February 09, 2021

Result Report – Q3 FY21 | Sector: Cement

Star Cement

BUY	CMP Rs96	Target Rs121	Upside 26%

Quarter marked by one-offs; maintain TP of Rs 121

Valuation and Outlook

- ✓ STAR's Q3FY21 performance was subdued as volumes/EBITDA stood 15%/17% lower than our estimates as repair and maintenance work of bridges near Shillong Pass led to sharp decline of 33% y/y in outside North East volumes (~20% of overall volumes). Accordingly, volume/EBITDA degrowth for the quarter was 8.2% y/y and 10.6% y/y respectively.

- ✓ However, key takeaway for us during Q3FY21 would be capacity expansion plans highlighted by company (from 5.7 MTPA currently to 10-12 MTPA over next 5 years) wherein STAR is contemplating to add 1.5-2 MTPA grinding unit in Guwahati, Bihar and Durgapur each alongside setting up clinker unit of ~3 MTPA in Madhya Pradesh/Chhattisgarh. STAR mentioned about procuring limestone block in Madhya Pradesh through group company. We believe that STAR's growth strategy is a focused one as company would continue to target demand growth in NER, Bihar and North Bengal regions – markets which are hedged against pricing disruption due to high cost of dispatch for peers.

- ✓ Further, our medium term investment thesis remains intact as we believe that ramp-up of 2 MTPA Siliguri unit would invigorate growth for the company – volume/EBITDA CAGR of 29.1%/21.1% respectively over FY21-FY23E. Moreover, despite capex of Rs 8.25 bn during the same period, STAR would continue to be debt-free with net cash reserves of Rs 2.75 bn by FY23E.

- ✓ In terms of valuations, at CMP of Rs 96, STAR is trading at EV/EBITDA of 6.8x on FY23E. We have assigned an EV/EBITDA multiple of 9x on FY23E and arrive at TP of Rs 121/share with potential upside of 26%. **We maintain our BUY rating on the stock. Key Risk:** Delay in EC grant for expansion of Meghalaya Clinker Unit.

Key Result highlights

- ✓ STAR's **total volumes** during Q3FY21 were 15% lower than our estimates and came in at 0.691 MT, decline of ~8% y/y. De-growth in volumes was primarily led by repair of bridges near Shillong bypass, leading to logistical issues and resulted into lower sales volumes outside North East (NER) market – which witnessed sharp decline of 33.2% y/y. Volumes in NER market at 0.54 MT remained stable (+1.3% y/y).

- ✓ **Net sales realization/te** stood at Rs 6,128 which was up by 2.3% y/y vs our estimate of +1% y/y.

- ✓ **Net sales** stood at Rs 4,234 mn, witnessing de-growth of 6.1% y/y and was 14% lower than our estimates due to lower volumes.

- ✓ **EBITDA/te** for the quarter was broadly in-line with our expectations – at Rs 1,215 (vs. our est. of Rs 1,247) declining by 2.6% y/y. Clinker production cost/te was down 5.5% sequentially as the company completely shifted to procurement of coal from Eastern coalfields as against part consumption of high cost imported coal last quarter. Accordingly, **EBITDA** for STAR declined by 10.6% y/y to Rs 840 mn vis-à-vis our estimates of Rs 1,014 mn.

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- ✓ STAR has incurred exceptional charge of Rs 645 mn related to differential excise duty and may result into cash outgo of Rs 300-350 mn. However, it remains as one-off in nature. This resulted into net loss for STAR at Rs 17 mn vs net profit of Rs 712 mn during Q3FY20.

Key Con-call Highlights

- ✓ Volumes declined by 8% y/y for STAR during the quarter as bridges near Shillong pass had undergone repair works translating into logistical issues. Accordingly, outside NER sales were significantly impacted – down 33.2% y/y. However, company expects the same to be resolved by 15th Feb 2021. Demand in North-east continues to remain stable (Q3FY21 NER volumes were +1.3% y/y).
- ✓ Prices in north east has remained steady but prices in eastern markets declined by ~Rs20-25/bag in Q3FY21 and further by Rs 10-15/bag in January 2021.
- ✓ Company has commissioned Siliguri grinding unit during the quarter. This unit will boost overall volumes in FY22E. Siliguri unit will help in overall cost savings as it will replace the 30% production of North-East that was traded to eastern markets. The unit will source its fly ash requirements from NTPC. Meghalaya clinker capacity will be operational by FY24E. For its WHRS plant, company targets to complete machinery ordering by this month end and expects the same to be operational in next 12-15 months.
- ✓ Company has shifted to procure entire coal requirement from eastern coal fields, and they did not import any quantity in Q3FY21. Coal India did take price hike of ~Rs 500/Te (+6-7%) which would be reflected from Q4FY21E onwards.
- ✓ In terms of company targeting to scale up capacity to 10-12 MTPA (5 year plan), STAR is contemplating the following locations for capacity additions – 1.5-2 MTPA grinding unit in Guwahati, Bihar and Durgapur each alongside setting up clinker unit of ~3 MTPA in Madhya Pradesh/Chhattisgarh.
- ✓ Trade-Non:Trade mix for Q3FY21 stood at 87%-13%
- ✓ Capex: The 2 MTPA clinker capacity coupled with WHRS plant combined will have capex of Rs 9.5 Bn of which Rs 2Bn will be spent in FY22E. The WHRS plant will be of 13-14 MW and total capex of this plant should be ~Rs 1.25 Bn.

Exhibit 1: Quarterly financials

Y/e 31 Mar (Rs mn)	Q3FY21	Q2FY21	qoq(%)	Q3FY20	yoy (%)
Revenue	4,234	4,019	5.4	4,512	(6.1)
Operating Profit	840	789	6.4	939	(10.6)
OPM (%)	19.8	19.6	19.1 bps	20.8	(99.2) bps
Other Income	74	66	13.1	65	14.4
Depreciation	208	211	(1.2)	232	(10.4)
Interest	19	18	4.3	38	(50.6)
PBT	41	626	(93.4)	734	(94.4)
Tax	40	12	249.0	22	83.6
PAT	(17)	603	-	712	-

Exhibit 2: Per tonne analysis

Per te (in Rs)	Q3FY21	Q2FY21	qoq(%)	Q3FY20	yoy (%)
Cement volumes (MT)	0.69	0.65	6.0	0.75	(8.2)
Net realization	6,128	6,164	(0.6)	5,992	2.3
Raw Material cost	1,206	1,756	(31.3)	1,314	(8.2)
Employee cost	493	474	4.1	430	14.6
Power and fuel cost	1,460	1,065	37.0	1,228	18.8
Freight cost	1,058	1,122	(5.7)	1,169	(9.5)
Other expenses	696	537	29.7	602	15.6
EBITDA	1,215	1,211	0.4	1,248	(2.6)

Exhibit 3: Financial Summary

Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Cement volumes (MTPA)	2.9	2.8	3.8	4.6
Revenues	18,439	17,074	23,199	27,522
EBITDA	3,951	3,529	4,244	5,176
EBITDA/te (Rs)	1,351	1,278	1,110	1,125
CFI	(2,271)	(650)	(2,450)	(5,150)
Net debt	(2,686)	(4,568)	(4,563)	(2,750)
Net debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.1)
Net debt/EBITDA (x)	(0.7)	(1.3)	(1.1)	(0.5)
ROE (%)	15.4	9.6	12.4	13.8
ROCE (%)	17.7	14.6	15.3	16.9
EV/EBITDA (x)	8.5	10.0	8.3	6.8
EV/ton ($)	130	88	88	88

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