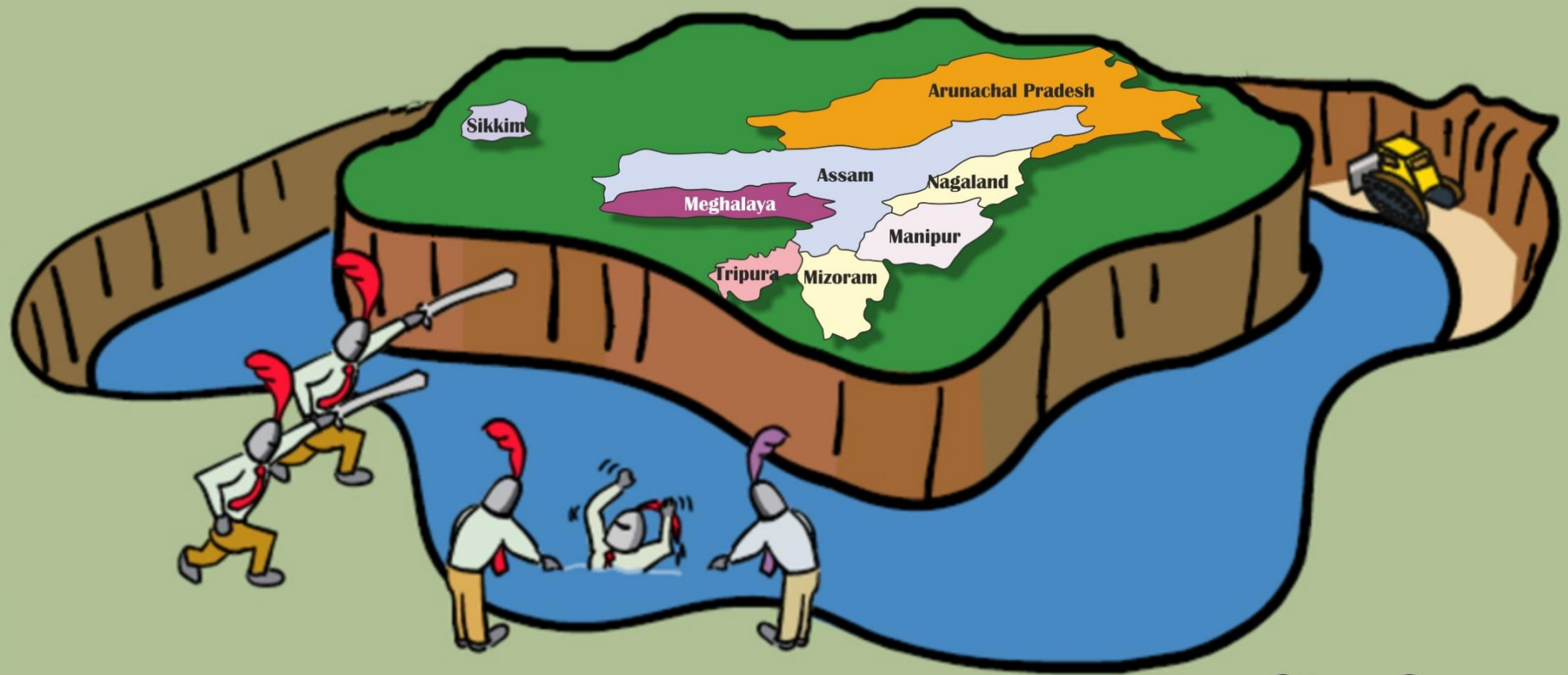


Looking Northeast



Star Cement

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Star Cement: Looking Northeast

- **Location, Location, Location:** Star Cement (STRCEM IN) is market leader in Northeast region (NER), with ~22% share as on FY18. NER accounted for ~85% of capacity vs ~15% for its closest listed peer, Dalmia Bharat (DEBL IN, CMP: INR 2,438, Not Rated). The nearest limestone cluster is 1,000km away, making it unviable to service the region. Our calculations show breakeven price for non-NER companies is INR 373 per bg vs existing price of INR 380 per bag. Thus, possibility of a fall in pricing is limited
- **No new capacity addition in pipeline in NER:** Since April 2017, there has been no new orders in NER. Based on existing clinker capacity of 7.5mn tonnes, possible total cement supply is expected to be ~10.0mn tonne vs FY18 consumption of 7.9mn tonne, as per our channel checks. We expect cement demand CAGR of 13% over FY18-20E, thereby bridging the demand-supply mismatch
- **High consolidation augurs well for higher pricing:** Top two firms — STRCEM and Dalmia Bharat — control 65% of capacity as on FY18 while TOPCEM, which accounts for 10%, make it 75%. Due to these high levels of consolidation, NER has not seen pricing disturbances in the past 20 months
- **~INR 1,000 EBITDA per tonne margin leadership:** SCL plant has the lowest lead distance (one-third vs other eastern regions) across all major NE markets. The company also gets GST subsidy of ~ INR 250/tonne. The company posted a three-year average EBITDA/tonne of INR 1,700 vs pan-India's INR 710
- **WB grinding unit to result in INR 5.1bn cost savings (22% of FY18 EBITDA):** The company is in the process of setting up a split grinding unit of 2.0mn tonnes at Siliguri in West Bengal, which will come online by end-FY20. Project payback will be less than four years. Total savings from freight is likely to be INR 5.1 bn, 22% of FY18 EBITDA
- **Turning net cash company:** The company had a net debt equity ratio of 0.35x at the end of FY18 and is likely to reach -0.20x by FY21E, after factoring in cumulative capex of INR 5bn over FY19-21E
- **Initiate with a Buy and TP of INR 147:** We initiate on SCL with a **Buy** rating and a TP of INR 147 on FY21E EV per tonne of USD 121. At a CMP of INR 91, the stock trades at FY21E EV per tonne of USD 83, EV/EBITDA of 5.4x and P/E of 9.8x. SCL should benefit from strong demand growth and reducing demand-supply gap in NER

Star Cement: Star of NER

- Promoter: Sajjan Bhajanka and Prem Kumar Bhajanka
- Total clinker capacity of 2.6mn tonnes; total cement capacity of 4.3mn tonnes as on Q2FY18. The entire clinker capacity is in Meghalaya
- NER makes up 22% of market share
- Captive thermal power plant capacity of 51MW

STRCEM IN	Mcap: INR 39bn	Buy
TP: INR 147	CMP: INR 91	Upside: 61%

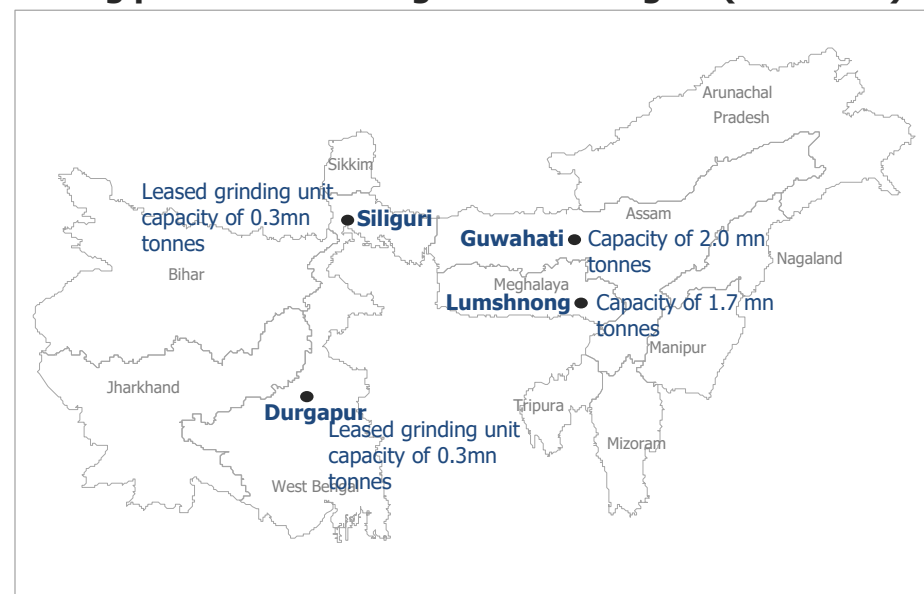
Note: Pricing as on 28 January 2019

Top investors	% of holdings
SBI Equity Hybrid Fund	5.44
Subham Agarwal	3.44
Brij Bhusan Agarwal	2.65
Sheetij Agarwal	2.20
Sundaram Mutual Fund	2.06

Shareholding patterns	(%)
Promoter	68.88
FII	1
DII	8.38
Other	21.74
Total	100

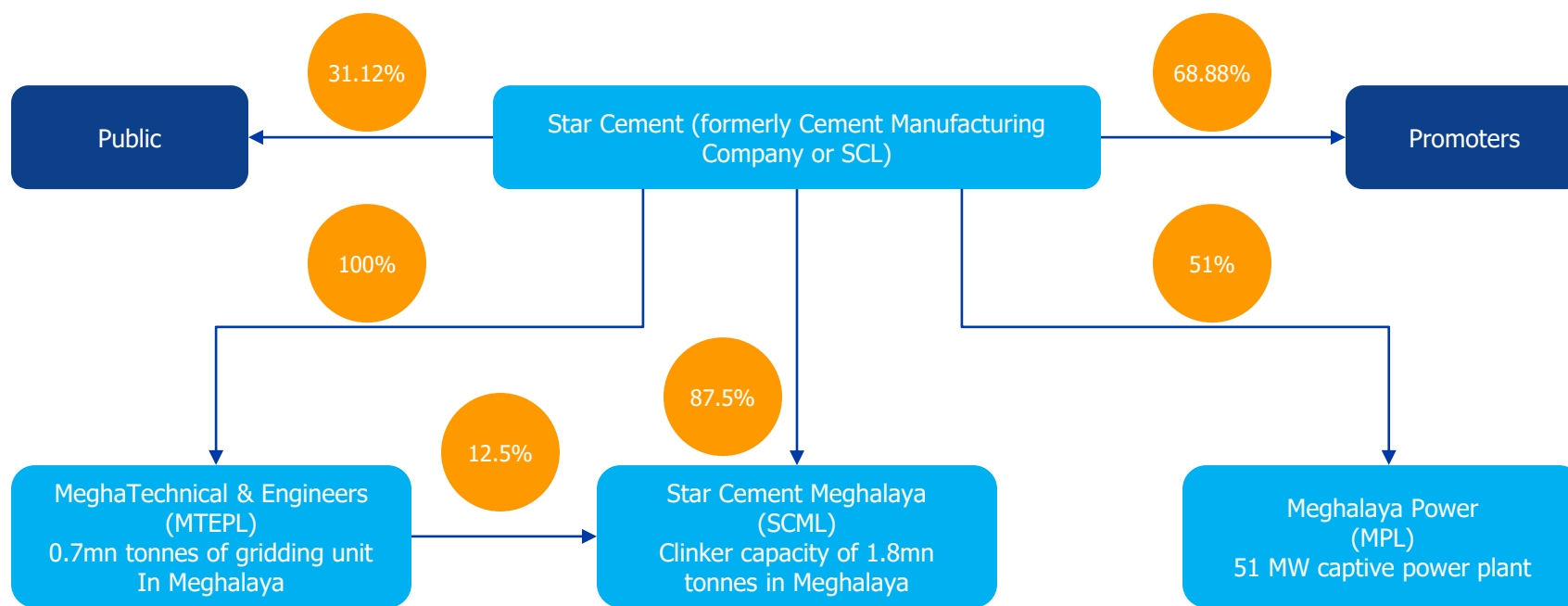
Source: Company, Elara Securities Research

Strong presence in strong Northeast region (mn tonne)



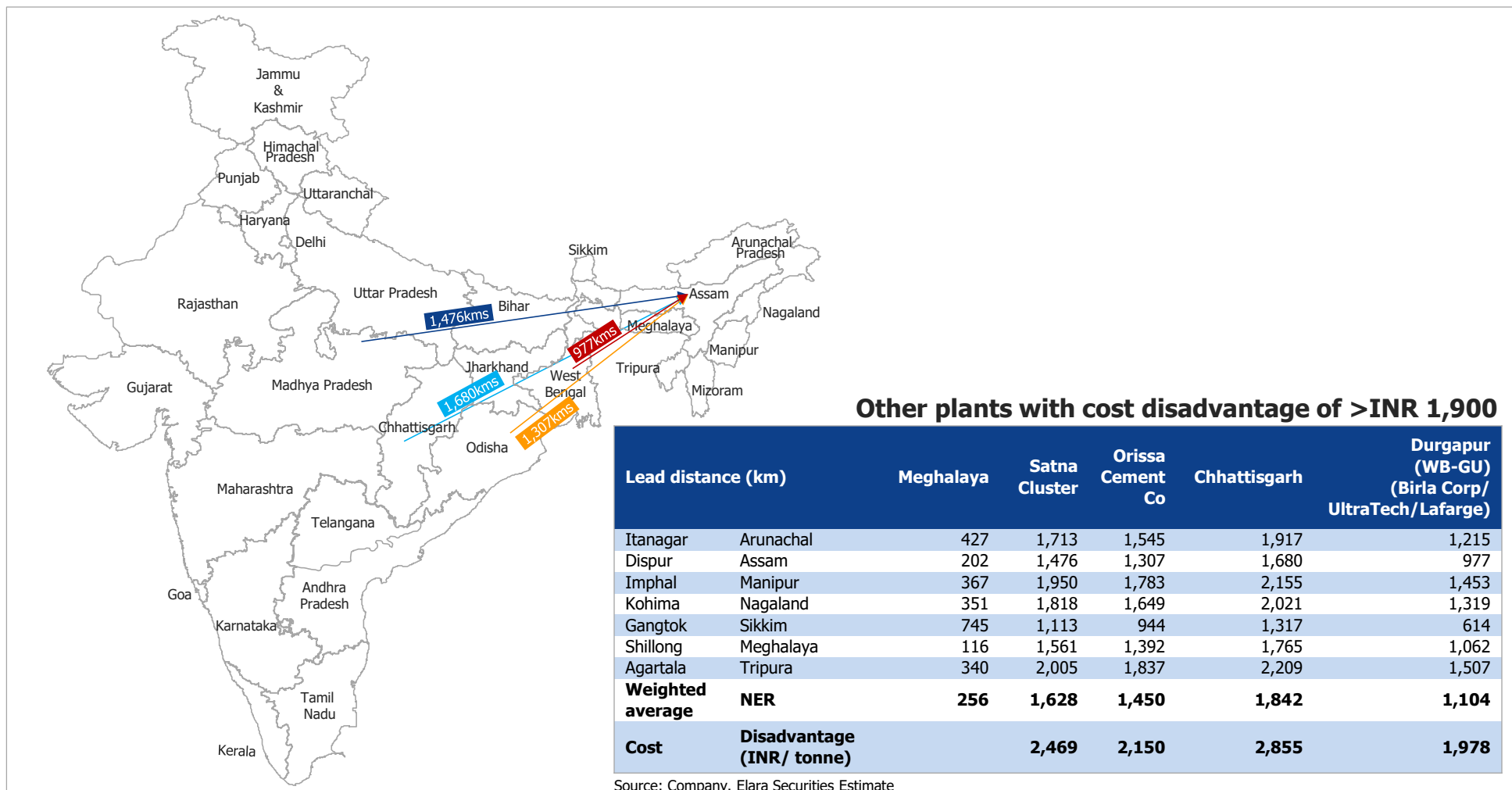
Note: map not to scale; Source: Company. Elara Securities Research

The Star Bandwidth



Source: Company, Elara Securities Research

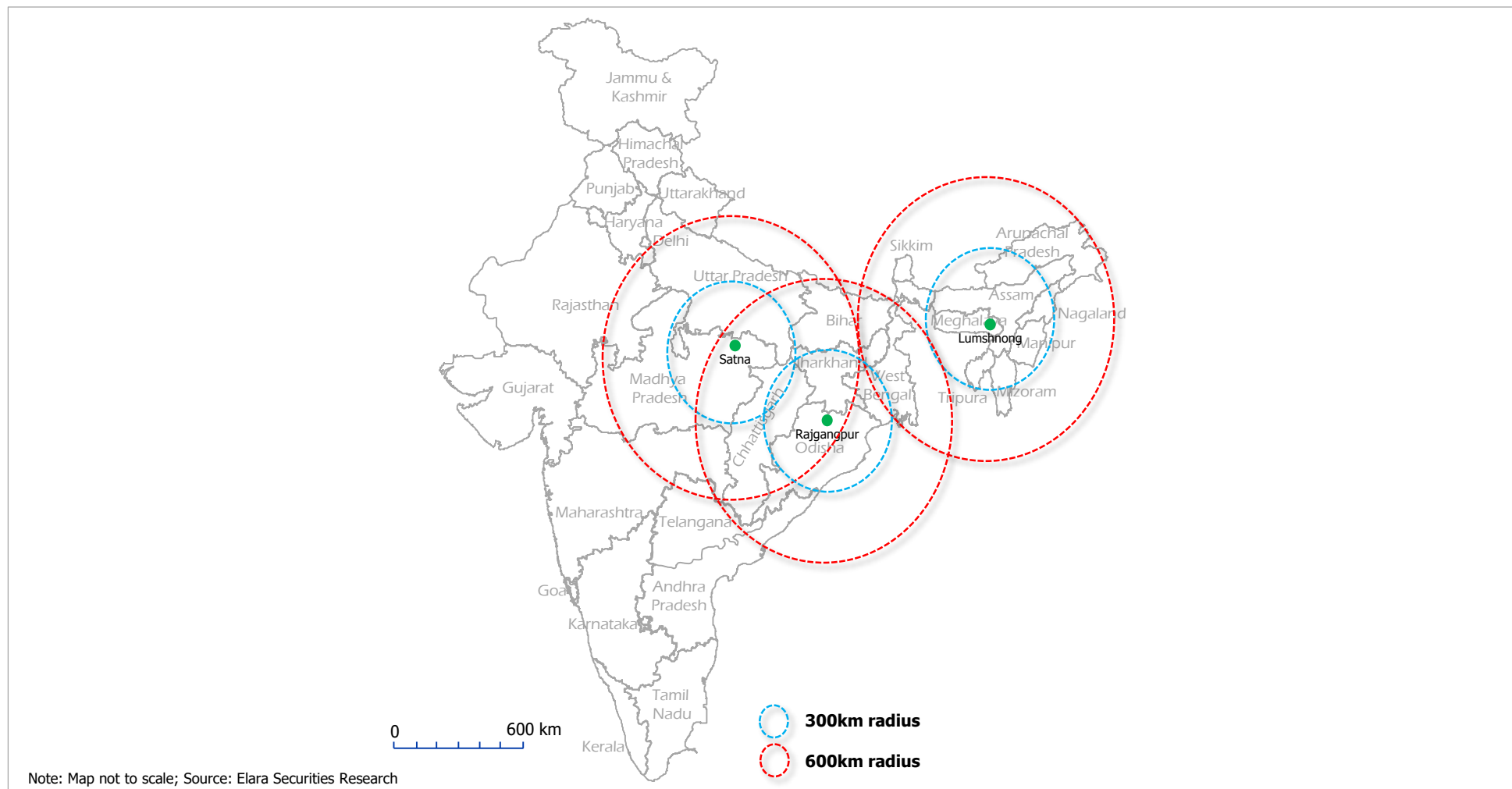
NER Cluster Far Away from Other Cement Clusters



Source: Company. Elara Securities Estimate

Note: map not to scale; Source: Company. Elara Securities Research

No Major Overlap of Market with Other Cement Clusters



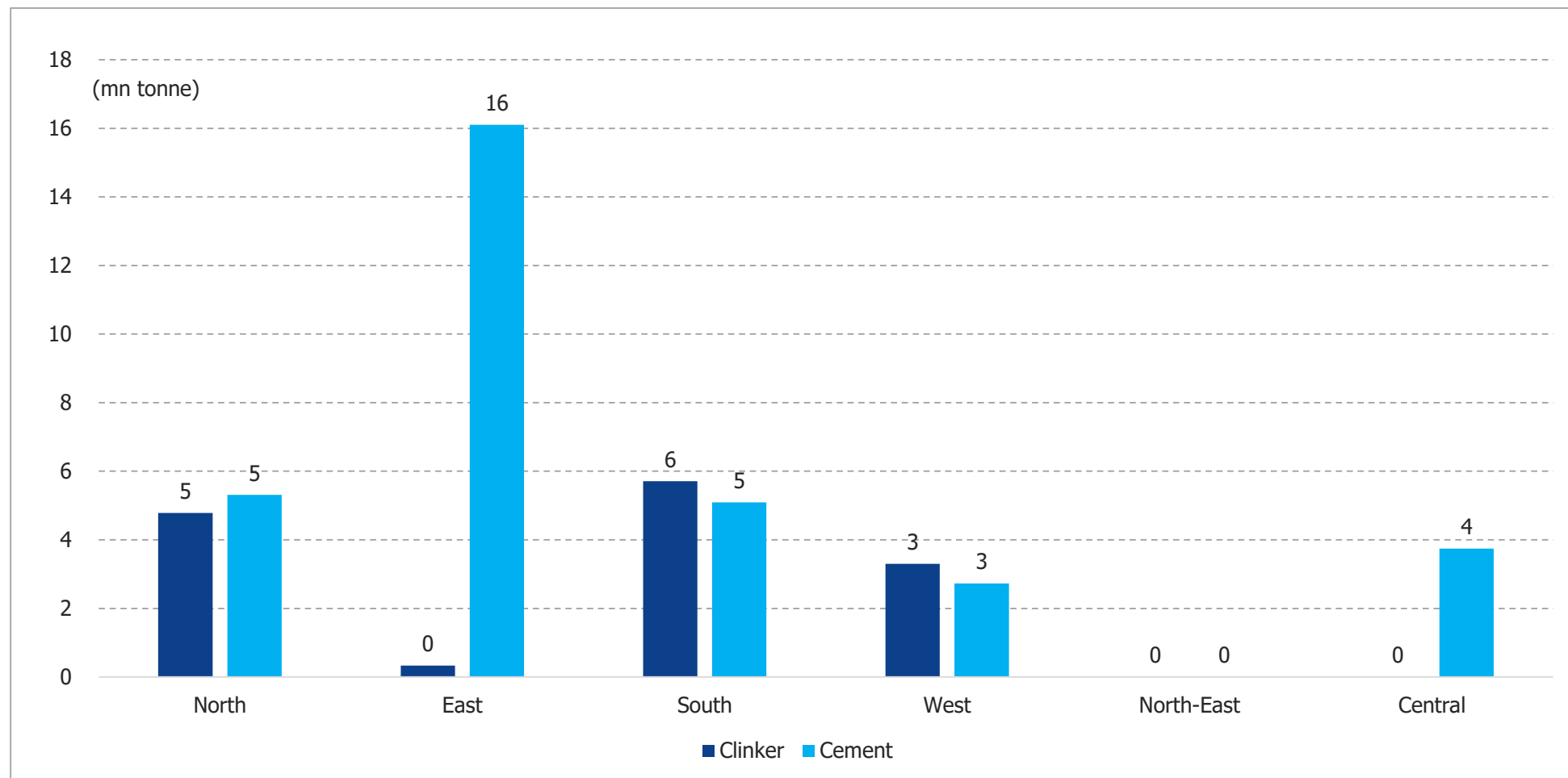
Possibility of a Fall in Cement Pricing is Limited

Minimum breakeven price for non-NER companies is INR 373 per bag

Clusters	Cost of production/tonne (INR)	Freight/Tonne (INR)	Cost of goods sold/tonne (INR)	Dealer margin (INR per bag)	Breakeven selling price (INR per bag)
Satna	2,772	2,930	5,702	10	406
OCL	3,000	2,611	5,611	10	400
Chhattisgarh	2,678	2,763	5,441	10	388
Durgapur (WB-GU) (Birla Corp/UltraTech/Lafarge)	3,347	1,877	5,224	10	373

Source: Elara Securities Estimate

No New Orders Placed in the Past 21 Months in NER



Source: Elara Securities Research

Hurdles for Setting Up New Plant Act as Entry Barriers for NER

- Limestone in NER is available primarily in Meghalaya. Outsiders are not allowed to own land in the state
- In Meghalaya, non-forest area has yet to be properly defined
- Apart from this, as Meghalaya falls under the Sixth Schedule of the Constitution, there is lack of clarity of application of new mining act in the state. Under the new regime, no mine has been auctioned
- Thus, apart from Dalmia Cement, none of the large caps has plants in NER

No New Limestone Mine Allocations for the Past 8 years

No new limestone mine allocated since 2010

Minerals	Lessee	Location	Area (Hect)	Lease period (years)	Date of grant	Date of execution
Limestone	Lafarge Umiam Mining	Phlangkarul- Nongtraï, East Khasi Hills District	100	30	29.8.2001	3.01.2001
Limestone	M/S K Singh Wann & Son	Ichamati (Mawkhlain) Mawlong Sirdarship East Khasi Hills District	4.56	20	14.12.2005	13.03.2006
Limestone	M/S Adhunik Cement	Umsoo Mootang` Thangskai Vill Jaintia Hills District	4.9	20	26.7.2010	6.08.2010
Limestone	M/S Hills Cement	Location Mynkre village Jaintia Hills District	4.0	20	16.11.2010	9.12.2010

Source: Department of Mining & Geology, Elara Securities Research

NER to See the Least Supply

South India to see the highest

State / region	Major companies	Annually Incremental Supply				Total (mn tonne)
		FY19E (mn tonne)	FY20E (mn tonne)	FY21E (mn tonne)	FY22E (mn tonne)	
Bihar	Shree Cement, Birla Corporation (NR), Century Textiles	1.0	0.0	0.3	0.4	1.8
Jharkhand	ACC, OCL	0.5	0.5	0.4	0.4	1.8
Chhattisgarh	JK Lakshmi Cement, Century Textiles (NR), ACC	0.3	0.0	0.0	0.0	0.3
West Bengal	Birla Corporation, Century Textiles, UltraTech Cement	0.4	1.0	0.6	0.3	2.4
Odisha	OCL (NR), ACC	1.1	2.2	1.5	1.6	6.5
East	Dalmia Cement, OCL, Century Textiles, ACC, UltraTech Cement	3.4	3.7	2.9	2.8	12.8
Uttar Pradesh	Prism Johnson, Heidelberg Cement, Birla Corporation	1.3	0.8	1.5	1.3	4.8
Madhya Pradesh	Prism Johnson, Heidelberg Cement, Birla Corporation	1.6	1.2	0.0	0.0	2.8
Central	Prism Johnson, Heidelberg Cement, Birla Corporation	2.9	2.0	1.5	1.2	7.6
Karnataka	JK Cement, Orient Cement, Kesoram industries (NR)	0.2	0.5	1.2	0.6	2.5
Kerala	Ramco Cement, Dalmia Cement, India Cements	0.6	0.4	1.0	0.6	2.6
Tamil Nadu	Ramco Cement, Dalmia Cement, India Cements	1.6	0.4	1.0	0.6	3.6
Andhra + Telangana	India Cements, UltraTech Cement, KCP (NR), Sagar Cement (NR)	1.1	1.2	3.3	2.2	7.9
South	India Cements, Ramco Cement	3.6	2.6	6.5	4.0	16.6
Gujarat	JK Lakshmi Cement, Sanghi, Ambuja Cement, UltraTech cement	0.6	1.4	1.5	2.6	6.0
Maharashtra	Orient Cement, Ambuja Cement, UltraTech Cement	1.2	2.2	2.6	2.5	8.5
West	Orient Cement, Ambuja Cement, UltraTech Cement	1.8	3.5	4.1	5.1	14.5
Rajasthan	Shree Cement, JK Cement, JK Lakshmi Cement	0.9	1.5	3.7	6.5	12.6
Delhi	Shree Cement, JK Cement, JK Lakshmi Cement	0.1	0.0	0.1	0.0	0.2
Punjab	Ambuja Cement, UltraTech Cement	0.6	0.2	0.3	0.0	1.1
Himachal Pradesh	ACC, Ambuja Cement	0.3	0.1	0.1	0.0	0.6
Uttarakhand	Shree Cement, Ambuja Cement	0.4	0.1	0.1	0.0	0.6
Haryana	Shree Cement, JK Cement, JK Lakshmi Cement	0.5	0.3	0.4	0.0	1.3
North	Shree Cement, JK Cement, JK Lakshmi Cement	2.8	2.1	4.7	6.8	16.4
Northeast	Star Cement, Dalmia Cement	0.2	0.1	0.2	0.0	0.5
All India	ACC, Ambuja Cement, UltraTech Cement	14.7	14.0	19.9	19.8	68.3

Source: Elara Securities Estimate

PMAY-R to Ensure Strong Demand in East & NER in Next Three Months

NER accounts for 4.4% of rural housing projects under execution

States/ Region	Houses (no)		% of total	
	Under Construction	Work yet to start	Under Construction	Work yet to start
Northeast	119,210	79,920	4.4	4.0
Arunachal Pradesh	0	2,955	0.0	0.1
Assam	90,082	52,838	3.4	2.7
Manipur	5,647	5,001	0.2	0.3
Meghalaya	14,224	5,020	0.5	0.3
Mizoram	451	4,927	0.0	0.2
Nagaland	2,682	6,051	0.1	0.3
Sikkim	161	31	0.0	0.0
Tripura	5,963	3,097	0.2	0.2
East	13,60,609	478,902	50.7	24.0
Bihar	6,07,092	1,07,425	22.6	5.4
Chhattisgarh	2,26,778	1,18,067	8.5	5.9
Odisha	2,54,769	76,443	9.5	3.8
West Bengal	2,71,970	1,76,967	10.1	8.9
West	172,588	704,738	6.4	35.4
Gujarat	44,307	48,412	1.7	2.4
Maharashtra	1,28,045	6,50,970	4.8	32.7
Dadra and Nagar Haveli	236	5,354	0.0	0.3
Daman and Diu	0	2	0.0	0.0
Centre	451,573	231,277	16.8	11.6
Madhya Pradesh	1,86,415	83,529	7.0	4.2
Uttar Pradesh	2,65,158	1,47,748	9.9	7.4

States/ Region	Houses (no)		% of total	
	Under Construction	Work yet to start	Under Construction	Work yet to start
North	386,131	240,163	14.4	12.1
Haryana	8,659	3,505	0.3	0.2
Himachal Pradesh	855	731	0.0	0.0
Jammu and Kashmir	15,958	18,568	0.6	0.9
Jharkhand	167,029	56,071	6.2	2.8
Punjab	7,037	24,873	0.3	1.2
Rajasthan	183,479	136,116	6.8	6.8
Uttarakhand	3,114	299	0.1	0.0
South	191,196	2,57,293	7.1	12.9
Kerala	2,558	14,735	0.1	0.7
Tamil Nadu	132,801	161,185	5.0	8.1
Andhra Pradesh	21,061	31,584	0.8	1.6
Karnataka	34,669	48,397	1.3	2.4
Telangana	0	9	0.0	0.0
Goa	55	49	0.0	0.0
Andaman and Nicobar	0	1,331	0.0	0.1
Lakshadweep	52	3	0.0	0.0
Puducherry	0	0	0.0	0.0
All India	26,81,307	19,92,293	100	100

Source: Ministry of Rural Development, Elara Securities Research

East & NER Account for Disproportionate Numbers of Projects

It should ensure strong demand in the primary and secondary markets of Star cement

	% consumption	% of houses under construction	% of Houses work yet to start	% of Houses construction/% consumption	% of Houses were work is yet to start/% consumption
East	18.1	50.7	24.0	2.8	1.3
Northeast	2.8	4.4	4.0	1.6	1.4
Central	16.6	16.8	11.6	1.0	0.7
South	25.0	7.1	12.9	0.3	0.5
West	17.3	6.4	35.4	0.4	2.0
North	20.1	14.4	12.1	0.7	0.6

Source: Ministry of Rural Development, Elara Securities Research

Houses Grounded For Construction Increase by 1.0x YoY in NER

East region sees a 159% increase in houses grounded for construction

	Houses sanctioned				Houses grounded for construction				Houses completed			
	Dec-17	Jan-19	Var (%)	% of total	Dec-17	Jan-19	Var (%)	% of total	Dec-17	Jan-19	Var (%)	% of total
Northeast	2,06,705	2,29,858	11	4	63,352	1,29,534	104	4	6,713	25,379	278	2
Arunanchal Pradesh	3,270	6,284	92	0	1,592	6,323	297	0	15	601	3,907	0
Assam	69,346	57,541	(17)	1	14,183	33,376	135	1	162	1,485	817	0
Manipur	26,462	29,081	10	0	2,457	11,946	386	0	137	1,260	820	0
Meghalaya	777	799	3	0	71	1,360	1,815	0	42	738	1,657	0
Mizoram	13,914	29,863	115	0	1,575	2,407	53	0	254	1,183	366	0
Nagaland	13,563	25,764	90	0	2,331	9,705	316	0	462	2,460	432	0
Sikkim	516	518	0	0	1	493	49,200	0	1	188	18,700	0
Tripura	78,857	80,008	1	1	41,142	63,924	55	2	5,640	17,464	210	1
East	5,36,097	10,71,111	100	15	2,16,442	5,60,502	159	15.25	56,187	2,25,063	301	17
Bihar	1,25,017	2,31,798	85	3	51,298	1,02,978	101	3	3,345	26,938	705	2
Chhattisgarh	61,207	2,10,842	244	3	15,804	91,456	479	2	2,791	27,725	893	2
Jharkhand	1,24,271	1,63,258	31	2	60,430	1,06,647	76	3	27,308	46,468	70	3
Orissa	80,030	1,26,341	58	2	23,490	68,625	192	2	2,294	25,901	1,029	2
West Bengal	1,45,572	3,38,872	133	5	65,420	1,90,796	192	5	20,449	98,031	379	7
West	3,47,895	11,91,011	242	17	1,99,294	5,41,502	172	14.73	77,154	3,24,335	320	24
Maharashtra	1,63,154	7,68,926	371	11	57,217	2,14,117	274	6	22,635	1,46,481	547	11
Gujarat	1,81,363	4,17,264	130	6	1,41,388	3,24,398	129	9	54,224	1,76,625	226	13
D&N Haveli (UT)	2,918	4,013	38	0	653	2,400	268	0	259	982	279	0
Daman & Diu (UT)	460	808	76	0	36	587	1,531	0	36	247	586	0
Central	5,33,066	14,75,855	177	21	2,26,856	7,27,467	221	20	35,061	2,33,478	566	17
Madhya Pradesh	3,58,802	6,10,629	70	9	2,14,497	4,05,988	89	11	27,861	1,59,592	473	12
Uttar Pradesh	1,74,264	8,65,226	397	12	12,359	3,21,479	2,501	9	7,200	73,886	926	6
North	1,51,862	5,85,638	286	8	55,049	2,11,945	285	6	22,964	89,162	288	7
Punjab	43,302	51,955	20	1	8,800	28,727	226	1	1,155	8,596	644	1
Rajasthan	51,398	1,64,638	220	2	33,817	90,879	169	2	16,694	50,790	204	4
Haryana	29,178	2,50,674	759	4	4,421	26,122	491	1	1,726	9,116	428	1
Himachal Pradesh	4,925	8,411	71	0	1,568	4,460	184	0	137	1,123	720	0
Jammu & Kashmir	9,509	34,450	262	0	483	12,099	2,405	0	187	1,803	864	0
Uttrakhand	12,290	22,791	85	0	4,700	13,539	188	0	1,805	6,250	246	0
Chandigarh (UT)	34	5,110	14,929	0	34	5,110	14,929	0	34	2,839	8,250	0
Delhi (UT)	1,226	47,609	3,783	1	1,226	31,009	2,429	1	1,226	8,645	605	1
South	14,23,382	23,72,864	67	34	6,47,544	15,04,480	132	41	90,884	4,36,938	381	33
Andhra Pradesh	5,41,719	10,23,108	89	15	1,71,022	6,20,055	263	17	21,470	1,57,471	633	12
Goa	54	374	593	0	54	314	481	0	54	314	481	0
Karnataka	2,20,836	5,18,680	135	7	93,428	2,41,098	158	7	33,436	1,07,393	221	8
Kerala	72,102	89,588	24	1	18,852	66,753	254	2	1,548	20,894	1,250	2
TamilNadu	3,92,638	5,36,278	37	8	2,40,775	4,15,903	73	11	32,709	1,25,131	283	9
Telangana	1,89,598	1,99,633	5	3	1,21,183	1,59,180	31	4	1,634	24,732	1,414	2
All India	31,99,007	69,26,337	117	100	14,08,537	36,75,430	161	100	2,88,963	13,34,355	362	100

Source: Ministry of Housing and Urban Affairs, Elara Securities Research

NER with Disproportionate Share in PMAY-U

NER accounts for 2.8% of all-India consumption, but with 3.5% projects grounded for construction and 3.1% of projects where work is yet to start

	% consumption	% of house under construction	% of houses where work is yet to start	% of house construction/% consumption	% of houses where work is yet to start/% consumption
South	25	40.9	26.7	1.64	1.07
Northeast	2.8	3.5	3.1	1.26	1.10
Central	16.6	19.8	23.0	1.19	1.39
East	18.1	15.2	15.7	0.84	0.87
West	17.3	14.7	20.0	0.85	1.15
North	20.1	5.8	11.5	0.29	0.57

Note: Data as on January 2019 YTD; Source: Ministry of Housing and Urban Affairs, Elara Securities Research

CY19 Likely to See Double-Digit Growth in Demand in NER

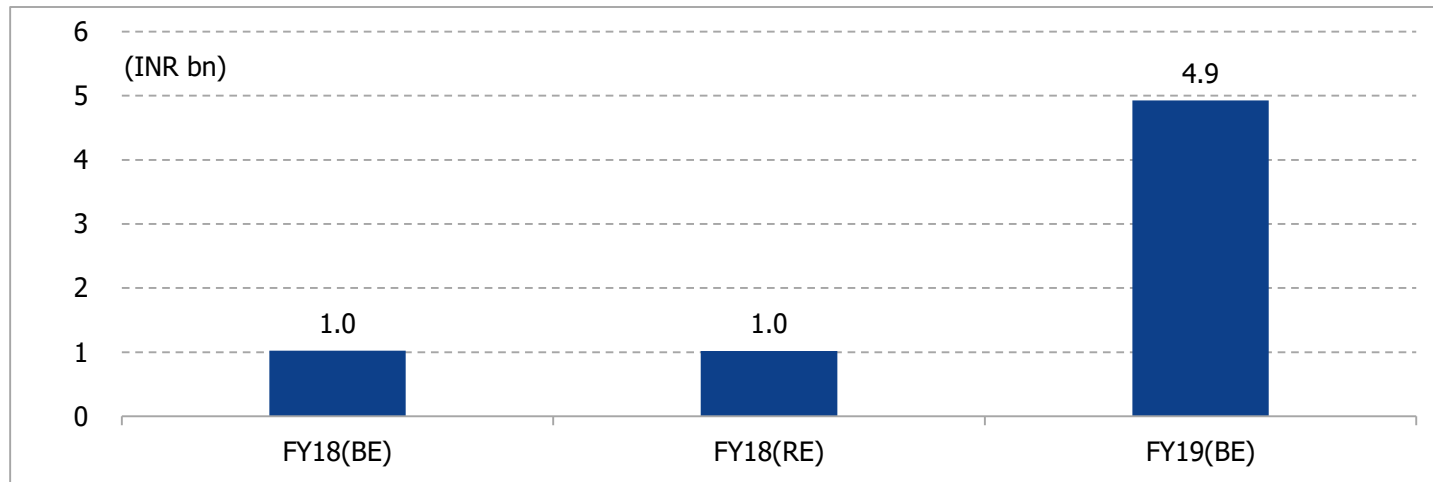
PMAY to add 1,140bp to demand

Estimation of cement demand under PMAY NER (CY19E)	
Rural housing	
Houses constructions in CY19 (mn)	0.199
Average size of house (sq ft)	330.0
Construction in CY19 (mn sq ft)	65.7
Cement consumption (per sq ft)	0.010
Estimated cement demand for CY19 (mn tonne)	0.7
Houses constructions in CY18 (mn)	0.005
Construction in CY18 (mn sq ft)	1.7
Estimated cement demand for CY18 (mn tonne)	0.0
Cement demand delta (mn tonne)	0.6
Market size (mn tonne)	7.9
Demand delta (%)	8.1
- from projects under construction	4.9
- projects sanctioned but work is yet to start	3.2
Urban housing	
House constructions in CY19 (mn)	0.065
Average size (sq ft)	406
CY19 construction (mn sq ft)	26.3
Cement consumption (per sq ft)	0.020
Estimated cement demand for CY19 (mn tonne)	0.5
Houses constructions in CY18 (mn)	0.032
Construction in CY18 (mn sq ft)	12.9
Estimated cement demand for CY18 (mn tonne)	0.26
Cement demand delta (mn tonne)	0.3
Market size (mn tonne)	8.1
Demand delta (%)	3.3
Total delta (%)	11.4

Source: Ministry of Housing and Urban Affairs, Ministry of Rural Development, Elara Securities Estimate

PMAY-U Allocation Increases by 3.8x YoY for NER

Allocation of INR 4.9bn for urban housing in NER



Source: Ministry of Development of North Eastern Region, Elara Security Research

Road Projects Likely to Add 340bp Delta

Arunachal Pradesh likely to see the highest activity on roads

Road to be completed in CY19E (km)	328
Assam	126
Arunachal Pradesh	137
Nagaland	22
Tripura	43
Cement demand (mn tonne)	0.39
Road to be completed in CY18 (km)	229.78
Assam	62
Arunachal Pradesh	110
Nagaland	18
Tripura	40
Cement demand (mn tonne)	0.28
Market size (mn tonne)	8.1
Delta (%)	3.4

Source: National Highways and Infrastructure Development Corporation (NHIDCL), Elara Securities Estimate

Central Government Projects to Account for One-Fifth of Demand

Contribute 1,480bp to delta

(mn tonne)	CY18E	CY19E
Market size	7.30	8.1
PMAY-Urban	0.257	0.526
PMAY- Rural	0.017	0.657
Roads	0.276	0.394
% of all total demand		
PMAY-Urban	3.5	6.5
PMAY-Rural	0.2	8.1
Roads	3.78	4.87
Demand from government projects	7.5	19.5
Delta %		
PMAY-Urban		3.3
PMAY-Rural		8.1
Roads		3.4
Total delta from government projects		14.8

Source: Elara Securities Estimate

Demand Visible Beyond CY19

Even if no new projects are sanctioned, existing pipeline to generate delta of 260bp

Estimation of cement demand under PMAY NER	(CY20E)
Urban housing	
Houses construction (mn)	0.093
Average size (sq ft)	406.1
Construction (mn sq ft)	37.9
Cement consumption (per sq ft)	0.0
Estimated cement demand for CY19 (mn tonne)	0.8
Houses construction in CY19 (mn)	0.1
Construction (mn sq ft)	26.3
Estimated cement demand for CY19 (mn tonne)	0.5
Cement demand delta (mn tonne)	0.2
Market size (mn tonne)	9.1
Demand delta (%)	2.6

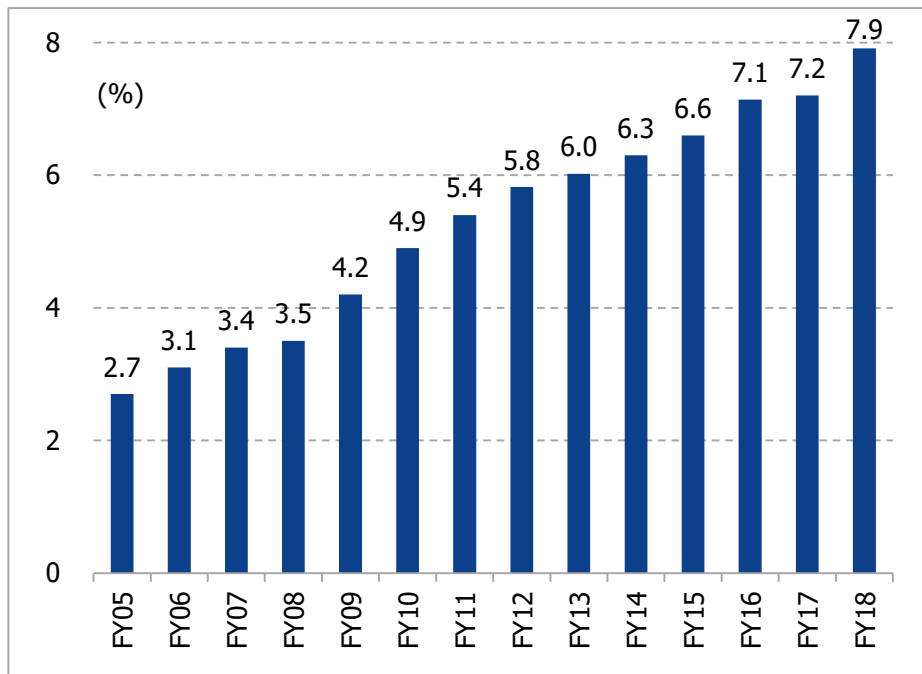
Source: Ministry of Housing and Urban Affairs, Elara Securities Estimate

Several Long Gestation Projects at Various Stages

- Under **Bharatmala Pariyojana**, roads aggregating to about 5,301km in NER have been approved for improvement. Out of this, 3,246km road length has been approved for the development of an economic corridor there
- To augment the Indian Railways network, five projects consisting of three new lines and two doublings have been taken up during the past two years, which are at various stages of execution. For providing cross-border rail linkage, foundation stone for Agartala-Akhaura Rail-Link was laid in July 2016, which will connect the existing Agartala station in Tripura to Akhaura Station of Bangladesh Railways. The cost of Indian portion of the project is INR 5.8bn, which is being borne by Ministry of DoNER while the Bangladesh portion is being funded by Ministry of External Affairs as grant assistance
- Assam has proposed to establish an industrial corridor in NER from Dawki (on Indo-Bangladesh Border) Shillong via Guwahati to Nagoan and from Golaghat via Dimapur and Imphal to Moreh (on Indo-Myanmar Border)
- The government has approved a scheme named North East Special Infrastructure Development Scheme to develop NER to be implemented by the Ministry of Development of North Eastern Region. It is a 100% central sector scheme to be implemented until March 2020. About INR 16bn has been allocated for funding physical infrastructure relating to connectivity, power, water supply enhancing tourism and social infrastructure relating to education and health sectors in Northeast states
- The government also has approved schemes of North Eastern Council (NEC) and North East Road Sector Development Scheme (NERSDS) at a cost of INR 45bn for three years
- **Special Accelerated Road Development Programme:** This initiative envisages providing road connectivity to all district headquarters in NER by at least a two-lane highway standard apart from providing road connectivity to backward and remote areas, areas of strategic importance and neighbouring countries. It is planned in two phases (A & B), including Arunachal Package, Phase-A is under progress and Phase-B is in conceptual stage

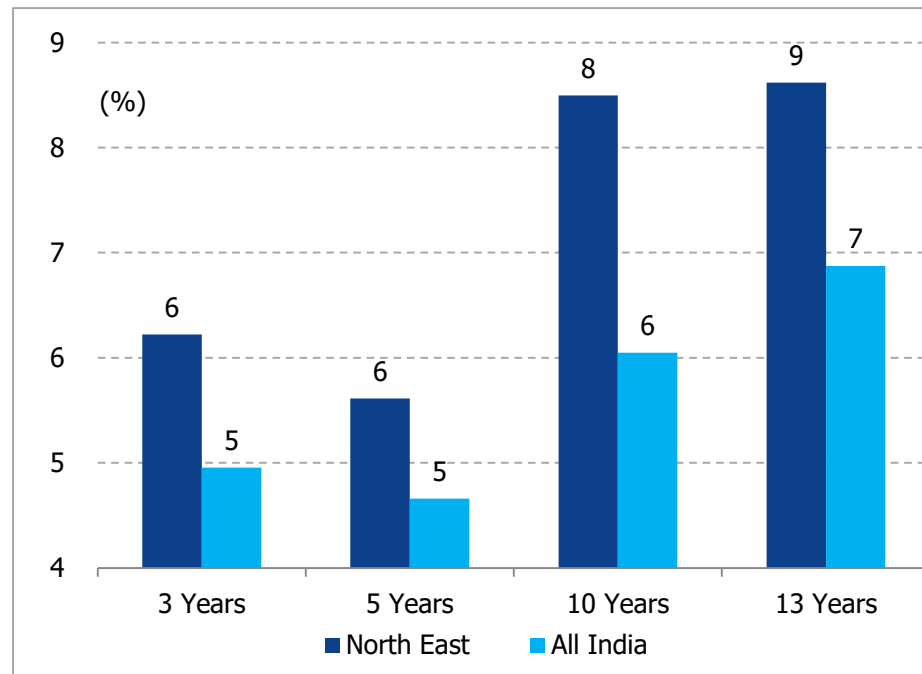
NER Grows Higher Than All-India

Cement consumption CAGR of 9% over FY05-18 in NER



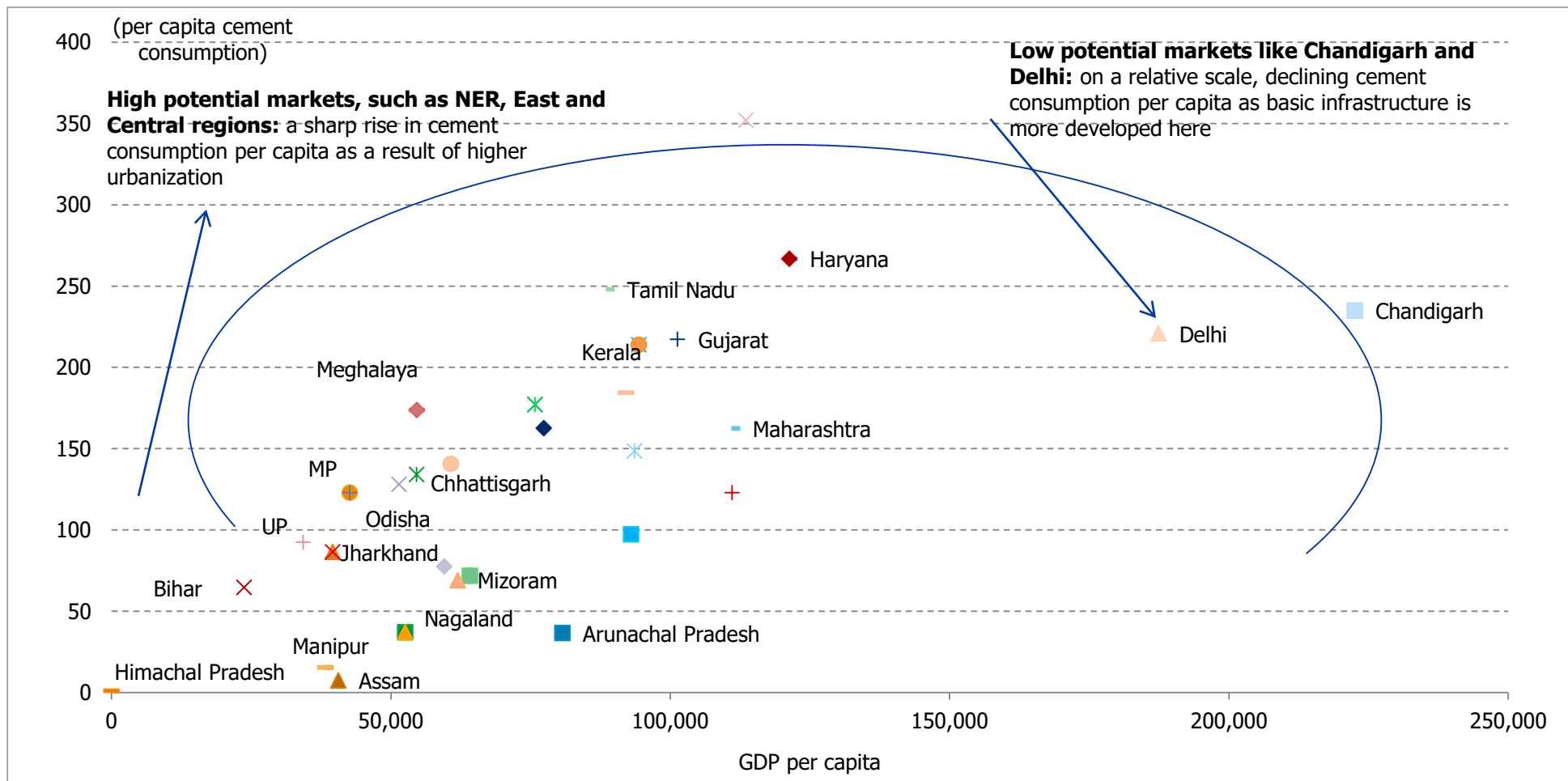
Source: Elara Security Research

NER consumption grows at 1.25x faster than all-India



Source: Elara Security Research

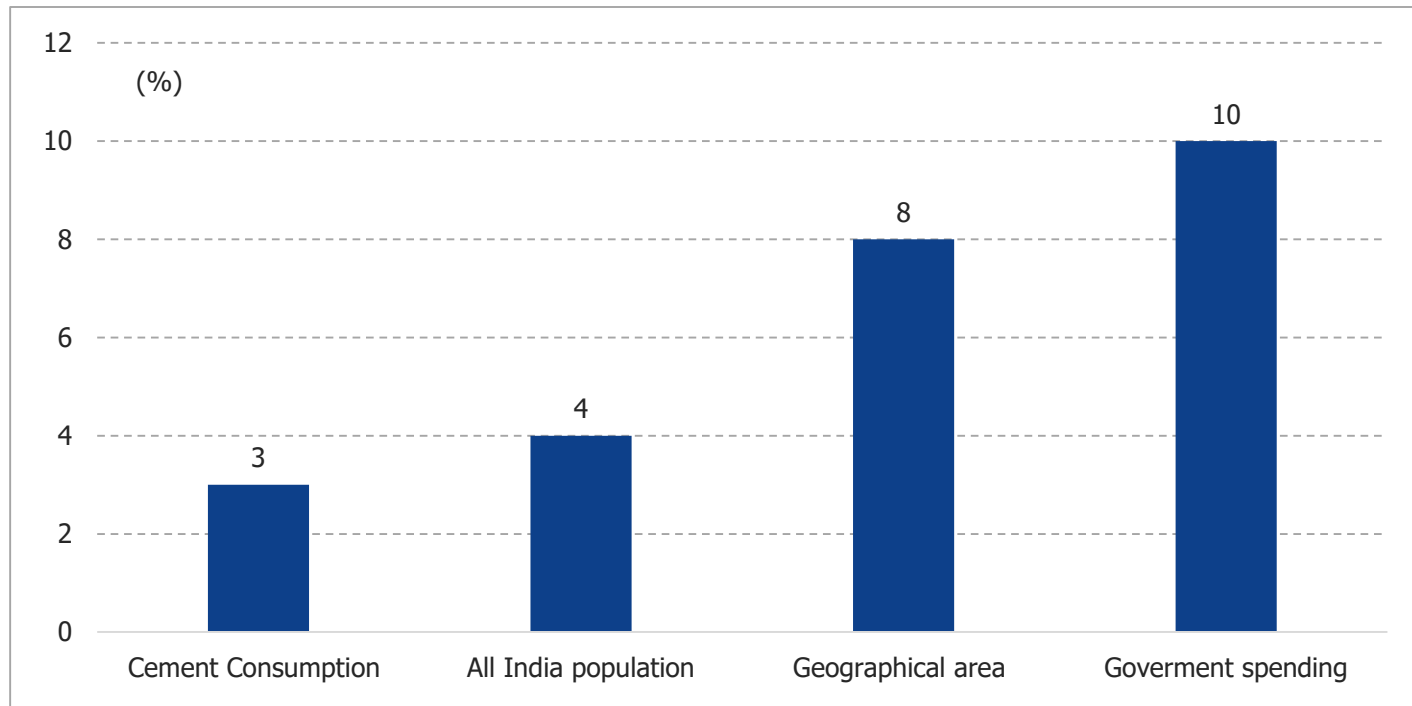
Macros Indicate NER Has Potential to Grow Above All-India



Note: FY11; Source: Elara Securities Research

NER to Receive Higher Share of Spending

NER to receive government spending disproportionate to its population and geography

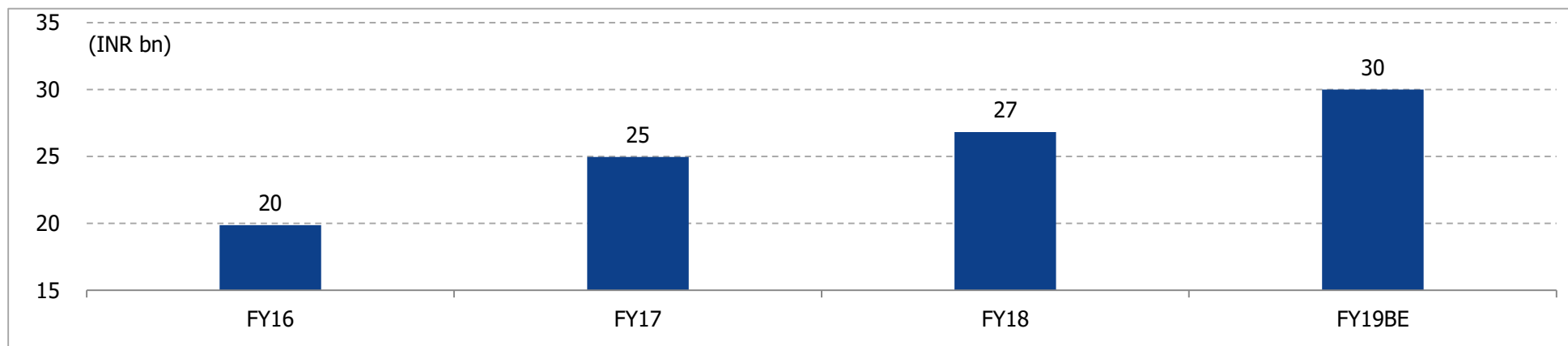


Source: Elara Securities Research

Higher Infra Spending May Continue

- In October 1996, it was decided that unless specifically exempted, non-exempted ministry and department will set aside 10% of Plan Gross Budgetary Support for the North Eastern Region (NER) to ensure a quantum jump in budgetary resource flows to the area and to fill backlog and gaps in basic minimum services and infrastructure
- In FY98, when it was found actual expenditure of ministries and departments for NER is less than the mandatory ceiling of 10%, the government took the decision to create a "Central Resource Pool" into which the unutilized portion of the 10% earmarked GBS will accrue at the end of the financial year
- In 2001, the Centre set up the Ministry for Development of North Eastern Region to act as the nodal Department of the Central Government to deal with matters pertaining to socioeconomic development of eight States of Northeast India

Allocations by Ministry for Development of North Eastern Region increase at a CAGR of 15% over FY16-19BE



Source: Press Information Bureau (PIB), Elara Securities Research

NER with Favorable Supply to Demand Ratio

Demand-supply gap in NER to bridge faster than other regions

States and region	Major companies	Cumulative			
		FY19E	FY20E	FY21E	FY22E
		Supply as a % of demand			
Bihar	Shree Cement, Birla Corporation (NR), Century Textiles	22	18	19	21
Jharkhand	ACC, OCL	41	61	65	69
Chhattisgarh	JK Lakshmi Cement, Century Textiles (NR), ACC	28	18	13	10
West Bengal	Birla Corporation, Century Textiles, UltraTech Cement	19	41	44	39
Odisha	OCL (NR), ACC	82	153	161	165
East	Dalmia Cement, OCL, Century Textiles , ACC, UltraTech Cement	32	48	52	53
Uttar Pradesh	Prism Johnson, Heidelberg Cement, Birla Corporation	9988	93	78	68
Madhya Pradesh	Prism Johnson, Heidelberg Cement, Birla Corporation	47	58	46	36
Central	Prism Johnson, Heidelberg Cement, Birla Corporation	83	69	59	51
Karnataka	JK Cement, Orient Cement, Kesoram Industries (NR)	22	32	52	49
Kerala	Ramco Cement, Dalmia Cement, India Cements	211	113	130	116
Tamil Nadu	Ramco Cement, Dalmia Cement, India Cements	60	48	52	48
Andhra + Telangana	India Cements, UltraTech Cement, KCP (NR), Sagar Cement (NR)	29	40	71	77
South	India Cements, Ramco Cement	45	46	66	66
Gujarat	JK Lakshmi Cement, Sanghi, Ambuja Cement , UltraTech cement	89	86	86	104
Maharashtra	Orient Cement, Ambuja Cement , UltraTech Cement	101	108	116	115
West	Orient Cement, Ambuja Cement , UltraTech Cement	96	99	103	110
Rajasthan	Shree Cement, JK Cement, JK Lakshmi Cement	67	82	129	192
•Delhi	Shree Cement, JK Cement, JK Lakshmi Cement	54	20	21	18
Punjab	Ambuja Cement, UltraTech Cement	223	72	55	39
* Himachal Pradesh	ACC, Ambuja Cement	295	113	87	65
*Uttarakhand	Shree Cement, Ambuja Cement	241	92	69	51
Haryana	Shree Cement, JK Cement, JK Lakshmi Cement	70	49	47	35
North	Shree Cement, JK Cement, JK Lakshmi Cement	103	65	75	88
Northeast	Star Cement, Dalmia Cement	10	12	17	14
All India	ACC, Ambuja Cement, UltraTech Cement	51	56	65	69
Combined					
East + Northeast		28	42	47	48
North + Central		92	67	68	72
South + Odisha+ Maharashtra		56	69	86	87

Source: Elara Securities Estimate

Demand-Supply Gap to Be Bridged

Strong growth in FY20 to wipe off excess supply

(mn tonnes)	FY17	FY18	FY19E	FY20E	FY21E
NER clinker capacity	7.5	7.5	7.5	7.9	7.9
Cement : clinker ratio	1.35	1.35	1.35	1.35	1.35
Maximum possible supply from NER at 95% utilization	9.6	9.6	9.6	10.1	10.1
Cement demand	7.2	7.9	8.8	10.1	11.0
Cement supply from NER	6.5	7.1	8.0	9.3	10.2
Interregional movement	0.72	0.791	0.791	0.791	0.791
Excess supply (%)	33	26	17	9	0

Source: Elara Securities Estimate

High Level of Consolidation in NER

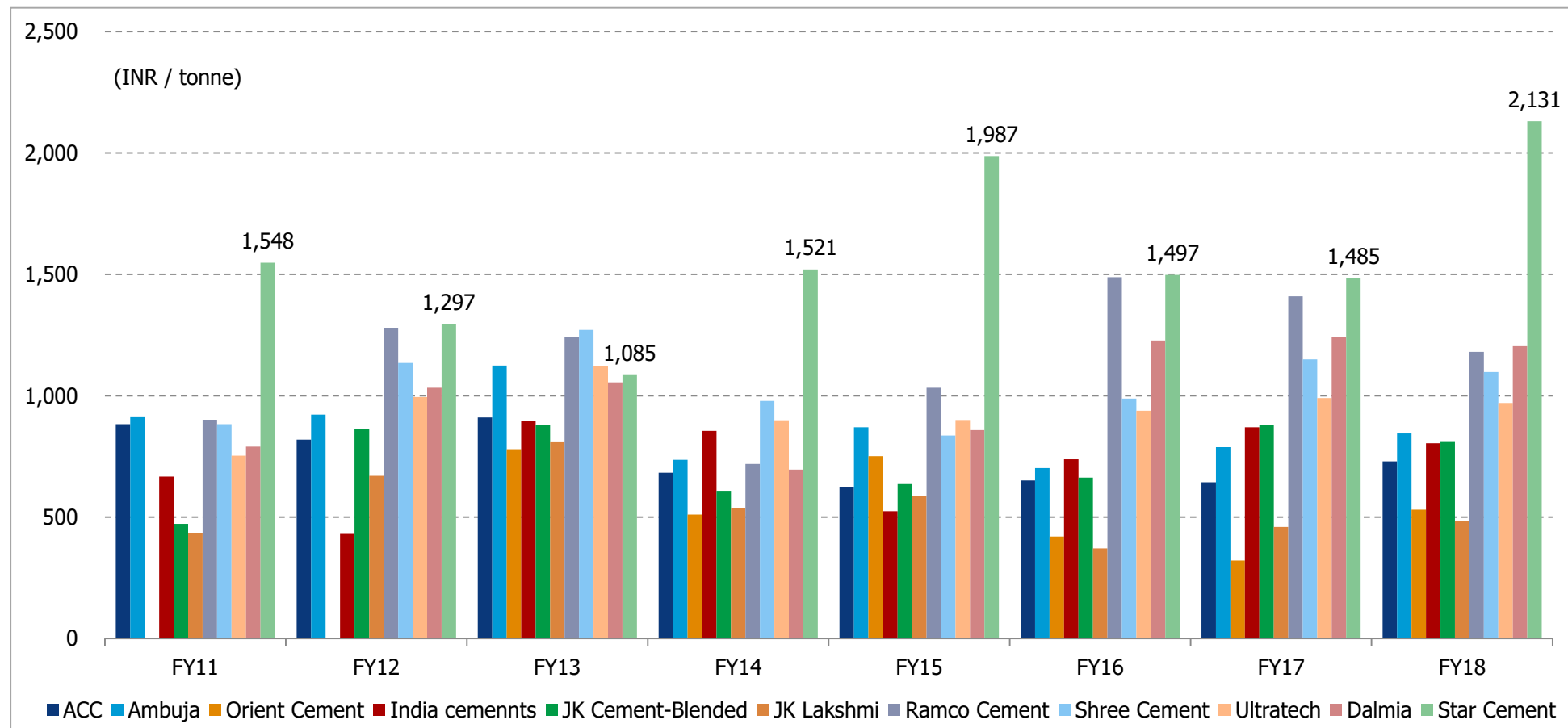
Top two firms control 65% of capacity while top 3 control 75%

	(mn tonne)		% of total	
	Cement	Clinker	Cement	Clinker
Star Cement	3.7	2.6	33	35
Dalmia Cement	3.6	2.3	32	31
TopCem	1.2	0.8	11	11
Goldstone	1.0	0.7	9	9
Amrit Cement	1.0	0.5	9	7
Green Valley	0.6	0.4	5	5
Mawmluh Cherra Cement	0.2	0.2	2	3
Total	11.3	7.5	100	100

Source: Company, Elara Securities Research

Margin leader in the Industry

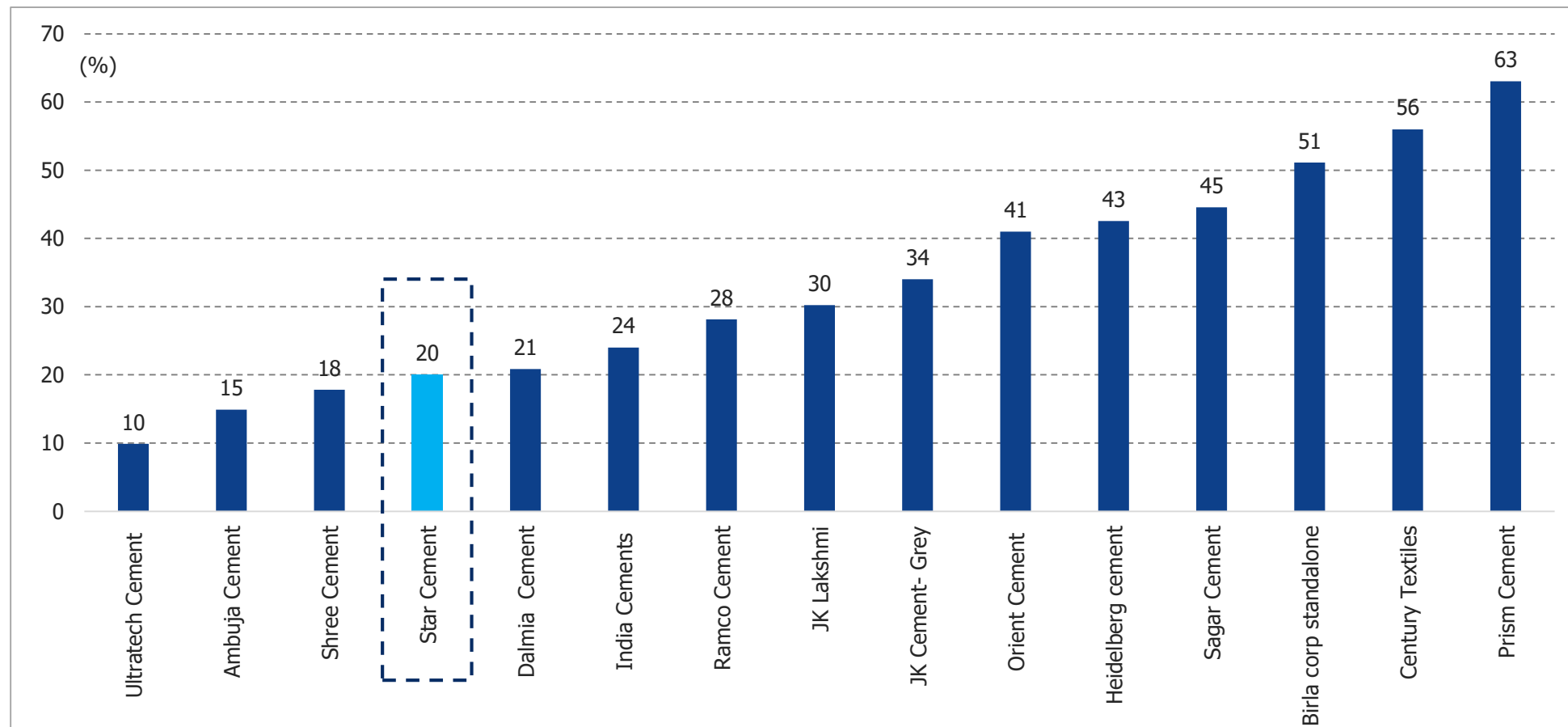
SCL enjoys a competitive advantage in serving NER as it is based in a geographically complex region



Source: Company, Elara Securities Research

Coefficient of Margin Variation Is in Line with Large Caps

Among midcap cement companies, Star Cement has the lowest volatility in EBITDA per tonne



Source: Company, Elara Securities Research

Fiscal Incentives to Ensure Better Profitability than Peers

Under the new industry policy, cement is in the negative list. Apart from Goldstone, all have exhausted incentives

Exemption	Exemption	Balance Exemption		
		SCML	SCL-GGU	SCL-LMS
Income tax	100% under Section 80 IE subject to MAT	>4 Years	>4 years	
IGST/CGST				
-Clinker	29%/58%	>3 years		>8 years
- Cement	29%/58%		>3 years	>8 years
SGST	100%	2 years	INR 295mn	

Note: SCML-Star Cement Meghalaya 87.5% subsidiary of the company. Has clinker capacity of 1.8mn tonnes
 SCL-LMS-Star Cement leased units 0.4mn tonnes
 SCL -GGU-Star Cement grinding unity
 Source: Company, Elara Securities Research

Fiscal incentives contribute ~INR 250 per tonne to EBITDA

Enjoys Brand Premium in NER...

Star Cement selling price is in line with UltraTech at Guwahati

Region	State	Place	Brand	OPC/PPC	RSP (INR per bag)
Northeast	Assam	Guwahati	UltraTech	PPC	380
Northeast	Assam	Guwahati	Ambuja Cement	PPC	390
Northeast	Assam	Guwahati	Birla Gold	PPC	380
Northeast	Assam	Guwahati	Dalmia Bharat	PPC	380
Northeast	Assam	Guwahati	Star Cement	PPC	380
Northeast	Assam	Guwahati	Reliable	PPC	330
Northeast	Assam	Guwahati	Raksha	PPC	330
Northeast	Assam	Guwahati	Ryno	PPC	330

Note: OPC stands for Ordinary Portland Cement; PPC stands for Portland Pozzolona Cement; RSP stands for Retail Selling Price; Source: Elara Securities Research

...and in Bihar...

Star Cement premium brand price is a mere INR 5 per bag lower than Concreto

Region	State	Place	Brand	Sub-Brand	OPC & PPC	RSP (INR per bag)
East	Bihar	Patna	ACC	F2R	Premium	395-410
East	Bihar	Patna	Lafarge	Concreto	Premium	405
East	Bihar	Patna	Star Cement	Antirust	PPC	400
East	Bihar	Patna	Prism Johnson	Duratex	PPC	400
East	Bihar	Patna	UltraTech	Premium	Premium	390
East	Bihar	Patna	ACC		PFS	355
East	Bihar	Patna	UltraTech		PPC	350
East	Bihar	Patna	Lafarge		PFS	365
East	Bihar	Patna	Birla Gold		PPC	310
East	Bihar	Patna	JP Associates		PPC	330

Source: Elara Securities Research

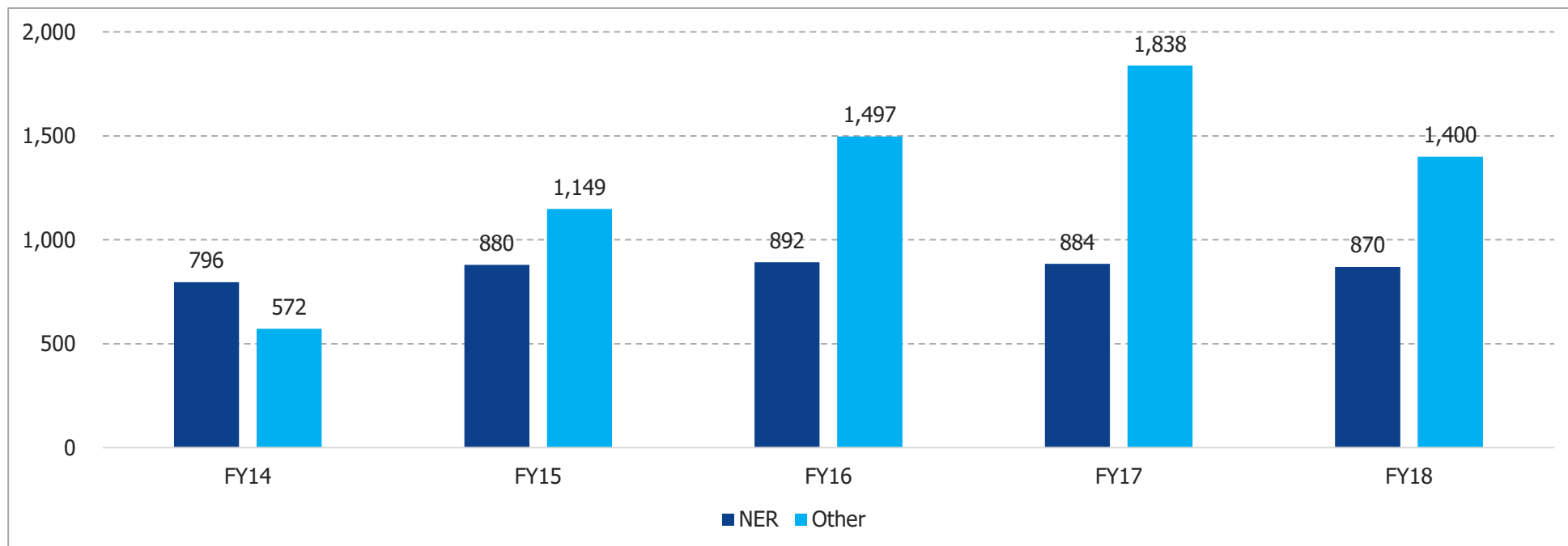
...Due to Investment in Brand-Building

- Aggregate brand investment of INR 2,800mn in the past decade
- Concentrated launches in selected markets backed by strong budget, innovative and aggressive marketing with sufficient plant capacity
- Star Cement has organized the Northeast's first International half marathon, in which more than 20,000 people united for a single cause to support Clean India
- Use of popular celebrities: Bipasha Basu, Debojit Saha, Saurabhee Debbarma, Lou Majaw, MamiVarte, Late Bhupen Hazarika, Pranjal Saikia and Simanta Sekhar

Lowest Response Time to Market

- While peers adopted the whole seller model, Star Cement built a strong network
- The result: deeper penetration, greater reach, higher market share and lower response time to market

Company has 2,270 dealers in 10 states



Source: Company, Elara Securities Research

Among the Lowest Cost Producers in NER

- Limestone mines are based within 2-3km of plants, providing a strong raw material linkage, easy accessibility and uninterrupted supply of raw materials
- The company's coal requirements are largely met through open market purchases, from the Bapung and Surupi regions of Meghalaya, which are approximately 20-30km from the plant site
- Availability of coal also provides strong backup for the company's 51 MW power plant. Out of 51 MW, 10 MW are located at the split grinding unit. Among very few companies in India to have captive power at the grinding unit
- Availability of best quality low cost coal ensures increased benefits for the power plant
- Captive power ensures non-dependency on grid power
- Fly ash generated from the power plant is used in cement plants at almost nil cost
- Compared to peers, Star Cement is strategically placed plants cater to the eastern & north eastern regions, helping it optimize and rationalize cost
- Unlike Star Cement, several small companies do not have their own limestone mine and have to purchase from the open market
- Other key company is Dalmia Cement's Adhunik Cement plant, which is equipped with machinery from China, which usually requires higher maintenance. The Chinese plant are not able to operate at 100% utilization levels

Capacity Addition to Bolster Volume...

- The company is in the process of setting up a split grinding unit of 2.0mn tonne at Siliguri in West Bengal
- Along with a grinding unit, the company is in the process of increasing its clinker capacity through debottlenecking by 0.4mn tonne to 3.0mn tonnes with total capex of INR 4.0bn
- Capacity addition will not only enable the company to grow volume but also improve cost structure as it would result in freight outward savings to the market for cement, freight inward on fly ash and save rental outgo to outsource grinding units

...and Provide Cost Savings

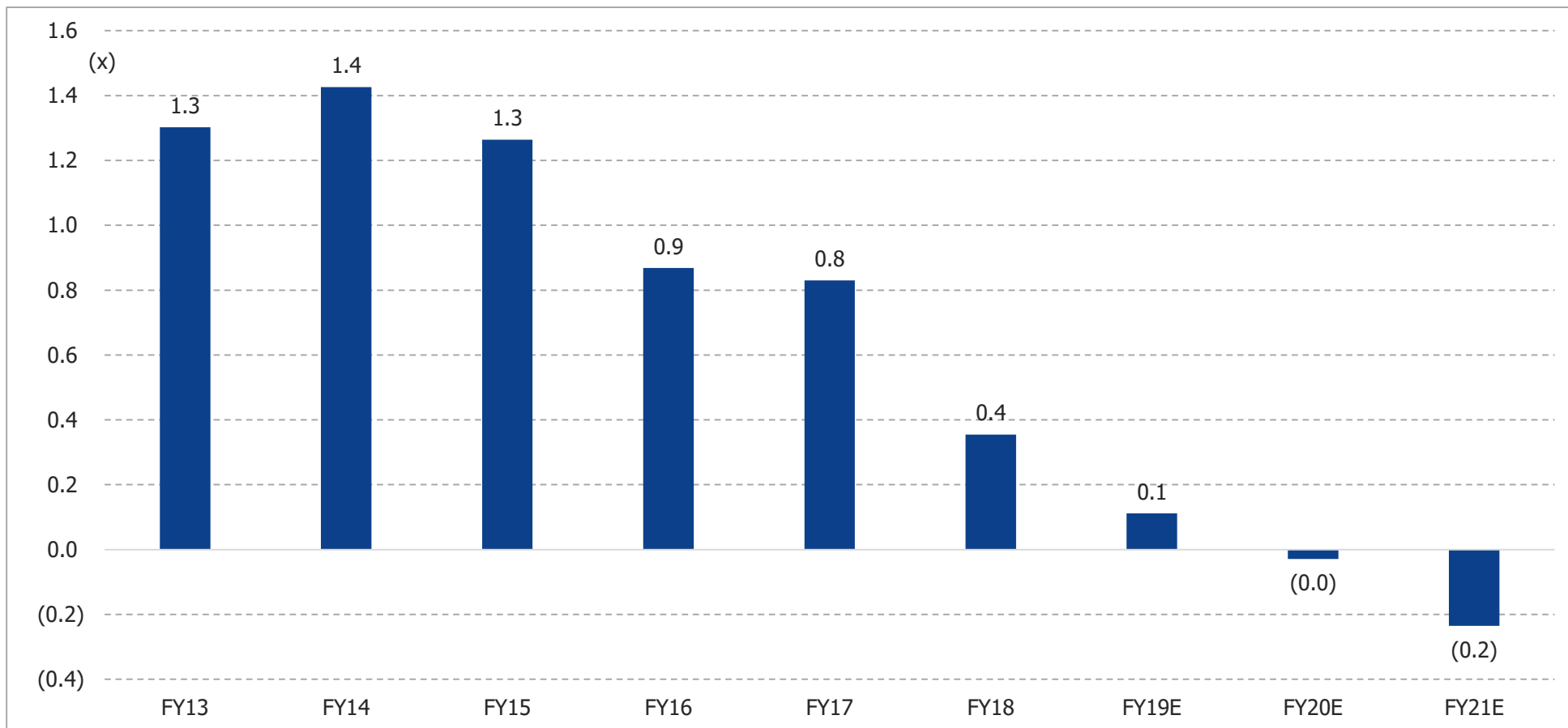
Savings from grinding unit to improve EBITDA by 22%

	(km)		(INR mn)
	(km)	(mn tonne)	
Volume sold outside NER		0.7	
Savings in freight			
Freight inward on fly ash	680	0.2	342
Freight outward on clinker	680	0.4	740
Savings of rental grinding unit			45
Total savings			1,127
FY18 EBITDA			5,132
% of EBITDA			22

Source: Company, Elara Securities Estimates

Turning Debt Free

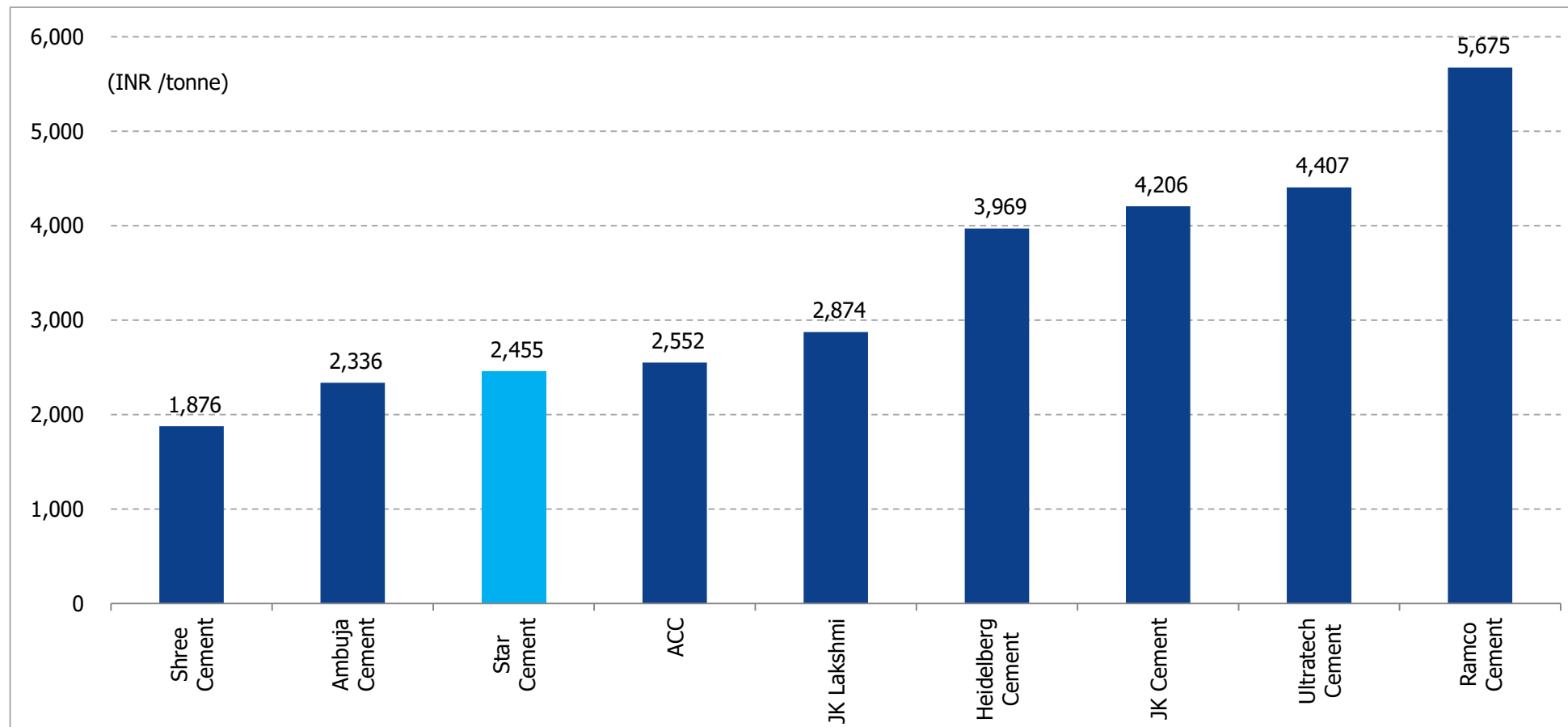
H1FY19 net D-E ratio at 0.03x



Source: Company, Elara Securities Estimate

Lowest Gross Block Per Tonne...

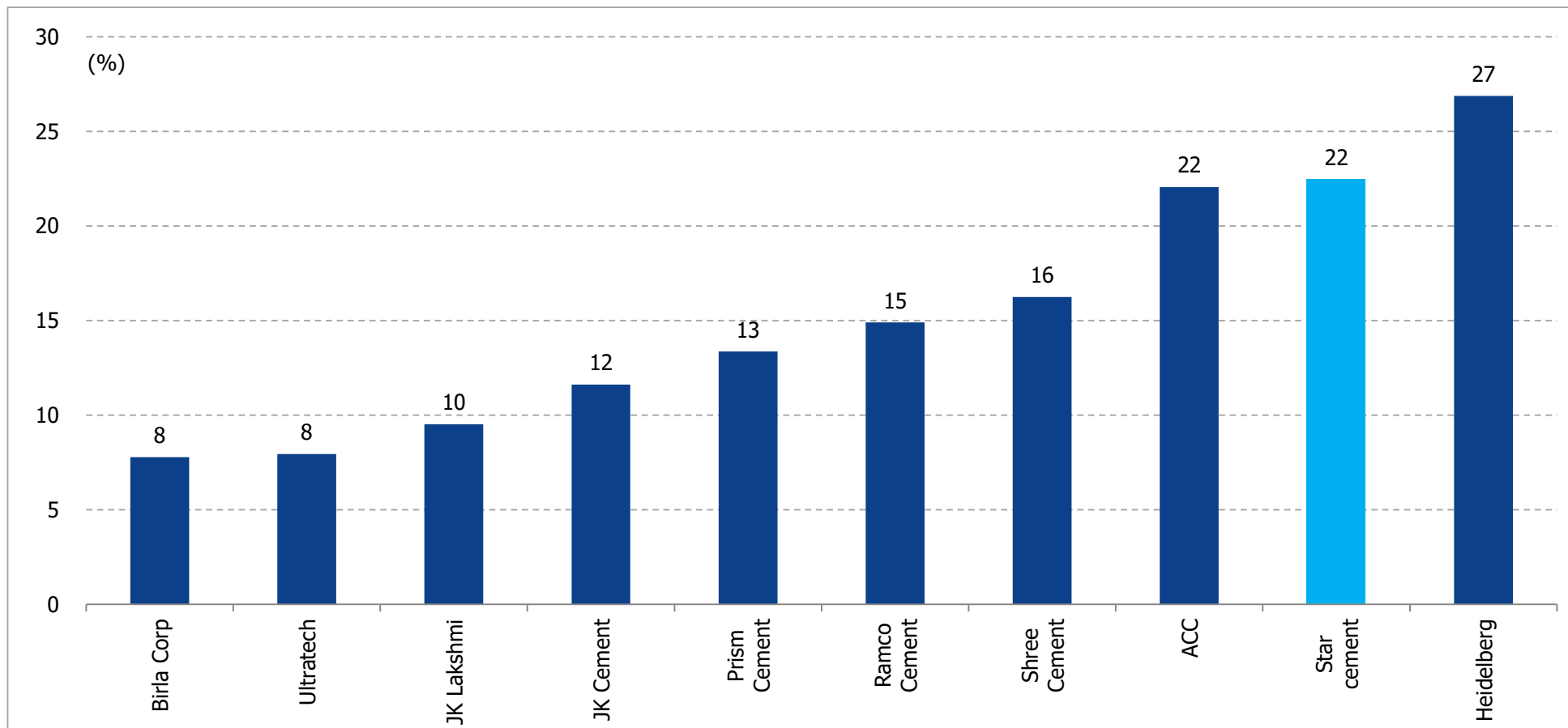
Star Cement has the third lowest gross block per tonne as on FY18



Source: Company, Elara Securities Estimate

...Resulting in Higher ROICE Than Peers

Second-highest ROIC (FY18)



Source: Company, Elara Securities Estimate

Average EBITDA per Tonne at INR 1,561

If we adjust it for inflation, it works out to be INR 1,946

Year	EBITDA/tonne (INR)	Inflation adj EBITDA/tonne (INR)	OPM (%)
FY09	1,504	2,333	33
FY10	1,677	2,478	34
FY11	1,548	2,178	30
FY12	1,297	1,737	25
FY13	1,087	1,388	20
FY14	1,394	1,694	23
FY15	1,994	2,308	30
FY16	1,497	1,651	23
FY17	1,485	1,559	26
FY18	2,131	2,131	32
Mean	1,561	1,946	28
Median	1,504	1,946	28
Standard deviation	309	381	5

Source: Company, Elara Securities Estimate

Trades at core normalized EV/EBITDA of 6.5x

If we adjust it for inflation, EV/EBITDA works out to be 4.7x

Capacity (mn tonne)	6.0	
Capacity utilization (%)	85	
Estimated sales volume (mn tonne)	5.1	
(INR mn)	Inflation not adjusted	Inflation adjusted
Mean EBITDA/tonne	1,561	1,946
Fiscal incentives	550	550
EBITDA per tonne adjusted for fiscal incentives	1,011	1,396
Normalized EBITDA	5,158	7,118
Mcap	38,255	38,255
Debt	500	500
EV	38,755	38,755
Cumulative three-year volume	9.3	9.3
Cumulative EBITDA	5115	5115
EV after giving 1x to incentives	33,640	33,640
Core EV/EBITDA (x)	6.5	4.7

Source: Company, Elara Securities Estimate

Key assumptions

	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Capacity (mn tonne)	4.30	4.30	4.30	6.00	6.00	6.00
Volume (mn tonne)	2.7	2.4	2.8	3.0	3.4	3.7
Capacity utilization (%)	63	56	64	51	56	61
Per tonne (INR)						
Realization	5,618	6,671	6,871	7,146	7,432	7,655
Cost	4,133	4,540	5,115	5,298	5,490	5,690
EBITDA	1,485	2,131	1,757	1,848	1,942	1,965
YoY Change (%)						
Volume		(11.1)	15.0	10.0	10.0	10.0
Per tonne						
Realization		18.7	3.0	4.0	4.0	3.0
Cost		9.8	12.7	3.6	3.6	3.6
EBITDA		43.6	(17.6)	5.2	5.1	1.2

Source: Company, Elara Securities Estimate

TP Derivation

Valuation	FY19E	FY20E	FY21E	FY22E
Capacity (mn tonne)	4	6	6	6
Average inflation adjusted EBITDA/tonne in INR (a)	1,396	1,396	1,396	1,396
Capacity Utilisations % (b)	64	51	56	61
Desired returns % (c)	13	13	13	13
Maintenances Capex in %(d)	1.2	1.2	1.2	1.2
Desired cash returns % (e=c+d)	14	14	14	14
Zero growth target EV/ tonne INR (a/[e/b])	6,331	4,991	5,490	6,039
USD:INR Exchange Rate	70	70	70	70
Zero growth EV /tonne multiple(USD)	90	71	78	86
With growth EV/tonne				
Growth %(f)	5	5	5	5
Capitalisation rate % (g=f-e)	9	9	9	9
With growth target EV/ tonne % INR [a/(g/b)]	9,772	7,703	8,474	9,321
With growth target EV/ tonne USD	140	110	121	133
Target EV(INR mn)	42,019	46,221	50,843	55,927
Less :Net debt(INR mn)	287	(1,436)	(5,843)	(10,845)
Add value of incentives	5115	5115	5115	5115
Target Market Capitalisation(INR mn)	46,846	52,771	61,801	71,887
Diluted Shares outstanding(no mn)	419	419	419	419
Target Price(INR/ Share)	112	126	147	171
Current Market Price	91	91	91	91
Potential Upside/(downside)	22	38	62	88
EV per tonne based on CMP(INR)	128	88	77	65
In CMP EV per tonne % contributed by growth	29	19	(2)	(32)

Note: pricing as on 28 January 2019; Source: Company, Elara Securities Estimate

FUNDAMENTAL ANALYSIS AND VALUATION USING ROOA FRAMEWORK

Sharp Core Profitability Expansion, Led by Margin Expansion and Asset Efficiency. Returns Expand from Operating Liabilities

Drivers of profitability (INR Mn)		FY13	FY14	FY15	FY16	FY17	FY18
1	Operating revenue (OR)	5,955	10,290	14,307	17,153	15,289	16,173
	Growth (%)	76.5	72.8	39.0	19.9	(10.9)	5.8
2	Adjusted Operating Profit	657	814	1,938	2,089	2,640	3,615
	Growth (%)	31.9	24.0	138.1	7.8	26.3	36.9
3	Adjusted operating profit margin (2÷1) (%)	11.03	7.91	13.55	12.18	17.26	22.35
4	Operating asset (OA)	19,461	21,007	21,605	24,302	24,601	24,859
5	Operating asset turnover (1÷4)	0.84	0.53	0.68	0.79	0.63	0.66
6	Return from operating assets (ROOA) (2÷4) (%)	9.3	4.2	9.2	9.7	10.9	14.7
7	Operating liabilities (OL)	2,379	2,603	2,913	4,060	4,769	5,348
8	Interest charge on interest bearing operating liability	58	214	234	262	365	429
9	Post tax interest on interest bearing operating liability	48	176	192	215	300	352
10	Operating Liability Leverage (OLLEV) [7÷(4-7)]	0.14	0.14	0.16	0.20	0.24	0.27
11	Cost of operating liabilities (COOL) (Assumed) (%)	9.0	9.0	9.0	9.0	9.0	9.0
12	Return from operating liability leverage (ROLLEV) [10*(6-11 (post tax)) (%)	0.2	(0.4)	0.3	0.4	0.7	1.8
13	Pre tax Operating Profit (PTOP)	743	779	2,130	2,286	2,854	3,979
15	Tax on operating profit	(134)	(140)	(383)	(411)	(514)	(716)
16	Net Operating profit after tax (NOPAT) (13-15)	609	639	1,746	1,874	2,340	3,263
17	Net Operating Assets (NOA)	17,082	18,405	18,692	20,242	19,832	19,511
18	Return on Net operating assets (RNOA) (16÷17) (%)	9.5	3.7	9.5	10.0	11.6	16.5

Source: Company, Elara Securities Research

Spread Expansion Leads to Rise in Return from Leverage Despite Decline in Leverage

Drivers of Profitability (INR mn)		FY13	FY14	FY15	FY16	FY17	FY18
19	Net financial obligation (NFO)	8,045	9,525	9,002	9,158	7,806	4,126
20	Financial Leverage (FLLEV) (19÷30)	0.89	1.07	0.93	0.87	0.65	0.27
23	Net Financing expense (income) post tax	208	671	712	680	629	417
24	Net Borrowing cost [(21-23)÷19] (%)	10.6	8.3	7.5	7.6	6.9	5.3
25	Return from Financial Leverage (RFL) [20*(18-24)] (%)	(0.5)	(4.1)	2.2	2.3	4.1	7.2
28	Return from unusual items (RUI) (%)	0.7	0.1	2.0	2.1	2.2	3.8
29	Profit After minority & tax	432	(26)	1,213	1,344	1,947	3,307
30	Shareholders Equity	9,037	8,880	9,690	10,553	12,026	15,385
	Return on Equity (ROE) (29÷30) (%)	9.6	(0.3)	13.7	13.9	18.5	27.5

Source: Company, Elara Securities Research

Turnaround in Spreads and Value Creation in FY18

Drivers of change in profitability (Delta)	FY13	FY14	FY15	FY16	FY17	FY18
ROOA (%)	0.7	(5.1)	5.0	0.4	1.2	3.8
Core Sales Profit margin (%)	(3.7)	(3.1)	5.6	(1.4)	5.1	5.1
Operating Asset turnover	0.84	0.53	0.68	0.79	0.63	0.66
Return from existing investment (%)	(2.2)	(3.0)	3.0	(0.9)	4.0	3.2
Operating Asset turnover	0.30	(0.30)	0.20	0.11	(0.16)	0.03
Core sales profit margin (%)	11.0	7.9	13.5	12.2	17.3	22.3
Return from new investment (%)	2.8	(2.5)	2.1	1.4	(2.9)	0.6
Residual analysis						
Operating Spread (%) (ROOA- Adj. WAAC) (%)	(3.1)	(8.2)	(3.1)	(2.7)	(1.5)	2.3
Spread (%)	0.7	(5.1)	5.0	0.4	1.2	3.8
Residual Adj. Operating Income(RAOI) (INR mn)	(220)	(1,593)	(660)	(583)	(366)	571
Residual RAOI (INR mn)	(0.6)	(1,373)	933	77	217	938
Change due to change in spread	39.4	(360)	982	93	257	931
(ROOA - Adj. WACC) x (%)	0.7	(5.1)	5.0	0.4	1.2	3.8
OA	19,461	21,007	21,605	24,302	24,601	24,859
Change due to change in Operating Assets	(40)	(1,013)	(49)	(16)	(41)	7
Change in OA x	1,288	12,373	1,547	597	2,697	299
Current Spread (%)	(3.1)	(8.2)	(3.1)	(2.7)	(1.5)	2.3

Source: Company, Elara Securities Research

Star Cement with the Highest ROOA Among Peers...

(%)	ROE			ROOA			ROLLEV			RFLEV		
Company	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Star Cement	13.9	18.5	27.5	9.7	10.9	14.7	0.4	0.7	1.8	2.3	4.1	7.2
Heidelberg	4.0	8.5	13.7	5.3	6.6	9.5	(0.3)	0.2	1.5	(1.2)	1.5	3.1
JK Lakshmi	(1.7)	2.9	1.6	4.2	5.9	6.5	(0.8)	(0.4)	(0.2)	(8.1)	(3.5)	(5.6)
J K Cements	3.3	11.4	17.4	5.4	7.8	8.9	(0.1)	0.4	0.7	(1.5)	4.0	6.1
Sanghi Industries	7.9	6.0	8.4	5.9	6.8	7.3	(0.3)	(0.1)	0.0	0.9	(1.7)	(0.4)
Prism Johnson	0.0	3.2	6.1	6.0	7.4	7.2	0.0	0.0	0.7	(6.1)	(3.0)	(1.5)
Sagar Cements	8.5	(0.5)	3.4	11.7	5.9	6.0	1.4	(0.4)	0.0	(5.2)	(4.6)	(2.1)

Source: Company, Elara Securities Research

...with Improving Margin and Asset Efficiency...

Company	ROOA (%)			Operating Profit Margin (%)			Operating Asset turnover (x)		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Star Cement	9.7	10.9	14.7	12.2	17.3	22.3	0.79	0.63	0.66
Heidelberg	5.3	6.6	9.5	8.3	9.9	11.9	0.64	0.67	0.80
JK Lakshmi	4.2	5.9	6.5	5.9	8.2	7.9	0.70	0.72	0.83
JK Cements	5.4	7.8	8.9	6.6	10.5	10.1	0.82	0.74	0.88
Sanghi Industries	5.9	6.8	7.3	12.2	13.1	14.4	0.48	0.52	0.50
Prism Johnson	6.0	7.4	7.2	5.0	6.7	5.9	1.20	1.11	1.24
Sagar Cements	11.7	5.9	6.0	11.4	8.9	7.7	1.03	0.66	0.78

Source: Company, Elara Securities Research

...Turning to Positive Value Creation Zone

Company	Wacc (%)			Delta In ROOA (%)			Delta In OPATO (x)			Delta In Spread (%)		
	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
Star Cement	11.9	11.5	12.4	0.4	1.2	3.8	0.11	(0.16)	0.03	(2.2)	(0.6)	2.3
Heidelberg	10.9	10.5	11.3	(1.5)	1.4	2.9	(0.16)	0.03	0.13	(5.6)	(3.9)	(1.7)
JK Lakshmi	11.4	11.0	11.3	(3.5)	1.7	0.7	(0.06)	0.01	0.12	(7.2)	(5.1)	(4.8)
JK Cements	10.2	10.0	10.7	(1.2)	2.4	1.1	0.14	(0.08)	0.14	(4.8)	(2.2)	(1.8)
Sanghi Industries	12.2	11.6	12.8	2.2	0.9	0.5	(0.07)	0.04	(0.01)	(6.3)	(4.9)	(5.6)
Prism Johnson	10.2	10.7	10.2	(0.7)	1.4	(0.2)	(0.16)	(0.09)	0.13	(4.2)	(3.3)	(3.0)
Sagar Cements	11.8	11.7	11.5	(4.7)	(5.9)	0.1	(0.39)	(0.37)	0.12	(0.1)	(5.8)	(5.5)

Source: Company, Elara Securities Research

Star Cement vs Peers: What's in the Price?

Company	10-year average*				Current			Hi Lo Range	Curr / 10Yr Avg	10YR Max	10 YR Min
	CBV	STGV	LTGV	STDEV	CBV	STGV	LTGV				
Star Cement	37.9	27.3	34.8	0.2	43.2	37.5	19.3	0	0.6	50.3	19.3
Heidelberg	13.3	26.9	64.0	0.0	23.2	20.4	56.4	0	0.9	68.7	56.4
JK Lakshmi	54.6	20.0	25.4	0.5	15.4	52.0	32.6	62.7	1.3	80.7	(48.1)
JK Cements	58.8	19.3	21.9	0.5	55.3	12.0	32.8	67.4	1.5	72.7	(49.8)
Sanghi Industries	74.1	18.9	48.3	0.2	39.7	8.2	52.1	67.4	1.1	62.7	30.1
Prism Johnson	4.7	28.3	67.0	0.2	6.3	33.1	60.6	47.5	0.9	101.6	23.6
Sagar Cements	84.2	(0.4)	8.9	0.5	18.6	28.0	53.4	92.5	6.0	63.2	(67.0)

Note: *10 Yr or since listing; Source: Company, Elara Securities Research

Key Financials

Income Statement (INR mn)	FY18	FY19E	FY20E	FY21E
Net Revenues	16,064	19,027	21,767	24,902
EBITDA	5,132	4,864	5,629	6,508
Add:- Non operating Income	125	125	125	125
OPBITDA	5,257	4,990	5,754	6,633
Less :- Depreciation & Amortization	1,207	1,282	1,134	1,250
EBIT	4,051	3,707	4,620	5,383
Less:- Interest Expenses	525	279	220	142
PBT	3,526	3,429	4,400	5,241
Less :- Taxes	164	686	880	1,048
Adjusted PAT	3,362	2,743	3,520	4,193
Minority Interest	55	55	55	55
Adjusted PATafter Minority Interest	3,307	2,688	3,465	4,138
Balance Sheet (INR mn)	FY18	FY19E	FY20E	FY21E
Share Capital	419	419	419	419
Reserves	14,344	16,529	19,491	23,126
Minority Interest	621	676	732	787
Borrowings	5,427	2,883	2,276	1,469
Total Liabilities	20,812	20,508	22,918	25,801
Gross Block	10,556	12,974	15,374	15,874
Less:- Accumulated Depreciation	2,709	3,991	5,125	6,375
Net Block	7,847	8,983	10,249	9,499
Add:- Capital work in progress	818	-	-	-
Investments	14	14	14	14
Net Working Capital	9,803	9,181	10,325	13,958
Net Deferred Tax	2,329	2,329	2,329	2,329
Total Assets	20,812	20,508	22,918	25,801

Cash Flow Statement (INR mn)	FY18	FY19E	FY20E	FY21E
Cash profit adjusted for non cash items	3,861	10,218	4,692	5,395
Add/Less : Working Capital Changes	(345)	3,019	(28)	(32)
Operating Cash Flow	4,206	7,198	4,721	5,427
Less:- Capex	(324)	(1,600)	(2,400)	(500)
Free Cash Flow	3,882	5,598	2,321	4,927
Financing Cash Flow	(3,929)	(3,326)	(1,330)	(1,452)
Investing Cash Flow	70	125	125	125
Net change in Cash	24	2,398	1,116	3,601
Ratio Analysis	FY18	FY19E	FY20E	FY21E
Income Statement Ratios(%)				
Revenue Growth	5.6	18.5	14.4	14.4
EBITDA Growth	27.6	(5.2)	15.7	15.6
PAT Growth	69.8	(18.7)	28.9	19.4
EBITDA Margin	31.9	25.6	25.9	26.1
Net Margin	20.6	14.1	15.9	16.6
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.35	0.02	(0.07)	(0.25)
ROE (%)	25.2	17.0	18.8	19.0
ROCE (%)	21.1	20.2	23.8	24.4
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	7.9	6.4	8.3	9.9
EPS Growth (%)	69.8	(18.7)	28.9	19.4
DPS (INR/Share)	1.0	1.0	1.0	1.0
P/E Ratio (x)	11.6	14.2	11.0	9.2
EV/EBITDA (x)	8.5	7.9	6.5	5.0
EV/Sales (x)	2.7	2.0	1.7	1.3
P/BV (x)	2.6	2.3	1.9	1.6
EV per tonne (USD)	144.5	128.0	87.7	77.2
Dividend Yield (%)	1.1	1.1	1.1	1.1

Note: Pricing as on 28 January 2019; Source: Company, Elara Securities Estimates

Peer valuation

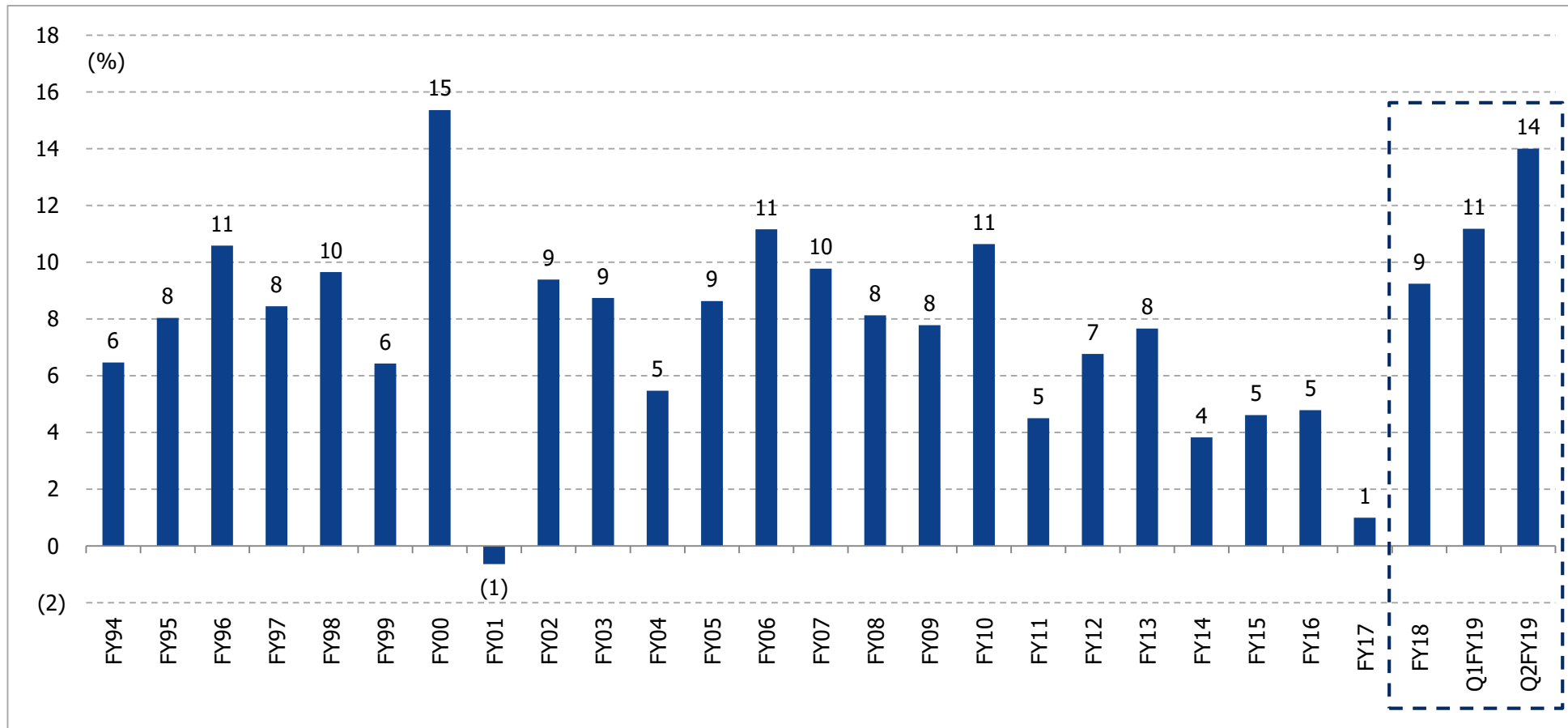
Company	Bloomberg Code	Rating	MCAP (INR bn)	CMP (INR)	TP (INR)	EV/EBITDA (x)				P/E (x)				EV/tonne (USD)				ROE (%)			
						FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E	FY18	FY19E	FY20E	FY21E
Ultratech	UTCEM IN	Buy	925	3,375	4,494	17	16	13	11	42	35	25	22	175	163	165	157	9	10	13	13
Shree Cement	SRCM IN	Accumulate	524	15,049	17,988	24	19	14	10	38	35	24	20	208	190	165	154	17	16	21	48
Ambuja Cement	ACEM IN	Buy	311	201	258	11	11	9	8	26	22	18	15	114	108	103	95	7	11	16	18
ACC	ACC IN	Accumulate	255	1,355	1,682	15	12	10	8	29	23	18	15	95	92	89	83	10	12	14	15
JK Cement	JKCE IN	Accumulate	49	706	804	8	10	9	6	14	18	17	10	81	88	66	65	17	12	12	18
Star Cement	STRCEM IN	Buy	38	91	147	8	8	7	5	12	14	11	9	144	128	88	77	25	17	19	19
Prism Cement	PRSMJ IN	Buy	38	75	144	13	9	7	5	89	21	14	9	85	69	52	22	4	16	21	25
Birla corp	BCORP IN	Buy	38	499	1,035	9	7	6	5	25	16	11	7	66	63	60	55	4	5	8	10
JK Lakshmi	JKLC IN	Buy	35	298	490	12	9	6	4	42	22	10	6	63	57	52	44	8	10	19	25
Heidelberg	HEIM IN	Buy	32	143	210	11	8	6	5	24	13	9	7	98	89	80	70	13	22	27	28
India Cements	ICEM IN	Reduce	24	79	85	7	9	6	4	37	45	13	8	47	51	48	43	1	1	3	6
Orient Cement	ORCMNT IN	Reduce	15	71	80	8	10	6	5	33	84	14	9	48	49	47	43	4	2	10	13

Note: Pricing as on 28 January 2019; Source: Company, Elara Securities Estimates

APPENDIX

Cement Demand on an Uptrend in the Past 18 Months

H1FY19 demand growth at 13%



Source: CMA, CMIE, Elara Securities Research

Housing for All + Infrastructure = 11% ▲

NER is expected to grow by 12% YoY

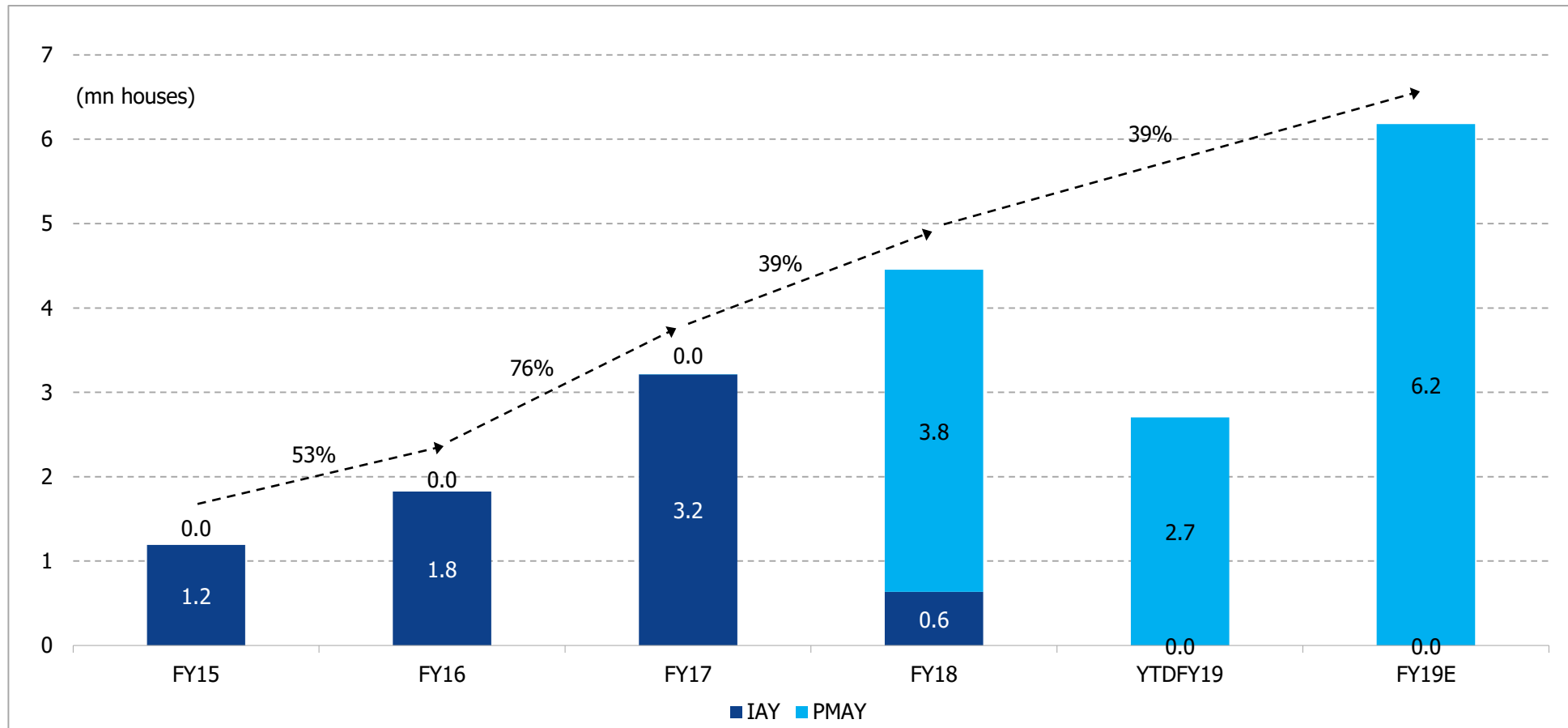
States/ Region	PMAY Urban		PMAY Rural		Infrastructure		Total Delta	Major players
	Annually Incremental demand	Growth	Annually Incremental demand	Growth	Annually Incremental demand	Growth		
	mn tonne	%	mn tonne	%	mn tonne	%		
East	1.9	3.7	8.0	15.6	0.6	1.2	20.6	Dalmia Cement, OCL, Century Textiles , ACC, UltraTech Cement
Central	47	3.0	6.4	(1.2)	(2.7)	1.7	3.7	Prism Johnson, Heidelberg Cement, Birla Corporation
South	5.2	7.6	1.1	1.6	1.7	2.5	11.6	India Cements, Ramco Cement
West	0.8	1.6	1.2	2.4	(0.1)	(0.1)	3.9	Orient Cement, Ambuja Cement , UltraTech Cement
North	1.0	1.8	0.9	1.6	0.8	1.4	4.7	Shree Cement, JK Cement, JK Lakshmi Cement
Northeast	0.6	6.9	0.8	10.1	(0.5)	(5.9)	11.5	Star Cement, Dalmia Cement
Central Spending					2.2	0.8	0.8	
All-India	12.4	4.4	10.7	3.8	6.5	2.3	10.6	ACC, Ambuja Cement, UltraTech Cement

Source: Elara Securities Estimate

NER likely to grow 90bp faster than all-India

PMAY Rural Execution Continues to Accelerate at an All-India Level

Rural housing execution increase CAGR at 55% over the past three years



Source: Ministry of Rural Development, Elara Securities Research

Government Likely Reach Close to PMAY-R Target

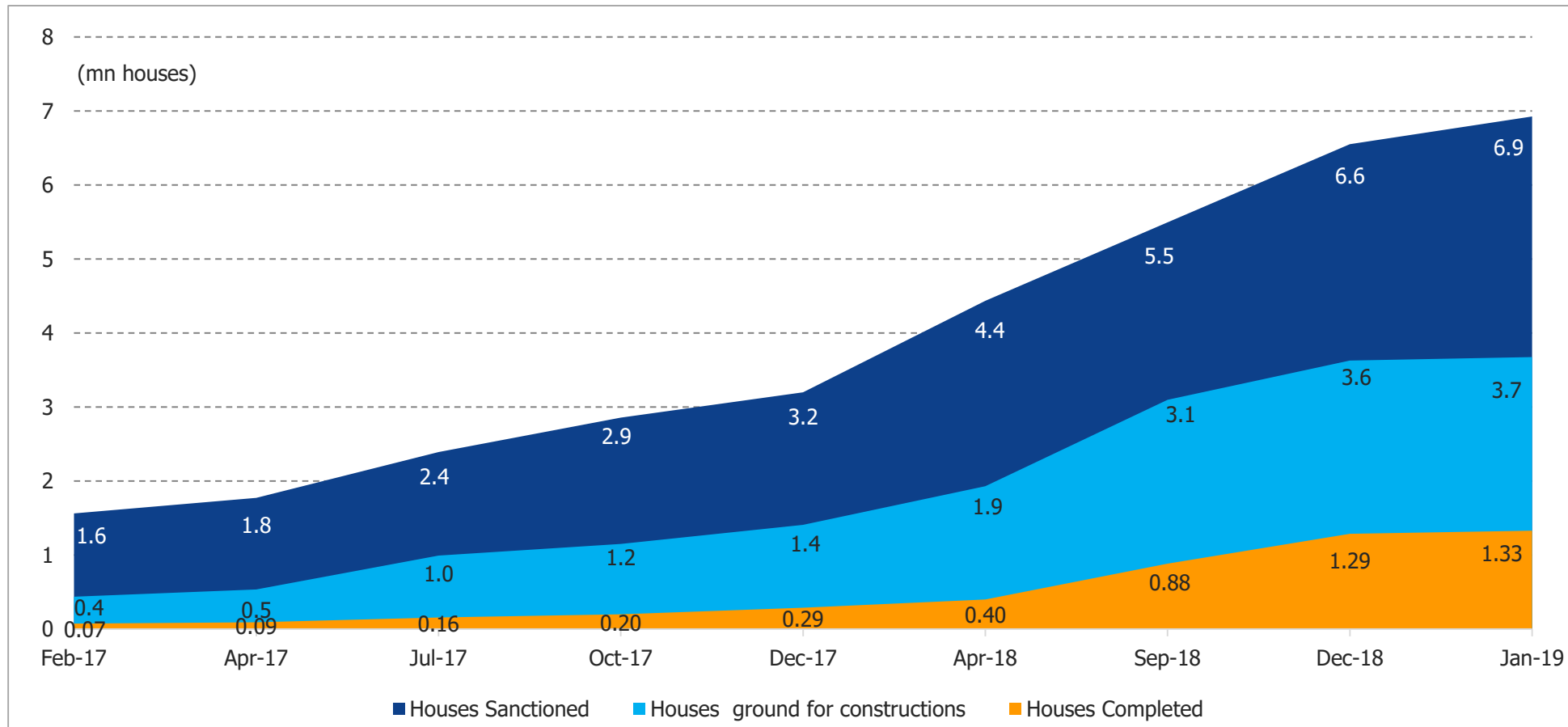
Government likely to achieve 87% of its target

	Houses (mn)	% of government target
Government FY19 target	6.2	100
Project under execution	2.7	43
Project completed	2.7	44
Balancing	0.8	13
Beneficiary registered but work yet to start	2.0	
Balancing as a % of beneficiaries registered but work is yet to start		41

Source: Ministry of Rural Development, Elara Securities Research

Projects Grounded for Construction Increase by 1.6x YoY

House sanctions rise by 1.1x YoY



Source: Ministry of Housing and Urban Affairs, Elara Securities Research

Adequate Funds Available to Complete Projects

Central government allocates INR 4.9bn for PMAY-U

NER	(INR mn)
FY19 Centre allocation	4,930
Subsidy per house	0.15
Average execution period (years)	2
Number of houses	65,728
Elara Estimates	65,557

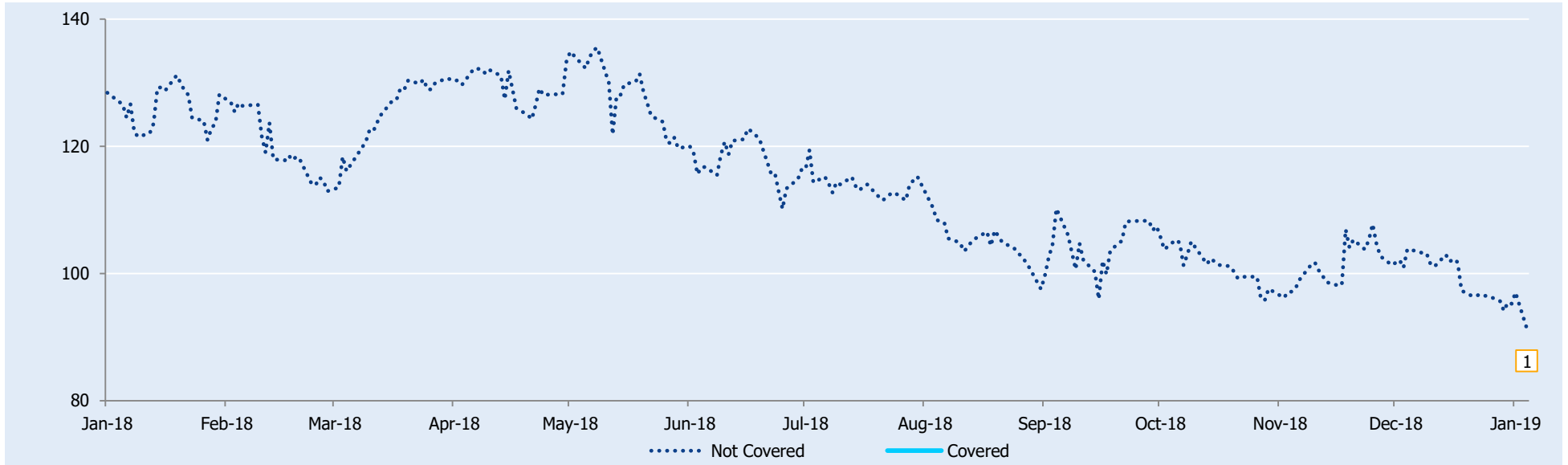
Source: Ministry of Development of North Eastern Region, Elara Security Research

Assam allocates INR 2.8bn for PMAY-U

Assam	(INR mn)
FY19 Assam state budget allocations	2,869
Subsidy per house	0.05
Average execution period (years)	2
Number of houses	114,769
Elara Estimates	26,820

Source: Assam State Budget, Elara Security Research

Coverage History



	Date	Rating	Target Price	Closing Price
1	28-Jan-2019	Buy	INR 147	INR 91

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