

Set to grow higher than industry!

We recently met the management of Star Cement. The key takeaways are: -
 i) Siliguri 2 MT grinding unit expansion is on track and is expected to be commissioned in H2FY20E. This plant will mainly serve the North Bengal and Eastern Bihar markets, which currently have annual demand of ~5.5-6 MT demand and are growing at healthy pace, ii) in the North East region, incremental demand will mainly be served by Dalmia and Star Cement as other players are already operating at higher utilisation, iii) currently cement prices in Guwahati are at around ₹ 390/bag; limited scope for price increase because prices above ₹ 415-420 levels, will attract supply from eastern region players, currently 10-12% of volumes come from these players, iv) due to supply shortage, prices of clinker in the north east region have shot up from ₹ 3000 per tonne earlier to ₹4000-4500 per tonne, v) prices in West Bengal are facing headwinds due to incremental supply coming from the ramp-up of acquired plants of Century Textiles by UltraTech Cement.

Star Cement with double digit growth to outpace industry

Backed by various infrastructure projects and low cost housing scheme, NER is expected to grow ~8-9% in coming years. Out of total installed capacity of ~ 11 MT in the region, Star Cement is one of the dominant players with a capacity of 3.7 MT. Out of the total installed capacity in the region, the top three players namely Star Cement (3.7 MT), Dalmia Cement (2.5 MT) and TopCem (1 MT), control ~ 65% of capacity. Most players in the region except for Star Cement and Dalmia, operate at high capacity utilisation and have low headroom for growth. While NER is expected to grow at ~9% in FY19E and FY20E, we believe a major chunk of this incremental demand would eventually be catered to by Star Cement and Dalmia. Considering the above, we expect Star Cement to clock 11% volume growth in FY18-20E, reaching 3.2 MT by FY20E.

Financials to strengthen further with receipt of subsidy

In the previous week, the company received ₹ 115 crore of subsidy from the government and expects to further receive ~₹ 43 crore in the next two months. This would help the company to fund capex, going forward.

Valuation & Outlook

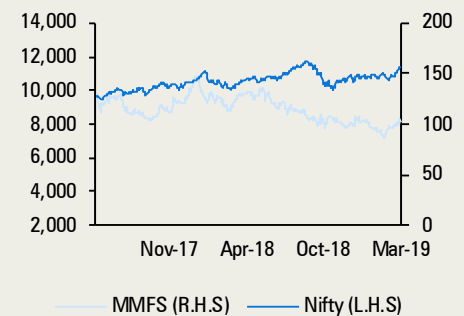
With the cement industry in NER already operating at peak utilisation, the company is all set to achieve higher volume growth than industry. The current utilisation for SCL is at 71%. Hence, we expect SCL to be a key beneficiary of this upcoming growth. However, we would wait for a couple of quarters to see the sustainability of the growth curve to revisit our rating. In the near term, cessation of transport subsidy, higher power cost and other expenses would keep margins under pressure. Hence, we maintain **HOLD** rating with a revised target price of ₹ 110 (i.e. 8.5x FY20E EV/EBITDA).



Particulars

Market Capitalization	₹ 4317.8 Crore
Total Debt (FY18)	₹ 332 crore
Cash and Investments (FY18)	₹ 19.8 Crore
EV	₹ 4630 crore
52 week H/L	151 / 102
Equity capital	₹ 41.9 Crore
Face value	₹ 1
MF Holding (%)	Nil
FII Holding (%)	0.3

Price performance



Source: Reuters

Key Highlights

- Siliguri 2MT grinding unit expansion on track and is expected to be commissioned in H2FY20E
- Industry in North-East regions are operating at optimum capacity
- Eastern regions is witnessing incremental supply of cement due to ramp-up of acquired plants of Century Textiles by Ultratech Cement

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Key Financial Summary

(Year-end March)	FY16	FY17	FY18	FY19E	FY20E
Net Sales (₹ crore)	1,709.5	1,527.8	1,614.5	1,896.1	2,099.6
EBITDA (₹ crore)	399.4	410.8	525.7	510.2	535.9
Net Profit (₹ crore)	134.0	194.8	330.7	315.4	293.0
EPS (₹)	3.2	4.6	7.9	7.5	7.0
PE (x)	32.2	22.2	13.1	13.7	14.7
EV/EBITDA (x)	12.6	12.1	8.8	8.8	8.1
EV/Tonne (US\$)	227.2	223.9	208.5	191.1	186.4
RoCE (%)	12.3	15.6	21.6	19.3	19.1
RoE (%)	12.7	17.0	22.4	18.1	14.8

Source: ICICI Direct Research, Company

Exhibit 1: Profit & loss statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Total operating Income	1,530.2	1,618.9	1,899.2	2,103.0
Growth (%)	-10.8	5.8	17.3	10.7
Raw material cost	340.3	269.7	382.5	469.0
Inc/dec in stock	0.0	0.0	0.0	0.0
Employees cost	118.6	107.4	131.2	152.0
Others	660.6	716.1	875.4	946.0
Total Operating Exp.	1,119.5	1,093.2	1,389.0	1,567.0
EBITDA	410.8	525.7	510.2	535.9
Growth (%)	2.9	28.0	-3.0	5.0
Depreciation	117.9	120.7	115.5	115.5
Interest	78.0	52.5	16.7	16.5
Other Income	0.0	0.0	0.0	0.0
PBT	214.9	352.6	378.0	404.0
Total Tax	13.9	16.4	54.5	101.0
PAT	194.8	330.7	315.4	293.0
Growth (%)	45.3	69.7	-4.6	-7.1
Adjusted EPS (₹)	4.6	7.9	7.5	7.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	194.8	330.7	315.4	293.0
Add: Depreciation	117.9	120.7	115.5	115.5
(Inc)/dec in Current Assets	-68.5	-123.4	-162.2	-7.0
Inc/(dec) in CL and Provisions	12.2	142.1	96.9	81.4
CF from operating activities	256.5	470.1	365.5	482.8
(Inc)/dec in Investments	0.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-67.9	-22.9	-149.3	-315.0
Others	66.3	-54.7	8.0	10.0
CF from investing activities	-1.5	-77.5	-141.2	-305.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-76.9	-340.5	-100.0	-100.0
Dividend paid & dividend tax	0.0	-50.6	-50.6	-50.6
Inc/(dec) in Sec. premium	-103.7	50.5	0.0	0.0
Others	-78.0	-52.5	-16.7	-16.5
CF from financing activities	-258.6	-393.0	-167.3	-167.0
Net Cash flow	-3.6	-0.3	57.0	10.8
Opening Cash	23.8	20.1	19.8	76.8
Closing Cash	20.1	19.8	76.8	87.6

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet

(Year-end March)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	41.9	41.9	41.9	41.9
Reserve and Surplus	1,104.5	1,435.2	1,700.0	1,942.5
Total Shareholders funds:	1,146.4	1,477.1	1,742.0	1,984.4
Total Debt	672.2	331.7	231.7	131.7
Deferred Tax Liability	170.3	110.2	110.2	110.2
Minority Interest / Other:	56.6	62.1	70.1	80.1
Total Liabilities	2,045.5	1,981.1	2,154.0	2,306.4
Assets				
Gross Block	1,787.1	1,829.1	1,979.1	2,329.1
Less: Acc Depreciation	923.8	1,044.5	1,160.0	1,275.4
Net Block	863.2	784.5	819.1	1,053.6
Capital WIP	54.9	35.7	35.0	0.0
Total Fixed Assets	918.1	820.3	854.1	1,053.6
Investments	1.5	1.4	1.4	1.4
Inventory	161.2	294.6	346.0	383.1
Debtors	137.8	146.5	171.9	190.4
Loans and Advances	1,008.0	978.3	948.1	839.8
Other Current Assets	233.6	244.7	360.3	419.9
Cash	20.1	19.8	76.8	87.6
Total Current Assets	1,560.8	1,683.8	1,903.0	1,920.9
Creditors	93.8	188.9	221.8	245.6
Provisions	341.4	335.9	383.1	424.3
Total Current Liabilities	435.2	524.8	605.0	669.9
Net Current Assets	1,125.6	1,159.0	1,298.1	1,251.0
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	2,045.5	1,981.1	2,154.0	2,306.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	4.6	7.9	7.5	7.0
Cash EPS	7.5	10.8	10.3	9.7
BV	27.3	35.2	41.6	47.3
DPS	0.0	1.0	0.0	0.0
Cash Per Share	0.5	0.5	1.8	2.1
Operating Ratios (%)				
EBITDA Margin	26.9	32.6	26.9	25.5
PBT / Total Operating income	14.1	21.8	19.9	19.2
PAT Margin	12.8	20.5	16.6	14.0
Inventory days	38.5	66.6	66.6	66.6
Debtor days	32.9	33.1	33.1	33.1
Creditor days	22.4	42.7	42.7	42.7
Return Ratios (%)				
RoE	17.0	22.4	18.1	14.8
RoCE	15.6	21.6	19.3	19.1
RoIC	14.9	21.0	19.3	19.0
Valuation Ratios (x)				
P/E	22.2	13.1	13.7	14.7
EV / EBITDA	12.1	8.8	8.8	8.1
EV / Net Sales	3.3	2.9	2.4	2.1
Market Cap / Sales	2.8	2.7	2.3	2.1
Price to Book Value	3.8	2.9	2.5	2.2
Solvency Ratios				
Debt/EBITDA	1.6	0.6	0.5	0.2
Debt / Equity	0.6	0.2	0.1	0.1
Current Ratio	3.6	3.2	3.1	2.9
Quick Ratio	3.2	2.6	2.6	2.3

Source: Company, ICICI Direct Research

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