

FINANCIAL MODEL

PLANT VISIT

Rising Stars

2023

IMPORT
SUBSTITUTION

ORGANISED
V/S
UNORGANISED

MANAGEMENT MEET

EXPORT
OPPORTUNITY

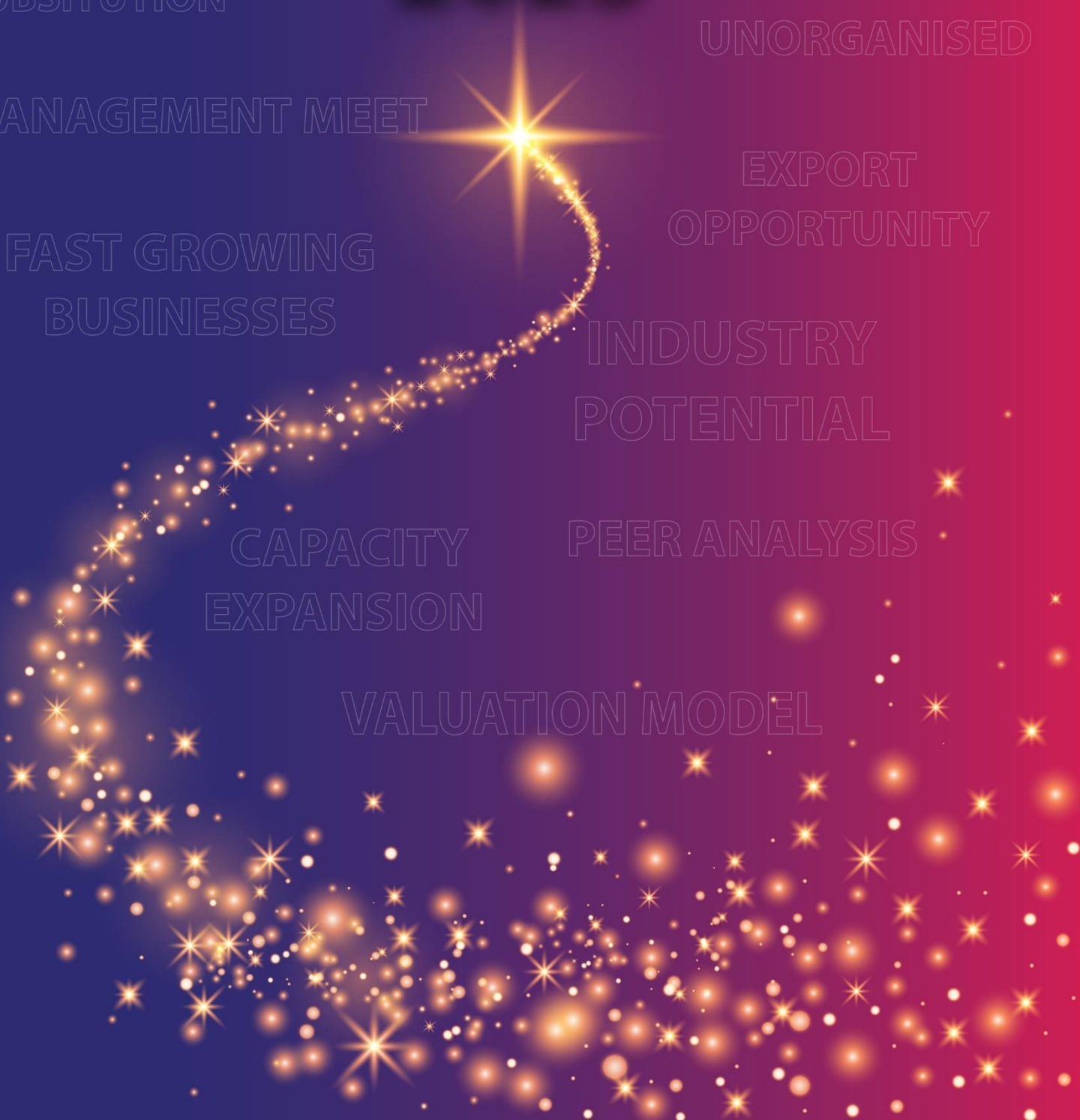
FAST GROWING
BUSINESSES

INDUSTRY
POTENTIAL

CAPACITY
EXPANSION

PEER ANALYSIS

VALUATION MODEL



Retail Research | BUY

Star Cement Ltd

Current Price (Rs)*	123.2
Target Price (Rs)	155.0
Upside (%)	26.0

*Closing price of 04th May, 2023

STOCK DATA

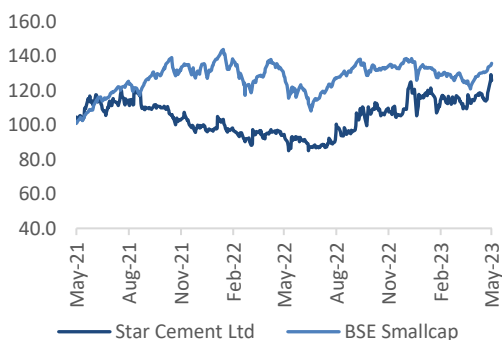
Industry Segment	Cement
BSE Code	540575
NSE Code	STARCEMENT
Bloomberg Code	STRCEM IN
52 Week High / Low (Rs.)	127.9/81.0
Face Value (Rs.)	1.0
Diluted Number of Shares (Crоре.)	40.4
Market Cap. (Rs Crоре.)	4,979.5

SHAREHOLDING PATTERN (%)

Particulars	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	67.4	67.4	67.0	67.1
FII	0.3	0.4	0.5	0.6
Other Institution	6.1	6.2	6.2	6.2
Public & Others	26.2	26.0	26.3	26.1
Total	100.0	100.0	100.0	100.0

RETURNS STATISTICS (%)

Particulars	1M	3M	6M	12M
Star Cement	10.3	10.0	16.9	33.1
BSE Smallcap	7.8	5.5	1.0	5.9

Stock Performance (2-years)


Source: BSE, SSL Research

Riding on the fast growing North-East India

Star Cement Ltd. (SCL) is the leading cement company in the North-Eastern Region (NER) with the highest market share of ~23%. The Company caters to significant cement markets across the eastern and north-eastern regions of India and functions across its 6 manufacturing units spread in these regions. As of Apr'23, on a consolidated level the company has an aggregate cement capacity of 5.7 MTPA, clinker capacity of 2.8 MTPA and captive power plant capacity of 63.5 MW (including 12.5 MW of Waste Heat Recovery Boiler installed in Apr'23).

We like the company due to a) Proxy play on fast growing Eastern and North-Eastern regions b) Strong supply chain and distribution network c) Attractive play on regional growth opportunity in cement industry d) Long term capex plans to boost volume growth e) Healthy financial performance with net cash positive balance sheet

Initiate with BUY: We like Star Cement as it looks poised to capture the long-term growth story in the eastern and north-eastern cement market with its sustainable competitive advantage in these regions and robust capacity expansion plans (70% cement capacity expansion by FY25E). We expect 20.0% CAGR in the topline and 22.5% EBITDA CAGR over FY22-25E period. PAT is likely to grow by 4.6% YoY in FY24E to Rs 229 cr and by 37% YoY in FY25E to Rs 314 cr. We initiate coverage on SCL with a BUY rating, valuing the stock at 12.6x of its rolling 1-Yr forward EV/EBITDA for a target price of Rs 155, which implies an upside potential of 26%.

Investment Rationale

Proxy play on fast growing Eastern and North-Eastern regions: SCL has strategically located integrated capacities in Meghalaya with a total grinding capacity of 1.67 MTPA. It also has a clinker capacity of 2.8 MTPA, 12.5 MW of WHR, and a 51 MW of captive coal-based power generation facility in the state. In addition to this, SCL has 2 MTPA of grinding capacity each in Guwahati, Assam and Siliguri, West Bengal. In all, the company has a consolidated cement capacity of 5.7 MTPA out of which close to 65% is in the NER while the rest is in the eastern region.

Financial Summary

Particulars (Rs cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	1,719.9	2,221.8	2,691.1	3,069.8	3,843.2
EBITDA margin (%)	15.6	15.5	15.3	16.3	16.5
Adj. Net Profit	247.8	246.8	219.0	229.0	313.9
Free Cash Flow	243.2	219.7	55.1	-662.5	96.1
EPS (Rs)	4.5	6.1	5.4	5.7	7.8
Growth (%)	-34.9	34.6	-11.2	4.6	37.0
P/E (x)	27.2	20.2	22.7	21.7	15.9
EV/EBITDA (x)	17.2	13.3	11.0	10.5	8.1
D/E (x)	0.0	0.0	0.0	0.3	0.2
RoE (%)	9.5	11.6	9.6	9.2	11.3
RoCE (%)	10.4	12.0	13.2	12.6	13.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Attractive regional industry growth opportunity: Globally, India is the second largest producer of cement, right after China, with a total cement capacity of 537 mn tonnes as of FY20. India accounts for over 8% of the global cement production. However, the per capita consumption of cement in India still remains substantially low at about 240-250 kg when compared with the developed world or world average which stands at about 500-550 kg. Also, the incremental demand of cement in India is shifting towards the eastern region with the government's increased efforts to build underdeveloped states in the eastern (Bihar, Jharkhand, Chhattisgarh, Odisha) and north-eastern regions. The cement demand in eastern region is expected to grow at relatively faster clip of ~10% CAGR - highest amongst all the regions – during FY22-25E period.

At the fag end of huge capex cycle; Volumes likely to grow exponentially from 4QFY24 onwards; Power cost likely to reduce substantially post commissioning of 12.5 MW WHR power plant from 1QFY24: The company is in the process of setting up a 3 MTPA clinker unit and 10.8 MW Waste Heat Recovery Boiler (WHRB) at Lumshnong, Meghalaya with a capex of Rs 1,450 cr. It is expected to get commissioned by Jan'24 the full benefit of which will start flowing from FY25E onwards. SCL is also expanding its grinding capacity in the North-East region by 4 MTPA by FY25E (2 MTPA by FY24E and balance by FY25E). Post completion of the above capex, total clinker/cement capacity will expand by 107%/71% to 5.8/9.7 MTPA. Captive power capacity will expand by 17% to 74.3 MW. During FY23E-FY25E period, we expect sales volumes to expand at a CAGR of 17.6% to 5.5 MTPA in FY25E. The commissioning of the recent 12.5 MW WHR plant in 1QFY24 will result into an annual savings of Rs 40 cr per annum.

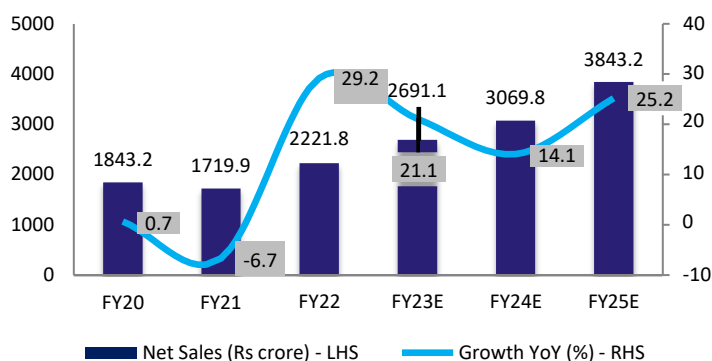
Long track record of successfully running profitable business, especially during the challenging COVID environment; Balance sheet likely to remain lean despite enormous capex spend during FY24E-FY25E period: During FY13-FY20 period, SCL has delivered Net Sales/EBITDA/PAT CAGR of 15.9%/13.5%/15.9% to Rs 1,843 cr/Rs 394 cr/Rs 287 cr. Despite COVID led challenges and high energy prices over the last 2-3 years, SCL has sailed through profitably during FY20-FY22 period. SCL has deleveraged its balance sheet from a net D/E of 0.7x in FY15 to net cash positive by FY19. As of 31st December 2022, the company is holding cash of more than Rs 550 cr. Despite humungous capex of Rs 1,650 cr planned during FY24E – FY25E period, net D/E is likely to be comfortable at 0.5x in FY24E and 0.3x in FY25E. Capex of Rs 1,650 cr is likely to be funded from internal accruals and debt. We expect company to turn FCF positive from FY25E onwards. RoCE is likely to expand from 12% in FY22 to 13.6% in FY25E.

Key Risks:

- 1) Increase in competitive intensity
- 2) High energy cost pressurizing operational performance due to dislocation in global and domestic supply chain
- 3) Revenue concentration in Eastern & Non-Eastern region
- 4) Logistics challenges as the region faces lack of railway siding at key loading and unloading points for cement and clinker

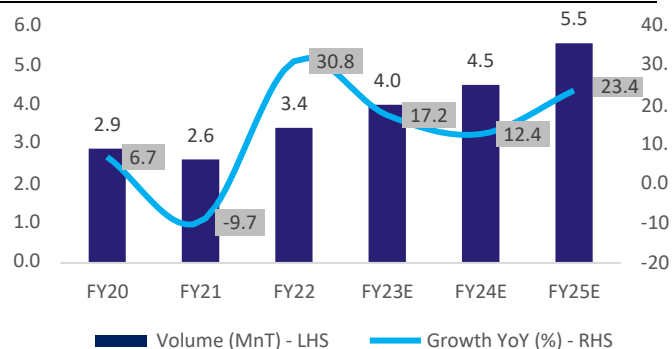
Story in Charts

Exhibit 1: Healthy sales growth aided by robust volume growth...



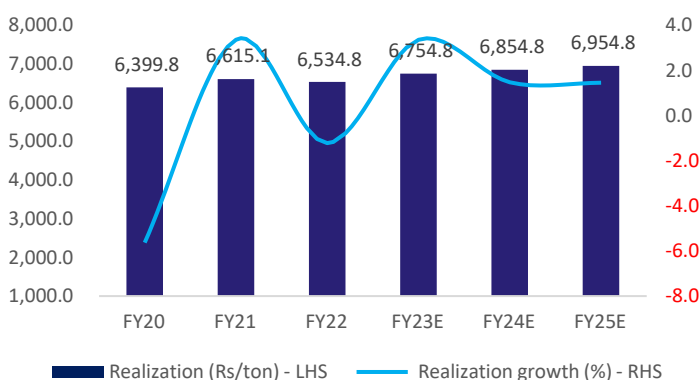
Source: Company, SSL Research

Exhibit 2: ... incremental capacities (up by 70% in FY25E)



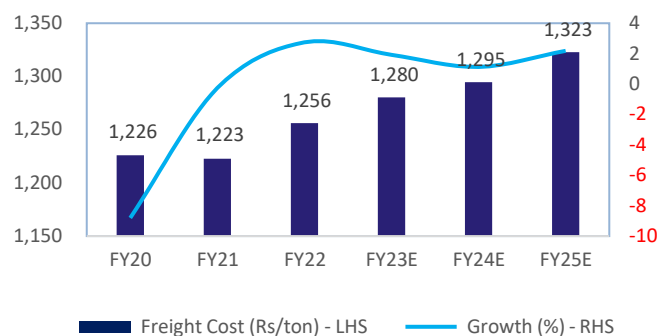
Source: Company, SSL Research

Exhibit 3: Realizations – Presence in growing cement market to help maintain healthy realizations



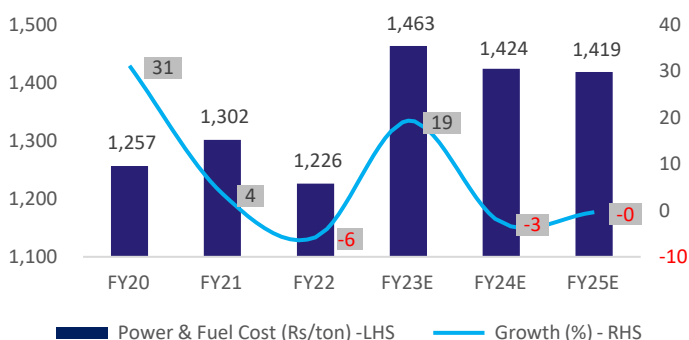
Source: Company, SSL Research

Exhibit 4: Freight cost/ton – Diversification in Eastern markets will lead to increase in logistics cost



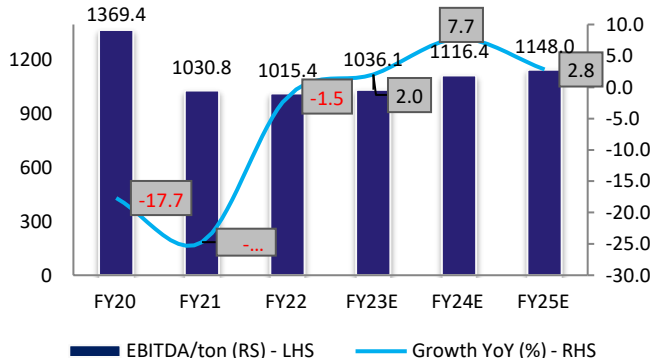
Source: Company, SSL Research

Exhibit 5: Increase in Captive Power Capacity to lower per ton Power & Fuel cost



Source: Company, SSL Research

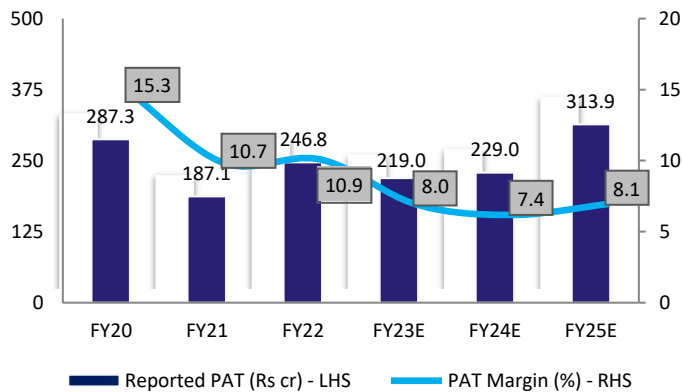
Exhibit 6: Eventually leading to growth in EBITDA/ton (excl. other income and incentives)



Source: Company, SSL Research

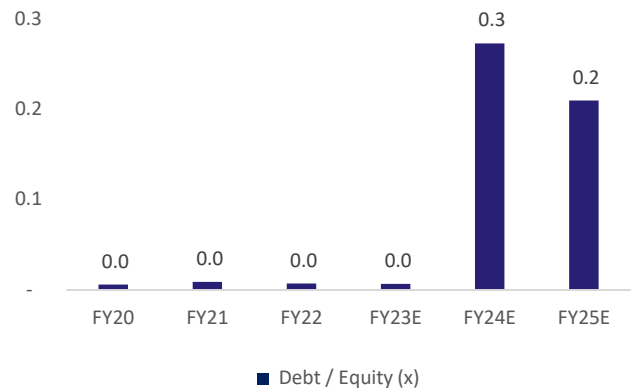
Story in Charts

Exhibit 7: Consistent PAT growth with stable PAT margin



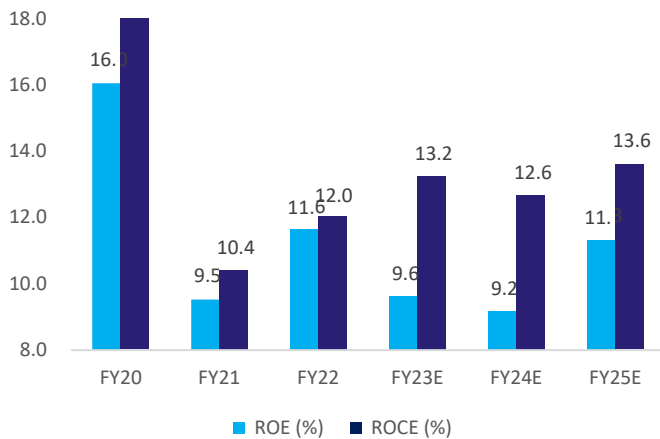
Source: Company, SSL Research

Exhibit 8: D/E to peak in FY24E



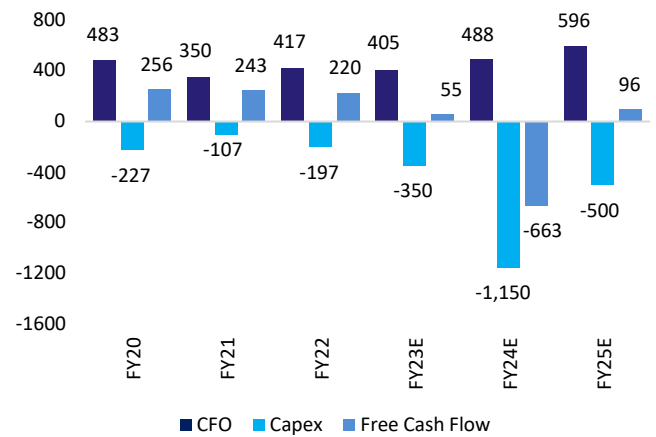
Source: Company, SSL Research

Exhibit 9: Sustained RoE and RoCE



Source: Company, SSL Research

Exhibit 10: Free Cash flow generation



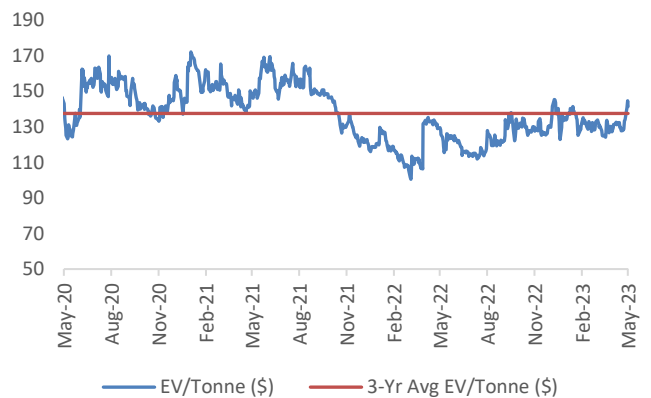
Source: Company, SSL Research

Exhibit 11: Valuation – 1 year forward EV/EBITDA (x)



Source: Company, SSL Research

Exhibit 12: Valuation – 1 year forward EV/T (\$)



Source: Company, SSL Research

Investment Rationale:**A. Proxy play on fast growing Eastern and North-Eastern regions:**

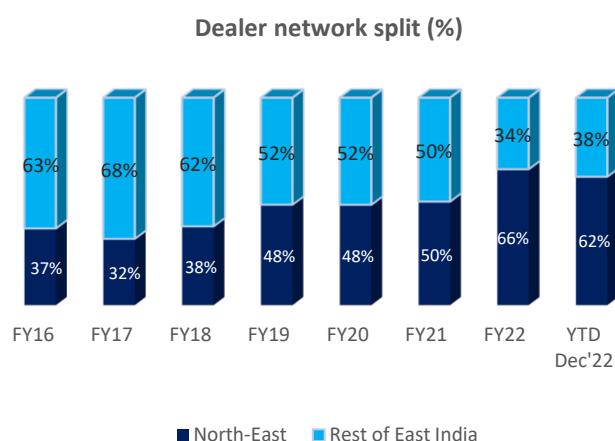
SCL has strategically located integrated capacities in Meghalaya with a total grinding capacity of 1.67 MTPA. It also has a clinker capacity of 2.8 MTPA, 12.5 MW of WHR and a 51 MW of captive coal-based power generation facility in the state. In addition to this, SCL has 2 MTPA of grinding capacity each in Guwahati, Assam and Siliguri, West Bengal. In all, the company has a consolidated cement capacity of 5.7 MTPA out of which close to 65% is in the NER while the rest is in the eastern region.

The company diversified into the eastern region in FY21 by commissioning a new grinding unit with an annual capacity of 2.0 MTPA at Siliguri, West Bengal. The purpose of commissioning new grinding facility was to widen its geographical footprint from the North-Eastern to the Eastern region as well as to cater to the rising demand in the eastern region. The company's presence in the NER and eastern markets has been healthy with a total cement capacity of 5.7 MTPA out of the total estimated installed capacities of 121 MTPA in the region. This implies that SCL alone constitutes ~5% of the total estimated installed capacities in the Eastern as well as North-Eastern regions. In terms of sales volume, SCL has a market share of ~23% in NER. Star Cement is already a market leader in the NER which has tremendous growth potential for cement as a commodity.

B. Strong supply chain and distribution network:

The company has a blend of strong supply chain and distribution network. Logistics expenses, which generally constitutes 30-40% of the total production cost for cement companies, are reduced by proximity to raw materials. SCL enjoys easy access to limestone mines which are located within 2-3 km of the plant radius. Furthermore, the company uses the ideal combination of roads, and railways to ensure a continuous product supply. In order to decrease freight cost and reliance on outside transporters, the company owns a fleet of 190+ vehicles. It has successfully worked on shortening the delivery times by employing GPS networks to track the fleet of vehicles.

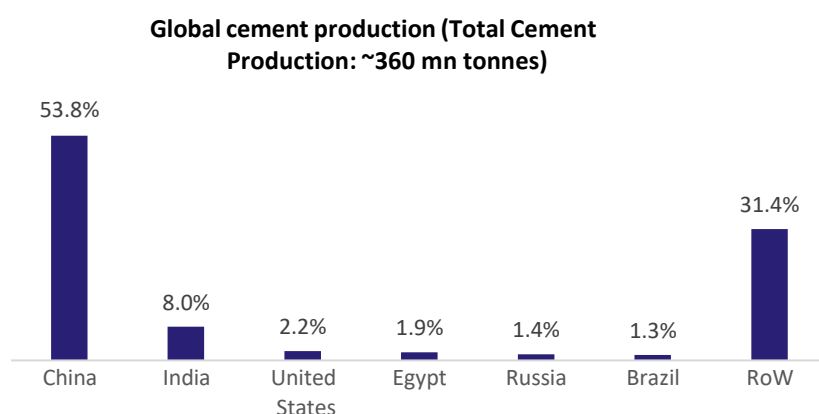
Star Cement has been focusing on advancing its dealer network over the years. The company has developed a strong dealer and distribution network covering ten states with more than 2,100 dealers and 12,000 merchants. The broad network helps SCL to enter more geographies and increase sales, thus helping it to maintain its position as the industry leader. The company derives 85-90% of its sales through trade channel which is expected to continue as the management expects healthy demand from the housing segment to continue.

Exhibit 13: Strong Dealer-Distributor network

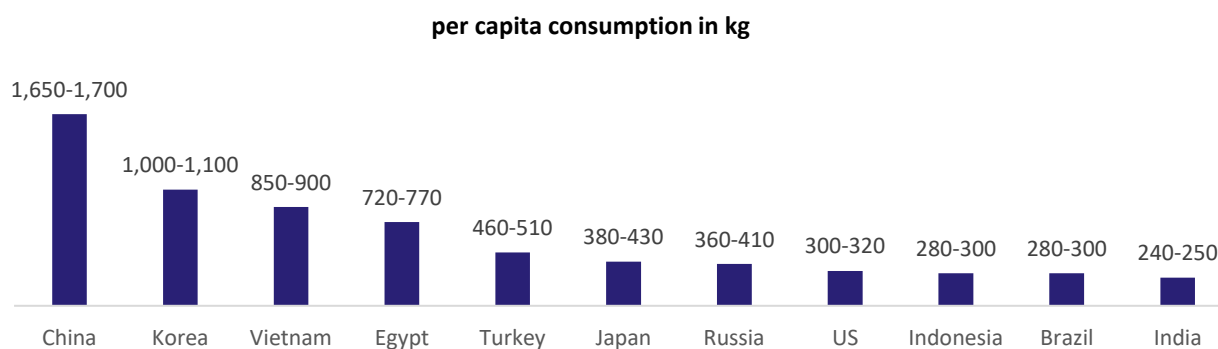
Source: Company, SSL Research

C. Attractive regional industry growth opportunity:**Structural long term growth story of Indian cement sector**

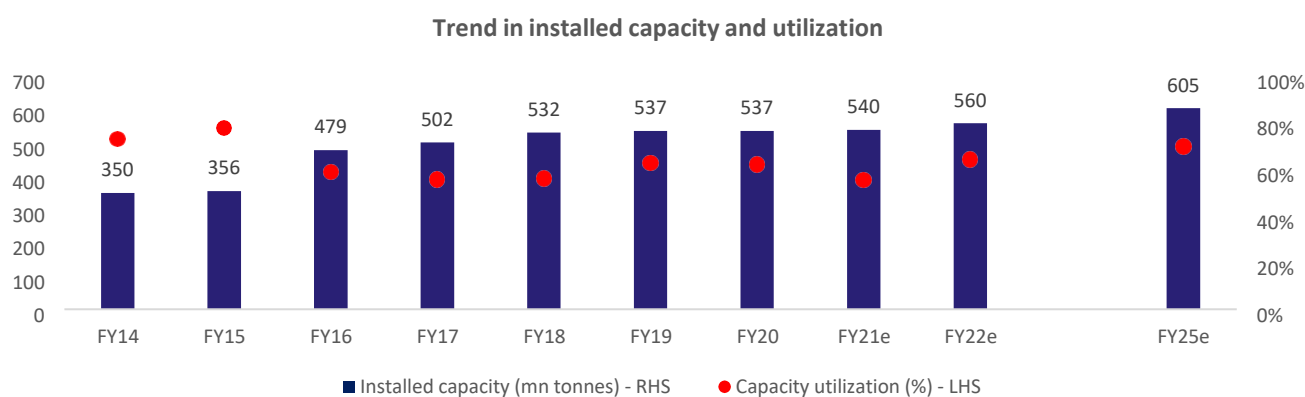
The Indian cement industry is among the foundational industries of our nation as it is an integral component of the entire industrial infrastructure. Globally, India is the second largest producer of cement, right after China, with a total capacity of 537 mn tonnes as of FY20. India accounts for over 8% of the global cement production. However, the per capita consumption of cement in India still remains substantially low at about 240-250 kg when compared with the developed world or world average which stands at about 500-550 kg.

Exhibit 14: India is the second largest cement producer of the world after China

Source: Industry Data, SSL Research

Exhibit 15: India is a highly under-penetrated market (per capita cement consumption in India in kg)

Source: Industry Data, SSL Research

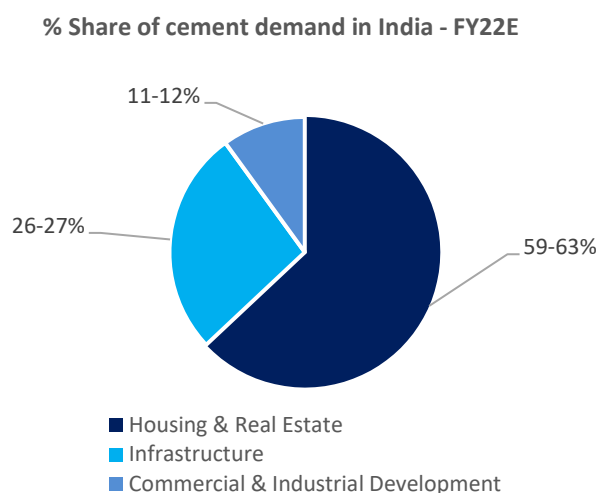
Exhibit 16: Total installed cement capacity likely to grow by 2.6% CAGR over FY22E-25E with 70% utilization rate

Source: Indian Mineral Yearbook 2020, DPII, SSL Research

We anticipate cement industry to play a pivotal role in growth story of India and hence the long term outlook seems bright. Among the key triggers of growth in the cement industry, especially in the eastern and north-eastern regions are a) robust demand in Housing & Real Estate sector b) burgeoning eastern India c) availability of finest limestone reserves in Eastern and Central region d) under-penetration in eastern market

1. Robust demand in Housing & Real Estate sector

The cement demand broadly comes from the three sectors - Housing & Real estate, Infrastructure and Commercial & Industrial Development. The Housing & Real estate sector is the biggest demand driver for cement in India contributing ~60% of the overall cement demand. The second biggest demand driver is the infrastructure sector which contributes 26% to the overall cement demand and lastly the commercial and industrial development contributes 11% to the overall cement demand in India.

Exhibit 17: Share of cement demand drivers in India - FY22E

Source: Industry Data, SSL Research

Out of all the sectors, the housing & real estate sector is expected to grow the highest driven by strong growth in rural and low-cost housing. Due to low concrete penetration in rural areas, the number of houses with cement as a material of floor has grown at a relatively higher pace in rural areas than in urban areas. While the number of houses with concrete as a material of roof has shown similar growth trends in both rural and urban areas.

Exhibit 18: Households by Material of Floor (%)

Material	Rural			Urban			Change %	
	1991	2001	2011	1991	2001	2011	Rural	Urban
Mud	78.7	72.3	62.6	24.8	18.0	12.2	-16.1	-12.6
Stone	3.7	4.5	6.2	10.1	9.1	12.2	2.5	2.1
Cement	13.3	18.0	24.2	48.0	48.3	45.8	10.9	-2.2
Mosaic/Floor tiles	1.0	2.2	3.7	12.2	20.5	25.9	2.7	13.7
Others	3.2	3.0	3.2	4.9	4.1	3.8	-0.0	-1.1

Exhibit 19: Households by Material of Roof (%)

Material	Rural		Urban		Change %	Change %		
	1991	2001	Rural	Urban				
Grass/Thatch/Bamboo/Wood/Mud, etc.	37.3	27.7	20.0	11.2	7.0	4.6	-17.3	-6.6
Tiles	38.4	37.6	28.7	23.6	19.7	13.2	-9.7	-10.4
GI/Metal/Asbestos sheets	6.9	9.8	15.9	15.8	16.1	15.9	9.0	0.1
Concrete	4.5	11.0	18.3	31.3	42.4	51.9	13.8	20.6
Others	12.9	14.0	17.1	18.0	14.8	14.4	4.2	-3.6

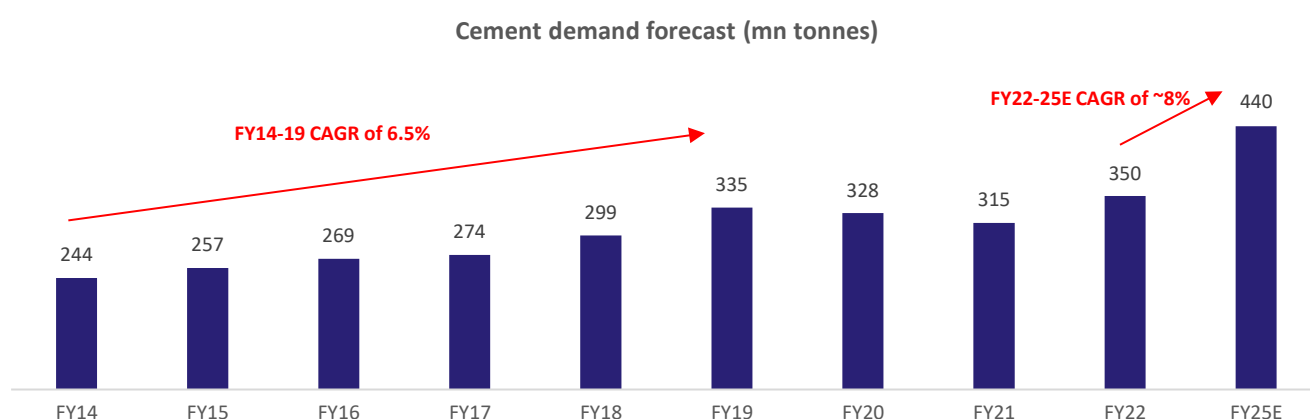
Source: Ministry of Home Affairs/Census

2. Burgeoning Eastern and North Eastern India - Gateway of opportunities: The North-East Region of the country comprises of eight states (Meghalaya, Manipur, Sikkim, Arunachal Pradesh, Nagaland, Tripura, Assam, and Mizoram) and has a very rich bank of natural resources. Post-independence, NER became land locked and lost its easy access to ports and other parts of the country. This resulted in lack of development in NER in comparison to the other states of the country. However, over the past few years, the NER has received continuous support from the Central and State governments which has resulted in continuous infrastructure improvement.

In order to build connectivity of NER with other parts of the nation and Southeast Asian countries, the Finance Minister in 2022 announced execution of several rail, road and air connectivity projects worth Rs. 1.34 trillion in the NER. Some of the major infrastructure projects in NER includes Rail, Road and Air connectivity wherein 4,000 km of roads, 20 railway projects for 2,011 km and 15 air connectivity projects are being developed.

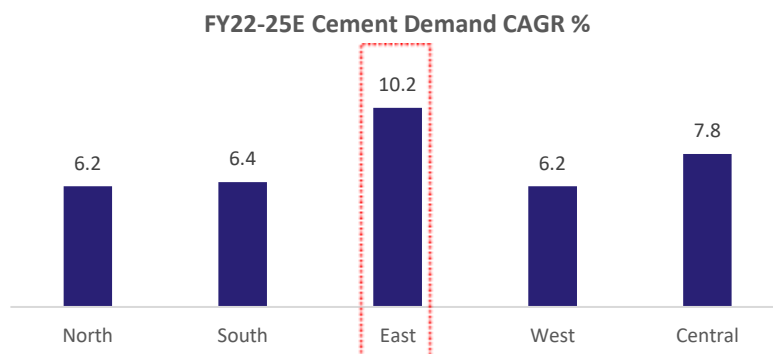
The government's focus has increased in the eastern region as well to aid faster growth in the market. The eastern India accounts for ~22% of India's total cement capacity. The incremental demand of cement in India is shifting towards the eastern region with the government's increased efforts to build underdeveloped states in the eastern (Bihar, Jharkhand, Chhattisgarh, Odisha) and north-eastern regions. The cement demand in eastern region is expected to grow highest amongst the regions with a CAGR of ~10% over FY22-25E.

Exhibit 20: Overall Cement industry expected to recover sharply...



Source: Industry Data, SSL Research

Exhibit 21: ...with East leading the growth

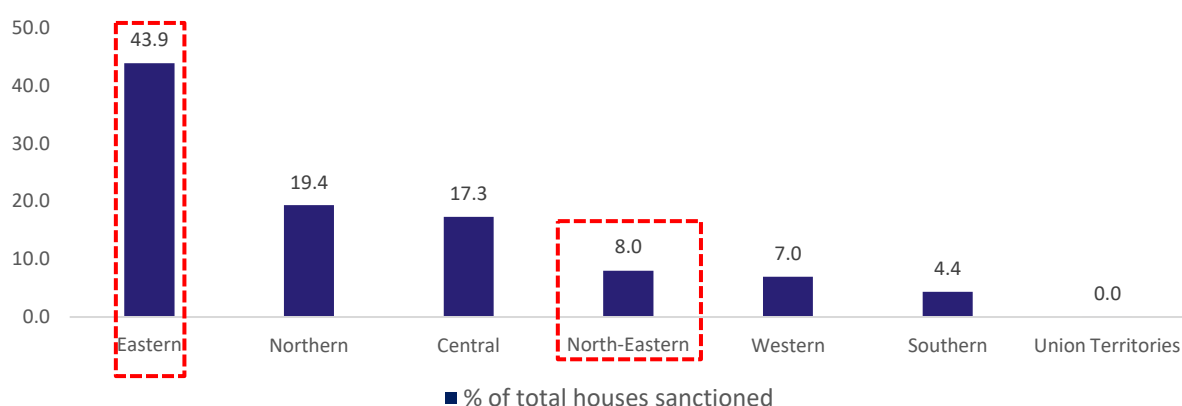


Source: Industry Data, SSL Research

The government had approved a new central sector scheme of North East Special Infrastructure Development Scheme (NESIDS) in Dec'17 for a period of three years till 2020 which is still active at present. The scheme was introduced for the projects of physical infrastructure relating to water supply, power and connectivity enhancing tourism and social infrastructure relating to primary and secondary sectors of education and health in the north east region comprising of 8 states. In Union Budget 2024, the total budget set for this scheme is Rs. 2,491 cr; over 67% higher than last year's allocation of Rs. 1,493.3 cr.

Further, within the PMAY-G scheme, higher concentration has been given to the eastern, northern, central and north-eastern regions.

Exhibit 22: Eastern and North-eastern amongst the highly concentrated regions for houses sanctioned in PMAY-G



Source: MoRD, SSL Research / Data as of 17th April, 2023

Although the cement consumption in the Eastern region is lower than the national average, the market is likely to witness positive change in the near future as a galore of opportunities in the form of housing shortage, highway networks and other infrastructural projects like railways, hydropower capacity, and smart cities are present in the Eastern region.

Exhibit 23: Other industry growth drivers for Eastern and North-Eastern region

21.6 mn units of housing shortage in Eastern India, including North-East

Higher focus on national security in the Eastern region, along with the Government initiating a large pipeline of infrastructure projects

Special focus on smart cities in the Eastern region - with 21 out of 10 cities being selected under the Smart City Mission

Low per capita cement consumption of the Eastern regions - 131 per kg compared to pan-India's relatively higher consumption of 230 kg

Limestone availability in the region - the key raw material for cement manufacturing - makes it an attractive destination

Various rail, road, and air connectivity projects in North-east India worth Rs 1.3 trillion will be taken up by the government, which includes 20 rail projects and 4,000 kms of road projects

The government is also deepening the NW-1 on the Ganges, NW-2 on Brahmaputra and NW-16 on Barak River (NW-National Waterways)

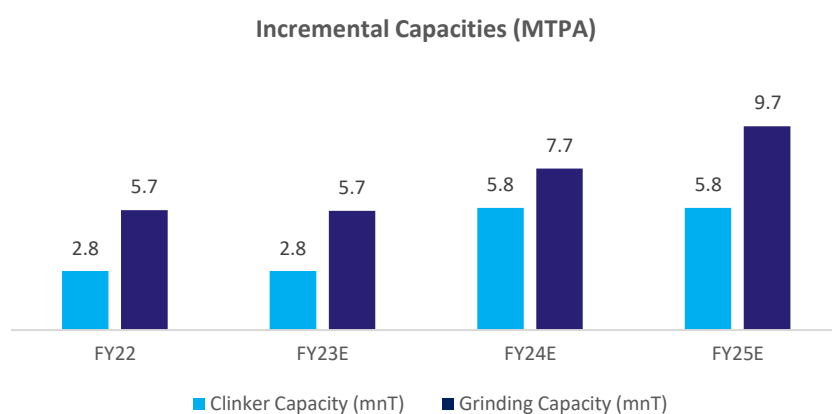
The NE region is gifted with an enormous hydropower capacity of approximately 58,356 MW (>25 MW). Of this, 2,027 MW (~3.47%) was utilised as of Nov'21. with about 92.9% of the remaining portion yet to be tapped, there are plans setting up a 2,120 MW of hydropower already

D. At the fag end of huge capex cycle; Volumes likely to grow exponentially from 4QFY24 onwards; Power cost likely to reduce substantially post commissioning of current WHR power plant of 12.5 MW from 1QFY24:

The company is in the process of setting up a 3 MTPA clinker unit and 10.8 MW Waste Heat Recovery Boiler (WHRB) at Lumshnong, Meghalaya with a capex of Rs 1,450 cr. The clinker plant will be used to supplement the standalone grinding facility at Siliguri, West Bengal and is expected to commission by Jan'24. The full benefit of this clinker plant will start flowing in from FY25E onwards. SCL is also expanding its grinding capacity in the North-East region by 4 MTPA by FY25E (2 MTPA by FY24E and balance by FY25E). This comprises of 2 MTPA of brownfield capacity to be set up in Guwahati and remaining 2 MTPA of greenfield capacity to be set up at Silchar in Assam. The capex for the total grinding unit expansion is Rs 800 cr. The Guwahati expansion is expected to commission between Oct-Nov this year while the Silchar unit is expected to commission in Aug'24. This will aid company in capturing the long-term growth story in the eastern part of India.

Post completion of the above capex, the total clinker/cement capacity will expand by 107%/71% to 5.8/9.7 MTPA. The company has already installed 12.5 MW of WHRB in Apr'23. Captive power capacity will expand by 17% to 74.3 MW. During FY23E-FY25E period, we expect sales volumes to expand at a CAGR of 17.6% to 5.5 MTPA in FY25E. The commissioning of the recent 12.5 MW WHR plant will result into annual savings of Rs 40 cr pa. However, incentives in company's two plants have expired in Jan'23 which is likely to reduce EBITDA by Rs 100-150/ton from FY24E onwards.

Exhibit 24: Incremental Clinker and Cement capacities



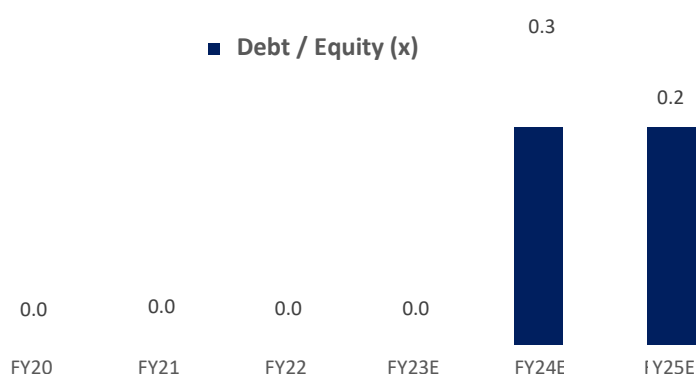
Source: Company, SSL Research

E. Long track record of successfully running profitable business, especially during the challenging COVID environment; Balance sheet likely to remain lean despite enormous capex spend during FY24E-FY25E period:

During FY13-FY20 period, SCL has delivered Net Sales/EBITDA/PAT CAGR of 15.9%/13.5%/15.9% to Rs 1,843 cr/Rs 394 cr/Rs 287 cr. Despite Covid led challenges and high energy prices over the last 2-3 years, SCL has sailed through profitably during FY20-FY22 period.

Historically, SCL has deleveraged its balance sheet from a net D/E of 0.7x in FY15 to net cash positive by FY19. As of 31st December 2022, the company is holding cash of more than Rs 550 cr. The healthy operating cash flows (OCF) has been the prime reason for SCL's superior balance sheet health as it has supported expansion with minimal debt requirement along with generating positive free cash flows (FCF). In past, the company has done capex primarily sourced through debt. However, the capex of ~Rs 400 cr over FY19-FY20 for its new grinding unit at Siliguri, West Bengal was done through internal accruals as the OCFs increased from FY19 onwards on the back of higher operating profits. The ongoing phase of expansion in Assam and Meghalaya is likely to be funded from internal accruals and debt. The debt is expected to peak in FY24 at levels of ~Rs 715 cr as a majority of capex will be done in FY24E (projected capex of Rs 1,150 cr). We expect healthy OCF over FY23E-25E, however FCF is expected to turn negative in FY24E. Despite humungous capex of Rs 1,650 cr planned during FY24E-FY25E period, net D/E is likely to be comfortable at 0.5x in FY24E and 0.3x in FY25E. We expect company to turn FCF positive from FY25E onwards. RoCE is likely to expand from 12% in FY22 to 13.6% in FY25E.

Exhibit 25: Healthy balance sheet...though Debt likely to increase given the ongoing capex



Source: Company, SSL Research

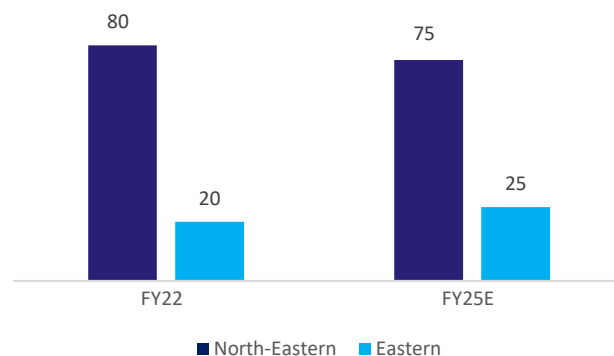
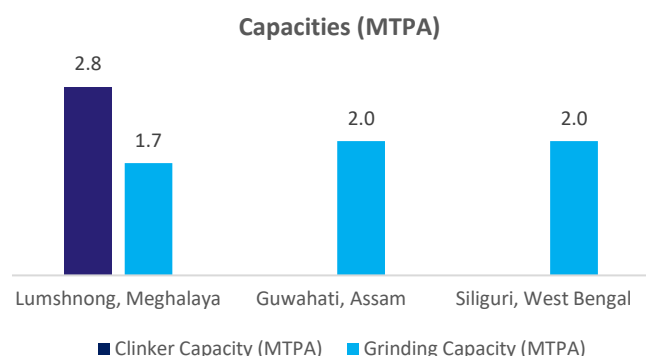
Company Overview

Star Cement Ltd. (SCL) began its operations in 2005 and was earlier known as Cement Manufacturing Company Ltd (CMCL). It is the leading cement company in the North-Eastern Region (NER) with the highest market share of ~23%. The Company caters to significant cement markets across the eastern and north-eastern regions of India and functions across its 6 manufacturing units spread in these regions. As of Apr'23, on a consolidated level the company has an aggregate cement capacity of 5.7 mtpa, clinker capacity of 2.8 mtpa and captive power plant capacity of 63.5 MW (including 12.5 MW of Waste Heat Recovery Boiler installed in Apr'23). Around 65% of the total cement capacity of the company is in the NER while the rest is in the eastern parts of India. The manufacturing units of the company are located at Lumshnong, Guwahati, and Siliguri in the states of Meghalaya, Assam and West Bengal respectively. The Company is selling its product across north eastern and eastern states of India.

Product Line:

Star Cement and its subsidiaries have four manufacturing units in Meghalaya, one each in Assam and West Bengal. The company's extensive product portfolio comprises of:

- i. Ordinary Portland Cement (OPC)
- ii. Portland Pozzolana Cement (PPC)
- iii. Portland Composite Cement (PCC)
- iv. Anti Rust Cement (ARC)

Exhibit 26: Manufacturing facilities with current installed capacities**Exhibit 27: Sales Mix by geography - %**

Source: Company, SSL Research

Source: Company, SSL Research

Exhibit 28: Management Overview

Name	Designation	Brief Profile
Mr. Sajjan Bhajanka	Chairman, Managing Director and Chief Executive Officer	Mr. Sajjan Bhajanka is a Commerce graduate from Dibrugarh University, Assam. He has business and industrial experience of more than 25 years in the fields of Plywood, Ferro Silicon, Granite, export and import. Apart from Star Cement, Mr. Bhajanka holds managerial position in various other companies and industries, including the position of Managing Director of Century Plyboards (I) Ltd, the largest producer of plywood, laminates and block-boards in India.
Mr. Rajendra Chamaria	Vice Chairman & Managing Director	Mr. Rajendra Chamaria has 36 years of experience in cement and concrete sleepers industry with excellent project execution skill and production knowledge.
Mr. Sanjay Agarwal	Managing Director	Mr. Sanjay Agarwal has 36 years of industry experience.
Mr. Prem Kumar Bhajanka	Managing Director	Mr. Prem Kumar Bhajanka has 43 years of industry experience.
Mr. Manoj Agarwal	Chief Financial Officer	Mr. Manoj Agarwal is a certified fellow Chartered Accountant (FCA) with varied experience of over 27 years including 12 years in the cement industry. He is responsible for Finance & Accounts, Taxation Statutory Compliance & Vendors Management.

Initiate with BUY: We like Star Cement as it looks poised to capture the long term growth story in the eastern and north-eastern cement markets with its sustainable competitive advantage in these regions and robust capacity expansion plans (70% cement capacity expansion by FY25E). Financially, the company has net cash positive balance sheet at present with healthy return ratios historically. However, due to its ongoing robust capex plans the debt levels are likely to peak in FY24 at ~Rs 715 cr.

We expect 20.0% CAGR in the topline and 22.5% EBITDA CAGR over FY22-25E. However, PAT is likely to grow by 4.6% YoY in FY24E to Rs 229 cr and by 37% YoY in FY25E to Rs 314 cr. We initiate coverage on SCL with a BUY rating, valuing the stock at 12.6x of its rolling 1-Yr forward EV/EBITDA for a target price of Rs 155, which implies an upside potential of 26%.

Key Assumptions

Parameter	FY22	FY23E	FY24E	FY25E
Sales Volumes (mt)	3.4	4.0	4.5	5.5
Realisation/T (Rs)	6,535	6,755	6,855	6,955
Operating costs/T (Rs)	5,519	5,719	5,738	5,807
EBITDA/T (Rs)	1,015	1,036	1,116	1,148

Valuation:

(Rs cr)	1-Yr Rolling Forward
1-Yr Rolling forward EV/EBITDA (x)	10.1
Target EV/EBITDA (x)	12.6
EBITDA	512.1
EV	6,445.9
Target market capitalization	6,245.3
No. of shares (cr)	40.4
Rounded off Target price (Rs/share)	155.0
CMP (Rs/share)	123.2
Upside %	26

Key Risks

- 1. Competition from other large players:** Competition in the cement industry is very high. Apart from the large players there are also small players in the market which operates in the eastern region with some having installed capacities even more than Star Cement. Big companies like Dalmia Bharat is also expanding its presence in eastern market with a planned clinker expansion of 0.8 mtpa in eastern and north-eastern regions together by FY24E. With cement players expanding their presence in eastern as well as non-eastern regions, the regional market share in the industry becomes limited.
- 2. High energy cost pressurizing operational performance:** Cement is an energy intensive industry where Power, Fuel and Transportation costs comprises of over 40-50% of the total operating cost. Constant increase in fuel costs leads to high transportation cost. Availability of coal at affordable cost also becomes a constraint factor. Since the beginning of the Russia-Ukraine war in Feb'22, there has been a constant rise in the crude oil price which is a barometer of the overall of energy cost for cement companies.
- 3. Revenue concentration in Eastern & Non-Eastern region:** The company's business is wholly concentrated in the Non-Eastern and Eastern region with a historical geographical mix of 73:27 respectively. The business concentration in regional market for longer period of time may adversely affect the growth of the company in case of any environmental impact, less than optimal demand growth in the region, etc. which may lower revenues of the company.
- 4. Logistics challenges as the region faces lack of railway siding at key loading and unloading points for cement and clinker:** The company currently uses the combination of road and rail for transportation of raw materials and products. At present, the road mix is around 93-94% while the rail mix is very low at 4-5% as the region faces lack of railway sidings. Due to the typical hilly topography of the north-east region and presence of big rivers like Brahmaputra, it is difficult to lay railway lines in the region. Hence, railways are not very common in the north-eastern part of India and this keeps the freight cost of the company at high levels.

Peer Comparison

Co. Name	Mcap (Rs cr)	Total Capacity (MTPA)	Realn. (Rs/ton)	Op. cost (Rs/ton)	Freight cost (Rs/ton)	Power & Fuel cost (Rs/ton)	EBITDA (Rs/ton)	D/E (x)	RoE (%)	RoCE (%)	FY25E P/E (x)	FY25E EV/EBITDA (x)	EV/Ton (\$)
Ultratech Cement	2,16,659	129	5,897	4,606	1,313	1,361	1,291	0.2	15.5	15.0	25.3	13.9	202
Shree Cement	88,167	47	5,411	4,075	1,189	1,305	1,337	0.1	14.1	17.0	29.3	15.8	210
Ambuja Cements*	77,103	33	5,298	4,513	1,162	1,677	785	0.0	7.3	11.0	21.7	14.4	228
Dalmia Bharat	37,965	41	5,084	3,992	1,061	1,158	1,092	0.2	7.5	7.0	26.5	11.0	122
ACC*	33,169	37	5,832	5,377	1,383	1,606	454	0.0	5.1	7.0	15.6	8.1	96
JK Cement	23,319	19	5,871	4,782	1,214	1,214	1,089	1.0	16.8	16.0	23.3	12.2	174
The Ramco Cement	17,754	20	5,434	4,266	1,099	1,257	1,168	0.6	14.7	10.0	20.6	11.2	128
Nuvoco Vistas Corp.	11,858	24	5,235	4,394	1,421	1,182	841	0.6	0.4	4.0	20.2	7.0	76
JK Lakshmi Cement	9,019	14	4,839	4,014	982	1,151	825	0.8	21.0	20.0	13.2	7.0	82
Birla Corp	7,508	19	5,247	4,489	1,230	1,142	758	0.7	7.3	8.0	12.0	7.0	69
India Cements	5,863	16	1,829	1,646	401	582	182	0.5	1.4	3.0	22.4	7.4	46
Heidelberg Cement	3,877	6	4,805	3,896	619	1,344	909	0.1	16.5	21.0	12.3	7.2	71
Orient Cement	2,592	8	4,955	3,881	1,294	1,135	1,075	0.2	18.5	23.0	10.2	6.3	59
Sagar Cements	2,516	8	4,461	3,690	778	1,441	770	1.2	4.9	8.0	13.0	6.5	54

* CY22 financials for Ambuja Cem. and ACC

Annual Analysis on per ton basis

Rs/ton	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Blended Realization	5,664	6,266	6,782	6,400	6,615	6,535	6,755	6,855	6,955
Growth YoY (%)	-15.53	10.63	8.23	-5.63	3.36	-1.21	3.37	1.48	1.46
Raw material consumed	1,242	1,163	1,618	1,395	1,551	1,656	1,657	1,700	1,706
Power & Fuel cost	699	840	958	1,257	1,302	1,226	1,463	1,424	1,419
Freight cost	985	1,240	1,344	1,226	1,223	1,256	1,280	1,295	1,323
Staff cost	433	413	431	439	505	469	469	479	495
Other expenses	727	548	767	713	1,004	912	850	841	864
Total operating cost	4,086	4,205	5,118	5,030	5,584	5,519	5,719	5,738	5,807
Growth YoY (%)	-18.3	2.9	21.7	-1.7	11.0	-1.2	3.6	0.3	1.2
Blended EBITDA	1,490	2,005	1,664	1,369	1,031	1,015	1,036	1,116	1,148
Growth YoY (%)	-1.9	34.6	-17.0	-17.7	-24.7	-1.5	2.0	7.7	2.8

Financial Statements

Income Statement

Figures in cr.

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Net sales	1,719.9	2,221.8	2,691.1	3,069.8	3,843.2
<i>growth (%)</i>	<i>-6.7</i>	<i>29.2</i>	<i>21.1</i>	<i>14.1</i>	<i>25.2</i>
Operating expenses	1,451.9	1,876.6	2,278.3	2,569.8	3,208.8
EBIDTA	268.0	345.3	412.8	500.0	634.4
<i>growth (%)</i>	<i>-32.0</i>	<i>28.8</i>	<i>19.6</i>	<i>21.1</i>	<i>26.9</i>
Depreciation & amortisation	90.0	121.6	139.7	168.2	198.2
EBIT	178.0	223.6	273.1	331.8	436.2
Other income	28.2	33.4	30.3	30.6	31.5
Interest paid	7.0	13.3	11.4	57.1	49.2
PBT	199.3	243.7	292.1	305.4	418.5
Tax	12.1	-3.1	73.0	76.3	104.6
Effective tax rate (%)	6.1	-1.3	25.0	25.0	25.0
Reported Net profit	187.1	246.8	219.0	229.0	313.9
Minority interest/Share of JVs	-	-	-	-	-
Adj. Net profit after minority interest	187.1	246.8	219.0	229.0	313.9
Non-recurring items	-60.6	-	-	-	-
Adj. Net profit after minority interest & exceptional items	247.8	246.8	219.0	229.0	313.9
<i>growth (%)</i>	<i>-13.2</i>	<i>-0.4</i>	<i>-11.2</i>	<i>4.6</i>	<i>37.0</i>

Balance Sheet

Figures in cr.

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Cash & Bank balances	471.7	384.7	427.4	444.9	413.9
Inventories	234.7	195.3	221.8	244.6	285.2
Other current assets	518.1	550.0	660.9	711.9	838.6
Net fixed assets	823.7	928.0	1,138.3	2,120.1	2,421.9
Capital WIP	125.9	104.6	126.6	127.6	128.2
Other non-current assets	388.1	582.6	562.0	569.1	582.1
Total assets	2,562.2	2,745.1	3,137.1	4,218.3	4,669.9
Current liabilities	341.3	402.6	575.0	686.7	865.2
Borrowings	1.7	8.0	5.0	700.0	600.0
Other non-current liabilities	145.0	166.1	169.6	215.1	274.3
Total Non-Current liabilities	488.0	576.7	749.6	1,601.8	1,739.5
Share capital	41.2	40.4	40.4	40.4	40.4
Reserves & surplus	2,032.9	2,128.0	2,347.1	2,576.1	2,890.0
Shareholders' funds	2,074.2	2,168.4	2,387.5	2,616.5	2,930.4
Minority interest	-	-	-	-	-
Total equity & liabilities	2,562.2	2,745.1	3,137.1	4,218.3	4,669.9

Cash Flow Statement

Figures in cr.

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	199.3	243.7	292.1	305.4	418.5
Depreciation	90.0	121.6	139.7	168.2	198.2
Chg in working capital	107.5	106.5	65.3	63.8	66.3
Total tax paid	-30.4	-35.0	-73.0	-76.3	-104.6
Other operating activities	-16.4	-19.7	-18.9	26.4	17.7
Operating CF	350.0	417.1	405.1	487.5	596.1
Capital expenditure	-106.8	-197.4	-350.0	-1,150.0	-500.0
Other investing activities	-226.2	-91.5	-5.4	-5.1	-38.5
Investing CF	-333.0	-288.9	-355.4	-1,155.1	-538.5
FCF	243.2	219.7	55.1	-662.5	96.1
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	3.7	-9.9	0.8	696.7	-98.7
Dividend (incl. tax)	-	-	-	-	-
Other financing activities	-7.0	-165.7	-7.9	-11.6	10.0
Financing CF	-3.3	-175.7	-7.0	685.1	-88.7
Net chg in cash balance	13.6	-47.4	42.7	17.5	-31.1
Closing cash balance	55.5	8.1	50.8	68.4	37.3

Important Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Profitability and return ratios (%)					
EBIDTAM	15.6	15.5	15.3	16.3	16.5
EBITM	10.4	10.1	10.1	10.8	11.3
NPM	10.7	10.9	8.0	7.4	8.1
RoE	9.5	11.6	9.6	9.2	11.3
RoCE	10.4	12.0	13.2	12.6	13.6
Per share data (Rs)					
O/s shares (cr.)	41.2	40.4	40.4	40.4	40.4
EPS	4.5	6.1	5.4	5.7	7.8
FDEPS	4.5	6.1	5.4	5.7	7.8
CEPS	6.7	9.1	8.9	9.8	12.7
BV	50.3	53.7	59.1	64.7	72.5
DPS	0.0	0.0	0.0	0.0	0.0
Valuation ratios (x)					
PE	27.2	20.2	22.7	21.7	15.9
P/BV	2.4	2.3	2.1	1.9	1.7
EV/EBIDTA	17.2	13.3	11.0	10.5	8.1
EV/ Net sales	2.7	2.1	1.7	1.7	1.3
Other key ratios					
D/E (x)	0.0	0.0	0.0	0.3	0.2
Cash conversion cycle (days)	54.7	30.4	12.7	7.5	4.7
Du Pont Analysis - RoE					
NPM (%)	10.7	10.9	8.0	7.4	8.1
Asset turnover (x)	1.9	2.3	2.4	1.8	1.6
Equity Multiplier (x)	0.5	0.5	0.5	0.7	0.9
RoE (%)	9.5	11.6	9.6	9.2	11.3

Source: Company, SSL Research

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