



## In-line Operating Performance; New Capacity Ramp-Up to Drive Growth!

- Star Cement (SCL) reported marginal revenue growth of 1% YoY in Q2FY22, driven by higher blended realization. The company reported Volume/EBITDA de-growth of 3% and 9% respectively on account of lower demand caused by the heavy monsoon in its operating regions such as North Bengal, East Bihar, and North-East India. The volume for the quarter stood at 0.62 million tonnes per annum (mntpa) against 0.64 mntpa reported last year.
- The company reported an EBITDA Margin of 17.6% which was marginally below our expectation of 18%. The company reported the APAT of Rs 47 Cr, similar to the last year. Blended EBITDA/tonne of Rs 1,162 (Rs 1,245/tonne in Q2FY21) was on the lower side owing to higher costs YoY. Blended realization/tonne came in at Rs 6,582 against Rs 6,339, up 3.8% YoY. Cost/tonne was higher by 6.5% YoY but was lower on QoQ basis by 1%. Cost savings during the quarter, majorly came through savings in raw material costs which were lower by 40% on a per tonne basis.
- We expect the company to register Revenue/EBITDA/APAT CAGR of 11%/8%/8% over FY20-FY23E, driven by volume CAGR of 9% and realization CAGR of 2.5% each over the same period. We value the company at 8x FY23E EV/EBITDA with a target price of Rs 115/share (Rs 125/share earlier), implying an upside of 15% from CMP.

## Concall Highlights

### Capacity Expansion

- The company commissioned 2 mntpa grinding units in Siliguri in Jan'21 which is ramping up gradually. Its capacity utilization stood at 30% in Q2FY22. The company indicated that capacity utilization will improve to 65-70% in H2FY22 as it is in the process of building up a dealers network and has added 200 odd dealers in the network since Jun'21. Furthermore, it is setting up 3 mntpa Clinkerization units and a 12 MW WHRS plant in Meghalaya. It is awaiting approvals for the environmental clearance for setting up the clinkerization unit which is expected to get operational in 24-30 months post receiving clearance.

### Volume & Pricing

- Good demand growth:** Demand was subdued till Sep'21 owing to heavy rainfall in its operating region which got subsided in Oct'21. During Oct'21, the company witnessed good demand growth of 8% YoY. The management indicated that the demand will further increase post Diwali. The grinding unit in Siliguri is expected to contribute volume growth in H2FY22 with better utilization going forward.
- Guidance of volume growth of 20% in FY22:** The North-East region is expected to grow at 8% and the demand in the region continues to be robust. The company expects the East market to grow at 4-5% during FY22 in the areas where the company is operational (mainly North Bengal and East Bihar). The company guided for volume growth of 20% in FY22 over last year.
- Blended realization on a YoY basis was up 4% at Rs 6582/tonne. The management indicated that owing to better prices and cement demand in North-East, it has attracted several large players on a casual basis during monsoon season as prices are better compared to the East region. The company hiked the cement prices by Rs 5 in North-East and Rs 10 in the East region per bag to pass on the higher costs. Furthermore, an increase in price post Diwali is expected as demand momentum gets heightened.

### Outlook & Valuation

With rising input costs, the ability of the company to take price hikes and pass on the cost remains a key monitorable. We further believe its operating region (East and North-East) would witness significant demand for cement consumption moving forward. 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 9x FY22E and 7x FY23E EV/EBITDA. We retain our BUY rating on the stock and value the company at 8x its FY23E EV/EBITDA to arrive at a target price of Rs 115/share, implying an upside of 15% from CMP.**

### Key Financials (Consolidated)

(Rs Cr)	FY21	FY22E	FY23E
Net Sales	1720	2113	2537
EBITDA	333	383	504
Net Profit	187	264	356
EPS (Rs)	4.5	6.5	8.8
PER (x)	15	10	8
EV/EBITDA (x)	12	9	7
P/BV (x)	1.4	1.3	1.1
ROE (%)	9	12	15

Source: Company, Axis Research

CMP as of Nov 2, 2021	
CMP (Rs)	100
Upside /Downside (%)	15%
High/Low (Rs)	120/75
Market cap (Cr)	4140
Avg. daily vol. (6m) Shrs.	772021
No. of shares (Cr)	41.2

### Shareholding (%)

	June-21	Sept-21	Sep-21
Promoter	66.21	67.11	66.89
FIs	0.11	0.09	0.14
MFs / UTI	7.28	7.27	6.08
Banks / FIs	0	0.0	0
Others	26.4	25.53	26.89

### Financial & Valuations

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

	FY22E	FY23E
Revenue	1	3
EBITDA	-11	-4
Net profit	-12	-5

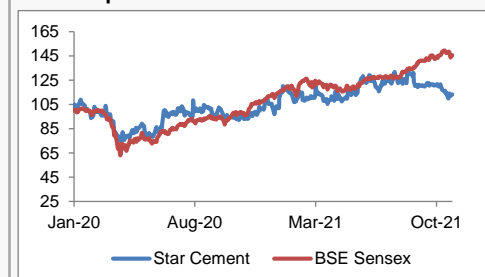
### ESG disclosure Score\*\*

Environmental Disclosure	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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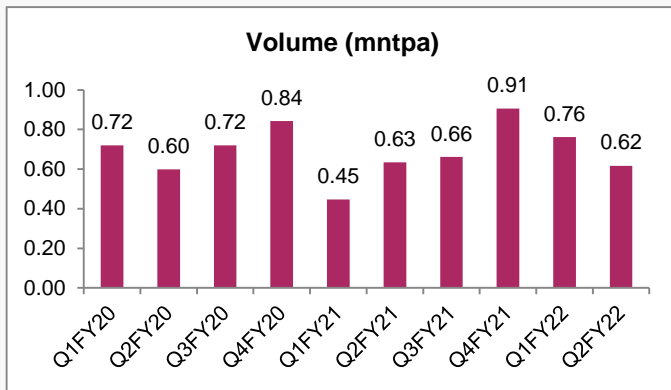
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## Management Concall Highlights (Cont...)

- **Freight:** Lead distance during the quarter was 300 km against 325 km QoQ. The management indicated that lead distance will go down further. On a per tonne basis, the cost was higher owing to increased diesel prices during the quarter.
- **Capex:** The company has earmarked Capex of Rs 1,100-1,200 Cr over the next three years in building a 3 mntpa Clinkerization plant and Rs 125 Cr for a 12 MW WHRS plant. Till Sep'21, the company expended Rs 125 Cr on overall Capex. Total Capex planned for FY22 stands at Rs 300 Cr. WHRS plant is expected to get operational in Q2FY23.
- **Trade Mix:** During the quarter, trade and nontrade mix stand at 88:12. The blended ratio was 91% PPC and 9% 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 company is procuring all its coal requirements through the e-auction route. The company also participated in a fuel supply contract and has been allotted a coal inventory of 125 thousand tonnes annually for the next 5 years under FSA.
- **Setting up a 12 MW WHRS plant:** While the company has purchased sufficient coal from coal India to meet its fuel requirement, delivery is pending owing to a coal shortage. The Management indicated that purchased coal will be delivered shortly with easing supply constraints and rising coal inventory. The company expects coal prices to rise going forward. It is putting up WHRS (13 MW) plant which is expected to get operational in Q2-Q3FY22. This will substitute 45% of the total current power requirement and will help the company save Rs 150/tonne in Power & Fuel costs going forward. During the quarter, the fuel mix was 95% domestic coal, 5% imported coal and no pet coke.
- **Staff Cost:** The company's staff cost per tonne basis was higher owing to bonuses and increments given during the quarter against no such perks in the last year on account of the pandemic.
- **R/Material cost:** R/material cost was lower on a per tonne basis YoY due to the purchase of clinker increasing the cost.

## Story in Charts

Exhibit 1: Volume Trend



Source: Company, Axis Securities

Exhibit 2: Realization Trend

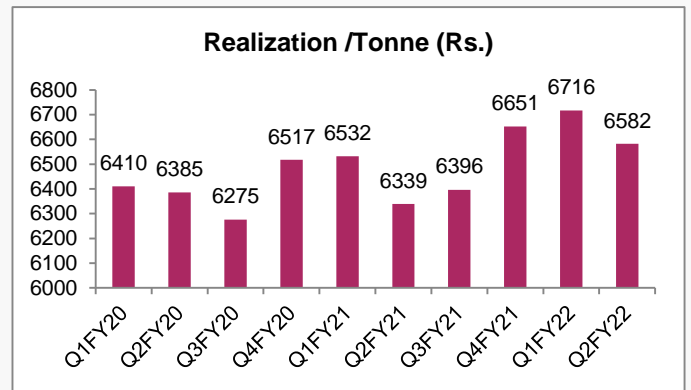
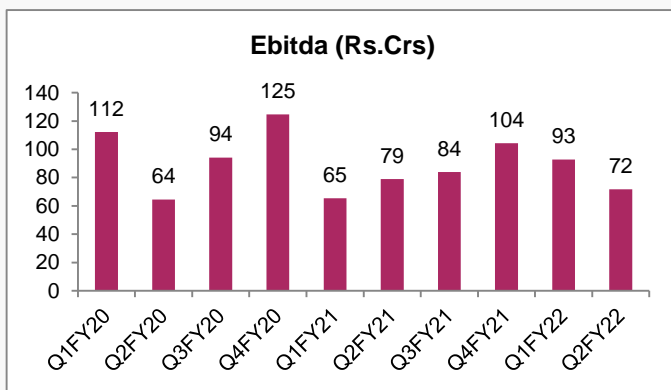


Exhibit 3:EBITDA Trend



Source: Company, Axis Securities

Exhibit 4: Trend in EBITDA/Tonne

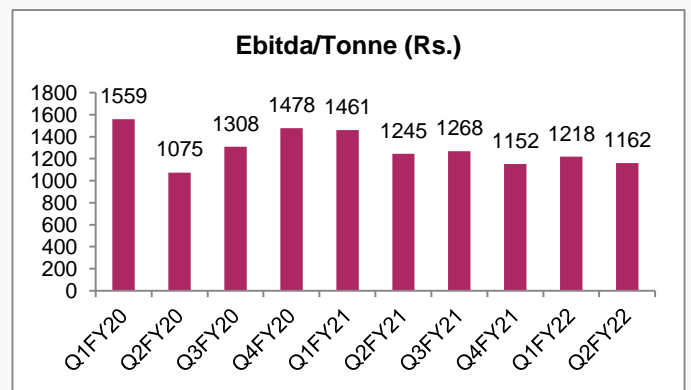
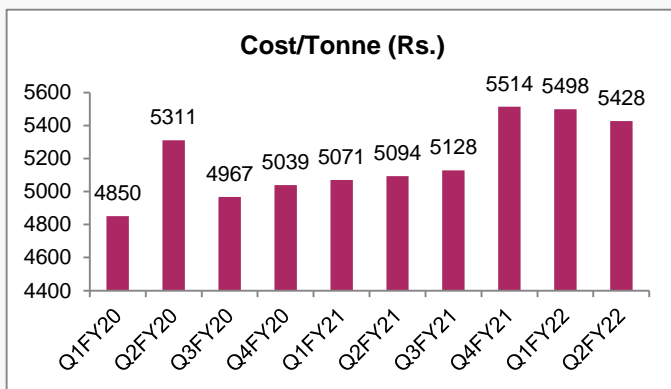
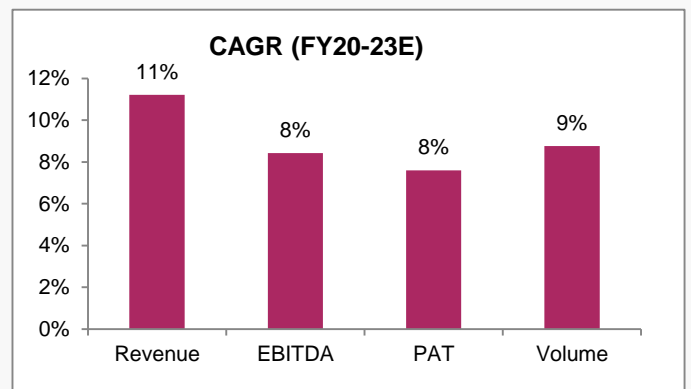


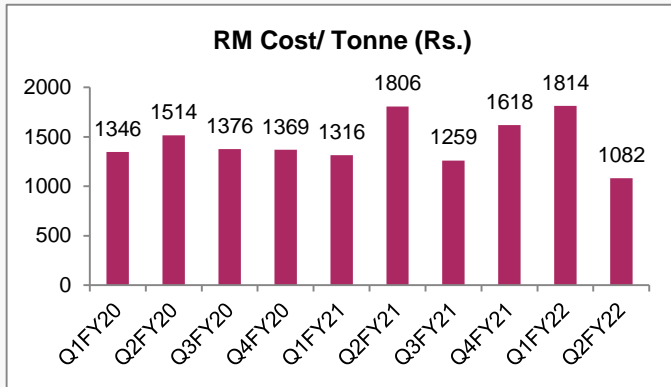
Exhibit 5:Trend in Cost / Tonne



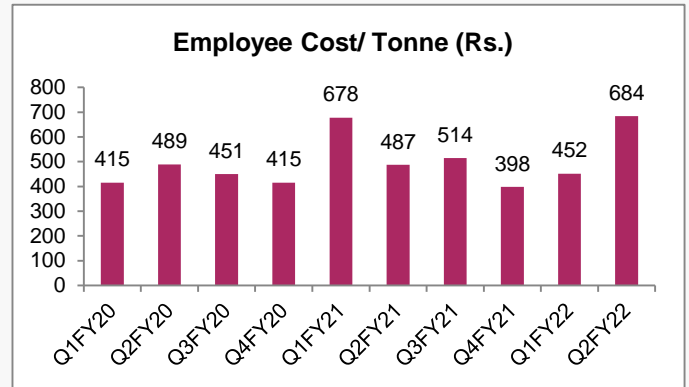
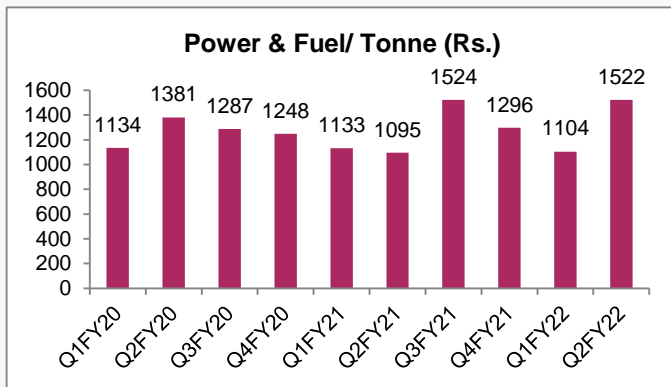
Source: Company, Axis Securities

Exhibit 6: CAGR (FY20-23E)

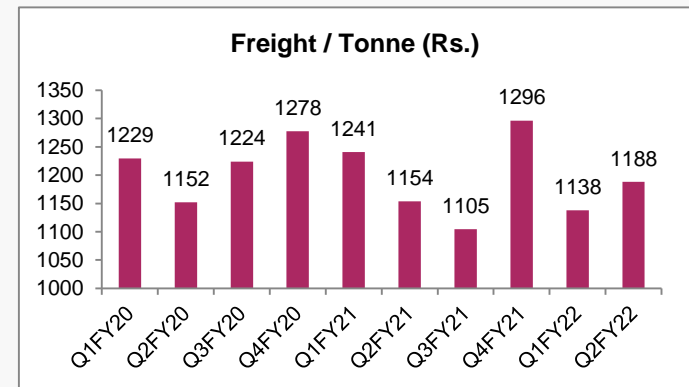
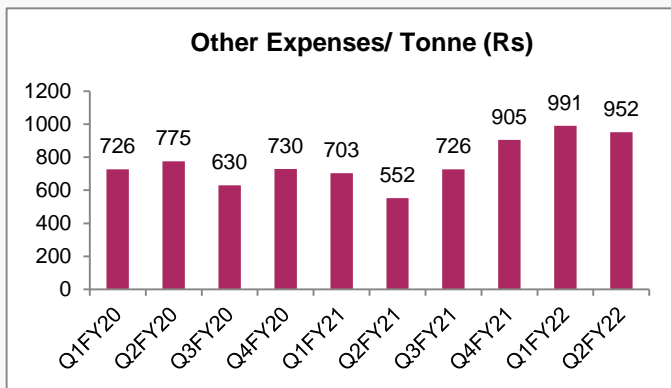


**Exhibit 7: Trend in RM Cost**


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,

**Q2FY22 Result Comparative**
**(Rs Cr)**

<b>(Rs Cr)</b>	<b>2QFY22</b>	<b>1QFY22</b>	<b>% Chg QoQ</b>	<b>2QFY21</b>	<b>% Chg YoY</b>
Net sales	407	511	-20%	402	1%
Expenditure	335	418	-20%	323	4%
EBITDA	72	93	-23%	79	-9%
Other income	9	8	3%	7	32%
Interest	7	2	267%	2	273%
Depreciation	29	26	15%	21	40%
PBT	44	74	-40%	63	-29%
Tax	-2	6	-141%	1	-304%
Adjusted PAT	47	68	-32%	60	-23%
EBITDA margin (%)	17.6%	18.1%		19.6%	
EPS (Rs)	1.13	1.65	-32%	1.46	-23%

Source: Company, Axis Securities

**Volume/ Realization / Cost Analyses**
**(Rs .Crs)**

<b>(Rs Crs)</b>	<b>2QFY22</b>	<b>1QFY22</b>	<b>% Chg QoQ</b>	<b>2QFY21</b>	<b>% Chg YoY</b>
Volume/mnt	0.62	0.76	-19%	0.63	-2.7%
Realisation/tonne (Rs)	6582	6716	-2%	6,339	3.8%
Cost/tonne (Rs)	5428	5498	-1%	5,094	6.5%
Raw material/tonne (Rs)	1082	1814	-40%	1,806	-40.1%
Staff Cost/tonne (Rs)	684	452	51%	487	40.4%
Power & Fuel/tonne (Rs)	1522	1104	38%	1,095	38.9%
Freight/tonne (Rs)	1188	1138	4%	1,154	3.0%
Other Expenses /tonne (Rs)	952	991	-4%	552	72.5%
<b>EBITDA/tonne (Rs)</b>	<b>1162</b>	<b>1218</b>	<b>-5%</b>	<b>1,245</b>	<b>-6.7%</b>

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY21	FY22E	FY23E
<b>Net sales</b>	1720	2113	2537
Other operating income	0	0	0
Total income	1720	2113	2537
Raw Material	403	467	551
Power & Fuel	338	465	559
Freight & Forwarding	318	377	445
Employee benefit expenses	131	146	155
Other Expenses	196	274	324
<b>EBITDA</b>	333	383	504
Other income	28	33	38
PBIDT	361	417	542
Depreciation	90	108	112
Interest & Fin Chg.	7	12	6
E/o income / (Expense)	65	0	0
Pre-tax profit	199	296	423
Tax provision	12	32	68
<b>RPAT</b>	187	264	356
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
<b>APAT after EO item</b>	187	264	356

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY21	FY22E	FY23E
<b>Total assets</b>	2562	2706	3064
Net Block	947	1050	1141
CWIP	127	55	55
Investments	0	0	0
Wkg. cap. (excl cash)	268	331	395
Cash / Bank balance	490	445	625
Misc. Assets	73	83	85
<b>Capital employed</b>	2562	2706	3064
Equity capital	41	40	40
Reserves	2033	2154	2489
Minority Interests	0	0	0
Borrowings	15	15	15
Def tax Liabilities	0	0	0
Other Liabilities and Provision	47	50	52

Source: Company, Axis Securities

**Cash Flow**
**(Rs Cr)**

<b>Y/E March</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Profit before tax</b>	199	296	423
Depriciation	88	108	112
Interest Expenses	7	12	6
Non-operating/ EO item	-21	-33	-38
Change in W/C	110	-63	-64
Income Tax	30	32	68
<b>Operating Cash Flow</b>	<b>352</b>	<b>288</b>	<b>372</b>
Capital Expenditure	-107	-211	-203
Investments	-191	0	0
Others	-35	33	38
<b>Investing Cash Flow</b>	<b>-333</b>	<b>-178</b>	<b>-165</b>
Borrowings	3	0	0
Interest Expenses	-7	-12	-6
Dividend paid	0	-21	-21
Others	0	-124	0
<b>Financing Cash Flow</b>	<b>-3</b>	<b>-156</b>	<b>-27</b>
Change in Cash	16	-46	180
Opening Cash	241	257	211
Closing Cash	257	211	391

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY21	FY22E	FY23E
<b>Operational Ratios</b>			
Sales growth	-7%	23%	20%
OPM	19.3%	18.1%	19.9%
Op. profit growth	-16%	15%	31%
COGS / Net sales	62%	62%	61%
Overheads/Net sales	19%	20%	19%
Depreciation / G. block	7%	7%	6%
<b>Efficiency Ratios</b>			
Total Asset turnover (x)	0.67	0.78	0.83
Sales/Gross block (x)	1.25	1.27	1.36
Sales/Net block(x)	1.82	2.01	2.22
Working capital/Sales (x)	0.23	0.22	0.21
<b>Valuation Ratios</b>			
P/BV (x)	1.35	1.25	1.09
EV/Ebitda (x)	11.71	9.42	6.81
EV/Sales (x)	2.27	1.71	1.35
EV/Tonne \$ (x)	92	86	81
<b>Return Ratios</b>			
ROE	9	12	15
ROCE	13	14	17
ROIC	16	17	23
<b>Leverage Ratios</b>			
Debt / equity (x)	0.01	0.01	0.01
Net debt/ Equity (x)	-0.23	-0.20	-0.24
Interest Coverage ratio (x)	39	26	68
<b>Cash Flow Ratios</b>			
OCF/Sales	0.20	0.14	0.15
OCF/Ebitda	1.06	0.75	0.74
OCF/Capital Employed	0.16	0.12	0.14
FCF/Sales	0.14	0.04	0.07
<b>Payout ratio (Div/NP)</b>			
AEPS (Rs)	4.5	6.5	8.8
AEPS Growth	-34.5	44.2	34.5
CEPS (Rs)	7	9	12
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
08-Oct-21	BUY	120	AAA
02-Nov-21	BUY	115	Result Update

Source: Axis Securities

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<b>SELL</b>	Less than -10%
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