

Star Cement

Refer to important disclosures at the end of this report

Higher opex impacts profit; Retain BUY

CMP	Target Price
Rs 129 as of (February 6, 2018)	Rs 171 (▼) 12 months
Rating	Upside
BUY (■)	32.9 %

- Star Cements' Q4FY18 operating performance was lower than our estimates, with EBITDA at Rs1.44bn (Emkay Est: Rs1.53bn) and EBITDA/tn at Rs1,800 (Emkay Est: Rs2,045), owing to higher opex (freight, advertisement and DMF provisions).
- Volume grew by 1.8% yoy (29.4% qoq) to 0.8mt (Emkay Est: 0.75mt). Clinker exports to Nepal stood at 0.023mt. Realization was up 8.1% yoy at Rs6,573/tn. EBITDA/tn stood at Rs1,800 against Rs2,149/Rs2,280 in Q4FY17/Q3FY18.
- Opex/tn was up 21.4% yoy due to higher cost of Freight (rake unavailability, higher diesel prices, expiry of freight subsidies) and Energy (higher coal prices), DMF provisions (Rs70-80mn) and other expense (Rs125/tn impact of higher advertisement cost).
- We like the company due to its presence in North East, higher operating profit and better return ratios. Valuation at 10.1/7.9x FY19/20E EV/EBITDA looks attractive. We maintain BUY with a TP of Rs171 (10x FY20E EV/EBITDA).

Higher opex offsets realisation growth; margins under pressure

Star Cement's Q4FY18 result was lower than our estimates, with EBITDA at Rs1.44bn (Emkay Est: Rs1.53bn) and OPM of 27.4% (Emkay Est: 33.4%). Volume was up 1.8% yoy at 0.8mt. Realization was up 8.1% yoy at Rs6,593/tn. Opex/tn was up 21.4% yoy, led by higher cost of Freight, Energy and Raw Materials. Higher freight cost was owing to: A) Nepal sales on FoR basis - impact should be ~Rs50-60/tn as freight to Nepal is Rs2,400/tn, B) higher diesel prices - impact of Rs70-80/tn, C) lower availability of rakes - impact of Rs100/tn and D) expiry of freight subsidies in Jan'18. DMF provision of Rs70-80mn led to higher RM costs. Advertisement expense was higher, which had an impact of Rs125/tn. Higher operating cost led to 14.7% yoy decline in EBITDA at Rs1.44bn and 795bps yoy contraction in OPM at 27.4%. EBITDA/tn stood at Rs1,800 against Rs2,149/Rs2,280 in Q4FY17/Q3FY18. Interest expense was down 35.2% yoy due to debt repayment in FY18. Profit declined by 14.9% yoy to Rs1.1bn.

Maintain BUY on attractive valuation

We have largely maintained our EBITDA/PAT estimates for FY19/20E. The company has received pending subsidies of Rs2.8bn in Q1FY19. We like the company due to its presence in North East (better growth opportunities), strong margin profile and superior return ratios. It has consistently delivered more than 2x EBITDA/tn vis-à-vis the average of other companies in our coverage universe. The North East region, where Star sells 65% of its volume, is a lucrative market with low competition (50% of capacity is controlled by two players), and has significant growth opportunities. Valuation at 10.1/7.9x FY19/20E EV/EBITDA offers comfort. We retain BUY with a TP of Rs171, valuing it at 10x FY20E EV/EBITDA.

Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	17,150	17,280	16,145	17,850	20,200
EBITDA	3,994	7,100	6,157	5,262	6,116
EBITDA Margin (%)	23.3	41.1	38.1	29.5	30.3
APAT	1,346	5,025	4,306	3,504	4,479
EPS (Rs)	3.2	12.0	10.3	8.4	10.7
EPS (% chg)	(14.5)	273.4	(14.3)	(18.6)	27.8
ROE (%)	15.5	43.5	30.7	20.7	22.0
P/E (x)	40.0	10.7	12.5	15.4	12.0
EV/EBITDA (x)	15.8	8.7	9.5	10.1	7.9
P/BV (x)	5.1	4.3	3.5	2.9	2.4

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY19E/FY20E (%)	7.7 / 8.1
Target Price change (%)	(1.9)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	8.4	10.7
Consensus	-	-
Mean Consensus TP (12M)	Rs 166	

Stock Details

Bloomberg Code	STRCEM IN
Face Value (Rs)	1
Shares outstanding (mn)	419
52 Week H/L	152 / 102
M Cap (Rs bn/USD bn)	54 / 0.79
Daily Avg Volume (nos.)	96,168
Daily Avg Turnover (US\$ mn)	0.2

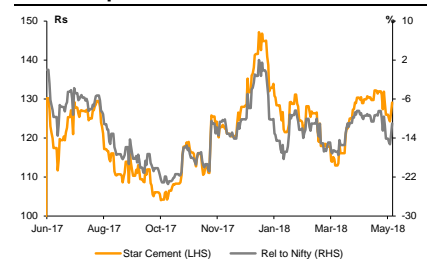
Shareholding Pattern Mar '18

Promoters	68.9%
FIIIs	1.9%
DIIIs	7.3%
Public and Others	21.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	3	14	-
Rel. to Nifty (1)		2	11	-

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs. estimates

(in Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	5,274	4,588	4,579	15.0	15.2	Led by higher-than-estimated realization and sales volume
EBITDA	1,444	1,531	1,406	-5.7	2.7	Impacted by higher operating costs
EBITDA margin (%)	27.4	33.4	30.7	-599bps	-332bps	
Adj. PAT	1,088	933	827	16.7	31.6	Led by lower depreciation and interest costs

Source: Company, Emkay Research, Bloomberg

Exhibit 2: Quarterly result

Rs mn	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Revenue	4,792	3,774	5,274	10.1%	39.7%	15,278	16,145	5.7%
Expenditure	3,099	2,361	3,830	23.6%	62.2%	11,195	10,932	-2.3%
as % of sales	65%	63%	73%					
Consumption of RM	722	382	551	-23.7%	44.4%	2,510	1,753	-30.1%
as % of sales	15%	10%	10%					
Employee Expenses	288	275	246	-14.7%	-10.4%	1,186	1,074	-9.5%
as % of sales	6%	7%	5%					
Other Expenses	2,089	1,705	3,033	45.2%	77.9%	6,606	7,161	8.4%
as % of sales	44%	45%	58%					
EBITDA	1,693	1,413	1,444	-14.7%	2.2%	4,083	5,214	27.7%
Depreciation	122	337	241	97.1%	-28.3%	1,179	1,207	2.4%
EBIT	1,571	1,077	1,203	-23.4%	11.7%	2,904	4,007	38.0%
Other Income	20	2	28	41.6%	1039.5%	24	44	80.0%
Interest	184	137	89	-51.8%	-35.2%	781	525	-32.8%
PBT	1,407	942	1,143	-18.8%	21.3%	2,148	3,526	64.2%
Total Tax	127	28	54	-57.3%	90.5%	139	164	18.0%
Adjusted PAT	1,280	914	1,088	-14.9%	19.1%	2,009	3,362	67.3%
Extra ordinary items	-	-	-			-	-	#DIV/0!
Reported PAT	1,280	914	1,088	-14.9%	19.1%	2,009	3,362	67.3%
(Profit)/loss from JV's/Ass/MI	20	18	10			-	-	#DIV/0!
PAT after MI	1,259	895	1,079	-14.3%	20.5%	2,009	3,362	67.3%
Adjusted EPS	3.0	2.1	2.6	-14.3%	20.5%	4.7	12.8	171.2%

Margins (%)			bps	bps			bps	
EBIDTA	35.3	37.4	27.4	(795)	(1,006)	26.7	32.3	556
EBIT	32.8	28.5	22.8	(997)	(572)	19.0	24.8	581
EBT	29.4	25.0	21.7	(769)	(330)	14.1	21.8	778
PAT	26.7	24.2	20.6	(607)	(358)	13.1	20.8	767
Effective Tax rate	9.0	3.0	4.7	(429)	172	6.5	4.7	(182)

Source: Company, Emkay Research

Exhibit 3: Operating cost and profitability analysis on per tonne basis

Rs	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
Cement Volumes (mt)	0.79	0.62	0.80	1.8%	29.4%	2.82	2.60	-7.6%
Raw Material Consumed	916	616	687	-25.1%	11.5%	891	674	-24.4%
Employee Expenses	366	443	307	-16.2%	-30.8%	421	413	-2.1%
Other Expenses	2,651	2,749	3,780	42.6%	37.5%	2,346	2,752	17.3%
Total Cost	3,933	3,808	4,773	21.4%	25.3%	3,976	4,201	5.6%
Realisation	6,082	6,088	6,573	8.1%	8.0%	5,426	6,204	14.3%
EBIDTA	2,149	2,280	1,800	-16.2%	-21.0%	1,450	2,003	38.1%

Source: Company, Emkay Research

Exhibit 4: Change in estimates

Rs Mn	FY19E			FY20E		
	Earlier	Revised	Chg (%)	Earlier	Revised	Chg (%)
Sales vol (mt)	2.7	2.8	1.9%	3.0	3.0	1.9%
Realization (Rs/tn)	6,299	6,371	1.2%	6,614	6,690	1.2%
Sales	17,313	17,850	3.1%	19,591	20,200	3.1%
EBIDTA	5,247	5,262	0.3%	6,140	6,116	-0.4%
EBIDTA (%)	30.3	29.5	-83.1	31.3	30.3	-106.3
Net Profit	3,254	3,302	1.5%	4,129	4,151	0.5%
EPS	7.8	7.9	1.5%	9.9	9.9	0.5%

Source: Company, Emkay Research

Exhibit 5: Key assumptions

Assumptions	FY16	FY17	FY18	FY19E	FY20E
Total Sales (mn MT)	2.8	2.8	2.6	2.8	3.0
Realisation (Rs/MT)	6,217	5,425	6,210	6,371	6,690
RM (Rs/MT)	1,252	848	674	708	743
Employee (Rs/MT)	393	421	413	406	415
Others (Rs/MT)	3,126	2,345	2,829	3,379	3,506
Opex (Rs/MT)	4,769	3,975	3,916	4,493	4,664
EBITDA (Rs/MT)	1,448	1,450	2,005	1,878	2,025

Source: Company, Emkay Research

Concall highlights

- **Cement and clinker utilization rate:** Cement/Clinker volume in Q4FY18 was 0.74mt/0.06mt against 0.75mt/0.04mt in Q4FY17. Cement volume in North East stood at 0.56mt (76% of total volume) against 0.5mt in Q4FY17. Clinker utilization rate was 98% against 70% in Q4FY18. The company has rationalized dispatches in few markets like Bihar, Jharkhand and West Bengal. Cement/clinker production in FY18 stood at 2.17mt/2.06mt against 2.4mt/2.15mt in FY17.
- **Operating cost mix:** Power & Fuel cost rose to Rs748mn v/s Rs540mn in Q4FY17. Freight cost stood at Rs1.49bn v/s Rs740mn in Q4FY17 largely due to shift in sales mix from ex-factory to FoR basis. Also, transport subsidy benefits have expired in Jan'18.
- **Marginal decline in market share in North East:** In Q4FY18, the company maintained its leadership in North East with a market share of 22.5% against 23.5% in Q4FY17. Volume in North East improved from 0.5mt to 0.56mt in Q4FY17.
- **Demand and volume guidance:** FY18 volume declined by 1% due to decline in West Bengal and Jharkhand. Volume growth in North East was in the range of 8-8.5% in Q4FY18. Road and Hydel Power projects, Bharatmala project (some projects have been announced in Manipur), Affordable Housing projects and pick-up in Rural Housing should help improve demand going forward. The management is hopeful of demand recovery in North East and expects volume for the company to grow by 8% in FY19E.
- **Outstanding subsidies:** The Company received Rs2.3bn/Rs2.8bn subsidies in FY18/Q1FY19 and expects to receive Rs4.3bn going forward. Earlier, excise subsidies were being received on a monthly basis. But, there has been some delay post GST implementation (now, subsidies will be received at the end of every quarter).
- **Capex plans:** The Company will install a grinding unit of 2mt capacity in Siliguri, West Bengal for which equipment has been ordered and production will commence in the next 15-20 months. Capex for the same is expected at Rs2-2.5bn. Some approvals are still pending for this grinding unit and the management has received verbal approvals from the state government. This unit will be eligible for VAT subsidies (75% exemption) under the West Bengal Industrial Policy. The company is also working to increase its clinker capacity by 0.4mt to 3mt through de-bottlenecking, which is expected to be completed by FY20E. Capex for the same will be Rs150-200mn.
- **Impact of freight subsidy expiry:** Freight subsidies used to boost EBITDA/tn by Rs300-350. The management believes that expiry of this subsidy has impacted EBITDA by Rs150-200/tn. The management is not expecting much improvement in cement prices in the near term since there has been a hike of Rs5/bag in the region. The company has also re-aligned its sales in few markets to reduce the impact on profitability.
- **Trade to Non-Trade Mix:** Trade to Non-Trade mix in the North East region for the quarter stood at 75:25.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	17,150	17,280	16,145	17,850	20,200
Expenditure	13,156	10,181	9,988	12,588	14,084
EBITDA	3,994	7,100	6,157	5,262	6,116
Depreciation	1,715	1,179	1,207	1,277	1,291
EBIT	2,279	5,920	4,951	3,984	4,824
Other Income	13	24	44	77	75
Interest expenses	834	781	525	230	25
PBT	1,458	5,164	4,470	3,832	4,874
Tax	60	139	164	248	315
Extraordinary Items	5	0	0	0	0
Minority Int./Income from Assoc.	53	0	0	(80)	(80)
Reported Net Income	1,340	5,025	4,306	3,504	4,479
Adjusted PAT	1,346	5,025	4,306	3,504	4,479

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	419	419	419	419	419
Reserves & surplus	10,134	12,154	15,022	18,033	21,771
Net worth	10,553	12,573	15,441	18,452	22,191
Minority Interest	530	530	530	610	690
Loan Funds	9,398	7,950	5,105	635	0
Net deferred tax liability	117	163	219	276	332
Total Liabilities	20,599	21,216	21,296	19,973	23,213
Net block	9,186	8,860	7,847	6,770	5,678
Investment	15	14	15	15	15
Current Assets	14,970	15,554	15,955	14,012	17,120
Cash & bank balance	244	209	252	1,382	5,503
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	4,062	3,761	2,878	3,182	3,600
Net current assets	10,908	11,793	13,077	10,831	13,520
Misc. exp	0	0	0	0	0
Total Assets	20,599	21,216	21,296	19,973	23,213

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,445	2,148	3,526	3,832	4,874
Other Non-Cash items	821	791	525	230	25
Chg in working cap	(2,384)	(921)	(1,241)	3,376	1,432
Operating Cashflow	1,297	3,079	3,865	8,446	7,289
Capital expenditure	(808)	(912)	(3)	(2,200)	(1,843)
Free Cash Flow	489	2,167	3,862	6,246	5,446
Investments	(3)	1	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(796)	(887)	41	(2,123)	(1,768)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	694	(1,448)	(2,845)	(4,471)	(635)
Dividend paid (incl tax)	(222)	0	(493)	(493)	(740)
Other Financing Cash Flow	(99)	0	0	0	0
Financing Cashflow	(461)	(2,229)	(3,863)	(5,194)	(1,400)
Net chg in cash	40	(36)	43	1,130	4,121
Opening cash position	204	245	209	252	1,382
Closing cash position	244	209	252	1,382	5,503

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	23.3	41.1	38.1	29.5	30.3
EBIT Margin	13.3	34.3	30.7	22.3	23.9
Effective Tax Rate	4.1	2.7	3.7	6.5	6.5
Net Margin	8.2	29.1	26.7	20.1	22.6
ROCE	11.6	28.4	23.5	19.7	22.7
ROE	15.5	43.5	30.7	20.7	22.0
RoIC	11.9	29.4	24.1	21.6	32.3

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	3.2	12.0	10.3	8.4	10.7
CEPS	7.3	14.8	13.2	11.4	13.8
BVPS	25.2	30.0	36.8	44.0	52.9
DPS	0.5	0.0	1.0	1.0	1.5

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	40.0	10.7	12.5	15.4	12.0
P/CEPS	17.6	8.7	9.8	11.3	9.3
P/BV	5.1	4.3	3.5	2.9	2.4
EV / Sales	3.7	3.6	3.6	3.0	2.4
EV / EBITDA	15.8	8.7	9.5	10.1	7.9
Dividend Yield (%)	0.4	0.0	0.8	0.8	1.2

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	0.9	0.6	0.3	0.0	(0.2)
Net Debt/EBIDTA	2.3	1.1	0.8	(0.1)	(0.9)
Working Cap Cycle (days)	226.9	244.7	289.9	193.2	144.9

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	19.9	0.8	(6.6)	10.6	13.2
EBITDA	(8.2)	77.8	(13.3)	(14.5)	16.2
EBIT	7.8	159.8	(16.4)	(19.5)	21.1
PAT	60.6	274.9	(14.3)	(18.6)	27.8

Quarterly (Rs mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenue	4,792	4,287	2,810	3,774	5,274
EBITDA	1,693	1,586	770	1,413	1,444
EBITDA Margin (%)	35.3	37.0	27.4	37.4	27.4
PAT	1,259	1,075	257	895	1,079
EPS (Rs)	3.0	2.6	0.6	2.1	2.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-99	Jun-17	Sep-17	Dec-17	Mar-18
Promoters	-	74.9	74.6	73.3	68.9
FIs	-	0.1	0.4	2.0	1.9
DIs	-	1.2	1.6	2.7	7.3
Public and Others	100.0	23.8	23.4	22.1	21.9

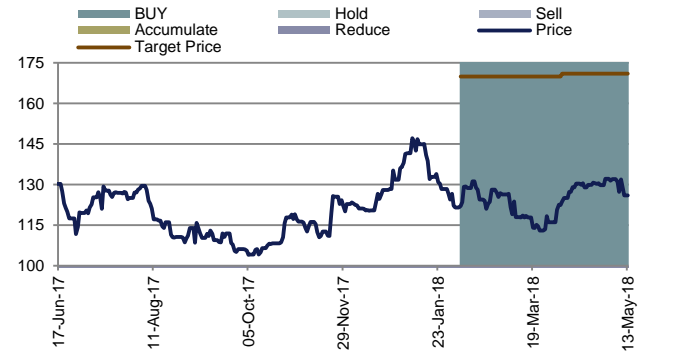
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
05-Apr-18	124	171	12m	Buy	Sanjeev Kumar Singh
05-Feb-18	122	170	12m	Buy	Sanjeev Kumar Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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