HOLD

TP: Rs 193 | ∀ 2%

STAR CEMENT | Cement | 08 February 2024

Cost savings commendable, growth intact

- **Steady growth in a challenging quarter aided by 7% YoY volume pickup; realisations softened**
- **Cost savings of 8% YoY supported EBITDA margin gains of 530bps on a high base to ~23%**
- **TP raised to Rs 193 (vs. Rs 159) as we value STRCEM at 9x EV/EBITDA (vs. 8x) and roll over to FY26E; upside capped – retain HOLD**

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Volumes fuel revenue, realisations weak: STRCEM's revenue grew 5%/11% YoY/QoQ to Rs 6.5bn in Q3FY24 as volumes grew 7%/8% to 1mn tonnes. Realisations, however, fell 2% YoY (+3% QoQ) to Rs 6,716/t. Cement prices improved by Rs 7/bag in the northeast but dropped by ~Rs 20/bag in other regions at the end of the quarter.

Operating cost declines: Overall cost declined 8%/5% YoY/QoQ to Rs 5,182/t as energy cost adjusted for raw material inventory fell 10%/5% to Rs 2,666/t. Further, logistics costs softened 10% YoY but increased 13% QoQ to Rs 1,135/t. Other expenditure decreased 11% QoQ (flat YoY) to Rs 794mn.

Lower cost aids margin expansion: Bolstered by cost savings, EBITDA increased 37%/51% YoY/QoQ to Rs 1.5bn accompanied by margin expansion to 22.8% (+530bps/600bps). EBITDA/t rose to Rs 1,534 from Rs 1,194 in Q3FY23 (Rs 1,100 in Q2FY24) and adj. PAT grew 39%/81% YoY/QoQ to Rs 735mn.

Capacity expansion plans: The 2mt grinding unit in Guwahati, Assam, and 3mt clinker plant in Meghalaya are due to be commissioned by Q4FY24. Commencement of the Silchar grinding unit in Assam remains deferred to Q2FY26.

Growth prospects intact…: We raise our FY24 EPS estimate by 3% to reflect the Q3 print but keep FY25 unchanged (and now introduce FY26 forecasts). In our view, the government's infrastructure focus in STRCEM's core northeast market is likely to propel volumes even as a sound balance sheet despite being in capex mode should support ROE/ROCE expansion to an estimated 14%/19% by FY26. We thus assign a higher 9x EV/EBITDA multiple to the stock (vs. 8x earlier) while rolling valuations over to FY26E, which gives us a revised TP of Rs 193 (vs. Rs 159).

…but upside capped, retain HOLD: Current valuations of 11x/10x FY25E/FY26E EV/EBITDA cap upside potential and hence we maintain our HOLD rating. Our TP implies a replacement cost valuation of Rs 7.5bn/mt – in line with the industry average.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	STRCEM IN/Rs 196
Market cap	US$ 1.0bn
Free float	33%
3M ADV	US$ 1.6mn
52wk high/low	Rs 198/Rs 103
Promoter/FPI/DII	67%/1%/6%

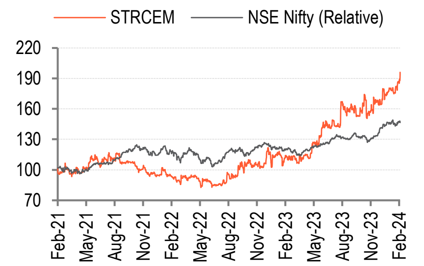
Source: NSE | Price as of 8 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,756	32,869	40,705
EBITDA (Rs mn)	4,684	5,355	7,776
Adj. net profit (Rs mn)	2,477	2,767	4,138
Adj. EPS (Rs)	5.9	6.6	9.9
Consensus EPS (Rs)	5.9	6.4	9.1
Adj. ROAE (%)	10.8	10.9	14.6
Adj. P/E (x)	33.2	29.7	19.9
EV/EBITDA (x)	16.9	15.5	10.8
Adj. EPS growth (%)	0.4	11.7	49.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Volumes and Realisation	Volumes for Q3FY24 stood at 1mt and management expects 8-10% growth in Q4FY24. Trade volume share stood at 87% and premium product sales formed ~6.5% of the mix. Management expects to double its current premium share in FY25.	Volumes for Q2FY24 stood at 0.9mt and management expects 13-14% growth for FY24. Trade volume share stood at ~89% and premium product sales formed ~6.9% of the mix. Management expects the premium share to reach ~10% by end-FY24.	We expect volumes to recover after the general elections given the government's focus on building up infrastructure in the northeast region.
Margins	Cement prices improved by Rs 7/bag in the northeast while dropping by ~Rs 20/bag in other regions at the end of Q3FY24. Management expects the status quo to be maintained in Q3. The fuel mix was ~12% FSA, 26% Nagaland coal, 7% biomass, and 55% spot option. Fuel cost stood at Rs 1.75/kcal while the lead distance was 215km.	Cement prices improved by ~Rs 10/bag in the northeast and ~Rs 50/bag in other regions at the end of Q2FY24, with the benefits likely to be visible in Q3. Only a slight rollback of Rs 5-7/bag is expected from the slowdown due to festivities. The fuel mix was ~6% FSA, 32% Nagaland coal, 5% biomass, and 57% spot option and trade purchase. Fuel cost stood at Rs 1.9/kcal while the lead distance was 214km. Margins were affected QoQ by a volume slowdown due to the monsoons and scheduled maintenance shutdown cost of ~Rs 150mn.	Cost saving initiatives and better capacity utilisation at Siliguri in West Bengal will likely aid margins.
Capacity	The 2mt Guwahati grinding unit and 3mt Meghalaya clinker plant are expected to be commissioned in Q4FY24. Commissioning of the 2mt Silchar grinding unit is due in Q2FY26	The 2mt Guwahati grinding unit is expected to be commissioned in Q3FY24 and the 3mt Meghalaya clinker plant in Q4FY24. Commissioning of the 2mt Silchar grinding unit has been strategically delayed till mid-FY25, although 73-75% of the land acquisition is complete.	In our view, Silchar capacity postponement is a good move strategically as staggering capacity addition will pay off.
Capex	Capex on the Guwahati plant till Q3FY24 was ~Rs 3.3bn and management expects an outlay of ~Rs 0.6bn for Q4 (against an aggregate internal target of ~Rs 4.3bn). Capex incurred on the Lumshnong plant totals ~Rs 8.5bn till Q3FY24, with ~Rs 2bn expected for Q4 (Rs 2bn more in Q1FY25). Capex on the Silchar plant stood at ~Rs 0.2bn as of Q3FY24.	Capex has been guided at ~Rs 8bn post Q1FY24, with ~Rs 2bn incurred during Q2. Guidance for FY25 is more than ~Rs 6bn, largely towards the Meghalaya clinker plant and Guwahati grinding unit. Capex on these projects during H1FY24 totalled ~Rs 7bn and ~Rs 2.1bn respectively. Management indicated that it may opt for debt of Rs 3bn in Q3-Q4 of FY24 to meet its capex target considering expected cash reserves of Rs 3.2bn for the fiscal year (Rs 2.1bn as on Q2FY24).	The company has managed capital expenditure well with minimum burden on the balance sheet.
Other key points	Incentives accrued during Q3FY24 amount to Rs 60mn from IGST benefits on the clinker plant. Management expects to receive SGST incentives amounting to Rs 1.5bn-1.6bn per annum for the next 5-6 years for setting up the new Guwahati grinding unit. It also expects IGST benefits on the 3.3mt clinker plant amounting to Rs 300/t of clinker produced till 2027.	The WHRS plant at Lumshnong, Meghalaya, has led to cost savings of ~Rs 100mn for STRCM. For its plans to reduce fly-ash landed cost at Siliguri, STRCEM is negotiating and ordering BTAP wagons and expects to have these in place by Q1FY25. Management indicated that STRCEM will commission a new clinker line one year before Dalmia Bharat and that competitive intensity after a year may lead to price corrections but will be made up by volume growth. The company is targeting 30%+ market share in the northeast.	Cost saving measures by STRCEM and better incentives for the new unit are likely to yield positive results over the medium term.

Source: Company, BOBCAPS Research | BTAP: Bogey Tank Wagon for Alumina Powder; FSA: Fuel Supply Agreement; IGST: Integrated Goods and Services Tax; SGST: State Goods and Service Tax; WHRS: Waste Heat Recovery System

Fig 2 – Key metrics

(Rs)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Volumes (mt)	1.0	0.9	6.8	0.9	8.3
Cement realisations (Rs/t)	6,716	6,823	(1.6)	6,532	2.8
Operating costs (Rs/t)	5,182	5,629	(7.9)	5,432	(4.6)
EBITDA (Rs/t)	1,534	1,194	28.4	1,100	39.4

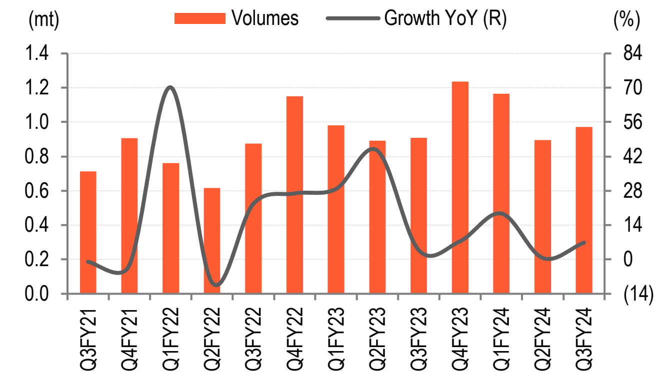
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	**6,514**	**6,195**	**5.1**	**5,853**	**11.3**
Expenditure					
Change in stock	(308)	(349)	-	(105)	-
Raw material	1,558	1,440	8.2	1,300	19.8
Purchased products	0	0	0.0	0	0.0
Power & fuel	1,336	1,603	(16.6)	1,312	1.9
Freight	1,101	1,139	(3.4)	902	22.0
Employee costs	545	486	12.1	571	(4.5)
Other expenses	794	793	0.1	887	(10.5)
Total Operating Expenses	5,026	5,111	(1.7)	4,867	3.3
EBITDA	**1,488**	**1,084**	**37.2**	**986**	**50.9**
EBITDA margin (%)	22.8	17.5	534bps	16.8	600bps
Other Income	41	117	(64.8)	58	(28.4)
Interest	30	33	(10.2)	32	(8.7)
Depreciation	365	341	7.2	360	1.4
PBT	1,134	828	37.0	651	74.3
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,134	828	37.0	651	74.3
Tax	399	299	33.4	244	63.5
Tax Rate (%)	35.2	36.1	(94bps)	37.5	(232bps)
Reported PAT	735	529	39.0	407	80.8
Adjusted PAT	**735**	**529**	**39.0**	**407**	**80.8**
NPM (%)	11.3	8.5	275bps	6.9	434bps
Adjusted EPS (Rs)	**1.8**	**1.3**	**42.9**	**1.0**	**80.8**

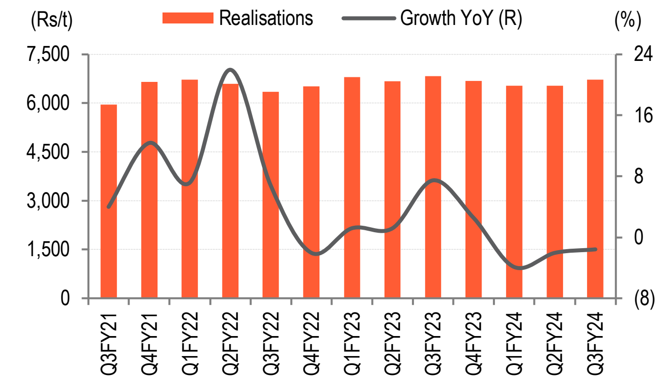
Source: Company, BOBCAPS Research

Fig 4 – Volume growth picks up



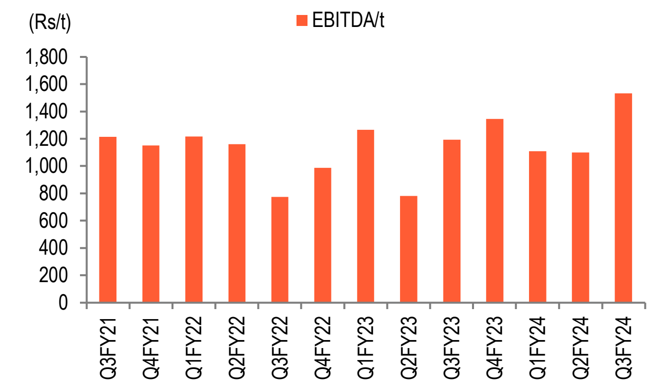
Source: Company, BOBCAPS Research

Fig 5 – Realisation moves up sequentially



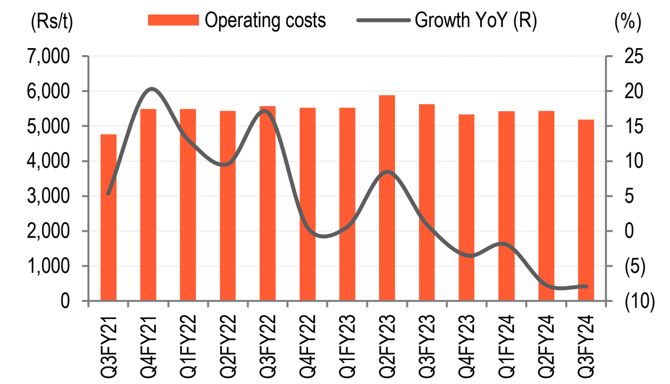
Source: Company, BOBCAPS Research

Fig 6 – Healthy recovery in EBITDA/tn



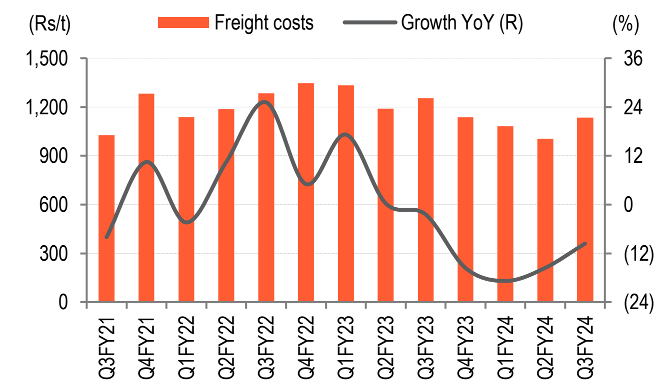
Source: Company, BOBCAPS Research

Fig 7 – Cost efficiencies look sustainable



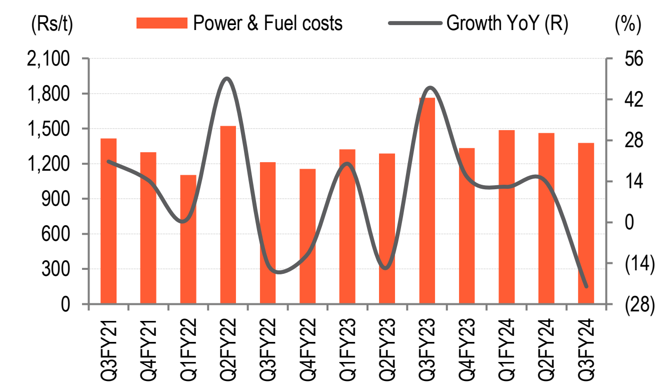
Source: Company, BOBCAPS Research

Fig 8 – Higher logistics costs to ease with grinding unit commissioning



Source: Company, BOBCAPS Research

Fig 9 – Energy cost savings add further comfort



Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY24 EPS estimate by 3% to reflect the Q3 print but keep FY25 unchanged (and now introduce FY26 forecasts). In our view, the government's infrastructure focus in STRCEM's core northeast market is likely to propel volume growth. The grinding unit in Guwahati will further consolidate the company's presence in Assam and the northeast region. Moreover, we believe the company's plans to derisk revenue, likely improvement in Siliguri unit utilisation once the Meghalaya clinker unit is commissioned in Q4FY24 and a sound balance sheet despite being in capex mode will support ROE/ROCE expansion to an estimated 14%/19% by FY26.

Factoring in the same, we assign a higher 9x EV/EBITDA multiple to the stock (vs. 8x earlier) while rolling valuations over to FY26E, which gives us a revised TP of Rs 193 (vs. Rs 159). However, current valuations of 11x/10x FY25E/FY26E EV/EBITDA cap upside potential and hence we maintain our HOLD rating. Our TP implies a replacement cost valuation of Rs 7.5bn/mt – in line with the industry average.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	32,869	40,705	48,361	32,869	40,504	NA	0.0	0.5	NA
EBITDA	5,355	7,776	8,631	5,355	7,492	NA	0.0	3.8	NA
Adj PAT	2,767	4,138	4,591	2,688	4,147	NA	2.9	(0.2)	NA
Adj EPS (Rs)	6.6	9.9	11.0	6.4	9.9	NA	3.1	0.0	NA

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	3.30	3.80	4.56	5.65
Realisations (Rs/t)	6,767	6,970	7,004	6,847
Operating costs (Rs/t)	5,885	6,042	5,831	5,761
EBITDA/t (Rs/t)	1,233	1,166	1,368	1,244

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

(Rs mn)	FY26E
Target EV/EBITDA (x)	9.0
EBITDA	8,631
Target EV	79,839
Total EV	79,839
Net debt	1,779
Target market capitalisation	78,061
Target price (Rs/sh)	**193**
Weighted average shares (mn)	404

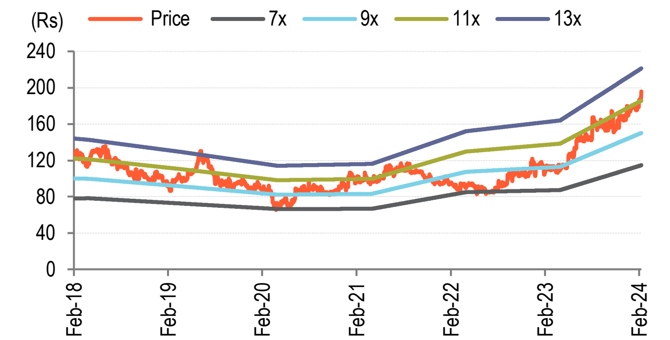
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
STRCEM IN	HOLD	193	16.9	15.5	10.8	110	123	113	10.8	10.9	14.6	16.9	14.7	19.5
ORCMNT IN	SELL	168	16.5	13.3	11.5	43	41	39	7.9	10.4	12.7	10.5	12.8	13.7
JKLC IN	SELL	551	10.1	9.5	8.7	81	84	93	12.8	13.4	14.4	16.2	17.3	17.2

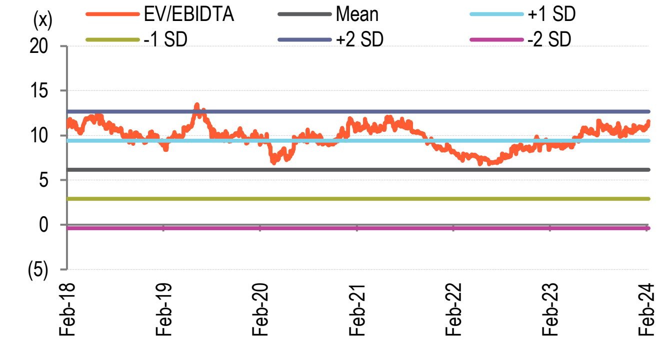
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: Stock rerating well-deserved



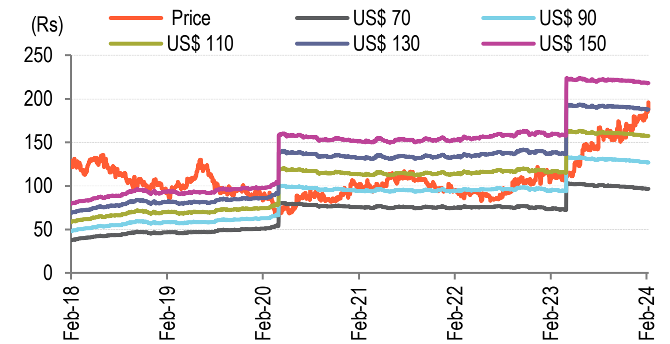
Source: Company, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd



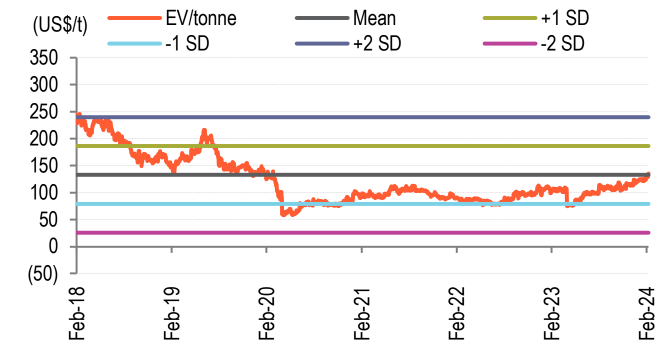
Source: Company, BOBCAPS Research

Fig 16 – EV/tonne: Expect replacement cost value to move up in the medium term



Source: Company, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd



Source: Company, BOBCAPS Research

Key risks

- Strong demand revival in the northeast and further cost relief contributed by easing energy prices are key upside risks to our estimates.
- Fierce competitive pressure from companies in the eastern region can strain pricing, representing a downside risk to our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.7	2,511	2,542	HOLD
Ambuja Cements	ACEM IN	13.6	563	552	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,100	2,443	HOLD
JK Cement	JKCE IN	4.0	4,214	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.3	917	551	SELL
Orient Cement	ORCMNT IN	0.7	267	168	SELL
Shree Cement	SRCM IN	12.0	27,370	27,836	HOLD
Star Cement	STRCEM IN	1.0	196	193	HOLD
The Ramco Cements	TRCL IN	2.8	974	661	SELL
Ultratech Cement	UTCEM IN	35.1	9,998	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 8 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**20,902**	**25,756**	**32,869**	**40,705**	**48,361**
EBITDA	3,453	4,684	5,355	7,776	8,631
Depreciation	(1,216)	(1,311)	(1,508)	(1,784)	(2,026)
EBIT	2,570	3,894	4,114	6,308	6,753
Net interest inc./(exp.)	(133)	(96)	(120)	(242)	(213)
Other inc./(exp.)	334	521	267	316	148
Exceptional items	0	0	0	0	0
EBT	2,437	3,798	3,994	6,066	6,540
Income taxes	31	(1,321)	(1,226)	(1,928)	(1,948)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**2,468**	**2,477**	**2,767**	**4,138**	**4,591**
Adjustments	0	0	0	0	0
Adjusted net profit	**2,468**	**2,477**	**2,767**	**4,138**	**4,591**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,146	2,820	2,793	3,342	4,032
Other current liabilities	4,501	3,972	4,369	5,024	5,778
Provisions	66	97	91	100	110
Debt funds	54	261	5,057	3,157	2,557
Other liabilities	0	0	0	0	0
Equity capital	404	404	404	404	404
Reserves & surplus	21,280	23,760	26,070	29,748	33,875
Shareholders' fund	21,684	24,164	26,475	30,152	34,280
Total liab. and equities	**27,451**	**31,314**	**38,784**	**41,776**	**46,757**
Cash and cash eq.	3,847	3,117	4,184	1,378	1,680
Accounts receivables	1,287	1,047	1,936	2,342	2,716
Inventories	1,953	3,741	2,882	3,346	3,975
Other current assets	4,863	4,377	4,466	4,511	4,556
Investments	1,637	1,725	1,637	1,637	1,637
Net fixed assets	9,225	8,850	19,579	23,141	25,820
CWIP	1,091	5,506	859	1,859	2,459
Intangible assets	10	60	62	64	67
Deferred tax assets, net	3,539	2,890	3,179	3,497	3,847
Other assets	0	0	0	0	0
Total assets	**27,451**	**31,314**	**38,784**	**41,776**	**46,757**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**4,333**	**4,543**	**4,231**	**5,903**	**6,673**
Capital expenditures	(1,959)	(5,394)	(7,593)	(6,348)	(5,307)
Change in investments	(1,620)	(89)	89	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(3,579)**	**(5,482)**	**(7,505)**	**(6,348)**	**(5,307)**
Equities issued/Others	420	422	0	0	0
Debt raised/repaid	(99)	207	4,796	(1,900)	(600)
Interest expenses	7	8	9	10	10
Dividends paid	(419)	(419)	(419)	(419)	(419)
Other financing cash flows	(1,525)	-	(37)	(41)	(45)
Cash flow from financing	**(1,624)**	**210**	**4,340**	**(2,360)**	**(1,064)**
Chg in cash & cash eq.	**(870)**	**(729)**	**1,066**	**(2,805)**	**301**
Closing cash & cash eq.	**3,847**	**3,118**	**4,184**	**1,378**	**1,680**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	5.9	5.9	6.6	9.9	11.0
Adjusted EPS	5.9	5.9	6.6	9.9	11.0
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	51.7	57.6	63.2	71.9	81.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.8	3.1	2.5	2.1	1.7
EV/EBITDA	22.7	16.9	15.5	10.8	9.4
Adjusted P/E	33.3	33.2	29.7	19.9	17.9
P/BV	3.8	3.4	3.1	2.7	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	101.3	65.2	69.3	68.2	70.2
Interest burden (PBT/EBIT)	94.8	97.5	97.1	96.2	96.8
EBIT margin (EBIT/Revenue)	12.3	15.1	12.5	15.5	14.0
Asset turnover (Rev./Avg TA)	78.8	87.7	93.8	101.1	109.3
Leverage (Avg TA/Avg Equity)	1.3	1.3	1.4	1.4	1.4
Adjusted ROAE	11.6	10.8	10.9	14.6	14.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	21.6	23.2	27.6	23.8	18.8
EBITDA	3.8	35.7	14.3	45.2	11.0
Adjusted EPS	(2.0)	0.4	11.7	49.5	11.0
Profitability & Return ratios (%)					
EBITDA margin	15.5	17.3	16.3	19.1	17.8
EBIT margin	11.6	14.4	12.5	15.5	14.0
Adjusted profit margin	11.8	9.6	8.4	10.2	9.5
Adjusted ROAE	11.6	10.8	10.9	14.6	14.3
ROCE	12.1	16.9	14.7	19.5	19.3
Working capital days (days)					
Receivables	22	15	22	21	21
Inventory	34	53	32	30	30
Payables	22	46	37	37	37
Ratios (x)					
Gross asset turnover	1.4	1.6	1.1	1.2	1.2
Current ratio	2.1	1.8	1.9	1.4	1.3
Net interest coverage ratio	19.3	40.6	34.2	26.1	31.7
Adjusted debt/equity	0.0	0.0	0.2	0.1	0.1

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

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Trade Name: **www.barodaetrade.com**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

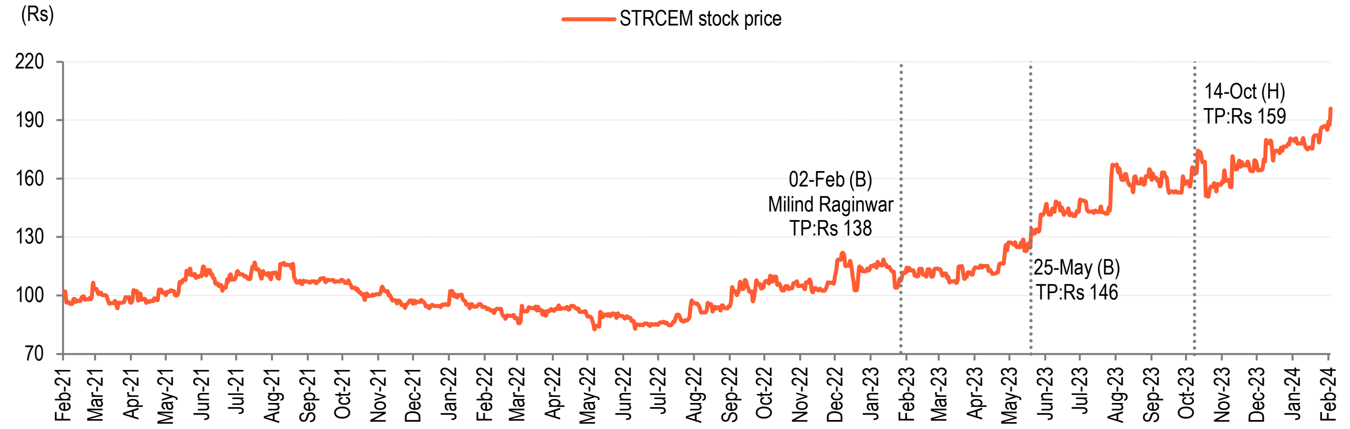
HOLD – Expected return from -6% to +15%

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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