

Star Ferro & Cement Ltd: Q4FY16 Result Update

Operationally weak
CMP: INR 115
Target : INR 132
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Bloomberg:
SFCL:IN

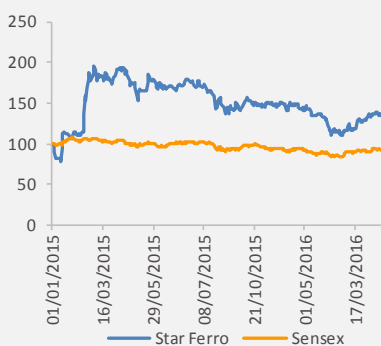
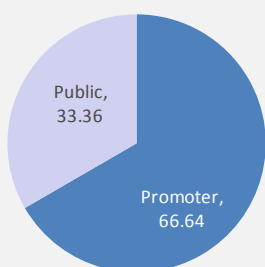
52-week range (INR): 175 / 95

Share in issue (Crs): 22.2

M cap (INR crs): 2,624

 Avg. Daily Vol. BSE/NSE
 :('000): 32

SHARE HOLDING PATTERN (%)


 Date: 5th May, 2016

Star Ferro & Cement Ltd. (SFCL) reported topline of INR 561.6 crs for Q4FY16, which was up 11% YoY on the back of 10% volume growth. However, the realizations for the company grew only 1% YoY to INR 6318/tonne, on the back of weak pricing environment in the East. Operating margins declined by 803 bps to 22.5% YoY on the back of subdued realization and higher freight costs. PAT came in at INR 39.8 crs v/s INR 54.9 crs for Q4FY15, a decline of 28% YoY. We believe the cement demand in NE will grow faster than other regions, driven by the Government's increased thrust on bringing infrastructure in this region on par with the rest of India. With SFCL's leadership position in this niche market, focus on brand building and recent capacity expansion, we believe the company is in a sweet spot to capitalize on the incremental demand. We raise our EBITDA estimates 3.2%/11.9% for FY17E/FY18E respectively. We continue to maintain our "BUY" recommendation on the stock with a target price of INR 132/share (6x FY18E EV/EBITDA).

Profitability marred by higher costs and subdued realisations

SFCL's topline at INR 561.6 crs was up 11% YoY, mainly driven by 10% volume growth for the quarter. Utilization levels for the year stood at 78% for the company, with 2.7 MT of sales during the year (North East (NE) accounted for 64% of the volume). Realizations however increased by a marginal 1% YoY as prices in the East witnessed a decline of ~INR15/bag. The NE market has grown by 15% during the quarter, while the Eastern market grew ~8%, as sand availability issues in Bihar led to subdued growth in the region. The decline in EBITDA was primarily led by weak realisations, while increase in coal costs as well as freight costs for the quarter further impacted EBITDA by ~INR 150/tonne, causing it to decline from INR 1890/tonne to INR 1408/tonne YoY. Going forward, we believe that the Government's focus on improving infrastructure and housing in NE would drive cement volume growth in the region. We expect volume growth CAGR of 12% for the company over FY16-18E.

Debt repayment to be deferred

SFCL has ~INR 600 crs of subsidy disbursement outstanding from the government, which is yet to be received, further delaying its debt repayment plans. The company also expects its 1 MT grinding unit in Siliguri to be commissioned in 18 months along with additional debottlenecking of its current facility in NE by 0.3 MT, taking its total capacity to 5 MT by FY18E. In addition, the transport subsidy received by the company is expected to expire post 2018.

Valuations

We raise our EBITDA estimates 3.2%/11.9% for FY17E/FY18E respectively. We continue to maintain our "BUY" recommendation as the stock is trading at attractive valuation of 5.4x FY18E EV/EBITDA and an EV/tonne of USD 102/tonne. We value the company at 6x FY18E EV/EBITDA with a target price of INR 132/share.

Year to March	Q4FY16	Q4FY15	% Change	Q3FY16	% Change	FY16E	FY17E	FY18E
Net Revenue (INR. Crs.)	563	507	11.1	429	31.4	1,715	2,007	2,454
EBITDA (INR Crs.)	127	155	(18.1)	92	38.2	398	485	617
Adj. Net Profit (INR Crs.)	40	55	(27.7)	19	114.2	136	178	278
Adj. Diluted EPS (INR)	1.8	2.5		0.8		4.0	5.9	10.4
Diluted P/E (x)						28.6	19.4	11.1
EV/EBITDA (x)						9.2	6.8	5.4
RoE (%)						19%	21%	27%

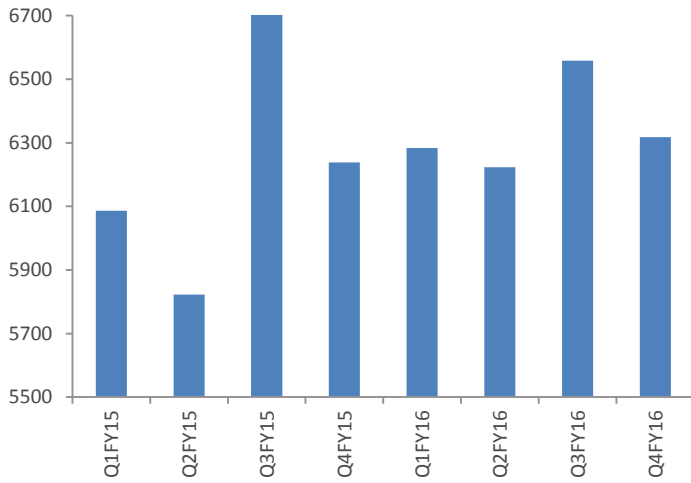
Q4FY16 Result Highlights

Year to March (INR Crs.)	Q4FY16	Q4FY15	%Change	Q3FY16	%Change	FY16E	FY17E	FY18E
Net Revenues (incl Op. Inc.)	563	507	11.1	429	31.4	1,715	2,007	2,454
Raw Materials Cost	149	107	38.3	96	55.0	346	399	482
Gross Profit	415	400	3.8	333	24.6	1,370	1,607	1,972
Other Expenditure	288	245	17.6	241	19.4	972	1,122	1,355
Operating Expenses	288	245	17.6	241	19.4	972	1,122	1,355
EBITDA	127	155	(18.1)	92	38.2	398	485	617
EBITDA margin	22.5%	30.5%		21.4%		23.2%	24.2%	25.2%
Depreciation	44.0	60.0	(26.7)	43.0	2.2	171.5	174.5	187.8
Other income	0.2	(0.9)		1.3		1.4	1.4	1.4
Net finance expense	21.6	20.1	7.8	19.9	8.7	85.4	80.7	70.4
Profit before tax	61	74	(16.8)	30	104.0	142	231	361
Provision for taxes	2.6	(1.9)		0.8		5.5	53.2	82.9
Reported Net profit	59	76	(22.3)	29	100.9	137	178	278
Extraordinary items/Minority Interest	18.8	21.0		10.2		46.4	46.4	46.4
Adjusted Net profit	40	55		19		90	132	231
As % of net revenues								
COGS	26	21		22		20	20	20
Other Expenses	51	48		56		57	56	55
Operating expenses	51	48		56		57	56	55
EBITDA	22	31		21		23	24	25
Reported net profit	10	15		7		8	9	11
Tax rate (% of PBT)	4.2	(2.6)		2.7		3.9	23.0	23.0

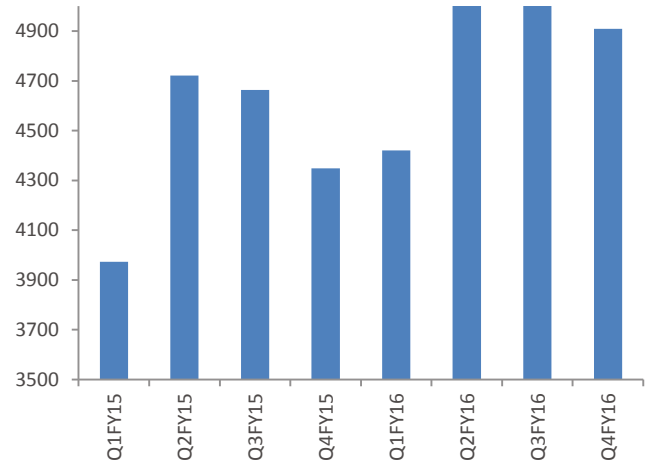
Change in Estimates

	FY17E			FY18E		
	Previous	Revised	%Change	Previous	Revised	%Change
Sales	1,799	2,007	11.6%	2,130	2,454	15.2%
EBITDA	470	485	3.2%	552	617	11.9%
EBITDA margins	26%	24%	-2%	26%	25%	-1%
PAT	157	132	-16%	222	231	4%
EPS	7.0	5.9	-16%	10.0	10.4	4%

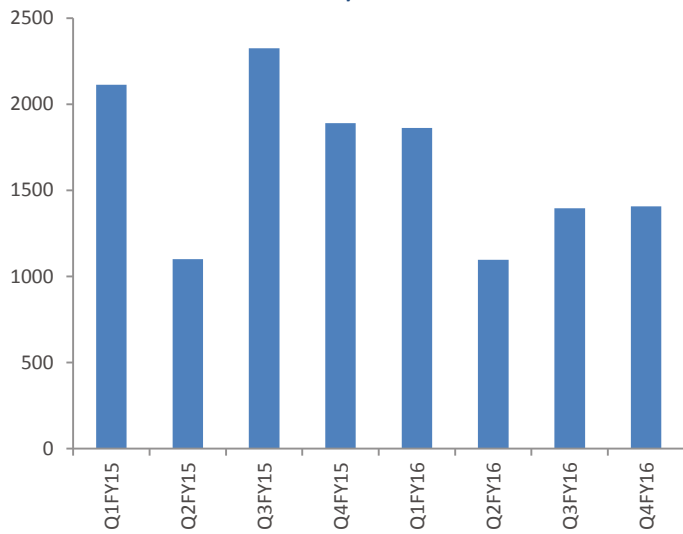
Realisation/tonne



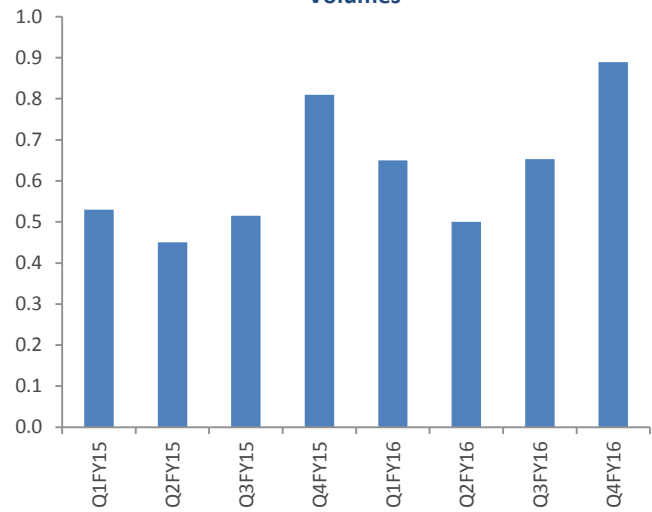
Costs/tonne



EBITDA/tonne



Volumes



Company Description

Star Ferro and Cement Ltd. (SFCL) (formerly a division of Century Plyboards India Ltd) was incorporated as a separate company in 2011, with the demerger coming in effect from 1st April, 2012. The company was engaged in the manufacture of cement as well as ferro alloys, contributing 88% and 12%, respectively to revenues in FY14. With effect from 1st April, 2014, the ferro alloy division has been demerged into Shyam Century Ferrous Ltd at a demerger ratio of 1:1. SFCL is primarily focused on the North East region, where it is the market leader with a 23% market share. The company has an installed capacity of ~3.4 MT, with 2.6 MT of clinker capacity and ~1.4 MT of grinding capacity in Meghalaya, 1.6 MT of grinding capacity in Assam and 0.4 MT of hired grinding units in West Bengal. Further, the company is planning to expand its footprint in the East with a 1 MT grinding unit in WB, which is expected to come on stream by FY17E. SFCL also has 51 MW power plant in Meghalaya and its limestone mines are located within 2-3 kms of the plants, leading to uninterrupted supply of raw material.

Investment Theme

Star Ferro & Cement Ltd. (SFCL) operates in the lucrative North East region (NE), a niche market with only a few players and premium pricing due to its geographical complexity. SFCL is a leading cement player in this region with a market share of 23%. SFCL expects to be debt free by FY17E on account of (a) 20% CAGR growth in volumes and (b) capital & freight subsidies. With the Government's increased thrust on bringing infrastructure in this region on par with the rest of the country, we believe the cement demand to be higher than other regions. Additionally SFCL focus on brand building and recent capacity expansion puts it in a sweet spot to capitalise on the incremental demand.

Key Risks

Changes in macro environment

The company is heavily dependent on the state of the economy any slowdown in the same would impact our earnings substantially.

Drop in Cement prices/Rise in input cost

Any drop in cement prices or rise in input cost would impact our profitability and revenues growth projections substantially.

Financials

Income Statement

Year to March (INR Cr)	FY14	FY15	FY16	FY17E	FY18E
Net revenue	1,173	1,430	1,715	2,007	2,454
Materials costs	202	230	346	399	482
Gross profit	972	1,201	1,370	1,607	1,972
Power & Fuel Cost	209	172	217	251	303
Freight Cost	198	257	336	388	469
Other Cost	312	337	419	483	584
EBITDA	252.91	435.10	398	485	617
Depreciation & Amortization	162	224	171	175	188
EBIT	91.27	211.36	226	311	430
Other income	3	1	1	1	1
Extraordinary Items	(1)	0	1	-	-
EBIT incl. other income	95	212	227	312	431
Interest expenses	87	87	85	81	70
Profit before tax	7.57	124.76	142	231	361
Provision for tax	3	5	6	53	83
Net profit	5	120	136	178	278
Minority Interest	(1)	37	46	46	46
Adj Net Profit	7.11	83.44	89	132	231
Basic shares outstanding (crs)	22	22	22	22	22
EPS (Rs.)	0.3	3.8	4.0	5.9	10.4
Dividend per share (Rs.)	0.5	-	-	-	-
Dividend payout (%)	N/A	0.0%	0.0%	0.0%	0.0%

Common Size

Year to March	FY14	FY15	FY16	FY17E	FY18E
Materials costs	17.2%	16.0%	20.1%	19.9%	19.6%
Depreciation	13.8%	15.6%	10.0%	8.7%	7.7%
EBITDA margins	21.6%	30.4%	23.2%	24.2%	25.2%
EBIT margins	7.8%	14.8%	13.2%	15.5%	17.5%
Net profit margins	0.4%	8.4%	7.9%	8.9%	11.3%

Growth Ratios

Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenues	77.9%	21.9%	19.9%	17.0%	22.3%
EBITDA	113.6%	72.0%	-8.6%	22.0%	27.2%
PBT	-81.7%	1548.1%	13.7%	63.1%	55.8%
Net profit	-71.6%	1073.6%	7.1%	47.4%	75.5%

Balance Sheet

As on 31st March	FY14	FY15	FY16E	FY17E	FY18E
Equity capital	22	22	22	22	22
Reserves & surplus	664	658	747	879	1,110
Borrowings	1,066	966	1,101	851	851
Deferred Tax Liabilities (Net)	4	9	11	11	11
Minority Interest	253	323	370	416	462
Sources of funds	2,010	1,978	2,251	2,180	2,457
Net Fixed Assets	1,272	1,069	912	788	800
Investments	2	2	2	2	2
Inventories	175	109	209	186	228
Sundry debtors	142	310	449	444	543
Cash & Bank Balances	13	20	10	91	65
Other Current assets	1	0	1	1	1
Loans and advances	604	680	814	874	1,069
Total current assets	934	1,120	1,482	1,595	1,906
Sundry creditors and others	196	203	140	201	246
Provisions	2	10	4	4	4
Total current liabilities & provisions	198	213	145	205	250
Net current assets	736	907	1,338	1,390	1,656
Uses of funds	2,010	1,978	2,251	2,180	2,457

Free cash flow

Year to March	FY14	FY15	FY16E	FY17E	FY18E
Net profit	5	120	136	178	278
Add : Depreciation	162	224	171	175	188
Others	88	70	85	79	69
Gross cash flow	254	414	392	432	534
Less: Changes in WC	(94)	(153)	(441)	28	(291)
Operating cash flow	160	261	(49)	460	244
Less: Capex	119	41	15	50	200
Free cash flow	41	219	(64)	410	44

Cash Flow Statement

Year to March	FY14	FY15	FY16E	FY17E	FY18E
Cash flow from operations	160	261	(49)	460	244
Cash Flow from investing activities	117	41	14	49	199
Cash Flow from financing activities	(59)	(210)	52	(331)	(70)
Capex	119	41	15	50	200
Dividends	(10)	-	2	-	-

Profitability & Efficiency Ratios

Year to March	FY14	FY15	FY16E	FY17E	FY18E
ROAE (%)	0.7%	17.6%	18.8%	21.3%	27.3%
ROACE (%)	5.5%	12.5%	12.9%	17.2%	23.1%
ROIC (%)	4.8%	10.6%	10.7%	14.1%	18.6%
Inventory day	51	36	34	34	34
Debtors days	29	58	81	81	81
Payable days	46	51	37	37	37
Cash conversion cycle (days)	34	43	78	78	78
Current ratio	4.7	5.3	10.2	7.8	7.6
Debt/Equity	1.6	1.4	1.4	0.9	0.8

Turnover Ratios

Year to March	FY14	FY15	FY16E	FY17E	FY18E
Total asset turnover	0.5	0.7	0.7	0.8	1.0
Fixed asset turnover	0.8	0.9	1.1	1.2	1.4
Equity turnover	1.7	2.1	2.4	2.4	2.4

Du Pont Analysis

Year to March	FY14	FY15	FY16E	FY17E	FY18E
NP margin (%)	0%	8%	8%	9%	11%
Total assets turnover	0.5	0.7	0.7	0.8	1.0
Leverage multiplier	3.1	3.2	3.2	2.9	2.5
ROAE (%)	0.7%	17.6%	18.8%	21.3%	27.3%

Valuation Parameters

Year to March	FY14	FY15	FY16E	FY17E	FY18E
Diluted EPS (Rs.)	0.3	3.8	4.0	5.9	10.4
Y-o-Y growth (%)	-71.6%	1073.6%	7.1%	47.4%	75.5%
Diluted PE (x)	359.4	30.6	28.6	19.4	11.1
Price/BV (x)	3.7	3.8	3.3	2.8	2.3
EV/Sales (x)	3.1	2.4	2.1	1.7	1.4
EV/ton (USD/tonne)	198.8	168.5	166.3	127.5	102.8
EV/EBITDA (x)	14.3	8.0	9.2	6.8	5.4
EBITDA/ton	1,412.1	1,843.6	1,492.0	1,654.1	1,829.9
Dividend yield (%)	0.4%	0.0%	0.0%	0.0%	0.0%

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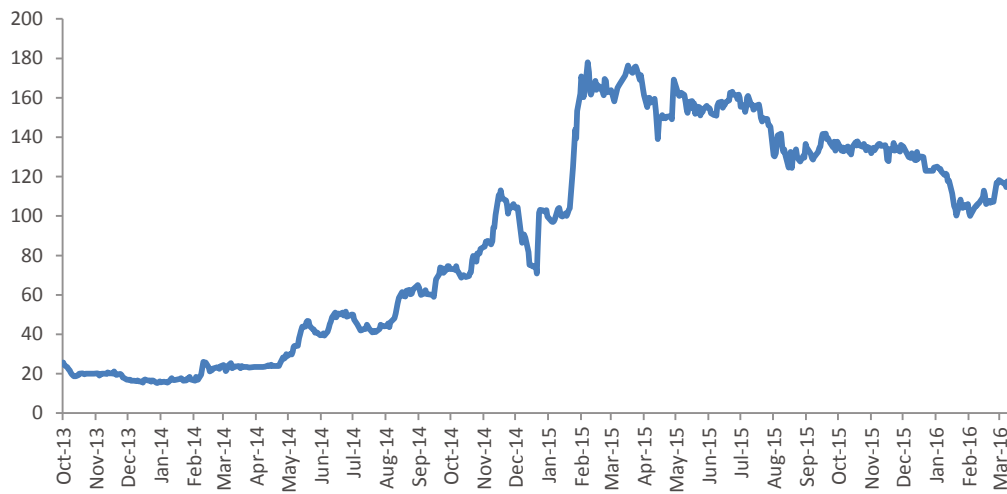
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Rating	Expected to
Buy	appreciate more than 25% over a 12-month period
Hold	appreciate up to 10% over a 12-month period
Reduce	depreciate more than 10% over a 12-month period

Star Ferro 5 year price chart



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