

23 May 2024

India | Equity Research | Q4FY24 results review

Star Cement

Cement

Performance in line; positives intact

Star Cement's (Star) Q4FY24 EBITDA of INR 1.8bn (up 8% YoY/21% QoQ) stood broadly in-line with our estimate. The positive surprise on volume (up 15% YoY; being 8% ahead of estimate) was countered by weak realisations (down 3.6% QoQ vs. our 2% drop expectation) and high variable costs. However, factoring in the steady pricing environment in the company's primary markets of north-east India and efficiency benefits from the recent commissioning of its 3.3mtpa clinker line, we keep our earnings estimates broadly unchanged. Star remains a niche player in the lucrative north-east India region complimented by – 1) capex incentives of ~INR 300/t; 2) imminent benefits of increase in share of green power and high FSA coal allocation; and 3) strong balance-sheet with healthy RoE. Maintain **BUY** with an unchanged TP of INR 271.

High costs offset volume surprise

Q4FY24 volumes rose 15% YoY/45% QoQ to 1.4mn tonnes, being 8% ahead of estimate. However, realisations slipped 3.6% QoQ, mainly due to weak pricing in east India (25% sales exposure), even as prices in primary markets of north-east India remained stable. Variable cost/t rose 3% QoQ, as the company purchased clinker from external sources to meet its volume target. EBITDA/t, at INR 1,274, slipped 6% QoQ (down 17% YoY). The recent commissioning of its 3.3mtpa clinker line will help normalise Star's variable costs. Factoring in these benefits and our expectation of continued stability in cement prices in the north-east, we keep our EBITDA estimates broadly intact.

Remains a niche NE player; maintain BUY

Star is set to benefit from – 1) the recent commissioning of its 3.3mtpa clinker line in Lumshnong, Meghalaya (we expect volumes to rise at a CAGR of ~20% over FY25E–26E); 2) capex-completion-linked project incentives of ~INR 300/t; 3) imminent benefits of ~INR 150/t from an increase in share of green power (from ~21% in FY24E to ~50% in FY26E) and high FSA coal allocation; and 4) steady pricing outlook for its primary markets of north-east India. To strengthen its growth visibility and dominance in the region, Star has further undertaken plans to expand capacity by 2mtpa at Jorhat, Assam (by FY27). Factoring in the strong balance-sheet (net debt/EBITDA of 0.1x for FY24) and high RoE (estimated at ~18% for FY25–26), we continue to value Star at 11x FY26E EV/EBITDA. Maintain **BUY** with a TP of INR 271/share.

Financial Summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	27,048	29,107	36,990	42,600
EBITDA	4,684	5,563	9,376	10,614
EBITDA (%)	17.3	19.1	25.3	24.9
Net Profit	2,476	2,951	5,540	6,466
EPS (INR)	6.1	7.3	13.7	16.0
EPS % Chg YoY	0.3	19.2	87.7	16.7
P/E (x)	38.6	32.3	17.2	14.8
EV/EBITDA (x)	19.3	17.2	10.1	8.6
RoCE (%) (post-tax)	11.0	11.5	18.0	17.6
RoE (%)	10.8	11.5	18.5	18.0

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Market Data

Market Cap (INR)	95bn
Market Cap (USD)	1,146mn
Bloomberg Code	STRCEM IN
Reuters Code	STATf.BO
52-week Range (INR)	256 /124
Free Float (%)	20.0
ADTV-3M (mn) (USD)	1.8

Price Performance (%)	3m	6m	12m
Absolute	13.8	42.2	86.6
Relative to Sensex	12.4	29.7	66.8

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	0.3
EBITDA	2.0	2.4
EPS	4.4	2.6

Previous Reports

07-04-2024: [Initiating Coverage](#)

Conference call takeaways

Volume details

Exhibit 1: Production snapshot

(mt)	Q4FY24	Q4FY23
Clinker	0.693	0.778
Cement	1.388	1.251

Source: Company data

Exhibit 2: Volume snapshot

(mt)	Q4FY24	Q4FY23
Clinker	0.024	-
Cement	1.387	1.235

Source: Company data

Exhibit 3: Geographic mix

(mt)	Q4FY24	Q4FY23
North East India	1.040	0.912
East India	0.348	0.323

Source: Company data

- In Q4FY24, trade mix stood at 84–85%; product mix: OPC at 10% and PPC at 90%.

Demand

- Star expects low single-digit YoY (6-7%) volume growth in Q1FY25 due to the festive season (Bihu and Eid) and General Elections (Apr–May'24) in north-east India.
- FY25 volume guidance: 18–20% YoY.
- Star expects to ramp-up volumes in the rest of the quarters of FY25 led by 1) ramp-up of Lumshnong clinker line-2; and 2) better demand scenario from Jun'24 onwards.
- Star aims to ramp up capacity utilisation at its Siliguri plant to 80% in FY25 (vs. 65% in FY24) as the new clinker line at Lumshnong will cater to the clinker requirements of this plant.

Pricing

- On comparison with Q4FY24's average prices, cement prices in north-east India are stable while prices in east India have dropped by ~INR 15/bag.
- Star expects GST incentive benefits (from Lumshnong clinker line and Guwahati GU) to accrue from Q2FY25 onwards.
- As per management, GST incentive income expected in FY25 is at INR 1.5-1.6bn and INR 2bn in FY26.
- Going ahead, Star plans to sell higher volumes in the non-trade segment.
- The company expects to compensate the lower margins from non-trade segment via: 1) fuel cost efficiencies; and 2) higher incentive income.
- Premium cement share stood at ~7% in Q4FY24.

Cost

- FY25 blended EBITDA/t guidance is ~INR 1,550.
- Delay (~one month) in commissioning of clinker line resulted in higher clinker purchase cost in Q4FY24.
- Management expects the above cost to normalise by Q2FY25, as Star purchased clinker in Apr'24 also.
- Blended fuel consumption cost in Q4FY24 stood at INR 1.7/'000 kcal.
- Star cement expects blended fuel consumption cost to decline to INR 1.55/'000 kcal in FY25 on the back of Fuel Supply Agreement (FSA) of ~0.36mt with Coal India Ltd.
- Cost savings from FSA is expected to be ~INR 700mn/annum and will cater to ~40% of Star's coal requirements.
- Due to delay in commissioning of Lumshnong clinker line, the benefit of FSA shall fully reflect Q2FY25 onwards.
- Fuel mix in Q4FY24 was spot contract coal: 50%, Nagaland coal: 36%, biomass: 10% and FSA: 4%.
- Margin in east India stood at INR 260/t in Q4FY24 vs. INR 500/t in Q4FY23.
- Lead distance in Q4FY24: 227kms.

Capex

- Capex guidance in FY25 is INR 8-10bn.
- Break-up of the above capex is:

Particulars	Capex amount (INR bn)
Silchar GU	3.0
Lumshnong clinker	2.2
Fleet expansion programme	~0.7
AAC Block	~0.7
Group captive power scheme	0.3
Jorhat project (land acquisition)	0.3
Maintenance	1.5

- Star announced fresh capacity expansion of 2mtpa at Jorhat, Assam at a capex of INR 4.5bn.
- The Jorhat GU is likely to be commissioned in H2FY27.
- Star has, till date, spent a cumulative capex of ~INR 10.4bn (budgeted: INR 12.5bn) on Lumshnong clinker line.
- Commissioning of 2mtpa Silchar, Assam grinding unit is expected in Q3FY26.
- Star is planning for a capacity expansion of 4.5-5mtpa in Jaisalmer/Nagaur, Rajasthan region, post the completion of ongoing expansion at a capex of ~INR 25bn.
- It is also in the process to acquire limestone mines in the state of Rajasthan.
- The commissioning of 12MW WHR plant at Lumshnong is expected by Aug/Sep'24.

Others

- Star expects to fund the INR 8-10bn capex through internal accruals (~INR 7.5bn) and the balance via debt (INR 2.5bn).
- The company envisages a net debt position of ~INR 3bn by FY25-end.
- Star does not expect any greenfield expansion (besides Dalmia and itself) project in the north-east region in next 4-5 years.
- In FY25, revenue from the upcoming AAC block project is expected at ~INR 400mn with an EBITDA of ~INR 100mn.

Exhibit 4: Q4FY24 result review – consolidated

(INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Q4FY24E	Variance
Volume Sales (mt)	1.41	1.23	14.7	0.97	45.5	1.30	8.2
Cement Realisation (INR/t)	6,474	6,708	(3.5)	6,716	(3.6)	6,581	(1.6)
Net Sales	9,135	8,250	10.7	6,514	40.2	8,581	6.5
Raw Materials	2,865	1,967	45.6	1,250	129.1	1,811	58.2
Personnel Cost	548	476	15.1	545	0.4	571	(4.1)
Power and Fuel	1,172	1,649	(28.9)	1,336	(12.3)	1,796	(34.7)
Freight and forwarding	1,633	1,405	16.3	1,101	48.4	1,480	10.4
Other Expenses	1,120	1,092	2.6	794	41.1	1,153	(2.8)
Total Expenses	7,338	6,589	11.4	5,026	46.0	6,810	7.8
EBITDA	1,797	1,662	8.1	1,488	20.8	1,771	1.5
EBITDA / t (INR)	1,274	1,351	(5.7)	1,534	(16.9)	1,358	(6.2)
Interest	42	12	253.2	30	40.0	30	40.0
Depreciation	423	351	20.5	365	15.7	390	8.4
Other Income	78	127	(38.5)	41	89.5	41	89.5
Recurring pre-tax income	1,411	1,427	(1.1)	1,134	NA	1,392	1.4
Extraordinary inc/(exp)	-	-	NA	-	NA	-	NA
Taxation	535	466	14.8	399	34.0	460	16.4
Reported Net Income	877	961	(8.8)	735	19.2	933	(6.0)
Recurring Net Income	877	961	(8.8)	735	19.2	933	(6.0)
Ratios (%)							
EBITDA margins	19.7	20.1		22.8		20.6	
Net profit margins	9.6	11.7		11.3		10.9	

Source: I-Sec research, Company data

Exhibit 5: Historical quarterly analysis – consolidated

(INR/t)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Cement Realisation	6,708	6,533	6,532	6,716	6,474
YoY (%)	1.9	-3.8	-2.1	-1.6	-3.5
Expenditure					
Raw material costs	1,599	1,721	1,334	1,289	2,030
Power & fuel costs	1,340	1,487	1,464	1,378	831
Freight costs	1,142	1,083	1,007	1,135	1,158
Staff costs	387	438	638	562	388
Other expenditure	888	694	990	818	794
Total costs	5,357	5,423	5,432	5,182	5,201
EBITDA	1,351	1,111	1,100	1,534	1,274

Source: I-Sec research, Company data

Exhibit 6: Performance trend and assumptions

(mt)	FY22	FY23	FY24P	FY25E	FY26E
Capacity (mtpa)	5.7	5.7	7.7	7.7	9.7
Production	3.4	4.0	4.4	5.4	6.3
Capacity utilisation (%)	59.8	70.7	57.9	70.6	65.3
Sales volumes	3.4	4.0	4.4	5.4	6.3
YoY Growth (%)	25.6	18.3	10.7	21.9	16.6
Cement Realisation (INR/t)	6,554	6,745	6,554	6,502	6,437
YoY Growth (%)	2.8	2.9	-2.8	-0.8	-1.0

Source: I-Sec research, Company data

Exhibit 7: Per-tonne analysis

INR/t	FY22	FY23	FY24P	FY25E	FY26E
Cement realisation	6,554	6,745	6,554	6,502	6,437
YoY (%)	2.8	2.9	-2.8	-0.8	-1.0
Raw materials consumed	1,692	1,560	1,647	1,289	1,289
Power and fuel	1,230	1,421	1,250	1,359	1,318
Employee expenses	470	488	489	512	517
Freight & forwarding	1,260	1,264	1,103	1,148	1,175
Other Expenses	884	844	813	792	770
Total operating expenses	5,536	5,577	5,301	5,100	5,068
EBITDA/t*	1,018	1,168	1,253	1,402	1,369
YoY (%)	-17.4	14.7	7.2	12.0	-2.4

Source: I-Sec research, Company data, *excluding incentives

Exhibit 8: Valuations based on 11x Mar'26E EV/E

(INR Mn)	FY26E
Assumed EV/EBITDA multiple (x)	11.0
Core EBITDA (ex-incentives)	8,643
EV	95,069
Less: Net debt	-5,197
Net Present Value (NPV) of incentives	9,266
M-Cap	1,09,533
Shares o/s (mn)	404.2
Value per share (INR)	271

Source: I-Sec research, Company data

Key risk: Sharp rise in input costs.

Exhibit 9: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	36,990	36,990	-	42,600	42,463	0.3
EBITDA	9,376	9,194	2.0	10,614	10,367	2.4
PAT	5,540	5,306	4.4	6,466	6,300	2.6

Source: I-Sec research

Exhibit 10: Shareholding pattern

%	Sep '23	Dec '23	Mar '24
Promoters	66.6	66.5	66.6
Institutional investors	6.9	7.1	7.6
MFs and others	6.0	6.0	6.1
FIs/Banks	0.0	0.0	0.0
Insurance	0.1	0.0	0.0
FIIIs	0.8	1.1	1.5
Others	26.5	26.4	25.8

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary (Consolidated)

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Net Sales	27,048	29,107	36,990	42,600
Operating Expenses	16,107	16,231	20,635	23,852
EBITDA	4,684	5,563	9,376	10,614
EBITDA Margin (%)	17.3	19.1	25.3	24.9
Depreciation & Amortization	1,311	1,466	2,040	2,325
EBIT	3,373	4,097	7,336	8,288
Interest expenditure	97	126	104	104
Other Non-operating Income	521	265	154	437
Recurring PBT	3,797	4,236	7,387	8,622
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,321	1,285	1,847	2,155
PAT	2,476	2,951	5,540	6,466
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	2,476	2,951	5,540	6,466
Net Income (Adjusted)	2,476	2,951	5,540	6,466

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Total Current Assets	9,974	7,367	8,677	13,017
of which cash & cash eqv.	3,117	777	1,429	5,296
Total Current Liabilities & Provisions	5,024	5,284	6,014	6,563
Net Current Assets	4,950	2,083	2,663	6,454
Investments	1,725	20	20	20
Net Fixed Assets	8,870	15,443	23,403	26,078
ROU Assets	-	-	-	-
Capital Work-in-Progress	5,506	7,866	4,866	4,866
Total Intangible Assets	40	-	-	-
Other assets	4,666	4,666	4,666	4,666
Deferred Tax assets	-	-	-	-
Total Assets	26,290	30,278	35,818	42,284
Liabilities				
Borrowings	261	1,298	1,298	1,298
Deferred Tax Liability provisions	77	77	77	77
other Liabilities	1,788	1,788	1,788	1,788
Equity Share Capital	404	404	404	404
Reserves & Surplus	23,760	26,711	32,251	38,717
Total Net Worth	24,164	27,115	32,655	39,121
Minority Interest	-	-	-	-
Total Liabilities	26,290	30,278	35,818	42,284

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	7,605	5,853	6,514	9,135
% growth (YoY)	14.2	-1.5	5.1	10.7
EBITDA	1,293	986	1,488	1,797
Margin %	17.0	16.8	22.8	19.7
Other Income	87	58	41	78
Extraordinary	-	-	-	-
Adjusted Net Profit	933	407	735	877

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Operating Cashflow	4,846	5,828	9,531	11,051
Working Capital Changes	(298)	107	72	75
Capital Commitments	(5,694)	(10,360)	(7,000)	(5,000)
Free Cashflow	9,565	15,011	14,756	13,970
Other investing cashflow	2,978	2,208	-	-
Cashflow from Investing Activities	(2,717)	(8,152)	(7,000)	(5,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(107)	(126)	(104)	(104)
Inc (Dec) in Borrowings	207	1,037	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	100	911	(104)	(104)
Chg. in Cash & Bank balance	1,254	(2,590)	652	3,866
Closing cash & balance	1,335	(1,374)	(722)	3,145

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	6.1	7.3	13.7	16.0
Adjusted EPS (Diluted)	6.1	7.3	13.7	16.0
Cash EPS	9.4	10.9	18.8	21.8
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	59.8	67.1	80.8	96.8
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	21.7	7.6	27.1	15.2
EBITDA	35.7	18.8	68.5	13.2
EPS (INR)	0.3	19.2	87.7	16.7
Valuation Ratios (x)				
P/E	38.6	32.3	17.2	14.8
P/CEPS	25.2	21.6	12.6	10.9
P/BV	4.0	3.5	2.9	2.4
EV / EBITDA	19.3	17.2	10.1	8.6
EV / t (USD)	218.1	154.0	149.3	113.6
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	76.9	74.9	81.1	80.9
EBITDA Margins (%)	17.3	19.1	25.3	24.9
Effective Tax Rate (%)	34.8	30.3	25.0	25.0
Net Profit Margins (%)	9.2	10.1	15.0	15.2
NWC / Total Assets (%)	18.8	6.9	7.4	15.3
Net Debt / Equity (x)	(0.2)	0.0	0.0	(0.1)
Net Debt / EBITDA (x)	(1.1)	0.1	0.0	(0.4)
Profitability Ratios				
RoCE (%) (Post Tax)	11.0	11.5	18.0	17.6
RoE (%)	10.8	11.5	18.5	18.0
RoC (%)	13.0	12.4	18.7	19.3
Fixed Asset Turnover (x)	3.0	2.4	1.9	1.7
Inventory Turnover Days	61	74	65	61
Receivables Days	16	16	16	16
Payables Days	53	61	61	62

Source Company data, I-Sec research

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