Result Update
12th November 2024

Star Cement Limited
Cement

BUY
Target Price
235

Mixed Operating Performance; H2FY25 to See Recovery

Est. Vs. Actual for Q2FY25: Revenue – INLINE; EBITDA Margin – BEAT; PAT – MISS

Change in Estimates post Q2FY25 (Abs)

FY25E/FY26E: Revenue: 1%/2%; **EBITDA: -9%/-5%; PAT:** -29%/-13%

Recommendation Rationale

- **Capacity Expansion to Drive Growth:** The Guwahati 2 mtpa Grinding unit (line 2) is ramping up well, with capacity utilization reaching 77% during the quarter, and is expected to further improve in the ensuing quarter, thereby contributing to the company's volume growth. The Silchar Grinding unit is expected to be commissioned by Q3FY26. These expansions will increase the company's total capacity to 9.7 mtpa from the existing 7.7 mtpa, providing substantial growth potential. The company is projected to grow its volume at a CAGR of 11% over FY23-26E.
- **Plant Incentives & Cost Optimization to Support Higher EBITDA/Tonne:** The company's Grinding Units in Guwahati and Silchar, along with its Clinker Unit in Meghalaya, are set to receive SGST refunds as part of Assam government incentives, estimated at Rs 150-170 Cr annually. These units benefit from a reduced tax rate of 17%. Additionally, increased sales of premium cement, advantages from the WHRS plant in terms of lower power costs, and other efficiency gains are expected to enhance EBITDA per tonne.
- **Cement Demand in Northeast and Eastern India:** Cement demand in these regions is expected to remain stable due to (a) government initiatives to boost infrastructure and housing development, and (b) lower per capita cement consumption compared to the national average.

Sector Outlook: Positive

Company Outlook & Guidance: The company has guided for double-digit volume growth in H2FY25. Prices have improved in the North East by Rs 10 per bag and are expected to trend higher depending on the demand.

Current Valuation: 12x FY26E EV/EBITDA (Earlier Valuation: 12x FY26E EV/EBITDA)

Current TP: Rs 235/share (Earlier TP: Rs 250/share)

Recommendation: We maintain our **BUY** rating on the stocks.

Alternative BUY Ideas from our Sector Coverage: UltraTech Cement (TP – 12,000/Share), Dalmia Bharat (TP – 2,040/Share), JK Cements (TP - 4,815/share), Ambuja Cement (TP -675/share), JK Lakshmi (TP - Rs 900/share), Birla Corporation (TP – 1,390/share)

Financial Performance

SCL reported a mixed set of results for the quarter. Volume and revenue grew by 9% and 10% YoY, respectively. However, EBITDA and PAT declined by 3% and 86%, primarily due to negative operating leverage, higher depreciation, and lower other income. The company achieved an EBITDA margin of 14.9%, which was better than expectations but down from 17% in the previous year. Volume for the quarter stood at 0.98 million tonnes per annum (mntpa), reflecting 9% YoY growth, driven by new capacity ramp-up. EBITDA per tonne stood at Rs 977, down 3% YoY and QoQ, while blended realization per tonne was Rs 6,560, marginally higher than Rs 6,532 YoY and 1% QoQ. The cost per tonne increased by 3% YoY to Rs 5,583, driven by higher other expenses.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	642	-15	10	649	-1%
EBITDA	96	-18	-3	92	4%
EBITDA Margin	14.9%	(60bps)	(190bps	14.2%	70bps
Net Profit	6	-82	-86	16	-63%
EPS (Rs)	0.1	-82	-86	16	-63%

Source: Company, Axis Securities Research

(CMP as of 11th November 2024)

CMP (Rs)	195
Upside /Downside (%)	21
High/Low (Rs)	256/155
Market cap (Cr)	7,939
Avg. daily vol. (6m)Shrs.	8,00,000
No. of shares (Cr)	40.4

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	66.6	66.5	66.5
FIIs	1.5	1.6	1.4
MFs / UTI	6.1	5.0	5.0
Banks / FIs	0.0	0.0	0.0
Others	25.8	26.9	27.2

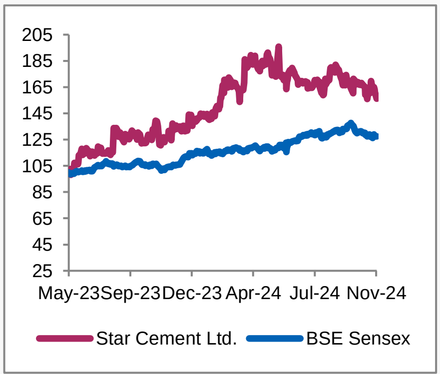
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,911	3,323	3,875
EBITDA	556	586	809
Net Profit	295	190	366
EPS (Rs)	7.3	4.7	9.1
PER (x)	27	41	22
P/BV (x)	1.0	1.0	0.8
EV/EBITDA (x)	14	14	10
ROE (%)	12	7	12

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	1%	2%
EBITDA	-9%	-5%
PAT	-29%	-13%

Relative Performance



Source: Ace Equity

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Outlook

- H2FY25 performance was influenced by election-related disruptions, increased clinker purchases, and a few one-off factors. However demand is anticipated to improve as the busy construction season begins, with heightened cement requirements expected in the East and Northeast regions, driven by increased investments in infrastructure and affordable housing.
- With its upcoming capacity expansion, the company is well-positioned to capitalize on the rising demand in these areas. We project the company will achieve a compound annual growth rate (CAGR) of 11%/13% in volume and revenue and a 20% CAGR in EBITDA over FY23-FY26E.

Valuation & Recommendation

- The stock is currently trading at 10xFY26E EV/EBITDA. **We maintain our BUY recommendation on the stock with a TP of Rs 235/share, implying an upside potential of 21% from the CMP.**

Key Concall Highlights

- **Capacity Expansion:** The Guwahati 2 mtpa Grinding unit was commercialized on 12th March 2024, and the 3.3 mtpa Clinker unit in Meghalaya on 21st April 2024. The Silchar Grinding unit is expected to be commissioned by Dec'25. This will increase the company's total capacity to 9.7 mtpa from the existing 7.7 mtpa, providing better growth headroom moving ahead. The company is also looking to set up a 2 mtpa grinding unit in Jorhat, Assam, at a capital cost of Rs 450 Cr to be operational in FY27. Additionally, the company is setting up an AAC block in Guwahati for Rs 50 Cr to be commissioned by Dec 2024. The company aims to generate revenue of Rs 75 Cr-80 Cr from the AAC block. The clinker plant faced some operational problems, which are expected to stabilize by the end of Nov 2024.
- **Volume:** The company guided for volume growth of 11% for H2FY25. During the quarter, the geographic split was 75%/25% between North-East and East. Cement mix sales were 90% during the quarter, with OPC accounting for the remainder. In the current quarter, demand is better in the North East compared to the East market, and the company's focus remains on the North East market. The trade and non-trade mix during the quarter stood at 85%/15%. Premium cement formed 9% of the overall trade sales, compared to 6% last year. The company aims to double the sale of premium cement and increase its premium share to 10% moving ahead.
- **Pricing:** Current prices are up by Rs 10/bag in the Northeast regions and flattish in the East regions. During the quarter, blended realization stood at Rs 6,560/tonne, up 1% QoQ and flat YoY. Prices are expected to be determined by market dynamics. After the commissioning of Dalmia's capacity, there may be some pricing pressure in FY26 in the North East region.
- **Power/Fuel:** The company expects a marginal reduction in power/fuel costs in FY25. The fuel mix was 20% Nagaland Coal, 20% Biomass, and 60% Auction Coal. On a per Kcal basis, the cost stood at Rs 1.50, the same as in the previous quarter, and is expected to remain at Rs 1.50 going ahead, as the company has signed a long-term contract with Coal India for the supply of coal.
- **Freight:** Lead distance during the quarter was 217 km, compared to 207 km last year. On a tonne basis, freight cost was higher by 5% YoY and 9% QoQ, at Rs 1,729/tonne. The company is also working to reduce the logistic cost of the Siliguri unit by developing a model to reduce the cost of fly ash transportation, which will help in reducing the unit cost of the Siliguri plant.
- **Capex**: The company guided for capex of Rs 700 Cr-Rs 750 Cr and Rs 450 Cr in FY25 and FY26, respectively. It aims to raise Rs 300 Cr in debt to fund the current expansion. The current debt is Rs 240 Cr, and the company aims to close FY25 with a gross debt of Rs 350 Cr.
- **Cash/Incentives:** The company is to receive incentives for setting up grinding units in Guwahati and Silchar in the form of an SGST refund. It aims to receive incentives in the range of Rs 150 Cr-175 Cr (or Rs 800/tonne) annually for these grinding units after adjusting for input tax credit for the next 5-7 years. The Guwahati and Silchar plants are also eligible for a lower tax rate of 17%. For the clinker unit, the company aims to receive an incentive of Rs 300/tonne, linked to the unit's production. During H1FY25, the incentive received was Rs 37 Cr.

Key Risks to Our Estimates and TP

- Lower realization and demand in its key market
- Higher input costs may impact margins

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	3,323	3,875	3274	3811	1%	2%
EBITDA	586	809	641	853	-9%	-5%
PAT	190	366	266	420	-29%	-13%

Source: Company, Axis Securities Research

Result Review Q2FY25

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg QoQ	% Chg YoY
Net sales	642	751	585	-15%	10%
Expenditure	546	635	487	-14%	12%
EBITDA	96	116	99	-18%	-3%
Other income	2	1	6	18%	-72%
Interest	7	6	3	21%	119%
Depreciation	83	73	36	14%	129%
PBT	8	39	65	-81%	-88%
Tax	2	8.1	24	-77%	-92%
Adjusted PAT	6	31	41	-82%	-86%
EBITDA margin (%)	14.9%	15.5%	16.8%	(60bps)	(190bps)
EPS (Rs)	0.14	0.77	1.01	-82%	-86%

Source: Company, Axis Securities Research

Volume/ Realization / Cost Analyses

	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg QoQ	% Chg YoY
Volume/mnt	0.98	1.15	0.90	-15%	9%
Realisation/tonne (Rs)	6560	6508	6,532	1%	0%
Cost/tonne (Rs)	5583	5502	5,432	1%	3%
Raw material/tonne (Rs)	921	1477	1,744	-38%	-47%
Staff Cost/tonne (Rs)	660	539	475	22%	39%
Power & Fuel/tonne (Rs)	1192	992	849	20%	40%
Freight/tonne (Rs)	1779	1628	1,701	9%	5%
Other Expenses /tonne (Rs)	1030	866	710	19%	45%
EBITDA/tonne (Rs)	**977**	**1006**	**1,009**	-3%	-3%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	2705	2911	3323	3875
Other operating income	0	0	0	0
Total income	2705	2911	3323	3875
Raw Material	627	654	678	766
Power & Fuel	570	555	550	610
Freight &Forwarding	491	567	839	944
Employee benefit expenses	196	217	249	269
Other Expenses	352	361	421	476
EBITDA	**468**	**556**	**586**	**809**
Other income	52	26	7	19
PBIDT	520	583	593	829
Depreciation	131	147	320	329
Interest & Fin Chg.	10	13	30	31
E/o income / (Expense)	0	0	0	0
Pre-tax profit	380	424	243	469
Tax provision	132	128	53	103
RPAT	248	295	190	366
Minority Interests	0.0	0.0	0.0	0.0
Associates	0	0	0	0
APAT after EO item	**248**	**295**	**190**	**366**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	3131	3602	4070	4459
Net Block	1428	2418	2829	3004
CWIP	551	1019	500	500
Investments	0	0	0	0
Wkg. cap. (excl cash)	197	266	306	351
Cash / Bank balance	312	97	78	216
Misc. Assets	64	-20	36	39
Capital employed	3131	3602	4070	4459
Equity capital	40	40	40	40
Reserves	2376	2670	2852	3209
Minority Interests	0	0	0	0
Borrowings	26	130	380	380
DefTax Liabilities	0	0	0	0
Other Liabilities and Provision	69	76	80	83

Source: Company, Axis Securities Research

Cash Flow (Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	380	424	243	469
Depreciation	129	142	320	329
Interest Expenses	10	13	30	31
Non-operating/ EO item	-39	-16	-7	-19
Change in W/C	-2	4	-40	-45
Income Tax	68	76	53	103
Operating Cash Flow	410	490	493	661
Capital Expenditure	-572	-1036	-1250	-504
Investments	186	184	0	0
Others	114	202	526	19
Investing Cash Flow	-272	-650	-724	-484
Borrowings	0	104	200	0
Interest Expenses	-10	-11	-30	-31
Dividend paid	0	0	-8	-8
Others	0	-7	0	0
Financing Cash Flow	-10	86	162	-39
Change in Cash	128	-74	-69	138
Opening Cash	8	122	48	-21
Closing Cash	136	48	-21	116

Source: Company, Axis Securities Research

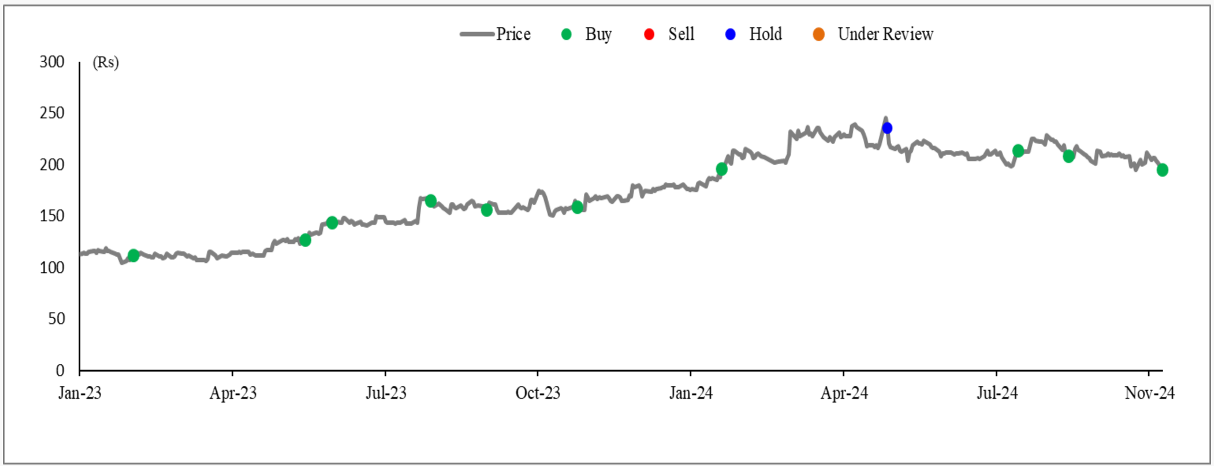
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Sales growth	22%	8%	14%	17%
OPM	17.3%	19.1%	17.6%	20.9%
Op. profit growth	36%	19%	5%	38%
COGS / Net sales	62%	61%	62%	60%
Overheads/Net sales	20%	20%	20%	19%
Depreciation / G. block	8%	6%	9%	8%
Efficiency Ratios				
Total Asset Turnover (x)	0.86	0.81	0.82	0.87
Sales/Gross block (x)	1.61	1.24	0.92	0.94
Sales/Net block(x)	1.90	1.21	1.18	1.29
Working capital/Sales (x)	0.06	-0.04	-0.04	-0.02
Valuation Ratios				
P/E	18	27	41	22
P/BV (x)	1.1	1.0	1.0	0.8
EV/Ebitda (x)	9.0	14.2	14.0	9.9
EV/Sales (x)	1.6	2.7	2.5	2.1
EV/Tonne $ (x)	89	124	128	100
Return Ratios				
ROE	11	12	7	12
ROCE	16	16	9	15
ROIC	18	17	9	16
Leverage Ratios				
Debt/equity (x)	0.01	0.05	0.13	0.12
Net debt/ Equity (x)	-0.12	0.01	0.10	0.05
Interest Coverage ratio (x)	40	35	9	16
Cash Flow Ratios				
OCF/Sales	0.14	0.17	0.15	0.17
OCF/Ebitda	0.80	0.88	0.84	0.82
OCF/Capital Employed	0.14	0.17	0.15	0.19
FCF/Sales	-0.05	-0.39	-0.22	-0.13
Payout ratio (Div/NP)	0.0	0.0	4.3	2.2
AEPS (Rs.)	6.1	7.3	4.7	9.1
AEPS Growth	0.3	19.2	-35.6	92.4
CEPS (Rs.)	9	11	13	17
DPS (Rs.)	0.0	0.0	0.2	0.2

Source: Company, Axis Securities Research

Star Cement Price Chart and Recommendation History



Date	Reco	TP	Research
06-Feb-23	BUY	125	Result Update
23-May-23	BUY	145	Result Update
09-Jun-23	BUY	165	Company Update
10-Aug-23	BUY	185	Result Update
14-Sep-23	BUY	185	AAA
10-Nov-23	BUY	185	Result Update
09-Feb-24	BUY	225	Result Update
23-May-24	HOLD	240	Result Update
13-Aug-24	BUY	250	Result Update
16-Sep-24	BUY	250	AAA
12-Nov-24	BUY	235	Result Update

Source: Axis Securities Research

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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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