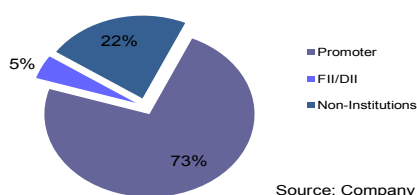


Key Share Data

Face Value (INR)	1.0
Equity Capital (INR Mn)	419.2
Market Cap (INR Mn)	52,464.6
52 Week High/Low (INR)	151/102
3 months Avg. Daily Volume (BSE)	52,498
BSE Code	540575
NSE Code	STARCEMENT
Bloomberg Code	STRCEM:IN

Shareholding Pattern (as on Dec 2017)



Key Financials (INR Million)

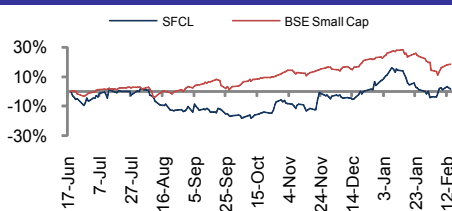
Particulars	FY17	FY18E	FY19E	FY20E
Net Sales	17,280.0	16,672.5	19,185.4	21,959.0
Growth (%)	0.8%	-3.5%	15.1%	14.5%
EBITDA	4,087.8	5,718.7	5,851.5	6,587.7
PAT	1,716.3	3,369.4	3,700.3	4,348.9
Growth (%)	28.0%	96.3%	9.8%	17.5%
EPS (INR)	4.1	8.0	8.8	10.4
BVPS (INR)	30.7	36.7	43.3	51.5

Key Financials Ratios

Particulars	FY17	FY18E	FY19E	FY20E
P/E (x)	27.1	15.6	14.2	12.1
P/BVPS (x)	3.6	3.4	2.9	2.4
Mcap/Sales (x)	2.7	3.1	2.7	2.4
EV/EBITDA (x)	13.0	9.5	8.5	6.8
ROCE (%)	14.5%	23.8%	24.7%	18.1%
ROE (%)	14.3%	23.9%	22.1%	24.0%
EBITDA Mar (%)	23.7%	34.3%	30.5%	30.0%
PAT Mar (%)	9.9%	20.2%	19.3%	19.8%
Debt - Equity (x)	0.5	0.2	0.1	0.1

Source: Company, SKP Research

3M price performance SFCL vis-à-vis BSE Small Cap



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Company Background

Star Cement Ltd (SCL), promoted by Mr. Sajjan Bhajanka and Mr. Sanjay Agarwal (also promoters of Century Plyboards) is the largest cement player in the North East Region (NER) with 23% market share selling under 'Star Cement' brand. It has fully integrated cement plants with installed cement capacity of 4.7 MTPA (own capacity 3.5 MTPA & leased capacity 1.2 MTPA); 2.6 MTPA of clinker capacity and 51 MW of power plant located in Meghalaya and Assam.

Investment Rationale

Top-line to grow at a CAGR of ~8% over FY17-20E

- ▶ During Q3FY18, SCL reported net sales of Rs 3,730 mn, a growth of ~8.9% y-o-y, led by 11% y-o-y increase in realisation to Rs 5,987 while volumes declined ~6% y-o-y to 0.62 MT. The cement demand in NER grew by ~4% for the quarter against decline seen in preceding four quarters. Sales outside NE region fell 38% y-o-y on sales market rationalisation.
- ▶ Going forward, we expect SCL sales to grow at a CAGR of ~8% during FY17-20E on the back of (1) Govt's thrust on infrastructure development in NER (2) en-route to eastern market with robust distribution network and retail-centric business model (3) superior brand mix and innovative marketing strategies, resulting in better capacity utilization and higher sales volume. We expect cement sales to increase at a CAGR of ~8.1% in FY17-20E.

Receipt of subsidy - Key trigger for SCL

- ▶ The Company is entitled to receive Rs 7.2 bn of subsidies from the government and management is hopeful of receiving ~Rs 3 bn in FY18 on higher fund allocation (for subsidy disbursement) by the central government. We believe the receipt of subsidy could help make the company debt free and act as a key trigger for the company.

Margins to stabilize at ~30% with focus on improving volumes and rationalising cost structure

- ▶ EBITDA margins during Q3FY18, increased by 1,217 bps y-o-y to 37.9%, led by stable pricing in the NE region (reported NSR increase of 11% y-o-y) and lower raw material expenses, mainly led by increase in plant efficiency and lower fly-ash cost which led to ~70% y-o-y improvement in EBITDA/MT to Rs 2,280.
- ▶ EBITDA margins have declined significantly from ~30.4% in FY13 to ~23.4% in FY17 on account of an increase in coal cost, higher freight and RM cost. Further, various benefits (like capital investment subsidy, interest subsidy on working capital and transport subsidy) that the company enjoys under the NE industrial policy (NEIIPP 2007) will expire in 2018. Therefore, EBITDA margins to stabilize at ~30% in FY20E.

Reverse merger of SFCL in SCL simplified holding structure

- ▶ The erstwhile listed entity Star Ferro & Cement (SFCL) has reverse merged with its subsidiary SCL. SFCL shareholders received 1.33 shares of SCL for every one share held. Consequently, SFCL has dissolved and SCL becomes the new entity, promoter holding in listed SCL has increased to 75% vs 64% promoter holding in SFCL. The re-organisation has simplified the corporate structure without any equity dilution.

Valuation

- ▶ With government's thrust on infrastructure development, Star's leadership in NER with entry barriers, strong brand pull and pricing power coupled with robust distribution network, retail-centric business model, raw material security, en-route to eastern market and enhancing return ratios, augurs well for SCL. We have valued the stock on the basis of EV/EBITDA - of 10x of FY20E EBITDA - method of relative valuation and recommend "BUY" on the stock with a target price of Rs 176/- (~41% upside) in 18 months.

Q3FY18 Result Update

Exhibit: Q3FY18 Result Review

Figs. in Rs Million

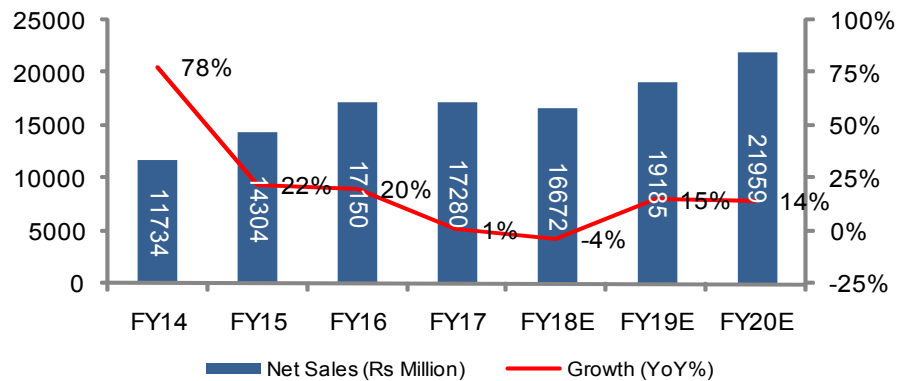
Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	9M-FY18	9M-FY17	YoY (%)
Total Income	3,730.6	3,427.2	8.9%	2,810.0	32.8%	10,870.9	10,675.6	1.8%
Expenditure	2,317.2	2,545.8	-9.0%	2,040.4	13.6%	7,101.7	8,285.7	-14.3%
Material Consumed	534.4	552.7	-3.3%	351.3	52.1%	1,572.3	1,946.0	-19.2%
<i>(asa % of Total Income)</i>	14.3%	16.1%		12.5%		14.5%	18.2%	
Purchase of Traded goods	123.1	210.1	0.0%	54.1	127.5%	334.0	834.4	-60.0%
<i>(asa % of Total Income)</i>	3.3%	6.1%		1.9%		3.1%	7.8%	
Changes in Inventories & WIP	(152.8)	162.5		273.1		77.0	(89.2)	
<i>(asa % of Total Income)</i>	-4.1%	4.7%		9.7%		0.7%	-0.8%	
Employees Cost	274.6	287.5	-4.5%	268.5	2.3%	827.6	897.9	-7.8%
<i>(asa % of Total Income)</i>	7.4%	8.4%		9.6%		7.6%	8.4%	
Other Expenses	1,537.9	1,333.1	15.4%	1,093.5	40.6%	4,290.9	4,696.7	-8.6%
<i>(asa % of Total Income)</i>	41.2%	38.9%		38.9%		39.5%	44.0%	
EBITDA	1,413.4	881.4	60.4%	769.6	83.7%	3,769.2	2,389.9	57.7%
EBITDA Margin (%)	37.9%	25.7%	1,217 Bps	27.4%	1,050 Bps	34.7%	22.4%	1,229 Bps
Depreciation	336.5	355.9	-5.5%	326.0	3.2%	965.6	1,056.7	-8.6%
EBIT	1,076.9	525.5	104.9%	443.6	142.8%	2,803.6	1,333.2	110.3%
Other Income	2.6	0.8	236.7%	9.0	-70.7%	15.3	7.2	112.3%
Interest Expense	137.1	186.6	-26.5%	141.4	-3.1%	435.8	596.2	-26.9%
Profit Before Tax	942.0	333.4	182.6%	311.3	202.6%	2,380.7	741.4	221.1%
Income Tax	28.4	(0.9)	-3163.1%	48.7	-41.7%	109.9	12.0	811.9%
<i>Effective Tax Rate (%)</i>	3.0%	-0.3%	-	15.7%	-	4.6%	1.6%	-
Profit After Tax (PAT)	913.5	334.3	173.3%	262.6	247.9%	2,270.8	729.3	211.4%
Minority interests	18.4	12.6		7.5		45.7	41.4	
Profit After Tax (PAT)	895.1	321.7	178.3%	255.1	250.9%	2,225.2	687.95	223.4%
PAT Margins (%)	24.5%	9.4%	1,510 Bps	9.3%	1,514 Bps	20.89%	6.83%	1,406 Bps
Diluted EPS	2.14	0.77	178.3%	0.61	250.9%	5.31	1.64	223.4%

Source: Company Data, SKP Research

Top-line expected to grow at a CAGR of 8% over FY17-20E

Exhibit: Net Sales & Net Sales Growth

Net Sales is expected to grow at a CAGR 8% percent to Rs 21,959 million over FY17-20E

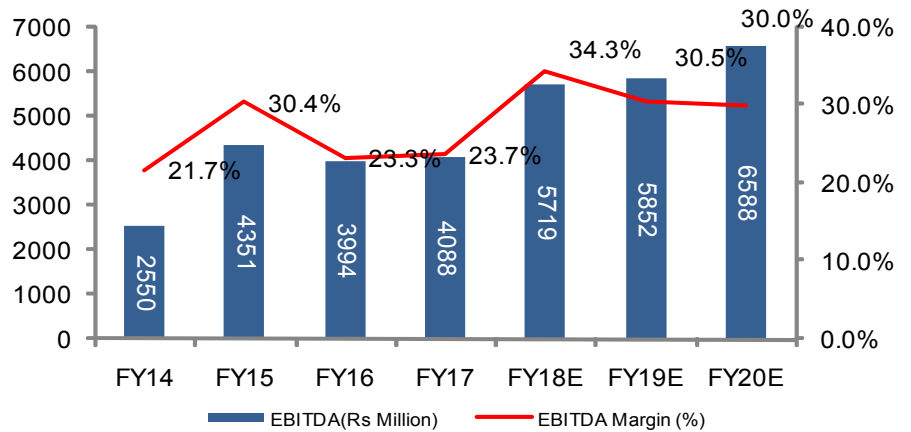


Source: SKP Research

EBITDA margins to stabilize at ~30% by FY20E

Exhibit: EBITDA & EBITDA Margin (%)

EBITDA is expected to grow at a CAGR 17% percent to Rs 6,588 million over FY17-20E

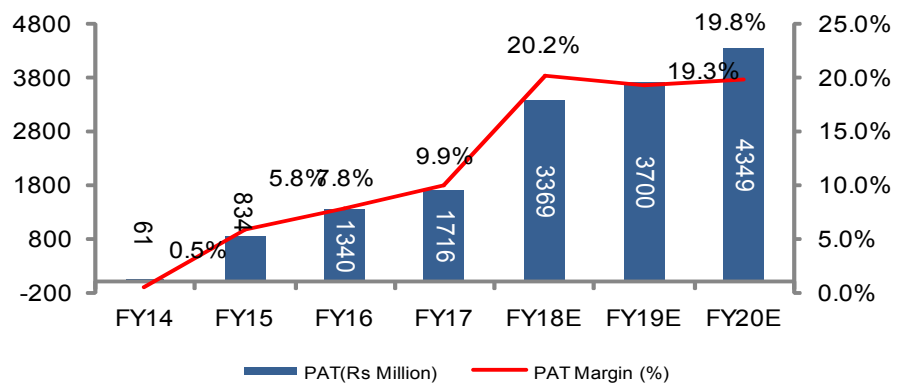


Source: SKP Research

PAT margins to improve by 152 bps over FY17 –FY20E

Exhibit: PAT & PAT Margin (%)

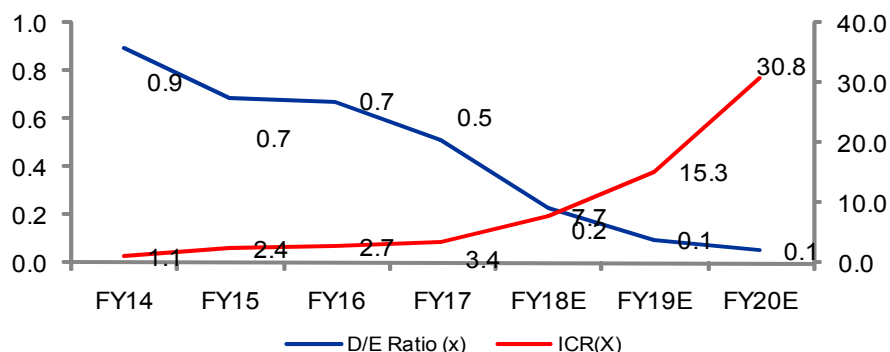
PAT is expected to grow at a CAGR ~36% percent to Rs 4,349 million over FY17-20E



Source: SKP Research

D/E ratio improves to 0.1x in FY20E from a high of 0.9x in FY14

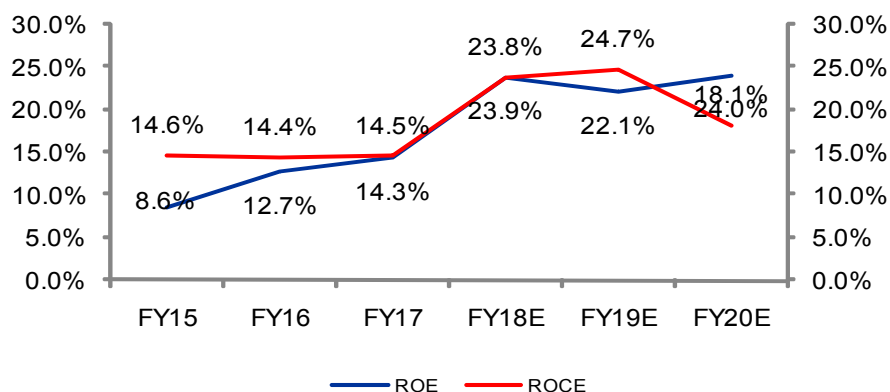
Exhibit: Debt/Equity & Interest Coverage Ratio (x)



Source: SKP Research

ROE to improve from 9% in FY15 to 24% by FY20E

Exhibit: ROE & ROCE Ratio (x)



Source: SKP Research

Valuations

- ▶ With government's thrust on infrastructure development, leadership in NER with entry barriers, strong brand pull and pricing power, robust distribution network, retail-centric business model, raw material security, en-route to eastern market and enhancing return ratios, augurs well for SCL.
- ▶ **We have valued the stock on the basis of EV/EBIDTA - of 10x of FY20E EBIDTA – method of relative valuation and recommend “BUY” on the stock with a target price of Rs 176/- (~41% upside) in 18 months.**

Risks & Concerns

Sharp rise in diesel prices can inflate cost pressures

- ▶ Currently road freight accounts for ~80% of total freight cost and any sharp rise in diesel prices can inflate cost pressures which might impact margins negatively.

Delay in project execution may lead to lower capacity utilizations

- ▶ Any material delay in infrastructure project execution will lead to lower utilization of its existing capacity resulting to lower sales volumes and pricing power.

Rollback of subsidy benefits under 'NEIIPP 2007'

- ▶ Currently, the company enjoys various fiscal benefits under NE industrial policy (NEIIPP 2007). This includes 100% excise exemption, 100% income tax exemption, interest subsidy at 3% of working capital loan, transport subsidy, capital investment subsidy up to 30% of the investment in plant & machinery. Rollback of any such benefits may lead to a negative impact on margins.

Exhibit: Income Statement

Figures in INR Million

Particulars	FY17	FY18E	FY19E	FY20E
Total Income	17,280.0	16,672.5	19,185.4	21,959.0
Growth (%)	0.8%	-3.5%	15.1%	14.5%
Expenditure	13,192.2	10,953.8	13,333.8	15,371.3
Material Cost	2,388.8	2,534.2	2,916.2	3,337.8
Traded goods	1,754.9	683.6	1,055.2	1,207.7
Employee Cost	1,185.4	1,233.8	1,419.7	1,625.0
Admin & Other Exp.	7,863.2	6,502.3	7,942.7	9,200.8
EBITDA	4,087.8	5,718.7	5,851.5	6,587.7
Depreciation	1,412.1	1,307.2	1,239.4	1,351.0
EBIT	2,675.8	4,411.4	4,612.1	5,236.7
Other Income	21.9	33.3	38.4	43.9
Interest Expense	779.7	573.2	302.2	170.1
Profit Before Tax (PBT)	1,918.0	3,871.6	4,348.3	5,110.6
Income Tax	142.7	387.2	521.8	613.3
Profit After Tax (PAT)	1,775.3	3,484.4	3,826.5	4,497.3
Minority Interest	59.0	115.0	126.3	148.4
Adj PAT (Post Minority)	1,716.3	3,369.4	3,700.3	4,348.9
Growth (%)	28.0%	96.3%	9.8%	17.5%
Diluted EPS	4.1	8.0	8.8	10.4

Exhibit: Balance Sheet

Figures in INR Million

Particulars	FY17	FY18E	FY19E	FY20E
Share Capital	419.2	419.2	419.2	419.2
Reserve & Surplus	11,860.7	14,248.5	16,918.0	20,187.1
Shareholders Funds	12,279.9	14,667.7	17,337.2	20,606.3
Total Debt	6,575.9	3,575.9	1,741.1	1,141.1
Minority Interest	589.4	704.3	830.6	979.0
Liabilities & Provisions	5,461.4	7,044.4	7,361.7	7,707.9
Deferred Tax Liabilities	-	-	-	-
Total Liabilities	24,906.6	25,992.4	27,270.6	30,434.4
Net Block inc. Capital WIP	9,181.0	8,650.9	10,211.6	11,060.6
Deferred Tax (Net)	163.0	163.0	163.0	163.0
Current Assets				
Inventories	1,612.2	1,521.3	1,616.9	2,215.2
Sundry Debtors	3,994.9	3,861.7	4,022.7	4,159.3
Cash & Bank Balance	200.8	1,939.0	4,526.8	9,238.3
Other Current Assets	2.8	3.1	3.1	3.1
Loans and Advances	9,735.4	9,836.8	6,710.1	3,578.2
Current Investment	16.6	16.6	16.6	16.6
Other Non Current Assets	-	-	-	-
Total Assets	24,906.6	25,992.4	27,270.6	30,434.4

Exhibit: Cash Flow Statement

Figures in INR Million

Particulars	FY17	FY18E	FY19E	FY20E
Profit Before Tax (PBT)	1,918.0	3,871.6	4,348.3	5,110.6
Depreciation	1,412.1	1,307.2	1,239.4	1,351.0
Finance Costs	779.7	573.2	302.2	170.1
Chg. in Working Capital	(657.0)	(1,504.0)	(252.0)	(807.9)
Direct Taxes Paid	282.0	387.2	521.8	613.3
Other Charges	(101.2)	-	-	-
Operating Cash Flows	3,069.6	3,860.9	5,116.1	5,210.4
Capital Expenditure	(919.7)	(530.0)	(1,560.6)	(849.0)
Sale of Fixed Assets	29.6	-	-	-
Others	(12.6)	-	-	-
Investing Cash Flows	(902.8)	2,470.0	639.4	1,351.0
Changes in Equity	-	-	-	-
Inc / (Dec) in Debt	(2,246.7)	(3,573.2)	(2,137.0)	(770.1)
Dividend Paid (inc tax)	-	(981.7)	(1,030.8)	(1,079.8)
Financing Cash Flows	(2,246.7)	(4,554.9)	(3,167.7)	(1,849.9)
Chg. in Cash & Cash Eqv	(79.9)	1,776.0	2,587.8	4,711.5
Opening Cash Balance	237.6	163.0	1,939.0	4,526.8
Balances with Banks	43.1	-	-	-
Closing Cash Balance	200.8	1,939.0	4,526.8	9,238.3

Exhibit: Ratio Analysis

Particulars	FY17	FY18E	FY19E	FY20E
Earning Ratios (%)				
EBITDA Margin (%)	23.7%	34.3%	30.5%	30.0%
PAT Margins (%)	9.9%	20.2%	19.3%	19.8%
ROCE (%)	14.5%	23.8%	24.7%	18.1%
ROE (%)	14.3%	23.9%	22.1%	24.0%
Per Share Data (INR)				
Diluted EPS	4.1	8.0	8.8	10.4
Cash EPS (CEPS)	7.6	11.4	12.1	7.5
BVPS	30.7	36.7	43.3	51.5
Valuation Ratios (x)				
P/E	27.1	15.6	14.2	12.1
Price/BVPS	3.6	3.4	2.9	2.4
EV/Sales	3.1	3.3	2.6	2.0
EV/EBITDA	13.0	9.5	8.5	6.8
Market Cap/Sales(x)	2.7	3.1	2.7	2.4
Balance Sheet Ratios				
Debt - Equity	0.5	0.2	0.1	0.1
Current Ratio	1.6	1.8	2.3	2.7
Fixed Asset Turn. Ratios	0.9	0.9	1.0	1.0

Source: Company, SKP Research

Cash and Bank Balances excludes Rs 43.1 mn (P.Y. Rs 1.9 mn) being Bank Balances with restrictive use and maturity of more than three

Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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Disclosure of Interest Statement

Analyst ownership of the stock	NIL
Served as an officer, director or employee	NIL

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