COMPANY NOTE

Initiating Coverage

India | Industrials | Building Materials

20 September 2017

Jefferies

EQUITY RESEARCH INDIA

Star Cement (STRCEM IN)

A strong regional play; Initiate at Buy

BUY

Price target INR137.00

Price INR108.65^

Key Takeaway

Star Cement is the largest player in NE, with 23% market share. Driven by the government's thrust in the region and no new capacities being added, we expect the demand to grow 7-8% annually with pricing being supportive. Star Cement has highest EBITDA/ton in the industry due to higher realisations and subsidies. We believe the stock is cheap at 8x Sep-19 EV/EBITDA, given superior profitability and RoE's profile. Initiate with BUY and TP of Rs137 (26% upside).

North East (NE) is a big thrust area for the government: NE per capita cement consumption at 142kg is way below national average of 210kg. This is reflected in NE having lagged development compared to mainland. But the current government is looking to change this by giving it importance in every infrastructure-related project.

23% market share in North-East (NE): Star Cement is the largest organised cement player in North East among 3 players controlling 55%-60% of the market. It has steadily improved its market share in the region from 19% in FY10 to 23% in FY17. Star Cement has its primary integrated plant in Lumshnong (Meghalaya) with a grinding unit in Assam.

Highest EBITDA/ton in the industry: Due to 40-50% higher-than-market realisation in the NE but costs being only 35% higher, Star Cement made Rs1,429 EBITDA/ton in FY17 (highest in the industry). Given no capacity additions are planned in the region, we expect the realisation and profitability to be maintained/improve.

Subsidy plays an important role: Star Cement enjoys a host of exemptions/subsidies under government policies. Freight subsidy ends in Jan 2018 impacting blended costs by Rs300-350/ton. Excise exemption continues till FY23, but would also impact by Rs350/ton. Subsidies worth Rs7 bn are stuck with government agencies, which should be received by FY19 (contributes 9% to our TP).

Leverage and return ratios better than peers: Star Cement leverage at 0.6x in FY17 is lower than midcap peers and should only improve as no major capex is planned. Star Cement's return ratios have been better than peers as well due to relatively lower volatility in prices in NE and better cost control.

Valuation/Risks

Due to restructuring by the group and lack of long trading history for the cement business, we use a 10x Sep-19 EV/EBITDA multiple (in line with average of midcaps under coverage) for the stock on normalised EBITDA pre-subsidy. Initiate coverage with BUY rating and a TP of Rs137 (26% upside). Downside risk: Low demand and weakness in realisations in NE.

INR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	--	17,217.4	--	20,414.0	--	22,896.3	--	25,683.3
EBITDA (MM)	--	4,025.2	--	5,788.8	--	5,794.5	--	6,795.0
Net Profit	--	1,791.5	--	3,649.3	--	3,916.4	--	4,909.6
BV/Share	--	29.29	--	38.00	--	47.34	--	59.05
P/B		3.7x		2.9x		2.3x		1.8x
ROE	--	15.7%	--	25.9%	--	21.9%	--	22.0%
EPS								
FY Mar	--	4.27	--	8.71	--	9.34	--	11.71
FY P/E		25.4x		12.5x		11.6x		9.3x

Financial Summary

Net Debt (MM):	INR7,748.0

Market Data

52 Week Range:	INR135.00 - INR106.15
Total Entprs. Value (MM):	INR53.3BN
Market Cap. (MM):	INR45.5BN
Shares Out. (MM):	419.2
Float (MM):	110.9
Avg. Daily Vol.:	126,852

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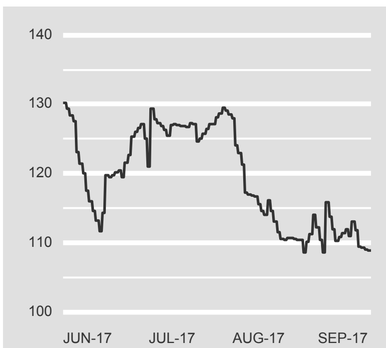
Price Performance



^Prior trading day's closing price unless otherwise noted.

Star Cement (STRCEM IN)

Buy: Rs137 Price Target

Scenarios

Base Case

- Expect Star Cement to maintain market share in the North East
- North East volumes grow at 7-8% annually with realisation growth of 5% in FY19 and FY20, post 10% growth in FY18
- Rs2 bn and Rs5 bn subsidy expected to be received in FY18 and FY19
- Profitability remains best among peers even post subsidy expiry over FY18-23.
- Value the stock at 10x Sep-19 EV/EBITDA and put a target price of Rs137 (26% upside)

Upside Scenario

- Subsidy gets released sooner than expectation
- North East volume pickup beyond 7-8% assumed now
- Prices remain firm and improve due to higher volumes
- Small players get weeded out and more consolidation happens
- East India operations remains EPS accretive after expiry of subsidies
- Value the stock at 12x Sep-19 EV/EBITDA in upside scenario with a price target of Rs161

Downside Scenario

- Subsidy receipt gets further delayed to fiscal constraints at the center
- Demand in North-East remains lackluster
- Pricing collapse due to lower demand
- Higher competition and loss of market share in the North East
- East operations become non-sustainable due to expiry of freight subsidy
- Value the stock at 7x Sep-19 EV/EBITDA in downside scenario with a price target of Rs100

Investment Thesis / Where We Differ

- Star Cement is a market leader in North East with 23% market share
- Star has the highest profitability in the industry due to subsidy in excise, freight, etc
- With improvement in realisation coming through in 1QFY18, we expect EPS to grow 2x in FY18 and 3x by FY20
- Government's thrust in the region in terms of infrastructure policies, will drive cement demand
- Trading at 8x Sep-19 EV/EBITDA, we believe the stock is cheap given superior profitability and demand potential in North East

Catalysts

- Receipt of pending subsidies from central government
- Sustainability/improvement in realization in North East
- Demand growth in North East
- Post subsidy profitability metrics being stable/improve

Long Term Analysis

Long Term Financial Model Drivers (FY17-20E)

LT volume growth	**7-8%**
LT realization growth	**5%**
Operating Margin Expansion	**300bps**

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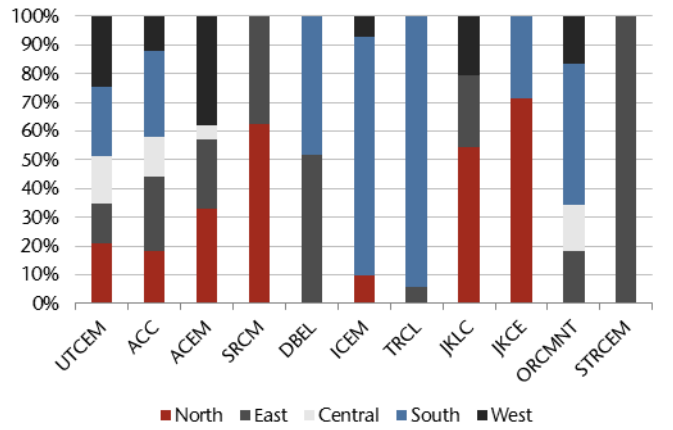
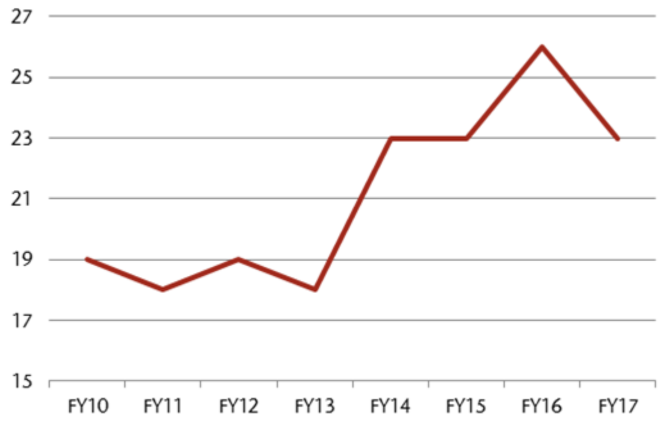
Key Charts

Exhibit 1: Star is a pure East/North-East player (FY19)



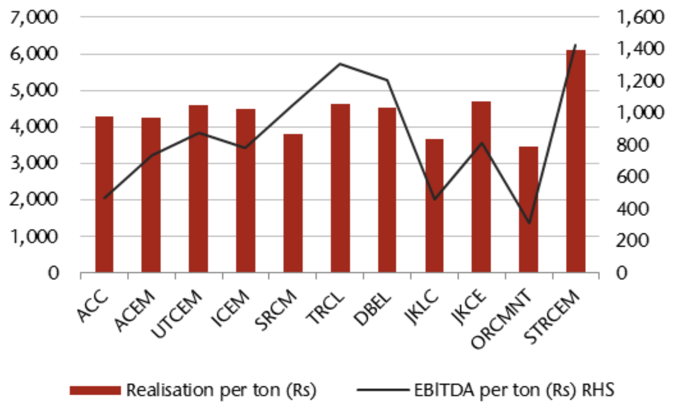
Source: Jefferies estimates, company data

Exhibit 2: % market share in North East gradually improved



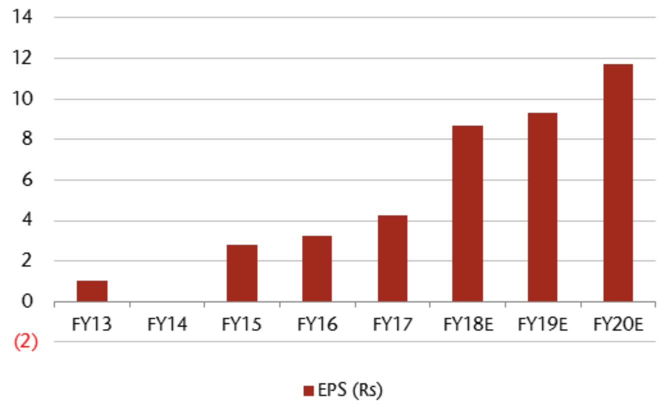
Source: Jefferies estimates, company data

Exhibit 3: Highest EBITDA/ton in the industry



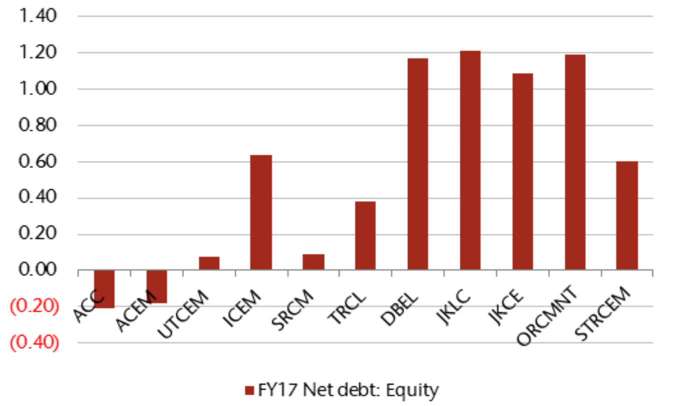
Source: Jefferies estimates, company data

Exhibit 4: 40% EPS CAGR over FY17-20E



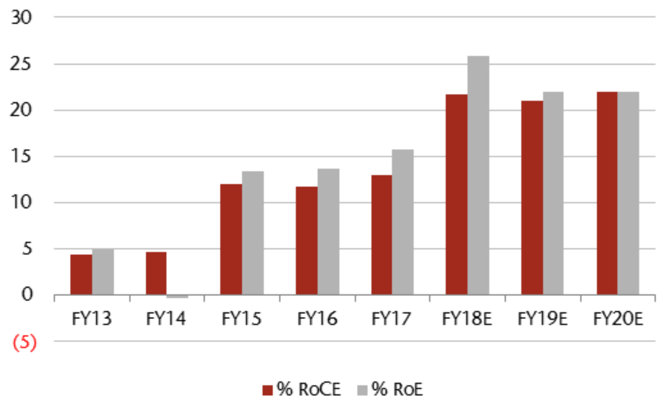
Source: Jefferies estimates, company data

Exhibit 5: Current leverage lower than peers



Source: Jefferies estimates, company data

Exhibit 6: Return ratios improvement underway



Source: Jefferies estimates, company data

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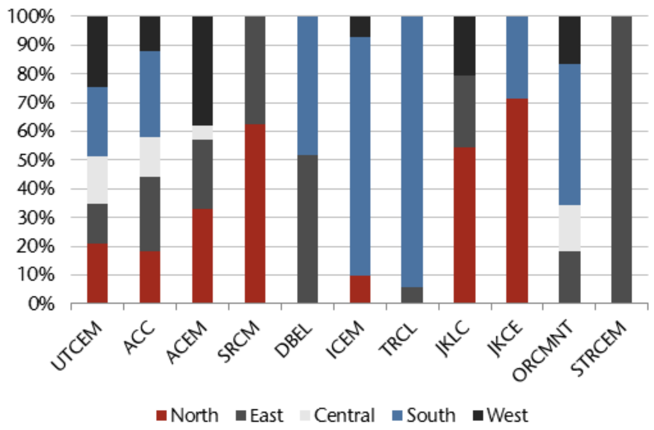
Largest North East player

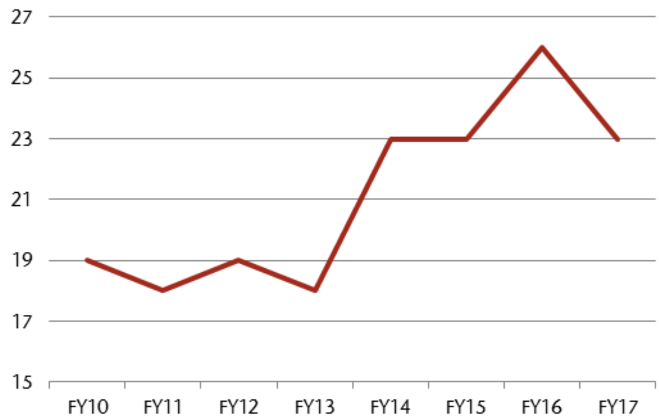
Star Cement is the largest organised player in North-Eastern market of India, with a 23% market share, others being unlisted Meghalaya cement and Dalmia Cement. It has an integrated plant at Lumshong (Meghalaya) having 2.6mnt clinker capacity and 1.7mnt grinding capacity. Apart from this, Star has an additional grinding capacity of 2mnt at Guwahati (Assam). Additionally over the last 2 years, Star has diversified into Eastern India markets in Bihar and West Bengal. It uses its excess clinker in Lumshong to transport to the hired grinding units in West Bengal to serve those markets. Basically Star wants to build a sizeable brand presence in the Eastern region before putting up fresh capex.

Exhibit 7: Star is a pure East/North-East player (FY19)



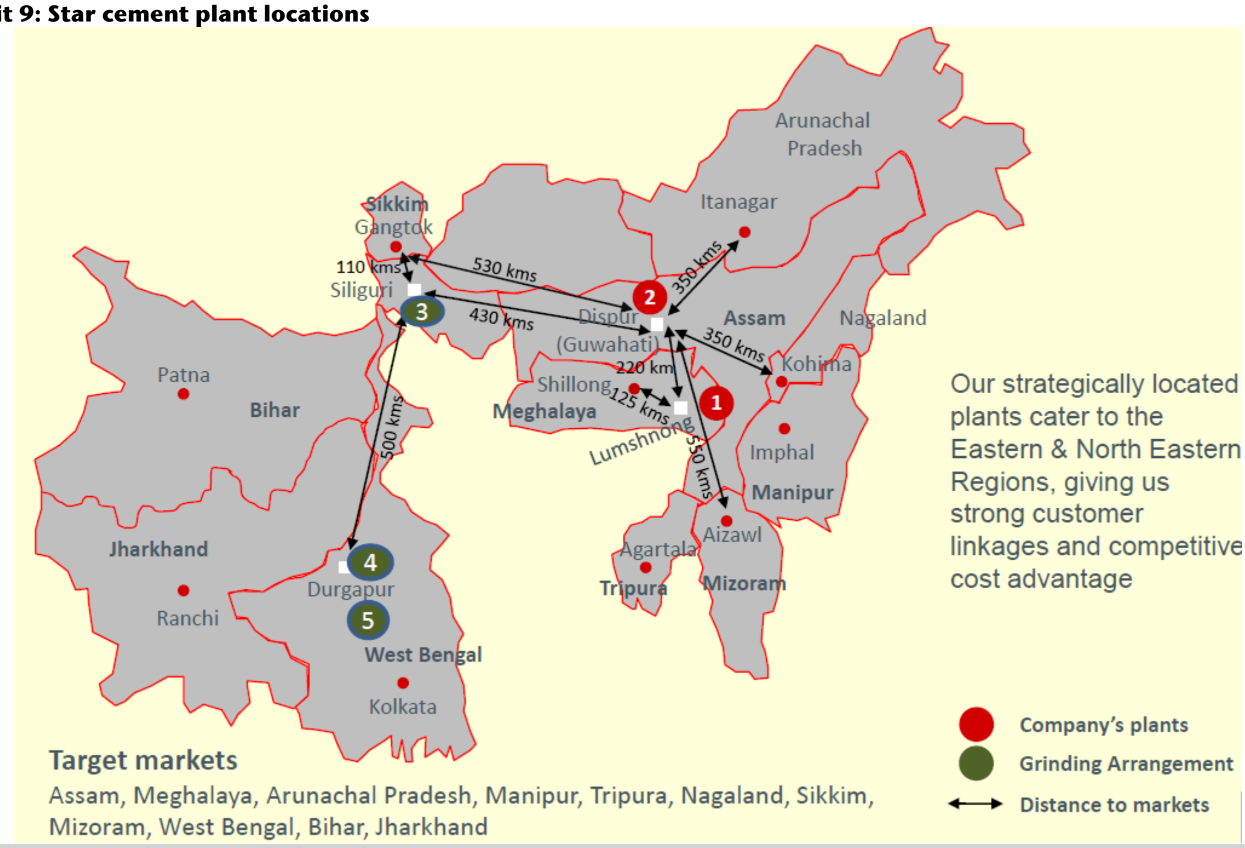
Source: Jefferies estimates, company data

Exhibit 8: % market share in north east gradually improved



Source: Company data

Exhibit 9: Star cement plant locations



Source: Company presentation

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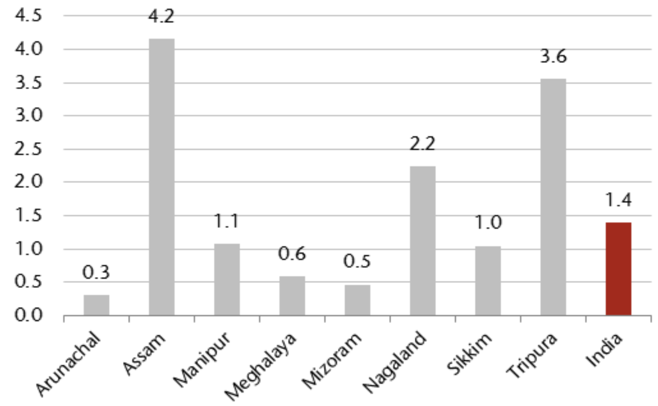
North East policy thrust

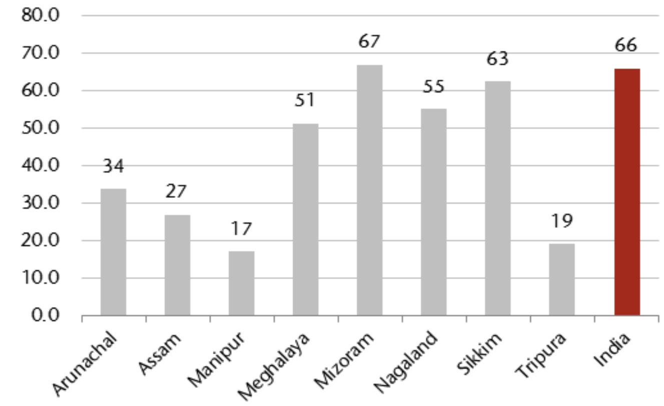
Geographical location and political unrest have made the Northeast region inaccessible and a high cost region to do business. Lack of government focus has led to lower infrastructure in most states in northeast compared to Indian mainland. Just to put in perspective, the per capita cement consumption in NE is 142kg, much below the national average of 210kg.

Exhibit 10: Road density (road length/sq km area) for most of the northeast states is lower than national average



Source: Jefferies, Ministry of Road Transport and Highways

Exhibit 11: Pucca houses as % of total dwellings is lower for most northeast states compared to national average



Source: Jefferies, NSS Data

However the current government, after coming into power in May 2014, had laid down development of the Northeast as a key focus area. This should lead to North-East being a significant part of every infrastructure policy on national scale.

Exhibit 12: Government's thrust on Infrastructure

Roads: Special Accelerated Road Development for North-East (SARDP-NE) and National Highway Development Programmes (NHDP) in NE for 10,141 kms at estimated cost of Rs335 bn. Out of this, approval for 5,532kms has already been executed
Airports: 5 sanctioned, 8 in pipeline; Rs50 bn of investments over the next 10 years
Railways: 20 ongoing new line, gauge conversion and double line projects in NE being executed at a cost of Rs384 bn
Hydro Power: Largest hydro power potential in India in NE with 98% still untapped; 63,000MW of hydro capacity identified and 14,000MW already allotted to private players which will result in 14mnt of cement demand
Smart Cities: One city in each of the NE states is part of the project

Source: Company data

Various infrastructure projects in this region which have got special thrust from the Government recently are: a) Special Accelerated Road Development Programme for North East (SARDP- NE); b) Focus on building national highway projects under NHIDCL; c) Plan to connect all state capital through railways.

SARDP –NE: Initially approved by the cabinet in FY06, the main objectives of the program are: a) to upgrade National Highways connecting state capitals to 2 lane / 4 lane; b) provide connectivity of all 88 District Headquarter towns of NER by at least 2-lane road; c) provide road connectivity to backward and remote areas of NE region to boost socio - economic development; d) improve roads of strategic importance in border areas; and e) improve connectivity to neighboring countries.

NHIDCL Projects: National Highways and Infrastructure Development Corporation (NHIDCL) is a fully owned company of the Ministry of Road Transport & Highways. NHIDCL has undertaken various projects across the county to improve the road

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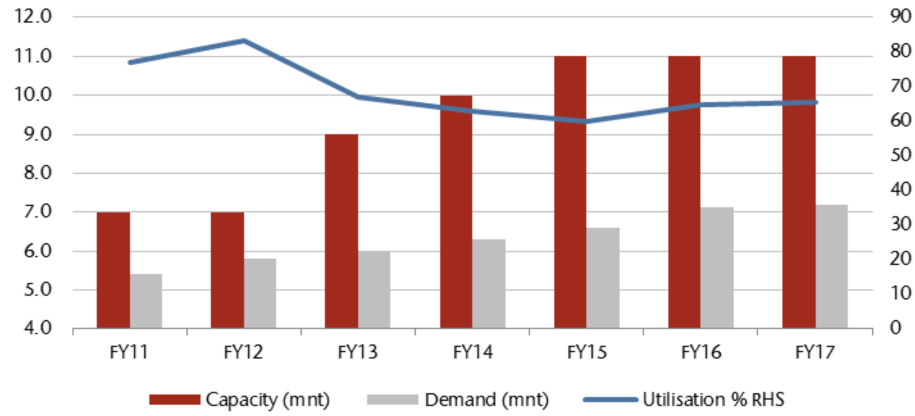
infrastructure. NHIDCL's special focus is on northeast India as it tries to bridge the infrastructure gap between this region and mainland.

Railway connectivity in the region: Railway ministry has a plan to connect all state capitals and augmenting network capacity to handle traffic growth in future. There are also initiatives to expand existing network to connect interior regions.

Demand supply dynamics supportive

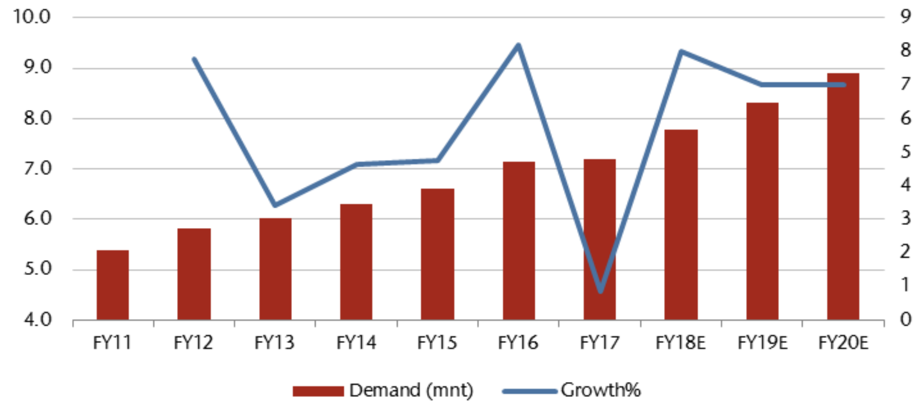
North East markets are dominated by 3 large players accounting for 55-60% market share. However, given that capacity utilisation in the region is at <65%, no players are looking to add capacity in near term. Due to lack of clinker in East India, most large players are catering to the Eastern market using clinker from elsewhere (i.e. Shree Cement transporting clinker to its Bihar unit from Rajasthan). Due to difficult terrain and lack of clinker, contribution from mainland players into NE has reduced from 30% to 14% over last few years. Going forward, policy thrust and low base impact would lead to better volume growth than 4% CAGR seen over the last 5 years. Hence we are positive on the region and believe that demand supply dynamics are favourable to keep realisations firm/improve.

Exhibit 13: No new capacities expected in NE



Source: Company data

Exhibit 14: Expect 7-8% demand growth for FY18-20E



Source: Jefferies estimates, company data

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Subsidy expiry impact factored-in

Star Cement enjoys a host of subsidies from the central/state government as per the North East Industrial Investment Promotion Policy (NEIPP) 2007 like exemption on income tax, excise duty, CST, VAT, freight and capital investment subsidy.

1) Freight subsidy is expected to expire across the residual plants by Jan2018. This should lead to an impact of Rs300-350 per ton on a blended basis. The key here is that post this expiry, the strategy to transport clinker from NE to hired grinding units in West Bengal, may not be profitable across the entire West Bengal market. We have already accounted for the impact of the end of this subsidy in our full year FY19 estimates

2) Excise duty exemption which is due to expire in 6-10 years across various plants is still far away. However, when it does come into effect, EBITDA/ton may be revised downward by Rs350.

3) Income tax exemption is also a material contributor to reported EPS, although does not impact the EBITDA/ton estimates. Expiry is 4-5 years away at key plants.

4) Others exemptions are either immaterial in the current sales distribution setup or are one-time exemptions

Exhibit 15: Subsidies available to Star cement along with timeline

	Exemption	Balance Exemption period**			
		SCML	SCL-GGU	SCL-LMS	MTEPL
Income Tax	100% under Section 80 IE, subject to MAT	5 years	5 years	-	1 years
Excise Duty on					
Clinker	75%	6 years ~	-	10 years ~	-
Cement	75%/36%^	-	^6 years ~	10 Years ~	-
Central Sales Tax	99%	3years ~	-	-	-
VAT	99%^^	3years ~	₹ 138Crs ~/ 3 years	-	-
Freight Subsidy					
Inward					
Within NER*	90%	-	-	-	-
Outside NER	90%	-	-	-	-
Outward		1 years	1 years	-	-
Within NER*	50%	-	-	-	-
Outside NER	90%	-	-	-	-
Capital Investment Subsidy	30% of Investment in Plant & Machinery	One time	One time	-	-

^^At GGU unit, VAT exemption is 99% up to 200% of FCI ^ 75% for integrated units and 36% for standalone grinding units
*Freight subsidies are not available for intra-state movements
** As on 31.03.2017

Source: Company presentation

Subsidy release is near term positive

Subsidy receipt is one of the key positive triggers for Star Cement in the near term as the amount stuck with the government currently is Rs7 bn (35% of balance sheet), of which Rs2 bn is capital investment subsidy and Rs5 bn is freight subsidy. Management expects to receive Rs2 bn (capital subsidy) by FY18-end as most of the approvals are in place. However, freight subsidy will only be received in FY19. We are building in the same in our estimates. We highlight that this has contributed 9% (Rs12) to our target price of Rs137.

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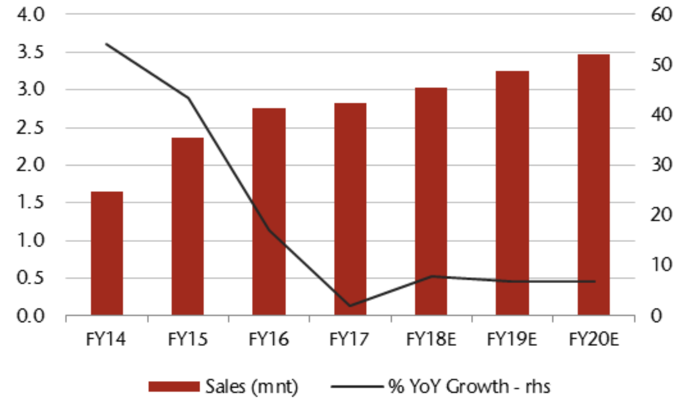
Volumes & realisations improving

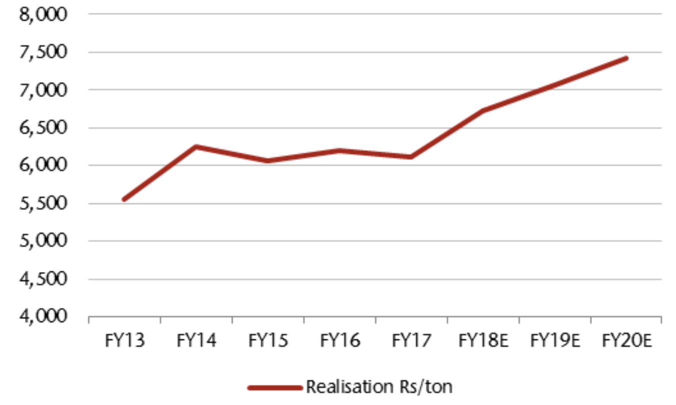
We are bullish on the cement demand in NE driven by government thrust. Although near term may seem weak due to monsoons and some distribution optimization, we expect volume to grow 7-8% YoY. On the other hand, although realisations have improved by 20%+ YoY in 1QFY18, we are not anchoring our assumptions to 1QFY18 and assuming realisation to improve at a more normalised 10%/5%/5% YoY in FY18/FY19/20. This should be achievable given demand improves along with limited supply. We would like to highlight that NE markets have the highest realisation across the country but that is a function of the difficult terrain.

Exhibit 16: We expect Star Cement's volume growth to be in 7-8% range



Source: Jefferies estimates, company data

Exhibit 17: As well as realisation uptrend to continue

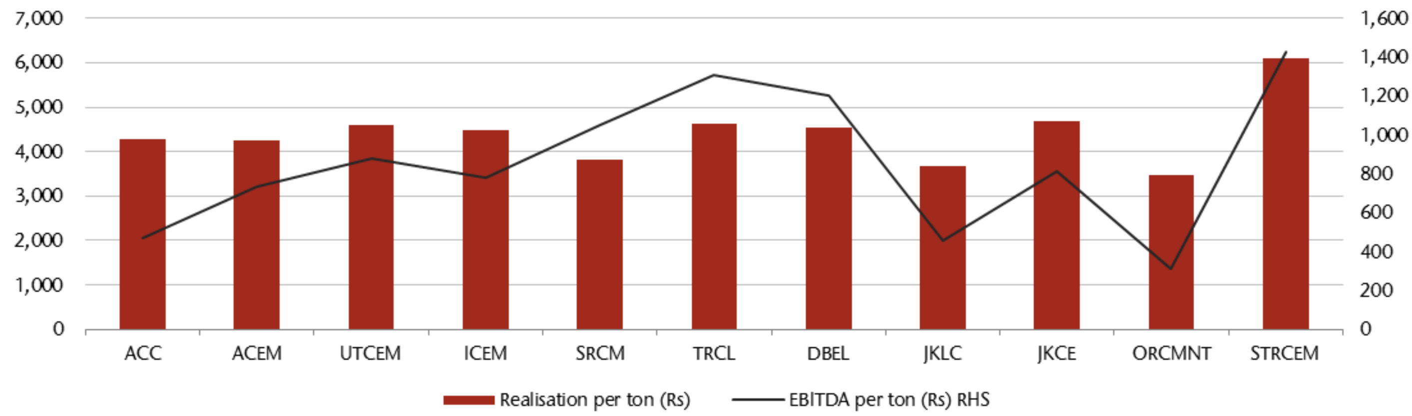


Source: Jefferies estimates, company data

Highest profitability in the industry

Star Cement profitability (EBITDA/ton) was highest in the industry in FY17 due to 40-50% higher-than-market realisation in North-East but costs being only 35% higher. In 1QFY18, EBITDA/ton has grown even further to Rs2,350 per ton. But a lot of this is dependent on the subsidy and can have an impact of Rs700-750 per ton once all subsidies expire. However hypothetically assuming that those subsidies were to expire today, if realisations sustain at current levels Rs2,350-Rs750=Rs1600 EBITDA/ton would still be higher than other large cap and mid cap players. We expect EBITDA/ton to drop in FY19 as freight subsidy goes away and hence EBITDA/ton would be flat over a 2 year period of FY18-20E.

Exhibit 18: Star Cement EBITDA/ton of Rs1,429 in FY17 was highest in the industry



Source: Jefferies estimates, company data

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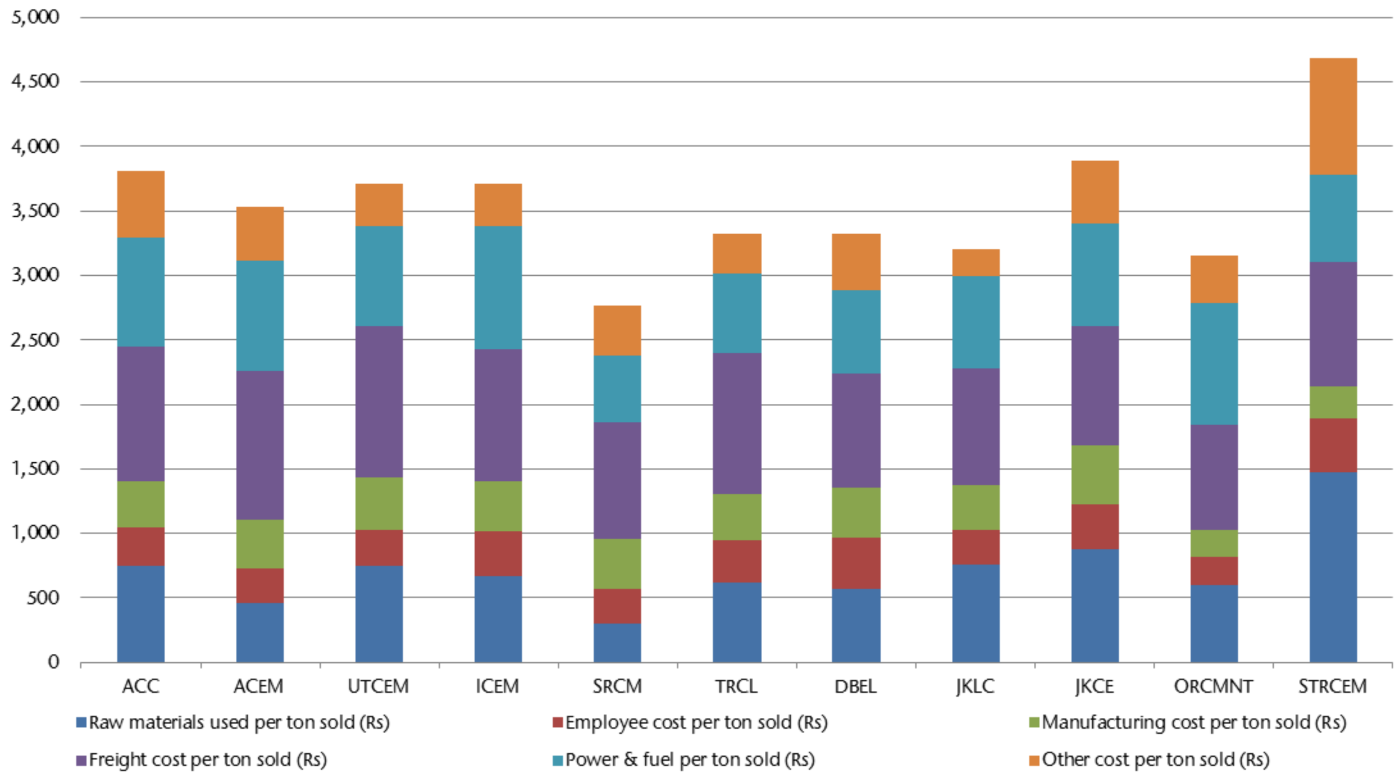
Exhibit 19: Star Cement cost structure highest due to clinker transfer to grinding units in West Bengal

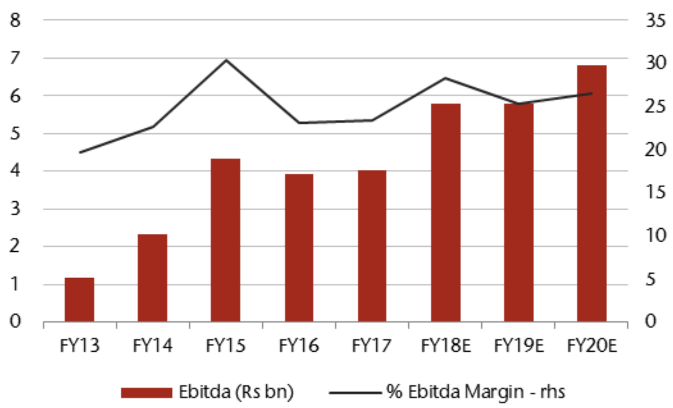


Source: Jefferies estimates, company data

3x EPS over FY17-20E

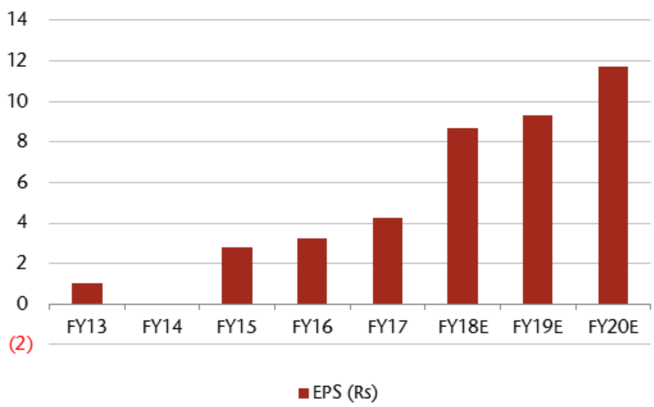
Coupled with better realisation and volumes, we expect Star Cement to deliver 40% EPS CAGR over the next three years. We are assuming full impact of expiry of freight subsidy in FY19, hence EBITDA margins would decline in FY19, but EPS would still grow 7% due to higher volumes and lower interest pay out.

Exhibit 20: 19% EBITDA CAGR over FY17-20E



Source: Jefferies estimates, company data

Exhibit 21: EPS to double in FY18



Source: Jefferies estimates, company data

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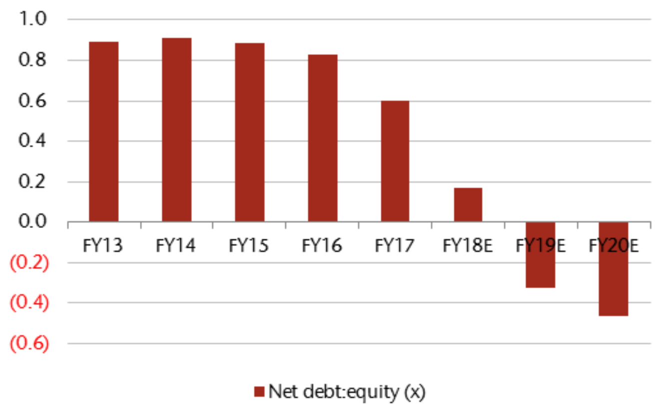
Balance sheet healthy

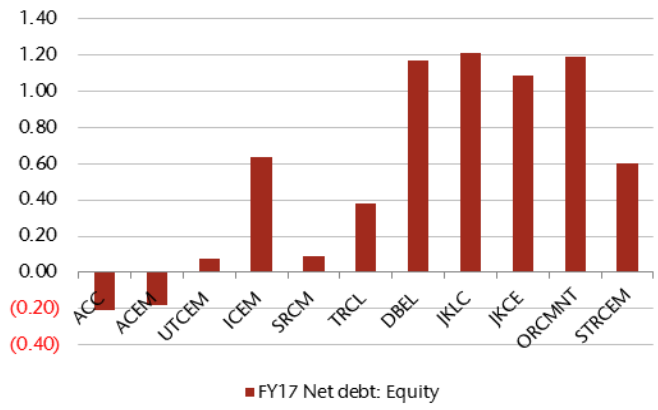
Star Cement's balance sheet is relatively better than peers', with almost all of debt due to delay in release of subsidy by the government. FY17 net debt to equity ratio of 0.6x is below most midcap peers at 1x+. We are expecting Star Cement to receive most of the subsidy by FY19 and hence balance sheet should be net cash based on current plans of no major capacity addition/expansion. Return ratios have been stable at 13-16% over last 3 years when other midcaps have faced headwinds due to either lower realisation or rising costs.

Exhibit 22: Net cash in FY19



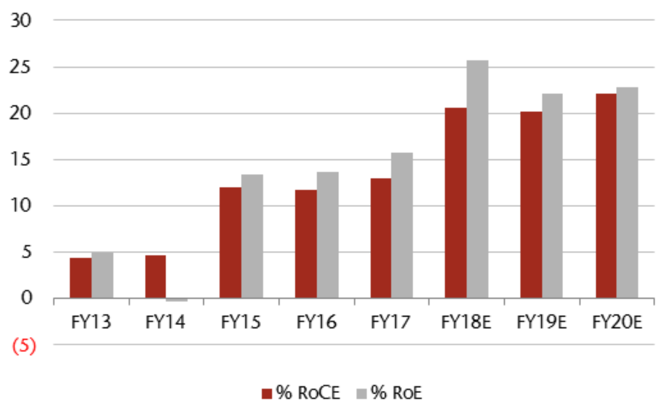
Source: Jefferies estimates, company data

Exhibit 23: Star Cement's leverage lower than peers



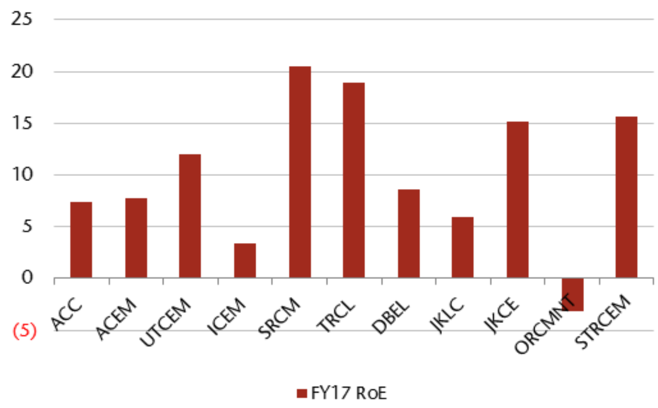
Source: Jefferies estimates, company data

Exhibit 24: Return ratios improvement underway



Source: Jefferies estimates, company data

Exhibit 25: Star Cement RoE's better than most players



Source: Jefferies estimates, company data

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Valuation

Due to a couple of mergers and demergers with group entities in order to carve out a pure cement business, Star Cement does not have a long trading history. Hence due to lack of the same, we have used an average EV/EBITDA multiple of 10x for Star Cement (in line with other midcaps under coverage). We have used normalised EBITDA (ex of subsidy) for our calculation. However, we have accounted for the NPV of subsidy benefits separately. We have also assumed receipt of Rs7 bn of subsidy by FY19 in our estimates. Hence we arrive at a 12-month target price of Rs137 implying a 26% upside from current levels. The stock is currently trading at 8x 1-yr forward EV/EBITDA multiples, which we believe is cheap given its market leadership in North-East as well as better than industry profitability.

Exhibit 26: Target price of Rs137 implies 26% upside

	Sep-19
Reported EBITDA (Rs mn) [A]	6,295
Benefit of subsidy (Rs mn) [B]	1,174
Normalised EBITDA (Rs mn) [C=A-B]	5,121
Target multiple (x) [D]	10
EV (Rs mn) [E=C*D]	51,212
Net Debt (Rs mn) [F]	-1,958
NPV of subsidy program [G]	4,089
Equity Value (Rs mn) [H=E-F+G]	57,259
Shares Outstanding (mn) [I]	419
Value per share (Rs) [H/I]	137
Implied EV/ton ($)	179

Source: Jefferies estimates, company data

Management Profile

Mr. Sajjan Bhajanka, Chairman

Mr. Sajjan Bhajanka is a promoter Director and also the Chairman of Cement Manufacturing Company Ltd. He 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. He is also the Managing Director of Century Plyboards (I) Limited, the largest producer of plywood, laminates and block-boards in India. Mr. Bhajanka is the President of the Federation of Indian Plywood and Panel Industry and All India Veneer Manufacturers Association.

Mr. Sanjay Kumar Gupta, CEO

Mr. Sanjay Kumar Gupta has been the Chief Executive Officer of Star Cement Limited since September 20, 2014. He served as the Chief Financial Officer prior to that. He has vast experience in management finance and operations.

Downside Risks

Concentration risk: Due to high concentration of operations in North East India, volume/revenues/profitability are extremely dependent on the dynamics of the region. Any price under-cutting in the region may lead to lower profitability going forward

Volume growth does not come through: If the expected demand growth in North East does not play out, there may be some downside risk to estimates due to lower revenues as well as price under-cutting by smaller players to keep themselves afloat.

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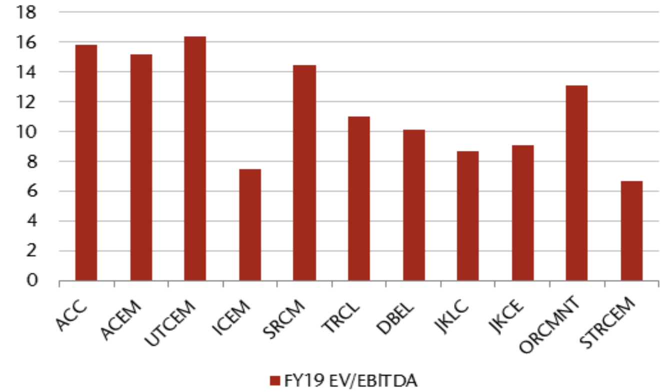
Dalmia remains our top pick in the sector due to 1) 3x net income growth from FY17 to FY19E 2) Right regional positioning in East and South in terms of realization and demand potential 3) Top class cost efficiencies and profitability in the sector and 4) Deleveraging theme. We have a neutral-to-negative stance on the large caps given steep valuations in the context of weak pricing/profitability/return scenario expected over the next 6-12 months. Among midcaps we also like JK Cement and Star Cement but for different reasons. JK Cement is a defensive play in the cement sector providing partial upside from grey cement business but more importantly protecting the downside due to stable and lucrative white cement business. Star Cement is a strong regional play with strong hold in its captive markets and with government's thrust on North-East, it will be a key beneficiary.

Exhibit 27: Valuation Snapshot

Jefferies estimates	Ticker	TP (Rs)	Rating	CMP (loc.)	Mcap ($ m)	P/E			P/B			EV/EBITDA			RoE%			EV/ton ($)
Company						FY17	FY18	FY19	FY17	FY18	FY19	FY17	FY18	FY19	FY17	FY18	FY19	FY19
ACC LTD	ACC IN	1,359	Unpf	1,817	5,306	53.9	41.7	28.4	3.9	3.8	3.6	27.1	21.9	15.8	7.4	9.3	13.1	140
AMBUJA CEMENTS LTD	ACEM IN	203	Unpf	285	8,803	48.9	35.1	25.4	2.9	2.9	2.8	24.1	20.7	15.2	7.8	8.2	11.2	168
ULTRATECH CEMENT LTD	UTCEM IN	3,585	Hold	4,184	17,862	43.6	43.7	30.6	5.0	4.5	4.0	24.8	23.6	16.4	12.1	10.9	13.9	233
INDIA CEMENTS LTD	ICEM IN	176	Hold	190	910	33.8	28.6	13.8	1.1	1.1	1.0	10.6	10.3	7.5	3.4	3.9	7.8	85
SHREE CEMENT LTD	SRCM IN	18,109	Hold	18,450	9,995	47.9	31.8	21.5	9.3	7.5	5.9	27.4	20.0	14.5	20.5	26.2	30.7	281
RAMCO CEMENTS LTD	TRCL IN	654	Hold	732	2,712	26.9	27.3	20.1	4.7	4.1	3.5	16.2	14.4	11.0	18.9	15.9	18.6	159
DALMIA BHARAT LTD	DBEL IN	3,038	Buy	2,806	3,882	72.3	48.8	25.1	6.0	5.4	4.5	17.3	13.7	10.1	8.6	11.6	19.5	177
JK LAKSHMI CEMENT LTD	JKLC IN	423	Hold	419	767	60.2	34.4	14.4	3.5	3.2	2.7	18.2	14.1	8.7	6.0	9.8	20.4	84
JK CEMENT LTD	JKCE IN	1,254	Buy	1,022	1,111	26.0	19.3	14.0	3.7	3.2	2.8	14.4	11.7	9.1	15.1	18.0	21.3	118
ORIENT CEMENT LTD	ORCMNT IN	171	Hold	164	522	-104.5	35.4	32.7	3.3	3.1	2.4	26.3	11.8	13.1	-3.2	9.1	8.7	76
STAR CEMENT LTD	STRCEM IN	137	Buy	109	712	25.6	12.6	11.7	3.7	2.9	2.3	13.2	8.3	6.7	15.7	25.9	21.9	136

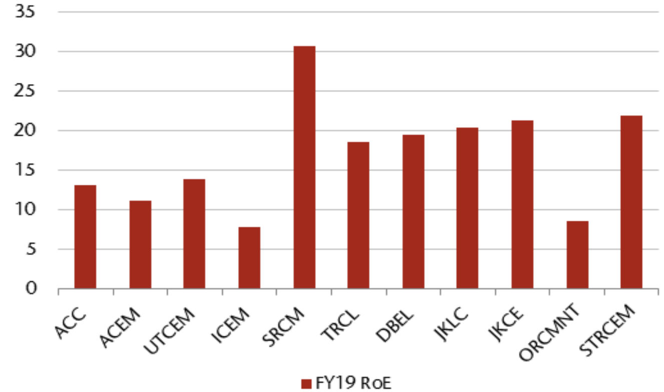
Source: Company data, Jefferies estimates, Bloomberg

Exhibit 28: Star trading lower than midcap peers



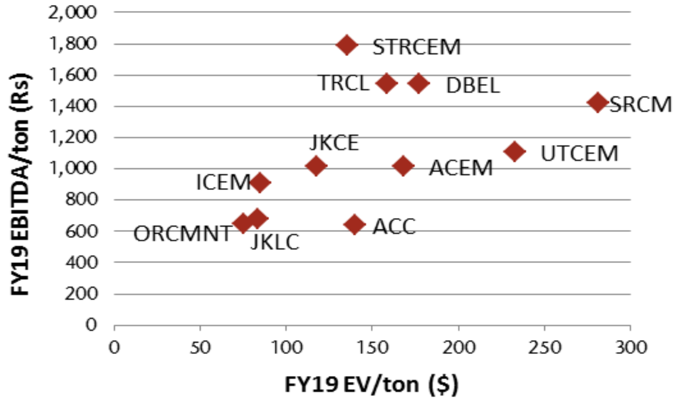
Source: Jefferies estimates, company data

Exhibit 29: Star RoE's among the best



Source: Jefferies estimates, company data

Exhibit 30: Star relative valuation favourable



Source: Jefferies estimates, company data

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Financials

Exhibit 31: P&L

Rs mn	FY15	FY16	FY17	FY18E	FY19E	FY20E
Effective Capacity (mnt)	3.8	4.0	4.0	4.4	4.4	4.4
Total Sales (mnt)	**2.4**	**2.8**	**2.8**	**3.0**	**3.2**	**3.5**
% YoY Growth	*43*	*17*	*2*	*8*	*7*	*7*
%Utilisation	*62*	*69*	*70*	*69*	*74*	*79*
Revenues	**14,270**	**17,095**	**17,217**	**20,414**	**22,896**	**25,683**
% YoY Growth	*39*	*20*	*1*	*19*	*12*	*12*
Realisation per ton sold (Rs)	*6,056*	*6,198*	*6,114*	*6,726*	*7,062*	*7,415*
Raw material cost	2,296	3,455	4,144	4,690	5,260	5,900
Employee cost	908	1,078	1,185	1,289	1,353	1,421
Manufacturing expenses	745	795	702	794	891	999
Freight outward	2,426	2,960	2,699	3,054	4,404	4,940
Power & Fuel	1,720	2,155	1,916	2,168	2,432	2,728
Other Expenses	1,846	2,714	2,547	2,630	2,762	2,900
Total Expenses	9,940	13,156	13,192	14,625	17,102	18,888
EBITDA	**4,330**	**3,938**	**4,025**	**5,789**	**5,795**	**6,795**
% YoY Growth	*87*	*-9*	*2*	*44*	*0*	*17*
EBITDA per ton sold (Rs)	*1,838*	*1,428*	*1,429*	*1,907*	*1,787*	*1,962*
Other income	42	69	85	100	120	140
Interest	874	834	780	490	187	96
Depreciation	2,237	1,715	1,412	1,467	1,508	1,549
Exceptional Items	0	-5	0	0	0	0
PBT	1,261	1,453	1,918	3,932	4,220	5,290
Tax rate%	*4*	*4*	*4*	*4*	*4*	*4*
Reported PAT post MI	1,187	1,340	1,716	3,649	3,916	4,910
Adjusted PAT post MI	**1,185**	**1,349**	**1,792**	**3,649**	**3,916**	**4,910**

Source: Jefferies estimates, company data

Exhibit 32: Balance Sheet

Rs mn	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	419	419	419	419	419	419
Reserves	8,794	10,134	11,861	15,510	19,426	24,336
Shareholder funds	**9,213**	**10,553**	**12,280**	**15,929**	**19,846**	**24,755**
Total loan funds	8,805	9,398	7,949	2,949	1,449	949
Minority Interest	477	530	589	715	849	1,018
Deferred tax/Others	87	117	163	163	163	163
Total liabilities	**18,582**	**20,599**	**20,981**	**19,756**	**22,307**	**26,885**
Gross assets	16,124	16,738	17,571	18,071	18,571	19,071
Less: Depreciation	5,845	7,547	8,939	10,406	11,914	13,463
CWIP	410	490	549	649	749	849
Net assets	10,689	9,681	9,181	8,314	7,406	6,457
Investments	15	15	17	17	17	17
Current Assets	**11,192**	**14,963**	**15,546**	**15,681**	**19,849**	**25,922**
Inventories	1,091	2,092	1,612	1,787	2,090	2,308
Sundry Debtors	3,098	4,488	3,995	2,237	2,509	2,814
Cash and liquid investment	203	238	201	111	8,203	12,895
Others	6,800	8,145	9,738	11,546	7,047	7,904
Current Liabilities	**3,315**	**4,060**	**3,763**	**4,256**	**4,964**	**5,510**
Trade payables	770	1,404	938	1,040	1,216	1,343
Other Liabilities	2,112	2,615	2,775	3,077	3,598	3,974
Provisions	433	42	49	139	151	194
Working Capital	7,877	10,902	11,784	11,425	14,884	20,412
% of wkg. capital to sales	55	64	68	56	65	79
Total assets	**18,582**	**20,599**	**20,981**	**19,756**	**22,307**	**26,885**

Source: Jefferies estimates, company data

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Exhibit 33: Cash Flow Statement

Rs mn	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBIT	2,135	2,287	2,698	4,422	4,406	5,386
Add: depreciation	2,237	1,715	1,412	1,467	1,508	1,549
Less other income	-42	-69	-85	-100	-120	-140
Working capital changes	-3,122	-2,991	-918	268	4,634	-836
Less: tax	2	-29	-97	-157	-169	-212
Others	0	0	0	0	0	0
Net cash from operations (a)	**1,210**	**913**	**3,011**	**5,900**	**10,259**	**5,748**
Change in fixed assets	-508	-707	-912	-600	-600	-600
Change in investments	0	0	-1	0	0	0
Add: other income	42	69	85	100	120	140
Others	0	0	0	0	0	0
Cash flow from inv (b)	**-466**	**-638**	**-829**	**-500**	**-480**	**-460**
Proceeds from issue of equity	0	0	10	0	0	0
Change in borrowings	619	593	-1,449	-5,000	-1,500	-500
Dividends paid+dividend tax	-402	0	0	0	0	0
Interest paid	-874	-834	-780	-490	-187	-96
Others	0	0	0	0	0	0
Financial cash flow (c)	**-658**	**-240**	**-2,219**	**-5,490**	**-1,687**	**-596**
Net inc/dec in cash (a+b+c)	87	35	-37	-90	8,093	4,692
Add: opening cash balance	114	203	238	201	111	8,203
Closing cash balance	201	238	201	111	8,203	12,895

Source: Jefferies estimates, company data

Exhibit 34: Key Ratios

	FY15	FY16	FY17	FY18E	FY19E	FY20E
EPS (Rs)	2.8	3.2	4.3	8.7	9.3	11.7
BVPS (Rs)	22	25	29	38	47	59
DPS	1	0	0	0	0	0
Dividend payout	34	0	0	0	0	0
PE	38.4	33.7	25.4	12.5	11.6	9.3
PB	4.9	4.3	3.7	2.9	2.3	1.8
EV/EBITDA	12.5	13.9	13.2	8.3	6.7	4.9
EV/ton ($)	219	208	203	169	136	117
Net debt:equity	0.9	0.8	0.6	0.2	-0.3	-0.5
Inventory in days	40	58	45	45	45	45
Debtor days	79	96	85	40	40	40
Creditors days	28	39	26	26	26	26
Wkg. Capital days	196	228	246	202	107	107
ROCE %	12.0	11.7	13.0	21.7	21.0	21.9
ROE%	13.4	13.6	15.7	25.9	21.9	22.0

Source: Jefferies estimates, company data

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Company Description

Star Cement is among the three sizeable players in the North-Eastern market of India, others being unlisted Meghalaya cement and Dalmia Cement, with a 23% market share. It has an integrated plant at Lumshong (Meghalaya) having 2.6mnt clinker capacity and 1.7mnt grinding capacity. Apart from this Star has an additional grinding capacity of 2mnt at Guwahati in the state of Assam. Additionally, Star has diversified into Eastern India markets in Bihar and West Bengal.

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 17:02 ET. September 19, 2017
Recommendation Distributed	, 17:03 ET. September 19, 2017

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- Dalmia Bharat Ltd (DBEL IN: INR2,798.80, BUY)
- India Cements Ltd (ICEM IN: INR189.90, HOLD)
- JK Cement (JKCE IN: INR1,019.70, BUY)
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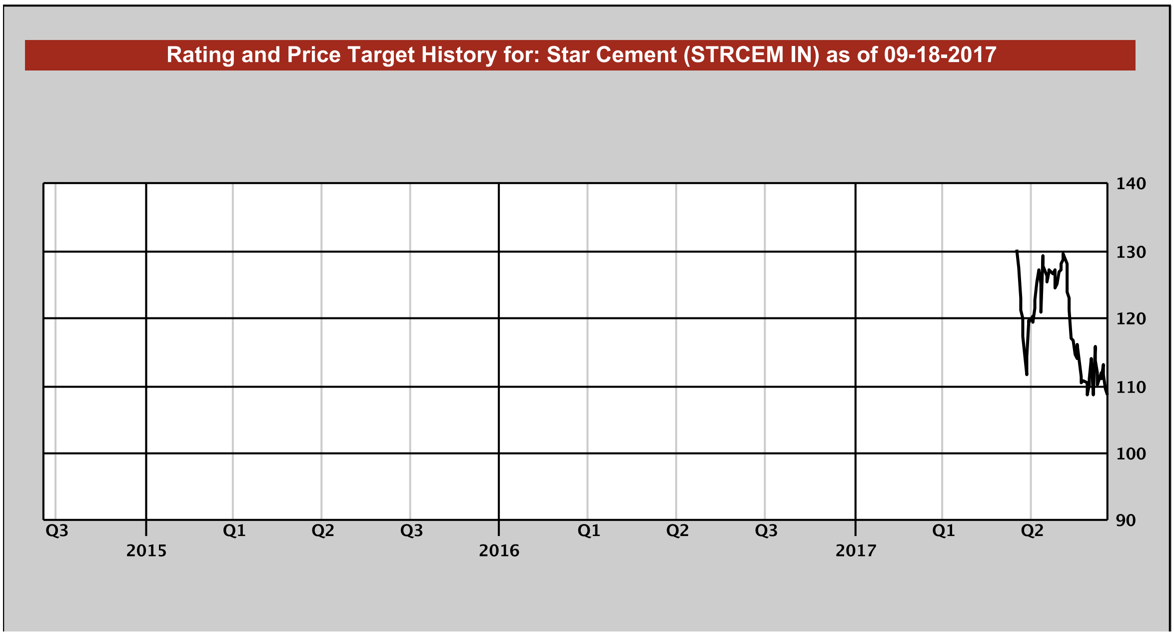

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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1096	51.29%	338	30.84%
HOLD	893	41.79%	178	19.93%
UNDERPERFORM	148	6.93%	16	10.81%

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