

**CMP Rs 96**

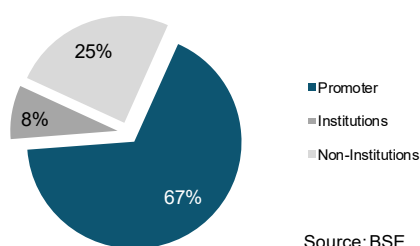
**Target Rs 134**

**Result Update – BUY**

**Key Share Data**

Face Value (INR)	1.0
Equity Capital (INR Mn)	412.4
Market Cap (INR Mn)	39,551.9
52 Week High/Low (INR)	108/56
6 months Avg. Daily Volume (NSE)	4,17,449
BSE Code	540575
NSE Code	STARCEMENT
Bloomberg Code	STRCEM:IN

**Shareholding Pattern (as on December 2020)**



**Key Financials (Rs Million)**

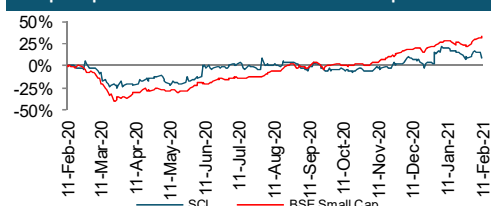
Particulars	FY20	FY21E	FY22E	FY23E
Net Sales	18,438.6	16,907.7	23,838.9	27,984.8
Growth (%)	0.7%	-8.3%	41.0%	17.4%
EBITDA	3,950.9	3,396.8	5,227.9	6,296.6
PAT	2,855.5	1,785.9	3,832.9	4,238.7
Growth (%)	-4.4%	-37.5%	114.6%	10.6%
EPS (Rs)	6.9	4.3	9.3	10.3
BVPS (Rs)	46.7	49.6	57.0	65.4

**Key Financials Ratios**

Particulars	FY20	FY21E	FY22E	FY23E
P/E (x)	13.9	22.1	10.3	9.3
P/BVPS (x)	2.1	1.9	1.7	1.5
Mcap/Sales (x)	2.1	2.3	1.7	1.4
EV/EBITDA (x)	9.4	10.8	6.8	5.5
ROCE (%)	13.4%	10.1%	14.7%	15.7%
ROE (%)	14.8%	8.7%	16.3%	15.7%
EBITDA Mar (%)	21.4%	20.1%	21.9%	22.5%
PAT Mar (%)	15.5%	10.6%	16.1%	15.1%
Debt - Equity (x)	0.0	0.0	0.0	0.0

Source: Company, SKP Research

**12M price performance SCL vis-à-vis BSE Small Cap**



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**Company Background**

Star Cement Ltd (SCL), promoted by Mr. Sajjan Bhajanka, Mr. Sanjay Agarwal (also promoters of Century Plyboards) and Mr. Rajendra Chamaria, is the largest cement player in India's North East Region (NER) with ~24% market share selling under 'Star Cement' brand. It has fully integrated cement plants with installed capacity of 5.7 MTPA of cement; 3.0 MTPA of clinker and a 51 MW power plant spread across Sikkim, Meghalaya and Assam.

**Investment Rationale**

**Logistic disruptions led to subdued performance**

- During Q3FY21, SCL net sales de-grew by ~6.1% y-o-y to Rs 4.2 bn, on account of ~8% y-o-y decrease in dispatches to ~0.66 million tons (mn tn) driven by logistic disruptions in Meghalaya which is likely to ease out by mid-February, 2021. Realization improved by mere ~2% y-o-y to Rs 6,396/tn, on account of higher sales in North East Region (NER) where the prices remained stable with an upward bias compared to muted prices in Eastern region. The core NER contributed ~81% (~75% in Q2FY21) and Eastern Region contributed ~19% (~25% in Q2FY21) of total dispatches in Q3FY21. The trade/nontrade mix stood at 87%/13% while premium product contributed ~3% to overall revenue.
- Cement prices in East India corrected by Rs 20-25/bag in Q3FY21 with a further drop of Rs 10-15/bag in Jan/Feb 2021 due to intense competition and supply glut. However, with low per capita consumption of cement in East India, Management is optimistic that with sustainable increase in demand on the back of housing and infrastructure activities the additional supply will get absorbed and price trend in East will likely see some reversal.
- Going forward, we expect SCL sales volume to grow by ~40% and ~16% to ~3.7 mn tn and ~4.3 mn tn in FY22E and FY23E respectively driven by (1) Govt's thrust on infrastructure development with allocation of more funds in Budget 2021 (2) highway road expansion in East (3) premiumization coupled with robust distribution network and retail-centric business model resulting in better capacity utilization and higher sales volume.

**Lower volumes & higher operational expenses acted as a deterrent**

- EBITDA margin during Q3FY21 fell by 100 bps y-o-y to ~19.8% on account of lower volumes and higher power & fuel costs and other expenses which as a percentage of sales increased by 238 bps to ~52.4%. This was partially offset by reduction in raw material costs. Overall the cost/ton rose by ~3% in Q3FY21 vis-à-vis last year while EBITDA/tn fell by ~3% y-o-y to Rs 1,268/tn in Q3FY21.
- Discretionary costs like advertising and promotional expenses are normalising with recovery in demand. The ban on coal mining in the NER continues and the Company sources its coal requirement from Eastern Coalfields, subsidiary of Coal India which has also increased the coal costs by ~5-6%, in line with increase in imported coal prices. Going forward, the overall cost is expected to go up with further increase in power & fuel costs. However, with commissioning of ~2 mn tn grinding unit (GU) at Siliguri, rationalization would be seen in logistic costs. Therefore, we expect lower volumes and cost headwinds to weigh on FY21 EBITDA/tn. However, with buoyancy in demand, EBITDA margin is to stabilize at ~22.5% with EBITDA/tn nearing ~1,463/tn by FY23E.

- SCL charged ~Rs 645.7 mn in Q3FY21 on account of exceptional item as a result of reversal of its earlier claim of 50% excise refund made in 2012, entailing a cash outflow of ~322.85 mn. This has resulted in ~102% reduction in PAT y-o-y to negative ~17.5 mn.

**Strong expansion plans in pipeline augurs well**

- Recently, SCL commissioned its ~2 mn tn Siliguri GU with an aim to expand its footprint further in East India market and establish a decent market for its brand. They expect to increase the revenue share of East India to 40% (currently contributing ~25% to total revenue) in two years' time on the back of expanded capacity.
- The Company is setting up a ~2 mn tn clinkerization unit which is likely to start commercial production by FY24E along with ~13-14 MW WHRS plant (expected to be commissioned by end FY23E) in Meghalaya for a total capex of ~Rs 9,500 mn to support its recent expansion at Siliguri. With an aim to increase its grinding capacity to ~12 mn tn and clinker capacity to ~8 mn tn in a span of 5 years, SCL is also planning to add cement GU in Guwahati with further plans to set up manufacturing units in Eastern and Central India. Accretion in cash flows with profitable NER operations will drive their expansion plans.

**Valuation**

With Government's focus on infrastructure development, SCL's leadership in NER with high entry barriers because of geographical location and challenging terrain, improved efficiency with lean balance sheet & excellent cash flows and undergoing geographical diversification benefits is likely to boost its profitability. We have valued the stock on the basis of EV/EBITDA of 8x of FY23E EBITDA – method of relative valuation, lowering it from 10x of FY22E EBITDA on the back of intensified competition in the East with new capacity addition in pipeline and recommend a 'BUY' on the stock with a target price of ~Rs 134 (~40% upside) in 18 months.

**Q3FY21 Result Update**

**Exhibit: Q3FY21 Consolidated Result Review**

Figures in Rs Million

Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
<b>Total Income</b>	<b>4,234.4</b>	<b>4,511.64</b>	<b>-6.1%</b>	<b>4,019.0</b>	<b>5.4%</b>	<b>11,173.1</b>	<b>12,944.9</b>	<b>-13.7%</b>
<b>Expenditure</b>	<b>3,394.6</b>	<b>3,571.8</b>	<b>-5.0%</b>	<b>3,229.7</b>	<b>5.1%</b>	<b>8,890.9</b>	<b>10,240.1</b>	<b>-13.2%</b>
Material Consumed	929.2	872.5	6.5%	797.4	16.5%	2,356.7	2,437.7	-3.3%
<i>(as a % of Total Income)</i>	<b>21.9%</b>	<b>19.3%</b>	<b>261 Bps</b>	<b>19.8%</b>	<b>210 Bps</b>	<b>21.09%</b>	<b>18.83%</b>	<b>226 Bps</b>
Purchases of stock-in-trade	139.2	196.1	-29.0%	138.8	0.3%	394.0	556.7	-29.2%
<i>(as a % of Total Income)</i>	<b>3.3%</b>	<b>4.3%</b>	<b>(106)Bps</b>	<b>3.5%</b>	<b>(17)Bps</b>	<b>3.5%</b>	<b>4.3%</b>	<b>(77)Bps</b>
Employees Cost	340.5	323.8	5.2%	308.8	10.3%	952.4	915.7	4.0%
<i>(as a % of Total Income)</i>	<b>8.0%</b>	<b>7.2%</b>	<b>86 Bps</b>	<b>7.7%</b>	<b>36 Bps</b>	<b>8.5%</b>	<b>7.1%</b>	<b>145 Bps</b>
Changes in Inventories & WIP	(235.0)	(79.2)	196.8%	208.9	-212.5%	(183.9)	(129.4)	42.1%
<i>(as a % of Total Income)</i>	<b>-5.6%</b>	<b>-1.8%</b>	<b>(380)Bps</b>	<b>5.2%</b>	<b>(1,075)Bps</b>	<b>-1.6%</b>	<b>-1.0%</b>	<b>(65)Bps</b>
Other Expenses	2,220.7	2,258.5	-1.7%	1,775.7	25.1%	5,371.8	6,459.4	-16.8%
<i>(as a % of Total Income)</i>	<b>52.4%</b>	<b>50.1%</b>	<b>238 Bps</b>	<b>44.2%</b>	<b>826 Bps</b>	<b>48.1%</b>	<b>49.9%</b>	<b>(182)Bps</b>
<b>EBITDA</b>	<b>839.7</b>	<b>939.9</b>	<b>-10.7%</b>	<b>789.3</b>	<b>6.4%</b>	<b>2,282.2</b>	<b>2,704.7</b>	<b>-15.6%</b>
<i>EBITDA Margin (%)</i>	<b>19.8%</b>	<b>20.8%</b>	<b>(100)Bps</b>	<b>19.6%</b>	<b>19 Bps</b>	<b>20.4%</b>	<b>20.9%</b>	<b>(47)Bps</b>
Depreciation	208.2	232.3	-10.4%	210.7	-1.2%	622.6	679.6	-8.4%
<b>EBIT</b>	<b>631.5</b>	<b>707.6</b>	<b>-10.7%</b>	<b>578.6</b>	<b>9.1%</b>	<b>1,659.5</b>	<b>2,025.2</b>	<b>-18.1%</b>
Other Income	74.4	65.1	14.4%	65.8	13.1%	199.0	215.5	-7.7%
Interest Expense	18.9	38.3	-50.6%	18.1	4.3%	53.6	73.8	-27.3%
Exceptional Items, net	(645.7)	-	-	-	-	(645.7)	-	-
<b>Profit Before Tax</b>	<b>41.3</b>	<b>734.3</b>	<b>-94.4%</b>	<b>626.3</b>	<b>-93.4%</b>	<b>1,159.2</b>	<b>2,166.9</b>	<b>-46.5%</b>
Income Tax	40.5	22.0	83.6%	11.6	249.0%	101.2	162.4	-37.6%
<b>Effective Tax Rate (%)</b>	<b>98.0%</b>	<b>3.0%</b>	-	<b>1.9%</b>	-	<b>8.7%</b>	<b>7.5%</b>	-
Non-Controlling Interest	(18.3)	(0.5)	-	(12.0)	-	(39.6)	(7.4)	-
<b>Profit After Tax (PAT)</b>	<b>(17.5)</b>	<b>711.8</b>	<b>-102.5%</b>	<b>602.7</b>	<b>-102.9%</b>	<b>1,018.3</b>	<b>1,997.2</b>	<b>-49.0%</b>
<i>PAT Margins (%)</i>	<b>-0.41%</b>	<b>15.78%</b>	<b>(1,619)Bps</b>	<b>15.00%</b>	<b>(1,541)Bps</b>	<b>9.11%</b>	<b>15.43%</b>	<b>(631)Bps</b>
Diluted EPS	(0.0)	1.7	-102.3%	1.5	-102.7%	2.5	5.0	-50.5%

Source: Company Data, SKP Research

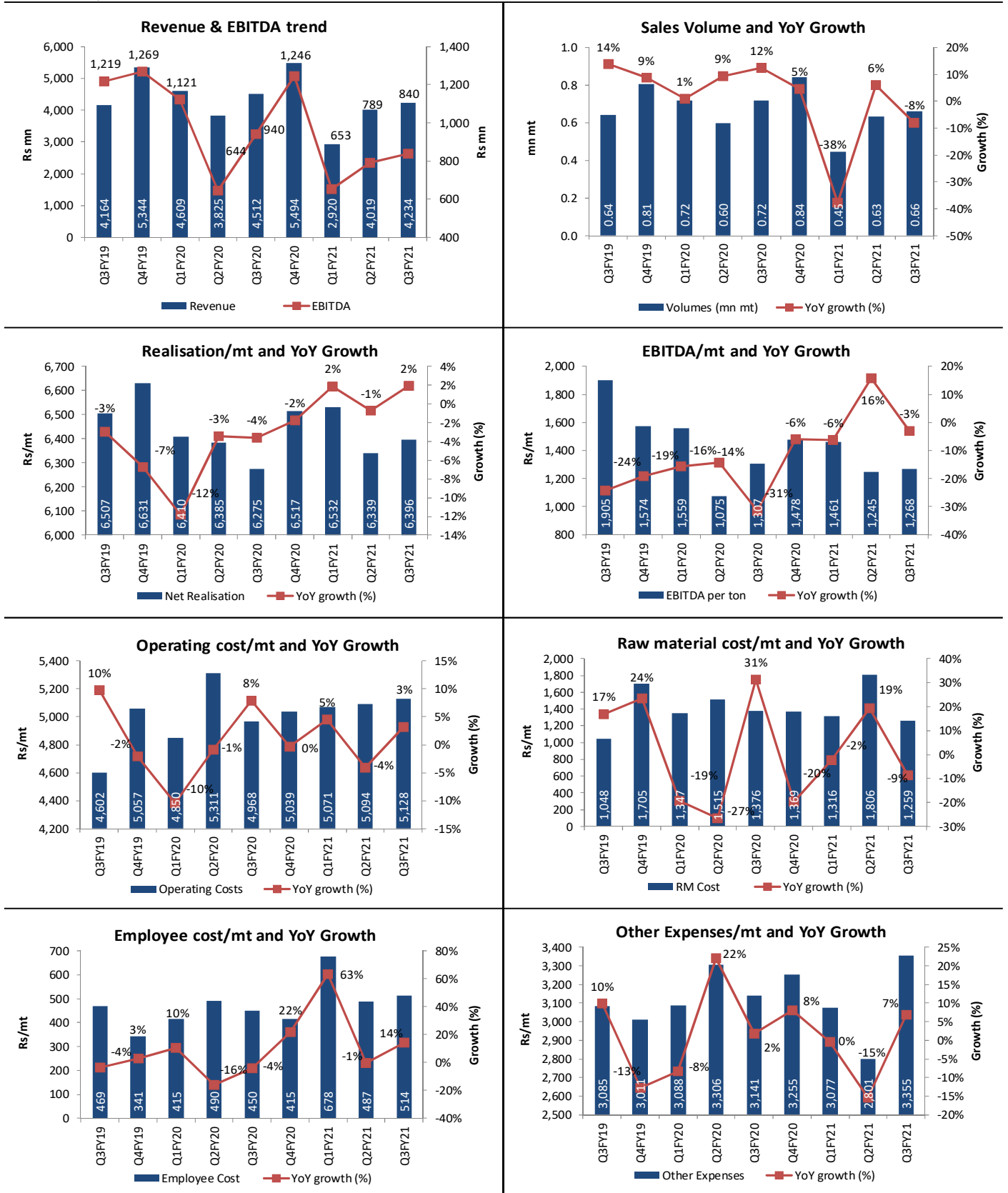
**Exhibit: Operational Data**

Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Dispatches (Mn ton)	0.7	0.7	-7.9%	0.7	1.5%	1.8	2.1	-13.1%
Realisation (Rs/ton)	6,396.3	6,274.9	1.9%	6,164.1	3.8%	6,173.0	6,214.5	-0.7%
EBITDA (Rs/ton)	1,268.4	1,307.2	-3.0%	1,210.6	4.8%	1,260.9	1,298.5	-2.9%

Source: Company Data, SKP Research

**Financial & Operational Matrix**

Exhibit: Quarterly Charts



Source: Company, SKP Research

## **Risks & Concerns**

### **Cyclicality of the cement industry**

- ▶ Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cyclical in the industry, with low pricing power, may also put pressure on the group's margin. SCL being a regional player is exposed to the vulnerability of regional demand and supply patterns. However, the company is steadily diversifying in the eastern market to mitigate this risk.

### **Volatility in raw material costs**

- ▶ SCL remains exposed to volatile raw material and power prices and freight costs, which constitutes ~50-55% of total cost of production. Any rise in input price may moderate profitability. Currently road freight accounts for ~80% of total freight cost and any sharp rise in diesel prices can inflate cost pressures which might impact margins negatively.

### **Delay in project execution may lead to lower capacity utilizations**

- ▶ Any material delay in infrastructure project execution will lead to lower utilization of its existing capacity resulting in lower sales volumes and pricing power.

**Exhibit: Income Statement**

Figures in Rs Million

Particulars	FY20	FY21E	FY22E	FY23E
<b>Total Income</b>	<b>18,438.6</b>	<b>16,907.7</b>	<b>23,838.9</b>	<b>27,984.8</b>
<b>Expenditure</b>	<b>14,487.8</b>	<b>13,511.0</b>	<b>18,611.0</b>	<b>21,688.2</b>
Material Cost	3,310.7	3,313.9	4,574.7	5,429.1
Traded goods	708.2	576.6	758.1	811.6
Employee Cost	1,265.6	1,352.6	1,525.7	1,735.1
Admin & Other Exp.	9,203.2	8,267.9	11,752.6	13,712.6
<b>EBITDA</b>	<b>3,950.9</b>	<b>3,396.8</b>	<b>5,227.9</b>	<b>6,296.6</b>
Depreciation	929.5	955.2	1,196.1	1,426.6
<b>EBIT</b>	<b>3,021.3</b>	<b>2,441.6</b>	<b>4,031.8</b>	<b>4,870.0</b>
Other Income	287.2	304.3	333.7	363.8
Interest Expense	93.4	70.8	54.1	44.1
<b>Profit Before Tax (PBT)</b>	<b>3,215.2</b>	<b>2,029.4</b>	<b>4,311.4</b>	<b>5,189.7</b>
Income Tax	342.1	207.0	439.8	908.2
<b>Profit After Tax (PAT)</b>	<b>2,873.0</b>	<b>1,822.4</b>	<b>3,871.6</b>	<b>4,281.5</b>
Minority Interest	17.5	36.4	38.7	42.8
<b>Adj PAT (Post Minority)</b>	<b>2,855.5</b>	<b>1,785.9</b>	<b>3,832.9</b>	<b>4,238.7</b>
<b>Diluted EPS</b>	<b>6.9</b>	<b>4.3</b>	<b>9.3</b>	<b>10.3</b>

**Exhibit: Cash Flow Statement**

Figures in Rs Million

Particulars	FY20	FY21E	FY22E	FY23E
<b>Profit Before Tax (PBT)</b>	<b>3,215.2</b>	<b>2,029.4</b>	<b>4,311.4</b>	<b>5,189.7</b>
Depreciation	915.0	955.2	1,196.1	1,426.6
Finance Costs	93.4	70.8	54.1	44.1
Chg. in Working Capital	1,381.7	185.7	(921.7)	(787.1)
Direct Taxes Paid	(505.0)	(207.0)	(439.8)	(908.2)
Other Charges	(270.7)	(304.3)	(333.7)	(363.8)
<b>Operating Cash Flows</b>	<b>4,829.6</b>	<b>2,729.7</b>	<b>3,866.4</b>	<b>4,601.3</b>
Capital Expenditure	(2,270.9)	(2,100.0)	(2,400.0)	(3,100.0)
Others	915.4	(997.7)	(169.3)	(541.2)
<b>Investing Cash Flows</b>	<b>(1,355.5)</b>	<b>(3,097.7)</b>	<b>(2,569.3)</b>	<b>(3,641.2)</b>
Inc / (Dec) in Debt	(402.1)	(90.7)	-	-
Dividend Paid (inc tax)	(497.2)	(618.6)	(824.9)	(824.9)
Buy Back Expense	(1,020.0)	(0.0)	-	-
Others	(93.4)	(70.8)	(54.1)	(44.1)
<b>Financing Cash Flows</b>	<b>(2,012.7)</b>	<b>(780.2)</b>	<b>(879.0)</b>	<b>(869.0)</b>
<b>Chg. in Cash &amp; Cash Eqv</b>	<b>1,461.4</b>	<b>(1,148.1)</b>	<b>418.1</b>	<b>91.1</b>
Opening Cash Balance	949.1	2,410.6	1,262.5	1,680.6
Balances with Banks	409.2	1,709.2	2,209.2	3,109.2
<b>Closing Cash Balance</b>	<b>2,819.7</b>	<b>2,971.6</b>	<b>3,889.7</b>	<b>4,880.8</b>

Source: Company, SKP Research

**Exhibit: Balance Sheet**

Figures in Rs Million

Particulars	FY20	FY21E	FY22E	FY23E
Share Capital	412.4	412.4	412.4	412.4
Reserve & Surplus	18,158.8	19,326.1	22,334.2	25,748.0
<b>Shareholders Funds</b>	<b>18,571.3</b>	<b>19,738.5</b>	<b>22,746.6</b>	<b>26,160.4</b>
<b>Total Debt</b>	<b>133.6</b>	<b>42.9</b>	<b>42.9</b>	<b>42.9</b>
Minority Interest	700.5	737.0	775.7	818.5
Liabilities & Provisions	4,176.2	4,705.4	5,011.6	5,523.6
<b>Total Liabilities</b>	<b>23,581.5</b>	<b>25,223.7</b>	<b>28,576.7</b>	<b>32,545.3</b>
<b>Net Block inc. Capital WIP</b>	<b>9,336.7</b>	<b>10,481.6</b>	<b>11,685.5</b>	<b>13,358.9</b>
Deferred Tax (Net)	2,893.4	2,893.4	2,893.4	2,893.4
<b>Current Assets</b>				
Inventories	2,569.1	2,711.7	3,035.8	3,389.2
Sundry Debtors	1,222.2	1,371.8	1,763.1	2,070.4
Cash & Bank Balance	2,819.7	2,971.6	3,889.7	4,880.8
Other Current Assets	3,515.6	3,554.2	3,937.0	4,425.2
Loans and Advances	493.9	524.1	567.4	640.9
Other Non Current Assets	730.8	715.3	804.9	886.6
<b>Total Assets</b>	<b>23,581.5</b>	<b>25,223.7</b>	<b>28,576.7</b>	<b>32,545.3</b>

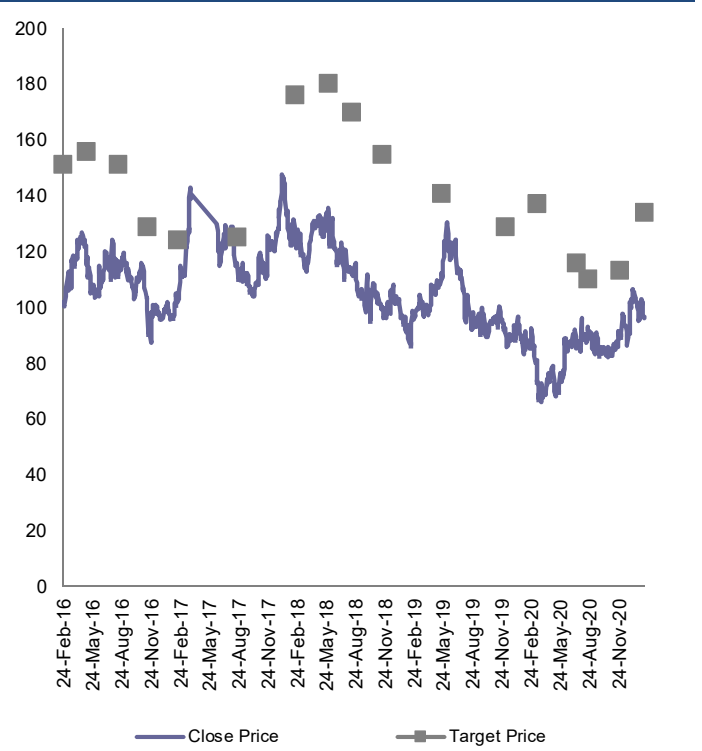
**Exhibit: Ratio Analysis**

Particulars	FY20	FY21E	FY22E	FY23E
<b>Earning Ratios (%)</b>				
EBITDA Margin (%)	21.4%	20.1%	21.9%	22.5%
PAT Margins (%)	15.5%	10.6%	16.1%	15.1%
ROCE (%)	13.4%	10.1%	14.7%	15.7%
ROE (%)	14.8%	8.7%	16.3%	15.7%
<b>Per Share Data (INR)</b>				
Diluted EPS	6.9	4.3	9.3	10.3
Cash EPS (CEPS)	9.2	6.7	12.3	13.8
BVPS	46.7	49.6	57.0	65.4
<b>Valuation Ratios (x)</b>				
P/E	13.9	22.1	10.3	9.3
Price/BVPS	2.1	1.9	1.7	1.5
Market Cap/Sales	2.1	2.3	1.7	1.4
EV/Sales	2.0	2.2	1.5	1.2
EV/EBITDA	9.4	10.8	6.8	5.5
<b>Balance Sheet Ratios</b>				
Debt - Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	3.4	3.8	4.0
Fixed Asset Turn. Ratios	1.0	0.8	1.0	1.1

**Exhibit: Recommendation - History Table and Chart**

Date	Rating	Issue Price	Target Price	Upside Potential	Period (months)
24-Feb-16	BUY	105	151	44%	15
7-May-16	BUY	115	156	36%	18
11-Aug-16	BUY	112	151	35%	15
9-Nov-16	BUY	101	129	28%	15
13-Feb-17	BUY	104	124	19%	15
17-Aug-17	ACCUMULATE	114	125	10%	15
25-Nov-17	NEUTRAL	125	-	-	-
17-Feb-18	BUY	125	176	41%	18
1-Jun-18	BUY	130	180	38%	18
13-Aug-18	BUY	113	170	50%	18
15-Nov-18	BUY	100	155	55%	15
17-May-19	BUY	109	141	29%	15
3-Dec-19	BUY	93	129	39%	15
11-Mar-20	BUY	80	137	71%	18
14-Jul-20	BUY	87	116	33%	15
19-Aug-20	BUY	92	110	20%	15
27-Nov-20	BUY	90	113	26%	12
12-Feb-21	BUY	96	134	40%	18

Source: SKP Research



Source: BSE, SKP Research

## Notes:

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg and Thomson First Call.

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