

Strong volume growth ahead with superior margins...

About the stock: Star Cement (SCL) is the leading cement company in north-eastern India with having presence in some of the eastern India states as well. The company has total cement capacity of 5.7 million tonnes (mtpa) at present, which includes an integrated unit of 1.7 mtpa in Meghalaya and two grinding units of 2 mtpa each in Assam & West Bengal

- Company is in process to take its grey cement capacity to 9.7 mtpa by FY26 and targets to reach 20 mtpa by 2030

Investment Rationale:

- Capacity expansions to drive volumes; market share in north-east to improve further:** Company is in process of expanding its cement capacity from 5.7 mtpa at present to 9.7 mtpa by FY26E, which includes two grinding units of 2 mtpa each in Assam (at Guwahati and Silchar), along with a 3.3 mtpa clinker at Meghalaya. The grinding unit at Guwahati and clinker unit at Meghalaya are expected to be commissioned by Q4FY24, while the Silchar grinding is expected to be commissioned by Q2FY26. With these expansions on schedule and pick-up in demand in north-east (NE) region, we expect the company's volumes to grow significantly over FY25-26E (~12% CAGR over FY23-26E). Moreover, company already being a market leader of NE region, will be able to improve its market share further to 30-32% (from 24-25% at present). Company aims to double its capacity further to 20 mtpa by 2030 (through possible greenfield expansions in north or south regions), gives longer term growth visibility
- Company enjoys superior margins led by favourable market mix; multiple benefits to drive further margin expansion:** With a significant presence in NE markets, company enjoys relatively superior EBITDA/ton (₹ 1244/ton in 9MFY24), primarily led by better pricing in the region, cost-efficiencies and sales incentives from government. We expect the margins to improve further led by further savings in power & fuel, increase in share of premium cement, positive operating leverage and substantial incentives on new capacities in Meghalaya & Assam. We estimate company's EBITDA/ton to improve to ₹ 1489/ton by FY26E (from ₹ 1168/ton in FY23)

Rating and Target Price

- We estimate revenue CAGR of ~12% over FY23-26E while EBITDA and PAT CAGR at ~22% and ~24%. Balance sheet position remains healthy (net cash in FY26E) despite significant capex. With improvement in asset turnover and margins, return ratios are also expected to improve
- Valuation at 8.8x EV/EBITDA on FY26E basis looks attractive considering the company's strong growth ahead with further strengthening its market position in NE. We value Star Cement at ₹ 240 i.e. 11x FY26E EV/EBITDA



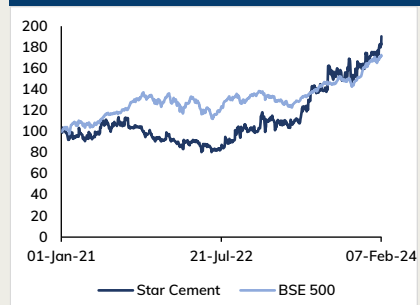
Particulars

Particular	Amount
Market Capitalization (Rs crore)	7,881.5
Total Debt (FY23) (Rs crore)	26.1
Cash & investments (FY23) (Rs crore)	484.3
EV (Rs crore)	7,423.3
52 week H/L	201 / 103
Equity capital (Rs crore)	40.4
Face value (Rs)	1.0

Shareholding pattern

(in %)	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	67.1	66.8	66.6	66.5
FII	0.6	0.7	0.8	1.1
DII	6.2	6.2	6.1	6.0
Others	26.1	26.3	26.6	26.5

Price Chart



Key risks

- Slowdown in cement demand from housing & infra
- Increase in commodity prices
- Correction in cement prices

Research Analyst

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Key Financial Summary

Key Financials (Rs crore)	FY20	FY21	FY22	FY23	3 Year CAGR FY20-23 (%)	FY24E	FY25E	FY26E	3 Year CAGR FY23-26E (%)
Net Sales	1843.2	1719.9	2221.8	2704.8	13.6	2804.1	3299.5	3799.0	12.0
EBITDA	394.4	332.0	345.3	468.4	5.9	565.8	702.1	842.9	21.6
EBITDA (%)	21.4	19.3	15.5	17.3		20.2	21.3	22.2	
PAT	287.3	187.1	246.8	247.6		304.3	387.4	469.4	
EPS (Rs)	7.0	4.5	6.1	6.1		7.5	9.6	11.6	23.8
EV/EBITDA	19.3	22.4	21.3	15.8		14.1	10.8	8.8	
EV/Tonne (\$)	220.0	214.7	155.3	156.9		124.8	94.5	92.4	
RoNW (%)	15.5	9.0	11.4	10.2		11.2	12.5	13.1	
RoCE (%)	16.1	11.6	10.2	13.8		12.9	15.1	16.1	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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