BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 138 | ⮝ 24%

STAR CEMENT | Cement | 06 February 2023

In-line performance; maintain BUY

- **Q3 volumes up 5% YoY to 0.9mt backed by healthy realisation gains; price hike impact to reflect fully in Q4**
- **Average cost tracking in line with our full-year estimate for FY23; fuel cost inflation a key monitorable in the medium term**
- **Maintain BUY with an unchanged TP of Rs 138, valuing the stock at 8x FY25E EV/EBITDA**

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Higher volumes and realisations drive revenue: STRCEM's Q3FY23 revenue grew 12% YoY (+4% QoQ) to Rs 6.2bn backed by higher realisations (+8% YoY/ +2% QoQ to Rs 6,823/t) and volumes (+5% YoY/+1% QoQ to ~0.9mt), indicating healthy demand in key markets. The company hiked prices in mid-December and hence the full impact will be reflected in Q4FY23.

High energy cost due to rise in clinker production: Overall cost increased 1% YoY to Rs 5,629/t while declining 4% QoQ as energy cost (adjusted for raw material cost) softened by 1% YoY and 6% QoQ. However, energy cost per tonne spiked 45% YoY to Rs 1,765/t as clinker production jumped 42%. Freight cost/t declined 2% YoY as lead distance reduced from 224km to 211km, but rose 5% QoQ due to the busy period surcharge. Other expenditure grew 6% YoY to Rs 873/t and fell 10% QoQ despite a 2% rise in sequential volumes, indicating judicious cost control.

Profits constrained by lower tax benefits: EBITDA grew 61% YoY to Rs 1.1bn and EBITDA margin rose to 17% from 11% (in both Q2 and Q3FY22). EBITDA/t increased 55% YoY (+53% QoQ) to Rs 1,194/t. However, adj. PAT grew only 21% YoY to Rs 529mn as tax expenses increased due to the tax exemption sunset related to STRCEM's Guwahati unit and its subsidiary company.

Capex to be supported by healthy internal accruals: Of the total capex of Rs 21bn envisaged for capacity expansion, Rs 2bn was incurred in Q3 with ~Rs 3bn guided for Q4FY23. FY24 will be capex-heavy with ~Rs 11.5bn to be spent on a clinkerisation unit in Meghalaya and a 2mt grinding unit in Guwahati. Residual capex of ~Rs 5bn is earmarked toward a 2mt grinding unit at Silchar (Assam) in FY25.

Maintain BUY: We like STRCEM for its strong presence in the remunerative northeast market, plans to derisk revenue, and light debt burden despite capex. Further, healthy realisations imply improvement in ROE/ROCE (13-14% by FY25E). We maintain BUY, valuing the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 138 – implying a replacement cost of Rs 6.6bn/mt, a 6% discount to the benchmark (for details, see our initiation report).

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	STRCEM IN/Rs 112
Market cap	US$ 571.5mn
Free float	33%
3M ADV	US$ 0.5mn
52wk high/low	Rs 124/Rs 81
Promoter/FPI/DII	67%/1%/6%

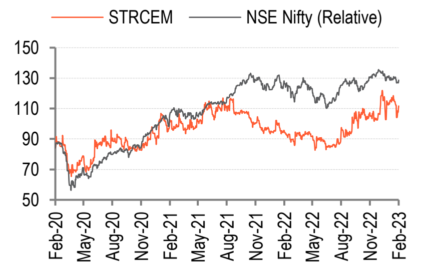
Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	22,187	26,769	32,869
EBITDA (Rs mn)	3,453	4,042	5,405
Adj. net profit (Rs mn)	2,468	2,156	2,606
Adj. EPS (Rs)	5.9	5.1	6.2
Consensus EPS (Rs)	5.9	5.2	5.7
Adj. ROAE (%)	11.6	9.6	10.7
Adj. P/E (x)	19.0	21.7	18.0
EV/EBITDA (x)	12.5	10.7	9.5
Adj. EPS growth (%)	(2.0)	(12.6)	20.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE