

## Demand softens; margins remain steady...

For Q1FY20, Star Cement reported a weak set of numbers led by volume decline. Total revenues for the quarter registered 9.7% YoY decline to ₹ 468 crore (vs. I-direct estimate of ₹ 509 crore). Volumes during the quarter stood at 0.73 MT (vs. I-direct estimates of 0.8 MT), down 9.5% YoY due to lower clinker sales. Realisations remained flat YoY at ₹ 6,414/t (broadly in line with I-direct estimates of ₹ 6,477/t). Production costs also remained stable YoY leading to stable EBITDA/t of ₹ 1,637/t. However, EBITDA declined 9.5% YoY to ₹ 119 crore (vs. I-direct estimate of ₹ 124 crore), due to lower volumes. PAT saw ~7% YoY de-growth owing to lower depreciation and finance costs. Accordingly, PAT was at ₹ 84 crore, marginally below I-direct estimate of ₹ 86 crore.

## Soft demand in first half, to keep growth low for FY20E

Q1FY20 was subdued owing to weak demand and heavy monsoons in June and July. This is also expected to impact the Q2FY20E performance (management estimates that de-growth has been to the tune of 10% in the eastern region). While we believe that post flood reconstruction in the north east region and demand recovery in the eastern states should boost demand in the second half of the year, the weak performance in H1FY20E is expected to slow down volume growth to ~3.5% in FY20E. Thus, we expect revenues to grow at 7.9% CAGR in FY19-21E to ₹ 2,130 crore in FY21E backed by a volume CAGR of 7.2% in the same period. Further, with higher consumption of imported coal, P&F costs are expected to remain high in the next few quarters by ~₹ 150-200/t. Thus, we expect EBITDA margins to contract in FY20E before recovering in FY21E. We expect EBITDA to grow at 6.8% CAGR in FY19-21E to ₹ 343 crore.

## Cash flows to remain stable; return ratios to recover in FY21E

For the Siliguri plant and WHRMS, the company would be spending ~₹ 350 crore in FY20E. The de-bottlenecking of its clinker capacity is expected to be postponed to FY21E. Further, the company has also announced a buyback of shares for up to 68 lakh shares that would entail an outflow of up to ₹ 102 crore (excluding buyback tax). Cash on the books of the company of ~₹ 350 crore combined with the incremental cash generated during the year from its operations should suffice for the capital required to fund outflows. With performance recovery expected in FY21E, RoCE, EBITDA margins are expected to improve to above 18% and 24%, respectively.

## Valuation & Outlook

A positive outlook for growth in the north-east region combined with additional capacity coming in, the company is expected to witness healthy volume growth in FY21E. However, profitability is expected to remain stable considering the higher imported fuel. We maintain our **HOLD** rating, valuing the company at ~8x FY21E EV/EBITDA, arriving at a TP of ₹ 105/share.



### Stock Data

#### Particulars

Market Capitalization	₹ 3928.1 Crore
Total Debt (FY19)	₹ 51 crore
Cash and Investments (FY19)	₹ 211 crore
EV	₹ 3768 crore
52 week H/L	₹ 137 / 85
Equity capital	₹ 41.2 Crore
Face value	₹ 1

### Key Highlights

- Cement volume stable YoY, however clinker sales lower YoY
- Heavy monsoon in July is expected to keep momentum slow in Q2FY20E leading us to expect ~3.5% volume growth in FY20E
- Company is awaiting clarity on buyback tax from the authorities
- Siliguri plant expected to be commissioned in January 2020
- Maintain HOLD with target price of ₹ 105

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### Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,528	1,615	1,831	1,871	2,130	7.9%
EBITDA	411	526	455	433	519	6.8%
EBITDA (%)	26.9	32.6	24.8	23.2	24.4	
PAT	195	331	299	282	343	7.1%
EPS (₹)	4.6	7.9	7.2	6.8	8.3	
EV/EBITDA	11.3	8.2	8.4	8.9	7.3	
EV/T (\$)	193	179	137	138	93	
RoCE (%)	15.6	21.6	18.9	16.6	18.2	
RoNW (%)	17.0	22.4	17.3	15.3	16.1	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q1FY20E	Q1FY20E	Q1FY19	YoY(%)	Q4FY19	QoQ (%)	Comments
Total Operating Income	468	509	518	-9.7	538	-13.0	Soft demand on heavy monsoon and elections led the decline in volumes resulting in lower revenues
Raw Material Expenses	97	114	108	-10.3	137	-29.5	
Employee Expenses	30	37	27	11.3	28	8.5	
Other Expenses	222	234	251	-11.7	243	first	Domestic coal substituted by higher cost imported coal keeps other expense savings lower
EBITDA	119	124	132	-9.5	130	-8.3	
EBITDA Margin (%)	25.5	24.4	25.5	4 bps	24.2	130 bps	
Depreciation	22	24	28	-21.5	24	-6.8	
Interest	2.8	3.1	5.4	-49.0	3.1	-9.8	
PBT	95	97	98	-3.9	103	-8.6	
Total Tax	11	10	7	56.0	12	-10.2	
Minority Interest	0.0	1.8	1.2	-98.9	1.8	NA	
PAT after MI	84	86	90	-7.1	90	-6.6	

**Key Metrics**

Volume (MT)	0.7	0.8	0.8	-9.5	0.8	-13.1	Lower clinker sales and flattish cement sales cause volume decline
Realisation (₹)	6,414	6,477	6,422	-0.1	6,403	0.2	Stable prices keep realisations flat
EBITDA per Tonne (₹)	1,637	1,582	1,636	0.0	1,551	5.5	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue*	2,036.3	1,881.1	-7.6	2,251.1	2,135.8	-5.1	Volume growth revised to the lower side
EBITDA	497.4	433.2	-12.9	549.7	518.8	-5.6	
EBITDA Margin (%)	24.4	23.0	-140 bps	24.4	24.3	-13 bps	Substituting domestic coal by imported coal to lead to higher fuel costs
PAT	333.1	281.5	-15.5	371.9	342.9	-7.8	
EPS (₹)	8.1	6.8	-15.5	8.9	8.3	-6.6	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				Earlier			Comments
	FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Volume (MT)	2.80	2.61	2.86	2.96	3.28	3.14	3.46	Lower growth expectations in FY20E leads us to revise our estimates downwards
Realisation (₹)	6,164	6,175	6,426	6,359	6,504	6,477	6,509	
EBITDA per Tonne (₹)	1,449	2,014	1,591	1,464	1,580	1,582	1,589	Cessation of transport subsidy and higher fuel costs to keep EBITDA/t around current levels

Source: Company, ICICI Direct Research

## Conference call Highlights

- Cement production was at 0.656 MT during the quarter vs. 0.647 MT in Q1FY19 while clinker production was at 0.618 MT vs. 0.587 MT in Q1FY19
- During the quarter, cement sales were at 0.719 MT vs. 0.713 MT. Sales in the North East were at 0.531 MT vs. 0.514 MT YoY while that in the eastern states were at 0.188 MT vs. 0.199 MT YoY. Volume de-growth during the quarter was owing to clinker sales of 8000 tonnes during the quarter vs. 94000 tonnes sold in Q1FY19
- In terms of product mix, 16% was OPC, 2% was PSC and the balance 82% was PPC. Trade sales were at 82% of total volumes
- The company wanted to take an annual maintenance shutdown in July hence did not want to sell clinker. However, owing to heavy showers, the same has been postponed to August
- Slag prices have declined ~25% sequentially to ~₹ 900/t while fly ash prices have increased ~10-15% sequentially
- With respect to buyback, the management is awaiting clarification from Ministry of Finance and SEBI
- Currently, ₹ 52 crore of subsidy is pending in relation to the transport subsidy and is expected to be realised in Q2 or Q3 of this financial year. Currently, the company has ~₹ 350 crore cash available
- During the year, the management estimates ~₹ 350 crore of capex to be incurred towards Siliguri unit, WHRMS (~12 MW) and maintenance capex. The Siliguri plant commissioning is expected in January 2020
- Owing to higher consumption of imported coal, the company expects ~₹ 150-200/t increase in P&F costs
- In Meghalaya, ~32 lakh tonnes of coal is with the coal mines and is expected to be auctioned next month
- The management expects prices to remain stable or decline marginally in the North east region. However, in the eastern region, the management expects a further decline of ~₹ 10/bag, post the ~₹ 8-10 per bag declines in June and July
- Demand in the eastern region was down 10% while the north east demand was affected by heavy monsoon
- In relation to the greenfield clinker unit in Meghalaya, the company applied for environment clearance and expects approvals in the next quarter. Setting up the plant would take ~24-30 months

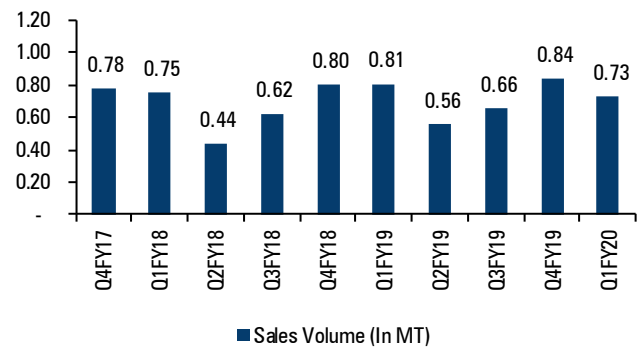
## Financial story in charts

Exhibit 4: Capacity addition plans

	Cement	Clinker	Timelines
Current	4.4	2.6	
<b>Ongoing addition:</b>			
Clinker debottlenecking		0.4	FY21E
Cement grinding unit (Siliguri)	2		Jan-20
<b>Total Cement Capacity</b>	<b>6.4</b>	<b>3</b>	

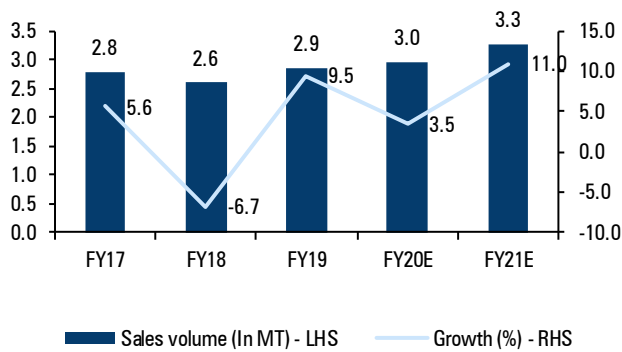
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly sales trend – Volumes down 9.5% YoY



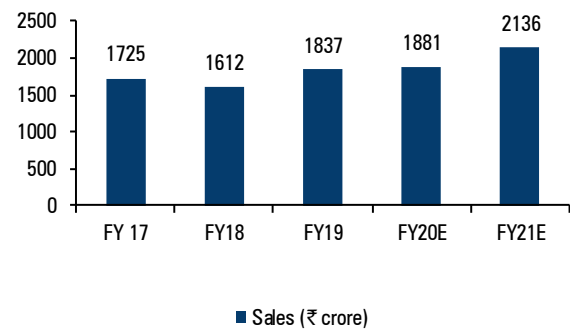
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to witness ~7% CAGR over FY19-21E



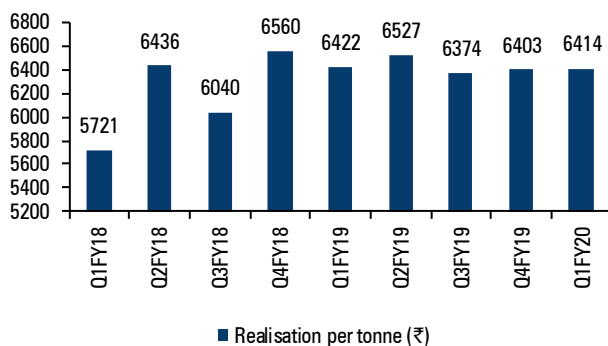
Source: Company, ICICI Direct Research

Exhibit 7: Revenues to grow at 7.9% CAGR over FY19-21E



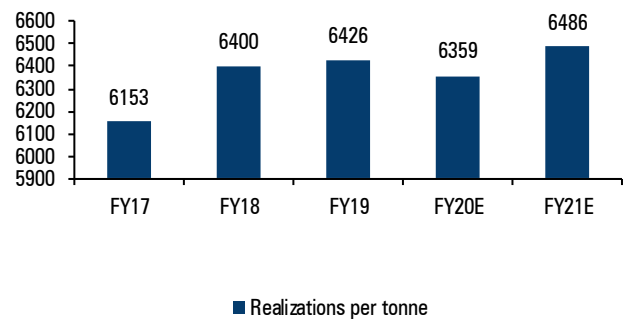
Source: Company, ICICI Direct Research

Exhibit 8: Realisations/t remain flat YoY



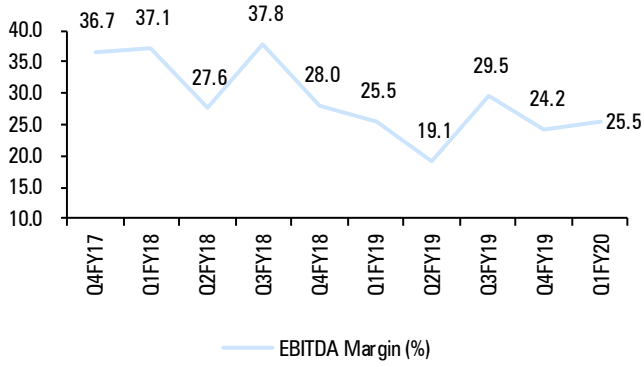
Source: Company, ICICI Direct Research

Exhibit 9: Realisations to crawl towards ~ ₹ 6500/t in FY21E



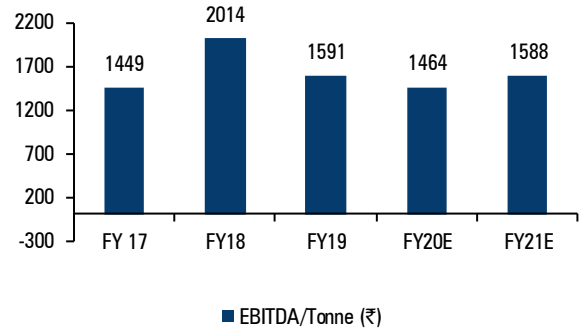
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins remain stable YoY



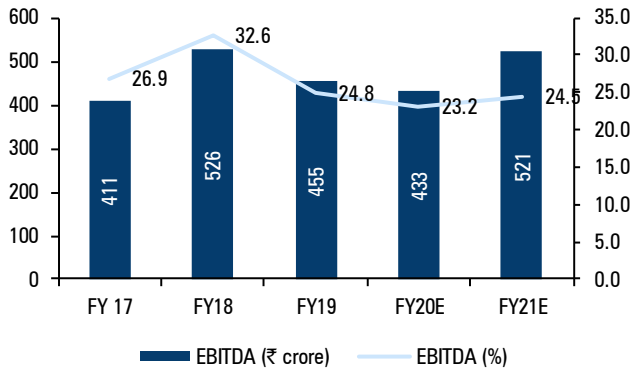
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to stabilise marginally below ₹ 1600/t



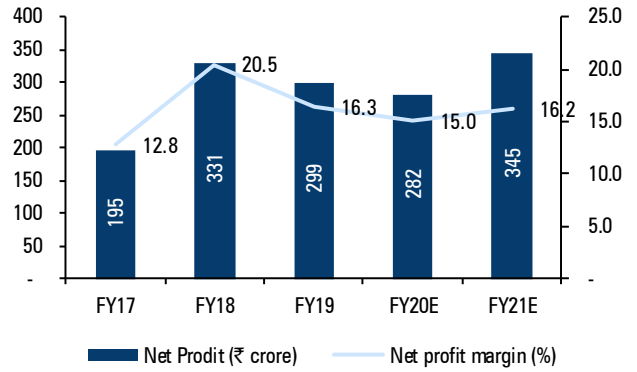
Source: Company, ICICI Direct Research

Exhibit 12: Operating margins to remain stable around 24%



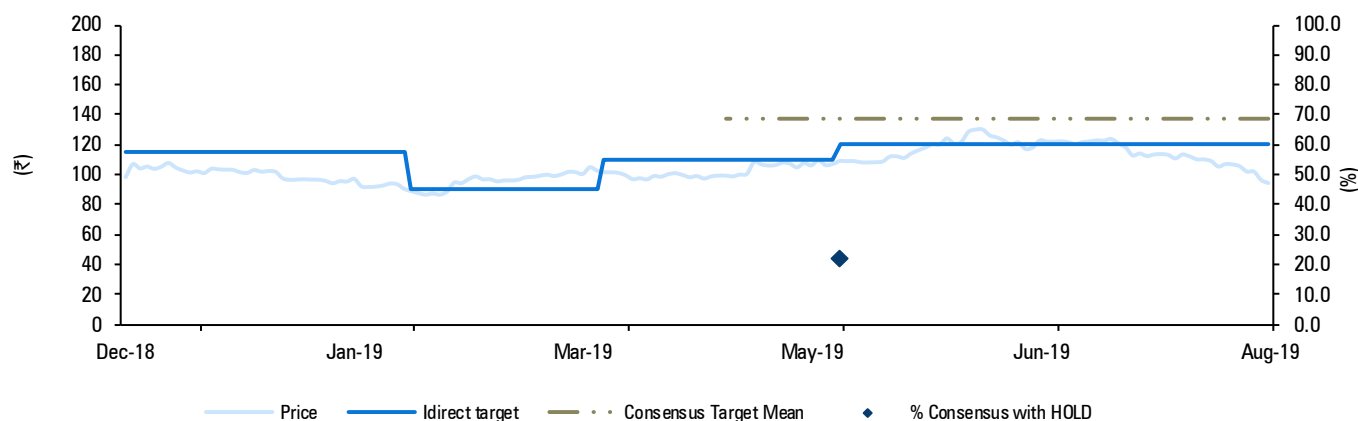
Source: Company, ICICI Direct Research

Exhibit 13: PAT to grow at 7.1% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Bhajanka (Sajjan)	31-Mar-19	11%	47.3	0.00
2	Bhajanka (Prem Kumar)	31-Mar-19	9%	38.2	0.00
3	SBI Funds Management Pvt. Ltd.	31-Mar-19	6%	24.2	0.00
4	Chamaria (Rajendra)	5-Jun-19	5%	20.2	-0.08
5	Agarwal (Divya)	31-Mar-19	5%	19.3	0.00
6	Bhajanka (Santosh)	31-Mar-19	4%	18.4	0.00
7	Agarwal (Sanjay)	31-Mar-19	4%	17.3	0.00
8	Agarwal (Subham)	31-Mar-19	4%	15.6	1.19
9	Sriram Vanijya Pvt. Ltd.	31-Mar-19	3%	11.3	0.00
10	Agarwal (Brij Bhushan)	31-Mar-19	3%	11.1	0.00

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 16: Recent Activity

Buys				Sells			
Investor Name	Value (mn)	Shares		Investor Name	Value (mn)	Shares	
Subham Capital Pvt. Ltd.	7.13	5.01		Chamaria (Rahul)	-1.42	-1.00	
Udyog (Rajendra) HUF	5.81	3.28		Agarwal (Amit)	-1.42	-1.00	
Agarwal (Subham)	1.69	1.19		Lazard Asset Management, L.L.C.	-1.65	-0.93	
Kejriwal (Pankaj)	0.18	0.10		Chamaria (Sachin)	-0.96	-0.68	
Kejriwal (Saroj)	0.13	0.08		Agarwal (Pushpa)	-0.53	-0.38	

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 17: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Jun-19
Promoter	68.89	68.89	68.88	68.87	67.94
FII	1.93	2.19	1.00	1.24	1.05
DII	7.25	7.33	8.39	8.71	9.22
Others	21.93	21.59	21.73	21.18	21.79

Source: Company, ICICI Direct Research, Thomson Reuters

## Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
<b>Total operating Income</b>	<b>1,618.9</b>	<b>1,836.5</b>	<b>1,881.1</b>	<b>2,135.8</b>
Growth (%)	5.8	13.4	2.4	13.5
Raw material cost	269.7	425.5	428.5	489.3
Inc/dec in stock	0.0	0.0	0.0	0.0
Employees cost	107.4	116.4	126.6	139.3
Others	716.1	840.0	892.8	988.4
Total Operating Exp.	1,093.2	1,381.9	1,447.9	1,617.0
<b>EBITDA</b>	<b>525.7</b>	<b>454.6</b>	<b>433.2</b>	<b>518.8</b>
Growth (%)	28.0	-13.5	-4.7	19.7
Depreciation	120.7	105.6	106.6	120.6
Interest	52.5	14.4	7.6	6.4
Other Income	0.0	0.0	0.0	0.0
PBT	352.6	334.6	319.1	391.8
Total Tax	16.4	29.6	30.8	37.2
<b>PAT</b>	<b>330.7</b>	<b>298.8</b>	<b>281.5</b>	<b>342.9</b>
Growth (%)	69.7	-9.7	-5.8	21.8
<b>Adjusted EPS (₹)</b>	<b>8.0</b>	<b>7.2</b>	<b>6.8</b>	<b>8.3</b>

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Profit after Tax	330.7	298.8	281.5	342.9
Add: Depreciation	120.7	105.6	106.6	120.6
(Inc)/dec in Current Assets	-123.4	376.9	19.9	-158.0
Inc/(dec) in CL and Provisions	142.1	-172.0	14.5	54.2
<b>CF from operating activities</b>	<b>470.1</b>	<b>609.3</b>	<b>422.5</b>	<b>359.7</b>
(Inc)/dec in Investments	0.0	-0.3	0.0	0.0
(Inc)/dec in Fixed Assets	-22.8	-81.8	-285.7	-165.0
Others	-54.7	11.1	6.8	-75.1
<b>CF from investing activities</b>	<b>-77.5</b>	<b>-70.9</b>	<b>-278.9</b>	<b>-240.1</b>
Issue/(Buy back) of Equity	0.0	0.0	-0.7	0.0
Inc/(dec) in loan funds	-340.5	-280.4	0.0	0.0
Dividend paid & dividend tax	-50.6	0.0	-49.7	-49.7
Inc/(dec) in Sec. premium	50.5	-52.1	-115.0	0.0
Others	-52.5	-14.4	-7.6	-6.4
<b>CF from financing activities</b>	<b>-393.0</b>	<b>-346.8</b>	<b>-173.0</b>	<b>-56.2</b>
Net Cash flow	-0.3	191.5	-29.5	63.5
Opening Cash	20.1	19.8	211.3	181.9
<b>Closing Cash</b>	<b>19.8</b>	<b>211.3</b>	<b>181.9</b>	<b>245.4</b>

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	41.9	41.9	41.2	41.2
Reserve and Surplus	1,435.2	1,681.9	1,798.6	2,091.8
Total Shareholders funds	1,477.1	1,723.8	1,839.9	2,133.0
Total Debt	331.7	51.3	51.3	51.3
Deferred Tax Liability	110.2	115.1	115.1	115.1
Minority Interest / Others	62.1	68.3	75.1	0.0
<b>Total Liabilities</b>	<b>1,981.1</b>	<b>1,958.5</b>	<b>2,081.4</b>	<b>2,299.4</b>
<b>Assets</b>				
Gross Block	1,829.0	1,872.2	2,122.2	2,297.2
Less: Acc Depreciation	1,044.5	1,150.2	1,256.7	1,377.3
Net Block	784.5	722.1	865.5	919.9
Capital WIP	35.7	74.3	110.0	100.0
Total Fixed Assets	820.3	796.4	975.5	1,019.9
Investments	1.4	1.7	1.7	1.7
Inventory	294.6	277.2	276.8	309.3
Debtors	146.5	143.8	148.6	157.5
Loans and Advances	978.3	591.3	561.2	638.9
Other Current Assets	244.7	274.9	280.6	319.5
Cash	19.8	211.3	181.9	245.4
Total Current Assets	1,683.8	1,498.5	1,449.1	1,670.6
Creditors	188.9	125.4	153.8	175.1
Provisions	335.9	213.1	191.6	218.2
Total Current Liabilities	524.8	338.5	345.4	393.2
Net Current Assets	1,159.0	1,160.0	1,103.7	1,277.4
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,981.1</b>	<b>1,958.5</b>	<b>2,081.4</b>	<b>2,299.4</b>

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY18	FY19P	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	8.0	7.2	6.8	8.3
Cash EPS	10.9	9.8	9.4	11.2
BV	35.8	41.8	44.6	51.7
DPS	1.0	0.0	0.0	0.0
Cash Per Share	0.5	5.1	4.4	5.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	32.6	24.8	23.2	24.4
PBT / Total Operating income	21.8	18.3	17.1	18.4
PAT Margin	20.5	16.3	15.0	16.1
Inventory days	66.6	55.3	54.0	53.0
Debtor days	33.1	28.7	29.0	27.0
Creditor days	42.7	25.0	30.0	30.0
<b>Return Ratios (%)</b>				
RoE	22.4	17.3	15.3	16.1
RoCE	21.6	18.9	16.6	18.2
RoC	21.0	20.9	18.3	20.4
<b>Valuation Ratios (x)</b>				
P/E	12.1	13.1	14.0	11.5
EV / EBITDA	8.2	8.4	8.9	7.3
EV / Net Sales	2.7	2.1	2.1	1.8
Market Cap / Sales	2.5	2.2	2.1	1.9
Price to Book Value	2.7	2.3	2.1	1.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.6	0.1	0.1	0.1
Debt / Equity	0.2	0.0	0.0	0.0
Current Ratio	3.2	4.4	4.2	4.2
Quick Ratio	2.6	3.6	3.4	4.2

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP		M Cap	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
ACC*	1,514	1,765	HOLD	28,454	81	73	83	14.4	11.7	10.0	114	111	108	14.7	18.5	19.6	14.9	12.7	13.7
Ambuja Cem*	199	205	HOLD	39,514	8.1	7.5	7.9	19.2	16.2	15.4	130	128	126	11.4	14.9	16.1	11.3	10.0	10.6
UltraTech Cem	4,290	5,300	BUY	117,718	89	157	160	20.8	15.3	12.5	240	192	189	9.7	12.4	14.7	8.8	13.5	12.2
Shree Cement	20,000	22,040	HOLD	69,600	318	521	615	27.4	19.7	17.1	211	168	165	11.5	18.3	19.2	11.5	16.3	16.5
Heidelberg Cem	189	220	HOLD	4,283	9.7	11.3	13.1	10.3	8.7	7.8	135	127	111	21.8	24.7	25.2	20.5	20.7	20.8
India Cement	85	115	HOLD	2,611	2.3	3.6	4.8	9.7	8.6	7.8	62	67	68	4.5	5.2	5.8	1.3	2.1	2.7
JK Cement	956	1,150	BUY	6,685	42.0	66.7	62.6	10.1	8.1	8.0	103	100	100	12.5	14.6	13.0	11.2	15.6	13.1
JK Lakshmi Cem	333	485	BUY	3,919	6.8	23.3	21.9	12.1	7.3	6.8	64	63	56	5.2	15.4	12.7	5.2	15.4	12.7
Mangalam Cem	218	215	REDUCE	582	-3.7	7.3	4.7	20.5	8.1	9.7	45	42	45	3.2	8.8	7.7	-2.0	3.8	2.4
Star Cement	95	105	HOLD	3,993	7.2	6.8	8.3	8.4	8.9	7.3	137	138	93	18.9	16.6	18.2	17.3	15.3	16.1
Ramco Cement	719	950	BUY	17,118	20.6	29.3	32.8	17.7	13.4	11.2	175	161	135	8.0	9.9	10.9	11.2	14.3	14.4
Sagar Cement	566	800	BUY	1,155	6.7	25.7	34.1	10.9	8.0	7.6	51	52	56	6.4	9.7	10.2	1.6	5.4	6.2

Source: Company, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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