

### Tepid Show; Near Term Improvement In Sight

Star Cement (STRCEM) reported below par operating performance in 1QFY20 as demand weakened in its key markets dragging demand and pricing downwards. The overall volume fell by ~7% YoY (cement volume unchanged) due to lower clinker sales, realisation weakened by 5% YoY to Rs5,768/tn. This pulled down the revenues by 11% YoY to Rs4.6bn. Cost inflation was down by 3% following the benefits of lower logistic and raw material cost. However lower realisations pulled down the EBITDA margins by 110 basis points to 24.3% from 25.4% in 1QFY19. EBITDA declined by ~15% to Rs1.12bn and EBITDA/tn fell by 5% to Rs1,559/tn from Rs1,634/tn in 1QFY19. Effectively the APAT fell by 7% YoY to Rs.839mn. We believe STRCEM performance will be impacted by the weak 1H as demand/pricing have little respite in the monsoon quarter. This will impact the FY20 performance of the company. The capex plans have deferred (kiln refurbishment) and brownfield expansion is unlikely to be completed before FY21. Effectively FY21 earnings will be also revisited. Further the logistic cost run up and the high cost coal (due to limited availability) is likely keep the energy cost inflated. Factoring the same we have revised downwards our earnings estimates for FY20e/FY21e to Rs8.5/9.1 respectively (earlier Rs9.3/Rs9.9). However, we retain our BUY rating on the stock with a revised target price of Rs114 (earlier Rs162) assigning 10% premium over the replacement cost of Rs7.5bn following its leadership position in the North-east markets, relatively better earnings visibility and healthy balance sheet. The stock trades at 8.0x EV/EBITDA at our revised earnings estimates.

#### Early monsoons in key markets impacts volume

Heavy monsoons in key STRCEM markets of North-east impacted the overall cement demand. Effectively the clinker sales declined to 0.08mn tonnes from 0.14mn tonnes in 1QFY19. The cement sales were listless at 0.71mn tonnes. The overall volumes slid by 7% to 0.80mn tonnes from 0.86mn tonnes in 1QFY19. The volumes are unlikely to pick up in the 2Q impacting FY20/FY21 performance.

#### EBITDA margin weakens as weak realisations offsets cost savings

Operating costs declined ~3% at Rs4,365/tn, helped by softening logistic cost and raw material cost. However, the energy cost remained elevated due to high cost inventory and other expenditure was elevated due to non-recurring expenses. However weaker realisation offset the cost decline benefits and effectively EBITDA fell by 15% to Rs1.12bn YoY and EBITDA margins weakened to 24.3% from 25.4% in 1QFY19.

#### Earnings, Valuation and risks – Maintain Buy

We believe STRCEM performance will be impacted by the weak 1H as demand/pricing have little respite in the monsoon quarter. This will impact the FY20 performance of the company. The capex plans have deferred (kiln refurbishment) and brownfield expansion is unlikely to be completed before FY21. Effectively FY21 earnings will be also revisited. Further the logistic cost run up and the high cost coal (due to limited availability) is likely keep the energy cost inflated. Factoring the same we have revised downwards our earnings estimates for FY20e/FY21e to Rs8.5/9.1 respectively (earlier Rs9.3/Rs9.9). However, we retain our BUY rating on the stock with a revised target price of Rs114 (earlier Rs162) assigning 10% premium over the replacement cost of Rs7.5bn following its leadership position in the North-east markets, relatively better earnings visibility and healthy balance sheet. The stock trades at 8.0x EV/EBITDA at our revised earnings estimates.

#### Financial and valuation summary

YE Mar (Rs mn)	1QFY20	1QFY19	YoY %	4QFY19	QoQ %	FY19	FY20E	FY21E
Revenue	4,609	5,179	(11.0)	5,344	(13.8)	18,310	20,003	22,358
EBITDA	1,121	1,317	(14.9)	1,269	(11.6)	4,492	4,668	5,067
EBITDA margin(%)	24.3	25.4	(110)bps	23.7	59bps	24.5	23.3	22.7
Adj. PAT	839	903	(7.1)	898	(6.6)	2,988	3,553	3,798
Diluted EPS	2.0	2.2	(7.1)	2.1	(6.6)	7.1	8.5	9.1
P/E(x)						13.3	11.2	10.5
EV/EBITDA(x)						8.5	6.9	6.4
RoE (%)						18.0	17.2	16.4

Source: Company, Centrum Research estimates

Please see Appendix for analyst certifications and all other important disclosures. In the interest of timeliness, this document is not edited.

#### Result Update

India I Cement

1 August 2019

#### Buy

Target Price: Rs114

Price: Rs95

Forecast return: 20%

Institutional Research

#### Market Data

Bloomberg:	STRCEM IN
52 week H/L:	Rs140/80
Market cap:	Rs40bn
Shares outstanding:	419mn
Free float:	17.9%
Avg. daily vol. 3mth:	163518

Source: Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	To Rs115 from Rs162
EPS:	(8.9)% -FY20E, (8.5)%-FY21E

Source: Centrum Research estimates

#### Star Cement relative to Nifty Midcap 100



Source: Bloomberg

#### Shareholding pattern

	Jun-19	Mar-19	Dec-18	Sep-18
Promoter	67.9	68.0	68.9	68.9
FIIs	1.1	1.2	1.2	1.0
DIIIs	8.6	8.7	8.7	8.4
Public/others	22.4	22.1	21.2	21.7

Source: BSE

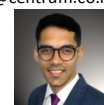


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## Thesis Snapshot

### Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
Net Sales	20,003	21,046	(5.0)	22,358	23,531	(5.0)
EBITDA	4,668	5,420	(13.9)	5,067	5,905	(14.2)
EBITDA margin %	23.3	25.8	(246)bps	22.7	25.1	(244)bps
Adj. PAT	3,553	3,897	(8.8)	3,798	4,147	(8.4)
Diluted EPS	8.5	9.3	(8.9)	9.1	9.9	(8.5)

Source: Centrum Research estimates

### Centrum estimates vs Actual results

YE Mar (Rs bn)	Actual 1QFY20	Centrum 1QFY20	Variance (%)
Revenue	4,609	5,438	(15.3)
EBITDA	1,121	1,380	(18.7)
EBITDA margin (%)	24.3	25.4	(105)bps
Adj. PAT	839	985	(14.9)
Diluted EPS	2.0	2.4	(14.9)

Source: Bloomberg Centrum Research estimates

### Star Cement versus Nifty Midcap 100

	1m	6m	1 year
STRCEM IN	(21.7)	2.6	(14.6)
Nifty Midcap 100	(10.9)	(7.3)	(16.7)

Source: Bloomberg, NSE

### Valuations

We retain our BUY rating on the stock with a revised target price of Rs114 (earlier Rs162) assigning 10% premium over the replacement cost of Rs7.5bn following its leadership position in the North-east markets, relatively better earnings visibility and healthy balance sheet. The stock trades at 8.0x EV/EBITDA at our revised earnings estimates earlier).

#### Target Valuations

Target Replacement Cost (\$)	120
Currency Assumption (Rs/\$)	70
Target Replacement Cost (Rs)	8,400
Total Capacity (Mn Tonnes)	4.8
Target EV (Rs mn)	40,320
Total Net Debt (Rs mn)	-7387
Target M-cap (Rs mn)	47,707
Total Equity Shares O/S (mn)	419.2
Target Price (Rs)	114

#### 1-year forward EV/MT



#### 1-year forward EV/EBITDA



Source: Bloomberg, Centrum Research estimates

### Key performance indicators

	1QFY20	1QFY19	YoY %	4QFY19	QoQ %	1QFY20E	Deviation %
Volumes (mn mt)	0.80	0.85	(6.5)	0.81	(1.4)	0.71	12.2
Cement realisations (Rs/mt)	5,768	6,060	(4.8)	6,598	(12.6)	6,363	(9.3)
Operating costs (Rs/mt)*	4,365	4,519	(3.4)	5,032	(13.3)	4,630	(5.7)
EBITDA (Rs/mt)	1,559	1,634	(4.6)	1,566	(0.4)	1,712	(8.9)

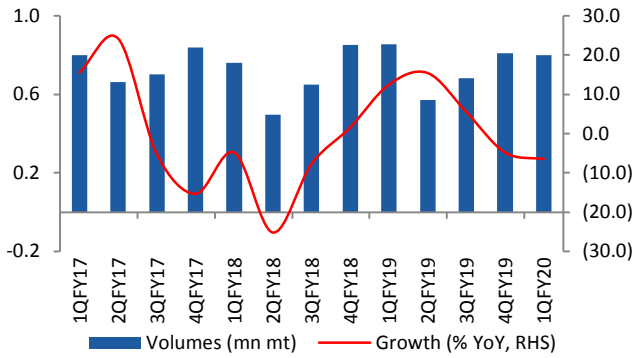
Source: Company, Centrum Research estimates

### Cost Matrix

Costs per mt (Rs)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ %
Raw material cost	1,053	1,459	866	1,203	1,395	1,978	982	1,696	1,212	(13.1)	(28.6)
Power and Fuel	706	612	885	878	896	648	1,036	918	1,020	13.9	11.1
Freight Cost	919	818	902	1,388	1,372	1,103	1,139	1,294	1,106	(19.4)	(14.5)
<b>Total costs per mt</b>	<b>3,553</b>	<b>4,122</b>	<b>3,646</b>	<b>4,501</b>	<b>4,519</b>	<b>5,139</b>	<b>4,312</b>	<b>5,032</b>	<b>4,365</b>	<b>(3.4)</b>	<b>(13.3)</b>

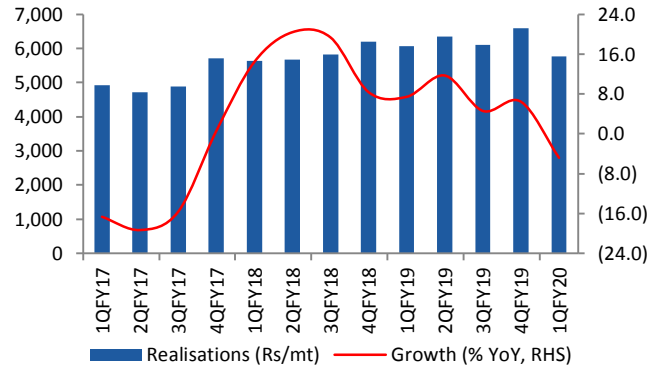
Source: Company, Centrum Research

**Fig 1: Weaker clinker sales impacts overall volume**



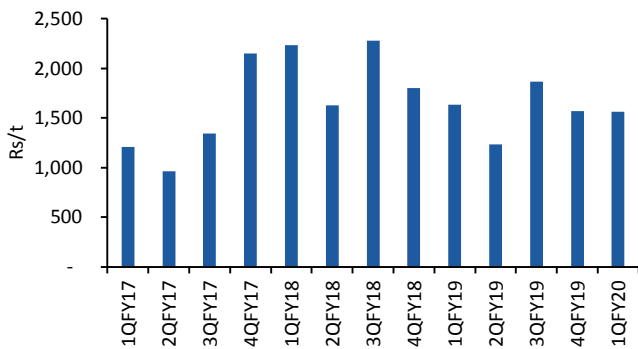
Source: Company, Centrum Research

**Fig 2: Early monsoons in key markets dampens realisations**



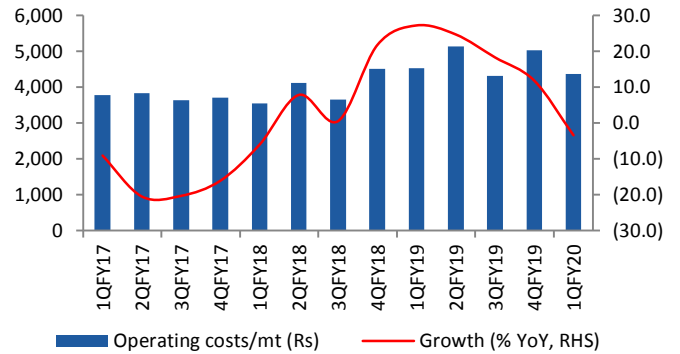
Source: Company, Centrum Research

**Fig 3: Effectively EBITDA/tonne weakens**



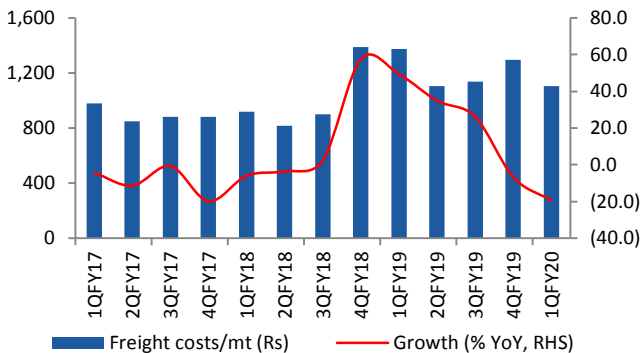
Source: Company, Centrum Research

**Fig 4: Cost savings came from decline raw material and logistics expenses**



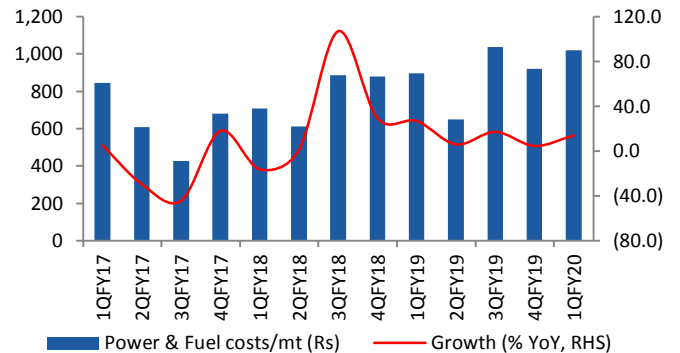
Source: Company, Centrum Research

**Fig 5: Soft fuel prices and lower clinker sales saved cost**



Source: Company, Centrum Research

**Fig 6: Energy cost remains high due to high cost inventory**



Source: Company, Centrum Research

## Centrum Con-call Monitor

Centrum Quarterly monitor	Q1FY20	Q4FY19	Our Views
<b>Capacity addition</b>	Siliguri grinding unit to be commissioned by January 2020. 60-65% utilisation levels in first year of operations Debottlenecking of Meghalaya clinker capacity has been postponed and will happen when company takes the next shutdown. 2mnt clinker plant in Meghalaya. Management expects to start construction of the plant in Oct'19 or Nov'19	Siliguri grinding unit to be commissioned by end of December 2019. Debottlenecking of Meghalaya clinker capacity from 2.8mnt to 3.0mnt to start in month of July during annual shutdown and will be completed in August. Company has applied for environmental clearance of 2mnt clinker plant in Meghalaya. This plant is expected to get commissioned in 2years after receiving required clearances	Capital expenditure plans except for Siliguri grinding unit delayed.
<b>Volume and EBITDA/t guidance</b>	Maintained Volume guidance for FY20 with riders	Volumes: 15% in FY20 Clinker sales will reduce once the Siliguri plant starts operations Maintain same level of EBITDA/t in FY20	Volume guidance likely to be revised downwards in 2Q.
<b>Subsidies</b>	Transport subsidy - Outstanding transport subsidy is Rs520mn and will be availed in next two quarters	Transport subsidy - Outstanding transport subsidy is Rs680mn	Most of the subsidy payments likely to be cleared in FY20.
<b>Cost saving initiatives</b>	WHRP will be commissioned before the new clinker plant and will support the existing facilities	Railway siding project in Guwahati started in Feb'19 will provide cost savings in FY20 WHRP to be commissioned with the new clinker plant	Major cost savings initiatives are unlikely in FY20/FY21
<b>Coal sourcing</b>		Company imports 80% of the coal requirements. Coal cost impact in 4QFY19: Rs100/t. Company expects further cost impact of Rs100/t in FY20	Fuel cost likely to remain higher due to limited coal availability in the operating region of STRCEM.
<b>Cash</b>	Cash: Rs3.5bn(30th June'19)	Cash: Rs3.5bn (31st March'19)	
<b>Capital expenditure</b>	Siliguri project: Rs3.25bn to be spend in FY20. WHRP - 25% of Rs1.25-1.5bn in FY20 New clinker unit - 10% of Rs8bn in FY20	Siliguri project: Rs750mn spent in FY19 and Rs3.25bn to be spend in FY20. Rs250-300mn for the debottlenecking project. Total: Rs3.5bn for FY20	Capex guidance unchanged for FY20/FY21.

Source: Company, Centrum Research

## Quarterly financial analysis

Fig 7: Quarterly financials

(Rs mn)	1QFY20	1QFY19	YoY %	4QFY19	QoQ %	1QFY20E	Deviation %
<b>Net Sales</b>	<b>4,609</b>	<b>5,179</b>	<b>(11.0)</b>	<b>5,344</b>	<b>(13.8)</b>	<b>5,438</b>	<b>(15.3)</b>
<b>Expenditure</b>							
Change in stock	(94)	45	(309.3)	214	(143.9)	(100)	(6.1)
Raw material	839	946	(11.4)	954	(12.1)	1,240	(32.4)
purchased products	224	201	0.0	206	0	201	0
Power & fuel	815	765	6.5	744	9.5	781	4.4
Freight	884	1,173	(24.6)	1,048	(15.7)	1,173	(24.6)
Employee costs	298	268	11.4	275	8.5	281	6.1
Other exp	522	463	12.6	634	(17.7)	482	8.3
Total Operating Expenses	3,487	3,862	(9.7)	4,076	(14.4)	4,058	(14.1)
<b>EBITDA</b>	<b>1,121</b>	<b>1,317</b>	<b>(14.9)</b>	<b>1,269</b>	<b>(11.6)</b>	<b>1,380</b>	<b>(18.7)</b>
<b>EBITDA margin (%)</b>	<b>24</b>	<b>25</b>	<b>(110)bps</b>	<b>24</b>	<b>59 bps</b>	<b>25</b>	<b>(105)bps</b>
Other Income	74	3	2,087.2	34	114.4	10	635.5
Interest	28	54	(49.0)	31	(9.8)	30	(7.6)
Depreciation	222	283	(21.5)	238	(6.8)	265	(16.3)
PBT	945	983	(3.9)	1,034	(8.6)	1,095	(13.7)
Non-recurring items	-	-		-		-	
PBT (after non-recurring items)	945	983	(3.9)	1,034	(8.6)	1,095	(13.7)
Tax	106	68	56.0	118	(10.2)	109	(3.1)
Tax Rate (%)	11	7		11		10	
Reported PAT	839	903	(7.1)	898	(6.6)	985	(14.9)
<b>Adjusted PAT</b>	<b>839</b>	<b>903</b>	<b>(7.1)</b>	<b>898</b>	<b>(6.6)</b>	<b>985</b>	<b>(14.9)</b>
<b>NPM (%)</b>	<b>18</b>	<b>17</b>		<b>17</b>		<b>18</b>	
<b>Adjusted EPS (Rs)</b>	<b>2.0</b>	<b>2.2</b>	<b>(7.1)</b>	<b>2.1</b>	<b>(6.6)</b>	<b>2.4</b>	<b>(14.9)</b>

Source: Company, Centrum Research estimates

P&L					
YE Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	<b>15,341</b>	<b>16,227</b>	<b>18,310</b>	<b>20,003</b>	<b>22,358</b>
Materials cost	3,403	3,007	4,367	4,814	5,460
% of revenues	22.2	18.5	23.9	24.1	24.4
Power & fuel	1,916	2,160	2,587	2,921	3,313
% of revenues	12.5	13.3	14.1	14.6	14.8
Others	5,876	5,764	6,864	7,599	8,518
% of revenues	38.3	35.5	37.5	38.0	38.1
<b>EBITDA</b>	<b>4,146</b>	<b>5,295</b>	<b>4,492</b>	<b>4,668</b>	<b>5,067</b>
<b>EBITDA margin (%)</b>	<b>27.0</b>	<b>32.6</b>	<b>24.5</b>	<b>23.3</b>	<b>22.7</b>
Depreciation & Amortisation	1,179	1,207	1,056	881	648
<b>EBIT</b>	<b>2,967</b>	<b>4,088</b>	<b>3,435</b>	<b>3,787</b>	<b>4,419</b>
Interest expenses	781	525	144	100	80
Other income	24	44	55	350	350
Exceptional items	-	-	-	-	-
<b>PBT</b>	<b>2,211</b>	<b>3,607</b>	<b>3,346</b>	<b>4,037</b>	<b>4,689</b>
Taxes	139	164	296	404	797
Effective tax rate (%)	6.3	4.5	8.9	10.0	17.0
<b>PAT</b>	<b>2,072</b>	<b>3,443</b>	<b>3,050</b>	<b>3,634</b>	<b>3,892</b>
Minority/Associates	(62)	(55)	(62)	(81)	(94)
Extraordinary Items	-	-	-	-	-
<b>Reported PAT</b>	<b>2,010</b>	<b>3,388</b>	<b>2,988</b>	<b>3,553</b>	<b>3,798</b>
<b>Adjusted PAT</b>	<b>2,010</b>	<b>3,388</b>	<b>2,988</b>	<b>3,553</b>	<b>3,798</b>

Ratios					
YE Mar	FY17	FY18	FY19	FY20E	FY21E
<b>Growth Ratio (%)</b>					
Revenue	(2.9)	5.8	12.8	9.2	11.8
EBITDA	3.8	27.7	(15.2)	3.9	8.5
Adjusted PAT	49.4	68.6	(11.8)	18.9	6.9
<b>Margin Ratios (%)</b>					
Operating	27.0	32.6	24.5	23.3	22.7
EBITDA	27.0	32.6	24.5	23.3	22.7
Adjusted PAT	13.1	20.9	16.3	17.8	17.0
<b>Return Ratios (%)</b>					
ROE	18.6	24.8	18.0	17.2	16.4
ROCE	15.5	22.1	19.2	22.3	20.7
ROIC	15.6	22.2	20.4	28.7	31.5
<b>Turnover Ratios (days)</b>					
Gross block turnover ratio (x)	1.1	1.6	2.1	2.1	1.9
Debtors	33	33	29	37	37
Inventory	38	66	55	47	44
Creditors	22	43	25	35	35
Cash conversion cycle	49	57	59	49	45
<b>Solvency Ratio (x)</b>					
Net debt-equity	0.6	0.3	(0.1)	(0.4)	(0.3)
Debt-equity	0.7	0.3	0.0	0.0	0.0
Interest coverage ratio	3.8	7.8	23.9	37.9	55.2
Gross debt/EBITDA	1.9	0.8	0.1	0.0	0.0
Current Ratio	2.9	2.7	2.4	2.1	1.9
<b>Per share Ratios (Rs)</b>					
Adjusted EPS	4.8	8.1	7.1	8.5	9.1
BVPS	27.3	35.2	41.1	47.2	53.9
CEPS	7.6	11.0	9.6	10.6	10.6
DPS	-	1.0	1.5	2.0	2.0
Dividend payout %	-	15	25	28	26
<b>Valuation (x)*</b>					
P/E (adjusted)	15.5	14.9	13.3	11.2	10.5
P/BV	2.7	3.4	2.3	2.0	1.8
EV/EBITDA	9.5	10.3	8.5	6.9	6.4
Dividend yield %	0.0	1.1	1.6	2.1	2.1

Source: Company, Centrum Research estimates, \*All ratios based on average mcap for year

Balance Sheet					
YE Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	419	419	419	419	419
Reserves & surplus	11,040	14,344	16,817	19,383	22,195
Shareholders' fund	11,460	14,763	17,237	19,803	22,614
Total Debt (incl. pref shares if its thr)	8,007	4,324	513	13	11
Def tax liab. (net)	(1,765)	(2,329)	(2,710)	(2,912)	(2,912)
Minority interest	566	621	683	764	858
<b>Total Liabilities</b>	<b>18,268</b>	<b>17,380</b>	<b>15,723</b>	<b>17,667</b>	<b>20,570</b>
Gross Block	10,043	10,556	7,223	11,523	12,023
Less: Acc. Depreciation	(1,411)	(2,709)	-	(881)	(1,529)
Net Block	8,632	7,847	7,223	10,642	10,495
Capital WIP	549	357	743	(957)	3,043
Net Fixed Assets	9,181	8,205	7,966	9,685	13,538
Investments	52	26	1,181	1,181	1,181
Inventories	1,612	2,946	2,772	2,600	2,683
Sundry debtors	1,378	1,465	1,438	2,000	2,236
Cash	163	186	949	5,193	5,069
Loans & Advances	97	132	288	331	380
Other assets	10,555	9,768	5,664	2,771	2,294
Total Current Asset	13,804	14,497	11,111	12,895	12,663
Trade payables	938	1,889	1,254	1,918	2,144
Other current Liab.	3,782	3,405	3,217	4,110	4,594
Provisions	49	54	65	66	74
Net Current Assets	9,034	9,149	6,575	6,801	5,851
<b>Total Assets</b>	<b>18,268</b>	<b>17,380</b>	<b>15,723</b>	<b>17,667</b>	<b>20,570</b>

Cash Flows					
YE Mar (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Operating profit bef working capital changes	(3,925)	4,905	637	4,918	5,337
Trade and other recievables	1,147	(87)	27	(563)	(236)
Trade payables	(475)	575	(824)	1,557	710
Net change - WC	(898)	(91)	3,337	4,017	827
Direct Taxes	(412)	(728)	(678)	(606)	(797)
<b>Cash flow from operations</b>	<b>(5,235)</b>	<b>4,086</b>	<b>3,296</b>	<b>8,330</b>	<b>5,366</b>
Net Capex	6,636	(322)	2,947	(2,600)	(4,500)
Acquisitions, net	-	-	-	-	-
Others	(31)	27	(1,155)	-	-
<b>Cash flow from investing activities</b>	<b>6,605</b>	<b>(295)</b>	<b>1,792</b>	<b>(2,600)</b>	<b>(4,500)</b>
FCF	1,370	3,791	5,088	5,730	866
Issue of share capital	-	-	-	-	-
Increase/(decrease) in debt	(1,383)	(3,683)	(3,811)	(500)	(3)
Dividend	-	(494)	(740)	(987)	(987)
<b>Cash flow from financing</b>	<b>(1,445)</b>	<b>(3,768)</b>	<b>(4,326)</b>	<b>(1,487)</b>	<b>(989)</b>
<b>Net change in cash</b>	<b>(75)</b>	<b>23</b>	<b>762</b>	<b>4,243</b>	<b>(123)</b>

Source: Company, Centrum Research estimates

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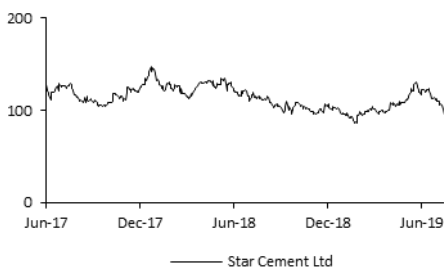
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**Star Cement**



Source: Bloomberg



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