Axis Annual Analysis 2021

AAA

Star Cement Limited

AXIS SECURITIES

A Challenging Year; Capacity Addition To Drive Future Growth

Summary

- Star Cement continued its strategy of focusing on the North-East market, increasing the region's contribution to the total sales to 79% in FY21 from 75% in FY20. The company sold 2.10 million tonnes per annum (mtpa) of cement against 2.16 mtpa, a decline of 8% YoY, primarily owing to lockdown restrictions and logistic issues during the year. On a positive note, the company achieved a higher blended realization of Rs 6,493/tonne against Rs 6,400/tonne in FY 20.
- The company commercialized its new clinker grinding unit of 2 mtpa in Jan'21 to meet the growing cement demand in West Bengal and Bihar. Notably, the entire project was funded through internal accruals.
- The company undertook several initiatives during the year to enhance its customer service and brand building. Apart from NER (North-East region), where it has a strong market presence with a 23% market share, it expanded in the markets of West Bengal and Bihar by accessing deeper pockets of these regions through well-planned marketing initiatives.

Key Highlights

- **Subdued performance**: The company reported consolidated revenue of Rs 1,720 Cr in FY21, registering a de-growth of 7% YoY. This was primarily on account of lockdown restrictions, transporters strike, and adverse events such as bridge collapsing en-route to its factory. The company posted profits of Rs 187 Cr, lower 34% YoY, owing to excise duty reversal (65 Cr) of earlier years. PAT Margin stood at 11%.
- **Blend of sourcing reduced power costs:** The company continued to source its power requirement for its Lumshnong unit from its wholly-owned subsidiary M/s. Meghalaya Power Limited at competitive rates. Furthermore, it continued to source the power requirement of its Grinding Unit at Guwahati as well as the integrated cement plant at Lumshnong from the Indian Energy Exchange. The blend of sourcing has reduced power cost as well as its dependability on high-cost state-run power companies.
- **Improved balance sheet:** In light of challenging operating and business conditions imposed by the COVID-19 disruptions, the company ensured its stability and business continuity by maintaining a robust cash position. Furthermore, it transitioned from being a leveraged company to almost debt-free. In addition to the bank balance of Rs 231 Cr, the company's Cash & Cash Equivalent stood healthy at Rs 233 Cr (as of 31st March 2021).

Key Competitive Strengths: a) Largest cement producer in NER region with 23% market share; b) Strong entry barriers for new players owing to the region demography, which supports in maintaining healthy market share; c) Access to limestone mines within 2-3 kilometres of plants location, enabling competitive logistical costs; d) Robust financial position and e) Strong dealers and distribution network in its operating regions, facilitating extensive market coverage.

Strategies Implemented: a) Set up new clinker grinding unit of 2 mtpa in Siliguri to capture rising cement demand in Eastern India (WB and Bihar); b) Strengthened brand recall by undertaking value-enhancing promotions; c) Focused on cost optimization and value creation, and d) Continued digitalization of processes using AI, IoT, SAP, and Machine learning.

Growth Drivers: a) Increasing overall cement demand in its key operating regions; b) High consumption in Eastern and North-Eastern regions; c) Augmenting railway infrastructure; d) Supportive government initiatives.

Key focus areas going ahead: a) Increasing brand recall; b) Innovating products to further consolidate customer trust and market share; c) Expanding capacity to cater to increasing demand; d) Widening geographical footprint in the North-Eastern to the Eastern regions; e) Investing in green technology for a sustainable tomorrow; f) Undertaking backward integration into captive power generation and cost optimization; g) Improving logistics and reducing costs.

Outlook & Recommendation: Leveraging its new capacity (2 mntpa) in the East, the company is well-positioned to take the advantage of significant and rising cement demand in its operating regions (East and North East). The stock is currently trading at 9x 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 120/share, implying an upside of 12% from CMP.

Key Financials (Consolidated)

(Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	1844	1720	2093	2469
EBITDA	395	333	435	527
Net Profit	286	187	309	380
EPS (Rs)	7	5	7	10
PER (x)	10	15	9	7
EV/EBITDA (x)	6	11.7	9	7
P/BV (x)	1.5	1.3	1.2	1.1
ROE (%)	15	9	14	16

Source: Company, Axis Research

(CMP as of 8th Oct ,2021)

CMP (Rs)	107
Upside /Downside (%)	12%
High/Lower (Rs)	120/75
Market cap (Cr)	4442
Avg. daily vol. (6m) Shrs.	3,12,593
No. of shares (Cr)	41.2

Shareholding (%)

	Dec-20	Mar-21	Jun-21
Promoter	67.11	67.11	66.21
FIIs	0.09	0.07	0.11
MFs / UTI	7.27	7.27	7.28
Banks / FIs	0.00	0.00	0.00
Others	25.53	25.55	26.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY21	FY22E	FY23E
Net Sales	1720	2093	2469
EBITDA	333	435	527
Net Profit	187	309	380
EPS (Rs)	5	7	10
PER (x)	15	9	7
EV/EBITDA (x)	11.7	9	7
P/BV (x)	1.3	1.2	1.1
ROE (%)	9	14	16

Change in Estimates (%)

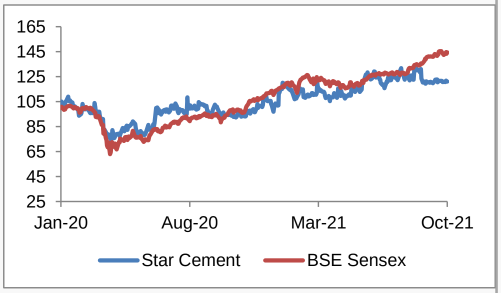
Y/E Mar	FY22E	FY23E
Sales	-6	-7
EBITDA	-3	-3
PAT	1	1

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

Uttam K Srimal
Research Analyst
Email: uttamkumar.srimal@axissecurities.in

Shikha Doshi
Research Analyst
Email: shikha.doshi@axissecurities.in

Company Overview

Star Cement Limited (Star Cement) - incorporated in 2001, is one of the prominent Indian cement companies with East India operations. The company is the largest cement manufacturers in the North-Eastern Indian region and is also an emerging player in the states of West Bengal and Bihar. The company's Lumshnong plant, spread across 200 hectares of land is strategically located in Meghalaya, ensuring easy availability of high-grade limestone at competitive rates.

Star cement and its subsidiaries have four manufacturing units in Meghalaya as well as one each in Assam and West Bengal. The company's extensive product portfolio comprises Ordinary Portland Cement (OPC), Portland Pozzolana cement (PPC), Portland Slag Cement (PSC), and anti-rust cement (arc). The company's brand - 'Star cement', is one of the most accredited brands in the region known for its premium quality and fair pricing. The company has recently set up a 2 mtpa clinker grinding unit at Siliguri, WB to cater to the rising cement demand in West Bengal and Bihar.

FY21-Performance Round-up

The company reported revenue of Rs 1,720 Cr in FY21, down 7% YoY, owing to lockdown restrictions, transporters strike in the region and unforeseen events such as bridge collapse en-route to the factory. However, the company's blended realization for the year improved by 1.4% to Rs 6,493/tonne owing to better prices in the North East region. The cement volume de-grew by 8% YoY (FY21– 2.65 mtpa vs FY20 – 2.88 mtpa), in line with the operational challenges during the year. Overall cost/tonne also increased by 4% to Rs 5,237.

The company reported an EBITDA margin of 19.3% in FY21 against 21.4% in FY20. EBITDA/tonne stood at Rs 1,256, lower by 8% from Rs 1,372/tonne in FY20, mainly on account of lower volume owing to logistical issues in the region. The company's Net profit got impacted owing to the reversal of excise duty of Rs 65 Cr of earlier years besides the lacklustre operating performance.

The company enhanced the sale of blended cement in total cement sold to 90% in FY21 from 86% in FY20, further supporting its goal of achieving and promoting environmental sustainability. Its capacity utilization in FY21 stood at 46% (on an expanded base) as new capacity (2 mtpa) got operational in Jan'21.

The company's robust cash position enabled it to maintain stability amidst the challenging scenario. Furthermore, the company also made a transition from being leveraged to almost debt-free.

Exhibit 1: Trade & Non Trade Mix in FY21

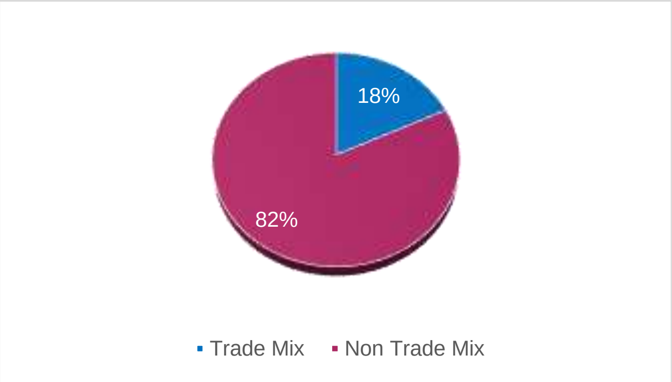
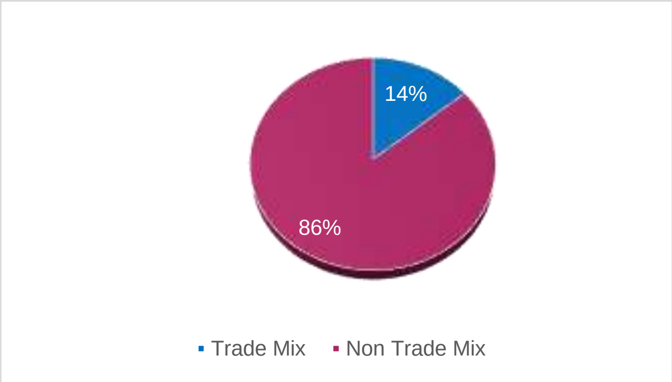


Exhibit 2: Trade & Non Trade Mix in FY20



Source: Company, Axis Securities

Key operational activities during the year

Lower EBITDA

The company's EBITDA for the year stood at Rs 333 Cr in FY21, down 16% from Rs 395 Cr in FY20 due to Covid-19 disruptions and logistics issues during the year.

Production Capacity

The company commenced commercial operation of 2 mtpa clinker grinding unit at its Siliguri unit during the year to meet the growing demand in West Bengal and Bihar. The entire project was funded through internal accruals.

Clinker Production

The company's total clinker production on a consolidated basis during the year stood at 1.91 mtpa as against 2.2 mtpa in FY20. The capacity utilization of clinker units declined to 75% in FY21 from 87% during FY20 due to Covid-19 disruptions.

NHPC Contract

The company bagged the contract for the supply of 1,50,000 MT cement to NHPC Limited in FY21and it is under execution.

Export

Capitalizing on the robust clinker demand in Eastern Nepal and Bhutan, the company exported 46,526 MT cement clinker during the entire year against 57,807 MT recorded in the previous year. Volume reduction of export was mainly due to fall in prices in aforesaid locations which were owing to new plants established in Nepal.

Marketing strategies

The company is constantly innovating out-of-the-box marketing strategies to build the highest customer recall and positive brand perception. It has hired the renowned Bollywood actor, Akshay Kumar, as its brand ambassador to meet this objective. It has also been actively expanding its reach in the markets of West Bengal and Bihar to access the deeper pockets of these regions.

A few of the company's marketing initiatives comprise:

- Advertising at prominent road crossings, surrogate boards, local television, in addition to the traditional billboard/hoarding advertisements and digital media campaigns.
- Q2FY21 witnessed the launch of an Antimicrobial campaign across the markets of North-East, North Bengal, and East Bihar. The company undertook a 360-degree advertising approach involving TV, Print, OOH, Retail, and Digital. The campaign's tagline, 'Star cement Lana Virus Ko Bhagana', used on Antimicrobial coated cement bags, immensely helped build confidence among the customers for using the brand even amidst the pandemic.

North-East Market

The North-East Market continued to be a strategically focused market for the company. Cement demand was good throughout the year and increased by 8% in NER against an all-India average of 6%.

Lower debt level

The company has maintained a lower debt with a Debt /Equity ratio of 0.007. This has significantly helped it save on interest payments and consequently enabled it to achieve better profitability. Being a lower debt company further opens avenues for expansion through cash reserves or debt.

Key Subsidiary Performance Analysis

Particulars (Rs Cr)	FY20	FY21	Change	Comment/Analysis
Revenue				
Star CementMeghalaya Ltd	610	590	-3%	Covid-19 disruptions caused lower sales volume
MeghalayaPower Ltd	122	120	-2%	Covid-19 disruptions caused lower sales volume
Net Worth				
MeghaTechnical &Engineers PvtLtd	309	301	-3%	Lower profits impacted the net worth
Star CementMeghalaya Ltd	774	823	6%	
MeghalayaPower Ltd	234	211	-10%	Lower profits impacted the net worth
PAT				
MeghaTechnical &Engineers PvtLtd	3	-10	-233%	Lower sales impacted the profitability
Star CementMeghalaya Ltd	62	38	-39%	Lower sales impacted the profitability
MeghalayaPower Ltd	4	2	-50%	Lower sales impacted the profitability

Cost Optimization Measures

In FY21 the cost/tonne increased by 4% to Rs 5,237 against Rs 5,030 in FY20.

Power & Fuel Cost: The company's overall power & fuel cost was reduced by 6% from Rs 362 Cr in FY20 to Rs 338 Cr in FY21. On a tonne basis, it was higher by 1.7% during the year. The company continued to source its power requirement for its Lumshnong unit from its wholly-owned subsidiary M/s. Meghalaya Power Limited at competitive rates, thereby reducing its dependency on state utility/grid power. It Grinding Unit at Guwahati and integrated plant at Lumshnong sourced power from the Indian energy Exchange. The blend of sourcing has not only reduced power cost but its dependability on the state utility/grid power.

The company focused on increasing the production of blended cement, resulting in higher consumption of Fly Ash (9,14,419 MT). To reduce Fly Ash cost, it started the transportation of "Conditioned Fly Ash" from plants of Vedanta, Tata Power, and Hindalco, resulting in savings on packing and transportation costs.

Freight Cost: The company's freight/tonne stood at Rs 1,200 in FY21, decline of 2% from Rs 1,226 in FY20. The company faced Covid-19 disruptions in the entire Supply Chain. Diesel prices reached historical highs. Problems were further accentuated by Land Slides and the Collapse of two major bridges in Meghalaya. The company steered through these challenges to ensure timely and adequate supplies to the market while keeping costs under control.

Raw Material Cost: Raw material cost per tonne increased by 9% YoY owing to the rising cost of input materials and logistical disruptions during the year.

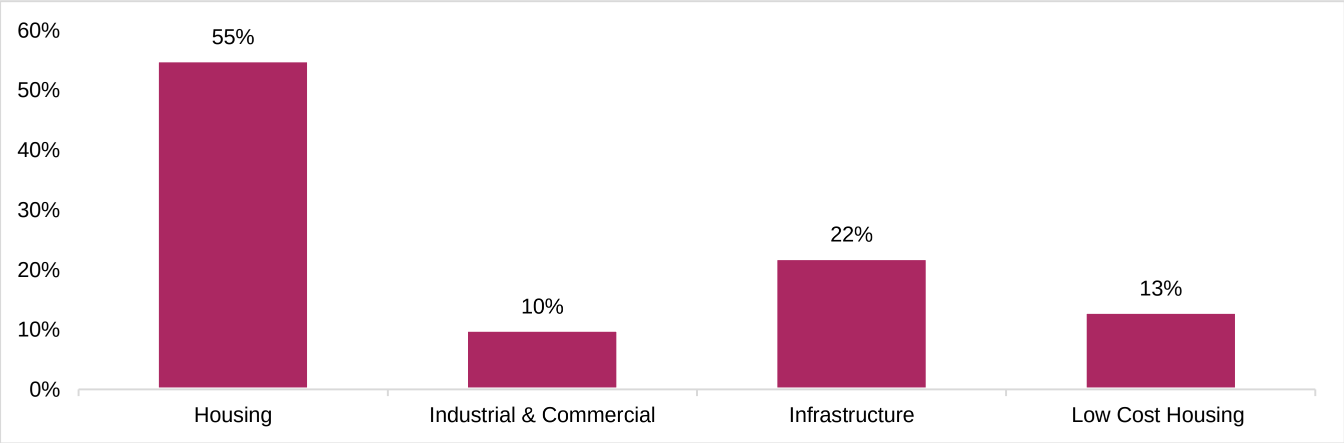
The company has been actively working towards reducing manufacturing costs at all levels of production. A few of the initiatives include:

- ✓ Optimising energy consumption and loss from the kiln.
- ✓ Minimising fine clinker surging and conducting regular maintenance.
- ✓ Installing New clinker loading system and hopper for bulk loading support.
- ✓ Upgraded pyro jet main firing burner to improve operational efficiency.
- ✓ Roto scale coal feeding system to improve operations.
- ✓ Vibrating screen in the tertiary crusher to improve raw mill grinding.
- ✓ Variable frequency drives to reduce power consumption.

Key growth drivers

- **Increasing Demand:** The company anticipates robust and sustained growth in cement demand going ahead in light of favourable attributes such as the gradually reviving economy, sectors recovering to pre-pandemic levels, and a significant push by the government to housing and infrastructure development. The rating agencies expect the overall cement production to expand in the range of 4 to 7% in FY22. India's cement industry is expected to reach 550-600 mtpa by 2025.
- **Increasing Consumption in Eastern and North-Eastern:** Cement consumption is increasing significantly in the Eastern and North-Eastern regions. The Central government has sanctioned Rs 2 Lc Cr for road projects spanning over 14,000 km in North-East India. In the North-Eastern states, the road transport and highways ministry is implementing 197 road development projects under various programs and schemes which will bode well for the cement demand.
- **Railway and Hydro Power Infrastructure:** Indian Railways has lined up several projects worth at least Rs 40,000 Cr to connect capital cities of five North-Eastern states with 20 major railway projects. Furthermore, North-Eastern Region has the largest Hydropower potential in India with 98% still untapped. 63,000 MW of hydro-power capacity is identified, out of which, 14,000 MW capacity is already allotted to private players, implying potential cement demand of ~14 mtpa. The government has also approved a fund of Rs 14,124 Cr for 464 projects in 8 smart cities in the North-East further boosting demand prospects.
- **Proactive Government Initiatives:** The government's various initiatives such as Make in India, Housing for all, development of Ports, Roads and Highways, Dama & Irrigation projects, National Highway Development Programme, Bharat Nirman Yojana, Dedicated Freight Corridors, Gauge Conversion Projects, developing alternative Hydro and Solar Power energy sources, and other infrastructure projects are expected to boost the country's cement demand significantly. Its several supportive policies such as improving ease of doing business, promoting start-ups, rationalising tax structures, administration, and augmenting foreign investment through the automatic route will also increase the cement and power demand moving ahead.

Exhibit 3: Cement consumption trend segment-wise: Housing remains the largest cement consumer



Source: Company, Axis Securities

Sales & Distribution

- **Robust dealer and distributor network:** Star cement has created a robust dealer and distributor network over the years. Its distribution network spans 10 states, with more than 2,100 dealers and 12,000 retailers. The company has introduced a mobile application for dealers for payments, orders booking, printouts of invoices, and ledgers. This initiative is helping dealers in the timely submission of GST returns.
- **Geographic Expansions:** The company's extensive network assists in increasing revenues by penetrating newer geographies, thereby, enabling it to maintain a leadership position in the industry.

Supply Chain & Logistics

- **Accessibility to Mines:** Star cement has access to limestone mines located within 2-3 kilometres of its plants, ensuring a robust raw material link, convenient accessibility, and consistent raw material supply. When compared to peers, Its strategically positioned operations facilitate cost optimisation and rationalization, enabling it to serve the Eastern and North-Eastern regions far more efficiently.
- **Logistic Initiatives:** The company continuously enhances its logistics to achieve quicker transportation at lower costs. It took the following measures during the year:
  - ✓ **Uninterrupted supply:** Through the right mix of dispatch modes, including roadways, railways, and waterways
  - ✓ **Roadways:** Reducing delivery time by using GPS networks to monitor the fleet of trucks
  - ✓ **Railways:** Commissioned a private railway siding at the Guwahati plant to increase efficiency.
  - ✓ **Waterways:** Trial runs to explore river transportation of imported coal from the Haldia port to Guwahati through the Brahmaputra River
  - ✓ **Improving Service Levels:** Various efforts were taken up to improve Service Levels such as the "Stock on Wheels" delivery system, and optimisation of WareHousing Network.
- **Appreciation**: The company received the Prestigious "CII SCALE Award" for excellence in Supply Chain Management for the 2nd time in a row.

Key strategies moving forward

- **Increasing brand recall and innovative products to consolidate market position:** Star Cement has a concrete growth plan and has undertaken several initiatives such as opening a new grinding unit in Siliguri, strengthening brand recall through value-enhancing promotions, building capacities to cater to the rising demand, expanding technical services to enhance customer service and brand building.
- **Expanding capacity to cater to increasing demand:** With cement demand increasing in India, the company is looking forward to developing Capex projects to boost cement capacities in the country's attractive and highly profitable North-Eastern and Central regions.
- **Investment in green technology for sustainability tomorrow:** The company has made progressive investments in green technology and is setting up a 12 MW WHRS plant for its upcoming clink erization plant of 3 mtpa in Meghalaya.
- **Backward Integration into captive power generation:** The company is increasingly focusing on backward integration of its captive power generation. During the year, Meghalaya Power Limited became a wholly-owned subsidiary of the company advancing the objective of backward integration.
- **Improving logistics and reducing cost:** The company in its effort to reduce overall logistic cost and introduced to 'Stock on Wheel' delivery system and optimized warehousing network. The company received the Prestigious "CII SCALE Award" for Excellence in Supply Chain Management 2nd time in a row.

Business Outlook

The Indian cement industry promises huge growth potential. While cement production is expected to reach 381 MT by FY22, cement consumption is expected to reach 379 MT by FY22.

The cement industry is likely to witness a capacity addition of 100 to 110 MT in the next five years and register a growth of CAGR of 6% to 7% over FY21-FY26 through infrastructure investments and healthy housing demand.

East India demand is expected to grow at 9% CAGR by FY26 with West Bengal and Bihar being the strongest cement consuming state in the eastern region accounting for more than 1/4th of the region's total demand of ~21 MT and 19 MT respectively.

Risks and Mitigation

The company has established an extensive and well-designed risk management framework to identify, assess and mitigate key risks which may hamper its operating continuity, growth and/or profitability. The Board of Directors has formed a Risk Management Committee to stringently oversee the company's risk assessing and mitigation process and advice the management as required.

- **Domestic Sales Risk:** The company's dependence on the domestic market and business concentration in the regional market for a longer period may adversely affect its growth prospects. A less than optimal demand growth in the region may lower the revenues of the company as well as its overall profitability.
  - ✓ **Mitigation:** The company is planning to expand its operation further to the Central region by setting up a cement plant in the region which will reduce its dependence on the North-East market.
- **Competition Risk:** With multiple large players along with many small players operating in the cement industry makes it an extremely competitive market. Furthermore, the foreign players may further intensify the competition in the domestic market where the company predominately operates. This allows limited market share in the industry.
  - ✓ **Mitigation:** The company expanded its operation in the Eastern Indian region and has planned aggressive brand promotion initiatives to further strengthen its brand presence there.
- **Transportation Risk:** Constant increase in fuel costs leads to high transportation costs. The cement industry is highly fragmented as well as highly regionalised, making transportation of low volume of cement over long distances uneconomical.
  - ✓ **Mitigation:** The company has initiated "Stock on Wheel" services and a warehouse optimization process enabling it to reduce transportation costs.
- **Higher Input Cost Risk:** The cement and power industry depends majorly upon the availability of raw materials at affordable costs. Policies of the government, as well as Central and State Laws, may adversely affect the availability of limestone, coal, etc. Any major changes in the government's Environmental and Forest regulations may also impact limestone and coal availability to cement plants.
  - ✓ **Mitigation:** The company sources raw materials from alternate sources so that raw materials' availability risks are mitigated.
- **Environmental Risk:** Environmental impact and other force majure events may affect the company's operations.
  - ✓ **Mitigation:** The company has taken various initiatives at the plant level to reduce the impact of carbonization and other related measures.

Progress on sustainability

Through its strategic business activities, they hope to create a more sustainable environment. The goal is to maximise resource efficiency, limit environmental effects, and positively impact communities.

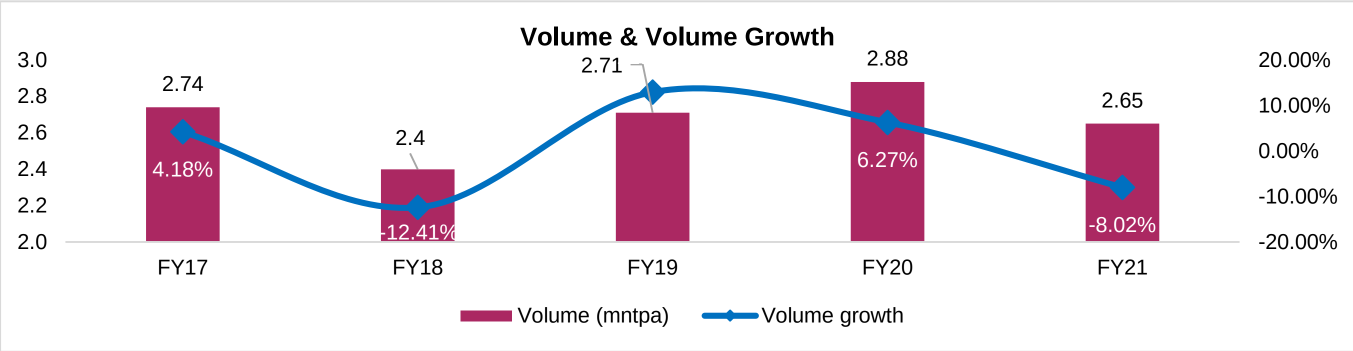
- **Reducing Carbon Footprint:** It has intensified efforts to lower its CO2 footprint. The company consciously contribute to global efforts to combat climate change by investing in innovative products and process innovation.
- **Energy Conservation:** The company recycle solid waste, old lubricants, empty fly ash bags, jute waste, and other materials to promote clean technology. Steps were taken toward conservation of energy-
  - ✓ Increased consumption of fly ash in PPC and ARCCement from 29% to 31%
  - ✓ Reducing Emissions
  - ✓ Installed all relevant pollution control equipment, such as ESP, RABH, and bag filters, following the operational unit's specifications
  - ✓ Maintained emission levels within the limit and connected online equipment with Central PollutionControl Board (CPCB) and State Pollution Control Board(SPCB) servers
  - ✓ Installed online dust and gaseous monitoring equipment in associated stacks
  - ✓ Recycled dust collected from various pollution control equipment and sent back into the process
- **Eco-Friendly Infrastructure:** The company continuously invest in assets and infrastructure that enhance performance and quality without negatively impacting the environment. Extensive steps in this regard:
  - ✓ 400W HPSV floodlight fitting replaced with 200W and 100W LEDlight fittings250W HPSV street light fitting replaced with 90W LED light fittings
  - ✓ Automated plant lighting through LED alternatives, reducing power consumption, enabling it to reduce costs
  - ✓ Reduction in plant electricity cost by installing tripping interlock for the capacitor bank in the event of a plant shutdown, resulting in a decrease in energy consumption

Profitability Analysis (Rs Cr)

Particulars	FY20	FY21	Change	Comments/Analysis
Sales	1844	1720	-7%	Revenue impacted owing to disruption caused by lockdown, transporters strike, and logistic issues in the region.
Raw Materials/Others	1117	1060	-5%	Lower owing to reduced volume and lower power/fuel and freight costs.
Gross Profits	727	660	-9%	Lower owing to reduced revenue during the year.
Operating Expenses	332	328	-1%	Lower owing to lower fixed costs during the year.
Interest	9	7	-22%	Reduced due to reduction in the interest-bearing debt
EBIT	331	271	-18%	EBIT reduced owing to lower revenue and higher r/material cost.
PAT	286	187	-35%	PAT was lower on account of lower revenue and an exceptional item of Rs 65 Cr relating excise duty reversal for earlier years.
EPS	6.93	4.54	-35%	EPS decreased in line with PAT

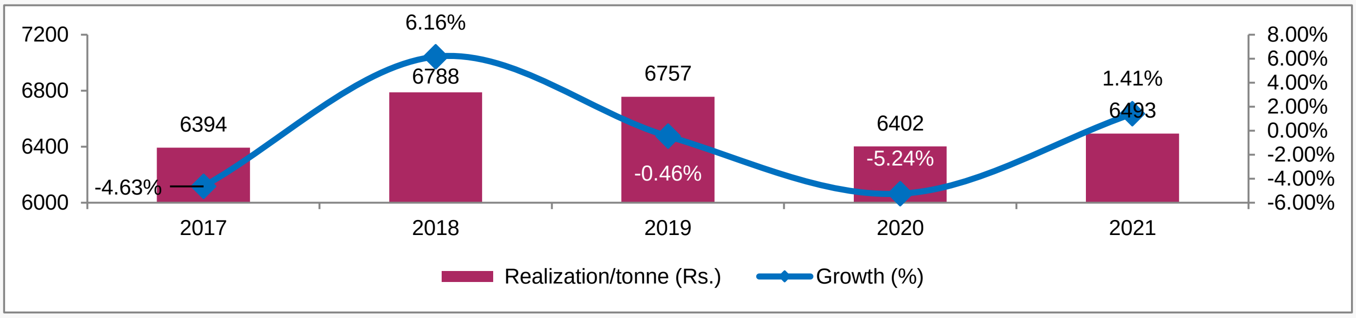
Source: Company; Axis Securities

Exhibit 4: Volume and Growth trend



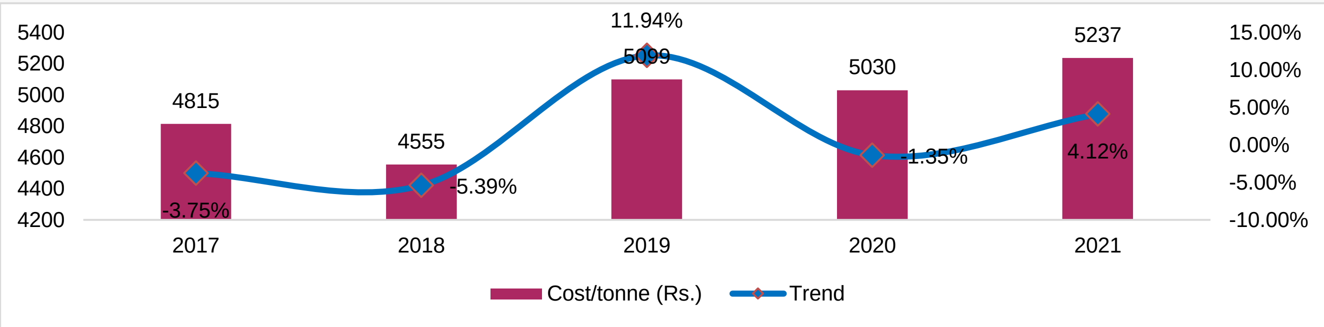
Source: Company, Axis Securities

Exhibit 5: Realization/tonne and Growth Trend



Source: Company, Axis Securities

Exhibit 6: Cost/tonne Trend



Source: Company, Axis Securities

Growth Indicators (Rs Cr)

Particulars	FY20	FY21	Change	Comments/Analysis
Revenue	1,844	1,720	-7%	Revenue impacted owing to disruption caused by lockdown, transporters strike, and logistic issues in the region.
EBITDA	395	333	-16%	EBITDA reduced owing to lower revenue and higher RM costs.
PAT	287	187	-35%	PAT was lower on account of lower revenue and an exceptional item of Rs 65 Cr on account of excise duty reversal for earlier years.
EPS	7	5	-29%	EPS decreased in line with PAT
Volume (mtpa)	2.88	2.65	-8%	Volume impacted by the business disruptions due to the pandemic and logistic issue.

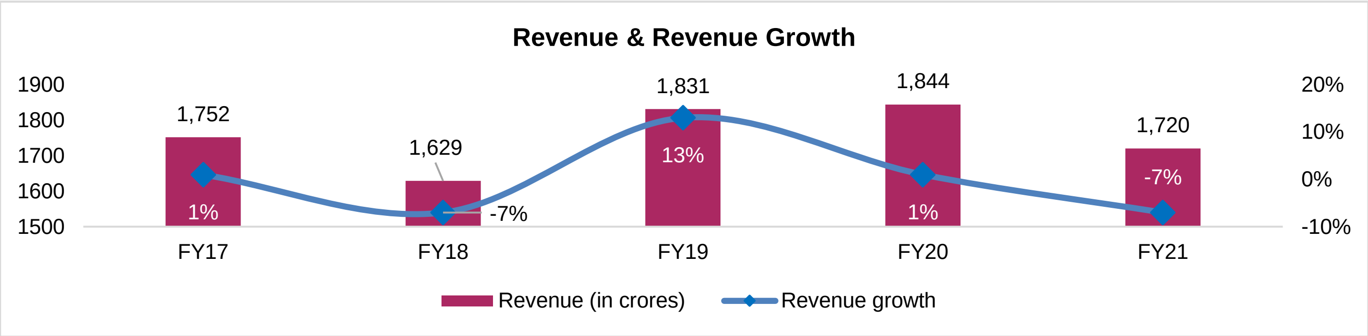
Source: Company; Axis Securities

Profitability Margins

Particulars	FY20	FY21	Change	Comments/Analysis
GPM	39.4%	38.4%	-100 bps	Impacted by low sales volume and high RM cost.
EBITDAM	21.4%	19.3%	-210 bps	EBITDA lowered by low sales volume and high RM cost
PATM	15.58%	10.88%	-470 bps	PAT was lower on account of lower revenue and exceptional item of Rs 65 Cr on account of excise duty reversal for earlier years.

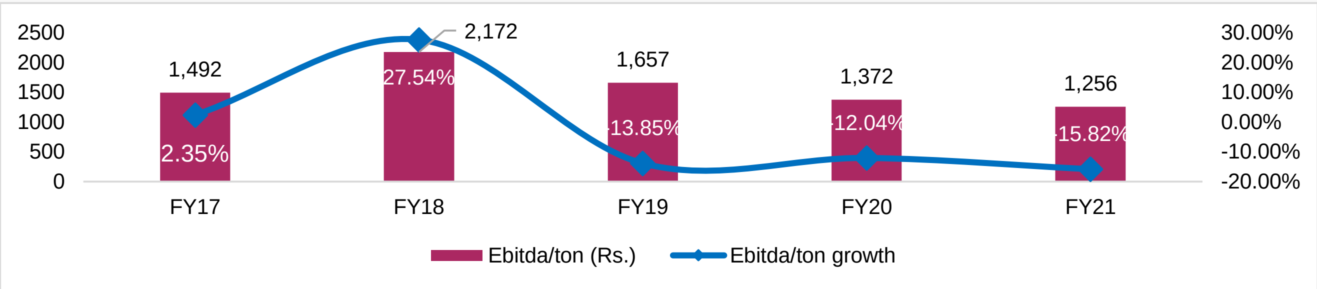
Source: Company; Axis Securities

Exhibit 7: Revenue and Revenue Growth Trend



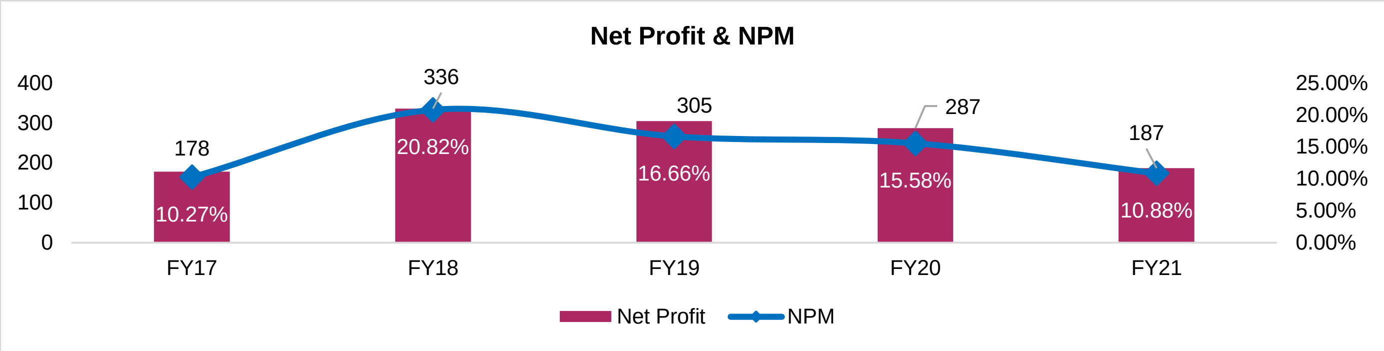
Source: Company, Axis Securities

Exhibit 8: Blended EBITDA/tonne Trend



Source: Company, Axis Securities

Exhibit 9: Net Profit and NPM Trend



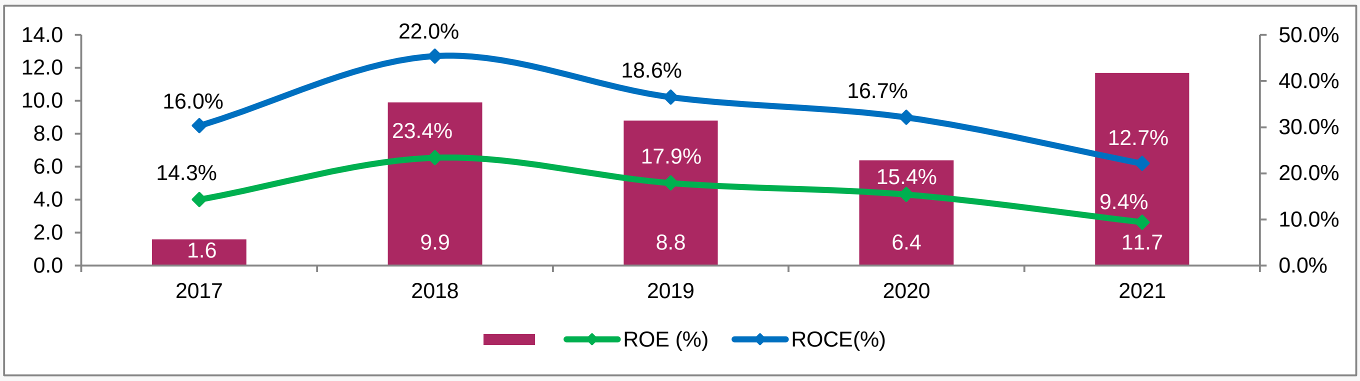
Source: Company, Axis Securities

Financial Ratios

Particulars	FY20	FY21	Change	Comments/Analysis
ROE	15.4%	9.4%	-600 bps	Lower profitability impacted the ROE. PAT was down by 35% during the year.
ROCE	16.7%	12.7%	-400 bps	Reduced EBIT impacted the ROCE. EBIT was down 20% during the year.
Asset Turn	1.6	1.2	-0.4 x	Asset Turnover was reduced due to lower sales during the year.
Net Debt/Equity	-0.1	-0.2	-0.1 x	Reduced owing to decline in debt level.
EV/EBITDA	6.4	11.7	5.3 x	Increased owing to appreciation in market capitalization during the year.

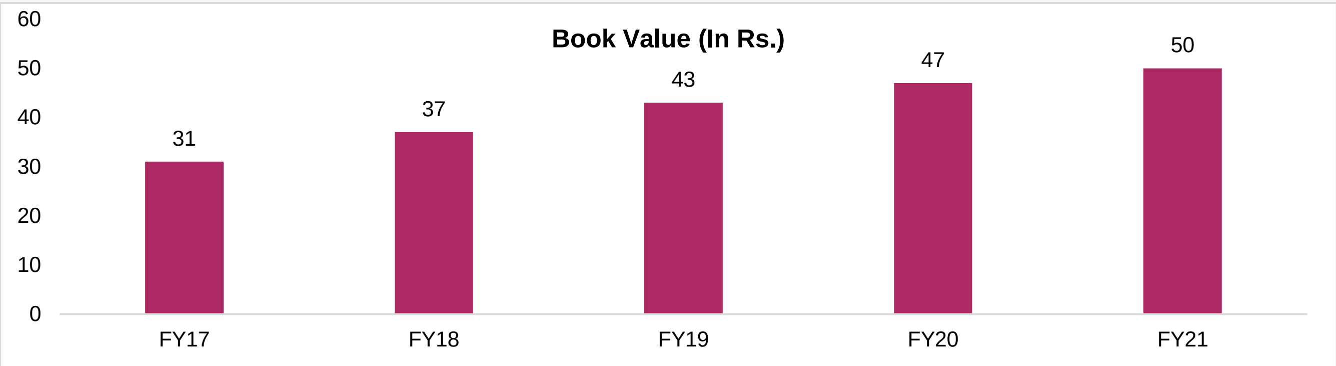
Source: Company; Axis Securities

Exhibit 10: EV/EBITDA, ROE,& ROCE Trend



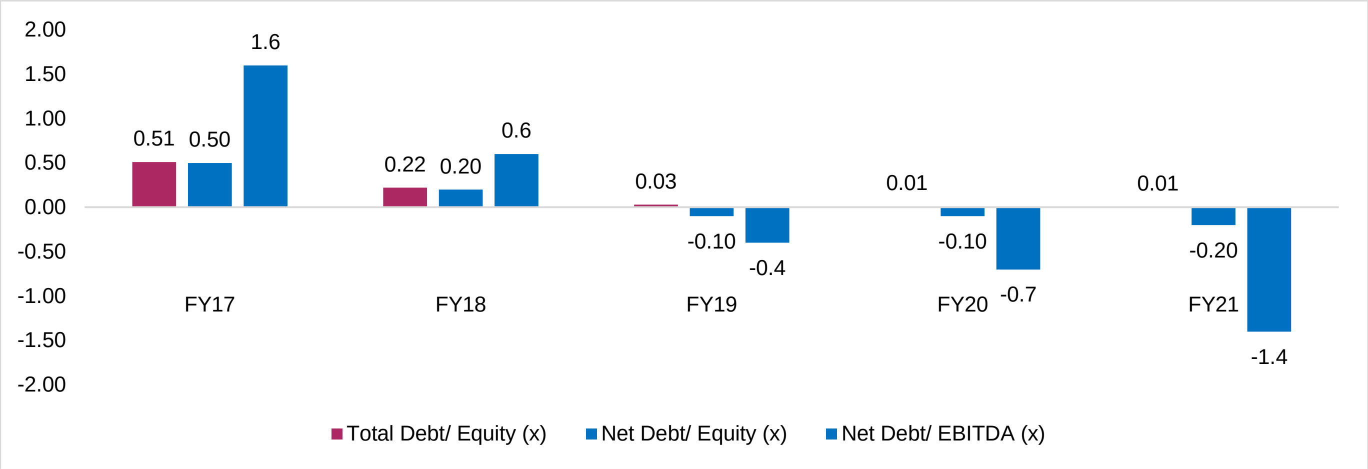
Source: Company, Axis Securities

Exhibit 11: Book Value (Rs)



Source: Company, Axis Securities

Exhibit 12: Leverage Ratio



Source: Company, Axis Securities

Key Balance Sheet Takeaways

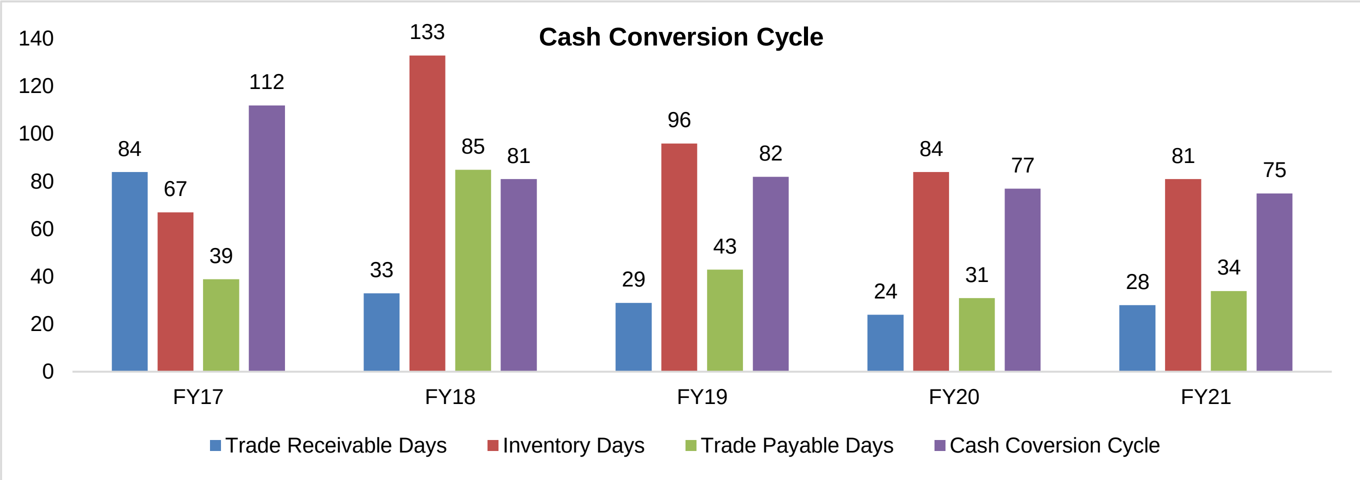
- ***Working Capital Management:*** Working capital intensity decreased in FY21 as the cash conversion cycle improved to -2 days in FY21. This was on account of lower inventory days and higher creditor days. During the year, OCF to EBITDA decreased to 106% from 122% in FY20. From FY17-FY21, the company generated a total OCF of Rs 2,172 Cr and 25% of total OCF (Rs 536 Cr) was utilized towards the company's Capex program, indicating a normal Capex intensity. While CFO remained the major source of funding for the company, it generated an encouraging FCF of Rs 1,636 Cr over FY17-FY21.
- ***Debt*:** The company overall long term debt was reduced by 75% from Rs 0.74 Cr in FY20 to 0.19 cr in FY20. Net Debt/Equity ratio was -0.2x for the year.
- ***Fixed capital formation:*** Gross Fixed Capital Formation improved to Rs1379 Cr in FY21 from Rs 1,162 Cr in FY20, an improvement of 19% as the company incurred Capex to set up a new plant in Siliguri.
- ***Capex plans:*** With increased cement demand in India, the company is looking forward to developing Capex projects. The company intends to boost cement capacities in the country's attractive and highly profitable North-Eastern and Central regions. This will help it ensure sufficient capacity to meet the expanding demand.
- ***Cash and liquidity position:*** The company's liquidity position has improved due to efficient working capital management in FY21. The cash & equivalent including bank balance stood at Rs 490 Cr in FY21 against Rs 282 Cr in FY20, an increase of 74% YoY.

Cash Conversion Cycle

Particulars	FY20	FY21	Change	Comments/Analysis
Inventory Days	84	81	-3	Decrease in days owing to better inventory management
Trade Receivables	24	28	4	Increase in days due to market conditions
Trade Payables	31	34	-3	Decrease in days due to better terms with suppliers.
Cash Conversion Cycle	77	75	-2	CCC improved owing to better WC management.

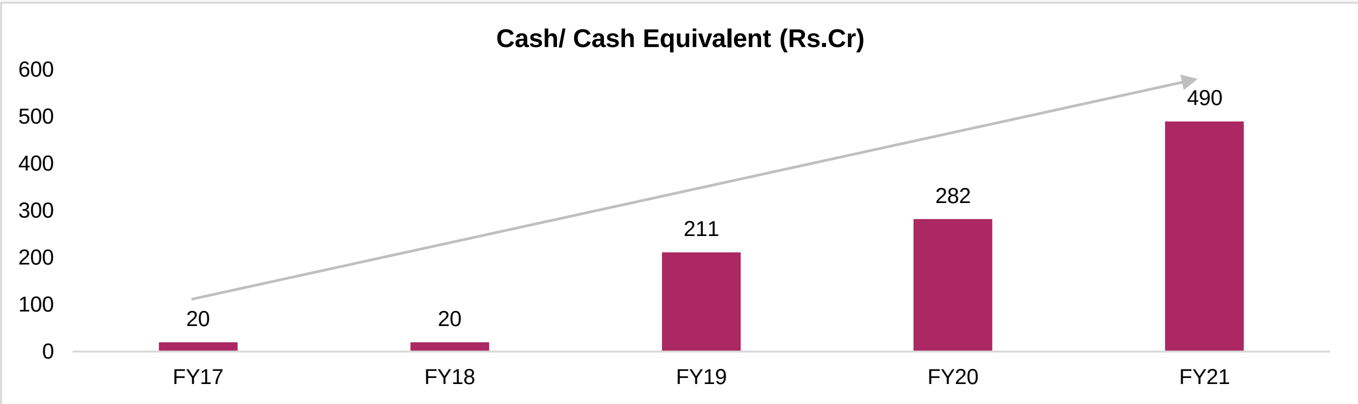
Source: Company; Axis Securities

Exhibit 13: Cash Conversion Cycle



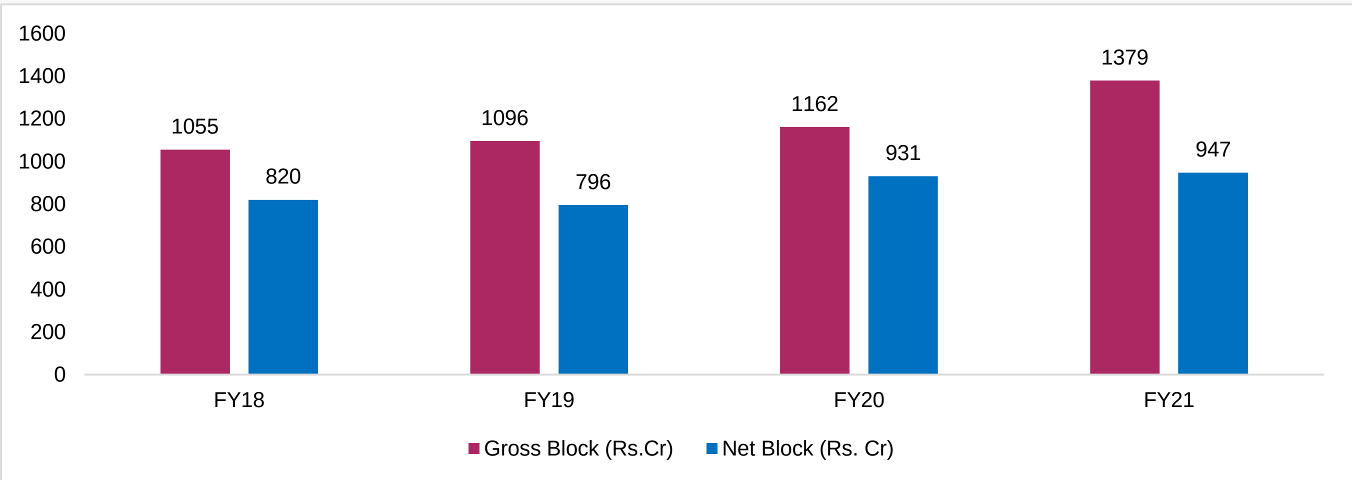
Source: Company, Axis Securities

Exhibit 14: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 15: Gross & Net Block



Source: Company, Axis Securities

Forex Analysis

The Group deals with an international customer and is therefore exposed to foreign exchange risk (primarily concerning USD) arising from these foreign currency transactions. However, given a low proportion of export/import, as compared to the overall operations, the exposure of the Group to foreign exchange risk is not considered to be material.

Particulars (RsCr)	FY20	FY21	Change	Comments/Analysis*
USD	6	0	0	Financial assets

Source: Company; Axis Securities.

Contingent Liability Analysis

Particulars (Rs Cr)	FY20	FY21	Change	Comments/Analysis
Excise/ VAT/royalty/Income Tax etc.	300	320	20	Claims against the company not acknowledged as debts
Duty saved under EPCG scheme	4.5	3.2	1.3	
Total	**304.5**	**325.2**	**21.3**	

Source: Company; Axis Securities

Note: Based on legal opinion/decisions in similar cases, the management believes that the Group has a fair chance of favourable decisions in the cases mentioned above and hence no provision is considered necessary.

Related Party Transaction Analysis

Particulars (Rs Cr)	FY20	FY21	Change	Comments/Analysis
CPIL	1	1	0	Services received
CPIL	23	0	-23	Purchase of capital goods
SCFL	1	0	-1	Purchase of capital goods

Source: Company; Axis Securities

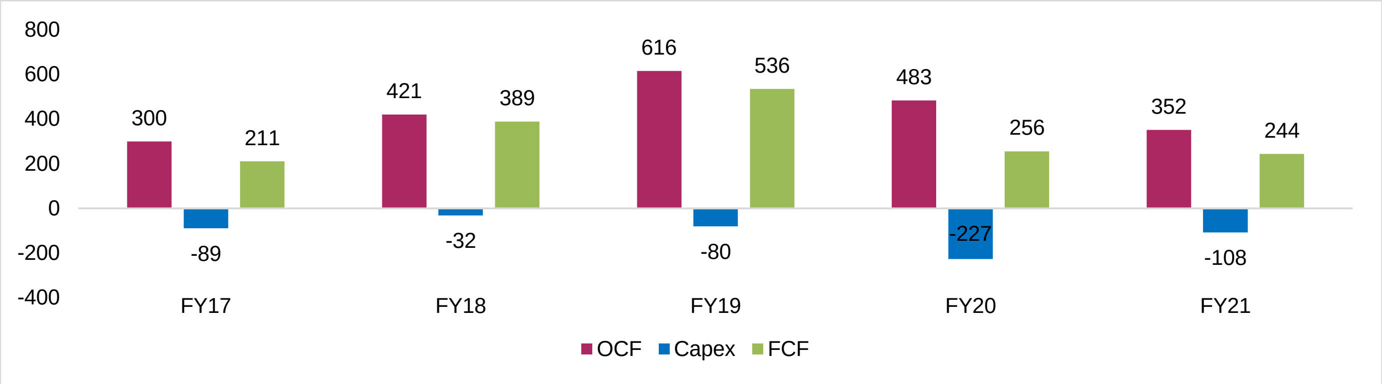
Note: All the Related Party Transactions entered into by the company are at arm's length basis and in the ordinary course of business and approval of the Audit Committee / Board is obtained, wherever required.

Key Cash Flow Takeaways

Particulars (Rs Cr)	FY20	FY21	Change	Comments/Analysis
PBT	322	199	-38%	Profits impacted by lower sales and exceptional item of Rs 65 Cr.
Non-cash expenses				
Depreciation	92	88	-4%	Depreciation is as per the policy of the company.
Finance Cost	9	7	-22%	Reduced owing to a decline in interest-bearing debts.
Others	-27	-24	11%	
Working Capital Adjustments	138	108	-22%	Better inventory management but increase in receivable and payable days.
CFO	483	352	-28%	Reduced owing to lower profit during the year.
CFI	-136	-333	-115%	Increased owing to Capex and investment in fixed deposit.
CFF	-201	-3	-99%	Reduced as no significant financing activities were noted. The company did not declare any dividend during the year.
Capex	-227	-108	-52%	Decrease in the purchase of fixed assets.
FCF	256	244	-5%	Decreased owing to lower profitability during the year.

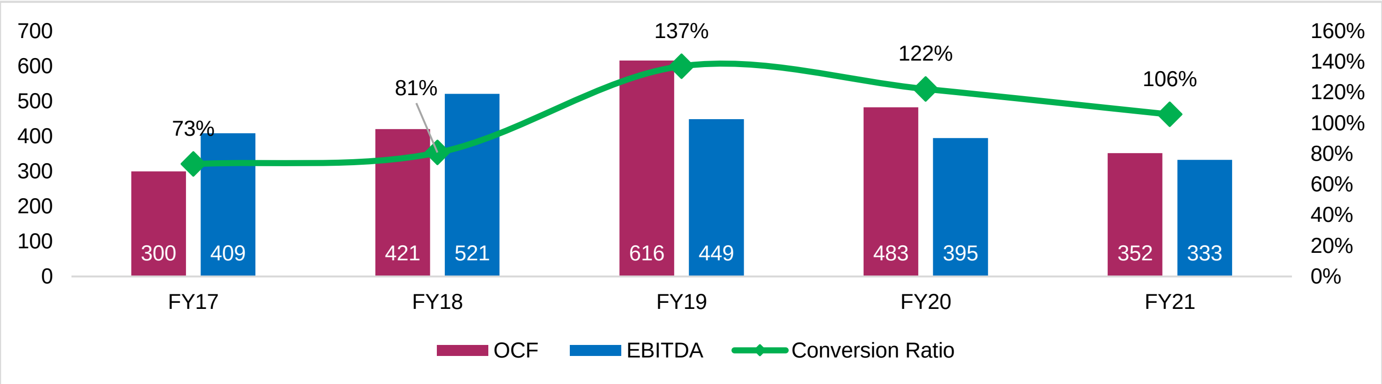
Source: Company; Axis Securities

Exhibit 16: OCF, Capex and FCF(in Cr)



Source: Company, Axis Securities

Exhibit 17: OCF, EBITDA, and Conversion ratio trend (Cr)



Source: Company, Axis Securities

Corporate Social Responsibility

The company's social responsibility policy focuses on using the capabilities of neighbouring communities by improving quality and standard of life and sustainable living, through contributions to local communities and society at large. During the year the company spent Rs8.55 Cr on CSR against Rs 6.55 Cr in FY20. The company undertook various activities during the year 2020-21 in line with its CSR Policy:

- Spice Cultivation Project for the cultivation of Turmeric& Ginger has been implemented among 155 farmers of Mohitnagar, West Bengal location.
- In Mohitnagar, West Bengal location an initiative has been taken up to generate a source of employment for the 100 unemployed youths by setting up a LivelihoodHub.
- Star Usha Tailoring and Embroidery School has been set up in Meghalaya (91 trainees), Assam (690trainees) and in West Bengal (20 trainees) location in collaboration with USHA International Limited to offer skill enhancement training in tailoring, embroidery, cutting, knitting etc. to the rural women.
- A skill-building course in Beautician has been implemented in collaboration with the Indian Institute of Entrepreneurship (IIE, Guwahati) and district administration of the Meghalaya government in the Lumshnong village area to empower 53 girls and women of EastJayantia Hills.
- Fishery farmers were supported with fish seed and fish feed to enhance their incomes from sale proceeds thereof.
- The Broom project had been initiated for the preparation of brooms in neighbouring villages of the Lumshnong plant with the help of a user-friendly device for making brooms.
- Under the Madhuban project, in Sonapur, Assam, the beekeeping project is being sustained through the maintenance of beehives by a group of 100 farmers.
- During the outburst of COVID-19, Company had taken a broad initiative for the community people of three locations i.e., Meghalaya, Assam and West Bengal. The basic amenities for that time were distributed among the neighbouring communities and front fighters and also donated an ambulance. TheCompany has also contributed to the PM Cares Fund.
- Series of general health checkup camps, periodic health camps were organised. Financial assistance was provided to Eye Savers Trust and Guwahati Lions EyeHospital.
- With an aim to make the projected areas OpenDefecation Free, the construction of 5 public toilet blocks in Assam, Meghalaya and West Bengal was the prime focus of the company.
- Made facility for drinking water supply around 14 schools in Mohitnagar, West Bengal.

Corporate Governance Philosophy

The company's philosophy on Corporate Governance is to enhance the long-term economic value of the company at large and its stakeholders. It emphasizes the need for full transparency, accountability and compliances with laws and regulations in all its transactions and interactions with its stakeholders, employees, lenders and the government etc., without compromising the environment and health of society at large. It has complied with the requirements of Corporate Governance as laid down under SEBI Regulations.

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY20	FY21	FY22E	FY23E
Net sales	1844	1720	2093	2469
Other operating income	0	0	0	0
Total income	1844	1720	2093	2469
Raw Material	402	403	503	589
Power & Fuel	362	338	366	439
Freight & Forwarding	353	318	366	432
Employee benefit expenses	127	131	139	147
Other Expenses	205	196	284	335
EBITDA	395	333	435	527
Other income	29	28	33	37
PBIDT	424	361	468	564
Depreciation	93	90	105	110
Interest & Fin Chg.	9	7	7	6
E/o income / (Expense)	0	65	0	0
Pre-tax profit	322	199	356	448
Tax provision	34	12	51	72
RPAT	287	187	305	376
Minority Interests	-1.8	0.0	0.0	0.0
Associates	0	0	0	0
APAT after EO item	286	187	305	376

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY20	FY21	FY22E	FY23E
Total assets	2358	2562	2739	3116
Net Block	931	947	1030	1118
CWIP	238	127	55	55
Investments	0	0	0	0
Wkg. cap. (excl cash)	283	268	320	377
Cash / Bank balance	282	490	516	727
Misc. Assets	62	73	82	84
Capital employed	2358	2562	2739	3116
Equity capital	41	41	40	40
Reserves	1816	2033	2194	2550
Minority Interests	70	0	0	0
Borrowings	11	15	15	15
Def tax Liabilities	0	0	0	0
Other Liabilities and Provision	42	47	49	51

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	FY20	FY21	FY22E	FY23E
Profit before tax	322	199	356	448
Depreciation	92	88	105	110
Interest Expenses	9	7	7	6
Non-operating/ EO item	-27	-21	-33	-37
Change in W/C	138	110	-52	-58
Income Tax	-51	30	51	72
Operating Cash Flow	483	352	332	398
Capital Expenditure	-227	-107	-188	-198
Investments	0	-191	0	0
Others	92	-35	33	37
Investing Cash Flow	-136	-333	-155	-161
Borrowings	-40	3	0	0
Interest Expenses	-10	-7	-7	-6
Dividend paid	-50	0	-21	-21
Others	-102	0	-124	0
Financing Cash Flow	-201	-3	-151	-27
Change in Cash	146	16	26	210
Opening Cash	95	241	257	283
Closing Cash	241	257	283	493

Source: Company, Axis Securities

AXIS SECURITIES

Ratio Analysis

(%)

Y/E Mar	FY20	FY21	FY22E	FY23E
Operational Ratios				
Sales growth	1%	-7%	22%	18%
OPM	21.4%	19.3%	20.8%	21.4%
Op. profit growth	-12%	-16%	31%	21%
COGS / Net sales	61%	62%	59%	59%
Overheads/Net sales	18%	19%	20%	20%
Depreciation / G. block	8%	7%	6%	6%
Efficiency Ratios				
Total Asset turnover (x)	0.78	0.67	0.76	0.79
Sales/Gross block (x)	1.59	1.25	1.28	1.34
Sales/Net block(x)	1.98	1.82	2.03	2.21
Working capital/Sales (x)	0.26	0.23	0.21	0.20
Valuation Ratios				
P/BV (x)	1.46	1.35	1.23	1.06
EV/Ebitda (x)	6.43	11.71	8.89	6.93
EV/Sales (x)	1.38	2.27	1.85	1.48
EV/Tonne $ (x)	80	92	92	87
Return Ratios				
ROE	15	9	14	16
ROCE	17	13	16	18
ROIC	18	16	20	25
Leverage Ratios				
Debt / equity (x)	0.01	0.01	0.01	0.01
Net debt/ Equity (x)	-0.14	-0.23	-0.22	-0.27
Interest Coverage ratio (x)	35	39	54	74
Cash Flow Ratios				
OCF/Sales	0.26	0.20	0.16	0.16
OCF/Ebitda	1.22	1.06	0.76	0.75
OCF/Capital Employed	0.24	0.16	0.14	0.15
FCF/Sales	0.14	0.14	0.07	0.08
Payout ratio (Div/NP)	17.4	11.0	6.8	5.5
AEPS (Rs.)	6.9	4.5	7.5	9.3
AEPS Growth	-2.9	-34.5	66.3	23.4
CEPS (Rs.)	9	7	10	12
DPS (Rs.)	1	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
08-Oct-21	BUY	120	AAA

Source: Axis Securities

About the analyst

Analyst: Uttam Kumar Srimal

Email: uttamkumar.srimal@axissecurities.in

Sector: cement/Infra

Analyst Bio: Uttam K Srimal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research.

About the analyst

Analyst: Shikha Doshi

Email: shikha.doshi@axissecurities.in

Sector: cement/Infra

Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling cement/infra sector.

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HOLD	Between 10% and -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

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