India I Equities

Cement
Company Update

Change in Estimates ☑ Target ☑ Reco ☐

10 February 2021

Star Cement

Volumes to drive growth, one-off quarter; retaining a Buy

Rating: **Buy**
Target Price: Rs124
Share Price: Rs96

The logistics issue and high exceptional cost hurt Star's volumes and profits. With a healthy demand-pricing outlook, the Siliguri GU ramp-up would enhance volume growth and cost savings with rationalised logistics/raw-material procurement. The environment clearance continues for the Meghalaya clinker unit. The strong net cash B/S continues positive. We retain our Buy, at a Rs124 target (earlier Rs110).

One-off quarter. Logistical issues on bridge repair work hampered cement sales, leading revenues/volumes to slip 6%/8% y/y to Rs4.2bn and 0.67m tons. Prices in the north-east were firm; in the east they fell Rs15-20/bag on high volume pressure. With the coal mining ban in the north-east continuing and higher international coal prices, 100% coal was procured from the Eastern Coalfield where EBITDA/ton fell 2.6% y/y to Rs1,215. The high exceptional cost (Rs646m) pushed reported PAT down 100% y/y to Rs1m.

Aims at 12m tons by FY25. With 5.7m tons cement capacity now, Star aims at cement capacity of 10-12m tons, with GU in Guwahati/Bihar/South WB and to set up 2-3m tons clinker unit at Chattisgarh/MP. With the Siliguri GU commissioning, the 0.6m ton leased GU arrangement in the east has been stopped. The 2m-ton Meghalaya clinker unit is expected to commence in FY24 at Rs8bn capex and orders for equipment have begun for the 15MW WHRS, expected to commence by end-FY22.

Business outlook, Valuation. Logistical issue are expected to be resolved by 15th Feb. The Siliguri GU will enhance the east's share in the revenue mix where capacity utilisation was guided to as ~65% in FY22. Coal prices continue to rise whereas cement prices in the East are expected to have bottomed out. Management does not expect much of a rise in volume inflow from eastern operators to the north-east citing FY21 to be exceptional with high volume focus to regain lost sales due to the lockdown. We expect volume/revenue/EBITDA CAGRs of 13%/16%/21% over FY21-23. We introduce FY23e and retain our Buy rating, with a higher target of Rs124 (10x FY23e EV/EBITDA). **Risks:** Rising operational costs, demand slowdown.

Key Financials (YE Mar)	FY19	FY20	FY21e	FY22e	FY23e
Sales (Rs m)	18,310	18,439	16,154	19,057	21,575
Net profit (Rs m)	2,988	2,855	2,062	2,325	2,940
EPS (Rs)	7.1	6.9	5.0	5.6	7.1
PE (x)	13.8	9.8	19.2	17.0	13.5
EV / EBITDA (x)	8.9	6.4	11.0	9.2	7.5
EV / ton ($)	147.7	94.1	84.8	85.2	85.2
RoE (%)	19.1	16.0	11.0	11.3	12.9
RoCE (%)	19.6	17.4	11.1	12.0	13.8
Dividend yield (%)	0.9	1.5	1.0	1.0	1.0
Net debt / equity (x)	-0.1	-0.1	-0.2	-0.2	-0.2

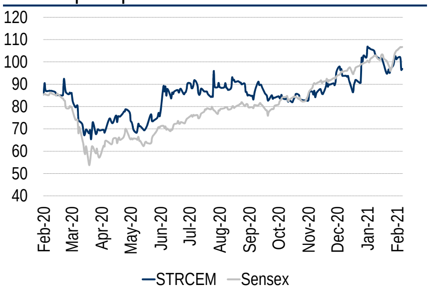
Source: Company, Anand Rathi Research

Key data	STRCEM IN
52-week high / low	Rs108 / 56
Sensex / Nifty	51393 / 15137
3-m average volume	$0.9m
Market cap	Rs40bn / $548.3m
Shares outstanding	412m

Shareholding pattern (%)	Dec-20	Sep-20	Jun-20
Promoters	67.1	67.2	66.8
- *of which, Pledged*	0.01	-	-
Free float	32.9	32.8	33.2
- Foreign institutions	0.1	0.2	0.2
- Domestic institutions	8.1	8.3	8.4
- Public	24.8	24.4	24.6

Estimates revision (%)	FY21e	FY22e
Sales	(0.5)	(3.0)
EBITDA	(2.5)	(9.1)
PAT	(22.5)	(4.1)

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Sales volumes (m tons)	2.9	3.0	2.6	3.0	3.3
Net revenues	18,310	18,439	16,154	19,057	21,575
Growth (%)	14.0	0.7	-12.4	18.0	13.2
Direct costs	4,367	4,019	2,974	3,467	3,895
SG&A	9,451	10,469	9,974	11,726	12,968
EBITDA	4,492	3,951	3,206	3,863	4,711
EBITDA margins (%)	24.5	21.4	19.8	20.3	21.8
- Depreciation	1,056	930	894	1,102	1,154
Other income	55	287	258	286	259
Interest expenses	144	93	67	53	53
PBT	3,346	3,215	2,504	2,993	3,762
Effective tax rates (%)	8.86	10.64	20.00	20.00	20.00
+ Associates / (Minorities)	62	18	70	70	70
Net income	2,988	2,855	1,416	2,325	2,940
Adjusted income	2,988	2,855	2,062	2,325	2,940
WANS	419	412	412	412	412
FDEPS (Rs / sh)	7.1	6.9	5.0	5.6	7.1
FDEPS growth (%)	-9.6	-2.9	-27.8	12.7	26.4

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
Share capital	419	412	412	412	412
Net worth	17,237	18,571	20,221	22,133	24,660
Debt	738	134	134	134	134
Minority interest	683	701	771	841	911
DTL / (Assets)	-2,710	-2,893	-2,893	-2,893	-2,893
Capital employed	15,947	16,512	18,232	20,214	22,811
Net tangible assets	7,221	6,959	9,041	9,289	8,234
Net intangible assets	2	2	2	2	2
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	743	2,375	500	1,500	4,500
Investments (strategic)	17	16	16	16	16
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	10,161	8,516	7,878	9,398	10,640
Cash	2,113	2,820	4,424	4,291	4,266
Current liabilities	4,311	4,176	3,629	4,281	4,847
Working capital	5,851	4,340	4,249	5,117	5,793
Capital deployed	15,947	16,512	18,232	20,214	22,811
Contingent liabilities	712	3236	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
PBT (Adj. OI and Interest)	3,435	3,021	2,312	2,761	3,557
+ Non-cash items	1,056	930	894	1,102	1,154
Oper. prof. before WC	4,492	3,951	3,206	3,863	4,711
- Incr. / (decr.) in WC	-3,112	-1,511	-91	868	676
Others incl. taxes	683	342	372	599	752
Operating cash-flow	6,921	5,120	2,925	2,396	3,282
- Capex (tang. + intang.)	818	2,300	1,100	2,350	3,100
Free cash-flow	6,103	2,820	1,825	46	182
Acquisitions					
- Div. (incl. buyback & taxes)	458	1,517	412	412	412
+ Equity raised	-0	-	-	-	-
+ Debt raised	-3,586	-605	-	-	-
- Fin investments	3	-1	-	-	-
- Misc. (CFI + CFF)	141	-6	-192	-232	-205
Net cash-flow	1,915	707	1,605	-134	-25

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

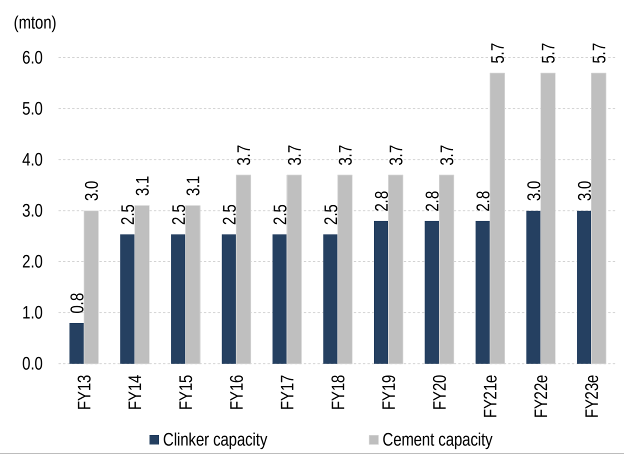
Year-end: Mar	FY19	FY20	FY21e	FY22e	FY23e
P/E (x)	13.8	9.8	19.2	17.0	13.5
EV / EBITDA (x)	8.9	6.4	11.0	9.2	7.5
EV / Sales (x)	2.2	1.4	2.2	1.9	1.6
P/B (x)	2.4	1.5	2.0	1.8	1.6
RoE (%)	19.1	16.0	11.0	11.3	12.9
RoCE (%) - after tax	19.6	17.4	11.1	12.0	13.8
DPS (Rs / sh)	0.9	1.0	1.0	1.0	1.0
Dividend payout (%) - incl. DDT	15.3	17.4	20.0	17.7	14.0
Net debt / equity (x)	-0.1	-0.1	-0.21	-0.18	-0.16
WC days	148	101	97	90	92
EV / ton ($)	147.7	94.1	84.8	85.2	85.2
NSR / ton Rs)	7,979	8,076	8,176	8,296	8,416
EBITDA / ton (Rs)	1,572	1,337	1,227	1,277	1,424
Volumes (m tons)	2.9	3.0	2.6	3.0	3.3
CFO : PAT (%)	231.6	179.3	141.9	103.1	111.7

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Cement (incl. hired) and clinker capacity



Source: Company

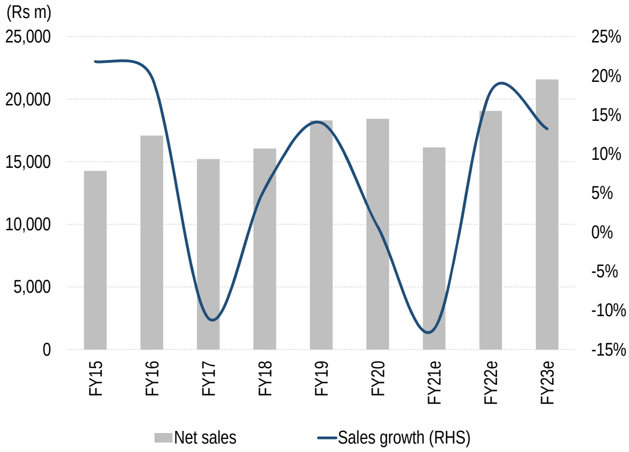
Other key highlights

Revenue growth

Star Cement's Q3 revenue declined 6% y/y to Rs4.2bn (cement ~down 6%, power ~up 34%). Volumes were hit by bridge repair work on the Shillong bypass. The company could not evacuate clinker at the Lumshong to Guwahati GU and hence impacted the company's volume performance.

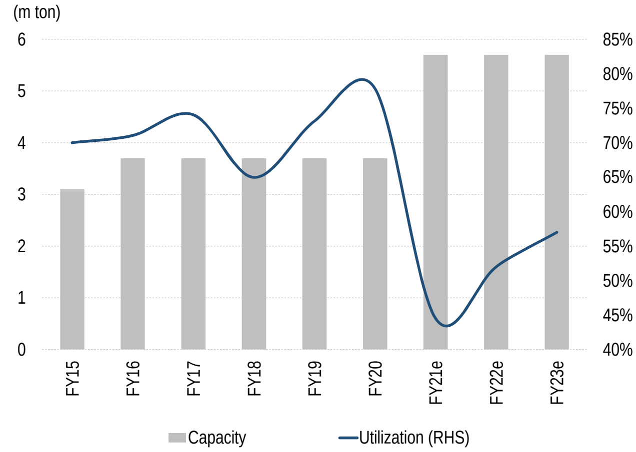
Overall sales volumes (including clinker) declined 8% y/y to 0.662m tons where cement sales for the north-east declined 5% y/y to 0.537m tons and outside northeast volumes declined 33% y/y to 0.125m tons. Gross realisations increased 2.6% y/y to Rs7,945 a ton. Clinker sales declined to 29,000 tons (34,000 tons a year ago). Cement and clinker utilisation were 60% and 80% respectively.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



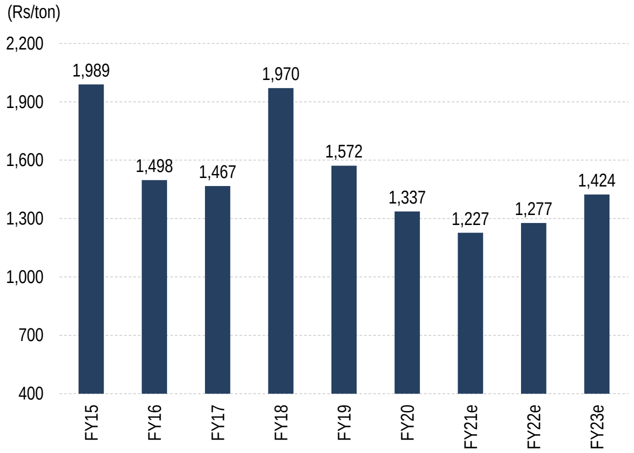
Source: Company, Anand Rathi Research

Operating performance

EBITDA declined 10.7% y/y to Rs840m, with a 19.8% EBITDA margin. While the ban on coal mining in the north-east continues, the company obtained 100% coal from the Eastern Coalfield. Raw material and employee costs increased 5% y/y each; other expenditure declined 2% y/y. EBITDA/ton declined 2.6% y/y to Rs1,215.

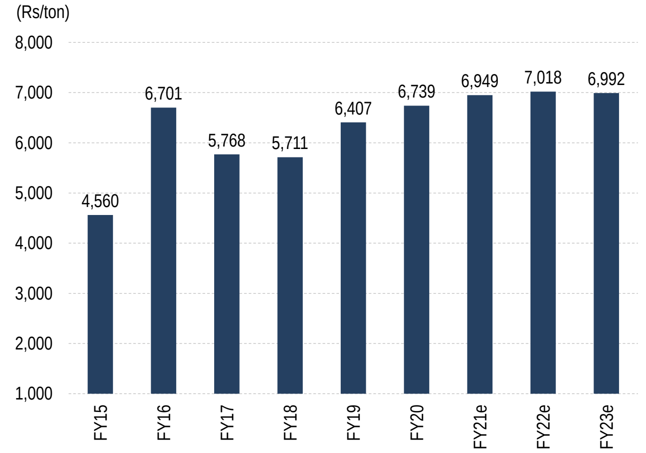
The company reversed Rs645.7m income on reversal of a Supreme Court judgment in the matter of M/s VVF Ltd and Others vs The Union of India, for which the company had earlier claimed refund of 50% of the differential excise duty. This will result in cash outflow and reversal of receivables of Rs300m-350m each. Reported PAT declined 100% y/y to Rs1m due to exceptional costs and adjusted PAT declined 9% y/y to Rs647m. Management said there are no pending court cases.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly performance

(Rsm)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	% Y/Y	%Q/Q
Sales	5,179	3,623	4,164	5,344	4,609	3,825	4,512	5,494	2,920	4,019	4,234	*(6.1)*	*5.4*
EBITDA	1,317	687	1,219	1,269	1,121	644	940	1,246	653	789	840	*(10.7)*	*6.4*
EBITDA margins (%)	*25.4*	*19.0*	*29.3*	*23.7*	*24.3*	*16.8*	*20.8*	*22.7*	*22.4*	*19.6*	*19.8*	-100bps	19bps
EBITDA per ton (Rs)	1,632	1,236	1,861	1,510	1,542	1,067	1,248	1,426	1,455	1,211	1,215	*(2.6)*	*0.4*
Interest	54	33	26	31	28	8	38	20	17	18	19	*(50.6)*	*4.3*
Depreciation	283	271	264	238	222	225	232	250	204	211	208	*(10.4)*	*(1.2)*
Other income	3	7	10	34	74	77	65	72	59	66	74	*14.4*	*13.1*
Exceptional items	-	-	-	-	-	-	-	-	-	-	646	*NA*	*NA*
PBT	983	390	939	1,034	945	487	734	1,048	492	626	41	*(94.4)*	*(93.4)*
Tax	68	8	102	118	106	34	22	180	49	12	40	*83.6*	*249.0*
Reported PAT	915	382	837	916	839	453	712	868	442	615	1	*(99.9)*	*(99.9)*
Adjusted PAT	915	382	837	916	839	453	712	868	442	615	647	*(9.2)*	*5.2*

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(Rs per ton)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	% Y/Y	%Q/Q
Gross Realisations	7,980	7,352	8,099	8,298	8,312	8,105	7,745	8,134	8,199	8,381	7,945	*2.6*	*(5.2)*
EBITDA	1,632	1,236	1,861	1,510	1,542	1,067	1,248	1,426	1,455	1,211	1,215	*(2.6)*	*0.4*
Sales volumes (m tons)	0.7	0.5	0.6	0.8	0.7	0.6	0.7	0.8	0.4	0.6	0.7	*(7.9)*	*4.4*
Costs													
Raw material	1,327	1,405	1,294	1,184	1,166	1,213	1,213	1,129	1,409	1,258	1,404	*15.7*	*11.6*
Purchase of traded goods	282	364	243	255	311	228	273	180	259	219	210	*(22.9)*	*(4.0)*
Staff cost	376	585	469	341	415	490	450	415	678	487	514	*14.2*	*5.6*
Other expenses	3,369	2,709	3,085	3,011	3,088	3,306	3,141	3,255	3,077	2,801	3,355	*6.8*	*19.8*

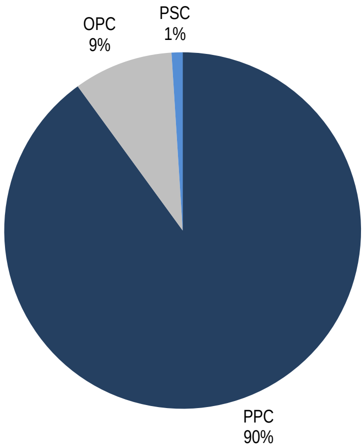
Source: Company, Anand Rathi Research

Concall Highlights

Operational and Financial highlights

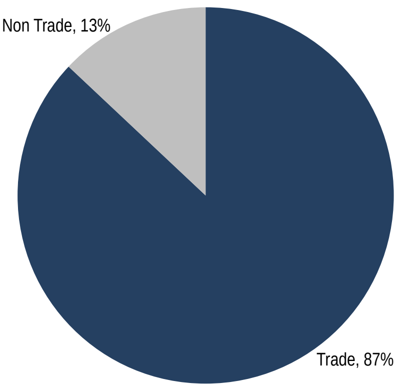
- In Q3 FY21, 0.614m tons of cement were sold, down 8% y/y. Sales volume for the north-east and outside the northeast declined 5% and 33% y/y respectively to 0.537m and 0.125m tons. Clinker sales declined to 29,000 tons (34,000 tons a year ago). Cement and clinker utilisations were 60% and 80% respectively.
- Sales outside the north-east were hit b y restriction on movement of trucks by the state government from Nov due to repairs to a bridge. Management expects the bridge repairs to be complete by 15th Feb'21.
- The trade-nontrade sales mix was 87:13. The PPC-OPC-PSC cement mix was 90:9:1. Premium cement brings 3% to overall sales.
- The company reversed Rs645.7m income on the reversal of a Supreme Court judgment in the matter of M/s VVF Ltd and others vs The Union of India, for which it had earlier claimed a refund of 50% of differential excise duty. This would result in cash outflow and reversal of receivables of Rs300m-350m each.
- In the north-east, 10-12% volumes came from other regional operators. FY21 volumes in the north-east from outside are expected at 15% implying market-share gains of 3%-4% for outside norteh-east operators.
- The ban on coal mining in the north-east continues. The company obtained 100% coal from Eastern Coalfields.
- It now has only one incentive: GST refund of Rs150-200/ton till FY23.

Fig 13 – Product mix



Source: Company, Anand Rathi Research

Fig 14 – Trade-nontrade mix



Source: Company, Anand Rathi Research

Capex / Capacity expansion

- The Siliguri plant commenced during Dec. Orders for equipment for the 15MW WHRS are ongoing, and the system will commence in 18 months from start of construction.
- The company is in the process of obtaining environmental/mining clearances for the 2m-ton clinker expansion at its Meghalaya plant.

Estimated completion is 24-30 months from the start of construction.

- Capex for the 15MW WHRS and the 2m ton clinker plant at Meghalaya is Rs9.5bn. FY22 capex would be Rs2000m on the Meghalaya clinker expansion and the WHRS
- In the north-east, new capacity additions have been lined up for 12 months, though in the east capacity additions of 3.5-4m tons (Dalmia/ Shree)are expected in the next 10-12 months.

Others

- In Q3 prices fell by Rs25-30/bag in the East whereas prices were flat in the north-east. In Jan, prices in the east further declined by Rs10-15/bag.
- The company is targeting cement capacity of 10-12m tons by FY25 and plans to set up 1.5m-/2m-ton GUs at Guwahati, Bihar, South WB each and a 2m-/3m-ton clinker unit in Chhattisgarh/MP, apart from the 2m-ton Meghalaya clinker unit. Hence, cement and clinker capacity would be 12m tons and 8m-8.5m tons respectively.
- The company has given up the hired capacities where clinker and cement capacity were 3m and 6m tons respectively.
- Coal India has increased coal prices by 6%-7%. The company will pass on the rising cost to customers in the north-east. Coal India will auction 3.5m tons of coal in installments, sufficient for the Meghalaya requirement for four years. However, no clear guidelines regarding coal mining have been issued yet.
- Demand in the east in FY21 is expected to be down 2% or flat y/y. Management expects east India to grow 6% in coming years, which would easily absorb rising capacity additions. Management expects 50%-60% and 60-70% capacity utilisations at the Siligudi plant in 50 days in FY21 and FY22 respectively.

Valuations

With a sturdy, ~23%, market share, Star Cement is the market leader in the north-east where, with two others, it caters to 50-60% of cement demand deriving the benefit of economies of scale. With 5.7m-ton cement capacity now, it aims at cement capacity of 10-12m tons with GUs in Guwahati/ Bihar/South WB, and clinker capacity of 8-8.5m tons with setting up 2-3m ton clinker unit at Chattisgarh/MP besides proposed 2m ton Meghalaya clinker unit. The Siligudi GU ramp-up will change the current sales mix from North East:East ~70:30 to 60:40 and will rationalise logistics costs. The environment clearance process continues for the Meghalaya clinker unit. The continuing strong net cash B/S and healthy demand-pricing outlook are positives.

At the ruling price, the stock quotes at an EV/EBITDA of 7.5x, P/E of 13x and an EV/ton of $85 on FY23e. We maintain our Buy recommendation on it, with a higher target price of Rs124 (earlier Rs110) based on 10x FY23e EV/EBITDA.

Change in estimates

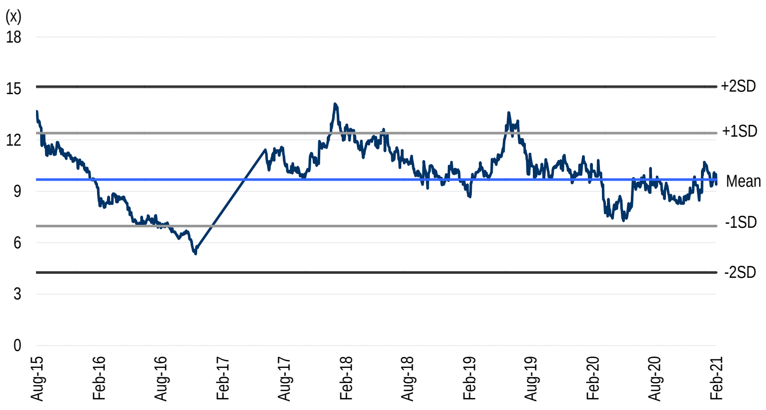
We reduce FY23e revenue 3%, FY21e and FY22e EBITDA ~2.5% and 9% respectively, and PAT ~22.5% and 4.1%.

Fig 15 – Change in estimates

	Old		New		Variance	
(Rs m)	FY21e	FY22e	FY21e	FY22e	% chg	% chg
Sales	16,239	19,640	16,154	19,057	*(0.5)*	*(3.0)*
EBITDA	3,289	4,248	3,206	3,863	*(2.5)*	*(9.1)*
Reported PAT	1,917	2,496	1,486	2,395	*(22.5)*	*(4.1)*

Source: Anand Rathi Research

Fig 16 – 12-month-forward EV/EBITDA: Mean and Standard deviation



Source: Bloomberg

Risk

- Demand slowdown
- Mounting operational costs.

Fig 17 – Peer comparison – Valuations

	CMP	P/E(x)		EV/EBITDA(x)		EV / ton ($)	
	(Rs)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Star Cement	96	18.6	16.5	11.0	9.2	85	85
Birla Corp.	815	12.9	12.1	7.9	7.2	73	61
Dalmia Bharat	1,239	25.3	22.2	9.0	8.0	118	96
Deccan Cement	389	5.9	6.1	3.3	2.7	28	23
Heidelberg Cement	230	21.5	16.8	10.8	8.8	109	103
India Cement	167	24.3	19.9	9.9	9.1	73	71
JK Cement	2,377	24.0	22.3	13.6	12.5	178	175
JK Lakshmi	366	14.3	11.8	7.0	5.8	59	52
Mangalam Cement	270	10.1	8.2	5.9	4.8	44	40
NCL Industries	161	16.5	14.3	7.4	6.7	48	50
Orient Cement	89	10.0	8.1	5.4	4.7	47	42
Prism Johnson	106	50.1	28.0	14.0	11.0	90	77
Ramco Cement	934	26.9	24.3	17.6	15.2	172	160
Sanghi Industries	39	14.8	14.5	11.6	9.2	54	52

Source: Company, Anand Rathi Research

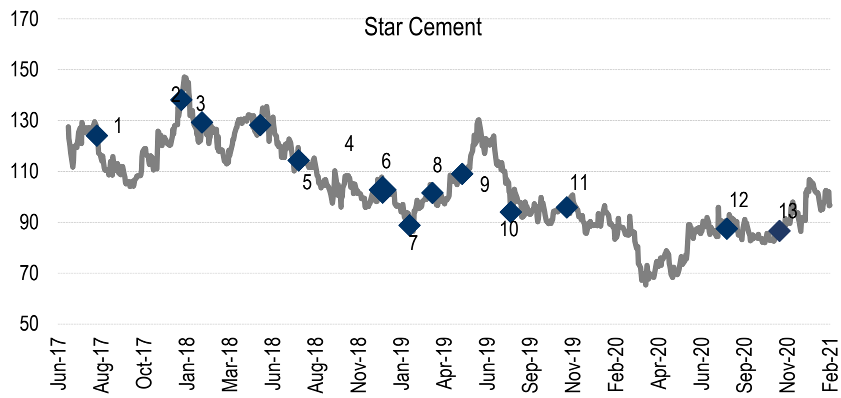
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 10 February 2021)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	09-Aug-17	**Buy**	151	123
2	03-Jan-18	**Buy**	169	135
3	08-Feb-18	**Buy**	171	129
4	21-May-18	**Buy**	178	131
5	27-Jul-18	**Buy**	160	114
6	14-Nov-18	**Buy**	126	100
7	06-Feb-19	**Buy**	123	89
8	18-Mar-19	**Buy**	130	100
9	09-May-19	**Buy**	135	106
10	03-Aug-19	**Buy**	132	95
11	08-Nov-19	**Buy**	122	96
12	16-Aug-20	**Buy**	115	88
13	16-Nov-20	**Buy**	110	87

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	**Buy**	**Hold**	**Sell**
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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