


Robust Volume Growth; Maintain BUY!
Est. Vs. Actual for Q1FY24: Revenue – **INLINE** ; EBITDA Margin – **MISS**; PAT – **BEAT**
Change in Estimates post Q1FY24 (Abs)
FY24E/FY25E – Revenue: -0%/1%; **EBITDA:** -4%/2%; **PAT:** 4%/3%

Recommendation Rationale

- **The company's capacity expansion plan is making good progress.** Its 2 mtpa each Grinding unit is scheduled to become operational in Q3 FY24/Q3 FY25, along with a 3 mtpa clinker unit in FY24. These developments are anticipated to significantly boost the company's volume growth in the coming years. Moreover, the utilization of its 2 mtpa Siliguri Grinding unit has demonstrated improvement, rising from approximately 60% to over 70% at present. We maintain the expectation that the company will achieve a volume growth of 15% CAGR over the period FY23-25E.
- **We expect the company to report EBITDA/tonne in the range of Rs1250 - Rs1300 in FY24** on the back of higher volumes, stable realization, lower variable costs, higher sales of premium products and other cost optimization measures. The cost optimization measures like the commissioning of the WHRS plant will enable the company to reduce its energy/fuel costs.
- **Cement demand in the Northeast and Eastern India region is expected to remain stable** due to (a) The government's push for infrastructure and housing development in the region and (b) Lower per capita cement consumption in the region compared to the average cement consumption in India.

Sector Outlook: Positive
Company Outlook & Guidance: The company expects double-digit volume growth in FY24 and EBITDA/tonne to improve from the current levels.

Current Valuation: 11 x FY25E EV/EBITDA (Earlier Valuation: 10x FY25E EV/EBITDA)

Current TP: Rs 185 /share (Earlier TP: Rs 165/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage
ACC (TP – 2,540/share), UltraTech Cement Ltd (TP – 9,520/Share), JK Lakshmi Cement (TP –710/Share), Orient Cement (TP-160/share)
Financial Performance

SCL reported revenue growth of 14% (in line with expectations) and volume growth of 18% YoY (in line with expectations). EBITDA / APAT grew 4%/38% YoY, while EBITDA was below expectations and APAT was above expectations due to tax write-back. The company reported a profit of Rs 93 Cr as against Rs 68 Cr in Q1FY23.

The company reported an EBITDA margin of 17% (expectation of 19.5%) as against 18.6% in the previous year due to higher power/fuel and RM costs impacting this. Volume for the quarter was 1.16 million tonnes per annum (mtpa), up 18% YoY. SCL's EBITDA/tonne was Rs 1,114, down 12% YoY and 17% QoQ, and the company reported blended realization/tonne of Rs 6,680 vs Rs 6,796, down 2% YoY but flat QoQ. The company's cost/tonne increased by 2% QoQ but decreased by 2% YoY to Rs 5,441 due to the higher cost of power/fuel and RM.

Outlook: Increased cement demand is expected in the east and northeast of the country, driven by increased Capex towards infrastructure and affordable housing. The company is well-positioned to serve the growing cement demand in the region with its upcoming capacity. We expect the company to grow its Volume/Revenue/EBITDA at a CAGR of 14%/23%/16% during FY23-FY25E

Valuation & Recommendation

The stock is currently trading at 12x and 10x FY24E/FY25E EV/EBITDA. We maintain our **BUY** rating on the stock with a TP of Rs185 /share, implying an upside potential of 12% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	760	-8	14	766	-0.4%
EBITDA	129	-22	4	150	-14%
EBITDA Margin	17.0%	(310bps)	(160 bps)	19.6%	(260bps)
Net Profit	93	-3	38	78	20%
EPS (Rs)	2.3	-3	38	1.9	20%

Source: Company, Axis Research

 (CMP as of 10th Aug 2023)

CMP (Rs)	165
Upside /Downside (%)	12
High/Low (Rs)	170/89/
Market cap (Cr)	6663
Avg. daily vol. (6m)Shrs.	6,38,447
No. of shares (Cr)	40.4

Shareholding (%)

	Dec-22	Mar-23	June-23
Promoter	67.03	67.12	66.8
FIIs	0.53	0.63	0.7
MFs / UTI	5.9	5.9	6.0
Banks / FIs	0	0	0.0
Others	26.54	26.35	26.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	2,705	3,088	3,525
EBITDA	468	590	711
Net Profit	248	317	332
EPS (Rs)	6.1	7.8	8.2
PER (x)	11	9	8
P/BV (x)	13.6	11.9	9.9
EV/EBITDA (x)	1.1	1.0	0.9
ROE (%)	10.8	12.3	11.5

Change in Estimates (%)

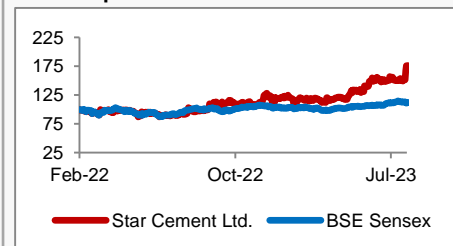
Y/E Mar	FY24E	FY25E
Sales	0%	1%
EBITDA	-4%	2%
PAT	4%	3%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA
Sector Average	46

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

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Key Concall Highlights

- **Capacity Expansion:** The company's capacity expansion plan is progressing well, and 2 mtpa of each grinding capacity will be commissioned in Q3FY24/Q3FY25 along with 3 mtpa clinker units. This will increase the company's total capacity to 9 mtpa from the existing 5.7 mtpa, providing better growth headroom to the company moving ahead.
- **Full utilization of Siliguri facilities:** The company is working to fully utilize the capacity of the Siliguri facilities by expanding sales to other areas in Bengal and Bihar. At this stage, the company is more focused on consolidating its position in the northeast region. It is also considering smaller acquisitions. For the Silchar plant, 75% of the land has been acquired and the remaining 25% is in the works and will be procured and permitting applied for in a month. The company is also setting up an AAC block in Guwahati for Rs 40 Cr.
- **Volume:** The company guided for double-digit volume growth in FY24. During the quarter, the company's geographic split was 75%/25% between Northeast and East. Cement mix sales were 91% during the quarter, with OPC accounting for the remainder. The Siliguri plant was operating at 75% capacity in Q1FY24.
- The trade and non-trade mix during the quarter stood at 88%/12%. Last year non-trade sale was 11%. Premium Cement formed 4% of the overall trade sale. The company aims to double the sale of premium cement and it aims to take premium share to 10% moving ahead. The company is working to introduce a new premium product in Q2FY24 and with this they want to focus more on East market to improve on the realization.
- **Pricing:** Cement prices are stable and likely to stay stable as demand remains robust. There has been some hike in prices in the North East region while prices have declined in the East region marginally.
- **Power/Fuel:** The company expect a reduction of 10% in power/fuel cost in Q1FY24. The fuel mix was Nagaland Coal 30%, Biomass 7%, 55% Auction coal and the balance was AFR (Alternative fuel and raw materials). On a per Kcal basis, cost stood at Rs 2.35 and the same is expected to reduce by 15% -20% moving ahead in Q2FY24 and further reduction in Q3FY24 is expected based on current prices of fuel.
- The benefit of the **WHRS** plant (12.4 MW) has started flowing in from May'23 and it will entail cost savings of Rs 30-35 Cr in overall power/fuel cost p.a. During the qtr benefit of Rs 9 cr was derived from WHRS. WHRS capacity is expected to be fully utilized moving ahead. During the qtr WHRS capacity utilization was 40% as the plant has just been commissioned. The company is also setting up a Solar power plant of 25MW at its Guwahati grinding unit for Rs 80 cr and the entire cost will get refunded through SGST benefit as per the industrial policy of the State government.
- **Freight:** Lead distance during the quarter was 207km against 211 km last year. On a tonne basis freight cost was lower by 19% at Rs 1087/tonne YoY. The company could achieve savings in Freight costs owing to better negotiation and the availability of its own fleet. The company is also working to reduce the logistic cost of the Siliguri unit by developing a model to reduce the cost of Flyash transportation. This will help in reducing the unit cost of the Siliguri plant.
- **Capex:** The company expended Rs 750 Cr to date on existing capacity expansion. In FY24, Rs 950 Cr is expected and the balance of Rs 400 Cr in FY25. Ongoing capacity expansion will cost Rs 2000 Cr. The company aims to take the debt of Rs 500 Cr to fund the current expansion and repay the same by the end of Q4FY25 OR may spill to Q1FY26. The debt will come into books by Q3FY23 and the rate is expected around 8%-8.2%
- **Cash/Incentives:** The current cash/cash equivalent stood at Rs 330 Cr as of 30th Jun'23. The company is debt free. The company is to receive incentives for setting up grinding units in Guwahati and Silchar in the form of an SGST refund of @200% over 15 years from the date plant gets operational.

Key Risks to our Estimates and TP

- Lower realization and demand in its key market.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	3,088	3,525	3093	3476	0%	1%
EBITDA	590	711	616	695	-4%	2%
PAT	317	332	305	321	4%	3%

Source: Company, Axis Securities

Result Review Q1FY24

(Rs Cr)	Quarterly Performance				
	1QFY24	4QFY23	1QFY23	% Chg QoQ	% Chg YoY
Net sales	760	825	666	-8%	14%
Expenditure	631	659	542	-4%	16%
EBITDA	129	166	124	-22%	4%
Other income	9	13	14	-31%	-38%
Interest	2	1	3	91%	-13%
Depreciation	32	35	30	-9%	5%
PBT	104	143	105	-27%	-1%
Tax	11	46.6	38	-77%	NA
Adjusted PAT	93	96	68	-3%	38%
EBITDA margin (%)	17.0%	20.1%	18.6%	(310bps)	(160bps)
EPS (Rs)	2.31	2.38	1.67	-3%	38%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	1QFY24	4QFY23	1QFY23	% Chg QoQ	% Chg YoY
Volume/mnt	1.16	1.24	0.98	-6%	18%
Realisation/tonne (Rs)	6680	6680	6,796	0%	-2%
Cost/tonne (Rs)	5441	5335	5,530	2%	-2%
Raw material/tonne (Rs)	1727	1593	1,579	8%	9%
Staff Cost/tonne (Rs)	439	385	501	14%	-12%
Power & Fuel/tonne (Rs)	1492	1335	1,325	12%	13%
Freight/tonne (Rs)	1087	1137	1,334	-4%	-19%
Other Expenses /tonne (Rs)	696	885	791	-21%	-12%
EBITDA/tonne (Rs)	1114	1346	1,267	-17%	-12%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Net sales	2705	3088	3525
Other operating income	0	0	0
Total income	2705	3088	3525
Raw Material	627	753	851
Power & Fuel	570	636	713
Freight & Forwarding	491	508	579
Employee benefit expenses	196	212	233
Other Expenses	352	388	438
EBITDA	468	590	711
Other income	52	39	42
PBIDT	520	629	753
Depreciation	131	165	214
Interest & Fin Chg.	10	16	29
E/o income / (Expense)	0	0	0
Pre-tax profit	380	448	510
Tax provision	132	131	179
RPAT	248	317	332
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
APAT after EO item	248	317	332

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Total assets	3131	4036	4297
Net Block	1428	2344	2659
CWIP	551	551	551
Investments	0	0	0
Wkg. cap. (excl cash)	197	223	253
Cash / Bank balance	312	239	114
Misc. Assets	64	68	72
Capital employed	3131	4036	4297
Equity capital	40	40	40
Reserves	2376	2685	3005
Minority Interests	0	0	0
Borrowings	26	576	476
DefTax Liabilities	0	0	0
Other Liabilities and Provision	69	73	78

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Profit before tax	380	448	510
Depreciation	129	165	214
Interest Expenses	10	16	29
Non-operating/ EO item	-39	-39	-42
Change in W/C	-2	-15	-30
Income Tax	68	131	179
Operating Cash Flow	410	444	502
Capital Expenditure	-572	-1081	-529
Investments	186	140	0
Others	114	39	42
Investing Cash Flow	-272	-902	-487
Borrowings	0	550	-100
Interest Expenses	-10	-16	-29
Dividend paid	0	-8	-12
Others	0	0	0
Financing Cash Flow	-10	526	-141
Change in Cash	128	68	-125
Opening Cash	8	136	204
Closing Cash	136	204	79

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E
Operational Ratios			
Sales growth	22%	14%	14%
OPM	17.3%	19.1%	20.2%
Op. profit growth	36%	26%	20%
COGS / Net sales	62%	61%	61%
Overheads/Net sales	20%	19%	19%
Depreciation / G. block	8%	7%	7%
Efficiency Ratios			
Total Asset Turnover (x)	0.86	0.76	0.82
Sales/Gross block (x)	1.61	1.12	1.07
Sales/Net block(x)	1.90	1.32	1.33
Working capital/Sales (x)	0.06	0.06	0.06
Valuation Ratios			
P/E	11	9	8
P/BV (x)	1.1	1.0	0.9
EV/Ebitda (x)	13.6	11.9	9.9
EV/Sales (x)	2.4	2.3	2.0
EV/Tonne \$ (x)	151	123	98
Return Ratios			
ROE	11	12	12
ROCE	16	15	15
ROIC	18	17	16
Leverage Ratios			
Debt / equity (x)	0.01	0.21	0.16
Net debt/ Equity (x)	-0.12	0.12	0.12
Interest Coverage ratio (x)	40	28	19
Cash Flow Ratios			
OCF/Sales	0.14	0.14	0.14
OCF/Ebitda	0.80	0.75	0.71
OCF/Capital Employed	0.14	0.13	0.14
FCF/Sales	-0.05	-0.35	-0.15
Payout ratio (Div/NP)	3.3	2.5	3.7
AEPS (Rs.)	6.1	7.8	8.2
AEPS Growth	0.3	28.1	4.6
CEPS (Rs.)	9	12	14
DPS (Rs.)	0.2	0.2	0.3

Source: Company, Axis Securities

Star Cement Price Chart and Recommendation History



Date	Reco	TP	Research
28-Jan-22	BUY	105	Result Update
18-May-22	BUY	105	Result Update
04-Aug-22	BUY	105	Result Update
18-Nov-22	BUY	115	Result Update
25-Nov-22	BUY	115	AAA
06-Feb-23	BUY	125	Result Update
23-May-23	BUY	145	Result Update
09-Jun-23	BUY	165	Company Update
10-Aug-23	BUY	185	Result Update

Source: Axis Securities

About the analyst

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