

Encouraging Volume Growth; Better Cost Management

- Star Cement (SCL) reported robust revenue/volume growth of 27%/24%YoY in Q4FY22, driven by higher demand in its operating region. However, lower realization impacted the company's margins. The company reported EBITDA margins of 15.1% against 17.3% YoY and a realization de-growth of 2% YoY as its operating region of North-East and East India did not witness higher prices during the quarter. However, the company managed its costs well as cost/tonne remained flat YoY and lower by 1% QoQ at Rs 5,515/tonne. The volume for the quarter stood at 1.15 million tonnes per annum (mntpa) against 0.91 mntpa reported in the last year.
- The company posted an APAT of Rs 88 Cr, up 4% YoY from Rs 85 Cr and 102% QoQ on the back of solid operational performance and tax adjustments. Blended EBITDA/tonne of Rs 983 (Rs 1,152/tonne in Q3FY21) was on the lower side owing to lower realization YoY. Blended realization/tonne came in at Rs 6,498, down 2% from Rs 6,651 YoY.
- We expect the company to register a Revenue/EBITDA/APAT CAGR of 19%/16%/16% over FY21-24 driven by a volume CAGR of 17% and realization CAGR of 2% over the same period. We roll over our estimate to FY24 and value the company at 8x FY24E EV/EBITDA to arrive at a target price of Rs 105/ share, implying an upside of 14% from the CMP.

Concall Highlights

Capacity Expansion

- Siliguri grinding unit ramped up well:** The 2 mntpa grinding units in Siliguri, which were commissioned in Jan'21, ramped up well during the quarter. Its capacity utilization stood at 65% in Q4FY22 and is expected to remain between 60-65% in FY23. 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. The company has placed orders for all important equipment and both Clinkerization and Grinding units are expected to be operational by Dec'23. The company doesn't see any price escalation owing to rising inflation as orders for most of the equipment have already been placed.
- Planned grinding unit of 1.5-2 mntpa in South Assam:** The company plans to set up another Grinding Unit of 1.5-2 mntpa in South Assam. It is looking out for a suitable location to set up the unit and will be used for producing PPC Cement. Overall Capex for the units is pegged at ~Rs 2000 Cr.

Volume & Pricing

- Robust demand growth:** The company witnessed good demand and both North East and East India contributed to volume growth during the quarter. Volume growth in the East region doubled from last year owing to ramp up capacity utilization of the Siliguri Unit. The branding exercise initiated to promote sales from Siliguri grinding unit paid off well and the company added more dealers in the region.
- Volume growth guidance of 17% in FY23:** The North-East region is expected to grow at a healthy rate owing to the government's focus on large infra projects and the demand in the region continues to be robust. The company also expects the East market to grow at a decent pace during FY23 in the areas where it is operational (mainly North Bengal and East Bihar). Both East and North-East have witnessed good demand momentum in Mar'22 and overall volume is up 27% YoY. The company witnessed good volume growth in Apr'22 and has guided for the volume growth of 17% in FY23. In May'22, the volume growth has little slowed down since last week owing to the flood-like situation in Assam.
- Pricing:** The cement prices were increased by Rs 20-30/ bag in the Eastern region and Rs 10-15/bag in the North East region during the ongoing quarter and prices seem to have been sustaining. Average prices are higher compared to Q4FY22 exit prices.

Outlook & Valuation

We believe the company's operating region (East and North-East) would witness good demand for cement consumption moving forward. With better cement demand, Higher pricing and stabilization of the Siliguri Grinding unit, and cost optimization measures undertaken by the company, we foresee Star Cement reporting an encouraging performance moving forward. The stock is currently trading at 8x FY23E and 7x FY24E EV/EBITDA. We retain our BUY rating on the stock and value the company at 8x FY24E EV/EBITDA to arrive at a target price of Rs 105/share, implying an upside of 14% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	FY22	FY23E	FY24E
Net Sales	2222	2638	2949
EBITDA	345	411	526
Net Profit	247	236	295
EPS (Rs)	6	5.8	7.5
PER (x)	11	12	9
EV/EBITDA (x)	9	8	7
P/BV (x)	1.3	1.15	1.0
ROE (%)	12	10	12

Source: Company, Axis Research

CMP as of 18 May, 2022

CMP (Rs)	92
Upside /Downside (%)	14
High/Low (Rs)	120/82
Market cap (Cr)	3713
Avg. daily vol. (6m) Shrs.	192756
No. of shares (Cr)	40.4

Shareholding (%)

	Sep-21	Dec-21	Mar-22
Promoter	66.89	67.06	67.33
FIs	0.14	0.18	0.2
MFs / UTI	6.08	6.09	5.9
Banks / FIs	0	0	0
Others	26.89	26.67	26.57

Financial & Valuations

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E
Net Sales	2,222	2,638	2,949
EBITDA	345	411	526
Net Profit	247	236	295
EPS (Rs)	6	5.8	7.5
PER (x)	11	12	9
EV/EBITDA (x)	9	8	7
P/BV (x)	1.3	1.15	1.0
ROE (%)	12	10	12

Change in Estimates

	FY23E	FY24E
Revenue	2	0
EBITDA	-11	0
Net profit	-23	0

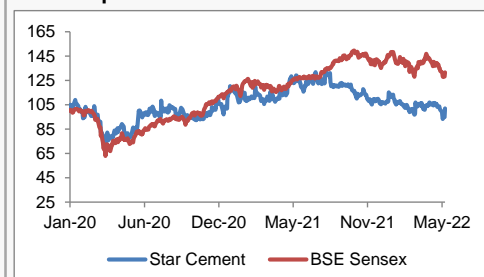
ESG disclosure Score**

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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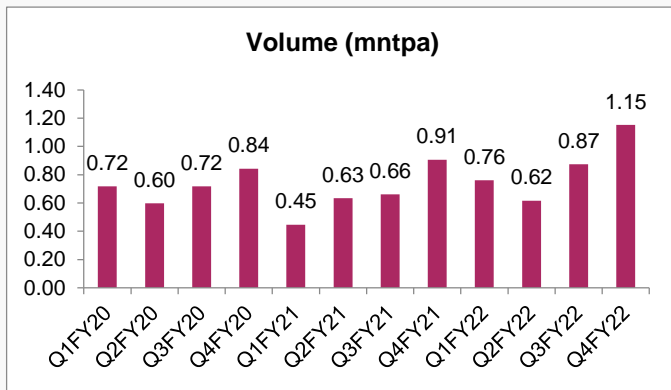
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Management Concall Highlights (Cont...)

- **Freight:** Lead distance during the quarter was 229 km against 225 km QoQ. On a per tonne basis, the cost was higher by 4% owing to the non-availability of trucks during Mar'22 and higher diesel cost. The company received freight subsidy of Rs 37 Cr and now only Rs 12 cr is pending to be received.
- **Capex:** The company has earmarked Capex of Rs 2,000 Cr over the next two years in building a 3 mntpa Clinkerization plant and 4 mntpa grinding unit. Total Capex planned for FY23 and FY24 stands at Rs 1,000 Cr each. Total Capex incurred upto Mar'22 on the WHRS plant stood at Rs 80 Cr. Balance Capex to be incurred on WHRS is Rs 70 Cr.
- **Trade Mix:** During the quarter, trade and nontrade mix stood at 84:16. The blended ratio was 88% PPC and 12% OPC during the quarter. Non-trade sales have increased which contributed to lower price realization.
- **Power/Fuel:** Power and fuel cost on a per tonne basis stood flat YoY but down 1% QoQ. During the quarter, the company did not import any coal and used the coal sourced from Coal India Limited instead. It is procuring all its coal requirements through the e-auction route. During the quarter, the fuel mix was 90% domestic coal and 10% biomass. The company had a fuel supply agreement with Coal India for 5 years at a fixed price and is hopeful that it will be able to supply all the company's coal requirements as per the fuel supply agreement. The company does not expect a very large change in Power/fuel costs moving ahead. It is also looking to use AFR (Alternate Fuel) in its operation and work is in progress which is expected to optimise fuel cost moving ahead. Per kcal cost, the unit stood at Rs 1.35.
- **Setting up a 12 MW WHRS plant:** The company is putting up WHRS (12 MW) plant, expected to get operational in Q3FY23. There has been some delay in the progress of the plant as the vendor wanted some revision in prices and the same is resolved.
- **R/Material cost:** R/material cost was higher on a per tonne basis YoY on account of clinker transportation. The company is also looking to change its raw material mix to get savings on costs.

Story in Charts

Exhibit 1: Volume Trend



Source: Company, Axis Securities

Exhibit 2: Realization Trend

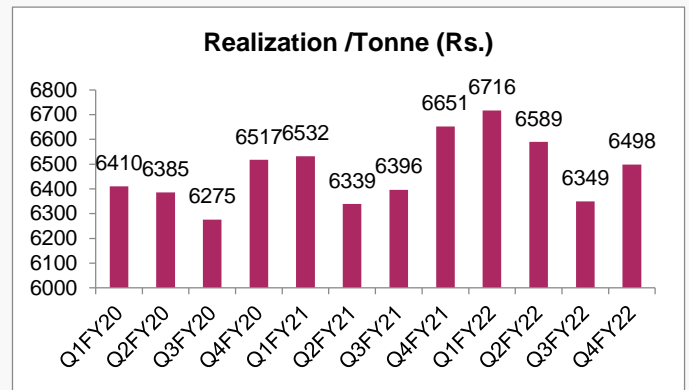
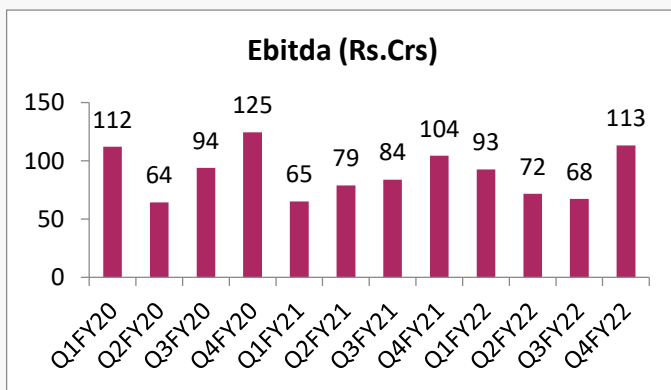


Exhibit 3: EBITDA Trend



Source: Company, Axis Securities

Exhibit 4: Trend in EBITDA/Tonne

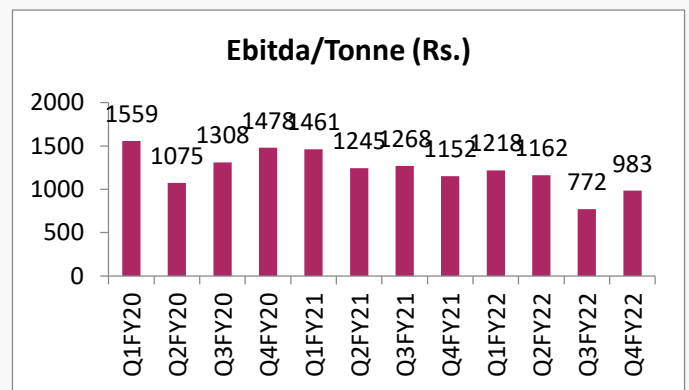
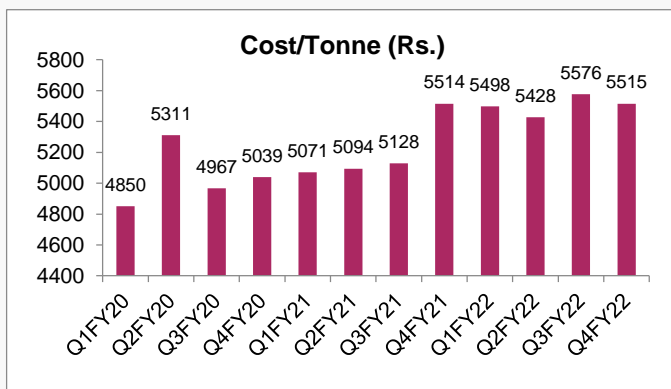


Exhibit 5: Trend in Cost / Tonne



Source: Company, Axis Securities

Exhibit 6: CAGR (FY21-24)

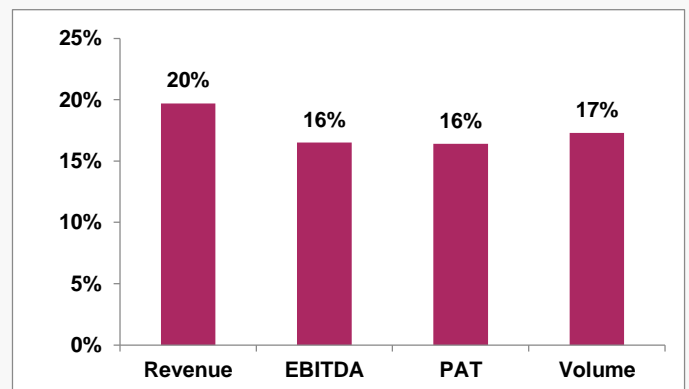
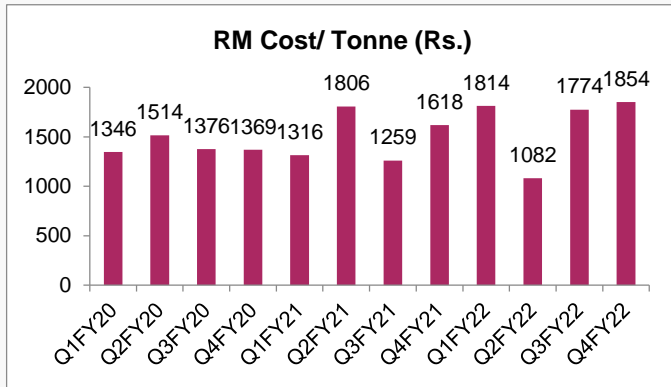
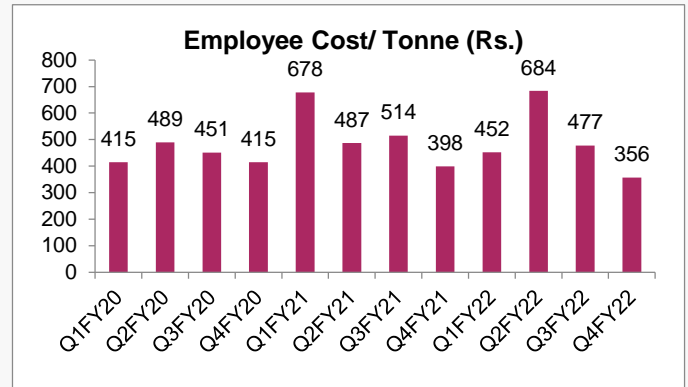
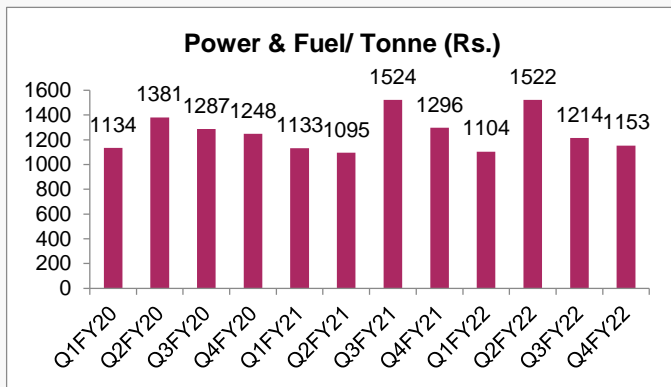
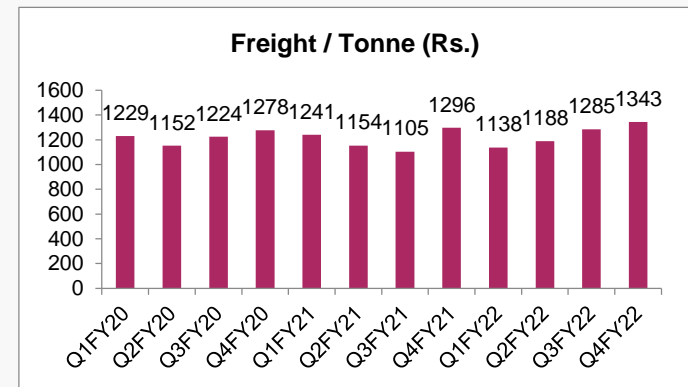
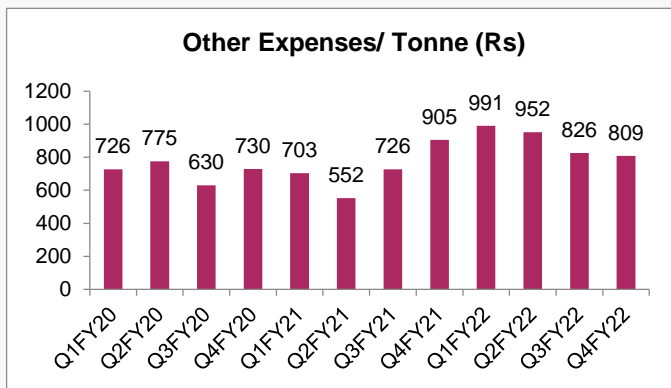


Exhibit 7: Trend in RM Cost


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,

Q4FY22 Result Comparative
(Rs Cr)

(Rs Cr)	4QFY22	3QFY22	% Chg QoQ	4QFY21	% Chg YoY
Net sales	749	555	35%	603	24%
Expenditure	636	487	30%	498	28%
EBITDA	113	68	68%	104	9%
Other income	9	7	31%	8	10%
Interest	2	2	-1%	2	45%
Depreciation	35	32	11%	28	27%
PBT	85	41	109%	83	2%
Tax	-3.4	-3.2	5%	2	-267%
Adjusted PAT	88	44	102%	85.3	4%
EBITDA margin (%)	15.1%	12.2%	290bps	17.3%	(220bps)
EPS (Rs)	2.19	1.08	102%	2.07	6%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses
(Rs .Crs)

(Rs Cr)	4QFY22	3QFY22	% Chg QoQ	4QFY21	% Chg YoY
Volume/mnt	1.15	0.87	32%	0.91	27%
Realisation/tonne (Rs)	6498	6349	2%	6,651	-2.3%
Cost/tonne (Rs)	5515	5576	-1%	5,514	0%
Raw material/tonne (Rs)	1854	1774	4%	1,618	15%
Staff Cost/tonne (Rs)	356	477	-25%	398	-11%
Power & Fuel/tonne (Rs)	1153	1214	-5%	1,296	-11%
Freight/tonne (Rs)	1343	1285	4%	1,296	4%
Other Expenses /tonne (Rs)	809	826	-2%	905	-11%
EBITDA/tonne (Rs)	983	772	27%	1,152	-15%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Net sales	2222	2638	2949
Other operating income	0	0	0
Total income	2222	2638	2949
Raw Material	574	686	748
Power & Fuel	417	476	519
Freight & Forwarding	427	554	604
Employee benefit expenses	159	170	178
Other Expenses	300	340	374
EBITDA	345	411	526
Other income	33	40	38
PBIDT	379	451	564
Depreciation	122	150	182
Interest & Fin Chg.	13	21	31
E/o income / (Expense)	0	0	0
Pre-tax profit	244	281	351
Tax provision	-3	45	56
RPAT	247	236	295
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
APAT after EO item	247	236	295

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Total assets	2745	3212	3627
Net Block	1023	1532	2087
CWIP	105	55	55
Investments	0	0	0
Wkg. cap. (excl cash)	209	251	277
Cash / Bank balance	385	398	219
Misc. Assets	102	98	99
Capital employed	2745	3212	3627
Equity capital	40	40	40
Reserves	2128	2356	2643
Minority Interests	0	0	0
Borrowings	5	205	305
Def tax Liabilities	0	0	0
Other Liabilities and Provision	57	61	64

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Profit before tax	244	281	351
Depriciation	119	150	182
Interest Expenses	13	21	31
Non-operating/ EO item	-30	-40	-38
Change in W/C	106	-26	-11
Income Tax	35	45	56
Operating Cash Flow	417	340	459
Capital Expenditure	-199	-709	-737
Investments	40	167	0
Others	-129	89	38
Investing Cash Flow	-289	-453	-699
Borrowings	-10	200	100
Interest Expenses	-13	-21	-31
Dividend paid	0	-8	-8
Others	-152	122	0
Financing Cash Flow	-175	293	61
Change in Cash	-47	180	-179
Opening Cash	55	8	188
Closing Cash	8	188	9

Source: Company, Axis Securities

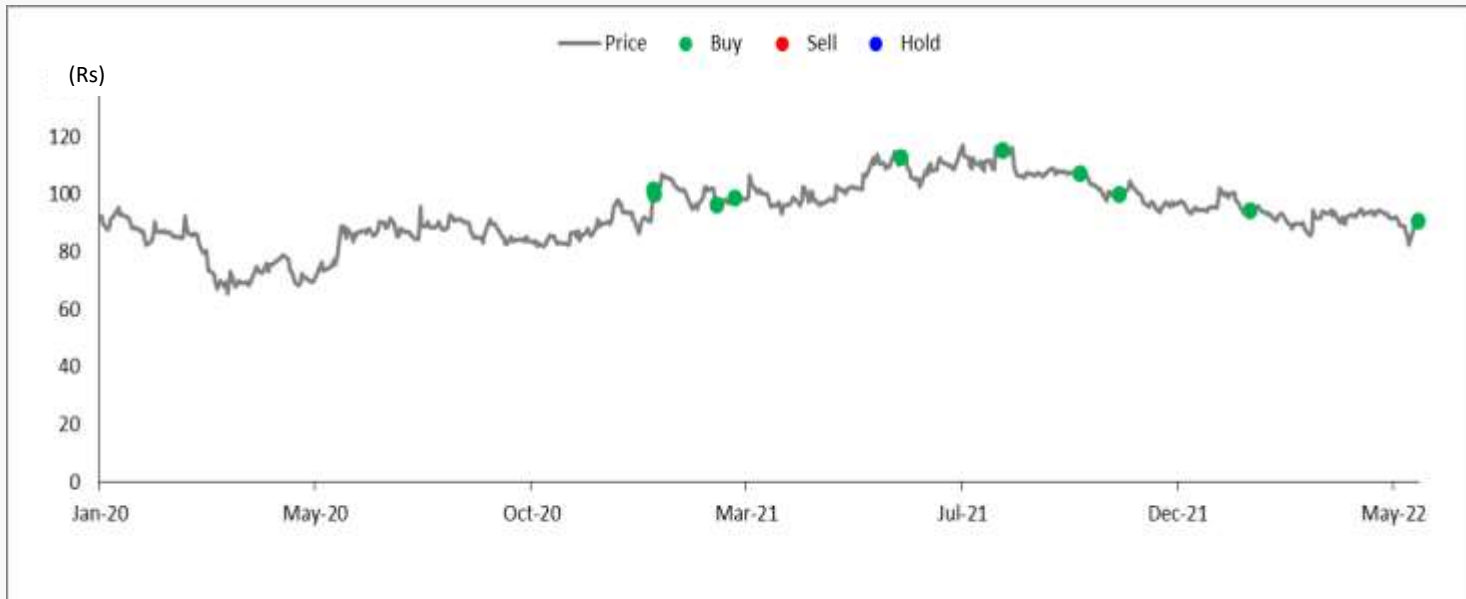
Ratio Analysis

(%)

Y/E March	FY22	FY23E	FY24E
Operational Ratios			
Sales growth	29%	19%	12%
OPM	15.5%	15.6%	17.8%
Op. profit growth	4%	19%	28%
COGS / Net sales	64%	65%	63%
Overheads/Net sales	21%	19%	19%
Depreciation / G. block	8%	7%	6%
Efficiency Ratios			
Total Asset turnover (x)	0.81	0.82	0.81
Sales/Gross block (x)	1.39	1.15	0.97
Sales/Net block(x)	2.18	1.73	1.42
Working capital/Sales (x)	0.15	0.14	0.13
Valuation Ratios			
P/BV (x)	1.27	1.15	1.02
EV/Ebitda (x)	9.20	8.18	6.93
EV/Sales (x)	1.43	1.28	1.24
EV/Tonne \$ (x)	75	80	86
Return Ratios			
ROE	12	10	12
ROCE	11	12	13
ROIC	15	15	15
Leverage Ratios			
Debt / equity (x)	0.00	0.09	0.11
Net debt/ Equity (x)	-0.25	-0.15	-0.03
Interest Coverage ratio (x)	19	15	13
Cash Flow Ratios			
OCF/Sales	0.19	0.13	0.16
OCF/Ebitda	1.21	0.83	0.87
OCF/Capital Employed	0.18	0.12	0.15
FCF/Sales	0.10	-0.12	-0.25
Payout ratio (Div/NP)			
AEPS (Rs)	6.6	3.4	2.7
AEPS Growth	6.1	5.8	7.3
CEPS (Rs)	34.6	-4.4	25.1
DPS (Rs)	9	10	12
DPS (Rs)	0	0.2	0.2

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
18-May-22	BUY	105	Result Update

Source: Axis Securities

About the analyst

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