

- **In an ever-changing business environment, a few of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remains 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
Star Cement Limited	4,042	98	110	12%	BUY

* Note: Investment horizon Approx. 6-9 months., CMP as on 19th Feb 2021



CMP (Rs)	Target (Rs)
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98	110
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MARKET DATA

No. of Shares : 41.2 Crs

Market Cap : Rs. 4,042 Crs

52-week High / Low : Rs 108/56

BSE Code : 540575

NSE Code : STARCEMENT

Incorporated in 2001, Star Cement Limited (SCL) is the largest cement manufacturer in North-East India. Leveraging its strategically located plants, easy availability of raw materials at competitive rates, and superior brand recall, it commands an estimated market share of 23% in the region. The Company's distribution network is spread across 10 states in Eastern India and while its peers adopted the wholesaler driven model, Star Cement invested in building a strong retail network comprising over 2,100 dealers and 9,000 retailers which gives its competitive edge over others.

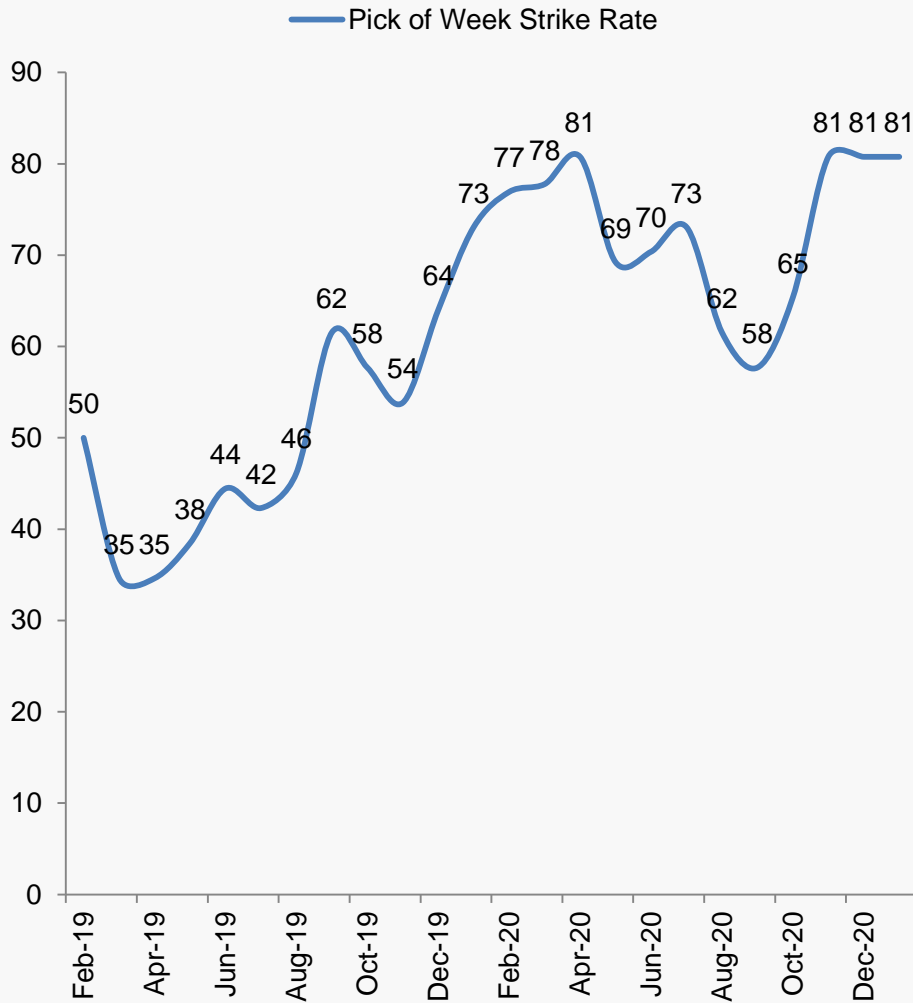
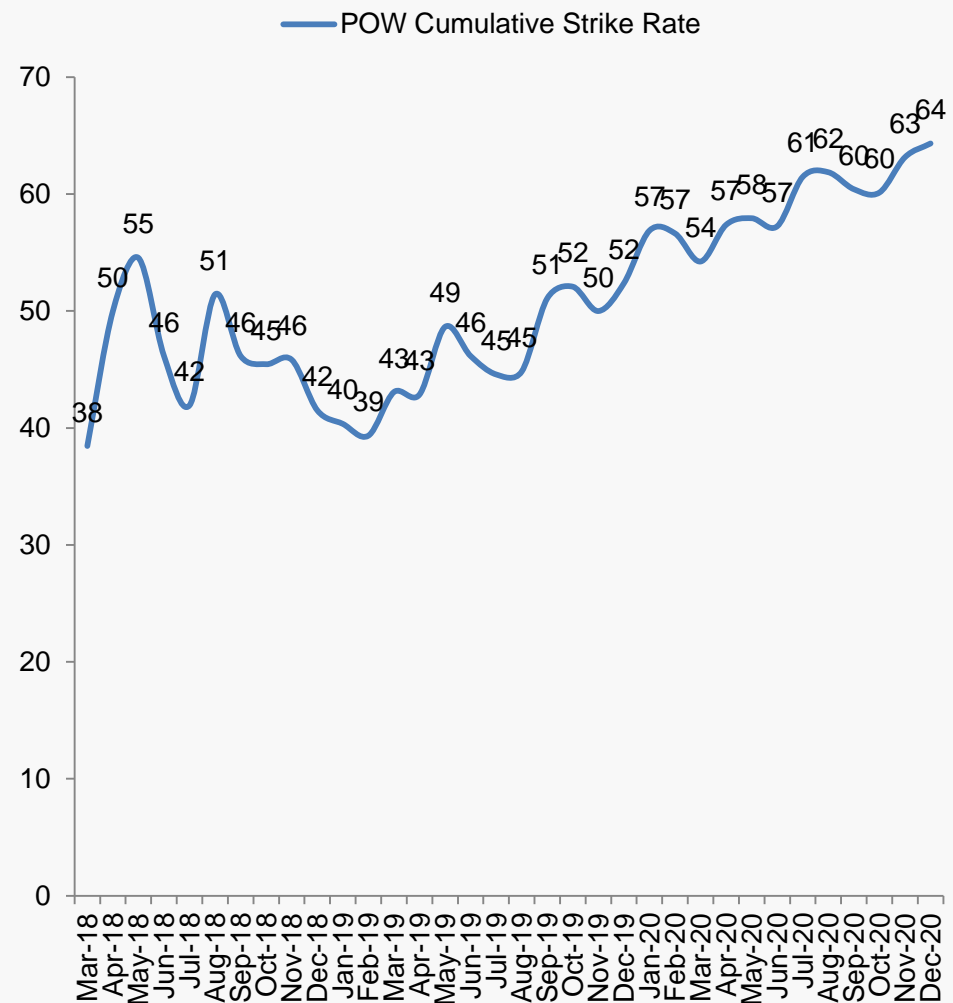
Investment Rationale

- **Capacity expansion to drive volume and revenue growth:** Recently, the Company expanded its Cement grinding capacity by 2 mntpa at Siliguri, WB, enabling it to spread its footprints in the high-growth market of East India which presently forms 25% of total revenue of the Company. We expect the Company to register Revenue/Ebitda/APAT CAGR of 16%/20%/16% from FY20-FY23E driven by volume CAGR of 15% and consistent realization improvement of 1% each over FY20-23E.
- **Strong presence in key North East market and growing presence in East India:** SCL is the largest Cement producer in North-East India with an estimated market share of 23% in FY20. The North-East region contributes 75% of total revenue and SCL's strong brand visibility enables it to enjoy premium pricing in the region. Eastern region's lowest per capita cement consumption in the country coupled with growing housing and infra activities are expected to create sustainable demand growth for the Company for years to come.
- **Integrated and efficient cement plants:** SCL's integrated nature of operation is supported by captive lime stone mines having sufficient reserves, 51 MW power plant, and 2.8 mntpa clinkerization facility. Proposed set up of new clinkerization unit (2mntpa) and 15 MW West Heat Recovery System plant (WHRS) are expected to improve SCL's operating efficiencies further and will lead to better margins going forward.
- **Healthy Financials to support future growth:** The Company exhibits a healthy financial position with very low debt, high interest coverage ratio, and strong return ratios. The capex for the expanded capacity was funded through the internal accruals. We believe the capital structure of the Company will continue to remain healthy over medium to long term.
- We recommend **Buy** with target price of Rs 110.

Financial Summary

Y/E	Revenue (Rs.crs)	Ebitda (Rs.crs)	PAT (Rs. crs)	EV/Ebitda (x)	P/BV (x)	EPS (Rs)	P/E (x)	ROCE (%)	ROE (%)	D/E (x)
2020	1844	395	286	6.43	1.46	6.9	14	17	15	0.01
2021E	1661	339	242	10.4	1.35	4.3	22	13	9	0.00
2022E	2473	556	406	6.07	1.15	9.8	10	19	18	0.00
2023E	2899	682	441	4.6	0.98	10.7	9	22	17	0.00

Source: Axis Securities

Strike rate based on rolling 6 months

Strike rate since Jan 2018


Note: We have changed our methodology of calculation of strike rates for PoW product from July 2020; and shifted to calculations using 6 months rolling returns method and cumulative basis as against earlier method of calculating the strike rate for last 9 months. The performance under the revised methodology is as above.

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