

Star Cement

In a sweet spot

We maintain our BUY rating on Star Cement with an unchanged target price of INR 250/sh (10x Sep-26E consolidated EBITDA). Star remains in a sweet spot as its large expansion is about to get stabilised and grinding capacity is ramping up. Star is looking at volume pressure in Q1FY25E owing to heavy rains in the Northeast region and clinker production disruptions as the new line is being stabilised. However, it remains upbeat on achieving 20% YoY volume growth in FY25E as new expansions stabilise and demand firms up. Incentives accruals will also swell from Q2FY25 onwards. Additionally, Star opex should continue to cool off in FY25/26E on strong fuel mix management, rising share of green energy and other initiatives. Healthy operating cash flows should mostly fund Star's ongoing expansions, doubling its cement capacity to 11.7mn MT between FY23 and FY27. We estimate the net debt to EBITDA to remain under 1x along with pre-tax RoCE of 19-21% during FY25-27E.

- Heavy rains and plant disruptions impact on near-term volumes:** During Q4FY24 earnings con call, Star management had guided to deliver 6-7% volume growth in Q1FY25. However, the same seems difficult owing to heavy rains in the NE region and the election impact on sales. Additionally, while Star commissioned the 3.3mn MT brownfield clinker plant in Meghalaya on the 21st of April, it is still stabilising the same. This has also led to frequent shutdowns of the erstwhile kilns at the location, impacting even clinker production. Star had to even buy clinker from outside for its Siliguri grinding unit during Q1. However, despite a flattish volume outlook for Q1FY25, management remains confident of 20% YoY volume growth in FY25, driven by the ramp-up of cement and clinker plants from Q2FY25 onwards.
- Expansions broadly on track:** The 2mn MT greenfield SGU at Silchar is on track to be operational by the end of Q3FY26. Star will spend INR 3bn in FY25 and the rest of INR 2bn in FY26. The recently announced SGU at Jorhat (Assam) is also on track and is expected by FY27E. These will expand Star's footprint across south-eastern parts of Assam and double Star's total cement capacity to 11.7mn MT by FY27E (over FY23). The AAC block plant which was expected to be operational in Aug-24 is delayed to Q3FY25 owing to the rain-led disruptions. This plant has revenue and margin potential of INR 350-400mn and 20-25% respectively. Star would be spending ~INR 10bn in Capex in FY25 towards the completion of the clinker plant, ongoing grinding, AAC plants, WHRS and maintenance.
- Fuel cost reduction, rising green power share, other cost levers:** Star's average fuel cost is expected to reduce by ~INR 125-150/MT YoY in FY25, owing to its efficient fuel sourcing management. The company is also investing to increase AFR share to 15% by FY25 end. The 12MW WHRS plant will become operational in Q3FY25 (as against Q2 earlier) after the clinker plant is fully stabilised. Star is also looking to source renewal power (~25MW with 70% guaranteed supply) which should start from Jun-2025. These will accelerate the share of low-cost green power from sub-5/25% in FY23/24 to >55% by the end of FY26. Star is also investing in 55 wagons to reduce fly-ash transportation costs (FY26 onwards). These should continue to drive down Star's operating costs during FY25/26E, buoying its industry-leading margin.

BUY

CMP (as on 27 Jun 2024)	INR 211
Target Price	INR 250
NIFTY	24,045

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 250	INR 250
EBITDA revision %	FY25E (10.4)	FY26E (6.1)

KEY STOCK DATA

Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / (\$ mn)	85/1,022
6m avg traded value (INR mn)	186
52 Week high / low	INR 256/140

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.3)	19.8	49.2
Relative (%)	(17.8)	9.8	24.2

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	66.48	66.59
FIs & Local MFs	6.06	6.11
FPIs	1.05	1.52
Public & Others	26.41	25.78
Pledged Shares	0.00	0.05

Source : BSE

Pledged shares as % of total shares

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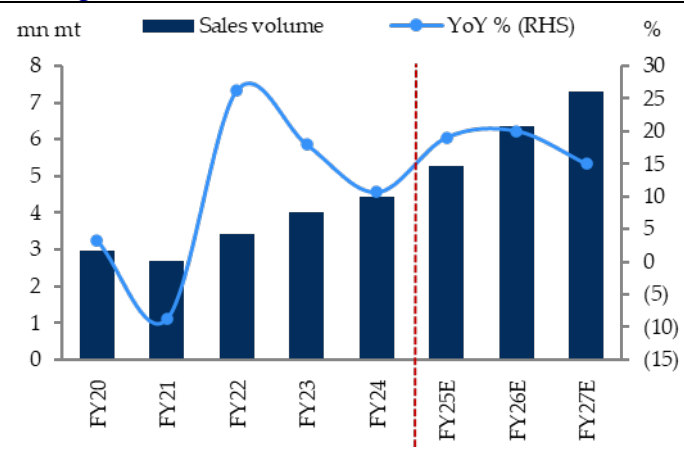
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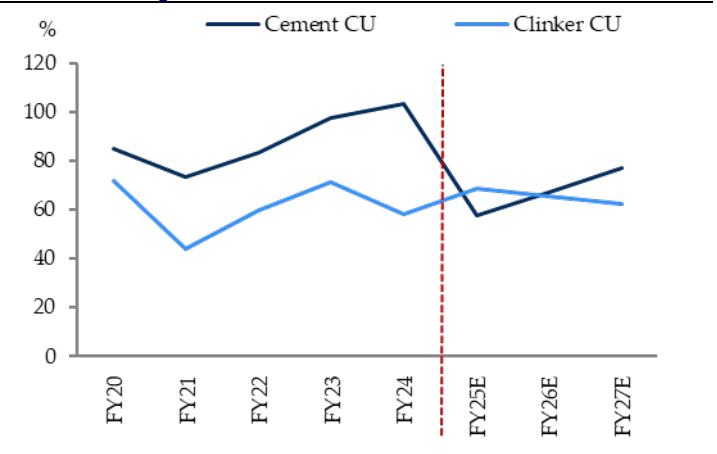
- Maintain BUY:** Star Cement remains in a sweet spot owing to the rising share of low-cost green power, fuel cost reduction, and timely expansion in the NE region with large GST incentives. Thus, Star should remain the largest seller in the lucrative NE region and continue to deliver the industry's best margins. Its balance sheet remains extremely comfortable (net debt to EBITDA < 1x) during FY24-27E, despite these expansions. We estimate pre-tax RoCE to remain very strong at 19-21% during FY25-27E. We lower our NSR assumptions for FY25/26E by 2.5/1.5% respectively, factoring in weaker than estimated pricing at the start of FY25, leading to EBITDA downgrades of 10/6% respectively. We also introduce FY27E estimates and roll forward valuation to Sep-26E vs Mar-26E currently. We maintain BUY with an unchanged TP of INR 250/share.

Consolidated volume is expected to clock 18% CAGR during FY24-27E



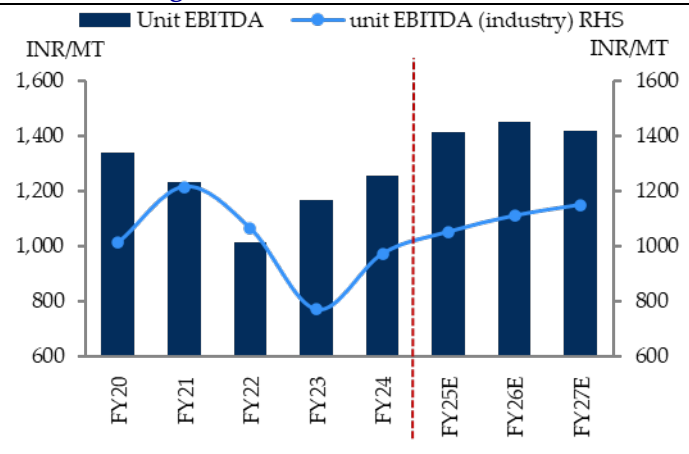
Source: Company, HSIE Research

Owing to expansions, cement and clinker utilisation will remain sub-par



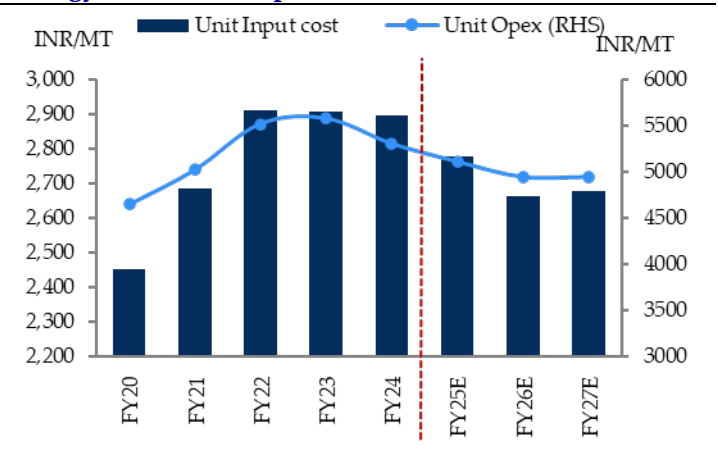
Source: Company, HSIE Research

Star should continue to deliver Industry leading EBITDA margin



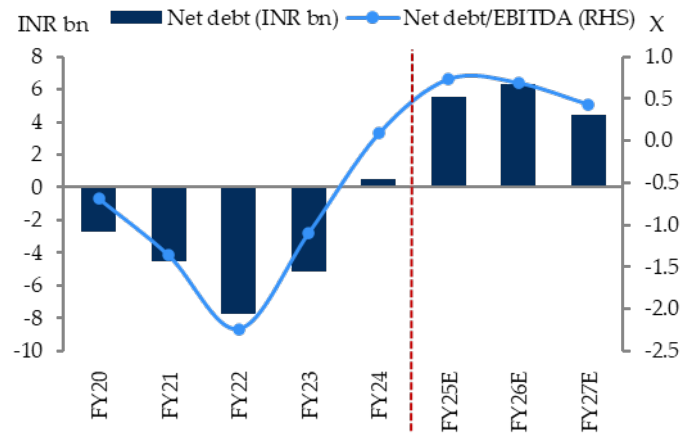
Source: Company, HSIE Research

Falling fuel cost and increasing share of low-cost green energy will reduce input cost



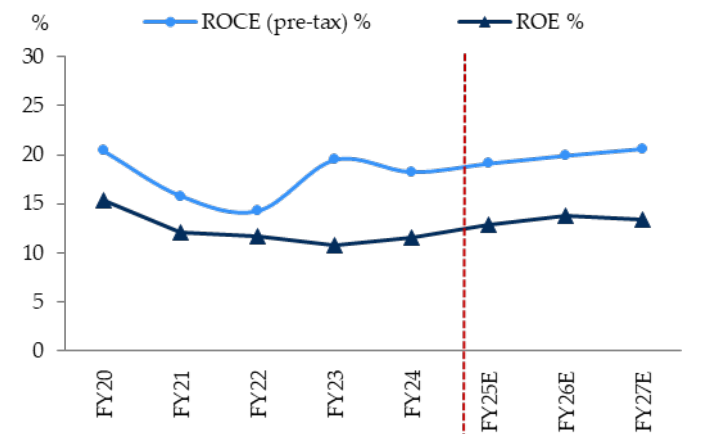
Source: Company, HSIE Research

Net debt/EBITDA to remain below 1x despite aggressive expansion plan



Source: Company, HSIE Research

Healthy return ratio to continue



Source: Company, HSIE Research

Key operational assumptions

	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cement Cap (mn MT)	5.7	5.7	7.7	7.7	9.7	11.7
Sales Volume (mn MT)	3.4	4.0	4.4	5.3	6.3	7.3
<i>YoY change (%)</i>	26.2	17.9	10.6	19.0	20.0	15.0
<i>Utilisation (%)</i>	59.8	70.5	57.8	68.7	65.4	62.4
(Rs/ MT trend)						
NSR	6,527	6,739	6,554	6,521	6,391	6,359
<i>YoY change (%)</i>	4.9	3.2	(2.7)	(0.5)	(2.0)	(0.5)
Raw Materials	1,685	1,559	1,647	1,614	1,614	1,630
Power & Fuel	1,225	1,347	1,250	1,162	1,046	1,046
Freight costs	1,255	1,262	1,103	1,081	1,102	1,119
Employee cost	468	491	484	447	410	410
Other expense	880	913	819	805	771	738
Total Opex	5,513	5,572	5,301	5,109	4,943	4,942
<i>YoY change (%)</i>	9.9	1.1	(4.9)	(3.6)	(3.2)	(0.0)
EBITDA per MT	1,014	1,167	1,253	1,413	1,448	1,417
<i>YoY change (%)</i>	(17.7)	15.1	7.4	12.8	2.5	(2.1)

Source: Company, HSIE Research

Estimates revision summary (consolidated)

INR bn	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %
Net Sales	35.3	34.5	-2.5	41.1	40.5	-1.4
EBITDA	8.3	7.5	-10.4	9.8	9.2	-6.1
APAT	4.3	3.7	-13.5	5.0	4.6	-8.3

Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	22,218	27,048	29,107	34,464	40,529	46,376
<i>Growth %</i>	29.2	21.7	7.6	18.4	17.6	14.4
Raw Material	5,736	6,257	7,313	8,528	10,234	11,887
Power & Fuel	4,169	5,406	5,551	6,143	6,635	7,630
Freight Expense	4,271	5,067	4,897	5,710	6,990	8,159
Employee cost	1,594	1,969	2,148	2,363	2,599	2,989
Other Expenses	2,996	3,664	3,635	4,253	4,891	5,380
EBITDA	3,453	4,684	5,563	7,466	9,181	10,331
<i>EBITDA Margin (%)</i>	15.5	17.3	19.1	21.7	22.7	22.3
<i>EBITDA Growth %</i>	3.8	35.7	18.8	34.2	23.0	12.5
Depreciation	1,216	1,311	1,466	1,798	2,014	2,376
EBIT	2,236	3,373	4,097	5,668	7,167	7,956
Other Income (Including EO Items)	334	521	265	81	71	78
Interest	133	97	126	218	410	544
PBT	2,437	3,797	4,236	5,531	6,828	7,490
Tax	(31)	1,321	1,285	1,825	2,253	2,472
RPAT	2,468	2,476	2,951	3,705	4,575	5,018
APAT	2,468	2,476	2,951	3,705	4,575	5,018
<i>APAT Growth (%)</i>	2.8	0.3	19.2	25.6	23.5	9.7
AEPS	6.1	6.1	7.3	9.2	11.3	12.4
<i>AEPS Growth %</i>	4.9	0.3	19.2	25.6	23.5	9.7

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS						
Share Capital	404	404	404	404	404	404
Reserves And Surplus	21,280	23,760	26,697	30,402	34,977	38,992
Total Equity	21,684	24,164	27,101	30,807	35,381	39,396
Long-term Debt	80	48	848	5,639	6,653	4,169
Short-term Debt	76	305	622	626	631	636
Total Debt	157	354	1,469	6,266	7,284	4,805
Deferred Tax Liability	(3,539)	(2,890)	(2,401)	(3,120)	(4,007)	(4,981)
TOTAL SOURCES OF FUNDS	18,302	21,627	26,170	33,952	38,658	39,220
APPLICATION OF FUNDS						
Net Block	9,235	8,909	14,159	16,211	19,096	22,605
Capital WIP	1,091	5,506	10,216	16,216	18,216	16,216
Total Non-current Assets	10,325	14,416	24,375	32,427	37,312	38,821
Inventories	1,953	3,741	3,350	4,136	4,864	5,565
Debtors	1,287	1,047	1,508	1,896	2,229	2,551
Cash and Cash Equivalents	7,881	5,493	993	771	953	335
Other Current Assets	2,465	3,727	3,397	3,408	3,513	3,634
Total Current Assets	13,586	14,008	9,248	10,210	11,559	12,085
Creditors	2,125	2,820	530	3,305	3,886	4,447
Other Current Liabilities & Provns	3,486	3,976	6,923	5,380	6,327	7,240
Total Current Liabilities	5,610	6,796	7,453	8,685	10,214	11,687
Net Current Assets	7,976	7,212	1,794	1,525	1,346	399
TOTAL APPLICATION OF FUNDS	18,302	21,627	26,170	33,952	38,658	39,220

Source: Company, HSIE Research

Consolidated Cash Flow

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	2,437	3,797	4,236	5,531	6,828	7,490
Non-operating & EO Items	(304)	(337)	(161)	(81)	(71)	(78)
Interest Expenses	133	97	126	218	410	544
Depreciation	1,190	1,289	1,418	1,798	2,014	2,376
Working Capital Change	2,227	(417)	41	(1,391)	(1,413)	(1,618)
Tax Paid	(350)	(677)	(762)	(1,106)	(1,366)	(1,498)
OPERATING CASH FLOW (a)	5,333	3,752	4,897	4,969	6,402	7,215
Capex	(1,974)	(5,694)	(10,391)	(9,850)	(6,900)	(3,885)
Free Cash Flow (FCF)	3,359	(1,942)	(5,494)	(4,881)	(498)	3,331
Investments	(2,385)	2,512	3,548	-	-	-
Non-operating Income	308	466	343	81	71	78
INVESTING CASH FLOW (b)	(4,050)	(2,717)	(6,501)	(9,769)	(6,829)	(3,806)
Debt Issuance/(Repaid)	(104)	197	972	4,796	1,019	(2,479)
Interest Expenses	(129)	(97)	(107)	(218)	(410)	(544)
FCFE	3,126	(1,842)	(4,629)	(303)	111	307
Share Capital Issuance	(1,524)	-	-	-	-	-
Dividend	-	-	-	-	-	(1,004)
FINANCING CASH FLOW (c)	(1,756)	100	865	4,578	609	(4,027)
NET CASH FLOW (a+b+c)	(474)	1,135	(738)	(222)	182	(618)
Closing Cash & Equivalents	4,243	9,017	4,755	771	953	335

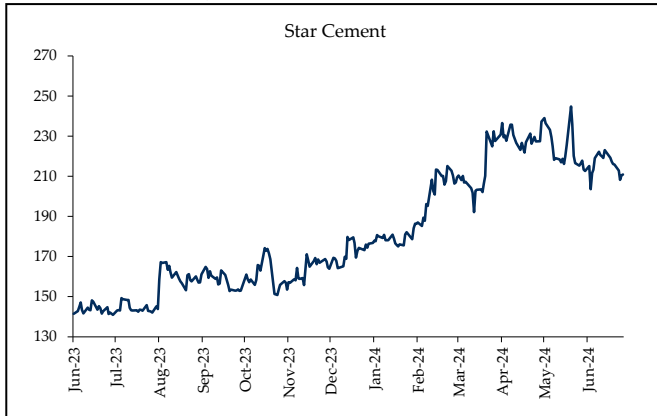
Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY %						
EBITDA Margin	15.5	17.3	19.1	21.7	22.7	22.3
EBIT Margin	10.1	12.5	14.1	16.4	17.7	17.2
APAT Margin	11.1	9.2	10.1	10.8	11.3	10.8
RoE	11.6	10.8	11.5	12.8	13.8	13.4
RoIC (pre-tax)	21.1	33.8	32.0	35.5	39.3	37.7
RoCE (pre-tax)	14.2	19.5	18.3	19.1	19.9	20.6
EFFICIENCY						
Tax Rate %	(1.3)	34.8	30.3	33.0	33.0	33.0
Fixed Asset Turnover (x)	1.5	1.6	1.4	1.3	1.3	1.3
Inventory (days)	32	50	42	44	44	44
Debtors (days)	21	14	19	20	20	20
Other Current Assets (days)	40	50	43	36	32	29
Payables (days)	35	38	7	35	35	35
Other Current Liab & Provns (days)	57	54	87	57	57	57
Cash Conversion Cycle (days)	2	23	10	8	4	0
Net Debt/EBITDA (x)	(2.2)	(1.1)	0.1	0.7	0.7	0.4
Net D/E	(0.4)	(0.2)	0.0	0.2	0.2	0.1
Interest Coverage	16.8	34.8	32.5	26.0	17.5	14.6
PER SHARE DATA (Rs)						
EPS	6.1	6.1	7.3	9.2	11.3	12.4
CEPS	9.1	9.4	10.9	13.6	16.3	18.3
Dividend	-	-	-	-	-	2.5
Book Value	53.7	59.8	67.1	76.2	87.5	97.5
VALUATION						
P/E (x)	34.6	34.4	28.9	23.0	18.6	17.0
P/Cash EPS (x)	23.1	22.5	19.3	15.5	12.9	11.5
P/BV (x)	3.9	3.5	3.1	2.8	2.4	2.2
EV/EBITDA (x)	22.3	16.5	14.5	11.1	9.0	7.9
EV/MT(Rs)	13.53	13.60	10.49	10.75	8.51	6.98
Dividend Yield (%)	-	-	-	-	-	1.2

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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