

Best play to ride on NER infra growth story...

Star Cement being the leader in North East with over ~24% share remains a preferred play to ride the growth story of the NER region. Also, being a brand leader, the company generates EBITDA/tonne of over ~₹ 1400/t, which remains one of the highest among all major industry players. The recent performance of Q4FY20 and FY20 also validates its strength, whereby Star reported volume growth of 4% YoY, 3.1% YoY, respectively, vs. all-India volume de-growth of -13% and -2.5% YoY during the same period. On the margin front, the company ended FY20 with EBITDA margins of 23% and EBITDA/t of ₹ 1438/t (best in the industry). Limited capacity in NER resulting in firm pricing environment, benefit of subsidies from government are also some factors driving healthy margins. The company is virtually debt free and is now expanding its capacity from 4.3 MT to 6.3 MT in the next two years. With government focus on strengthening infrastructure development along the India-China border, firm retail demand and capex by it, we expect Star Cement to clock EBITDA CAGR of 15.1% in FY20-22E. Hence, we remain positive on the company from a long term perspective.

Volume growth to return; Siliguri plant to boost sales further

Post imposition of nationwide lockdown, the plant utilisation and sales volume declined almost 90% in April. However, May and June witnessed a healthy pick-up in volume offtake, with June seeing sales volume similar to levels reported last year. At present, rural demand continues to remain strong. We also expect a ramp-up in infrastructure along the China border soon, going forward. This will drive cement demand in the Arunachal, Sikkim area. Further, commissioning of the Siliguri plant in FY21E should drive sales volumes from FY22E onwards.

B/S to stay strong; to fund expansion mainly via internal accrual

With respect to capacity expansion, the company would be spending ₹ 80 crore in FY21E on the Siliguri unit. Star Cement has also applied for various clearances for setting up a clinker unit in Meghalaya and would be spending ₹ 104 crore on the new clinker unit in Lumshnong. This, along with the WHRMS unit, would need Star to spend ~₹2 60 crore in FY21E. The Meghalaya plant is expected to start operations in 2023. With cash equivalent of over ₹ 280 crore and pending subsidy receivables of ₹ 50 crore, the company is in better position to fund expansion without debt support.

Valuation & Outlook

The company continues to remain a leader in NER. With commissioning of new capacity, we expect Star Cement to return to a healthy growth trajectory curve with RoCE inching upwards to 19% by FY22E. Hence, we upgrade our recommendation from HOLD to **BUY** with a target price of ₹ 105/share (~7x FY22E EV/EBITDA and EV/t of \$95).



Stock Data

Particulars

Market Capitalization	₹ 3546.6 Crore
Total Debt (FY20)	₹ 51 crore
Cash and Investments (FY20)	₹ 162 crore
EV	₹ 3436 crore
52 week H/L	₹ 125 / 60
Equity capital	₹ 41.2 Crore
Face value	₹ 1

Key Highlights

- Cement volumes for quarter rise 4% YoY; realisations broadly stay flat YoY
- To incur capex of ₹ 260 crore for Siliguri unit, Meghalaya unit and WHRS capacity
- Siliguri plant to get commissioned in FY21E
- Upgrade from HOLD to BUY with target price of ₹ 105 (earlier ₹ 82)

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,615	1,831	1,844	1,546	2,465	15.6%
EBITDA	526	455	424	327	561	15.1%
EBITDA (%)	32.6	24.8	23.0	21.2	22.8	
PAT	331	299	286	176	360	12.3%
EPS (₹)	7.9	7.2	6.9	4.3	8.7	
EV/EBITDA	7.5	7.7	7.9	9.4	5.7	
EV/T (\$)	163	157	117	117	80	
RoCE (%)	21.6	19.5	17.1	10.3	18.9	
RoNW (%)	22.4	17.8	15.4	9.0	16.4	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY(%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	557	538	3.5	458	21.6	Topline growth entirely driven by volumes
Raw Material Expenses	115	137	-16.0	99	16.6	
Employee Expenses	35	28	27.1	32	8.0	
Other Expenses	274	243	13.1	226	first	
EBITDA	132	130	1.2	100	31.2	
EBITDA Margin (%)	23.7	24.2	-54 bps	22.0	172 bps	
Depreciation	25	24	5.0	23	7.6	
Interest	2.0	3.1	-36.2	3.8	-48.9	The company has now become debt free
PBT	104.8	103	1.4	73	42.8	
Total Tax	18	12	52.1	2	715.4	
Minority Interest	0.2	1.8	-87.5	0.0	NA	
PAT after MI	86.7	90	-3.5	71	21.7	Lower operational profits flow down to PAT reduction

Key Metrics						
Volume (MT)	0.87	0.8	4.0	0.8	16.2	
Realisation (₹)	6,368	6,403	-0.6	6,086	4.6	Stable prices keep realisations flat
EBITDA per Tonne (₹)	1,508	1,551	-2.8	1,336	12.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue*	1,752.0	1,565.5	-10.6	2,104.0	2,487.2	18.2	Higher volumes led by ramping up of Siliguri unit to drive revenues higher
EBITDA	304.0	327.3	7.7	392.0	561.4	43.2	
EBITDA Margin (%)	17.4	20.9	355 bps	18.6	22.6	394 bps	
PAT	165.0	175.5	6.4	304.5	359.9	18.2	
EPS (₹)	4.0	4.3	6.4	7.4	8.7	18.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19	FY20E	FY21E	FY22E	FY20E	FY21E	
Volume (MT)	2.61	2.86	2.95	2.43	3.84	2.96	3.28	FY22 growth to be led by Siliguri plant commissioning
Realisation (₹)	6,175	6,426	6,356	6,439	6,477	6,359	6,504	
EBITDA per Tonne (₹)	2,014	1,591	1,439	1,346	1,462	1,464	1,580	Profitability to reduce owing to lower capacity utilisation of new capacity

Source: Company, ICICI Direct Research

Conference call Highlights

- Cement sales for the quarter were at 8.43 lakh tonnes (LT) during the quarter vs. 8.05 LT in Q4FY19. Clicker sales were at 0.31 LT vs 0.34 LT LY.
- On the regional sales front, North East region accounts for over 76% of total sales volume. Other operating regions are mainly West Bengal and Bihar
- Post imposition of lockdown from March end, April saw 90% drop in sales volume. However, May and June saw a healthy pick-up in demand with June seeing business broadly similar to the last year's June sales
- On the pricing front, prices in the North East remained flat during the quarter. Eastern region saw price hikes of over ₹ 30/bag during April-May. However, June saw some price correction. On a net basis, eastern region prices are higher by ₹ 5 per bag during Q1FY21E
- There will be some delay in the Siliguri plant expansion. In relation to this plant, the company would be spending ₹ 80 crore in FY21E. The company has also applied for various clearances to set up a clinker unit in Meghalaya and would be spending ₹ 104 crore on a new clinker unit in Lumshnong. This, along with the WHRMS unit, would require the company to spend ~₹ 260 crore in FY21E. The Meghalaya plant is expected to start operations in 2023
- On the demand front, a lockdown has been imposed in Assam till July 14, 2020. However, the company does not see any material impact on the cement demand front. The management expects FY21E to remain stable as NER regions are least affected as far as Covid is concerned. For FY22E, volume growth should be in double digits led by commissioning of the Siliguri grinding unit
- On the supply front, Shree Cement and Dalmia Cement's capacities are expected to be added in the near future with no other major capacity addition expected in the eastern region where the company mainly operates
- On the fuel supply front, the company has now switched to imported coal and ECL auctions. ECL accounts for ~60% of total requirement while 40% of coal requirement is now met through imported coal
- The pending subsidy receivables are at ₹ 50 crore from the state government, at present. The effective tax rate is at 12% as the company is availing tax holiday benefit, which will last up to 2023

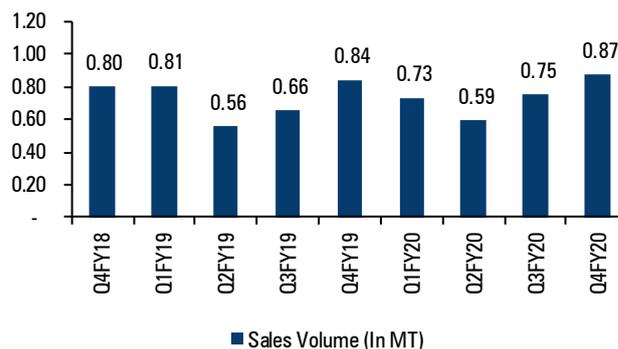
Financial story in charts

Exhibit 4: Capacity addition plans

	Cement	Clinker	Timelines
Current	4.4	2.6	
Ongoing addition:			
Clinker debottlenecking		0.4	FY22E
Cement grinding unit (Siliguri)	2.0		FY21E
Total Cement Capacity	6.4	3.0	

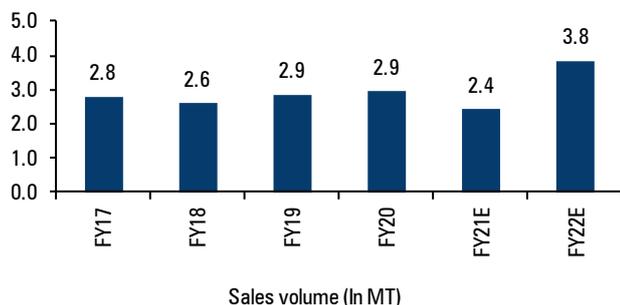
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly sales trend – Volumes up 4% YoY



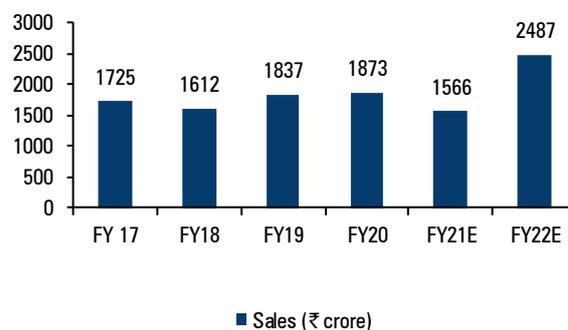
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to witness 14.2% CAGR over FY20-22E



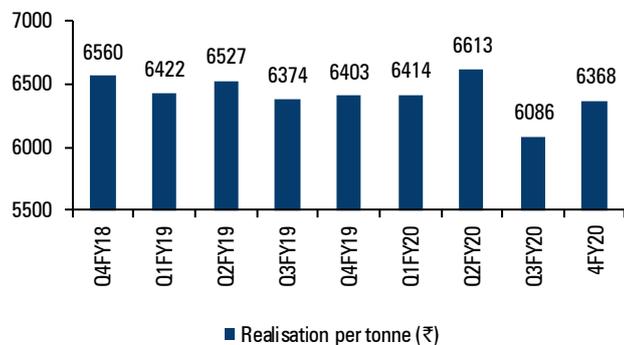
Source: Company, ICICI Direct Research

Exhibit 7: Revenues to grow at 15.2% CAGR over FY20-22E



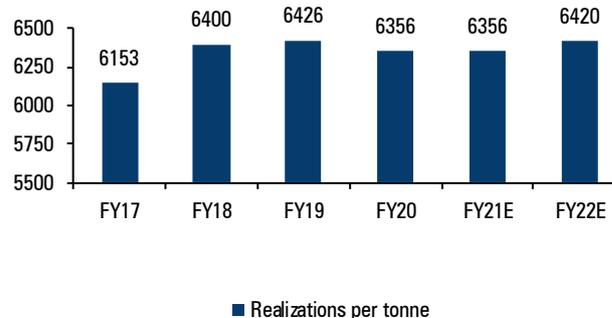
Source: Company, ICICI Direct Research

Exhibit 8: Realisations/t broadly remained flat YoY



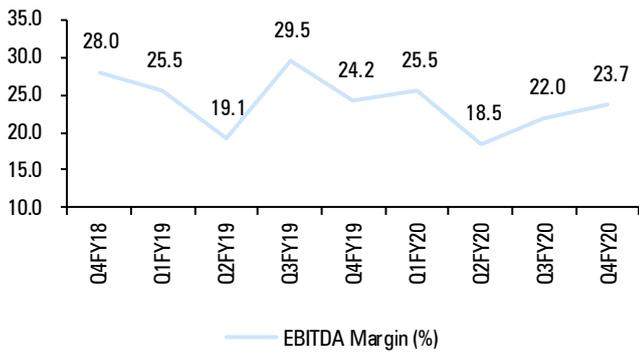
Source: Company, ICICI Direct Research

Exhibit 9: Realisations to broadly stay stable due to supply constraints



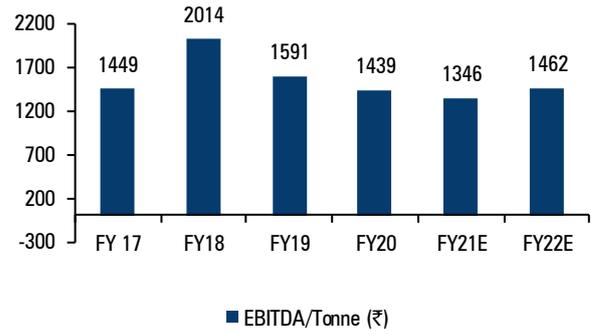
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins contract 54 bps YoY



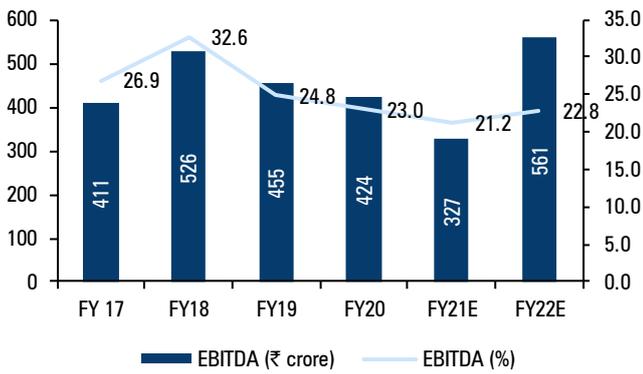
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to stabilise in FY21E; gradually improve from FY22E



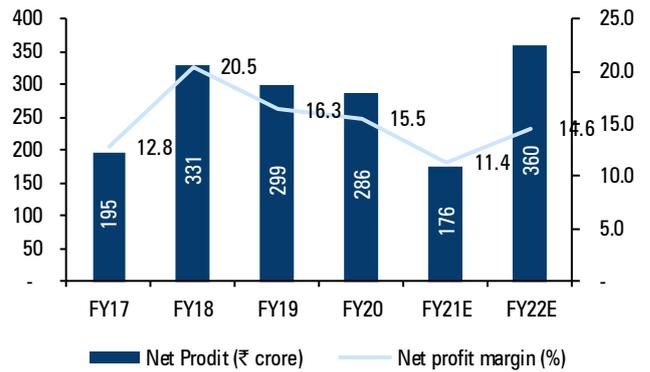
Source: Company, ICICI Direct Research

Exhibit 12: Operating margins to decline ~20 bps over FY20-22E owing to change in sales mix post Siliguri operations



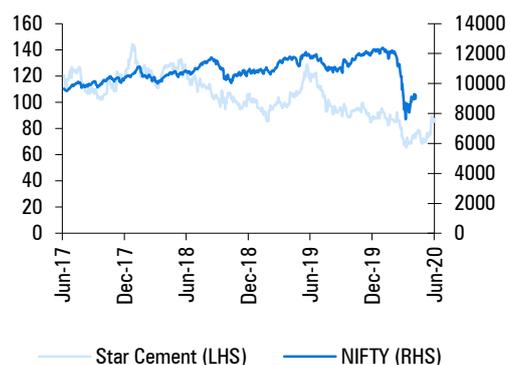
Source: Company, ICICI Direct Research

Exhibit 13: PAT to grow at 12.2% CAGR over FY20-22E



Source: Company, ICICI Direct Research

Exhibit 14: Stock price performance vs. Nifty



Source: Bloomberg

Exhibit 15: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S Position (m)	Change
1	Bhajanka Sajjan	31-Mar-20	11.3 46.72m	0.00m
2	Bhajanka Prem Kumar	31-Mar-20	9.2 37.72m	0.00m
3	Sbi Funds Management	31-May-20	6.0 24.74m	0.19m
4	Chamaria Rajendra	5-Jun-19	4.9 20.17m	(0.08)m
5	Chamaria Rajendra	31-Mar-20	4.8 19.89m	0.00m
6	Agarwal Divya	31-Mar-20	4.6 19.00m	0.00m
7	Bhajanka Santosh	31-Mar-20	4.4 18.11m	0.00m
8	Agarwal Mahabir P	31-Mar-20	4.4 18.00m	1.00m
9	Agarwal Sanjay	31-Mar-20	4.1 17.05m	0.00m
10	Agarwal Subham	30-Jun-19	3.8 15.57m	1.21m

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 16: Shareholding Pattern

(in %)	Sep-18	Dec-18	Jun-19	Sep-19	Dec-19
Promoter	68.88	68.87	67.94	67.94	67.11
FII	1.00	1.24	1.05	0.75	0.25
DII	8.39	8.71	9.22	9.26	8.99
Others	21.73	21.18	21.79	22.05	23.65

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating incom	1,836.5	1,872.6	1,565.5	2,487.2
Growth (%)	13.4	2.0	-16.4	58.9
Raw material cost	425.5	401.9	352.6	568.3
Inc/dec in stock	0.0	0.0	0.0	0.0
Employees cost	116.4	126.6	139.2	144.1
Others	840.0	920.3	746.5	1213.4
Total Operating Exp.	1,381.9	1,448.7	1,238.2	1,925.8
EBITDA	454.6	423.8	327.3	561.4
Growth (%)	-13.5	-6.8	-22.8	71.5
Depreciation	105.6	92.9	116.8	130.0
Interest	14.4	9.3	0.2	0.2
Other Income	0.0	0.0	0.0	0.0
PBT	334.6	321.6	210.3	431.2
Total Tax	29.6	34.2	28.4	58.2
PAT	298.8	285.5	175.5	359.9
Growth (%)	-9.7	-4.4	-38.5	105.0
Adjusted EPS (₹)	7.2	6.9	4.3	8.7

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	298.8	285.5	175.5	359.9
Add: Depreciation	105.6	92.9	116.8	130.0
(Inc)/dec in Current Assets	376.9	146.3	154.5	-587.0
Inc/(dec) in CL and Provisions	-172.0	-39.9	-25.4	136.2
CF from operating activiti	609.3	484.8	421.4	39.1
(Inc)/dec in Investments	-0.3	0.1	-0.1	0.0
(Inc)/dec in Fixed Assets	-81.8	-230.4	-92.5	-40.0
Others	11.1	17.2	-9.0	13.1
CF from investing activiti	-70.9	-213.0	-101.6	-26.9
Issue/(Buy back) of Equity	0.0	-0.7	0.0	0.0
Inc/(dec) in loan funds	-280.4	-40.2	-9.4	0.0
Dividend paid & dividend tax	-49.7	-49.7	-49.7	-124.3
Inc/(dec) in Sec. premium	-52.1	-52.5	-26.0	0.0
Others	-14.4	-9.3	-0.2	-0.2
CF from financing activiti	-396.6	-152.5	-85.3	-124.6
Net Cash flow	141.8	119.4	234.4	-112.4
Opening Cash	19.8	161.6	280.9	515.3
Closing Cash	161.6	280.9	515.3	403.0

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	41.9	41.2	41.2	41.2
Reserve and Surplus	1,632.1	1,815.5	1,915.3	2,150.8
Total Shareholders funds	1,674.1	1,856.7	1,956.5	2,192.1
Total Debt	51.3	11.1	1.7	1.7
Deferred Tax Liability	115.1	130.6	115.1	115.1
Minority Interest / Others	68.3	70.1	76.5	89.5
Total Liabilities	1,908.8	2,068.4	2,149.8	2,398.4
Assets				
Gross Block	1,872.2	1,939.4	2,089.4	2,209.4
Less: Acc Depreciation	1,150.2	1,243.1	1,359.9	1,489.9
Net Block	722.1	696.3	729.5	719.5
Capital WIP	74.3	237.5	180.0	100.0
Total Fixed Assets	796.4	933.8	909.5	819.5
Investments	1.7	1.6	1.7	1.7
Inventory	277.2	256.9	207.5	331.0
Debtors	143.8	122.2	114.3	182.4
Loans and Advances	591.3	114.4	463.7	739.6
Other Current Assets	274.9	647.3	200.9	320.5
Cash	161.6	280.9	515.3	403.0
Total Current Assets	1,448.7	1,421.8	1,501.7	1,976.3
Creditors	125.4	91.8	105.9	148.6
Provisions	213.1	197.4	157.7	250.9
Total Current Liabilities	338.5	289.2	263.5	399.5
Net Current Assets	1,110.3	1,132.6	1,238.2	1,576.8
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	1,908.8	2,068.4	2,149.8	2,398.4

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	7.2	6.9	4.3	8.7
Cash EPS	9.8	9.2	7.1	11.9
BV	40.6	45.0	47.4	53.2
DPS	1.0	1.0	1.0	2.5
Cash Per Share	3.9	6.8	12.5	9.8
Operating Ratios (%)				
EBITDA Margin	24.8	23.0	21.2	22.8
PBT / Total Operating income	18.3	17.4	13.6	17.5
PAT Margin	16.3	15.5	11.4	14.6
Inventory days	55.3	54.0	49.0	49.0
Debtor days	28.7	29.0	27.0	27.0
Creditor days	25.0	30.0	25.0	22.0
Return Ratios (%)				
RoE	17.8	15.4	9.0	16.4
RoCE	19.5	17.1	10.3	18.9
RoIC	20.9	21.4	14.5	22.8
Valuation Ratios (x)				
P/E	11.9	12.4	20.2	9.9
EV / EBITDA	7.7	7.9	9.4	5.7
EV / Net Sales	1.9	1.8	2.0	1.3
Market Cap / Sales	2.0	2.0	2.3	1.5
Price to Book Value	2.1	1.9	1.8	1.6
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.3	4.9	5.7	4.9
Quick Ratio	3.5	4.0	4.9	4.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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