Star Cement

Margin lead maintained; volume offtake remains strong

We upgrade Star Cement to ADD from REDUCE earlier, with a revised TP of INR 165/share (9x its Mar-25E consolidated EBITDA). Star reported strong 19% YoY volume growth in Q1FY23. Despite high-cost fuel consumption and the major expiration of GST incentives, Star reported the industry's best unit EBITDA of INR 1,111 per MT. Fuel cost is expected to cool off and incentives will accelerate Q4FY24 onwards, buoying margins (industry-leading). Star's ongoing expansion will increase capacity by 70% to 9.7mn MT by Q3FY25E.

- **Q1FY24 performance:** It reported strong 19% YoY volume growth in Q1 (down 6% QoQ). Sales in the NE region rose 29% YoY while sales outside NE remained flat YoY. Reported NSR fell 3/4% QoQ/YoY on the expiration of GST incentives (affecting NSR by INR 120/350 per MT QoQ/YoY). Adjusted for the same, cement NSR fell 1% QoQ while it rose 1% YoY. Opex rose 1% QoQ, on higher fuel and fly ash costs (input cost up INR 257/MT QoQ). However, continued tightening in freight costs (down INR 54/MT QoQ) and lower other expenses (down INR 142/MT as Q4 had large promotional costs and other provisions) cushioned the margin impact. Unit EBITDA thus fell INR 235/MT QoQ to INR 1,111/MT.
- **Capex update and outlook**: Star's 12MW WHRS plant is under stabilization and is already contributing to savings (will save INR 400mn in annual opex). Additionally, increased own fleet usage, savings from new limestone mines, and energy cost reductions are expected to offset the impact of the sharp drop in incentives in FY24E. Star's expansions (total Capex ~INR 21bn) are on track to be fully commissioned in Q3FY25E. These plants will further increase incentive accruals from Q4FY24E onwards. Factoring in cost savings and incentives acceleration, we raise our EBITDA estimates for FY24/25E by 2/8% respectively. Factoring in the continuation of its industry-leading performance and healthy cash flow and balance sheet, we raise our valuation multiple to 9x (vs 8x earlier) FY25E EBITDA.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q1 FY24	Q1 FY23	*YoY (%)*	Q4 FY23	*QoQ (%)*	FY21	FY22	FY23	FY24E	FY25E
Sales Vol (mn MT)	1.16	0.98	18.8	1.24	(5.7)	2.7	3.40	4.01	4.54	5.90
NSR (INR/MT)	6,533	6,788	-3.8	6,720	(2.8)	6,220	6,527	6,739	6,540	6,442
EBITDA (INR/MT)	1,111	1,267	-12.3	1,346	(17.5)	1,233	1,014	1,167	1,250	1,345
Net Sales	7,605	6,652	*14.3*	8,300	*(8.4)*	17,199	22,218	27,048	29,663	37,984
EBITDA	1,293	1,241	*4.1*	1,662	*(22.2)*	3,326	3,453	4,684	5,670	7,931
APAT	933	676	*38.0*	961	*(3.0)*	2,401	2,468	2,476	2,811	3,397
AEPS (INR)	2.2	1.7	*33.1*	2.4	*(6.5)*	5.8	6.1	6.1	7.0	8.4
EV/EBITDA (x)						18.6	17.0	12.6	12.1	9.1
EV/MT (INR bn)						10.9	10.3	10.4	8.9	7.5
P/E (x)						27.9	27.2	27.1	23.9	19.8
RoE (%)						*12.0*	11.6	10.8	*11.1*	*12.0*

Source: Company, HSIE Research

Consolidated Estimates revision summary

INR bn	FY24E Old	FY24E Revised	*Change %*	FY25E Old	FY25E Revised	*Change %*
Net Sales	29.6	29.7	*0.1*	38.0	38.0	*0.1*
EBITDA	5.58	5.67	*1.5*	7.33	7.93	*8.2*
APAT	2.49	2.81	*12.9*	2.81	3.40	*21.0*

Source: Company, HSIE Research

ADD

CMP *(as on 09 Aug 2023)*	INR 165
Target Price	INR 165
NIFTY	19,633

KEY CHANGES	OLD	NEW
Rating	REDUCE	ADD
Price Target	INR 130	INR 165
EBITDA revision %	FY24E *1.5*	FY25E *8.2*

KEY STOCK DATA	
Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / ($ mn)	67/817
6m avg traded value (INR mn)	89
52 Week high / low	INR 170/89

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	30.8	45.7	72.8
Relative (%)	23.9	37.1	60.6

SHAREHOLDING PATTERN (%)	Mar-23	Jun-23
Promoters	67.12	66.76
FIs & Local MFs	6.15	6.25
FPIs	0.63	0.69
Public & Others	26.10	26.31
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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