

CMP: ₹ 145

Target: ₹ 185 (28%)

Target Period: 12 months

BUY

August 2, 2023

## Well placed to capture growth opportunities in NER!

**About the stock:** Star Cement operates in a complex geographical topography and has built competitive advantages owing to its experience of operating in the North Eastern Region (NER) of India and has fortified its presence with a material volume share of ~25%.

- Star has capacity of 3.7 MT in NER with clinker capacity of 2.8 MT (with 12 MW WHRS and 51 MW thermal power). It has an integrated cement plant at Meghalaya with proximity to abundant limestone reserves (2-3 km).
- It also caters to eastern region (~25% of volumes) through its grinding unit in Siliguri (West Bengal). Overall capacity: 5.7 MT

### Key Investment Thesis:

- Expanding capacity to strengthen market share:** Star has embarked on a journey to further strengthen its market share in NER to 30%+ (from current 25%) by FY26E by more than doubling its capacity. Company is setting up a 3 MT clinker unit with 12 MW WHRS at Meghalaya (capex: ₹ 1300 crore, completion: Jan-24) and two grinding units of 2 MT each in Assam (capex: ₹ 800 crore, completion: Guwahati in Dec 23 and Silchar in Aug 24). Post the expansion, company's overall clinker and cement capacity will increase to 5.8 and 9.7 MT, respectively by FY25E. The cost of project stands at US \$ 67/t which is ~ 33% lower than industry replacement cost.
- Robust b/s to support aggressive capex plans:** Star has a consistent cash generation profile with company recording cumulative CFO (operating cashflows) worth ~₹ 2800 crore during FY18-23 (average CFO/EBITDA: 105%). It has a cash rich balance sheet with investment of ~₹ 485 crore. Going forward, we expect company to generate ~ ₹ 1400 crore cumulative OCF during FY23-25E which would assist funding its capex requirements (₹ 2300 crore). We expect the leverage to remain low at 0.2x with peak debt levels of ₹ 550 crore in FY24E.

### Rating and Target Price

- Enhanced capacity utilisation, backed by the government's thrust on infrastructure development in the NER and better pricing power would entail Star to register revenue and earnings CAGR of 15% and 17%, respectively in FY23-25E.
- With declining fuel costs and other various initiatives such as implementation of 12 MW WHRS (annual savings of ₹ 40-45 crore), installation of railway siding at its grinding plants we build in ₹ 190/t improvement in EBITDA/t from ₹ 1168/t in FY23 to ₹ 1360/t by FY25E.
- We maintain **BUY** rating on the stock. Steady RoCE profile (14%+) and healthy balance sheet instils confidence in the business model.
- We value Star at ₹ 185 per share (based on 11x FY25E EV/EBITDA)



### Particulars

Particular	Amount
Market Capitalization (₹ crore)	5,858.0
Total Debt (FY23) (₹ crore)	26.1
Cash & investments (FY23) (₹ crore)	484.3
EV (₹ crore)	5,399.8
52 week H/L (₹)	153 / 86
Equity capital (₹ crore)	40.4
Face value (₹)	1.0

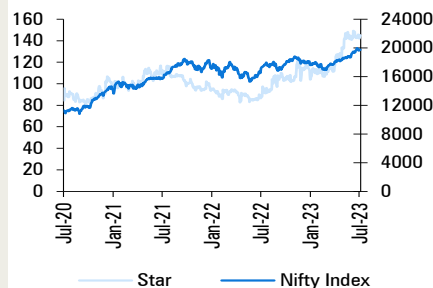
### Shareholding Pattern

(in %)	Sep-22	Dec-22	Mar-23	Jun-23
Promoter	67.43	67.03	67.12	66.76
FII	0.40	0.53	0.63	0.69
DII	6.15	6.15	6.15	6.23
Others	26.02	26.29	26.10	26.32

### Risks to our call

- Delay in commissioning of new capacities
- Sharp rise in Fuel Costs

### Price Performance



### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	FY23	3 Year CAGR (%)	FY24E	FY25E	2 Year CAGR (%)
Net Sales	1843.2	1719.9	2221.8	2704.8	13.6	3062.8	3554.6	14.6
EBITDA	394.4	332.0	345.3	468.4	5.9	598.1	721.0	24.1
EBITDA (%)	21.4	19.3	15.5	17.3		19.5	20.3	
PAT	287.3	187.1	246.8	247.6		280.7	340.1	
EPS (₹)	7.0	4.5	6.1	6.1		6.9	8.4	17.2
EV/EBITDA	14.2	16.3	15.4	11.5		10.5	8.7	
EV/Tonne (\$)	161.5	156.2	115.3	117.0		101.1	79.5	
RoNW	15.5	9.0	11.4	10.2		10.4	11.2	
RoCE	16.1	11.6	10.2	13.8		13.5	14.9	

Source: Company, ICICI Direct Research

## Company Background

Star Cement operates in a complex geographical topography and has built competitive advantages owing to its experience of operating in the North Eastern Region (NER) of India and has fortified its presence with a material volume share of ~25%. **The region has favourable demand-supply dynamics with overall ~14 MT of grinding capacity and 12 MT of cement consumption. Around 15-20% of demand is catered through imports from Eastern India, however the share of the same has reduced from ~30%.** Star has capacity of 3.7 MT in NER with clinker capacity of 2.8 MT (with 12 MW WHRS and 51 MW captive thermal power). It has an integrated cement plant at Lumshnong (Meghalaya) with proximity to abundant limestone reserves (2-3 km). The company ventured out of NER in 2013 to other remunerative markets of East Bihar and North Bengal (through outsourced capacities) to de-risk its region concentration risk. Star consequently commissioned a 2 MT grinding unit in Siliguri (West Bengal) in FY22 taking company's overall cement capacity to 5.7 MT. Currently ~75% volumes are derived from NER and 25% from eastern region. Star has embarked on a journey to further strengthen its market share in NER to 30%+ by FY26E by more than doubling its capacity.

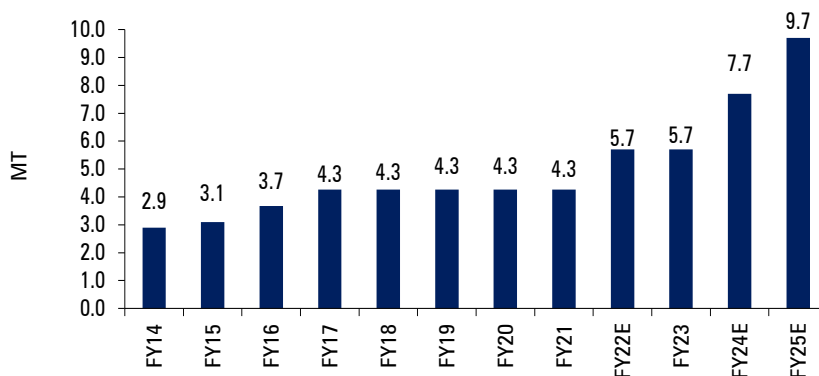
## Investment Rationale

### Capacity expansion to drive revenue growth...

**Over a longer term, we expect overall industry demand in NER to reach 16 MT by FY26E (~10% CAGR).** In a bid to capture long term growth opportunities and further strengthen the market share, Star has embarked on capacity expansion and outlined capex worth ~₹ 2300 crore. The company is setting up 3 MT clinker unit with 12 MW WHRS at Meghalaya (capex: ₹ 1300 crore, completion: Jan-24) and two grinding units of 2 MT each in Assam (capex: ₹ 800 crore, completion: Guwahati in Dec 23 and Silchar in Aug 24). **Post the expansion, company's overall clinker and cement capacity will increase to 5.8 and 9.7 MT, respectively by FY25E.** The cost of project stands at US \$ 67/t which is ~ 33% lower than industry replacement cost. Though not factored in our estimates, Star will be eligible for subsidy by way of SGST refund in Assam which will be utilised over next 7-10 years providing thrust to its return ratios over the longer term.

**Star has embarked on a journey to achieve capacity of 20 MT in next 10 years. The company expects the next leg of expansion to be outside the NER and roadmap of the same will be indicated by Q2FY24E.**

Exhibit 1: Capacity trend over the years

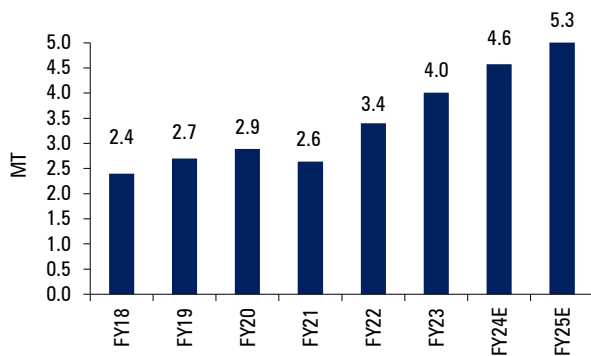


Source: Company, ICICI Direct Research

## Well placed to capture growth opportunities in NER; volume growth to outperform industry...

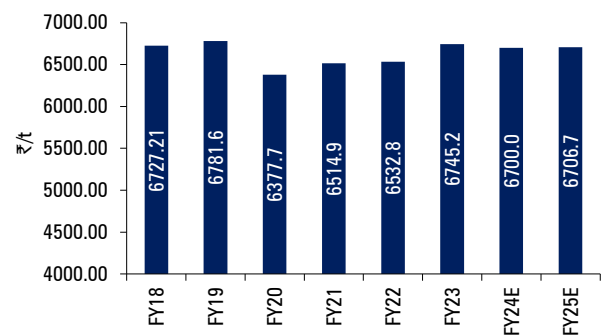
The NER has lagged as far as connectivity by rail and road is concerned compared to other states of India. The per capita consumption of cement in North East India is significantly lower at 140 kgs compared with the all-India average of around 250 kgs. With higher focus on infra development, the FY24E budget has provided much higher outlays for Ministry of Development of North Eastern Region (MDoNER). There is a steep jump in in the budget outlay with allocation of ₹ 5892 crore for FY24E which is 2.1x of RE of FY23. Furthermore, in the FY24E as per the Ministry of Statistics & Programme Implementation (MoSPI), Assam’s economy is projected to grow second fastest (behind UP) at rate of 15% (nominal GSDP). **Given the sustained government’s thrust on shoring up infra development, we expect volumes for Star to grow at CAGR of 15% in FY23-25E.**

Exhibit 2: Volume to grow at 15% CAGR in FY23-25E...



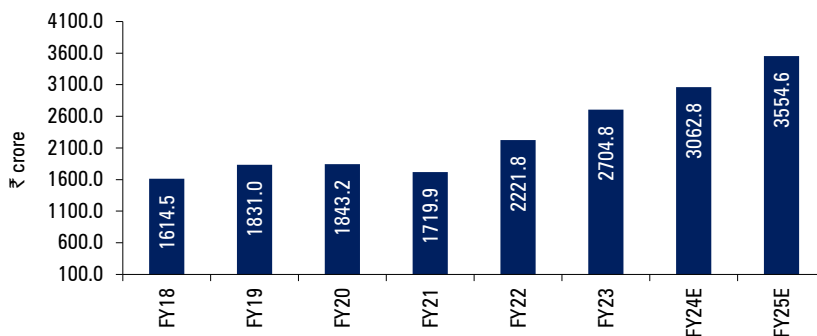
Source: Company, ICICI Direct Research

Exhibit 3: ... while realisations to remain flattish



Source: Company, ICICI Direct Research

Exhibit 4: Revenue Trend

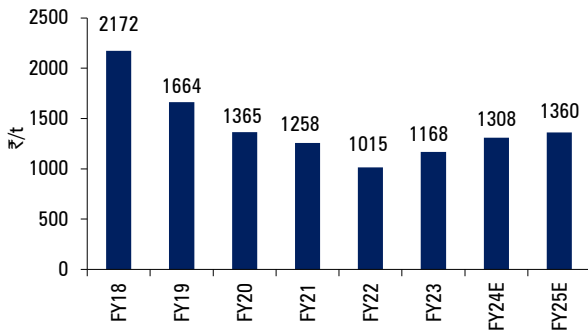


Source: Company, ICICI Direct Research

## EBITDA/T expected to inch-up going forward...

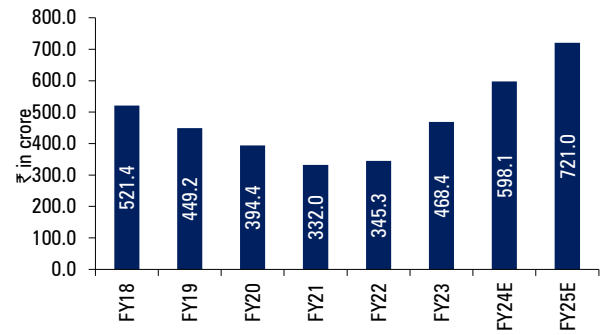
Company Sources its fuel requirements mainly through local Nagaland Coal mines (~25%), FSA with Coal India (1000 MT per month which is 5-6% of requirements) and rest through auction/imported coal & biomass. The fuel cost per Kcal for the company in Q4FY23 was amongst the lowest at ₹ 2.1 Kcal (industry average: ₹ 2.5-2.4 Kcal). With sustained deflation in thermal coal prices (international coal prices down more than 50% YoY) we expect prices to further decline to ₹ 1.9-1.8 by Q2FY24. Also, other various initiatives such as implementation of 12 MW WHRS (annual savings of ₹ 40-45 crore), installation of railway siding at its grinding plants we build in ₹ 190/t improvement in EBITDA to ₹ 1360/t by FY25E.

Exhibit 5: EBITDA/T trend



Source: Company, ICICI Direct Research

Exhibit 6: Absolute EBITDA trend

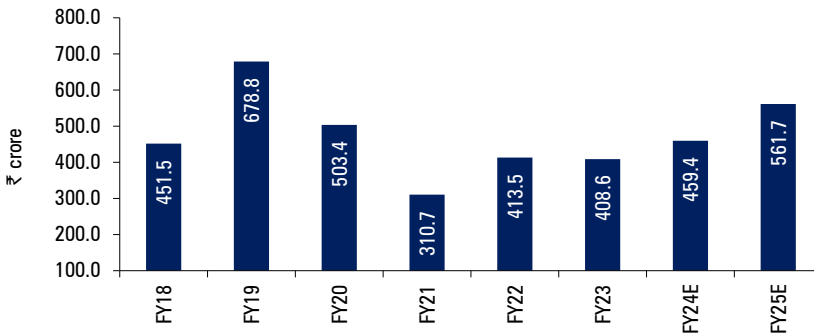


Source: Company, ICICI Direct Research

### Health B/S, the inherent strength.

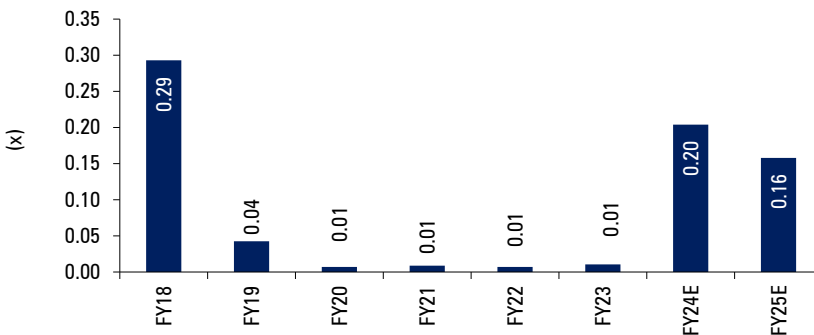
Star has a consistent cash generation profile with company recording cumulative CFO (operating cashflows) worth ~₹ 2800 crore during FY18-23 (average CFO/EBITDA: 105%). It has a cash rich balance sheet with investment of ~₹ 485 crore. Going forward, we expect company to generate ~ ₹ 1400 crore cumulative OCF during FY23-25E which would assist funding its capex requirements (₹ 2300 crore). We expect the leverage to remain low at 0.2x with peak debt levels of ₹ 550 crore in FY24E.

Exhibit 7: Consistent generation of operating cashflow (CFO)...



Source: Company, ICICI Direct Research

Exhibit 8: ... has resulted in lower D/E ratio.



Source: Company, ICICI Direct Research

## Key risk and concerns

### Higher exposure to NER markets

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Company faces concentration risk as 75% of volumes are being generated from North East Region.

### Delay in commissioning of new capacities

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Delay in commissioning of new capacities may hamper volume projections going forward.

### Sharp rise in Fuel Costs...

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Power & Fuel and logistics costs forms a major part of overall cost of production (~45-48%). The fuel prices in the recent times have witnessed significant correction on a YoY basis (international coal & pet coke prices down 50% YoY). Hence, sharp rise in fuel costs may impact earnings going forward.

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>2,221.8</b>	<b>2,704.8</b>	<b>3,062.8</b>	<b>3,554.6</b>
Growth (%)	29.2	21.7	13.2	16.1
Total Operating Exp.	1,876.6	2,236.4	2,464.7	2,833.6
<b>EBITDA</b>	<b>345.3</b>	<b>468.4</b>	<b>598.1</b>	<b>721.0</b>
Growth (%)	4.0	35.7	27.7	20.5
Depreciation	121.6	131.1	161.3	196.7
Interest	13.3	9.7	40.0	36.0
Other Income	33.4	52.1	35.0	35.0
PBT	243.7	379.7	431.9	523.2
Total Tax	3.1	-132.1	-151.2	-183.1
<b>PAT</b>	<b>246.8</b>	<b>247.6</b>	<b>280.7</b>	<b>340.1</b>
PAT margin	11.1	9.2	9.2	9.6
Growth (%)	0.3	0.3	13.4	21.1
<b>Adjusted EPS (₹)</b>	<b>6.1</b>	<b>6.1</b>	<b>6.9</b>	<b>8.4</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Share Capital	40.4	40.4	40.4	40.4
Reserve and Surplus	2,128.0	2,375.6	2,656.3	2,996.4
Total Shareholders funds	2,168.4	2,416.0	2,696.7	3,036.8
Total Debt	15.7	26.1	550.0	480.0
Others	166.1	183.2	166.1	166.1
<b>Total Liabilities</b>	<b>2,350.2</b>	<b>2,625.3</b>	<b>3,412.8</b>	<b>3,682.9</b>
<b>Assets</b>				
Gross Block	1,607.3	1,705.8	3,405.8	3,905.8
Less: Acc Depreciation	683.8	814.9	976.2	1,172.9
Net Block	923.5	890.9	2,429.7	2,732.9
Capital WIP	109.1	550.6	200.0	200.0
Total Fixed Assets	1,032.5	1,441.6	2,629.7	2,932.9
Investments	163.7	172.5	17.3	6.9
Inventory	195.3	374.1	386.0	438.2
Debtors	128.8	104.7	125.9	146.1
Loans and Advances	259.4	206.9	202.7	202.7
Other Current Assets	0.0	0.0	0.0	0.0
Cash	384.7	311.7	83.8	85.9
Total Current Assets	968.1	997.4	798.4	872.9
Creditors & other CL	388.0	496.0	545.4	642.7
Provisions	7.0	9.7	7.0	7.0
Total Current Liabilities	394.9	505.7	552.4	649.7
Net Current Assets	573.2	491.7	246.0	223.2
Others Assets	580.8	519.5	519.9	519.9
<b>Application of Funds</b>	<b>2,350.2</b>	<b>2,625.3</b>	<b>3,412.8</b>	<b>3,682.9</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	246.8	247.6	280.7	340.1
Add: Depreciation	121.6	131.1	161.3	196.7
(Inc)/dec in Current Assets	-17.8	-40.9	-29.3	-72.4
Inc/(dec) in CL and Prov.	62.9	70.8	46.7	97.3
<b>CF from operations</b>	<b>413.5</b>	<b>408.6</b>	<b>459.4</b>	<b>561.7</b>
(Inc)/dec in Investments	-162.0	-8.9	155.3	10.4
(Inc)/dec in Fixed Assets	-204.6	-540.1	-1,349.4	-500.0
Others	0.0	40.0	0.0	0.0
<b>CF from investing act.</b>	<b>-366.6</b>	<b>-509.0</b>	<b>-1,194.1</b>	<b>-489.6</b>
Issue/(Buy back) of Equity	-0.8	0.0	0.0	0.0
Inc/(dec) in loan funds	-2.5	10.5	523.9	-70.0
Others	-130.6	17.1	-17.1	0.0
<b>CF from financing act.</b>	<b>-134.0</b>	<b>27.6</b>	<b>506.8</b>	<b>-70.0</b>
Net Cash flow	-87.1	-72.9	-227.9	2.0
Opening Cash	471.7	384.7	311.7	83.8
<b>Closing Cash</b>	<b>384.7</b>	<b>311.8</b>	<b>83.8</b>	<b>85.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
Adjusted EPS	6.1	6.1	6.9	8.4
Cash EPS	9.1	9.4	10.9	13.3
BV	53.7	59.8	66.8	75.2
Cash Per Share	13.6	12.0	2.5	2.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.5	17.3	19.5	20.3
Adjusted PAT Margin	11.1	9.2	9.2	9.6
Inventory days	32.1	50.5	46.0	45.0
Debtor days	21.2	14.1	15.0	15.0
Creditor days	63.7	66.9	65.0	66.0
<b>Return Ratios (%)</b>				
RoE	11.4	10.2	10.4	11.2
RoCE	10.2	13.8	13.5	14.9
RoIC	13.7	17.2	13.9	15.3
<b>Valuation Ratios (x)</b>				
P/E (adjusted)	23.7	23.7	20.9	17.2
EV / EBITDA	15.4	11.5	10.5	8.7
EV / Net Sales	2.4	2.0	2.1	1.8
Market Cap / Sales	2.6	2.2	1.9	1.6
Price to Book Value	2.7	2.4	2.2	1.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.1	0.9	0.7
Debt / Equity	0.0	0.0	0.2	0.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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