

HOLD Star Cement

Your success is our success

Lower cost drives EBITDA beat; capacity enhancement on track

Cement ▶ Result Update ▶ November 10, 2023

TARGET PRICE (Rs): 180

Star Cement's consolidated EBITDA increased 42% YoY/declined 24% QoQ to Rs986mn in Q2FY24 which was 9% above Consensus estimate. EBITDA/t stood at Rs1,100 (Emkay: Rs900). Volume growth was muted at 1% YoY (down 23% QoQ) to 0.9mt, owing to subdued demand in NER (post a robust over 20% growth witnessed in Q1) and maintenance shutdown during the quarter. Company has reiterated its guidance of 13-14% volume growth in FY24, on anticipation of strong performance in H2FY24. Star has embarked on a journey to strengthen its market share in NER to over 30% (currently at 25%) by FY26-27, by more than doubling its capacity. Factoring-in the recent price hikes, we raise our EBITDA by 4% for FY24-25E and revise up Sep-24E TP to Rs180/share, based on 10x EV/E; we retain HOLD on the stock.

Star Cement: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	22,218	27,048	29,424	34,380	39,470
EBITDA	3,453	4,684	5,467	6,742	7,773
Adj. PAT	2,468	2,476	3,035	3,811	4,407
Adj. EPS (Rs)	6.1	6.1	8.0	9.4	10.9
EBITDA margin (%)	15.5	17.3	18.6	19.6	19.7
EBITDA growth (%)	3.8	35.7	16.7	23.3	15.3
Adj. EPS growth (%)	34.6	0.3	30.4	18.0	15.6
RoE (%)	11.6	10.8	11.8	13.0	13.2
RoIC (%)	15.1	15.0	15.4	14.2	13.9
P/E (x)	26.1	26.0	21.2	16.9	14.6
EV/EBITDA (x)	17.1	12.8	11.9	9.6	8.1
P/B (x)	3.0	2.7	2.3	2.1	1.8
FCFF yield (%)	3.7	(3.2)	(9.0)	0.4	3.5

Source: Company, Emkay Research

Result Summary

On a favorable base, EBITDA/ton rose 41% YoY (down 1% QoQ) to Rs1,100. RM+P&F costs witnessed a significant decline of Rs410/t, given the ~20% QoQ decline in fuel cost to Rs1.9/Kcal. However, owing to negative operating leverage, total cost/t remained constant QoQ (down 8% YoY) at Rs5,432. Realization also remained flattish QoQ (down 2% YoY) at Rs6,532/t. The management indicated that demand was healthy in Oct-23 which expects to sustain for remaining H2FY24. Further, with the recent price hikes in the East and the North-East region (NER), we expect profitability to improve in H2FY24. Company is on track to increase its clinker and grinding capacities to 5.8mt and 9.7mt, respectively, and has already spent ~Rs10bn, as of Sep-24 (of the total project cost of Rs24bn). In H1FY24, consolidated FCF generation stood at a negative Rs2.9bn post working capital blockage of Rs441mn and capex spend of Rs4.5bn. Company continues to have healthy cash reserves, of Rs2.3bn. Despite the ongoing capex, we expect leverage to remain low during FY24-25E.

What we like: Better than expected profitability growth**What we do not like:** Lower than industry volume growth

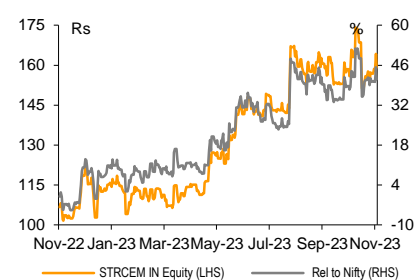
Key Concall Takeaways: 1) Star's 3mt clinker plant in Meghalaya, along with 12MW of WHRS, to be commissioned by Feb-24, while two GUs of 2mt each, in Guwahati and Silchar, to be commissioned by Dec-23 and Dec-24, respectively. Capex guidance for FY24 and FY25 stands at Rs10bn and Rs6bn, respectively. 2) Fuel cost declined to Rs1.9/Kcal vs Rs2.4/Kcal in Q1FY24. Company expects the fuel cost to track similar levels in Q3FY24. Fuel mix: 32% Nagaland Coal, 57% e-auction coal, 5% biomass and 6% FSA. 3) Premium product share improved by 300bps to 6.9%, with target of reaching 10% by FY24. Trade share stood at 89%; lead distance at 214km (up 7km QoQ). 4) Prices in NER have improved by Rs10/bag, while clocking higher by Rs50/bag in the East. Profitability is expected to materially improve in the East post the price hikes (Eastern region EBITDA/t before the price hike: Rs300). 5) Volume in NER improved 3% YoY to 0.7mt in Q2FY24.

Target Price – 12M	Sep-24
Change in TP (%)	8.8
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	12.8
CMP (09-Nov-23) (Rs)	159.1

Stock Data	Ticker
52-week High (Rs)	182
52-week Low (Rs)	93
Shares outstanding (mn)	404.2
Market-cap (Rs bn)	64
Market-cap (USD mn)	772
Net-debt, FY24E (Rs mn)	945
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	136.1
ADTV-3M (USD mn)	1.6
Free float (%)	-
Nifty-50	19,395
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	66.6
FPIs/MFs (%)	0.8/6.1

Price Performance

(%)	1M	3M	12M
Absolute	2.1	(3.8)	52.5
Rel. to Nifty	2.7	(2.6)	42.8

1-Year share price trend (Rs)**Dharmesh Shah**dharmesh.shah@emkayglobal.com
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Quarterly Analysis

Exhibit 1: Actual vs. Estimates (Q2FY24)

(Rs mn)	Actual	Estimates		Variation (%)		Comment
		Emkay	Consensus	Emkay	Consensus	
Net sales	5,853	5,926	5,927	(1.2)	(1.3)	
EBITDA	986	810	905	21.7	8.9	EBITDA beat owing to significant decline in input cost
PAT	407	428	490	(5.0)	(17.0)	
Volumes (mt)	0.90	0.90		(0.43)		
Cement realization (Rs/ton)	6,532	6,586		(0.8)		
EBITDA/ton (Rs)	1,100	900		22.2		

Source: Bloomberg, Emkay Research

Exhibit 2: Quarterly analysis

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	H1FY23	H1FY24	YoY (%)
Revenue	5,942	6,195	8,300	7,605	5,853	(1.5)	(23.0)	12,594	13,457	6.9
Expenditure	5,245	5,111	6,638	6,312	4,867	(7.2)	(22.9)	10,656	11,179	4.9
Total RM cost	1,668	1,090	1,967	2,003	1,195	(28.3)	(40.3)	3,215	3,198	(0.5)
Staff cost	506	486	558	510	571	12.9	12.1	986	1,081	9.6
Other expenditure	3,072	3,535	4,113	3,799	3,101	0.9	(18.4)	6,455	6,900	6.9
EBITDA	697	1,084	1,662	1,293	986	41.5	(23.8)	1,938	2,278	17.6
Depreciation	315	341	351	318	360	14.2	13.2	620	678	9.4
EBIT	381	743	1,311	975	625	64.1	(35.8)	1,318	1,600	21.4
Other Income	136	117	127	87	58	(57.4)	(33.9)	276	145	(47.5)
Interest	26	33	12	22	32	23.1	44.8	52	55	5.1
PBT	490	828	1,427	1,040	651	32.7	(37.4)	1,542	1,690	9.6
Total Tax	180	299	466	300	244	35.7	(18.7)	556	544	(2.1)
Adjusted PAT	311	529	961	739	407	31.0	(45.0)	986	1,146	16.2
(Profit)/loss from JVs/Assoc./MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	311	529	961	739	407	31.0	(45.0)	986	1,146	16.2
Extra ordinary items	-	-	-	193	-	-	-	-	193	-
Reported PAT	311	529	961	932	407	31.0	(56.4)	986	1,339	35.8
Adjusted EPS (Rs)	0.8	1.3	2.4	1.8	1.0	31.0	(45.0)	2.4	2.8	16.2

(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)	H1FY23	H1FY24	YoY (bps)
EBITDAM	11.7	17.5	20.0	17.0	16.8	43.6	(0.9)	15.4	16.9	154
EBITM	6.4	12.0	15.8	12.8	10.7	66.6	(16.6)	10.5	11.9	142
EBTM	8.3	13.4	17.2	13.7	11.1	34.7	(18.7)	12.2	12.6	32
PATM	5.2	8.5	11.6	9.7	6.9	33.0	(28.5)	7.8	8.5	69
Effective Tax rate	36.7	36.1	32.6	28.9	37.5			36.1	32.2	

Source: Company, Emkay Research

Exhibit 3: Quarterly analysis on a per-ton basis

(Rs/ton)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	H1FY23	H1FY24	YoY (%)
Volumes (mt)	0.89	0.91	1.24	1.16	0.90	0.6	(23.0)	1.87	2.06	10.1
Blended Realization	6,669	6,823	6,720	6,533	6,532	(2.1)	(0.0)	6,731	6,533	(3.0)
Raw Material cost	1,872	1,201	1,593	1,721	1,334	(28.7)	(22.5)	1,719	1,553	(9.7)
Staff cost	568	536	452	438	638	12.3	45.6	527	525	(0.4)
Other expenditure	3,448	3,893	3,330	3,264	3,461	0.4	6.0	3,450	3,349	(2.9)
Operating cost	5,887	5,629	5,375	5,423	5,432	(7.7)	0.2	5,696	5,427	(4.7)
EBITDA	782	1,194	1,346	1,111	1,100	40.7	(1.0)	1,036	1,106	6.8

Source: Company, Emkay Research

Exhibit 4: We increase our FY24-25 estimates by 4% and maintain estimates for FY26E

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Chg. (%)	Old	New	Chg. (%)	Old	New	Chg. (%)
Revenue	29,587	29,424	(0.6)	34,487	34,380	(0.3)	39,943	39,470	(1.2)
EBITDA	5,239	5,467	4.4	6,489	6,742	3.9	7,772	7,773	0.0
PAT	3,165	3,035	(4.1)	3,912	3,811	(2.6)	4,727	4,407	(6.8)

Source: Emkay Research

Exhibit 5: We maintain HOLD on Star Cement, with TP of Rs180/share, based on Sep-25E EV/E

EV/E valuation	
Sep-25E EBITDA (Rs bn)	7.3
EV/E (x)	10.0
Enterprise Value (Rs bn)	73
Net debt (Sep-24E; Rs bn)	1
Equity value (Rs bn)	73
No. of shares (mn)	404
Sep-24E Target Price (Rs/share)	180

Source: Emkay Research

Exhibit 6: Annual analysis

Key Assumptions	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR (%)	
										FY18-23	FY23-26E
Capacity (mt)	4.3	4.3	4.3	5.7	5.7	5.7	7.7	9.7	9.7	5.8	19.4
Volumes (mt)	2.6	2.7	2.9	2.6	3.4	4.0	4.5	5.1	5.7	9.3	12.7
Utilization (%)	60	63	67	46	60	70	58	52	59		
Blended Realization (Rs/ton)	6,243	6,747	6,389	6,500	6,523	6,735	6,600	6,765	6,873	1.5	0.7
EBITDA/ton (Rs)	2,026	1,660	1,369	1,258	1,014	1,167	1,227	1,327	1,354	(10.4)	5.1
P&L (Rs bn)											
Revenue	16	18	18	17	22	27	29	34	39	10.9	13.4
EBITDA	5	4	4	3	3	5	5	7	8	(2.1)	18.4
Adj. Net Profit	3	3	3	3	2	2	3	4	4	(4.4)	21.2
Balance Sheet (Rs bn)											
Equity	15	17	19	21	22	24	27	31	36		
Net Debt	4	(1)	(3)	(5)	(5)	(5)	1	1	(1)		
Cash Flow (Rs bn)											
OCF before NWC change	5	4	3	2	3	5	4	5	6		
Change in NWC	0	3	1	1	1	(0)	(0)	(0)	(0)		
Capex	(0)	(1)	(2)	(1)	(2)	(6)	(10)	(5)	(4)		
FCF	4	6	2	2	2	(2)	(6)	(0)	2		
Return ratios (%)											
RoE	22.9	18.7	15.9	12.8	11.6	10.8	11.8	13.0	13.2		
RoCE	17.7	16.3	15.4	12.8	12.2	11.0	11.0	11.8	12.3		
RoIC	18.4	17.9	18.0	15.8	15.2	15.1	15.7	14.2	14.0		
Valuations (x)											
PER						26.0	21.2	16.9	14.6		
EV/EBITDA						12.6	10.9	9.7	8.4		
EV/ton (USD)						126	95	82	82		

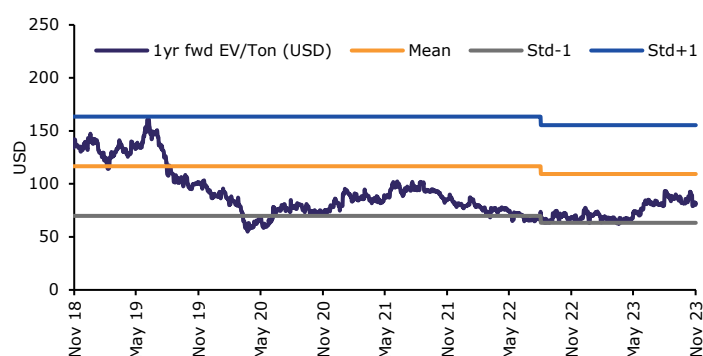
Source: Emkay Research

Exhibit 7: Annual analysis on a per-ton basis

(Rs/ton)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Blended realization	6,243	6,747	6,389	6,500	6,523	6,735	6,600	6,765	6,873
% YoY	(0.7)	8.1	(5.3)	1.7	0.3	3.2	(2.0)	2.5	1.6
Raw materials cost	1,176	1,614	1,396	1,525	1,685	1,559	1,512	1,535	1,572
Power & fuel cost	840	956	1,257	1,280	1,225	1,419	1,368	1,361	1,354
Freight cost	1,126	1,341	1,226	1,202	1,255	1,262	1,161	1,185	1,214
Staff cost	417	430	439	497	468	488	501	510	514
Other expenses	690	765	713	743	880	843	835	851	868
Total OpEx	4,249	5,107	5,031	5,247	5,513	5,572	5,377	5,441	5,523
% YoY	(11.8)	20.2	(1.5)	4.3	5.1	1.1	(3.5)	1.2	1.5
Other operating income	32	20	11	5	4	4	4	4	4
Blended EBITDA	2,026	1,660	1,369	1,258	1,014	1,167	1,227	1,327	1,354
% YoY	35.7	(18.1)	(17.5)	(8.1)	(19.4)	15.1	5.1	8.2	2.0

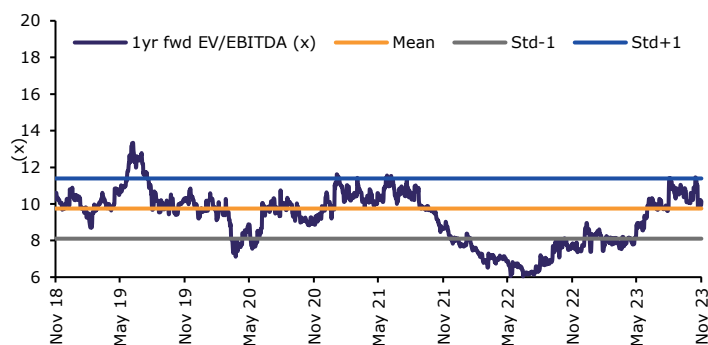
Source: Company, Emkay Research

Exhibit 8: One-year forward EV/ton



Source: Bloomberg, Emkay Research

Exhibit 9: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Star Cement: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	22,218	27,048	29,424	34,380	39,470
Revenue growth (%)	29.2	21.7	8.8	16.8	14.8
EBITDA	3,453	4,684	5,467	6,742	7,773
EBITDA growth (%)	3.8	35.7	16.7	23.3	15.3
Depreciation & Amortization	1,216	1,311	1,433	1,594	1,894
EBIT	2,236	3,373	4,034	5,147	5,878
EBIT growth (%)	(7.8)	50.8	19.6	27.6	14.2
Other operating income	15	16	18	19	21
Other income	334	521	308	303	310
Financial expense	133	97	143	349	289
PBT	2,437	3,797	4,199	5,101	5,899
Extraordinary items	0	0	193	0	0
Taxes	(31)	1,321	1,164	1,291	1,493
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	2,468	2,476	3,228	3,811	4,407
PAT growth (%)	31.9	0.3	30.4	18.0	15.6
Adjusted PAT	2,468	2,476	3,035	3,811	4,407
Diluted EPS (Rs)	6.1	6.1	8.0	9.4	10.9
Diluted EPS growth (%)	34.6	0.3	30.4	18.0	15.6
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	15.5	17.3	18.6	19.6	19.7
EBIT margin (%)	10.1	12.5	13.7	15.0	14.9
Effective tax rate (%)	(1.3)	34.8	27.7	25.3	25.3
NOPLAT (pre-IndAS)	2,265	2,200	2,916	3,845	4,391
Shares outstanding (mn)	404.2	404.2	404.2	404.2	404.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,437	3,797	4,199	5,101	5,899
Others (non-cash items)	(197)	(261)	0	0	0
Taxes paid	(350)	(677)	(1,164)	(1,291)	(1,493)
Change in NWC	1,065	(417)	(144)	(189)	(110)
Operating cash flow	4,170	3,753	4,158	5,262	6,170
Capital expenditure	(1,974)	(5,694)	(10,000)	(5,000)	(4,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	308	466	308	303	310
Investing cash flow	878	(817)	(9,692)	(4,697)	(3,690)
Equity raised/(repaid)	(1,524)	0	0	0	0
Debt raised/(repaid)	(2)	0	5,000	0	(2,000)
Payment of lease liabilities	(4)	(5)	(10)	0	0
Interest paid	(129)	(97)	(143)	(349)	(289)
Dividend paid (incl tax)	0	0	0	0	0
Others	(102)	197	193	0	0
Financing cash flow	(1,756)	100	5,050	(349)	(2,289)
Net chg in Cash	3,292	3,037	(483)	216	191
OCF	4,170	3,753	4,158	5,262	6,170
Adj. OCF (w/o NWC chg.)	3,106	4,170	4,303	5,451	6,280
FCFF	2,197	(1,941)	(5,842)	262	2,170
FCFE	2,195	(1,941)	(842)	262	170
OCF/EBITDA (%)	120.8	80.1	76.1	78.1	79.4
FCFE/PAT (%)	88.9	(78.4)	(27.7)	6.9	3.9
FCFF/NOPLAT (%)	97.0	(88.3)	(200.3)	6.8	49.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	404	404	404	404	404
Reserves & Surplus	21,280	23,760	26,988	30,799	35,205
Net worth	21,684	24,164	27,392	31,203	35,610
Minority interests	0	0	0	0	0
Deferred tax liability (net)	0	0	0	0	0
Total debt	76	305	5,305	5,305	3,305
Total liabilities & equity	21,761	24,469	32,697	36,508	38,915
Net tangible fixed assets	6,669	8,670	18,237	24,643	26,748
Net intangible assets	3	3	3	3	3
Net ROU assets	100	100	100	100	100
Capital WIP	1,045	5,506	4,506	1,506	1,506
Goodwill	0	0	0	0	0
Investments [JV/Associates]	18	0	0	0	0
Cash & equivalents	5,466	4,843	4,360	4,576	4,767
Current assets (ex-cash)	11,742	12,192	12,456	13,819	15,134
Current Liab. & Prov.	5,690	6,845	6,965	8,138	9,343
NWC (ex-cash)	6,052	5,347	5,492	5,681	5,791
Total assets	21,761	24,469	32,697	36,508	38,915
Net debt	(5,389)	(4,538)	945	729	(1,462)
Capital employed	21,761	24,469	32,697	36,508	38,915
Invested capital	15,232	14,120	23,831	30,426	32,641
BVPS (Rs)	53.7	59.8	67.8	77.2	88.1
Net Debt/Equity (x)	(0.2)	(0.2)	0.0	0.0	0.0
Net Debt/EBITDA (x)	(1.6)	(1.0)	0.2	0.1	(0.2)
Interest coverage (x)	19.3	40.2	30.4	15.6	21.4
RoCE (%)	12.0	16.8	15.2	15.8	16.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	26.1	26.0	21.2	16.9	14.6
P/CE(x)	17.5	17.0	14.4	11.9	10.2
P/B (x)	3.0	2.7	2.3	2.1	1.8
EV/Sales (x)	2.7	2.2	2.2	1.9	1.6
EV/EBITDA (x)	17.1	12.8	11.9	9.6	8.1
EV/EBIT(x)	26.3	17.7	16.2	12.6	10.7
EV/IC (x)	3.9	4.2	2.7	2.1	1.9
FCFF yield (%)	3.7	(3.2)	(9.0)	0.4	3.5
FCFE yield (%)	3.7	(3.2)	(1.3)	0.4	0.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	11.1	9.2	10.3	11.1	11.2
Total asset turnover (x)	1.0	1.2	1.0	1.0	1.0
Assets/Equity (x)	1.0	1.0	1.1	1.2	1.1
RoE (%)	11.6	10.8	11.8	13.0	13.2
DuPont-RoIC					
NOPLAT margin (%)	10.2	8.1	9.9	11.2	11.1
IC turnover (x)	1.5	1.8	1.6	1.3	1.3
RoIC (%)	15.1	15.0	15.4	14.2	13.9
Operating metrics					
Core NWC days	99.4	72.2	68.1	60.3	53.6
Total NWC days	99.4	72.2	68.1	60.3	53.6
Fixed asset turnover	1.5	1.6	1.3	1.1	1.0
Opex-to-revenue (%)	58.6	59.5	58.5	57.7	57.5

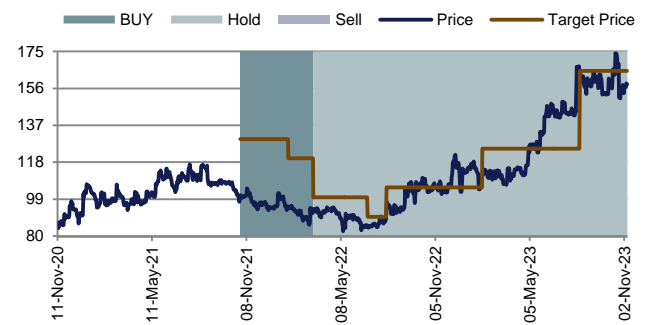
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
17-Oct-23	173	165	Hold	Dharmesh Shah
28-Sep-23	153	165	Hold	Dharmesh Shah
18-Sep-23	161	165	Hold	Dharmesh Shah
09-Aug-23	165	165	Hold	Dharmesh Shah
03-Jun-23	141	125	Hold	Dharmesh Shah
22-May-23	127	125	Hold	Dharmesh Shah
04-May-23	123	125	Hold	Dharmesh Shah
27-Mar-23	111	125	Hold	Dharmesh Shah
02-Mar-23	113	125	Hold	Dharmesh Shah
05-Feb-23	112	125	Hold	Dharmesh Shah
03-Feb-23	112	125	Hold	Dharmesh Shah
29-Dec-22	114	105	Hold	Dharmesh Shah
05-Dec-22	106	105	Hold	Dharmesh Shah
05-Nov-22	105	105	Hold	Dharmesh Shah
04-Oct-22	104	105	Hold	Dharmesh Shah
04-Sep-22	94	105	Hold	Dharmesh Shah
03-Aug-22	94	105	Hold	Dharmesh Shah
04-Jul-22	85	90	Hold	Dharmesh Shah
28-Jun-22	85	90	Hold	Dharmesh Shah
18-May-22	91	100	Hold	Dharmesh Shah
16-Mar-22	94	100	Hold	Dharmesh Shah
27-Jan-22	94	120	Buy	Dharmesh Shah
31-Dec-21	95	130	Buy	Dharmesh Shah
02-Dec-21	96	130	Buy	Dharmesh Shah
02-Nov-21	100	130	Buy	Dharmesh Shah
27-Oct-21	101	130	Buy	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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