

Star Cement

Industry-best margin for the fourth consecutive quarter

We maintain ADD on Star Cement with a revised TP of INR 130/share (8x its Mar-25E consolidated EBITDA). Star's reported a decent 7% YoY volume growth in Q4FY23. Despite a major fall in incentive accruals, its unit EBITDA recovered ~INR 150 per MT QoQ to INR 1346 per MT (industry best for the fourth consecutive quarter!) on better logistics management and op-lev gains. Star's 12MW WHRS has become operational in Q1FY24. This along with other productivity gains and energy cost tailwinds will keep the margin buoyant despite the GST incentives expiration. Star's ongoing expansion will increase capacity by 70% to 9.7mn MT by H1FY25E.

- Q4FY23 performance:** Sales volume jumped 36% QoQ (+7% YoY) in Q4, driven by healthy demand in the northeast and the Siliguri plant ramp-up. Star operated its clinker/cement capacities at 111/87%. NSR declined 2% QoQ (up 3% YoY) on major incentives expiration in Jan-23. Opex cooled off 5% QoQ, driven by op-lev gains and freight cost savings (higher usage of own fleet led to lower costs in peak quarter). Unit energy costs remained flat QoQ. Thus, Star continued to deliver industry-leading margin: EBITDA went up INR 150 per MT QoQ to INR 1346 per MT (despite lower incentives).
- Capex update and outlook:** Star's 12MW WHRS plant started operations in May 2022 (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 H1FY25E. These plants will further increase incentive accruals from FY25E onwards. We lower FY24E EBITDA by 3% to factor in lower incentives but increase FY25E EBITDA by 3% factoring in higher volumes. Factoring in strong working capital management and lower Capex outgo, we increase our target price to INR 130/sh (8x FY25E consolidated EBITDA).

Quarterly/annual financial summary (consolidated)

| YE Mar (INR mn) | Q4 FY23 | Q4 FY22 | YoY (%) | Q3 FY23 | QoQ (%) | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------|------------|------------|------------|------------|------------|--------|--------|--------|--------|--------|
| Sales Vol (mn MT) | 1.24 | 1.15 | 7.2 | 0.91 | 36.0 | 2.7 | 3.40 | 4.01 | 4.54 | 5.90 |
| NSR (INR/MT) | 6,680 | 6,504 | 2.7 | 6,823 | (2.1) | 6,220 | 6,527 | 6,739 | 6,536 | 6,438 |
| EBITDA (INR/MT) | 1,346 | 984 | 36.8 | 1,194 | 12.7 | 1,233 | 1,014 | 1,167 | 1,233 | 1,245 |
| Net Sales | 8,250 | 7,492 | 10.1 | 6,195 | 33.2 | 17,199 | 22,218 | 27,048 | 29,648 | 37,964 |
| EBITDA | 1,662 | 1,134 | 46.6 | 1,084 | 53.3 | 3,326 | 3,453 | 4,684 | 5,591 | 7,342 |
| APAT | 961 | 884 | 8.7 | 529 | 81.8 | 2,401 | 2,468 | 2,476 | 2,593 | 2,910 |
| AEPS (INR) | 2.4 | 2.2 | 8.7 | 1.3 | 81.8 | 5.8 | 6.1 | 6.1 | 6.4 | 7.2 |
| EV/EBITDA (x) | | | | | | 13.9 | 12.5 | 9.3 | 9.7 | 7.7 |
| EV/MT (INR bn) | | | | | | 11.2 | 9.9 | 8.9 | 9.3 | 7.7 |
| P/E (x) | | | | | | 21.4 | 20.8 | 20.7 | 19.8 | 17.6 |
| RoE (%) | | | | | | 12.0 | 11.6 | 10.8 | 10.2 | 10.5 |

Source: Company, HSIE Research

Consolidated Estimates revision summary

| INR bn | FY24E Old | FY24E Revised | Change % | FY25E Old | FY25E Revised | Change % |
|-----------|--------------|------------------|-------------|--------------|------------------|-------------|
| Net Sales | 30.4 | 29.6 | -2.4 | 38.3 | 38.0 | -1.0 |
| EBITDA | 5.77 | 5.59 | -3.1 | 7.14 | 7.34 | 2.9 |
| APAT | 2.67 | 2.59 | -2.8 | 2.19 | 2.91 | 32.8 |

Source: Company, HSIE Research

ADD

CMP (as on 22 May 23) INR 127

Target Price INR 130

NIFTY 18,314

| KEY CHANGES | OLD | NEW |
|-------------------|----------------|--------------|
| Rating | ADD | ADD |
| Price Target | INR 115 | INR 130 |
| EBITDA revision % | FY24E (3.1) | FY25E 2.9 |

KEY STOCK DATA

| | |
|------------------------------|------------|
| Bloomberg code | STRCEM IN |
| No. of Shares (mn) | 404 |
| MCap (INR bn) / (\$ mn) | 51/626 |
| 6m avg traded value (INR mn) | 45 |
| 52 Week high / low | INR 133/81 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|------|------|------|
| Absolute (%) | 16.2 | 23.4 | 40.4 |
| Relative (%) | 12.5 | 22.5 | 26.4 |

SHAREHOLDING PATTERN (%)

| | Dec-22 | Mar-23 |
|-----------------|--------|--------|
| Promoters | 67.03 | 67.12 |
| FIs & Local MFs | 6.14 | 6.15 |
| FPIs | 0.53 | 0.63 |
| Public & Others | 26.29 | 26.10 |
| Pledged Shares | 0.00 | 0.00 |

Source : BSE

Pledged shares as % of total shares

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