

Star Cement (STRCEM IN)

Star performance once again...

INDIA | CEMENT | Quarterly Update

23 May 2023

Top takeaways from Q4FY23

- STRCEM's Q4FY23 operating performance is ahead of us and consensus. We were in-line with consensus estimates.
- To our estimates:** volumes were in-line, realisations 3% lower and opex/tonne 7% lower. Resultantly, EBITDA/tonne at Rs1,346 is 7% better to our estimate of Rs1,256.
- Vs. consensus (based on our volume estimates):** realisations were 1% lower; opex/tonne 3% lower and EBITDA/tonne 9% better.
- All in all, a healthy and strong set of numbers once again.
- Management Changes:** Mr. Sajjan Bhajanka has resigned as CEO and continues as MD and Chairman of the company. Mr. Vinit Kumar Tiwari (54) has been appointed as the new CEO w.e.f. 20th May 2023. Mr. Tiwari has been associated with UltraTech Cement, Greenply Industries and Nuvoco in his past assignments and has an experience of 29 years. Designation of Mr. Pankaj Kejriwal is also changed with immediate effect to 'Executive Director' from his earlier post of 'Whole-time Director and COO'.
- STRCEM remains a rare company where we see potential of estimate upgrades driven by consistency of strong performance in its recent past. We upgrade our EBITDA estimates marginally by 4%/2% for FY24/25. We maintain target multiple at 13x FY25 EBITDA but we don't rule out multiple upgrades backed by STRCEM's consistency of superior performance. We upgrade PO to Rs160 (vs. PO of Rs135 earlier).

Conference Call Takeaways (We hosted the call)

- Mr. Tushar Bhajanka's categorically emphasized that STRCEM's new CEO will help him and STRCEM unlock quite a lot of value. Mr. Tiwari, essentially being from sales and marketing background, it is obvious to expect him to have his key focus in areas of Sales and Marketing.
- This will spare Mr. Tushar significant bandwidth as STRCEM's NextGen promoter to focus upon better strategic needs for growth roadmap of the company. We have been quite positive about the way Mr. Tushar would like to take the company forward and it has been consistently highlighted in all our past recent notes.
- It was also said that it is fair to assume STRCEM will unfold its inorganic growth plans within next couple of quarters. Targeted capacity in long term 15-20 mn tns.
- Overall, a confident commentary hinting at strong growth roadmap for the company.

Our take on result and impact of result

- We see STRCEM as one of the comfortable long-term bets in the sector despite its reasonably fair valuations – we expect significant rerating scope here.
- For now, though the immediate growth potential seems limited (until FY25), we believe Star Cement is a story FY26 and onwards as that is when it will enjoy the full benefits of all its capex and expansion plans.

Outlook & Valuation

At PO the stock will trade at c.US\$110/tonne FY25 (vs. c.90 currently).

(Rs mn)	Q4FY23	Q4FY22	yoy	Q3FY23	qoq	Comments
Net Sales	8,250	7,492	10%	6,195	33%	Strong set of operating numbers largely led by lower opex
Volumes	1.24	1.15	7%	0.91	36%	
Net Realisation	6,680	6,515	3%	6,823	-2%	
Total Expenditure	6,589	6,359	4%	5,111	29%	
EBITDA	1,662	1,134	47%	1,084	53%	
EBITDA margin	20%	15%		17%		
PAT	961	884	9%	529	82%	
Net Realisation/tonne (Rs)	6,680	6,515	3%	6,823	-2%	
Expense/tonne (Rs)	5,335	5,529	-4%	5,629	-5%	
EBITDA/tonne (Rs)	1,346	986	37%	1,194	13%	

BUY (Maintain)

CMP RS 127

TARGET RS 160 (+26%)

SEBI CATEGORY: SMALL CAP

COMPANY DATA

O/S SHARES (MN) :	404
MARKET CAP (RSBN) :	51
MARKET CAP (USDBN) :	0.6
52 - WK HI/LO (RS) :	133 / 81
LIQUIDITY 3M (USDMN) :	1
PAR VALUE (RS) :	1

SHARE HOLDING PATTERN, %

	Mar 23	Dec 22	Sep 22
PROMOTERS :	67.1	67.0	67.4
DII :	6.1	6.1	6.1
FII :	0.6	0.5	0.4
OTHERS :	26.1	26.3	26.0

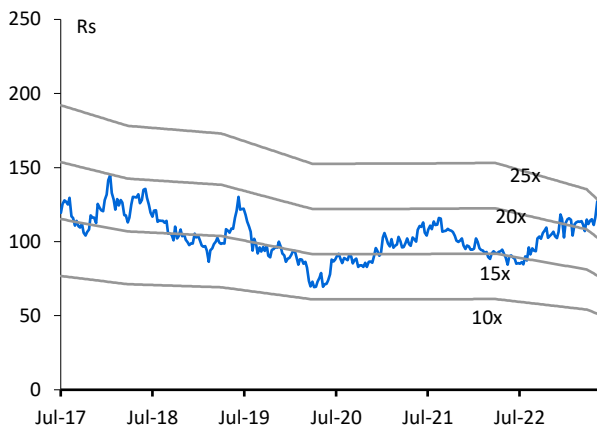
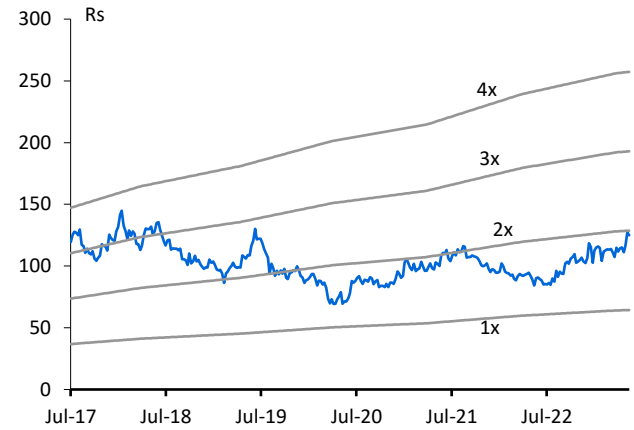
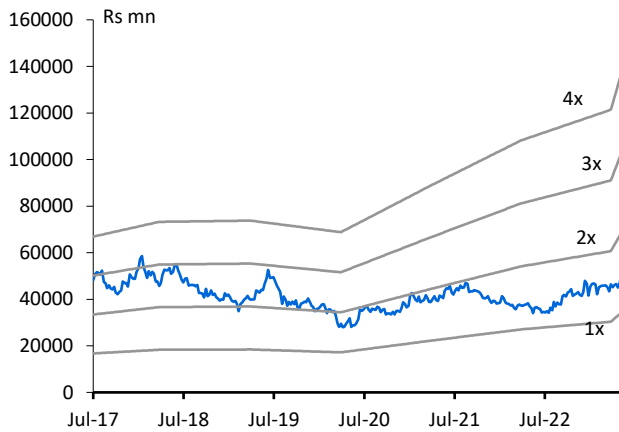
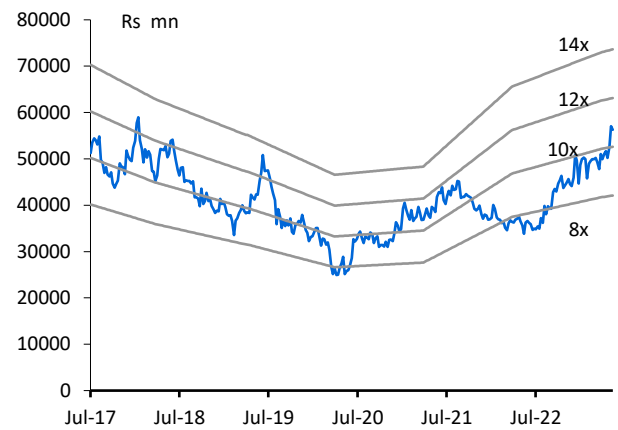
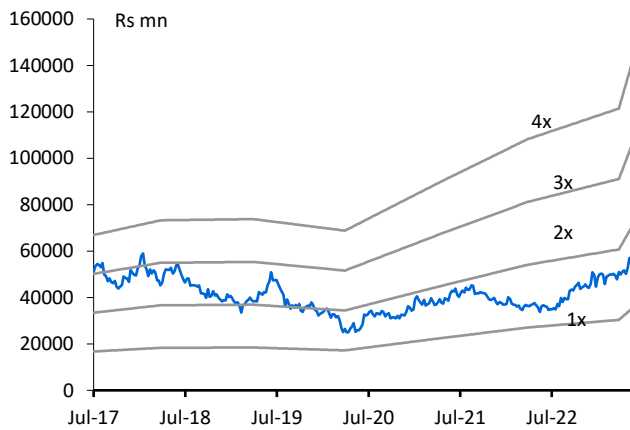
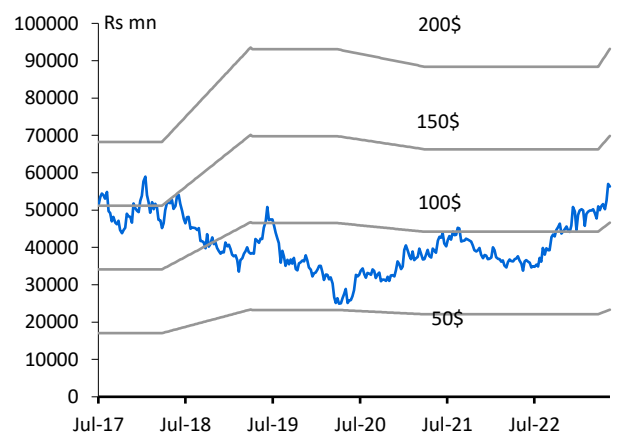
KEY FINANCIALS

Rs mn	FY23	FY24E	FY25E
Net Sales	27.0	30.1	33.4
EBITDA	4.7	4.9	5.7
Net Profit	2.5	2.1	1.2
EPS, Rs	6.1	5.2	2.9
PER, x	20.1	23.5	42.4
EV/EBITDA, x	10.7	10.6	10.6
PBV, x	2.1	1.9	1.9
ROE, %	10.2	8.2	4.4

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY24E	FY25E	FY24E	FY25E
Revenue	30.1	33.4	4%	2%
EBITDA	4.9	5.7	4%	2%
Core PAT	2.1	1.2	16%	17%
EPS (Rs)	5.2	2.9	16%	17%

Vaibhav Agarwal, Research Analyst
vagarwal@phillipcapital.in

One-year forward band chart
PE band

PBV band

M-cap/sales band

EV/EBIDTA band

EV/sales band

EV/tonne


Source: PhillipCapital India Research Estimates

Coverage Universe

Company	Size	Fw c.EV/tonne (FY25)	Reco/Upside	
Ambuja Cements	L	160	NEU	6%
UltraTech Cement	L	170	BUY	23%
Shree Cement	L	160	BUY	19%
JK Cement	M	115	BUY	13%
Dalmia Bharat	M	95	BUY	16%
ACC Ltd	M	75	BUY	50%
The India Cement Ltd	S	65	NEU	11%
JK Lakshmi Cement Limited	S	65	BUY	26%
Sanghi Industries	S	60	NEU	-7%
Star Cement	S	90	BUY	21%
Mangalam Cement	S	20	BUY	72%
HeidelbergCement India Ltd	S	50	BUY	34%

Source: Company, PhillipCapital India Research (Note: L/M/S = Large/Mid/Small Cap)

Financials

Income Statement

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E
Net sales	22.2	27.0	30.1	33.4
Growth, %	29.2	21.7	11.1	11.1
EBITDA (Core)	3.5	4.7	4.9	5.7
Growth, %	3.8	35.7	4.9	15.8
Margin, %	15.5	17.3	16.4	17.0
Depreciation	1.2	1.3	1.9	3.3
EBIT	2.2	3.4	3.0	2.4
Growth, %	(7.8)	50.8	(9.6)	(22.1)
Margin, %	10.1	12.5	10.1	7.1
Interest paid	0.1	0.1	0.2	0.9
Other Income	0.3	0.5	0.4	0.3
Pre tax profit	2.4	3.8	3.2	1.8
Tax provided	0.0	1.3	1.1	0.6
Profit after tax	2.5	2.5	2.1	1.2
Net Profit	2.5	2.5	2.1	1.2
Growth, %	(2.0)	0.3	(14.7)	(44.4)
Net Profit (adjusted)	2.5	2.5	2.1	1.2
Wtd avg shares (m)	404.2	404.2	404.2	404.2

Balance Sheet

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E
Cash & bank	3.8	3.1	3.1	3.1
Debtors	1.3	1.0	1.3	1.6
Inventory	2.0	3.7	4.6	5.6
Other current assets	3.9	3.6	4.0	4.5
Total current assets	11.3	11.7	13.2	15.0
Investments	0.0	-	-	-
Net fixed assets	10.3	14.4	16.6	23.6
Non - current assets	5.8	5.2	5.8	6.4
Total assets	27.5	31.3	35.6	45.0
Non - current liabilities	5.8	7.2	9.8	18.5
Total liabilities	5.8	7.2	9.8	18.5
Paid - up capital	0.4	0.4	0.4	0.4
Reserves & surplus	21.3	23.8	25.4	26.1
Shareholders' equity	21.7	24.2	25.8	26.5
Total equity & liabilities	27.5	31.3	35.6	45.0

Cash Flow

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E
Pre-tax profit	2.4	3.8	3.2	1.8
Depreciation	1.2	1.3	1.9	3.3
Total tax paid	0.0	(1.3)	(1.1)	(0.6)
Cash flow from operating activities	3.7	3.8	4.0	4.5
Capital expenditure	(2.0)	(5.4)	(4.0)	(10.3)
Cash flow from investing activities	(4.9)	(4.9)	(5.8)	(13.0)
Free cash flow	(1.0)	(1.0)	(1.7)	(8.0)
Equity raised/(repaid)	0.0	-	-	-
Debt raised/(repaid)	0.2	0.3	2.0	8.1
Dividend (incl. tax)	-	-	(0.5)	(0.5)
Cash flow from financing activities	0.3	0.4	1.8	8.5
Net chg in cash	(0.9)	(0.7)	0.0	0.0

Valuation Ratios

	FY22	FY23	FY24E	FY25E
Per Share data				
EPS (INR)	6.1	6.1	5.2	2.9
Growth, %	34.6	0.3	(14.7)	(44.4)
Book NAV/share (INR)	53.7	59.8	63.9	65.6
FDEPS (INR)	6.1	6.1	5.2	2.9
CEPS (INR)	9.1	9.4	9.8	11.1
CFPS (INR)	9.1	9.4	9.8	11.1
DPS (INR)	-	-	1.0	1.0

Return ratios

Return on assets (%)	9.8	8.8	7.0	5.2
Return on equity (%)	11.4	10.2	8.2	4.4
Return on capital employed (%)	11.3	10.3	8.3	6.0
ROIC (%)	12.2	10.3	7.9	4.9

Turnover ratios

Asset turnover (x)	2.2	1.9	1.8	1.4
Sales/Net FA (x)	2.2	1.9	1.8	1.4
Working capital/Sales (x)	2.0	2.3	2.3	2.2
Receivable days	21.2	14.1	15.5	17.1
Inventory days	32.1	50.5	55.5	61.1
Payable days	22.3	46.0	45.5	45.9
Working capital days	185.6	157.9	160.4	164.0

Liquidity ratios

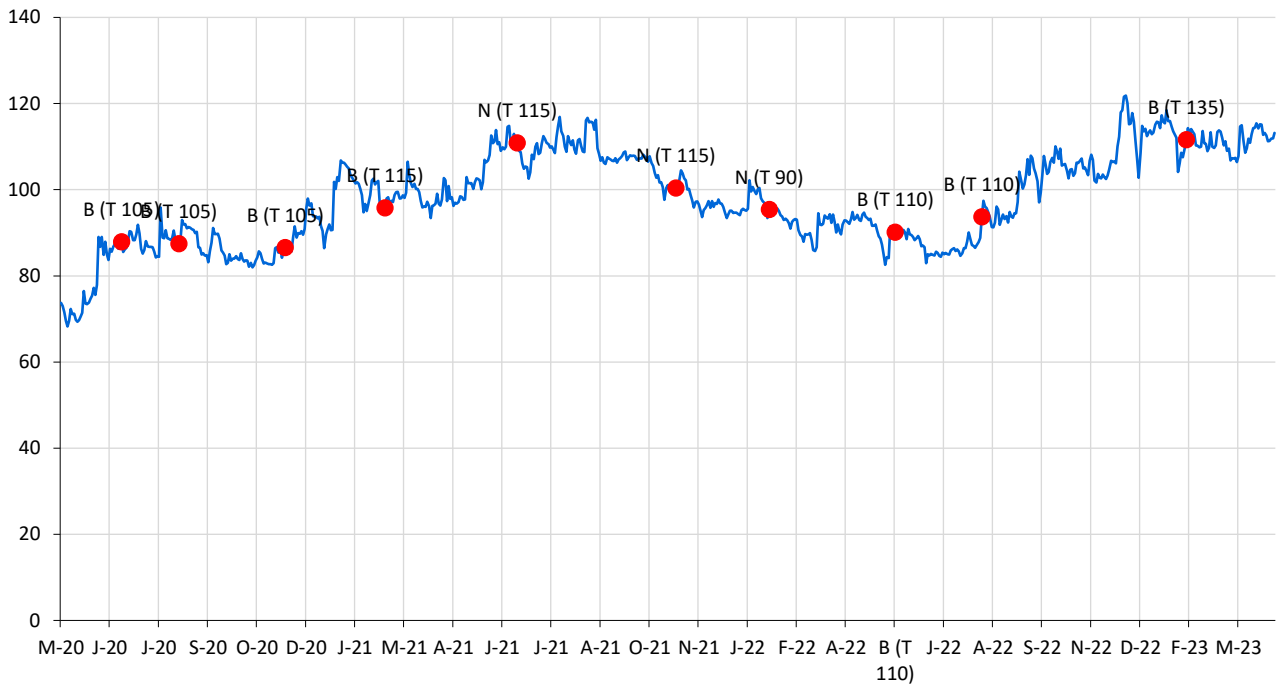
Quick ratio (x)	1.6	1.1	0.9	0.5
Interest cover (x)	16.8	34.8	13.5	2.6
Total debt/Equity (x)	8.7	29.6	37.8	69.7
Net debt/Equity (x)	(4.2)	16.7	25.7	58.0

Valuation

PER (x)	20.2	20.1	23.5	42.4
PEG (x) yoy growth	0.6	59.8	(1.6)	(1.0)
Price/Book (x)	2.3	2.1	1.9	1.9
EV/Net sales (x)	2.3	2.0	1.9	2.0
EV/EBITDA (x)	14.2	10.7	10.6	10.6
EV/EBIT (x)	22.0	14.9	17.1	25.4

Source: Company, PhillipCapital India Research

Stock Price, Price Target and Rating History



Source: PhillipCapital India Research

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$(10\% > \text{to} < +10\%)$	Target price is less than +10% but more than (10%
SELL	$\leq (10\%)$	Target price is less than or equal to (10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$(15\% > \text{to} < +15\%)$	Target price is less than +15% but more than (15%
SELL	$\leq (15\%)$	Target price is less than or equal to (15%.

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