

Star Cement Ltd.



CMP: 140

Future Star of the Cement Sector

BUY

Nifty	10,505
Sensex	33,970
Nifty PE	26.86
Sensex PE	25.25

Stock Data

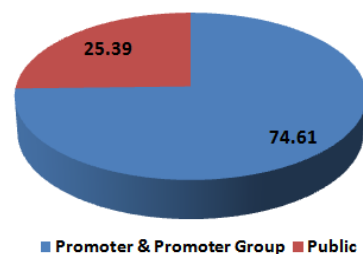
Sector	Cement
BSE Code	540575
NSE Code	STARCEMENT
FV	1
Market Cap (Rs. Cr)	5,896
Market Cap (US\$ mn)	929
Equity Share Cap.	42

Stock Performance (%)

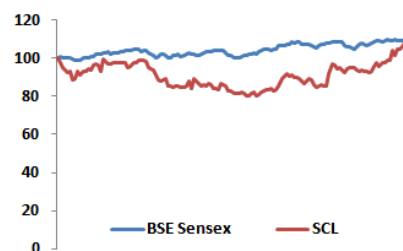
52-week high/low Rs. 146/104

	1M	6M	12M
Absolute (%)	13.61	16.14	NA

Shareholding Pattern (%)



Sensex and Stock movement

4th January, 2018

➤ **Star Cement Ltd. (SCL)**, headed by Mr. Sajjan Bhajanka (CMD), is the market leader and the largest producer of cement in the North East India (market share ~24%) on the back of high quality cement and fair pricing. The company's product range comprises of **Ordinary Portland Cement (43 and 53 grades), Portland Pozzolana Cement Part-I fly ash-based, Portland Pozzolana Cement Part-II and Portland Slag Cement.**

➤ **SCL**, with a capacity utilization of 68%, has a total installed cement capacity of 4.4 MMTPA across 4 units in Meghalaya (1.67 MMTPA cement and 2.6 MMTPA clinker), 1 unit in Assam (2.0 MMTPA cement) and 3 outsourced units in West Bengal (0.7 MMTPA cement). **The company has planned an investment of Rs. 1000 Crs towards capacity expansions**, by hiking up its cement manufacturing capacity to 6 MMTPA and clinker manufacturing capacity to 5 MMTPA in the next three years.

➤ **SCL is a very cost competitive company** with its manufacturing plants located near key resources of limestone, high quality coal (mines located within 2-3 kms from factory); **providing the company with easy accessibility and uninterrupted supply of raw material, along with lower freight resulting in better operational efficiency.** These captive mines are home to high quality limestone having calcium oxide content greater than 49% (higher than rest of India) and limestone reserves of more than 80 years.

➤ **The company's enjoys locational advantage of being near to its key markets** located in the North East (West Bengal, Bihar and Jharkhand etc.), thereby saving freight costs. **The company services its marquee clients like L&T, NHPC, Public Works Department, Indian Railways and the Minsitry of Defence.** SCL's extensive distribution network is spread across 11 states in Eastern India, comprising of more than 2700 dealers (192 dealers in West Bengal and 149 dealers across the Bihar and Jharkhand) and 9300 retailers.

➤ **SCL, being strategically located in the North East Region, enjoys a host of fiscal benefits** like excise duty refund, VAT remission, freight subsidy, capital investment subsidy, central sales tax, etc **over other cement players**, thereby resulting in enhanced profitability. **The company expects to receive subsidies worth Rs. 150 -200 Crs in Q2FY18 and ~ Rs. 300 Crs for the remaining of FY18**, which will be utilized towards debt reduction.

➤ **SCL with its intense focus on operational excellence, posted a robust performance during Q1FY18.** The revenues rose by 10.5% to Rs. 451 Crs. (Rs. 408 Crs. in Q1FY17) while **EBITDA zoomed 72.8% to Rs. 159 Crs.** (Rs. 92 Crs. in Q1FY17) and **EBITDA margin improved by a whopping 1200 bps to 35%** (23% in Q1FY17). **The company clocked an EBITDA/Tonne of Rs. 2,240 in Q1FY18, being the highest in the industry. PAT grew by a whopping 200% to Rs. 110 Crs.** (Rs. 37 Crs. in Q1FY17) on an equity base of Rs. 42 Crs.

➤ **With SCL's formidable brand equity and demand surge, the company is confident that FY18 will emerge as a watershed in their existence.** SCL's stock is currently quoted at Rs. 140, MCAP of around Rs. 5880 Crs, **with a modest P/E of 13.5x** (industry average PE of 42x), its FY18 estimated EPS of 12, making it an attractive buy for all investors with a medium to long term horizon of 12 – 24 months.

Financials:

INR crs	Q1FY18	Q1FY17	YoY (%)	FY17	FY16	YoY (%)
Total Income	451	408	↑ 10.5%	1728	1715	↑ 0.8%
EBITDA	159	92	↑ 72.8%	411	401	↑ 2.5%
PAT	110	37	↑197.3%	172	134	↑28.4%
EPS	2.6	0.8		4.1	3.2	
Eq Cap (FV-Rs. 1)				42	42	
Reserves				1186	1013	

Source: BSE

I) SCL - Company Profile

- **Star Cement Ltd. (SCL), headed by Mr. Sajjan Bhajanka (CMD), is the market leader and the largest producer of cement in the North East India (market share ~24%) on the back of high quality cement and fair pricing. The company's product range comprises of Ordinary Portland Cement (43 and 53 grades), Portland Pozzolana Cement Part-I fly ash-based, Portland Pozzolana Cement Part-II and Portland Slag Cement.**
- **SCL, with a capacity utilization of 68%, has a total installed cement capacity of 4.4 MMTPA across 4 units in Meghalaya (1.67 MMTPA cement and 2.6 MMTPA clinker), 1 unit in Assam (2.0 MMTPA cement) and 3 outsourced units in West Bengal (0.7 MMTPA cement). The company has planned an investment of Rs. 1000 Crs towards capacity expansions by FY18-19, by hiking up its cement manufacturing capacity to 6 MMTPA (1.5 - 2 MTPA cement grinding unit in West Bengal) and clinker manufacturing capacity to 5 MMTPA (double its clinker manufacturing capacity in Meghalaya) in the next three years due to improved demand in North East Region and abundance in supply of fly ash.**
- **SCL is a very cost competitive company with its manufacturing plants located near key resources of limestone, high quality coal (mines located within 2-3 kms from factory); providing the company with easy accessibility and uninterrupted supply of raw material, along with lower freight resulting in better operational efficiency. These captive mines are home to high quality limestone having calcium oxide content greater than 49% (higher than rest of India) and limestone reserves of more than 80 years.**
- **The company's enjoys locational advantage of being near to its key markets located in the North East (West Bengal, Bihar and Jharkhand etc.), thereby saving freight costs. The company services its marquee clients like L&T, NHPC, Public Works Department, Indian Railways and the Ministry of Defence. SCL's extensive distribution network is spread across 11 states in Eastern India, comprising of more than 2700 dealers (192 dealers in West Bengal and 149 dealers across the Bihar and Jharkhand) and 9300 retailers.**

II) SCL - Growth Drivers

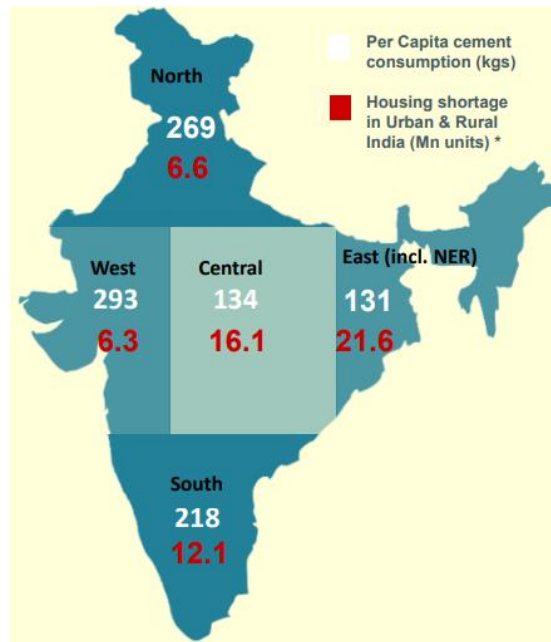
1) Central government impetus to North East India

- **The growth in North East India cement sector is expected to be driven by the central government's renewed focus on infrastructural development. The central government has taken dedicated steps towards improvement of road infrastructure (national highway development programme), augmentation of air connectivity and expansion of rail network, to boost connectivity across the seven states of North East India.**
- **The development of North East India is an important pivot of India's Act East policy and North East region is located at crossroads between three major economies – East Asia, South Asia and Southeast Asia.**

2) Rise in per capita consumption to augment cement demand

- **The per capita cement consumption in Eastern India is only 131 kgs as compared to 210 kgs per capita consumption in India and 580 kgs global average. This offers SCL a huge potential to grow further with growth in cement consumption in India.**

NER Five Year Plans	2012 - 2017	2017 - 2022
NER GDP Growth	13.70%	16.40%
NER Per Capita Growth	12.40%	15.20%



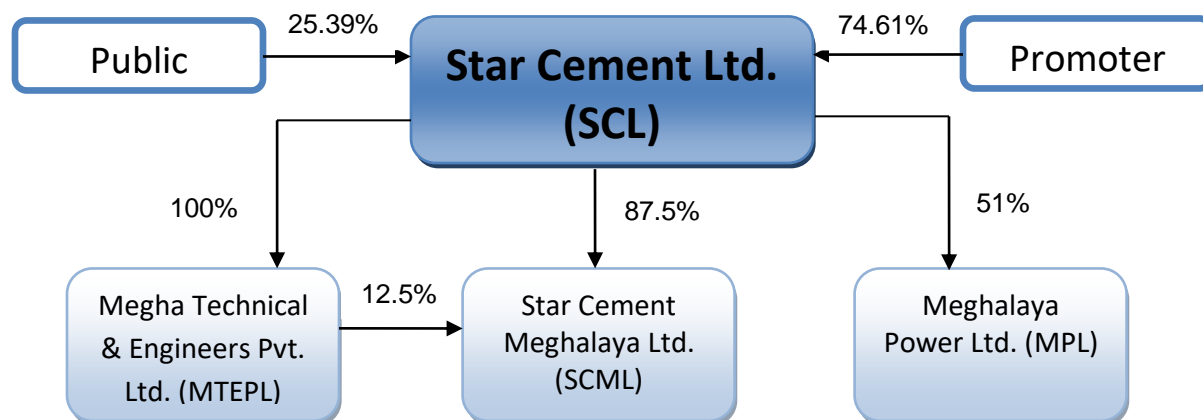
3) Housing for All – A boon for the Cement Industry

- **The government’s allocation of a sum of US\$3.42 bn towards “Housing for All by 2022” scheme to build 600 districts in West Bengal and Bihar** will lead to fresh development and redevelopment of residential properties thereby increasing the cement offtake in Eastern India.
- **The country has a housing shortage of 63 mn units out of which 21.6 mn units are in North Eastern India alone.**
- **The governments provision of interest subsidy for low cost housing and first time home buyers** will boost purchases in the real estate sector thereby enhancing cement requirement.

4) Market Leader in the North East

- **SCL enjoys the highest volume growth in North Eastern India** with adequate capacities likely to translate into **10-15% growth over the next two years**. Thus the company is prepared to match up to the surging cement demand with no major North East cement company’s capacities expected.
- **The entire cement industry is projected to grow at 7-8 % p.a.** whereas the **cement production in the Eastern regions is expected to grow at a CAGR of 9-10% in the next 5 years** (previous 5 year CAGR of 7.1%). On the back of improved cement demand and enhanced capacity utilization, **the country’s pan-India cement producers (except North East) are expected to add 50 MMTPA capacity by FY18 to the already existing cement capacity of 409 MMTPA.**
- **With the company being strategically located near to its key markets** and the rising cement demand arriving from the North East region, **SCL will prove to be the greatest beneficiary commanding more than 24% market share in that region.**

III) SCL - Star Bandwidth



IV) SCL - Financial Incentives

	Exemption	Balance Exemption period**	
		SCML	SCL-GGU
Income Tax	100% under Section 80 IE, subject to MAT	5 years	5 years
Excise Duty on			
Clinker	75%	6 years ~	-
Cement	75%/36% ^	-	^6 years ~
Central Sales Tax	99%	3years ~	-
VAT	99% ^^	3years ~	Rs 138 Crs ~/ 3 years
Freight Subsidy			
Inward			
Within NER*	90%	-	-
Outside NER	90%	-	-
Outward		1 year	1 year
Within NER*	50%		
Outside NER	90%		
Capital Investment Subsidy	30% of Investment in Plant & Machinery	One time	One time

^^At GGU unit, VAT exemption is 99% up to 200% of FCI

^ 75% for integrated units and 36% for standalone grinding units.

*Freight subsidies are not available for intra-state movements.

** As on 31.03.2017.

SCL, being strategically located in the North East Region, enjoys a host of fiscal benefits like excise duty refund, VAT remission, freight subsidy, capital investment subsidy, central sales tax, etc over other cement players, thereby resulting in enhanced profitability. The company expects to receive subsidies worth Rs. 150 -200 Crs in Q2FY18 and ~ Rs. 300 Crs for the remaining of FY18, which will be utilized towards debt reduction. The company is eligible for outward freight subsidy only for this year.

VI) SCL - Peer Comparison

Particulars (In Rs. Crs) (FY17)	SCL (Conso l) FV - Rs. 1	JK Cement (Consol) FV - Rs. 10	JK Lakshmi (Consol) FV - Rs. 5	Deccan FV - Rs. 5	Dalmia (Consol) FV - Rs. 2	Heidelberg FV - Rs. 10	OCL (Consol) FV - Rs. 2	Shree Cement (Consol) FV - Rs. 10	Ultratech (Consol) FV - Rs. 10	India Cements (Consol) FV - Rs. 10	Ambuja (FY16 Consol) FV - Rs. 2	ACC (FY16 Consol) FV - Rs. 10
Capacity (MM TPA)	4.4	15.4	10.9	15.4	25.0	5.4	6.7	29.3	66.3	15.6	29.7	33.4
Production (MMT)	2.7	10.3	8.6	9.2	15.0	4.4	5.4	22.6	47.7	10.9	21.1	24.4
Utilisation	61.0%	67.0%	79.0%	60.0%	60.0%	82.3%	80.0%	77.0%	72.0%	70.0%	71.0%	73.0%
Total Income	1,728	4,745	3,414	650	8,647	2,026	3,485	10,004	29,294	5,880	20,344	12,646
EBITDA	411	522	250	95	1,311	213	678	2,745	5,220	908	3,119	1,523
PBT	192	286	80	21	708	114	527	1,531	3,872	252	1,995	885
PAT	172	227	87	47	345	76	381	1,339	2,714	151	1,121	658
EPS (Rs.)	4	32	7	67	39	3	67	384	99	5	6	35
Equity Capital	42	70	59	7	18	227	11	35	275	308	397	188
Reserves	1186	1759	1342	320	4947	735	2358	7663	24117	4867	19148	9029
Networth	1228	1829	1401	327	4965	962	2370	7698	24392	5175	19545	9217
Long Term Debt	501	2906	2106	26	6249	428	1011	519	6371	308	24	0
CMP (Rs.)	140	1124	446	602	3103	164	1458	18059	4341	190	274	1799
MCAP	5880	7860	5249	843	27601	3717	8296	62918	119165	5855	54407	33819
Ratios												
EBITDA (%)	24%	11%	7%	15%	15%	11%	19%	27%	18%	15%	15%	12%
PAT (%)	10%	5%	3%	7%	4%	4%	11%	13%	9%	3%	6%	5%
BVPS (Rs.)	29	262	119	234	558	42	416	2210	889	168	98	490
P/E	28	31	60	9	79	45	22	49	44	35	50	51
P/BV	4	4	4	2	5	4	3	9	5	1	3	4
MCAP/Sales	3	2	2	1	3	2	2	6	4	1	3	3
MCAP/EBITDA	14	15	21	9	21	17	12	23	23	6	17	22
EBITDA/Production (Tonne)	1459	506	291	103	874	479	1265	1217	1094	834	1482	624
MCAP/Capacity (Tonne)	13364	5104	4816	547	11040	6883	12382	21474	17974	3765	18350	10123

- **With SCL's EBITDA/Tonne of Rs. 1,459 in FY17, on the back of higher trade sales, the company is highly efficient and competent amongst its peers and is poised to become the fastest growing cement company in Eastern India due to its continuous upgradation for efficiency and cost cutting measures (asset-light model – hired units in West Bengal instead of commissioning greenfield facilities).**

- **The company's EBITDA Margin at 24% is highest amongst its peers** and PAT Margin at 10% is also significantly higher. **Further, SCL with its sizeable operating leverage**, is expected to consolidate its presence in the North Eastern region by widening its tehsil-wise and panchayat-wise presence thereby opening demand pockets that were hitherto untapped.
- **The cement companies in the North East Region pay a higher amount per tonne for limestone as compared to SCL**, as SCL has limestone reserves which will last for more than 80 years. Thus, the increased per tonne price of limestone is expected to pull the cement prices higher, thereby adding more margins to the profitability of SCL. **Currently, the realization has averaged out to Rs. 330 per bag in the North East Region and the prices are expected to improve further to Rs. 450 per bag.**

V) SCL – Financials

Particulars (In Rs. Crs)	Q1FY18	FY17	FY16	FY15	FY14
Total Income	451	1728	1715	1430	1028
EBITDA	159	411	401	437	237
EBITDA (%)	35%	24%	23%	31%	23%
PBT	113	192	145	126	(5)
PAT	110	172	134	119	(4)
PAT (%)	24%	10%	8%	8%	0%
EPS (Rs.)	3	4	3	3	(0)
Equity Capital (FV - Rs. 1)	42	42	42	42	42
Reserves		1186	1013	879	801
Networth		1228	1055	921	843
Long Term Debt		501	575	691	794

- **SCL with its intense focus on operational excellence, posted a robust performance during Q1FY18. The revenues rose by 10.5% to Rs. 451 Crs. (Rs. 408 Crs. in Q1FY17) while EBITDA zoomed 72.8% to Rs. 159 Crs. (Rs. 92 Crs. in Q1FY17) and EBITDA margin improved by a whopping 1200 bps to 35% (23% in Q1FY17). The company clocked an EBITDA/Tonne of Rs. 2,240 in Q1FY18, being the highest in the industry. PAT grew by a whopping 200% to Rs. 110 Crs. (Rs. 37 Crs. in Q1FY17) on an equity base of Rs. 42 Crs.**
- **The revenues of the company grew at a CAGR of 19% over the last 3 years to Rs. 1,728 Crs in FY17 Vs Rs. 1,028 Crs in FY14 while EBITDA grew at a CAGR of 20% from Rs. 411 Crs in FY17 to Rs. 237 Crs in FY14. ROCE improved by 830 basis points from 4% in FY13 to 12.3% in FY17.**
- **The company performed considerably well to match the volumes of the previous year, even though FY17 was marked by macroeconomic disruptions that affected consumption to result in lower offtake, alongwith the second half of the year experiencing unforeseen demonetization thereby impacting liquidity.**
- **The company achieved a production of 2.7 MMT in FY17 which it expects, will rise by 10-12% in FY18. The offtake sales have started picking up in November 2017 after Q2FY18 sales were 15-20% down due to heavy rains and flooding in the North East Region and GST.**
- **In FY18, the company expects topline to rise to Rs. 1,900 Crs, EBITDA to Rs. 480 Crs and PAT to Rs. 250 Crs and in FY19, the company expects the topline at Rs. 2,200 Crs with EBITDA and PAT flat due to non-availability of subsidy in FY19.**

VII) Recommendations and Valuations

- **SCL, being strategically located in the North East Region, enjoys a host of fiscal benefits** like excise duty refund, VAT remission, freight subsidy, capital investment subsidy, central sales tax, etc **over other cement players**, thereby resulting in enhanced profitability. **The company expects to receive subsidies worth Rs. 150 - 200 Crs in Q2FY18 and ~ Rs. 300 Crs for the remaining of FY18**, which will be utilized towards debt reduction.
- **With SCL's EBITDA/Tonne of Rs. 1,459 in FY17**, on the back of higher trade sales, **the company is highly efficient and competent amongst its peers and is poised to become the fastest growing cement company in Eastern India due to its continuous upgradation for efficiency and cost cutting measures** (asset-light model – hired units in West Bengal instead of commissioning greenfield facilities). The company achieved a production of 2.7 MMT in FY17 which it expects, will rise by 10-12% in FY18.
- **The company's EBITDA Margin at 24% is highest amongst its peers** and PAT Margin at 10% is also significantly higher. **Further, SCL with its sizeable operating leverage**, is expected to consolidate its presence in the North Eastern region by widening its tehsil-wise and panchayat-wise presence thereby opening demand pockets that were hitherto untapped.
- **The cement companies in the North East Region pay a higher amount per tonne for limestone as compared to SCL**, as SCL has limestone reserves which will last for more than 80 years. Thus, the increased per tonne price of limestone is expected to pull the cement prices higher, thereby adding more margins to the profitability of SCL.
- **In FY18, the company expects topline to rise to Rs. 1,900 Crs, EBITDA to Rs. 480 Crs and PAT to Rs. 250 Crs** and in **FY19, the company expects the topline at Rs. 2,200 Crs with EBITDA and PAT flat** due to non-availability of subsidy in FY19.
- **The entire cement industry is projected to grow at 7-8 % p.a.** whereas the **cement production in the Eastern regions is expected to grow at a CAGR of 9-10% in the next 5 years** (previous 5 year CAGR of 7.1%). **SCL, enjoys the highest volume growth in North Eastern region** with adequate capacities likely to translate into **10-15% growth over the next two years**. Thus the company is prepared to match up to the surging cement demand with no major North East cement company's capacities expected.
- Additionally, **the per capita cement consumption in Eastern India is only 131 kgs** as compared to 210 kgs per capita consumption in India and 580 kgs global average. This offers SCL a huge potential **to grow further with growth in cement consumption in India**.
- **With SCL's formidable brand equity and demand surge, the company is confident that FY18 will emerge as a watershed in their existence**. SCL's stock is currently quoted at Rs. 140, MCAP of around Rs. 5880 Crs, **with a modest P/E of 13.5x** (industry average PE of 42x), **its FY18 estimated EPS of 12, making it an attractive buy for all investors with a medium to long term horizon of 12 – 24 months**.

“Star Cement to propel the Eastern Cement Industry”

Disclosures and Disclaimers:

This report has been prepared and issued by NVS Wealth Managers Pvt. Ltd. "SEBI registered Investment Advisers".


NVS Wealth Managers (NVS) is a subsidiary of NVS Brokerage Pvt. Ltd. (Stock Broking member of BSE & NSE, registered with SEBI). This report is prepared and distributed by NVS for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by NVS to be valid when published. The report also contains information provided to NVS by third parties. The source of such information will usually be disclosed in the report. Whilst NVS has taken all reasonable steps to ensure that this information is correct, NVS does not offer any warranty as to the accuracy or completeness of such information. The ownership of any investment decision(s) shall exclusively vest with the investor after analyzing all possible risk factors and by exercise of his/her its independent discretion & NVS shall not be liable or held liable for any consequences thereof. Prices are subject to market risks which may result in appreciation or depreciation of investments. Past performance is not necessarily indicative of future results.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own conclusion regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. The reports issued from NVS are non-discretionary and non-participation basis. In no circumstances it is to be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the reports may have been taken from trade and statistical services and other sources, which we believe are reliable. NVS or any of its group/associate/affiliate companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice.

Important: These disclosures and disclaimers must be read in conjunction with the report of which it forms part. Receipt and use of the report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this report is available on request.

Certifications: The analyst(s) who prepared this report hereby certifies that the views expressed in this report accurately reflect the analyst's personal views about all of the subject issuers and/or securities, that the analyst/entity/associate have no known material conflict of interest, no financial interest and no part of the analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this report. The analyst has not served as an officer, director or employee of the subject company. The analyst and related parties have not dealt in shares of the subject company before 30 days of the report being made public and will not deal for the next 5 days, as per SEBI (Research Analyst) Regulations, 2014.

Independence: NVS has established information barriers between Research & other business groups. As a result NVS does not disclose certain client relationships with or compensation received from, subject issuers in these reports. NVS has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and NVS does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The analyst/entity or its associates have not received any compensation for products or services other than investment banking or



merchant banking or brokerage services from the subject company in the past twelve months. The analyst/ entity has not managed or co-managed public offering of securities for the subject company in the past twelve months.

The analyst or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the report. The subject company is not and was not a client during twelve months preceding the date of distribution of the report.

The analyst or NVS is not a market maker in the securities mentioned in this report, although it or its affiliates may hold either long or short positions in such securities. NVS or the analysts do not hold more than 1% of the shares of the company (ies) covered in this report at any time immediately preceding the date of publication of the report. However, NVS, associate companies and their clients might be holding this stock in their personal capacities.

Suitability and Risks: This report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. . It is therefore important carefully/personally review your entire investment portfolio to ensure that it meets your investment goals and is well within your risk tolerance, including your objectives for asset and issuer diversification.

The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that NVS and the analyst believe to be reliable, but neither NVS nor the analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice. Furthermore, NVS is under no obligation to update or keep the information current.

Copyright: The copyright in this report belongs exclusively to NVS. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without NVS's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

Method: We have not rated the stock.

Rating Scale: This is a guide to the rating system used by our team. Our rating system comprises six rating categories, with a corresponding risk rating.

Contact Details:

**Corporate Office Address: 702, Embassy Centre, Nariman Point,
Mumbai – 400 021 • Tel.:+91 22 6631 5511/12,
Fax: +91 22 61539134 • Email: info@nvswealthmanagers.com
Website: www.nvswealthmanagers.com**