


EBITDA Beat on Lower Costs; Retain BUY
Est. Vs. Actual for Q2FY24: Revenue – **MISS**; EBITDA Margin – **BEAT**; PAT – **BEAT**
Change in Estimates post Q2FY24 (Abs)
FY24E/FY25E – Revenue: -2%/0%; **EBITDA:** -6%/-1%; **PAT:** -7%-1%

Recommendation Rationale

- **Capacity expansion to drive growth** The company's 2 mtpa Grinding unit is scheduled to become operational in Q3FY24, along with a 3 mtpa clinker unit in Q4FY24. These developments are anticipated to significantly boost the company's volume growth in the coming years. However, we reduce our volume growth estimate to 14% CAGR from the earlier 15% CAGR over FY23-FY25E owing to the deferment of the Silchar grinding unit to FY26.
- **Higher prices to support profitability:** The current cement prices are higher by 5% in its operating regions and higher prices are sustaining. Furthermore, the company's premium cement share has improved and grown 37% YoY which will support higher realization moving ahead. This will lead to higher EBITDA/tonne and we expect the company to report EBITDA/Tonne in the range of Rs 1,200 – Rs 1,300 in FY24E/FY25E.
- **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: 11x FY25E EV/EBITDA)

Current TP: Rs 180/share (Earlier TP: Rs 185/share)

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

Alternative BUY Ideas from our Sector Coverage
ACC (TP – 2,460/share), UltraTech Cement Ltd (TP – 9,680/Share), JK Lakshmi Cement (TP –880/Share), JK Cements (TP-3860/share), Birla Corp (TP-1440/share)
Financial Performance

SCL reported marginal revenue de-growth of 2% (marginally below expectations) and volume growth was flattish YoY (in line with expectations). EBITDA/APAT grew 41%/31% YoY and was above expectations owing to lower cost. The company reported a profit of Rs 41 Cr as against Rs 31 Cr in Q2FY23.

The company reported an EBITDA margin of 16.8% (expectation of 15.1%) as against 11.7% in the previous year due to lower RM and freight costs. Volume for the quarter was 0.90 million tonnes per annum (mntpa), flattish YoY as demand was impacted owing to heavy rainfall in the North-East region. SCL's EBITDA/tonne was Rs 1,100, up 41% YoY and the company reported blended realization/tonne of Rs 6,532 vs. Rs 6,669, down 2% YoY/QoQ. The company's cost/tonne declined by 8% YoY to Rs 5,432 owing to lower RM and Freight costs.

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%/15% 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 Rs180 /share, implying an upside potential of 13% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	585	-23	-2	605	-3%
EBITDA	99	-26	41	91	8%
EBITDA Margin	16.8%	(20Bps)	510bps	15.1%	170bps
Net Profit	41	-56	31	38	8%
EPS (Rs)	1.0	-56	31	0.9	8%

Source: Company, Axis Research

 (CMP as of 09th Nov 2023)

CMP (Rs)	159
Upside /Downside (%)	13
High/Low (Rs)	182/93/
Market cap (Cr)	6432
Avg. daily vol. (6m)Shrs.	6,38,000
No. of shares (Cr)	40.4

Shareholding (%)

	Dec-22	Mar-23	Sept-23
Promoter	67.12	66.8	66.6
FII's	0.63	0.7	0.8
MFs / UTI	5.9	6.0	6.0
Banks / FI's	0	0.0	0.0
Others	26.35	26.6	26.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	2,705	3,019	3,511
EBITDA	468	557	706
Net Profit	248	294	330
EPS (Rs)	6.1	7.3	8.2
PER (x)	11	9	8
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	13	12	10
ROE (%)	10.8	11.5	11.5

Change in Estimates (%)

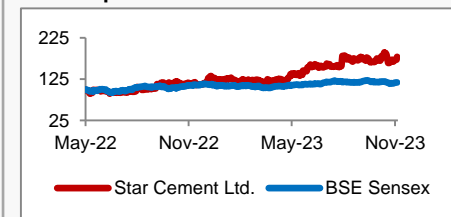
Y/E Mar	FY24E	FY25E
Sales	-2%	0%
EBITDA	-6%	-1%
PAT	-7%	-1%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA
Sector Average	48

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 has deferred its Silchar grinding for some strategic reasons to FY26 while the Guwahati 2 mtpa Grinding unit is on schedule and will get commissioned in Dec'23 and the 3 mtpa Clinker unit in Meghalaya is to be completed in Feb'24. 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. The company is also setting up an AAC block in Guwahati for Rs 50 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 capacity utilization of the Siliguri Unit stood at 45% during the quarter. Oct'23 saw good demand growth while Nov'23 was a little soft. We expect demand to pick up post-Diwali.
- **The trade and non-trade mix during the quarter stood at 89%/11%.** Premium cement formed 7% of the overall trade sales against 4.6% last year and improved 37% YoY basis. The company aims to double the sale of premium cement and it aims to take premium share to 10% moving ahead. The company introduced 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 higher by Rs 50/bag in the East region and Rs 10/bag in the North-East region and current prices are sustaining.
- **Power/Fuel:** The company expects a reduction of 10% in power/fuel cost in Q1FY24. The fuel mix was Nagaland Coal 32%, Biomass 5%, 63% Auction coal and the balance was AFR (Alternative fuel and raw materials). On a per Kcal basis, cost stood at Rs 1.9 and the same is expected to reduce in Q3FY24.
- 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 per annum. During the quarter, a benefit of Rs 10 Cr was derived from WHRS. WHRS capacity is expected to be fully utilized moving ahead. 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 214 against 207 km last year. On a tonne basis, freight cost was lower by 16% at Rs 1,007/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:** In FY24, Rs 950 Cr is expected and the balance of Rs 600 Cr in FY25. Ongoing capacity expansion will cost Rs 2,000 Cr. The company aims to take the debt of Rs 300 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 220 Cr as of 30th Sep'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 the 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	3,019	3,511	3088	3525	-2%	0%
EBITDA	557	706	590	711	-6%	-1%
PAT	294	330	317	332	-7%	-1%

Source: Company, Axis Securities

Result Review Q2FY24

(Rs Cr)	Quarterly Performance				
	2QFY24	1QFY24	2QFY23	% Chg QoQ	% Chg YoY
Net sales	585	760	594	-23%	-2%
Expenditure	487	631	525	-23%	-7%
EBITDA	99	129	70	-24%	41%
Other income	6	9	14	-34%	-57%
Interest	3	2	3	45%	23%
Depreciation	36	32	32	13%	14%
PBT	65	104	49	-37%	33%
Tax	24	10.7	18	128%	36%
Adjusted PAT	41	93	31	-56%	31%
EBITDA margin (%)	16.8%	17.0%	11.7%	(20bps)	510bps
EPS (Rs)	1.01	2.31	0.77	-56%	31%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	2QFY24	1QFY24	2QFY23	% Chg QoQ	% Chg YoY
Volume/mnt	0.90	1.16	0.89	-23%	1%
Realisation/tonne (Rs)	6532	6680	6,669	-2.2%	-2.1%
Cost/tonne (Rs)	5432	5441	5,887	0%	-8%
Raw material/tonne (Rs)	1334	1727	1,872	-23%	-29%
Staff Cost/tonne (Rs)	638	439	568	45%	12%
Power & Fuel/tonne (Rs)	1464	1492	1,288	-2%	14%
Freight/tonne (Rs)	1007	1087	1,192	-7%	-16%
Other Expenses /tonne (Rs)	990	696	968	42%	2%
EBITDA/tonne (Rs)	1100	1114	782	-1%	41%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Net sales	2705	3019	3511
Other operating income	0	0	0
Total income	2705	3019	3511
Raw Material	627	715	822
Power & Fuel	570	671	765
Freight & Forwarding	491	468	534
Employee benefit expenses	196	219	241
Other Expenses	352	389	443
EBITDA	468	557	706
Other income	52	35	42
PBIDT	520	593	748
Depreciation	131	161	212
Interest & Fin Chg.	10	16	29
E/o income / (Expense)	0	0	0
Pre-tax profit	380	416	507
Tax provision	132	122	177
RPAT	248	294	330
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
APAT after EO item	248	294	330

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Total assets	3131	4006	4268
Net Block	1428	2324	2638
CWIP	551	551	551
Investments	0	0	0
Wkg. cap. (excl cash)	197	218	252
Cash / Bank balance	312	242	112
Misc. Assets	64	67	72
Capital employed	3131	4006	4268
Equity capital	40	40	40
Reserves	2376	2662	2980
Minority Interests	0	0	0
Borrowings	26	576	476
DefTax Liabilities	0	0	0
Other Liabilities and Provision	69	73	77

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Profit before tax	380	416	507
Depreciation	129	161	212
Interest Expenses	10	16	29
Non-operating/ EO item	-39	-35	-42
Change in W/C	-2	-10	-34
Income Tax	68	122	177
Operating Cash Flow	410	425	495
Capital Expenditure	-572	-1057	-527
Investments	186	140	0
Others	114	35	42
Investing Cash Flow	-272	-881	-484
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	70	-130
Opening Cash	8	136	207
Closing Cash	136	207	76

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E
Operational Ratios			
Sales growth	22%	12%	16%
OPM	17.3%	18.5%	20.1%
Op. profit growth	36%	19%	27%
COGS / Net sales	62%	61%	60%
Overheads/Net sales	20%	20%	19%
Depreciation / G. block	8%	7%	7%
Efficiency Ratios			
Total Asset Turnover (x)	0.86	0.75	0.82
Sales/Gross block (x)	1.61	1.10	1.07
Sales/Net block(x)	1.90	1.30	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)	13.1	12.1	9.6
EV/Sales (x)	2.3	2.2	1.9
EV/Tonne \$ (x)	146	119	119
Return Ratios			
ROE	11	12	12
ROCE	16	14	15
ROIC	18	16	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	0.76	0.70
OCF/Capital Employed	0.14	0.12	0.14
FCF/Sales	-0.05	-0.35	-0.15
Payout ratio (Div/NP)	3.3	2.7	3.7
AEPS (Rs.)	6.1	7.3	8.2
AEPS Growth	0.3	18.9	11.9
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
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
14-Sep-23	BUY	185	AAA
10-Nov-23	BUY	185	Result Update

Source: Axis Securities

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