

# Star Cement

## Industry-best margin performance to continue

We upgrade Star Cement to BUY from ADD earlier, with a revised TP of INR 190/share (9x its Sep-25E consolidated EBITDA). Star continued to deliver the industry-best margin (INR 1,100/MT) in Q2FY24, despite flattish volumes (+1% YoY, -23% QoQ). Star will be commissioning 3/2mnMT clinker/grinding capacities in the northeast region (NER) over the next 4-5 months and 2mn MT SGU in Assam by FY26E, thus maintaining its market leadership in the NER. Healthy demand, focus on cost and expected incentives for new capacities should sustain its industry-best margin performance, in our view.

- Q2FY24 performance:** Volume declined 23% QoQ (+1% YoY) to 0.9mn MT. Q2 volumes (and growth) were adversely impacted due to delayed rains in the NER and as demand slowed down in Bihar/West Bengal. Sales in the NER rose 3% YoY while sales outside NER fell 7% YoY. NSR stood flat QoQ (down 2% YoY expiration of GST incentives). Fuel cost reduced by INR 0.5/mnCal QoQ to INR 1.9/mnCal (~INR 250/MT savings). WHRS-led savings increased to INR 100mn vs INR 90mn QoQ (incremental savings of INR 35/MT QoQ). Increased share of own fleet usage QoQ led to INR 75/MT reduction in freight cost. However, higher employee costs, op-lev loss and pile-up of annual maintenance shutdown in Q2 (INR 150mn) negated the gains. Thus, opex remained flat QoQ. Unit EBITDA remained flattish QoQ at INR 1,100/MT (industry-best for the sixth consecutive quarter).
- Con-call KTAs and outlook:** It expects demand to accelerate post the festivals and ahead of the upcoming general elections. The greenfield 2mn MT SGU in Guwahati and the brownfield 3mn MT clinker expansion in Meghalaya will become operational on Dec-23 and Feb-24 respectively. It has slowed its 2mn MT Silchar SGU project (now expected in FY26 vs H2FY25 earlier). Additionally, in FY25, Star will commission an AAC block plant in Guwahati and a 25MW solar power plant. It guided Capex of INR 11/6bn in FY24/25E towards these expansions. It expects to accrue major incentives from the Guwahati SGU FY25E onwards. Star also expects incentives from clinker plant expansions and is awaiting clarity on the same. Star is also in the process of buying BTAP wagons for fly-ash sourcing at Siliguri, aiding cost savings from FY25 onwards. We have marginally calibrated our estimates, leading to a 4% reduction in FY24E EBITDA and a 1% each rise in FY25/26E estimates.

### Quarterly/annual financial summary (consolidated)

| YE Mar<br>(INR mn) | Q2<br>FY24 | Q2<br>FY23 | YoY<br>(%) | Q1<br>FY24 | QoQ<br>(%) | FY22   | FY23   | FY24E  | FY25E  | FY26E  |
|--------------------|------------|------------|------------|------------|------------|--------|--------|--------|--------|--------|
| Sales Vol (mn MT)  | 0.90       | 0.89       | 0.6        | 1.16       | (23.0)     | 3.4    | 4.01   | 4.54   | 5.90   | 6.93   |
| NSR (INR/MT)       | 6,532      | 6,669      | (2.1)      | 6,533      | (0.0)      | 6,527  | 6,739  | 6,604  | 6,571  | 6,571  |
| EBITDA (INR/MT)    | 1,100      | 782        | 40.7       | 1,111      | (1.0)      | 1,014  | 1,167  | 1,195  | 1,358  | 1,392  |
| Net Sales          | 5,853      | 5,942      | (1.5)      | 7,605      | (23.0)     | 22,218 | 27,048 | 29,953 | 38,745 | 45,525 |
| EBITDA             | 986        | 697        | 41.5       | 1,293      | (23.8)     | 3,453  | 4,684  | 5,418  | 8,009  | 9,642  |
| APAT               | 407        | 311        | 30.9       | 933        | (56.4)     | 2,468  | 2,476  | 2,794  | 3,690  | 4,529  |
| AEPS (INR)         | 1.0        | 0.8        | 25.9       | 2.2        | (56.5)     | 6.1    | 6.1    | 6.9    | 9.1    | 11.2   |
| EV/EBITDA (x)      |            |            |            |            |            | 16.3   | 12.1   | 12.3   | 8.4    | 7.0    |
| EV/MT (INR bn)     |            |            |            |            |            | 9.9    | 10.0   | 8.7    | 8.7    | 7.0    |
| P/E (x)            |            |            |            |            |            | 26.2   | 26.1   | 23.1   | 17.5   | 14.3   |
| RoE (%)            |            |            |            |            |            | 11.6   | 10.8   | 11.0   | 13.0   | 14.2   |

Source: Company, HSIE Research

## BUY

CMP (as on 10 Nov 2023) INR 160

Target Price INR 190

NIFTY 19,425

| KEY CHANGES       | OLD            | NEW          |
|-------------------|----------------|--------------|
| Rating            | ADD            | BUY          |
| Price Target      | INR 180        | INR 190      |
| EBITDA revision % | FY24E<br>(4.4) | FY25E<br>1.0 |

### KEY STOCK DATA

|                              |            |
|------------------------------|------------|
| Bloomberg code               | STRCEM IN  |
| No. of Shares (mn)           | 404        |
| MCap (INR bn) / (\$ mn)      | 64/785     |
| 6m avg traded value (INR mn) | 135        |
| 52 Week high / low           | INR 182/93 |

### STOCK PERFORMANCE (%)

|              | 3M    | 6M   | 12M  |
|--------------|-------|------|------|
| Absolute (%) | (2.0) | 26.0 | 53.7 |
| Relative (%) | (0.8) | 21.2 | 46.7 |

### SHAREHOLDING PATTERN (%)

|                 | Jun-23 | Sep-23 |
|-----------------|--------|--------|
| Promoters       | 66.76  | 66.55  |
| FIs & Local MFs | 6.23   | 6.08   |
| FPIs            | 0.69   | 0.77   |
| Public & Others | 26.33  | 26.59  |
| Pledged Shares  | 0.00   | 0.00   |

Source : BSE

Pledged shares as % of total shares

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