

NOT RATED

Star Ferro & Cement

SFCL IN

Bright future for this north(east) star

We met the management of SFCL, the largest cement manufacturer and market leader in India's northeast region (26% share). Key takeaways: (1) SFCL has a sustainable economic moat in the northeast from its large capacity base in the region, strategic plant locations and strong brand presence; (2) EBITDA/t of Rs 1,500+ is ~2x that of our universe average; and (3) debt reduction on receipt of subsidy dues could be a re-rating catalyst. We do not cover SFCL at present.

- ➔ **Leader in the northeast:** SFCL began operations in India's northeast region in 2005 and is currently the leader in terms of both market share (26%) and capacity (3.3mn tonnes), with plants in Meghalaya and Assam. The top 3 players account for ~65% of the 11mt capacity in the region. SFCL has created a strong brand and sustainable economic moat by dint of plants located strategically close to market hubs, sufficient limestone reserves (70 years), captive power plants (51MW), a robust network of 1,495 dealers, and fiscal incentives under the government's North East Industrial and Investment Promotion Policy (NEIIPP), 2007.
- ➔ **Robust EBITDA/t:** EBITDA/t has been Rs 1,500+ for three years now (peak of Rs 2,005 in FY15), ~2x our coverage universe average and among the best in the industry due to the fiscal incentives. We see further upside as pricing improves amid rising utilisation.
- ➔ **Volume growth of 10%:** SFCL expects volumes in the northeast region to grow by 10% in FY17. Plant utilisation stood at 65% in FY16 and the company has enough capacity to grow in excess of 20% over FY16-FY18. Management plans to expand capacity by 1mt in Siliguri and increase existing production via debottlenecking over FY16-FY18.
- ➔ **Ratios moving up, subsidy benefit could lead to re-rating:** SFCL's return ratios have steadily improved on the back of strong profitability (ROE of 12.9% in FY16). Subsidy receivables of Rs 6bn from the government (only Rs 250mn received so far) can be used to repay long-term debt – a potential re-rating trigger. SFCL is trading at 8x FY16 EV/EBITDA and has an EV/t of US\$ 120. We do not have a rating on the stock.

Financial Highlights

Y/E 31 Mar	FY13A	FY14A	FY15A	FY16A
Revenue (INR mn)	6,596	11,734	14,304	17,150
EBITDA (INR mn)	1,184	2,550	4,351	3,979
Adjusted net profit (INR mn)	247	68	834	920
Adjusted EPS (INR)	1.1	0.3	3.8	4.1
Adjusted EPS growth (%)	-	(72.4)	1,121.1	10.2
DPS (INR)	-	0.3	-	1.0
ROCE (%)	4.0	4.2	14.0	10.6
Adjusted ROAE (%)	3.6	1.0	12.2	12.9
Adjusted P/E (x)	101.6	367.9	30.1	27.3
EV/EBITDA (x)	28.2	13.1	7.3	8.1
P/BV (x)	3.6	3.7	3.7	3.4

Source: Company, Bloomberg, RCML Research

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PRICE CLOSE (18 Aug 16)

INR 113.2

MARKET CAP

INR 25.1 bn
USD 375.9 mln

SHARES O/S

222.2 mln

FREE FLOAT

33.3%

3M AVG DAILY VOLUME/VALUE

0.24 mln / USD 0.39 mln

52 WK HIGH

INR 153.45

52 WK LOW

INR 95.2

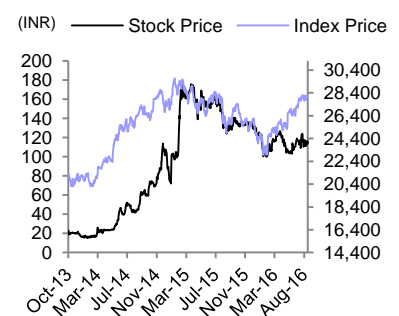
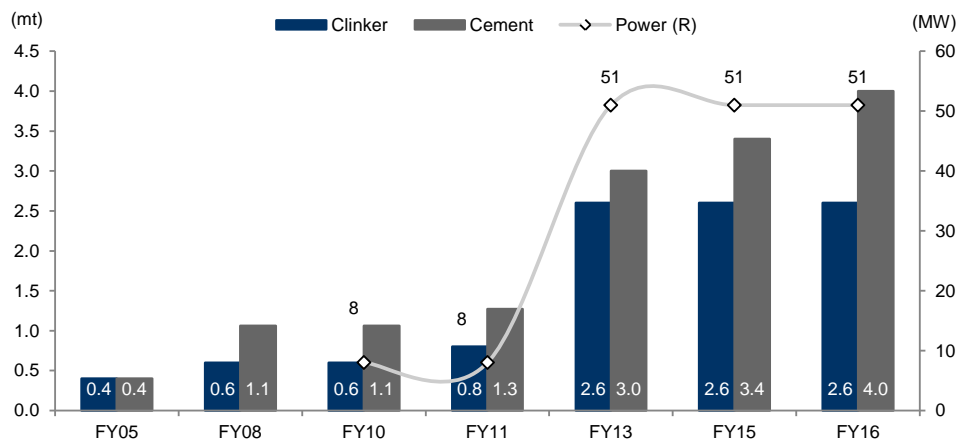




Fig 1 - Capacity expansion over the years



Important metrics

Sales Mix

Trade:Non Trade	76:24
PPC:OPC:PSC	75:23:2

Cost Mix

Road:Rail	80:20
Lead distance (km)	350
Fuel Mix	100% domestic coal

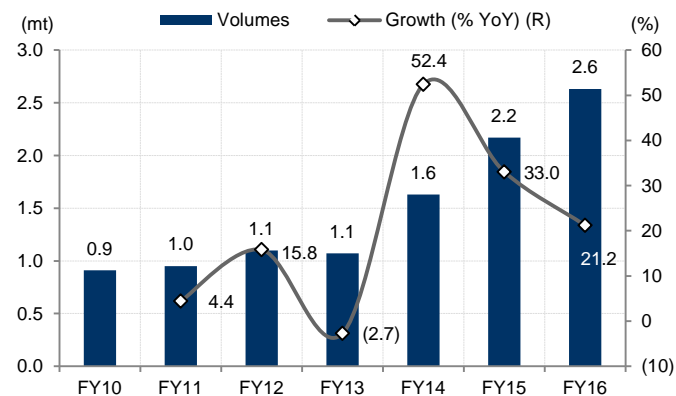
Capacity

Cement (mt)	4.0
Clinker (mt)	2.6
Power (MW)	51

Source: Company, RCML Research

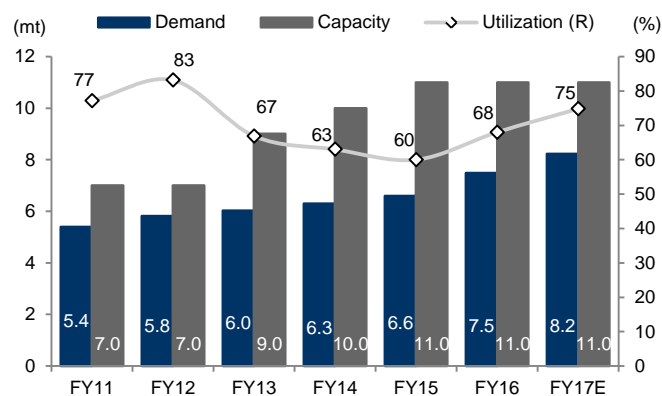
Source: Company, RCML Research

Fig 2 - Strong volume growth over FY14-FY16...



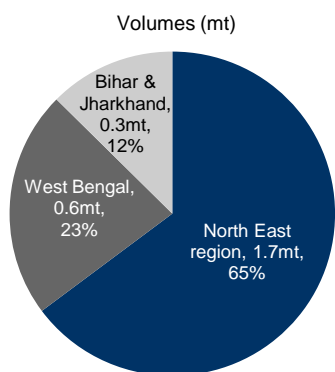
Source: RCML Research

Fig 3 - ...helped by healthy demand in the northeast



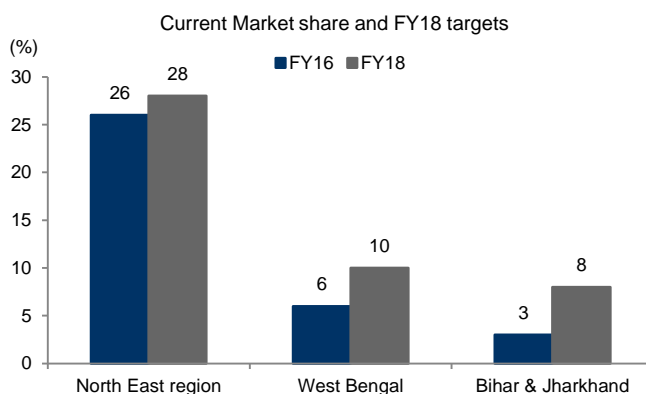
Source: RCML Research

Fig 4 - Leader in the Northeast and making inroads in West Bengal, Bihar & Jharkhand



Source: RCML Research

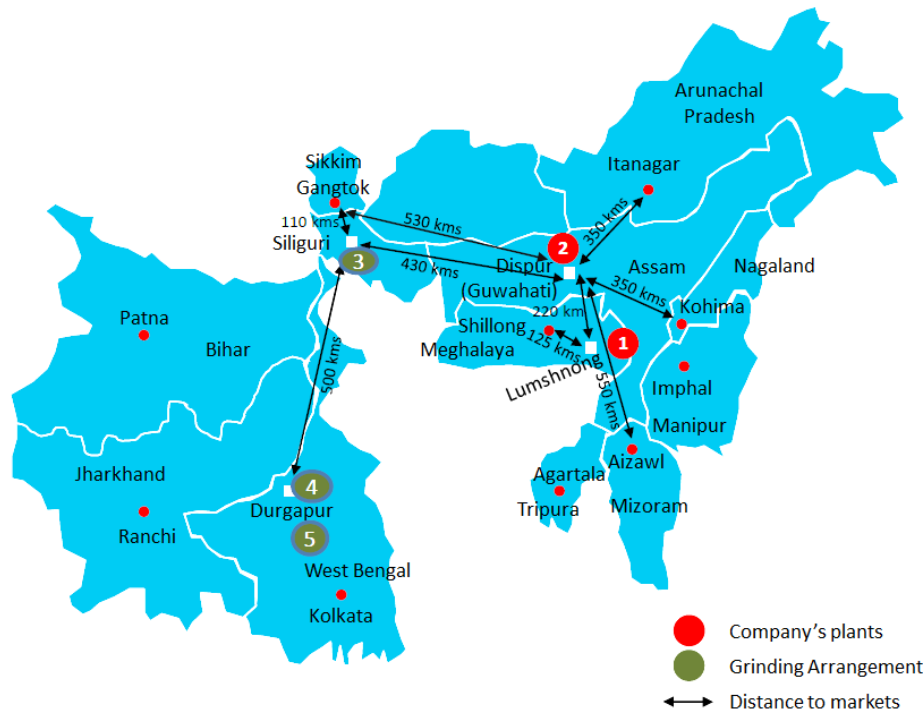
Fig 5 - SFCL aims to expand market share across regions



Source: RCML Research

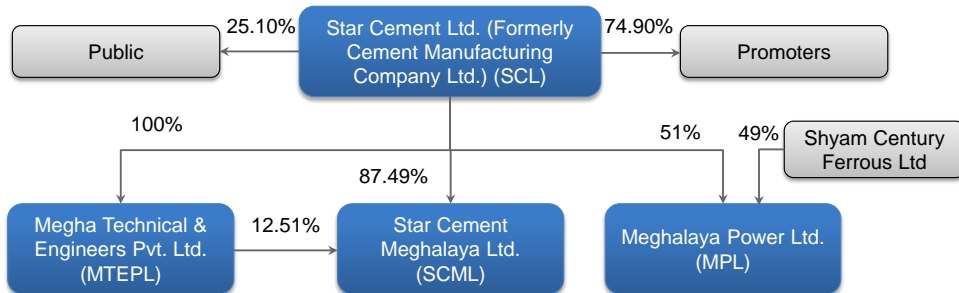


Fig 6 - Strategic location advantage a vital cog in northeast region leadership



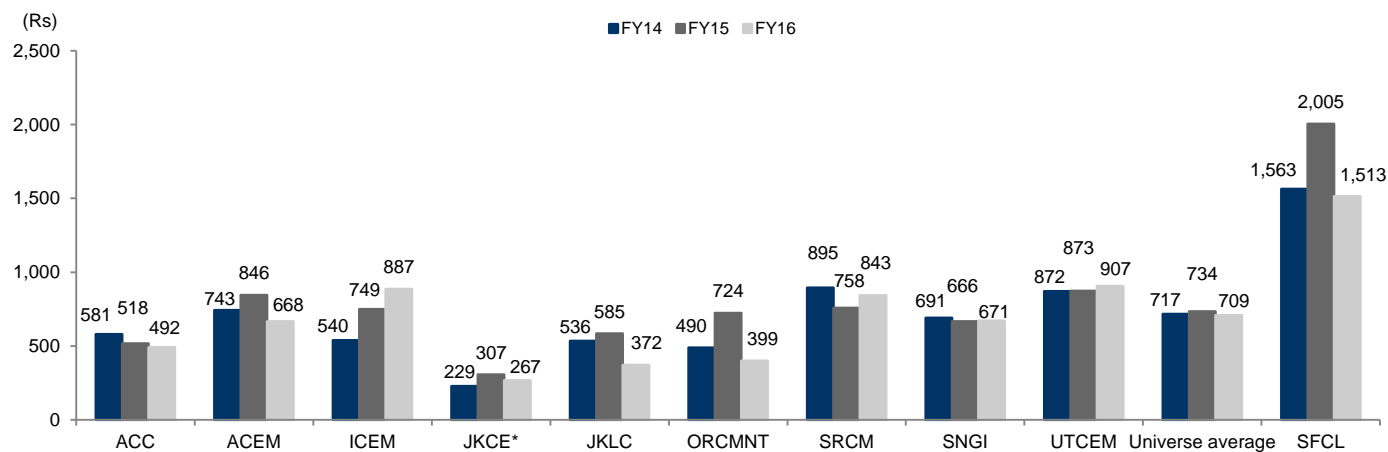
Source: Company, RCML Research

Fig 7 - Simplified corporate structure



Source: Company, RCML Research

Fig 8 - EBITDA/t comparison of SFCL with our coverage universe



Source: Company, RCML Research, *JKCE EBITDA/t for grey cement



Per Share Data

Y/E 31 Mar (INR)	FY13A	FY14A	FY15A	FY16A
Reported EPS	1.1	0.3	3.8	4.1
Adjusted EPS	1.1	0.3	3.8	4.1
DPS	-	0.3	-	1.0
BVPS	31.2	30.9	30.6	33.7

Valuation Ratios

Y/E 31 Mar (x)	FY13A	FY14A	FY15A	FY16A
EV/Sales	5.1	2.9	2.2	1.9
EV/EBITDA	28.2	13.1	7.3	8.1
Adjusted P/E	101.6	367.9	30.1	27.3
P/BV	3.6	3.7	3.7	3.4

Financial Ratios

Y/E 31 Mar	FY13A	FY14A	FY15A	FY16A
Profitability & Return Ratios (%)				
EBITDA margin	17.9	21.7	30.4	23.2
EBIT margin	10.3	8.0	14.8	13.2
Adjusted profit margin	3.8	0.6	5.8	5.4
Adjusted ROAE	3.6	1.0	12.2	12.9
ROCE	4.0	4.2	14.0	10.6
YoY Growth (%)				
Revenue		77.9	21.9	19.9
EBITDA		115.4	70.6	(8.5)
Adjusted EPS		(72.4)	1,121.1	10.2
Working Capital & Liquidity Ratios				
Receivables (days)	76	44	58	81
Inventory (days)	101	65	52	44
Payables (days)	40	24	20	23
Current ratio (x)	1.9	1.0	1.2	1.2
Quick ratio (x)	0.1	0.0	0.0	0.0
Turnover & Leverage Ratios (x)				
Gross asset turnover	0.5	0.8	0.9	1.0
Total asset turnover	0.6	0.5	0.7	0.7
Net interest coverage ratio	2.4	1.1	2.4	2.7
Adjusted debt/equity	0.9	0.9	0.7	0.7

DuPont Analysis

Y/E 31 Mar (%)	FY13A	FY14A	FY15A	FY16A
Tax burden (Net income/PBT)	60.2	79.4	66.9	63.7
Interest burden (PBT/EBIT)	60.4	9.2	59.0	63.8
EBIT margin (EBIT/Revenue)	10.3	8.0	14.8	13.2
Asset turnover (Revenue/Avg TA)	0.3	0.6	0.7	0.7
Leverage (Avg TA/Avg equities)	3.0	3.1	3.2	3.2
Adjusted ROAE	3.6	1.0	12.2	12.9



Income Statement

Y/E 31 Mar (INR mln)	FY13A	FY14A	FY15A	FY16A
Total revenue	6,596	11,734	14,304	17,150
EBITDA	1,184	2,550	4,351	3,979
EBIT	681	933	2,113	2,264
Net interest income/(expenses)	285	872	874	834
Other income/(expenses)	-	-	-	-
Exceptional items	2	(10)	0	(5)
EBT	411	86	1,247	1,445
Income taxes	37	27	48	55
Extraordinary items	2	(10)	0	(5)
Min. int./Inc. from associates	127	(12)	365	464
Reported net profit	249	61	834	920
Adjustments	(2)	7	-	-
Adjusted net profit	247	68	834	920

Balance Sheet

Y/E 31 Mar (INR mln)	FY13A	FY14A	FY15A	FY16A
Accounts payables	723	829	770	1,404
Other current liabilities	991	2,614	3,165	3,591
Provisions	18	22	98	43
Debt funds	8,560	8,443	6,918	7,491
Other liabilities	800	728	836	932
Equity capital	222	222	222	222
Reserves & surplus	6,705	6,641	6,578	7,276
Shareholders' fund	9,465	9,392	10,031	11,094
Total liabilities and equities	20,558	22,027	21,818	24,554
Cash and cash eq.	271	126	204	245
Accounts receivables	1,382	1,416	3,098	4,488
Inventories	1,500	1,755	1,091	2,092
Other current assets	1,774	2,264	2,835	3,780
Investments	15	15	15	15
Net fixed assets	11,648	11,722	10,280	9,191
CWIP	1,289	995	410	490
Intangible assets	-	-	-	-
Deferred tax assets, net	(41)	(45)	(87)	(112)
Other assets	2,720	3,779	3,972	4,365
Total assets	20,558	22,027	21,818	24,554

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY13A	FY14A	FY15A	FY16A
Net income + Depreciation	2,029	579	2,864	3,682
Interest expenses	872	286	872	874
Non-cash adjustments	(24)	1	(0)	-
Changes in working capital	(2,049)	(941)	(1,532)	(2,384)
Other operating cash flows	(127)	-	(208)	(285)
Cash flow from operations	702	(76)	1,996	1,887
Capital expenditures	(2,403)	(1,205)	(434)	(817)
Change in investments	248	256	0	(1)
Other investing cash flows	2,176	46	8	23
Cash flow from investing	21	(904)	(425)	(795)
Equities issued	-	-	2	-
Debt raised/repaid	2,229	409	(1,231)	595
Interest expenses	(989)	(872)	(874)	(834)
Dividends paid	-	(122)	-	(222)
Other financing cash flows	-	-	-	-
Cash flow from financing	1,241	(585)	(2,103)	(461)
Changes in cash and cash eq	270	110	78	41
Closing cash and cash eq	271	126	204	245

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