

Star Cement

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Near-term headwinds persist but valuations are attractive


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- Star Cement's Q1FY20 results were below estimates, with EBITDA coming in at Rs1.12bn vs. our estimate of Rs1.25bn and EBITDA/ton at Rs1,542 vs. estimate of Rs1,613 as realization declined 0.6% qoq against estimate of 1% growth qoq.
- Lower clinker sales (0.01mt vs. 0.09mt in Q1FY19) led to a sales volume decline of 9.9% yoy. Cement sales volume was up 0.8% yoy. Realization was down 1.2% yoy, whereas opex was almost flat.
- Management maintained volume growth guidance of 15% in FY20 but believes there could be downside risks if Q2 turns out to be disappointing. The cement grinding unit in Siliguri, WB, is on track and is expected to get commissioned by Q3FY20-end.
- We reduce FY20/21 EBITDA estimates by 9.9%/8.1%, considering lower realization. We prefer Star Cement due to higher profitability, return ratios, and its presence in a lucrative market. Maintain Buy with a target price of Rs135 (10x FY21E EV/EBITDA).

Lower realization and sales volumes impact profitability: Star Cement's results were below estimates, with EBITDA at Rs1.12bn vs. estimate of Rs1.25bn on 1) lower realization - down 0.6% qoq vs. estimate of 1% qoq growth; and 2) lower sales volume - down 9.9% yoy vs. estimate of 4% yoy decline. Higher discounts in the North East (NE) markets impacted realizations as cement prices remained flat qoq. Cement prices started to decline in the East markets from mid-May and management believes that current prices in the East region are lower than that of Mar-19. The sales volume decline of 9.9% yoy was driven by lower clinker sales (0.01mt vs. 0.09mt in Q1FY19). Excluding clinker sales, cement sales volume was up 0.8% yoy. Cement sales volume in the NE market was up 3.3% yoy, whereas there was a decline of 5.5% yoy outside the NE markets. Realization was down 1.2% yoy/0.6% qoq. Opex/ton was flat yoy although there could be an increase in energy costs going forward as Star has consumed low-cost inventory and will be dependent mostly on imported coal now. Lower realization and sales volumes have led to a 110bps yoy decline in OPM and a 5.5% yoy decline in EBITDA/ton. EBITDA was down 14.9% yoy.

Trim estimates; attractive valuations: We reduce FY20/21 EBITDA estimates by 9.9%/8.1%, considering lower cement prices and higher opex (coal costs). We prefer Star Cement due to its presence in the North East region that offers better growth opportunities, strong margin profile, and superior return ratios. The North East region is a lucrative market characterized by oligopolistic nature where just two players are controlling 50% of the total capacity. It has consistently delivered more than 2x EBITDA/ton vs. the average of others in our coverage universe. Valuations at 7.8x/6.9x FY20/21E EV/EBITDA appear attractive. We maintain our Buy rating with a target price of Rs135, valuing it at 10x FY21E EV/EBITDA. The key risk could be a significant increase in coal costs and a slowdown in industry demand.

Please see our sector EAP (page 8): [Emkay Alpha Portfolio – Cement & Building Materials](#)

Financial Snapshot (Consolidated)

| (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-------------------|--------|--------|--------|--------|--------|
| Revenue | 15,278 | 16,145 | 18,310 | 19,962 | 22,836 |
| EBITDA | 3,962 | 5,214 | 4,492 | 4,586 | 5,243 |
| EBITDA Margin (%) | 25.9 | 32.3 | 24.5 | 23.0 | 23.0 |
| APAT | 1,826 | 3,307 | 2,988 | 3,105 | 3,521 |
| EPS (Rs) | 4.4 | 7.9 | 7.1 | 7.4 | 8.4 |
| EPS (% chg) | 35.7 | 81.0 | (9.6) | 3.9 | 13.4 |
| ROE (%) | 16.6 | 25.2 | 18.7 | 16.8 | 16.9 |
| P/E (x) | 22.1 | 12.2 | 13.5 | 13.0 | 11.5 |
| EV/EBITDA (x) | 12.1 | 8.5 | 8.6 | 7.8 | 6.9 |
| P/BV (x) | 3.5 | 2.7 | 2.3 | 2.1 | 1.8 |

Source: Company, Emkay Research

| | |
|---------------------------------|-------------------------|
| CMP | Target Price |
| Rs 96 as of (August 1, 2019) | Rs 135 (▼) 12 months |
| Rating | Upside |
| BUY (■) | 40.1 % |

Change in Estimates

| | |
|-------------------------|-----------|
| EPS Chg FY20E/FY21E (%) | (16)/(11) |
| Target Price change (%) | (11.9) |
| Target Period (Months) | 12 |
| Previous Reco | BUY |

Emkay vs Consensus

| | EPS Estimates | |
|-------------------------|---------------|-------|
| | FY20E | FY21E |
| Emkay | 7.4 | 8.4 |
| Consensus | 8.2 | 9.3 |
| Mean Consensus TP (12M) | Rs 142 | |

Stock Details

| | |
|------------------------------|-----------|
| Bloomberg Code | STRCEM IN |
| Face Value (Rs) | 1 |
| Shares outstanding (mn) | 419 |
| 52 Week H/L | 140 / 80 |
| M Cap (Rs bn/USD bn) | 40 / 0.58 |
| Daily Avg Volume (nos.) | 1,63,518 |
| Daily Avg Turnover (US\$ mn) | 0.3 |

Shareholding Pattern Jun '19

| | |
|-------------------|-------|
| Promoters | 67.9% |
| FIIIs | 1.1% |
| DIIIs | 9.2% |
| Public and Others | 21.8% |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|----------------------|------|-----|----|------|
| Absolute | (22) | (8) | 3 | (15) |
| Rel. to Nifty | (15) | (2) | 2 | (12) |

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Sanjeev Kumar Singh

 sanjeev.singh@emkayglobal.com
 +91 22 6612 1255

Gurpreet Kaur

 gurpreet.kaur@emkayglobal.com
 +91 22 6612 1285

Exhibit 1: Actual vs. Estimates (Q1FY20)

| (in Rs mn) | Actual | Estimate | | % variation | | Comment |
|-------------------|--------|----------|-----------|-------------|-----------|---|
| | | Emkay | Consensus | Emkay | Consensus | |
| Sales | 4,609 | 5,017 | 4,994 | -8.1 | -7.7 | Impact of lower sales volumes and realization |
| EBITDA | 1,121 | 1,250 | 1,221 | -10.3 | -8.2 | Impact of lower sales volumes and realization |
| EBITDA margin (%) | 24.3 | 24.9 | 24.4 | -59bps | -12bps | |
| Adj. PAT | 839 | 832 | 845 | 0.8 | -0.7 | In-line with estimates due to higher other income |

Source: Company, Emkay Research, Bloomberg

Exhibit 2: Quarterly Results

| Rs mn | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | YoY (%) | QoQ (%) |
|--------------------------------|--------|--------|--------|--------|--------|--------|------------|------------|
| Revenue | 5,274 | 5,179 | 3,623 | 4,164 | 5,344 | 4,609 | -11.0% | -13.8% |
| Expenditure | 3,830 | 3,862 | 2,935 | 2,945 | 4,076 | 3,487 | -9.7% | -14.4% |
| as % of sales | 73% | 75% | 81% | 71% | 76% | 76% | | |
| Consumption of RM | 551 | 991 | 930 | 515 | 1,168 | 745 | -24.9% | -36.3% |
| as % of sales | 10% | 19% | 26% | 12% | 22% | 16% | | |
| Employee Expenses | 246 | 268 | 321 | 300 | 275 | 298 | 11.4% | 8.5% |
| as % of sales | 5% | 5% | 9% | 7% | 5% | 6% | | |
| Other Expenses | 3,033 | 2,603 | 1,684 | 2,130 | 2,632 | 2,444 | -6.1% | -7.1% |
| as % of sales | 58% | 50% | 46% | 51% | 49% | 53% | | |
| EBITDA | 1,444 | 1,317 | 687 | 1,219 | 1,269 | 1,121 | -14.9% | -11.6% |
| Depreciation | 241 | 283 | 271 | 264 | 238 | 222 | -21.5% | -6.8% |
| EBIT | 1,203 | 1,034 | 416 | 955 | 1,030 | 899 | -13.0% | -12.7% |
| Other Income | 28 | 3 | 7 | 10 | 34 | 74 | n/m | 114.4% |
| Interest | 89 | 54 | 33 | 26 | 31 | 28 | -49.0% | -9.8% |
| PBT | 1,143 | 983 | 390 | 939 | 1,034 | 945 | -3.9% | -8.6% |
| Total Tax | 54 | 68 | 8 | 102 | 118 | 106 | 56.0% | -10.2% |
| Adjusted PAT | 1,088 | 915 | 382 | 837 | 916 | 839 | -8.3% | -8.4% |
| Extra ordinary items | - | - | - | - | - | - | | |
| Reported PAT | 1,088 | 915 | 382 | 837 | 916 | 839 | -8.3% | -8.4% |
| (Profit)/loss from JV's/Ass/MI | 10 | 12 | 18 | 14 | 18 | 0.13 | -98.9% | -99.3% |
| PAT after MI | 1,079 | 903 | 364 | 823 | 898 | 839 | -7.1% | -6.6% |
| Adjusted EPS | 2.6 | 2.2 | 0.9 | 2.0 | 2.1 | 2.0 | -7.1% | -6.6% |
| Margins (%) | | | | | | | bps | bps |
| EBIDTA | 27.4 | 25.4 | 19.0 | 29.3 | 23.7 | 24.3 | (110) | 59 |
| EBIT | 22.8 | 20.0 | 11.5 | 22.9 | 19.3 | 19.5 | (45) | 23 |
| EBT | 21.7 | 19.0 | 10.8 | 22.6 | 19.3 | 20.5 | 153 | 116 |
| PAT | 20.6 | 17.7 | 10.5 | 20.1 | 17.1 | 18.2 | 54 | 107 |
| Effective Tax rate | 4.8 | 6.9 | 2.1 | 10.9 | 11.4 | 11.2 | 431 | (20) |

Source: Company, Emkay Research

Exhibit 3: Operating cost analysis on per-ton basis

| Particulars (Rs/ton) | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | YoY (%) | QoQ (%) |
|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cement Volumes (mt) | 0.81 | 0.81 | 0.56 | 0.65 | 0.84 | 0.73 | -9.9% | -13.3% |
| Raw Material Consumed | 678 | 1,228 | 1,674 | 788 | 1,394 | 1,024 | -16.6% | -26.5% |
| Employee Expenses | 303 | 332 | 577 | 459 | 328 | 411 | 23.6% | 25.1% |
| Other Expenses | 3,735 | 3,226 | 3,029 | 3,256 | 3,141 | 3,362 | 4.2% | 7.1% |
| Total Cost | 4,716 | 4,786 | 5,280 | 4,504 | 4,863 | 4,797 | 0.2% | -1.4% |
| Realization | 6,495 | 6,418 | 6,516 | 6,367 | 6,376 | 6,339 | -1.2% | -0.6% |
| EBIDTA | 1,779 | 1,632 | 1,236 | 1,864 | 1,513 | 1,542 | -5.5% | 1.9% |

Source: Company, Emkay Research

Changes in estimates

We reduce sales volume estimates by 4.7%/1.7% for FY20/21E, considering lower volumes in Q1 and pressure on industry demand as per our channel checks. We also reduce realization estimates by 1%/1.5% for FY20/21E. Factoring in these changes and higher coal costs, EBITDA estimates are being reduced by 9.9%/8.1% for FY20/21E. Profit estimates are being reduced by 15.7%/10.6% for FY20/21E.

Exhibit 4: Changes in estimates

| Rs mn | FY20E | | | FY21E | | |
|---------------------|---------|---------|---------|---------|---------|---------|
| | Earlier | Revised | Chg (%) | Earlier | Revised | Chg (%) |
| Sales vol (mt) | 3.2 | 3.1 | -4.7% | 3.48 | 3.42 | -1.7% |
| Realization (Rs/tn) | 6,583 | 6,519 | -1.0% | 6,781 | 6,682 | -1.5% |
| Sales | 21,156 | 19,962 | -5.6% | 23,583 | 22,836 | -3.2% |
| EBIDTA | 5,092 | 4,586 | -9.9% | 5,707 | 5,243 | -8.1% |
| EBIDTA (%) | 24.1 | 23.0 | -109 | 24.2 | 23.0 | -124 |
| Net Profit | 3,681 | 3,105 | -15.7% | 3,938 | 3,521 | -10.6% |
| EPS (Rs) | 8.8 | 7.4 | -15.7% | 9.4 | 8.4 | -10.6% |

Source: Company, Emkay Research

Exhibit 5: Key assumptions

| Key Assumptions (Rs/ton) | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------|-------|-------|-------|-------|-------|
| Sales volume (mt) | 2.8 | 2.6 | 2.9 | 3.1 | 3.4 |
| Realization | 5,425 | 6,210 | 6,422 | 6,519 | 6,682 |
| Raw material | 1,208 | 1,163 | 1,265 | 1,303 | 1,342 |
| Employee cost | 421 | 413 | 408 | 411 | 397 |
| Other Expense | 2,345 | 2,628 | 3,207 | 3,617 | 3,733 |
| Opex | 3,975 | 4,205 | 4,880 | 5,330 | 5,472 |
| EBITDA | 1,450 | 2,005 | 1,575 | 1,498 | 1,534 |

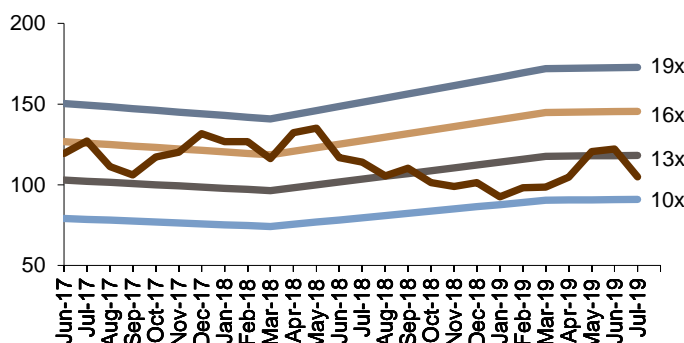
Source: Company, Emkay Research

Exhibit 6: Peer valuation

| Company | Rs bn Mcap | EV/EBITDA (x) | | | EV/Ton (USD) | | | EPS (Rs) | | | P/E (x) | | |
|-------------------|---------------|---------------|-------|-------|--------------|-------|-------|----------|-------|-------|---------|-------|-------|
| | | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E |
| Star Cement | 40.4 | 8.6 | 7.8 | 6.9 | 147 | 88 | 89 | 7.1 | 7.4 | 8.4 | 13.5 | 13.0 | 11.5 |
| ACC* | 299.7 | 12.5 | 10.5 | 10.2 | 113.5 | 110.9 | 113.2 | 57.3 | 69.9 | 74.2 | 27.3 | 22.3 | 21.0 |
| Ambuja Cements* | 399.4 | 14.3 | 12.6 | 12.0 | 130.7 | 131.8 | 133.0 | 6.1 | 6.8 | 7.2 | 33.0 | 29.5 | 28.1 |
| India Cements | 27.1 | 9.3 | 7.2 | 6.3 | 54.3 | 51.8 | 50.3 | 2.3 | 5.1 | 7.5 | 39.0 | 17.3 | 11.7 |
| Ramco Cements | 172.1 | 18.0 | 14.9 | 13.5 | 161.9 | 142.1 | 147.9 | 21.5 | 27.3 | 29.3 | 34.0 | 26.8 | 24.9 |
| Shree Cements | 702.0 | 25.7 | 19.4 | 16.5 | 249.3 | 231.3 | 216.3 | 324.1 | 381.0 | 436.8 | 73.8 | 52.9 | 46.1 |
| Ultratech Cement | 1188.6 | 20.6 | 16.1 | 13.7 | 202.7 | 181.5 | 173.2 | 88.5 | 113.1 | 137.9 | 48.9 | 38.3 | 31.4 |
| JK Lakshmi Cement | 39.1 | 12.9 | 10.5 | 8.9 | 64.9 | 61.1 | 61.8 | 6.8 | 10.3 | 14.5 | 49.1 | 32.2 | 22.9 |
| JK Cement | 74.4 | 11.8 | 10.7 | 9.2 | 127.6 | 138.1 | 135.1 | 34.1 | 51.1 | 47.5 | 28.2 | 18.8 | 20.3 |
| Orient Cement | 19.7 | 10.3 | 7.8 | 7.3 | 57.6 | 56.5 | 55.2 | 2.3 | 5.0 | 5.6 | 41.4 | 19.2 | 17.1 |
| Prism Cement | 46.5 | 10.9 | 9.9 | 9.1 | 123.8 | 124.9 | 126.1 | 3.1 | 3.9 | 4.5 | 29.6 | 23.5 | 20.4 |
| Sanghi Industries | 14.3 | 13.5 | 12.8 | 8.6 | 57.1 | 53.7 | 48.3 | 2.1 | 4.4 | 4.1 | 27.2 | 12.8 | 13.9 |

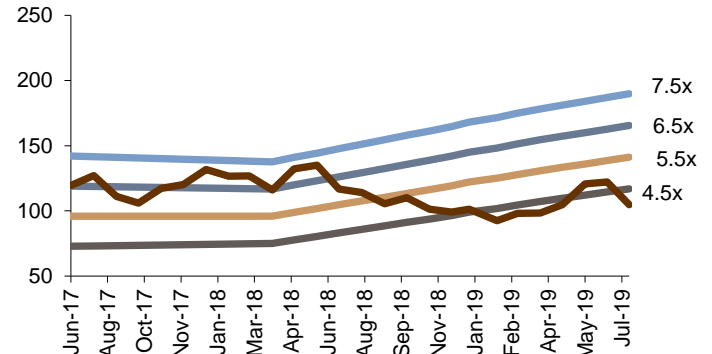
Source: Company, Emkay Research, *Dec Ending companies

Exhibit 7: 1-yr forward P/E chart



Source: Company, Emkay Research

Exhibit 8: 1-yr forward EV/EBITDA chart



Source: Company, Emkay Research

Con-call highlights

- **Volume details:** Clinker production was 0.62mt vs. 0.59mt in Q1FY19. Cement production from own plants stood at 0.66mt vs. 0.65mt in Q1FY19. Cement/Clinker sales volumes stood at 0.72mt/0.008mt vs. 0.71mt/0.094mt in Q1FY19. The company had reduced clinker sales as it had planned a shutdown in July 2019. However, due to monsoons, the shutdown has now been deferred to mid-August. Cement volumes in the NE markets were up 3.3% yoy, whereas there was a decline of 5.5% yoy in the markets outside the NE. Star has a 25% market share in the NE region.
- **Outlook and guidance:** Currently, the company maintains cement sales volume growth guidance of 15% yoy for FY20 with a caveat that any disappointment in Q2 growth may force it to reduce its guidance. In the quarter, demand in NE markets was flat yoy although other parts of the East region witnessed a decline of 10% yoy. Management believes that pan-India demand declined 9% yoy in Jul-19 and expects industry growth to be at 4-5% yoy in FY20 in the best case.
- **Pricing trend:** Prices in the NE markets were stable in Q1 although higher discounts (Rs3-5/bag) were offered to dealers. In the East markets, the prices started to decline from mid-May and management believes that current cement prices are lower than the levels seen in Mar-19 (all the hikes have been rolled back and there is a further drop of Rs10-15/bag).
- **Update on coal prices and coal mining:** The Supreme Court has allowed mining in Meghalaya, under a few conditions. As per the company, 3.2mt of stocks are lying over-ground which would be available for auction. This quantity of coal would suffice cement and power industry requirement in the region for the next 2-3 years. Currently, the company imports 80% of its total fuel requirement and 20% is procured from local sources (Nagaland and Eastern Coal Fields) which has an impact of Rs150-200/ton on their fuel costs. However, there will be some cost reduction, when the mining in Meghalaya commences. The company is currently sourcing coal from the US; however, it has other options of imports from Indonesia and Australia, depending on cost benefits.
- **Capex plans:** The grinding unit of 2mt in Siliguri, West Bengal, is expected to get commissioned by Q3FY20. This unit will be eligible for VAT subsidies (75% exemption) under West Bengal Industrial Policy. The clinker de-bottlenecking plans of 0.2mt in Meghalaya has been deferred as there has been a delay in the procurement of equipment. This de-bottlenecking will now be carried on during next year's shutdown. The company has also applied for environmental clearance for the 2mt clinker capacity (capex: Rs8bn) in Meghalaya which it expects to receive by Q2FY20. Civil work for this expansion will start in Q3FY19 and the commissioning will take 24-30 months. It also plans to set up a 12-15MW waste heat recovery plant (WHRS) that is expected to commission along with the new clinker unit of 2mt in Meghalaya. Capex for this project is at Rs1.25-1.5bn. The company will incur a total capex of Rs3.5-4bn in FY20.
- **Product and sales mix:** Trade sales was 82% vs. 72% in Q1FY19. PPC: OPC: PSC sales volumes mix was 72%:16%:2% vs 80%:18%:2% in Q1FY19.
- **Input prices:** Slag prices have come down to Rs900/ton vs. Rs1,200/ton in Mar-19. Fly ash prices have remained in the range of Rs300-350/ton between March and July '19.
- **Outstanding subsidies:** Outstanding subsidies are at Rs520mn which is expected to be received in Q2/Q3FY20.

Key Financials (Consolidated)**Income Statement**

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 15,278 | 16,145 | 18,310 | 19,962 | 22,836 |
| Expenditure | 11,316 | 10,932 | 13,819 | 15,376 | 17,593 |
| EBITDA | 3,962 | 5,214 | 4,492 | 4,586 | 5,243 |
| Depreciation | 1,179 | 1,207 | 1,056 | 1,097 | 1,313 |
| EBIT | 2,783 | 4,007 | 3,435 | 3,489 | 3,930 |
| Other Income | 24 | 44 | 55 | 77 | 92 |
| Interest expenses | 781 | 525 | 144 | 27 | 21 |
| PBT | 2,027 | 3,526 | 3,346 | 3,538 | 4,001 |
| Tax | 139 | 164 | 296 | 354 | 400 |
| Extraordinary Items | 0 | 0 | 0 | 0 | 0 |
| Minority Int./Income from Assoc. | (62) | (55) | (62) | (80) | (80) |
| Reported Net Income | 1,826 | 3,307 | 2,988 | 3,105 | 3,521 |
| Adjusted PAT | 1,826 | 3,307 | 2,988 | 3,105 | 3,521 |

Balance Sheet

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|--|---------------|---------------|---------------|---------------|---------------|
| Equity share capital | 419 | 419 | 419 | 419 | 419 |
| Reserves & surplus | 11,040 | 14,344 | 16,817 | 19,202 | 21,736 |
| Net worth | 11,459 | 14,763 | 17,237 | 19,622 | 22,155 |
| Minority Interest | 566 | 621 | 683 | 763 | 843 |
| Loan Funds | 8,007 | 4,324 | 513 | 397 | 317 |
| Net deferred tax liability | (1,765) | (2,329) | (2,710) | (2,710) | (2,710) |
| Total Liabilities | 18,267 | 17,379 | 15,723 | 18,071 | 20,605 |
| Net block | 8,632 | 7,847 | 7,223 | 6,526 | 9,213 |
| Investment | 15 | 14 | 17 | 17 | 17 |
| Current Assets | 13,842 | 14,509 | 12,275 | 12,715 | 13,309 |
| Cash & bank balance | 170 | 224 | 2,134 | 4,928 | 4,401 |
| Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| Current liabilities & Provision | 4,770 | 5,349 | 4,536 | 5,187 | 5,934 |
| Net current assets | 9,072 | 9,160 | 7,739 | 7,528 | 7,375 |
| Misc. exp | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 18,267 | 17,379 | 15,723 | 18,071 | 20,605 |

Cash Flow

| Y/E Mar (Rs mn) | FY17 | FY18 | FY19 | FY20E | FY21E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| PBT (Ex-Other income) (NI+Dep) | 2,148 | 3,526 | 3,346 | 3,538 | 4,001 |
| Other Non-Cash items | 701 | 527 | 144 | 48 | 21 |
| Chg in working cap | (722) | (345) | 3,336 | 3,026 | (374) |
| Operating Cashflow | 3,000 | 4,206 | 7,150 | 7,279 | 4,469 |
| Capital expenditure | (890) | (324) | (818) | (3,657) | (4,000) |
| Free Cash Flow | 2,110 | 3,882 | 6,332 | 3,622 | 469 |
| Investments | (30) | 26 | (3) | 0 | 0 |
| Other Investing Cash Flow | 0 | 0 | 0 | 0 | 0 |
| Investing Cashflow | (894) | (253) | (766) | (3,580) | (3,908) |
| Equity Capital Raised | 0 | 0 | 0 | 0 | 0 |
| Loans Taken / (Repaid) | (1,402) | (3,407) | (3,811) | (117) | (79) |
| Dividend paid (incl tax) | 0 | 0 | (493) | (740) | (987) |
| Other Financing Cash Flow | 0 | 0 | 0 | 0 | 0 |
| Financing Cashflow | (2,181) | (3,929) | (4,448) | (884) | (1,088) |
| Net chg in cash | (75) | 24 | 1,936 | 2,815 | (527) |
| Opening cash position | 245 | 201 | 198 | 2,113 | 4,928 |
| Closing cash position | 170 | 224 | 2,134 | 4,928 | 4,401 |

Source: Company, Emkay Research

Key Ratios

| Profitability (%) | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------|-------------|-------------|-------------|--------------|--------------|
| EBITDA Margin | 25.9 | 32.3 | 24.5 | 23.0 | 23.0 |
| EBIT Margin | 18.2 | 24.8 | 18.8 | 17.5 | 17.2 |
| Effective Tax Rate | 6.9 | 4.7 | 8.9 | 10.0 | 10.0 |
| Net Margin | 12.4 | 20.8 | 16.7 | 16.0 | 15.8 |
| ROCE | 14.4 | 22.7 | 21.1 | 21.1 | 20.8 |
| ROE | 16.6 | 25.2 | 18.7 | 16.8 | 16.9 |
| RoIC | 14.9 | 23.4 | 23.2 | 31.8 | 36.9 |

| Per Share Data (Rs) | FY17 | FY18 | FY19 | FY20E | FY21E |
|----------------------------|-------------|-------------|-------------|--------------|--------------|
| EPS | 4.4 | 7.9 | 7.1 | 7.4 | 8.4 |
| CEPS | 7.2 | 10.8 | 9.6 | 10.0 | 11.5 |
| BVPS | 27.3 | 35.2 | 41.1 | 46.8 | 52.8 |
| DPS | 0.0 | 0.0 | 1.0 | 1.5 | 2.0 |

| Valuations (x) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-----------------------|-------------|-------------|-------------|--------------|--------------|
| PER | 22.1 | 12.2 | 13.5 | 13.0 | 11.5 |
| P/CEPS | 13.4 | 8.9 | 10.0 | 9.6 | 8.3 |
| P/BV | 3.5 | 2.7 | 2.3 | 2.1 | 1.8 |
| EV / Sales | 3.2 | 2.8 | 2.1 | 1.8 | 1.6 |
| EV / EBITDA | 12.1 | 8.5 | 8.6 | 7.8 | 6.9 |
| Dividend Yield (%) | 0.0 | 0.0 | 1.0 | 1.6 | 2.1 |

| Gearing Ratio (x) | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------|-------------|-------------|-------------|--------------|--------------|
| Net Debt/ Equity | 0.7 | 0.3 | (0.1) | (0.2) | (0.2) |
| Net Debt/EBIDTA | 2.0 | 0.8 | (0.4) | (1.0) | (0.8) |
| Working Cap Cycle (days) | 211.9 | 202.6 | 112.1 | 47.5 | 47.5 |

| Growth (%) | FY17 | FY18 | FY19 | FY20E | FY21E |
|-------------------|-------------|-------------|-------------|--------------|--------------|
| Revenue | (10.9) | 5.7 | 13.4 | 9.0 | 14.4 |
| EBITDA | (0.8) | 31.6 | (13.8) | 2.1 | 14.3 |
| EBIT | 22.1 | 44.0 | (14.3) | 1.6 | 12.6 |
| PAT | 36.3 | 81.1 | (9.6) | 3.9 | 13.4 |

| Quarterly (Rs mn) | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 5,179 | 3,623 | 4,164 | 5,344 | 4,609 |
| EBITDA | 1,317 | 687 | 1,219 | 1,269 | 1,121 |
| EBITDA Margin (%) | 25.4 | 19.0 | 29.3 | 23.7 | 24.3 |
| PAT | 903 | 364 | 823 | 898 | 839 |
| EPS (Rs) | 2.2 | 0.9 | 2.0 | 2.1 | 2.0 |

Source: Company, Emkay Research

| Shareholding Pattern (%) | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters | 68.9 | 68.9 | 68.9 | 68.0 | 67.9 |
| FIs | 2.2 | 1.0 | 1.2 | 1.2 | 1.1 |
| DIs | 7.3 | 8.4 | 8.7 | 8.7 | 9.2 |
| Public and Others | 21.6 | 21.7 | 21.2 | 22.1 | 21.8 |

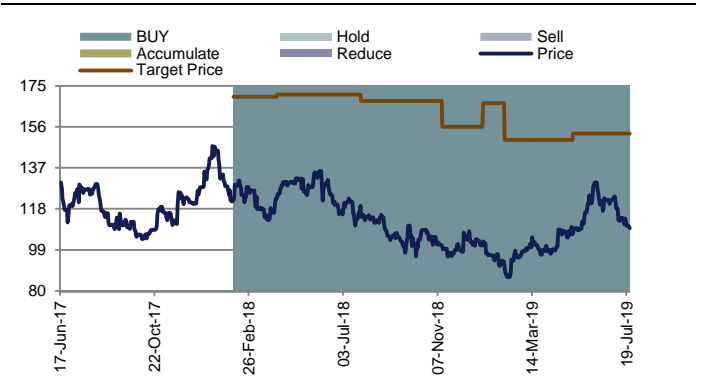
Source: Capitaline

RECOMMENDATION HISTORY TABLE

| Date | Closing Price | TP | Period (months) | Rating | Analyst |
|-----------|---------------|-----|-----------------|--------|---------------------|
| 24-Jun-19 | 122 | 153 | 12m | Buy | Sanjeev Kumar Singh |
| 08-May-19 | 107 | 153 | 12m | Buy | Sanjeev Kumar Singh |
| 05-Feb-19 | 90 | 150 | 12m | Buy | Sanjeev Kumar Singh |
| 07-Jan-19 | 103 | 167 | 12m | Buy | Sanjeev Kumar Singh |
| 13-Nov-18 | 100 | 156 | 12m | Buy | Sanjeev Kumar Singh |
| 27-Jul-18 | 114 | 168 | 12m | Buy | Sanjeev Kumar Singh |
| 18-May-18 | 128 | 171 | 12m | Buy | Sanjeev Kumar Singh |
| 05-Apr-18 | 124 | 171 | 12m | Buy | Sanjeev Kumar Singh |
| 05-Feb-18 | 122 | 170 | 12m | Buy | Sanjeev Kumar Singh |

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Note:

We have updated our Rating Distribution with effect from **March 20, 2019** – **Kindly refer the Disclaimer page**, however for our erstwhile recommendations till **March 19, 2019**, the rating distribution of the expected total return stands as (**Buy** – Over 25%, **Accumulate** – Over 10% , **Hold** – Upto 10%, **Reduce** – Below 10%, **Sell** – Underperforms the broad market indices or its related universe).

Emkay Alpha Portfolio – Cement & Building Materials



Analyst: Sanjeev Kumar Singh

Contact Details

sanjeev.singh@emkayglobal.com

+91 22 6612 1255

Sector

Cement & Building materials

Analyst bio

Sanjeev Kumar Singh holds an MBA and has over 10 years of experience in the Cement sector. His team currently covers 17 stocks in the Cement and Building Materials space.

EAP sector portfolio

| Company Name | BSE200 Weight | EAP Weight | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalised) |
|-------------------|---------------|-------------|-------------|-------------|-------------------------|
| Cement | 2.30 | 2.01 | -13% | -29 | 100.00 |
| ACC | 0.23 | 0.24 | 4% | 1 | 10.40 |
| Ambuja Cements | 0.26 | 0.00 | -100% | -26 | 0.00 |
| Grasim Industries | 0.55 | 0.44 | -20% | -11 | 19.00 |
| India Cements | 0.00 | 0.00 | NA | 0 | 0.00 |
| JK Cement | 0.00 | 0.05 | NA | 5 | 2.00 |
| JK Lakshmi Cement | 0.00 | 0.00 | NA | 0 | 0.00 |
| Orient Cement | 0.00 | 0.00 | NA | 0 | 0.00 |
| Prism Johnson | 0.00 | 0.07 | NA | 7 | 3.00 |
| Ramco Cements | 0.16 | 0.17 | 5% | 1 | 7.50 |
| Sanghi Industries | 0.00 | 0.00 | NA | 0 | 0.00 |
| Shree Cements | 0.31 | 0.30 | -3% | -1 | 13.00 |
| Star Cement | 0.00 | 0.00 | NA | 0 | 0.00 |
| Ultratech Cement | 0.79 | 0.75 | -6% | -5 | 32.50 |
| Century Plyboards | 0.00 | 0.00 | NA | 0 | 0.00 |
| HSIL | 0.00 | 0.00 | NA | 0 | 0.00 |
| Kajaria Ceramics | 0.00 | 0.00 | NA | 0 | 0.00 |
| Somany Ceramics | 0.00 | 0.00 | NA | 0 | 0.00 |
| Cash | 0.00 | 0.29 | NA | 29 | 12.60 |

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

| | Base | | | | Latest |
|---|----------|-----------|-----------|-----------|-----------|
| | 1-Apr-19 | 30-Apr-19 | 31-May-19 | 28-Jun-19 | 31-Jul-19 |
| EAP - Cement | 100.0 | 105.4 | 109.9 | 107.9 | 99.5 |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0 | 104.7 | 107.6 | 105.7 | 96.5 |

*Performance measurement base date 1st April 2019

Source: Emkay Research

Please see our India EAPs:

[Emkay Alpha Portfolio – Nifty](#)

[Emkay Alpha Portfolio – SMID](#)

Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY | Over 15% |
| HOLD | Between -5% to 15% |
| SELL | Below -5% |

Completed Date: 01 Aug 2019 23:54:17 (SGT)

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

SINGAPORE**DBS Bank Ltd**

Contact: Janice Chua
12 Marina Boulevard, Marina Bay Financial Centre Tower 3
Singapore 018982
Tel. 65-6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

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Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Nagkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
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Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel. 62 21 3003 4900
Fax: 62 21 3003 4943
e-mail: indonesiaesearch@dbs.com



Sanjeev Kumar Singh, MBA

sanjeev.singh@emkayglobal.com

+91 22 6612 1255