

## Expansion to drive growth; B/S to remain healthy...

For Q3FY20, Star Cement reported healthy topline growth driven by strong volume growth. Topline increased 9.6% YoY to ₹ 458 crore on the back of 14.8% growth in volumes YoY, which for the quarter was at 0.72 MT. However, realisation fell 4.5% YoY owing to weakness in the pricing environment, thus softening overall revenue growth. Cement prices declined by ~₹ 10-12 per bag in the North East and ~₹ 15-25 per bag in the eastern markets (where the company's volumes increased 30% YoY). Total costs per tonne increased 5.6% YoY owing to higher usage of imported coal, which pushed power & fuel costs higher. Higher costs combined with lower realisations dented EBITDA margins, which contracted ~750 bps YoY to 22%. EBITDA/t also declined 28.8% YoY to ₹ 1336/t. On an absolute level, EBITDA also declined 18.3% YoY to ₹ 100 crore due to lower profitability. Accordingly, net profit declined 13.4% YoY to ₹ 71.2 crore. The board also declared an interim dividend of ₹ 1/share.

## Volume growth returns; Siliguri plant to boost sales further

While offtake in H1FY20 remained weak owing to weak demand and heavy monsoons, the trend seems to have reversed in the company's major market from Q3FY20. A pick-up in construction activity post floods in the north east region and commissioning of the Siliguri plant by Q1FY21E, should drive sales volumes. While the management expects the North East region to end the year at ~8-9% growth and the eastern markets at 5-6% growth, FY21E volume growth for the company is expected to be strong. We model 4.2% and 18.6% growth in volumes for FY20E and FY21E, respectively, leading to volume CAGR of 11.2% in FY19-21E. Higher volumes in the eastern region would put pressure on overall realisations as pricing in the NER region is higher than the eastern region. Hence, we expect realisations to broadly remain flat.

## Profitability to remain under pressure

Owing to lower offtake, pricing environment in the eastern region was subdued, which is expected to recover with a revival in demand. Star Cement's profit margins, however, are expected to reduce in the coming year due to higher production costs at the Siliguri plant due to sub-optimal capacity utilisation as well as higher lead distance in the initial years. We expect EBITDA/t to decline in FY20E and FY21E with EBITDA margins contracting from 24.8% in FY19 to 21.8% in FY21E.

## Valuation & Outlook

Star Cement's B/S is expected to continue to remain strong with insignificant debt and healthy cash flows to mainly fund the planned capex for the upcoming clinker unit at Meghalaya. Despite EBITDA margins being expected to decline in FY21E, absolute EBITDA would be increasing. We upgrade our rating to **BUY** and assign a target price of ₹ 103 per share (~8.5x FY21E EV/EBITDA and EV/t of \$95).



### Stock Data

#### Particulars

Market Capitalization	₹ 3629.1 Crore
Total Debt (FY19)	₹ 51 crore
Cash and Investments (FY19)	₹ 162 crore
EV	₹ 3519 crore
52 week H/L	₹ 137 / 85
Equity capital	₹ 41.2 Crore
Face value	₹ 1

### Key Highlights

- Cement volumes for the quarter rise 15% YoY; realisations decline 5%
- Siliguri plant to get commissioned by April 2020
- Profitability to remain under check in FY21E owing to lower utilisation at the new plant
- Upgrade to BUY with target price of ₹ 103

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### Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,528	1,615	1,831	1,874	2,244	10.7%
EBITDA	411	526	455	443	488	3.6%
EBITDA (%)	26.9	32.6	24.8	23.6	21.8	
PAT	195	331	299	303	322	3.8%
EPS (₹)	4.6	7.9	7.2	7.4	7.8	
EV/EBITDA	10.6	7.6	7.9	8.1	7.4	
EV/T (\$)	181	167	128	129	88	
RoCE (%)	15.6	21.6	19.5	18.1	17.6	
RoNW (%)	17.0	22.4	17.8	16.7	15.4	

**Exhibit 1: Variance Analysis**

	Q3FY20	Q3FY19	YoY(%)	Q2FY20	QoQ (%)	Comments
Total Operating Income	458	417	9.6	390	17.3	Topline growth entirely driven by volumes
Raw Material Expenses	99	67	47.5	91	9.1	
Employee Expenses	32	30	7.9	29	10.4	
Other Expenses	226	197	14.4	198	first	Domestic coal substituted by higher cost imported coal keeps other expense higher
EBITDA	100	123	-18.3	72	39.4	
EBITDA Margin (%)	22.0	29.5	-749 bps	18.5	349 bps	Decline in realisations and higher costs dent margins
Depreciation	23	26	-12.1	23	3.1	
Interest	3.8	2.6	47.5	0.8	398.5	
PBT	73.4	94	-21.8	49	50.6	
Total Tax	2	10	-78.4	3	-35.4	
Minority Interest	0.0	1.4	-99.4	7.2	NA	
PAT after MI	71.2	82	-13.4	38	86.6	Lower operational profits flow down to PAT reduction

**Key Metrics**

Volume (MT)	0.8	0.7	14.8	0.6	27.5	Lower clinker sales and flattish cement sales cause volume decline
Realisation (₹)	6,086	6,374	-4.5	6,613	-8.0	Stable prices keep realisations flat
EBITDA per Tonne (₹)	1,336	1,877	-28.8	1,222	9.4	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue*	1,881.1	1,901.4	1.1	2,135.8	2,263.6	6.0	Higher volumes led by ramping up of Siliguri unit to drive revenues higher
EBITDA	433.2	443.1	2.3	518.8	488.3	-5.9	
EBITDA Margin (%)	23.0	23.3	27 bps	24.3	21.6	-272 bps	
PAT	281.5	303.5	7.8	342.9	321.8	-6.2	
EPS (₹)	6.8	7.4	7.8	8.9	7.8	-12.3	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				Earlier			Comments
	FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Volume (MT)	2.80	2.61	2.86	2.98	3.53	2.96	3.28	FY21 growth to be led by Siliguri plant commissioning
Realisation (₹)	6,164	6,175	6,426	6,382	6,407	6,359	6,504	
EBITDA per Tonne (₹)	1,449	2,014	1,591	1,487	1,382	1,464	1,580	Profitability to reduce owing to lower capacity utilisation of new capacity

Source: Company, ICICI Direct Research

## Conference call Highlights

- Cement production for the quarter was at 6.49 LT during the quarter vs. 5.89 LT in Q3FY20. Cement sales increased from 6.4 LT to 7.19 LT
- On the regional sales front, out of the 7.29 LT sales, 5.33 LT cement was sold in North East with 1.87 LT sold in the eastern region; PPC continues to constitute >80% of sales
- On the pricing front, prices in the North East corrected by ₹ 12 per bag while in the eastern region the correction was much higher at ₹ 15-25 per bag. Prices, however, partly recovered in January and February
- The Siliguri plant is expected to get commissioned by Q1FY20. In relation to the plant, the company would be disbursing ~₹ 100 crore of the pending payments to contractors, with most of the capex being completed. The company has also applied for various clearances for setting up a clinker unit in Meghalaya. This, along with the WHRMS unit, would require the company to spend ~₹ 250 crore in FY21E. The Meghalaya plant is expected to start operations in 2023
- On the demand front, the management expects FY20E to end with high single digit growth in the North East and mid-single digit growth in the East. For FY21E, 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 lead distance front, in the initial period of operations of the Siliguri plant, the company may go up to 400-500 km; once the consolidation of sales happens, the lead distance would reduce
- For FY20E, expect EBITDA/t of ₹ 1500-1550 per tonne

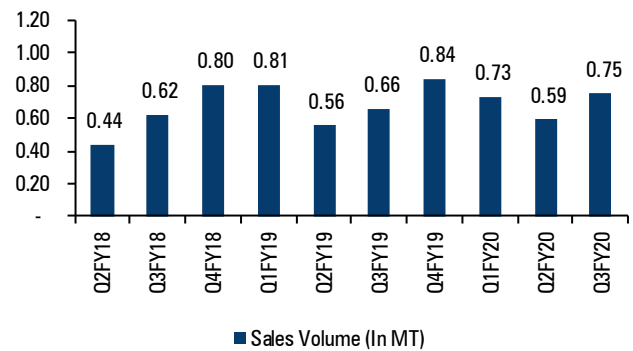
## Financial story in charts

Exhibit 4: Capacity addition plans

	Cement	Clinker	Timelines
Current	4.4	2.6	
<b>Ongoing addition:</b>			
Clinker debottlenecking		0.4	FY21E
Cement grinding unit (Siliguri)	2		Jan-20
<b>Total Cement Capacity</b>	<b>6.4</b>	<b>3</b>	

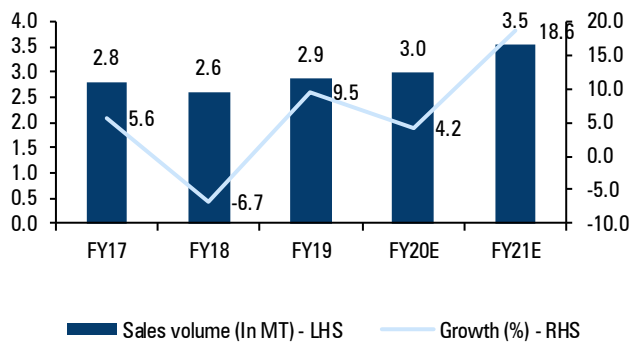
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly sales trend – Volumes up 14.8% YoY



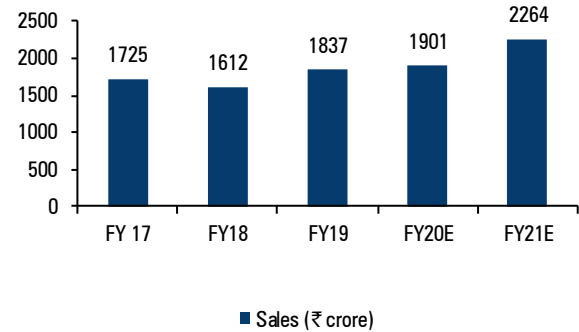
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to witness 11.2% CAGR over FY19-21E



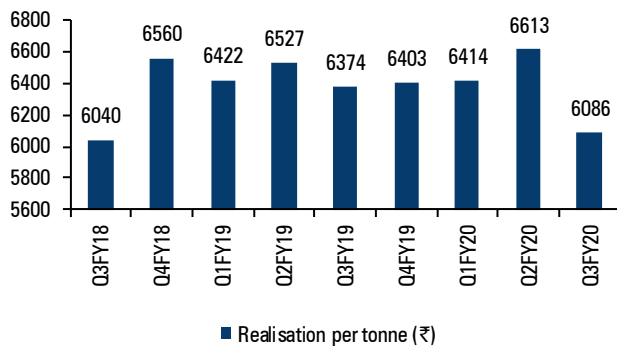
Source: Company, ICICI Direct Research

Exhibit 7: Revenues to grow at 10.7% CAGR over FY19-21E



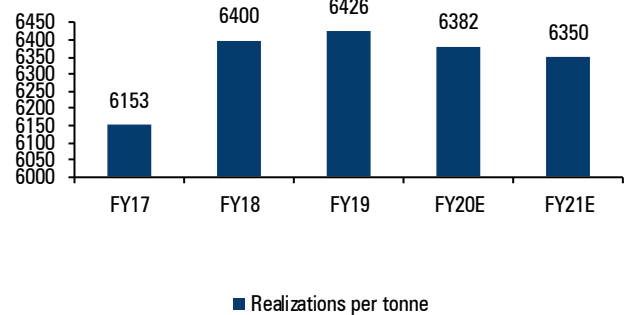
Source: Company, ICICI Direct Research

Exhibit 8: Realisations/t decline 4.5% YoY



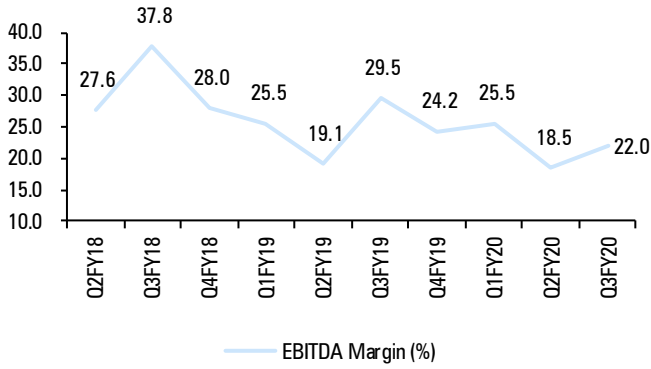
Source: Company, ICICI Direct Research

Exhibit 9: Realisations to reduce with higher sales in East



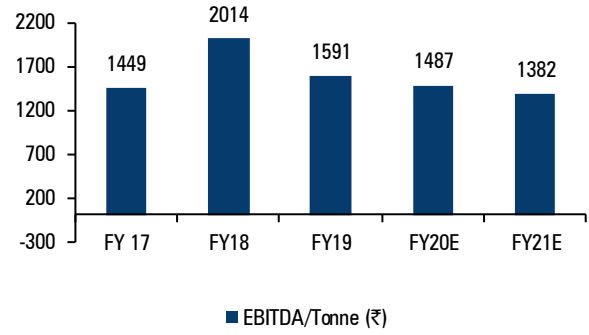
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins contract 750 bps YoY



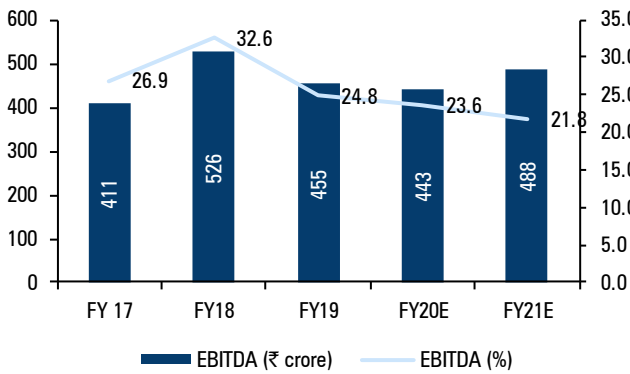
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to stabilise decline gradually till FY21E



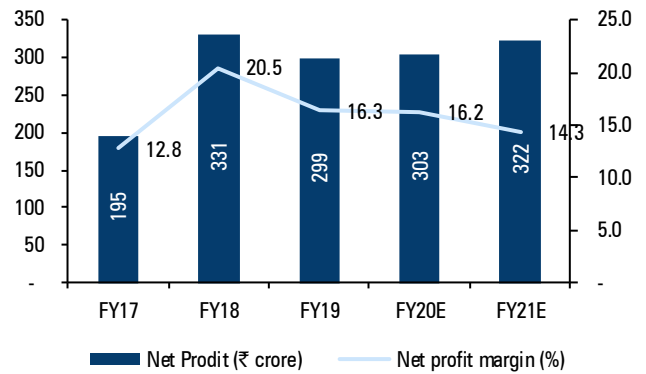
Source: Company, ICICI Direct Research

Exhibit 12: Operating margins to decline 200 bps over FY19-21E owing to Siliguri operations



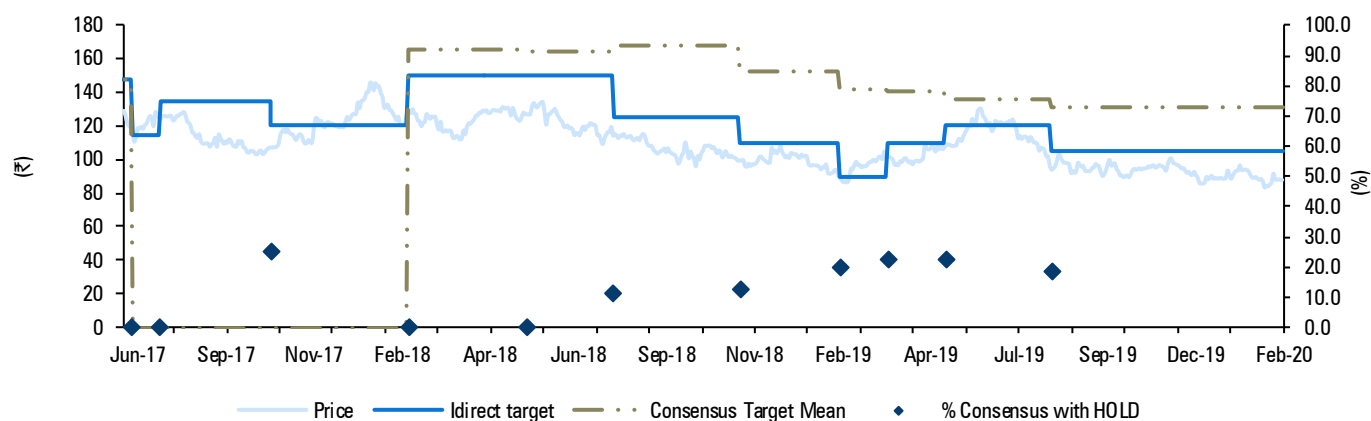
Source: Company, ICICI Direct Research

Exhibit 13: PAT to grow at 3.8% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Bhajanka Saijan	30-Jun-19	1147%	47.3	0.00
2	Bhajanka Prem Kumar	30-Jun-19	927%	38.2	0.00
3	Sbi Funds Management	31-Dec-19	594%	24.5	-0.14
4	Chamaria Rajendra	30-Jun-19	569%	23.5	23.45
5	Chamaria Rajendra	5-Jun-19	489%	20.2	-0.08
6	Agarwal Divya	30-Jun-19	467%	19.3	0.00
7	Bhajanka Santosh	30-Jun-19	445%	18.4	0.00
8	Agarwal Sanjay	30-Jun-19	419%	17.3	0.00
9	Agarwal Subham	30-Jun-19	378%	15.6	1.21
10	Agarwal Brij Bhusan	30-Jun-19	269%	11.1	0.00

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)	FY18	FY19P	FY20E	FY21E
<b>Total operating Income</b>	<b>1,618.9</b>	<b>1,836.5</b>	<b>1,901.4</b>	<b>2,263.6</b>
Growth (%)	5.8	13.4	3.5	19.0
Raw material cost	269.7	425.5	418.0	512.3
Inc/dec in stock	0.0	0.0	0.0	0.0
Employees cost	107.4	116.4	121.3	139.5
Others	716.1	840.0	919.0	1123.5
Total Operating Exp.	1,093.2	1,381.9	1,458.3	1,775.3
<b>EBITDA</b>	<b>525.7</b>	<b>454.6</b>	<b>443.1</b>	<b>488.3</b>
Growth (%)	28.0	-13.5	-2.5	10.2
Depreciation	120.7	105.6	92.2	113.4
Interest	52.5	14.4	9.0	6.4
Other Income	0.0	0.0	0.0	0.0
PBT	352.6	334.6	341.9	368.4
Total Tax	16.4	29.6	28.7	35.0
<b>PAT</b>	<b>330.7</b>	<b>298.8</b>	<b>303.5</b>	<b>321.8</b>
Growth (%)	69.7	-9.7	1.6	6.0
<b>Adjusted EPS (₹)</b>	<b>8.0</b>	<b>7.2</b>	<b>7.4</b>	<b>7.8</b>

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	41.9	41.9	41.2	41.2
Reserve and Surplus	1,435.2	1,632.1	1,770.9	2,042.9
Total Shareholders funds	1,477.1	1,674.1	1,812.1	2,084.2
Total Debt	331.7	51.3	51.3	51.3
Deferred Tax Liability	110.2	115.1	115.1	115.1
Minority Interest / Others	62.1	68.3	78.0	0.0
<b>Total Liabilities</b>	<b>1,981.1</b>	<b>1,908.8</b>	<b>2,056.5</b>	<b>2,250.6</b>
<b>Assets</b>				
Gross Block	1,829.0	1,872.2	2,122.2	2,297.2
Less: Acc Depreciation	1,044.5	1,150.2	1,242.4	1,355.8
Net Block	784.5	722.1	879.9	941.4
Capital WIP	35.7	74.3	110.0	140.0
Total Fixed Assets	820.3	796.4	989.9	1,081.4
Investments	1.4	1.7	1.7	1.7
Inventory	294.6	277.2	277.2	301.2
Debtors	146.5	143.8	148.9	166.0
Loans and Advances	978.3	591.3	562.1	673.1
Other Current Assets	244.7	274.9	281.1	291.7
Cash	19.8	161.6	141.1	149.3
Total Current Assets	1,683.8	1,448.7	1,410.4	1,581.2
Creditors	188.9	125.4	154.0	184.4
Provisions	335.9	213.1	191.9	229.8
Total Current Liabilities	524.8	338.5	346.0	414.2
Net Current Assets	1,159.0	1,110.3	1,064.5	1,167.0
Others Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,981.1</b>	<b>1,908.8</b>	<b>2,056.5</b>	<b>2,250.6</b>

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19P	FY20E	FY21E
Profit after Tax	330.7	298.8	303.5	321.8
Add: Depreciation	120.7	105.6	92.2	113.4
(Inc)/dec in Current Assets	-123.4	376.9	17.8	-162.6
Inc/(dec) in CL and Provisions	142.1	-172.0	16.5	74.7
<b>CF from operating activities</b>	<b>470.1</b>	<b>609.3</b>	<b>430.0</b>	<b>347.3</b>
(Inc)/dec in Investments	0.0	-0.3	0.0	0.0
(Inc)/dec in Fixed Assets	-22.8	-81.8	-285.7	-205.0
Others	-54.7	11.1	9.7	-78.0
<b>CF from investing activities</b>	<b>-77.5</b>	<b>-70.9</b>	<b>-276.0</b>	<b>-283.0</b>
Issue/(Buy back) of Equity	0.0	0.0	-0.7	0.0
Inc/(dec) in loan funds	-340.5	-280.4	0.0	0.0
Dividend paid & dividend tax	-50.6	-49.7	-49.7	-49.7
Inc/(dec) in Sec. premium	50.5	-52.1	-115.0	0.0
Others	-52.5	-14.4	-9.0	-6.4
<b>CF from financing activities</b>	<b>-393.0</b>	<b>-396.6</b>	<b>-174.4</b>	<b>-56.2</b>
Net Cash flow	-0.3	141.8	-20.5	8.2
Opening Cash	20.1	19.8	161.6	141.1
<b>Closing Cash</b>	<b>19.8</b>	<b>161.6</b>	<b>141.1</b>	<b>149.3</b>

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	FY18	FY19P	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	8.0	7.2	7.4	7.8
Cash EPS	10.9	9.8	9.6	10.6
BV	35.8	40.6	43.9	50.5
DPS	1.0	1.0	1.0	1.0
Cash Per Share	0.5	3.9	3.4	3.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	32.6	24.8	23.6	21.8
PBT / Total Operating income	21.8	18.3	18.2	16.4
PAT Margin	20.5	16.3	16.2	14.3
Inventory days	66.6	55.3	54.0	49.0
Debtor days	33.1	28.7	29.0	27.0
Creditor days	42.7	25.0	30.0	30.0
<b>Return Ratios (%)</b>				
RoE	22.4	17.8	16.7	15.4
RoCE	21.6	19.5	18.1	17.6
RoIC	21.0	20.9	19.4	19.1
<b>Valuation Ratios (x)</b>				
P/E	11.2	12.2	12.0	11.3
EV / EBITDA	7.6	7.9	8.1	7.4
EV / Net Sales	2.5	2.0	1.9	1.6
Market Cap / Sales	2.3	2.0	2.0	1.6
Price to Book Value	2.5	2.2	2.0	1.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.6	0.1	0.1	0.1
Debt / Equity	0.2	0.0	0.0	0.0
Current Ratio	3.2	4.3	4.1	3.8
Quick Ratio	2.6	3.5	3.3	3.8

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap		EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	
ACC*	1,454	1,640	HOLD	27,326	73	82	87	10.6	10.4	9.9	95	97	82	16.7	16.3	15.9	11.4	11.5	11.2	
Ambuja Cem*	207	190	HOLD	41,103	8.1	7.3	7.9	20.2	18.4	17.1	137	135	132	11.6	14.5	15.6	8.5	10.1	10.7	
UltraTech Cem	4,414	5,450	BUY	121,120	88	142	177	19.0	13.7	11.7	207	202	196	9.0	12.9	14.7	7.6	11.1	12.2	
Heidelberg Cem	207	220	HOLD	4,691	9.7	13.2	13.7	11.2	9.4	8.5	147	137	120	21.8	24.1	24.6	20.5	23.3	20.9	
India Cement	75	95	HOLD	2,304	2.2	9.3	7.2	9.2	6.5	6.7	59	64	61	4.5	6.4	6.6	1.3	5.2	4.0	
JK Cement	1,418	1,650	BUY	9,916	42.0	73.9	81.8	14.1	10.0	8.4	145	135	134	12.5	15.9	17.4	11.2	16.9	16.2	
JK Lakshmi Cem	356	425	BUY	4,190	6.8	22.2	26.8	13.1	7.5	6.3	63	60	57	5.2	15.0	15.4	5.2	15.0	15.4	
Mangalam Cem	283	300	BUY	755	-3.7	32.1	42.7	23.8	5.5	4.5	52	49	44	3.2	16.9	17.2	-2.0	14.6	16.3	
Star Cement	88	95	HOLD	3,689	7.2	7.4	7.8	7.9	8.1	7.4	128	129	88	19.5	18.1	17.6	17.8	16.7	15.4	
Ramco Cement	790	950	BUY	18,808	22.2	27.4	33.6	19.3	16.1	12.6	203	179	166	8.2	9.2	11.1	11.7	13.2	14.5	
Sagar Cement	520	640	BUY	1,144	6.2	16.5	32.7	10.8	9.3	8.1	51	51	56	6.4	7.4	9.1	1.6	3.8	6.5	

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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