

BUY**TP: Rs 138 | ▲ 24%****STAR CEMENT**

Cement

06 February 2023

In-line performance; maintain BUY

- Q3 volumes up 5% YoY to 0.9mt backed by healthy realisation gains; price hike impact to reflect fully in Q4
- Average cost tracking in line with our full-year estimate for FY23; fuel cost inflation a key monitorable in the medium term
- Maintain BUY with an unchanged TP of Rs 138, valuing the stock at 8x FY25E EV/EBITDA

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Higher volumes and realisations drive revenue: STRCEM's Q3FY23 revenue grew 12% YoY (+4% QoQ) to Rs 6.2bn backed by higher realisations (+8% YoY/+2% QoQ to Rs 6,823/t) and volumes (+5% YoY/+1% QoQ to ~0.9mt), indicating healthy demand in key markets. The company hiked prices in mid-December and hence the full impact will be reflected in Q4FY23.

High energy cost due to rise in clinker production: Overall cost increased 1% YoY to Rs 5,629/t while declining 4% QoQ as energy cost (adjusted for raw material cost) softened by 1% YoY and 6% QoQ. However, energy cost per tonne spiked 45% YoY to Rs 1,765/t as clinker production jumped 42%. Freight cost/t declined 2% YoY as lead distance reduced from 224km to 211km, but rose 5% QoQ due to the busy period surcharge. Other expenditure grew 6% YoY to Rs 873/t and fell 10% QoQ despite a 2% rise in sequential volumes, indicating judicious cost control.

Profits constrained by lower tax benefits: EBITDA grew 61% YoY to Rs 1.1bn and EBITDA margin rose to 17% from 11% (in both Q2 and Q3FY22). EBITDA/t increased 55% YoY (+53% QoQ) to Rs 1,194/t. However, adj. PAT grew only 21% YoY to Rs 529mn as tax expenses increased due to the tax exemption sunset related to STRCEM's Guwahati unit and its subsidiary company.

Capex to be supported by healthy internal accruals: Of the total capex of Rs 21bn envisaged for capacity expansion, Rs 2bn was incurred in Q3 with ~Rs 3bn guided for Q4FY23. FY24 will be capex-heavy with ~Rs 11.5bn to be spent on a clinkerisation unit in Meghalaya and a 2mt grinding unit in Guwahati. Residual capex of ~Rs 5bn is earmarked toward a 2mt grinding unit at Silchar (Assam) in FY25.

Maintain BUY: We like STRCEM for its strong presence in the remunerative northeast market, plans to derisk revenue, and light debt burden despite capex. Further, healthy realisations imply improvement in ROE/ROCE (13-14% by FY25E). We maintain BUY, valuing the stock at 8x FY25E EV/EBITDA for an unchanged TP of Rs 138 – implying a replacement cost of Rs 6.6bn/mt, a 6% discount to the benchmark (for details, see our [initiation report](#)).

Key changes

Target	Rating
◀ ▶	◀ ▶

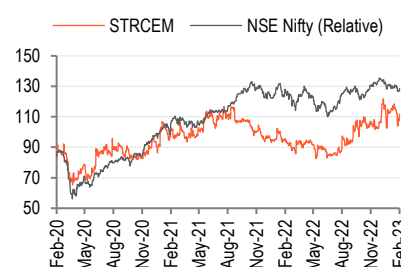
Ticker/Price	STRCEM IN/Rs 112
Market cap	US\$ 571.5mn
Free float	33%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 124/Rs 81
Promoter/FPI/DII	67%/1%/6%

Source: NSE | Price as of 3 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	22,187	26,769	32,869
EBITDA (Rs mn)	3,453	4,042	5,405
Adj. net profit (Rs mn)	2,468	2,156	2,606
Adj. EPS (Rs)	5.9	5.1	6.2
Consensus EPS (Rs)	5.9	5.2	5.7
Adj. ROAE (%)	11.6	9.6	10.7
Adj. P/E (x)	19.0	21.7	18.0
EV/EBITDA (x)	12.5	10.7	9.5
Adj. EPS growth (%)	(2.0)	(12.6)	20.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Earnings call highlights

Volumes and Realisations

- Management expects to achieve its volume target of 4mt or more for FY23 and anticipates double-digit volume growth for FY24.
- Prices were raised by Rs 10/bag in mid-December (with no other hikes in Q3) and will thus reflect in Q4FY23.
- Capacity utilisation stood at ~55% at the Siliguri (West Bengal) plant in Q3FY23. Management expects improvement to 65% in Q4.

Margins

- Blended fuel cost was stable QoQ at Rs 2.1/kcal, and the company expects a 10% reduction in Q4 after commissioning of the waste heat recovery system (WHRS).
- In terms of fuel mix, Nagaland coal formed ~25%, linkage coal 5-6%, imported/auction coal 50% and biomass 20%.
- The lead distance was down from 224km in Q3FY22 to 211km in Q3FY23.
- Trade and non-trade share stood at 92% and 8% respectively (vs. 89% and 11% in Q3FY22); premium product sales comprised 4.5% of the total.

Capex and Capacity

- Of the total capex of Rs 21bn envisaged for capacity expansion, Rs 2bn was incurred in Q3 with ~Rs 3bn guided for Q4FY23. FY24 will be capex-heavy with ~Rs 11.5bn to be spent on a clinkerisation unit in Meghalaya and a 2mt grinding unit in Guwahati. Residual capex of ~Rs 5bn will be spent on a 2mt grinding unit at Silchar (Assam) in FY25.
- The grinding unit in Guwahati is scheduled to be commissioned by Oct-Nov'23, the clinker plant by Jan'24, and grinding unit in Silchar by Aug'24. The WHRS is due to come online in Feb'23, with savings guided at Rs 450mn-480mn p.a.

Gross debt and Net cash

- STRCEM operates at zero gross debt. Net cash is at ~Rs 5.5bn against ~Rs 7.5bn in Q2FY23.

Fig 1 – Key metrics

(Rs)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Volumes (mt)	0.91	0.87	3.89	0.89	1.91
Cement realisations (Rs/mt)	6,823	6,349	7.47	6,669	2.31
Operating costs (Rs/mt)*	5,629	5,576	0.95	5,887	(4.38)
EBITDA (Rs/mt)	1,194	772	54.57	782	52.71

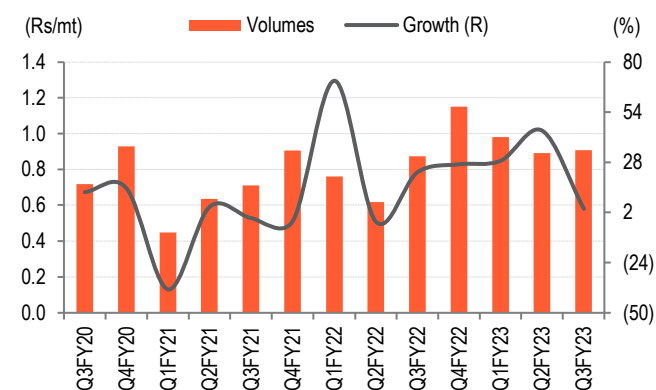
Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Net Sales	6,195	5,549	11.7	5,942	4.3
Expenditure					
Change in stock	(349)	81	(532.8)	219	(259.7)
Raw material	1,440	1,470	(2.0)	1,449	(0.6)
purchased products	0	0	-	0	-
Power & fuel	1,603	1,061	51.1	1,147	39.7
Freight	1,139	1,124	1.4	1,062	7.3
Employee costs	486	417	16.6	506	(3.9)
Other exp	793	722	9.8	863	(8.1)
Total Operating Expenses	(5,111)	(4,874)	4.9	(5,245)	(2.6)
EBITDA	1,084	675	60.6	697	55.6
EBITDA margin (%)	17.5	12.2	533bps	11.7	578bps
Other Income	117	70	66.6	136	(13.4)
Interest	33	24	38.4	26	25.3
Depreciation	341	315	8.0	315	8.0
PBT	828	406	103.7	490	68.8
Non-recurring items	-	-	-	-	-
PBT (after non recurring items)	828	406	103.7	490	68.8
Tax	299	(32)	-	180	66.2
Tax Rate (%)	36	(8)	-	37	-
Reported PAT	529	438	20.7	311	
Adjusted PAT	529	438	20.7	311	70.2
NPM (%)	9	8	64bps	5	331bps
Adjusted EPS (Rs)	1.3	1.1	19.8	0.7	70.2

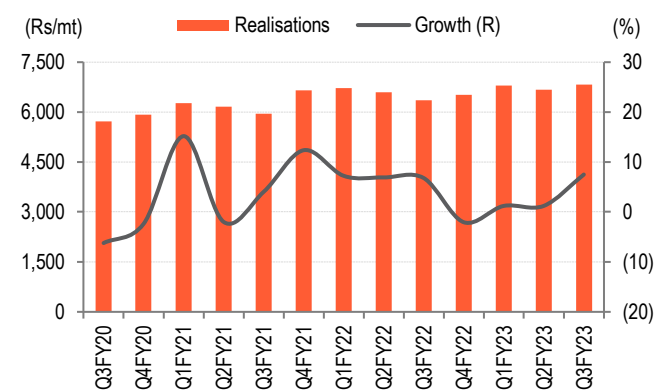
Source: Company, BOBCAPS Research

Fig 3 – New units to contribute volume growth



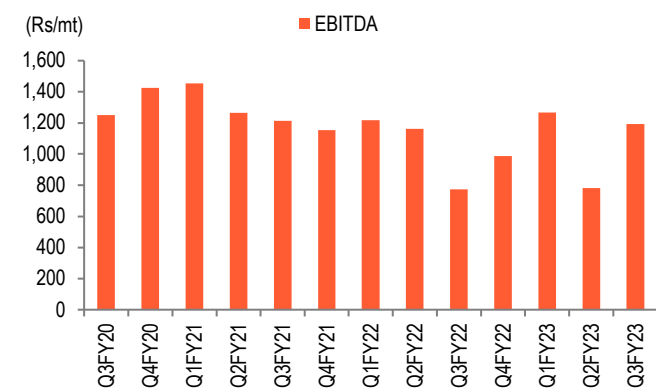
Source: Company, BOBCAPS Research

Fig 4 – Volume gains supported by realisations, pointing to healthy demand



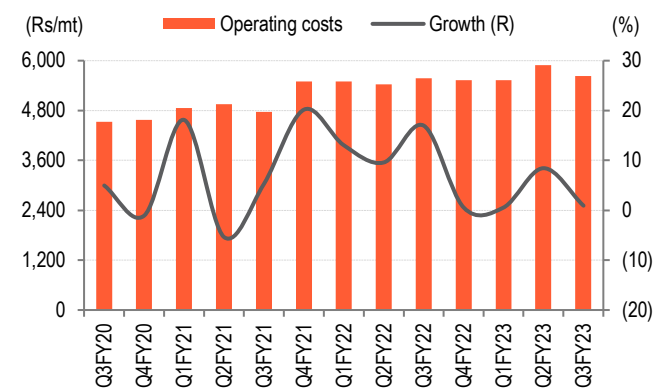
Source: Company, BOBCAPS Research

Fig 5 – EBITDA/t recovery healthy



Source: Company, BOBCAPS Research

Fig 6 – Fuel cost remains high



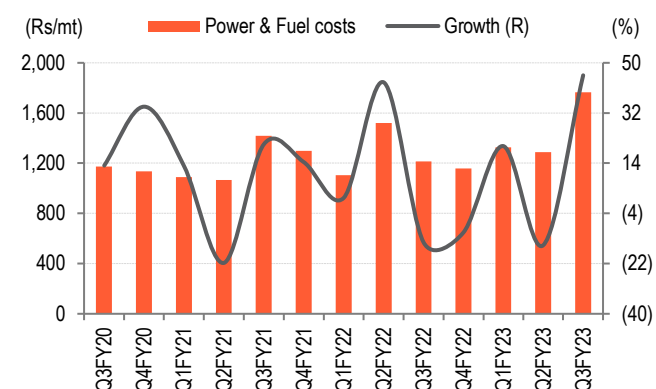
Source: Company, BOBCAPS Research

Fig 7 – Coal availability a greater concern than coal cost



Source: Company, BOBCAPS Research

Fig 8 – Freight cost to be checked following grinding unit commissioning



Source: Company, BOBCAPS Research

Valuation methodology

We like STRCEM for its strong presence in the remunerative northeastern market, plans to derisk revenue, and light debt burden despite capex. Further, high demand in the region owing to government-led infrastructure buildout is likely to trigger healthy realisations, implying better ROE/ROCE (13-14% in FY25E).

With the industry cost structure staying elevated, we believe competitors will find it difficult to tap the far-flung northeast market without a base in the region. Hence, we see stronger earnings visibility for STRCEM. Geographical diversification by way of entry into West Bengal will further derisk the company's earnings.

The stock is currently trading at 7x FY25E EV/EBITDA. We maintain our BUY rating, valuing the stock at 8x FY25E EV/EBITDA for a TP of Rs 138 (unchanged) – implying a replacement cost of Rs 6.6bn/mt, 6% discount to the benchmark due to the company's limited reach at present. Plans to diversify into the central and northern markets will warrant higher valuations, once they crystallise.

Fig 9 – Key assumptions

Parameter	FY22	FY23E	FY24E	FY25E
Volumes (mt)	3.3	3.8	4.6	5.6
Realisations (Rs/mt)	6,015	6,767	6,970	6,970
Operating costs (Rs/mt)	5,694	5,990	6,031	5,914
EBITDA/mt (Rs)	1,048	1,055	1,177	1,253

Source: Company, BOBCAPS Research

Fig 10 – Valuation summary

(Rs mm)	FY25E
Target EV/EBITDA (x)	8
EBITDA	7,010
Target EV	56,081
Total EV	56,081
Net debt	504
Target market capitalisation	55,577
Target price (Rs/sh)	138
Weighted average shares (mn)	404

Source: BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
STRCEM IN	BUY	138	10.7	9.5	6.7	96	114	105	9.6	10.7	13.3	13.3	15.4	18.1
ORCMNT IN	HOLD	140	8.0	5.6	4.2	41	39	38	6.1	10.6	14.7	9.0	14.4	19.4
JKLC IN	SELL	551	13.2	11.6	10.4	93	91	100	12.7	13.6	14.6	16.8	17.7	17.4

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- cost inflation staying elevated,
- any change in regulatory framework by the Indian government (such as a change in environmental laws), implying a capex rush on the region, and
- faster-than-expected capex, thereby adding stress on the balance sheet.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.4	1,927	2,090	HOLD
Ambuja Cement	ACEM IN	9.1	374	387	HOLD
Dalmia Bharat	DALBHARA IN	4.4	1,868	1,835	HOLD
JK Cement	JKCE IN	2.5	2,629	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	746	551	SELL
Orient Cement	ORCMNT IN	0.3	120	140	HOLD
Shree Cement	SRCM IN	10.8	24,468	24,656	HOLD
Star Cement	STRCEM IN	0.6	112	138	BUY
The Ramco Cements	TRCL IN	2.0	683	534	SELL
Ultratech Cement	UTCEN IN	25.3	7,189	8,310	BUY

Source: BOBCAPS Research, NSE | Price as of 3 Feb 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	17,186	22,187	26,769	32,869	39,868
EBITDA	3,326	3,453	4,042	5,405	7,010
Depreciation	(900)	(1,216)	(1,325)	(1,480)	(1,587)
EBIT	2,708	2,570	3,000	4,158	5,482
Net interest inc./(exp.)	(70)	(133)	(155)	(343)	(215)
Other inc./(exp.)	282	334	283	233	59
Exceptional items	(646)	0	0	0	0
EBT	1,993	2,437	2,845	3,815	5,267
Income taxes	(120)	31	(689)	(1,209)	(1,672)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,872	2,468	2,156	2,606	3,595
Adjustments	646	0	0	0	0
Adjusted net profit	2,518	2,468	2,156	2,606	3,595

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	985	1,146	2,183	2,788	3,335
Other current liabilities	3,643	4,501	4,630	5,093	5,857
Provisions	99	66	72	80	88
Debt funds	153	54	57	5,057	1,157
Other liabilities	0	0	0	0	0
Equity capital	412	404	404	404	404
Reserves & surplus	20,329	21,280	22,983	25,133	28,268
Shareholders' fund	20,741	21,684	23,387	25,537	28,672
Total liab. and equities	25,621	27,451	30,329	38,554	39,108
Cash and cash eq.	4,717	3,847	3,659	483	653
Accounts receivables	1,317	1,287	1,467	1,936	2,348
Inventories	2,347	1,953	2,200	2,882	3,277
Other current assets	4,189	4,863	5,049	5,150	5,202
Investments	17	1,637	1,637	1,637	1,637
Net fixed assets	8,219	9,225	8,322	19,080	19,574
CWIP	1,266	1,091	4,091	3,091	1,691
Intangible assets	10	10	12	14	17
Deferred tax assets, net	3,539	3,539	3,893	4,282	4,711
Other assets	0	0	0	0	0
Total assets	25,622	27,451	30,329	38,554	39,108

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	3,455	4,333	3,687	3,521	5,214
Capital expenditures	(1,173)	(1,959)	(3,424)	(11,241)	(683)
Change in investments	(1)	(1,620)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,174)	(3,579)	(3,424)	(11,241)	(683)
Equities issued/Others	20	420	0	0	0
Debt raised/repaid	20	(99)	3	5,000	(3,900)
Interest expenses	6	7	8	9	10
Dividends paid	(419)	(419)	(419)	(419)	(419)
Other financing cash flows	(3)	(1,525)	(34)	(37)	(41)
Cash flow from financing	(383)	(1,624)	(450)	4,544	(4,360)
Chg in cash & cash eq.	1,897	(870)	(188)	(3,176)	170
Closing cash & cash eq.	4,717	3,847	3,659	483	653

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	4.5	5.9	5.1	6.2	8.6
Adjusted EPS	6.0	5.9	5.1	6.2	8.6
Dividend per share	1.0	1.0	1.0	1.0	1.0
Book value per share	49.5	51.7	55.8	60.9	68.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	2.5	1.9	1.6	1.6	1.2
EV/EBITDA	12.7	12.5	10.7	9.5	6.7
Adjusted P/E	18.6	19.0	21.7	18.0	13.0
P/BV	2.3	2.2	2.0	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	94.0	101.3	75.8	68.3	68.2
Interest burden (PBT/EBIT)	97.4	94.8	94.8	91.8	96.1
EBIT margin (EBIT/Revenue)	15.8	11.6	11.2	12.7	13.8
Asset turnover (Rev./Avg TA)	69.9	83.6	92.7	95.4	102.7
Leverage (Avg TA/Avg Equity)	1.2	1.3	1.3	1.4	1.4
Adjusted ROAE	12.4	11.6	9.6	10.7	13.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(6.6)	29.1	20.7	22.8	21.3
EBITDA	(15.8)	3.8	17.1	33.7	29.7
Adjusted EPS	(11.8)	(2.0)	(12.6)	20.9	37.9
Profitability & Return ratios (%)					
EBITDA margin	19.3	15.5	15.1	16.4	17.6
EBIT margin	15.7	11.6	11.2	12.6	13.7
Adjusted profit margin	14.7	11.1	8.1	7.9	9.0
Adjusted ROAE	12.4	11.6	9.6	10.7	13.3
ROCE	13.4	12.1	13.3	15.4	18.1

Working capital days (days)

Receivables	28	21	20	22	22
Inventory	50	32	30	32	30
Payables	26	22	35	37	37

Ratios (x)

Gross asset turnover	1.2	1.4	1.6	1.1	1.3
Current ratio	2.7	2.1	1.8	1.3	1.2
Net interest coverage ratio	38.8	19.3	19.4	12.1	25.5
Adjusted debt/equity	0.0	0.0	0.0	0.2	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

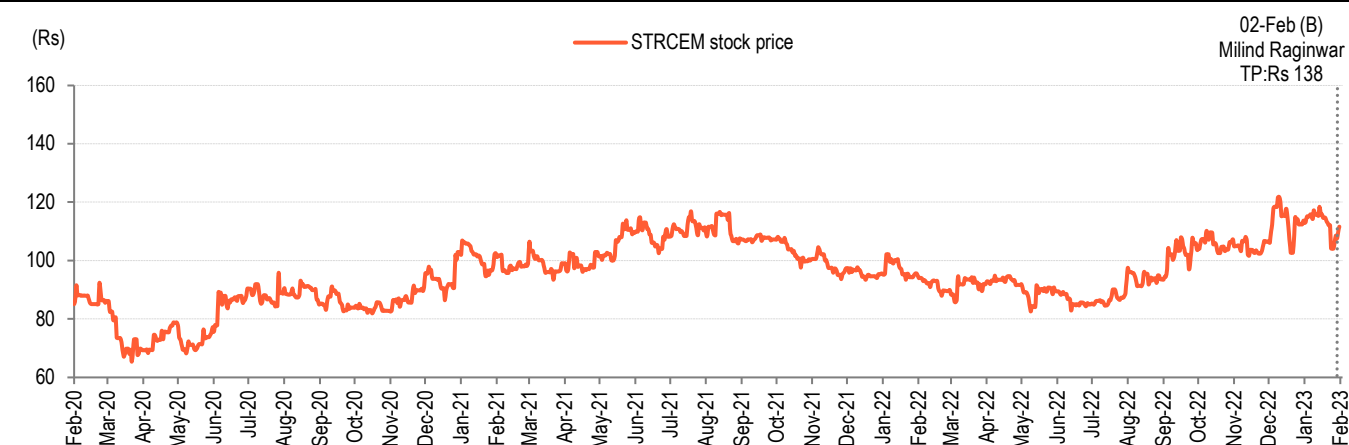
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): STAR CEMENT (STRCEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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