

Star Cement | HOLD

North-Eastern star

Star Cement (Star) has 26% market share in the fast-growing North-East region (NER). It recently raised clinker/cement capacity by 2.2x/ 35%, which should drive volume growth at 2x industry growth rate (~14% CAGR) over FY25E-27E. Besides, it is targeting to double its cement capacity to 15mt by FY30 with likely regional diversification in the North. We estimate Star is poised for >25% EBITDA CAGR in FY25E-27E owing to capacity expansion, higher incentive income and sustainable cost initiatives. In Dec'24, UltraTech acquired 8.3% stake in Star from a few promoters, leading to Street expectations of it being a potential M&A candidate. With the recent run-up in stock price (~20% in the past 2 months), we initiate with HOLD and Mar'26E TP of INR 215 based on 11x FY27E EV/E.

- **Targeting to double capacity to 15mt by FY30:** The company has recently increased its clinker capacity by 2.2x to 6.1mt and cement capacity by 35% to 7.7mt. It is increasing its cement capacity further by >50% with the commissioning of a 2mt grinding unit in Silchar and Jorhat, Assam in FY26 and FY27 respectively, taking its total cement capacity to ~12mt. The company is targeting to increase capacity further to 15mt by FY30 with likely regional diversification with a greenfield plant in Rajasthan. Star has recently won a limestone block at Nimbol, Rajasthan, with reserves of ~64mt.
- **Leadership position in North-East region to continue:** The company commands 26% market share in the fast-growing NER and is likely to maintain its dominance, thanks to its established presence, strong brand recall, logistics advantage with proximity to raw materials, strong entry barriers except through an inorganic route, extensive distribution network and recent capacity additions. We expect its volumes to grow at ~14% CAGR (2x of industry growth rate) over FY25E-27E.
- **Sustainable cost-saving initiatives and higher incentives to drive earnings:** We estimate the company has sustainable cost-saving potential of >INR 100/tn with 1) increasing share of green power (>50% vs. 35% currently), doubling of WHRS capacity to 24MW and signing of group captive PPA with JSW Green Energy; 2) logistics optimisation; and 3) better operating leverage. Besides, higher incentives (>INR 200/tn) on new expansions could drive earnings in future. We forecast that blended EBITDA/tn could increase from INR 1,070 in FY25E to INR 1,335 in FY27E.
- **UltraTech stake buy fuels potential M&A expectation:** Larger peers are waiting on the sidelines to mark their foray into NER. In Dec'24, UltraTech bought ~34mn shares (8.3% stake) from a few promoters (Chamaria family), totalling INR 7.7bn at INR 228/sh (EV/tn of USD 145). We don't rule out the possibility that this deal could be precursor to UltraTech ultimately increasing its stake and converting it into a strategic investment ahead (like India Cements).
- **Initiate with HOLD, TP INR 215:** With the recent run-up in stock price (~20% in the past 2 months), we initiate with HOLD and Mar'26E TP of INR 215 based on 11x FY27E EV/E.

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	27,032	29,089	31,119	36,213	41,122
Sales Growth (%)	21.7	7.6	7.0	16.4	13.6
EBITDA	4,684	5,563	5,028	6,753	8,077
EBITDA Margin (%)	17.3	19.1	16.1	18.6	19.6
Adjusted Net Profit	2,476	2,951	1,190	2,417	3,248
Diluted EPS (INR)	6.1	7.3	2.9	6.0	8.0
Diluted EPS Growth (%)	0.3	19.2	-59.7	103.1	34.4
ROIC (%)	12.3	12.1	4.6	8.1	9.8
ROE (%)	10.8	11.5	4.3	8.2	10.0
P/E (x)	32.6	27.4	67.9	33.4	24.9
P/B (x)	3.3	3.0	2.9	2.6	2.4
EV/EBITDA (x)	16.3	14.6	16.6	12.3	10.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 14/Jan/2025



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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	NA
Current Price Target (12M)	215
Upside/(Downside)	7.4%
Previous Price Target	NA
Change	NA

Key Data – STRCEM IN

Current Market Price	INR200
Market cap (bn)	INR80.8/US\$0.9
Free Float	17%
Shares in issue (mn)	404.2
Diluted share (mn)	404.2
3-mon avg daily val (mn)	INR456.1/US\$5.3
52-week range	256/170
Sensex/Nifty	76,500/23,176
INR/US\$	86.6

Price Performance

%	1M	6M	12M
Absolute	-13.1	-2.5	12.2
Relative*	-6.7	2.7	6.4

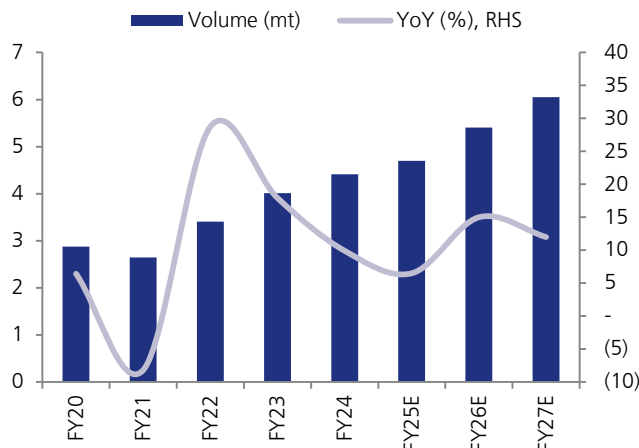
* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

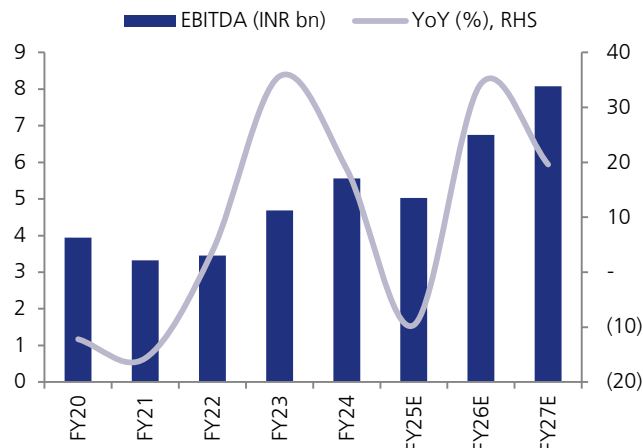
Story in Charts

Exhibit 1. Volumes to grow at ~14% CAGR over FY25E-27E



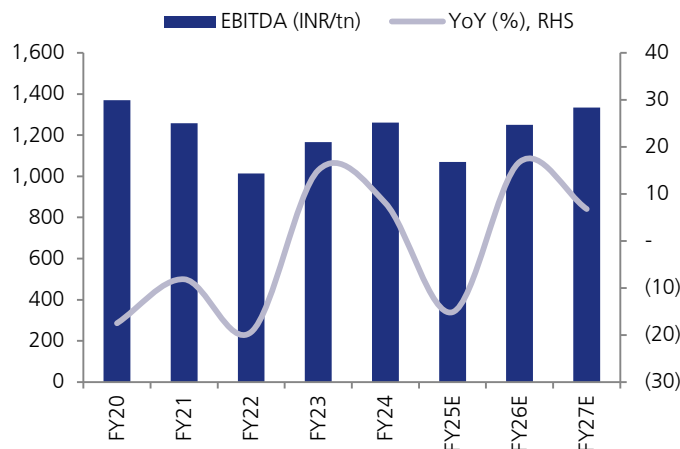
Source: Company, JM Financial

Exhibit 2. EBITDA to grow at >25% over FY25E-27E



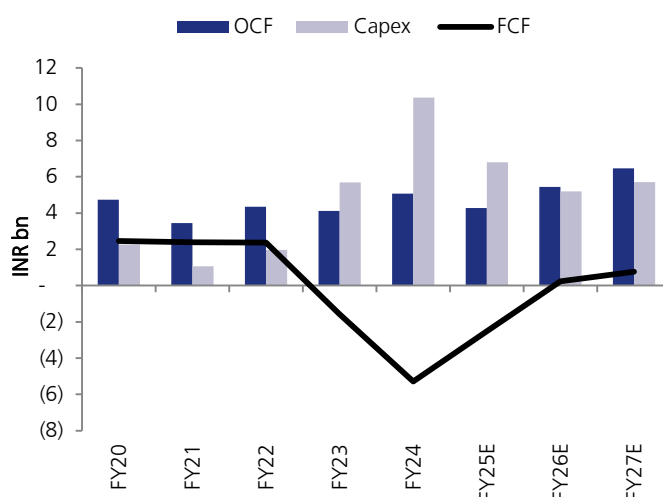
Source: Company, JM Financial

Exhibit 3. EBITDA/tn to grow at >INR 1,300 owing to higher volumes and incentive benefits



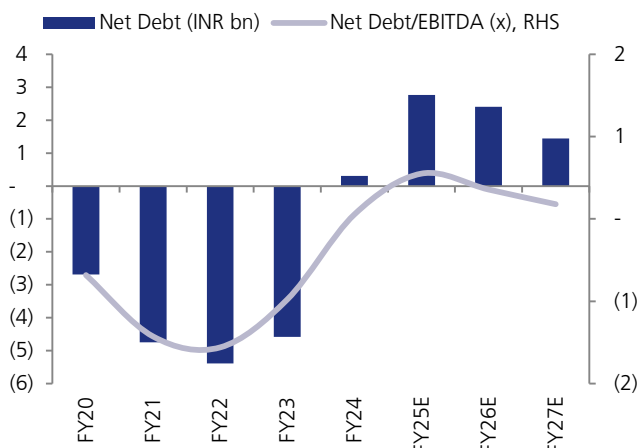
Source: Company, JM Financial

Exhibit 4. OCF generation to be utilised to fund capex over FY25E-27E



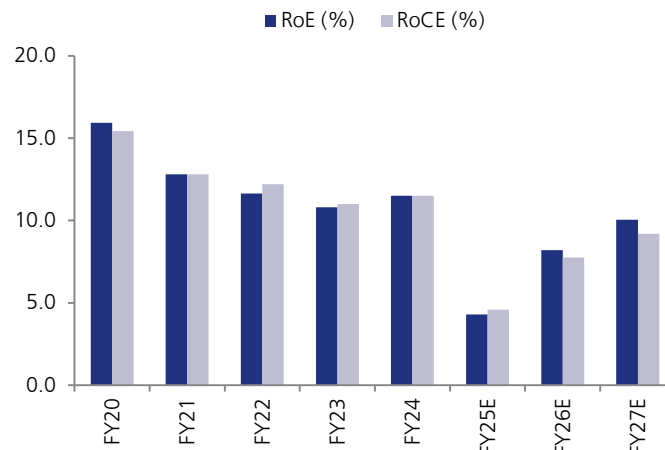
Source: Company, JM Financial

Exhibit 5. Despite capex, net debt to remain at very comfortable level



Source: Company, JM Financial

Exhibit 6. Return ratios to improve gradually over coming years



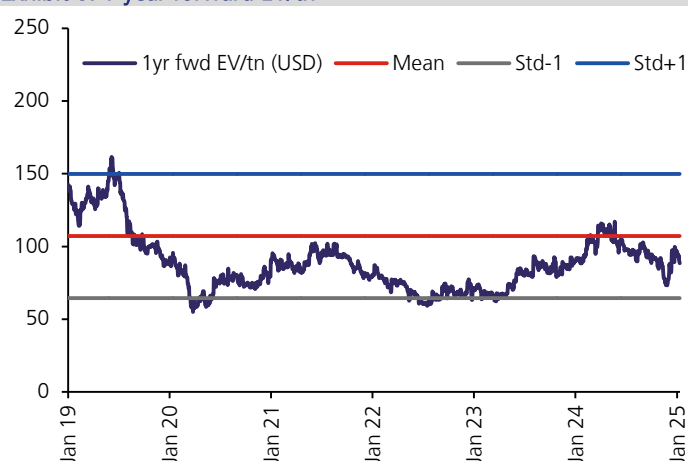
Source: Company, JM Financial

Exhibit 7. 1-year forward EV/EBITDA



Source: Company, JM Financial

Exhibit 8. 1-year forward EV/tn



Source: Company, JM Financial

Exhibit 9. Annual analysis

									CAGR (%)	
Key Assumptions	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY20-25E	FY25E-27E
Capacity (mt)	4.3	5.7	5.7	5.7	7.7	7.7	9.7	11.7	12.4	23.3
Volumes (mt)	2.9	2.6	3.4	4.0	4.4	4.7	5.4	6.1	10.3	13.5
Utilisation (%)	67	46	60	70	57	61	56	52		
Blended Realisation (INR/tn)	6,389	6,500	6,523	6,735	6,593	6,623	6,702	6,795	0.7	1.3
EBITDA/tn (INR/tn)	1,369	1,258	1,014	1,167	1,261	1,070	1,250	1,335	(4.8)	11.7
P&L (INR bn)										
Revenue	18	17	22	27	29	31	36	41	11.1	15.0
EBITDA	4	3	3	5	6	5	7	8	5.0	26.8
Adj. Net Profit	3	3	2	2	3	1	2	3	(16.1)	65.2
Balance Sheet (INR bn)										
Equity	19	21	22	24	27	28	31	34		
Net Debt	(3)	(5)	(5)	(5)	0	3	2	1		
Net Debt: EBITDA	(0.7)	(1.4)	(1.6)	(1.0)	0.1	0.6	0.4	0.2		
Net Debt: Equity	(0.1)	(0.2)	(0.2)	(0.2)	0.0	0.1	0.1	0.0		
Cash Flow (INR bn)										
OCF before NWC change	3.4	2.4	3.3	4.5	5.0	4.3	5.6	6.6		
Change in NWC	1.4	1.1	1.1	(0.4)	0.0	(0.1)	(0.1)	(0.2)		
Capex	(2.3)	(1.1)	(2.0)	(5.7)	(10.4)	(6.8)	(5.2)	(5.7)		
FCF	2.5	2.4	2.4	(1.6)	(5.3)	(2.5)	0.2	0.8		
Return ratios (%)										
RoE	15.9	12.8	11.6	10.8	11.5	4.3	8.2	10.0		
RoCE	15.4	12.8	12.2	11.0	11.5	4.6	7.8	9.2		
RoIC	18.0	15.8	15.2	15.1	18.4	6.3	9.1	10.8		
Valuations (x)										
PE					27.4	67.9	33.4	24.9		
EV/EBITDA					13.7	16.1	12.4	10.3		
EV/tn (USD)					116	123	101	83		

Source: Company, JM Financial

Exhibit 10. Annual analysis on per tn basis

INR/tn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Blended realisation	6,389	6,500	6,523	6,735	6,593	6,623	6,702	6,795
% YoY	(5.3)	1.7	0.3	3.2	(2.1)	0.4	1.2	1.4
Raw materials consumed	1,396	1,525	1,685	1,559	1,087	1,195	1,120	1,145
Power & fuel costs	1,257	1,280	1,225	1,419	1,258	1,164	1,158	1,152
Freight costs	1,226	1,202	1,255	1,262	1,680	1,735	1,752	1,770
Staff cost	439	497	468	488	487	549	515	497
Other expenses	713	743	880	843	824	915	910	900
Total OpEx	5,031	5,247	5,513	5,572	5,336	5,557	5,456	5,464
Blended EBITDA	1,369	1,258	1,014	1,167	1,261	1,070	1,250	1,335
% YoY	(17.5)	(8.1)	(19.4)	15.1	8.1	(15.1)	16.8	6.8

Source: Company, JM Financial

Exhibit 11. Our EBITDA estimates are 9-14% below consensus for FY26E-27E

INR bn	JM			Consensus			% var		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenues	31.1	36.2	41.1	31.8	37.5	42.5	(2.2)	(3.4)	(3.2)
EBITDA	5.0	6.8	8.1	5.9	7.9	8.8	(15.0)	(14.2)	(8.6)
PAT	1.2	2.4	3.2	2.4	3.6	4.2	(50.4)	(33.4)	(23.0)

Source: Bloomberg; JM Financial

Exhibit 12. Initiate with HOLD and TP of INR 215 based on 11x FY27 EV/E**EV/E method**

Mar'27E EBITDA (INR bn)	8.1
EV/E multiple (x)	11.0
EV (INR bn)	89
Net debt (Mar'26E)	2.4
Equity value	87
No. of shares (mn)	404
Mar'26 Target Price (INR)	215

Source: JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	27,032	29,089	31,119	36,213	41,122
Sales Growth	21.7%	7.6%	7.0%	16.4%	13.6%
Other Operating Income	16	18	19	21	23
Total Revenue	27,048	29,107	31,139	36,234	41,146
Cost of Goods Sold/Op. Exp	6,257	4,795	5,615	6,054	6,931
Personnel Cost	1,959	2,148	2,578	2,784	3,006
Other Expenses	14,149	16,600	17,918	20,644	23,131
EBITDA	4,684	5,563	5,028	6,753	8,077
EBITDA Margin	17.3%	19.1%	16.1%	18.6%	19.6%
EBITDA Growth	35.7%	18.8%	-9.6%	34.3%	19.6%
Depn. & Amort.	1,311	1,466	3,211	3,287	3,575
EBIT	3,373	4,097	1,816	3,466	4,502
Other Income	521	265	57	123	193
Finance Cost	97	126	280	353	348
PBT before Excep. & Forex	3,797	4,236	1,593	3,236	4,348
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	3,797	4,236	1,593	3,236	4,348
Taxes	1,321	1,285	403	819	1,100
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	2,476	2,951	1,190	2,417	3,248
Adjusted Net Profit	2,476	2,951	1,190	2,417	3,248
Net Margin	9.2%	10.1%	3.8%	6.7%	7.9%
Diluted Share Cap. (mn)	404.2	404.2	404.2	404.2	404.2
Diluted EPS (INR)	6.1	7.3	2.9	6.0	8.0
Diluted EPS Growth	0.3%	19.2%	-59.7%	103.1%	34.4%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	24,164	27,101	28,291	30,708	33,956
Share Capital	404	404	404	404	404
Reserves & Surplus	23,760	26,697	27,887	30,304	33,552
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	261	1,298	4,298	5,798	5,798
Def. Tax Liab. / Assets (-)	0	0	0	0	0
Total - Equity & Liab.	24,425	28,399	32,590	36,507	39,755
Net Fixed Assets	14,279	24,205	27,794	29,707	31,832
Gross Fixed Assets	16,889	23,597	35,597	43,597	48,065
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	8,117	9,583	12,794	16,081	19,655
Capital WIP	5,506	10,190	4,990	2,191	3,422
Investments	1,725	20	20	20	20
Current Assets	15,310	11,799	12,753	16,063	18,444
Inventories	3,741	3,350	3,793	4,414	4,730
Sundry Debtors	1,047	1,508	1,367	1,590	1,806
Cash & Bank Balances	3,117	973	1,507	3,366	4,331
Loans & Advances	7,267	5,798	5,916	6,522	7,406
Other Current Assets	137	170	170	170	170
Current Liab. & Prov.	6,889	7,624	7,977	9,283	10,541
Current Liabilities	2,820	2,197	2,684	3,123	3,546
Provisions & Others	4,069	5,427	5,294	6,160	6,995
Net Current Assets	8,421	4,175	4,776	6,780	7,902
Total - Assets	24,425	28,399	32,590	36,507	39,755

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	3,797	4,236	1,593	3,236	4,348
Depn. & Amort.	1,311	1,466	3,211	3,287	3,575
Net Interest Exp. / Inc. (-)	0	126	280	353	348
Inc (-) / Dec in WCap.	-417	2,135	-67	-145	-158
Others	-261	-265	-57	-123	-193
Taxes Paid	-677	-1,285	-403	-819	-1,100
Operating Cash Flow	3,753	6,414	4,557	5,790	6,819
Capex	-5,694	-11,392	-6,800	-5,200	-5,700
Free Cash Flow	-1,941	-4,978	-2,243	590	1,119
Inc (-) / Dec in Investments	2,512	1,706	0	0	0
Others	2,366	265	57	123	193
Investing Cash Flow	-817	-9,422	-6,743	-5,077	-5,507
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	0	1,037	3,000	1,500	0
Others	100	-173	-280	-353	-348
Financing Cash Flow	100	864	2,720	1,147	-348
Inc / Dec (-) in Cash	3,037	-2,144	534	1,859	965
Opening Cash Balance	81	3,117	973	1,507	3,366
Closing Cash Balance	3,117	973	1,507	3,366	4,331

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	9.2%	10.1%	3.8%	6.7%	7.9%
Asset Turnover (x)	1.2	1.1	1.0	1.0	1.1
Leverage Factor (x)	1.0	1.0	1.1	1.2	1.2
RoE	10.8%	11.5%	4.3%	8.2%	10.0%

Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	59.8	67.1	70.0	76.0	84.0
ROIC	12.3%	12.1%	4.6%	8.1%	9.8%
ROE	10.8%	11.5%	4.3%	8.2%	10.0%
Net Debt/Equity (x)	-0.2	0.0	0.1	0.1	0.0
P/E (x)	32.6	27.4	67.9	33.4	24.9
P/B (x)	3.3	3.0	2.9	2.6	2.4
EV/EBITDA (x)	16.3	14.6	16.6	12.3	10.2
EV/Sales (x)	2.8	2.8	2.7	2.3	2.0
Debtor days	14	19	16	16	16
Inventory days	50	42	44	44	42
Creditor days	46	34	38	39	39

Source: Company, JM Financial