Gladiator Stocks: Star Ferro & Cement (STAFER) Time Frame: Six months

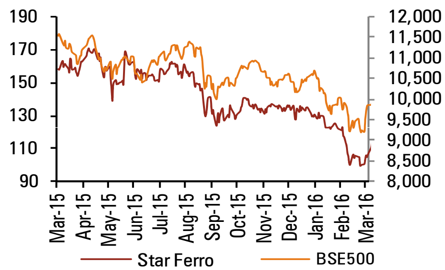
CMP: ₹ 115.00	Buying Range: ₹ 109-115	Target: ₹ 150.00	Stop loss: ₹ 93.00	Upside:34%

Stock Data

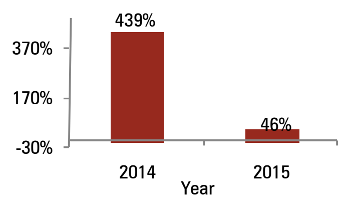
52 Week High / Low	185/95.20
50 days EMA	113
200 days EMA	125
52 Week EMA	123
Face Value (Rs)	1
Market Capitallisation (Rs)	2402.00

**Recommendation given on i-click to gain on March 21, 2016 at 14:23 hrs*

Stock price vs. BSE 500



Price performance in last two years



Source: Bloomberg, BSE, ICICIdirect.com Research

Technical View

The cement sector is back on the radar of investors after a prolonged consolidation over the last year. While large caps and high-beta midcap cement stocks have already seen a decent rebound over the last few weeks, we believe the share price of Star Ferro & Cement is attractively poised at the lower band of the major falling channel and provides good entry opportunity for medium term investors to ride the next up move.

Base formation at key value area provides buying opportunity...

The stock witnessed a multi-fold rally in 2014-15 galloping 11 folds from a low of ₹ 15 in February 2014 to a life-time high of ₹ 185 in April 2015. After this dream run, the stock entered a corrective phase to work off the extremely overstretched conditions. The key price and time internals during the entire corrective descent over the last 12 months highlight a healthy corrective phase within an established uptrend based on the following observations:

- The entire correction since April 2015 till date has occurred in well defined falling channel. The 52 week low of ₹ 95 hit in February 2016 is placed precisely at the lower band of this channel.
- The monthly low of February 2015, which is the last major bull candle is also placed at ₹ 95 levels
- The 50% retracement of the entire bull-run of 2014-15 (₹ 15 to ₹ 185) is also placed at ₹ 99 levels

The steady base formation over last month precisely above the major value area of ₹ 95 signifies accumulation by stronger hands, which will act as a launch pad for the next up move

Time wise behaviour quantifies overall bullish price structure

Time wise, the last major up move occurred in February 2015 as the stock rallied from ₹ 95 to ₹ 180 in just a month. The stock has taken over 12 months (April 2015-March 2016) to retrace the one month gain of February 2015. The slower pace of retracement of the last rising segment signals the corrective nature of decline while the robust price structure is still intact. Such price/time behaviour augurs well for the structural long term up trend.

Volume behaviour corroborates accumulation by stronger hands

The stock has seen steady pick-up in volumes during the base formation over last month, which highlights the accumulation by stronger hands at major value area. Monthly volumes in February and March 2016 (8 lakh shares) are significantly higher than the six month average volume of 5 lakh shares highlighting active buying at key value area

Conclusion

Based on the above technical evidence, we believe the stock provides a good entry opportunity from a medium-term perspective. We expect the share price to resolve higher from here on and head towards ₹ 140 in the medium term as it is the confluence of the 61.8% retracement of the recent correction (₹ 185-95) and the lower band of mid-2015 consolidation placed at ₹ 150 levels.

Gladiator Stocks: Star Ferro and Cement– Weekly Bar Chart

Source: Bloomberg, ICICIdirect.com Research

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Gladiator Stocks: Star Ferro & Cement

Stock Data

Market Capitalization	₹ 2399.5 Crore
Total Debt (FY15)	₹ 691.8 Crore
Cash and Investments (FY15)	₹ 27.7 Crore
EV	₹ 3063.5 Crore
52 week H/L	186 / 96
Equity capital	₹ 22.2 Crore
Face value	₹ 1

Key Metrics

	FY14	FY15	FY16E	FY17E
P/E	NA	28.7	20.4	11.2
EV / EBITDA	12.7	7.0	6.7	4.7
EV / Tonne	192.3	164.7	160.5	137.0
Price/Book value	3.5	3.5	2.9	2.3
RoCE	5.2	12.4	15.2	21.8
RoNW	0.9	12.1	14.1	20.9

Financial Highlights

₹ crore	FY14*	FY15*	FY16E	FY17E
Net Sales	1,171.4	1,427.0	1,679.7	2,151.0
EBITDA	254.9	435.1	446.4	598.8
Net Profit	6.1	83.4	117.8	213.7
EPS (₹)	0.3	3.8	5.3	9.6

Source: Company, ICICIdriect.com Research

Fundamental View

Dominant player in North-East region

At present, the Star Cement unit is the largest cement unit in the North East followed by Dalmia Bharat Cement and has a twin advantage of proximity to raw material and close proximity to the highest price-end market with ~23% market share. Demand growth in this region has consistently remained higher than the growth at pan-India level. SFCL has expanded its capacity from 1.5 MT in FY13 to 3.6 MT in FY15. This, in turn, has helped SFCL to gain market share in the NER. With the government's thrust on infrastructure development, demand growth in NER is expected to remain healthy over the next three or four years. Given this backdrop, SFCL is expected to clock revenue CAGR of 22.8% in FY15-17E.

Focus on strengthening distribution, marketing initiatives, brand image

SFCL has been able to grow sales volume by 35% in FY15. This has also helped the company to achieve a market share of 23%. Going forward, the company is planning to increase its market share from 23% to 30% in the coming years. Apart from strengthening its footprint in the NER, the company has also expanded its dealer network in the West Bengal and Bihar market. A huge marketing and visibility campaign has been put in place to have better brand visibility and top of the mind recall among users of cement in all these markets. In addition, the company is also exploring the possibility of introducing its product in the markets of neighbouring countries viz. Nepal, Bhutan and Bangladesh.

Operates at healthy margins vs. its peer set

The company has constantly remained ahead of industry in terms of margins in the past two years. SFCL enjoys an advantage of geographical complexity and various fiscal benefits under the NE industrial policy (NEIIPP 2007). This includes capital investment subsidy up to 30% of investment in plant & machinery, interest subsidy at 3% of working capital loan, transport subsidy, to boost investments. The company also achieved self sufficiency in terms of power requirement through setting up a 51 MW power plant. As a result, it generates healthy EBITDA/tonne that is over ~2.2x cement players at the pan-India level.

Financial leverage to improve led by strong operating cash flow

After doing major capacity addition in FY12-14, the company plans to achieve optimum capacity utilisation of over 80% by FY17E. This, in turn, would help SFCL to generate an operating cash flow of ~₹ 500 crore over the next two years, which, in turn, can be used to fund its major capex programme, going forward. At present, SFCL is adding 1.0 MT of grinding unit in West Bengal at a capex of only ~₹ 180 crore and has leased the 0.3 MT grinding unit in Durgapur. The company is also expected to receive ₹ 600 crore of subsidy over next two years. Hence, with limited capex plans, the company is currently better placed to reduce its debt significantly over the next two years.

Strategy Follow up

Open Recommendations:

Rec. Date	Scrip Name	Rec Price	Target	Stoploss	CMP	Return till date (%)
18-Nov-15	M&M	1290	1490	1130	1226	-5.0
2-Dec-15	Asian paint	860	1010	770	855	-0.6

Summary Performance - Recommendations till date		Open Recommendations	2
Total Recommendations	64	Yield on Positive recommendations	22.0%
Closed Recommendations	62	Yield on Negative recommendations	-7.5%
Positive Recommendations	43		
Strike Rate	69%		

Notes…

- Please execute the recommendation within the levels provided in the report
- Once the recommendation is executed, it is advisable to keep strict stop loss as provided in the report
- Avoid entering into the recommendation in the first 5 minutes of trade
- If the recommendation opens near the target levels due to gap up/gap down opening, then the recommendation is considered not initiated
- The recommendations are valid only for the day and should be squared off by the end of the day
- Only stocks in derivatives segment have been considered for daily trading
- Medium to long-term prospects of a stock does not have any bearing on the daily view.

Trading portfolio allocation

- It is recommended to spread out the trading corpus in a proportionate manner between the various technical research products
- Please avoid allocating the entire trading corpus to a single stock or a single product segment
- Within each product segment it is advisable to allocate equal amount to each recommendation
- For example: The 'Daily Calls' product carries 3 to 4 intraday recommendations. It is advisable to allocate equal amount to each recommendation

Recommended product wise trading portfolio allocation

Product	Allocations		Number of Calls	Return Objective		Duration
	Product wise allocation	Max allocation in 1 Stock		Frontline Stocks	Mid Cap Stocks	
Daily Calls	8%	2-3%	3-4 Stocks	0.5-1%	2-3%	Intraday
Short term Delivery	6%	3-5%	7-10 Per Months	4-5%	7-10%	Opportunity Based
Weekly Calls	8%	3-5%	1-2 Stocks	5-7%	7-10%	1 Week
Weekly Technicals	8%	3-5%	1-2 Stocks	5-7%	7-10%	1 Week
Monthly Call	15%	5%	2-3 Stocks	7-10%	10-15%	1 Month
Monthly Technical	15%	2-4%	5-8 Stocks	7-10%	10-15%	1 Month
Techno Funda	15%	5-10%	1-2 Stocks	10% and above	15% and above	6 Months
Technical Breakout	15%	5-10%	1-2 Stocks	10% and above	15% and above	3-6 Months
Cash	10%	-				
	100%					

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