

**Robust Operating Performance Continues; Maintain BUY!**
**Est. Vs. Actual for Q4FY23:** Revenue – **MISS**; EBITDA Margin – **BEAT**; PAT – **BEAT**
**Change in Estimates post Q4FY23 (Abs)**
**FY24E/FY25E – Revenue:** -5/0%; **EBITDA:** 0%/0%; **PAT:** 5%/0%

**Recommendation Rationale**

- The company's **capacity expansion plan is progressing well**. Its 2 mtpa each capacity is getting operational in FY24/FY25 along with a 3 mtpa clinker unit in FY24, which would drive the company's volume growth moving ahead. We expect the company to post volume growth of 13% CAGR over FY22-25E
- The company **reported impressive EBITDA/tonne of Rs 1,345 in Q4FY23** and we expect current EBITDA/tonne to sustain on the back of higher volume, stable realization, lower variable cost, and other cost optimization measures. The cost optimization measures such as the commissioning of the WHRS plant will enable the company to reduce its power/fuel cost moving ahead.
- The **cement demand in North East and East India region is expected to remain resilient** owing to a) The government's thrust on the development of infrastructure and housing in the region and b) Lower per capita consumption of cement in the region compared to average cement consumption in India.

**Sector Outlook: Positive**
**Company Outlook & Guidance:** The company expects double-digit volume growth in FY24 and EBITDA/tonne to be sustained at the current level.

**Current Valuation:** 9x FY25E EV/EBITDA (Earlier Valuation: 9x FY24E EV/EBITDA)

**Current TP:** Rs 145/share (Earlier TP: Rs 125/share)

**Recommendation:** We **maintain** our **BUY** recommendation on the stock and roll over our estimates to FY25.

**Alternative BUY Ideas from our Sector Coverage**
**ACC (TP – 2,300/share), Dalmia Bharat (TP – 2,230/Share), Ambuja Cement (TP – 435/Share)**
**Financial Performance**

SCL reported Revenue growth of 10% (below expectations), Volume growth of 7% YoY (in line with expectations). Its EBITDA/APAT grew by 47%/9% (above our as well as consensus estimates) YoY owing to higher realization, better volume and lower cost. The company reported a profit of Rs 96 Cr against Rs 88 Cr in Q4FY22.

The company recorded an EBITDA margin of 20.1% (expectation of 18.5%) against 15.5% YoY. The quarter's volume stood at 1.24 million tonnes per annum (mntpa), up 7% YoY and 36% QoQ. SCL's EBITDA/tonne stood at Rs 1,345, up 37% YoY and 13% QoQ and it reported blended realization/tonne of Rs 6,680 against Rs 6,498, up 3% YoY. The company's cost/tonne was reduced by 3%/2% YoY/QoQ to Rs 5,335 on the back of lower power/fuel and freight costs.

**Outlook:** The East and North East market is expected to see elevated cement demand, driven by increased Capex towards infrastructure and affordable housing. The company is well-poised to capture rising cement demand in the region with its upcoming capacity. We expect the company to grow its Volume/Revenue/EBITDA at a CAGR of 13%/7%/13% over FY22-FY25E

**Valuation & Recommendation**

The stock is currently trading at 9x and 8x FY24E/FY25E EV/EBITDA. We maintain our **BUY** rating on the stock with a TP of Rs145 /share, implying an upside potential of 14% from the CMP.

**Key Financials (Consolidated)**

(Rs Cr)	Q4FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	825	33	10	867	-5%
EBITDA	166	53	47	160	4%
EBITDA Margin	20.1%	260bps	500bps	18.5%	160bps
Net Profit	96	82	9	90	90
EPS (Rs)	2.4	82	9	2.22	2.1

Source: Company, Axis Research

 (CMP as of 22<sup>ND</sup> May 2023)

CMP (Rs)	127
Upside /Downside (%)	14
High/Low (Rs)	132/81
Market cap (Cr)	5133
Avg. daily vol. (6m)Shrs.	382678
No. of shares (Cr)	40.4

**Shareholding (%)**

	Sep-22	Dec-22	Mar-23
Promoter	67.43	67.03	67.12
FIIIs	0.4	0.53	0.63
MFs / UTI	5.9	5.9	5.9
Banks / FIIs	0	0	0
Others	26.27	26.54	26.35

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	2,705	3,027	3,351
EBITDA	468	599	681
Net Profit	248	290	299
EPS (Rs)	6.1	7.2	7.4
PER (x)	11	9	9
P/BV (x)	9.1	8.1	7.1
EV/EBITDA (x)	1.1	1.0	0.9
ROE (%)	10.8	11.3	10.5

**Change in Estimates (%)**

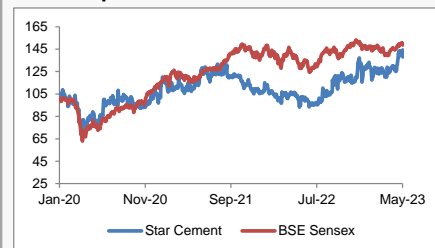
Y/E Mar	FY24E	FY25E
Sales	-5	0
EBITDA	0	0
PAT	5	0

**ESG disclosure Score\*\***

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA

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 2020 disclosures

**Relative performance**


Source: Capitaline, Axis Securities

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## Key Concall Highlights

- **Capacity Expansion:** The capacity expansion plan of the company is progressing well and 2 mtpa of each grinding capacity will get operational in Q3FY24/Q2FY25 along with 3 mtpa Clinker units in Jan'24, this will take the total capacity of the company to 9 mtpa from the existing 5.7 mtpa, providing better growth headroom to the company moving ahead.
- The company is also looking to expand outside the East region and details of the same will be revealed in Q2FY24
- **Volume:** The company guided for double-digit volume growth in FY24. During the quarter the company geographical distribution stood at 75%/25% between North East/East. During the quarter the blended Cement sale was 95% and the balance was OPC. Siliguri unit operated at 55% capacity in FY23 and in Q4FY23, utilization was 73%.
- The trade and non-trade mix during the quarter stood at 87%/13%. Last year non-trade sale was 11%. Premium Cement formed 4% of the overall trade sale. The company is launching new premium cement in Q1FY23 to further increase the sale and it aims to take premium share to 10% moving ahead.
- **Pricing:** Cement prices have increased by Rs 10 in the North East region while prices have declined by Rs 10 in the East region. Management indicated that since demand momentum is robust, prices should trend higher in the remaining period of FY24.
- **Power/Fuel:** The company expect a reduction of 10% in power/fuel cost in Q1FY24. The fuel mix was Nagaland Coal 25%, Biomass 15%, 45-47% Auction coal and the balance was AFR (Alternative fuel and raw materials). On a per Kcal basis, cost stood at Rs 2.10 and the same is expected to reduce by 10% -15% moving ahead in Q1FY24 and further reduction in Q2FY24 is expected based on current prices of fuel.
- The benefit of the **WHRS** plant (12.4 MW) will start flowing in from May'24 and it will entail cost savings of Rs 30-35 Cr in overall power/fuel cost p.a.
- **Freight:** Lead distance during the quarter was 224km against 211 km last year. On a tonne basis freight cost was lower by 15% at Rs 1137/tonne YoY. The company could achieve savings in Freight costs owing to better negotiation and the availability of its own fleet.
- **Capex:** The company expended Rs 572 Cr on capex in FY23, Rs1,300 Cr is expected in FY24 and the balance is Rs 400 Cr in FY25. Ongoing capacity expansion will cost Rs 2100 Cr. The company aims to take the debt of Rs 500 Cr to fund the current expansion.
- **Cash:** The current cash/cash equivalent stood at Rs530 Cr as of 31<sup>ST</sup> March 2023. The company is debt free.
- **OCF:** In FY23, the company generated OCF of Rs 375 Cr against Rs 417 Cr the previous year down by 10% owing to higher working capital requirements and tax. OCF/EBITDA conversion stood at 80% vs 120% in FY23.

## 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	2,705	0	2754	0	-5%	0
EBITDA	468	0	458	0	0%	0
PAT	248	0	240	0	5%	0

Source: Company, Axis Securities

## Result Review Q4FY23

(Rs Cr)	Quarterly Performance				
	4QFY23	3QFY23	4QFY22	% Chg QoQ	% Chg YoY
Net sales	825	620	749	33%	10%
Expenditure	659	511	636	29%	4%
EBITDA	166	108	113	53%	47%
Other income	13	12	9	9%	39%
Interest	1	3	2	-64%	-50%
Depreciation	35	34	35	3%	0%
PBT	143	83	85	72%	68%
Tax	47	29.9	(3)	56%	NA
Adjusted PAT	96	53	88	82%	9%
EBITDA margin (%)	20.1%	17.5%	15.1%	260bps	500bps
EPS (Rs)	2.38	1.31	2.19	82%	9%

Source: Company, Axis Securities

## Volume/ Realization / Cost Analyses

	Quarterly Performance				
	4QFY23	3QFY23	4QFY22	% Chg QoQ	% Chg YoY
Volume/mnt	1.24	0.91	1.15	36%	7%
Realisation/tonne (Rs)	6680	6823	6,498	-2%	3%
Cost/tonne (Rs)	5335	5629	5,515	-5%	-3%
Raw material/tonne (Rs)	1593	1201	1,854	33%	-14%
Staff Cost/tonne (Rs)	385	536	356	-28%	8%
Power & Fuel/tonne (Rs)	1335	1765	1,153	-24%	16%
Freight/tonne (Rs)	1137	1255	1,343	-9%	-15%
Other Expenses /tonne (Rs)	885	873	809	1%	9%
EBITDA/tonne (Rs)	<b>1346</b>	<b>1194</b>	<b>983</b>	13%	37%

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
<b>Net sales</b>	2705	3027	3351
Other operating income	0	0	0
<b>Total income</b>	2705	3027	3351
Raw Material	627	711	782
Power & Fuel	570	603	664
Freight & Forwarding	491	514	565
Employee benefit expenses	196	213	230
Other Expenses	352	386	429
<b>EBITDA</b>	<b>468</b>	<b>599</b>	<b>681</b>
Other income	52	42	40
PBIDT	520	641	721
Depreciation	131	170	227
Interest & Fin Chg.	10	24	33
E/o income / (Expense)	0	0	0
Pre-tax profit	380	446	461
Tax provision	132	156	161
<b>RPAT</b>	<b>248</b>	<b>290</b>	<b>299</b>
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
<b>APAT after EO item</b>	<b>248</b>	<b>290</b>	<b>299</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
<b>Total assets</b>	3131	3998	4216
Net Block	1428	2317	2592
CWIP	551	551	551
Investments	0	0	0
Wkg. cap. (excl cash)	197	217	239
Cash / Bank balance	312	245	135
Misc. Assets	64	67	70
<b>Capital employed</b>	3131	3998	4216
Equity capital	40	40	40
Reserves	2376	2658	2945
Minority Interests	0	0	0
Borrowings	26	576	476
DefTax Liabilities	0	0	0
Other Liabilities and Provision	69	72	75

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
<b>Profit before tax</b>	380	446	461
Depreciation	129	170	227
Interest Expenses	10	24	33
Non-operating/ EO item	-39	-42	-40
Change in W/C	-2	-9	-23
Income Tax	68	156	161
<b>Operating Cash Flow</b>	410	434	497
Capital Expenditure	-572	-1059	-503
Investments	186	140	0
Others	114	42	40
<b>Investing Cash Flow</b>	-272	-878	-462
Borrowings	0	550	-100
Interest Expenses	-10	-24	-33
Dividend paid	0	-8	-12
Others	0	0	0
<b>Financing Cash Flow</b>	-10	518	-145
Change in Cash	128	74	-111
Opening Cash	8	136	210
Closing Cash	136	210	100

Source: Company, Axis Securities

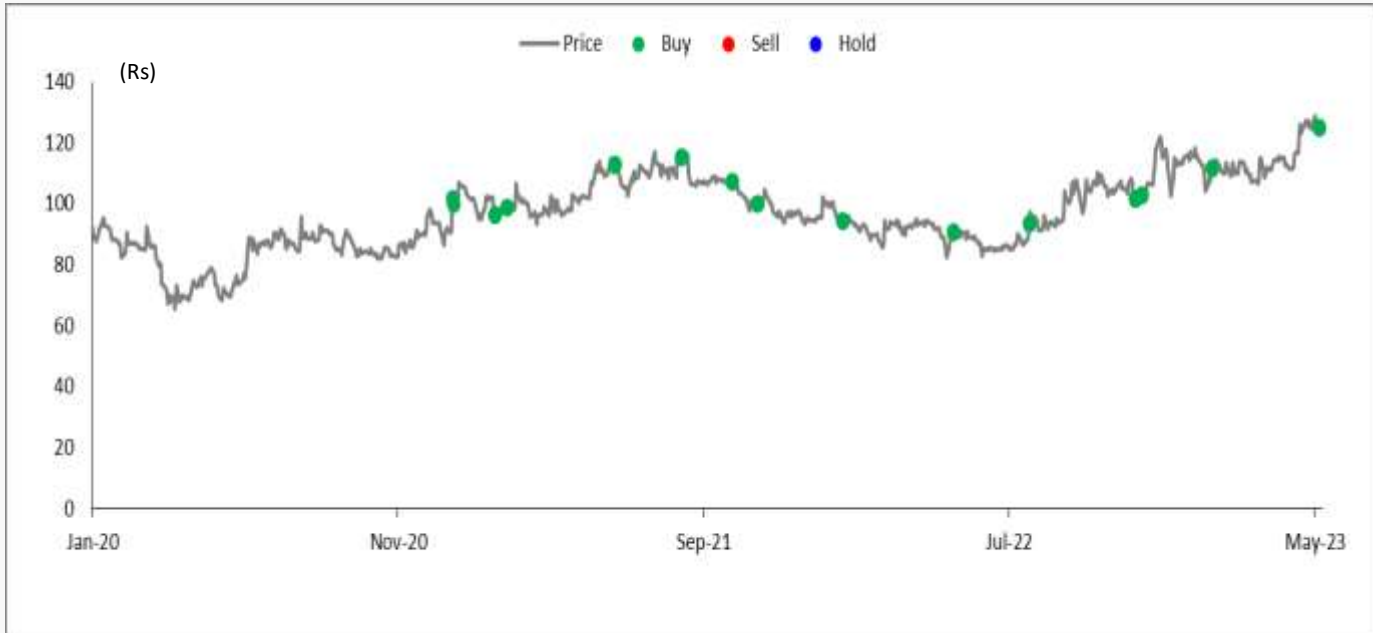
**Ratio Analysis**

(%)

Y/E March	FY23	FY24E	FY25E
<b>Operational Ratios</b>			
Sales growth	22%	12%	11%
OPM	17.3%	19.8%	20.3%
Op. profit growth	36%	28%	14%
COGS / Net sales	62%	60%	60%
Overheads/Net sales	20%	20%	20%
Depreciation / G. block	8%	7%	7%
<b>Efficiency Ratios</b>			
Total Asset Turnover (x)	0.86	0.76	0.79
Sales/Gross block (x)	1.61	1.10	1.03
Sales/Net block(x)	1.90	1.31	1.29
Working capital/Sales (x)	0.06	0.05	0.06
<b>Valuation Ratios</b>			
P/E	11	9	9
P/BV (x)	1.1	1.0	0.9
EV/Ebitda (x)	10.3	9.1	8.0
EV/Sales (x)	1.8	1.8	1.6
EV/Tonne \$ (x)	115	96	76
<b>Return Ratios</b>			
ROE	11	11	11
ROCE	16	16	14
ROIC	18	17	15
<b>Leverage Ratios</b>			
Debt / equity (x)	0.01	0.21	0.16
Net debt/ Equity (x)	-0.12	0.12	0.11
Interest Coverage ratio (x)	40	19	15
<b>Cash Flow Ratios</b>			
OCF/Sales	0.14	0.14	0.15
OCF/Ebitda	0.80	0.72	0.73
OCF/Capital Employed	0.14	0.13	0.14
FCF/Sales	-0.05	-0.35	-0.15
Payout ratio (Div/NP)	3.3	2.8	4.0
AEPS (Rs.)	6.1	7.2	7.4
AEPS Growth	0.3	17.2	3.2
CEPS (Rs.)	9	11	13
DPS (Rs.)	0.2	0.2	0.3

Source: Company, Axis Securities

## Star Cement Price Chart and Recommendation History



Date	Reco	TP	Research
30-Dec-20	BUY	115	Initiating Coverage
31-Dec-20	BUY	115	New Year Pick - 2021
10-Feb-21	BUY	110	Result Update
22-Feb-21	BUY	110	Pick of the week
11-Jun-21	BUY	125	Result Update
18-Aug-21	BUY	130	Result Update
08-Oct-21	BUY	120	AAA
02-Nov-21	BUY	115	Result Update
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

Source: Axis Securities

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Ratings	Expected absolute returns over 12-18 months
<b>BUY</b>	More than 10%
<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
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