFY25 and guided for Rs 2bn/Rs 6bn/Rs 3bn-4bn for Q4FY25/FY26/FY27.	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.	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 4bn at 9MFY25-end. STRCEM recorded incentives of Rs 0.43bn in Q3FY25	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.	The borrowings will be kept in check even in the capex mode and that will be the key positive for the company.

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

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Fig 2 – Key metrics

	3QFY25	3QFY24	YoY %	2QFY25	QoQ %	3QFY25E	Deviation %
Volumes (million tonnes)	1.1	1.0	10.0	1.0	9.1	1.09	(1.7)
Cement realisations (Rs/t)	6,736	6,716	0.3	6,560	2.7	6,658	1.2
Operating costs (Rs/t)	5,759	5,182	11.1	5,583	3.2	5,643	2.1
EBITDA/t (Rs)	977	1,534	(36.3)	977	(0.0)	1,015	(3.8)

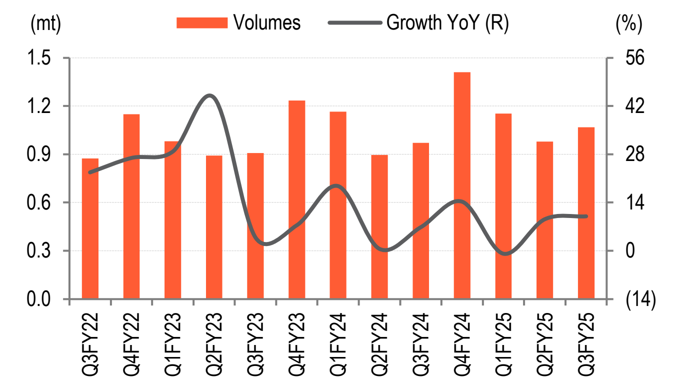
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	3QFY25	3QFY24	YoY %	2QFY25	QoQ %	3QFY25E	Deviation %
Net Sales	**7,188**	**6,514**	**10.3**	**6,415**	**12.0**	**7,231**	**(0.6)**
Expenditure							
Change in stock	(104)	(308)	(66.1)	(40)	159.5	121	NA
Raw material	2,030	1,558	30.3	1,614	25.7	1,801	12.7
Purchased products			0.0		0.0		
Power & fuel	1,148	1,336	(14.1)	1,166	(1.5)	1,374	(16.5)
Freight	1,221	1,101	10.9	1,067	14.4	1,264	(3.4)
Employee costs	606	545	11.2	646	(6.1)	655	(7.5)
Other exp	1,245	794	56.9	1,008	23.6	913	36.4
Total Operating Expenses	6,145	5,026	22.3	5,460	12.6	6,128	0.3
EBITDA	**1,042**	**1,488**	**(29.9)**	**956**	**9.1**	**1,102**	**(5.4)**
EBITDA margin (%)	14.5	22.8	(833.5)	14.9	(39.5)	15.2	(74.2)
Other Income	25	58	(56.3)	16	54.4	21	20.1
Interest	98	30	230.7	71	37.8	77	27.3
Depreciation	893	360	148.0	825	8.2	833	7.2
PBT	76	1,155	(93.4)	76	0.7	213	(64.3)
Non-recurring items			0.0		0.0		
PBT (after non recurring items)	76	1,155	(93.4)	76	0.7	213	(64.3)
Tax	(14)	365	(103.9)	19	(175.9)	53	(126.9)
Reported PAT	91	790	(88.5)	57	59.7	160	(43.4)
Adjusted PAT	**91**	**790**	**(88.5)**	**57**	**59.7**	**160**	**(43.4)**
NPM (%)	1.3	12.1	(1087bps)	0.9	38bps	2.2	(95bps)
Adjusted EPS (Rs)	**0.8**	**0.8**	**0.0**	**0.8**	**0.0**	**0.8**	**0.0**

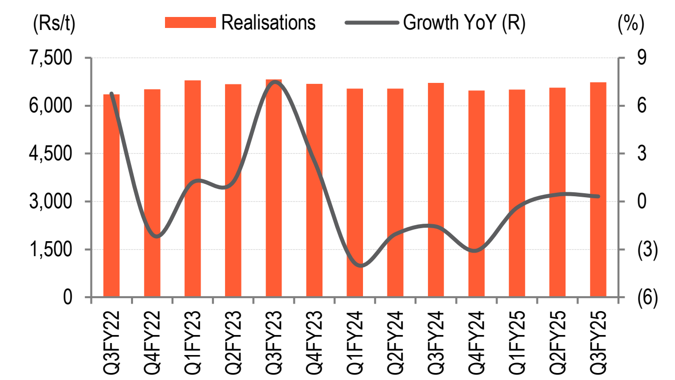
Source: Company, BOBCAPS Research

Fig 4 – Overall demand uptick awaited



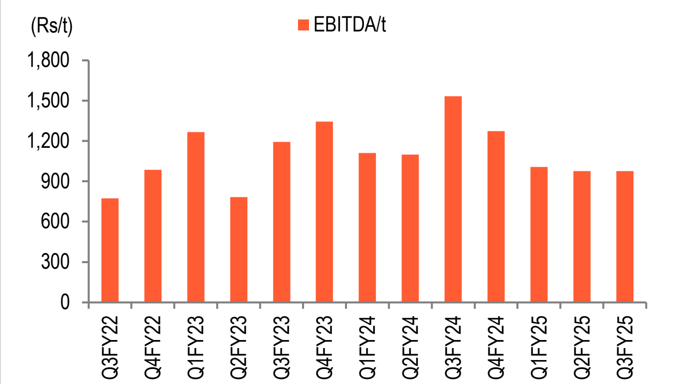
Source: Company, BOBCAPS Research

Fig 5 – Realisation well maintained with better regional mix



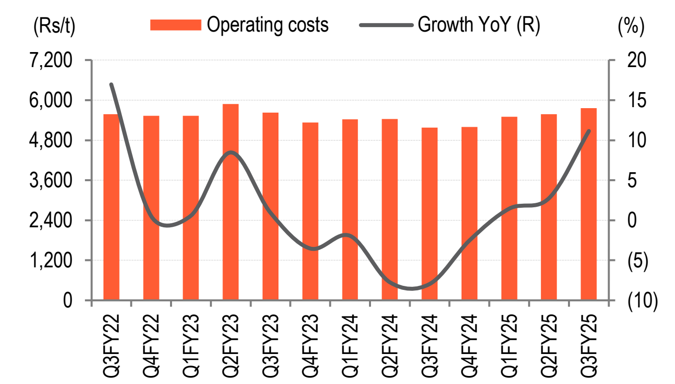
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t relatively better than peers



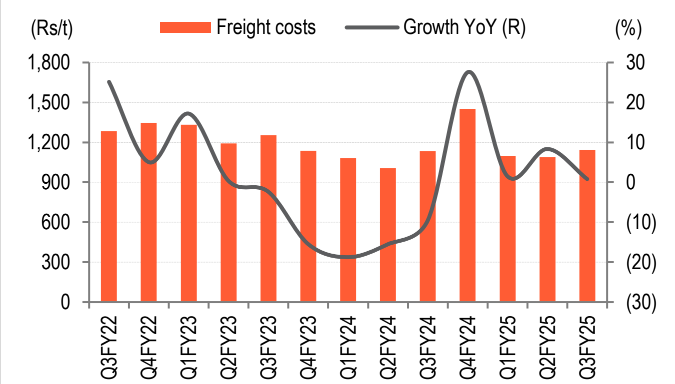
Source: Company, BOBCAPS Research

Fig 7 – Normalisation of expenses to drive better show from 4QFY25



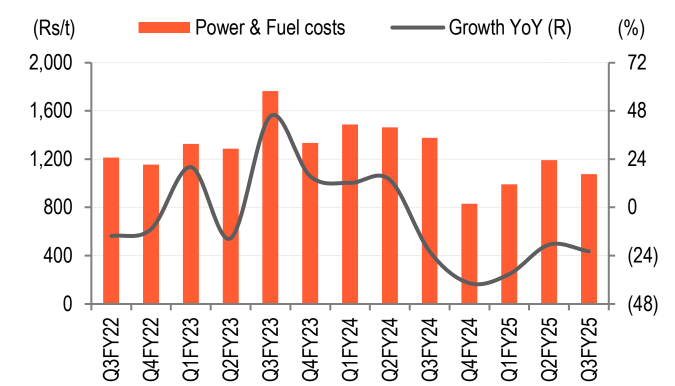
Source: Company, BOBCAPS Research

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 maintain our FY25/FY26/FY27 EBITDA estimates. The company may facilitate marginal debt as a buffer in the capex phase leading to higher interest payments that will keep EPS subdued. However, valuations are based on EV/EBITDA, implying earnings having little impact.

In our view, the government's focus on infrastructure in STRCEM's core Northeast India market will boost its volumes. Our EBITDA/PAT 3-year CAGR is 21%/11% (PAT growth is lower as explained in the paragraph above). We believe timely capacity expansion will help STRCEM stay on the growth trajectory and aid earnings as demand recovers. Also, we expect delays in the stabilisation of the clinker unit and the subsequent setback will be resolved in 4QFY25, restoring the cost structure to normal.

We believe better cost efficiencies, including focus on reducing logistics cost and improving availability of fuel cost efficiently, will only help EBITDA margins in FY26E/FY27E to improve. This will improve the EBITDA margins trajectory to the 21-22% range (after the setback in FY25E) and healthy balance sheet management will keep the ROE/ROCE band at 14-16% in the next two years.

Factoring in all the above factors we maintain 10x 1-year EV/EBITDA on the STRCEM stock, and arrive at a TP of Rs 248 (unchanged) to factor in healthy growth and earnings visibility. Our TP implies replacement cost valuation, which is in line with the industry average of Rs 7.5bn/mnt. We maintain BUY.

Fig 10 – Key assumptions

	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

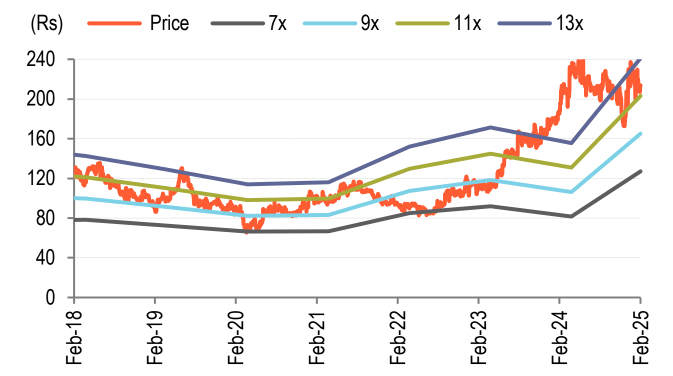
Source: Company, BOBCAPS Research

Fig 11 – Valuation summary

(Rs mn)	1-year Forward
Target EV/EBITDA (x)	10.0
EBITDA	10,506
Target EV	1,07,158
Total EV	1,07,158
Net debt	1,576
Target market capitalisation	1,05,582
Target price (Rs/sh)	**248**
Weighted average shares (mn)	404

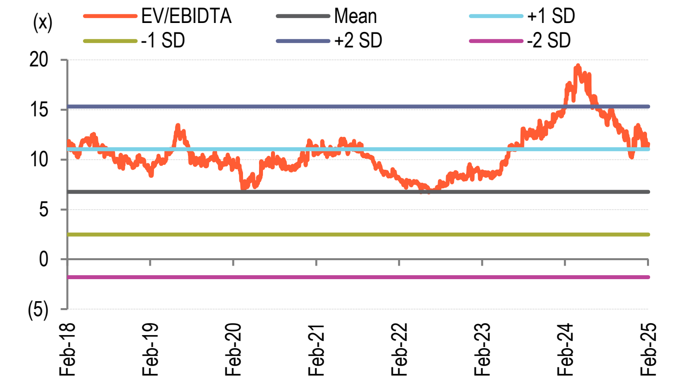
Source: BOBCAPS Research| Note: 1-year forward estimates include partial FY27 earnings

Fig 12 – EV/EBITDA band: Valuations to follow earnings pace



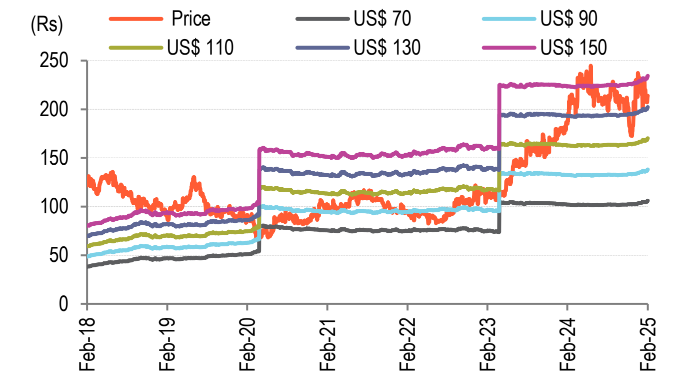
Source: Bloomberg, BOBCAPS Research

Fig 13 – EV/EBITDA 1Y fwd:



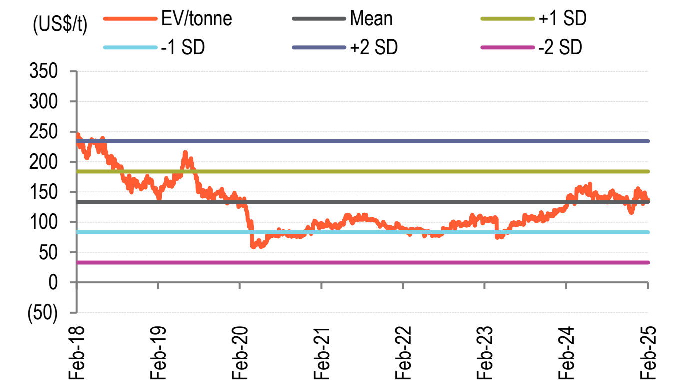
Source: Bloomberg, BOBCAPS Research

Fig 14 – EV/tonne: Replacement cost will stay inflated for efficient companies in the sector



Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/tonne: 1Y forward valuations are relatively modest



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Slower-than-expected demand revival in Northeast India.
- Fierce competitive pressure from companies in eastern India could strain pricing.
- Any cost reversal upwards poses a risk to earnings

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**25,756**	**28,882**	**32,494**	**38,826**	**45,799**
EBITDA	4,684	5,552	5,173	8,449	10,506
Depreciation	(1,311)	(1,466)	(2,928)	(3,719)	(4,119)
EBIT	3,894	4,350	2,579	5,078	6,776
Net interest inc./(exp.)	(96)	(126)	(242)	(386)	(397)
Other inc./(exp.)	521	265	334	347	390
Exceptional items	0	0	0	0	0
EBT	3,798	4,224	2,337	4,692	6,380
Income taxes	(1,321)	(1,285)	(471)	(1,137)	(1,576)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**2,477**	**2,940**	**1,866**	**3,555**	**4,804**
Adjustments	0	0	0	0	0
Adjusted net profit	**2,477**	**2,940**	**1,866**	**3,555**	**4,804**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,820	2,197	2,774	3,143	3,654
Other current liabilities	3,972	5,269	6,056	6,964	7,034
Provisions	97	158	155	170	187
Debt funds	261	1,298	3,157	4,807	5,007
Other liabilities	0	0	0	0	0
Equity capital	404	404	404	404	404
Reserves & surplus	23,760	26,697	28,103	31,239	35,623
Shareholders' fund	24,164	27,101	28,507	31,643	36,027
Total liab. and equities	**31,314**	**36,024**	**40,648**	**46,728**	**51,909**
Cash and cash eq.	3,117	973	1,151	2,199	3,431
Accounts receivables	1,047	1,508	1,870	2,181	2,572
Inventories	3,741	3,350	2,671	3,191	3,764
Other current assets	4,377	3,397	3,433	3,780	4,287
Investments	1,725	20	20	20	20
Net fixed assets	8,850	14,096	26,514	27,500	28,086
CWIP	5,506	10,190	2,259	4,859	6,459
Intangible assets	60	88	91	93	95
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**	**36,024**	**40,648**	**46,728**	**51,909**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**4,543**	**6,447**	**6,196**	**7,124**	**7,758**
Capital expenditures	(5,394)	(11,332)	(7,417)	(7,307)	(6,307)
Change in investments	(89)	1,706	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(5,482)**	**(9,626)**	**(7,417)**	**(7,307)**	**(6,307)**
Equities issued/Others	422	(1,260)	0	0	0
Debt raised/repaid	207	1,037	1,859	1,650	200
Interest expenses	8	9	10	10	10
Dividends paid	(419)	(419)	(419)	(419)	(419)
Other financing cash flows	-	1,677	(41)	0	0
Cash flow from financing	**210**	**1,035**	**1,398**	**1,231**	**(219)**
Chg in cash & cash eq.	**(729)**	**(2,144)**	**178**	**1,048**	**1,232**
Closing cash & cash eq.	**3,118**	**973**	**1,151**	**2,199**	**3,431**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	5.9	7.0	4.5	8.5	11.5
Adjusted EPS	5.9	7.0	4.5	8.5	11.5
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	57.6	64.6	68.0	75.5	85.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.4	3.1	2.8	2.3	1.9
EV/EBITDA	18.5	16.2	17.7	10.5	8.3
Adjusted P/E	36.2	30.5	48.0	25.2	18.7
P/BV	3.7	3.3	3.1	2.8	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	65.2	69.6	79.9	75.8	75.3
Interest burden (PBT/EBIT)	97.5	97.1	90.6	92.4	94.1
EBIT margin (EBIT/Revenue)	15.1	15.1	7.9	13.1	14.8
Asset turnover (Rev./Avg TA)	87.7	85.8	84.8	88.9	92.9
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.4	1.5	1.5
Adjusted ROAE	10.8	11.5	6.7	11.8	14.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	23.2	12.1	12.5	19.5	18.0
EBITDA	35.7	18.5	(6.8)	63.3	24.3
Adjusted EPS	0.4	18.7	(36.5)	90.5	35.1
Profitability & Return ratios (%)					
EBITDA margin	17.3	19.1	15.9	21.4	22.6
EBIT margin	14.4	14.9	7.9	12.9	14.6
Adjusted profit margin	9.6	10.2	5.7	9.2	10.5
Adjusted ROAE	10.8	11.5	6.7	11.8	14.2
ROCE	16.9	16.5	8.6	14.9	17.5
Working capital days (days)					
Receivables	15	19	21	21	21
Inventory	53	42	30	30	30
Payables	46	34	37	37	37
Ratios (x)					
Gross asset turnover	1.6	1.2	0.8	0.9	0.9
Current ratio	1.8	1.2	1.0	1.1	1.3
Net interest coverage ratio	40.6	34.5	10.7	13.2	17.1
Adjusted debt/equity	0.0	0.0	0.1	0.2	0.1

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

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

BUY – Expected return >+15%

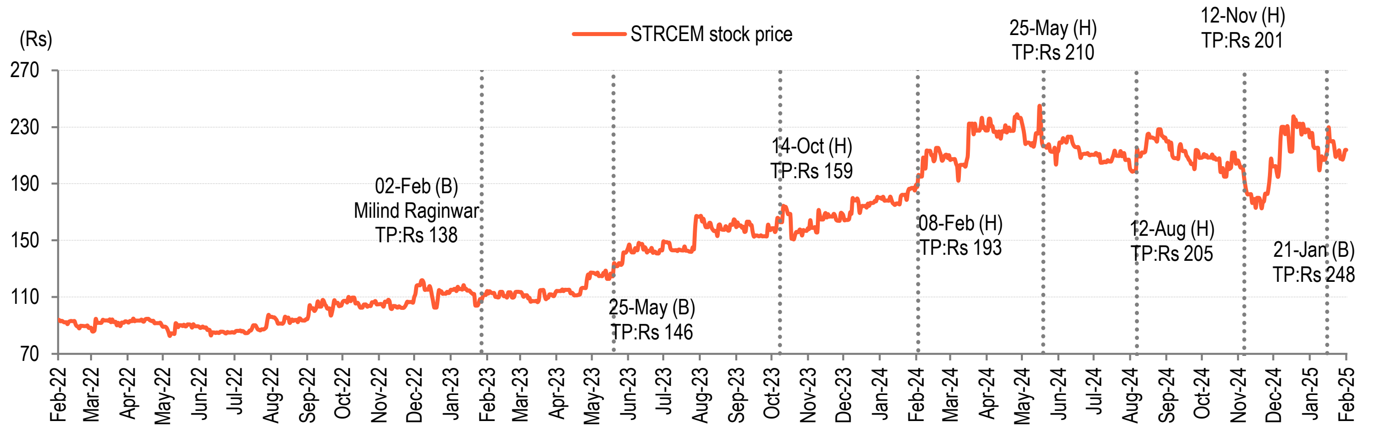
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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