



Cost Increase Leads to EBITDA Miss; New Expansion to Fuel Growth.

- In Q4FY21, Star Cement Ltd. reported volume/revenue growth of 8%/10% respectively on the back of higher demand and better realization on a YoY basis. However, it reported lower EBITDA and EBITDA Margins owing to cost pressure as raw material, freight, and other expenses were higher on a YoY basis. The company recorded an EBITDA Margin of 17.3% as against 22.7% reported YoY, and it was below our expectation. The volume for the quarter stood at 0.91 mntpa, up 8%/37% on YoY/QoQ basis.
- Blended EBITDA per tonne of Rs 1,152 (Rs 1,478/tonne, Q4FY20) was on the lower side owing to higher cost. Blended realization/tonne came at Rs 6,651 against Rs 6,517, up 2.1% on YoY. Cost/tonne was higher both YoY and QoQ by 9% and 8% respectively. The management indicated that the impact of higher cost during the quarter was due to logistical issues and would not be experienced going forward as the same has been resolved.
- We believe its operating region (East & North East) would witness significant demand for cement consumption going forward and with the addition of new capacity (2 mntpa) in the East, the company is well-positioned to take advantage of rising cement demand in the region. We expect the company to register Revenue/Ebitda/APAT CAGR of 13%/11%/9% over FY20-FY23E driven by volume CAGR of 11% and consistent realization improvement of 1.5% each over FY21-23E. We roll over our estimate to FY23E and value the company at 8x of FY23E EV/EBITDA with a target price of Rs 125/ share (110/share earlier), implying an upside of 14% from CMP.

Concall Highlights

Capacity Expansion

- The company commissioned its 2 mntpa grinding unit in Siliguri in Jan'21 which will help it to expand its footprint further in the East India market which currently contributes 25% to the company's overall revenue. Furthermore, the company is setting up 3 mntpa Clinkerization units and a 15 MW WHRS plant in Meghalaya. It is awaiting approvals for setting up the unit which is expected to get operational in 24 months. Meanwhile, in the intervening period any shortage of clinker will be sourced from nearby areas for Siliguri grinding unit.

Volume and Pricing

- Both volume and cost got impacted owing to logistical issues during the quarter but the same stands resolved. Grinding unit in Siliguri is expected to contribute volume growth in FY22 with utilization expected at 60% in FY22. The North-East region grew by 7% against the overall de-growth in the cement industry during the year and the demand in the region continues to be robust.
- Due to COVID 2.0 induced lockdown, volume in the month of May'21 was impacted. While April was smooth in terms of cement demand, it is slowly picking up and will improve further going forward. The management has indicated a double-digit volume growth in FY22.
- Pricing in North-East is stable with upward bias while in the East, prices have corrected by Rs 5-10 per bag after the recent surge in prices.

Outlook & Valuation

The company performance in FY21 was subdued due to the pandemic and region-specific issues. However, with the relaxation in lockdown, resolution of logistic issues, better Cement demand in the region supported by new capacity expansion in the East, we believe the company is well-positioned to grow its revenue and profitability going forward. The stock is currently trading at 8.8x FY22E and 7x FY23E EV/EBITDA. We retain our BUY rating on the stock and value the company at 8x of its FY23E EV/EBITDA to arrive at a target price of Rs 125/share, implying an upside of 14% from CMP.

Key Financials (Consolidated)

(Rs Cr)	FY21	FY22E	FY23E
Net Sales	1720	2254	2669
EBITDA	333	450	543
Net Profit	187	303	374
EPS (Rs.)	5	7	9
PER (x)	15	9	8
EV/EBITDA (x)	12.2	8.8	6.9
P/BV (x)	1.35	1.19	1.03
ROE (%)	9.4	13.5	14.6

Source: Company, Axis Research

CMP as of June10, 2021

CMP (Rs)	110
Upside /Downside (%)	14%
High/Low (Rs)	118/76
Market cap (Cr)	4514
Avg. daily vol. (6m) Shrs.	633489
No. of shares (Cr)	41.2

Shareholding (%)

	Sep-20	Dec-20	Mar-21
Promoter	67.17	67.11	67.11
FIs	0.18	0.09	0.07
MFs / UTI	7.44	7.27	7.27
Banks / FIs	0.05	0.0	0
Others	25.48	25.53	25.55

Financial & Valuations

Y/E Mar (Rs. Crs)	FY21	FY22E	FY23E
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Change in Estimates

	FY22E	FY23E
Revenue	1%	1%
EBITDA	2.4%	2%
Net profit	19%	12%

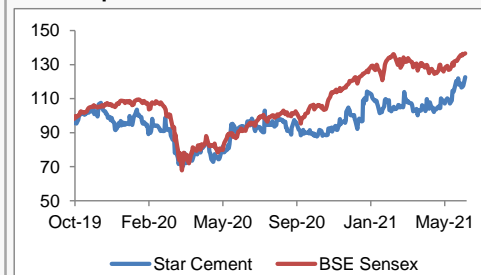
ESG disclosure Score**

Environmental Disclosure Score	N/A
Social Disclosure Score	N/A
Governance Disclosure Score	N/A
Total ESG Disclosure Score	N/A

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly, and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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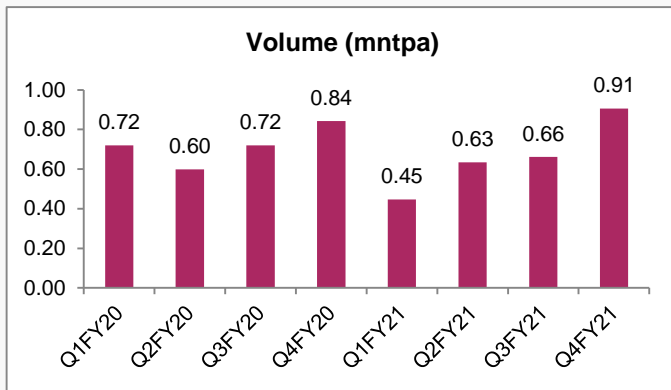
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Management Concall Highlights (Contd...)

- **Freight:** Due to logistical issues in the region, freight cost increased sharply during the quarter from Rs 1105/tonne in Q3FY21 to Rs 1296/tonne in Q4FY21. The management indicated that the same has been normalized in the current quarter besides the general rise in diesel prices.
- **Capex:** The company is to spend Rs 1150 Cr over the next three years in building a 3 mntpa Clinkerization plant and Rs 115 Cr for a 15 MW WHRS plant. Total Capex planned for FY22 stands at Rs 200 Cr.
- **Trade Mix:** During the quarter, trade and nontrade mix stand at 86:14. The blended ratio was 92% PPC, 8% OPC during the quarter. Premium cement forms 4% of the trade sales during the quarter.
- **Power/Fuel:** During the quarter, the company did not import any coal and is using the coal sourced from Coal India Limited. The landed cost of the coal was between Rs 7500-8000/tonne. Coal prices have been stable and there is no hike in prices by Coal India Limited.
- **Other Expenses:** Other expenses were higher during the quarter due to political donations made owing to elections in Assam and West Bengal its main operating region. It was also higher due to a sharp rise in the cost of packing materials during the quarter.
- **Cash Position:** Total Cash/ Cash equivalent stands at Rs 490 Cr as of Mar'21.

Story in Charts

Exhibit 1: Volume Trend



Source: Company, Axis Securities

Exhibit 2: Realization Trend

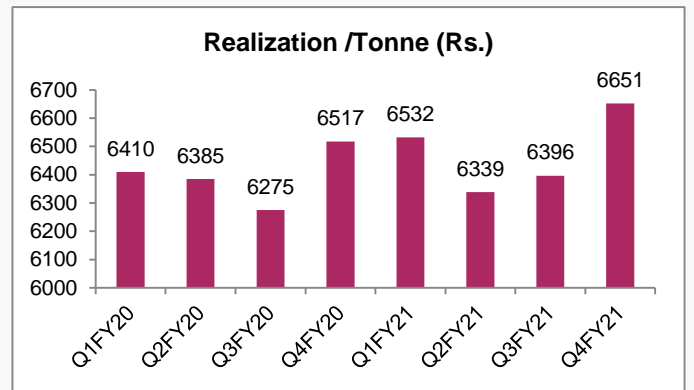
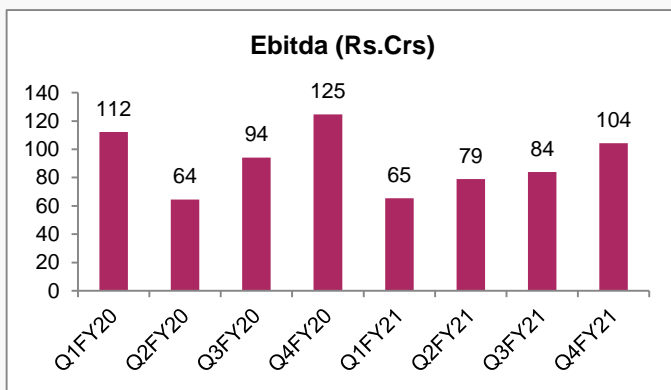


Exhibit 3: Ebitda Trend



Source: Company, Axis Securities

Exhibit 4: Trend in Ebitda/Tonne

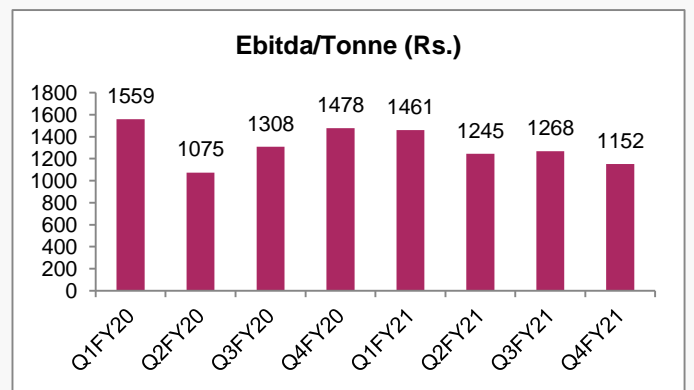
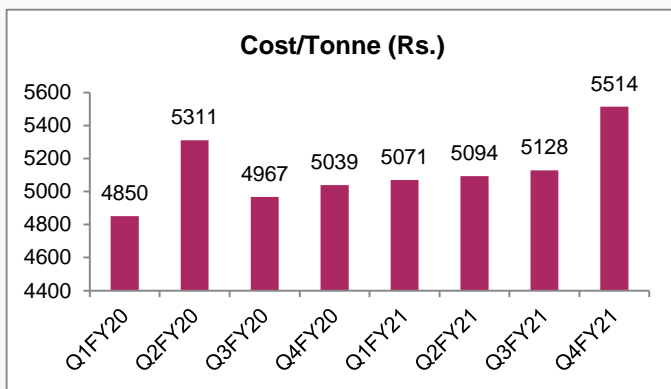


Exhibit 5: Trend in Cost / Tonne



Source: Company, Axis Securities

Exhibit 6: CAGR (FY20-23)

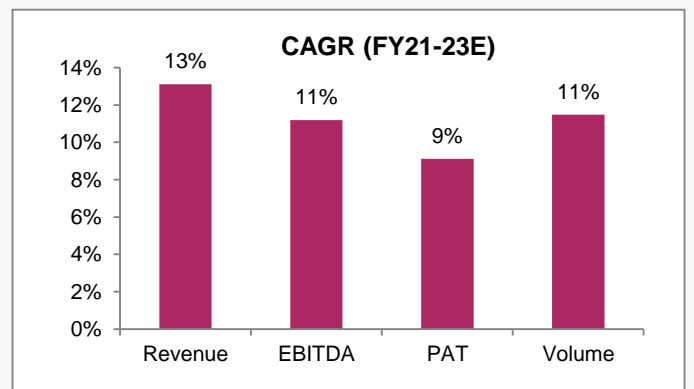
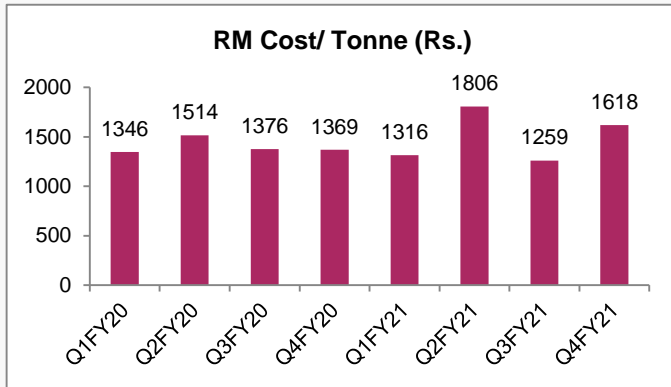
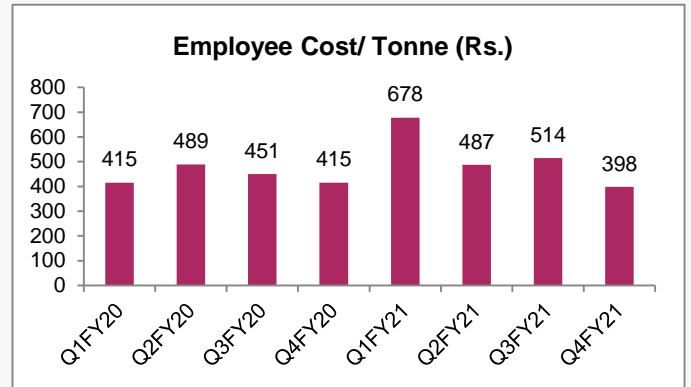
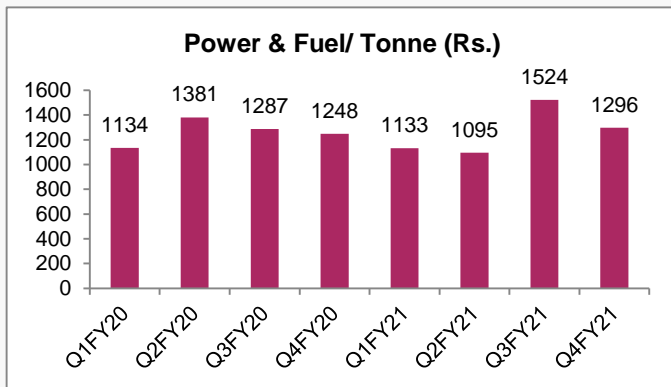
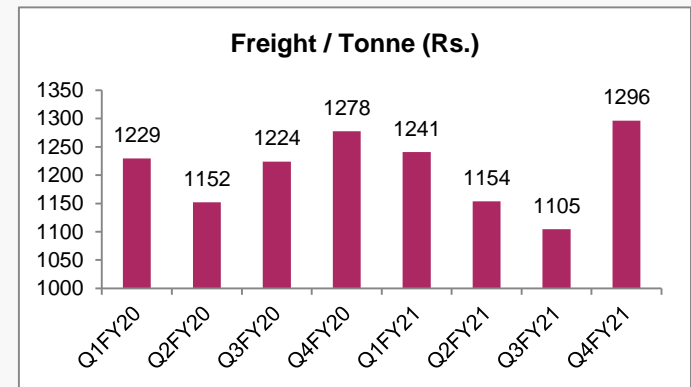
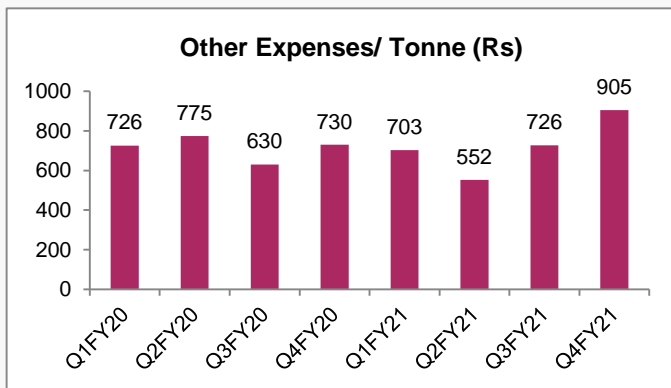


Exhibit 7: Trend in RM Cost


Source: Company, Axis Securities, Source: Company, Axis Securities

Exhibit 8: Staff Cost

Exhibit 9: Power & Fuel Cost


Source: Company, Axis Securities, Source: Company, Axis Securities

Exhibit 10: Freight Cost

Exhibit 11: Other Expenses


Source: Company, Axis Securities,

Q4FY21 Result Comparative
(Rs .Crs)

(Rs. Crs)	4QFY21	3QFY21	% Chg QoQ	4QFY20	% Chg YoY
Net sales	603	423	42%	549	10%
Expenditure	498	339	47%	425	17%
EBITDA	104	84	24%	125	-16%
Other income	8	7	12%	7	16%
Interest	2	1.9	-14%	2	-19%
Depreciation	28	21	33%	21	32%
PBT	83	69	21%	109	-23%
Exceptional Item	0	65	-100%	-	-
Tax	2	4	-50%	18	-89%
PAT	85	-1.75		86	-1%
EBITDA margin (%)	17.3%	19.8%	-250bps	22.68%	-540bps
EPS (Rs)	2.07	-0.04	-5269%	2.08	-1%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses
(Rs .Crs)

(Rs. Crs)	4QFY21	3QFY21	% Chg QoQ	4QFY20	% Chg YoY
Volume/mnt	0.91	0.66	37%	0.843	7.5%
Realisation/tonne (Rs)	6651	6396	4%	6,517	2.1%
Cost/tonne (Rs)	5514	5128	8%	5,039	9%
Raw material/tonne (Rs)	1618	1259	28%	1,369	18%
Staff Cost/tonne (Rs)	398	514	-23%	415	-4%
Power & Fuel/tonne (Rs)	1296	1524	-15%	1,248	4%
Freight/tonne (Rs)	1296	1105	17%	1,278	1%
Other Expenses /tonne (Rs)	905	726	25%	730	24%
EBITDA/tonne (Rs)	1152	1268	-9%	1,478	-22%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs .Cr)

Y/E March	FY21	FY22E	FY23E
Net sales	1720	2254	2669
Other operating income	0	0	0
Total income	1720	2254	2669
Raw Material	403	528	629
Power & Fuel	338	453	544
Freight & Forwarding	318	432	519
Employee benefit expenses	131	144	144
Other Expenses	196	246	290
EBITDA	333	450	543
Other income	28	34	40
PBIDT	361	484	583
Depreciation	90	116	131
Interest & Fin Chg.	7	7	7
E/o income / (Expense)	65	0	0
Pre-tax profit	199	361	446
Tax provision	12	58	71
RPAT	187	303	374
Minority Interests	0.0	-3.5	-3.5
Associates	0	0	0
APAT after EO item	187	300	371

Source: Company, Axis Securities

Balance Sheet

(Rs.Cr)

Y/E March	FY21	FY22E	FY23E
Total assets	2562	2878	3258
Net Block	947	1034	1117
CWIP	127	55	55
Investments	0	0	0
Wkg. cap. (excl cash)	268	355	423
Cash / Bank balance	490	599	802
Misc. Assets	73	84	86
Capital employed	2562	2878	3258
Equity capital	41	41	41
Reserves	2033	2316	2669
Minority Interests	0	0	0
Borrowings	15	15	15
Def tax Liabilities	0	0	0
Other Liabilities and Provision	47	51	53

Source: Company, Axis Securities

Cash Flow
(Rs.crs)

Y/E March	FY21	FY22E	FY23E
Profit before tax	199	361	446
Depriciation	88	116	131
Interest Expenses	7	7	7
Non-operating/ EO item	-21	-34	-40
Change in W/C	110	-87	-68
Income Tax	30	58	71
Operating Cash Flow	352	305	404
Capital Expenditure	-107	-203	-214
Investments	-191	0	0
Others	-35	34	40
Investing Cash Flow	-333	-169	-173
Borrowings	3	0	0
Interest Expenses	-7	-7	-7
Dividend paid	0	-21	-21
Others	0	0	0
Financing Cash Flow	-4	-27	-27
Change in Cash	16	109	203
Opening Cash	241	257	366
Closing Cash	257	366	569

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY21	FY22E	FY23E
Operational Ratios			
Sales growth	-7%	31%	18%
OPM	19.3%	20.0%	20.3%
Op. profit growth	-16%	35%	21%
COGS / Net sales	62%	63%	63%
Overheads/Net sales	19%	17%	16%
Depreciation / G. block	7%	7%	7%
Efficiency Ratios			
Total Asset turnover (x)	0.67	0.78	0.82
Sales/Gross block (x)	1.25	1.36	1.43
Sales/Net block(x)	1.82	2.18	2.39
Working capital/Sales (x)	0.23	0.21	0.21
Valuation Ratios			
P/BV (x)	1.35	1.19	1.03
EV/Ebitda (x)	12.21	8.79	6.90
EV/Sales (x)	2.36	1.75	1.40
EV/Tonne \$ (x)	96	94	89
Return Ratios			
ROE	9	14	15
ROCE	13	16	17
ROIC	16	21	24
Leverage Ratios			
Debt / equity (x)	0.01	0.01	0.01
Net debt/ Equity (x)	-0.23	-0.25	-0.29
Interest Coverage ratio (x)	39	54	68
Cash Flow Ratios			
OCF/Sales	0.20	0.14	0.15
OCF/Ebitda	1.06	0.68	0.74
OCF/Capital Employed	0.16	0.12	0.14
FCF/Sales	0.14	0.05	0.07
Payout ratio (Div/NP)			
AEPS (Rs.)	4.5	7.3	9.0
AEPS Growth	-34.5	60.2	23.7
CEPS (Rs.)	7	10	12
DPS (Rs.)	0	0	0

Source: Company, Axis Securities

Previous Recommendations

Date	Rating	Recommendation Price	Target Price
30.12.2020 (IC)	BUY	91	115
10.02.2021(RU)	BUY	96.5	110
11.06.2021 (RU)	BUY	110	125

About the analyst

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Sector: Cement/Infra

Analyst Bio: Uttam K Srimal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research.

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