Axis Annual Analysis 2022

AAA

Star Cement Ltd

AXIS SECURITIES

Star Cement Ltd
Cement

BUY
Target Price
115

Capacity Expansion to Drive Growth; Outlook Remains Positive

Summary

- The company reported consolidated revenue of Rs 2,221 Cr in FY22, registering a robust growth of 29% YoY. This was primarily on account of the new capacity ramp-up of it Siliguri Grinding unit which was commercialized in FY21. The company posted an EBITDA of Rs 345 Cr, up 4% YoY. EBITDA growth was impacted by elevated input costs during the year. The company's volume grew by 29% YoY to 3.40 mtpa,led by higher demand and new capacity ramp-up during the year.
- The capacity utilization of the Siliguri Grinding unit stood at an encouraging 70% in the later part of FY22, significantly up from 32% in Q1FY22. While continuing with its strategy of focusing on the Northeast market where it's a market leader, the company undertook several marketing initiatives inFY22 to augment its sales from the new grinding unit. Consequently, the East India region's contribution to total sales increased to 25% from 20% in FY21.The company sold 2.5 mtpa and 0.85 mtpa in North-East and East regions respectively in FY22.
- On the Capex front, the company is setting up a 3-mtpa Clinker Unit at the Meghalaya facility along with a 12 MW WHRS plant. Furthermore, it is also planning to set up a 2-mtpa grinding unitin Assam which will get commissioned in phases over FY24-25. The company has earmarked Rs 2,000-2,200 Cr for expansion-related Capex for the next two-three years.

Key Highlights

- **Blended realization improves:** During the year, the company reported trade sales at 86% and the balance was non-trade. Blended realization improved marginally by 0.5% during the year to Rs6,525/tonne. Blended cement sale was above 90% during the year.
- **Proactive initiatives to expand digital footprint:** On the digital front, the company has taken broad steps in expanding its digital footprint by introducing various applications to strengthen its sales force, dealers, channel partners and contractors.
- **Healthy liquidity position and debt-free balance sheet:** In light of challenging operating and business conditionsimposed by the COVID-19 disruptions, the company ensuredits stability and business continuity by maintaining a robust cash position. Furthermore, it transitioned from being a leveraged company to an almost debt-free company.It maintained a healthy liquidity position with adequate cash & cash equivalent and a bank balance totalling Rs 400 Cr during the year.

Key Competitive Strengths: a) Largest cement producer in the NER region with 23% market share; b) Strong entry barriers created by the regional demography, which supports the company in maintaining a 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) Ramping up capacity utilization of Siliguri grinding unit; 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 the Eastern and North-Eastern regions; c) Augmenting railway infrastructure; d) Supportive initiatives by the proactive government.

Key Focus Areas Moving Forward: a) Increasing brand recall; b) Innovating products to furtherconsolidatecustomer trust and market share; c) Expanding capacity to cater toincreasing demand; d) Widening geographical footprint in theNorth-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 measures; g) Improving logistics and reducing costs.

Outlook & Recommendation: Cement demand is expected to be robust both in North-East and East regions driving the volume growth for the company. Its Siliguri grinding unit is ramping up well and higher capacity utilization of the unit will help the company in improving its fixed cost absorption and will also aid in its volume growth moving ahead.With better cement demand, higher pricing, stabilization of the Siliguri Grinding unit, and cost optimization measures(12mw WHRS plant) undertaken by the company, we foresee Star Cement reporting decent performance moving ahead.The stock is currently trading at 9x FY23E and 8x FY24E EV/EBITDA. We retain our BUY ratingon the stock and value the company at 9x FY24E EV/EBITDA to arrive at a TP of Rs 115/share, implying an upside of 11% from the CMP.

Key Financials (Consolidated)

(RsCr)	FY22	FY23E	FY24E
Net Sales	2,222	2798	3148
EBITDA	345	443	565
Net Profit	247	219	245
EPS (Rs)	6	5.5	6
PER (x)	11	13	11
EV/EBITDA (x)	9	9	8
P/BV (x)	1.3	1.2	1
ROE (%)	12	10	10

Source: Company, Axis Research

(CMP as of Nov25,2022)

CMP (Rs)	103
Upside /Downside (%)	11%
High/Lower (Rs)	114/81
Market cap (Cr)	4180
Avg. daily vol. (6m) Shrs.	1,14,828
No. of shares (Cr)	41.2

Shareholding (%)

	Mar-22	June-22	Sep-22
Promoter	67.3	67.4	67.4
FIIs	0.2	0.28	0.4
MFs / UTI	5.9	5.9	5.9
Banks / FIs	0	0	0
Others	26.6	26.5	26.3

Financial & Valuations

Y/E Mar (RsCr)	FY22	FY23E	FY24E
Net Sales	2,222	2,798	3,148
EBITDA	345	443	565
Net Profit	247	219	245
EPS (Rs)	6	5.5	6
PER (x)	11	13	11
EV/EBITDA (x)	9	9	8
P/BV (x)	1.3	1.2	1
ROE (%)	12	10	10

Change in Estimates (%)

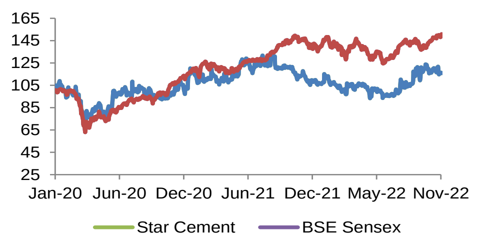
Y/E Mar	FY22E	FY23E
Sales	0	0
EBITDA	0	0
PAT	0	0

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

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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 manufacturer inthe North-Eastern Indian region and is also an emerging playerin 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 unit's 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. The total current capacity of the company stands at 5.7 mtpa and Clinker at 2.9 mtpa.

FY21PerformanceRound-up

- **Robust financial performance:**The company reported revenue of Rs 2,222, Cr in FY22, up 29% YoY, owingto higher volume and better realization.The company's blended realization for the year improved by 0.5% to Rs 6,525/tonne owing to better prices in the North-East region.The cementvolume grewby 29% YoY (FY22– 3.41mtpa vs. FY201– 2.65 mtpa), as better demand and new capacity ramp-up supported the same.Overall cost/tonne also increased by 5% to Rs5,511 in line with the current inflationary trend.
- **Higher costs during the year impacted margins:**The company reported an EBITDA margin of 15.5% in FY22 against 19.3% in FY21as higher costs during the year impacted margins.EBITDA/tonne stood at Rs 1,014, down 19% from Rs1,256/tonne in FY21,mainly on account of elevated cost of raw materials and other expenses during the year
- **Net profit witnessed 32% growth:**The company's net profit witnessed 32% growth driven by higher volume and better realization during the year.
- **Enhanced the sale of blended cement:**The company enhanced the sale of blended cement in total cement sold to over 90% in FY22 from 90% in FY21,further supporting its goal of achieving and promoting environmental sustainability.Its capacity utilization in FY22 stood at 60%. Last year, the company commissioned a 2-mtpa grinding unit in Siliguri.
- **Stability amidst the challenging scenario:** The company maintain edits stability amidst the challenging scenario through its robust cash position. Furthermore, it also made a transition from being leveraged to an almost debt-free company during the year.

Exhibit 1: Trade& Non Trade Mix in FY21

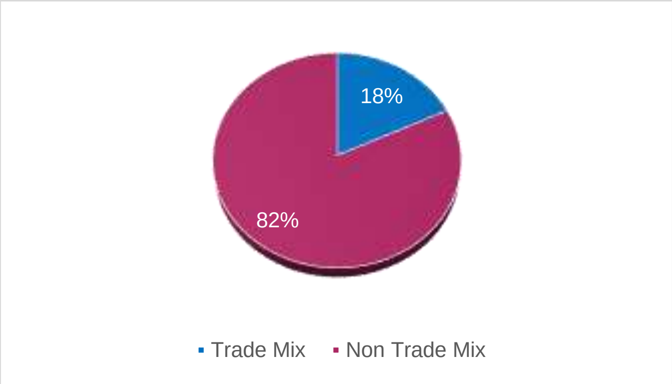
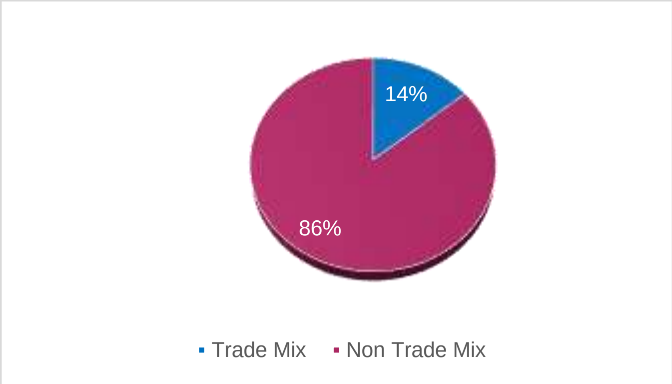


Exhibit 2: Trade & Non Trade Mix in FY22



Source: Company, Axis Securities

Key operational activitiesduring the year

Higher EBITDA

The company's EBITDA for the year stood at Rs 345 Cr in FY22, up 4% from Rs 332 Cr in FY21 owing to higher volume and realization. Volume growth was supported by the new capacity ramp-up of the Siliguri Unit.

Production Capacity

During the previous year, the company commenced commercial operation of a 2 mtpa clinker grinding unit in Siligurito cater to the growing demand in West Bengal and Bihar. The entire project was funded through internal accruals. The company ramped up the capacity and the capacity utilization reached 70% towards Q4FY22.

Clinker Production

The company's total clinker production on a consolidated basis during the year stood at 2.17 mtpa as against 1.91mtpain FY21.The capacity utilization of clinker units increased to 86% in FY22from 75% during FY22 due to higher volume sold.

Share Buy-back

During the year, the company bought back 82,48,580 Equity Shares of Rs 1 each from all the existing shareholders of the company as on record date i.e., 26th Aug'21 on a proportionate basis through the tender offer route forRs 150 each for an aggregate amount ofRs 123 Cr. The said action has reducedthe company's paid-up share capital to 40.4 Cr.

Export

During the year, the company did not resort to any export of clinker to meet the demand fora new Grinding unit in Siliguri. Last year,it exported 46,526 MT of Clinker.

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.

North-East Market

As a strategy, the North East Market continued to be the focus market of the company. Cement demand was good throughout the year. Demand increased by 17% in the NER region against an all-India average of 8%.

Lower debt level

The company has maintained a lower debt with a Debt/Equity ratio of 0.002, significantly helping it to save on interest payments and consequently 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)	FY21	FY22	Change	Comment/Analysis
Revenue				
Star Cement Meghalaya Ltd	590	760	29%	Higher demand led to better revenue growth.
Meghalaya Power Ltd	120	135		Covid-19 disruptions caused lower sales volume
Net Worth				
Megha Technical & Engineers Pvt Ltd	301	300		
Star Cement Meghalaya Ltd	719	788	10%	Higher profits reflected in increasing Networth.
Meghalaya Power Ltd	145	146	-	Remained flattish owing to flattish profits.
PAT				
Megha Technical & Engineers Pvt Ltd				
Star Cement Meghalaya Ltd	38	69	82%	Higher sales reflected in increasing profits.
Meghalaya Power Ltd	1.6	1.5	-	Remained flattish.

Cost OptimizationMeasures

In FY22 the cost/tonne increased by 5%toRs5,511 against Rs5,237 in FY21.

Power &Fuel Cost: Power & Fuel Cost was down 4% on a per tonne basis 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, there by reducing its dependency on state utility/grid power. Its 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. Coal availability from local sources remained constrained. Sourcing of Coal was done majorly from Coal India Limited (CIL) and Imported Coal from South Africa. The company also procured a good quantity of Coal supplies on spot auctions from CIL during the year, keeping the overall cost in control.

The company focused on increasing the production of blended cement, resulting in higher consumption by 30% over the last year. To bring down the cost of Fly Ash, various cost-saving initiatives were taken throughout the year. All Fly Ash transportation through rakes was done through BOXN resulting in the lower freight cost. The company also established new partnerships with new sources Hindalco at Krishnashila & Odisha Power at Jharsuguda leading to sustainable material availability and cost efficiency.

Freight Cost: The company's freight/tonne stood at Rs1,254 in FY22, up 5% from Rs1,200 in FY21 owing to higher volume and an increase in diesel prices. Diesel prices reached historical highs during Nov'21 which increased pressure on its overall freight costs. The freight cost in NE was also majorly impacted due to overload restriction in Assam and the recurrence of bridge damage in Meghalaya. The year also saw cement dispatches through rake at 2.8 LcMT which was 48% higher as compared to FY21 to mitigate the impact of high road logistics costs.

Various efforts were taken up to improve Service Levels towards which an additional 14 SOWs were opened across NE, West Bengal & Bihar. 190 no. of 16 Wheelers trucks were also inducted into organisation for continuous movement of raw material and to reduce the impact of market fleet fluctuations. Warehouse optimisation continued across the year for better servicing the customers resulting in increased customer satisfaction.

Raw Material Cost: Raw material cost per tonne increased by 11% YoY to Rs1,685 owing to higher volume, the rising cost of input materials, and logistical disruptions during the year.

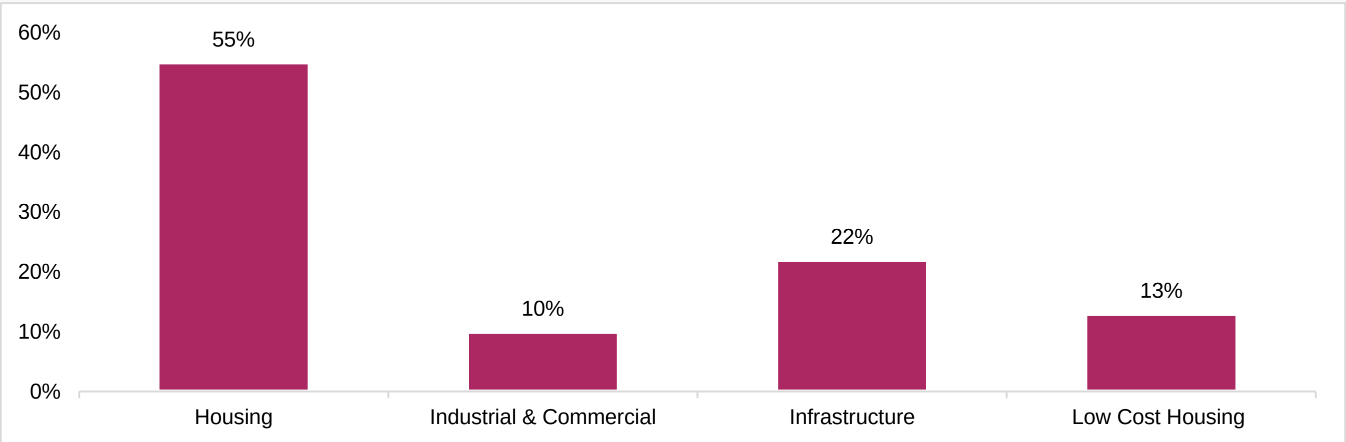
The company has been actively working towards reducing manufacturing costs at all levels of production. A few of the initiatives include:

- ✓ Optimising energy consumption and loss from the kiln.
- ✓ Minimising fine clinker surging and conducting regular maintenance.
- ✓ Installing a New clinker loading system and hopper for bulk loading support.
- ✓ Upgraded pyro jet main firing burner to improve operational efficiency.
- ✓ Roto scaledthe 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:** India is the second largest producer of cement in the world. The country has a lot of potential for development in the cement sector. The infrastructure and construction sectors are the major contributors to the development of the sector. The Indian cement industry is likely to add ~80 Mn tonnes (MT) capacity by FY24, the highest in the last 10 years. Cement demand to register a CAGR of 8% between FY21-24 through infrastructure investments and healthy housing demand. Per-capita income and per-capita cement consumption of the eastern and central regions are well below Pan-India numbers and thus provide huge scope for potential growth.
- **Increasing Consumption in Eastern and North-Eastern:** East India demand is expected to grow by 28% with a CAGR of 9% by FY 25-26. West Bengal and Bihar is the strongest cement-consuming state in the eastern-region accounting for more than one-fourth of the region's total demand at 22 mtpa and 18 mtpa respectively. Cement demand in West Bengal and Bihar has also grown in the last five years with the help of the central government's housing for all as well as rapid infrastructure development in rural and urban sectors. The Central government has sanctioned Rs2Lc 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, 14,000MW 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:** NHAI plans to construct 25,000 kilometres of national highways in FY 22-23 at a pace of 50 km per day. As per the Union Budget FY 22-23, the government approved an outlay of ` 1,99,107 Crore for the Ministry of Road Transport and Highways. The Government of India has allocated ` 111 lakh Crore under the National Infrastructure Pipeline for FY 19-25. The roads sector is likely to account for 18% of capital expenditure over FY 19-25. Under Phase-I of Bharatmala Pariyojana, the Ministry has approved the implementation of 34,800 km of national highways in 5 years with an outlay of ` 5,35,000 Crore. Under this scheme, 22 Greenfield projects (8,000 km length) are being constructed; this is worth ` 3.26 lakh Crore. Prime Minister also launched the 'PM Gati Shakti - National Master Plan (NMP)' for multimodal connectivity. Gati Shakti will bring synergy to create a world-class, seamless multimodal transport network in India. This will boost the demand for cement in the future.

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. To meet the expanding demand in the area, it further added 200 additional dealers to the network in FY22.The company has introduced a mobile application for dealers for payments, order 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 within2-3 Km 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 the WareHousing Network.
- **Appreciation**: The company received the Prestigious "CII SCALE Award" for excellence in Supply Chain Management for the 3rdtime 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. The company is planning to set up a 4 mtpa grinding unit, each unit of 2 mtpa at two different locations in Assam with a capital investment of Rs 1500-1600 Cr.
- **Investment in green technology for sustainable tomorrow:** The company has made progressive investments in green technology and is setting up a 12 MW WHRS plant for its upcoming clinkerization 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.
- **Improving logistics and reducing cost:** The company in its effort to reduce overall logistic costs and introduced 'Stock on Wheel delivery system and optimized warehousing network. The company received the Prestigious "CII SCALE Award" for Excellence in Supply Chain Management for the 2nd time in a row.

Business Outlook

The Indian cement industry is likely to add ~80 Mn tonnes (MT) capacity by FY24, the highest in the last 10 years. Moreover, cement demand is expected to register a CAGR of 8% over FY21-24 through infrastructure investments and healthy housing demand. Per-capita income and per-capita cement consumption of the eastern and central regions are well below Pan-India numbers and thus provide huge scope for potential growth.

East India demand is expected to grow at 28% YoY and 9% CAGR over FY25-26. West Bengal and Bihar is the strongest cement consuming state in the eastern region, accounting for over 1/4thof the region's total demand at ~22 Mn tonnes and 18 Mn tonnes respectively. Cement demand in West Bengal and Bihar has also grown in the last five years with the help of the central government's housing for all as well as rapid infrastructure development in the rural and urban sectors.

In view of increasing demand in various sectors such as housing, commercial construction, and industrial construction, the country's cement industry is expected to reach 420 mtpa per annum (MTPA) by FY27. Eastern states are likely to contribute tothe development of the region as their untapped markets are likely to be explored.

Risks &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. 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 for 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 volumes 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, the company hopes to create a more sustainable environment. Its goal is to maximise resource efficiency, limit environmental effects, and positively impact communities.

- **Reducing Carbon Footprint:** The company has intensified efforts to lower its CO2 footprint. The company consciously contributes 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 the conservation of energy-
  - ✓ Increased consumption of fly ash in PPC and ARC Cement 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 Pollution Control 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 LED light 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 a tripping interlock for the capacitor bank in the event of a plant shutdown, resulting in a decrease in energy consumption

Forex Analysis

Commodities form a major part of the raw materials required for the company's products and hence, commodity price risk is one of the important market risks for the Company. The company has a mechanism to ensure that the organisation is protected from market volatility in terms of price and availability of raw materials and prefers long-term arrangements with suppliers. It does not hedge its exposure to commodity price risks.

Particulars (RsCr)	FY21	FY22	Change	Comments/Analysis*
USD	0	0	0	

Source: Company; Axis Securities.

Contingent Liability Analysis

Particulars (RsCr)	FY21	FY22	Change	Comments/Analysis
Excise/ VAT/royalty/Income Tax etc.	320	309	-3%	Claims against the company not acknowledged as debts
Duty saved under the EPCG scheme	3.2	0	-	
Total	**325.2**	**309x**		

Source: Company; Axis Securities

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

Related Party Transaction Analysis

Particulars (RsCr)	FY21	FY22	Change	Comments/Analysis
CPIL	1.4	1.2	-14%	Services received
CPIL	0.14	0.24	71%	Sale transactions
SSPL	0	0.66	100%	Purchase of capital goods

Source: Company; Axis Securities

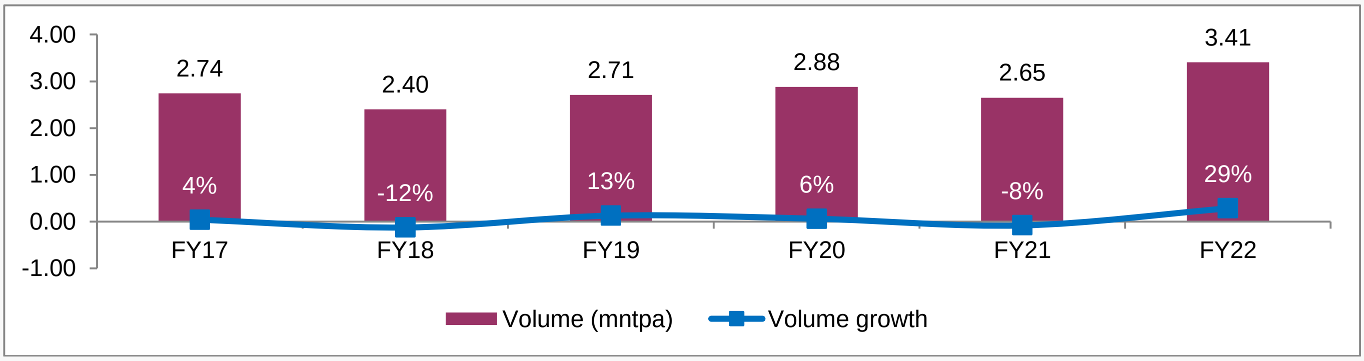
Note: All the Related Party Transactions entered into by the company are at arm's length basis and in the ordinary course of business and approval of the Audit Committee / Board is obtained, wherever required.

Profitability Analysis (Rs Cr)

Particulars	FY21	FY22	Change	Comments/Analysis
Sales	1,720	2,222	29%	Revenue growth was supported by higher volume and realization as the company ramped up its new capacity at Siliguri. The company expects to register a revenue CAGR of 21% over FY21-24E which would be driven by higher demand in the East and North-East markets.
Raw Materials/Others	1,060	1,418	34%	Higher owing to higher volume and elevated input cost during the year.
Gross Profits	660	804	22%	Higher owing to higher sales and realizations during the year.
Operating Expenses	328	459	40%	Higher owing to increase in packaging cost, Sales and Promotion cost and staff cost during the year.
Interest	7	13	85%	Higher as other borrowing costs increased by 73%YoY.
EBIT	271	257	-5%	EBIT reduced owing to higher operating costs as RM and others expenses swelled during the year.
PAT	187	247	32%	PAT was higher on account of higher sales and the previous year had an exceptional item of Rs 65 Cr relating to excise duty reversal for the earlier years.
EPS	4.54	6.11	32%	EPS in line with PAT.

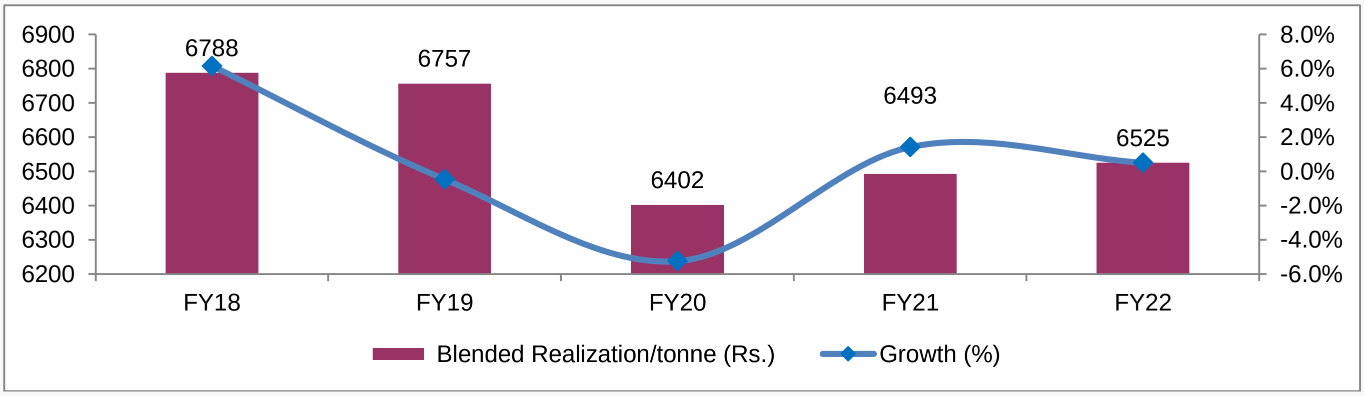
Source: Company; Axis Securities

Exhibit 4: Volume &Growth trend



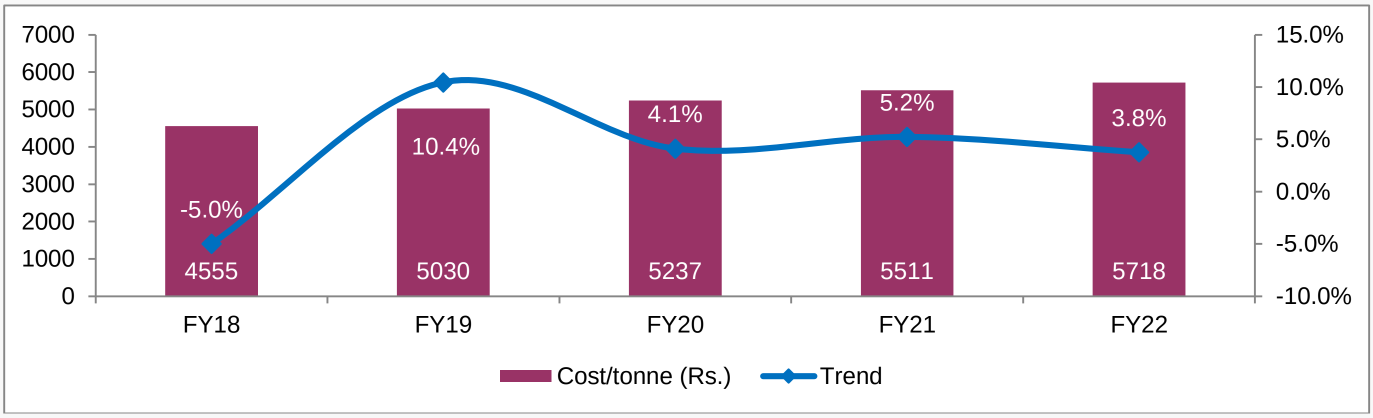
Source: Company, Axis Securities

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	FY21	FY22	Change	Comments/Analysis
Revenue	1,720	2,222	29%	Revenue growth was supported by higher volume and realization as the company ramped up its new capacity at Siliguri. The company expects to register a revenue CAGR of 21% over FY21-24E, which would be driven by higher demand in the East and North-East markets.
EBITDA	333	345	4%	EBITDA is higher owing to higher revenue and volume during the year. The company expects to register a CAGR of 14% in EBITDA over FY21-24E and would be led by better revenue and higher realization moving forward.
PAT	187	247	32%	PAT was higher on account of higher sales and the previous year had an exceptional item of Rs 65 Cr relating to excise duty reversal for the earlier years. The company expects to post a PAT CAGR of 3% over FY21-FY24E as higher tax payments will impact profitability.
EPS	4.54	6.11	32%	EPS growth is in line with the PAT
Volume (mtpa)	2.65	3.41	29%	Volume growth was supported by new capacity ramp-up and higher demand during the year post-normalization of the economic activity.

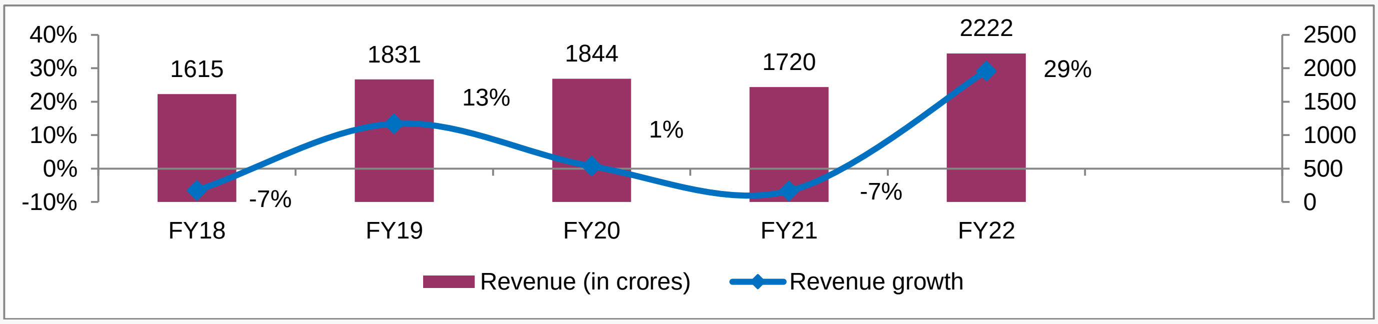
Source: Company; Axis Securities

Profitability Margins

Particulars	FY21	FY22	Change	Comments/Analysis
GPM	38.4%	36.2%	-220 bps	Impacted by high RM cost during the year as prices of inputs remained elevated.
EBITDAM	19.3%	15.5%	-380 bps	EBITDA was impacted by higher operating costs during the year.
PATM	10.9%	11.1%	20 bps	PAT margin was slightly higher on account of higher sales and the previous year had an exceptional item of Rs 65 Cr relating to excise duty reversal for the earlier years.

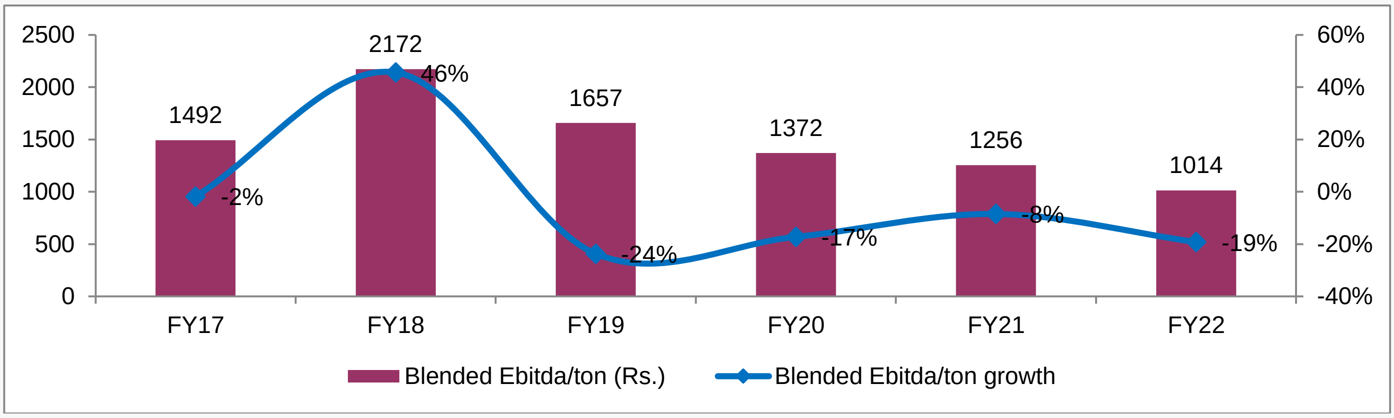
Source: Company; Axis Securities

Exhibit 7: Revenue and Revenue Growth Trend



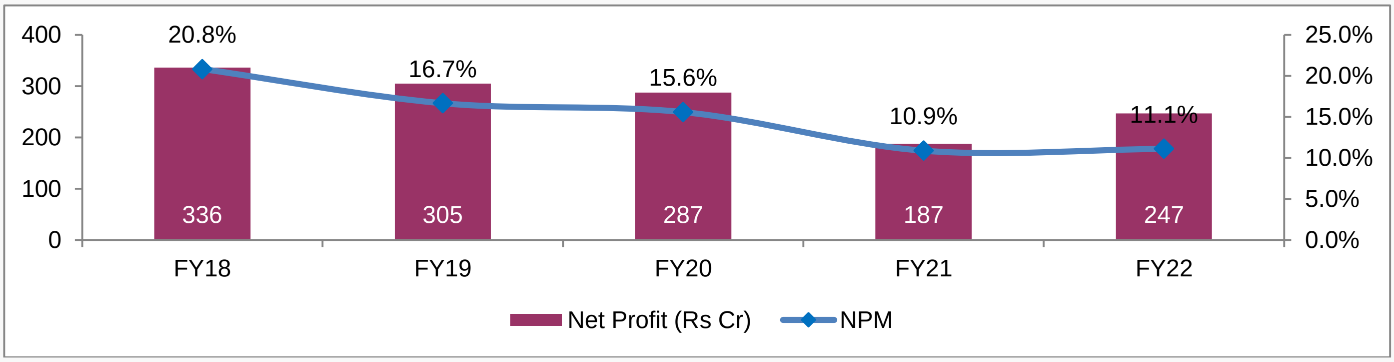
Source: Company, Axis Securities

Exhibit 8: Blended EBITDA/tonne Trend



Source: Company, Axis Securities

Exhibit 9: Net Profit and NPM Trend



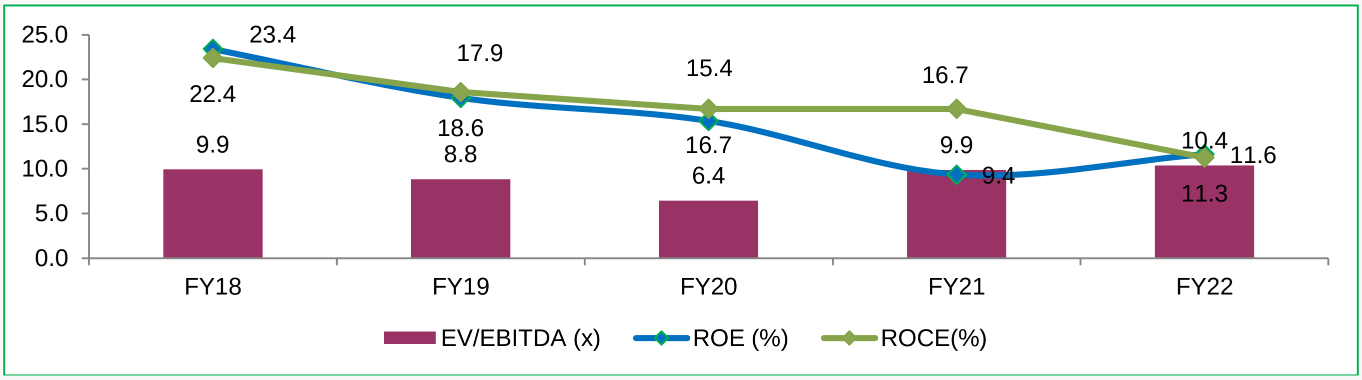
Source: Company, Axis Securities

Financial Ratios

Particulars	FY21	FY22	Change	Comments/Analysis
ROE	9.4%	11.6%	220 bps	Higher profitability resulted in higher ROE. PAT was up 32% during the year.
ROCE	12.7%	11.3%	-140 bps	Reduced EBIT impacted the ROCE. EBIT was down 5% during the year owing to higher operating costs.
Asset Turn	1.2x	1.4x	0.2 x	Asset Turnover was higher due to higher sales during the year.
Net Debt/Equity	-0.2x	-025x	0.05 x	Reduced owing to higher profit and cash generation during the year.
EV/EBITDA	11.7x	10.6x	-1.1x	Lower owing to a decrease in stock price during the year.

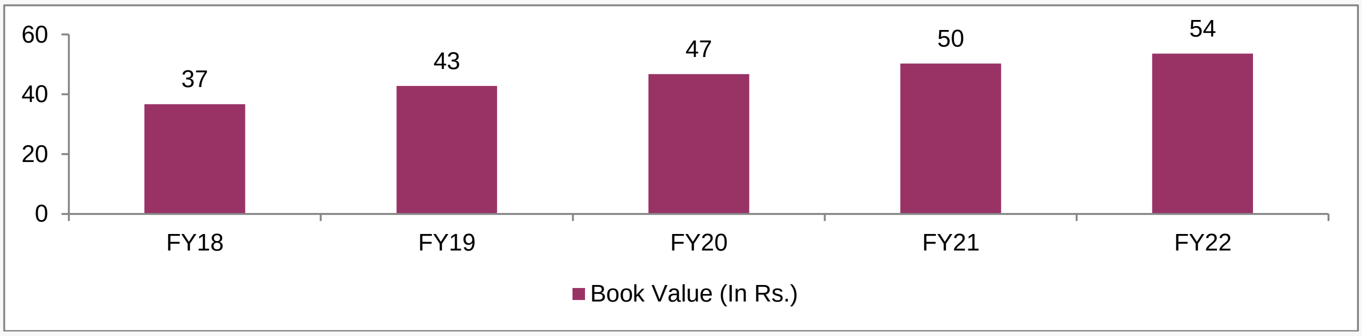
Source: Company; Axis Securities

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



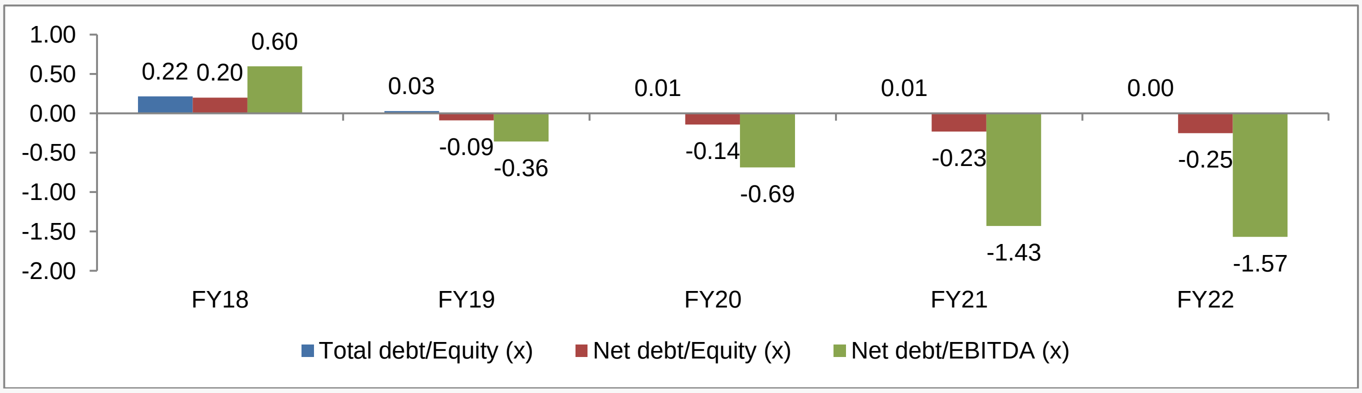
Source: Company, Axis Securities

Exhibit 11: Book Value (Rs)



Source: Company, Axis Securities

Exhibit 12: Leverage Ratio



Source: Company, Axis Securities

Key Balance Sheet Takeaways

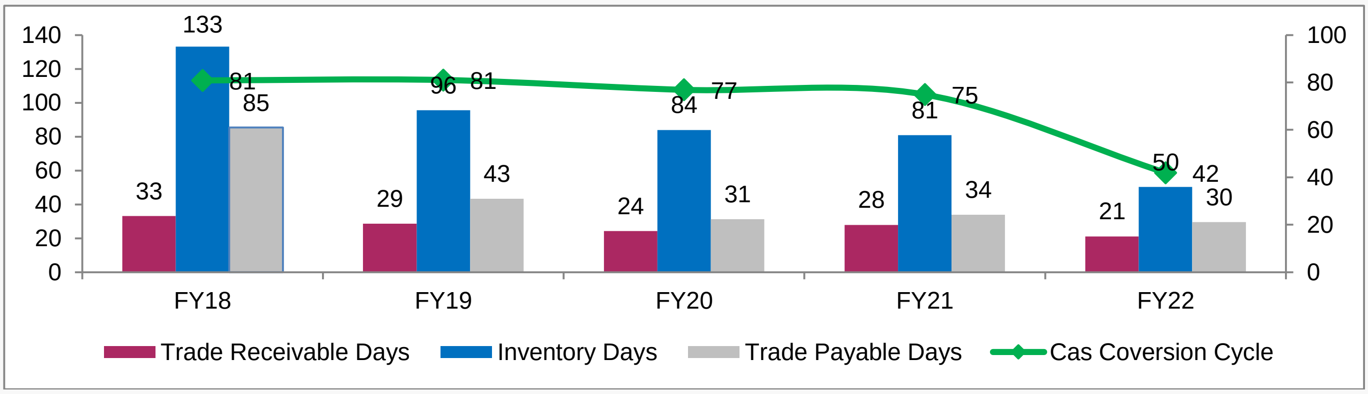
- ***Working Capital Management:***Working capital intensity decreased in FY22 as the cash conversion cycle improved to -33 days in FY22.This was on account of lower inventory and debtor days. During the year, OCF to EBITDA increased to 121% from 106% in FY21From FY17-FY22, the company generated a total OCF of Rs2,589 Cr and 28% of the total OCF (Rs736 Cr) was utilized towards the company's Capex program, indicating a normal Capex intensity. WhileCFO remained the major source of funding for the company, it generated an encouraging FCF of Rs1,680 Cr over FY17-FY22.
- ***Debt***: The company is virtually a debt-free company and the Net Debt/Equity ratio stood at -0.25x for FY22.
- ***Fixed capital formation:*** Gross Fixed Capital Formation improved to Rs1,594Cr in FY21from Rs 1,379Cr, an improvement of 16% as the company is incurring Capex to set up a 3-mtpa clinkerization unit and 12 MW WHRS unit.
- ***Capex plans:*** With increased cement demand in India, the company is looking forward to developing Capex projects. It intends to boost cement capacities in the country's attractive and highly profitable North-East and East regions. This will help it ensure sufficient capacity to meet the expanding demand. It is planning to set up 2 mtpa for each grinding unit in Assam.
- ***Cash and liquidity position:*** The company's liquidity position has reduced due to ongoing Capex in FY22. The cash &equivalent including bank balance stood at Rs 385 Cr in FY22against Rs 490 Cr in FY21, a decrease of 21% YoY.

Cash Conversion Cycle

Particulars	FY21	FY22	Change	Comments/Analysis
Inventory Days	81	50	-31	Decrease in days owing to better inventory management
Trade Receivables	28	21	-7	Decrease owing to better credit management.
Trade Payables	34	30	4	Increase in days due to strict credit terms from suppliers.
Cash Conversion Cycle	75	42	-34	CCC improved owing to better WC management.

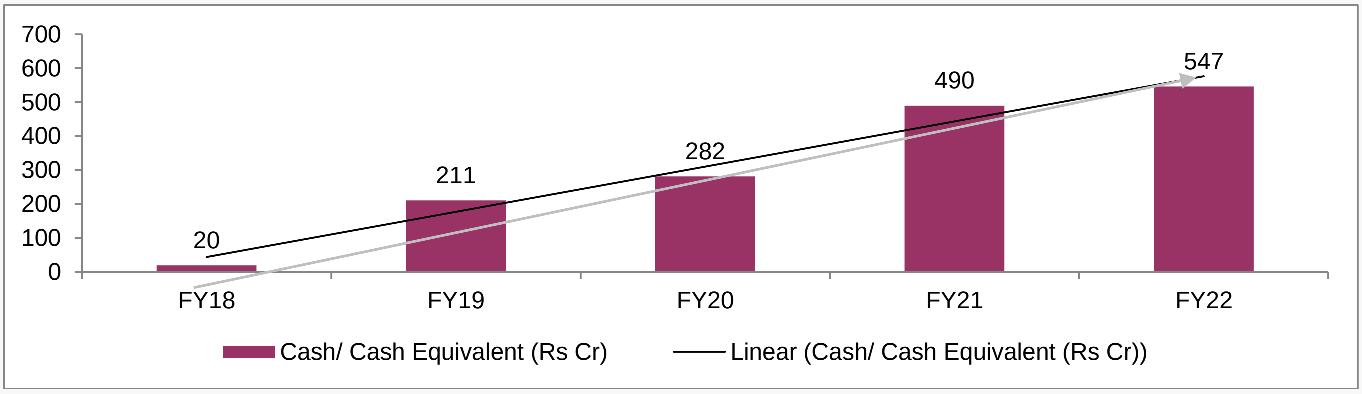
Source: Company; Axis Securities

Exhibit 13: Cash Conversion Cycle



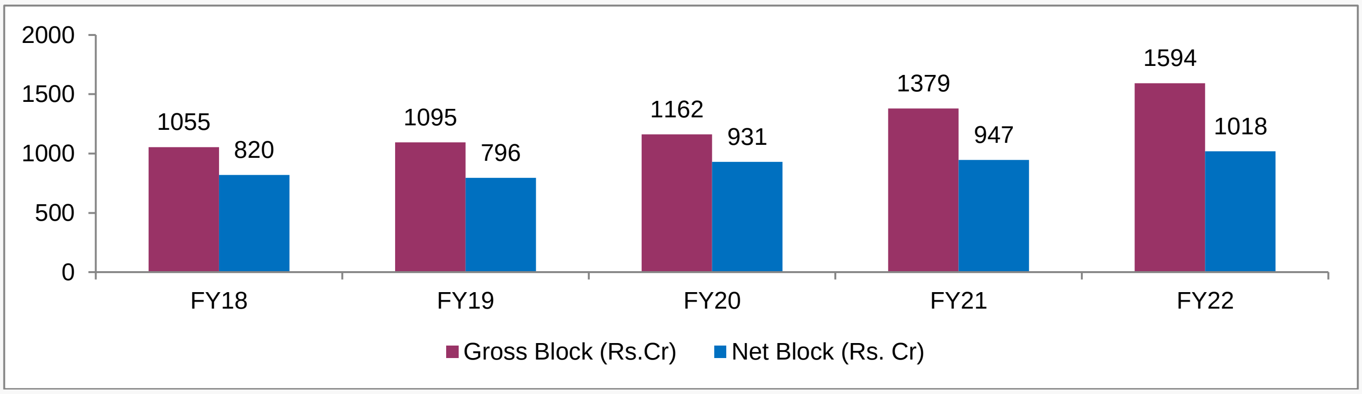
Source: Company, Axis Securities

Exhibit 14: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 15: Gross & Net Block



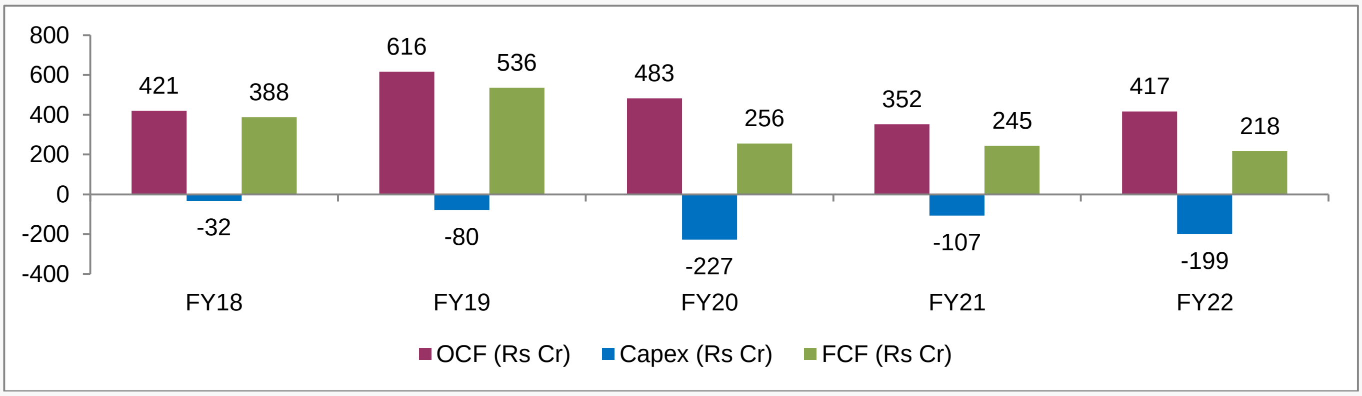
Source: Company, Axis Securities

Key Cash Flow Takeaways

Particulars (Rs Cr)	FY21	FY22	Change	Comments/Analysis
PBT	199	244	23%	PBT was higher supported by higher sales during the year.
Non-cash expenses				
Depreciation	88	119	35%	Depreciation increased as new capacity was commissioned in FY22.
Finance Cost	7	13	86%	Increased owing to increase in other borrowing costs.
Others	-22	-31	40%	Increased owing to increase in interest income.
Working Capital Adjustments	110	107	-3%	Better inventory and debtor management helped in curtailing WC.
CFO	352	417	18%	Increased owing to higher profit and better WC management duringthe year.
CFI	-333	-289	-13%	Decreased owing to the sale of investments during the year.
CFF	-3	-176	576%	Increased owing to the buyback of shares (Rs152 Cr) during the year.
Capex	-108	-199	84%	Increased owing to Capex incurred on setting up of the clinker and WHRS unit.
FCF	238	205	-14%	Decreased owing to higher Capex during the year.

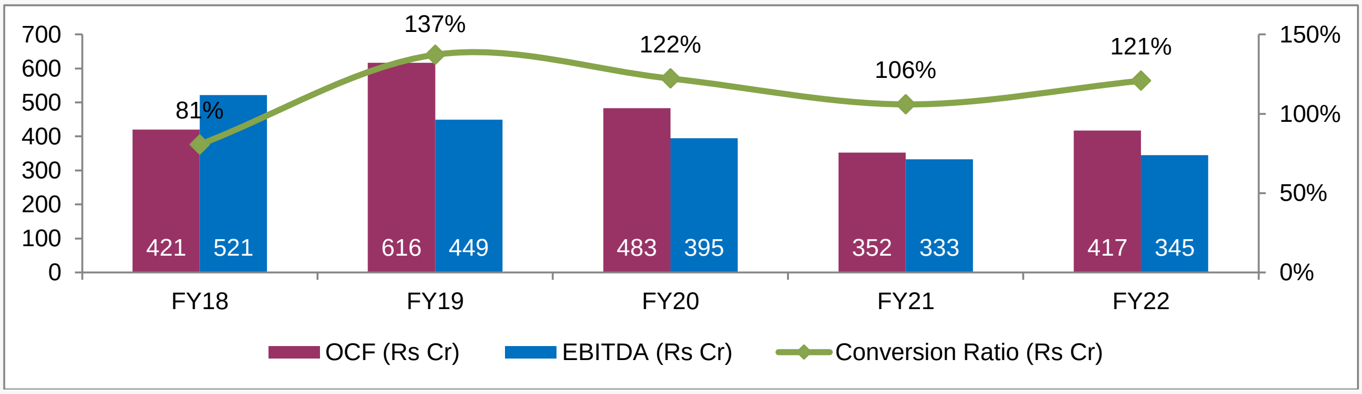
Source: Company; Axis Securities

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 the quality and standard of life and sustainable living, through contributions to local communities and society at large. During the year the company spent Rs 7.19 Cr on CSR against 8.5 Cr in FY21. Amount spent on CSR was over and above 55 of the average net profits of the last three years.

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 compliance 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.

Managerial Remuneration

The average percentile increase in the salaries of non-managerial employees in the Financial Year 21 -22 was 8.8% while the average percentile increase in the Managerial remuneration for Mr. Sajjan Bhajanka, Mr. Rajendra Chamaria and Mr. Sanjay Agarwal was NIL. Mr. Prem Kumar Bhajanka and Mr. Pankaj Kejriwal were appointed as Managing Director and Whole-time Director respectively for part of the year, hence not comparable. Percentage increase in the median remuneration of employees in the Financial Year: 3.44%.

It is hereby affirmed that the remuneration paid during the year is as per the Remuneration Policy of the Company.

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E
Net sales	**2222**	**2798**	**3148**
Other operating income	0	0	0
Total income	**2222**	**2798**	**3148**
Raw Material	574	750	818
Power & Fuel	417	554	610
Freight &Forwarding	427	508	559
Employee benefit expenses	159	197	217
Other Expenses	300	345	380
EBITDA	**345**	**443**	**565**
Other income	33	47	41
PBIDT	379	490	606
Depreciation	122	136	180
Interest & Fin Chg.	13	14	49
E/o income / (Expense)	0	0	0
Pre-tax profit	244	340	376
Tax provision	-3	121	132
RPAT	247	219	245
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
APAT after EO item	**247**	**219**	**245**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E
Total assets	**2745**	**3203**	**3969**
Net Block	1023	1586	2665
CWIP	105	55	55
Investments	0	0	0
Wkg. cap. (excl cash)	209	265	295
Cash / Bank balance	385	213	56
Misc. Assets	102	108	90
Capital employed	**2745**	**3203**	**3969**
Equity capital	40	40	40
Reserves	2128	2339	2576
Minority Interests	0	0	0
Borrowings	5	205	705
DefTax Liabilities	0	0	0
Other Liabilities and Provision	57	62	65

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E
Profit before tax	244	340	376
Depreciation	119	136	180
Interest Expenses	13	14	49
Non-operating/ EO item	-30	-47	-41
Change in W/C	106	-41	-14
Income Tax	35	121	132
Operating Cash Flow	417	281	419
Capital Expenditure	-199	-749	-1259
Investments	40	167	160
Others	-129	-3	241
Investing Cash Flow	-289	-586	-858
Borrowings	-10	200	500
Interest Expenses	-13	-14	-49
Dividend paid	0	-8	-8
Others	-152	122	0
Financing Cash Flow	-175	299	443
Change in Cash	-47	-5	3
Opening Cash	55	8	3
Closing Cash	8	3	6

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E Mar	FY22	FY23E	FY24E
Operational Ratios	29%	26%	13%
Sales growth	15.5%	15.8%	17.9%
OPM	4%	28%	28%
Op. profit growth	64%	65%	63%
COGS / Net sales	21%	19%	19%
Overheads/Net sales	8%	6%	5%
Depreciation / G. block			
Efficiency Ratios	0.81	0.87	0.79
Total Asset Turnover (x)	1.39	1.19	0.87
Sales/Gross block (x)	2.18	1.77	1.18
Sales/Net block(x)	0.15	0.17	0.09
Working capital/Sales (x)			
Valuation Ratios	11	13	11
P/BV (x)	1.3	1.2	1.1
EV/Ebitda (x)	10.4	8.7	8.3
EV/Sales (x)	1.6	1.4	1.5
EV/Tonne $ (x)	85	91	112
Return Ratios			
ROE	12	10	10
ROCE	11	14	14
ROIC	15	17	14
Leverage Ratios			
Debt/equity (x)	0.00	0.09	0.27
Net debt/ Equity (x)	-0.25	-0.11	0.22
Interest Coverage ratio (x)	19	25	9
Cash Flow Ratios			
OCF/Sales	0.19	0.10	0.13
OCF/Ebitda	1.21	0.63	0.74
OCF/Capital Employed	0.18	0.10	0.12
FCF/Sales	0.10	-0.15	-0.40
Payout ratio (Div/NP)	6.6	3.7	3.3
AEPS (Rs)	6.1	5.4	6.1
AEPS Growth	34.6	-11.2	11.6
CEPS (Rs)	9	9	11
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
04-Aug-22	BUY	105	Result Update
18-Nov-22	BUY	115	Result Update
25-Nov-22	BUY	115	AAA

Source: Axis Securities

AXIS SECURITIES

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Sector: cement/Infra

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Sector: cement/Infra

Analyst Bio: ShikhaDoshiis 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%
SELL	Less than -10%
NOT RATED	The company have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	The company will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	The company do not have any forward looking estimates, valuation or recommendation for the stock

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