

May 23, 2023

Healthy operational performance...

About the stock: Star Cement operates in a complex geographical topography and has built competitive advantages owing to its experience of **operating in the North Eastern Region (NER) of India** and has **fortified its presence with a material volume share of ~25%**.

- Star has capacity of 3.7 MT in NER with clinker capacity of 2.8 MT (with 12 MW WHRS and 51 MW thermal power). It has an integrated cement plant at Meghalaya with proximity to abundant limestone reserves (2-3 km)
- It also caters to eastern region (~25% of volumes) through its grinding unit in Siliguri (West Bengal). Overall capacity: 5.7 MT

Q4FY23 Results: Star reported healthy profitability despite weak realisations. Capacity utilisation was at 88% vs. 81% YoY.

- Revenue grew 10% YoY to ₹ 825 crore mainly driven by volume growth of 7.4% YoY to 1.23 MT. Capacity utilisation rates in North Eastern Region were at nearly 100% in Q4FY23
- Overall cost of production declined sharply by ~₹ 294/t (QoQ) to ₹ 5335/t in Q4FY23. Generated healthy EBITDA/T of ₹ 1346/t (highest in the industry; Q3FY23: ₹ 1194/t, Q4FY22: ₹ 986/t)
- Absolute EBITDA grew 47% YoY to ₹ 166 crore (up 53% QoQ)

What should investors do? The North Eastern Region has favourable demand-supply dynamics with overall ~14 MT of grinding capacity and 12 MT of cement consumption. Star has embarked on a journey to further strengthen its market share in NER to 30%+ by FY26E by more than doubling its capacity. It continues to have a robust b/s, debt free status and cash & investment worth ₹ 480 crore. Star trades at reasonable valuations of 8x FY25E EV/EBITDA (US\$70/t).

- We remain positive and reiterate our **BUY** rating on the stock

Target Price and Valuation: We value Star at ₹ 150 i.e. ~9x FY25E EV/EBITDA.

Key triggers for future price performance:

- 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 14% and 17%, respectively in FY23-25E
- 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 ~₹ 2300 crore
- The company is setting up 3 MT clinker unit with 12 MW WHRS at Meghalaya and two grinding units of 2 MT each in Assam

Alternate Stock Idea: Apart from Star, in our cement sector coverage we also like Sagar Cements. BUY with a target price of ₹ 240/share



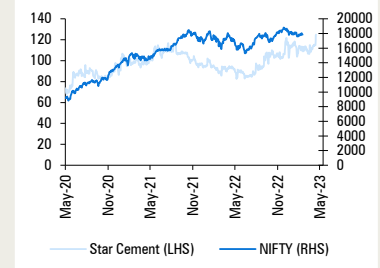
Particulars

Particular	Amount
Market Capitalization (₹ crore)	5,130.8
Total Debt (FY23) (₹ crore)	26.1
Cash & investments (FY23) (₹ crore)	484.3
EV (₹ crore)	4,672.6
52 week H/L (₹)	133 / 81
Equity capital (₹ crore)	40.4
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	67.37	67.43	67.03	67.12
FII	0.28	0.40	0.53	0.63
DII	6.15	6.15	6.15	6.15
Others	26.20	26.02	26.29	26.10

Price Chart



Key risks

- High concentration risk as 75% of revenues being generated from North East Region
- Volatility in prices of key inputs like coal/petcoke

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Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	3 Year CAGR (%)	FY24E	FY25E	2 Year CAGR (%)
Net Sales	1843.2	1719.9	2221.8	2704.8	13.6	3049.4	3554.6	14.6
EBITDA	394.4	332.0	345.3	468.4	5.9	592.9	721.0	24.1
EBITDA (%)	21.4	19.3	15.5	17.3		19.4	20.3	
PAT	287.3	187.1	246.8	247.6		277.3	340.1	
EPS (₹)	7.0	4.5	6.1	6.2		6.9	8.5	
EV/EBITDA	12.3	14.1	13.3	10.0		9.5	7.7	
EV/Tonne (\$)	140.5	135.2	99.6	101.2		90.6	71.1	
RoNW	15.5	9.0	11.4	10.2		10.3	11.2	
RoCE	16.1	11.6	10.2	13.8		13.3	14.9	

Key performance highlights and conference call takeaways

- Star Cement reported strong operational performance in Q4FY23. Volumes grew 7.4% YoY to 1.2 MT with healthy capacity utilisation rate of 88% (vs. 81%). Volumes in NER grew 13% YoY to 0.9 MT (100% utilisation levels), whereas volumes in the eastern region (Siliguri) declined 6% YoY to 0.32 MT (65% utilisation levels). Realisations declined 2% QoQ to ₹ 6680/t owing to weak pricing environment in the industry. **The management indicated that it has taken price hike of ₹ 10-12/bag in NER but pricing outside NER (east Bihar & North Bengal) continues to remain weak (prices declined by ₹ 10-12/bag)**
- Overall COP declined sharply by ~₹ 294/t (QoQ) to ₹ 5335/t in Q4FY23 mainly led by reduction in freight cost (down by ₹ 117/t). Lead distance increased marginally from 211 Km to 224 km (QoQ). Manufacturing cost (RM + power & fuel) declined by ₹ 38/t to ₹ 2928/t. **Fuel cost per Kcal remained flattish QoQ at ₹ 2.1/Kcal. With softening of fuel prices, company expects costing to go down further to ₹ 1.9-1.85/Kcal in Q1FY24.** Fuel mix for the quarter was at; 25% Nagaland Coal, 45-47% spot FSA coal and rest AFR. Despite lower realisations, company generated healthy EBITDA/T of ₹ 1346/t (highest in the industry; Q3FY23: ₹ 1194/t, Q4FY22: ₹ 986/t). For FY23, company recorded EBITDA/T of ₹ 1168/t. With declining fuel costs and other various initiatives such as implementation of 12 MW WHRS (annual savings of ₹ 40-45 crore), installation of railway siding at its grinding plants we build in ₹ 200/t improvement in EBITDA to ₹ 1360/t by FY25E (from FY23 levels)
- Share of trade cement declined from 92% to 87% in Q4FY23 as margins in non-trade had improved during the quarter. Share of premium was in the range of 4-4.5%
- For FY23, the company registered volume growth of 18% YoY to 4.0 MT (CU: 70%). Going forward, the management expects demand to be healthy (especially in NER) and expects volume growth of 12-13% in FY24E. Star would continue to focus on NER than eastern region as former continues to remain more remunerative owing to better pricing power and healthy demand prospects. On the capex front, commissioning of new capacities is on track. The company is setting up 3 MT clinker unit with 12 MW WHRS at Meghalaya (completion: Jan-24) and two grinding units of 2 MT each in Assam (completion: Guwahati in Nov-23 and Silchar in August 2024). Out of the total capex outlay (~₹ 2300 crore), it incurred ~ ₹ 450 crore in FY23 and has guided for ₹ 1300 crore in FY24E and ₹ 400 crore in FY25E. Post the expansion, company's overall clinker and cement capacity will increase to 5.8 and 9.7 MT, respectively by FY25E. Star will be eligible for subsidy by way of SGST refund in Assam, which will be utilised over next seven to 10 years providing thrust to its return ratios over the longer term. **Over a longer-term company has embarked on a journey to achieve capacity of 20 MT in next 10 years. The company expects the next leg of expansion to be outside the NER and roadmap of the same will be indicated by Q2FY24E.**
- Star has a consistent cash generation profile with the company recording cumulative OCF worth ~₹ 2800 crore during FY18-23 (average CFO/EBITDA: 105%). It has a cash rich balance sheet with investment of ~₹ 480 crore as on FY23. Going forward, we expect company to generate ~ ₹ 900 crore cumulative OCF during FY23-25E which would assist funding its remainder capex requirements (₹ 1800 crore). We expect the leverage to remain low at 0.2x with peak debt levels of ₹ 550 crore in FY24E. **We maintain BUY rating on the stock with TP of ₹ 150 (9x FY25E EV/EBITDA). Steady RoCE profile (15%) and healthy balance sheet instils confidence in the business model**

Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	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	4.0	4.6	5.3
Revenues (₹ crore)	1,843.2	1,719.9	2,221.8	2,704.8	3,049.4	3,554.6
Growth (%)		(6.7)	29.2	21.7	12.7	16.6
Realisation/t (₹)	6,377.7	6,514.9	6,532.8	6,745.2	6,700.0	6,706.7
EBITDA (₹ crore)	394.4	332.0	345.3	468.4	592.9	721.0
EBITDA/t (₹)	1,364.6	1,257.7	1,015.1	1,168.2	1,302.7	1,360.3
Cost of Production/t (₹)	5,013.8	5,257.6	5,510.8	5,577.1	5,397.3	5,346.4
Net Profit (₹ crore) *	287.3	187.1	246.8	247.6	277.3	340.1
Earnings per share (₹)	7.0	4.5	6.1	6.2	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	2,416.0	2,693.3	3,033.4
Total Debt (₹ crore)	13.4	18.2	15.7	26.1	550.0	480.0
Net Debt (₹ crore) *	(272.1)	(455.2)	(532.7)	(458.2)	517.4	455.5
Ratios						
RoNW (%)	15.5	9.0	11.4	10.2	10.3	11.2
RoCE (%)	16.1	11.6	10.2	13.8	13.3	14.9
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.2	0.2
EV/EBITDA (x)	12.3	14.1	13.3	10.0	9.5	7.7
EV/T (US \$)	140.5	135.2	99.6	101.2	90.6	71.1
P/E (x)	18.2	28.0	20.7	20.6	18.4	15.0

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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