

Axis Annual Analysis 2023



Star Cement Ltd

Capacity Expansion to Drive Growth; Outlook Remains Positive Summary

- Increased demand and new capacity expansion boost revenue growth:** The company reported consolidated revenue of Rs 2,705 Cr in FY23, registering robust growth of 22% YoY. This was primarily driven by increased demand and new capacity expansion at the Siliguri grinding plant, which was commissioned in FY21. The company reported an EBITDA of Rs 468 Cr, up 36% YoY. EBITDA growth was driven by higher sales volumes, better realization and controlled costs during the year. The company's sales volume increased by 18% YoY to 4.01 mtpa, driven by higher demand and new capacity ramp-up during the year.
- Robust performance in North-East and East regions:** Capacity utilization at the Siliguri Grinding Unit was an encouraging 73% in the later part of FY23, significantly higher than the 32% in Q1FY22. The company continues its strategy of focusing on the northeastern market, where it is the market leader, and it undertook several marketing initiatives in FY23 to increase sales of the new grinding unit. As a result, total sales in East India increased by 34% in FY23. The company sold 3 mtpa and 1 mtpa in the North-East and East regions respectively in FY23.
- Planned Capex of Rs 2,200-2,300 Cr:** The company plans to invest around Rs 2,200-2,300 Cr in the next 2-3 years for capacity expansion of its clinker plant with waste heat recovery (WHR) in Lumshnong (Meghalaya), and two grinding plants in Guwahati and Silchar (Assam). It expects to commission the expanded clinker capacity in Meghalaya by FY24, the grinding plant in Guwahati by FY24, and the grinding plant in Silchar by FY25.

Key Highlights

- Blended realization improves:** During the year, the company reported trade sales at 89% and the balance was non-trade. Blended realization improved marginally by 3% during the year to Rs6,740/tonne. Moreover, blended cement sale was above 90% during the year.
- Proactive initiatives to expand digital footprint:** On the digital front, the company has taken extensive steps to expand its digital footprint by introducing various applications to empower its sales force, dealers, distributors and contractors
- Evaluating opportunities:** The company is also evaluating potential expansion opportunities outside the Northeast region, including the acquisition of a mine or plant. It will pursue specific opportunities depending on factors such as cost, feasibility, and alignment with the company's long-term goals.

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 km 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) Ramped 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 digitization processes.

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) Strengthening the dealer and distribution network; b) Focusing on volume growth; c) Pursuing inorganic growth opportunities; d) Ensuring profitability; e) Innovation; f) Brand Building; g) Sustainable operation

Outlook & Recommendation: Increased cement demand is expected to continue in the East and North-East regions 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%/16% during FY23-FY25E. The stock is currently trading at 12x and 10x FY24E/FY25E EV/EBITDA. The company maintains its **BUY** rating on the stock with a TP of Rs185 /share, implying an upside potential of 16% from the CMP.

Key Financials (Consolidated)

(RsCr)	FY23	FY24E	FY25E
Net Sales	2,705	3,088	3,525
EBITDA	468	590	711
Net Profit	248	317	332
EPS (Rs)	6.1	7.8	8.2
PER (x)	11	9	8
EV/EBITDA (x)	13.6	11.9	9.9
P/BV (x)	1.1	1.0	0.9
ROE (%)	10.8	12.3	11.5

Source: Company, Axis Research

(CMP as of Sept 14, 2023)

CMP (Rs)	156
Upside /Downside (%)	19%
High/Lower (Rs)	170/93
Market cap (Cr)	6317
Avg. daily vol. (6m) Shrs.	1,14,828
No. of shares (Cr)	41.2

Shareholding (%)

	Dec-22	Mar-23	June-23
Promoter	67.03	67.12	66.8
FII's	0.53	0.63	0.7
MFs / UTI	5.9	5.9	6.0
Banks / Fls	0	0	0.0
Others	26.54	26.35	26.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
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Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	0	0
EBITDA	0	0
PAT	0	0

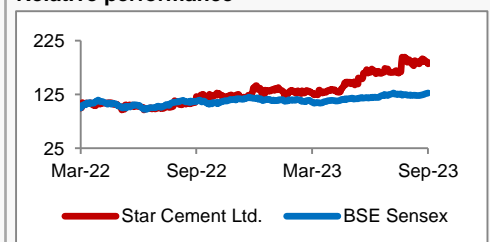
ESG disclosure Score**

Environmental Disclosure Score	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A
Sector Average	46

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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Company Overview

Star Cement Limited (Star Cement) was established in 2001 and is one of India's leading cement companies with operations in eastern India. The company is the largest cement manufacturer in the northeast Indian region and an emerging player in the states of West Bengal and Bihar. The company's 200-hectare Lumshnong plant is strategically located in Meghalaya, ensuring easy availability of high-grade limestone at competitive prices.

Star Cement and its subsidiaries have four manufacturing plants in Meghalaya and one each in Assam and West Bengal. The company's extensive product portfolio includes 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 recognized brands in the region, known for its premium quality and fair prices. It has recently set up a 2 mtpa clinker grinding plant in Siliguri, WB, to meet the growing demand for cement in West Bengal and Bihar. The total current capacity of the company stands at 5.7 mtpa and Clinker's capacity stands at 2.7 mtpa.

Leading Cement company in North East India with estimated 23% market share .

FY23-PerformanceRound-up

- Robust financial performance:** The company reported revenue of Rs 2,705 Cr in FY23, up 22% YoY, owing to higher volume and better realization. Its blended realization for the year improved by 3% to Rs 6,739/tonne owing to better prices in the Northeast region. The cement volume grew by 18% YoY (FY23- 4.01 mtpa vs. FY22- 3.41 mtpa), as higher demand and new capacity ramp-up supported volume offtake. Overall cost/tonne also increased by 1% to Rs 5,572 in line with the current inflationary trend.
- Higher EBITDA:** The company's EBITDA for the year stood at Rs 468 Cr in FY23, up 36% from Rs 345 Cr in FY22 owing to higher volume and realization. Volume growth was supported by the new capacity ramp-up of the Siliguri Unit and higher sales in North-East market.
- Better cost control during the year helped margins expansion:** The company reported an EBITDA margin of 17.3% in FY23 against 15.5% in FY22 as cost control initiatives and the benefit of operating leverage aided in margins expansion. EBITDA/tonne stood at Rs 1,167, up 15% from Rs 1,014/tonne in FY22.
- Net profit growth muted:** The company's net profit witnessed flat growth as the lower tax benefit enjoyed by the company under the IT Act expired during the year and the company is now subject to a normal tax rate.
- Enhanced the sale of blended cement:** The company enhanced the sale of blended cement in total cement sold to over 90% in FY23 from 90% in FY22, further supporting its goal of achieving and promoting environmental sustainability. Its capacity utilization in FY23 stood at 71%.
- Premium Cement Sale:** During the year, the company also enhanced its efforts to raise the sales volume of premium Cement and it formed 4% of overall trade sales during the year. With continued focus and increased penetration, the sale of premium cement is expected to increase moving ahead as part of overall trade sales.

The company reported robust revenue and EBITDA growth with higher EBITDA margins . Volume growth momentum to be maintained.

Exhibit 1: Trade & Non Trade Mix in FY22

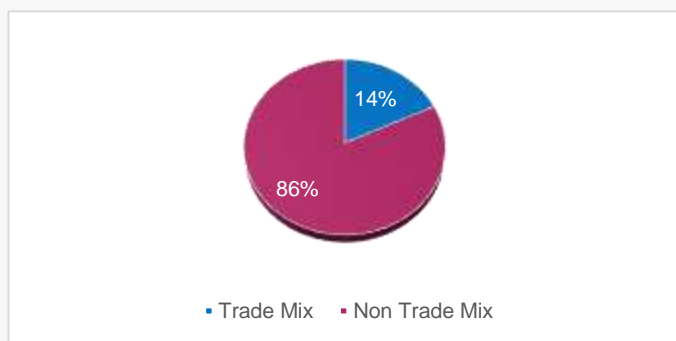
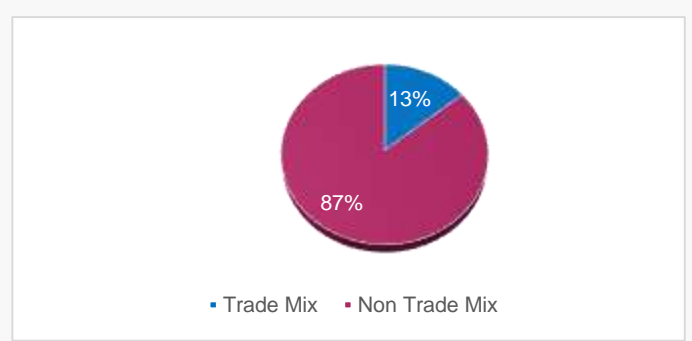


Exhibit 2: Trade & Non Trade Mix in FY23



Source: Company, Axis Securities

Key operational activities during the Year

Siliguri unit ramped up well

In FY21, the company commenced commercial operation of a 2 mtpa clinker grinding unit in Siliguri to cater to the growing demand in West Bengal and Bihar. The unit ramped up well during the year and the capacity utilization stood at 55% during the year. It was raised to 73% in Q4FY23. Ramping up the production from the unit further remains one of the key objectives of the company's moving ahead.

Clinker Production

The company's total clinker production on a consolidated basis in FY23 stood at 2.72 mtpaas against 2.17 mtpa in FY22. The capacity utilization of clinker units increased to 96% in FY23 from 86% during FY23 due to higher volume sold.

Marketing strategies

The company is constantly developing new marketing strategies to achieve high customer recall and positive brand perception. To achieve this goal, it has hired well-known Bollywood actor – Akshay Kumar as its brand ambassador. The company has also been actively expanding its reach in the markets of West Bengal and Bihar to reach the deeper pockets of these regions.

North-East Market

The Northeast market continued to be the company's key focus area. Cement demand was good throughout the year in the region and demand in the NER region increased by 9% compared to an estimated India-wide average of 8%. Total demand for cement in the Northeast was 13 MnTonnes in FY23, compared to 12 MnTonnes in FY22. As the market leader in NER, the company continued to expand its dealer and sub-dealer network. Currently, the company is associated with 1,600 dealers and 12,000 sub-dealers.

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.

Increasing use of AFRs

The increase in alternative raw material usage from 26% to 31% in FY 22-23 has helped reduce the clinker factor by 4%, while exploring the use of synthetic gypsum further conserves mineral gypsum extracted from the environment

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 network
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

Siliguri unit ramping up well . New marketing strategies are implemented for better penetration. Green energy use increasing.

Cost Optimization Measures

Total cost/tonne: In FY23, total cost/tonne increased by 1% to Rs5,570 against Rs5,511 in FY22

Power & Fuel Costs: Power & Fuel Cost was up 16% per tonne during the year, in line with the inflation trend seen in FY23. The company continued to source its power requirements for the Lumshnong plant from its wholly-owned subsidiary M/s. Meghalaya Power Limited at competitive prices, thereby reducing its dependence on the state power utility/grid. The Guwahati grinding plant and the integrated plant at Lumshnong sourced power from the Indian Energy Exchange. The availability of coal from local sources remained constrained. Coal was mainly procured from Coal India Limited (CIL) through FSA and domestic/international traders. The company also procured a large quantity of coal from CIL through spot auctions during the year, which helped in keeping the overall cost under control. The company has been committed to promoting renewable resources and reducing the consumption of electricity from fossil fuels. The use of biomass and bamboo has also helped reduce dependence on traditional energy sources

Freight Cost: The company's freight/tonne stood at Rs 1,224 in FY23, down 2% from Rs 1,254 in FY22 owing to better freight management, although the volume sold increased during the year. Diesel prices were stable during the year. Freight costs (NE) continued to be affected on the Guwahati – Shillong – Silchar route due to damage to the Dwarksuid Bridge on the Shillong Bypass. The company overcame these challenges to ensure supply to the market while keeping costs under control. Rail Siding got operational at the Siliguri plant in FY'23, which ensured the market was served with reduced Order-to-Delivery Time and better market penetration. The availability of rake deliveries from the Siliguri plant enabled approximately 22,500 MT to be shipped via rakes in the peak month of Mar'23, which was mainly impacted by the Potato Harvesting Season.

Logistics cost efficiencies continued to improve through sustained efforts of key initiatives such as monthly RFPs, PTPK outlier corrections, and levers. The weighted average lead distance remained in the 220 KM range. The Integrated Vehicle Access Control and Logistics Management System (IVL) was soft-launched on Dec'22 and is in the implementation phase. Once fully operational, IVL will fully automate and digitize end-to-end logistics and invoice processing. The company has always focused on providing its customers with the best logistics service to deliver on time and at the lowest cost. To this end, more than 150 GPS-enabled specialized fleets were introduced to improve customer service. These fleets ensured that during the potato season, when fleet availability is a major concern, most deliveries could be made from the Siliguri plant.

Raw Material Cost: Raw material cost per tonne declined by 7% YoY to Rs1,563 owing to the grouping of expenses under power/fuel and others. FY'23 Target of above 40 Lc MT resulted in increased production of Portland Pozzolana Cement (PPC) as well. As a result, the company could consume a higher quantity of Fly Ash which is otherwise an environmental hazard. In the process, the company could procure 12.7 Lc MT of Fly Ash which is 44% higher as compared to FY'22

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. It sourced Bagged FlyAsh at its Siliguri Plant resulting in cost savings & continuous availability of FlyAsh.

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.
- ✓ Upgrading pyro jet main firing burner to improve operational efficiency.
- ✓ Roto-scaling the coal feeding system to improve operations.
- ✓ Vibrating screen in the tertiary crusher to improve raw mill grinding.
- ✓ Variable frequency drives to reduce power consumption.

Various initiatives undertaken to reduce overall cost and overall cost is expected to reduce moving ahead.

Key Growth Drivers

Increasing Demand

India is the second largest cement producer in the world. The country has great potential for development in the cement sector. The infrastructure and construction sectors contribute most to the development of the sector. The Indian cement industry is expected to add ~80 Mntones (MT) of capacity by FY24, the highest in the last 10 years. Cement demand will register a CAGR of 9% between FY23 and FY27 due to infrastructure investments and healthy housing demand. Per capita income and per capita consumption of cement in the eastern and central regions are far below Pan-India figures, providing ample scope for potential growth.

Increasing Consumption in Eastern and North-Eastern

Demand in eastern India is expected to grow 28% at a CAGR of 9% through FY 25-26. West Bengal and Bihar are the largest cement consumers in the eastern region, accounting for 19 million tons per year and 18 million tons per year, respectively, and more than a quarter of the region's total demand. Cement demand in West Bengal and Bihar has also increased in the last five years, thanks to the central government's "Housing for All" program and rapid infrastructure development in rural and urban areas. The central government has approved Rs 2 Lc Cr for road projects covering over 14,000 km in northeast India. In the northeastern states, the Ministry of Road Transport and Highways is implementing 197 road development projects under various schemes and programs, which will have a positive impact on cement demand.

Railway and Hydro Power Infrastructure

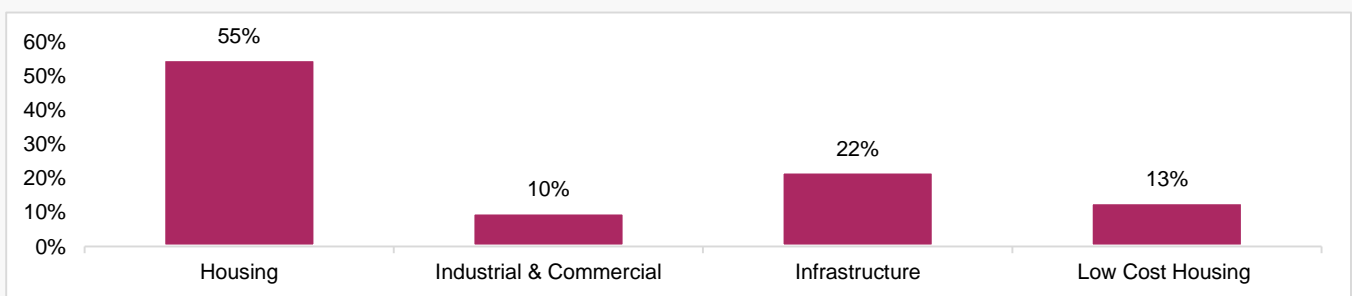
Indian Railways has planned several projects worth at least Rs 40,000 Cr to connect the capitals of five northeastern states with 20 major railroad projects. In addition, the northeastern region has the largest hydropower potential in India, 98% of which remains untapped. 63,000 MW of hydro-power capacity has been identified, of which 14,000 MW has already been awarded to private companies, representing a 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 northeast, further increasing demand prospects.

Proactive Government Initiatives

In the Budget FY 23-24, the government underlined its intention to develop the infrastructure sector, and effective capital expenditures were increased by 30%. Capex for the Ministry of Road Transport and Highways were increased by 25%. The allocation for PM AwasYojana was increased, which will directly benefit the country's cement industry. The budget for metro cities has also been increased by 25%. 50 new airports will be built and 100 critical transport infrastructures will be developed. The government has earmarked investments of Rs 2.40 LcCrore for railways, which will help improve the country's transportation infrastructure. This investment in the rail sector will improve regional connectivity and increase the efficiency of goods and services. Indian Railways intends to rapidly redevelop the infrastructure of more than 1,000 stations under the AMRUT Bharat Station scheme. The government's 'Aatmanirbhar' strategy, i.e., self-reliance, was a central theme of the budget, with a focus on supporting domestic industry and promoting local manufacturing.

Higher focus on infra development along with affordable housing and real estate development to keep Cement demand elevated and expected to grow at CAGR of 8%-9% over FY23-FY25E.

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 1,600 dealers and 12,000 retailers. 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. The company is running a mobile application for dealers, influencers, sales, branding and technical teams as follows:

- i) Star Saathi App for Dealers
- ii) Customer Web Portal for Dealers
- iii) Digital Displays in Dealer counters
- iv) Star Lotus App for Contractors
- v) Star Steller App for Engineers
- vi) Sales Force Automation App for Sales, Branding and Technical department

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 within 2-3 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 optimization 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 and 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 to improve Service Levels such as the "Stock on Wheels" delivery system, and optimization of the Warehousing Network.

The company robust dealer network lend support to higher volume growth. New initiatives are undertaken for better interaction with stakeholders.

Key strategies moving forward

- **Strengthening the dealer and distribution network:** Star Cement's success is underpinned by its robust dealer and distribution network. The company has consistently prioritized building and maintaining strong relationships with its partners, providing exceptional customer service and competitive pricing. By further expanding this network, the company aims to leverage its existing market presence and drive sustainable growth.
- **Focus on volume growth:** An important part of the growth strategy is to focus on expanding the company's volume offtake. To achieve a growth rate of ~12%-15% in volumes this year, it intends to leverage its strong dealer and distribution network and explore opportunities to expand sales in untapped markets. By leveraging well-established distribution channels, the company is confident of capturing a larger market share and advancing its growth trajectory.
- **Pursuing inorganic growth opportunities:** In addition to organic growth, Star Cement is also actively seeking inorganic growth opportunities. The company is actively seeking potential acquisitions of mines and smaller assets that are consistent with its strategic objectives. Acquiring these assets will allow the company not only to expand its production capacity but also to gain access to new markets, thus strengthening its position as a leading player in the industry.
- **Ensuring profitability:** Star Cement emphasizes maintaining a strong level of profitability. With a target to sustain profitability, the company focuses on operational efficiency and harnesses its pricing power to maximize returns. By continuously optimizing operations, controlling costs, and delivering value-added products, it aims to uphold profitability and enhance shareholder value.
- **Innovation:** Star Cement recognizes the importance of innovation. The company has allocated significant resources to research and development to develop new products and improve its existing product portfolio. By fostering innovation, the company aims to maintain a competitive edge in the marketplace, meet ever-changing customer demands, and drive industry development.
- **Brand Building:** Star Cement emphasizes brand building as a strategic pillar for growth. Through targeted advertising, strategic sponsorships, and other impactful marketing initiatives, the company seeks to enhance its brand image and increase market share. By effectively communicating its value proposition and unique offerings, the company aims to build trust and loyalty among customers, fostering long-term relationships and driving market penetration.
- **Sustainability:** Star Cement is committed to sustainability and has integrated sustainable practices throughout its operations. By actively reducing its environmental footprint, implementing eco-friendly technologies and adopting sustainable processes, the company aims to minimize its impact on the environment and contribute to a greener future. This commitment to sustainability not only aligns with global environmental goals but also serves as a key differentiator that attracts environmentally conscious customers and investors who value responsible business practices.

Strategies implemented to further enhance market share in its operating region.

Business Outlook

Cement demand in eastern India is expected to grow at a CAGR of 8% to 9% between FY23 and FY25. West Bengal and Bihar are the states with the highest cement consumption in the eastern region, accounting for more than a quarter of the total demand in the region (estimated at 19 Mn tonnes and 20 Mn tonnes, respectively). Cement demand in West Bengal and Bihar has also increased over the last five years with the help of the 'Housing for All' programme initiated by the central government, as well as rapid infrastructure development in rural and urban areas, leading to rising demand in various sectors such as residential, commercial and industrial construction.

As a strategy, the Northeast market remained the focus market for the company. Cement demand was good throughout the year. Demand in NER increased by 9% compared to an India-wide average of an estimated ~8%.

Risks & Mitigation

The company has established an extensive and well-designed risk management framework to identify, assess, and mitigate key risks that 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 advise the management as required.

Domestic Sales Risk: The company's dependence on the domestic market and the concentration of its business on the regional market over a longer period may affect growth prospects. Less than optimal demand growth in the region may reduce the company's revenues as well as its overall profitability.

Mitigation: The company plans to further expand its operations to the central region by building a cement plant there, which will reduce its dependence on the northeast market.

Competition Risk: Multiple large players along with many small players operating in the cement industry make 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 regionalized, 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 mainly 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, and coal, among others. Any major changes in the government's Environmental and Forest regulations may also impact limestone and coal availability at 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.

Outlook remains positive on the back of higher demand .

The company is exposed to many risks and it takes appropriate measures to deal with these risks.

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 31% to 34%
 - ✓ 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 fittings 250W 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

Sustainability remains one of the key focus and many initiatives are employed to reduce carbon footprint.

Forex Analysis

Commodities account for a large portion of the raw materials required for the company's products, and therefore commodity price risk is one of the most important market risks for the company. The company has a mechanism in place to ensure that it is protected from market volatility in the price and availability of raw materials and prefers long-term agreements with suppliers. The company does not hedge against commodity price risk.

During the period under review, Foreign Exchange Earning was NIL (Previous Year – NIL) and the Foreign Exchange Outgo was 26 Cr (Previous Year Rs 5.24 Lc).

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis*
USD	0	0	0	

Source: Company; Axis Securities.

Contingent Liability Analysis

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis
Income tax demand.	55	26	-53%	Claims against the company not acknowledged as debts
Excise duty demand	9	9	-	
Royalty & cess demand	26	26	-	
Royalty & cess demand	-	9	100%	
Demand for Custom Duty	4	4	-	
Service tax demand	6.5	6.5	-	
Goods & service tax demand	35	35	-	
Others	2.4	2.2	-8%	
Total	137.9	117.7		

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 favourable decisions in the cases mentioned above and hence no provision is considered necessary.

Related Party Transaction Analysis

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis
CPIL	0.24	0.30	25%	Sale transactions
SSPL	4.85	53.5	1000%	Purchase of capital goods
CLL	0.24	0.33	37%	Purchase transactions

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.

Managerial Remuneration

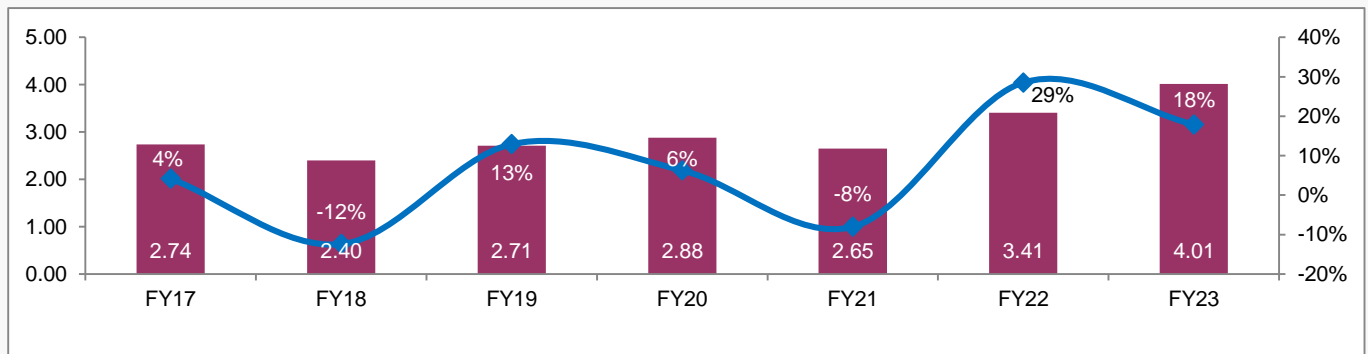
The average percentile increase in the salaries of non-managerial employees in the FY23 was 9.90% while the average percentile increase in the Managerial remuneration for Mr. Sajjan Bhajanka, Mr. Rajendra Chamaria, Mr. Pankaj Kejriwal and Mr. Sanjay Agarwal was NIL. The percentile increase in the Managerial remuneration of Mr. Prem Kumar Bhajanka as Managing Director was 85.02%.

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

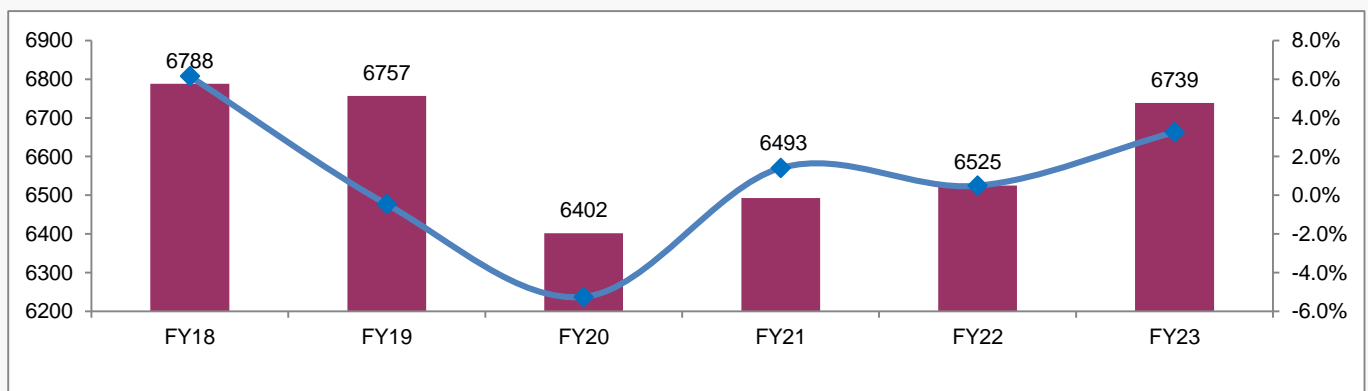
Profitability Analysis (Rs Cr)

Particulars	FY22	FY23	Change	Comments/Analysis
Sales	2,222	2705	22%	Revenue growth was supported by higher volume and realization as the company ramped up its new capacity in Siliguri and saw better demand in the Northeast market. The company expects to register a revenue CAGR of 14% during FY23-25E, driven by higher demand in the East and North-East markets.
Raw Materials/Others	1,418	1689	19%	Higher owing to higher volume and elevated input cost during the year.
Gross Profits	804	1017	26%	Higher owing to higher sales volume and realizations during the year.
Operating Expenses	459	548	19%	Higher owing to increased volume, Sales and Promotion cost and staff cost during the year.
Interest	13	10	-23%	Lower as other borrowing costs decreased by 25%YoY.
EBIT	257	389	51%	EBIT was higher owing to better operating performance during the year
PAT	247	248	-	PAT was flattish as the tax holiday period enjoyed by the Group's Guwahati Grinding Unit and its subsidiary, Star Cement Meghalaya Limited (SCML) u/s 801E of Income Tax Act, 1961 has ended in the financial year 2021-22 leading to an overall increase in the Group's tax expenditure.
EPS	6.11	6.13	-%	EPS in line with PAT.

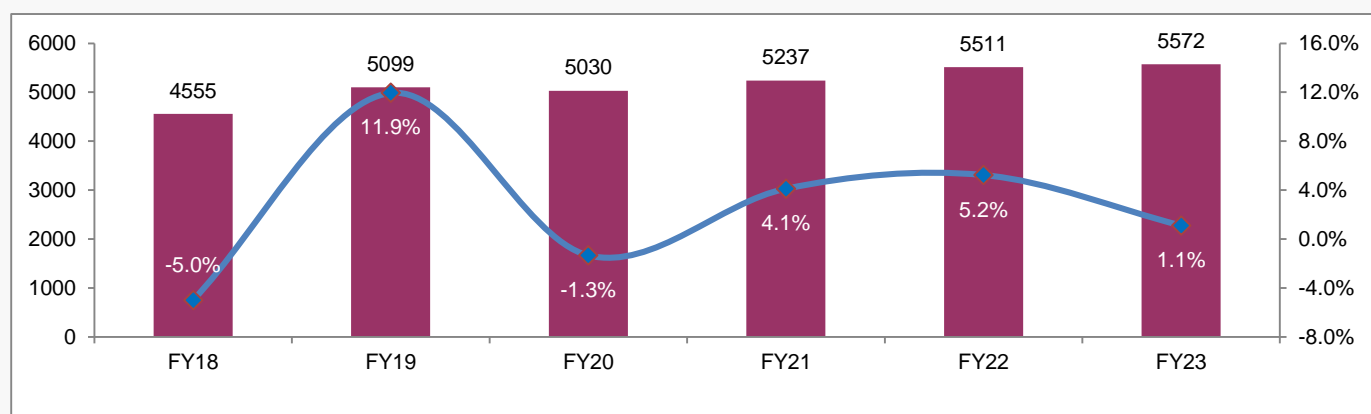
Source: Company; Axis Securities

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)

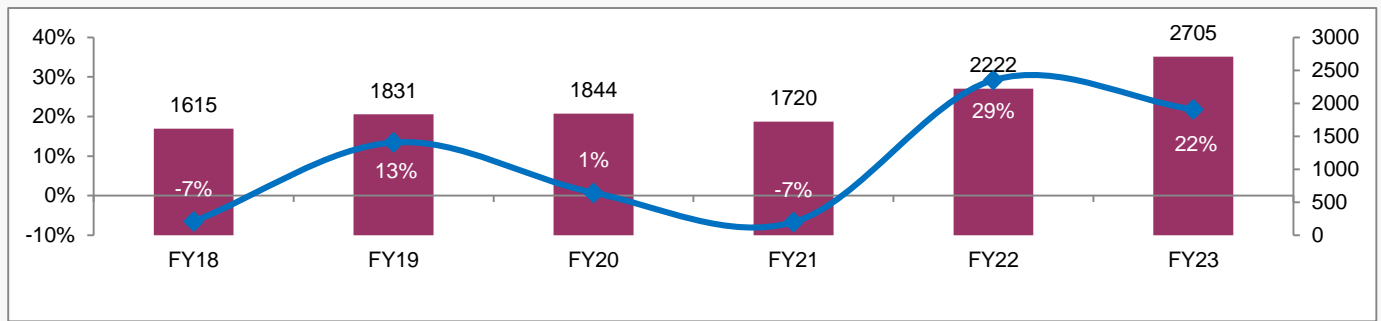
Particulars	FY22	FY23	Change	Comments/Analysis
Revenue	2,222	2,705	22%	Revenue growth was supported by higher volume and realization as the company ramped up its new capacity at Siliguri and better demand in the Northeast market. The company expects to register a revenue CAGR of 14% over FY23-25E which would be driven by higher demand in the East and North-East markets.
EBITDA	345	468	36%	EBITDA is higher owing to higher revenue and volume during the year. The company expects to register a CAGR of 23% in EBITDA over FY23-25E and would be led by better revenue and higher realization moving forward.
PAT	247	24	-	PAT was flattish as the tax holiday period enjoyed by the Group's Guwahati Grinding Unit and its subsidiary, Star Cement Meghalaya Limited (SCML) u/s 801E of Income Tax Act, 1961 ended in the FY22, leading to an overall increase in the Group's tax expenditure. The company expects to report a PAT CAGR of 16% over FY23-FY25E.
EPS	6.11	6.13	-	EPS growth is in line with the PAT
Volume (mtpa)	3.41	4.01	18%	Volume growth was supported by new capacity ramp-up and higher demand during the year in the Northeast region.

Source: Company; Axis Securities

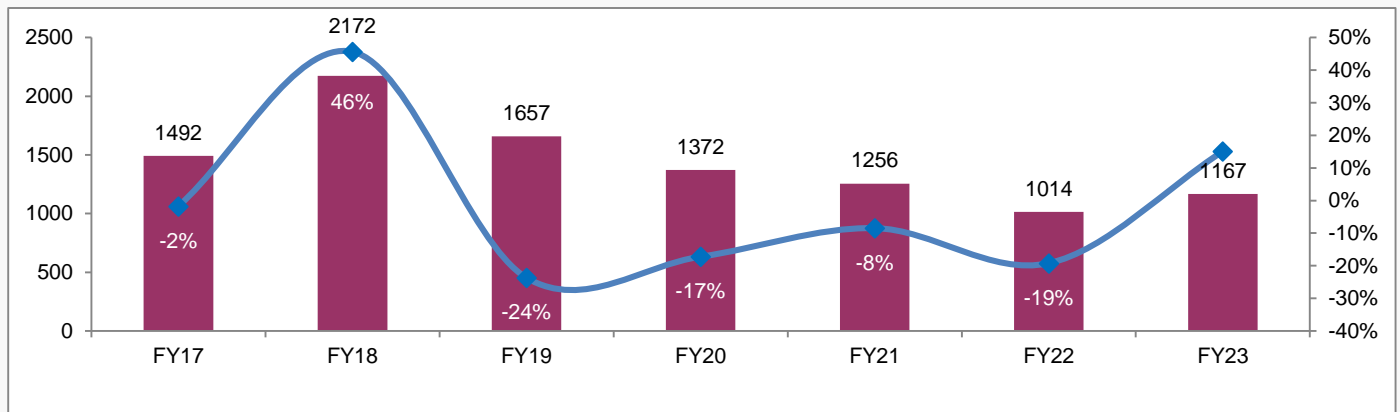
Profitability Margins

Particulars	FY22	FY23	Change	Comments/Analysis
GPM	36%	38%	200 bps	Higher owing to better operating performance and controlled costs
EBITDAM	15.5%	17.3%	180bps	EBITDA was higher owing to higher sales volume, realization and controlled cost
PATM	11%	9%	-200bps	PATM was lower as the tax holiday period enjoyed by the Group's Guwahati Grinding Unit and its subsidiary, Star Cement Meghalaya Limited (SCML) u/s 801E of Income Tax Act, 1961 has ended in the FY22, leading to an overall increase in the Group's tax expenditure.

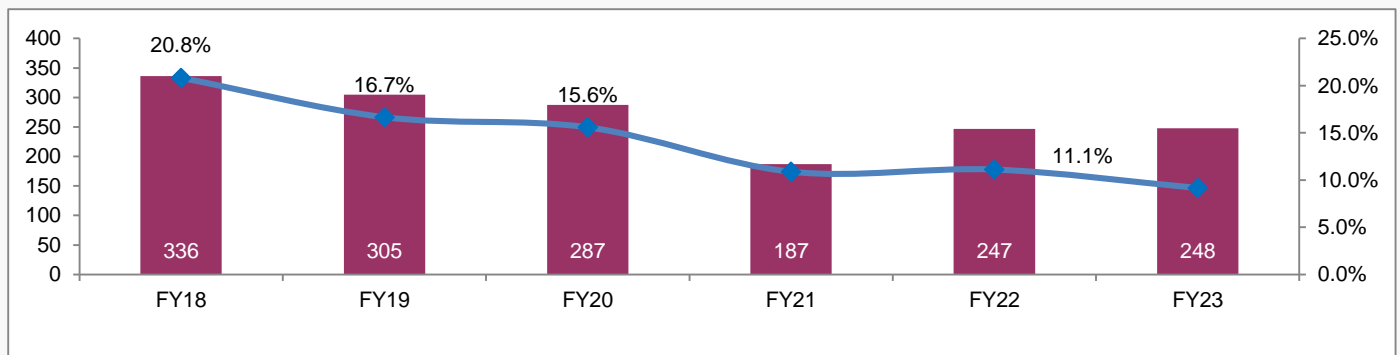
Source: Company; Axis Securities

Exhibit 7: Revenue and Revenue Growth Trend


Source: Company, Axis Securities

Exhibit 8: Blended EBITDA/tonne Trend


Source: Company, Axis Securities

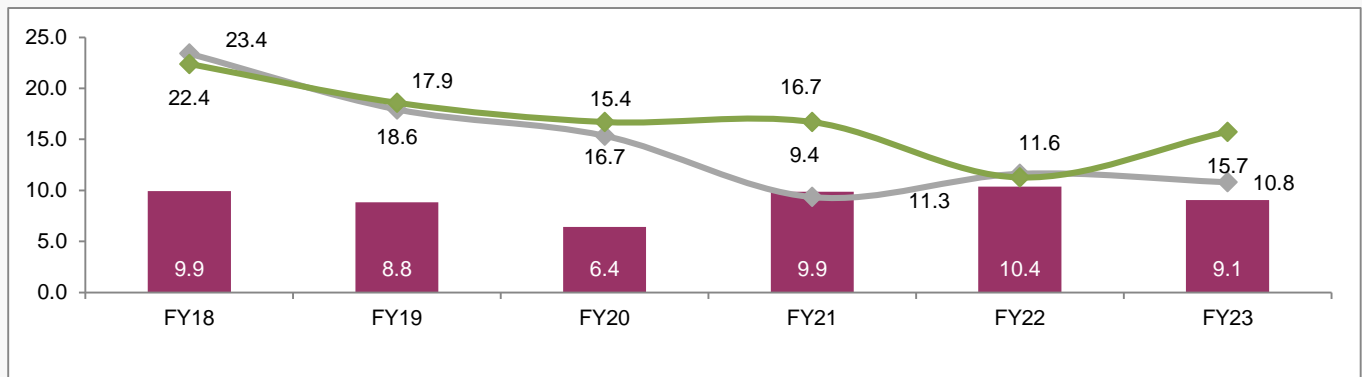
Exhibit 9: Net Profit and NPM Trend


Source: Company, Axis Securities

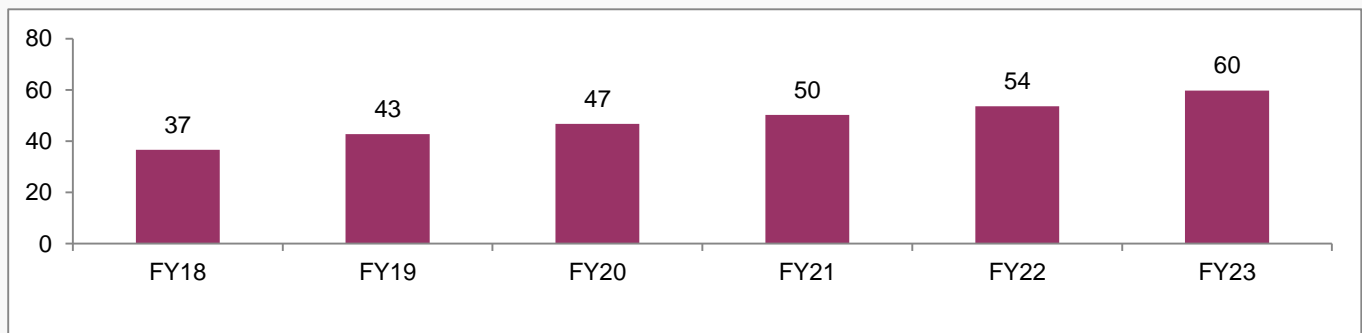
Financial Ratios

Particulars	FY22	FY23	Change	Comments/Analysis
ROE	11.6%	11%	-60 bps	Flattish profitability resulted in slippage in ROE
ROCE	11.3%	15.7%	440bps	Higher EBIT lifted the ROCE
Asset Turn	1.4x	1.6x	0.2 x	Asset Turnover was higher due to higher sales during the year
Net Debt/Equity	-0.25x	-0.12x		Slightly higher owing to lower cash generation during the year
EV/EBITDA	10.6x	9x	-1.6x	Lower owing to a decrease in m/cap during the year

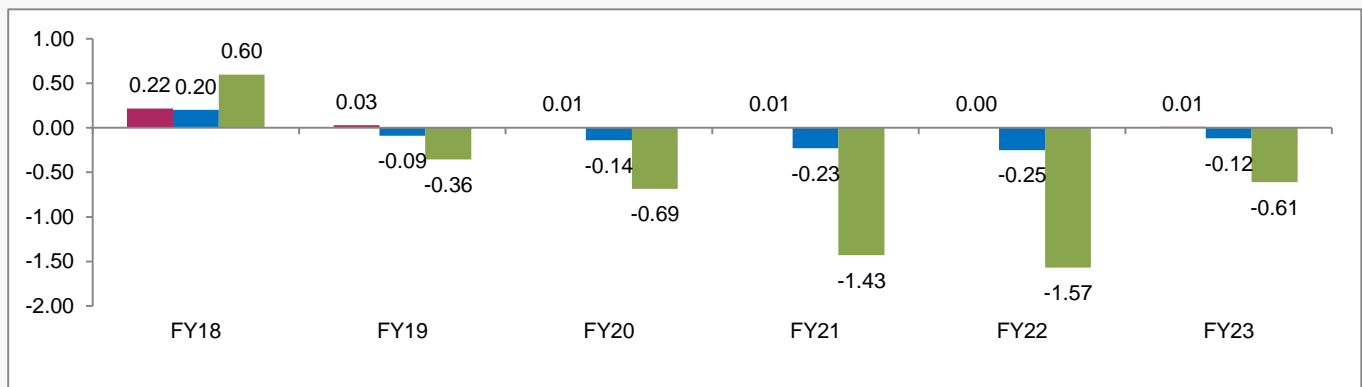
Source: Company; Axis Securities

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

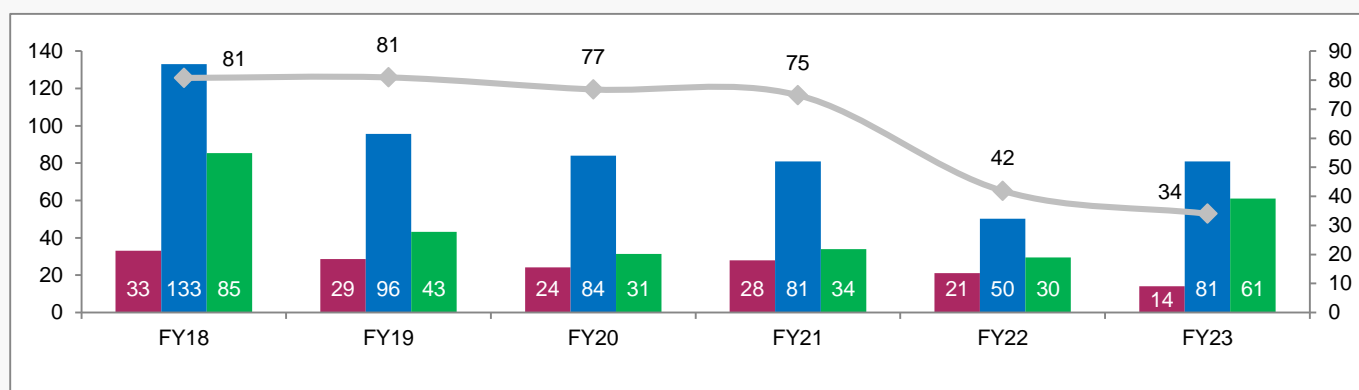
- Working Capital Management:** Working capital intensity decreased in FY23 as the cash conversion cycle improved to 34 days from 42 days in FY22. This was on account of lower debtor and higher payable days. During the year, OCF to EBITDA decreased to 80% from 121% in FY22 as higher tax impacted the conversion. From FY18-FY23, the company generated a total OCF of Rs2,665 Cr and 46% of the total OCF (Rs 1,220 Cr) was utilized towards the company's Capex program, indicating a normal Capex intensity. While the CFO remained the major source of funding for the company, it generated an encouraging FCF of Rs1,340 Cr over FY18-FY23.
- Debt:** The company is a debt-free company and the Net Debt/Equity ratio stood at -0.12x for FY23.
- Fixed capital formation:** Gross Fixed Capital Formation improved to Rs1,685 Cr in FY23 from Rs 1,594 Cr, an improvement of 6% as the company is incurring Capex to set up a 3-mtpa clinkerization unit, 12 MW WHRS unit and 4 mtpa grinding 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 a 4 mtpa (2 mtpa each) grinding unit in Assam. During the year, the company incurred a Capex of Rs 572 Cr.
- Cash and liquidity position:** The company's liquidity position has reduced due to ongoing Capex in FY23. The cash & equivalent including bank balance stood at Rs 312 Cr in FY23 against Rs 547 Cr in FY22, a decrease of 43% YoY.

Cash Conversion Cycle

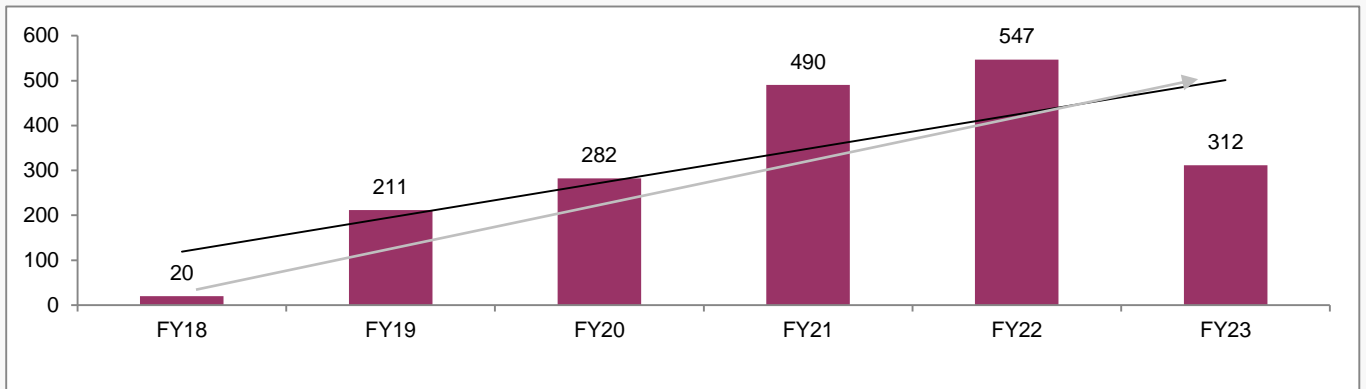
Particulars	FY22	FY23	Change	Comments/Analysis
Inventory Days	50	81	31	Inventory days increased owing to the higher of fuel procured.
Trade Receivables	21	14	-7	Decreased owing to better credit management.
Trade Payables	30	61	-31	Increased in payable days due to prevailing market conditions.
Cash Conversion Cycle	42	34	-8	CCC improved owing to better WC management.

Source: Company; Axis Securities

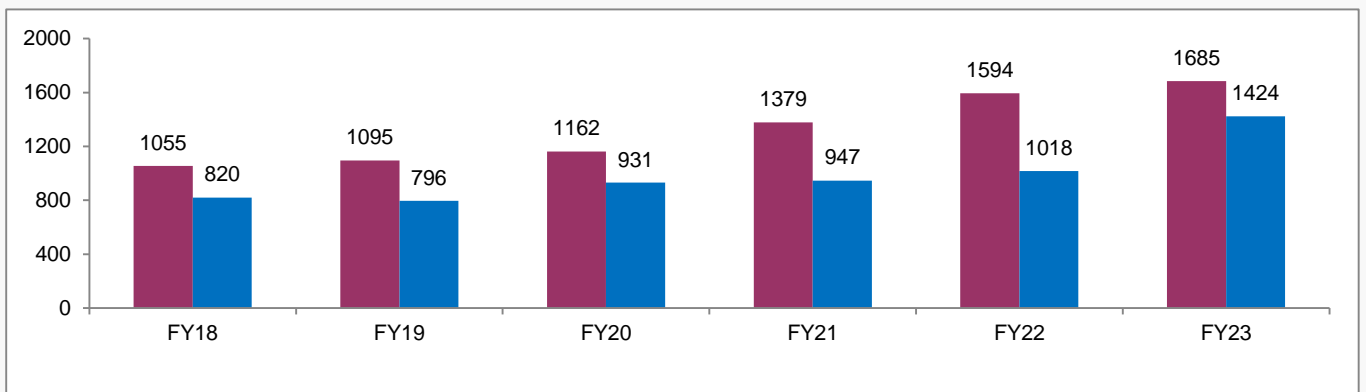
Exhibit 13: Cash Conversion Cycle



Source: Company, Axis Securities

Exhibit 14: Cash & Cash Equivalent (Rs Cr)


Source: Company, Axis Securities

Exhibit 15: Gross & Net Block


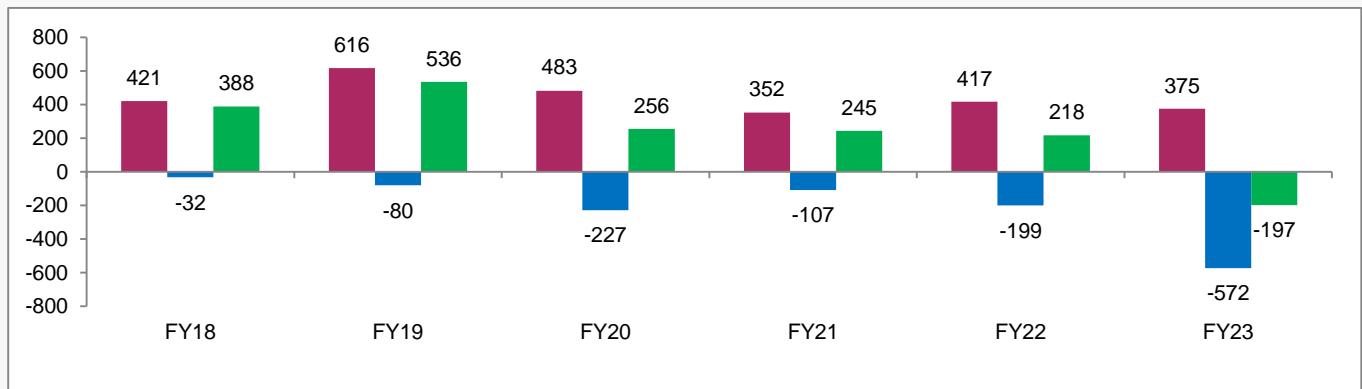
Source: Company, Axis Securities

Key Cash Flow Takeaways

Particulars (Rs Cr)	FY22	FY23	Change	Comments/Analysis
PBT	244	380	56%	PBT was higher on account of higher sales during the year.
Non-cash expenses				
Depreciation	119	129	10%	Depreciation increased as new capacity was commissioned in FY22.
Finance Cost	13	8	-38%	Decreased owing to reduction in other borrowing costs.
Others	-31	-34	10%	Increased owing to increase in interest income.
Working Capital Adjustments	-107	-42	-61%	Better debtor and payable days management helped in curtailing WC.
CFO	417	375	-10%	Decreased owing to higher tax incidence during the year.
CFI	-289	-272	-6%	Decreased owing to FD proceeds during the year.
CFF	-176	10		Decreased against last year as the company bought back shares worth Rs 152 Cr.
Capex	-199	-572	84%	Increased owing to Capex incurred on expanding capacity
FCF	205	-206		Decreased owing to higher Capex during the year.

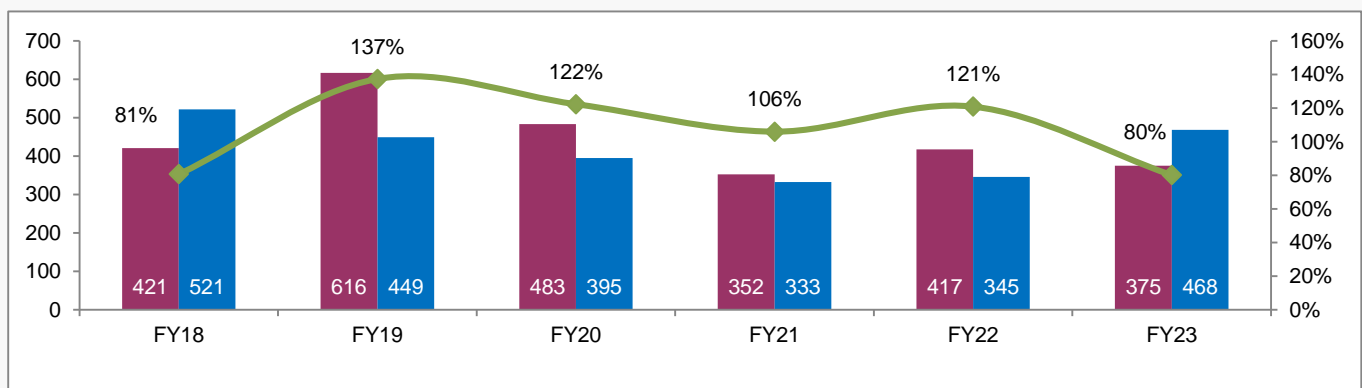
Source: Company; Axis Securities

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 6.5 Cr on CSR against 7.2 Cr in FY22. The 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 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.

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E
Net sales	2705	3088	3525
Other operating income	0	0	0
Total income	2705	3088	3525
Raw Material	627	753	851
Power & Fuel	570	636	713
Freight & Forwarding	491	508	579
Employee benefit expenses	196	212	233
Other Expenses	352	388	438
EBITDA	468	590	711
Other income	52	39	42
PBIDT	520	629	753
Depreciation	131	165	214
Interest & Fin Chg.	10	16	29
E/o income / (Expense)	0	0	0
Pre-tax profit	380	448	510
Tax provision	132	131	179
RPAT	248	317	332
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
APAT after EO item	248	317	332

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E
Total assets	3131	4036	4297
Net Block	1428	2344	2659
CWIP	551	551	551
Investments	0	0	0
Wkg. cap. (excl cash)	197	223	253
Cash / Bank balance	312	239	114
Misc. Assets	64	68	72
Capital employed	3131	4036	4297
Equity capital	40	40	40
Reserves	2376	2685	3005
Minority Interests	0	0	0
Borrowings	26	576	476
DefTax Liabilities	0	0	0
Other Liabilities and Provision	69	73	78

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E
Profit before tax	380	448	510
Depreciation	129	165	214
Interest Expenses	10	16	29
Non-operating/ EO item	-39	-39	-42
Change in W/C	-2	-15	-30
Income Tax	68	131	179
Operating Cash Flow	410	444	502
Capital Expenditure	-572	-1081	-529
Investments	186	140	0
Others	114	39	42
Investing Cash Flow	-272	-902	-487
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	68	-125
Opening Cash	8	136	204
Closing Cash	136	204	79

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	FY23	FY24E	FY25E
Operational Ratios			
Sales growth	22%	14%	14%
OPM	17.3%	19.1%	20.2%
Op. profit growth	36%	26%	20%
COGS / Net sales	62%	61%	61%
Overheads/Net sales	20%	19%	19%
Depreciation / G. block	8%	7%	7%
Efficiency Ratios			
Total Asset Turnover (x)	0.86	0.76	0.82
Sales/Gross block (x)	1.61	1.12	1.07
Sales/Net block(x)	1.90	1.32	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)	13.6	11.9	9.9
EV/Sales (x)	2.4	2.3	2.0
EV/Tonne \$ (x)	151	123	98
Return Ratios			
ROE	11	12	12
ROCE	16	15	15
ROIC	18	17	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	0.75	0.71
OCF/Capital Employed	0.14	0.13	0.14
FCF/Sales	-0.05	-0.35	-0.15
Payout ratio (Div/NP)	3.3	2.5	3.7
AEPS (Rs.)	6.1	7.8	8.2
AEPS Growth	0.3	28.1	4.6
CEPS (Rs.)	9	12	14
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

Source: Axis Securities

About the analyst


Analyst: Uttam Kumar Simal

Email: uttamkumar.simal@axissecurities.in

Sector: cement/Infra

Analyst Bio: Uttam K Simal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research.

About the analyst


Analyst: ShikhaDoshi

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Sector: cement/Infra

Analyst Bio: ShikhaDoshi is 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%
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NO STANCE	The company do not have any forward looking estimates, valuation or recommendation for the stock

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