

Robust unitary EBITDA of Rs2280/MT; Maintain BUY

Star Cement delivered 4th consecutive quarter of robust profit, as its EBITDA/PAT shot up 60%/173% YoY. This is led by stability of robust pricing and Star's sales recovery in NE region, lower sales outside NE region and stable fuel costs. Thus, Star reported its best ever and industry's best unitary EBITDA of Rs2280/MT. We estimate good demand to sustain Star's unitary EBITDA at 2x industry average, bolstering cashflows (despite expiry of freight subsidy Q4FY18 onwards). Faster subsidy backlog clearance is another tailwind. We reiterate BUY with a revised TP of Rs175.

- Q3FY18 – Another strong quarter:** Star Cement's stellar show continued in Q3FY18 as strong pricing (+19% YoY and +3% QoQ) drove 60% YoY EBITDA growth, even though external sales volumes declined 5% YoY (+31% QoQ). Sales in NE region rebound (+4% YoY against decline seen in preceding four quarters). Sales outside NE region fell 38% YoY (4th consecutive qtr of fall) on sales market rationalisation. Higher utilisation QoQ amid stable fuel cost drove 12% QoQ fall in unitary opex. On YoY basis, opex remained flatish on over-head reduction and on fall in low margin sales (outside NE region). Thus, bolstered by strong pricing, Star delivered historic high (and best in industry) EBITDA of Rs2280/MT (+70% YoY, +40% QoQ). Robust operating profits, coupled with lower interest expense (on debt reduction), buoyed PAT up by 173% YoY. We note that YoY earning growth should cool off Q4FY18 onwards, owing to high base effect coming in play. However, qualitatively, Star should continue to deliver industry leading unitary EBITDA.
- Expected demand rebound to keep earnings buoyant:** Management guided that volume growth recovering will accelerate Q4FY18, on good demand traction in the NE region. Thus, it expects FY18 volume to decline ~5% YoY (vs 11% decline in 9MFY18) and grow at 10-15% CAGR thereafter. Strong project demand has firmed up pricing in the non-trade segment. We have cut our FY18/19 volume estimates by 9%/10% on lower offtake in 9MFY18. However, owing to strong pricing and stable opex, the impact on profits is mitigated. Thus, we maintain our FY18E/19E EBITDA estimates (ahead of consensus). We also introduce FY20 estimates. We thus expect Star to deliver 6.5%/5.5%/16.5% volume/NSR/EBITDA CAGR during FY17-20.
- Robust cash-flow to bolster free cashflow despite on-going capex:** Star is increasing its clinker capacity by 15% (to 3 mn MT) by FY19E through debottlenecking. It has also got go ahead to start its Siliguri split grinding project. Star has planned a 2 mn MT grinding capacity at capex of Rs3.5bn-4n by end of FY20. Thereafter, it would also explore brown-field expansion of clinker capacity in Meghalaya (doubling possible). Robust op cash generation (led by unitary EBITDA at 2x industry average), along with pick-up subsidy back-log clearance (it received Rs3.6bn in 9MFY18 and similar amount expected by FY19E), should lead to surge in free cash flow. These should bolster Star's balance sheet and aid future expansion capability (we estimate net cash balance of ~Rs7bn at end of FY20E).
- Maintain BUY with a TP of Rs175:** We remain bullish on Star Cement, as it has re-aligned its regional sales mix towards strong demand/pricing market with stable fuel costs locally. Faster clearance of long due subsidy backlog is another cash-flow booster. We re-iterate BUY with a revised TP of Rs175, as we roll forward valuations to FY20 (10.5x FY20 EBITDA). It is currently trading at 9.2x/7.4x FY19/20E EBITDA. On cash-flow basis, the stock currently trades at attractive valuations 7%/10% yield (5-year adj-OCF/EV yield) on FY19/20E. In our view, Star's almost double of industry average unitary EBITDA (despite expiration of freight subsidy) should justify its premium valuation on replacement cost basis.

| Y/E Mar (Rsmn) | Q3FY18 | Q3FY17 | YoY (%) | Q2FY18 | QoQ (%) | Q3FY18E | Variance % |
|-------------------|--------|--------|---------|--------|---------|---------|------------|
| Net Sales | 3,774 | 3,427 | 10.1 | 2,810 | 34.3 | 3,765 | 0.3 |
| Op. cost | 2,361 | 2,546 | (7.3) | 2,040 | 15.7 | 2,589 | (8.8) |
| EBITDA | 1,413 | 881 | 60.4 | 770 | 83.7 | 1,175 | 20.3 |
| EBITDA margin (%) | 37.4 | 25.7 | 1,173 | 27.4 | 1,006 | 31.2 | 623 |
| Depreciation | 337 | 356 | (5.5) | 326 | 3.2 | 326 | 3.2 |
| Interest | 137 | 186 | (26.3) | 141 | (3.1) | 140 | (2.1) |
| PBT | 942 | 340 | 177.0 | 311 | 202.9 | 714 | 31.9 |
| Taxes Paid | 28 | 0 | 30,531 | 49 | (41.7) | 107 | (73.5) |
| Minority Interest | 18 | 13 | 46.0 | 5 | 270.7 | 20 | (8.0) |
| Adjusted PAT | 896 | 328 | 173.4 | 257 | 247.8 | 587 | 52.5 |

Source: Company, Centrum Research Estimates; Consolidated financials

| Y/E Mar (Rs mn) | Revenue | YoY (%) | EBITDA | EBITDA (%) | APAT | YoY (%) | DEPS Rs. | RoE (%) | RoCE (%) | P/E (x) | EV/EBITDA (x) |
|-----------------|---------|---------|--------|------------|-------|---------|----------|---------|----------|---------|---------------|
| FY16 | 15,794 | 10.4 | 3,994 | 25.3 | 1,346 | 61.3 | 3.2 | 13.2 | 11.1 | 22.9 | 10.1 |
| FY17 | 15,125 | (4.2) | 4,088 | 27.0 | 1,716 | 27.5 | 4.1 | 14.8 | 12.0 | 18.2 | 9.7 |
| FY18E | 15,928 | 5.3 | 5,465 | 34.3 | 3,266 | 90.3 | 7.8 | 23.0 | 18.3 | 16.6 | 10.2 |
| FY19E | 18,167 | 14.1 | 5,570 | 30.7 | 3,736 | 14.4 | 8.9 | 21.4 | 18.7 | 14.5 | 9.2 |
| FY20E | 20,919 | 15.2 | 6,295 | 30.1 | 4,299 | 15.1 | 10.3 | 20.5 | 19.4 | 12.6 | 7.4 |

Source: Company, Centrum Research Estimates, Consolidated Financials.

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

| Target Price | Rs175 | Key Data | |
|------------------------|--------|--------------------------|-----------|
| CMP | Rs129 | Bloomberg Code | SFCL IN |
| Upside | 35.5% | Curr Shares O/S (mn) | 419.2 |
| Previous Target | Rs152 | Diluted Shares O/S(mn) | 419.2 |
| Previous Rating | Buy | Mkt Cap (Rsbn/USDmn) | 54/825.4 |
| Price Performance (%)* | | 52 Wk H / L (Rs) | 151.9/102 |
| | 1M | 6M | 1Yr |
| SFCL IN | (10.6) | (1.2) | - |
| NIFTY | (0.8) | 4.2 | 19.5 |
| | | 5 Year H / L (Rs) | 151.9/102 |
| | | Daily Vol. (3M NSE Avg.) | 743634 |

*as on 7 February 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

| | Dec-17 | Sep-17 | Jun-17 |
|-----------------|--------|--------|--------|
| Promoter | 73.3 | 74.6 | 74.9 |
| FIs | 1.1 | 0.4 | 0.1 |
| Dom. Inst. | 2.6 | 1.6 | 1.2 |
| Public & Others | 23.1 | 23.4 | 23.8 |

Source: BSE, *as on 7 February 2018

Operational performance trends

| | Q3FY18 | Q3FY17 | YoY (%) | Q2FY18 | QoQ (%) |
|---------------------------------|--------|--------|---------|--------|---------|
| Net Sales Vol (Cement +Clinker) | 0.62 | 0.66 | (5.4) | 0.47 | 31.0 |
| Net sales (mn MT) | 0.65 | 0.70 | (7.7) | 0.50 | 30.8 |
| Gross sales (mn MT) | | | | | |
| NSR (Rs/MT) ^^ | 5,829 | 4,883 | 19.4 | 5,677 | 2.7 |
| RM & Traded Goods | 779 | 1,318 | (40.9) | 1,371 | (43.1) |
| Power & Fuel | 885 | 428 | 106.9 | 612 | 44.4 |
| Employee | 424 | 410 | 3.5 | 542 | (21.8) |
| Freight | 902 | 882 | 2.4 | 912 | (1.1) |
| Other expenses | 656 | 590 | 11.1 | 684 | (4.2) |
| Opex (Rs/MT) ^^ | 3,646 | 3,627 | 0.5 | 4,122 | (11.5) |
| EBITDA (Rs/MT) ** | 2,280 | 1,344 | 69.6 | 1,626 | 40.2 |

Source: Company, Centrum Research

Gross sales imply total cement and clinker sales including clinker sold to on-lease GUs in West Bengal and includes cement purchased from these units. Net sales is excluding clinker sales to on-lease GUs.

^^ NSR and Op costs items calculated on gross sales volume. ** EBITDA per MT calculation on net sales volume

Earning Revisions

| Particulars (Rs bn) | FY18E | | | FY19E | | |
|---------------------|-------|------|---------|-------|------|---------|
| | New | Old | Chg (%) | New | Old | Chg (%) |
| Sales | 15.9 | 17.6 | (9.5) | 18.2 | 20.1 | (9.8) |
| EBITDA | 5.5 | 5.5 | 0.1 | 5.6 | 5.6 | (0.5) |
| Ebitda margin (%) | 34.3 | 31.0 | | 30.7 | 27.8 | |
| Adj PAT | 3.3 | 3.2 | 0.7 | 3.7 | 3.7 | 0.5 |

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

| Particulars (Rs bn) | FY18E | | | FY19E | | |
|---------------------|---------|-------|---------|---------|-------|---------|
| | Centrum | BGG | Var (%) | Centrum | BGG | Var (%) |
| Net Sales | 15.9 | 17.8 | (10.5) | 18.2 | 20.35 | (10.7) |
| EBITDA | 5.5 | 5.007 | 9.1 | 5.6 | 4.92 | 13.2 |
| PAT | 3.3 | 2.589 | 26.2 | 3.7 | 2.372 | 57.5 |

| Bloomberg Consensus* | | | | Centrum Target Price (Rs) | Variance (%) |
|----------------------|------|------|-------------------|---------------------------|--------------|
| BUY | SELL | HOLD | Target Price (Rs) | | |
| 6 | 0 | 1 | 161 | 1,75 | 8.8 |

*as on 7 February 2018; Source: Bloomberg, Centrum Research Estimates

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Con-call highlights

- **Grey Cement Sales:** Star's grey cement sales (from owned and on-leased units) dipped 11% YoY (up 29% QoQ) to 0.56mn MT. Sales recovered QoQ on pick up in construction activities post monsoon. Star's cement sales in NE region rose 4% YoY (after registering decline in the preceding four quarters). However, sales outside NE region continued to decline (it fell 38% YoY in Q3) for fourth quarter, as Star has deliberately cut its sales exposure in these markets owing to stiff competition witnessed there (there are low margin sales for Star Cement).
- NE region accounted for 74% of total cement sales in Q3 vs 63% YoY and 76% QoQ.
- For 9MFY18, total cement sales fell 17% YoY to 1.66mn MT. NE region accounted for 72% of cement sales vs 62% YoY. During this period, while sales in NE region fell 3% YoY, sales outside NE region fell 40% YoY.
- **Total sales volume** including clinker sales fell 5% YoY and rose 31% QoQ to 0.62mn MT. For 9MFY18, total external sales volume fell 11% YoY to 1.8mn MT.
- **Management expects volume growth to rebound going forward:** Management expects strong demand in the NE region should boost volume offtake Q4FY18 onwards. It expects to close FY18 with ~5% total external volume decline vs 11% fall in 9MFY18. It also expects to deliver 10-15% volume CAGR going ahead, capitalising on demand and as there are no new expansions by other players in NE region.
- **Operating cost trends:** Star reported unitary opex rose 1% YoY but fell 12% QoQ to Rs3646/MT. Higher utilisation QoQ drove increase in plant efficiency and star also registered lower fly-ash cost. Even unitary employee cost cooled off on strong volume uptick. On YoY basis, overall opex also remained flat, as reduction in sales outside NE region drove lower overheads. This offset the impact of higher diesel prices. Freight incentive has expired in Jan 2018 and this will also lead to Rs350/MT opex increase. However, Star indicated that actual impact from the freight subsidy exhaustion should be around Rs250/MT, as it is rationalising its logistics and on account of some other credits it can claim.
- **Subsidy receipt:** During Q3FY18, Star received Rs1.6bn towards the outstanding Rs2.1bn capital subsidy. It also received Rs0.6bn in Q1FY18 towards freight subsidy. Thus, at end of Q3FY18, total subsidy backlog (freight + capital) stands at ~Rs7.2bn. Management expect to receive Rs1.5bn during Q4FY18 and large chunk of the rest outstanding in FY19. We model in Rs3bn/Rs2bn/Rs2.2bn receipts during FY18/19/20E.
- **Capex guidance:** Star is currently de-bottlenecking its clinker capacity in Meghalaya which will increase its clinker capacity by 0.4mn MT by mid-FY19. Star has also received go-ahead from West Bengal government to execute its green-field split grinding capacity. Star plans to add 2mn MT capacity there at a capex of Rs3.5-4bn. This is expected to be completed by end of FY20.

Comparative valuations and key assumptions

Exhibit 1: Comparative Valuations

| Company | Mkt Cap (Rs bn) | CAGR FY17-19E (%) | | | EBITDA margin (%) | | | RoCE (%) | | | RoE (%) | | | EV/EBITDA (x) | | | EV/MT(USD) | | |
|--------------------|--------------------|-------------------|-------------|-------------|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|------------|------------|------------|------------|
| | | Rev. | EBITDA | PAT | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E | FY17 | FY18E | FY19E |
| Star Cement | 54.2 | 9.6 | 16.7 | 47.5 | 27.0 | 34.3 | 30.7 | 12.0 | 18.3 | 18.7 | 14.8 | 23.0 | 21.4 | 9.5 | 10.2 | 9.2 | 177 | 232 | 213 |
| UltraTech Cement | 1,120.4 | 20.3 | 26.9 | 15.4 | 20.8 | 20.7 | 23.1 | 9.0 | 8.4 | 9.3 | 11.6 | 10.5 | 12.6 | 19.3 | 20.2 | 15.0 | 218 | 224 | 201 |
| Shree Cement | 592.1 | 18.7 | 15.0 | 2.8 | 28.1 | 26.2 | 26.4 | 17.4 | 18.3 | 13.6 | 18.4 | 19.8 | 14.4 | 21.3 | 21.2 | 17.9 | 266 | 292 | 222 |
| JK Lakshmi | 47.8 | 14.1 | 20.5 | 47.6 | 12.6 | 12.4 | 14.0 | 5.5 | 6.3 | 8.2 | 6.1 | 6.3 | 11.5 | 17.5 | 14.7 | 11.8 | 90 | 90 | 89 |
| JK Cement | 71.2 | 15.5 | 16.0 | 44.0 | 18.9 | 17.5 | 19.0 | 8.9 | 10.1 | 12.5 | 14.7 | 18.0 | 22.5 | 10.5 | 11.3 | 9.3 | 87 | 103 | 100 |
| Orient Cement | 31.2 | 31.0 | 61.2 | NM | 9.5 | 14.7 | 14.4 | 1.4 | 6.9 | 6.0 | (3.2) | 6.2 | 4.6 | 25.1 | 13.4 | 13.1 | 86 | 66 | 91 |

Source: Company, Centrum Research Estimates

Exhibit 2: Key Operational Assumptions

| Particulars | FY15 | FY16 | FY17 | FY18E | FY19E | FY20E |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Cement Capacity (mn MT) | 3.1 | 3.1 | 3.4 | 3.7 | 3.7 | 5.7 |
| Total Sales Volume (mn MT) | 2.4 | 2.8 | 2.8 | 2.6 | 3.0 | 3.4 |
| YoY change (%) | 34.5 | 17.0 | 2.1 | (6.2) | 12.4 | 14.6 |
| Utilisation (%) | 76.3 | 89.3 | 83.1 | 71.5 | 80.4 | 59.8 |
| (Rs/ MT trend) | | | | | | |
| NSR | 5,845 | 5,345 | 5,041 | 5,750 | 5,865 | 5,924 |
| YoY change (%) | (0.2) | (8.6) | (5.7) | 14.1 | 2.0 | 1.0 |
| RM & Traded goods | 944 | 1,169 | 1,201 | 1,120 | 1,242 | 1,280 |
| Power & Fuel | 730 | 729 | 638 | 745 | 775 | 806 |
| Freight costs | 998 | 1,002 | 899 | 925 | 1,105 | 1,127 |
| Employee cost | 375 | 365 | 394 | 408 | 390 | 394 |
| Other expense | 740 | 728 | 546 | 579 | 554 | 535 |
| Total Opex | 4,093 | 3,993 | 3,678 | 3,777 | 4,067 | 4,141 |
| EBITDA per MT | 1,846 | 1,448 | 1,452 | 2,070 | 1,877 | 1,851 |

Source: Company, Centrum Research Estimates

Exhibit 3: Quarterly financials trend - Consolidated

| Y/E Mar (Rs mn) | Q4FY16 | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales | 5,631 | 3,936 | 3,120 | 3,427 | 4,642 | 4,287 | 2,810 | 3,774 |
| Total Expenditure | 4,363 | 3,019 | 2,530 | 2,546 | 2,941 | 2,700 | 2,040 | 2,361 |
| Raw Materials | 1,485 | 817 | 759 | 925 | 1,101 | 800 | 678 | 505 |
| Employee | 270 | 292 | 318 | 288 | 285 | 285 | 268 | 275 |
| Others | 950 | 457 | 489 | 414 | 277 | 381 | 339 | 425 |
| EBITDA | 1,267 | 916 | 590 | 881 | 1,700 | 1,586 | 770 | 1,413 |
| Depreciation | 440 | 342 | 358 | 356 | 355 | 303 | 326 | 337 |
| EBIT | 828 | 574 | 231 | 525 | 1,345 | 1,283 | 444 | 1,077 |
| Interest | 216 | 210 | 199 | 186 | 186 | 157 | 141 | 137 |
| Other Income | 4 | 4 | 5 | 1 | 15 | 4 | 9 | 3 |
| PBT | 615 | 367 | 37 | 340 | 1,174 | 1,129 | 311 | 942 |
| Taxes | 30 | 0 | 13 | 0 | 124 | 33 | 49 | 28 |
| Adjusted PAT (before minority) | 585 | 367 | 24 | 340 | 1,050 | 1,097 | 262 | 914 |
| Exceptional expense/ (income) | (2) | (1) | 3 | (1) | 3 | 1 | - | - |
| Minority Interest | 16 | 18 | 11 | 13 | 17 | 22 | 5 | 18 |
| Reported PAT | 567 | 348 | 17 | 327 | 1,036 | 1,075 | 257 | 896 |
| Adjusted PAT | 569 | 349 | 14 | 328 | 1,033 | 1,075 | 257 | 896 |
| Adj EPS (Rs) | 1.4 | 0.8 | 0.0 | 0.8 | 2.5 | 2.6 | 0.6 | 2.1 |
| YoY Growth (%) | | | | | | | | |
| Revenue | 11.1 | (3.7) | 0.2 | (20.1) | (17.6) | 8.9 | (9.9) | 10.1 |
| EBITDA | (18.1) | (24.5) | 6.8 | (3.9) | 34.2 | 73.1 | 30.5 | 60.4 |
| PBT | (16.6) | (39.8) | n/m | 13.1 | 90.8 | 207.3 | 738.9 | 177.0 |
| Adj PAT | 3.9 | (15.9) | n/m | 72.1 | 81.7 | 207.8 | 1,767.8 | 173.4 |
| Margins (%) | | | | | | | | |
| EBITDA | 22.5 | 23.3 | 18.9 | 25.7 | 36.6 | 37.0 | 27.4 | 37.4 |
| EBIT | 14.7 | 14.6 | 7.4 | 15.3 | 29.0 | 29.9 | 15.8 | 28.5 |
| PBT | 10.9 | 9.3 | 1.2 | 9.9 | 25.3 | 26.3 | 11.1 | 25.0 |
| Adj PAT | 10.4 | 9.3 | 0.8 | 9.9 | 22.6 | 25.6 | 9.3 | 24.2 |
| Operational Trend | | | | | | | | |
| Cement & clinker Sales Vol | | | | | | | | |
| Gross sales volume (mn MT) | 0.99 | 0.80 | 0.66 | 0.70 | 0.84 | 0.76 | 0.50 | 0.65 |
| YoY growth (%) | 14.0 | 15.6 | 24.2 | (5.2) | (15.4) | (4.8) | (25.2) | (7.7) |
| Net sales volume (mn MT) | 0.93 | 0.76 | 0.61 | 0.66 | 0.79 | 0.71 | 0.47 | 0.62 |
| YoY growth (%) | 15.3 | 16.1 | 23.3 | (2.7) | (15.5) | (6.3) | (22.9) | (5.4) |
| NSR (Rs/ MT) ^^ | 5,687 | 4,929 | 4,714 | 4,883 | 5,539 | 5,640 | 5,677 | 5,829 |
| Opex (Rs/MT) ^^ | 4,407 | 3,781 | 3,823 | 3,627 | 3,510 | 3,553 | 4,122 | 3,646 |
| EBITDA (Rs per MT) ** | 1,358 | 1,209 | 960 | 1,344 | 2,158 | 2,234 | 1,626 | 2,280 |

Source: Company, Centrum Research

^^ NSR and Op costs items calculated on gross sales which include clinker sales to the on-lease GUs in West Bengal for conversion to cement for sale

** EBITDA per MT calculation on total external cement and clinker sales (excluding clinker sales to on-lease GUs)

Financials - Consolidated

Exhibit 4: Income Statement

| Y/E March (Rsmn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 15,794 | 15,125 | 15,928 | 18,167 | 20,919 |
| Materials cost | 3,455 | 3,603 | 3,102 | 3,848 | 4,519 |
| % of revenues | 21.9 | 23.8 | 19.5 | 21.2 | 21.6 |
| Employee Cost | 1,078 | 1,183 | 1,130 | 1,209 | 1,390 |
| % of revenues | 6.8 | 7.8 | 7.1 | 6.7 | 6.6 |
| Others | 7,267 | 6,252 | 6,230 | 7,540 | 8,715 |
| % of revenues | 46.0 | 41.3 | 39.1 | 41.5 | 41.7 |
| EBITDA | 3,994 | 4,088 | 5,465 | 5,570 | 6,295 |
| EBITDA Margins (%) | 25.3 | 27.0 | 34.3 | 30.7 | 30.1 |
| Depreciation & Amortisation | 1,715 | 1,412 | 1,308 | 1,230 | 1,350 |
| EBIT | 2,279 | 2,676 | 4,156 | 4,340 | 4,946 |
| Interest expenses | 834 | 780 | 565 | 300 | 170 |
| PBT from operations | 1,445 | 1,896 | 3,591 | 4,040 | 4,776 |
| Other Income | 13 | 22 | 35 | 200 | 400 |
| Exceptional loss/(gain) | (5) | - | - | - | - |
| PBT | 1,453 | 1,918 | 3,626 | 4,240 | 5,176 |
| Taxes | 60 | 143 | 290 | 424 | 776 |
| Effective tax rate (%) | 4.1 | 7.4 | 8.0 | 10.0 | 15.0 |
| Net Profit | 1,393 | 1,775 | 3,336 | 3,816 | 4,399 |
| Minority + Associates | (53) | (59) | (70) | (80) | (100) |
| Reported Net Profit | 1,340 | 1,716 | 3,266 | 3,736 | 4,299 |
| Adj Net Profit | 1,346 | 1,716 | 3,266 | 3,736 | 4,299 |

Source: Company, Centrum Research Estimates

Exhibit 5: Key Ratios

| Y/E March | FY16 | FY17 | FY18E | FY19E | FY20E |
|------------------------------------|-------|-------|-------|-------|-------|
| Growth ratios (%) | | | | | |
| Revenues | 10.4 | (4.2) | 5.3 | 14.1 | 15.2 |
| EBITDA | (8.2) | 2.4 | 33.7 | 1.9 | 13.0 |
| Adj Net Profit | 61.3 | 27.5 | 90.3 | 14.4 | 15.1 |
| Margin ratios (%) | | | | | |
| EBITDA Margin | 25.3 | 27.0 | 34.3 | 30.7 | 30.1 |
| PBT from operations Margin | 9.2 | 12.5 | 22.5 | 22.2 | 22.8 |
| Adj PAT Margin | 8.5 | 11.3 | 20.5 | 20.6 | 20.6 |
| Return Ratios (%) | | | | | |
| RoE | 13.2 | 14.8 | 23.0 | 21.4 | 20.5 |
| RoCE | 11.1 | 12.0 | 18.3 | 18.7 | 19.4 |
| RoIC | 11.2 | 12.0 | 19.8 | 22.8 | 25.7 |
| Turnover Ratios (days) | | | | | |
| Gross block turnover (x) | 1.0 | 0.9 | 0.9 | 1.0 | 1.0 |
| Debtors | 104 | 96 | 83 | 78 | 62 |
| Inventory | 48 | 39 | 35 | 33 | 37 |
| Creditors | 32 | 23 | 27 | 26 | 24 |
| Cash conversion cycle | 120 | 113 | 91 | 85 | 75 |
| Solvency Ratio | | | | | |
| Net debt-equity | 0.8 | 0.6 | 0.1 | (0.2) | (0.3) |
| Debt-equity | 0.8 | 0.6 | 0.3 | 0.1 | 0.0 |
| Interest coverage ratio | 2.7 | 3.4 | 7.4 | 14.5 | 29.1 |
| Gross debt/EBITDA | 2.4 | 1.9 | 0.9 | 0.5 | 0.1 |
| Current Ratio | 3.7 | 4.1 | 4.8 | 4.2 | 4.3 |
| Per Share (Rs) | | | | | |
| Adjusted EPS | 3.2 | 4.1 | 7.8 | 8.9 | 10.3 |
| BVPS | 25.2 | 29.3 | 36.8 | 45.1 | 53.6 |
| CEPS | 7.3 | 7.5 | 10.9 | 11.8 | 13.5 |
| DPS | - | - | 0.3 | 0.5 | 1.5 |
| Dividend payout % | - | - | 3.8 | 6.6 | 17.2 |
| Valuations (x)(Avg Mkt Cap) | | | | | |
| P/E (adjusted) | 22.9 | 18.2 | 16.6 | 14.5 | 12.6 |
| P/BV | 2.9 | 2.5 | 3.5 | 2.9 | 2.4 |
| EV/EBITDA | 10.1 | 9.7 | 10.2 | 9.2 | 7.4 |
| EV/ton (1 USD \$=Rs 65) | 202 | 179 | 232 | 213 | 154 |
| Dividend yield % | - | - | 0.2 | 0.4 | 1.2 |
| 5 Yr Avg AOCF/EV yield % | - | 1.5 | 4.3 | 7.4 | 10.1 |

Source: Company, Centrum Research Estimates

Exhibit 6: Balance Sheet

| Y/E March (Rsmn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital | 419 | 419 | 419 | 419 | 419 |
| Reserves & surplus | 10,134 | 11,861 | 15,004 | 18,493 | 22,052 |
| Total Shareholders' Fund | 10,553 | 12,280 | 15,423 | 18,912 | 22,471 |
| Total Debt | 9,398 | 7,949 | 4,905 | 2,676 | 941 |
| Def tax liab. (net) | 117 | 163 | 163 | 163 | 163 |
| Minority Interest | 530 | 589 | 659 | 739 | 839 |
| Total Liabilities | 20,599 | 20,981 | 21,151 | 22,491 | 24,415 |
| Gross Block | 16,738 | 17,571 | 18,271 | 19,571 | 23,271 |
| Less:- Accumulated Depreciation | 7,547 | 8,939 | 10,247 | 11,477 | 12,826 |
| Net Block | 9,191 | 8,632 | 8,024 | 8,094 | 10,445 |
| Capital WIP | 490 | 549 | 649 | 2,149 | 449 |
| Net Fixed assets | 9,681 | 9,181 | 8,673 | 10,243 | 10,893 |
| Investments | 15 | 17 | 17 | 17 | 17 |
| Inventories | 2,092 | 1,612 | 1,513 | 1,635 | 2,092 |
| Sundry Debtors | 4,488 | 3,995 | 3,624 | 3,865 | 3,549 |
| Cash & bank balances | 238 | 201 | 3,401 | 5,910 | 8,319 |
| Loans & Advances | 8,140 | 9,735 | 7,159 | 4,695 | 3,587 |
| Other Assets | 5 | 3 | 2 | 2 | 2 |
| Total current assets | 14,963 | 15,546 | 15,699 | 16,106 | 17,548 |
| Trade payables | 1,404 | 938 | 1,163 | 1,272 | 1,360 |
| Other current liabilities | 2,615 | 2,775 | 2,023 | 2,543 | 2,615 |
| Provisions | 42 | 49 | 52 | 59 | 68 |
| Net current assets | 10,902 | 11,783 | 12,461 | 12,231 | 13,505 |
| Total Assets | 20,599 | 20,981 | 21,151 | 22,491 | 24,415 |

Source: Company, Centrum Research Estimates

Exhibit 7: Cash Flow

| Y/E March (Rsmn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|------------------------------------|--------------|----------------|----------------|----------------|----------------|
| Op profit before WC changes | 3,697 | 3,727 | 4,739 | 4,722 | 5,260 |
| Working capital changes | (2,726) | (657) | 2,957 | 3,163 | 1,394 |
| Cash from Operations | 970 | 3,070 | 7,697 | 7,885 | 6,654 |
| Adj. OCF (OCF-Interest) | 137 | 2,290 | 7,132 | 7,585 | 6,484 |
| Net capex | (808) | (890) | (800) | (2,800) | (2,000) |
| Adj. FCF (AOCF-Capex) | (671) | 1,400 | 6,332 | 4,785 | 4,484 |
| Cash from investing | (792) | (903) | (765) | (2,600) | (1,600) |
| Cash from financing | (140) | (2,247) | (3,732) | (2,776) | (2,645) |
| Net change in cash | 38 | (80) | 3,200 | 2,509 | 2,409 |

Source: Company, Centrum Research Estimates

Appendix A

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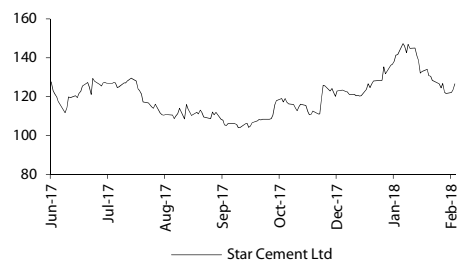
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Star price chart (SFCL till Mar 2017)



Source: Bloomberg, Centrum Research

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