ANANDRATHI

India I Equities

Cement
Company Update

Change in Estimates ☑ Target ☑ Reco ☐

9 February 2025

Star Cement

Rating: **Buy**
Target Price (12-mth): Rs.270
Share Price: Rs.213

Outstripping industry demand, expanding to retain market share; Buy

As market leader, Star Cement's Q3 volume growth outstripped north-eastern demand growth, but its operational performance was hit by the delayed Meghalaya clinker stabilisation, higher maintenance shut-down cost, higher freight on a highway being constructed, etc. The ongoing expansion would take capacity to 11.7m tonnes with higher incentives. We retain our Buy rating, at a higher 12-mth TP of Rs270 (earlier Rs251), 12x FY27e EV/EBITDA.

Continues to outstrip industry. With a 26% market share in the northeast, sales volumes grew 9.7% y/y to 1.07m tonnes (NE up ~13%, outside NE down ~3%) and revenue, 10.3% y/y to Rs7bn (realisation/tonne up ~0.6% y/y). While fuel cost was lower, the operating performance was hit by a one-time Rs400m expense (~Rs100m shutdown cost, Rs300m clinker purchase) and higher freight cost on a highway being constructed where EBITDA fell 29.9% y/y to Rs1bn and EBITDA/tonne, 36% y/y to Rs977 (flat q/q).

Expansion status. While the Meghalaya clinker unit was stabilised by end-Nov, the 2m-tonne Silchar GU is expected to commence by Dec'25 and the 2m-tonne Jorhat GU by end-FY27, taking overall cement capacity to 11.7m tonnes. Further, a geological survey and land acquisition is ongoing for the recently acquired 65m-tonne limestone reserves at Nimbol, Rajasthan, where a clinker plant will be set up. The AAC block unit would begin by Q4.

Business outlook, Valuation. While demand in the NE was flat in 9M FY25, cement sales volumes were guided to be 7-8% in FY25, 12-15% in FY26, backed by rising demand and the expanded capacity ramp-up. Cement prices would be stable/slightly higher. Greater operational efficiency with the stabilised clinker unit, incentives from capacity commissioning, and rising share of green energy would boost the operating performance. While UltraTech is acquiring a non-controlling minority stake (~8.69%), no further promoter stake dilution is guided to. We expect 14/10/18% revenue/volume/EBITDA CAGRs over FY24-27. We retain our Buy, at a higher 12-mth TP of Rs270, 12x FY27e EV/EBITDA. **Risks:** Rising operational costs, demand slowdown.

Key Financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	27,048	29,107	31,489	36,193	42,564
Net profit (Rs m)	2,476	2,951	1,378	2,224	3,214
EPS (Rs)	6.1	7.3	3.4	5.5	8.0
P/E (x)	18.2	31.0	62.5	38.7	26.8
EV / EBITDA (x)	8.7	16.5	16.7	12.3	9.5
EV / tonne ($)	86.4	138.6	134.9	106.7	85.2
RoE (%)	10.8	11.5	5.0	7.5	9.9
RoCE (%)	11.1	12.0	5.3	7.3	9.5
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	-0.2	0.0	0.1	0.1	-0.0

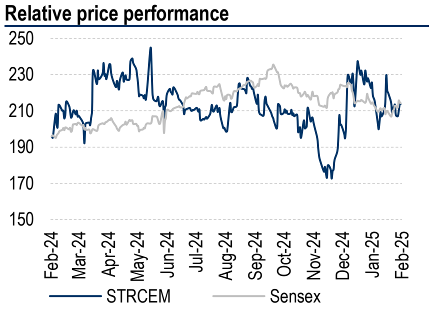
Source: Company, Anand Rathi Research

Key data	STRCEM IN
52-week high / low	Rs256 / 172
Sensex / Nifty	77860 / 23560
3-m average volume	$5.5m
Market cap	Rs86bn / $980.5m
Shares outstanding	404m

Shareholding pattern (%)	Dec-24	Sept-24	Jun-24
Promoters	57.7	66.5	66.5
- of which, Pledged	1.1	0.6	0.1
Free float	42.3	33.5	33.5
- Foreign institutions	1.2	1.4	1.6
- Domestic institutions	5.0	5.0	5.1
- Public	36.2	27.2	26.9

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	0.8	0.7	(2.9)
EBITDA	1.8	2.1	(9.6)
PAT	(15.5)	2.7	(19.9)

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Sales volumes (m tonnes)	4.0	4.4	4.7	5.6	6.5
Net revenues	27,048	29,107	31,489	36,193	42,564
Growth (%)	21.7	7.6	8.2	14.9	17.6
Direct costs	16,731.1	17,760.5	19,265.8	21,207.9	24,367.5
SG&A	5,633	5,783	6,875	7,750	9,146
EBITDA	**4,684**	**5,563**	**5,348**	**7,235**	**9,051**
EBITDA margins (%)	17.3	19.1	17.0	20.0	21.3
- Depreciation	1,311	1,466	3,332	4,104	4,639
Other income	521	265	126	217	255
Interest expenses	97	126	304	382	382
PBT	3,797	4,236	1,838	2,966	4,285
Effective tax rates (%)	34.78	30.33	25.00	25.00	25.00
+ Associates / (Minorities)	-	-	-	-	-
Net income	2,476	2,951	1,378	2,224	3,214
Adj. income	2,476	2,951	1,378	2,224	3,214
WANS	404	404	404	404	404
FDEPS (Rs)	6.1	7.3	3.4	5.5	8.0
FDEPS growth (%)	0.3	19.2	-53.3	61.4	44.5

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	404	404	404	404	404
Net worth	24,164	27,101	28,480	30,704	33,918
Debt	261	1,298	4,778	4,778	4,778
Minority interest	-	-	-	-	-
DTL / (Assets)	-2,890	-2,401	-2,401	-2,401	-2,401
Capital employed	**21,534**	**25,999**	**30,857**	**33,081**	**36,295**
Net tangible assets	8,733	13,964	24,998	26,894	26,955
Net intangible assets	177	195	195	195	195
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	5,506	10,216	2,500	2,000	1,500
Investments (strategic)	19	20	20	20	20
Investments (financial)	1,707	-	-	-	-
Current assets (excl. cash)	9,165	8,254	9,749	11,403	13,411
Cash	3,117	973	1,505	1,890	5,176
Current liabilities	6,889	7,624	8,110	9,321	10,962
Working capital	2,276	630	1,639	2,082	2,449
Capital deployed	**21,534**	**25,999**	**30,857**	**33,081**	**36,295**
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT (Adj. OI and interest)	3,373	4,097	2,016	3,131	4,412
+ Non-cash items	1,311	1,466	3,332	4,104	4,639
Oper. prof. before WC	4,684	5,563	5,348	7,235	9,051
- Incr. / (decr.) in WC	-78	-1,646	1,009	443	367
Others incl. taxes	1,321	1,285	459	741	1,071
Operating cash-flow	3,442	5,924	3,880	6,050	7,613
- Capex (tang. + intang.)	5,401	11,426	6,650	5,500	4,200
Free cash-flow	-1,960	-5,501	-2,770	550	3,413
Acquisitions					
- Div. (incl. buyback & taxes)	-	-	-	-	-
+ Equity raised	-	-	-	-	-
+ Debt raised	207	1,037	3,480	-	-
- Fin investments	53	-1,706	-	-	-
- Misc. (CFI + CFF)	-1,076	-615	178	165	127
Net cash-flow	-729	-2,144	531	385	3,286

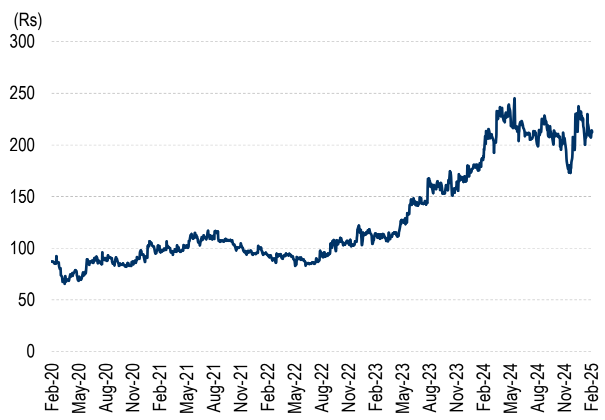
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	18.2	31.0	62.5	38.7	26.8
EV / EBITDA (x)	8.7	16.5	16.7	12.3	9.5
EV / Sales (x)	1.5	3.2	2.8	2.5	2.0
P/B (x)	1.9	3.4	3.0	2.8	2.5
RoE (%)	10.8	11.5	5.0	7.5	9.9
RoCE (%) - after tax	11.1	12.0	5.3	7.3	9.5
DPS (Rs)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	-0.19	0.01	0.11	0.09	-0.01
WC days	31	18	13	19	19
EV / tonne ($)	86.4	138.6	134.9	106.7	85.2
NSR / tonne (Rs) (blended)	6,739	6,554	6,704	6,784	6,864
EBITDA / tonne (Rs)	1,167	1,253	1,129	1,284	1,392
Volumes (m tonnes)	4.0	4.4	4.7	5.3	6.2
CFO : PAT (%)	139.0	200.7	281.5	272.0	236.9

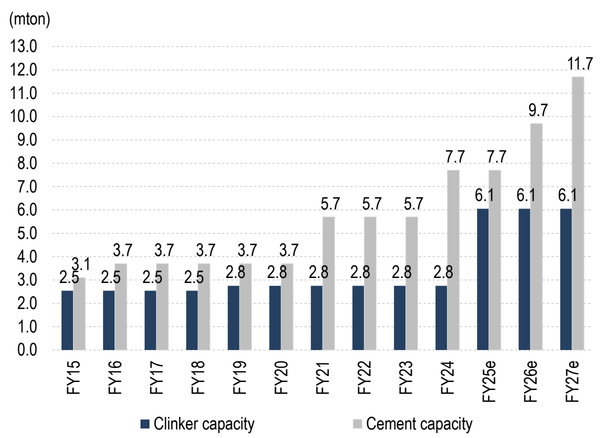
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Cement and clinker capacities



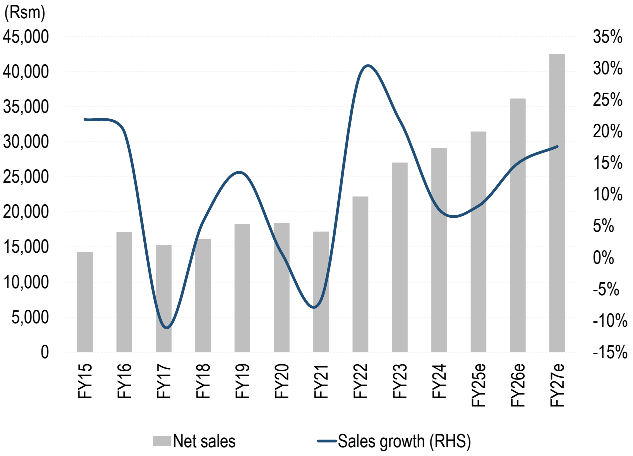
Source: Company, Anand Rathi Research

Key highlights

Revenue growth

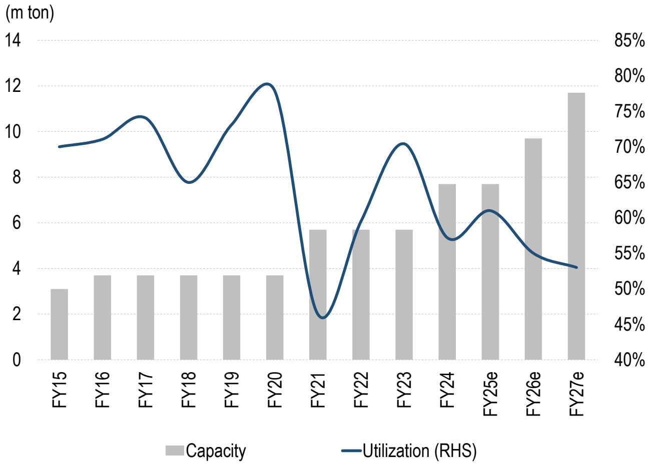
Star Cement's Q3 revenue grew 10.3% y/y to Rs7.2bn. Its cement sales grew 9.7% y/y to 1.07m tonnes (to the NE, 13% y/y to 0.83m tonnes, but to regions outside the NE they fell 3% y/y to 0.231m tonnes). Clinker sales were negligible (0.007m tonnes). Cement realisation (blended) was up 0.6% y/y.

Fig 7 – Revenue and revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and utilisation



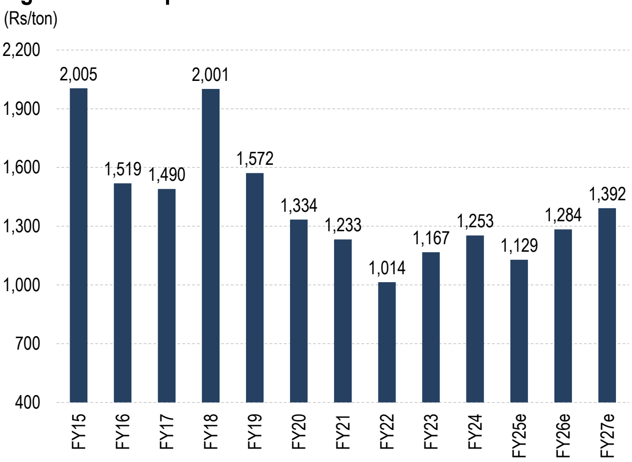
Source: Company, Anand Rathi Research

Operating performance

EBITDA fell 29.9% y/y to Rs1,042m, with a 14.5% margin. Per-tonne power & fuel cost plunged 21.7% y/y. Raw material cost/tonne climbed 18.8% y/y (clinker purchased from outside) and freight cost, 1.1% y/y (road under construction). Employee costs were up 11% y/y; other expenditure was up 57% y/y (higher maintenance shutdown cost) on an absolute basis.

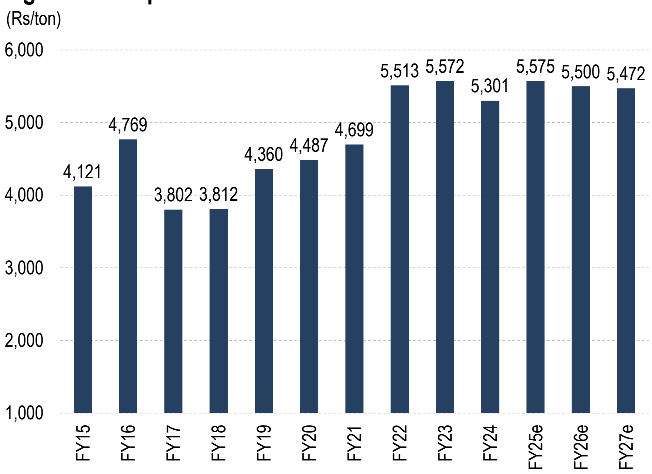
EBITDA/tonne fell 36.1% y/y to Rs977 (flat q/q) and PAT 87.7% y/y to Rs91m.

Fig 9 – EBITDA-per-tonne trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-tonne trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly performance

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	% Y/Y	% Q/Q
Sales	6,652	5,933	6,172	8,292	7,605	5,853	6,514	9,135	7,510	6,415	7,188	*10.3*	*12.0*
EBITDA	1,241	697	1,084	1,662	1,293	986	1,488	1,797	1,161	956	1,042	*(29.9)*	*9.1*
EBITDA margins (%)	*18.7*	*11.7*	*17.6*	*20.0*	*17.0*	*16.8*	*22.8*	*19.7*	*15.5*	*14.9*	*14.5*	*-834bps*	*-40bps*
EBITDA / tonne (Rs)	1,267	782	1,194	1,346	1,111	1,100	1,529	1,274	1,006	977	977	*(36.1)*	*(0.0)*
Interest	26	26	33	12	22	32	30	42	59	71	98	*230.7*	*37.8*
Depreciation	304	315	341	351	318	360	365	423	725	825	893	*144.7*	*8.2*
Other income	141	136	117	127	87	58	41	78	14	16	25	*(39.0)*	*54.3*
Exceptional items	-	-	-	-	-	-	-	-	-	-	-	*NA*	*NA*
PBT	1,052	490	828	1,427	1,040	651	1,134	1,411	391	76	76	*(93.3)*	*0.6*
Tax	376	180	299	466	107	244	399	535	81	19	(14)	*NA*	*NA*
Reported PAT	676	311	529	961	933	407	735	877	310	57	91	*(87.7)*	*57.8*
Adj. PAT	676	311	529	961	933	407	735	877	310	57	91	*(87.7)*	*57.8*

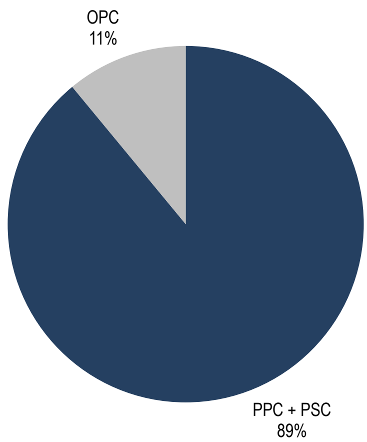
Source: Company, Anand Rathi Research

Fig 12 – Per-tonne analysis

(Rs per tonne)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	% Y/Y	% Q/Q
Gross realisations (blended)	6,788	6,659	6,797	6,714	6,533	6,532	6,695	6,474	6,508	6,560	6,736	*0.6*	*2.7*
EBITDA	1,267	782	1,194	1,346	1,111	1,100	1,529	1,274	1,006	977	977	*(36.1)*	*(0.0)*
Sales volumes (m tonnes)	0.98	0.89	0.91	1.24	1.16	0.90	0.97	1.41	1.15	0.98	1.07	*9.7*	*9.1*
Costs													
Raw material	1,730	1,555	1,589	1,508	1,651	1,451	1,601	1,677	2,126	1,651	1,902	*18.8*	*15.3*
Power & Fuel	1,325	1,204	1,640	1,288	1,487	1,464	1,373	831	992	1,192	1,076	*(21.7)*	*(9.8)*
Freight	1,334	1,317	1,255	1,137	1,083	1,007	1,131	1,158	1,129	1,091	1,144	*1.1*	*4.9*
Staff cost	490	544	498	447	416	638	560	388	539	660	568	*1.4*	*(14.0)*
Other expenses	793	1,011	1,006	908	716	990	816	794	866	1,030	1,167	*43.1*	*13.3*

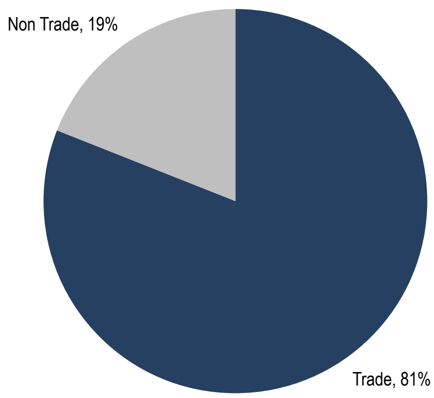
Source: Company, Anand Rathi Research

Fig 13 – Product mix



Source: Company, Anand Rathi Research

Fig 14 – Trade-nontrade mix



Source: Company, Anand Rathi Research

Concall Highlights

- **Volumes, demand**. In Q3, 1.06m tonnes of cement were sold, up 9% y/y. Sales to the NE grew 13% y/y to 0.83m tonnes; to regions outside the NE they declined 3% y/y to 0.231m tonnes. Clinker sales were a negligible 0.007m tonnes. The Siligudi unit capacity utilisation was 45% due to weak demand in West Bengal and Bihar and clinker shortage as Line III clinker unit was stabilise in Nov.
- While demand in the North-east was flattish, 7-8% sales volume growth was guided to for FY25 and 10% for Q4 FY25. Further for FY26, cement sales volume growth was guided to be 12-15% backed by the ramped-up capacity and rising demand. Assam accounts for 55% of the revenue.
- Demand in the Northeast is set to improve, backed by greater government expenditure/higher budget allocation, which would result in higher infra/non-trade demand. The price gap between trade and non-trade is Rs25-30 a bag, which may increase with new capacities coming up in the region.
- Star Cement and Dalmia Bharat together account for 60% of capacities in the North-east. Of 8-9 operating cement plants, only Meghalaya Cement has capacity of 1.2m tonnes; the others have 0.8-0.9m tonnes each. As all are operating optimally, consolidation opportunities are non-existent. Further, the greenfield expansion would take 4-5 years due to local issues, mines clearances, land acquisition, etc.
- **Cement prices** in the company's operating region are expected to be stable or slightly higher.
- The operating performance was hit by a Rs400m one-time expense (shutdown cost Rs100m, clinker purchase from outside Rs300m). Also, freight cost was higher as wagon availability was curbed by road repairs, expected to be complete in a month. The company guided to Rs2.2bn-2.3bn EBITDA in Q4 FY25.
- While UltraTech would acquire a non-controlling minority stake of ~8.69%, no further promoter dilution has been guided to.
- **Incentives**

  The state GST incentive for the Assam GU over 15 years would be 200% of the investment (Rs800/tonne), which the company expects to exhaust in seven years, ie, Rs1.6bn p.a. The Silchar GU will have similar incentives.

  With the 3.3m-tonne clinker expansion at the present location, the integrated GST benefit (Rs300/tonne) would be available till FY27. While the clinker unit would stabilise by end-Nov, incentives of Rs500m-600m were guided to from Q4.

  The company booked Rs430m incentives in Q3, guided to be Rs500m in coming quarters with the new capacity commissioned.
- **Expansion, capex, debt**
  - The 3m-tonne Meghalaya clinker unit commencement was delayed by technical issues and commenced in Nov. The 2m-tonne Silchar GU would begin by Dec'25 at Rs4.5bn capex. The 2m-tonne capacity

expansion at the Jorhat (Assam) GU at Rs4.5bn capex is expected to begin by end-FY27.

- Subsidiary Star Cement North-East has been declared the 'preferred bidder' for the NB-04, NB-05, NB-06, NB-07, NB-08 and NB-11 N/V Nimbol, Jaitaram tehsil, Beawer district, limestone blocks at e-auctions conducted by the government of Rajasthan. The blocks cover ~95.6823 hectares (estimated limestone reserves ~63.9m tonnes). A geological survey and land acquisition is ongoing, after which land acquisition will be started for the clinker unit.
- The company will set up an 800 tpd AAC block unit in Q4 FY25, which would generate healthy 20% EBITDA margins at peak Rs800m revenue. It will also have the Central GST benefit and the Assam state GST benefit.
- At 31st Dec'24 gross/net debt were Rs4.2bn/4bn. FY25/FY26/FY27 capex would be Rs6.5/6/4bn. Rs4.4bn capex was spent in 9M FY25.
- Through a group captive scheme (a 30% equity stake in JSW Green Energy Six for Rs230.6m), it entered a hybrid contract for 18MW at 70% CUF. It will set up a 15MW solar and a 32MW wind power plant by H2 FY26. Savings of Rs220m-240m p.a. were guided to.
- The 12 MW Meghalaya WHRS would commence in Q4 FY25.
- Network optimisation and power-cost savings (on the use of new technology) would enhance operational efficiency at the clinker unit. As a result, the Guwahati GU would have a lower, 17%, tax rate.

Operational highlights

- The Q3 fuel-mix was Nagaland and spot coal 20%, biomass ~13%, FSA coal 67%. Fuel consumption cost was Rs1.5/GCV (Rs1.5 the quarter prior), guided to be the same in coming quarters. The company earlier signed a 10-year contract with Coal India for 360,000 tonnes at Rs1.5/GCV (supply commencing May) which would result in Rs700m savings p.a. The weighted average fuel cost was guided to be Rs1.55/GCV in FY26.
- The Meghalaya clinker line would aid in saving Rs150/tonne p.a. (operational savings ~Rs50, SGST benefit ~Rs100). Further, it will also aid in selling clinker in the clinker-deficit North-east.
- The Q3 trade-nontrade mix was 81:19; OPC share 11%. The share of premium cement rose to 12% (vs. 10.6% the quarter prior).
- The lead distance was 222km (vs. 218km the previous quarter).

Valuations

With a sturdy ~26% market share, Star Cement is the leader in the NE where, with Dalmia Bharat, it addresses 50-60% of cement demand, benefiting from economies of scale. While its volume growth outstripped north-eastern demand growth, its operational performance was hit by the delayed Meghalaya clinker unit stabilisation, higher maintenance shutdown cost, higher freight on a highway being constructed, etc. Greater operational efficiency, incentives on the capacity commissioned and improving share of green energy would help the operating performance.

We have reduced FY27e on the lower realisations (because of greater non trade sales and keener competition) and higher depreciation and stabilized expansion on commencement of the new capacities.

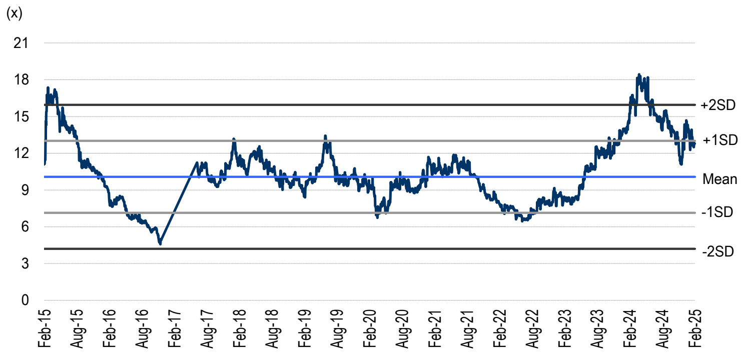
At the CMP, the stock quotes at 9.5x EV/EBITDA, 26.8x P/E, $85 EV/ tonne on FY27e. We retain our Buy rating, at a higher TP of Rs270 (earlier Rs251), 12x FY27e EV/EBITDA. **Risks:** Demand slowdown, higher operational costs.

Fig 15 – Change in estimates

(Rs bn)	Old			New			% change		
	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25	FY26	FY27
Revenue	31,254	35,926	43,849	31,489	36,193	42,564	0.8	0.7	(2.9)
EBITDA	5,253	7,087	10,017	5,348	7,235	9,051	1.8	2.1	(9.6)
PAT	1,631	2,166	4,010	1,378	2,224	3,214	(15.5)	2.7	(19.9)

Source: Anand Rathi Research

Fig 16 – 12-month-forward EV/EBITDA: Mean and standard deviation



Source: Bloomberg

Fig 17 – Peer comparison on valuations

	CMP	P / E (x)			EV / EBITDA (x)			EV / tonne ($)		
	(Rs)	FY25e	FY26e	FY26e	FY25e	FY26e	FY26e	FY25e	FY26e	FY26e
Star Cement	213	62.5	38.7	26.8	16.7	12.3	9.5	135	107	85
Shree Cement	28,293	93.7	52.5	38.5	26.3	19.9	16.0	203	159	150
Ramco Cement	895	54.6	61.9	29.9	19.6	15.9	11.8	124	97	94
Birla Corp.	1,179	46.3	16.3	13.1	11.4	7.8	6.7	65	59	56
JK Cement	4,882	54.3	39.9	28.7	23.3	18.7	14.5	196	160	159
JK Lakshmi	840	44.1	26.6	18.0	15.0	11.9	9.4	82	81	74
Heidelberg Cement	219	42.8	26.4	20.1	18.4	13.0	10.2	80	78	75
Prism Johnson	133	NA	NA	NA	22.3	13.5	11.6	69	67	65
Dalmia Bharat	1,855	49.1	34.7	25.2	14.6	11.8	9.7	87	83	81
NCL Industries	214	11.6	9.1	NM	7.4	5.1	NM	40	31	NM

Source: Company, Anand Rathi Research

Appendix

Analyst Certification

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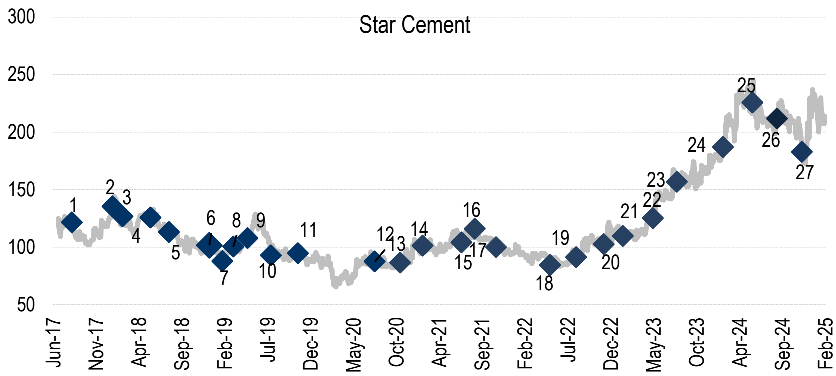
Rating and Target Price History (as of 9 February 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
14	10-Feb-21	**Buy**	124	96
15	15-Jun-21	**Hold**	123	111
16	19-Aug-21	**Hold**	130	116
17	3-Nov-21	**Hold**	119	101
18	20-May-22	**Hold**	100	90
19	4-Aug-22	**Hold**	108	97
20	17-Nov-22	**Hold**	116	102
21	7-Feb-23	**Hold**	127	113
22	23-May-23	**Hold**	149	125
23	13-Aug-23	**Hold**	167	160
24	9-Feb-24	**Hold**	224	196
25	26-May-24	**Buy**	275	217
26	18-Aug-24	**Buy**	279	212
27	14-Nov-24	**Buy**	251	182

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