Star Ferro and Cement

View: Positive

Viewpoint

Better days ahead; re-iterate positive stance

CMP: Rs114

Key points

- **Subdued cement prices, delay in subsidy receivables lead to underperformance:** Star Ferro and Cement (SFCL) has been underperforming for the past one year on account of declining profitability (led by weakness in cement prices in North East and delay in subsidy receivables; diffusion of Planning Commission and setting up of Niti Aayog led to delay in subsidy disbursement). During Q1FY2017, net revenue grew by 9.7% YoY (volume up 22.4% YoY while realisations declined by 10.3% YoY) to Rs448 crore. Consequently, EBITDA per tonne for the quarter was down by 38.9% YoY to Rs1,199, leading to a 43.2% YoY fall in net profit at Rs24 crore.

- **Capacity expansion, subsidy receipts to accrue positively:** SFCL is awaiting land clearance for its planned 1MT expansion in its Siliguri grinding unit at a capital expenditure of Rs150 crore. On the other hand, continuous de-bottlenecking has helped the company in augmenting its capacity to 4MT (3.3MT owned, 0.7MT hired). As of June-end, the subsidy receivables stood at Rs700 crore, which have been duly sanctioned by the central government. The management expects to receive the subsidy payment in a couple of quarters (Rs25 crore received in Q1FY2017). SFCL will receive transport subsidy till January 2018 and excise subsidy till July 2020, which can be extended till June 2023 post commissioning of its new plant. The company is also in the process of simplifying its holding structure by reverse merging Star Cement (SFCL holds 70.48%) with a share swap ratio of 1:1.33, which is expected to take six months.

- **Reiterate positive view:** Cement prices in the North Eastern region are expected to rise from Q3FY2017 onwards. Further, the demand-supply dynamics are expected to remain favourable on account of huge government spending on infrastructure in the North East, with SFCL being the only major beneficiary in the region. Currently, the stock is trading at an EV/EBITDA and EV/Tonne of 6.0x and $107 for FY2018E, respectively. We reiterate our positive view on the stock.

- **Risk:** Downward pressure on cement prices and further delay in subsidy receivables are major risks to our call.

Valuations (Consolidated) Rs cr

Particulars	FY14	FY15	FY16	FY17E	FY18E
Net sales	1,171	1,427	1,709	2,084	2,398
Growth (%)	78.2	21.8	19.8	21.9	15.1
EBITDA	253	432	392	431	510
EBITDA margin (%)	21.6	30.2	23.0	20.7	21.3
Adjusted PAT	7	83	93	120	164
Growth (%)	-71.7	1091.8	10.9	29.8	36.9
EPS diluted (Rs)	0.3	3.8	4.2	5.4	7.4
PE (x)	361.2	30.3	27.3	21.1	15.4
P/BV (x)	3.7	3.7	3.4	2.8	2.3
EV/EBITDA (x)	13.9	7.8	8.3	7.4	6.0
EV/sales (x)	3.0	2.4	1.9	1.5	1.3
RoE (%)	1.0	12.2	12.9	14.5	16.2
RoCE (%)	3.6	10.9	12.0	11.1	12.4