

Star Cement

BUY

Volume momentum picking up

We maintain BUY on Star Cement with a TP of Rs 135 (10x Sep'21E consol EBITDA), implying EV of USD 176/MT.

HIGHLIGHTS OF THE QUARTER

- During 3QFY20, while demand uptick drove up consol revenues by 8% YoY, NSR slide and elevated fuel cost pulled down EBITDA/PAT by 23/14% YoY. Star reported EBITDA/APAT came in 7/6% lower vs our est.
- Robust demand but weak realization:** Sales vol jumped 15/25% YoY to 0.75 mn MT on demand rebound in the NE region and on market share gains outside NE. However, cement prices continued to slide QoQ across its markets, leading to 6% NSR decline YoY.
- Elevated fuel costs further pulled down EBITDA:** While Star's fixed costs fell 15% YoY on higher utilisation, higher fuel prices and increased share of traded cement purchase pulled up opex by 5% YoY. Thus, unitary EBITDA fell 33% YoY to Rs 1,250/MT, pulling down EBITDA. Other Income soared 5x YoY on rising cash surplus, thus moderating PAT decline.
- 9MFY20 performance:** While sales vol recovered 3%

Financial Summary (Consolidated)

Year Ending Mar (Rs mn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	4,512	4,164	8.3	3,825	18.0	16,145	18,310	18,363	20,517	22,947
EBITDA	940	1,219	(22.9)	644	46.0	5,214	4,492	4,260	4,991	5,594
APAT	712	823	(13.5)	446	59.6	3,307	2,988	3,089	3,595	4,196
Diluted EPS (Rs)	1.7	2.0	(13.5)	1.1	59.6	7.9	7.1	7.5	8.7	10.2
EV / EBITDA (x)						8.1	8.4	8.4	6.7	6.8
EV/MT (USD)						177	157	130	114	123
P/E (x)						11.4	12.6	12.2	10.5	9.0
RoE (%)						24.1	17.9	16.7	17.7	18.2

Source: Company, HDFC sec Inst Research

YoY (on overall growth in 3Q), NSR fell 4% YoY (continuous slide), pulling down unitary EBITDA 19% YoY to Rs 1,299/MT, even though as opex remained stable (+1% YoY). Thus, while revenues remained flat YoY, EBITDA/PAT declined 16/4% YoY.

- Expansion update:** Star guided that the Siliguri GU plant (2mn MT) will get commissioned in Mar'20. It is awaiting environment clearances to start work on brown field clinker expansion in Meghalaya (2mn MT). Star is also planning to add WHRS in Meghalaya to reduce cost and carbon footprint.

STANCE

We estimate Star to deliver consol EBITDA CAGR of 8% during FY19-22E (in-line consensus). We continue to like Star for its leadership positioning in the lucrative NE region, which drives its industry leading op margin and healthy return ratios. Further, its net cash position currently boosts its expansion capability. Thus, we value it at 10x EV/EBITDA (15% premium to its 5-yr mean), leading to TP of Rs 135 (10x Sep'21E EBITDA). We maintain BUY on the stock.

INDUSTRY	CEMENT
CMP (as on 07 Feb 2020)	Rs 89
Target Price	Rs 135
Nifty	12,098
Sensex	41,142

KEY STOCK DATA

Bloomberg	STRCEM IN
No. of Shares (mn)	412
MCap (Rs bn) / (\$ mn)	37/511
6m avg traded value (Rs mn)	17

STOCK PERFORMANCE (%)

52 Week high / low	Rs 140/82		
	3M	6M	12M
Absolute (%)	(8.1)	(10.4)	1.3
Relative (%)	(9.3)	(22.6)	(10.0)

SHAREHOLDING PATTERN (%)

	Sep-19	Dec-19
Promoters	67.94	67.11
FIs & Local MFs	9.26	9.00
FPIs	0.75	0.85
Public & Others	22.05	23.04
Pledged Shares *	-	-

Source : BSE *as % of total shares o/s

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Consolidated Quarterly Financials' Snapshot

(Rs Mn)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Sales	4,512	4,164	8.3	3,825	18.0	12,945	12,966	(0.2)
Raw Materials	989	671	47.5	907	9.1	2,865	2,993	(4.3)
Power and Fuel	925	708	30.7	827	11.8	2,567	1,843	39.3
Employee	324	300	7.9	293	10.4	916	889	3.0
Transport	880	778	13.2	690	27.7	2,454	2,581	(4.9)
Other Exp	453	489	(7.3)	464	(2.3)	1,439	1,436	0.2
EBITDA	940	1,219	(22.9)	644	46.0	2,705	3,223	(16.1)
<i>EBITDA margin (%)</i>	20.8	29.3		16.8		20.9	24.9	
Depreciation	232	264	(12.2)	225	3.1	680	818	(17.0)
EBIT	708	955	(25.9)	418	69.2	2,025	2,405	(15.8)
Other Income (Including EO Items)	65	10	520	77	(15)	216	20	955
Interest Cost	38	26	47.4	8	398.5	74	113	(34.8)
PBT - Reported	734	939	(21.8)	487	50.6	2,167	2,312	(6.3)
Tax	22	102	(78.4)	34	(35.5)	162	178	(8.9)
<i>Tax rate (%)</i>	3.0	10.9		7.0		7.5	7.7	
(Minority Interest)/ Share of associates profit	(0)	(14)		-7		(7)	(44)	
RPAT	712	823	(13.5)	446	59.6	1,997	2,090	(4.4)
EO (Loss) / Profit (Net Of Tax)	-	-		-		-	-	
APAT	712	823	(13.5)	446	59.6	1,997	2,090	(4.4)
<i>Adj PAT margin (%)</i>	15.8	19.8		11.7		15.4	16.1	

Source: Company, HDFC sec Inst Research

Consolidated Quarterly Performance Analysis

	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
External total sales vol (mn MT)	0.75	0.65	15.0	0.60	24.7	2.08	2.02	3.3
Total sales vol (includes clinker to on-lease units)	0.79	0.68	15.5	0.64	24.1	2.19	2.11	4.0
Rs/MT trend								
NSR	5,718	6,098	(6.2)	6,014	(4.9)	5,900	6,148	(4.0)
Raw materials	1,254	982	27.7	1,426	(12.1)	1,306	1,419	(8.0)
Power & fuel	1,172	1,036	13.2	1,300	(9.9)	1,170	874	33.9
Freight	1,116	1,139	(2.0)	1,084	2.9	1,118	1,224	(8.6)
Employee	410	439	(6.6)	461	(11.0)	417	421	(1.0)
Other Exp	574	716	(19.8)	729	(21.2)	656	681	(3.7)
Opex	4,527	4,312	5.0	5,002	(9.5)	4,667	4,620	1.0
EBITDA	1,250	1,864	(33.0)	1,067	17.1	1,299	1,599	(18.8)

Source: Company, HDFC sec Inst Research

Star's sales in the NE grew at 8% and its sales outside NE jumped 30% YoY

Aggressive pricing across east led to 5% NSR decline

Fuel cost remained elevated thus further depressing margins

We estimate an 8% volume CAGR in FY19-22E on demand recovery and on Siliguri expansions

We estimate Star's unitary EBITDA to recover to ~Rs 1,500/MT levels during FY21-22E on increased utilisation and fuel cost stabilisation

We estimate capex spend of Rs 4/4.3/4.5bn towards the on-going expansions (2mn MT GU in Siliguri, 2.2 mn MT clinker expansions and 12-15 WHRS in Meghalaya) and towards annual maintenance capex

Consolidated Operational Trends and Assumptions

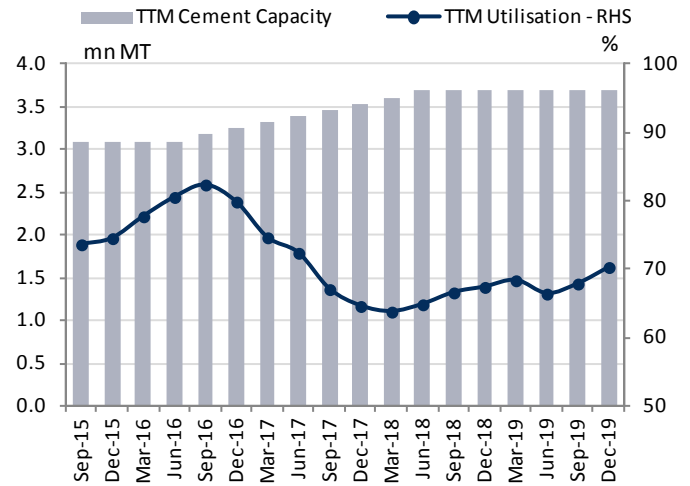
Particulars	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Cement Cap (mn MT)	3.1	3.4	3.7	3.7	5.7	5.7	5.7
Sales Volume (mn MT)	2.8	2.8	2.6	2.9	2.9	3.3	3.6
YoY change (%)	17.0	2.1	(7.5)	9.8	2.1	12.8	9.8
Utilisation (%)	89.3	83.1	70.6	77.5	51.3	57.9	63.6
(Rs/ MT trend)							
NSR	5,345	5,112	5,864	6,098	6,008	6,103	6,225
YoY change (%)	(8.6)	(4.3)	14.7	4.0	(1.5)	1.6	2.0
Raw material cost	1,169	1,134	1,099	1,455	1,200	1,224	1,248
Power and fuel cost	729	638	785	862	1,200	1,164	1,181
Transport cost	1,002	899	1,042	1,209	1,110	1,132	1,155
Employee cost	365	395	390	388	400	400	390
Other expenses	728	664	655	690	705	698	732
Total Opex	3,993	3,731	3,970	4,602	4,615	4,618	4,707
YoY change (%)	(2.4)	(6.6)	6.4	15.9	0.3	0.1	1.9
EBITDA per MT	1,448	1,472	2,001	1,570	1,458	1,515	1,546
YoY change (%)	(21.5)	1.7	35.9	(21.5)	(7.1)	3.9	2.0

Source: Company, HDFC sec Inst Research

We have plotted the trailing 12m (TTM) operational performance trends of Star Cement for the past five years

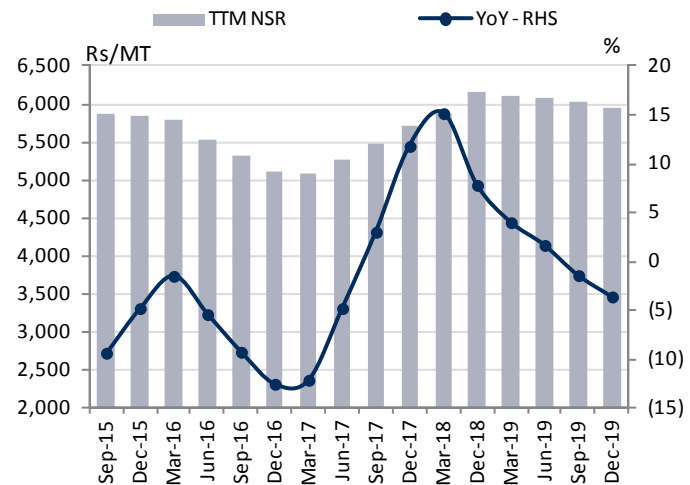
Long term performance trends

Star Cement's GU utilization has inched up to 70% in the past one year



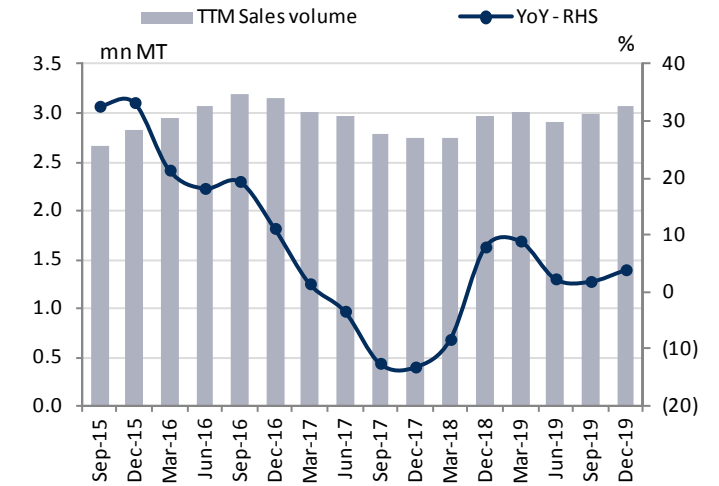
Source: Company, HDFC Sec Inst Research

NSR however is trending lower on sliding prices in the east



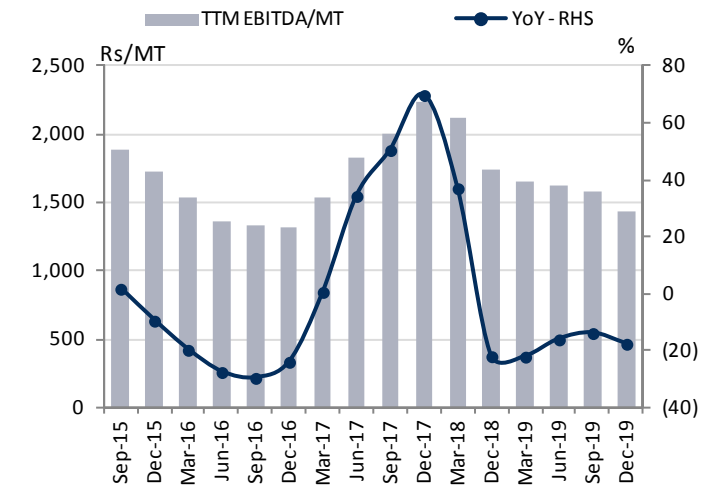
Source: Company, HDFC Sec Inst Research

Volume recovery in 2Q/3QFY20 kept TTM growth YoY in positive zone



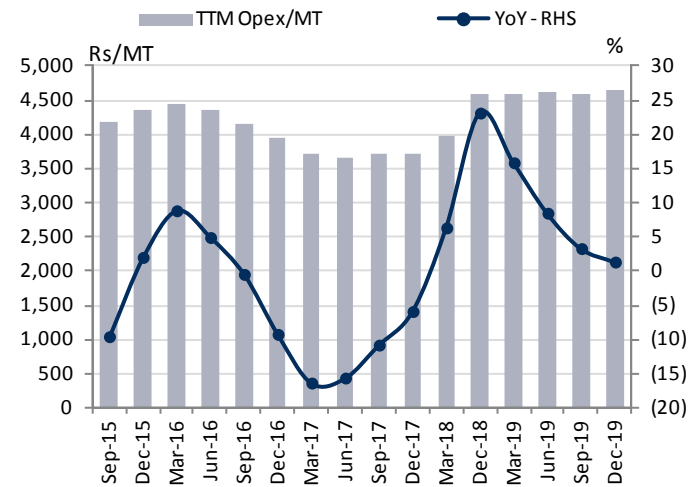
Source: Company, HDFC Sec Inst Research

Weak pricing and elevated fuel costs depressing margins



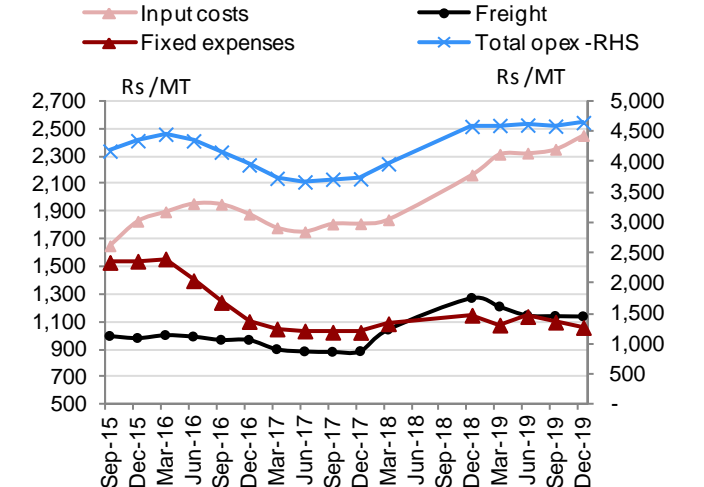
Source: Company, HDFC Sec Inst Research

Opex inflation is on the decline, thus moderating the impact of weak pricing



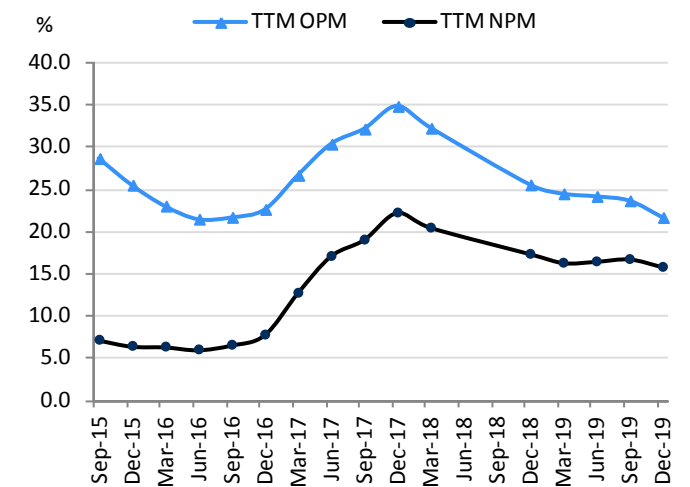
Source: Company, HDFC Sec Inst Research

Higher fuel cost is moderating the impact of falling freight cost and op-lev gains



Source: Company, HDFC Sec Inst Research

Op margin falling on weaker NSR; Debt decline, lower dep and rising treasury income boosts NPM



Source: Company, HDFC Sec Inst Research

Given that Star is generating industry leading margins/ return ratios and has a net cash balance sheet despite on-going expansions, the stock is trading at inexpensive valuations

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA (x)			EV/MT (USD)			Net D:E (x)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
UltraTech Cement	1,226	4,465	BUY	5,600	19.7	14.5	12.8	196	195	186	0.6	0.5	0.3	8.3	12.0	12.8
Shree Cement	871	25,005	NEU	20,000	31.5	22.9	20.1	326	310	290	0.0	(0.3)	(0.3)	13.5	15.1	13.7
Ambuja Cements	412	208	BUY	240	13.8	11.8	10.6	136	132	122	(0.7)	(0.7)	(0.7)	5.9	6.4	6.7
ACC	280	1,490	BUY	1,940	11.7	10.0	8.8	120	116	114	(0.3)	(0.4)	(0.4)	11.0	13.1	13.7
Ramco Cements	187	795	NEU	790	19.5	17.1	14.7	189	173	164	0.3	0.4	0.4	12.1	13.5	14.2
Dalmia Bharat	172	891	BUY	1,245	11.2	9.6	9.7	127	121	102	0.4	0.4	0.4	2.8	2.8	2.4
JK Cements	107	1,387	BUY	1,523	15.3	11.5	10.2	133	111	112	0.8	1.0	0.9	10.5	14.9	15.2
Star Cement	36.5	89	BUY	135	8.4	8.4	6.7	157	130	114	(0.1)	(0.1)	(0.2)	17.9	16.7	17.7
JK Lakshmi	43.9	359	BUY	459	13.6	8.0	7.2	79	73	73	0.8	0.7	0.6	5.3	15.6	17.1
Orient Cement	16.5	81	BUY	120	9.3	7.9	6.7	56	55	54	1.2	1.1	0.9	4.6	7.4	11.1
Deccan Cement	4.32	308	BUY	520	3.7	4.6	4.4	24	28	33	(0.2)	(0.1)	0.1	11.9	11.5	12.1

Source: Company, HDFC sec Inst Research, For ACC and Ambuja, the financial year is CY18/CY19E/CY20E resp

Consolidated Income Statement

(Rs Mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	16,145	18,310	18,363	20,517	22,947
Growth %	5.2	13.4	0.3	11.7	11.8
Raw Material	3,025	4,367	3,667	4,115	4,602
Power & Fuel	2,160	2,587	3,667	3,913	4,355
Freight Expense	2,869	3,630	3,392	3,806	4,257
Employee cost	1,074	1,164	1,222	1,345	1,439
Other Expenses	1,805	2,071	2,153	2,347	2,699
EBITDA	5,214	4,492	4,260	4,991	5,594
EBITDA Margin (%)	32.3	24.5	23.2	24.3	24.4
EBITDA Growth %	25.7	(13.8)	(5.2)	17.2	12.1
Depreciation	1,207	1,056	1,034	1,212	1,089
EBIT	4,007	3,435	3,226	3,779	4,505
Other Income (Including EO Items)	44	55	290	300	250
Interest	525	144	50	40	40
PBT	3,526	3,346	3,466	4,039	4,715
Tax	164	296	347	404	471
Minority Int	55	62	30	40	47
RPAT	3,307	2,988	3,089	3,595	4,196
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	3,307	2,988	3,089	3,595	4,196
APAT Growth (%)	64.5	(9.6)	3.4	16.4	16.7
AEPS	7.9	7.1	7.5	8.7	10.2
AEPS Growth %	64.5	(9.6)	5.1	16.4	16.7

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	419	419	413	413	413
Reserves And Surplus	14,344	16,817	17,942	20,323	23,305
Total Equity	14,763	17,237	18,355	20,736	23,718
Minority Interest	621	683	713	753	801
Long-term Debt	1,988	18	13	11	-
Short-term Debt	2,336	721	496	496	496
Total Debt	4,324	738	509	506	496
Deferred Tax Liability	(2,329)	(2,710)	(3,057)	(3,461)	(3,932)
Long-term Liab+ Provisions	-	-	-	-	-
TOTAL SOURCES OF FUNDS	17,380	15,947	16,520	18,535	21,082
APPLICATION OF FUNDS					
Net Block	7,847	7,223	10,439	10,278	10,188
Capital WIP	357	743	493	3,743	7,243
Goodwill	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-
Total Non-current Investments	14	17	17	17	17
Total Non-current Assets	8,219	7,984	10,950	14,038	17,449
Inventories	2,946	2,772	2,571	2,667	2,754
Debtors	1,465	1,438	1,653	1,847	1,836
Cash and Cash Equivalents	198	2,113	1,838	1,440	1,302
Other Current Assets (& Loans/adv)	9,900	5,952	4,102	3,675	3,481
Total Current Assets	14,509	12,275	10,163	9,628	9,373
Creditors	1,889	1,254	1,258	1,405	1,572
Other Current Liabilities & Provns	3,459	3,057	3,335	3,726	4,168
Total Current Liabilities	5,348	4,311	4,593	5,132	5,739
Net Current Assets	9,160	7,964	5,570	4,496	3,633
TOTAL APPLICATION OF FUNDS	17,380	15,947	16,520	18,535	21,082

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	3,526	3,346	3,466	4,039	4,715
Non-operating & EO Items	(42)	(49)	(290)	(300)	(250)
Interest Expenses	525	144	50	40	40
Depreciation	1,207	1,056	1,034	1,212	1,089
Working Capital Change	(67)	3,027	2,118	676	726
Tax Paid	(664)	(592)	(693)	(808)	(943)
OPERATING CASH FLOW (a)	4,485	6,932	5,685	4,859	5,377
Capex	(324)	(804)	(4,000)	(4,300)	(4,500)
Free Cash Flow (FCF)	4,161	6,128	1,685	559	877
Investments	26	(1,153)	-	-	-
Non-operating Income	44	45	290	300	250
Others					
INVESTING CASH FLOW (b)	(253)	(1,911)	(3,710)	(4,000)	(4,250)
Debt Issuance/(Repaid)	(3,685)	(3,598)	(229)	(3)	(11)
Interest Expenses	(522)	(144)	(50)	(40)	(40)
FCFE	(47)	2,386	1,406	516	826
Share Capital Issuance	-	-	(1,000)	-	-
Dividend	-	(516)	(971)	(1,214)	(1,214)
FINANCING CASH FLOW (c)	(4,208)	(4,258)	(2,250)	(1,257)	(1,264)
NET CASH FLOW (a+b+c)	24	763	(276)	(398)	(137)
EO Items, Others					
Closing Cash & Equivalents	224	961	1,838	1,440	1,302

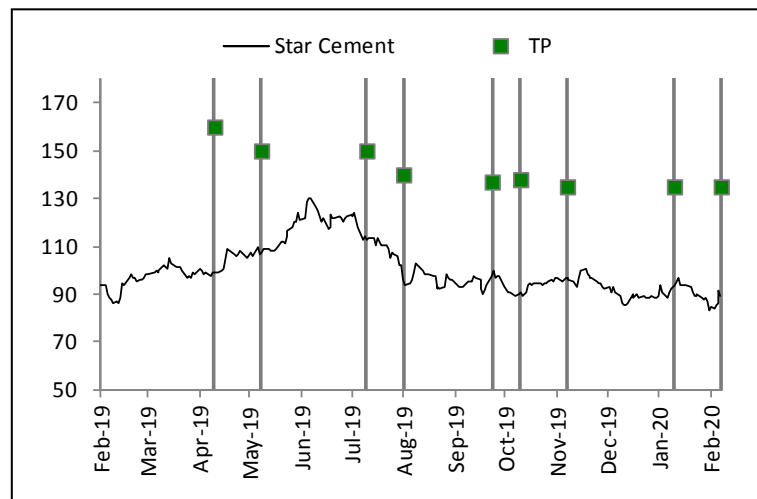
Source: Company, HDFC sec Inst Research

Consolidated Key Ratios & Valuations

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY %					
EBITDA Margin	32.3	24.5	23.2	24.3	24.4
EBIT Margin	24.8	18.8	17.6	18.4	19.6
APAT Margin	20.1	16.0	16.7	17.3	18.1
RoE	24.1	17.9	16.7	17.7	18.2
RoIC	21.7	20.2	21.2	25.7	24.8
RoCE	21.7	19.1	19.5	20.9	21.6
EFFICIENCY					
Tax Rate %	4.7	8.9	10.0	10.0	10.0
Fixed Asset Turnover (x)	1.6	1.7	1.4	1.3	1.4
Inventory (days)	67	55	51	47	44
Debtors (days)	33	29	33	33	29
Other Current Assets (days)	224	119	82	65	55
Payables (days)	43	25	25	25	25
Other Current Liab & Provns (days)	78	61	66	66	66
Cash Conversion Cycle (days)	203	117	74	54	37
Net Debt/EBITDA (x)	0.8	(0.3)	(0.3)	(0.2)	(0.1)
Net D/E (x)	0.3	(0.1)	(0.1)	(0.2)	(0.0)
Interest Coverage (x)	7.6	23.9	64.5	94.5	112.6
PER SHARE DATA (Rs)					
EPS	7.9	7.1	7.5	8.7	10.2
CEPS	10.8	9.6	10.0	11.7	12.8
Dividend	1.0	-	2.0	2.5	2.5
Book Value	35.2	41.1	44.5	50.3	59.4
VALUATION					
P/E (x)	11.4	12.6	12.2	10.5	9.0
P/Cash EPS (x)	8.4	9.3	9.2	7.9	7.1
P/BV (x)	2.6	2.2	2.1	1.8	1.6
EV/EBITDA (x)	8.1	8.4	8.4	6.7	6.8
EV/MT(USD)	177	157	130	114	123
Dividend Yield (%)	1.1	-	2.2	2.7	2.7
OCF/EV (%)	10.6	18.7	15.8	14.5	14.2
FCFF/EV (%)	9.8	16.5	4.7	1.7	2.3
FCFE/M Cap (%)	11.0	16.2	4.5	1.5	2.3

Source: Company, HDFC sec Inst Research,

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Apr-19	99	BUY	160
8-May-19	107	BUY	150
10-Jul-19	114	BUY	150
2-Aug-19	96	BUY	140
22-Sep-19	93	BUY	137
10-Oct-19	91	BUY	138
8-Nov-19	97	BUY	135
10-Jan-20	93	BUY	135
7-Feb-20	89	BUY	135

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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