INDIA

Buy

CENTRUM

Star Ferro and Cement

Cement

Initiating Coverage 11 March 2015

The Super "Star" rising from the East

We initiate coverage on Star Ferro & Cement (SFCL) with BUY and TP Rs250 (52% upside). With multiple sustainable competitive advantages delivering ~2x industry-average cement EBITDA/MT in a difficult geography, SFCL is closer to a brand play rather than a commodity one. SFCL's success is underpinned by its premium positioning (80% sales are retail) – Star Cement is the oldest and most preferred cement brand in the lucrative North-East (NE) region, longevity of its various incentives/tax exemptions and increasing cost efficiency. Strong cash flow and brown-field expansion capability should sustain its 20%+ volume growth beyond FY17E, and return ratios from FY16E should be among the industry-best.

- **The largest-selling and most preferred cement brand in the NE:** SFCL group is the oldest and largest cement producer in the NE region. Its high quality limestone and strong dealers' network of >1900 boost SFCL's strong brand positioning in the retail market, driving its fast capacity ramp-up. The Star Cement brand has been voted the *Most Preferred Cement Brand in NE* for 5th consecutive year in a regional survey – driving its premium pricing (Rs30-40 per bag higher vs B/C grade brands). Further, cement prices are at-least Rs20 per bag higher in the core NE markets than those in West Bengal. Significant state thrust on roads and hydro power projects offers long-term cement demand potential of ~15% CAGR.
- **Cement EBITDA per MT ~2x industry average and sustainable:** SFCL's EBITDA/MT (Rs1284-2298 during FY14-17E) are the highest in the industry on account of its superior brand in a lucrative market (EBITDA boost Rs500-600/MT), various incentives/tax exemptions under the NE Industrial Promotional Policy NEIIPP 2007 (further EBITDA boost Rs500-600/MT). Better cost efficiency led by captive power, proximity to high-quality limestone and operating leverage should facilitate further margin expansion. Despite its strong profitability, SFCL faces limited competition on account of its first-mover advantage, a large network, and tangible entry barriers such as a tough terrain, and land acquisition/new mining approvals getting difficult. Also, smaller players in the region have stretched balance sheets.
- **Strong cash flow generation can drive its growth momentum:** To capitalize on freight subsidy on clinker transfer from Meghalaya under NEIIPP 2007, SFCL is setting up 1mn MT split grinding unit in Siliguri (West Bengal) by the end of FY16E. This will strategically improve its market reach in Sikkim and northern West Bengal at lower costs, with near-by available fly-ash. In the interim, SFCL has made grinding arrangements on lease to utilise subsidy benefits. The strong cash flow generation (leading to zero net debt in FY16E) should comfortably fund SFCL's efforts to maintain regional leadership through organic growth or acquisitions.
- **Valuation and key risks:** We ascribe premium valuation to SFCL's cement business (10x FY17E EBITDA) on account of industry-leading EBITDA/MT, which should also lead to among the highest return ratios. We value its Ferro Silicon business at 20% discount to its BV thereby leading to SOTP value of Rs250 - 99% of this from cement. Restructuring of the group can be an additional value-unlocking trigger. Key downside risks to our call: (1) geopolitical disturbances in the region (2) sharp recovery in input and freight costs, (3) delays in subsidy recovery from the Government. The stock currently has no sell-side coverage.

Target Price			Rs250	Key Data	
				Bloomberg Code	SFCL
CMP*			Rs164	Curr Shares O/S (mn)	222.2
				Diluted Shares O/S(mn)	222.2
Upside			*52%*	Mkt Cap (Rsmn/USDmn)	36.5/580.9
Price Performance (%)*				52 Wk H / L (Rs)	180.8/19.8
	1M	***6M***	***1Yr***	5 Year H / L (Rs)	180.8/13.1
SFCL IN	*63.4*	*172.7*	*607.5*	Daily Vol. (3M NSE Avg.)	234951
Nifty	*1.7*	*7.6*	*33.3*		

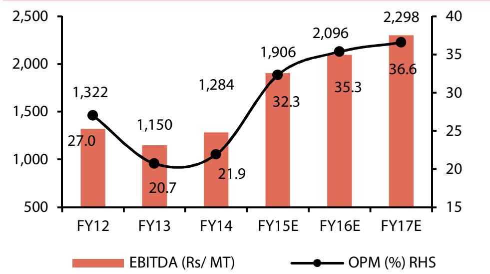
**as on 10 March 2015; Source: Bloomberg, Centrum Research*

Shareholding pattern *(%)**

	Dec-14	Sep-14	Jun-14	Mar-14
Promoter	*67.0*	*67.0*	*68.9*	*70.9*
FIIs	*0.3*	*0.3*	*0.4*	*0.4*
DIIs	*0.0*	*0.0*	*0.0*	*0.0*
Others	*32.7*	*32.7*	*30.7*	*28.8*

*Source: BSE, **as on 10 March 2015*

Cement EBITDA/MT: ~2x industry average and industry leading cement operating margin



Source: Company, Centrum Research Estimate

Read the inside pages for:

- *SFCL's strong distribution strength & and its key markets topography (Pages 5-6)*
- *Operating cost driver analysis (Page 9)*
- *Benefits accruing under NEIIPP 2007 policy (Page 10)*

Rajesh Kumar Ravi, *rajesh.ravi@centrum.co.in; 91 22 4215 9643*

Y/E Mar (Rs mn)	Rev	*YoY (%)*	EBITDA	*EBITDA (%)*	Adj PAT	*YoY (%)*	FDEPS	*RoE (%)*	*RoCE (%)*	P/E (x)	EV/EBITDA (x)
FY13	6,596	*n/a*	1,184	*17.9*	247	*n/a*	*494.5*	*7.9*	*6.6*	0.3	39.5
FY14	11,734	*77.9*	2,550	*21.7*	70	*(71.7)*	*0.3*	*0.6*	*3.1*	521.1	18.7
FY15E	14,303	*21.9*	4,442	*31.1*	901	*1,188.0*	*4.1*	*12.0*	*10.9*	40.5	10.3
FY16E	16,983	*18.7*	5,762	*33.9*	2,194	*143.4*	*9.9*	*24.2*	*17.1*	16.6	7.0
FY17E	21,098	*24.2*	7,414	*35.1*	3,437	*56.7*	*15.5*	*30.0*	*22.6*	10.6	4.6

Source: Company, Centrum Research Estimate, (Consolidated)

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Leadership presence in North East with premium brand positioning

Star Ferro & Cement (SFCL) and its three subsidiaries have multiple manufacturing plants in the states of Meghalaya and Assam in the North East region of India producing Ferro Alloy and Cement.

With a total installed cement capacity of 3.1 mn MT (through one integrated cement plant, one clinkerisation unit and two split grinding units), SFCL is the oldest and the largest cement producer in the region currently. The cement business is hosted under its direct subsidiary Cement Manufacturing Company Ltd (CMCL) in which SFCL has 70.48% stake (refer the exhibit below). SFCL also directly operates a Ferro Alloy plant in Meghalaya with installed production capacity of 18.3 K MT.

Exhibit 1: SFCL's cement capacity is hosted under various subsidiaries

Cement Subsidiaries	Holding Structure	Cement Capacity & Location	Clinker	Cement
Cement Manufacturing Company Ltd (CMCL)	70.48% subsidiary of SFCL	Integrated Cement Plant with Clinker 0.8 mn MT & Grinding 0.62 mn MT (Lumshnong Meghalaya) and 1.8 mn MT Split grinding unit in Guwahati (Assam)	0.8	2.4
Megha Technical & Engineers Pvt Ltd (MTPL)	100% subsidiary of CMCL	0.67 mn MT Split grinding unit in Lumshnong (Meghalaya)	-	0.7
Star Cement Megahlaya Ltd	100% owned through CMCL & MTPL	1.8 mn MT Clinkerisation unit in Meghalaya	1.8	-
Total installed capacity (mn MT)			**2.6**	**3.1**
Additional On-lease Grinding (mn MT) in W Bengal (Since Dec 2014)			**-**	**0.4**

Source: Company, Centrum Research

Top 3 producers account for 70-75% of cement capacity in the NE region

In the North East region, there are only three major cement producers currently: SFCL, Dalmia and Meghalaya Cement. While SFCL expanded organically in FY13, Dalmia acquired Calcom and Adhunik Cement and expanded Calcom's clinker capacity during FY15 to become regional leaders. These two groups account for 60-65% of total regional capacity. Meghalaya Cement (Topcem brand) is the third largest cement producer in the region with ~10% capacity share. There are many other smaller players which account for the remaining 25-30% of the regional capacity.

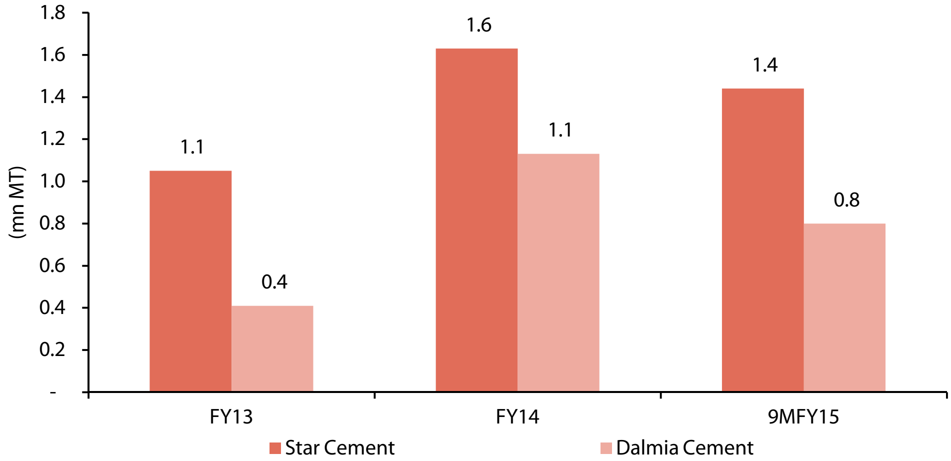
Both SFCL and Meghalaya Cement plants are steadily ramping up production. Dalmia faced plant break-down at its Adhunik plant during FY11-H1FY15 and Calcom lacked captive clinker impacting their utilisation. These have been taken care of now and hence Dalmia should ramp-up utilisation FY16E onwards. The other regional players are facing various operational and financial woes which have constrained their utilisation below 50% even after 3-4 years after they commenced operations.

Exhibit 2: SFCL has the largest cement/ clinker capacity in the North east region and has been steadily ramping up utilisation driving its regional dominance

Cement plants in the NE region	Plant locations	Cement Capacity (mn MT)	Clinker capacity (mn MT)	Brand name	FY14 Utilisation	9MFY15 Utilisation	Comments
SFCL's CMCL & Subsidiaries	**Meghalaya & Assam**	**3.10**	**2.60**	**Star Cement**	**54%**	**62%**	Ramping-up production from new plants; Utilisation will increase further
Dalmia's Calcom & Adhunik Cem	Meghalaya & Assam	3.22	2.30	Dalmia Cement	34%	25%	Plant break-down & lack of captive clinker impacted utilisation, 1 mn MT clinker addition @ Calcom is being stabilised; Utilisation will improve FY16E onwards
Meghalaya Cement	Meghalaya	1.19	0.86	Topcem	80%	80%+	Plants utilisation steadily increasing
Amrit Cement	Meghalaya	0.61	0.66	Amrit Cem	40%	~40%	Working capital issues resulting in low utilisation
Green Valliey	Meghalaya	0.50	0.60	Max Cement	30%	~30%	Working capital issues resulting in low utilisation
Barak Valley & Subsidiary	Meghalaya & Assam	0.37	0.20	Valley Strong Cement	Below 30%	Below 30%	Working capital & other operational issues
CCI Ltd	Assam	0.20	-		50-60%	50-60%	Govt of India owned, Low utilisation
Mawmluh-Cherra Cements	Meghalaya	0.20	0.22		Below 30%	Below 30%	State owned, Working capital, Labour issues
Total capacity		**9.4**	**7.4**		**47%**	**53%**	

Source: Industry, Centrum Research

Exhibit 3: SFCL is currently the largest cement producer in the NE region followed by Dalmia Cement



Source: Company, Centrum Research

North East is supply deficit region due to lower regional capacity & utilisation

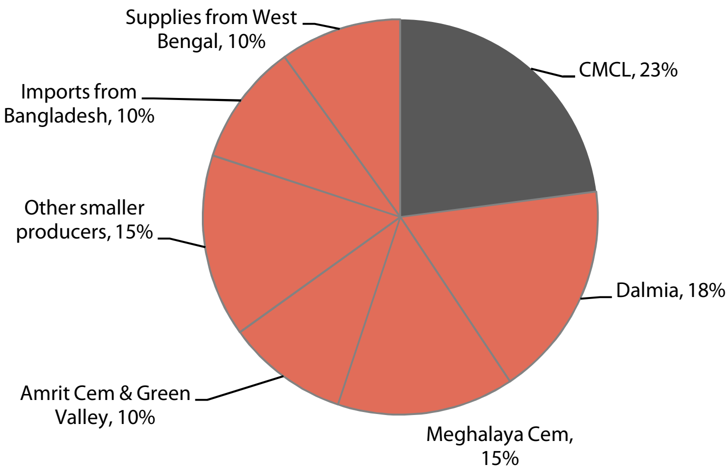
In FY14, cement demand in the NE region rose 7% YoY to 6.2 mn MT. The top three producers (SFCL, Dalmia and Meghalaya Cement) supplied ~55% of total demand. Regional utilisation stood at ~47% during FY14 on account of large capacity additions by SFCL's subsidiaries in Q4FY13 and operational/ financial issues with the most other regional manufacturers. With capacity ramp-up, SFCL's regional market share increased from 18% in FY13 to 23% in FY14.

NE region is currently supply deficit market (~20%) due to lower regional capacity and utilisation. This gap is currently filled by cement imports from Bangladesh and influx from West Bengal. Imports generally service the demand in the southern parts of the NE region. Ambuja Cement and Lafarge Cement are two main suppliers from their West Bengal plants in the NE region.

As regional utilisation improves going forward, the supply share from West Bengal and Bangladesh should reduce. The market share of SFCL and Dalmia (60-65% capacity share) will increase as they ramp-up production amid limited ramp-up scope from most smaller companies (25% capacity share). Additionally, there are no near term expansions lined up in the NE region.

In FY14, the top 3 regional companies supplied 55% of total regional demand of 6.2 mn MT

Exhibit 4: SFCL has dominant sales presence in the north east region



Source: Industry, Centrum Research

Star Cement commands premium realisation as it is positioned as Tier-1 brand

SFCL has been successful in positioning Star Cement as a Tier 1 brand in eastern markets – NE region, West Bengal, Bihar and Jharkhand – driven by its better quality limestone and aggressive brand building. SFCL has high quality limestone reserve (calcium oxide content of more than 49%) which has helped its acceptance as a premium brand.

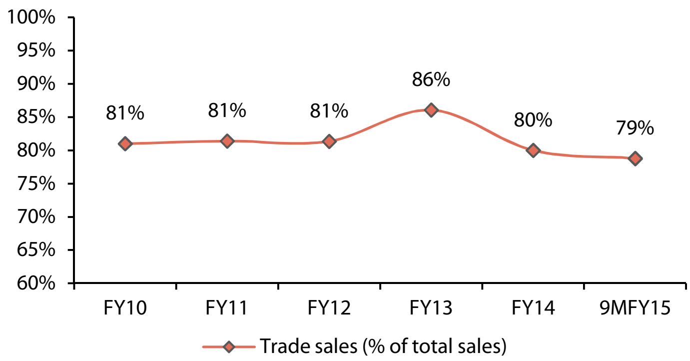
Strong brand recall - Most Preferred Cement Brand in the North East region for 5th consecutive year in Feb 2015

The company has invested heavily in brand building and dealers network expansion to retain its premium position in these markets. As against 803 dealers in Mar'13, the company today has 1842 (Dec'14) dealers mostly catering to retail demand. SFCL sells 80% of its cement in the trade segment. The company has further added 100 new dealers in the last two months taking the count to 1945.

These investments have paid off well for the company as it trebled its clinker capacity and increased grinding capacity by 140% in Q4FY13. The brand "Star Cement" has been voted the *Most Preferred Cement Brand in the North East region* for five consecutive years as per a regional survey of many consumer brands. This recognition and its strong distribution strength have helped SFCL ramp-up its cement sales by 64% YoY in FY14 and further 27% YoY in FY15E.

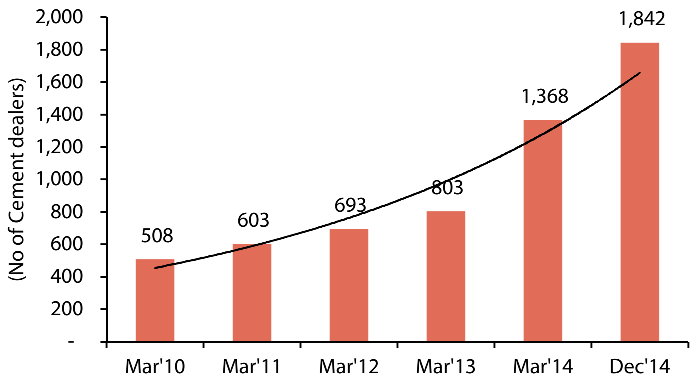
Star Cement and Dalmia Cements are premium brands in the NE region and hence command the highest retail price in the region. Topcem sells at Rs5-7 per discount to these brands. The C-grade (other region companies) brands sell at ~Rs20-30 per bag discount to Star Cement (& other tier- 1 brands). Even in the north West Bengal and Bihar/ Jharkhand markets, Star Cement sells at prices comparable to tier-1 brands - Ambuja, Lafarge and UltraTech.

Exhibit 5: SFCL continues to remain a retail focus brand with 80% sales in the trade segment



Source: Company, Centrum Research

Exhibit 6: It has increased its dealers' network exponentially over the last 3 years to tap retail demand

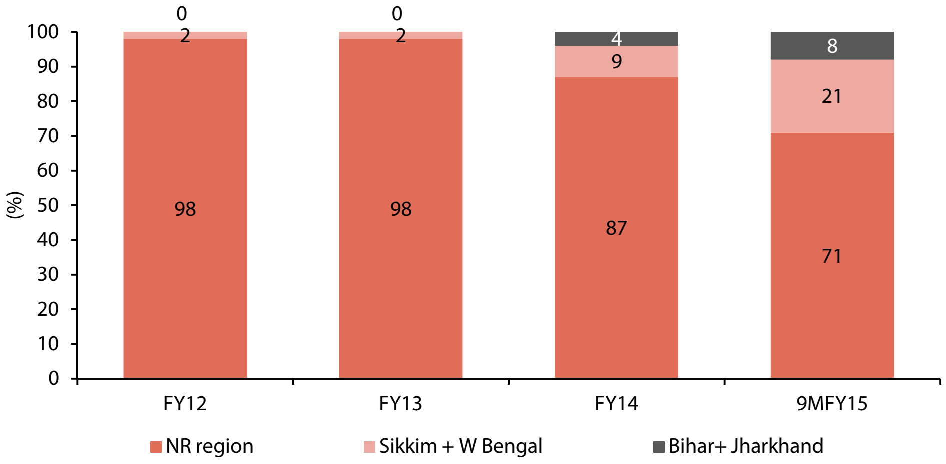


Source: Company, Centrum Research

Expanded sales mix in neighbouring states; Freight subsidy adds to cost advantage

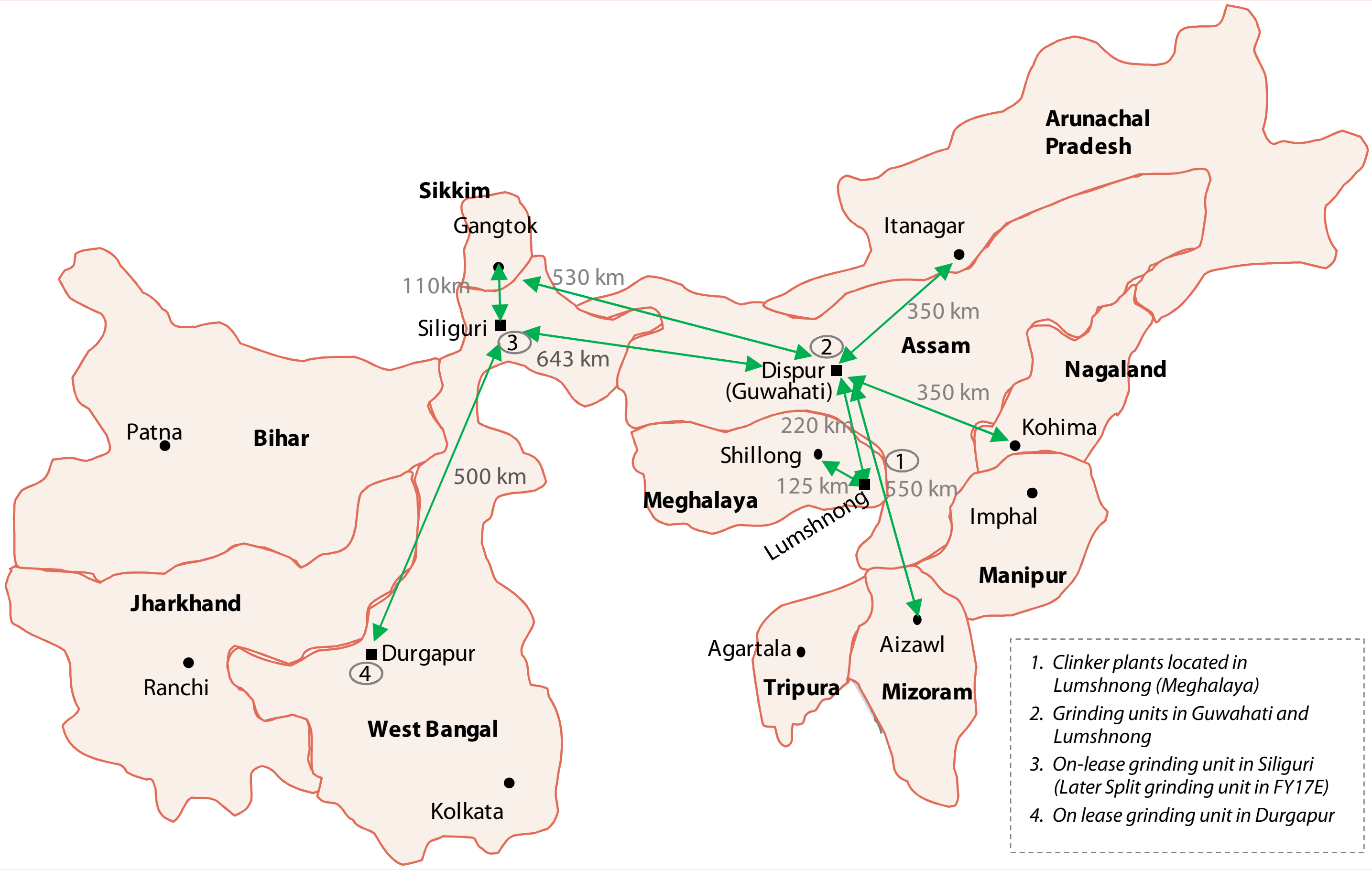
While SFCL continues to be the largest cement supplier in the NE region, it has also increased its sales presence in the neighbouring states of West Bengal, Bihar and Jharkhand. The company gets freight subsidy (discussed later in the report) for transportation up to Siliguri (West Bengal) which provides cost advantage to SFCL to expand into these markets. SFCL has diversified its regional sales mix capitalising on this freight subsidy. While SFCL sold 98% of its total cement in the seven states of the NE region in FY13, it only sold 71% in these states during 9MFY15. The company has steadily expanded outside its core NE market to Sikkim, northern parts of West Bengal and eastern parts of Bihar & Jharkhand which comprised the remaining 29% of its total sales.

Exhibit 7: SFCL has expanded its cement sales presence in the neighbouring states of West Bengal, Bihar & Jharkhand



Source: Company, Centrum Research

Exhibit 8: SFCL's Cement plant locations and distances from key markets in the NE region and West Bengal



Source: Company, Centrum Research   Map not to scale. Distances are approx. road distances from Google map

Split grinding expansion in West Bengal is strategic; it will reduce operating costs

In Q3FY15, SFCL entered into on-lease agreement with local cement grinding units in Siliguri and Durgapur (total 0.43 mn MT capacity) whereby it will sell clinker from its Meghalaya plant to these grinding units and claim 90% subsidy on clinker freight. The Siliguri grinding unit will procure fly-ash from NTPC plants in Farakka and the Durgapur unit from the Mejia Thermal Power Station to produce PPC cement under the brand name of Star Cement for SFCL. This arrangement will help SFCL reduce total production costs to service these markets outside the NE region (including Sikkim).

The company is setting up its own grinding capacity of 1 mn MT in Siliguri which is expected to get commissioned by end of FY16E and in the interim, these on-lease arrangements will help strengthen its market positioning in the region. Going forward, the company expects its regional sales mix to remain at similar levels with its core NE market (excluding Sikkim) to comprise 65-75% of total sales.

Closer proximity to raw materials, CPPs & operational efficiencies margin accretive

Raw materials available closer to the plants

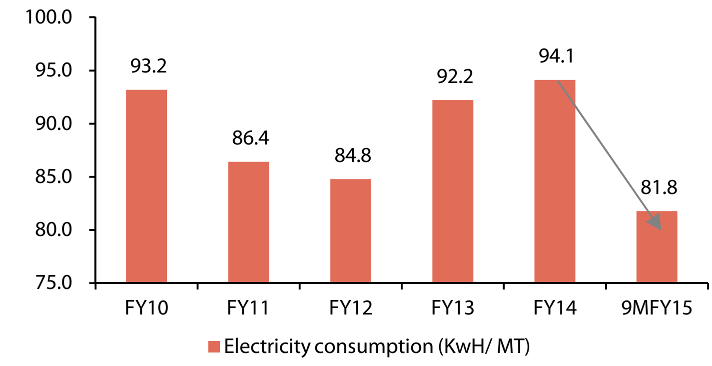
SFCL's clinker plants in Meghalaya have large limestone reserves at close proximity of 2-3 kms. This high quality limestone reserve (~300 mn MT) can last for about 80 years on its current capacity.

Assam and Meghalaya have large coal deposits which meet coal demand from the cement industry. As per industry data, Meghalaya has ~600 mn MT of coal reserves. The largest coal deposit is located in Jaintia Hills district and at present large scale extraction is being carried out in this area. All minerals are under community control and extraction is done 100% manually. The Government's open cast mines run by North-Eastern Coalfields Limited (NECL) also extract coal in this region. Hence, coal requirement for clinkerisation and power is abundantly available within 25-30 kms of SFCL's cement plants.

Captive power supply has reduced dependence on grid supply & increased captive fly-ash supply

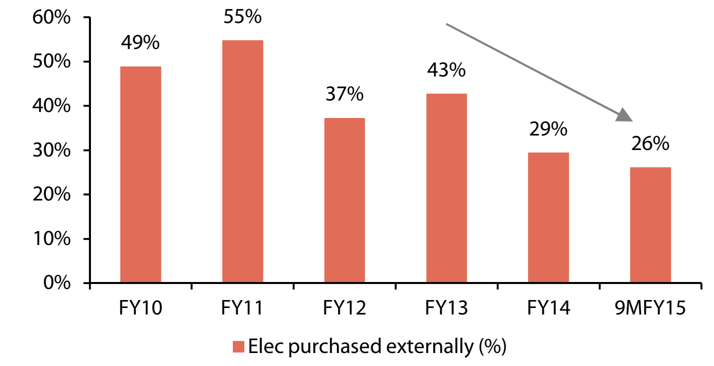
SFCL's subsidiary Meghalaya Power Ltd (MPL) has 51MW of CPP – one unit of 8MW and one unit of 43MW. The latter unit got commissioned in FY13 as SFCL expanded its cement capacity. Post its captive power capacity increase, the company has been consistently reducing its power purchase from the grid. With the rise in captive power generation, internal fly-ash generation (free of cost) is also increasing thereby boosting operating cost.

Exhibit 9: With the commissioning & ramp-up of the new cement plants, power consumption rate has reduced



Source: Company, Centrum Research

Exhibit 10: SFCL has also reduced its dependence on grid power as it expanded its captive power capacity



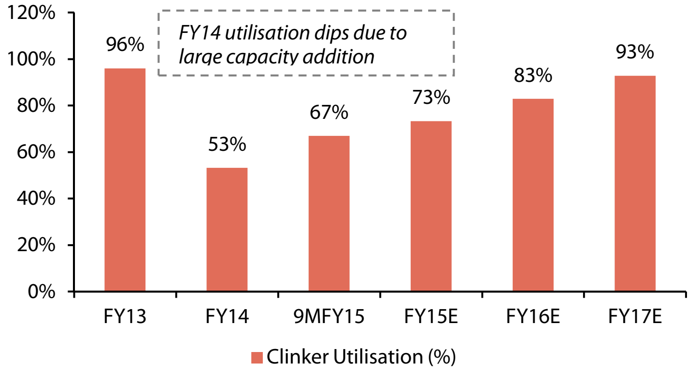
Source: Company, Centrum Research

Production ramp-up boosting cost efficiency; more scope for cost reduction

SFCL has been able to increase power consumption efficiency after the commissioning of new cement plants in Meghalaya. With the production ramp-up, electricity consumption rate during 9MFY15 declined by more than 10% to 82 KwH/ MT of cement production.

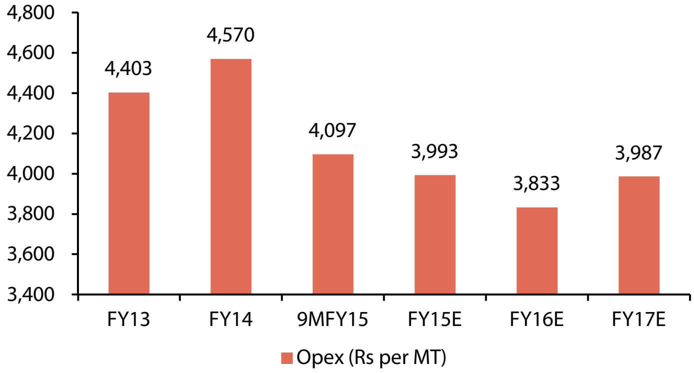
While SFCL has brought down its operating costs YoY during FY15, it is still higher vs the other cement companies in India. This is on account of higher advertisement spends, dealers' discounts and lower utilisation of captive power plants currently.

Exhibit 11: SFCL's clinker utilisation should firm up to 90%+ in FY17E years driving operating leverage



Source: Company, Centrum Research Estimates

Exhibit 12: Operating cost rate should further moderate on lower diesel cost and fixed cost distribution



Source: Company, Centrum Research Estimates

Exhibit 13: Operating cost analysis: Increase in plant utilisation, efficiency and lowering input costs driving down costs

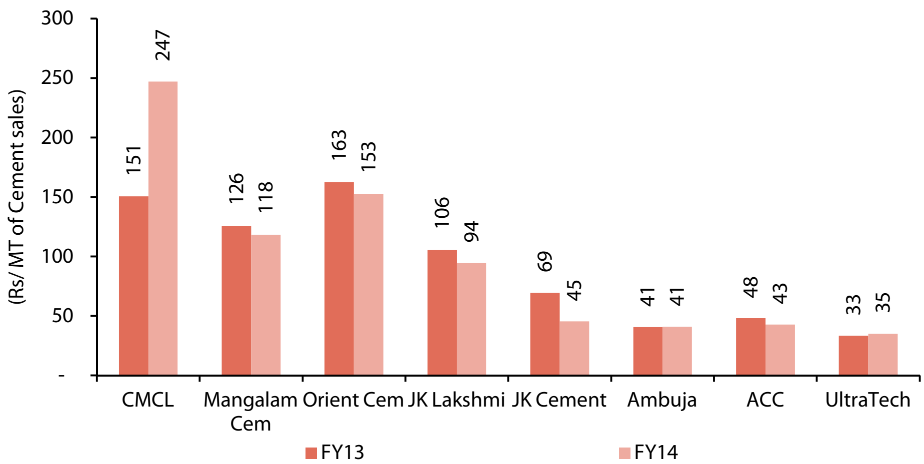
	FY13	FY14	9MFY15	FY14	9MFY15	Comments
	(Rs/ MT)			YoY change (Rs/MT)		
Plant Utilisation (%)	***83***	***54***	***62***			Capacity increase at the end of FY13
NSR	**5,554**	**5,854**	**5,891**	**301**	**37**	Lower NSR increase in FY15E due to change in sales market mix
RM Cost (1)	704	855	780	151	(75)	Input cost pressure rose initially in FY14 but then moderated during FY15 by Rs270 per MT as plant utilisation stabilised, increase in power efficiency and lower fuel cost
Power & Fuel (2)	1,017	941	744	(76)	(197)	
Input costs (1 +2)	1,721	1,795	1,524	74	(272)	
Transport (3)	1,183	1,086	972	(97)	(114)	Freight costs decline in FY15 is mostly on account of change in regional sales mix and increase in trucks supply at lower cost in NE region in FY15. Diesel cost reduction benefit to flow through in FY16E
Total Var cost (1+2 +3)	2,904	2,882	2,496	(22)	(386)	
Employee (4)	368	419	437	51	18	Employee costs increased on account of large capacity increase Going forward, Emp cost per MT should moderate. Company increased Adv spent surged to increase brand visibility and will now reduce on per MT basis on operating leverage
Ad spent (5a)	150	247	236	96	(11)	
Other Exp (excluding Ad spent) 5b	981	1,023	928	42	(95)	
Total Fixed costs (4+5)	1,499	1,689	1,601	189	(88)	
Total Opex (1to 5)	**4,403**	**4,570**	**4,097**	**167**	**(473)**	Lower input costs, increase in utilisation to drive down costs further in FY16E

Source: Company, Centrum Research

SFCL has been aggressively investing in advertisement much ahead of other companies to increase its brand presence

During FY13 and FY14, SFCL spent about Rs160 mn and Rs433 mn on advertisement in their key cement markets to retain premium brand positioning. Going forward, the company intends to stabilise its annual advertisement spends at ~Rs450-500 mn and hence as sales volume increases, operating leverage will set in.

Exhibit 14: Advertisement cost (Rs/ MT) trend of various cement companies



Source: Company, Centrum Research

Various tax incentives and demand triggers for cement companies in the NE region

Multitude of tax incentives for cement producers in the NE region

To boost industrial investments in the NE region, the Government of India had launched North East Industrial Promotion Policy, 2002 (NEIPP, 2002). In March 2007, this policy was further revamped to NEIIPP 2007 (North East Industrial and Investment Promotion Policy, 2007) to attract industrial investments in the region and Sikkim was also included under this policy. Key benefits under the NEIIPP 2007 are as follows:

- All new and existing units (anywhere in NE region) undergoing substantial capacity expansion within 10 years of the NEIIPP 2007 will be eligible for incentives for 10 years if they commence commercial production within 10 years of NEIIPP, 2007 notification.
- 100% excise duty exemption continued on finished products made in the NE region.
- 100% income tax exemption continued (subject to MAT and carry forward of MAT credit entitlement).
- Interest subsidy @ 3% on working capital loan continued
- Capital investment subsidy limit increased from 15% earlier to 30% under NEIIPP 2007. There is no limit currently as against Rs3 mn earlier
- 100% insurance premium reimbursement on substantial expansion under the Comprehensive Insurance Scheme

SFCL's has eight more years of subsidy/ tax exemptions under NEIIPP

In Q4FY13, CMCL had commissioned a new grinding unit of 1.8 mn MT and its subsidiary's Star Cement a clinker unit of 1.8 mn MT. These plants account for 70% of SFCL's total clinker capacity and 60% of grinding capacity. Hence, the fiscal benefits under the NEIIPP 2007 accruing to SFCL will be significant for the next eight years as production from these plants continue to ramp-up.

SFCL will get 100% income tax benefits under 80IE (subject to MAT and carry forward of MAT credit entitlement) and Excise duty exemptions of 75%/ value addition percentage (on grinding units) on these plants for eight years, 99% VAT & CST exemption for five years for one of these plants, 99% VAT exemption for five years on the other plant, freight subsidy to these plants (50-90%) for three years (anywhere in NE region and till Siliguri for outside the region). On account of these incentives/ subsidies and exemptions, SFCL's cement EBITDA per MT benefits to the tune of Rs500-600 per MT.

Even Dalmia Cements expects to accrue similar benefits of 500-600 per MT at its Adhunik and Calcom operations.

Exhibit 15: Various tax benefits and exemptions available to SFCL

NEIIPP 2007 benefits	Benefits in (Rs per MT)	Benefits available till	Comments
Excise duty exemptions	100 - 150	FY23	These benefits are reflected under net sales
VAT exemptions	150 - 200	FY20	
Transport Subsidy	250 – 300	FY18	This is reflected as lower transport costs
Total	**500-600**	**FY18-23**	Total benefits at EBITDA level
Capital Subsidy	One time -30% of capital investment: Rs2 bn (in Account receivables); Cash expected in 1H FY16E		

Source: Company, Centrum Research

A dedicated ministry for the NE region & Government's thrust to drive project execution

There is a separate ministry of the Government of India to monitor infrastructure development of the NE region called Ministry of Development of North Eastern Region (MDONER). It was established in 2001 to act as a facilitator between the Central Ministries & Departments and the State Governments of the NE region including Sikkim in economic development and removal of infrastructural bottlenecks, provision of basic minimum services, creating an environment for private investment and to remove impediments to lasting peace and security in the NE Region including Sikkim.

Various on-going infrastructure projects have been announced in the NE region which should boost cement demand in the region. The NDA government has been putting major thrust on fast tracking key delayed projects as well as announcing green-field projects.

Concrete roads offer 18 mn MT of cement demand opportunity over next few years

Opportunities from Road Sector should unfold: The NDA Government formed National Highway and Infrastructure Development Corporation Limited (NHIDCL) in 2014, under the Ministry of Road Transport and Highways (MoRTH), for construction of national highway projects in border areas. The long term objective of NHIDCL is to reduce the list of pending projects of Border Road Organisation (BRO) and develop a 10,000 km border road network. The government has also approved four laning of 6,418 km of various category roads in the north-east at an estimated cost of around Rs 335 bn. These concrete roads can create cement demand opportunity of ~18 mn MT for cement companies.

The Hydel power projects can create cement demand for ~14 mn MT

Vast Hydro-power potential getting under execution mode: The NE region has very high Hydro power generation potential and ~98% of this is still un-tapped. The Government of India has identified potential of 63,000 MW of Hydro Power capacity in the region and it has already awarded 14,000 MW to private players for development. These projects can result in incremental cement demand of ~14 mn MT.

Multiple rail projects to connect the seven states: There are about 20 on-going rail projects – new line, gauge conversation and double lining. These projects would entail total investments worth Rs380 bn and hence should create incremental cement demand in the region.

Airports projects in the NE region: The Airports Authority of India (AAI) has sanctioned five projects for the NE region and there are eight more projects for which approval is sought. These would entail total investment of Rs50 bn over next 10 years.

These infrastructure projects will create cement demand from the Government as well as private infrastructure companies. As there are only 3 major cement companies – SFCL, Dalmia and Megahlaya Cement with larger capacities, they should benefit from these demand opportunities. Better road and rail connectivity and increase in power supply to the region will in-turn improve urbanisation in the region and should further boost cement demand. With current regional cement demand of ~6.5 mn MT pa, these infrastructure projects offer long term demand potential of ~15% CAGR.

Outside the NE region, SFCL is mainly catering to the northern part of West Bengal and eastern part of Bihar. The company has been able to establish its premium brand in these markets in the retail segment. Rising urbanisation in the tier-2/ tier- 3 cities would create real estate construction demand in these regions. Further, government thrust on social infrastructure creation should also boost demand.

Locational advantage, brand premium and tax incentives drive industry leading EBITDA per MT of Rs1900+

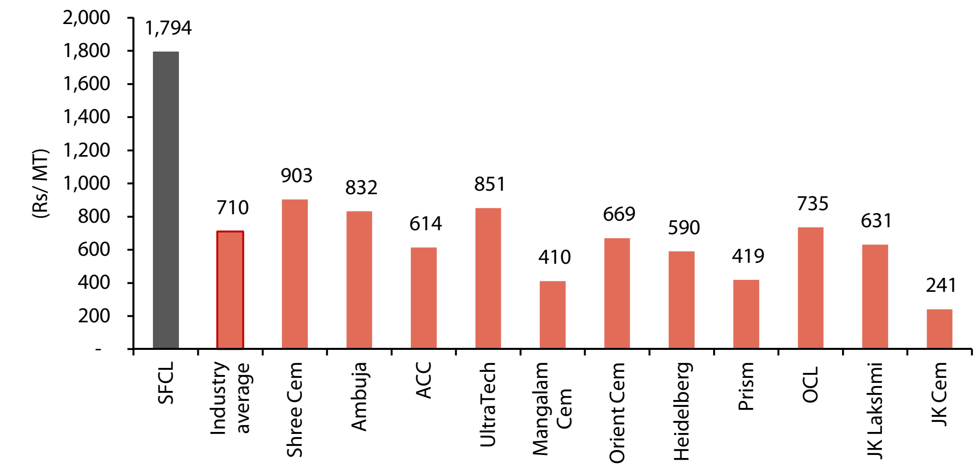
Leadership presence in high realisation market provides ~Rs500-600 per MT higher EBITDA vs the industry

SFCL's cement NSR is higher than the industry average by ~Rs50-60 per bag. This is on account of very high cement prices in the north east region (also cement prices have remained stable in the region due to the region being supply deficit), its tier-1 brand premium positioning and strong focus towards retail sales (~80% is trade sales). These drive SFCL's NSR ahead of the industry average by ~Rs40-45 per bag (Rs800-900 per MT). At EBITDA level the impact of the lucrative pricing and brand premium is about Rs600 per MT as the company has to incur higher freight and distribution costs in the hilly terrains of NE region. Further, its advertising spend is higher than the industry average (which should normalise going forward).

The NEIIPP incentives in form of Excise and VAT exemptions boost NSR/EBITDA higher by ~Rs250-350 per MT and the freight subsidy boost EBITDA by ~Rs250-300 per MT.

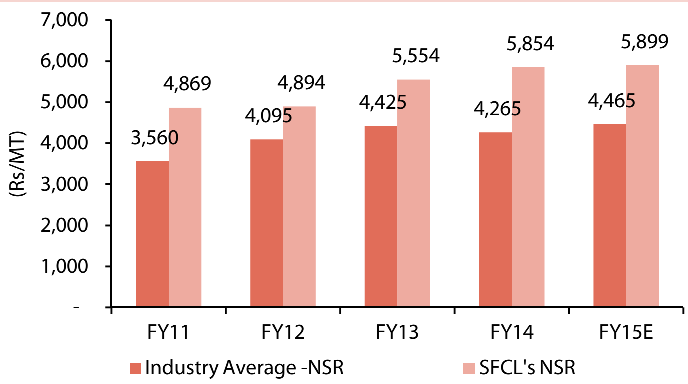
SFCL's cement EBITDA is more than Rs1100 per MT higher than the industry average

Exhibit 16: SFCL's cement EBITDA per MT vs others cement companies during 9MFY15



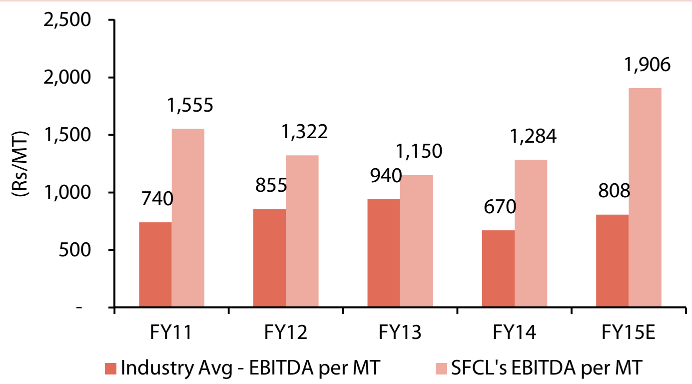
Source: Company, Centrum Research

Exhibit 17: Industry leading NSR largely driven by brand premium in lucrative pricing market



Source: Company, Centrum Research Estimates

Exhibit 18: Higher NSR along with NEIIPP benefits drive strong EBITDA per MT ~2x industry average



Source: Company, Centrum Research Estimates

Exhibit 19: Trade price across the various states in the north east region

9MFY15 Avg Billing price	(Rs/ bag)	Premium over W Bengal price (Rs/bag)	*Regional Sales Distribution during 9MFY15 (%)*
Bihar + W Bengal	350	-	*29.0*
Sikkim	370	20	
Assam	372	22	*38.0*
Meghalaya	370	20	*7.0*
Arunachal Pradesh	420	70	*2.0*
Tripura	350	-	*7.0*
Nagaland	370	20	
Manipur	370	20	*17.0*
Mizoram	430	80	

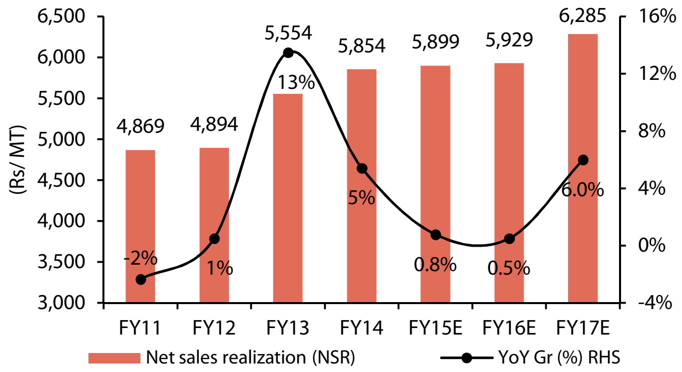
Source: Company, Centrum Research

Two thirds of SFCL's cement sales market has 20-80 per bag higher prices compared that in West Bengal

NEIIPP 2007 incentives further boost EBITDA by Rs500-600 per MT

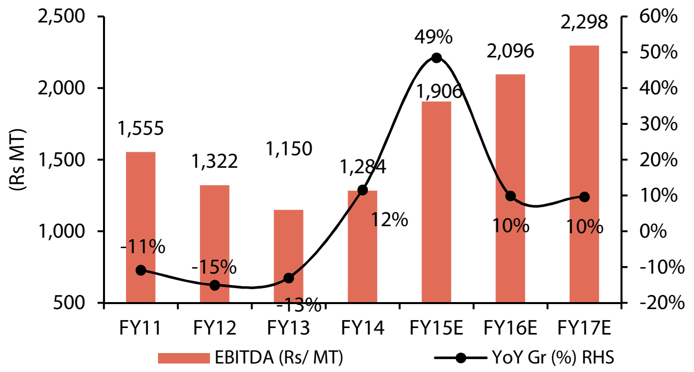
As discussed earlier in this note, all industrial units in the NE region have tax incentives under NEIIPP 2007. SFCL capitalised on the opportunity and expanded its cement capacity multi-fold two years back. On account of these incentives/ subsidies, SFCL's cement EBITDA per MT currently benefits by Rs500-600 per MT. SFCL will continue to benefit from these tax sops for up to margin.

Exhibit 20: Higher cement NSR reflect strong pricing in its key markets, brand premium and the tax incentives…



Source: Company, Centrum Research Estimates

Exhibit 21: … thereby leading to the highest EBITDA per MT in the cement industry

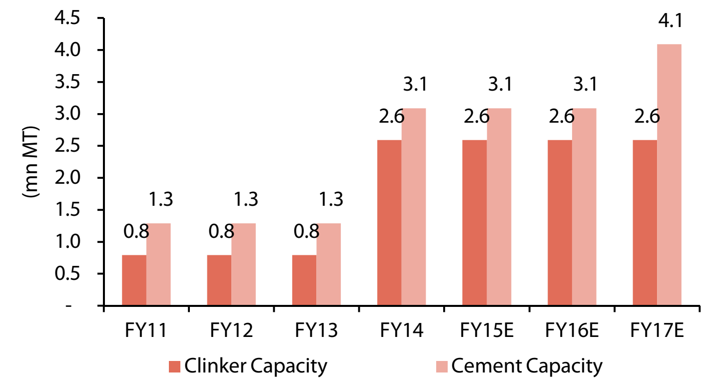


Source: Company, Centrum Research Estimates

Sales volume CAGR of 21% during FY14-17E should boost operating leverage

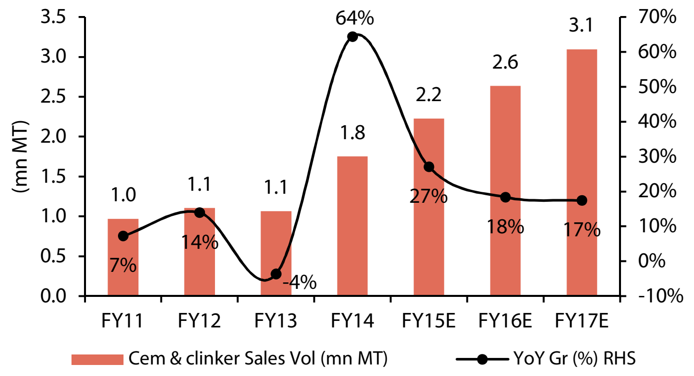
SFCL is more than trebling its cement capacity during FY13-17E to 4.1 mn MT through capacity increase in Assam, Meghalaya and West Bengal. It also trebled its clinker capacity in Meghalaya in Q4FY13. SFCL has been able to ramp-up its cement production from these new expansions amid limited competition in the NE region, its strong thrust on distribution and stable demand in the NE region. During FY14 its sales volume rose 64% YoY and 31% YoY during 9MFY15. The recent on-lease arrangement for grinding clinker in West Bengal will further increase CMCL's market expansion in the northern parts of West Bengal and Eastern parts of Bihar. Subsequently, we expect the company to deliver 21% volume CAGR during FY14-17E thereby leading to clinker utilisation of 93% by FY17E vs 53% in FY14.

Exhibit 22: SFCL's Cement capacity trebling between FY13-17E



Source: Company, Centrum Research Estimates

Exhibit 23: Capacity ramp-up should drive sales volume CAGR of 21% during FY14-17E



Source: Company, Centrum Research Estimates

Flattish NSR growth during FY15-16E on account of market mix change and competitive pressure

Cement demand in the core NE region has grown at ~5% CAGR over the last few years due to slow down in project executions in the region. Hence, SFCL expanded its sales presence outside its core market to ramp-up its capacity. Cement prices in the NE region is higher by more than Rs 20per bag (more than 5% higher) compared to that in West Bengal markets. Hence, as SFCL increased its sales in West Bengal, Bihar and Jharkhand, the blended NSR growth moderated to 1% YoY in FY15E.

We expect its FY16E blended NSR growth to grow at a modest 0.5% YoY as we expect competitive pressure in near term as Dalmia will ramp-up its cement production at Calcom and Adhunik plants. However, we expect operating leverage gains to accrue further as CMCL production ramps-up driving EBITDA per MT expansion in FY16E.

With increased focus of the NDA government to accelerate infrastructure creation in the NE region, cement demand should accelerate going forward over the next 3-5 years. As SFCL's market mix stabilises and demand accelerates in the eastern region, NSR should rise by 6% YoY in FY17E leading to further margin expansion.

Despite strong regional profitability, SFCL has faced limited competition in NE region on account of its first mover advantage and strong distribution strength. With land acquisition and getting new mining approvals becoming difficult, there are no near term expansions in the NE region. The smaller players in the region have stretched balance sheets. These should boost pricing power of the regional leaders.

Demerger of the Ferro Alloy will increase cement business focus

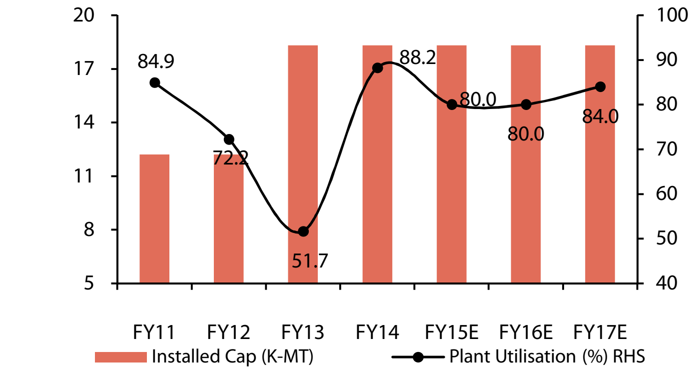
Ferro Alloy's profitability has been volatile

The Ferro Alloy business (4% of consolidated EBITDA) outlook remains subdued and not meaningful enough to move the needle.

The parent company SFCL produces Ferro Silicon which is mostly consumed by the steel sector in India. This segment comprises ~10% of consolidated net revenues of SFCL. It accounted for 12% of the capital employed but~5% total EBITDA during 9MFY15. Segmental profitability has been volatile over the last few years on account of weak steel demand in India and dumping of Ferro Silicon by China. In FY14, SFCL improved the product mix and increased its internal cost efficiencies which helped it deliver strong segmental performance during FY14. In FY14, Ferro Silicon sales contributed 7% to total EBITDA.

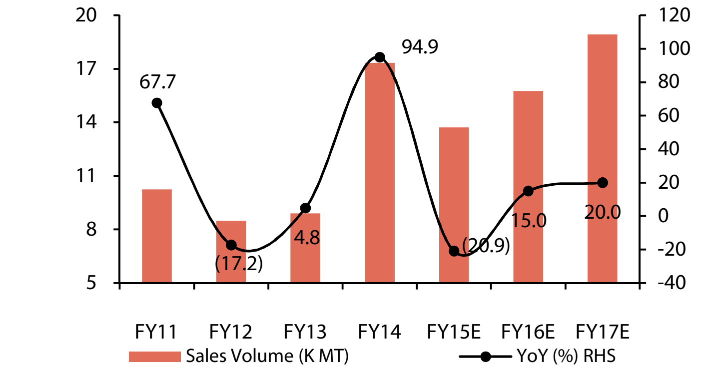
However, amid weak steel demand in FY15, its segmental net sales & EBITDA are expected to decline by 20% and 41% YoY in FY15E. However, as infrastructure execution improves which in-turn will boost its capacity utilisation during FY16-17E, we expect the segmental EBITDA to grow at 23% CAGR during these two years. We estimate segmental EBITDA's contribution to remain at 4% of total EBITDA during FY15-17E. SFCL has no capex plans in this segment in near term.

Exhibit 24: Expect Ferro Silicon plant utilisation to improve during FY16-17E as demand recovers…



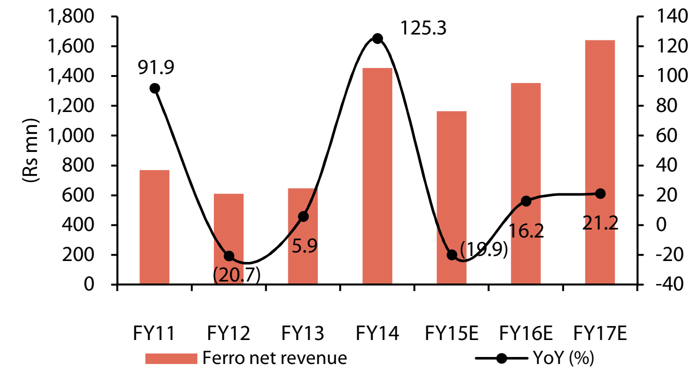
Source: Company, Centrum Research Estimates

Exhibit 25: …driving higher volume growth during FY16-17E



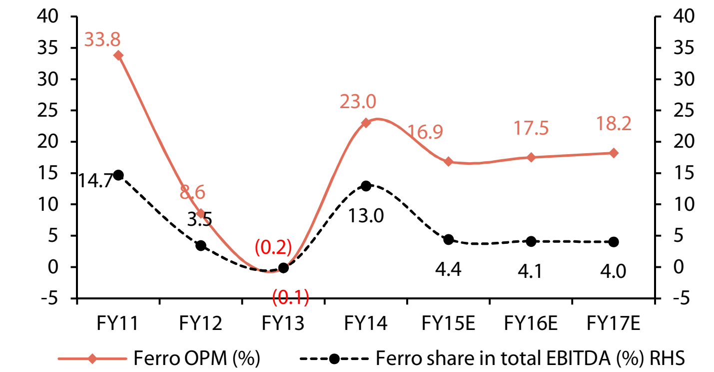
Source: Company, Centrum Research Estimates

Exhibit 26: We expect Ferro Silicon net sales CAGR of 4% during FY14-17E



Source: Company, Centrum Research Estimates

Exhibit 27: Ferro Silicon's contribution to total EBITDA would remain low at ~4% over the next three years



Source: Company, Centrum Research Estimates

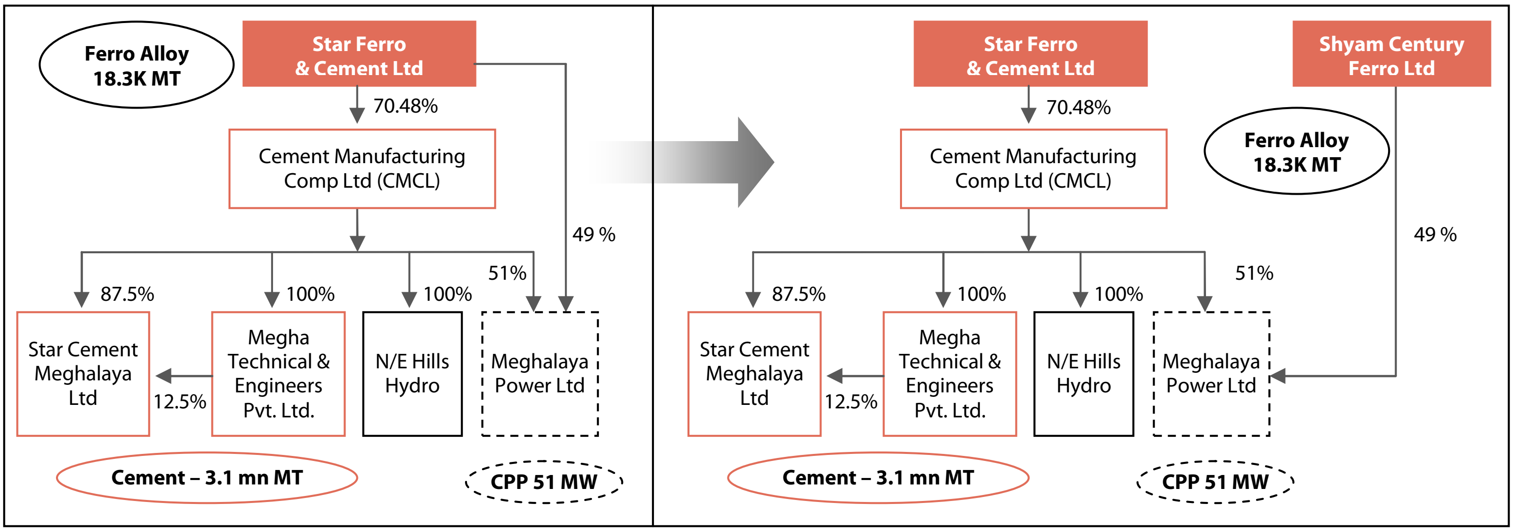
Business focus on lucrative cement business will increase post demerger

SFCL's cash cow business - cement is currently under its three subsidiaries while the smaller and less lucrative Ferro silicon business is SFCL's front business.

Cement Manufacturing Company Ltd (CMCL) is a direct subsidiary in which SFCL has 70.48% ownership. Megha Technical & Engineers Pvt Ltd NE Hills Hydro Ltd are100% owned subsidiaries of CMCL. Star Cement Meghalaya Ltd is also fully owned subsidiary of CMCL through CMCL (87.5% and though Megha Tech (12.5%). The subsidiary Meghalaya Power limited is owned 51% by CMCL directly and 49% by SFCL (Parent company).

SFCL recently restructured its business to retain the cement (cash cow) and demerge the Ferro silicon business. SFCL has got all approvals to demerge the Ferrous Silicon business under a separate subsidiary – Shyam Century Ferrous Ltd (SCFL) wef from FY14. After the proposed demerger, SCFL will also own ~49% in Meghalaya Power Ltd (hosting the captive power of 51 MW) and the remaining 51% will be under CMCL.

Exhibit 28: The proposed demerger of the Ferro business in a different company will increase business focus in cement



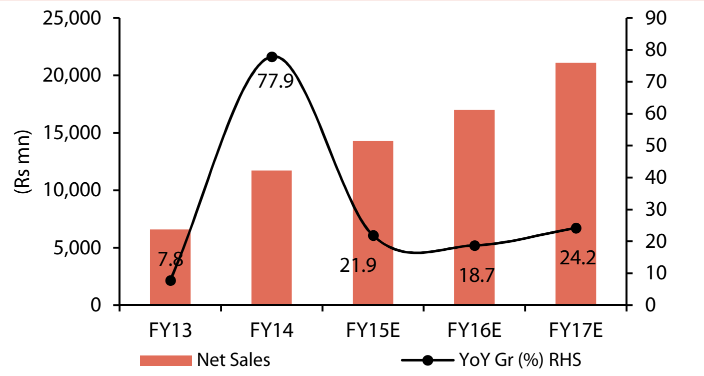
Source: Company, Centrum Research, Currently only Parent company SFCL is listed. The demerged company will also get listed. Other subsidiaries are not listed.

Financial Analysis – Strong EBITDA & PAT CAGRs

We estimate consolidated revenue/ EBITDA CAGRs of 22%/ 43% during FY14-17E

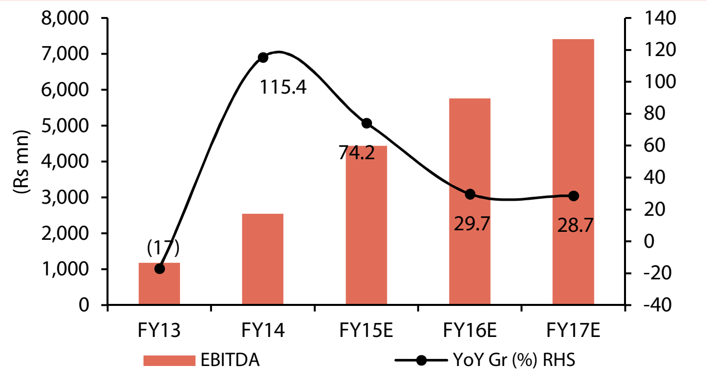
We expect cement net revenue to grow at 24% CAGR during FY14-17E period driven by 21% sales volume growth. We estimate a modest 4% revenue growth for Ferro Silicon sales. Cement business should drive the consolidated net sales CAGR of 22%. Led by strong brand premium, stable cement prices in the NE region, tax benefits from the NEIIPP 2007 policy, and positive operating leverage as utilisation increases, we estimate cement EBITDA to grow at 47% CAGR in the same period. We estimate Ferro Silicon EBITDA to decline at 4% CAGR during FY14-17E. Subsequently, the consolidated EBITDA should grow at 43% CAGR. We estimate EBITDA margin to steadily expand to 35.1% in FY17E vs 21.7% in FY14 and 29.1% during 9MFY15.

Exhibit 29: Revenue CAGR of 22% during FY14-17E



Source: Company, Centrum Research Estimates

Exhibit 30: EBITDA CAGR of 43% during FY14-17E



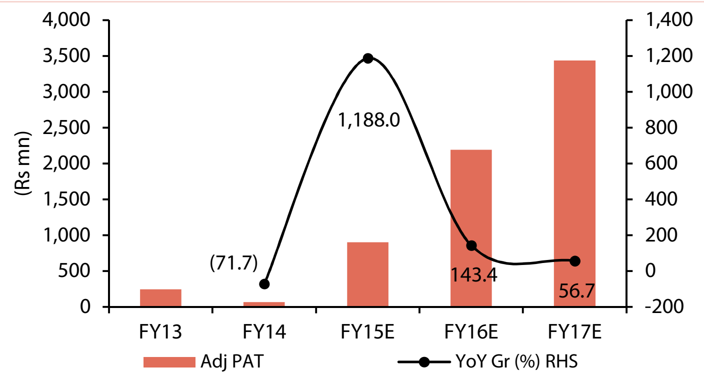
Source: Company, Centrum Research Estimates

Adj PAT CAGR of 266% boosted by asset sweating & tax benefits

With utilisation firming up amid stable capital charges, we expect adj PAT CAGR of 266%. PAT growth will also benefit from increase in cash flow accumulation leading to higher treasury income during FY16-17E. Further, SFCL will continue to use MAT credits and hence its overall tax rate will remain below 10% which would boost PAT margin as well as PAT CAGR.

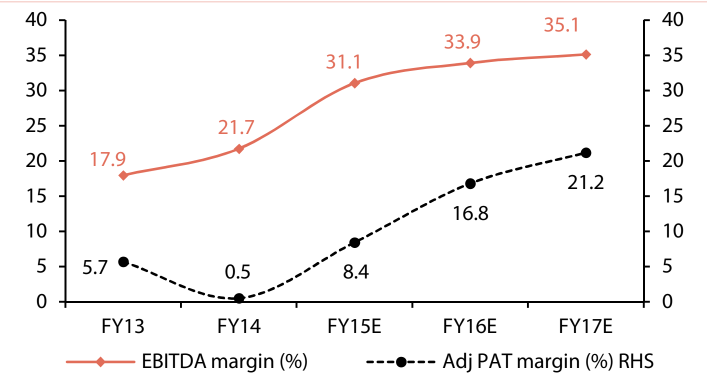
Led by industry leading operating margin and increase in plant utilisation, we expect SFCL's return ratios to steadily increase during FY14-17E period.

Exhibit 31: Adj PAT CAGR of 266% during FY14-17E



Source: Company, Centrum Research Estimates

Exhibit 32: Steady increase in EBITDA/ PAT margins



Source: Company, Centrum Research Estimates

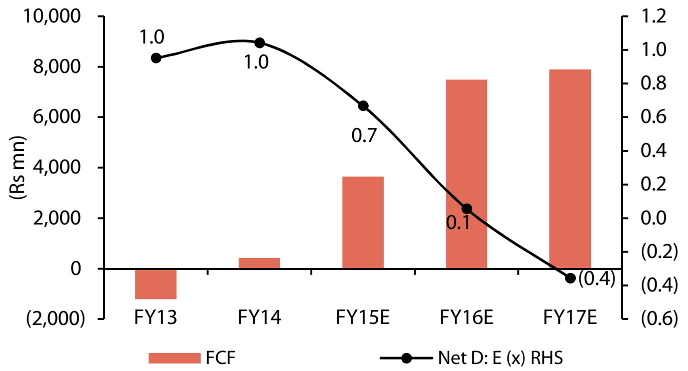
Strong cash flow generation should make SFCL net cash company in FY16-17E

SFCL will incur capex of Rs1.8 bn during FY15-16E on the 1 mn MT grinding unit in Siliguri (West Bengal) and on maintenance. The cement division would achieve peak utilisation by FY18E and hence it will have to deploy cash in organic or inorganic expansions for future growth.

The company currently is focussing on ramping up recent expansions and future expansion plan would be worked out by the end of FY16E. Existing clinker plants of SFCL have both surplus limestone and land available for brown-field growth. We have not factored in any major capex for FY17E currently in our projections. Concurrently, we have factored in lower treasury yield for FY17E in anticipation of cash deployment towards capacity expansion.

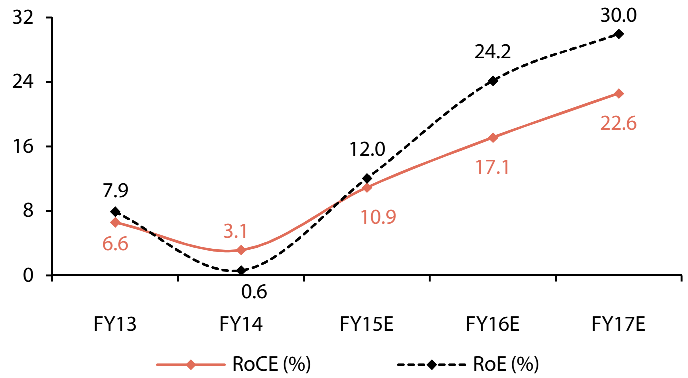
The capital subsidy of Rs2 bn as related to SFCL's recent capacity additions has been approved by the Government authorities and SFCL expects to receive the same during early part of FY16E. This will improve cash-flow for the company and also lower its working capital on books.

Exhibit 33: Strong free cash flow generation



Source: Company, Centrum Research Estimates

Exhibit 34: Steady increase in return ratios



Source: Company, Centrum Research Estimates

Valuation & key risks

Cement business should command premium valuations due to sustainable industry leading EBITDA per MT

We estimate SFCL's current leadership of delivering more than 2x industry average EBITDA per MT to sustain on account of its premium brand positioning in lucrative market, longevity of its tax exemptions/ incentives, and strong balance sheet to fund future growth. Its return ratios would also remain the highest amongst cement companies. Hence, we value the Cement business at 10x its FY17E EBITDA (in-line with that of the cement majors' valuation multiples). With re-structuring of cement and Ferro silicon businesses into separate companies, SFCL's business focus on the cement business will further increase.

Exhibit 35: SFCL's EBITDA per MT is almost 2x industry average; Its return ratio should be among the highest in the industry

Company	EBITDA margin (%)				EBITDA (Rs/ MT)				RoCE (%)			
	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E
Star Ferro & Cement	**21.7**	**31.1**	**33.9**	**35.1**	**1,284**	**1,906**	**2,096**	**2,298**	**3.1**	**10.9**	**17.1**	**22.6**
UltraTech Cement	18.8	19.1	22.0	24.1	896	953	1,167	1,366	8.7	8.8	11.5	14.6
ACC	14.6	12.9	16.5	19.3	681	625	852	1,071	9.4	8.6	11.6	15.2
Ambuja Cements	17.7	19.3	23.0	25.5	751	870	1,121	1,337	8.7	10.3	13.4	15.9
Shree Cement	23.6	24.4	28.2	30.7	933	963	1,223	1,443	14.5	12.0	21.7	27.8
Ramco Cements	14.1	17.3	21.8	24.3	512	720	1,022	1,246	3.1	4.7	8.0	11.2
JK Cements	12.2	12.2	17.0	19.8	549	560	824	1,014	3.3	5.0	7.5	12.0
JK Lakshmi	14.7	17.2	19.3	22.1	537	677	820	1,015	4.4	7.5	9.0	13.5
Orient Cement	14.9	19.5	22.2	25.1	511	742	903	1,094	9.0	9.2	9.7	14.5
Mangalam Cem	8.0	11.5	17.0	19.6	294	464	740	917	3.6	6.9	11.4	16.4

Source: Company, Centrum Research Estimates

SOTP Value of Rs250

We use SOTP method to value cement and Ferro businesses. We value the Cement business at 10x its FY17E EBITDA. We factor in consolidated net debt of SFCL under cement business as almost all the debt and cash on books pertain to the cement business (no capex in Ferro business). SFCL owns 70.48% in the cement business (through CMCL) and hence we take 70.48% of the implied market cap of the cement business for SFCL's share-holders. Amid muted growth outlook in the Ferro Silicon business, we value it at 20% discount to its book value. These lead to SOTP target price of Rs250 per share (99% value from the cement business).

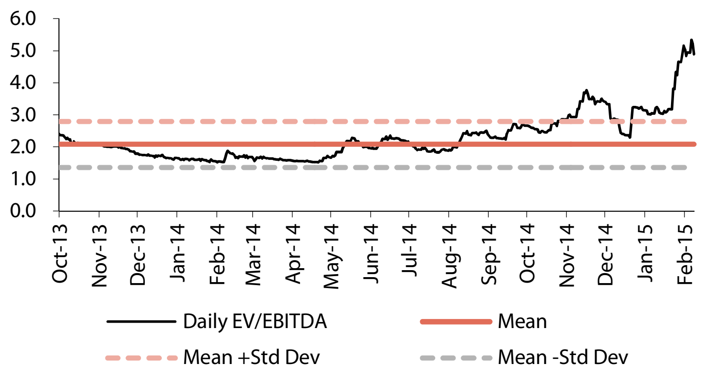
Exhibit 36: SOTP valuation

Particulars (Rs mn)	Mar'17E	Comments
Cement consolidated EBITDA	7,115	
Target Multiple	10.0	Cement business should command premium valuation on account of its highest EBITDA/MT in the industry
Total EV	71,147	
Net Debt	(5,970)	
Target M Cap - Cement business (1)	54,353	SFCL owns 70.48% of the cement business
Target M Cap - Ferro Silicon @ 0.8x segmental BV (2)	410	Discount for subdued Ferro Alloy business outlook
Total implied Market Cap (1+2)	54,762	
Shares O/S FV Re 1 (mn)	222	SOTP value Rs250 – 99% from the Cement business
Target Price (Rs/ Share)	**250**	

Source: Centrum Research Estimates

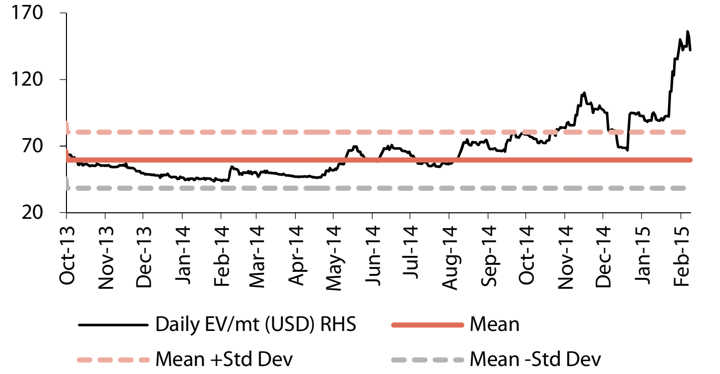
Valuation Charts & Peer Comparison

Exhibit 37: Rolling forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 38: Rolling forward EV/MT chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 39: Peer comparison with other cement companies – highest margin/ RoCE profile

Company	Mkt Cap (Rs bn)	Cap FY17E (mn MT)	CAGR FY14-17E (%)			EBITDA margin (%)			RoCE (%)			EV/EBITDA (x)			EV/MT(USD)		
			Rev	EBITDA	PAT	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
SFCL	**36.5**	**4.1**	**21.6**	**42.7**	**266.2**	**31.1**	**33.9**	**35.1**	**10.9**	**17.1**	**22.6**	**10.3**	**7.0**	**4.6**	**246**	**216**	**140**
UltraTech Cement	827.8	71.2	22.3	32.6	32.1	19.1	22.0	24.1	8.8	11.5	14.6	18.8	13.1	9.4	226	207	191
ACC	310.1	33	10.7	21.5	23.8	12.9	16.5	19.3	8.6	11.6	15.2	18.0	13.2	9.7	151	146	144
Ambuja Cements	401.2	32.1	11.8	26.1	30.5	19.3	23.0	25.5	10.3	13.4	15.9	18.1	13.3	10.7	202	196	183
Shree Cement	383.8	23	23.1	34.2	41.7	24.4	28.2	30.7	12.0	21.7	27.8	21.1	14.4	10.0	288	257	246
Ramco Cements	77.9	14.6	11.7	33.8	69.3	17.3	21.8	24.3	4.7	8.0	11.2	15.9	10.3	7.4	123	110	104
JK Cements	49.4	12.4	21.1	42.2	77.2	12.2	17.0	19.8	5.0	7.5	12.0	17.8	10.6	7.2	90	89	82
JK Lakshmi	45.0	10.4	23.3	41.2	54.3	17.2	19.3	22.1	7.5	9.0	13.5	13.7	9.4	6.4	113	99	89
Orient Cement	36.2	8.0	23.7	46.9	45.8	19.5	22.2	25.1	9.2	9.7	14.5	11.5	10.9	6.9	119	104	100
Mangalam Cem	7.6	3.8	27.4	71.2	77.9	11.5	17.0	19.6	6.9	11.4	16.4	9.7	5.0	3.2	55	50	40

Source: Companies, Centrum Research Estimates

Key Risks

- Delays in project executions and weak retail demand can reduce utilisation in the region leading to lower sales volume & pricing power.
- Sharp recovery in input and diesel costs can inflate cost pressure. SFCL's rail road mix currently stands at 20%: 80%.
- Delays in capacity commissioning will lead to lower volume off-take and hence reduce profit outlook.
- Delays in subsidy disbursement from the Government side can constrain SFCL's cash flow and hence restrict future growth potential.
- North East region has in the past has been prone to many terrorist attacks and various acts of violence which has had adverse effect on the law and order situation in the region. These may lead to plant operation disruptions and hence impact profitability. However, SFCL's operations have not got impacted so far due to such events in the past.

Operational summary – Cement & Ferro Silicon

Exhibit 40: Key Operational Assumptions - Cement

Particulars	FY12	FY13	FY14	FY15E	FY16E	FY17E
Installed capacity (mn MT)	**1.3**	**1.3**	**3.1**	**3.1**	**3.1**	**4.1**
Sales Volume (mn MT)	**1.1**	**1.1**	**1.8**	**2.2**	**2.6**	**3.1**
YoY change (%)	*14.0*	*(3.6)*	*64.4*	*27.1*	*18.4*	*17.4*
NSR (Rs/MT)	**4,894**	**5,554**	**5,854**	**5,899**	**5,929**	**6,285**
YoY change (%)	*0.5*	*13.5*	*5.4*	*0.8*	*0.5*	*6.0*
Total Opex (Rs/MT)	**3,572**	**4,403**	**4,570**	**3,993**	**3,833**	**3,987**
YoY change (%)	*7.8*	*23.3*	*3.8*	*(12.6)*	*(4.0)*	*4.0*
EBITDA (Rs/ MT)	**1,322**	**1,150**	**1,284**	**1,906**	**2,096**	**2,298**

Source: Company, Centrum Research Estimates

Exhibit 41: Key Operational Assumptions – Ferro Silicon

Particulars	FY12	FY13	FY14	FY15E	FY16E	FY17E
Installed capacity (K MT)	**12.2**	**18.3**	**18.3**	**18.3**	**18.3**	**18.3**
Production Volume (K MT)	**8.8**	**9.5**	**16.2**	**14.7**	**14.7**	**15.4**
Sales Volume (K MT)	**8.5**	**8.9**	**17.3**	**13.7**	**15.8**	**18.9**
YoY change (%)	*(17.2)*	*4.8*	*94.9*	*(20.9)*	*15.0*	*20.0*
NSR (Rs/MT)	**71,897**	**72,616**	**83,946**	**85,000**	**85,850**	**86,709**
YoY change (%)	*(4.2)*	*1.0*	*15.6*	*1.3*	*1.0*	*1.0*
Total Opex (Rs/MT)	**65,733**	**72,756**	**64,604**	**70,667**	**70,800**	**70,906**
YoY change (%)	*32.4*	*10.7*	*(11.2)*	*9.4*	*0.2*	*0.1*
EBITDA (Rs/ MT)	**6,164**	**(139)**	**19,342**	**14,333**	**15,050**	**15,802**

Source: Company, Centrum Research Estimates

Exhibit 42: Shareholding pattern (%)

	Q3FY15	Q2FY15	Q1FY15	Q4FY14
Promoter	*67.0*	*67.0*	*68.9*	*70.9*
FII	*0.3*	*0.3*	*0.4*	*0.4*
DII	*0.0*	*0.0*	*0.0*	*0.0*
Others	*32.7*	*32.7*	*30.7*	*28.8*

Source: BSE

Company Background

Star Ferro & Cement Ltd (SFCL) was incorporated in 2011. The cement, ferro alloys, and captive power assets of Century Plyboards (India) Ltd was transferred & vested in SFCL at their respective book value after the approval of the Scheme of Arrangement by the Hon'ble High Court of Calcutta – operative from 1st April 2012. SFCL is currently head-quartered in Kolkata.

SFCL currently has 3.1 mn MT of grey cement capacity in Meghalaya and Assam under its 70.48% owned subsidiary – Cement Manufacturing Company Ltd (CMCL). SFCL on a standalone basis has Ferro Alloy manufacturing capacity of 18.3 K MT. The group also has 13.8 MW of CPP in the Ferro Alloy business and 51MW of CPP under Meghalaya Power Ltd (MPL).

SFCL recently restructured its business to host cement and Ferro silicon businesses under separate companies. Subsequently, SFCL got all approvals to demerge the Ferrous Silicon business under a separate subsidiary – Shyam Century Ferrous Ltd (SCFL). After the proposed demerger, SCFL will own ~49% in the Meghalaya Power Ltd and the remaining 51% will remain with CMCL.

Exhibit 43: Promoters and Key management personnel

Name	Position	Qualification and experience
Mr. Sajjan Bhajanka	Promoter Director Cum Chairman	Mr. Sajjan Bhajanka is the Chairman of the company and holds 8.52% in the company. He has over 40 years of industry experience in plywood, ferro-silicon and cement industries. He has played a key role in the progress of the company. He is also the Chairman of Cement Manufacturing Company Ltd and Shyam Century Ferrous Ltd in Meghalaya and President of Federation of Indian Plywood & Panel Industry & All India Veneer Manufactures Association. He is a commerce graduate.
Mr Hari Prasad Agarwal	Promoter Director	Mr HP Agrawal is the Managing Director of the company and holds 1.79% in the company. He has total industry experience of more than 45 years and is also a promoter Director of Century Plyboards Ltd. He is also associated with different social and trade related organizations.
Mr. Sanjay Agarwal	Promoter Director	Mr Sanjay Agrawal is a promoter Director of the company and holds 9.5% in the company. He is a commerce graduate with 30 years of industry experience. He is also president of MCC Chamber of Commerce and Industry.
Mr Sanjay Kumar Gupta	CEO	Mr Gupta became the CEO of SFCL in Sep'2014 and In Ocr'2013 he took charge as Deputy CEO of the cement subsidiary – CMCL. He has earlier worked as the CFO of CMCL since he joined the company in 2003. He is Chartered Accountant by qualification with varied experience of over 22 years -18 years in cement industry.
Mr Dilip Kumar Agarwal	CFO	Mr Agrawal is the company CFO since Sep'2014. He has been associated with the cement division of the group since 2009. He is Chartered Accountant by qualification.
Mr. Manindra Nath Banerjee	Non-executive Independent Director	Mr Manindra Nath Banerjee is a retired IAS officer from West Bengal cadre. He is also an Independent Director of Centrury Plyboards Ltd and Skippers Ltd. In his long spanning service career, he has served as Managing Director as well as Chairman of more than 10 State Government undertakings. He has also worked in Durgapur Steel Plant on deputation from State Government.
Mr. Santanu Ray	Non-executive Independent Director	Mr. Santanu Ray, a Member at Institute of Chartered Accountants of India has worked as a Manager and Consultant with several well-known companies in the past. He has vast experience in the field of research and education and has been the Chief Mentor at various business schools. He is a Non Executive Independent Director of Star Ferro and Cement Limited since October 31, 2011. He is also on the boards of B.P. Poddar Hospital & Medical Research Ltd., Saraswati Press Ltd., and West Bengal Text Book Corp. Pvt Ltd.
Mr. Mangi Lal Jain	Non-executive Independent Director	Mr. Mangi Lal Jain is Independent Non-Executive Director since 2006. He is also Independent Non-Executive Director at Star Ferro & Cement Ltd. He is a Member at Institute of Chartered Accountants of India.
Mrs. Pristina Dkhar	Non-executive Independent Director	Mrs Dkhar has industry experience of 27 years and has been associated with the Company since 2013. She is also Director of Riangdo Veneers Pvt Ltd amongst others

Source: Industry, Company, Centrum Research

Quarterly financial trend – Strong profit growth in Q4FY15E

SFCL's profitability has been trending upwards over the last six quarters driven by cement capacity ramp-up and improving demand in the north east market. These along with state incentives/ tax exemptions and higher realisation have boosted SFCL's EBITDA per MT ~100% ahead of the industry average. The Ferro Alloy sales and EBITDA have been volatile on account of weak steel demand and lower utilisation aggravating operating cost pressure.

In Q4FY15E, we expect the company to deliver net sales and EBITDA growth of 11% and 27% YoY driven by 18% YoY volume growth in the cement business and operating leverage driving margin expansion. *We expect EBITDA per MT to expand Rs120 QoQ to Rs2154 (Up 287 per MT YoY).*

Driven by stable capital charges YoY and MAT credit entitlement (hence negligible tax outgo), adj PAT should grow at 42% YoY.

Exhibit 44: SFCL : Quarterly financials trend - Consolidated

Y/E Mar (Rs mn)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15E
Net Sales	**2,347**	**2,225**	**3,353**	**3,808**	**3,561**	**2,922**	**3,609**	**4,215**
Total Expenditure	1,965	2,156	2,439	2,625	2,384	2,370	2,402	2,716
Raw Materials	234	687	429	668	467	714	248	578
Employee	175	197	199	218	214	253	261	277
Others	1,555	1,272	1,811	1,739	1,704	1,403	1,893	1,861
EBITDA	**383**	**69**	**915**	**1,183**	**1,177**	**552**	**1,208**	**1,499**
Depreciation	395	405	409	407	557	557	565	560
EBIT	(12)	(336)	506	776	620	(5)	642	939
Interest	263	170	227	212	241	218	237	237
Other Income	16	4	7	(4)	7	2	8	5
PBT	(259)	(503)	286	561	386	(221)	414	707
Taxes	(25)	(14)	23	43	12	28	31	19
Adjusted PAT (before minority)	(234)	(489)	263	518	373	(249)	383	688
Exceptional inc/ (exp)	(294)	260	8	17	0	(13)	8	10
Minority Interest	(135)	(86)	53	155	103	(87)	109	174
Reported PAT (post minority)	(394)	(143)	218	380	270	(175)	282	525
Adjusted PAT	**(100)**	**(403)**	**210**	**362**	**270**	**(161)**	**274**	**515**
YoY Growth (%)								
Revenue	*31.0*	*57.5*	*113.0*	*109.5*	*51.7*	*31.3*	*7.6*	*10.7*
EBITDA	*(18.3)*	*(75.9)*	*559.1*	*308.4*	*207.5*	*697.5*	*32.1*	*26.7*
PBT	*n/m*	*n/m*	*1,014.1*	*(519.4)*	*(248.7)*	*n/m*	*44.6*	*26.2*
Adj PAT	*n/m*	*n/m*	*n/m*	*n/m*	*n/m*	*n/m*	*30.4*	*42.0*
Margins (%)								
EBITDA	*16.3*	*3.1*	*27.3*	*31.1*	*33.0*	*18.9*	*33.5*	*35.6*
EBIT	*(0.5)*	*(15.1)*	*15.1*	*20.4*	*17.4*	*(0.2)*	*17.8*	*22.3*
PBT	*(11.1)*	*(22.6)*	*8.5*	*14.7*	*10.8*	*(7.6)*	*11.5*	*16.8*
Adj PAT	*(10.0)*	*(22.0)*	*7.8*	*13.6*	*10.5*	*(8.5)*	*10.6*	*16.3*
Operational Trends								
Cement & clinker Sales Vol (mn MT)	0.4	0.4	0.5	0.6	0.5	0.5	0.6	0.7
YoY growth (%)	*27.4*	*32.9*	*93.3*	*110.0*	*47.8*	*23.7*	*24.2*	*18.2*
NSR (Rs/MT)	5,576	5,343	6,346	5,959	6,020	5,809	5,836	5,889
YoY growth (%)	*(1.9)*	*17.8*	*2.1*	*1.6*	*8.0*	*8.7*	*(8.0)*	*(1.2)*
Opex (Rs/MT)	4,342	5,264	4,466	4,092	4,033	4,524	3,800	3,735
EBITDA (Rs/MT)	1,235	79	1,880	1,867	1,987	1,285	2,037	2,154
OPM (%)	*22.1*	*1.5*	*29.6*	*31.3*	*33.0*	*22.1*	*34.9*	*36.6*
Ferro Alloy Sales Vol (K MT)	4.4	3.5	4.0	5.5	4.0	3.5	2.6	3.6
YoY growth (%)	*85.7*	*61.5*	*253.5*	*68.1*	*(7.9)*	*(0.1)*	*(34.2)*	*(34.8)*
EBITDA (Rs mn)	(17.7)	8.9	152.3	191.8	57.7	49.8	33.9	70.0
EBITDA (% of total EBITDA)	*(4.6)*	*12.8*	*16.6*	*16.2*	*4.9*	*9.0*	*2.8*	*4.7*
OPM (%)	*(5.4)*	*3.3*	*37.8*	*41.7*	*16.8*	*17.4*	*14.9*	*22.8*

Source: Company, Centrum Research Estimates

Financials - Consolidated

Exhibit 45: Income Statement

Y/E Mar(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	**6,596**	**11,734**	**14,303**	**16,983**	**21,098**
Raw Materials	951	2,018	2,002	2,293	2,975
as % of sales	*14.4*	*17.2*	*14.0*	*13.5*	*14.1*
Employee	430	786	1,006	1,157	1,330
as % of sales	*6.5*	*6.7*	*7.0*	*6.8*	*6.3*
Others	4,031	6,380	6,853	7,772	9,379
as % of sales	*61.1*	*54.4*	*47.9*	*45.8*	*44.5*
EBITDA	**1,184**	**2,550**	**4,442**	**5,762**	**7,414**
EBITDA margin (%)	*17.9*	*21.7*	*31.1*	*33.9*	*35.1*
Depreciation	503	1,616	2,239	2,162	2,350
EBIT	681	933	2,203	3,599	5,064
Interest	285	872	933	700	500
Other income	16	24	22	250	300
PBT	411	85	1,292	3,149	4,864
Tax	37	27	90	300	400
Tax rate (%)	*9.0*	*32.0*	*7.0*	*9.5*	*8.2*
Minority+ Associates	(127)	12	(300)	(655)	(1,027)
Adj PAT Pre-minority	374	58	1,202	2,849	4,464
Adj PAT (post minority)	**247**	**70**	**901**	**2,194**	**3,437**
EO items	2	(9)	-	-	-
Reported PAT (post minority)	249	61	901	2,194	3,437

Source: Company, Centrum Research Estimates

Exhibit 46: Key Ratios

Y/E Mar(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Growth Metrics (%)					
Net Sales	*n/a*	*77.9*	*21.9*	*18.7*	*24.2*
EBITDA	*n/a*	*115.4*	*74.2*	*29.7*	*28.7*
Adj PAT	*n/a*	*(71.7)*	*1,188.0*	*143.4*	*56.7*
Profitability Metrics (%)					
EBIT margin	*10.3*	*8.0*	*15.4*	*21.2*	*24.0*
PBT margin	*6.2*	*0.7*	*9.0*	*18.5*	*23.1*
Adj PAT margin	*5.7*	*0.5*	*8.4*	*16.8*	*21.2*
Return Ratios (%)					
RoE	*7.9*	*0.6*	*12.0*	*24.2*	*30.0*
RoCE	*6.6*	*3.1*	*10.9*	*17.1*	*22.6*
RoIC	*6.7*	*3.2*	*11.1*	*20.4*	*36.6*
Turnover ratios (No of days)					
Inventory period	83	55	51	46	40
Collection period	24	44	44	43	37
Creditors period	40	26	26	26	27
Cash conversion cycle	67	73	70	62	49
Solvency Ratio (x)					
D/E	1.0	1.1	0.7	0.5	0.2
Net D/E	1.0	1.0	0.7	0.1	(0.4)
Interest coverage	2.4	1.1	2.4	5.1	10.1
Current ratio	4.2	3.4	3.2	3.5	3.7
Dividend					
DPS (Rs)	0.0	0.3	0.0	1.7	2.6
Dividend yield (%)	*0.0*	*0.2*	*0.0*	*1.0*	*1.6*
Dividend pay-out (%)	*0.0*	*119.2*	*0.0*	*20.0*	*20.0*
Per share (Rs)					
Basic EPS- reported	498.4	0.3	4.1	9.9	15.5
Basis EPS- adjusted	494.5	0.3	4.1	9.9	15.5
FDEPS- reported	498.4	0.3	4.1	9.9	15.5
FDEPS- adjusted	494.5	0.3	4.1	9.9	15.5
CEPS	1,500.4	7.6	14.1	19.6	26.0
BVPS	13,854.3	30.9	34.9	42.8	55.2
Valuations Metrics (x)					
P/E	0.3	521.1	40.5	16.6	10.6
Price/Cash earnings	0.1	21.6	11.6	8.4	6.3
Price/BV	0.0	5.3	4.7	3.8	3.0
EV/Sales	7.1	4.1	3.2	2.4	1.6
EV/EBITDA	39.5	18.7	10.3	7.0	4.6
EV/ton (USD $)	604	258	246	216	140

Source: Company, Centrum Research Estimates

Exhibit 47: Balance Sheet

Y/E Mar(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Sources of Funds:					
Share Capital	1	222	222	222	222
Reserves	6,927	6,641	7,543	9,298	12,047
Shareholders Fund	6,927	6,863	7,765	9,520	12,269
Debt	9,292	9,917	7,517	6,517	4,017
Net deferred tax	41	45	135	335	535
Minority Int	2,538	2,529	2,829	3,484	4,511
Total Liabilities	**18,798**	**19,354**	**18,246**	**19,856**	**21,333**
Application of Funds:					
Gross Block	14,158	15,827	16,577	18,027	18,127
Accumulated Depn	2,510	4,105	6,344	8,506	10,856
Net Fixed Assets	11,648	11,722	10,233	9,521	7,271
Capital WIP	1,289	995	695	595	595
Investments	15	15	15	15	15
Inventories	1,500	1,755	2,002	2,123	2,321
Sundry Debtors	427	1,416	1,726	2,004	2,110
Cash & Liquid Investments	271	126	437	5,782	9,987
Loans & Advances	2,222	6,037	6,436	3,736	4,009
Other Current Assets	3,227	5	14	17	21
Total Current Assets	7,647	9,339	10,616	13,662	18,447
Sundry creditors	723	829	1,001	1,223	1,582
Other liabilities & provisions	1,078	1,889	2,312	2,715	3,414
Total Current Liabilities	1,802	2,718	3,314	3,937	4,997
Net Current Assets	5,845	6,621	7,302	9,725	13,451
Total Assets	**18,798**	**19,354**	**18,246**	**19,856**	**21,333**

Source: Company, Centrum Research Estimates

Exhibit 48: Cash Flow

Y/E Mar(Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT & extraord. Items	413	76	1,292	3,149	4,864
Add: Depreciation	503	1,616	2,239	2,162	2,350
Add: Interest	286	872	933	700	500
Add: Others	(18)	(24)	(22)	(250)	(300)
Operating profit before WC changes	1,184	2,541	4,442	5,762	7,414
Trade & other receivables	(2,073)	(1,606)	(718)	2,419	(382)
Inventories	(526)	(255)	(248)	(120)	(198)
Trade payables	550	919	595	624	1,059
Net change - WC	(2,049)	(941)	(370)	2,922	479
Direct taxes	(127)	-	-	(100)	(200)
Net cash from operating activities	**(992)**	**1,599**	**4,072**	**8,584**	**7,693**
Capital expenditure	(239)	(1,173)	(450)	(1,350)	(100)
Others	15	(1)	22	250	300
Net Cash from investing activities	**(224)**	**(1,175)**	**(428)**	**(1,100)**	**200**
Net free cash flows	**(1,216)**	**425**	**3,644**	**7,484**	**7,893**
Issue of share capital	-	-	-	-	-
Debt change	2,229	409	(2,400)	(1,000)	(2,500)
Dividend paid	-	(122)	-	(439)	(688)
Interest paid	(989)	(872)	(933)	(700)	(500)
Net cash from financing activities	**1,241**	**(585)**	**(3,333)**	**(2,139)**	**(3,688)**
Net change in cash	25	(160)	311	5,345	4,205

Source: Company, Centrum Research Estimates

Appendix A

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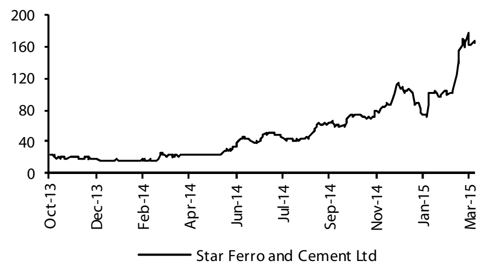
Star Ferro & Cement price chart



Source: Bloomberg, Centrum Research

Disclosure of Interest Statement		
1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	CBL is in the process of preparing application for submission to SEBI

		SFCL	ACC	ACEM	JKCE	JKLC	MGL	ORCMNT	TRCL	SRCM	UTCEM
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No	No	No	No	No	No	No	No	No	No
5	Whether Research analyst or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No	No	No	No	No	No	No	No	No	No
6	Whether the research analyst or his relatives has any other material conflict of interest	No	No	No	No	No	No	No	No	No	No
7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No	No	No	No	No	No	No	No	No	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No	No	No	No	No	No	No	No	No	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No	No	No	No	No	No	No	No	No	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No	No	No	No	No	No	No	No	No	No

Rating Criteria

Rating	Market cap < Rs20bn	Market cap > Rs20bn but < 100bn	Market cap > Rs100bn
Buy	Upside > 25%	Upside > 20%	Upside > 15%
Hold	Upside between -25% to +25%	Upside between -20% to +20%	Upside between -15% to +15%
Sell	Downside > 25%	Downside > 20%	Downside > 15%

Member (NSE and BSE)

Regn No.:
CAPITAL MARKET SEBI REGN. NO.: BSE: INB011454239
CAPITAL MARKET SEBI REGN. NO.: NSE: INB231454233
DERIVATIVES SEBI REGN. NO.: NSE: INF231454233
(TRADING & CLEARING MEMBER)
CURRENCY DERIVATIVES: MCX-SX INE261454230
CURRENCY DERIVATIVES:NSE (TM & SCM) – NSE 231454233

Depository Participant (DP)
CDSL DP ID: 120 – 12200
SEBI REGD NO. : CDSL : IN-DP-CDSL-661-2012

PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Website: www.centrum.co.in
Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:
Kavita Ravichandran

(022) 4215 9842; Email ID: Compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)	
Registered Office Address Bombay Mutual Building , 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001	**Corporate Office & Correspondence Address** Centrum House 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098. Tel: (022) 4215 9000 Fax: +91 22 4215 9344