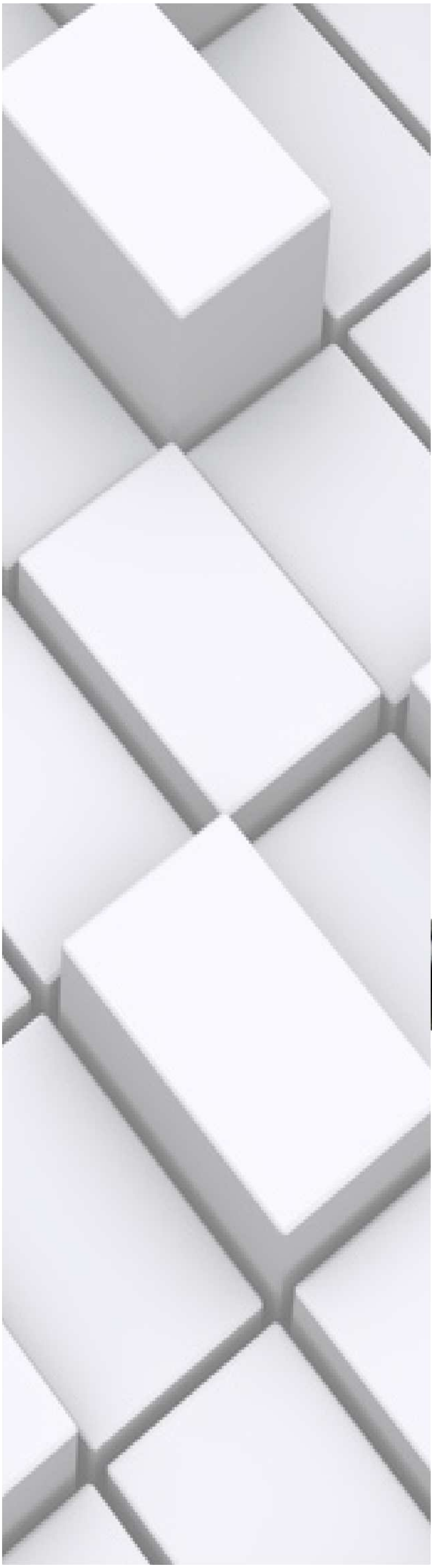
ICICI direct Research

April 28, 2023



Direct Instinct

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief

- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company

- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be

- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report

- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

Star Cement (STACEM)

ICICI direct Research

CMP: ₹ 116 | Target: ₹ 150 (30%) | Target Period: 12 months | **BUY**

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Maintaining leadership position on its home turf!

Star Cement operates in a complex geographical topography and has built a competitive advantages owing to its experience of operating in the north eastern region (NER) of India. It has fortified its presence with a material volume share of ~25%. The region has favourable demand-supply dynamics with overall ~14 MT of grinding capacity and 12 MT of cement consumption. Around 15-20% of demand is catered through imports from Eastern India but the share of the same has reduced from ~30%. **Star has capacity of 3.7 MT in NER with clinker capacity of 2.8 MT (with 12 MW WHRS and 51 MW captive thermal power). It has an integrated cement plant at Lumshnong (Meghalaya) with proximity to abundant limestone reserves (2-3 km).** The company ventured out of NER in 2013 to other remunerative markets of East Bihar and North Bengal (through outsourced capacities) to de-risk its region concentration risk. Star consequently commissioned a 2 MT grinding unit in Siliguri (West Bengal) in FY22 taking its overall cement capacity to 5.7 MT. Currently ~75% volumes are derived from NER and 25% from eastern region. Star has embarked on a journey to further strengthen its market share in NER to 30%+ by FY26E by more than doubling its capacity. **Enhanced capacity utilisation, backed by the government's thrust on infrastructure development in the NER and better pricing power would enable Star to register revenue and earnings CAGR of 13% and 19%, respectively in FY23-25E.**

Triggers

Well placed to capture growth opportunities in NER

NER has lagged as far as connectivity by rail and road is concerned compared to other states of India. The per capita consumption of cement in North East India is significantly lower at 140 kg compared with the all-India average of around 250 kg. With enhanced focus on infra development, the FY24E budget has provided much higher outlays for Ministry of Development of North Eastern Region (MDoNER). There is a steep jump in in the budget outlay with allocation of ₹ 5892 crore for FY24E which is 2.1x of RE of FY23. Furthermore, in FY24E as per the Ministry of Statistics & Programme Implementation (MoSPI), Assam's economy is projected to grow second fastest (behind UP) at rate of 15% (nominal GSDP). Given the sustained government's thrust on shoring up infra development, we expect volumes for Star to grow at a CAGR of 14% in FY23-25E.

Expanding capacity to strengthen market share

Over a longer term, we expect overall industry demand in NER to reach 16 MT by FY26E (~10% CAGR). In a bid to capture long term growth opportunities and further strengthen the market share, Star has embarked on capacity expansion and outlined capex worth ~₹ 2200 crore. The company is setting up a 3 MT clinker unit with 12 MW WHRS at Meghalaya (capex: ₹ 1300 crore, completion: January 2024) and two grinding units of 2 MT each in Assam (capex: ₹ 800 crore, completion: Guwahati in December 2023 and Silchar in August 2024). Post the expansion, its overall clinker and cement capacity will increase to 5.8 and 9.7 MT, respectively by FY25E. The cost of the project is at ~US$ 68/t, which is ~ 33% lower than industry replacement cost. Star will be eligible for subsidy by way of SGST refund in Assam which will be utilised over next 7-10 years providing thrust to its return ratios over the longer term.

Valuation & Outlook

Star has a consistent cash generation profile recording cumulative OCF worth ~₹ 2300 crore during FY18-22 (average CFO/EBITDA: 100%+). It has a cash rich balance sheet with investment of ~₹ 500 crore. Going forward, we expect the company to generate ~ ₹ 1250 crore cumulative OCF during FY23-25E, which would assist funding its capex requirements (₹ 2200 crore). We expect the leverage to remain low at 0.2x with peak debt levels of ₹ 450 crore in FY24E. With declining fuel costs and other various initiatives such as implementation of WHRS (annual savings of ₹ 40-45 crore) and installation of railway siding at its grinding plants, we build in ₹ 235/t improvement in EBITDA to ₹ 1360/t by FY25E (vs. FY23E). Star is trading at reasonable valuations of 7x FY25E EV/EBITDA (EV/T: US$65/t). We ascribe **BUY** rating to the stock with a target price of ₹ 150 (9.0x FY25E EV/EBITDA). Steady RoCE profile (14%+) and healthy balance sheet instils confidence in the business model.

STAR CEMENT Solid Setting

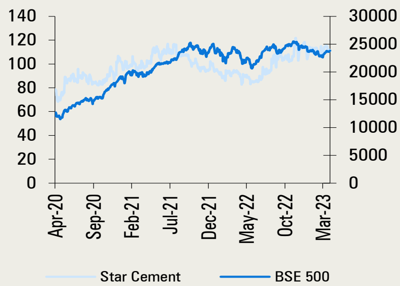
Particulars

Particular	Amount
Market Capitalization (₹ crore)	4,686.4
Total Debt (FY22) (₹ crore)	15.7
Cash & investments (FY22) (₹ crore)	548.4
EV (₹ crore)	4,153.7
52 week H/L (₹)	124 / 81
Equity capital (₹ crore)	40.4
Face value (₹)	1.0

Risks to our call

1) High concentration risk as 75% of revenues being generated from North East Region
2) Higher than expected fuel cost can hamper margins

Price performance



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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Capacity (Mn T)	4.3	4.3	5.7	5.7	7.7	9.7
Volume (Mn T)	2.9	2.6	3.4	4.1	4.6	5.3
Revenues (₹ crore)	1,843.2	1,719.9	2,221.8	2,763.8	3,082.0	3,554.6
Growth (%)		(6.7)	29.2	24.4	11.5	15.3
Realisation/t (₹)	6,377.7	6,514.9	6,532.8	6,777.4	6,700.0	6,706.7
EBITDA (₹ crore)	394.4	332.0	345.3	459.3	593.8	721.0
EBITDA/t (₹)	1,364.6	1,257.7	1,015.1	1,126.2	1,290.9	1,360.3
Cost of Production/t (₹)	5,013.8	5,257.6	5,510.8	5,651.2	5,409.1	5,346.4
Net Profit (₹ crore) *	287.3	187.1	246.8	238.7	278.8	341.2
Earnings per share (₹)	7.0	4.5	6.1	5.9	6.9	8.5
Balance Sheet						
Equity (₹ crore)	41.2	41.2	40.4	40.4	40.4	40.4
Net worth (₹ crore)	1,857.1	2,074.2	2,168.4	2,407.2	2,685.9	3,027.1
Total Debt (₹ crore)	13.4	18.2	15.7	15.7	450.0	450.0
Net Debt (₹ crore) *	(272.1)	(455.2)	(532.7)	(352.2)	324.8	376.8
Ratios						
RoNW (%)	15.5	9.0	11.4	9.9	10.4	11.3
RoCE (%)	16.1	11.6	10.2	13.6	13.8	15.1
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.2	0.1
EV/EBITDA (x)	11.2	12.7	12.0	9.4	8.4	7.0
EV/T (US $)	127.6	122.3	90.0	93.9	80.3	64.4
P/E (x)	16.7	25.6	18.9	19.6	16.7	13.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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