Star Cement

Multiple triggers for industry-best margins

We maintain our BUY rating on Star Cement with an unchanged target price of INR 240/sh (11x FY27E consolidated EBITDA). We recently interacted with the management on the company's growth prospects. Star's industry-best margin performance should continue to be buoyed by resumption of large GST incentives FY25 onwards along with savings from rising share of low-cost green power and stabilization of recently-commissioned kiln. It is also augmenting its TSR share to ~15% by H1FY26 and invested in a large fleet of trucks to reduce freight cost volatility. We estimate Star will deliver 11% volume CAGR during FY24-27E, and its margin will expand to ~INR 1,430/MT during FY26-27E. Star's cement capacity will expand by another 4mnMT by FY27-end with upcoming expansions in the north-east region which will bolster its market leadership. It has also won limestone mines in Rajasthan and Assam, which will pave the way for future expansions.

- **Volume growth to accelerate:** Cement demand continues to be strong in the north-east region (NER). Star expects to deliver ~10% volume growth in Q4FY25, leading to 6-7% YoY growth in FY25E. With its recently-commissioned clinker unit fully stabilized, Star is confident of capturing a large chunk of the incremental demand in the NER and hence deliver ~12-15% volume growth in FY26E. Its sales outside NER fell in FY25, which is expected to rebound in FY26E, adding to volume growth. Cement prices have marginally improved QoQ during Q4FY25 in the NER but remain flattish in the eastern region.
- **Rising incentive income to provide competitive edge**: As against average incentive accrual of ~INR 300/MT during FY23/FY24, it had fallen to ~INR 55/MT in FY24 as most of the incentives on older units expired. With the ramp-up of the recently-commissioned clinker and grinding units and the upcoming grinding units, the incentives accruals will again rebound to ~INR 320 per MT in FY25E and to >INR 350/MT during FY26/27E. We estimate Star's NSR (ex-incentives) to decline at 2% CAGR during FY24-27E, as we factor in rise in competitive intensity when Dalmia's expansions get operational during 2025. However, the incentives should more than offset the pricing decline, leading to a reported NSR CAGR of 0.5% in the said period.
- **Additional cost levers to buoy margin:** In FY25, delays in stabilization of the new kiln led to external clinker purchases, inflating Star's opex by ~INR 600mn. As this will not be there is subsequent years, FY26 cost should reduce by ~INR 110/MT YoY. Star is gradually ramping up its TSR share to 15% by H1FY26 from 4/9% at end of FY23/24. This will lead to fuel cost savings and opex reduction by ~INR 30/MT thereafter. The share of low-cost total green power consumption stood at ~29% in FY24 (including 25% WHRS share). With the full commission of the second WHRS of 12MW, the share of WHRS/green power will increase to ~35/40% in FY26E. Thus, its power cost is expected to reduce by ~INR 650mn in FY26E vs INR 350mn YoY. This implies additional opex savings of ~INR 55/MT. Further, Star will be sourcing green power from JSW Green Energy (under group captive scheme), which should commence from the start of FY27E. This will further bolster the share of green power to ~55% in FY27, leading to a further cost reduction of ~INR 70/MT, in our view. Star has recently bought 120 trucks for its clinker/raw materials movement. This is expected to reduce the volatility in freight costs during the peak demand period. Star expects its unit fuel cost to remain stable at ~INR 1.5/mnCal during FY25/26E.

BUY

CMP *(as on 7 Mar 2025)*	**INR 215**
Target Price	**INR 240**
NIFTY	**22,553**

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 240	INR 240
EBITDA revision %	FY25E	FY26E
	0.0	*4.9*

KEY STOCK DATA	
Bloomberg code	STRCEM IN
No. of Shares (mn)	404
MCap (INR bn) / ($ mn)	87/999
6m avg traded value (INR mn)	299
52 Week high / low	INR 256/172

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	6.1	(2.4)	3.6
Relative (%)	15.1	6.1	3.3

SHAREHOLDING PATTERN (%)	Sep-24	Dec-24
Promoters	66.47	57.69
FIs & Local MFs	4.98	4.95
FPIs	1.36	1.19
Public & Others	27.19	36.17
Pledged Shares	0.40	0.65

Source : BSE

Pledged shares as % of total shares

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Thus, overall, we estimate Star's variable costs to reduce by > INR 250/MT in FY27E (over FY25E). These should more than offset the increase in promotional expenses to bolster sales and overhead costs from the commissioning of the Silchar GU at the end of FY26E

- **Expansions progress and Capex outgo:** The 2mn MT greenfield SGU at Silchar is expected at the end of FY26E. Thereafter, the Jorhat SGU is expected by the end of 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 and construction chemical plants will get operational in Mar-25 and start contributing FY26 onwards (revenue and margin potential of INR 350-400mn and 20-25% respectively). Star has guided a Capex outgo of INR 6.7/6.6/5.4bn during FY25/26/27E towards these projects, including maintenance Capex.
- **New limestone mines to drive future expansions**: Star won limestone mines in Rajasthan in Q2FY25 (reserves of 64mn MT) and in Assam (193mn MT). Star would work on these projects during FY27-30E as the next round of its expansion. Star expects to commission an integrated plant in Rajasthan first, followed by a greenfield integrated plant in Assam.
- **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 consolidated volume CAGR of 11% along with 0.5% NSR CAGR. In the same period, as we expect unit opex to decline at 0.4% CAGR, unit EBITDA to rise to ~INR 1,430/MT during FY26-27E, maintaining its industry lead. We maintain BUY with an unchanged TP of INR 240/share.

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**	**4.7**	**5.3**	**6.0**
YoY change (%)	*26.2*	*17.9*	*10.6*	*6.1*	*13.0*	*13.0*
Utilisation (%)	*59.8*	*70.5*	*57.8*	*61.3*	*55.0*	*51.5*
(Rs/ MT trend)						
NSR	**6,527**	**6,739**	**6,554**	**6,597**	**6,663**	**6,663**
YoY change (%)	*4.9*	*3.2*	*(2.7)*	*0.6*	*1.0*	*-*
Raw Materials	1,685	1,559	1,647	1,680	1,612	1,629
Power & Fuel	1,225	1,347	1,250	1,187	1,069	1,037
Freight costs	1,255	1,262	1,103	1,103	1,125	1,142
Employee cost	468	491	484	547	532	542
Other expense	880	913	819	910	886	886
Total Opex	**5,513**	**5,572**	**5,301**	**5,427**	**5,224**	**5,235**
YoY change (%)	*9.9*	*1.1*	*(4.9)*	*2.4*	*(3.7)*	*0.2*
EBITDA per MT	**1,014**	**1,167**	**1,253**	**1,170**	**1,438**	**1,428**
YoY change (%)	*(17.7)*	*15.1*	*7.4*	*(6.6)*	*23.0*	*(0.7)*

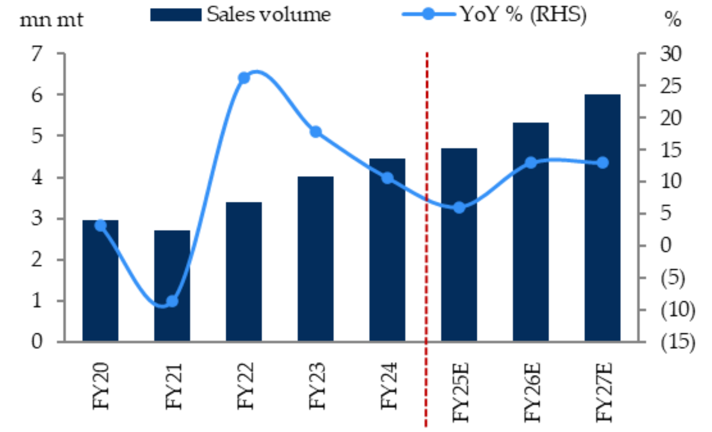
Source: Company, HSIE Research

Estimates revision summary (consolidated)

INR bn	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	*FY25E*	*FY26E*	*FY27E*
	New	New	New	Old	Old	Old	*Chg %*	*Chg %*	*Chg %*
Net Sales	31.09	35.48	40.09	31.09	35.48	41.21	*0.0*	*(0.0)*	*(2.7)*
EBITDA	5.51	7.66	8.59	5.51	7.30	8.69	*0.0*	*4.9*	*(1.1)*
APAT	1.76	2.87	3.18	1.94	3.47	3.79	*(9.1)*	*(17.2)*	*(16.0)*
AEPS	4.36	7.11	7.86	4.80	8.58	9.36	*(9.1)*	*(17.1)*	*(16.0)*

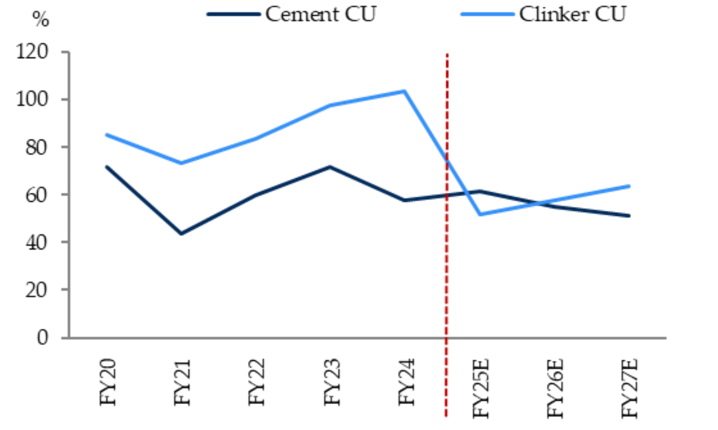
Source: Company, HSIE Research

Consolidated volume is expected to clock 11% CAGR during FY24-27E



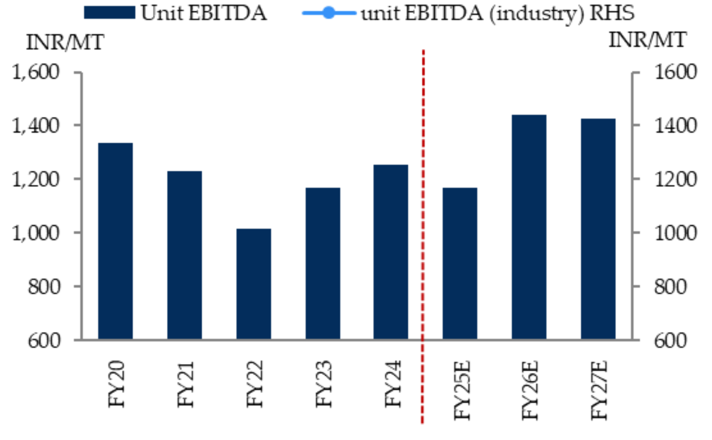
Source: Company, HSIE Research

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



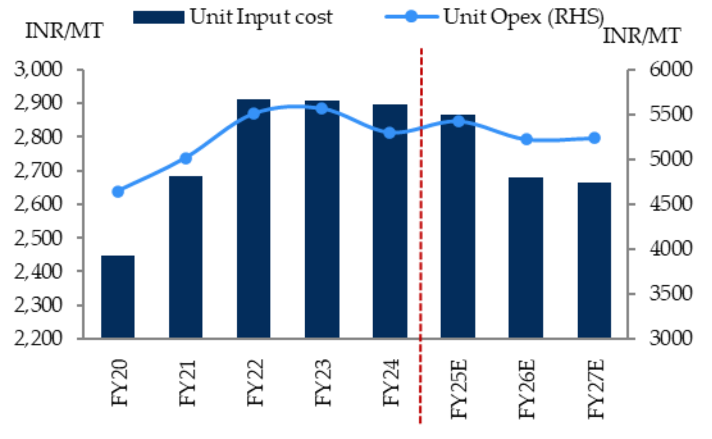
Source: Company, HSIE Research

Star should continue to deliver Industry leading EBITDA margin



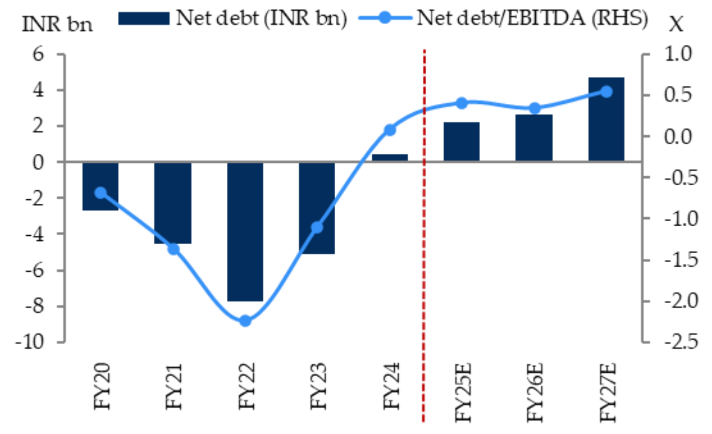
Source: Company, HSIE Research

Rising share of low-cost green energy and stabilization of new kiln should reduce input cost



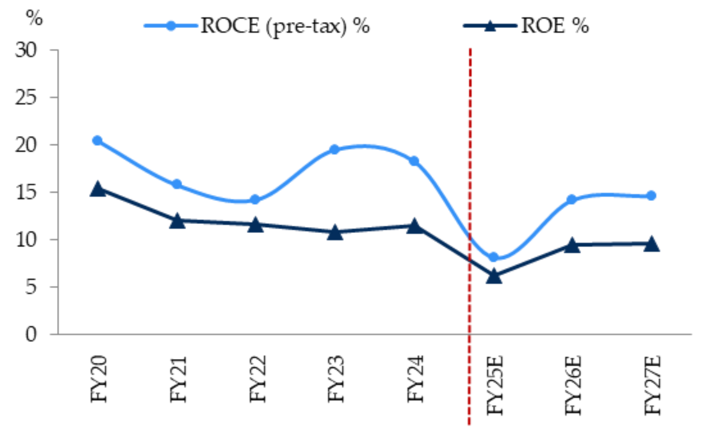
Source: Company, HSIE Research

Net debt/EBITDA to remain below 1x despite ongoing expansions



Source: Company, HSIE Research

Healthy return ratio to continue



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**	**31,085**	**35,478**	**40,090**
Growth %	***29.2***	***21.7***	***7.6***	***6.8***	***14.1***	***13.0***
Raw Material	5,736	6,257	7,313	7,915	8,586	9,799
Power & Fuel	4,169	5,406	5,551	5,596	5,691	6,238
Freight Expense	4,271	5,067	4,897	5,196	5,989	6,869
Employee cost	1,594	1,969	2,148	2,578	2,835	3,261
Other Expenses	2,996	3,664	3,635	4,289	4,718	5,332
EBITDA	**3,453**	**4,684**	**5,563**	**5,512**	**7,659**	**8,592**
EBIDTA Margin (%)	***15.5***	***17.3***	***19.1***	***17.7***	***21.6***	***21.4***
EBITDA Growth %	***3.8***	***35.7***	***18.8***	***(0.9)***	***38.9***	***12.2***
Depreciation	1,216	1,311	1,466	3,328	3,297	3,536
EBIT	2,236	3,373	4,097	2,185	4,362	5,056
Other Income	334	521	265	81	55	91
Interest	133	97	126	307	127	404
PBT	2,437	3,797	4,236	1,959	4,290	4,743
Tax	(31)	1,321	1,285	196	1,416	1,565
Minority Interest	-	-	-	-	-	-
RPAT	2,468	2,476	2,951	1,763	2,874	3,178
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-
APAT	**2,468**	**2,476**	**2,951**	**1,763**	**2,874**	**3,178**
APAT Growth (%)	***2.8***	***0.3***	***19.2***	***(40.3)***	***63.0***	***10.6***
AEPS	6.1	6.1	7.3	4.4	7.1	7.9
AEPS Growth %	*4.9*	*0.3*	*19.2*	*(40.3)*	*63.0*	*10.6*

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	28,460	31,334	34,194
Total Equity	**21,684**	**24,164**	**27,101**	**28,864**	**31,738**	**34,598**
Minority Int	-	-	-	-	-	-
Long-term Debt	80	48	848	2,139	3,153	5,669
Short-term Debt	76	305	622	626	631	636
Total Debt	**157**	**354**	**1,469**	**2,766**	**3,784**	**6,305**
Deferred Tax Liability	(3,539)	(2,890)	(2,401)	(2,205)	(2,763)	(3,379)
TOTAL SOURCES OF FUNDS	**18,302**	**21,627**	**26,170**	**29,425**	**32,760**	**37,524**
APPLICATION OF FUNDS						
Net Block	9,235	8,909	14,159	14,682	16,285	18,633
Capital WIP	1,091	5,506	10,216	13,216	14,216	16,216
Total Non-current Investments	-	-	-	-	-	-
Total Non-current Assets	**10,325**	**14,416**	**24,375**	**27,898**	**30,501**	**34,849**
Inventories	1,953	3,741	3,350	3,730	4,435	5,011
Debtors	1,287	1,047	1,508	1,710	1,951	2,205
Cash and Cash Equivalents	7,881	5,493	993	512	1,133	1,576
Other Current Assets	2,465	3,727	3,397	3,408	3,681	3,986
Total Current Assets	**13,586**	**14,008**	**9,248**	**9,361**	**11,200**	**12,778**
Creditors	2,125	2,820	2,197	2,981	3,402	3,844
Other Current Liabilities & Provns	3,486	3,976	5,256	4,853	5,539	6,259
Total Current Liabilities	**5,610**	**6,796**	**7,453**	**7,834**	**8,940**	**10,103**
Net Current Assets	**7,976**	**7,212**	**1,794**	**1,527**	**2,259**	**2,675**
TOTAL APPLICATION OF FUNDS	**18,302**	**21,627**	**26,170**	**29,425**	**32,760**	**37,524**

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	1,959	4,290	4,743
Non-operating & EO Items	(304)	(337)	(161)	(81)	(55)	(91)
Interest Expenses	133	97	126	307	127	404
Depreciation	1,190	1,289	1,418	3,328	3,297	3,536
Working Capital Change	2,227	(417)	41	178	(1,227)	(1,206)
Tax Paid	(350)	(677)	(762)	(392)	(858)	(949)
OPERATING CASH FLOW (a)	**5,333**	**3,752**	**4,897**	**5,299**	**5,574**	**6,437**
Capex	(1,974)	(5,694)	(10,391)	(6,850)	(5,900)	(7,885)
Free Cash Flow (FCF)	3,359	(1,942)	(5,494)	(1,551)	(326)	(1,447)
Investments	(2,385)	2,512	3,548	-	-	-
Non-operating Income	308	466	343	81	55	91
INVESTING CASH FLOW (b)	**(4,050)**	**(2,717)**	**(6,501)**	**(6,769)**	**(5,845)**	**(7,794)**
Debt Issuance/(Repaid)	(104)	197	972	1,296	1,019	2,521
Interest Expenses	(129)	(97)	(107)	(307)	(127)	(404)
FCFE	3,126	(1,842)	(4,629)	(562)	565	670
Share Capital Issuance	(1,524)	-	-	-	-	-
Dividend	-	-	-	-	-	(318)
FINANCING CASH FLOW (c)	**(1,756)**	**100**	**865**	**989**	**891**	**1,799**
NET CASH FLOW (a+b+c)	**(474)**	**1,135**	**(738)**	**(481)**	**620**	**443**
Closing Cash & Equivalents	**4,243**	**9,017**	**4,755**	**512**	**1,133**	**1,576**

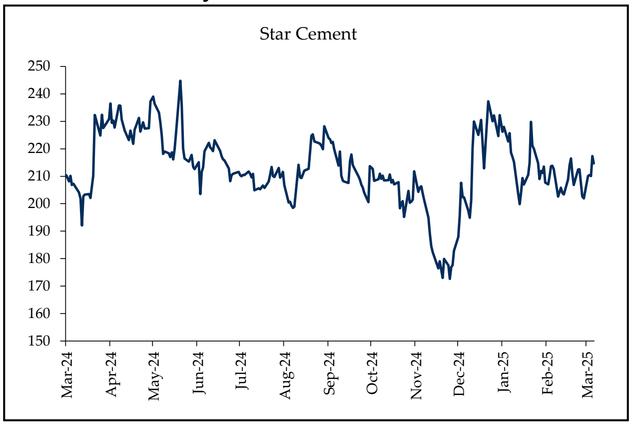
Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY %						
EBITDA Margin	15.5	17.3	19.1	17.7	21.6	21.4
EBIT Margin	10.1	12.5	14.1	7.0	12.3	12.6
APAT Margin	11.1	9.2	10.1	5.7	8.1	7.9
RoE	*11.6*	*10.8*	*11.5*	*6.3*	*9.5*	*9.6*
RoIC (pre-tax)	*21.1*	*33.8*	*32.0*	*14.3*	*26.4*	*27.2*
RoCE (pre-tax)	*14.2*	*19.5*	*18.3*	*8.2*	*14.2*	*14.6*
EFFICIENCY						
Tax Rate %	(1.3)	34.8	30.3	10.0	33.0	33.0
Fixed Asset Turnover (x)	1.5	1.6	1.4	1.2	1.2	1.1
Inventory (days)	32	50	42	44	46	46
Debtors (days)	21	14	19	20	20	20
Other Current Assets (days)	40	50	43	40	38	36
Payables (days)	35	38	28	35	35	35
Other Current Liab & Provns (days)	57	54	66	57	57	57
Cash Conversion Cycle (days)	2	23	10	12	12	10
Net Debt/EBITDA (x)	(2.2)	(1.1)	0.1	0.4	0.3	0.6
Net D/E	(0.4)	(0.2)	0.0	0.1	0.1	0.1
Interest Coverage	16.8	34.8	32.5	7.1	34.2	12.5
PER SHARE DATA (Rs)						
EPS	6.1	6.1	7.3	4.4	7.1	7.9
CEPS	9.1	9.4	10.9	12.6	15.3	16.6
Dividend	-	-	-	-	-	0.8
Book Value	53.7	59.8	67.1	71.4	78.5	85.6
VALUATION						
P/E (x)	35.2	35.1	29.4	49.3	30.2	27.3
P/Cash EPS (x)	23.6	22.9	19.7	17.1	14.1	12.9
P/BV (x)	4.0	3.6	3.2	3.0	2.7	2.5
EV/EBITDA (x)	22.8	16.9	14.8	15.0	10.8	9.7
EV/MT(Rs)	13.82	13.89	10.70	10.73	8.51	7.14
Dividend Yield (%)	-	-	-	-	-	0.4

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:

We, **Rajesh Ravi, MBA, Keshav Lahoti, CA, CFA & Riddhi Shah, MBA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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