

Star Cement

Industry-best margin for the third consecutive quarter

We maintain ADD on Star Cement with an unchanged TP of INR 115/share (8x its Mar-25E consolidated EBITDA). Star has reported muted volume growth of 4% YoY (reduced sales in low-contributing markets). Unit EBITDA recovered ~INR 415/MT QoQ to INR 1194/MT (industry best for the third consecutive quarter!) on better realisation, low input cost, lower freight cost and op-lev gains. Star will be commissioning 12MW WHRS in Q4FY23, which will offset the impact of GST incentive expiration. Star's ongoing expansion will increase capacity by 70% to 9.7mn MT by H1FY25E, which will increase net Debt/EBITDA to 2-2.5x during FY24/25E.

- Q3FY23 performance:** Star reported muted volume growth of 4% YoY (reduced sales in low contributing markets). Price recovery across its markets led to a 2% QoQ jump in NSR. Unit EBITDA recovered ~INR 415/MT QoQ to INR 1,194 per MT (industry-leading for the third consecutive quarter) driven by the better realisation (INR 155 per MT), cool-off in input cost (INR 120 per MT), lower freight cost (INR 65/MT) and op-lev gains (INR 70 per MT). Its sales in the NE region/outside the NE region grew 4/8% YoY. Trade sales share stood at 91%. Fuel cost remained flat QoQ at INR 2.1/mnCal (lowest in the industry).
- Capex update and outlook:** Star's 12MW WHRS will become operational by end of Feb-23 and will boost margin by ~INR 100/MT (thus offsetting similar GST incentive expirations). Its expansion plan in the NER (total Capex ~INR 23bn) is on track to be fully commissioned in H1FY25E and will increase capacity to 9.7mn MT. The management expects further cool-off in fuel prices and op-lev gains to keep the margin buoyant in Q4FY23. We raise our EBITDA estimates for Star by 3/4/7% for FY23/24/25E respectively. We have also altered and increased our Capex estimates for the ongoing expansion which have offset the benefits of EBITDA upgrades. Thus, our target price remains unchanged. We estimate that Capex will increase its net debt/EBITDA to increase to 2.5x in FY24E vs net cash since FY19.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Sales Vol (mn MT)	0.91	0.87	3.9	0.89	1.9	2.7	3.40	3.90	4.41	5.51
NSR (INR/MT)	6,823	6,349	7.5	6,669	2.3	6,220	6,527	6,755	6,890	6,959
EBITDA (INR/MT)	1,194	772	54.6	782	52.7	1,233	1,014	1,141	1,297	1,283
Net Sales	6,195	5,549	11.7	5,942	4.3	17,199	22,218	26,352	30,373	38,346
EBITDA	1,084	675	60.6	697	55.6	3,326	3,453	4,449	5,718	7,071
APAT	529	438	20.7	311	70.2	2,401	2,468	2,269	2,632	2,147
AEPS (INR)	1.3	1.1	20.7	0.8	70.2	5.8	6.1	5.6	6.5	5.3
EV/EBITDA (x)						12.2	11.2	9.5	10.5	8.5
EV/MT (INR bn)						9.9	8.9	9.1	10.4	8.4
P/E (x)						18.9	18.3	20.0	17.2	21.1
RoE (%)						12.0	11.6	10.0	10.6	7.9

Source: Company, HSIE Research

Consolidated Estimates revision summary

INR bn	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	26.5	26.4	-0.5	30.5	30.4	-0.5	38.5	38.3	-0.5
EBITDA	4.30	4.45	3.4	5.48	5.72	4.4	6.58	7.07	7.4
APAT	2.23	2.27	1.6	2.90	2.63	-9.1	3.09	2.15	-30.6

Source: Company, HSIE Research

ADD

CMP (as on 03 Feb 2023)	INR 112
Target Price	INR 115
NIFTY	17,854

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 115	INR 115
EBITDA revision %	FY23E 3.4	FY24E 4.4

KEY STOCK DATA

Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / (\$ mn)	45/551
6m avg traded value (INR mn)	43
52 Week high / low	INR 124/81

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.2	19.2	17.5
Relative (%)	4.1	14.9	14.0

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	67.43	67.03
FIs & Local MFs	6.14	6.14
FPIs	0.40	0.53
Public & Others	26.03	26.29
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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