

## Inline Operating Performance; New Capacity To Drive Growth

Est. Vs. Actual for Q4FY24: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **MISS**

### Change in Estimates post Q4FY24 (Abs)

FY25E/FY26E – Revenue: -3%/0%; EBITDA:-1%/2%; PAT:-1%/10%

### Recommendation Rationale

- Capacity expansion to drive growth:**The Guwahati 2 mtpa Grinding unit has been commercialized on 12<sup>th</sup> March, 2024 and the 3.3 mtpa Clinker unit in Meghalaya on 21<sup>st</sup> April 2024. Silchar Grinding unit is expected to be commissioned by Sep'25. This will increase the company's total capacity to 9.7 mtpa from the existing 5.7 mtpa, providing better growth headroom to the company moving ahead. We expect the company to grow its volume at a CAGR of 12% over FY23-26E.
- Plant Incentives & Cost Optimization to support higher EBITDA/tonne:** The company is eligible to receive incentives in the form of SGST refunds for its Grinding unit in Guwahati and Silchar, which is positive. These units are eligible for a lower tax rate of 17%. Furthermore, higher sales of premium cement, benefits accruing from the WHRS plant in terms of lower power costs and other efficiency gains, as well as stable pricing, will lead to higher EBITDA per tonne. We expect the company to report EBITDA per tonne in the range of Rs 1,350 – Rs 1,420 in FY25E-FY26E, up from the existing Rs 1,260 per tonne.
- Cement demand in the Northeast and Eastern India region is expected to remain stable** due to (a) The government's push for infrastructure and housing development in the region and (b) Lower per capita cement consumption in the region compared to the average cement consumption in India.

### Sector Outlook: Positive

**Company Outlook & Guidance:** The company guided for 18%-20% volume growth in FY25 driven by new capacity ramp up. Additionally, the company aims to capture a market share of 30% in the North-East market, up from the current 25%.

**Current Valuation:** 12x FY26E EV/EBITDA (Earlier Valuation: 12x FY26E EV/EBITDA)

**Current TP:** Rs 240 /share (Earlier TP: Rs 225/share)

**Recommendation:** We change our recommendation from **BUY** to **HOLD** as recent appreciation in the stock price leaves us with little upside.

**Alternative BUY Ideas from our Sector Coverage:** ACC (TP – 2,900/share), UltraTech Cement Ltd (TP – 11,000/Share), Dalmia Bharat (TP –2,050/Share), JK Cements (TP-4,350/share), Birla Corp (TP-1,800/share), Shree Cement Ltd (TP-Rs 29350/share)

### Financial Performance

SCL reported largely inline set of numbers with revenue/EBITDA growth of 11%/8%(above expectations), while volume growth was 12% YoY, in line with expectations. However, APAT de-grew by 9% YoY owing to higher depreciation, finance charge and tax rate. The company reported a profit of Rs 88Cr compared to Rs 96 Cr in Q4FY23.

SCL achieved an EBITDA margin of 19.7%, surpassing the expectation of 19.2%, as opposed to 20% in the previous year, attributed to lower power/fuel costs. Volume for the quarter stood at 1.38 million tonnes per annum (mtpa), a 12% YoY increase due to improved demand. SCL's EBITDA/tonne was Rs 1,296, down 4% YoY while the blended realization/tonne was Rs 6,586 compared to Rs 6,680, down 1.5% YoY. The company's cost/tonne declined by 1% YoY to Rs 5,291 owing to lower operating costs.

**Outlook:** Increased cement demand is anticipated in the east and northeast regions of the country, propelled by heightened investments in infrastructure and affordable housing. With its upcoming capacity, the company is well-positioned to meet the burgeoning cement demand in these areas. We project the company to achieve a compound annual growth rate (CAGR) of 12% in both volume and revenue and a 20% CAGR in EBITDA during FY23-FY26E.

**Valuation & Recommendation:**The stock is currently trading at 14x and 12x FY25E/FY26E EV/EBITDA. We change our recommendation from **BUY** to **HOLD** as recent appreciation in the stock price leaves us with little upside with a TP of Rs 240/share, implying an upside potential of 2% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	914	40	11	914	2%
EBITDA	180	21	8	172	4%
EBITDA Margin	19.7%	(310bps)	(40bps)	19.2%	50bps
Net Profit	88	19	-9	92	-5%
EPS (Rs)	2.2	19	-9	2.3	-5%

Source: Company, Axis Research

(CMP as of 22<sup>nd</sup> May, 2024)

CMP (Rs)	236
Upside /Downside (%)	2
High/Low (Rs)	256/124
Market cap (Cr)	9,547
Avg. daily vol. (6m)Shrs.	8,21,000
No. of shares (Cr)	40.4

### Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	66.6	66.5	66.6
FIIs	0.8	1.1	1.5
MFs / UTI	6.0	6.0	6.1
Banks / FIIs	0.0	0.0	0.0
Others	26.7	26.5	25.8

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,911	3,348	3,744
EBITDA	556	696	812
Net Profit	295	320	403
EPS (Rs)	7.3	7.9	10.0
PER (x)	9	9	7
P/BV (x)	1.0	0.9	0.8
EV/EBITDA (x)	17	14	12
ROE (%)	12	11	13

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-3%	0%
EBITDA	-1%	2%
PAT	-1%	10%

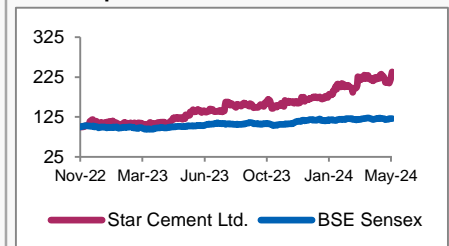
### ESG disclosure Score\*\*

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	49

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

### Relative performance



Source: Ace Equity, Axis Securities

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## Key Concall Highlights

- **Capacity Expansion:** The Guwahati 2 mtpa Grinding unit has been commercialized on 12<sup>th</sup> March, 2024 and the 3.3 mtpa Clinker unit in Meghalaya on 21<sup>st</sup> April 2024. Silchar Grinding unit is expected to be commissioned by Sep'25. This will increase the company's total capacity to 9.7 mtpa from the existing 5.7 mtpa, providing better growth headroom to the company moving ahead. The company is also looking to set up 2 mtpa grinding unit in Jorhat, Assam at a capital cost of Rs 450 Cr to be operational in FY27. The company is also setting up an AAC block in Guwahati for Rs 50 Cr to be commissioned by August 2024.
- The company aims to be a 20 mtpa capacity company by FY2030 and to achieve this the company is planning to buy mines in South and North and accordingly new capacity will be set up. In Rajasthan, the company is planning to put 2.5 mtpa clinker capacity and commensurate grinding capacity at a capital cost of Rs 2500 Cr.
- **Volume:** The company guided for 18-20 percent volume growth in FY25. During the quarter, the company's geographic split was 75%/25% between Northeast and East. Cement mix sales were 90% during the quarter, with OPC accounting for the remainder. In the current quarter demand was slow in the month of April, 2024 while it improved in May, 2024 and expect to be higher moving ahead. The company aims to increase the non trade sale which will have some impact on margins. Although overall profitability will increase as a result of higher volume.
- **The trade and non-trade mix during the quarter stood at 84%/16%.** Premium cement formed 6.5% of the overall trade sales against 4.6% last year and improved 47% YoY basis. The company aims to double the sale of premium cement and it aims to take premium share to 10% moving ahead.
- **Pricing:** During the quarter in North East prices were stable while while outside North- East it was lower by Rs.15 bag. Current prices are lower as compared to Q4FY24.
- **Power/Fuel:** The company expects reduction in power/fuel cost in FY25. The fuel mix was Nagaland Coal 36%, Biomass 10%, 50%Auction coal and the balance was AFR (Alternative fuel and raw materials). On a per Kcal basis, cost stood at Rs 1.70 against Rs 1.75 previous quarter and the same is expected to be Rs 1.55 going ahead as company has signed long term contract with Coal India with respect to supply of coal.
- **Freight:** Lead distance during the quarter was 227 against 215 km last year. On a tonne basis, freight cost was higher by 53% at Rs 1,735/tonne YoY owing to higher transfer of cement from the Siliguri unit and extra clinker transfer. This will normalize in the current quarter. The company is also working to reduce the logistic cost of the Siliguri unit by developing a model to reduce the cost of Flyash transportation. This will help in reducing the unit cost of the Siliguri plant.
- **Capex:** The company guided for the capex of Rs 1,000 Cr in FY25. The company aims to take the debt of Rs 300 Cr to fund the current expansion.
- **Cash/Incentives:** The current cash/cash equivalent stood around 100 Cr as of 31<sup>st</sup> March'24. The company is to receive incentives for setting up grinding units in Guwahati and Silchar. in the form of an SGST refund. The company aims to receive incentives in the range of Rs 150 Cr- 175 Cr ( Or Rs 800/tonne) each every year for these grinding units after adjusting for input tax credit moving ahead for the next 5-7 years. The Guwahati and Silchar plant is also eligible for a lower tax rate of 17%. For the Clinker unit, the company aims to receive an incentive @Rs 300/tonne and it is linked with the production of the unit. The incentives are expected to be received from Q2FY25.

## Key Risks to our Estimates and TP

- Lower realization and demand in its key market.
- Higher input costs may impact margins.

## Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	3,348	3,744	3441	3743	-3%	0%
EBITDA	696	812	702	795	-1%	2%
PAT	320	403	323	365	-1%	10%

Source: Company, Axis Securities

## Result Review Q4FY24

(Rs Cr)	Quarterly Performance				
	4QFY24	3QFY24	4QFY23	% Chg QoQ	% Chg YoY
Net sales	914	651	825	40%	11%
Expenditure	734	503	659	46%	11%
EBITDA	180	149	166	21%	8%
Other income	8	4	13	90%	-39%
Interest	4	3	1	40%	253%
Depreciation	42	37	35	16%	21%
PBT	141	113	143	24%	-1%
Tax	53	39.9	47	34%	15%
Adjusted PAT	88	74	96	19%	-9%
EBITDA margin (%)	19.7%	22.8%	20.1%	(310bps)	(40bps)
EPS (Rs)	2.17	1.82	2.38	19%	-9%

Source: Company, Axis Securities

## Volume/ Realization / Cost Analyses

	Quarterly Performance				
	4QFY24	3QFY24	4QFY23	% Chg QoQ	% Chg YoY
Volume/mnt	1.39	0.97	1.24	43%	12%
Realisation/tonne (Rs)	6586	6716	6,680	-2%	-1.4%
Cost/tonne (Rs)	5291	5182	5,335	2%	-1%
Raw material/tonne (Rs)	1508	1289	1,593	17%	-5%
Staff Cost/tonne (Rs)	395	562	385	-30%	3%
Power & Fuel/tonne (Rs)	845	1378	1,335	-39%	-37%
Freight/tonne (Rs)	1735	1135	1,137	53%	53%
Other Expenses /tonne (Rs)	808	818	885	-1%	-9%
EBITDA/tonne (Rs)	1296	1534	1,346	-16%	-4%

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	2705	2911	3348	3744
Other operating income	0	0	0	0
Total income	2705	2911	3348	3744
Raw Material	627	654	763	847
Power & Fuel	570	555	546	601
Freight & Forwarding	491	567	703	780
Employee benefit expenses	196	217	235	254
Other Expenses	352	361	405	450
<b>EBITDA</b>	<b>468</b>	<b>556</b>	<b>696</b>	<b>812</b>
Other income	52	26	21	21
PBIDT	520	583	716	833
Depreciation	131	147	246	268
Interest & Fin Chg.	10	13	26	21
E/o income / (Expense)	0	0	0	0
Pre-tax profit	380	424	445	544
Tax provision	132	128	124	141
<b>RPAT</b>	<b>248</b>	<b>295</b>	<b>320</b>	<b>403</b>
Minority Interests	0.0	0.0	0.0	0.0
Associates	0	0	0	0
<b>APAT after EO item</b>	<b>248</b>	<b>295</b>	<b>320</b>	<b>403</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Total assets</b>	3131	3131	3602	4434
Net Block	1428	1428	2418	3199
CWIP	551	551	1019	500
Investments	0	0	0	0
Wkg. cap. (excl cash)	197	197	266	304
Cash / Bank balance	312	312	97	81
Misc. Assets	64	64	-20	35
<b>Capital employed</b>	<b>3131</b>	<b>3131</b>	<b>3602</b>	<b>4434</b>
Equity capital	40	40	40	40
Reserves	2376	2376	2670	2982
Minority Interests	0	0	0	0
Borrowings	26	26	130	330
DefTax Liabilities	0	0	0	0
Other Liabilities and Provision	69	69	76	108

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Profit before tax</b>	380	424	445	544
Depreciation	129	142	246	268
Interest Expenses	10	13	26	21
Non-operating/ EO item	-39	-16	-21	-21
Change in W/C	-2	4	-38	-35
Income Tax	68	76	124	141
<b>Operating Cash Flow</b>	410	490	533	636
Capital Expenditure	-572	-1036	-1256	-562
Investments	186	184	0	0
Others	114	202	540	21
<b>Investing Cash Flow</b>	-272	-650	-716	-541
Borrowings	0	104	200	-50
Interest Expenses	-10	-11	-26	-21
Dividend paid	0	0	-8	-8
Others	0	-7	0	0
<b>Financing Cash Flow</b>	-10	86	166	-79
Change in Cash	128	-74	-17	16
Opening Cash	8	122	48	31
Closing Cash	136	48	31	47

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Operational Ratios</b>				
Sales growth	22%	8%	15%	12%
OPM	17.3%	19.1%	20.8%	21.7%
Op. profit growth	36%	19%	25%	17%
COGS / Net sales	62%	61%	60%	60%
Overheads/Net sales	20%	20%	19%	19%
Depreciation / G. block	8%	6%	6%	6%
<b>Efficiency Ratios</b>				
Total Asset Turnover (x)	0.86	0.81	0.76	0.78
Sales/Gross block (x)	1.61	1.10	0.86	0.84
Sales/Net block(x)	1.90	1.21	1.05	1.07
Working capital/Sales (x)	0.06	-0.04	-0.02	-0.01
<b>Valuation Ratios</b>				
P/E	11	9	9	7
P/BV (x)	1.1	1.0	0.9	0.8
EV/Ebitda (x)	16.3	17.2	14.1	12.0
EV/Sales (x)	2.8	3.3	2.9	2.6
EV/Tonne \$ (x)	181	168	172	135
<b>Return Ratios</b>				
ROE	11	12	11	13
ROCE	16	16	15	16
ROIC	18	17	16	17
<b>Leverage Ratios</b>				
Debt / equity (x)	0.01	0.05	0.11	0.08
Net debt/ Equity (x)	-0.12	0.01	0.08	0.05
Interest Coverage ratio (x)	40	35	18	27
<b>Cash Flow Ratios</b>				
OCF/Sales	0.14	0.17	0.16	0.17
OCF/Ebitda	0.80	0.88	0.77	0.78
OCF/Capital Employed	0.14	0.17	0.16	0.17
FCF/Sales	-0.05	-0.33	-0.22	-0.15
Payout ratio (Div/NP)	0.0	2.7	2.5	2.0
AEPS (Rs.)	6.1	7.3	7.9	10.0
AEPS Growth	0.3	19.2	8.5	25.8
CEPS (Rs.)	9	11	14	17
DPS (Rs.)	0.0	0.2	0.2	0.2

Source: Company, Axis Securities

## Star Cement Price Chart and Recommendation History



Date	Reco	TP	Research
28-Jan-22	BUY	105	Result Update
18-May-22	BUY	105	Result Update
04-Aug-22	BUY	105	Result Update
18-Nov-22	BUY	115	Result Update
25-Nov-22	BUY	115	AAA
06-Feb-23	BUY	125	Result Update
23-May-23	BUY	145	Result Update
09-Jun-23	BUY	165	Company Update
10-Aug-23	BUY	185	Result Update
14-Sep-23	BUY	185	AAA
10-Nov-23	BUY	185	Result Update
09-Feb-24	BUY	225	Result Update
23-May-24	HOLD	240	Result Update

Source: Axis Securities

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