

## Mixed Operating Performance

Est. Vs. Actual for Q3FY25: Revenue – **MISS**; EBITDA Margin – **BEAT**; PAT – **BEAT**

Change in Estimates post Q3FY25 (Abs)

FY25E/FY26E: Revenue: -3%/-5%; EBITDA: -5%/-6%; PAT: -18%/-8%

### Recommendation Rationale

- Capacity Expansion to Drive Growth:** The Guwahati 2 mtpa Grinding Unit (Line 2) is ramping up well, with capacity utilisation reaching 77% during the quarter, and is expected to further improve in the ensuing quarter, thereby contributing to the company's volume growth. The Silchar Grinding Unit is expected to be commissioned by Q3FY26. These expansions will increase the company's total capacity to 9.7 mtpa from the existing 7.7 mtpa, providing substantial growth potential. The company is projected to grow its volume at a CAGR of 10% over FY23-26E.
- Plant Incentives & Cost Optimization to Support Higher EBITDA/Tonne:** The company's Grinding Units in Guwahati and Silchar, along with its Clinker Unit in Meghalaya, are set to receive SGST refunds as part of Assam government incentives, estimated at Rs 150-170 Cr annually. 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.
- 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 than the national average.

### Sector Outlook: Positive

**Company Outlook & Guidance:** The company has guided for 10% volume growth in Q4FY25 and 12-15% in FY26. Prices have improved in the Northeast and are expected to trend higher depending on demand.

**Current Valuation:** 12.5x FY26E EV/EBITDA (Earlier Valuation: 12x FY26E EV/EBITDA)

**Current TP:** Rs 235/share (Earlier TP: Rs 235/share)

**Recommendation:** We maintain our **BUY** rating on the stocks.

**Alternative BUY Ideas from our Sector Coverage:** UltraTech Cement (TP – 13,510/Share), Dalmia Bharat (TP – 2,000/Share), JK Cements (TP – 5,380/share), Ambuja Cement (TP -655/share), Shree Cement (TP - Rs 30,000/share), Birla Corporation (TP – 1,390/share)

### Financial Performance

SCL reported mixed results for the quarter. Volume was in line with expectations, while revenue was below expectations, and EBITDA/PAT were above expectations. Revenue grew by 10% YoY; however, EBITDA and PAT declined by 30% and 88%, primarily due to negative operating leverage, higher depreciation, and lower other income. The company achieved an EBITDA margin of 14.5%, which was better than expected but down from 22.8% in the previous year. Volume for the quarter stood at 1.07 mntpa, reflecting 9% YoY growth, driven by new capacity ramp-up. EBITDA per tonne stood at Rs 977, down 36% YoY and flattish QoQ but above the expectation of Rs 869/tonne. Blended realisation per tonne was Rs 6,736, up 3% YoY and 0.5% QoQ. Cost per tonne increased by 11% YoY to Rs 5,759, driven by higher other expenses.

### Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	719	12	10	757	5%
EBITDA	104	9	-30	93	12%
EBITDA Margin	14.5%	(40bps)	(830bps)	12.2%	230bps
Net Profit	9	60	-88	4	121%
EPS (Rs)	0.2	60	-88	0.1	121%

Source: Company, Axis Securities Research

(CMP as of 6<sup>th</sup> February 2025)

CMP (Rs)	213
Upside /Downside (%)	10
High/Low (Rs)	256/172
Market cap (Cr)	8,638
Avg. daily vol. (6m)Shrs.	9,00,000
No. of shares (Cr)	40.4

### Shareholding (%)

	Jun-24	Sep-24	Dec-24
Promoter	66.5	66.5	57.7
FIIs	1.6	1.4	1.2
MFs / UTI	5.0	5.0	5.0
Banks / FIs	0.0	0.0	0.0
Others	26.9	27.2	36.2

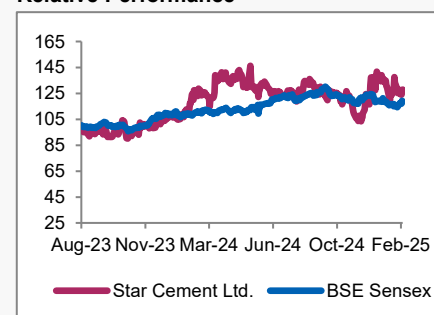
### Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,911	3,213	3,698
EBITDA	556	555	762
Net Profit	295	156	335
EPS (Rs)	7.3	3.9	8.3
PER (x)	29	55	26
P/BV (x)	1.0	1.0	0.9
EV/EBITDA (x)	16	16	11
ROE (%)	12	6	11

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-3%	-5%
EBITDA	-5%	-6%
PAT	-18%	-8%

### Relative Performance



Source: Ace Equity

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## Outlook

With its upcoming capacity expansion, the company is well-positioned to capitalise on the rising demand in its operating region, primarily the Northeast. We project the company will achieve a CAGR of 10%/13% in volume and revenue and a 17% CAGR in EBITDA over FY24-FY26E.

## Valuation & Recommendation

The stock is currently trading at 11.5x FY26E EV/EBITDA. **We maintain our BUY recommendation on the stock with a TP of Rs 235/share, implying an upside potential of 10% from the CMP.**

## Key Concall Highlights

- **Capacity Expansion:** The Silchar Grinding Unit is expected to be commissioned by Dec'25, increasing the company's total capacity to 9.7 mtpa from the existing 7.7 mtpa, providing better growth headroom. The company is also planning a 2 mtpa grinding unit in Jorhat, Assam, at a capital cost of Rs 450 Cr, expected to be operational in FY27. Additionally, the company is setting up an AAC block in Guwahati for Rs 50 Cr, scheduled for commissioning by Mar'25, with an expected revenue contribution of Rs 75-80 Cr. The clinker plant faced operational issues, which are expected to stabilise by the end of Nov'24. The company is also in the process of acquiring land to set up a plant in Rajasthan.
- **Volume:** The company has guided for 10% volume growth in Q4FY25. During the quarter, the geographic split was 79%/21% between the Northeast and East regions. Cement mix sales stood at 90%, with OPC accounting for the remainder. Demand in the current quarter is stronger in the Northeast compared to the East, with the company maintaining its focus on the Northeast market. The trade and non-trade mix during the quarter stood at 81%/19%. Premium cement formed 12% of overall trade sales, up from 9% last year. The company aims to double premium cement sales and increase its premium share to 10% moving forward.
- **Pricing:** Current prices are higher than Q3FY25, and the positive impact of increased prices will be reflected in Q4FY25. During the quarter, blended realisation stood at Rs 6,736/tonne, up 3% QoQ and flat YoY. Market dynamics will determine prices, though the commissioning of Dalmia's new capacity may introduce some pricing pressure in the Northeast region in FY26.
- **Power/Fuel:** The company expects a marginal reduction in power and fuel costs in FY25. The fuel mix comprised 20% Nagaland Coal, 20% Biomass, and 60% Auction Coal. On a per Kcal basis, the cost stood at Rs 1.50, unchanged from the previous quarter, and is expected to remain stable as the company has signed a long-term contract with Coal India for coal supply.
- **Freight:** The lead distance during the quarter was 222 km, compared to 217 km last year. Freight cost per tonne was lower by 16% QoQ but higher by 32% YoY, at Rs 1,495/tonne. The company is working on reducing logistics costs at the Siliguri unit by optimizing fly ash transportation, which will help lower the plant's unit cost.
- **Capex:** The company has guided for a capex of Rs 600 Cr each in FY25 and FY26, followed by Rs 300 Cr in FY27. The current net debt stands at Rs 400 Cr.
- **Cash/Incentives:** The company is set to receive incentives for its grinding units in Guwahati and Silchar through SGST refunds. It aims to receive incentives in the range of Rs 150-175 Cr (or Rs 800/tonne) annually for these units after adjusting for input tax credit, applicable for the next 5-7 years. The Guwahati and Silchar plants are eligible for a lower tax rate of 17%. Additionally, the clinker unit is expected to receive an incentive of Rs 300/tonne, linked to production. During Q3FY25, the company received Rs 43 Cr in incentives, with quarterly incentives expected at Rs 50 Cr going forward.
- **Stake acquisition by Ultratech Cement:** The management stated that the existing promoters have no interest in selling their stake to UltraTech and remain fully committed to the company's future growth prospects.

## Key Risks to Our Estimates and TP

- Lower realisation 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	3,213	3,698	3323	3875	-3%	-5%
EBITDA	555	762	586	809	-5%	-6%
PAT	156	335	190	366	-18%	-8%

Source: Company, Axis Securities Research

### Result Review Q3FY25

(Rs Cr)	Quarterly Performance				
	Q3FY25	Q2FY25	Q3FY24	% Chg QoQ	% Chg YoY
Net sales	719	642	651	12%	10%
Expenditure	615	546	503	13%	22%
EBITDA	104	96	149	9%	-30%
Other income	3	2	4	54%	-39%
Interest	10	7	3	38%	231%
Depreciation	89	83	37	8%	145%
PBT	8	8	113	1%	-93%
Tax	-1	1.9	40	-176%	-104%
Adjusted PAT	9	6	74	60%	-88%
EBITDA margin (%)	14.5%	14.9%	22.8%	(40bps)	(830bps)
EPS (Rs)	0.22	0.14	1.82	60%	-88%

Source: Company, Axis Securities Research

### Volume/ Realization / Cost Analyses

	Quarterly Performance				
	Q3FY25	Q2FY25	Q3FY24	% Chg QoQ	% Chg YoY
Volume/mnt	1.07	0.98	0.97	9%	10%
Realisation/tonne (Rs)	6736	6560	6,716	3%	0.3%
Cost/tonne (Rs)	5759	5583	5,182	3%	11%
Raw material/tonne (Rs)	1453	921	1,289	58%	13%
Staff Cost/tonne (Rs)	568	660	562	-14%	1%
Power & Fuel/tonne (Rs)	1076	1192	1,378	-10%	-22%
Freight/tonne (Rs)	1495	1779	1,135	-16%	32%
Other Expenses /tonne (Rs)	1167	1030	818	13%	43%
EBITDA/tonne (Rs)	977	977	1,534	0%	-36%

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	2705	2911	3213	3698
Other operating income	0	0	0	0
<b>Total income</b>	2705	2911	3213	3698
Raw Material	627	654	688	756
Power & Fuel	570	555	513	565
Freight & Forwarding	491	567	754	837
Employee benefit expenses	196	217	249	269
Other Expenses	352	361	454	509
<b>EBITDA</b>	<b>468</b>	<b>556</b>	<b>555</b>	<b>762</b>
Other income	52	26	8	18
PBIDT	520	583	563	781
Depreciation	131	147	334	320
Interest & Fin Chg.	10	13	32	31
E/o income / (Expense)	0	0	0	0
Pre-tax profit	380	424	196	430
Tax provision	132	128	40	95
<b>RPAT</b>	<b>248</b>	<b>295</b>	<b>156</b>	<b>335</b>
Minority Interests	0.0	0.0	0.0	0.0
Associates	0	0	0	0
<b>APAT after EO item</b>	<b>248</b>	<b>295</b>	<b>156</b>	<b>335</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Total assets</b>	3131	3602	4023	4375
Net Block	1428	2418	2726	2887
CWIP	551	1019	500	500
Investments	0	0	0	0
Wkg. cap. (excl cash)	197	266	293	332
Cash / Bank balance	312	97	160	288
Misc. Assets	64	-20	34	37
<b>Capital employed</b>	<b>3131</b>	<b>3602</b>	<b>4023</b>	<b>4375</b>
Equity capital	40	40	40	40
Reserves	2376	2670	2818	3145
Minority Interests	0	0	0	0
Borrowings	26	130	380	380
DefTax Liabilities	0	0	0	0
Other Liabilities and Provision	69	76	78	81

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Profit before tax</b>	380	424	196	430
Depreciation	129	142	334	320
Interest Expenses	10	13	32	31
Non-operating/ EO item	-39	-16	-8	-18
Change in W/C	-2	4	-27	-38
Income Tax	68	76	40	95
<b>Operating Cash Flow</b>	<b>410</b>	<b>490</b>	<b>488</b>	<b>629</b>
Capital Expenditure	-572	-1036	-1162	-481
Investments	186	184	0	0
Others	114	202	527	18
<b>Investing Cash Flow</b>	<b>-272</b>	<b>-650</b>	<b>-635</b>	<b>-462</b>
Borrowings	0	104	200	0
Interest Expenses	-10	-11	-32	-31
Dividend paid	0	0	42	-8
Others	0	-7	0	0
<b>Financing Cash Flow</b>	<b>-10</b>	<b>86</b>	<b>210</b>	<b>-39</b>
Change in Cash	128	-74	63	128
Opening Cash	8	122	48	111
Closing Cash	<b>136</b>	<b>48</b>	<b>111</b>	<b>239</b>

Source: Company, Axis Securities Research

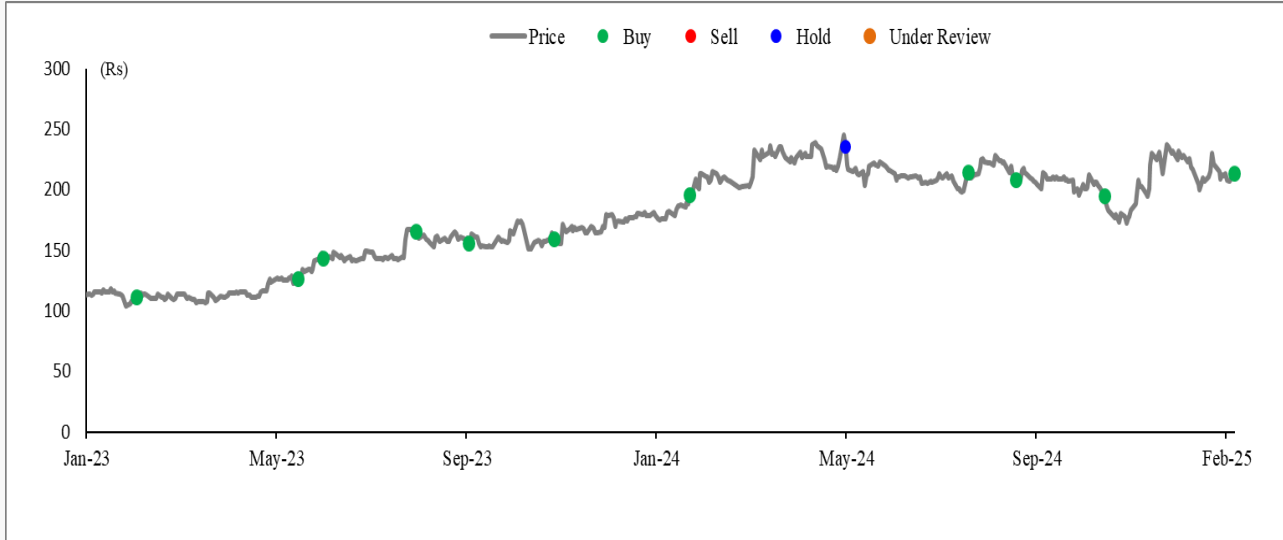
**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Operational Ratios</b>				
Sales growth	22%	8%	10%	15%
OPM	17.3%	19.1%	17.3%	20.6%
Op. profit growth	36%	19%	0%	37%
COGS / Net sales	62%	61%	61%	58%
Overheads/Net sales	20%	20%	22%	21%
Depreciation / G. block	8%	6%	10%	8%
<b>Efficiency Ratios</b>				
Total Asset Turnover (x)	0.86	0.81	0.80	0.85
Sales/Gross block (x)	1.61	1.24	0.91	0.93
Sales/Net block(x)	1.90	1.21	1.18	1.28
Working capital/Sales (x)	0.06	-0.04	-0.04	-0.03
<b>Valuation Ratios</b>				
P/E	18	29	55	26
P/BV (x)	1.1	1.0	1.0	0.9
EV/Ebitda (x)	9.0	15.6	16.0	11.5
EV/Sales (x)	1.6	3.0	2.8	2.4
EV/Tonne \$ (x)	89	136	139	109
<b>Return Ratios</b>				
ROE	11	12	6	11
ROCE	16	16	8	14
ROIC	18	17	8	15
<b>Leverage Ratios</b>				
Debt/equity (x)	0.01	0.05	0.13	0.12
Net debt/ Equity (x)	-0.12	0.01	0.08	0.03
Interest Coverage ratio (x)	40	35	7	15
<b>Cash Flow Ratios</b>				
OCF/Sales	0.14	0.17	0.15	0.17
OCF/Ebitda	0.80	0.88	0.88	0.83
OCF/Capital Employed	0.14	0.17	0.15	0.18
FCF/Sales	-0.05	-0.39	-0.20	-0.13
Payout ratio (Div/NP)	0.0	0.0	5.2	2.4
AEPS (Rs.)	6.1	7.3	3.9	8.3
AEPS Growth	0.3	19.2	-47.0	114.2
CEPS (Rs.)	9	11	12	16
DPS (Rs.)	0.0	0.0	0.2	0.2

Source: Company, Axis Securities Research

## Star Cement Price Chart 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
16-Sep-24	BUY	250	AAA
12-Nov-24	BUY	235	Result Update
07-Feb-25	BUY	235	Result Update

Source: Axis Securities Research

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