

# Star Cement Ltd

BUY

CMP Rs89

Target Rs108

Upside 21%

## Overhang on margins to continue

### Strong growth in volumes led by healthy demand in East

Total volumes of STAR during the quarter stood at 0.75 MT (est of 0.7 MT), a healthy growth of 15% YoY and 25% QoQ. This was led by a) stable growth trajectory of ~7-7.2% YoY in NER (at 0.53 MT), b.) sharp spike in clinker sales (+125% YoY) at 0.34 lakh tonnes and c) sturdy growth of 29% YoY in East volumes (at 0.19 MT) which was led by favorable demand scenario in Eastern market.

EBITDA margins came in at 20.8% (est. of 21.6%) during Q3FY20, which was down by 845 bps due to pricing pressure and usage of high cost imported coal as against domestic coal (from Meghalaya) last year. Accordingly, operating profit witnessed a sharp decline of 23% YoY at Rs 939 mn, but was in-line with our est. of 918 mn.

### Downgrade in earnings estimate by 11.7%/28.2% for FY20E/FY21E

Our cut in EBITDA estimates is led by a.) delay in commissioning of 2 MTPA Siliguri unit which was expected to be completed by Dec 2019 but has got delayed by a quarter and b.) lack of clarity on procurement of domestic coal from Meghalaya – coal mining in Meghalaya was expected to start by end of Q4FY20 but will take longer time resulting into continued use of imported coal (impact of incremental Rs 200/te in FY21E).

However, stable growth environment in NER market along-with ramp-up of Siliguri plant from FY21E onwards should drive overall volumes/EBITDA by 18.6%/16.5% CAGR over FY20-FY22E.

### Balance sheet to remain strong, maintain BUY

Company's capex plans include a.) completion of Siliguri unit – outflow of Rs 1 bn and b.) commissioning of 12-15 MW WHRS and 2 MTPA clinker line at Meghalaya by FY22-23E respectively –outflow of Rs 11 bn. We expect net debt/EBITDA and net debt/equity to remain at comfortable levels of 0.78x and 0.18x respectively by FY22E. Taking an average of EV/EBITDA and DCF derived values, we arrive at a target of Rs 108 (implied EV/EBITDA multiple of 8.7x on FY22E). We maintain our BUY rating.

### Exhibit 1: Results table (consolidated)

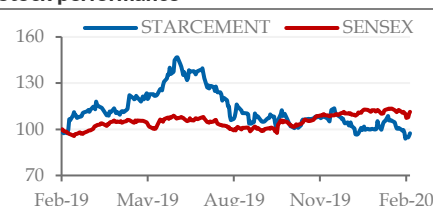
Y/e 31 Mar (Rs mn)	Q3FY20	Q2FY20	QoQ(%)	Q3FY19	YoY (%)
Revenue	4,512	3,825	18.0	4,164	8.3
Operating Profit	939	644	45.9	1,219	(22.9)
OPM (%)	20.8	16.8	399 bps	29.3	(845) bps
Other Income	65	77	(15.4)	10	520.4
Depreciation	232	225	3.1	264	(12.2)
Interest	38	8	397.9	26	47.5
PBT	734	488	50.5	939	(21.8)
Tax	22	34	(35.5)	102	(78.4)
Reported PAT	712	446	59.5	823	(13.5)
Adjusted PAT	712	446	59.5	823	(13.5)

Source: Company, YES Sec – Research

### Stock data (as on Feb 07, 2020)

Sensex:	41,141
52 Week h/l (Rs)	137.60/82.50
Market cap (Rs/USD bn)	36.47/0.51
Outstanding Shares (mn)	412.4
6m Avg t/o (Rs mn):	16.9
Div yield (%):	0.0
Bloomberg code:	STRCEM IN
NSE code:	STARCEMENT

### Stock performance



	1M	3M	1Y
Absolute return	-2.0%	-9%	1.0%

### Shareholding pattern (As of Dec'19 end)

Promoter	67.1%
FII+DII	9.2%
Others	23.7%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	108	115

### Δ in earnings estimates

(Rs bn)	FY20E	FY21E	FY22E
EBITDA (New)	3.8	4.0	5.1
EBITDA (Old)	4.3	5.6	-
% change	(11.7)	(28.2)	NA

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## Exhibit 2: Per te analysis (consolidated)

(in Rs)	Q3 FY20	Q2 FY20	% QoQ	Q3 FY19	% YoY
Volume (in MT)	0.75	0.60	24.9	0.66	15.0
Net realization	5,992	6,343	(5.5)	6,358	(5.8)
Raw Material cost	1,314	1,505	(12.7)	1,024	28.3
Employee cost	430	487	(11.6)	458	(6.2)
Power and fuel cost	1,228	1,372	(10.4)	1,080	13.7
Freight cost	1,169	1,143	2.3	1,187	(1.5)
Other expenses	602	769	(21.7)	747	(19.3)
EBITDA	1,248	1,068	16.9	1,861	(33.0)

Source: Company, YES Sec – Research

## Exhibit 3: Revision in estimates (consolidated)

	FY20E		% change	FY21E		% change	FY22E
	Revised	Old		Revised	Old		Revised
Cement Volumes (MT)	3.0	3.1	(3.2)	3.5	4.1	(14.0)	4.2
Net sales (Rs mn)	18,904	19,798	(4.5)	22,168	25,651	(13.6)	26,942
EBITDA (Rs mn)	3,774	4,273	(11.7)	4,013	5,591	(28.2)	5,119
Realization/te (Rs)	6,358	6,449	(1.4)	6,364	6,334	0.5	6,442
EBITDA/te (Rs)	1,269	1,392	(8.8)	1,152	1,380	(16.5)	1,224

Source: Company, YES Sec – Research

## Exhibit 4: Operating Metrics (consolidated)

Per te (in Rs)	FY18	FY19	FY20E	FY21E	FY22E
Cement volumes (MT)	2.6	2.9	3.0	3.5	4.2
Net realizations	6,210	6,425	6,358	6,364	6,442
Raw Material costs	1,163	1,532	1,578	1,634	1,671
Employee costs	413	408	436	417	377
Power and fuel costs	831	908	1,058	1,208	1,280
Freight costs	1,114	1,273	1,299	1,259	1,251
Other expenses	683	727	718	694	639
EBITDA	2,005	1,576	1,269	1,152	1,224

Source: Company, YES Sec – Research

## FINANCIALS

### Exhibit 5: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Revenues</b>	<b>16,145</b>	<b>18,310</b>	<b>18,904</b>	<b>22,168</b>	<b>26,942</b>
Growth (%)	5.7	13.4	3.2	17.3	21.5
<b>EBITDA</b>	<b>5,214</b>	<b>4,492</b>	<b>3,774</b>	<b>4,013</b>	<b>5,119</b>
<b>EBITDA margin (%)</b>	<b>32.3</b>	<b>24.5</b>	<b>20.0</b>	<b>18.1</b>	<b>19.0</b>
Growth (%)	27.7	(13.8)	(16.0)	6.4	27.6
Depreciation	1,207	1,056	1,065	1,399	1,399
Other income	44	55	190	38	23
<b>EBIT</b>	<b>4,050</b>	<b>3,490</b>	<b>2,899</b>	<b>2,652</b>	<b>3,743</b>
<b>EBIT margin (%)</b>	<b>25.1</b>	<b>19.1</b>	<b>15.3</b>	<b>12.0</b>	<b>13.9</b>
Interest	525	144	72	100	266
<b>PBT</b>	<b>3,526</b>	<b>3,346</b>	<b>2,827</b>	<b>2,553</b>	<b>3,477</b>
Tax	164	296	481	434	591
<b>Net profit</b>	<b>3,307</b>	<b>2,988</b>	<b>2,246</b>	<b>2,019</b>	<b>2,786</b>
<b>NPAT margin (%)</b>	<b>20.5</b>	<b>16.3</b>	<b>11.9</b>	<b>9.1</b>	<b>10.3</b>
EPS (Rs)	7.9	7.1	5.4	4.9	6.8
Growth (%)	69.8	(9.6)	(23.6)	(10.1)	38.0

Source: Company, YES Sec - Research

### Exhibit 6: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	419	419	412	412	412
Reserves	14,344	16,817	17,601	19,519	22,166
<b>Total Shareholders' Funds</b>	<b>14,764</b>	<b>17,237</b>	<b>18,014</b>	<b>19,931</b>	<b>22,578</b>
<b>Non-current liabilities</b>					
Long term borrowings	1,988	18	-	-	3,000
Deferred Tax liabilities	-	-	-	-	-
<b>Current liabilities</b>					
Short term borrowings	1,329	496	608	1,114	1,346
Trade payables	1,889	1,254	1,350	1,637	2,010
Other current liabilities	3,331	2,093	2,093	2,093	2,093
<b>Total equity and liabilities</b>	<b>25,057</b>	<b>22,969</b>	<b>24,036</b>	<b>26,847</b>	<b>33,198</b>
<b>Non-current assets</b>					
PPE	7,845	7,221	9,706	8,308	6,909
CWIP	357	743	793	3,993	10,993
Non-current investments	14	17	17	17	17
<b>Current assets</b>					
Current Investments	-	-	-	-	-
Inventories	2,946	2,772	2,916	3,449	3,675
Trade receivables	1,465	1,438	1,502	1,761	2,141
Cash and cash equivalents	186	949	493	275	421
Other bank balances	12	1,164	144	144	144
Other current assets	9,299	4,955	4,275	4,275	4,275
<b>Total assets</b>	<b>25,057</b>	<b>22,969</b>	<b>24,036</b>	<b>26,847</b>	<b>33,198</b>

Source: Company, YES Sec - Research

## Exhibit 7: Cash Flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>PBT</b>	<b>3,526</b>	<b>3,346</b>	<b>2,827</b>	<b>2,553</b>	<b>3,477</b>
Depreciation & Amortization	1,207	1,056	1,065	1,399	1,399
(Incr)/Decr in Working Capital	(655)	2,245	87	(940)	(232)
Taxes	(664)	(592)	(481)	(434)	(591)
<b>Cash from ops.</b>	<b>4,142</b>	<b>6,150</b>	<b>3,571</b>	<b>2,677</b>	<b>4,319</b>
(Incr)/ Decr in PP&E	(231)	(804)	(3,600)	(3,200)	(7,000)
Changes in other bank balances	27	(1,153)	1,020	0	0
<b>Cash Flow from Investing</b>	<b>(253)</b>	<b>(1,911)</b>	<b>(2,580)</b>	<b>(3,200)</b>	<b>(7,000)</b>
(Decr)/Incr in Borrowings	(3,683)	(2,816)	94	506	3,232
Dividend	0	(516)	(449)	(101)	(139)
Outflow towards buy-back	0	0	(1,020)	0	0
<b>Cash Flow from Financing</b>	<b>(3,865)</b>	<b>(3,476)</b>	<b>(1,447)</b>	<b>305</b>	<b>2,827</b>
Incr/(Decr) in cash	24	763	(456)	(218)	146
<b>Cash and cash equivalents at beginning of year</b>	<b>163</b>	<b>186</b>	<b>949</b>	<b>493</b>	<b>275</b>
<b>Cash and cash equivalents at end of year</b>	<b>186</b>	<b>949</b>	<b>493</b>	<b>275</b>	<b>421</b>

Source: Company, YES Sec - Research

## Exhibit 8: Ratios (Consolidated)

Y/e 31 Mar	FY18	FY19	FY20E	FY21E	FY22E
ROE (%)	22.4	17.3	12.5	10.1	12.3
ROCE (%)	21.2	19.4	15.4	14.7	13.8
Net debt to equity (x)	0.3	(0.1)	0.0	0.0	0.2
Net debt to EBITDA (x)	0.8	(0.3)	0.1	0.2	0.8
Interest coverage (x)	7.7	24.3	40.1	26.6	14.1
EV/EBITDA (x)	10.8	9.0	9.7	9.1	7.2
EV/te (\$)	228	157	92	92	92

Source: Company, YES Sec - Research

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