



### Encouraging Volume Growth; Higher Costs and Lower Prices Impact Margins

- Star Cement (SCL) reported robust revenue/volume growth of 31%/32%YoY in Q3FY22, driven by higher demand in its operating region. However, higher costs and lower realization impacted the company's margins. The company reported EBITDA margins of 12.2% against 19.8% YoY and realization de-growth of 3.7% YoY as its operating region North-East and East India witnessed large price correction during the quarter. The volume for the quarter stood at 0.87million tonnes per annum (mntpa) against 0.66 mntpa reported last year.
- The company reported an EBITDA Margin of 12.2% which was below our expectation of 15.8%. It posted an APAT of Rs 44 Cr, against a loss of Rs 2 Cr (which was due to an exceptional item of Rs 64 Cr). Blended EBITDA/tonne of Rs 772 (Rs 1,268/tonne in Q3FY21) was on the lower side owing to higher costs and lower realization YoY. Blended realization/tonne came in at Rs 6,349 against Rs 6,589, down 3.7% QoQ. The realizations were flat on a YoY basis. Cost/tonne was higher by 9%/3% YoY/QoQ. Raw material costs grew sharply higher by 41% on a per tonne basis and stood at Rs 1,774 due to higher costs.
- We expect the company to register Revenue/EBITDA/APAT CAGR of 22%/16%/26% over FY21-23, driven by volume CAGR of 20% and realization CAGR of 1.5% over the same period. We value the company at 8x FY23E EV/EBITDA to arrive at a target price of Rs 105/share (Rs 115/share earlier), implying an upside of 11% from the CMP.

### Concall Highlights

#### Capacity Expansion

- The 2 mntpa grinding units in Siliguri which was commissioned in Jan'21 is ramping up gradually. Its capacity utilization stood at 43% in Q3FY22 and is expected to improve to 60-65% in Q4FY22 as the company witnessed good demand momentum in Jan'22. Furthermore, the company is setting up a 3 mntpa Clinkerization unit a 12 MW WHRS plant in Meghalaya, and a 2 mntpa grinding unit in Guwahati. It is awaiting approvals for the environmental clearance for setting up the clinker and grinding unit which is expected to get operational in the 36 months post receiving the clearance. Overall Capex for setting up these units will be around Rs 1,800-1,900 Cr. The company has started ordering equipment for the clinkerization unit and work will start in the next 3-4 months.

#### Volume & Pricing

- Good demand growth:** The company witnessed subdued demand till Sep'21 owing to heavy rainfall in its operating region. However, it got stabilised in Oct'21 with a demand growth of 8% YoY. During the quarter, volume growth in the North-East region stood 20% and that for the Eastern region was 50% as Siliguri grinding utilization ramped up well. The grinding unit in Siliguri, with its better utilization going forward, is expected to contribute to volume growth in Q4FY22. The company is also spending on promoting the Star brand in and around grinding units to get maximum traction and it has helped it record good volume growth during the quarter.
- Volume growth guidance of 20% in FY22:** The North-East region is expected to grow at 7-8% and the demand in the region continues to be robust. The company expects the East market to grow at 3-4% during FY22 in the areas where it is operational (mainly North Bengal and East Bihar). Both East and North-East have witnessed good demand momentum in Jan'22 and overall volume is up 20% YoY. The company maintains its volume growth guidance of above 20% in FY22.
- Pricing:** Cement prices were lower by Rs 40/bag in the Eastern region and Rs 10-12/bag in the North East region on account of year-end pricing and volume strategy of the bigger player. However, prices improved by 3-4% in the Jan'22 and further price hikes are expected moving forward. The blended realization was down 4% QoQ and touched Rs 6,349/tonne levels.

**Outlook & Valuation:** In light of rising input costs, the company's ability to undertake price hikes and pass on the cost to consumers remains key monitorables. We believe its operating region (East and North-East) would witness good demand for cement consumption moving forward. With better cement demand, a ramp-up of new capacity in the East, and cost optimization measures undertaken, we foresee the company doing well going forward. The stock is currently trading at 9.5x 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 105/share, implying an upside of 11% from CMP.

### Key Financials (Consolidated)

(Rs Cr)	FY21	FY22E	FY23E
Net Sales	1720	2243	2598
EBITDA	333	358	464
Net Profit	187	243	309
EPS (Rs)	4.5	6.0	7.6
PER (x)	15	11	9
EV/EBITDA (x)	11.5	9.5	7
P/BV (x)	1.4	1.3	1.1
ROE (%)	9	11	13

Source: Company, Axis Research

CMP as of 27 Jan, 2022

CMP (Rs)	95
Upside /Downside (%)	11%
High/Low (Rs)	120/89
Market cap (Cr)	3813
Avg. daily vol. (6m) Shrs.	474559
No. of shares (Cr)	40.41

#### Shareholding (%)

	June-21	Sep-21	Dec-21
Promoter	67.11	66.89	67.06
FIs	0.09	0.14	0.18
MFs / UTI	7.27	6.08	6.09
Banks / FIs	0.0	0	0
Others	25.53	26.89	26.67

#### Financial & Valuations

Y/E Mar (Rs Cr)	FY21	FY22E	FY23E
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PER (x)	15	11	9
EV/EBITDA (x)	11.5	9.5	7
P/BV (x)	1.35	1.26	1.12
ROE (%)	9	11	13

#### Change in Estimates

	FY22E	FY23E
Revenue	6	2
EBITDA	-6	-8
Net profit	-8	-13

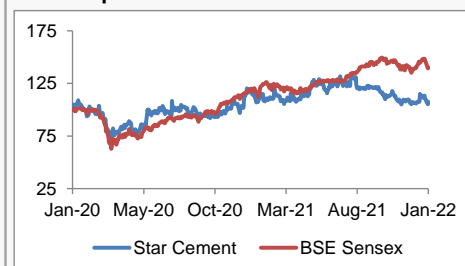
#### ESG disclosure Score\*\*

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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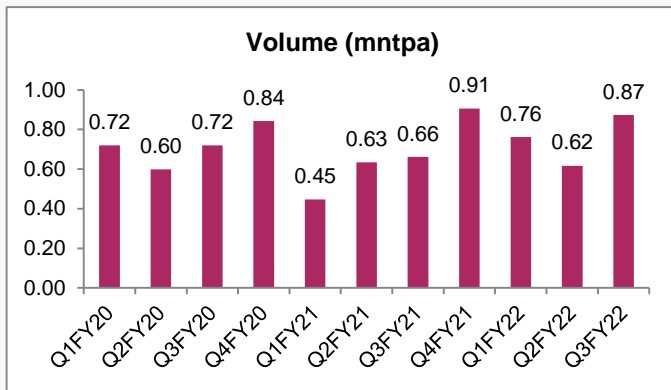
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## Management Concall Highlights (Cont...)

- **Freight:** Lead distance during the quarter was 225 km QoQ. On a per tonne basis, the cost was higher by 16% owing to increased diesel prices during the quarter. The company has also built its fleet of 100 trucks to lower freight cost impact and it expects Rs 50-60/tonne savings from the same going forward.
- **Capex:** The company has earmarked Capex of Rs 1,800-1,900 Cr over the next three years in building a 3 mntpa Clinkerization plant and 2 mntpa grinding and 12 MW WHRS plant. 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 stood at 86:14. The blended ratio was 98% PPC and 2% 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. It is procuring all its coal requirements through the e-auction route. During the quarter, the fuel mix was 100% domestic coal and zero imported coal and pet coke. The company has also entered into a fuel supply agreement with Coal India and is hopeful that it will be able to supply all the company's coal requirements as per the fuel supply agreement. The company expects power/fuel costs to remain elevated.
- **Setting up a 12 MW WHRS plant:** The company is putting up WHRS (12 MW) plant, expected to get operational in Q2FY23. 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. The total current power requirement is 28 MW in Meghalaya.
- **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 higher on a per tonne basis YoY on account of inventory adjustment. The company is also looking to change its raw material mix to get savings on cost and is expected to save Rs 100/tonne over the period.

## Story in Charts

Exhibit 1: Volume Trend



Source: Company, Axis Securities

Exhibit 2: Realization Trend

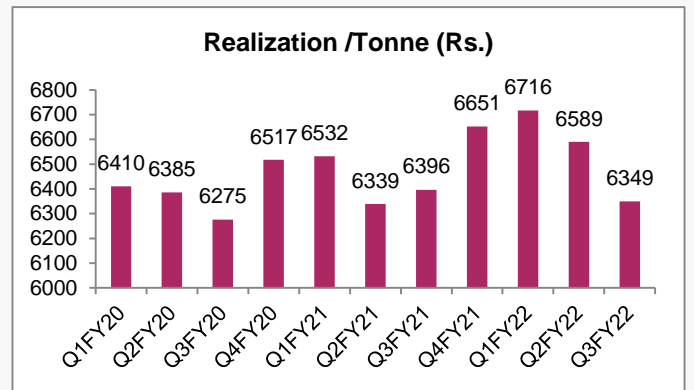
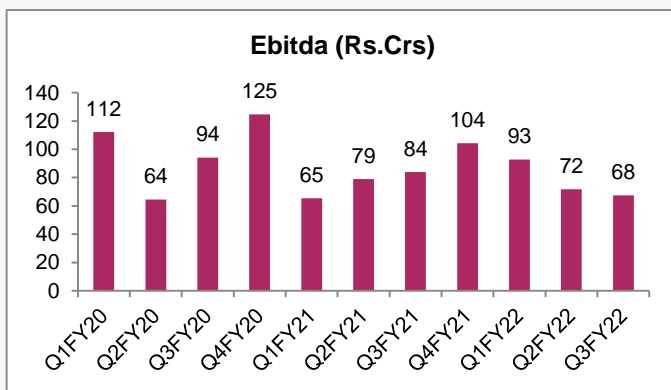


Exhibit 3: EBITDA Trend



Source: Company, Axis Securities

Exhibit 4: Trend in EBITDA/Tonne

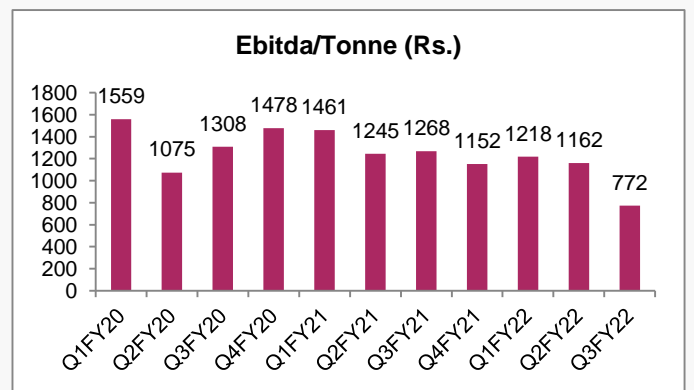
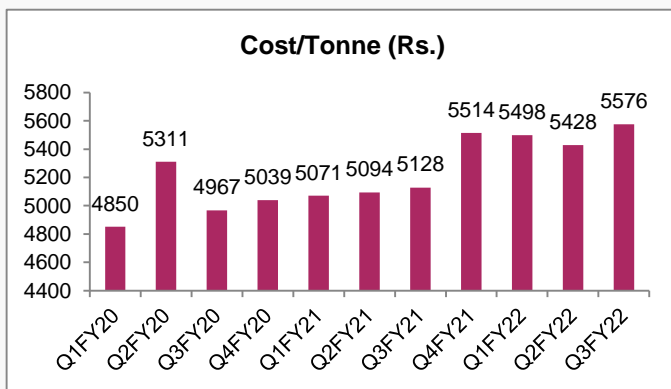
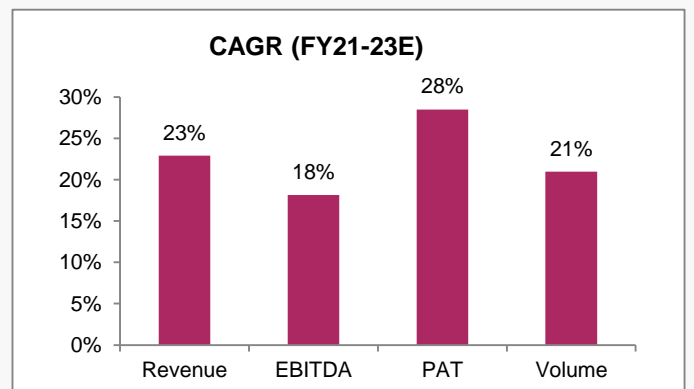


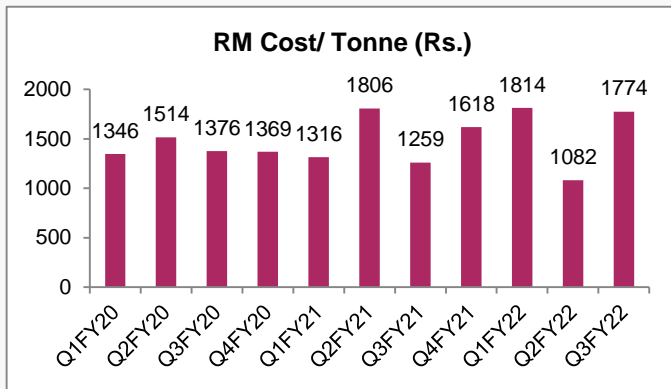
Exhibit 5: Trend in Cost / Tonne



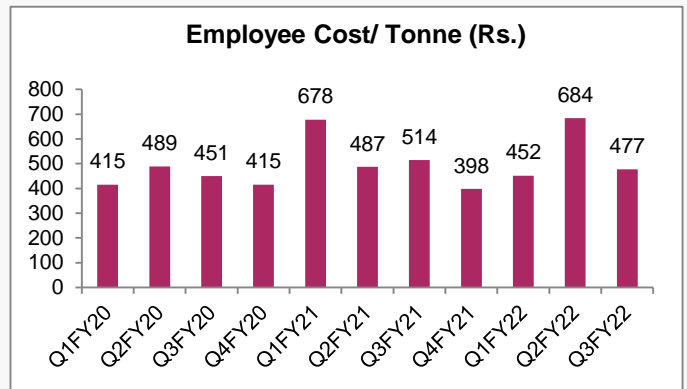
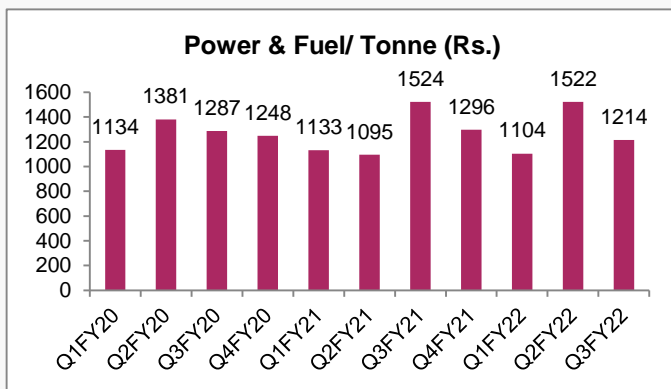
Source: Company, Axis Securities

Exhibit 6: CAGR (FY20-23)

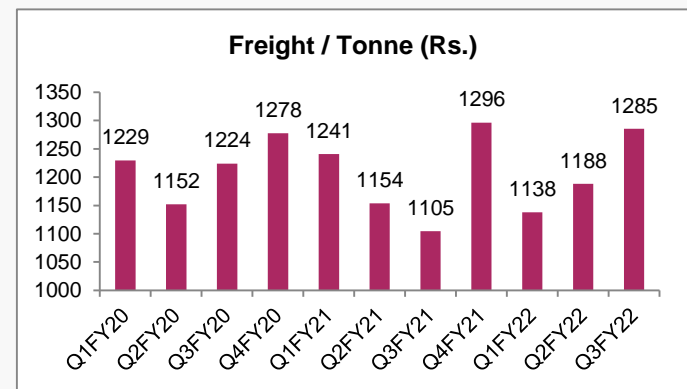
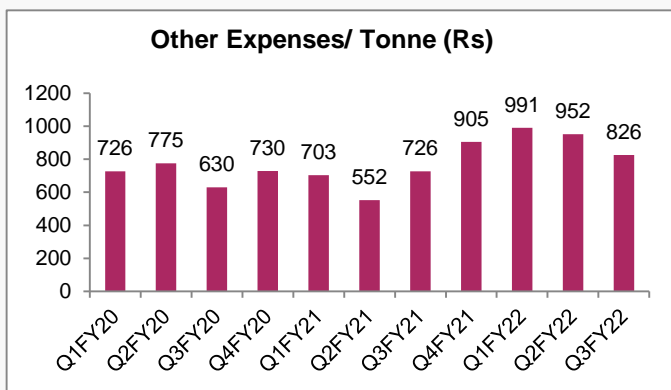


**Exhibit 7: Trend in RM Cost**


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,

**Q3FY22 Result Comparative**
**(Rs Cr)**

<b>(Rs Cr)</b>	<b>3QFY22</b>	<b>2QFY22</b>	<b>% Chg QoQ</b>	<b>3QFY21</b>	<b>% Chg YoY</b>
Net sales	555	407	36%	423	31%
Expenditure	487	335	46%	339	44%
EBITDA	68	72	-6%	84	-20%
Other income	7	9	-19%	7	-5%
Interest	2	7	-65%	2	26%
Depreciation	32	29	7%	21	51%
PBT	41	44	-8%	69	-41%
Tax	-3.2	-2	35%	4	-179%
Adjusted PAT	44	47	-6%	(1.7)	
EBITDA margin (%)	12.2%	17.6%	(540bps)	19.8%	(760bps)
EPS (Rs)	1.08	1.13	-4%	(0.04)	

Source: Company, Axis Securities

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

<b>(Rs Cr)</b>	<b>3QFY22</b>	<b>2QFY22</b>	<b>% Chg QoQ</b>	<b>3QFY21</b>	<b>% Chg YoY</b>
Volume/mnt	0.87	0.62	42%	0.66	32%
Realisation/tonne (Rs)	6349	6589	-4%	6,396	-1%
Cost/tonne (Rs)	5576	5428	3%	5,128	9%
Raw material/tonne (Rs)	1774	1082	64%	1,259	41%
Staff Cost/tonne (Rs)	477	684	-30%	514	-7%
Power & Fuel/tonne (Rs)	1214	1522	-20%	1,524	-20%
Freight/tonne (Rs)	1285	1188	8%	1,105	16%
Other Expenses /tonne (Rs)	826	952	-13%	726	14%
<b>EBITDA/tonne (Rs)</b>	<b>772</b>	<b>1162</b>	<b>-34%</b>	<b>1,268</b>	<b>-39%</b>

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY21	FY22E	FY23E
<b>Net sales</b>	1720	2243	2598
Other operating income	0	0	0
Total income	1720	2243	2598
Raw Material	403	558	630
Power & Fuel	338	428	488
Freight & Forwarding	318	424	483
Employee benefit expenses	131	158	167
Other Expenses	196	317	365
<b>EBITDA</b>	333	358	464
Other income	28	32	39
PBIDT	361	390	503
Depreciation	90	118	122
Interest & Fin Chg.	7	13	13
E/o income / (Expense)	65	0	0
Pre-tax profit	199	260	368
Tax provision	12	16	59
<b>RPAT</b>	187	243	309
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
<b>APAT after EO item</b>	187	243	309

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY21	FY22E	FY23E
<b>Total assets</b>	2562	2694	3000
Net Block	947	1053	1139
CWIP	127	55	55
Investments	0	0	0
Wkg. cap. (excl cash)	268	354	406
Cash / Bank balance	490	397	548
Misc. Assets	73	83	85
<b>Capital employed</b>	2562	2694	3000
Equity capital	41	40	40
Reserves	2033	2133	2421
Minority Interests	0	0	0
Borrowings	15	15	15
Def tax Liabilities	0	0	0
Other Liabilities and Provision	47	51	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	260	368
Depriciation	88	118	122
Interest Expenses	7	13	13
Non-operating/ EO item	-21	-32	-39
Change in W/C	110	-86	-52
Income Tax	30	16	59
<b>Operating Cash Flow</b>	<b>352</b>	<b>256</b>	<b>353</b>
Capital Expenditure	-107	-224	-208
Investments	-191	0	0
Others	-35	32	39
<b>Investing Cash Flow</b>	<b>-333</b>	<b>-192</b>	<b>-169</b>
Borrowings	3	0	0
Interest Expenses	-7	-13	-13
Dividend paid	0	-21	-21
Others	0	-124	0
<b>Financing Cash Flow</b>	<b>-3</b>	<b>-157</b>	<b>-34</b>
Change in Cash	16	-93	151
Opening Cash	241	257	164
Closing Cash	257	164	315

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY21	FY22E	FY23E
<b>Operational Ratios</b>			
Sales growth	-7%	30%	16%
OPM	19.3%	16.0%	17.9%
Op. profit growth	-16%	8%	30%
COGS / Net sales	62%	63%	62%
Overheads/Net sales	19%	21%	20%
Depreciation / G. block	7%	7%	7%
<b>Efficiency Ratios</b>			
Total Asset turnover (x)	0.67	0.83	0.87
Sales/Gross block (x)	1.25	1.34	1.38
Sales/Net block(x)	1.82	2.13	2.28
Working capital/Sales (x)	0.23	0.21	0.20
<b>Valuation Ratios</b>			
P/BV (x)	1.35	1.26	1.12
EV/Ebitda (x)	11.71	9.66	7.12
EV/Sales (x)	2.27	1.54	1.27
EV/Tonne \$ (x)	92	82	78
<b>Return Ratios</b>			
ROE	9	11	13
ROCE	13	12	15
ROIC	16	15	20
<b>Leverage Ratios</b>			
Debt / equity (x)	0.01	0.01	0.01
Net debt/ Equity (x)	-0.23	-0.18	-0.22
Interest Coverage ratio (x)	39	22	29
<b>Cash Flow Ratios</b>			
OCF/Sales	0.20	0.11	0.14
OCF/Ebitda	1.06	0.71	0.76
OCF/Capital Employed	0.16	0.11	0.14
FCF/Sales	0.14	0.01	0.06
<b>Payout ratio (Div/NP)</b>			
AEPS (Rs)	4.5	6.0	7.6
AEPS Growth	-34.5	32.6	27.0
CEPS (Rs)	7	9	11
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
28-Jan-22	BUY	105	Result Update

Source: Axis Securities

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Sector: Cement/Infra

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