

Higher Volume & Lower Cost To Drive Growth.

Key Takeaways from Star Cement Ltd. Management Meet

- Capacity Expansion:** The company's capacity expansion plan is progressing well and 2 mtpa of grinding capacity each will get operational in Q3FY24/Q2FY25 along with 3 mtpa Clinker units in Jan'24. This will take the total grinding capacity of the company to 9.7 mtpa from the existing 5.7 mtpa, thereby creating more growth headroom for it moving forward. The company is the leading producer of cement in the North-East region from which derives 70-75% of its total revenue.
- Push to increase the sale of premium cement:** Premium cement formed 4% of the company's overall trade sales. To further increase the sale and make premium share to 8%, it is launching new premium cement in Q1FY23.
- Cement Prices:** Prices are largely flattish since the Q4FY23 exit. While the company undertook some price increases in the North-East region, prices have in fact reduced in the Eastern region in Jun'23.
- Power/Fuel:** The company expects a reduction of 10% in power/fuel cost in Q1FY24. On a per Kcal basis, cost stood at Rs 2.10 and the same is expected to reduce by 10%-15% moving ahead in Q1FY24 and further reduction in Q2FY24 is expected based on current prices of fuel. The benefit of the WHRS plant (12.4 MW) will start flowing in from May'24 and it will entail cost savings of Rs 30-35 Cr in overall power/fuel cost per annum. We expect the EBITDA margins of the company to improve by 250-300bps in FY24E.
- Capex:** The company expended Rs 572 Cr on capex in FY23. Rs 1,300 Cr of Capex is expected in FY24 and the balance of Rs 400 Cr in FY25. Ongoing capacity expansion will cost Rs 2,200 Cr. The company aims to take the debt of Rs 500 Cr to fund the current expansion.
- Management Guidance:** The management expects a volume growth of 18%-20% in FY24 driven by robust demand from the trade and non-trade segment.
- Key risk:** Lower realization and demand in its key market. Higher input cost.

Outlook & Valuation: The East and North East India market is expected to see elevated cement demand, driven by increased Capex towards infrastructure and affordable housing. The company is well-poised to capture rising cement demand in the region with its upcoming capacity. We expect the company to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 15%/13%/22%/14% over FY23-FY25E. The stock is currently trading at 10x and 9x FY24E/FY25E EV/EBITDA. **We maintain our BUY rating on the stock and value it at 10x FY25E EV/EBITDA to arrive at a TP of Rs 165/share (Rs 145/share earlier) implying an upside potential of 15% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	FY23	FY24E	FY25E
Net Sales	2,705	3,093	3,476
EBITDA	468	616	695
Net Profit	248	305	321
EPS (Rs)	6.1	7.5	8.0
PER (x)	11	9	9
EV/EBITDA (x)	11.7	9.9	8.8
P/BV (x)	1.1	1.0	0.9
ROE (%)	10.8	11.9	11.2

Source: Company, Axis Research

(CMP as of 8th June, 2023)

CMP (Rs)	143
Upside / Downside (%)	15%
High/Low (Rs)	149/81
Market cap (Cr)	5770
Avg. daily vol. (6m) Shrs.	382678
No. of shares (Cr)	40.4

Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	67.43	67.03	67.12
FII/FPIs	0.4	0.53	0.63
MFs / UTI	5.9	5.9	5.9
Banks / FIs	0	0	0
Public	26.27	26.54	26.35

Financial & Valuations

Y/E Mar (Rs)	FY23	FY24E	FY25E
Net Sales	2,705	3,093	3,476
EBITDA	468	616	695
Net Profit	248	305	321
EPS (Rs)	6.1	7.5	8.0
PER (x)	11	9	9
EV/EBITDA (x)	9.1	9.9	8.8
P/BV (x)	1.1	1.0	0.9
ROE (%)	10.8	11.9	11.2

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Revenue	2%	4%
EBITDA	3%	2%
Net Profit	5%	8%

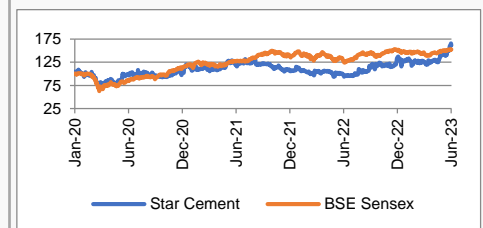
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure	NA

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 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

Uttam K Srimal

Research Analyst
 email: Uttamkumar.srimal@axissecurities.in

Shikha Doshi

Research Analyst
 email: shikha.doshi@axissecurities.in

Change in Estimates

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	3,093	3,476	3027	3351	2%	4%
EBITDA	616	695	599	681	3%	2%
PAT	305	321	290	299	5%	8%

Source: Company, Axis Securities

Result Review Q4FY23

(Rs Cr)	Quarterly Performance				
	4QFY23	3QFY23	4QFY22	% Chg QoQ	% Chg YoY
Net sales	825	620	749	33%	10%
Expenditure	659	511	636	29%	4%
EBITDA	166	108	113	53%	47%
Other income	13	12	9	9%	39%
Interest	1	3	2	-64%	-50%
Depreciation	35	34	35	3%	0%
PBT	143	83	85	72%	68%
Tax	47	29.9	(3)	56%	NA
Adjusted PAT	96	53	88	82%	9%
EBITDA margin (%)	20.1%	17.5%	15.1%	260bps	500bps
EPS (Rs)	2.38	1.31	2.19	82%	9%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	4QFY23	3QFY23	4QFY22	% Chg QoQ	% Chg YoY
Volume/mtnt	1.24	0.91	1.15	36%	7%
Realisation/tonne (Rs)	6680	6823	6,498	-2%	3%
Cost/tonne (Rs)	5335	5629	5,515	-5%	-3%
Raw material/tonne (Rs)	1593	1201	1,854	33%	-14%
Staff Cost/tonne (Rs)	385	536	356	-28%	8%
Power & Fuel/tonne (Rs)	1335	1765	1,153	-24%	16%
Freight/tonne (Rs)	1137	1255	1,343	-9%	-15%
Other Expenses /tonne (Rs)	885	873	809	1%	9%
EBITDA/tonne (Rs)	1346	1194	983	13%	37%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Net sales	2705	3093	3476
Other operating income	0	0	0
Total income	2705	3093	3476
Raw Material	627	718	812
Power & Fuel	570	603	675
Freight & Forwarding	491	536	600
Employee benefit expenses	196	213	234
Other Expenses	352	407	460
EBITDA	468	616	695
Other income	52	42	42
PBIDT	520	658	737
Depreciation	131	172	214
Interest & Fin Chg.	10	17	29
E/o income / (Expense)	0	0	0
Pre-tax profit	380	469	495
Tax provision	132	164	173
RPAT	248	305	321
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
APAT after EO item	248	305	321

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Total assets	3131	4017	4265
Net Block	1428	2339	2647
CWIP	551	551	551
Investments	0	0	0
Wkg. cap. (excl cash)	197	221	248
Cash / Bank balance	312	234	109
Misc. Assets	64	67	71
Capital employed	3131	4017	4265
Equity capital	40	40	40
Reserves	2376	2673	2982
Minority Interests	0	0	0
Borrowings	26	576	476
DefTax Liabilities	0	0	0
Other Liabilities and Provision	69	73	77

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Profit before tax	380	469	495
Depreciation	129	172	214
Interest Expenses	10	17	29
Non-operating/ EO item	-39	-42	-42
Change in W/C	-2	-13	-27
Income Tax	68	164	173
Operating Cash Flow	410	439	495
Capital Expenditure	-572	-1083	-521
Investments	186	140	0
Others	114	42	42
Investing Cash Flow	-272	-901	-480
Borrowings	0	550	-100
Interest Expenses	-10	-17	-29
Dividend paid	0	-8	-12
Others	0	0	0
Financing Cash Flow	-10	525	-141
Change in Cash	128	63	-126
Opening Cash	8	136	199
Closing Cash	136	199	73

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E
Operational Ratios			
Sales growth	22%	14%	12%
OPM	17.3%	19.9%	20.0%
Op. profit growth	36%	32%	13%
COGS / Net sales	62%	60%	60%
Overheads/Net sales	20%	20%	20%
Depreciation / G. block	8%	7%	7%
Efficiency Ratios			
Total Asset Turnover (x)	0.86	0.77	0.82
Sales/Gross block (x)	1.61	1.12	1.06
Sales/Net block(x)	1.90	1.32	1.32
Working capital/Sales (x)	0.06	0.06	0.06
Valuation Ratios			
P/E	11	9	9
P/BV (x)	1.1	1.0	0.9
EV/Ebitda (x)	10.3	9.9	8.8
EV/Sales (x)	1.8	2.0	1.8
EV/Tonne \$ (x)	115	107	86
Return Ratios			
ROE	11	12	11
ROCE	16	16	15
ROIC	18	17	15
Leverage Ratios			
Debt/equity (x)	0.01	0.21	0.16
Net debt/ Equity (x)	-0.12	0.13	0.12
Interest Coverage ratio (x)	40	29	18
Cash Flow Ratios			
OCF/Sales	0.14	0.14	0.14
OCF/Ebitda	0.80	0.71	0.71
OCF/Capital Employed	0.14	0.13	0.14
FCF/Sales	-0.05	-0.35	-0.15
Payout ratio (Div/NP)	3.3	2.7	3.8
AEPS (Rs.)	6.1	7.5	8.0
AEPS Growth	0.3	23.2	5.4
CEPS (Rs.)	9	12	13
DPS (Rs.)	0.2	0.2	0.3

Source: Company, Axis Securities

Star Cement PriceChart 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

Source: Axis Securities

About the analyst

Uttam KSrimal

email: uttamkumar.srimal@axissecurities.in

Sector: Cement/Infra

Analyst Bio: Uttam K Srimal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research

About the analyst

Analyst: Shikha Doshi

Email: shikha.doshi@axissecurities.in

Sector: Cement/Infra

Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Uttam K Srimal, PGDBF, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, employee etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706