

Star Cement

Superior volume offtake and margin performance

We maintain BUY on Star Cement with a revised TP of INR 120/share (8x its Sep-24E consolidated EBITDA). Star reported healthy 44% YoY volume growth and industry-leading INR 782 per MT margin in Q2FY23. Star will be commissioning 12MW WHRS in Q3FY23, which will aid margin recovery from Q4FY23 onwards. The company is increasing its capacity by 70% to 9.7mn MT by H1FY25E and most of the Capex would take place in FY24/25E. The current robust cash position and healthy cash flow outlook should keep the balance sheet unstressed.

- Q2FY23 performance:** Star's volume in Q2FY23 buoyed 44% YoY, driven by a 32% uptick in its NE sales and a 95% jump in sales outside the NE region. NSR fell 2% QoQ, impacted by the seasonal price decline. Input cost went up ~INR 250 per MT QoQ, as fuel price jumped 20% QoQ to INR 2.1 per Kcal. Logistics savings moderated the opex inflation. Thus, unitary EBITDA fell 33/38% YoY/QoQ to INR 782 per MT (industry best for the second consecutive quarter) in Q2. In H1FY23, Star delivered a 36% YoY volume uptick on healthy demand and Siliguri ramp-up. However, fuel inflation dented H1 unitary EBITDA to INR 1036/MT (-13% YoY). Consolidated EBITDA/OCF rose 18/50% YoY to INR 1.94/1.4bn in H1FY23. Star spent INR 1.3bn in Capex in H1FY23. Thus, net cash rose 3% (vs Mar-22) to INR 3.8bn.
- Capex update and outlook:** Star's expansion plan in the NER (total Capex ~INR 20bn) is on track to be commissioned in Q4FY24/H1FY25E. This will increase capacity to 9.7mn MT. Its 12MW WHRS will be commissioned in Q3FY23 and another 12MW WHRS along with 3mn MT clinker (Meghalaya) will get operational by FY24 end. We maintain our earnings estimates for Star but have spread out the expansion Capex in FY24/25E (major Capex to be incurred by then), leading to a marginal increase in target price to INR 120/sh (vs INR 115 earlier). We expect its balance sheet to remain comfortable, owing to healthy cash generation and large cash balance currently.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Sales Vol (mn MT)	0.89	0.62	44.4	0.98	(9.1)	2.7	3.40	3.90	4.41	5.51
NSR (INR/MT)	6,669	6,589	1.2	6,796	(1.9)	6,220	6,527	6,788	6,924	6,993
EBITDA (INR/MT)	782	1,162	(32.7)	1,267	(38.3)	1,233	1,014	1,164	1,243	1,196
Net Sales	5,942	4,066	46.2	6,661	(10.8)	17,199	22,218	26,479	30,520	38,532
EBITDA	697	717	(2.8)	1,241	(43.9)	3,326	3,453	4,541	5,479	6,590
APAT	311	465	(33.3)	676	(54.0)	2,401	2,468	2,393	2,912	3,130
AEPS (INR)	0.8	1.1	(31.9)	1.7	(54.0)	5.8	6.1	5.9	7.2	7.7
EV/EBITDA (x)						11.6	10.7	7.9	8.2	7.2
EV/MT (INR bn)						9.4	8.4	7.7	9.1	6.6
P/E (x)						18.0	17.5	18.1	14.9	13.8
RoE (%)						12.0	11.6	10.5	11.7	11.4

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	26.5	-	30.5	30.5	-	38.5	38.5	-
EBITDA	4.54	4.54	-	5.48	5.48	-	6.59	6.59	-
APAT	2.39	2.39	-	2.81	2.91	3.5	3.02	3.13	3.7

Source: Company, HSIE Research

BUY

CMP (as on 15 Nov 2022) INR 107

Target Price INR 120

NIFTY 18,403

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 115	INR 120
EBITDA revision %	FY23E 0.0	FY24E 0.0

KEY STOCK DATA

Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / (\$ mn)	43/533
6m avg traded value (INR mn)	24
52 Week high / low	INR 114/81

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.1	26.8	7.0
Relative (%)	13.0	9.6	5.0

SHAREHOLDING PATTERN (%)

	Jun-22	Sep-22
Promoters	67.37	67.43
FIs & Local MFs	6.14	6.14
FPIs	0.28	0.40
Public & Others	26.21	26.03
Pledged Shares	0.09	0.00

Source : BSE

Pledged shares as % of total shares

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