

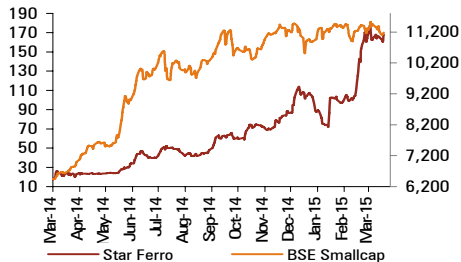
Time frame: 6 months

Key Technical Data

Recommended Price	157-165
Price Target	245.00
Stoploss	129.00
52 Week High	180.50
52 Week Low	19.80
50 days EMA	134.00
200 days EMA	87.00
52 Week EMA	82.00

*Recommendation given on i-click to gain on March 18, 2015 at 14:08 hrs

Stock price movement vs. BSE Small cap



Star Ferro & Cement (STAFER) CMP- ₹ 168.00 Buying range: ₹ 157.00-165.00 Target: ₹ 245.00 Stop loss: ₹ 129.00

Key technical observations

- The share price of Star Ferro & Cement has remained in a strong uptrend since the beginning of 2014, consistently forming rising peaks and troughs on all time frames. The current sideways corrective phase over the last four weeks is seen as a higher base building process, which will serve as a launch pad for the next up leg within the larger uptrend. We believe, after the recent consolidation, the stock is attractively posed and offers a fresh entry opportunity for medium term investors to ride the next up move
- The corrective dip off the life-time high of ₹ 180 was anchored at the key support marked near ₹ 160 and resulted in a bullish Engulfing line candlestick formation on Wednesday's reiterating buying support near the value area. The confluence of following technical parameters converging around ₹ 160 make this a key support area:
 - a) The rising trendline support joining the lows of January 13, 2015 (₹ 65) and February 16, 2015 (₹ 103), which is currently placed at ₹ 162
 - b) The value of the rising 13 day EMA, which has acted as a key value area in the recent up trend is currently placed at ₹ 162 levels
 - c) The 23.6% retracement of the February 2015 rally (₹ 103 to ₹ 179) is also placed at ₹ 160 level
- Another significant observation reveals that the corrective decline off all-time highs of ₹ 180 has already taken 16 sessions while retracing just 23.6% of the preceding six session's rally highlighting the overall positive price structure. The slower pace of the decline highlights a healthy corrective trend and augurs well for the sustainability of the overall bull trend. We believe the basing formation over the last month above the 13 day EMA currently placed at ₹ 162 is approaching maturity. The stock is set to embark upon its next up move from hereon. Hence, it offers a good entry opportunity with a decent reward/risk set-up to ride the ongoing uptrend
- The appetite of market participants to own the stock is evident from the fact that average delivery volume over past month has been above 70%. Higher delivery volumes during consolidation and the price rise with volume on Wednesday's session are supportive of the up trend
- We expect the stock to take out its previous life-time high of ₹ 180 and head towards ₹ 245 in the medium term being the value of the upper band of the rising channel in placed since beginning of 2014 in the quarterly charts which also coincides with the price equality of the previous up move from ₹ 95 to ₹ 180 (180-95=85 points) as projected from the low of the recent consolidation of ₹ 160 (160+85=₹ 245)
- Among oscillators, the short-term stochastic has reversed upward from the oversold territory and has generated a buy signal on the daily chart, thus validating the positive trend in price

Exhibit 1: Star Ferro & Cement – Daily Candlestick Chart

The share price remains in up trend and is seen moving higher after consolidating above the 13-day EMA and looks set for next up move

We expect the stock to take out its previous life-time high of ₹ 180 and head towards ₹ 245 in the medium term being the price equality with the previous up move



Source: Bloomberg, ICICIdirect.com Research

Research Analyst

Dharmesh Shah
 dharmesh.shah@icicisecurities.com

Rashesh Shah
 rashes.shah@icicisecurities.com

Stock Data

Market Capitalization	₹ 3665.8 Crore
Total Debt (FY14)	₹ 844.3 Crore
Cash and Investments (FY14)	₹ 12.7 Crore
EV	₹ 4497.4 Crore
52 week H/L	502 / 272
Equity capital	₹ 22.2 Crore
Face value	₹ 1
MF Holding (%)	Nil
FII Holding (%)	0.3

Exhibit 1: Key metrics

	FY14	FY15E	FY16E	FY17E
P/E	NA	57	45	22
Target P/E	NA	90	70	34
EV / EBITDA	17.6	10.2	8.7	6.2
EV / Tonne	268	221	219	146
Price/Book value	5.3	5.1	4.7	4.0
RoCE	5.2	10.8	13.4	21.5
RoNW	0.9	8.8	10.5	18.4

Exhibit 2: Financial highlights

₹ crore	FY14	FY15E	FY16E	FY17E
Net Sales	1,171.4	1,410.7	1,754.9	2,315.2
EBITDA	254.9	426.2	492.1	644.8
Net Profit	6.1	64.1	82.2	170.2
EPS (₹)	0.3	2.9	3.7	7.7

Source: Company, ICICIdirect.com Research

Fundamental view

- SFCL is the largest cement unit in the North East followed by Dalmia Bharat Cement and has a twin advantage of proximity to raw material and close proximity to the highest price-end market with ~23% market share. The company enjoys an advantage of geographical complexity and various fiscal benefits under NE industrial policy (NEIIPP 2007). This includes 100% excise exemption, 100% income tax exemption, capital investment subsidy up to 30% of the investment in plant & machinery, interest subsidy at 3% of working capital loan, transport subsidy, etc. to boost investments. As a result, it generates healthy EBITDA/tonne which is over ~2.0x of cement players at pan-India level.
- To meet the demand and reduce the dependence from import of cement from other states, the company has increased its total cement capacity from 1.27 MT in FY12 to 3.1 MT in FY14. The company has also taken two grinding units on hire and its capacity is (800+600) tonnes per day, which is 0.46 MT. This leads to a total capacity of ~3.6 MT. Further, the company is planning to have one own grinding unit of 1.0 MT, which will be expected to be operational by October 2016. Moreover, SFCL is exploring opportunities in Bangladesh, which imports 10-15 MT of clinker annually as the country does not have its own supply of limestone. Given this backdrop, we expect SFCL to clock healthy volume CAGR of 25.6% in FY14-17E. We also expect prices to remain at elevated levels and expect cement prices to grow at 2.1% annually
- Apart from strengthening its footprint in the NER region, the company has also expanded its dealer network in the West Bengal and Bihar market. A huge marketing and visibility campaign has been put in place to have better brand visibility and top of the mind recall among users of cement in all these markets. In addition, the company is also exploring the possibility of introducing its product in the markets of neighbouring countries viz. Nepal, Bhutan and Bangladesh
- Given the company's ability to generate over 2.0x EBITDA/tonne of its peer set and capability to expand through internal accruals, we believe SFCL will trade at premium valuations despite being a midcap cement player. However, given its current capacity, we have valued the company at 9.5x FY17E EV/EBITDA (i.e. at a 30% discount to large cap player's valuations and 10% premium over mid-cap peer set companies) and arrived at a target price of ₹ 275/share, representing an upside of ~70%. It may be noted that any significant capex announcement (post FY16E) could impact the return ratios for our valuations

NOTES:

- It is recommended to enter in a staggered manner within the prescribed range provided in the report
- Once the recommendation is executed, it is advisable to keep strict stop loss as provided in the report on closing basis
- The recommendations are valid for three to six months and in case we intend to carry forward the position, it will be communicated through separate mail.

Trading Portfolio allocation

- It is recommended to spread out the trading corpus in a proportionate manner between the various technical research products
- Please avoid allocating the entire trading corpus to a single stock or a single product segment
- Within each product segment it is advisable to allocate equal amount to each recommendation
- For example: The 'Daily Calls' product carries 3 to 4 intraday recommendations. It is advisable to allocate equal amount to each recommendation

Recommended product wise trading portfolio allocation

Products	Allocations		Number of Calls	Return Objective		Duration
	Product wise allocation	Max allocation in 1 stock		Frontline Stocks	Mid-cap stocks	
Daily Calls	8%	2-3%	3-4 Stocks	0.50-1%	2-3%	Intraday
Short term Delivery	6%	3-5%	7-10 p.m	4-5%	7-10%	Opportunity based
Weekly Calls	8%	3-5%	1-2 Stocks	5-7%	7-10%	1 Week
Weekly Technical	8%	3-5%	1-2 Stocks	5-7%	7-10%	1 Week
Monthly Call	15%	5%	2-3 Stocks	7-10%	10-15%	1 Month
Monthly Technical	15%	2-4%	5-8 Stocks	7-10%	10-15%	1 Month
Techno Funda	15%	5-10%	1-2 Stocks	10% and above	15% and above	6 Months
Technical Breakout	15%	5-10%	1-2 Stocks	10% and above	15% and above	3-6 Months
Cash in Hand	10%	-	-	-	-	-
	100%					



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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