

Star Cement (STRCEM IN)

Stellar performance!

INDIA | CEMENT | Quarterly Update

Top takeaways from Q3FY24

- STRCEM's Q3FY24 operating performance is robust and a comfortable beat to us / street.
- Absolute EBITDA at Rs1.48bn is 11%/15% better vs. us/consensus. We were 3% higher than consensus on EBITDA.
- **To our estimates:** Volumes look in-line, blended realisations in-line, opex/tonne 3% lower. Resultantly, EBITDA/tonne at Rs1,534 is 11% better than our estimate of Rs1,384.
- **Vs. consensus (based on our volume estimates):** realisations were in-line; opex/tonne 4% lower and EBITDA/tonne 14% better.
- All in all, consistent strong performance from Star Cement – best in Q3 among peers.

Our take on results:

- We upgraded STRCEM 7 quarters ago in Q4FY22 and we said it's a bet upon the abilities of its *NextGen* – it played out fantastically well for whole of FY23 with a miss in Q1. Q2 recouped the Q1 miss. STRCEM is now back with a positive surprise in Q3. In our view, Q3's positive surprise could be only a glimpse; with many more similar surprises to follow in future.
- We have been quite optimistic about STRCEM's *NextGen* and we believe its new leadership has clearly proven its ability to help STRCEM return to a commanding position on industry's profitability matrix.
- We have also highlighted in our previous notes for STRCEM that we sense an upgrade potential here and our estimates for STRCEM are conservative – this plays out. STRCEM has been constantly surprising (except Q1 miss) on operating numbers and it is one of the rare cement manufacturers to do so.
- Our downgrade to Neutral was essentially on faster than anticipated rally in stock price.
- We now upgrade our estimates for STRCEM and see STRCEM reaching back Rs1600-1700/tonne levels of EBITDA in next couple of years. We find ourselves still conservative than the current management guidance; despite the current estimate upgrade, we do not rule out possibility of further future upgrade potential here.
- We roll over to FY26 and value at 12x EBITDA. We upgrade to Buy with revised PO of 250.

Management call takeaways (we hosted the Q3 call):

- Management sounded extremely confident of delivering on operating front with its upcoming commissioning of capex. Volume guidance for FY25 is at +15%.
- Pricing outlook was optimistic – prices in North-East better than rest of country.
- Capex plans are on track. Guwahati grinding unit and clinker expansion is scheduled to be commissioned in March 24.
- It was categorically said that Q3 improvement is not driven by incentives and it is purely an operational efficiency improvement – driven by internal management processes.
- Overall, once again, confident comments about delivering strong performance in future.

Outlook & Valuation

- At PO the stock will trade at c.US\$130/tonne FY26 vs. c.105 currently.

(Rs mn)	Q3FY24	Q3FY23	yoy	Q2FY24	qoq	Comments
Net Sales	6,514	6,195	5%	5,853	11%	Stellar performance driven by lower than expected opex
Volumes	0.97	0.91	7%	0.90	8%	
Net Realisation	6,716	6,823	-2%	6,532	3%	
Total Expenditure	5,026	5,111	-2%	4,867	3%	
EBITDA	1,488	1,084	37%	986	51%	
EBITDA margin	23%	17%		17%		
PAT	735	529	39%	407	81%	
Reported PAT	735	529	39%	407	81%	
Net Realisation/tonne	6,716	6,823	-2%	6,532	3%	
Ebitda/tonne	1,534	1,194	28%	1,100	39%	

09 February 2024

BUY (Upgrade)

CMP RS 194

TARGET RS 250 (+29%)

SEBI CATEGORY: SMALL CAP

COMPANY DATA

O/S SHARES (MN) :	404
MARKET CAP (RSBN) :	78
MARKET CAP (USDBN) :	0.9
52 - WK HI/LO (RS) :	198 / 103
LIQUIDITY 3M (USDMN) :	2
PAR VALUE (RS) :	1

SHARE HOLDING PATTERN, %

	Dec 23	Sep 23	Jun 23
PROMOTERS :	66.5	66.6	66.8
DII :	6.0	6.1	6.2
FII :	1.1	0.8	0.7
OTHERS :	26.4	26.6	26.3

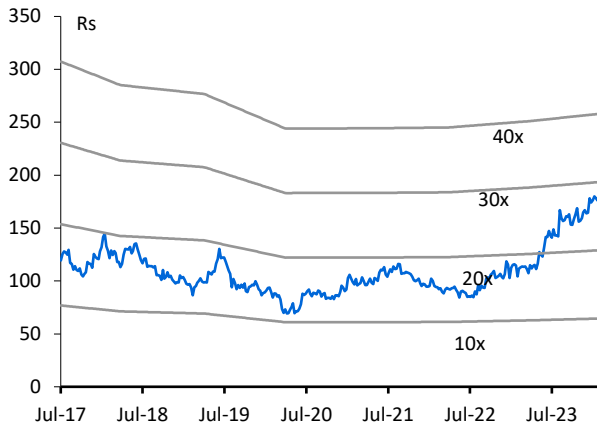
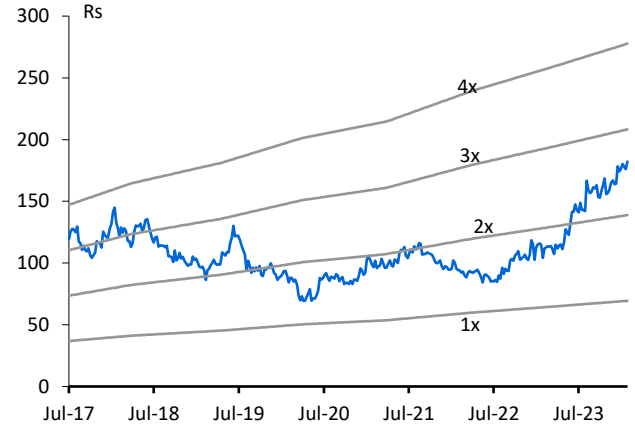
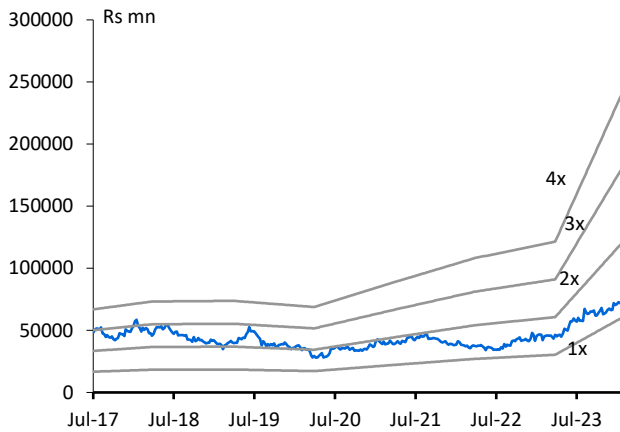
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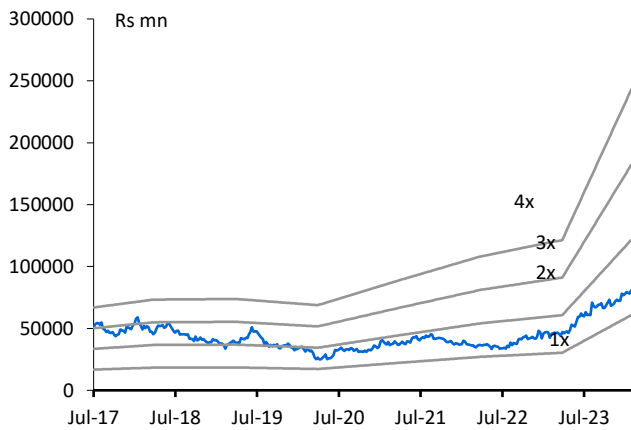
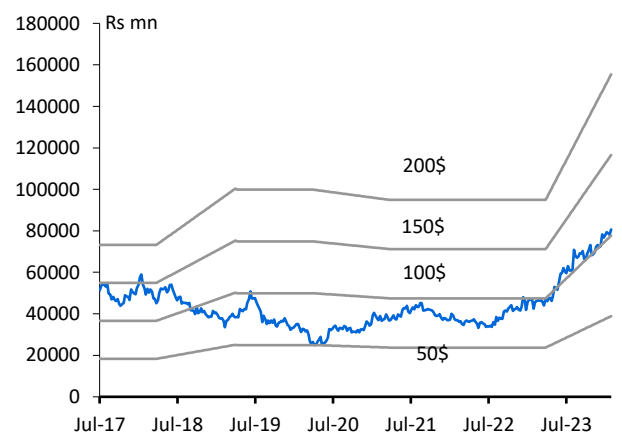
Rs mn	FY24E	FY25E	FY26E
Net Sales	30.3	35.9	40.3
EBITDA	5.5	7.7	9.2
Net Profit	2.5	2.6	3.0
EPS, Rs	6.3	6.5	7.4
PER, x	30.9	29.9	26.3
EV/EBITDA, x	12.9	10.3	8.8
PBV, x	3.0	2.8	2.5
ROE, %	9.7	9.2	9.6

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY24E	FY25E	FY24E	FY25E
Revenue	30.3	35.9	1%	8%
EBITDA	5.5	7.7	13%	35%
Core PAT	2.5	2.6	20%	123%
EPS (Rs)	6.3	6.5	20%	123%

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One-year forward band chart
PE band

PBV band

M-cap/sales band

EV/EBIDTA band

EV/sales band

EV/tonne


Source: PhillipCapital India Research Estimates

Coverage Universe

Company	Size	Fw c.EV/tonne (FY25)	Reco/Upside	
Ambuja Cements	L	150	Buy	69%
UltraTech Cement	L	215	Buy	22%
Shree Cement	L	165	Neu	7%
JK Cement	M	140	Buy	44%
Dalmia Bharat	M	100	Buy	32%
ACC Ltd	M	115	Buy	46%
The India Cement Ltd	S	85	Neu	0%
JK Lakshmi Cement Limited	S	75	Buy	14%
Sanghi Industries	S	100	Buy	29%
Star Cement	S	105	Buy	29%
Mangalam Cement	S	50	Buy	41%
HeidelbergCement India Ltd	S	75	Neu	6%

Source: Company, PhillipCapital India Research (Note: L/M/S = Large/Mid/Small Cap)

Financials

Income Statement

Y/E Mar, Rs mn	FY23	FY24E	FY25E	FY26E
Net sales	27.0	30.3	35.9	40.3
Growth, %	21.7	12.2	18.4	12.2
EBITDA (Core)	4.7	5.5	7.7	9.2
Growth, %	35.7	18.4	38.5	19.6
Margin, %	17.3	18.3	21.4	22.8
Depreciation	1.3	1.9	3.3	3.5
EBIT	3.4	3.7	4.4	5.7
Growth, %	50.8	9.1	18.6	29.9
Margin, %	12.5	12.1	12.1	14.1
Interest paid	0.1	0.2	1.0	1.5
Other Income	0.5	0.4	0.3	0.3
Pre tax profit	3.8	3.9	3.7	4.4
Tax provided	1.3	1.4	1.1	1.5
Profit after tax	2.5	2.5	2.6	3.0
Net Profit	2.5	2.5	2.6	3.0
Growth, %	0.3	2.5	3.2	13.8
Net Profit (adjusted)	2.5	2.5	2.6	3.0
Wtd avg shares (m)	404.2	404.2	404.2	404.2

Balance Sheet

Y/E Mar, Rs mn	FY23	FY24E	FY25E	FY26E
Cash & bank	3.1	3.1	3.1	3.1
Debtors	1.0	1.3	1.7	2.1
Inventory	3.7	4.6	6.0	7.4
Other current assets	3.6	4.1	4.8	5.4
Total current assets	11.7	13.3	15.9	18.4
Net fixed assets	14.4	16.6	23.6	25.6
Non - current assets	5.2	5.8	6.9	7.8
Total assets	31.3	35.7	46.4	51.7
Non - current liabilities	7.2	9.5	18.0	20.8
Total liabilities	7.2	9.5	18.0	20.8
Paid - up capital	0.4	0.4	0.4	0.4
Reserves & surplus	23.8	25.8	28.0	30.5
Shareholders' equity	24.2	26.2	28.4	30.9
Total equity & liabilities	31.3	35.7	46.4	51.7

Cash Flow

Y/E Mar, Rs mn	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3.8	3.9	3.7	4.4
Depreciation	1.3	1.9	3.3	3.5
Total tax paid	(1.3)	(1.4)	(1.1)	(1.5)
Cash flow from operating activities	3.8	4.4	5.9	6.5
Capital expenditure	(5.4)	(4.0)	(10.3)	(5.5)
Cash flow from investing activities	(4.9)	(5.9)	(13.9)	(10.0)
Free cash flow	(1.0)	(1.3)	(7.3)	(2.5)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	0.3	1.7	7.5	2.0
Dividend (incl. tax)	-	(0.5)	(0.5)	(0.5)
Cash flow from financing activities	0.4	1.5	8.0	3.0
Net chg in cash	(0.7)	0.0	0.0	(0.5)

Valuation Ratios

	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	6.1	6.3	6.5	7.4
Growth, %	0.3	2.5	3.2	13.8
Book NAV/share (INR)	59.8	64.9	70.2	76.5
FDEPS (INR)	6.1	6.3	6.5	7.4
CEPS (INR)	9.4	10.9	14.7	16.1
CFPS (INR)	9.4	10.9	14.7	16.1
DPS (INR)	-	1.0	1.0	1.0

Return ratios

Return on assets (%)	8.8	8.2	8.7	9.1
Return on equity (%)	10.2	9.7	9.2	9.6
Return on capital employed (%)	10.3	9.7	10.2	10.6
ROIC (%)	10.3	9.5	9.6	9.8

Turnover ratios

Asset turnover (x)	1.9	1.8	1.5	1.6
Sales/Net FA (x)	1.9	1.8	1.5	1.6
Working capital/Sales (x)	2.3	2.3	2.3	2.2
Receivable days	14.1	15.5	17.1	18.8
Inventory days	50.5	55.5	61.1	67.2
Payable days	46.0	46.6	48.4	49.3
Working capital days	157.9	160.0	161.5	166.2

Liquidity ratios

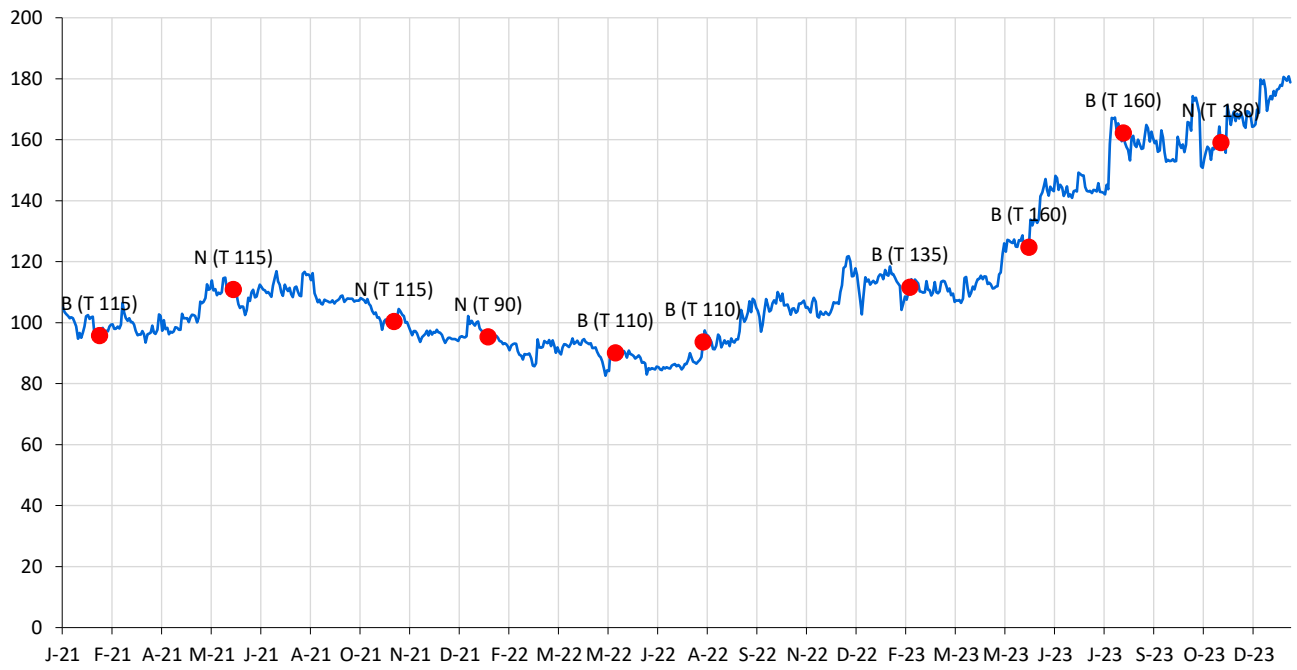
Quick ratio (x)	1.1	0.9	0.5	0.5
Interest cover (x)	34.8	17.8	4.6	3.8
Total debt/Equity (x)	29.6	36.2	63.5	67.3
Net debt/Equity (x)	16.7	24.3	52.5	57.2

Valuation

PER (x)	31.7	30.9	29.9	26.3
PEG (x) yoy growth	94.2	12.6	9.3	1.9
Price/Book (x)	3.2	3.0	2.8	2.5
EV/Net sales (x)	3.0	2.8	2.6	2.4
EV/EBITDA (x)	14.9	12.9	10.3	8.8
EV/EBIT (x)	20.7	19.4	18.1	14.3

Source: Company, PhillipCapital India Research

Stock Price, Price Target and Rating History



Source: PhillipCapital India Research

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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