AXIS SECURITIES

Result Update
13th Aug, 2024

Star Cement Limited
Cement

BUY
Target Price
250

Inline Operating Performance; New Capacity to Drive Growth

Est. Vs. Actual for Q1FY25: Revenue – INLINE; EBITDA Margin – INLINE; PAT – MISS

Change in Estimates post Q1FY25 (Abs)

FY25E/FY26E: Revenue: -2%/2%; **EBITDA:** -8%/5%; **PAT:** -17%//4%

Recommendation Rationale

- **Capacity Expansion to Drive Growth:** The Guwahati 2 mtpa Grinding unit was commercialized on March 12, 2024, and the 3.3 mtpa Clinker unit in Meghalaya began operations on April 21, 2024. The Silchar Grinding unit is expected to be commissioned by September 2025. These expansions will increase the company's total capacity to 9.7 mtpa from the existing 5.7 mtpa, providing substantial growth potential. The company is projected to grow its volume at a CAGR of 11% over FY23-26E.
- **Plant Incentives & Cost Optimization to Support Higher EBITDA/Tonne:** The company is set to receive SGST refunds in the form of incentives for its Grinding units in Guwahati and Silchar, as well as for the Meghalaya Clinker unit (Rs 150-Rs 170 cr year). These units benefit from a reduced tax rate of 17%. Additionally, increased sales of premium cement, advantages from the WHRS plant in terms of lower power costs, and other efficiency gains are expected to enhance EBITDA per tonne. EBITDA per tonne is anticipated to be between Rs 1,300 and Rs 1,500 for FY25E-FY26E, up from the current Rs 1,260 per tonne.
- **Cement Demand in Northeast and Eastern India:** Cement demand in these regions is expected to remain stable due to (a) government initiatives to boost infrastructure and housing development, and (b) lower per capita cement consumption compared to the national average.

Sector Outlook: Positive

Company Outlook & Guidance: The company has revised its volume growth guidance from 18% to 11%. For the remaining quarters of FY25, it has guided for a 15% volume growth, supported by new capacity ramp-up and improved demand post-monsoon. Additionally, the company aims to increase its market share in the North-East region to 30%, up from the current 25%.

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

Current TP: Rs 250/share (Earlier TP: Rs 240/share)

Recommendation: We change our recommendation from **HOLD** to **BUY** as we see the recent correction in stock price as a good entry point.

Alternative BUY Ideas from our Sector Coverage: UltraTech Cement Ltd (TP – 12,400/Share), Dalmia Bharat (TP –2,120/Share), JK Cements (TP-4,920/share), Ambuja Cement(TP-750/share), JK Lakshmi (TP-Rs 950/share), Birla Corporation (TP-1505/share)

Outlook: Q1FY25 performance was influenced by election-related disruptions, increased clinker purchases, and a few one-off factors. However, demand is anticipated to improve following the monsoon, with heightened cement requirements expected in the East and Northeast regions, driven by increased investments in infrastructure and affordable housing.

With its upcoming capacity expansion, the company is well-positioned to capitalize on the rising demand in these areas. We project the company will achieve a compound annual growth rate (CAGR) of 12% in both volume and revenue and a 22% CAGR in EBITDA over FY23-FY26E.

Valuation & Recommendation: The stock is currently trading at 10xFY26E EV/EBITDA. We change our recommendation from **HOLD** to **BUY** with a TP of Rs 250/share, implying an upside potential of 16% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	751	-18	-1	753	0%
EBITDA	116	-35	-10	117	0%
EBITDA Margin	15.5%	(420bps)	(150bps	15.5%	0bps
Net Profit	31	-65	-67	41	-24%
EPS (Rs)	0.8	-65	-67	1.0	-24%

Source: Company, Axis Securities Research

(CMP as of 12th Aug, 2024)	
CMP (Rs)	215
Upside /Downside (%)	16
High/Low (Rs)	256/147
Market cap (Cr)	8,702
Avg. daily vol. (6m)Shrs.	8,25,000
No. of shares (Cr)	40.4

Shareholding (%)

	Dec-23	Mar-24	June-24
Promoter	66.5	66.6	66.5
FIIs	1.1	1.5	1.6
MFs / UTI	6.0	6.1	5.0
Banks / FIs	0.0	0.0	0.0
Others	26.5	25.8	26.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,911	3,274	3,811
EBITDA	556	641	853
Net Profit	295	266	420
EPS (Rs)	7.3	6.6	10.4
PER (x)	29	33	21
P/BV (x)	1.0	0.9	0.8
EV/EBITDA (x)	16	14	10
ROE (%)	12	9	13

Change in Estimates (%)

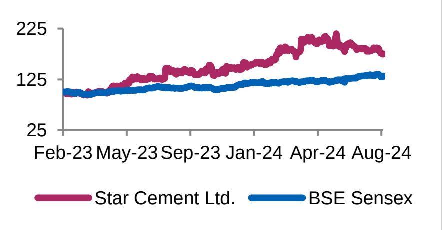
Y/E Mar	FY25E	FY26E
Sales	-2%	2%
EBITDA	-8%	5%
PAT	-17%	4%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	50

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

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Financial Performance

- SCL reported results in line with expectations. Revenue and EBITDA showed a de-growth of 1% and 10%, respectively, while volume growth was flat YoY. APAT decreased by 67% YoY to Rs 31 Cr, compared to Rs 93 Cr in Q1FY24, primarily due to higher depreciation, finance charges, and lower other income.
- The company achieved an EBITDA margin of 15.5%, consistent with expectations but down from 17% in the previous year. Volume for the quarter stood at 1.15 million tonnes per annum (mntpa), reflecting flat growth YoY due to soft demand. EBITDA per tonne was Rs 1,005, down 19% YoY but flat QoQ, while blended realization per tonne was Rs 6,508, marginally higher than Rs 6,488 YoY. The cost per tonne increased slightly by 0.5% YoY to Rs 5,502, driven by higher fuel and employee costs.

Key Concall Highlights

- **Capacity Expansion:** The Guwahati 2 mtpa Grinding unit was commercialized on 12th March 2024, and the 3.3 mtpa Clinker unit in Meghalaya on 21st April 2024. The 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 moving ahead. The company is also looking to set up a 2 mtpa grinding unit in Jorhat, Assam, at a capital cost of Rs 450 Cr to be operational in FY27. Additionally, the company is setting up an AAC block in Guwahati for Rs 50 Cr to be commissioned by Oct 2024. The company aims to generate revenue of Rs 75 Cr-80 Cr from the AAC block.
- **Volume**: The company revised its volume growth guidance from 15% to 11% for FY25 due to a decline in volume in Q1FY25. During the quarter, the geographic split was 75%/25% between North-East and East. Cement mix sales were 90% during the quarter, with OPC accounting for the remainder. In the current quarter, demand is soft due to the extensive monsoon but is expected to revive post-conclusion of the monsoon. During the quarter, the company had to purchase Clinker worth Rs 30 Cr from outside, which impacted performance as its Clinker plant faced some technical difficulties. However, this issue is now resolved, and the Clinker plant is fully operational. The company gained market share in the North-East market by 3% but lost market share by 8% in the East region. The trade and non-trade mix during the quarter stood at 84%/16%. Premium cement formed 9.2% of the overall trade sales, against 6.4% last year. The company aims to double the sale of premium cement and to increase the premium share to 10% moving ahead.
- **Pricing**: Current prices are down by Rs 12/bag in both the Northeast and East regions. During the quarter, blended realization stood at Rs 6508/tonne, down 1% QoQ and flat YoY. Prices are expected to remain soft in the near future.
- **Power/Fuel:** The company expects a reduction in power/fuel costs in FY25. The fuel mix was 20% Nagaland Coal, 20% Biomass, and 60% Auction Coal. On a per Kcal basis, the cost stood at Rs 1.50 against Rs 1.70 in the previous quarter and is expected to remain at Rs 1.50 going ahead, as the company has signed a long-term contract with Coal India for the supply of coal.
- **Freight**: Lead distance during the quarter was 207 km, compared to 215 km last year. On a tonne basis, freight cost was lower by 6% YoY and 4% QoQ, at Rs 1628/tonne. 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, which will help in reducing the unit cost of the Siliguri plant.
- **Capex**: The company guided for capex of Rs 835 Cr and Rs 650 Cr in FY25 and FY26, respectively. It aims to raise Rs 300 Cr in debt to fund the current expansion. The current debt is Rs 240 Cr, and the company aims to close FY25 with a gross debt of Rs 350 Cr.
- **Cash/Incentives:** The company is to receive incentives for setting up grinding units in Guwahati and Silchar in the form of an SGST refund. It aims to receive incentives in the range of Rs 150 Cr-175 Cr (or Rs 800/tonne) annually for these grinding units after adjusting for input tax credit for the next 5-7 years. The Guwahati and Silchar plants are also eligible for a lower tax rate of 17%. For the Clinker unit, the company aims to receive an incentive of Rs 300/tonne, linked to the unit's production. The incentives are expected to be received from Q2FY25. During Q1FY25, the incentive received was Rs 10 Cr.

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	3,274	3,811	3348	3743	-2%	2%
EBITDA	641	853	696	812	-8%	5%
PAT	266	420	320	403	-17%	4%

Source: Company, Axis Securities Research

Result Review Q1FY25

(Rs Cr)	Quarterly Performance				
	Q1FY25	Q4FY24	Q1FY24	% Chg QoQ	% Chg YoY
Net sales	751	914	760	-18%	-1%
Expenditure	635	734	631	-13%	1%
EBITDA	116	180	129	-35%	-10%
Other income	1	8	9	-82%	-84%
Interest	6	4	2	42%	163%
Depreciation	73	42	32	72%	128%
PBT	39	141	104	-72%	-62%
Tax	8	53.5	11	-85%	-25%
Adjusted PAT	31	88	93	-65%	-67%
EBITDA margin (%)	15.5%	19.7%	17.0%	(420bps)	(150bps)
EPS (Rs)	0.77	2.17	2.31	-65%	-67%

Source: Company, Axis Securities Research

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	Q1FY25	Q4FY24	Q1FY24	% Chg QoQ	% Chg YoY
Volume/mnt	1.15	1.39	1.16	-17%	-1%
Realisation/tonne (Rs)	6508	6586	6,488	-1%	0%
Cost/tonne (Rs)	5502	5291	5,479	4%	0.4%
Raw material/tonne (Rs)	1477	1508	1,744	-2%	-15%
Staff Cost/tonne (Rs)	539	395	475	37%	14%
Power & Fuel/tonne (Rs)	992	845	849	17%	17%
Freight/tonne (Rs)	1628	1735	1,701	-6%	-4%
Other Expenses /tonne (Rs)	866	808	710	7%	22%
EBITDA/tonne (Rs)	**1006**	**1296**	**1,009**	-22%	0%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	2705	2911	3274	3811
Other operating income	0	0	0	0
Total income	2705	2911	3274	3811
Raw Material	627	654	719	813
Power & Fuel	570	555	475	532
Freight &Forwarding	491	567	793	896
Employee benefit expenses	196	217	243	262
Other Expenses	352	361	403	455
EBITDA	**468**	**556**	**641**	**853**
Other income	52	26	17	19
PBIDT	520	583	658	872
Depreciation	131	147	290	312
Interest & Fin Chg.	10	13	27	21
E/o income / (Expense)	0	0	0	0
Pre-tax profit	380	424	340	539
Tax provision	132	128	74	119
RPAT	248	295	266	420
Minority Interests	0.0	0.0	0.0	0.0
Associates	0	0	0	0
APAT after EO item	**248**	**295**	**266**	**420**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	3131	3602	4377	4771
Net Block	1428	2418	3139	3399
CWIP	551	1019	500	500
Investments	0	0	0	0
Wkg. cap. (excl cash)	197	266	299	343
Cash / Bank balance	312	97	93	151
Misc. Assets	64	-20	35	38
Capital employed	3131	3602	4377	4771
Equity capital	40	40	40	40
Reserves	2376	2670	2928	3340
Minority Interests	0	0	0	0
Borrowings	26	130	330	280
DefTax Liabilities	0	0	0	0
Other Liabilities and Provision	69	76	108	111

Source: Company, Axis Securities Research

Cash Flow (Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	V	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
Operating Cash Flow	410	490	533	636
Capital Expenditure	-572	-1036	-1256	-562
Investments	186	184	0	0
Others	114	202	540	21
Investing Cash Flow	-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
Financing Cash Flow	-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 Research

Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Sales growth	22%	8%	12%	16%
OPM	17.3%	19.1%	19.6%	22.4%
Op. profit growth	36%	19%	15%	33%
COGS / Net sales	62%	61%	61%	59%
Overheads/Net sales	20%	20%	20%	19%
Depreciation / G. block	8%	6%	7%	7%
Efficiency Ratios				
Total Asset Turnover (x)	0.86	0.81	0.75	0.80
Sales/Gross block (x)	1.61	1.10	0.84	0.86
Sales/Net block(x)	1.90	1.21	1.04	1.12
Working capital/Sales (x)	0.06	-0.04	-0.02	-0.01
Valuation Ratios				
P/E	35	29	33	21
P/BV (x)	1.1	1.0	0.9	0.8
EV/Ebitda (x)	17.9	15.7	13.9	10.3
EV/Sales (x)	3.1	3.0	2.7	2.3
EV/Tonne $ (x)	178	136	140	110
Return Ratios				
ROE	11	12	9	13
ROCE	16	16	12	16
ROIC	18	17	12	17
Leverage Ratios				
Debt/equity (x)	0.01	0.05	0.11	0.08
Net debt/ Equity (x)	-0.12	0.01	0.08	0.04
Interest Coverage ratio (x)	40	35	13	27
Cash Flow Ratios				
OCF/Sales	0.14	0.17	0.16	0.18
OCF/Ebitda	0.80	0.88	0.83	0.81
OCF/Capital Employed	0.14	0.17	0.16	0.19
FCF/Sales	-0.05	-0.33	-0.22	-0.15
Payout ratio (Div/NP)	0.0	0.0	3.0	1.9
AEPS (Rs.)	6.1	7.3	6.6	10.4
AEPS Growth	0.3	19.2	-9.9	58.1
CEPS (Rs.)	9	11	14	18
DPS (Rs.)	0.0	0.0	0.2	0.2

Source: Company, Axis Securities Research

Star Cement PriceChart and Recommendation History

Date	Reco	TP	Research
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
13-Aug-24	BUY	250	Result Update

Source: Axis Securities Research

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In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

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BUY	More than 10%
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.

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