Star Cement (STACEM)

CMP: ₹ 108 | Target: ₹ 120 (⬆ 11%) | Target Period: 12 months | HOLD

May 9, 2019

Volume growth low while high costs weigh on margin

Star Cement exhibited a weak Q4FY19 performance, missing our estimates on all major fronts. Sales volumes saw growth of 4.7% YoY to 0.84 MT from 0.8 MT in Q4FY18 (vs. I-direct estimates of 0.88 MT). Consequently, topline growth stayed low at 2.2% YoY to ₹ 538 crore (vs. I-direct estimate of ₹ 572.4 crore). Blended realisations remained lower than previous year by 2.4% YoY at ~₹ 6400/t (vs. I-direct estimates of ₹ 6512/t). Cost of raw materials saw 34.2% growth YoY to ₹ 137 crore, which also contributed to lower EBITDA margins. Consequently, EBITDA margins contracted ~380 bps to 24.2% with EBITDA/t 15.5% lower YoY at ~ ₹ 1550/t. EBITDA for the quarter saw de-growth of 11.5% YoY to ₹ 130 crore (below I-direct estimate of ₹ 170 crore). Consequently, net profit for the quarter was at ₹ 90 crore (vs. I-direct estimate of ₹ 95 crore), down 16.8% YoY, partly supported by lower tax expense and finance cost.

Double digit volume growth to continue

Star Cement is one of the leading cement players in the north east region, which is expected to grow ~9-10%. With capacities of marginal players near topping out, bigger players viz. Star Cement and Dalmia would mainly serve incremental demand in the north-east. Also, Star Cement would have additional capacity of ~2 MT by December 2019, serving eastern markets. Thus, we expect revenues to grow at 10.7% CAGR in FY19-21E to ₹ 2244 crore in FY21E backed by volume CAGR of 10% in the same period.

Major capex coming up in FY20E

With respect to the Siliguri plant, the company has spent ₹ 75 crore in FY19 with the balance ₹ 325 crore to be spent in FY20E. Also, the company plans to undertake debottlenecking for the clinker capacity that will get enhanced to 3 MT in August. Thus, ₹ 350 crore of capex excluding maintenance capex will be undertaken during the year for which Star Cement has sufficient cash reserves in the book, currently at ₹ 350 crore on the back of subsidy receipts totalling to ₹ 332 crore over March and April 2019. Additionally, to meet the additional clinker requirement, the company has applied for environmental clearances to set up a 2 MT clinker plant in the North East.

Valuation & Outlook

With a positive outlook for growth in the North East region with additional capacity coming in, the company is expected to witness healthy volume growth. However, profitability is expected to remain stable considering the higher imported fuel. We maintain **HOLD** rating on the stock, with a valuation of 8.5x FY21E EV/EBITDA and arrive at a target price of ₹ 120/share.

Stock Data

Particulars	
Market Capitalization	₹ 4527.4 Crore
Total Debt (FY19)	₹ 51 crore
Cash and Investments (FY19)	₹ 211 crore
EV	₹ 4367 crore
52 week H/L	₹ 137 / 85
Equity capital	₹ 41.9 Crore
Face value	₹ 1

Key Highlights

- Domestic coal consumption substituted by imported due to unavailability, which will reduce EBITDA/t by further ₹ 100
- To add 0.4 MT of clinker capacity and 2 MT grinding capacity in FY20E
- Applied for environment clearance for 2 MT clinker unit
- Volume CAGR of 10% expected over FY19-21E
- Maintain **HOLD** valuing Star Cement at ₹ 120 per share

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,528	1,615	1,831	2,030	2,244	10.7%
EBITDA	411	526	455	497	550	10.0%
EBITDA (%)	26.9	32.6	24.8	24.5	24.5	
PAT	195	331	299	333	372	11.6%
EPS (₹)	4.6	7.9	7.1	7.9	8.9	
EV/EBITDA	12.6	9.2	9.6	8.6	7.6	
EV/T ($)	219	204	159	156	104	
RoNW (%)	17.0	22.4	17.3	16.6	16.0	
RoCE (%)	15.6	21.6	18.9	18.0	18.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY(%)	Q3FY19	QoQ (%)	Comments
Total Operating Income	538	573	526	2.2	417	28.8	Topline mainly driven by 4.7% volume growth with double digit volume growth in North East
Raw Material Expenses	137	90	102	34.2	67	104.9	
Employee Expenses	28	41	25	11.9	30	-8.4	
Other Expenses	243	273	252	-3.7	197	22.9	Domestic coal substituted by higher cost imported coal keeps other expense savings lower
EBITDA	130	170	147	-11.5	123	6.0	
EBITDA Margin (%)	24.2	29.6	28.0	-377 bps	29.5	-523 bps	Higher raw material and higher cost of coal consumed dented margins
Depreciation	24	34	24	-1.3	26	-10.0	
Interest	3.1	5.4	8.9	-65.4	2.6	18.2	Reduction of debt flows down to lower finance costs
PBT	103	131	114	-9.5	94	10.1	
Total Tax	12	33	5	118.3	10	15.7	
Minority Interest	1.8	3.2	1.0	87.7	1.4	NA	
PAT after MI	90	95	108	-16.8	82	9.1	
Key Metrics							
Volume (MT)	0.8	0.9	0.8	4.7	0.7	28.2	Double digit growth in NER leads volume growth in the quarter, partly reduced by mere 4% growth in sales in eastern region
Realisation (₹)	6,403	6,512	6,560	-2.4	6,374	0.5	
EBITDA per Tonne (₹)	1,551	1,927	1,836	-15.5	1,877	-17.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20E			FY21E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue*	2,099.6	2,036.3	-3.0	NA	2,251.1	NA	Ramp up of Siliguri unit and healthy demand in NER to drive topline
EBITDA	535.9	497.4	-7.2	NA	549.7	NA	
EBITDA Margin (%)	25.5	24.4	-110 bps	NA	24.4	NA	Substituting domestic coal by imported coal to lead to higher fuel costs
PAT	293.0	333.1	13.7	NA	371.9	NA	
EPS (₹)	7.0	7.9	13.7	NA	8.9	NA	Reduction in finance cost and higher operating profit to drive PAT

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Volume (MT)	2.80	2.61	2.86	3.14	3.46	3.20	NA	Capacity expansion and focus of company on trade segment to drive volumes
Realisation (₹)	6,164	6,175	6,426	6,477	6,509	6,512	NA	
EBITDA per Tonne (₹)	1,449	2,014	1,591	1,582	1,589	1,672	NA	Cessation of transport subsidy and higher fuel costs to keep EBITDA/t around current levels

Source: Company, ICICI Direct Research

Conference call Highlights

- During the quarter, the company had undertaken a few unplanned shutdowns in its clinker plant, which impacted the clinker and thereby cement production. Consequently, the sales growth remained low at 5%. **Volumes** clocked during the quarter were at 0.84 MT (cement + clinker) while the management has guided at 15% growth for FY20E
- With respect to **regional mix**, north-east volumes grew 10% YoY while volumes sold in the eastern region witnessed 4% growth YoY. North east sales as a proportion of total sales were at 75% for the quarter and 72% for FY19
- Total 82% of volumes were clocked from the **trade segment** for FY19, up from 79% in FY18
- The company witnessed **fuel costs inflation** as low availability of Meghalaya coal forced the same to be substituted from international markets, which increased costs by ₹ 100/t. In the near term, the management does not expect the coal availability issue to be resolved. Also, due to earlier inventory availability, the complete impact of coal imports would be seen from the coming quarter. Currently, the blended fuel cost per kcal of fuel is ₹ 1.65
- The company would be spending **₹ 350 crore towards adding capacity at Siliguri and de-bottlenecking operations** to enhance its clinker capacity. With subsidy receipts, the company is in a comfortable cash position to fund these expenditures. Debottlenecking operations are expected to span over July and August of the current financial year while the Siliguri unit would only come up by the end of the calendar year
- Currently, clinker for the eastern markets are being served from Guwahati unit also, which would shift to the Siliguri unit. Hence, the company is **saving on fly ash transportation cost** that has to be brought to Guwahati for grinding purposes
- To meet the additional clinker requirement for the enhanced capacity, the company plans to set up a **2 MT clinker** unit for which environmental clearance has already been applied
- Current **lead distance** is at 275 km, marginally down from 283 km in FY18. Guwahati railway siding has become operational from February 2019
- The balance **outstanding transport subsidy** of ₹ 68 crore is expected to be received in Q2FY20E
- Going ahead, the **effective tax rates** should be ~8.5%

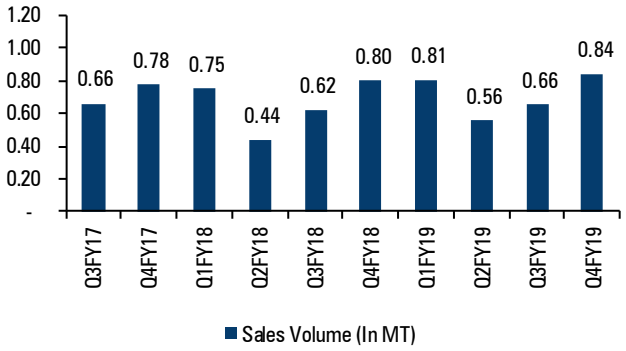
Financial story in charts

Exhibit 4: Capacity Addition plans

Cement Capacity (MT)	Category	Remarks
Clinker	2.6	
Cement	4.4	Includes 0.7 MT hired grinding unit
Clinker debotlenecking	0.4	FY20E
Cement grinding unit	2	FY20E
Total Cement Capacity	**6.4**	**FY20E**

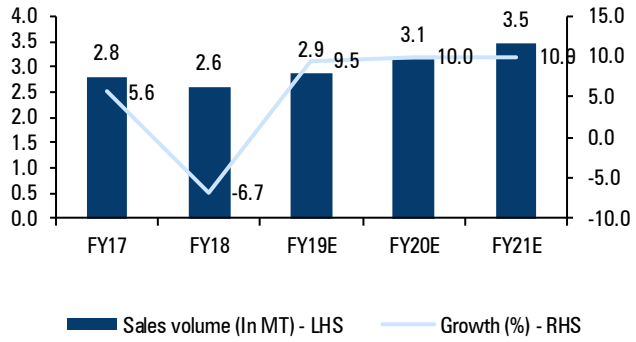
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly sales trend – Volumes up 4.7% YoY



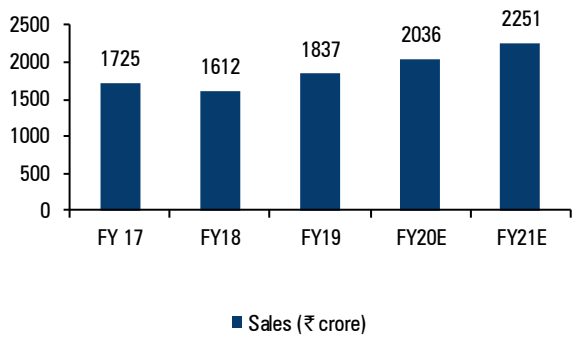
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to exhibit 10% CAGR in FY19-21E



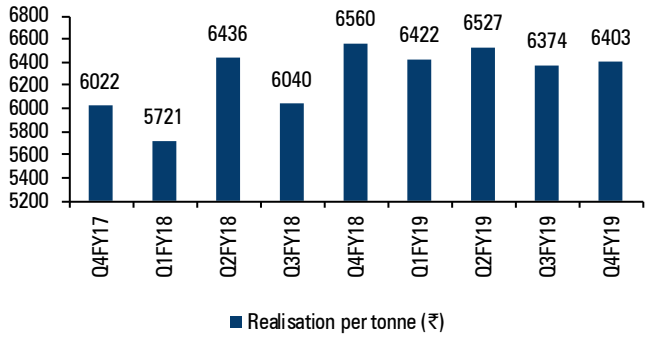
Source: Company, ICICI Direct Research

Exhibit 7: Revenues to grow at 10.7% CAGR in FY19-21E



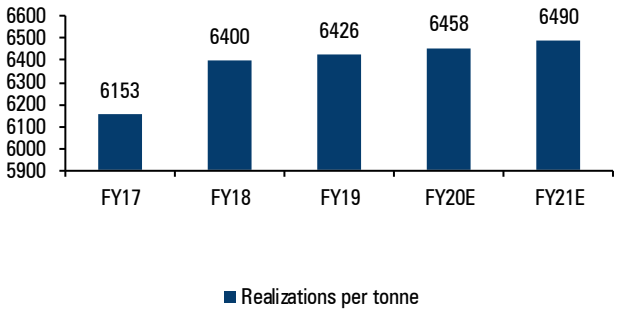
Source: Company, ICICI Direct Research

Exhibit 8: Realisations/t decline 2.4% YoY



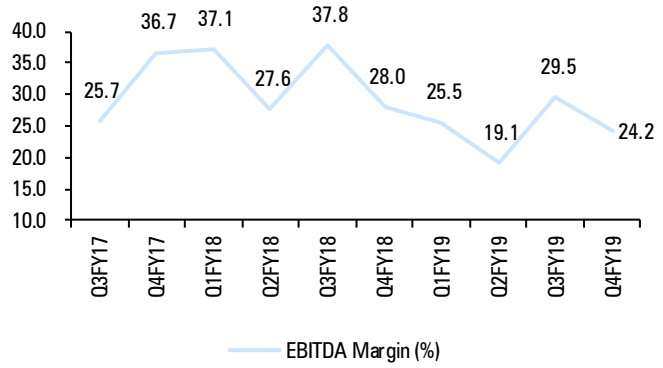
Source: Company, ICICI Direct Research

Exhibit 9: Realisations to touch ~ ₹ 6500/t in FY21



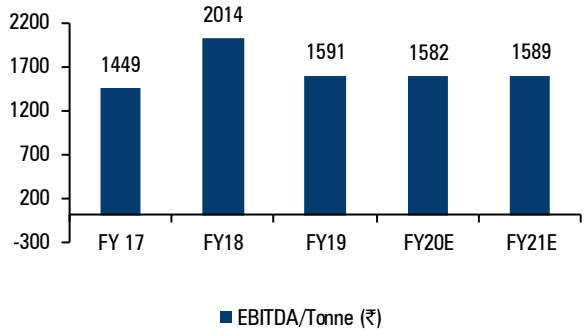
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins contract 377 bps YoY



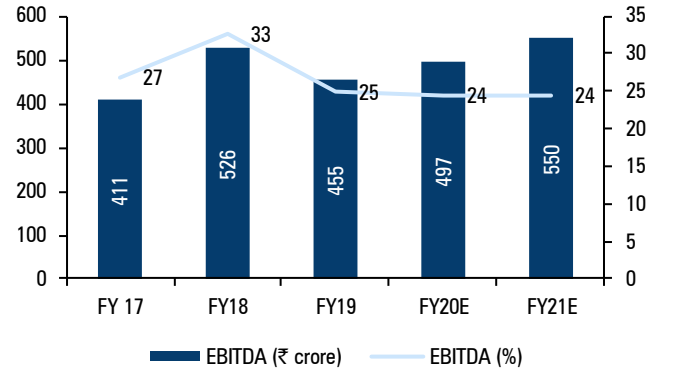
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to stabilise marginally below ₹ 1600/t



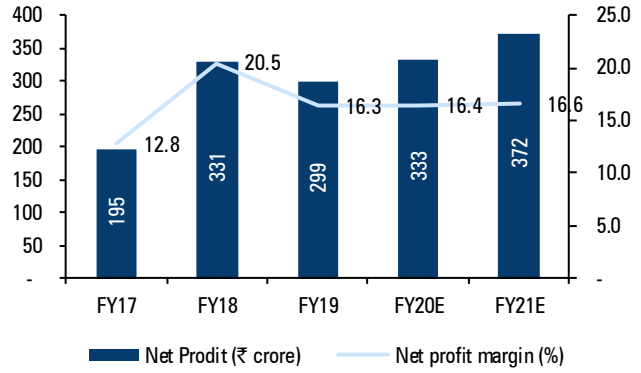
Source: Company, ICICI Direct Research

Exhibit 12: Operating margins to remain stable around 24%



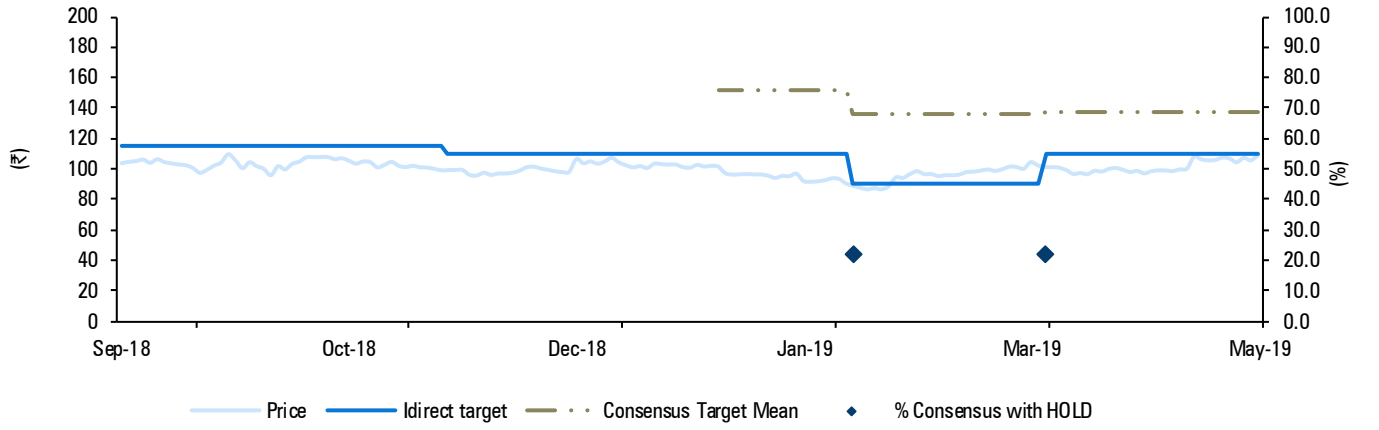
Source: Company, ICICI Direct Research

Exhibit 13: PAT to grow at 11.6% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Bhajanka (Sajjan)	15-Feb-19	11%	47.3	0.41
2	Bhajanka (Prem Kumar)	15-Feb-19	9%	38.2	0.41
3	SBI Funds Management Pvt. Ltd.	31-Dec-18	6%	24.2	0.12
4	Chamaria (Rajendra)	6-Mar-19	5%	20.3	-0.33
5	Agarwal (Divya)	31-Dec-18	5%	19.3	0.00
6	Bhajanka (Santosh)	31-Dec-18	4%	18.4	0.00
7	Agarwal (Sanjay)	15-Feb-19	4%	17.3	0.41
8	Agarwal (Subham)	31-Dec-18	3%	14.4	-0.07
9	Sriram Vanijya Pvt. Ltd.	31-Dec-18	3%	11.3	0.00
10	Agarwal (Brij Bhushan)	31-Dec-18	3%	11.1	0.00

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 16: Recent Activity

Buys			Sells		
Investor Name	Value (mn)	Shares	Investor Name	Value (mn)	Shares
Chamaria (Renu)	5.43	3.81	DNB Asset Management AS	-4.52	-2.97
Agarwal (Sanjay)	0.56	0.41	Chamaria (Rahul)	-1.42	-1.00
Bhajanka (Prem Kumar)	0.56	0.41	Agarwal (Amit)	-1.42	-1.00
Bhajanka (Sajjan)	0.56	0.41	Chamaria (Sachin)	-0.96	-0.68
SBI Funds Management Pvt. Ltd.	0.17	0.12	Agarwal (Pushpa)	-0.53	-0.38

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 17: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	68.89	68.89	68.88	68.87	67.99
FII	1.93	2.19	1.00	1.24	1.23
DII	7.25	7.33	8.39	8.71	8.71
Others	21.93	21.59	21.73	21.18	22.07

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 18: Profit and loss statement ₹ crore

(Year-end March)	FY18	FY19P	FY20E	FY21E
Total operating Income	**1,618.9**	**1,836.5**	**2,036.3**	**2,251.1**
Growth (%)	5.8	13.4	10.9	10.5
Raw material cost	269.7	425.5	455.9	515.3
Inc/dec in stock	0.0	0.0	0.0	0.0
Employees cost	107.4	116.4	147.8	166.0
Others	716.1	840.0	935.3	1020.2
Total Operating Exp.	1,093.2	1,381.9	1,538.9	1,701.4
EBITDA	**525.7**	**454.6**	**497.4**	**549.7**
Growth (%)	28.0	-13.5	9.4	10.5
Depreciation	120.7	105.6	112.5	118.3
Interest	52.5	14.4	6.4	6.4
Other Income	0.0	0.0	0.0	0.0
PBT	352.6	334.6	378.5	424.9
Total Tax	16.4	29.6	34.1	40.4
PAT	**330.7**	**298.8**	**333.1**	**371.9**
Growth (%)	69.7	-9.7	11.5	11.7
Adjusted EPS (₹)	**7.9**	**7.1**	**7.9**	**8.9**

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement ₹ crore

(Year-end March)	FY18	FY19P	FY20E	FY21E
Profit after Tax	330.7	298.8	333.1	371.9
Add: Depreciation	120.7	105.6	112.5	118.3
(Inc)/dec in Current Assets	-123.4	376.9	-88.1	-126.6
Inc/(dec) in CL and Provisions	142.1	-172.0	42.8	46.0
CF from operating activities	**470.1**	**609.3**	**400.2**	**409.5**
(Inc)/dec in Investments	0.0	-0.3	0.0	0.0
(Inc)/dec in Fixed Assets	-22.8	-81.8	-285.7	-165.0
Others	-54.7	11.1	11.4	-79.7
CF from investing activities	**-77.5**	**-70.9**	**-274.3**	**-244.7**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-340.5	-280.4	0.0	0.0
Dividend paid & dividend tax	-50.6	0.0	-50.6	-50.6
Inc/(dec) in Sec. premium	50.5	-52.1	0.0	0.0
Others	-52.5	-14.4	-6.4	-6.4
CF from financing activities	**-393.0**	**-346.8**	**-57.0**	**-57.0**
Net Cash flow	-0.3	191.5	68.9	107.9
Opening Cash	20.1	19.8	211.3	280.2
Closing Cash	**19.8**	**211.3**	**280.2**	**388.1**

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet ₹ crore

(Year-end March)	FY18	FY19P	FY20E	FY21E
Liabilities				
Equity Capital	41.9	41.9	41.9	41.9
Reserve and Surplus	1,435.2	1,681.9	1,964.4	2,285.7
Total Shareholders funds	1,477.1	1,723.8	2,006.3	2,327.6
Total Debt	331.7	51.3	51.3	51.3
Deferred Tax Liability	110.2	115.1	115.1	115.1
Minority Interest / Others	62.1	68.3	79.7	0.0
Total Liabilities	**1,981.1**	**1,958.5**	**2,252.4**	**2,494.0**
Assets				
Gross Block	1,829.0	1,872.2	2,122.2	2,297.2
Less: Acc Depreciation	1,044.5	1,150.2	1,262.7	1,381.0
Net Block	784.5	722.1	859.6	916.3
Capital WIP	35.7	74.3	110.0	100.0
Total Fixed Assets	820.3	796.4	969.6	1,016.3
Investments	1.4	1.7	1.7	1.7
Inventory	294.6	277.2	300.4	325.9
Debtors	146.5	143.8	161.3	166.0
Loans and Advances	978.3	591.3	609.1	673.3
Other Current Assets	244.7	274.9	304.5	336.7
Cash	19.8	211.3	280.2	388.1
Total Current Assets	1,683.8	1,498.5	1,655.5	1,890.0
Creditors	188.9	125.4	166.9	184.5
Provisions	335.9	213.1	208.0	229.9
Total Current Liabilities	524.8	338.5	374.8	414.4
Net Current Assets	1,159.0	1,160.0	1,280.7	1,475.6
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	**1,981.1**	**1,958.5**	**2,252.4**	**2,494.0**

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios

(Year-end March)	FY18	FY19P	FY20E	FY21E
Per share data (₹)				
EPS	7.9	7.1	7.9	8.9
Cash EPS	10.8	9.6	10.6	11.7
BV	35.2	41.1	47.9	55.5
DPS	1.0	0.0	0.0	0.0
Cash Per Share	0.5	5.0	6.7	9.3
Operating Ratios (%)				
EBITDA Margin	32.6	24.8	24.5	24.5
PBT / Total Operating income	21.8	18.3	18.6	18.9
PAT Margin	20.5	16.3	16.4	16.6
Inventory days	66.6	55.3	54.0	53.0
Debtor days	33.1	28.7	29.0	27.0
Creditor days	42.7	25.0	30.0	30.0
Return Ratios (%)				
RoE	22.4	17.3	16.6	16.0
RoCE	21.6	18.9	18.0	18.1
RoIC	21.0	20.9	20.7	21.5
Valuation Ratios (x)				
P/E	13.7	15.2	13.6	12.2
EV / EBITDA	9.2	9.6	8.6	7.6
EV / Net Sales	3.0	2.4	2.1	1.9
Market Cap / Sales	2.8	2.5	2.2	2.0
Price to Book Value	3.1	2.6	2.3	1.9
Solvency Ratios				
Debt/EBITDA	0.6	0.1	0.1	0.1
Debt / Equity	0.2	0.0	0.0	0.0
Current Ratio	3.2	4.4	4.4	4.6
Quick Ratio	2.6	3.6	3.6	4.6

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP			M Cap	EPS(₹)			EV/EBITDA (x)			EV/Tonne ($)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E
ACC*	1,587	1,800	HOLD	29,826	49.2	80.9	62.6	17.4	15.2	13.7	127	115	113	14.0	14.7	16.6	9.9	14.9	11.2
Ambuja Cem*	213	245	Hold	42,294	6.3	7.5	7.6	17.2	14.3	14.2	140	138	136	9.5	11.3	11.4	6.7	8.6	11.3
UltraTech Cem	4,500	5,300	Buy	123,480	89.6	89.5	116.3	23.5	21.7	16.2	257	250	202	10.0	9.7	12.6	9.5	8.8	10.4
Shree Cement	19,900	16,900	Hold	69,252	398	358	601	28.6	26.7	19.0	303	254	220	15.3	12.1	19.2	15.6	12.8	18.1
Heidelberg Cem	176	165	Buy	3,984	5.9	9.7	11.1	13.6	9.6	8.6	141	137	131	14.8	22.2	24.9	12.8	18.6	18.6
India Cement	99	85	HOLD	3,054	3.3	3.5	4.9	8.9	9.0	8.1	67	68	75	5.1	5.0	5.8	1.9	2.0	2.8
JK Cement	842	759	Hold	5,888	48.9	43.3	59.0	10.1	10.5	8.9	91	91	91	14.6	12.1	13.2	16.7	12.8	15.3
JK Lakshmi Cem	354	335	Buy	4,167	7.1	6.7	10.4	13.8	13.3	11.1	70	65	64	8.8	8.7	10.6	5.8	5.2	7.5
Mangalam Cem	261	215	Hold	697	4.3	-2.0	4.6	12.0	19.1	12.8	43	45	46	7.2	3.3	5.9	2.2	-1.1	2.4
Star Cement	108	120	Hold	4,527	7.9	7.1	7.9	9.2	9.6	8.6	218	169	167	21.6	18.9	18.0	22.4	17.3	16.6
Ramco Cement	753	930	Buy	17,927	23.5	19.2	29.0	4.9	4.3	3.9	191	184	179	12.6	10.3	9.1	12.7	10.4	7.6
Sagar Cement	619	800	Buy	1,263	12.9	13.1	22.2	11.1	10.8	8.8	65	56	37	8.1	8.0	9.7	3.4	3.3	5.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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