



EBITDA Miss; New Expansion to Fuel Growth!

- In Q1FY22, Star Cement Ltd. reported volume/revenue growth of 70%/75% respectively on account of higher demand, better realization, and lower base on a YoY basis. However, it reported lower-than-expected EBITDA margins owing to one of the costs related to plant shutdown and higher other expenditures. The company recorded an EBITDA Margin of 18.1% as against 22.4% YoY and it was below our expectations. The volume for the quarter stood at 0.76 mntpa, up70% on a YoY basis.
- Blended EBITDA per tonne of Rs 1,281 (Rs 1,461/tonne, Q1FY21) was on the lower side owing to higher costs. Blended realization/tonne came at Rs 6,716 against Rs 6,532, up 2.8% on YoY. Cost/tonne was higher on YoY by 8% but was flat on a QoQ basis.
- We expect the company to register Revenue/Ebitda/APAT CAGR of 13%/12%/13% over FY20-FY23E driven by volume CAGR of 11% and consistent realization improvement of 1% each over FY21-23E. We value the company at 8x FY23E EV/EBITDA with a target price of Rs130/ share (125/share earlier), implying an upside of 12% from CMP.

Concall Highlights

Capacity Expansion

- The company commissioned its 2 mntpa grinding unit in Siliguri in Jan'21 which is ramping up well and its capacity utilization was 35% in Q1FY22. The company indicated that the capacity utilization will ramp up further in the coming quarters. Furthermore, it is setting up 3 mntpa Clinkerization units and a 15 MW WHRS plant in Meghalaya. It is awaiting approvals for the environmental clearance for setting up the unit which is expected to get operational in 24 months post receiving clearance.

Share Buyback

- The company announced share buyback equivalent to 2% of the paid-up share capital of the company of face value of Rs 1 (82,48,580 share) at a price of Rs150/share through a tender offer for an aggregate consideration not exceeding Rs124 Cr. We estimate EPS to increase by 2% as a result of the share buyback.

Volume and Pricing

- Earlier, owing to the logistical issue, volumes were impacted but that has been resolved now and there stands no-load restriction. The grinding unit in Siliguri is expected to contribute to volume growth in FY22 with better utilization is expected going forward. The North-East region is expected to grow at 8% during the year and the demand in the region continues to be robust. The company expects the East market to grow at 6% during FY22 in the areas where the company is operational (mainly North Bengal and East Bihar).
- Due to COVID 2.0 induced lockdown, volumes in May'21 were impacted. While Apr'21 was smooth in terms of cement demand.
- Pricing in North-East corrected by Rs 10-15 per bag while in the East they have corrected by Rs 25 per bag from the high price seen in May'21. The management indicated that from Sep'21 onwards, prices are expected to rise as the monsoon gets over.

Outlook & Valuation

We believe its operating region (East & North East) would witness significant demand for cement consumption going forward and with the addition of new capacity (2 mntpa) in the East, the company is well-positioned to take advantage of rising cement demand in the region. The stock is currently trading at 10x FY22E and 7x FY23E EV/EBITDA. We retain our BUY rating on the stock and value the company at 8x of its FY23E EV/EBITDA to arrive at a target price of Rs 130/share, implying an upside of 12% from CMP.

Key Financials (Consolidated)

(Rs Cr)	FY21	FY22E	FY23E
Net Sales	1720	2118	2649
EBITDA	333	421	556
Net Profit	187	294	402
EPS (Rs)	5	7	10
PER (x)	15	9	7
EV/EBITDA (x)	11.7	10.0	7.2
P/BV (x)	1.35	1.24	1.06
ROE (%)	9.4	13.8	16.8

Source: Company, Axis Research

CMP as of Aug 17, 2021	
CMP (Rs)	116
Upside /Downside (%)	12%
High/Low (Rs)	120/80
Market cap (Cr)	4810
Avg. daily vol. (6m) Shrs.	748399
No. of shares (Cr)	41.2

Shareholding (%)

	Dec-20	Mar-21	June-21
Promoter	67.11	67.11	66.21
FIIs	0.09	0.07	0.11
MFs / UTI	7.27	7.27	7.28
Banks / FIIs	0.0	0	0
Others	25.53	25.55	26.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY21	FY22E	FY23E
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Change in Estimates

	FY22E	FY23E
Revenue	-6	-1
EBITDA	-6	2
Net profit	-2	8

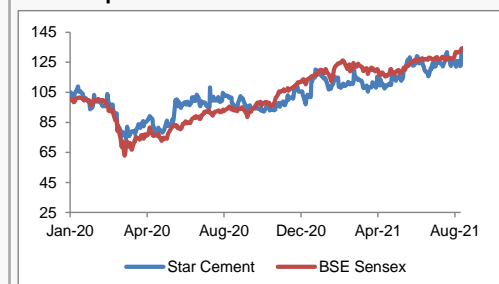
ESG disclosure Score**

Environmental Disclosure Score	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A

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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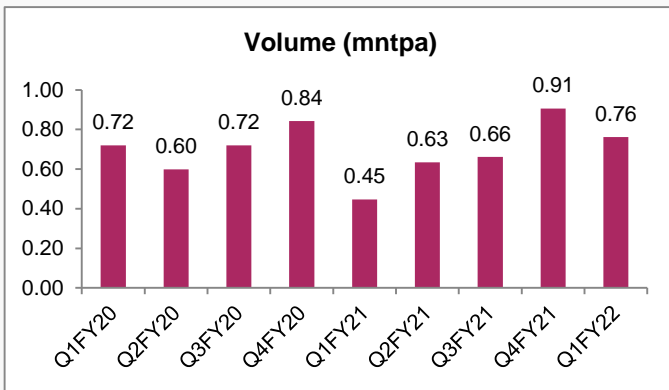
email: shikha.doshi@axissecurities.in

Management Concall Highlights (Cond...)

- **Freight:** Lead distance during the quarter was 325 km.
- **Capex:** The company is to spend Rs1300Cr over the next three years in building a 3 mntpa Clinkerization plant and grinding unit, and Rs125 Cr for a 13 MW WHRS plant. Total Capex planned for FY22 stands at Rs275Cr.
- **Trade Mix:** During the quarter, trade and nontrade mix stand at 87:13. The blended ratio was 92% PPC, 8% OPC during the quarter. The company is making efforts to increase the sale of premium cement.
- **Power/Fuel:** During the quarter, the company did not import any coal and is using the coal sourced from Coal India Limited. The landed cost of the coal was between Rs7500-8000/tonne. The company is procuring all its coal requirements through the e-auction route. The company expects coal prices to rise going forward. The company is putting up WHRS (13 MW) plant expected to get operational in Q2-Q3 in FY23. This will substitute 45% of the total current power requirement and will help in savings of Rs150/ tonne in power and fuel cost going forward.
- **Other Expenses:** Other expenses were higher during the quarter due to political donations made owing to elections in Assam and West Bengal its main operating region. It was also higher due to the plant shutdown taken by the company in its main unit. The total cost incurred along with maintenance cost was Rs 15.4 Cr. The plant was shut down for 25 days.
- **Cash Position:** Total Cash/Cash equivalent stands at Rs 670 Cr as of Jun'21.

Story in Charts

Exhibit 1: Volume Trend



Source: Company, Axis Securities

Exhibit 2: Realization Trend

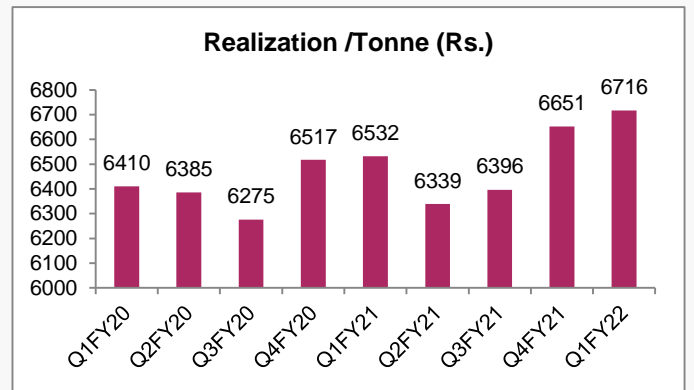
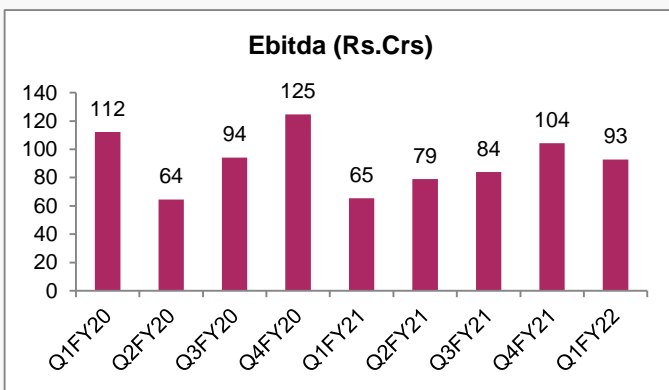


Exhibit 3:Ebitda Trend



Source: Company, Axis Securities

Exhibit 4: Trend in EbitdaTonne

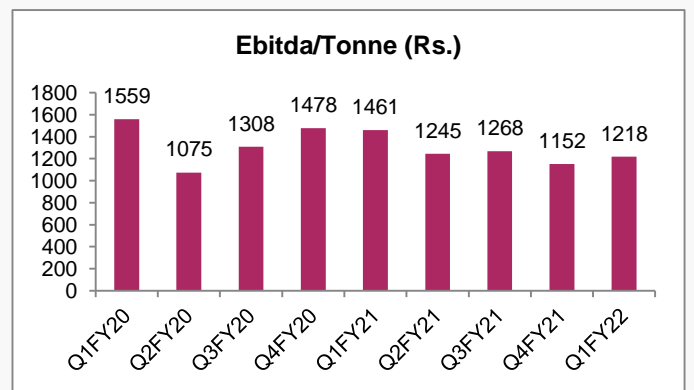
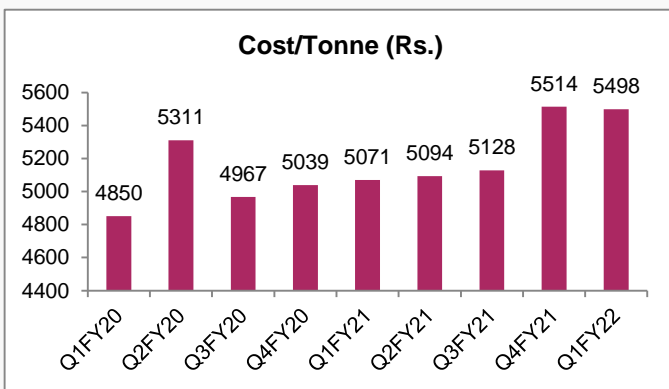


Exhibit 5:Trend in Cost / Tonne



Source: Company, Axis Securities

Exhibit 6: CAGR (FY20-23)

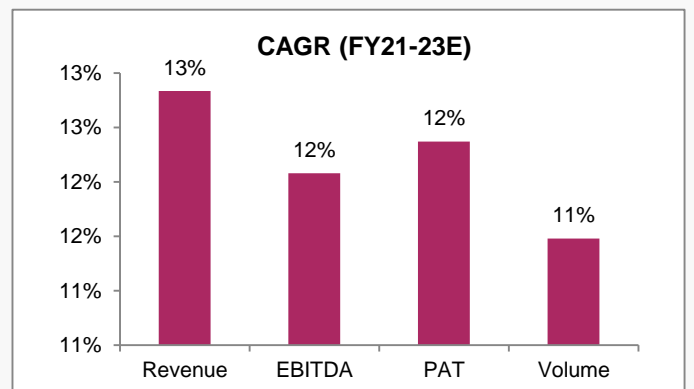
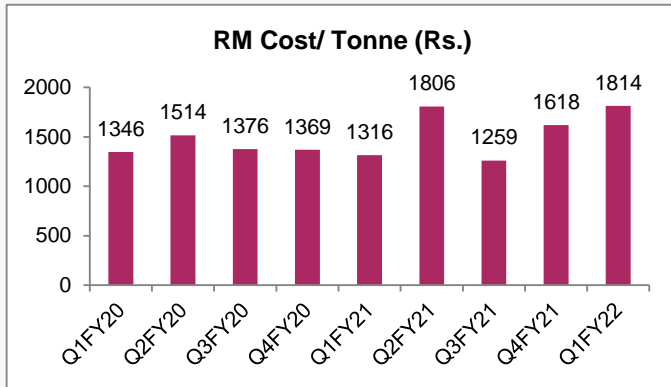
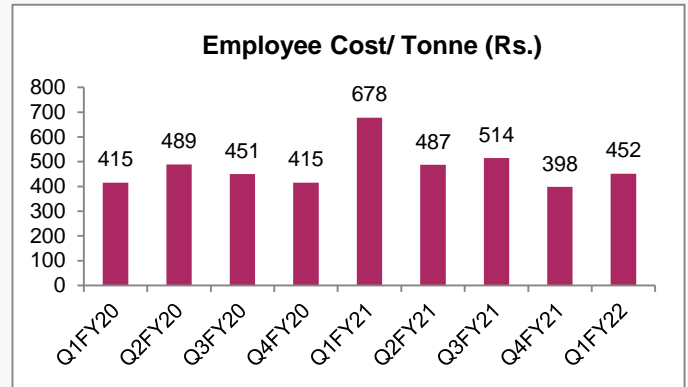
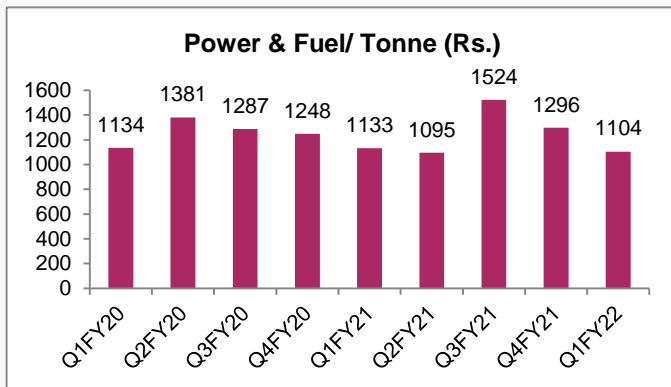
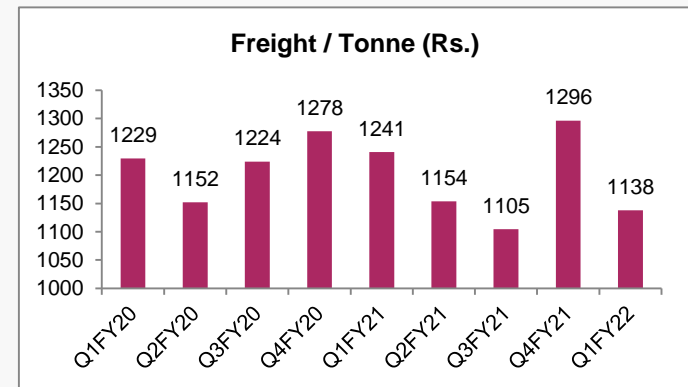
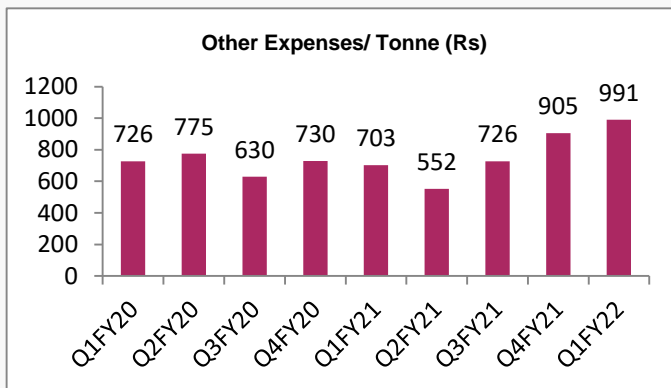


Exhibit 7: Trend in RM Cost


Source: Company, Axis Securities, Source: Company, Axis Securities

Exhibit 8: Staff Cost

Exhibit 9: Power & Fuel Cost


Source: Company, Axis Securities, Source: Company, Axis Securities

Exhibit 10: Freight Cost

Exhibit 11: Other Expenses


Source: Company, Axis Securities,

Q1FY22 Result Comparative
(Rs Cr)

(Rs Cr)	1QFY22	4QFY21	% Chg QoQ	1QFY21	% Chg YoY
Net sales	511	603	-15%	292	75%
Expenditure	418	498	-16%	227	85%
EBITDA	93	104	-11%	65	42%
Other income	8	8	2%	6	44%
Interest	2	2	13%	2	11%
Depreciation	26	28	-8%	20	25%
PBT	74	83	-11%	49	50%
Exceptional Item	0	0	#DIV/0!	-	#DIV/0!
Tax	6	2	189%	5	18%
PAT	68	85	-20%	43	57%
EBITDA margin (%)	18.1%	17.3%	80bps	22.4%	-430bps
EPS (Rs)	1.65	2.07	-20%	1.05	57%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses
(Rs .Crs)

(Rs Crs)	1QFY22	4QFY21	% Chg QoQ	1QFY21	% Chg YoY
Volume/mnt	0.76	0.91	-16%	0.45	70.2%
Realisation/tonne (Rs)	6716	6651	1%	6,532	2.8%
Cost/tonne (Rs)	5498	5514	0%	5,071	8.4%
Raw material/tonne (Rs)	1814	1618	12%	1,316	37.9%
Staff Cost/tonne (Rs)	452	398	13%	678	-33.3%
Power & Fuel/tonne (Rs)	1104	1296	-15%	1,133	-2.6%
Freight/tonne (Rs)	1138	1296	-12%	1,241	-8.3%
Other Expenses /tonne (Rs)	991	905	9%	703	41.0%
EBITDA/tonne (Rs)	1218	1152	6%	1,461	-16.6%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY21	FY22E	FY23E
Net sales	1720	2118	2649
Other operating income	0	0	0
Total income	1720	2118	2649
Raw Material	403	546	677
Power & Fuel	338	359	452
Freight & Forwarding	318	370	462
Employee benefit expenses	131	139	147
Other Expenses	196	283	354
EBITDA	333	421	556
Other income	28	33	40
PBIDT	361	454	596
Depreciation	90	105	111
Interest & Fin Chg.	7	7	7
E/o income / (Expense)	65	0	0
Pre-tax profit	199	342	478
Tax provision	12	49	77
RPAT	187	294	402
Minority Interests	0.0	3.5	3.5
Associates	0	0	0
APAT after EO item	187	297	405

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY21	FY22E	FY23E
Total assets	2562	2732	3142
Net Block	947	1033	1133
CWIP	127	55	55
Investments	0	0	0
Wkg. cap. (excl cash)	268	327	408
Cash / Bank balance	490	495	694
Misc. Assets	73	82	85
Capital employed	2562	2732	3142
Equity capital	41	40	40
Reserves	2033	2183	2564
Minority Interests	0	0	0
Borrowings	15	15	15
Def tax Liabilities	0	0	0
Other Liabilities and Provision	47	49	52

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY21	FY22E	FY23E
Profit before tax	199	342	478
Depriciation	88	105	111
Interest Expenses	7	7	7
Non-operating/ EO item	-21	-33	-40
Change in W/C	110	-59	-82
Income Tax	30	49	77
Operating Cash Flow	352	314	398
Capital Expenditure	-107	-191	-212
Investments	-191	0	0
Others	-35	33	40
Investing Cash Flow	-333	-158	-172
Borrowings	3	0	0
Interest Expenses	-7	-7	-7
Dividend paid	0	-21	-21
Others	0	-124	0
Financing Cash Flow	-3	-151	-27
Change in Cash	16	5	199
Opening Cash	241	257	262
Closing Cash	257	262	461

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY21	FY22E	FY23E
Operational Ratios			
Sales growth	-7%	23%	25%
OPM	19.3%	19.9%	21.0%
Op. profit growth	-16%	27%	32%
COGS / Net sales	62%	60%	60%
Overheads/Net sales	19%	20%	19%
Depreciation / G. block	7%	6%	6%
Efficiency Ratios			
Total Asset turnover (x)	0.67	0.78	0.84
Sales/Gross block (x)	1.25	1.29	1.43
Sales/Net block(x)	1.82	2.05	2.34
Working capital/Sales (x)	0.23	0.21	0.20
Valuation Ratios			
P/BV (x)	1.35	1.24	1.06
EV/Ebitda (x)	11.71	9.99	7.21
EV/Sales (x)	2.27	1.99	1.51
EV/Tonne \$ (x)	92	100	95
Return Ratios			
ROE	9	14	17
ROCE	13	15	19
ROIC	16	19	26
Leverage Ratios			
Debt / equity (x)	0.01	0.01	0.01
Net debt/ Equity (x)	-0.23	-0.22	-0.26
Interest Coverage ratio (x)	39	52	73
Cash Flow Ratios			
OCF/Sales	0.20	0.15	0.15
OCF/Ebitda	1.06	0.74	0.72
OCF/Capital Employed	0.16	0.13	0.14
FCF/Sales	0.14	0.06	0.07
Payout ratio (Div/NP)			
AEPS (Rs)	4.5	7.4	10.0
AEPS Growth	-34.5	62.0	36.4
CEPS (Rs)	7	10	13
DPS (Rs)	0	1	1

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

Source: Axis Securities

About the analyst

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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