

01st March 2024

Star Cement Ltd. – BUY

CMP : Rs. 209 /-
Target Price : Rs. 265 /-
Upside : 25%+
Stop Loss : Rs. 175 (Closing basis)

Investment Thesis

- The Guwahati grinding unit of Star Cement is set to be commissioned on March 1st, 2024, with the clinker plant scheduled for commissioning on March 31st, 2024. For Silchar grinding unit, it is expected to be operational by August-September next year. Regarding capex utilization, the Guwahati project's estimated cost has been revised downward to Rs. 385 Crs. from the initial projection of Rs. 430 Crs., with Rs. 330 Crs. already spent till December and an additional Rs. 55 Crs. planned for Q4. Similarly, the Lumshnong clinker project is expected to be completed within Rs. 1,250 Crs. compared to the earlier estimate of Rs. 1,300 Crs.
- Star Cement is a leader in the North Eastern Region with a strong volume market share of ~25% where it enjoys substantial pricing power and healthy demand prospects. Star Cement has managed to achieve a commendable growth of around 10% in the Northeast region, and management projects a growth of 8-10% for the next financial year. The company aims for aggressive growth, targeting 18-20% expansion, driven by additional capacity from the Guwahati plant.
- As of December, Star Cement stands at debt-free with Rs. 116 Crs. in positive cash. However, plans include taking a debt of Rs. 250 Crs. by the end of Q1FY25, which will be paid off in subsequent quarters. This indicates a strategic financial approach to support expansion and operational needs.
- Management guided for 18 lakhs ton sale in Assam alone in this year with the market size of Assam is about 65% of North-East region, translating to 7.5 million ton in Assam. Management guided that by next financial year the sales will grow to 20%.
- GST Incentives linked to clinker plant of Rs. 60 Crs. will continue till 2027. Star Cement expecting to earn a robust 25% margins from the AAC block projects in Guwahati with the project ROC of 20%. Further, the company expects to get SGST benefit of about Rs. 450-460 Crs. from two of their new capacity additions in Guwahati and Silchar with Rs. 150 Crs. benefit that will accrue every year for the next 5 years.

Financials

- Total Revenue jumped by 5% YoY to Rs. 655 Crs. in Q3FY24. The EBITDA jumped 38% YoY to Rs. 149 Crs. while the PAT jumped 40% YoY to Rs. 74 Crs.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue* (Rs in Crs)	1,843.15	1,719.93	2,221.82	2,704.85	3,119.00
EBITDA*(Rs in Crs)	394.22	332.60	345.25	468.39	608.20
Adj. PAT * (Rs in Crs)	287.30	187.13	246.77	247.60	304.00
Adj. EPS (Rs.) *	6.92	4.54	6.11	6.13	7.95
PE Multiple (x)	9.86	21.39	14.68	18.25	28.00
RoE (%)	16.05	9.52	11.63	10.80	11.20

Stock Data

Market Cap (Rs. Crs)	8,455
Market Cap (\$ Mn)	1,008.61
Shares O/S (in Mn)	404.2
Avg. Volume (3 month)	9,75,042
52-Week Range (Rs.)	220 / 103

Shareholding Pattern

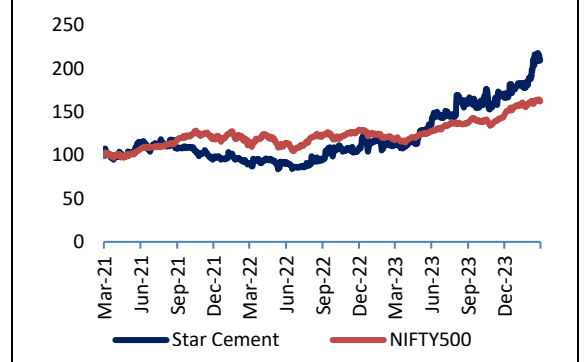
Promoters	66.48 %
FII's	1.05 %
Institutions	6.02 %
Others (incl. body corporate)	26.45 %

Key Ratios

Div Yield	0.0%
TTM PE	27.6x
ROE	10.8%
TTM EPS (Rs.)	7.51/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	15.9	30.8	88.8
NIFTY500	14.0	12.1	50.4



- The company also reported strong volume growth of ~ 6% YoY to 9.6 lakhs ton of cement. Company also sold 0.03 lakhs ton of clinker in Q3FY24 compared to no clinker sales same quarter last year.
- The volumes specifically in North-east region was 7.32 lakhs ton vs 6.62 lakhs ton same quarter last year. This is evident from its leadership position in the North-east region and the strong potential the region possesses.

Key Business Highlights

- Star Cements manufactures and sells cement clinker and cement. It sells its products throughout India's northeastern and eastern states.
- The company's product portfolio comprises ordinary portland cement (OPC), Portland Pozzolana cement (PPC), anti-rust cement (ARC), Portland Composite Cement (PCC), and Weather Shield Cement (WSC).
- Some of the core strengths of Star Cement include it being a Zero-debt company. The company also has one of the finest limestone reserves which will help in providing high quality raw materials.
- Star Cement is aggressively looking into expanding outside of the North-easter regions and their plans include foraying into the South Indian region and the state of Rajasthan.
- Co. has six manufacturing facilities: three in Meghalaya, two in Assam, and one in West Bengal. The production capacity are as follows:
 - Clinker: 2.8 MTPA.
 - Cement: 5.7 MTPA.
 - Power: 51 MW, 12.3 MW WHRS.
 - The company aims to increase cement capacity to around 10MTPA by FY26.
- As of H1FY24, Star Cement's network included over 2,000 dealers and 11,000 merchants. The distribution network spans ten states, with approximately 51% of dealers located in North-East India.

Valuation

Star Cement is currently trading at a PE of 27.6x compared to the industry standards of 30.2x. Additionally, the EV/EBITDA of Star Cements is 14.2x compared to its Median EV/EBITDA of 9.2x. The Company is looking into expanding in other regions of South India and Rajasthan and with its robust capabilities and having leadership position in the North-Eastern regions, we believe that the company is attractive at current levels.

We ascribe a **BUY** rating for **Star Cements Ltd.** at a **TP of Rs. 265.0** signalling an **UPSIDE** of **~25%+**.

Risk & Concern

- Concentration risk from doing business in a single geographical location majorly.
- High competition leads to unusual pricing trends.
- High dependence on fuel costs, however, company is moving towards WHRS for an efficient power utilization source mix.

Graphs & Charts

Figure 1: Revenue Trend (Rs. In Crs)

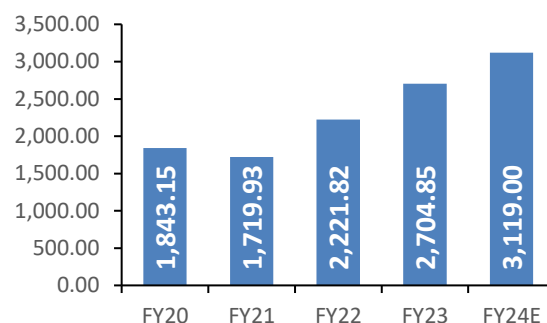


Figure 2: EBITDA & EBITDA Margin Trend

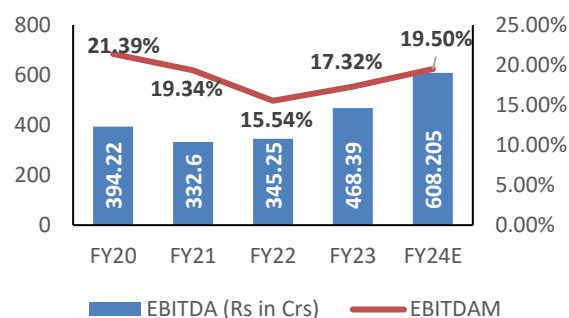
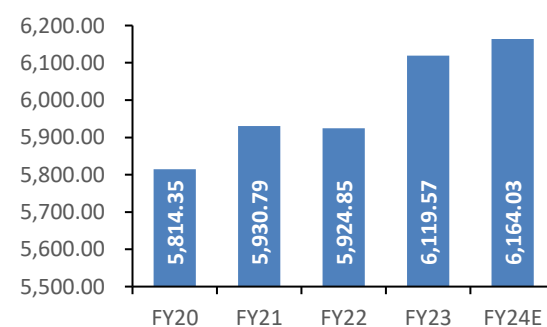


Figure 3: Interest Coverage Ratio Trend



Figure 4: Realization/Tonne Trend



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