

HOLD

TP: Rs 210 | ▼ 3%

STAR CEMENT

| Cement

| 25 May 2024

Steady show in a trying quarter; growth intact

- **Steady 11% growth in a challenging quarter assisted by 12% YoY volume increase; realisations softens**
- **Cost savings of 8% YoY helped EBITDA margin stay intact ~20%; QoQ weakness restricted too**
- **TP raised to Rs 210 (vs. Rs 193) as we continue to value STRCEM at 9x EV/EBITDA FY26E on revised earnings; upside capped – retain HOLD**

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Volumes aid revenue growth, realisations subdued: STRCEM's revenue grew 11% YoY to Rs 9.1bn in Q4FY24 as volumes grew 12% to 1.4mn tonnes (we have refrained from QoQ comparisons due to sharp variations due to cyclicality). However, realisations fell 3% YoY to Rs 6,474/t. Cement prices stayed mostly unchanged in Northeast India but dropped ~Rs 15/bag in other regions in 4QFY24.

Operating cost savings commendable: Overall cost declined 8%/5% YoY/QoQ to Rs 5,201/t as energy costs adjusted for raw material inventory fell 21%/13% to Rs 2,313/t. However, logistics costs rose sharply (50% YoY) due to reverse movement of cement from Siliguri to Assam to cater to higher demand. Other expenditure was flat YoY at Rs 1.1bn.

Lower cost helps retain margins: Bolstered by cost savings, EBITDA increased 8% YoY (21% QoQ) to Rs 1.8bn. This helped retain margins at a flat ~20% YoY. However, EBITDA/t fell 5% to Rs 1,274 from Rs 1,346 in Q4FY23 and adj. PAT fell 9% YoY due to higher tax provision at 38%.

Capacity expansion plans: The 2mt grinding unit in Guwahati, Assam, and 3mt clinker plant in Meghalaya were commissioned in Q4FY24/Q1FY25. The Silchar grinding unit in Assam will be commissioned in H2FY26. STRCEM announced the new grinding unit (2mnt) at Jorhat in Upper Assam that would commence by FY27.

Growth prospects intact: We retain our FY25 estimates but raise our FY26 EBITDA by 3%. In our view, the government's infrastructure focus in STRCEM's core Northeast India market is likely to propel volumes. Healthy balance sheet despite being in capex mode should support ROE/ROCE expansion to an estimated 14%/19% by FY26. We assign 9x (unchanged) FY26E EV/EBITDA to the stock, which gives us a revised TP of Rs 210 (from Rs 193).

Upside capped, retain HOLD: Current valuations of 11x/10x FY25E/FY26E EV/EBITDA cap upside potential and, hence, we maintain our HOLD rating. Our TP implies a replacement cost valuation of Rs 7.5bn/mt – in line with the industry average.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	STRCEM IN/Rs 217
Market cap	US\$ 1.1bn
Free float	33%
3M ADV	US\$ 2.2mn
52wk high/low	Rs 256/Rs 127
Promoter/FPI/DII	67%/1%/6%

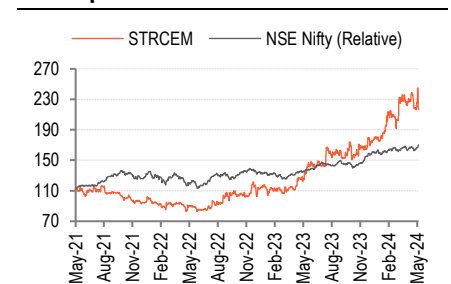
Source: NSE | Price as of 24 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	29,107	36,147	43,600
EBITDA (Rs mn)	5,563	7,690	8,860
Adj. net profit (Rs mn)	2,951	4,009	4,525
Adj. EPS (Rs)	7.0	9.6	10.8
Consensus EPS (Rs)	7.0	9.4	11.1
Adj. ROAE (%)	11.5	13.9	13.8
Adj. P/E (x)	30.8	22.6	20.1
EV/EBITDA (x)	16.4	11.8	10.2
Adj. EPS growth (%)	19.1	35.9	12.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q4FY24	Q3FY24	Our view
Volumes and realisation	<p>Volumes for Q4FY24 at 1.4mt and management expects ~ 20% growth in FY25.</p> <p>Trade volume share stood at 85% and blended cement was about 90%. Premium segment sales were ~6-7% in 4QFY24.</p>	<p>Volumes for Q3FY24 stood at 1mt and management expects 8-10% growth in Q4FY24.</p> <p>Trade volume share stood at 87% and premium product sales formed ~6.5% of the mix. Management expects to double its current premium share in FY25.</p>	<p>We expect volumes to recover after the general elections given the government's focus on building up infrastructure in the northeast region.</p>
Margins	<p>Cement prices were unchanged in the northeast while dropping by ~Rs 15/bag in other regions at the end of Q4FY24. Management expects the status quo to be maintained in Q4.</p> <p>The fuel mix was ~4% FSA, 36% Nagaland coal, 10% biomass, and 50% spot option. Fuel cost stood at Rs 1.7/kcal while the lead distance was 227km.</p>	<p>Cement prices improved by Rs 7/bag in the Northeast, while dropping by ~Rs 20/bag in other regions at the end of Q3FY24. Management expects the status quo to be maintained in Q3.</p> <p>The fuel mix was ~12% FSA, 26% Nagaland coal, 7% biomass, and 55% spot option. Fuel cost stood at Rs 1.75/kcal while the lead distance was 215km.</p>	<p>Cost saving initiatives and better capacity utilisation at Siliguri in West Bengal and operations at Meghalaya clinker unit and Guwahati grinding unit will likely aid margins.</p>
Capacity	<p>The 2mt Guwahati grinding unit and 3mt Meghalaya clinker plant were commissioned in Q4FY24/Q1FY25. Commissioning of the 2mt Silchar grinding unit is due in H2FY26.</p>	<p>The 2mt Guwahati grinding unit and 3mt Meghalaya clinker plant are expected to be commissioned in Q4FY24. Commissioning of the 2mt Silchar grinding unit is due in Q2FY26</p>	<p>In our view, Silchar capacity postponement is a good move strategically as staggering capacity addition will pay off.</p>
Capex	<p>Capex incurred on the Lumshnong plant totals ~Rs 10bn till Q4FY24, with ~Rs 1bn-2bn expected in FY25 completing total capex of Rs 12.5bn.</p> <p>Capex on the Silchar plant stood at ~Rs 0.3bn as of Q4FY24 and management expects to spend Rs 3bn in FY25. STRCEM will spend Rs 10bn in FY25.</p> <p>Additionally, new GU announced at Jorhat in Upper Assam expected capex is Rs 4.5bn over the next 2-3 years.</p>	<p>Capex on the Guwahati plant till Q3FY24 was ~Rs 3.3bn and management expects an outlay of ~Rs 0.6bn for Q4 (against an aggregate internal target of ~Rs 4.3bn).</p> <p>Capex incurred on the Lumshnong plant totals ~Rs 8.5bn till Q3FY24, with ~Rs 2bn expected for Q4 (Rs 2bn more in Q1FY25).</p> <p>Capex on the Silchar plant stood at ~Rs 0.2bn as of Q3FY24.</p>	<p>The company has managed capital expenditure well with minimum burden on the balance sheet. Additionally, it has targeted growth with new additions in lucrative markets like Assam.</p>
Other key points	<p>Management expects Rs 1.5bn-2bn incentives for the Guwahati GU expected to be received in FY25.</p> <p>GST credit spent in new project will be adjusted. In Q1FY25 and from Q2, the GST benefits will be received by the company.</p>	<p>Incentives accrued during Q3FY24 amounted to Rs 60mn from IGST benefits on the clinker plant.</p> <p>Management expects to receive SGST incentives amounting to Rs 1.5bn-1.6bn pa for the next 5-6 years for setting up the new Guwahati grinding unit. It expects IGST benefits on the 3.3mt clinker plant amounting to Rs 300/t of clinker produced till 2027.</p>	<p>Cost saving measures by STRCEM and better incentives for the new unit are likely to yield positive results over the medium term.</p>

Source: Company, BOBCAPS Research | BTAP: Bogy Tank Wagon for Alumina Powder; FSA: Fuel Supply Agreement; IGST: Integrated Goods and Services Tax; SGST: State Goods and Service Tax; WHRS: Waste Heat Recovery System

Fig 2 – Key metrics

(Rs)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Volumes (mt)	1.4	1.2	14.3	1.0	45.5
Cement realisations (Rs/t)	6,474	6,680	(3.1)	6,716	(3.6)
Operating costs (Rs/t)	5,201	5,335	(2.5)	5,182	0.4
EBITDA (Rs/t)	1,274	1,346	(5.3)	1,534	(16.9)

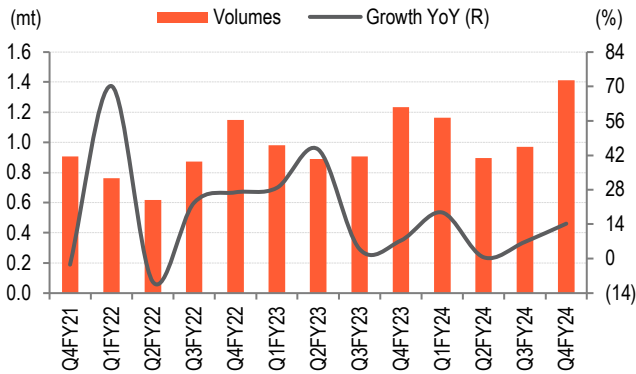
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net Sales	9,135	8,250	10.7	6,514	40.2
Expenditure					
Change in stock	498	99	-	(308)	-
Raw material	1,594	1,868	(14.7)	1,558	2.3
Purchased products	0	0	0.0	0	0.0
Power & fuel	1,172	1,649	(28.9)	1,336	(12.3)
Freight	2,406	1,405	71.3	1,101	118.6
Employee costs	548	476	15.1	545	0.4
Other expenses	1,120	1,092	2.6	794	41.1
Total Operating Expenses	7,338	6,589	11.4	5,026	46.0
EBITDA	1,797	1,662	8.1	1,488	20.8
EBITDA margin (%)	19.7	20.1	(47bps)	22.8	(316bps)
Other Income	78	127	(38.5)	58	35.7
Interest	42	12	253.2	30	40.0
Depreciation	423	351	20.5	360	17.3
PBT	1,411	1,427	(1.1)	1,155	22.1
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,411	1,427	(1.1)	1,155	22.1
Tax	535	466	14.8	365	46.4
Tax Rate (%)	37.9	32.6	525bps	31.6	629bps
Reported PAT	877	961	(8.8)	790	10.9
Adjusted PAT	877	961	(8.8)	790	10.9
NPM (%)	9.6	11.7	(205bps)	12.1	(254bps)
Adjusted EPS (Rs)	2.1	2.3	(8.8)	1.9	10.9

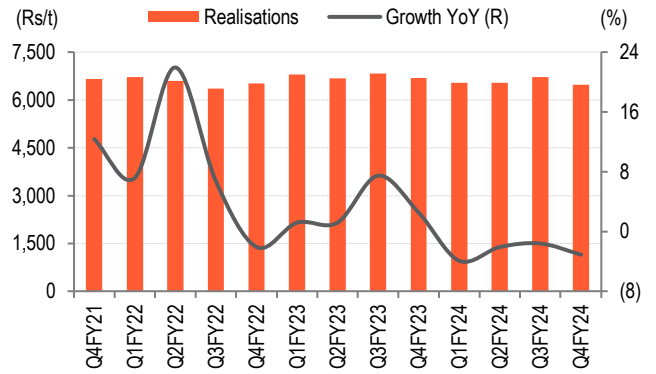
Source: Company, BOBCAPS Research

Fig 4 – Volume growth helps revenue pick up



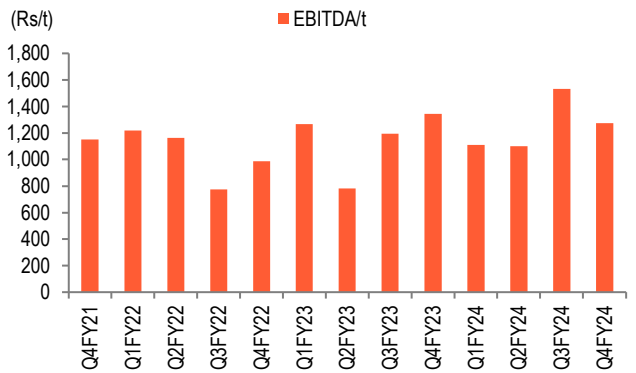
Source: Company, BOBCAPS Research

Fig 5 – Realisation stayed muted as prices fail to revive



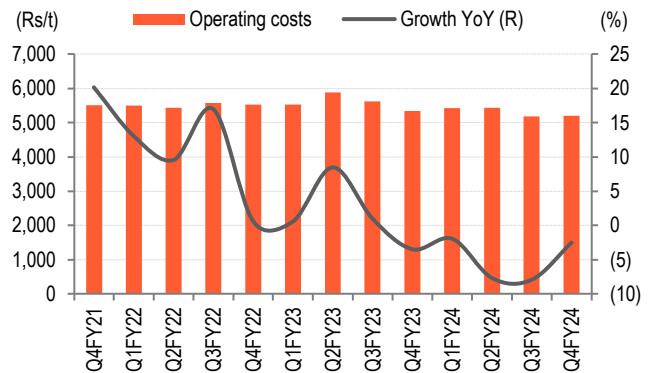
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t weakened, dragged by fall in realisations



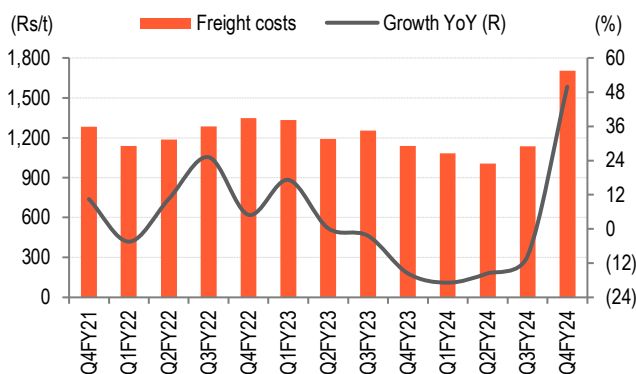
Source: Company, BOBCAPS Research

Fig 7 – Cost efficiencies sustainable in long term



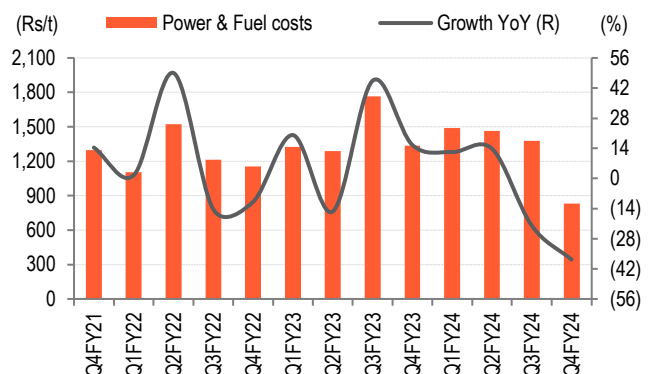
Source: Company, BOBCAPS Research

Fig 8 – Reverse cement carriage spikes logistic cost



Source: Company, BOBCAPS Research

Fig 9 – Energy cost savings add further comfort



Source: Company, BOBCAPS Research

Valuation methodology

We retain our FY25 estimates but raise our FY26 EBITDA by 3%. In our view, the government's infrastructure focus in STRCEM's core Northeast India market is likely to propel volumes. Healthy balance sheet despite being in capex mode should support ROE/ROCE expansion to an estimated 14%/19% by FY26. We assign 9x (unchanged) FY26E EV/EBITDA to the stock, which gives us a revised TP of Rs 210 (from Rs 193).

The current valuations of 11x/10x FY25E/FY26E EV/EBITDA cap upside potential and, hence, we maintain our HOLD rating. Our TP implies a replacement cost valuation of Rs 7.5bn/mt – in line with the industry average.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	36,147	43,600	40,705	48,361	(11.2)	(9.8)
EBITDA	7,690	8,860	7,776	8,631	(1.1)	2.7
Adj PAT	4,009	4,525	4,138	4,591	(3.1)	(1.4)
Adj EPS (Rs)	9.6	10.8	9.9	11	(3.0)	(1.8)

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY23	FY24P	FY25E	FY26E
Volumes (mt)	3.30	4.44	5.24	6.29
Realisations (Rs/t)	6,767	6,564	6,695	6,762
Operating costs (Rs/t)	5,885	5,309	5,438	5,532
EBITDA/t (Rs/t)	1,233	1,254	1,460	1,402

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	FY26E
Target EV/EBITDA (x)	9.0
EBITDA	8,860
Target EV	83,643
Total EV	83,643
Net debt	(1,062)
Target market capitalisation	84,705
Target price (Rs/sh)	210
Weighted average shares (mn)	404

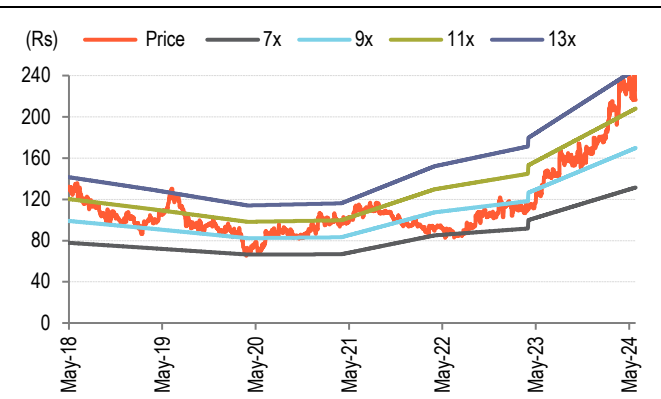
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E
STRCEM IN	HOLD	193	14.9	10.7	9.2	110	123	113	11.5	13.9	13.8	16.5	19.6	18.7
ORCMNT IN	SELL	147	10.2	10.5	8.0	75	70	75	10.4	11.4	12.5	14.0	13.5	13.8
JKLC IN	SELL	637	13.9	12.4	12.0	84	93	97	14.1	15.4	14.5	18.2	18.0	16.4

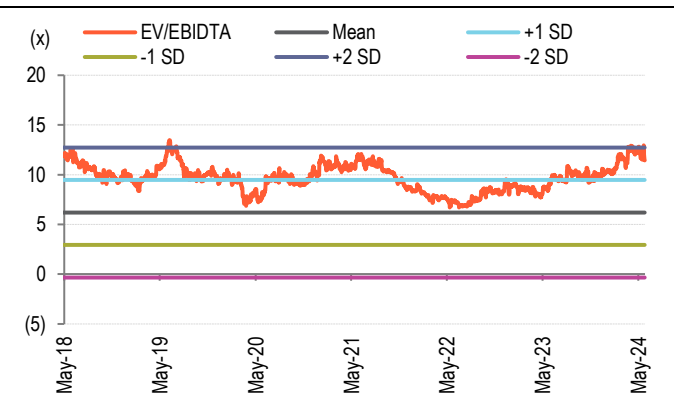
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: Stock rerating well deserved



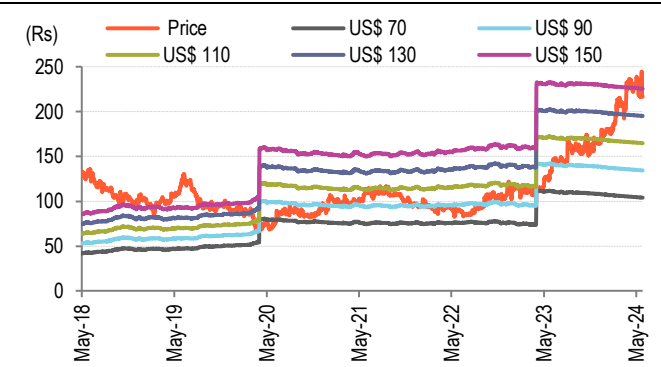
Source: Company, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd



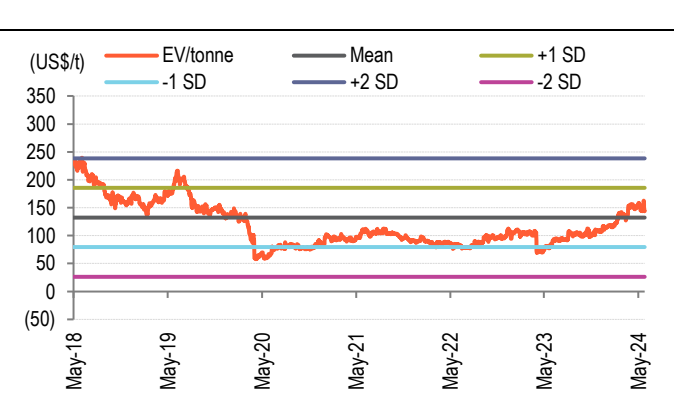
Source: Company, BOBCAPS Research

Fig 16 – EV/tonne: Replacement cost movement as expected



Source: Company, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd



Source: Company, BOBCAPS Research

Key risks

- Strong demand revival in Northeast India and further cost relief contributed by easing energy prices are key upside risks to our estimates.
- Fierce competitive pressure from companies in the eastern region can strain pricing, representing a downside risk to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	6.0	2,609	2,657	HOLD
Ambuja Cements	ACEM IN	15.4	635	580	HOLD
Dalmia Bharat	DALBHARA IN	4.0	1,792	2,346	BUY
JK Cement	JKCE IN	3.8	3,990	4,538	BUY
JK Lakshmi Cement	JKLC IN	1.2	806	637	SELL
Orient Cement	ORCMNT IN	0.5	213	147	SELL
Shree Cement	SRCM IN	11.2	25,456	27,438	HOLD
Star Cement	STRCEM IN	1.1	217	210	HOLD
The Ramco Cements	TRCL IN	2.2	778	763	HOLD
Ultratech Cement	UTCEM IN	35.9	10,231	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 24 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	20,902	25,756	29,107	36,147	43,600
EBITDA	3,453	4,684	5,563	7,690	8,860
Depreciation	(1,216)	(1,311)	(1,466)	(1,905)	(2,361)
EBIT	2,570	3,894	4,362	6,119	6,658
Net interest inc./(exp.)	(133)	(96)	(126)	(242)	(213)
Other inc./(exp.)	334	521	265	334	158
Exceptional items	0	0	0	0	0
EBT	2,437	3,798	4,236	5,877	6,445
Income taxes	31	(1,321)	(1,285)	(1,867)	(1,920)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,468	2,477	2,951	4,009	4,525
Adjustments	0	0	0	0	0
Adjusted net profit	2,468	2,477	2,951	4,009	4,525

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	1,146	2,820	2,387	2,889	3,526
Other current liabilities	4,501	3,972	4,909	5,024	5,778
Provisions	66	97	158	100	110
Debt funds	54	261	1,469	3,157	2,557
Other liabilities	0	0	0	0	0
Equity capital	404	404	404	404	404
Reserves & surplus	21,280	23,760	26,697	30,246	34,307
Shareholders' fund	21,684	24,164	27,101	30,650	34,711
Total liab. and equities	27,451	31,314	36,024	41,820	46,682
Cash and cash eq.	3,847	3,117	973	2,995	3,619
Accounts receivables	1,287	1,047	1,508	2,080	2,449
Inventories	1,953	3,741	3,350	2,971	3,584
Other current assets	4,863	4,377	3,397	4,511	4,556
Investments	1,637	1,725	20	1,637	1,637
Net fixed assets	9,225	8,850	19,622	23,063	25,407
CWIP	1,091	5,506	4,691	1,859	2,459
Intangible assets	10	60	62	64	67
Deferred tax assets, net	3,539	2,890	2,401	2,641	2,905
Other assets	0	0	0	0	0
Total assets	27,451	31,314	36,024	41,820	46,682

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	4,333	4,543	6,381	4,927	6,996
Capital expenditures	(1,959)	(5,394)	(11,426)	(2,516)	(5,307)
Change in investments	(1,620)	(89)	1,706	(1,617)	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(3,579)	(5,482)	(9,720)	(4,133)	(5,307)
Equities issued/Others	420	422	405	0	0
Debt raised/repaid	(99)	207	1,208	1,688	(600)
Interest expenses	7	8	9	10	10
Dividends paid	(419)	(419)	(419)	(419)	(419)
Other financing cash flows	(1,525)	-	0	(41)	(45)
Cash flow from financing	(1,624)	210	1,195	1,227	(1,064)
Chg in cash & cash eq.	(870)	(729)	(2,144)	2,021	624
Closing cash & cash eq.	3,847	3,118	973	2,995	3,619

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	5.9	5.9	7.0	9.6	10.8
Adjusted EPS	5.9	5.9	7.0	9.6	10.8
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	51.7	57.6	64.6	73.1	82.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.2	3.4	3.1	2.5	2.1
EV/EBITDA	25.2	18.8	16.4	11.8	10.2
Adjusted P/E	36.8	36.6	30.8	22.6	20.1
P/BV	4.2	3.8	3.3	3.0	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	101.3	65.2	69.7	68.2	70.2
Interest burden (PBT/EBIT)	94.8	97.5	97.1	96.0	96.8
EBIT margin (EBIT/Revenue)	12.3	15.1	15.0	16.9	15.3
Asset turnover (Rev./Avg TA)	78.8	87.7	86.4	92.9	98.5
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.3	1.3	1.4
Adjusted ROAE	11.6	10.8	11.5	13.9	13.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	21.6	23.2	13.0	24.2	20.6
EBITDA	3.8	35.7	18.8	38.2	15.2
Adjusted EPS	(2.0)	0.4	19.1	35.9	12.9
Profitability & Return ratios (%)					
EBITDA margin	15.5	17.3	19.1	21.3	20.3
EBIT margin	11.6	14.4	15.0	16.9	15.3
Adjusted profit margin	11.8	9.6	10.1	11.1	10.4
Adjusted ROAE	11.6	10.8	11.5	13.9	13.8
ROCE	12.1	16.9	16.5	19.6	18.7
Working capital days (days)					
Receivables	22	15	19	21	21
Inventory	34	53	42	30	30
Payables	22	46	37	37	37
Ratios (x)					
Gross asset turnover	1.4	1.6	1.0	1.0	1.1
Current ratio	2.1	1.8	1.2	1.6	1.5
Net interest coverage ratio	19.3	40.6	34.6	25.3	31.3
Adjusted debt/equity	0.0	0.0	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

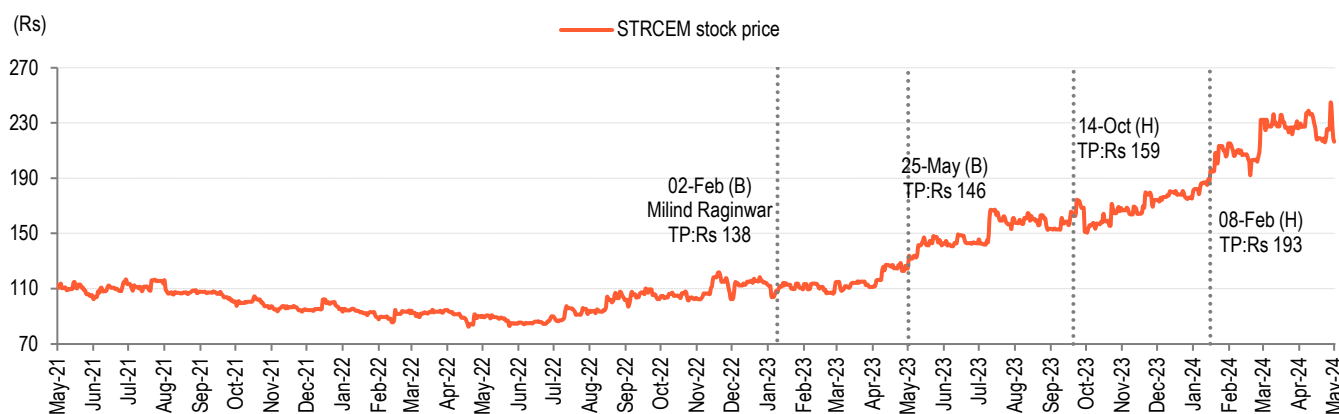
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): STAR CEMENT (STRCEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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