

Star Cement (STRCEM)

Cements | February NBIE Group Investor Conference

Upgrade to BUY
CMP: Rs202 | Target Price (TP): Rs241 | Upside: 19%
March 02, 2025

Calibrated approach: star will shine

Key Points:

- 1) We hosted the management of Star Cement (STRCEM) at the NBIE Virtual Investor Conference to gain insights into the current business outlook. The company was represented by Mr. Pankaj Kejriwal, Executive Director,.
- 2) Demand in the Northeast market has been relatively stable in 4QFY25. Overall, the industry, however, experienced slow growth in FY25. For FY25, Star has projected a volume growth of 6-7% YoY, consistent with industry growth throughout the year. However, it anticipates a more robust growth rate of 13-14% in FY26. Despite current challenges, these data indicate confidence for the coming years.
- 3) Pricing patterns in the Northeast have remained constant, with no significant decreases anticipated in the near future. However, prices have declined outside the Northeast, particularly in West Bengal and Bihar, during 3QFY25. Despite this, the management expects prices to stabilize or climb somewhat, indicating confidence in price recovery.
- 4) The company has no intentions to further dilute its ownership in the business, indicating that the promoters do not want to cut their holding at this stage.
- 5) The company has set a target to elevate its Green energy share to 55% by FY26, up from the current 18.2% in 3QFY25 and 29.7% YTD. To achieve this, it entered into a Group captive PPA for 18MW with JSW Green Energy on 8th Aug 2024, which is anticipated to be fully operational by FY26. The full commissioning of 12 MW is expected to occur in the 4QFY25. Of this total, 7 MW (AQC Boiler for WHRS at its newly commissioned cement plant at Lumshnong, Meghalaya) was commissioned in February. The remaining 5 MW is scheduled for completion by the end of Q4FY25.
- 6) **Views and Valuations:** We have revised our projections for Volume growth/EBITDA margins/ EBITDA/T in FY25/26/27 to 9.5%/14.2%/5.8%, 17.9%/18.6%/19.7%, and 1,201/1,272/1,350. STRCEM is trading at 11.3x FY27E EV/EBITDA, higher than the 5-year average of 10.3x. We upgrade the stock to "BUY", valuing the business at 13.5x Dec'FY26E EV/EBITDA (+1SD above 5-year average) with a target price (TP) of Rs.241.
- 7) The company is expected to achieve an EBITDA of Rs. 2.6bn, surpassing the guidance of Rs. 2.2-2.3bn, driven by increased volumes and improved realization/T during 4QFY25. The company is expected to gain advantages in FY26 from 1. Savings of Rs. 600 mn from WHRS 2. The growth in subsidies volume is projected to be between 400/T and 450/T in FY26, compared to 300/T in YTD FY25. 3. Savings of Rs. 600 mn in FY26 is due to the loss associated with clinker purchases in FY25. Additionally, fixed costs is projected to decrease by 6-7% in FY26.

| | |
|---------------|---------|
| Est Change | Upgrade |
| TP Change | Upgrade |
| Rating Change | Upgrade |

Company Data and Valuation Summary

| | |
|-------------------------------------|-----------------------|
| Reuters: | STAT.BO |
| Bloomberg: | STRCEM IN Equity |
| Mkt Cap (Rsbn/US\$mn): | 81.6 / 942.1 |
| 52 Wk H / L (Rs): | 256 / 172 |
| ADTV-3M (mn) (Rs/US\$): | 468.5 / 5.5 |
| Stock performance (%) 1M/6M/1yr: | (3.4) / (8.6) / (2.1) |
| Nifty 50 performance (%) 1M/6M/1yr: | (3.6) / (9.6) / 0.6 |

| Shareholding | 1QFY25 | 2QFY25 | 3QFY25 |
|--------------|--------|--------|--------|
| Promoters | 66.5 | 66.5 | 57.7 |
| DII's | 5.0 | 5.0 | 5.0 |
| FII's | 1.6 | 1.4 | 1.2 |
| Others | 26.9 | 27.2 | 36.2 |
| Pro pledge | 0.1 | 0.6 | 1.1 |

Financial and Valuation Summary

| Particulars (Rsmn) | FY24 | FY25E | FY26E | FY27E |
|--------------------|--------|--------|--------|--------|
| Net Sales | 29,107 | 31,870 | 36,408 | 38,521 |
| Growth YoY% | 7.5 | 9.5 | 14.2 | 5.8 |
| EBITDA | 5,563 | 5,719 | 6,775 | 7,586 |
| EBITDA margin % | 19.1 | 17.9 | 18.6 | 19.7 |
| Adj PAT | 2,951 | 2,261 | 3,159 | 3,788 |
| Growth YoY% | 19.2 | (23.4) | 39.7 | 19.9 |
| Adj EPS | 7.3 | 5.6 | 7.8 | 9.4 |
| RoE | 11.5 | 8.0 | 10.2 | 11.0 |
| EV/EBITDA | 14.7 | 14.7 | 12.9 | 11.3 |
| EV/mt (\$) | 178.5 | 85.7 | 77.5 | 76.0 |
| P/E(x) | 27.7 | 36.1 | 25.8 | 21.6 |

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

- **Volume and Demand:** The demand in the Northeast market has been relatively stable, showing little to no growth. The overall industry, however, has experienced slow growth. For FY25, Star has projected a volume growth of 6-7% compared to the previous year, while it expects a more robust growth of 12-15% for FY26. Despite current challenges, these figures reflect optimism for the coming years.
- **Pricing:** Pricing trends in the Northeast region have remained stable, with no significant reductions expected in the near term. However, outside of the Northeast, prices have decreased, especially in West Bengal and Bihar, during the 3QFY25. Despite this, the management anticipates that pricing will stabilize or even experience slight increases moving forward, signaling confidence in price recovery.
- **Costs:** The company informed that it has purchased 120 vehicles for the new clinker plant, which is expected to provide a competitive edge in negotiations with transporters. The upcoming WHRS of 12MW, expected in 4QFY25, is projected to yield 6-7% power cost savings, while the AFR processing unit will enhance green energy utilization.
- **Competition in the Northeast Region:** Star Cement and Dalmia collectively account for approximately 60% of the overall market capacity in the Northeast market. The management, while acknowledging their dominant position, does not foresee any significant consolidation in the region in the near future. The challenges faced by potential new market entrants primarily stem from the complexities associated with land acquisition and local regulatory issues.
- **Capex:** Regarding expansion plans, the company has outlined a timeline for its Silchar facility, which is expected to be operational by the 3QFY26, and for its Jorhat facility, which is planned for FY27. For FY25, capital expenditure is expected to be around Rs 7-8 bn, with planned spending for FY26 and FY27 at Rs 6 - 7bn and Rs 4-4.5 bn, respectively. Additionally, the company has successfully won a bid for Rajasthan's mines, which have a deposit of 65 million, and has already initiated the land acquisition process for the planned Rajasthan plant.
- **Other Key Insights:** In the 3Q, the company concentrated its sales efforts in the Northeast due to declining prices in regions outside of it. As a result, the utilization rate at the Siliguri plant remained low at 50%. This was driven by the fact that the revenue realized from Bengal and Bihar was lower than in the Northeast, mainly due to the price drop in these areas.
- **Green Energy Initiatives:** The company has set a target to elevate its Green energy share to 55% by FY26, up from the current 18.2% in 3QFY25 and 29.7% YTD. To achieve this, it entered into a Group captive PPA for 18MW with JSW Green Energy on 8th Aug 2024, which is anticipated to be fully operational by FY26. The full commissioning of 12 MW is expected to occur in the 4QFY25. Of this total, 7 MW (AQC Boiler for WHRS at its newly commissioned cement plant at Lumshnong, Meghalaya) was commissioned in February. The remaining 5 MW is scheduled for completion by the end of Q4FY25.
- **Stake Purchase and Dilution:** The company has no plans to dilute its stake in the business further, indicating that the promoters are not looking to reduce their holding at this stage

Exhibit 1: Change in estimates

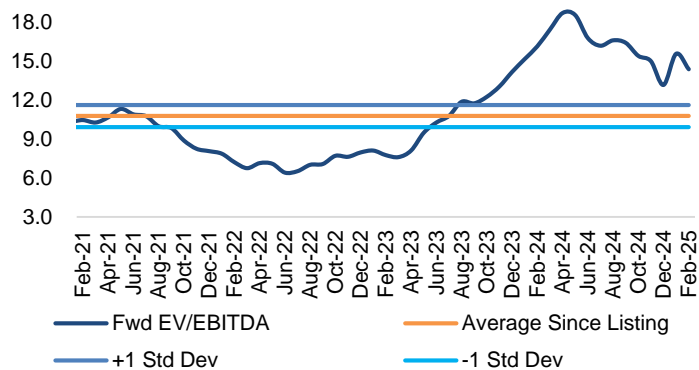
| (Rs mn) | New | | | Old | | | % Change | | |
|-------------|--------|--------|--------|--------|--------|--------|----------|-------|-------|
| Particulars | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 31,870 | 36,408 | 38,521 | 31,220 | 35,656 | 37,741 | 2.1 | 2.1 | 2.1 |
| EBITDA | 5,719 | 6,775 | 7,586 | 5,150 | 6,560 | 7,376 | 11.0 | 3.3 | 2.9 |
| PAT | 2,261 | 3,159 | 3,788 | 2,111 | 3,001 | 3,633 | 7.1 | 5.3 | 4.3 |

Exhibit 2: Valuation summary

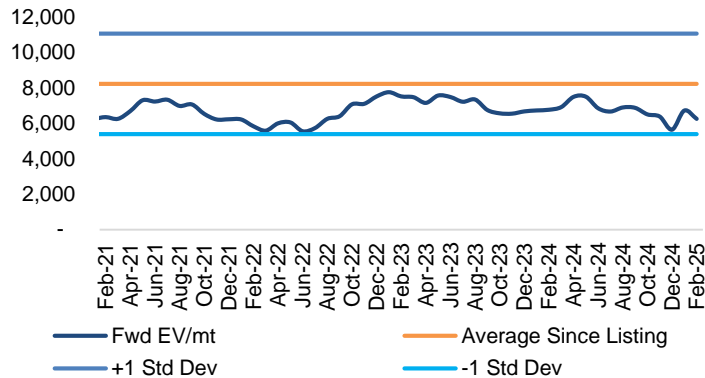
| Particulars | (Rs mn) |
|------------------------------|------------|
| Dec'26E EBITDA | 7,662 |
| Target multiple (x) | 13.5 |
| Enterprise value | 1,03,441 |
| Less: Net debt | 6,031 |
| Equity value | 97,410 |
| No of shares (mn) | 404 |
| Value per share (Rs) | 241 |
| CMP (Rs) | 202 |
| Upside / (downside) % | 19% |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Rolling valuation charts



Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 4: Income statement

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 27,088 | 29,107 | 31,870 | 36,408 | 38,521 |
| Raw Material Consumed | 6,209 | 6,073 | 7,165 | 9,161 | 10,358 |
| Power & Fuel Cost | 5,650 | 5,551 | 5,112 | 6,169 | 6,254 |
| Employee Cost | 2,019 | 2,148 | 2,401 | 2,491 | 2,516 |
| Freight and Forwarding | 5,024 | 6,137 | 6,915 | 6,571 | 6,604 |
| Other expenses | 3,501 | 3,635 | 4,559 | 5,242 | 5,202 |
| Total Expenditure | 22,404 | 23,544 | 26,152 | 29,633 | 30,935 |
| Operating profit | 4,684 | 5,563 | 5,719 | 6,775 | 7,586 |
| Operating profit margin (%) | 17% | 19% | 17.9% | 18.6% | 19.7% |
| Other Income | 521 | 265 | 136 | 147 | 159 |
| Interest | 97 | 126 | 336 | 733 | 733 |
| Depreciation | 1,311 | 1,466 | 2,571 | 1,920 | 1,893 |
| PBT | 3,797 | 4,236 | 2,948 | 4,269 | 5,119 |
| Exceptional items | - | - | - | - | - |
| PBT post exc items | 3,797 | 4,236 | 2,948 | 4,269 | 5,119 |
| Tax | 1,321 | 1,285 | 687 | 1,110 | 1,331 |
| Tax rate (%) | 34.8% | 30.3% | 23.3% | 26.0% | 26.0% |
| PAT | 2,476 | 2,951 | 2,261 | 3,159 | 3,788 |
| EPS (Rs) | 6.1 | 7.3 | 5.6 | 7.8 | 9.4 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance Sheet

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity Capital | 404 | 404 | 404 | 404 | 404 |
| Reserves and Surplus | 23,760 | 26,697 | 28,958 | 32,117 | 35,905 |
| Networth | 24,164 | 27,101 | 29,362 | 32,522 | 36,309 |
| Total Debt | 261 | 1,298 | 6,200 | 8,100 | 10,500 |
| Deferred tax liability | - | - | - | - | - |
| Other non current liabilities | 1,865 | 2,270 | 2,464 | 2,479 | 2,611 |
| Trade Payables | 2,820 | 2,197 | 2,898 | 3,260 | 3,239 |
| Other Current Liabilities | 2,204 | 3,157 | 3,392 | 3,670 | 3,870 |
| Total Current Liabilities | 5,286 | 5,932 | 7,490 | 9,029 | 8,609 |
| Total liabilities | 31,315 | 36,024 | 44,317 | 50,030 | 56,529 |
| Net Block | 8,772 | 14,004 | 20,092 | 25,488 | 30,629 |
| CWIP | 5,506 | 10,190 | 9,000 | 8,500 | 5,800 |
| Investment | 1,725 | 20 | 20 | 20 | 20 |
| Other non current assets | 5,336 | 4,142 | 4,265 | 5,058 | 5,218 |
| Inventories | 3,741 | 3,350 | 3,642 | 4,474 | 4,506 |
| Sundry Debtors | 1,047 | 1,508 | 1,576 | 1,698 | 1,899 |
| Cash and Bank | 1,216 | 488 | 3,283 | 1,574 | 5,633 |
| Other current assets | 3,971 | 2,322 | 2,438 | 3,217 | 2,825 |
| Total Current Assets | 9,975 | 7,667 | 10,939 | 10,964 | 14,863 |
| Total Assets | 31,315 | 36,024 | 44,317 | 50,030 | 56,529 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow statement

| YE March, Rs mn | FY23 | FY24 | FY25E | FY26E | FY27E |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Profit before tax | 3,894 | 4,362 | 3,284 | 5,002 | 5,852 |
| Add : Depreciation | 1,311 | 1,466 | 2,571 | 1,920 | 1,893 |
| Add: Interest Exp | - | - | - | - | - |
| Cash flow from ops before WC changes | 5,205 | 5,828 | 5,855 | 6,922 | 7,745 |
| Net change in Working capital | 75 | 504 | 458 | (1,094) | 340 |
| Tax paid | (1,321) | (1,285) | (687) | (1,110) | (1,331) |
| Net cash from operations | 3,959 | 5,047 | 5,626 | 4,718 | 6,754 |
| Capital expenditure | (5,451) | 11,415 | (7,469) | (6,816) | (4,334) |
| Sale of investments | 1,812 | 3,111 | - | - | - |
| Net cash from investing | (3,678) | (7,395) | (7,575) | (7,183) | (4,462) |
| Issue of shares | - | - | - | - | - |
| Increase in debt | 207 | 1,037 | 4,902 | 1,900 | 2,400 |
| Dividends paid incl. tax | - | - | - | - | - |
| Interest paid | (97) | (126) | (336) | (733) | (733) |
| Net cash from financing | 855 | 1,621 | 4,743 | 755 | 1,768 |
| Net Cash | 1,135 | (728) | 2,795 | (1,709) | 4,060 |
| Opening Cash | 81 | 1,216 | 488 | 3,283 | 1,574 |
| Closing Cash | 1,216 | 488 | 3,283 | 1,574 | 5,633 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

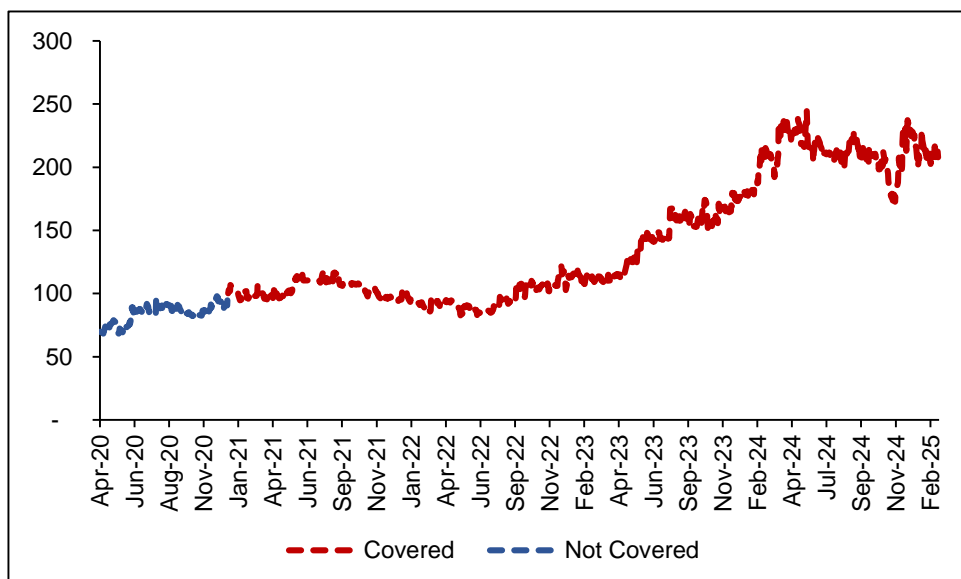
| YE March | FY23 | FY24 | FY25E | FY26E | FY27E |
|----------------------------|--------|-------|--------|-------|-------|
| Growth (%) | | | | | |
| Sales | 21.9 | 7.5 | 9.5 | 14.2 | 5.8 |
| Operating Profits | 35.7 | 18.8 | 2.8 | 18.5 | 12.0 |
| Net Profits | 0.3 | 19.2 | (23.4) | 39.7 | 19.9 |
| Leverage (x) | | | | | |
| Net Debt:Equity | (0.12) | 0.01 | 0.08 | 0.19 | 0.12 |
| Interest Cover(x) | 48.31 | 44.15 | 17.02 | 9.24 | 10.35 |
| Total Debt/EBITDA | 0.06 | 0.23 | 1.08 | 1.20 | 1.38 |
| Profitability (%) | | | | | |
| OPM | 17.3 | 19.1 | 17.9 | 18.6 | 19.7 |
| NPM | 9.1 | 10.1 | 7.1 | 8.7 | 9.8 |
| ROE | 10.8 | 11.5 | 8.0 | 10.2 | 11.0 |
| ROCE | 20.6 | 20.3 | 16.5 | 15.9 | 15.8 |
| Turnover ratios (x) | | | | | |
| GFAT | 1.7 | 1.4 | 1.2 | 1.0 | 0.9 |
| Debtors Turnover(x) | 23 | 23 | 21 | 22 | 21 |
| WC days | 30 | 41 | 42 | 41 | 44 |
| Valuation (x) | | | | | |
| P/E | 33.0 | 27.7 | 36.1 | 25.8 | 21.6 |
| P/B | 3.4 | 3.0 | 2.8 | 2.5 | 2.2 |
| EV/EBIDTA | 16.8 | 14.7 | 14.7 | 12.9 | 11.3 |
| EV/mt (\$) | 171.6 | 178.5 | 85.7 | 77.5 | 76.0 |

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|-------------------|--------|-------------------|-------------------|
| 30 December 2020 | BUY | 91 | 127 |
| 7 January 2021 | BUY | 106 | 127 |
| 9 February 2021 | BUY | 97 | 127 |
| 8 April 2021 | BUY | 103 | 127 |
| 11 June 2021 | BUY | 110 | 127 |
| 18 August 2021 | BUY | 115 | 133 |
| 26 September 2021 | BUY | 108 | 143 |
| 3 November 2021 | BUY | 99 | 120 |
| 6 January 2022 | BUY | 95 | 120 |
| 28 January 2022 | BUY | 95 | 116 |
| 23 February 2022 | BUY | 90 | 110 |
| 19 May 2022 | BUY | 91 | 110 |
| 13 June 2022 | HOLD | 88 | 88 |
| 4 August 2022 | HOLD | 94 | 100 |
| 14 September 2022 | BUY | 101 | 132 |
| 17 November 2022 | HOLD | 102 | 111 |
| 12 January 2023 | BUY | 114 | 136 |
| 3 February 2023 | BUY | 113 | 136 |
| 22 March 2023 | BUY | 108 | 137 |
| 22 May 2023 | BUY | 126 | 155 |
| 10 August 2023 | HOLD | 166 | 170 |
| 10 November 2023 | HOLD | 159 | 174 |
| 8 February 2024 | HOLD | 196 | 192 |
| 22 May 2024 | HOLD | 234 | 237 |
| 12 August 2024 | HOLD | 215 | 238 |
| 27 August 2024 | HOLD | 222 | 232 |
| 11 November 2024 | BUY | 195 | 232 |
| 13 January 2025 | HOLD | 204 | 233 |
| 6 February 2025 | HOLD | 213 | 233 |
| 2 March 2025 | BUY | 202 | 241 |

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

HOLD -5% to 14%

SELL < -5%

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