BUY
TP: Rs 248 | ⮝ 15%

STAR CEMENT | Cement | 21 January 2025

Regional star, geared to spread its wings; upgrade to BUY

- **Timely capacity expansion (new 4mnt grinding unit by FY27) to help volume growth ahead of industry tapping buoyancy in north-east region**
- **Focus on improving operating efficiencies through measures to rationalise key costs including energy and logistics to improve margins**
- **Increase our EBITDA estimates by 7%/8.5% for FY26/FY27 (down 7% for FY25E), upgrade to BUY with revised TP of Rs 248**

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Timely expansion to tap potential Northeast growth: STRCEM with the commissioning of 4.10mnt clinkerisation unit in 1HFY25 at Lumshnong, Meghalaya, has raised its total clinker capacity to 6.1mnt. This with the 4mnt Guwahati grinding unit (and ~1.6mnt GU at Meghalaya) will help cater to the major NE markets. The 2mnt GU addition in Silchar (4QFY26) and Jorhat (3QFY27) each will help consolidate STRCEM's market share (~26% currently) in the next two years. In the interim, additional clinker will be sold in open markets thus contributing to revenues.

Focus on cost rationalisation to boost margins: The commissioning of additional 2mnt GU at Guwahati will help tap Assam markets cost effectively. This saves clinker travel to Siliguri GU and transporting it back to Assam. Further, the purchase of 120 new trucks implies clinker transport will be with a captive fleet leading to cost savings. With rail sidings at all the major GUs, cement transportation will be by rail saving cost. The new WHRS of 12MW at Meghalaya will lead to power cost savings. We expect at least ~Rs100/tn cost savings with these initiatives by STRCEM.

Well-maintained balance sheet in the expansionary phase: STRCEM has maintained a very lean balance sheet and will do the same in the next two years despite being in an expansionary phase. We estimate debt/equity at below 0.1x and debt/EBITDA at ~0.3x in FY26/FY27 thus maintaining healthy financial strength.

Expanding beyond eastern and north-eastern India: STRCEM was declared a preferred bidder for six limestone blocks in Beawar, Rajasthan, in 1HFY25. The estimated geological LS resources are ~63.9mn tonnes spread over ~95.7 hectares. STRCEM is diversifying into other regions to derisk regional concentration.

Earnings and Rating revised: We raise our FY26/FY27 EBITDA estimates by 7%/8.5% (cut 7% for FY25). The government's focus on infrastructure in core NE markets will boost volumes for STRCEM. Our EBITDA/PAT 3-year CAGR is now at 21%/11%. We assign a 10x (9x earlier) 1-year EV/EBITDA to the stock, with a revised TP of Rs 248 to factor in healthy growth and earnings visibility. Our TP implies replacement cost valuation is in line with industry average of Rs 7.5bn/mnt.

Key changes

Target	Rating
▲	▲

Ticker/Price	STRCEM IN/Rs 215
Market cap	US$ 1.0bn
Free float	33%
3M ADV	US$ 5.2mn
52wk high/low	Rs 256/Rs 171
Promoter/FPI/DII	67%/1%/6%

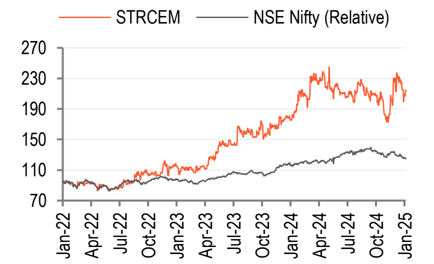
Source: NSE | Price as of 21 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,882	32,494	38,826
EBITDA (Rs mn)	5,552	5,173	8,449
Adj. net profit (Rs mn)	2,940	1,866	3,555
Adj. EPS (Rs)	7.0	4.5	8.5
Consensus EPS (Rs)	7.0	7.7	10.0
Adj. ROAE (%)	11.5	6.7	11.8
Adj. P/E (x)	30.6	48.3	25.3
EV/EBITDA (x)	16.3	17.8	10.5
Adj. EPS growth (%)	18.7	(36.5)	90.5

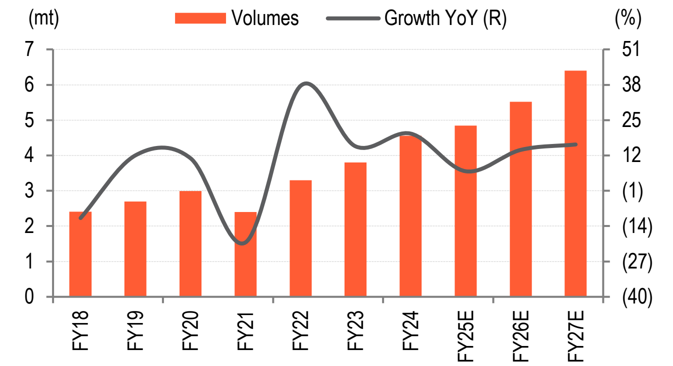
Source: Company, Bloomberg, BOBCAPS Research

Stock performance



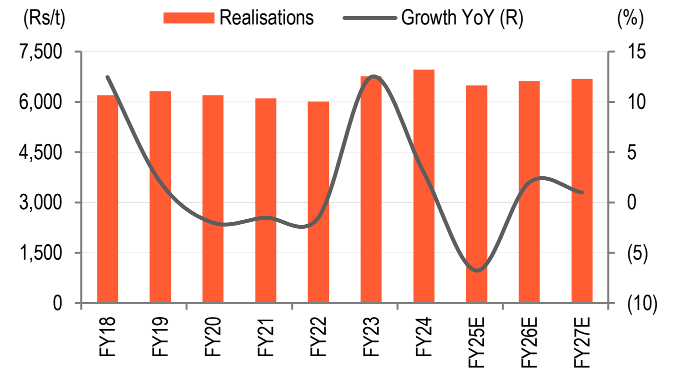
Source: NSE

Fig 1 – Overall demand uptick awaited



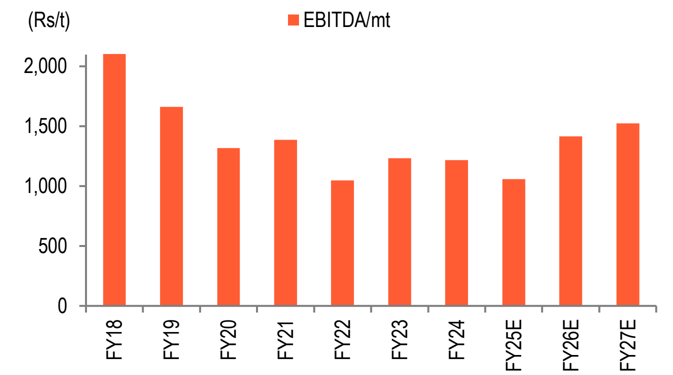
Source: Company, BOBCAPS Research

Fig 2 – Realisation well maintained with NE leadership



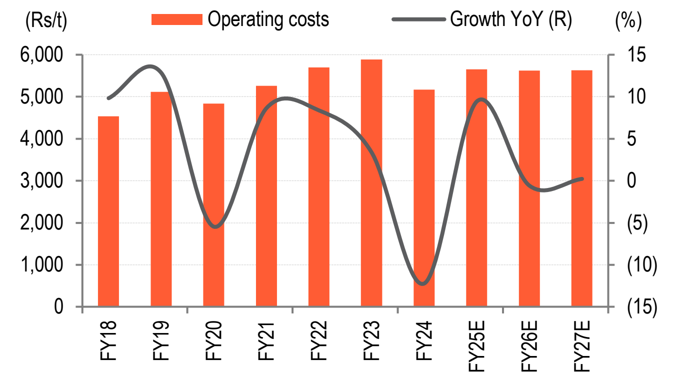
Source: Company, BOBCAPS Research

Fig 3 – EBITDA/t to stay relatively better than peers



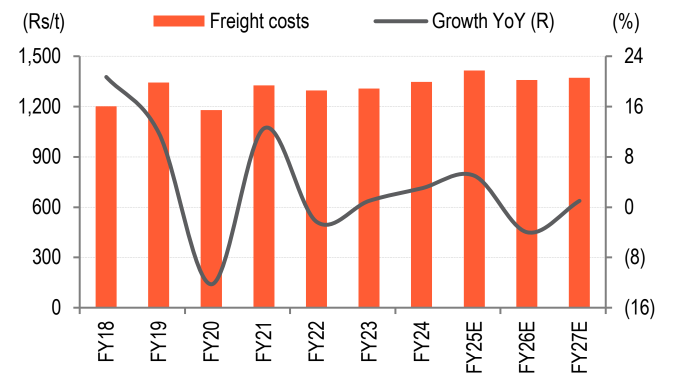
Source: Company, BOBCAPS Research

Fig 4 – Operating cost rationalisation prime focus area



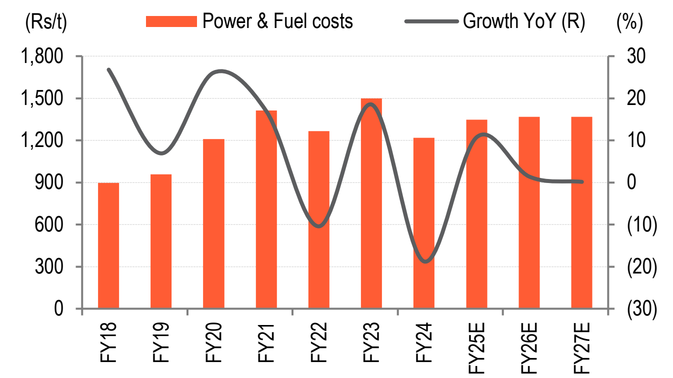
Source: Company, BOBCAPS Research

Fig 5 – Major focus on freight cost savings



Source: Company, BOBCAPS Research

Fig 6 – Energy cost savings from fuel efficiency and WHRS



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY26/FY27 EBITDA estimates by 7%/8.5% (down 7% for FY25). However, earnings are downgraded due to higher depreciation as STRCEM is in capital expenditure mode that will increase capacity substantially. The company may facilitate marginal debt as a buffer in the capex phase leading to interest payments that will keep EPS subdued. However, valuations are based on EV/EBITDA, implying earnings having little impact.

In our view, the government's focus on infrastructure in STRCEM's core Northeast India (NE) market will boost its volumes. Our EBITDA/PAT three-year CAGR is 21%/11% (PAT growth is lower as explained in the paragraph above). We believe timely capacity expansion will help STRCEM stay on the growth trajectory and aid earnings as demand recovers. Also, we expect the delays in the stabilisation of the clinker unit and subsequent setback will be resolved in 4QFY25, restoring the cost structure to normal.

We believe better cost efficiencies, including focus on reducing logistic cost and improving availability of fuel cost efficiently, will only help EBITDA margins in FY26E/FY27E to improve. This will improve the EBITDA margins trajectory to the 21-22% range (after the setback in FY25E) and healthy balance sheet management will keep the ROE/ROCE band at 14-16% in the next two years.

Factoring in all the above factors we have now assigned 10x (9x earlier) 1-year EV/EBITDA multiple to the STRCEM stock, and arrive at a revised TP of Rs 248 (from Rs 201) to factor in healthy growth and earnings visibility. Our TP implies replacement cost valuation, which is in line with the industry average of Rs 7.5bn/mnt. We upgrade to BUY from HOLD.

Fig 7 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	32,494	38,826	45,799	32,782	40,436	48,798	(0.9)	(4.0)	(6.1)
EBITDA	5,173	8,449	10,506	5,546	7,885	9,685	(6.7)	7.2	8.5
Adj PAT	1,866	3,555	4,804	2,425	4,035	5,390	(23.1)	(11.9)	(10.9)
Adj EPS (Rs)	4.5	8.5	11.5	5.8	9.6	12.9	(23.3)	(11.7)	(11.2)

Source: BOBCAPS Research

Fig 8 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mnt)	4.6	4.8	5.5	6.4
Realisations (Rs/t)	6,970	6,498	6,628	6,694
Operating costs (Rs/t)	5,166	5,652	5,619	5,631
EBITDA/t (Rs/t)	1,217	1,060	1,417	1,524

Source: Company, BOBCAPS Research

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Fig 9 – Valuation summary

(Rs mn)	1-year Forward
Target EV/EBITDA (x)	10
EBITDA	10,506
Target EV	1,07,158
Total EV	1,07,158
Net debt	1,576
Target market capitalisation	1,05,582
Target price (Rs/sh)	**248**
Weighted average shares (mn)	404

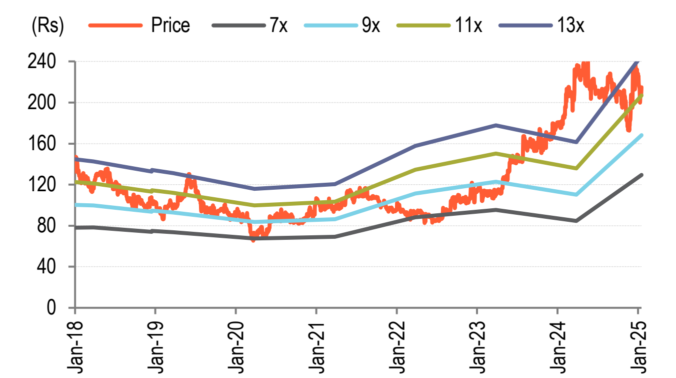
Source: BOBCAPS Research

Fig 10 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US$)			ROE (%)			ROCE (%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
STRCEM IN	BUY	248	17.4	10.3	8.2	146	116	95	6.7	11.8	14.2	8.6	14.9	17.5
JKLC IN	SELL	661	17.7	12.7	10.6	81	84	93	7.8	11.9	13.5	10.5	13.9	15.6
JKCE IN	HOLD	4,190	20.3	16.3	13.6	225	165	137	15.9	18.0	18.5	14.1	15.6	16.6

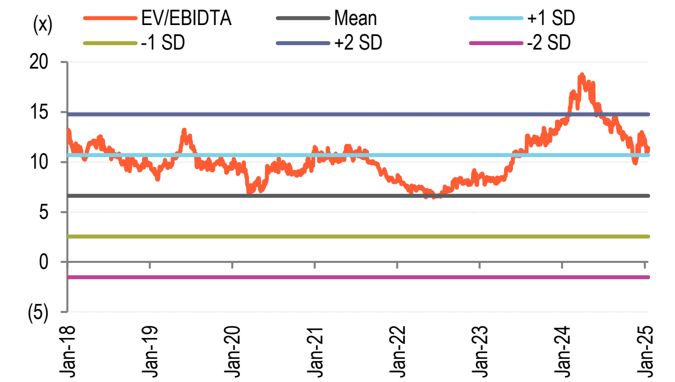
Source: BOBCAPS Research

Fig 11 – EV/EBITDA band: Valuations to follow earnings pace



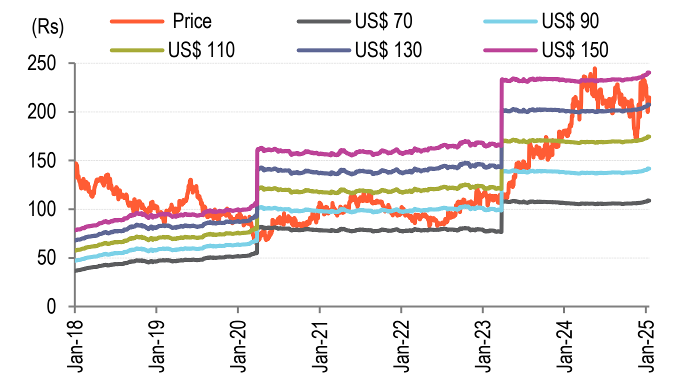
Source: Bloomberg, BOBCAPS Research

Fig 12 – EV/EBITDA 1Y forward



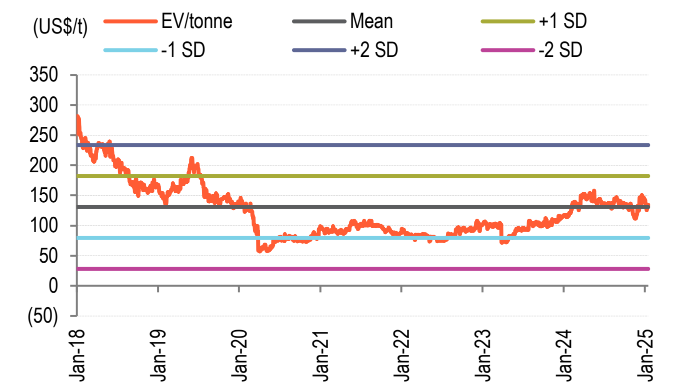
Source: Bloomberg, BOBCAPS Research

Fig 13 – EV/tonne: Replacement cost will stay inflated for efficient companies in the sector



Source: Company, Bloomberg, BOBCAPS Research

Fig 14 – EV/tonne: 1Y forward



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key risks to our estimates are:

- Slower-than-expected demand revival in Northeast India could lead to downward risk to earnings.
- Fierce competitive pressure from companies in eastern India could strain pricing, representing a downside risk to our estimates.
- Any cost reversal upwards pose a risk to earnings.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**25,756**	**28,882**	**32,494**	**38,826**	**45,799**
EBITDA	4,684	5,552	5,173	8,449	10,506
Depreciation	(1,311)	(1,466)	(2,928)	(3,719)	(4,119)
EBIT	3,894	4,350	2,579	5,078	6,776
Net interest inc./(exp.)	(96)	(126)	(242)	(386)	(397)
Other inc./(exp.)	521	265	334	347	390
Exceptional items	0	0	0	0	0
EBT	3,798	4,224	2,337	4,692	6,380
Income taxes	(1,321)	(1,285)	(471)	(1,137)	(1,576)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**2,477**	**2,940**	**1,866**	**3,555**	**4,804**
Adjustments	0	0	0	0	0
Adjusted net profit	**2,477**	**2,940**	**1,866**	**3,555**	**4,804**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,820	2,197	2,774	3,143	3,654
Other current liabilities	3,972	5,269	6,056	6,964	7,034
Provisions	97	158	155	170	187
Debt funds	261	1,298	3,157	4,807	5,007
Other liabilities	0	0	0	0	0
Equity capital	404	404	404	404	404
Reserves & surplus	23,760	26,697	28,103	31,239	35,623
Shareholders' fund	24,164	27,101	28,507	31,643	36,027
Total liab. and equities	**31,314**	**36,024**	**40,648**	**46,728**	**51,909**
Cash and cash eq.	3,117	973	1,151	2,199	3,431
Accounts receivables	1,047	1,508	1,870	2,181	2,572
Inventories	3,741	3,350	2,671	3,191	3,764
Other current assets	4,377	3,397	3,433	3,780	4,287
Investments	1,725	20	20	20	20
Net fixed assets	8,850	14,096	26,514	27,500	28,086
CWIP	5,506	10,190	2,259	4,859	6,459
Intangible assets	60	88	91	93	95
Deferred tax assets, net	2,890	2,401	2,641	2,905	3,196
Other assets	0	0	0	0	0
Total assets	**31,314**	**36,024**	**40,648**	**46,728**	**51,909**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**4,543**	**6,447**	**6,196**	**7,124**	**7,758**
Capital expenditures	(5,394)	(11,332)	(7,417)	(7,307)	(6,307)
Change in investments	(89)	1,706	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(5,482)**	**(9,626)**	**(7,417)**	**(7,307)**	**(6,307)**
Equities issued/Others	422	(1,260)	0	0	0
Debt raised/repaid	207	1,037	1,859	1,650	200
Interest expenses	8	9	10	10	10
Dividends paid	(419)	(419)	(419)	(419)	(419)
Other financing cash flows	-	1,677	(41)	0	0
Cash flow from financing	**210**	**1,035**	**1,398**	**1,231**	**(219)**
Chg in cash & cash eq.	**(729)**	**(2,144)**	**178**	**1,048**	**1,232**
Closing cash & cash eq.	**3,118**	**973**	**1,151**	**2,199**	**3,431**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	5.9	7.0	4.5	8.5	11.5
Adjusted EPS	5.9	7.0	4.5	8.5	11.5
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	57.6	64.6	68.0	75.5	85.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.4	3.1	2.8	2.3	1.9
EV/EBITDA	18.6	16.3	17.8	10.5	8.4
Adjusted P/E	36.4	30.6	48.3	25.3	18.8
P/BV	3.7	3.3	3.2	2.8	2.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	65.2	69.6	79.9	75.8	75.3
Interest burden (PBT/EBIT)	97.5	97.1	90.6	92.4	94.1
EBIT margin (EBIT/Revenue)	15.1	15.1	7.9	13.1	14.8
Asset turnover (Rev./Avg TA)	87.7	85.8	84.8	88.9	92.9
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.4	1.5	1.5
Adjusted ROAE	10.8	11.5	6.7	11.8	14.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	23.2	12.1	12.5	19.5	18.0
EBITDA	35.7	18.5	(6.8)	63.3	24.3
Adjusted EPS	0.4	18.7	(36.5)	90.5	35.1
Profitability & Return ratios (%)					
EBITDA margin	17.3	19.1	15.9	21.4	22.6
EBIT margin	14.4	14.9	7.9	12.9	14.6
Adjusted profit margin	9.6	10.2	5.7	9.2	10.5
Adjusted ROAE	10.8	11.5	6.7	11.8	14.2
ROCE	16.9	16.5	8.6	14.9	17.5
Working capital days (days)					
Receivables	15	19	21	21	21
Inventory	53	42	30	30	30
Payables	46	34	37	37	37
Ratios (x)					
Gross asset turnover	1.6	1.2	0.8	0.9	0.9
Current ratio	1.8	1.2	1.0	1.1	1.3
Net interest coverage ratio	40.6	34.5	10.7	13.2	17.1
Adjusted debt/equity	0.0	0.0	0.1	0.2	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

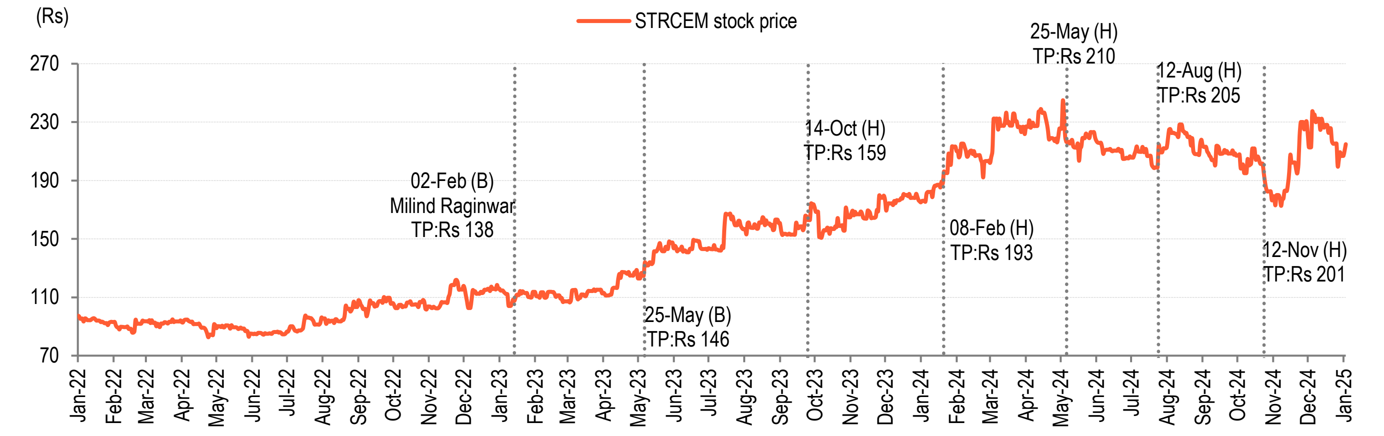
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): STAR CEMENT (STRCEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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