

18 August 2024

## Star Cement

*One-off expenses curtailed profitability, maintaining a Buy*

Rating: **Buy**

Target Price (12-mth): Rs.279

Share Price: Rs.212

While it continues to gain market share in the north-east, Star Cement's Q1 operating performance was hit by one-time expenses. On the elections, monsoon, etc., FY25 volume guidance was lowered, but EBITDA/tonne guidance was maintained on higher incentives, further optimised operational cost, rising RE share, etc. We maintain our Buy rating, at a higher 12-mth TP of Rs279 (earlier Rs275), 13x FY26e EV/EBITDA.

**NE market-share gain.** While demand in the north-east fell 8% y/y, Star Cement's NE volumes grew 2% y/y, implying market-share gains. Its volumes outside the NE fell 8% y/y, leading to its overall volumes slipping 1% y/y to 1.15m tonnes. With realisations down 0.4% y/y, revenue slipped 1.2% y/y to Rs7.5bn. Post-Jun'24, cement prices further fell by Rs12/bag. While the monsoon would further impact Q2, volume growth guidance was lowered, from 18-20% for FY25 to 15% for 9M FY25.

**One-time expense curbed operating performance.** A Rs400m one-off expense (clinker purchase ~300m, political donation ~Rs60m, project-related expense ~Rs40m) and higher manpower costs on capacity commissioned led to EBITDA declining 10.2% y/y to Rs1161m and EBITDA/tonne 9.4% y/y to Rs1,006. However, the EBITDA/tonne guidance for FY25 was retained at Rs1,550 aided by higher SGST benefits, stable fuel cost, rising share of green energy, optimising staff costs, BTAP rake use, etc.

**Business outlook, Valuation.** The ongoing 2m-tonne Silchar GU expansion would begin in Q3 FY26, and 2m tonnes at the Jorhat GU by Q3 FY27. With 7.7m/6.1m tonnes cement/clinker capacity now, Star plans 12m tonnes cement capacity in the NE/east and 4m-5m tonnes in 3-4 years in Rajasthan, where it is acquiring mines (Jaisalmer/Nagore). The AAC block unit would begin by Oct'24 and generate Rs800m revenue with 20% EBITDA margins. We expect 14/12/27% revenue/volume/EBITDA CAGRs over FY24-26. We retain our Buy, at a higher 12-mth TP of Rs279. **Risks:** Rising operational costs, demand slowdown.

Key Financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	22,218	27,048	29,107	32,313	37,566
Net profit (Rs m)	2,468	2,476	2,951	3,675	4,383
EPS (Rs)	6.1	6.1	7.3	9.1	10.8
P/E (x)	14.7	18.2	31.0	23.3	19.6
EV / EBITDA (x)	8.9	8.7	16.5	12.6	10.0
EV / tonne (\$)	68.5	89.5	143.6	139.8	110.7
RoE (%)	11.6	10.8	11.5	12.7	13.3
RoCE (%)	12.6	11.1	12.0	12.2	12.3
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	-0.3	-0.2	0.0	0.1	0.1

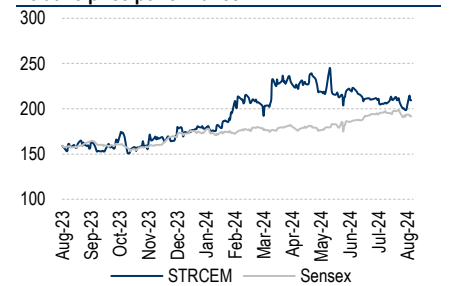
Source: Company, Anand Rathi Research

Key data	STRCEM IN
52-week high / low	Rs256 / 147
Sensex / Nifty	80437 / 24541
3-m average volume	\$2.1m
Market cap	Rs86bn / \$1020.6m
Shares outstanding	404m

Shareholding pattern (%)	Jun-24	Mar-24	Dec-23
Promoters	66.5	66.6	66.5
- of which, Pledged	0.1	0.1	0.0
Free float	33.5	33.4	33.5
- Foreign institutions	1.6	1.5	1.1
- Domestic institutions	5.1	6.1	6.1
- Public	26.9	25.8	26.4

Estimates revision (%)	FY25e	FY26e
Sales	0.3	(0.7)
EBITDA	(0.6)	1.6
PAT	6.5	9.3

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

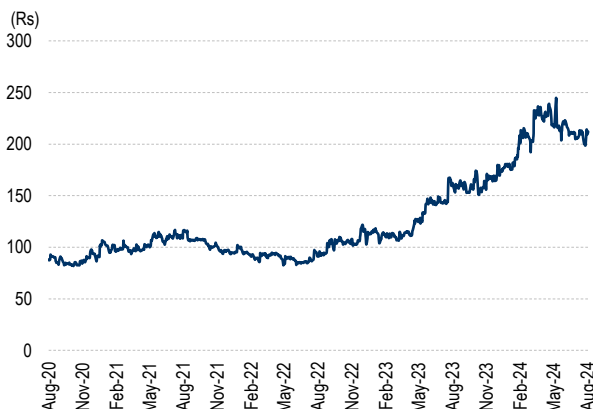
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Sales volumes (m tonnes)	3.4	4.0	4.4	5.0	5.8
Net revenues	22,218	27,048	29,107	32,313	37,566
Growth (%)	29.2	21.7	7.6	11.0	16.3
Direct costs	14,179.5	16,731.1	17,760.5	18,731.2	21,157.4
SG&A	4,586	5,633	5,783	6,492	7,489
<b>EBITDA</b>	<b>3,453</b>	<b>4,684</b>	<b>5,563</b>	<b>7,090</b>	<b>8,920</b>
EBITDA margins (%)	15.5	17.3	19.1	21.9	23.7
- Depreciation	1,216	1,311	1,466	2,249	3,028
Other income	334	521	265	323	376
Interest expenses	133	97	126	264	424
PBT	2,437	3,797	4,236	4,900	5,844
Effective tax rates (%)	-1.28	34.78	30.33	25.00	25.00
+ Associates / (Minorities)	-	-	-	-	-
Net income	2,468	2,476	2,951	3,675	4,383
Adj. income	2,468	2,476	2,951	3,675	4,383
WANS	404	404	404	404	404
FDEPS (Rs)	6.1	6.1	7.3	9.1	10.8
FDEPS growth (%)	-2.0	0.3	19.2	24.5	19.3

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT (Adj. OI and interest)	2,236	3,373	4,097	4,841	5,892
+ Non-cash items	1,216	1,311	1,466	2,249	3,028
Oper. prof. before WC	3,453	4,684	5,563	7,090	8,920
- Incr. / (decr.) in WC	-1,199	-78	-1,646	1,052	479
Others incl. taxes	-31	1,321	1,285	1,225	1,461
Operating cash-flow	4,682	3,442	5,924	4,813	6,979
- Capex (tang. + intang.)	2,046	5,401	11,426	8,230	6,680
Free cash-flow	2,637	-1,960	-5,501	-3,417	299
Acquisitions					
- Div. (incl. buyback & taxes)	1,246	-	-	-	-
+ Equity raised	-	-	-	-	-
+ Debt raised	-99	207	1,037	4,000	-
- Fin investments	1,656	53	-1,706	-	-
- Misc. (CFI + CFF)	506	-1,076	-615	-59	48
Net cash-flow	-871	-729	-2,144	642	251

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

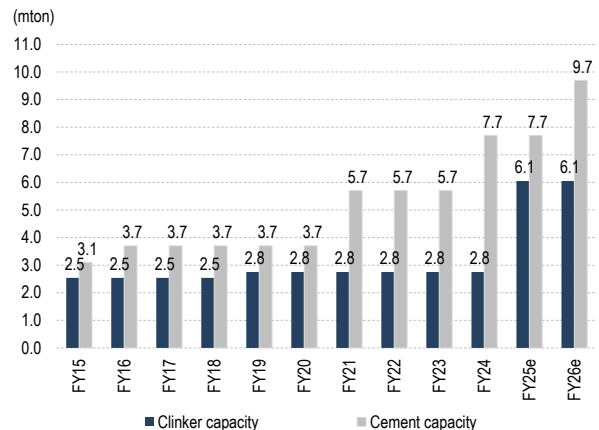
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	404	404	404	404	404
Net worth	21,684	24,164	27,101	30,776	35,159
Debt	54	261	1,298	5,298	5,298
Minority interest	-	-	-	-	-
DTL / (Assets)	-3,539	-2,890	-2,401	-2,401	-2,401
<b>Capital employed</b>	<b>18,199</b>	<b>21,534</b>	<b>25,999</b>	<b>33,674</b>	<b>38,056</b>
Net tangible assets	9,083	8,733	13,964	26,661	30,313
Net intangible assets	152	177	195	195	195
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,091	5,506	10,216	3,500	3,500
Investments (strategic)	18	19	20	20	20
Investments (financial)	1,655	1,707	-	-	-
Current assets (excl. cash)	8,067	9,165	8,254	10,004	11,836
Cash	3,847	3,117	973	1,616	1,867
Current liabilities	5,713	6,889	7,624	8,322	9,675
Working capital	2,354	2,276	630	1,682	2,161
<b>Capital deployed</b>	<b>18,199</b>	<b>21,534</b>	<b>25,999</b>	<b>33,674</b>	<b>38,056</b>
Contingent liabilities	-	-	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	14.7	18.2	31.0	23.3	19.6
EV / EBITDA (x)	8.9	8.7	16.5	12.6	10.0
EV / Sales (x)	1.4	1.5	3.2	2.8	2.4
P/B (x)	1.7	1.9	3.4	2.8	2.4
RoE (%)	11.6	10.8	11.5	12.7	13.3
RoCE (%) - after tax	12.6	11.1	12.0	12.2	12.3
DPS (Rs)	-	-	-	-	-
Dividend payout (%) - incl. DDT	-	-	-	-	-
Net debt / equity (x)	-0.25	-0.19	0.01	0.12	0.10
WC days	49	31	18	13	19
EV / tonne (\$)	68.5	89.5	143.6	139.8	110.7
NSR / tonne (Rs) (blended)	6,527	6,739	6,564	6,714	6,794
EBITDA / tonne (Rs)	1,014	1,167	1,255	1,414	1,530
Volumes (m tonnes)	3.4	4.0	4.4	4.8	5.5
CFO : PAT (%)	189.7	139.0	200.7	131.0	159.2

Source: Company, Anand Rathi Research

**Fig 6 – Cement and clinker capacities**



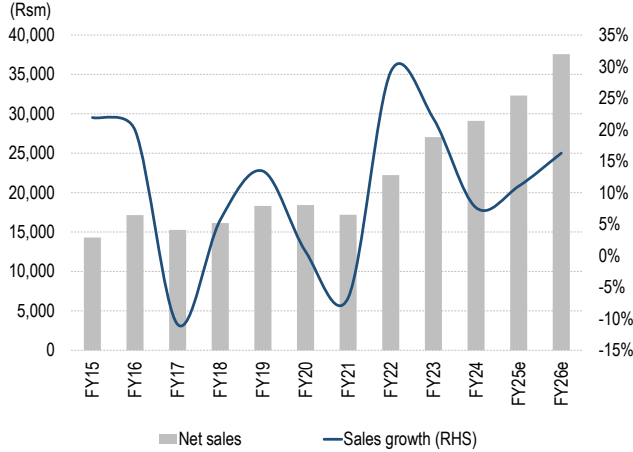
Source: Company, Anand Rathi Research

# Key highlights

## Revenue growth

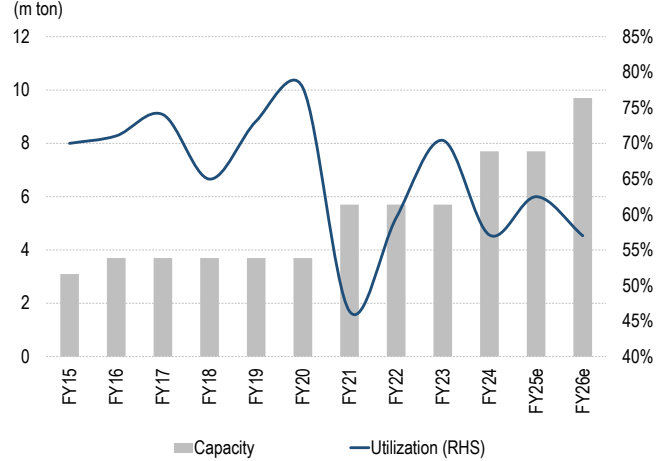
Star Cement’s Q1 revenue slipped 1.2% y/y to Rs7.5bn. Its sales volumes slipped 0.9% y/y to 1.15m tonnes (its cement sales to the NE grew 2% y/y to 0.85m tonnes, and sales to regions outside the NE fell 8% y/y to 0.304m tonnes). Clinker sales were negligible. Cement realisations (blended) slipped 0.4% y/y.

**Fig 7 – Revenue and revenue growth**



Source: Company, Anand Rathi Research

**Fig 8 – Capacity and utilisation**



Source: Company, Anand Rathi Research

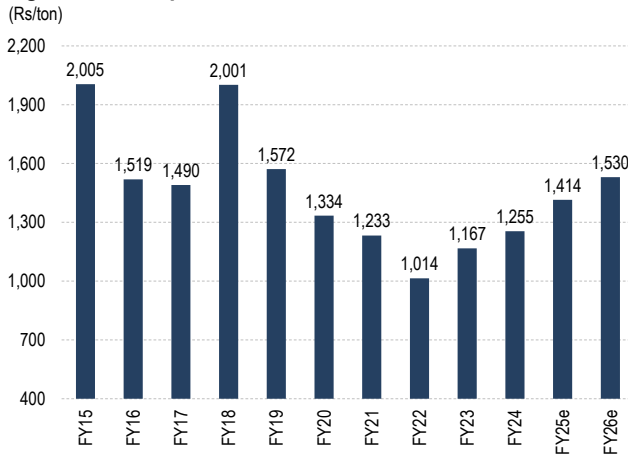
## Operating performance

EBITDA fell 10% y/y to Rs1.2bn, with a 15.5% EBITDA margin. Per tonne power & fuel cost plunged 33.3% y/y. Raw material cost/tonne shot up 28.8% y/y and freight cost 4.3% y/y as the company purchased clinker from outside (Rs300m). Employee costs were up 29% y/y (on capacities commissioned); other expenditure was up 20% y/y on an absolute basis.

Q1 operational cost was Rs400m higher, guided to as a one-off: ~Rs300m (Rs250/tonne) pertaining to outside clinker purchase (as a technical issue delayed the clinker-unit commencement to May'24), Rs60m for a political donation and Rs40m for project-related expenses.

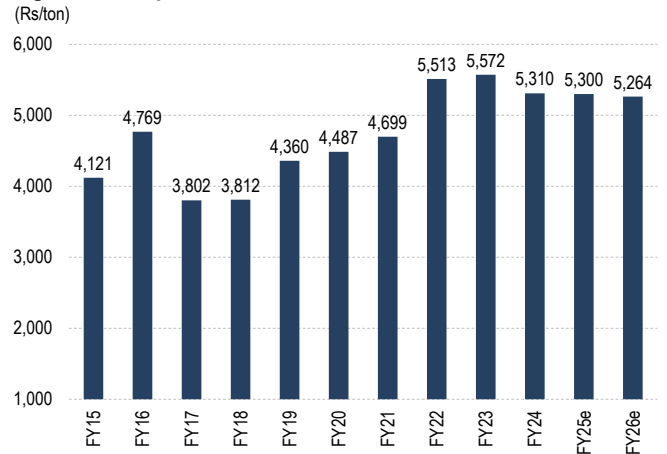
EBITDA/tonne fell 9.4% y/y to Rs1,006 and PAT 66.8% y/y to Rs310m.

**Fig 9 – EBITDA-per-tonne trend**



Source: Company, Anand Rathi Research

**Fig 10 – Cost-per-tonne trend**



Source: Company, Anand Rathi Research

## Result Highlights

**Fig 11 – Quarterly performance**

(Rs m)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% Y/Y	% Q/Q
Sales	5,549	7,492	6,652	5,933	6,172	8,292	7,605	5,853	6,514	9,135	7,510	(1.2)	(17.8)
EBITDA	675	1,134	1,241	697	1,084	1,662	1,293	986	1,488	1,797	1,161	(10.2)	(35.4)
EBITDA margins (%)	12.2	15.1	18.7	11.7	17.6	20.0	17.0	16.8	22.8	19.7	15.5	-154bps	-421bps
EBITDA / tonne (Rs)	772	984	1,267	782	1,194	1,346	1,111	1,100	1,545	1,274	1,006	(9.4)	(21.0)
Interest	24	24	26	26	33	12	22	32	30	42	59	163.1	42.1
Depreciation	315	351	304	315	341	351	318	360	365	423	725	128.1	71.7
Other income	70	92	141	136	117	127	87	58	41	78	14	(84.1)	(82.3)
Exceptional items	-	-	-	-	-	-	-	-	-	-	-	NA	NA
PBT	406	851	1,052	490	828	1,427	1,040	651	1,134	1,411	391	(62.4)	(72.3)
Tax	(32)	(34)	376	180	299	466	107	244	399	535	81	(24.5)	(84.9)
Reported PAT	438	884	676	311	529	961	933	407	735	877	310	(66.8)	(64.7)
Adj. PAT	438	884	676	311	529	961	933	407	735	877	310	(66.8)	(64.7)

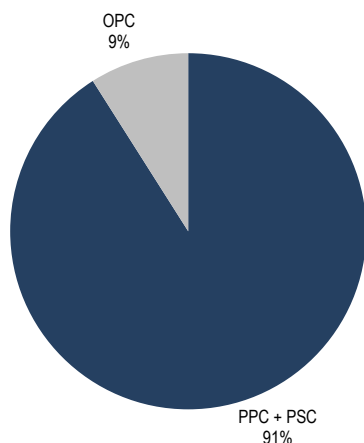
Source: Company, Anand Rathi Research

**Fig 12 – Per-tonne analysis**

(Rs per tonne)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% Y/Y	% Q/Q
Gross realisations (blended)	5,940	6,154	6,788	6,659	6,797	6,714	6,533	6,532	6,764	6,474	6,508	(0.4)	0.5
EBITDA	772	984	1,267	782	1,194	1,346	1,111	1,100	1,545	1,274	1,006	(9.4)	(21.0)
Sales volumes (m tonnes)	0.87	1.15	0.98	0.89	0.91	1.24	1.16	0.90	0.96	1.41	1.15	(0.9)	(18.2)
<b>Costs</b>													
Raw material	1,654	1,558	1,730	1,555	1,589	1,508	1,651	1,451	1,618	1,677	2,126	28.8	26.8
Power & Fuel	1,214	1,154	1,325	1,204	1,640	1,288	1,487	1,464	1,388	831	992	(33.3)	19.4
Freight	1,313	1,414	1,334	1,317	1,255	1,137	1,083	1,007	1,143	1,158	1,129	4.3	(2.5)
Staff cost	477	357	490	544	498	447	416	638	566	388	539	29.7	38.9
Other expenses	826	803	793	1,011	1,006	908	716	990	824	794	866	20.9	9.1

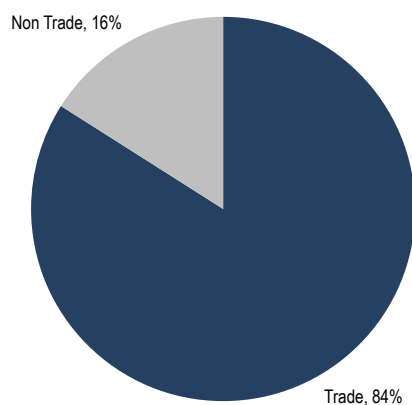
Source: Company, Anand Rathi Research

**Fig 13 – Product mix**



Source: Company, Anand Rathi Research

**Fig 14 – Trade-nontrade mix**



Source: Company, Anand Rathi Research

## Concall Highlights

- **Volumes, demand.** In Q1, 1.154m tonnes of cement were sold, flat y/y. Sales volumes to the NE grew 2% y/y to 0.85m tonnes; to regions outside the NE they declined 8% y/y to 0.304m tonnes. Clinker sales were negligible.
- With >23% market share in the NE now, the company targets 30-32%, aided by more capacities and rising non-trade demand. The NE is a 12m-13m-tonne market (the share of outside operators is 12-15%, 1.8m-2m tonnes).
- With higher institutional demand, the non-trade share was guided to rise to 20% in the NE (vs 15% now) and 28% outside the NE (25%).
- The NE market fell 8% y/y in Q1 due to elections and the monsoon. While the severe monsoon hit demand, growth is guided to for Q2. The earlier 18-20% volume growth guidance for FY25 was revised, to 15% for 9M FY25.
- **Cement prices** in its operating region fell by Rs12-13/bag post-Jun'24. EBITDA/tonne for the Siligudi unit was Rs250 (vs. Rs260 the prior quarter). The company maintained its EBITDA/ton guidance of Rs1,550 for FY25.

- **Incentives**

The Assam GU state GST incentive over 15 years would be 200% of the investment (Rs800/tonne), which the company expects to exhaust in seven years, ie Rs1.6bn p.a. The Silchar GU will have similar incentives.

Since the 3.3m-tonne clinker expansion is at the present location, the Integrated GST benefit (Rs300/tonne) would also be available till FY27.

The company received a state GST benefit of Rs109m as input credit was adjusted for the Assam GU in Q1. For Q2, a Rs400m state GST benefit was guided to; for Q3/Q4 the benefit would be higher due to greater sales volumes. The state GST benefit for the clinker unit, of Rs130m-140m a quarter, would be fully available from Q3 (though partially in Q2).

The incentive for FY25 would be Rs1.5bn-1.6bn (as GST credit has been adjusted in capex in Q1), and Rs2bn from FY26.

The tax rate was guided to be 22% for the next 5-6 years with the available subsidy.

- **Expansion, capex, debt**

- The 3m-tonne Meghalaya clinker unit began in May'24 (delayed due to technical issues) and the 2m-tonne Guwahati GU, in Mar'24. The 2m-tonne Silchar GU would begin by Oct'25 at Rs4.72bn capex, Rs3bn will be spent in FY25 and Rs1.72bn in FY26.
- The 2m-tonne capacity expansion at the Jorhat (Assam) GU at Rs4.5bn capex is expected to begin by Oct'26. Land acquisition is ongoing. FY25 capex would be Rs1bn.
- The company is in the process of acquiring land at Jaisalmer/Nagore in Rajasthan. It plans to set up a 4.5m-5m-tonne cement IU in Rajasthan at Rs25bn capex and to have 12m-tonne cement capacity in the NE in the next 4-5 years.

- It will set up an 800 tpd AAC block unit by Oct'24, which would generate healthy 20% EBITDA margins at peak Rs800m revenue. It will also have the Central GST benefit and the Assam state GST benefit.
- The Rs40bn capex for the next 3-4 years would be funded via debt, internal accruals and QIP/any other source (yet to be decided).
- FY25 capex would be Rs8.35bn, of which Rs1.1bn was spent in Q1. ~Rs1bn would be for the Meghalaya clinker unit, ~Rs3bn for the Silchar GU, ~Rs0.37bn for the WHRS, ~Rs0.55bn for the AAC and construction chemicals unit, ~Rs1bn on land for the Jorhat GU, ~0.70bn on BTAP wagons, ~Rs0.23bn on a group captive power plant, and ~Rs1.5bn on maintenance capex.
- FY26 capex would be Rs6.7bn: ~Rs1.72bn for the Silchar GU, ~Rs3.5bn for the Jorhat GU, ~Rs480m for BTAP wagons, and ~Rs1bn for maintenance capex.
- Through a group captive scheme (30% equity stake in JSW Green Energy Six at Rs230.6m), it entered a hybrid contract for 18MW at 70% CUF. It will set up a 15MW solar and a 32MW wind power plant by H2 FY26. Savings of Rs220m-240m p.a. were guided to.
- The 12 MW Meghalaya WHRS would commence in two phases of 6MW each (Oct and Dec'24).
- Network optimisation and power cost savings (on the use of new technology) would enhance operational efficiency at the clinker unit. As a result, the Guwahati GU would have a lower, 17%, tax rate.
- Debt was Rs2.4bn at 30<sup>th</sup> Jun'24, expected at -Rs3.5bn by end-FY25.

#### ■ Operational highlights

- In Q1, operational cost was Rs400m higher, guided to as a one-off. Of this, ~Rs300m (Rs250/tonne) pertains to outside clinker purchase (technical issues delayed the clinker unit commencement to May'24), Rs60m as a political donation and Rs40m for project-related expenses. Further, manpower cost is expected to stabilise at Rs450m in coming quarters, vs Rs62m in Q1.
- The Q1 fuel mix was Nagaland coal 20%, biomass ~20% and spot auction coal 60%. Fuel consumption cost was Rs1.5/kcal (Rs1.7 the quarter prior), guided to be the same in Q2. The company signed a 10-year contract with Coal India for 360,000 tonnes at Rs1.5/GCV (supply commencing May) which would result in Rs700m savings p.a. The weighted average fuel cost was guided to be Rs1.55/GCV in FY26.
- The Q1 trade-nontrade mix was 84:16; OPC share 9%. The share of premium cement rose to 9.2% (vs. 6.7% the quarter prior).
- The lead distance was 207km (vs. 227km the previous quarter).

## Valuations

With a sturdy ~23% market share, Star Cement is the leader in the NE where, with two others, it addresses 50-60% of cement demand, benefiting from economies of scale. While it continues to gain market share in the NE, its operating performance was scarred by one-time expenses. On the elections, severe heat, heavy rainfall, etc., FY25 volume guidance was lowered but EBITDA/tonne guidance maintained, aided by higher incentives, further optimising operational costs, rising RE share, etc.

At the CMP, the stock quotes at 10x EV/EBITDA, 19.6x P/E, \$111 EV/tonne on FY26e. We retain our Buy rating, at a higher TP of Rs279 (earlier Rs275), 13x FY26e EV/EBITDA. **Risks:** Demand slowdown, rise in operational costs.

**Fig 15 – Change in estimates**

(Rs bn)	Old		New		% change	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	32,232	37,832	32,313	37,566	0.3	(0.7)
EBITDA	7,136	8,783	7,090	8,920	(0.6)	1.6
PAT	3,452	4,011	3,675	4,383	6.5	9.3

Source: Anand Rathi Research

**Fig 16 – 12-month-forward EV/EBITDA: Mean and standard deviation**



Source: Bloomberg

**Fig 17 – Peer comparison on valuations**

	CMP (Rs)	P / E (x)		EV / EBITDA (x)		EV / tonne (\$)	
		FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
<b>Star Cement</b>	<b>212</b>	<b>23.3</b>	<b>19.6</b>	<b>12.6</b>	<b>10.0</b>	<b>140</b>	<b>111</b>
Shree Cement	24,650	39.3	32.5	18.5	15.5	164	149
Ramco Cement	805	35.5	25.8	13.4	11.2	122	113
Birla Corp.	1,287	22.0	14.7	9.2	7.3	72	65
India Cement	365	NA	74.4	36.9	22.7	118	118
JK Cement	4,251	33.7	27.0	16.3	13.8	179	146
JK Lakshmi	791	19.8	17.2	10.1	8.9	82	80
Orient Cement	339	30.7	26.9	14.1	12.8	101	108
Heidelberg Cement	221	23.5	18.9	12.2	9.9	82	78
Prism Johnson	157	163.0	70.4	16.1	14.0	102	97
Dalmia Bharat	1,749	27.7	21.7	10.3	8.7	85	82
Sagar Cement	227	NA	35.4	12.1	8.1	51	44
NCL Industries	219	8.5	7.1	5.2	4.2	43	33

Source: Company, Anand Rathi Research





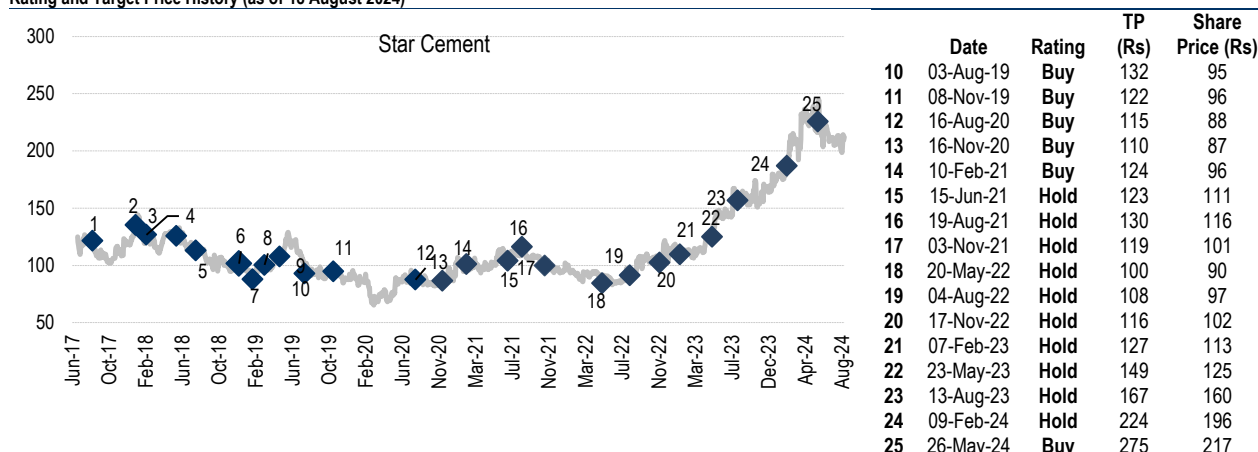
## Appendix

### Analyst Certification

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