June 28, 2020

Result Report- Q4 FY20 | Sector: Cement

YES SECURITIES
INSTITUTIONAL EQUITIES

Star Cement Ltd

BUY	CMP Rs87.9	Target Rs104	Upside 18%

Highlights

- Robust demand scenario in NER and East during Q4FY20 helped the company outperform on volume front as compared to overall industry and its peers. Total volumes for the quarter came in at 0.84 MT, which was flattish on y/y basis vs industry de-growth of ~5-7% y/y.
- Improvement in realizations for the company (NSR +2.5% y/y) was majorly offset by increase in energy costs due to higher reliance on imported coal (vis-à-vis procurement of lower cost domestic coal last year). Accordingly, EBITDA/te of STAR stood at Rs 1,478 (-2% y/y) while absolute EBITDA was ~Rs 1.25 bn (-1.8% y/y).
- STAR has incurred total capex of ~Rs 2.3 bn towards Siliguri grinding unit expansion (2 MTPA).
- On the balance sheet front, company continues to be cash rich with total net cash of ~Rs 2.5 bn.

Our View

- We reckon that STAR would be relatively unscathed from COVID pandemic as its core operating market of NER has witnessed least impact of COVID. Further, commissioning of 2 MTPA Siliguri plant by Q2FY21 would uphold volume dispatches of the company. Accordingly, we factor in volume CAGR of 12.7% over FY20-FY22E.
- Further, majority of the cost inflation due to switching from domestic coal of Meghalaya to imported coal (post the Meghalaya coal mining accident last year) has been reflected in Q4FY20 numbers. Consequently, we do not expect further deterioration of margins from NER operations going ahead. As a result, we expect EBITDA to grow at 8.2% over FY20-FY22E.
- We expect the company to remain cash rich with net cash of Rs 2.83 bn by FY22E despite building in cash outgo of Rs 5.75 bn over FY20-FY22 towards 1. completion of Siliguri plant, 2. commissioning of WHRS and 3. clinker line at Meghalaya.

Valuation

- Currently STAR is trading at EV/EBITDA at ~7.3x and EV/te of $85 on FY22E. Taking an average of EV/EBITDA and DCF derived values, we have a target of Rs 104/share (implied EV/EBITDA multiple of 8.7x on FY22E).

Risk to our call

- In a scenario of second wave of COVID, volume and pricing assumptions would be hampered.

Exhibit 1: Result table (consolidated)

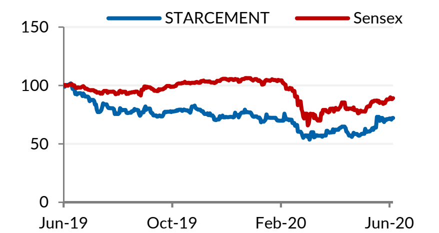
Y/e 31 Mar (Rs mn)	Q4 FY20	Q3 FY20	q/q (%)	Q4 FY19	y/y (%)
Revenue	5,494	4,512	21.8	5,344	2.8
EBITDA	1,246	939	32.6	1,269	(1.8)
EBITDA Margin (%)	22.7	20.8	186 bps	23.7	(105) bps
D&A	250	232	7.6	238	5.0
Interest	20	38	(48.8)	31	(36.1)
PBT	1,048	734	42.8	1,034	1.4
Tax	180	22	715.7	118	52.1
Reported PAT	858	712	20.6	898	(4.4)

Source: Company, YES Sec – Research

Stock data (as on June 26, 2020)

Sensex:	35,171
52 Week h/l (Rs)	125 / 60
Market cap (Rs/USD mn)	36,253 / 479
Outstanding Shares (mn)	412
6m Avg t/o (Rs mn):	19
Div yield (%):	1.1
Bloomberg code:	STRCEM IN
NSE code:	STARCEMENT

Stock performance



(%)	1M	3M	1Y
Absolute return	14.9	26.9	(26.1)

Shareholding pattern (As of Mar'20 end)

Promoter	67.1%
FII+DII	9.2%
Others	23.7%

Δ in earnings estimates

Rs bn	FY21E	FY22E
EBITDA (New)	3.6	4.6
EBITDA (Old)	4.0	5.1
% change	(11.1)	(9.6)

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Exhibit 2: Per te analysis (consolidated)

(in Rs)	Q4 FY20	Q3 FY20	q/q (%)	Q4 FY19	y/y (%)
Volumes (in MT)	**0.84**	**0.75**	**12.0**	**0.84**	**0.4**
Net realization	**6,517**	**5,992**	**8.8**	**6,362**	**2.4**
Raw Material cost	1,369	1,314	4.2	1,636	(16.3)
Employee cost	415	430	(3.5)	328	26.7
Power and fuel cost	1,248	1,228	1.6	886	40.9
Freight cost	1,277	1,169	9.2	1,248	2.3
Other expenses	730	602	21.2	755	(3.3)
EBITDA	**1,478**	**1,248**	**18.5**	**1,510**	**(2.1)**

Source: Company, YES Sec – Research

Con-call highlights:

- ✓ NER market has been relatively less impacted by COVID pandemic. April'20 was a washout month, but utilizations have returned to normalcy by June'20. Although the current utilization level appear encouraging, most of the demand is pent-up in nature and "completion of projects" led demand. Initiation of projects have been on a lower side which is a sign of concern. Further, execution of Government led infrastructure projects have not yet picked up meaningfully in core operating markets of STAR.

- ✓ Prices in NER have been fairly stable post relaxation of lockdown. Although East witnessed a hike of Rs 30-35/bag, most of it has been rolled back with net hike of Rs 5-10/bag.

- ✓ Company does not expect further inflation of energy costs going ahead due to transitioning from domestic to imported coal.

- ✓ Siliguri grinding unit has been delayed due to unavailability of labour at project site. Company now expects to commission the plant by Q2FY21E. Further, company expects to receive EC for clinker expansion at Meghalaya by Q3FY21.

- ✓ Company has earmarked capex of ~Rs 2.5 bn for FY21 towards completion of Siliguri grinding unit, clinker de-bottlenecking and commissioning of WHRS and Meghalaya clinker line.

Exhibit 3: Revision in estimates (consolidated)

	FY21E		% change	FY22E		% change
	Revised	Old		Revised	Old	
Total Volumes (MT)	2.7	3.5	(23.0)	3.7	4.2	(11.5)
Net sales (Rs mn)	16,932	22,168	(23.6)	23,110	26,942	(14.2)
EBITDA (Rs mn)	3,566	4,013	(11.1)	4,629	5,119	(9.6)
Realization/te (Rs)	6,307	6,361	(0.8)	6,223	6,422	(3.1)
EBITDA/te (Rs)	1,329	1,152	15.4	1,247	1,220	2.2

Source: Company, YES Sec – Research

FINANCIALS

Exhibit 4: Income statement (consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Revenues	**18,310**	**18,439**	**16,932**	**23,110**
Growth (%)	13.4	0.7	(8.2)	36.5
EBITDA	**4,492**	**3,951**	**3,566**	**4,629**
EBITDA margin (%)	**24.5**	**21.4**	**21.1**	**20.0**
Growth (%)	(13.8)	(12.0)	(9.7)	29.8
D&A	1,056	930	1,080	1,173
Other income	55	287	235	264
EBIT	3,490	3,308	2,722	3,720
EBIT margin (%)	19.1	17.9	16.1	16.1
Interest	144	93	43	44
PBT	3,346	3,215	2,679	3,676
Tax	296	342	455	625
Net profit	**2,988**	**2,855**	**2,224**	**3,051**
NPAT margin (%)	**16.3**	**15.5**	**13.1**	**13.2**
EPS (Rs)	7.1	6.9	5.4	7.4
Growth (%)	(9.6)	(2.9)	(22.1)	37.2

Source: Company, YES Sec – Research

Exhibit 5: Balance sheet (consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Equity Share Capital	419	412	412	412
Reserves	16,817	18,159	19,997	22,520
Total Shareholders' Funds	**17,237**	**18,571**	**20,410**	**22,932**
Non-current liabilities				
Long term borrowings	18	7	7	7
Other long term liabilities	1,123	1,222	1,222	1,222
Current liabilities				
Short term borrowings	496	104	104	403
Trade payables	1,254	958	894	1,300
Other current liabilities	2,093	1,931	1,931	1,931
Total equity and liabilities	**22,968**	**23,581**	**25,356**	**28,584**
Non-current assets				
PPE	7,221	6,930	8,733	7,710
CWIP	743	2,376	1,793	5,093
Current assets				
Current Investments	-	-	-	-
Inventories	2,772	2,569	2,368	2,665
Trade receivables	1,438	1,222	1,122	1,532
Cash and cash equivalents	949	2,411	2,810	3,055
Other bank balances	1,164	409	409	409
Total assets	**22,968**	**23,581**	**25,356**	**28,584**

Source: Company, YES Sec – Research

Exhibit 6: Cash Flow statement (consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
PBT	**3,346**	**3,215**	**2,679**	**3,676**
D&A	1,056	930	1,080	1,173
Finance cost	144	93	43	44
(Incr)/Decr in Working Capital	2,245	1,382	(219)	(300)
Taxes	(592)	(505)	(455)	(625)
Cash from ops.	**6,150**	**4,830**	**3,127**	**3,968**
(Incr)/ Decr in PP&E	(804)	(2,271)	(2,300)	(3,450)
Changes in other bank balances	(1,153)	755	-	-
Cash Flow from Investing	**(1,911)**	**(1,356)**	**(2,300)**	**(3,450)**
(Decr)/Incr in Borrowings	(2,816)	(402)	-	300
Finance cost	(144)	(93)	(43)	(44)
Dividend paid	(516)	(497)	(385)	(529)
Outflow towards buyback of shares	-	(1,020)	-	-
Cash Flow from Financing	**(3,476)**	**(2,013)**	**(428)**	**(273)**
Incr/(Decr) in cash	763	1,461	399	245
Cash and cash equivalents at beginning of year	**186**	**949**	**2,411**	**2,810**
Cash and cash equivalents at end of year	**949**	**2,411**	**2,810**	**3,055**

Source: Company, YES Sec – Research

Exhibit 7: Ratios (consolidated)

Y/e 31 Mar	FY19	FY20	FY21E	FY22E
ROE (%)	17.3	15.4	10.9	13.3
ROCE (%)	19.4	17.5	13.1	15.8
Net debt to equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net debt to EBITDA (x)	(0.3)	(0.6)	(0.8)	(0.6)
Interest coverage (x)	24.3	35.4	64.0	85.1
EV/EBITDA (x)	9.0	8.5	9.5	7.3
EV/te ($)	157	130	85	85

Source: Company, YES Sec – Research

Exhibit 8: Operating Metrics (consolidated)

Per te (in Rs)	FY19	FY20	FY21E	FY22E
Total volumes (MT)	**2.9**	**2.9**	**2.7**	**3.7**
Net plant realization	**5,151**	**5,097**	**5,090**	**5,002**
Raw Material cost	1,532	1,374	1,397	1,469
Employee cost	408	433	465	389
Power and fuel cost	908	1,237	1,163	1,233
Other expenses	727	702	737	665
EBITDA	**1,576**	**1,351**	**1,329**	**1,247**

Source: Company, YES Sec – Research

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