

Robust Operating Performance; Maintain BUY!
Est. Vs. Actual for Q3FY23: Revenue – **Miss**; EBITDA Margin – **BEAT**; PAT – **BEAT**
Change in Estimates post Q3FY23
FY23E/FY24E – Revenue (2%)/3%; EBITDA 3%/6%; PAT 10%/13%
Recommendation Rationale

- The company's capacity expansion plan is progressing well. Its 2 mtpa each capacity is getting operational in FY24/FY25 along with a 3 mtpa clinker unit in FY24, which would drive the company's volume growth moving ahead. We expect the company to post volume growth of 16% CAGR over FY22-24E
- The cement demand in North East and East India region is expected to remain resilient owing to a) The government's thrust on the development of infrastructure and housing in the region and b) Lower per capita consumption of cement in the region compared to average cement consumption in India.
- The cost optimization measures such as setting up of WHRS plant will enable the company to reduce its power/fuel cost moving ahead.

Sector Outlook: Positive
Company Outlook & Guidance: The company expects double-digit volume growth in FY24 and EBITDA/tonne to be sustained at the current level.

Current Valuation: 9x FY24 EV/EBITDA (Earlier Valuation: 9x FY24 EV/EBITDA)
Current TP: Rs 125/share (Earlier TP: Rs 115/share)
Recommendation: We maintain our **BUY** recommendation on the stock and revise our estimates for FY23 and FY24 owing to the robust demand outlook and the upcoming capacity.

Alternative BUY Ideas from our Sector Coverage
ACC (TP – 2,450/share)
Financial Performance

SCL reported Revenue/Volume growth of 12%/4% YoY (below expectation) but higher YoY. However, EBITDA/APAT grew by 61%/21% (above our as well as consensus estimates) YoY owing to higher realization and volume. The company reported a profit of Rs 53 Cr against Rs 44 Cr in Q3FY22.

The company recorded an EBITDA margin of 17.5% (expectation of 13%) against 12.2% YoY. The quarter's volume stood at 0.91 million tonnes per annum (mtpa), up 4% YoY and 2% QoQ. SCL's EBITDA/tonne stood at Rs 1,194, up 55% YoY and 140% QoQ and it reported blended realization/tonne of Rs 5,121 against Rs 5,070, up 1% YoY and 3% QoQ. The company's cost/tonne increased by 1% YoY to Rs 5629. Blended realization stood at Rs 6,823/tonne, up 7% YoY.

Outlook: The East and North East market is expected to see elevated cement demand, driven by increased Capex towards infrastructure and affordable housing. The company is well poised to capture rising cement demand in the region with its upcoming capacity. We expect the company to grow its Volume/Revenue/EBITDA at CAGR of 16%/20%/31% over FY22-FY24.

Valuation & Recommendation

The stock is currently trading at 9.5x and 8.5x FY23E/FY24E EV/EBITDA. We maintain our **BUY** rating on the stock with a TP of Rs 125/share, implying an upside potential of 12% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	620	4%	12%	666	41%
EBITDA	108	-3%	5%	87	30%
EBITDA Margin	17.5%	570 bps	530bps	13.1%	440bps
Net Profit	53	70%	21%	42	19%
EPS (Rs)	1.3	70%	21%	1.05	19%

Source: Company, Axis Research

 (CMP as of 3rd Feb 2023)

CMP (Rs)	112
Upside /Downside (%)	12
High/Low (Rs)	124/81
Market cap (Cr)	4513
Avg. daily vol. (6m)Shrs.	234762
No. of shares (Cr)	40.4

Shareholding (%)

	June-22	Sep-22	Dec-22
Promoter	67.37	67.43	67.03
FIIs	0.28	0.4	0.53
MFs / UTI	5.9	5.9	5.9
Banks / FIIs	0	0	0
Others	26.45	26.27	26.54

Financial & Valuations

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E
Net Sales	2222	2,754	3,191
EBITDA	345	458	598
Net Profit	247	240	276
EPS (Rs)	6.6	5.9	6.8
PER (x)	11	11	10
P/BV (x)	1.3	1.1	1.0
EV/EBITDA (x)	10	9	8.5
ROE (%)	12	11	11

Change in Estimates (%)

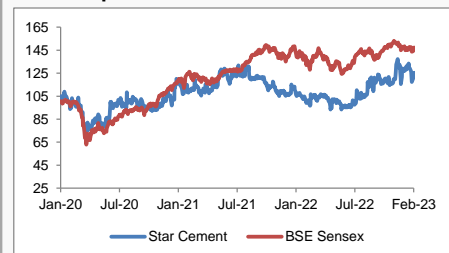
Y/E Mar	FY23E	FY24E
Sales	-2%	1%
EBITDA	3%	6%
PAT	10%	13%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0,1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance


Source: Capitaline, Axis Securities

Uttam K Srimal

 Research Analyst
email: Uttamkumar.srimal@axissecurities.in

ShikhaDoshi

 Research Analyst
email: shikha.doshi@axissecurities.in

Key Concall Highlights

- Capacity Expansion:** The capacity expansion plan of the company is progressing well and 2 mtpa of each grinding capacity will get operational in FY24/25 along with 3 mtpa Clinker units in FY24, this will take the total capacity of the company to 9 mtpa from the existing 5.7 mtpa, providing better growth headroom to the company moving ahead.
- Volume:** The company guided for double-digit volume growth in FY24. During the quarter the company geographical distribution stood at 73%/27% between North East/East. During the quarter the blended Cement sale was 95% and the balance was OPC. The trade and non-trade mix during the quarter stood at 92%/8%. Last year non-trade sale was 11%. Premium Cement formed 4.5% of the overall trade sale. Siliguri unit is operating at 55% capacity, since realization is soft in the East compared to North East, the company is opting for better prices rather than chasing volume.
- Pricing:** Cement prices are stable and no price hike has been witnessed as of now in Q4FY23. The company could not increase prices during Oct'22 owing to weak demand, prices were increased in Dec'22, and the full impact of the same will be reflected in Q4FY23. The price increase in Dec'22 was Rs10/bag. Management indicated that since demand momentum is robust, prices should trend higher in the remaining period of Q4FY24.
- Power/Fuel:** The company expects a reduction of 10% in power/fuel cost in Q4FY23. The fuel mix was Nagaland Coal 25%, Coal through FSA 5%, 50% imported/Auction coal and the balance was AFR (Alternative fuel and raw materials). On a per Kcal basis, cost stood at Rs 2.09 and the same is expected to reduce by 10% moving ahead in Q4FY23.
- Freight:** Lead distance during the quarter was 211km against 224 km last year. On a tonne basis freight cost was lower by 2% at Rs 1255/tonne YoY.
- Capex:** The company expended Rs200 Cr in Q3FY23 on Capex, Rs 300-350 Cr would be in Q4FY23, Rs1,200 cr in FY24 and the balance Rs 500 Cr in FY25. Ongoing capacity expansion will cost Rs 2200 Cr.
- Cash:** The current cash/cash equivalent stood at Rs 548 Cr. The company is debt free.

Key Risks to our Estimates and TP

- Lower realization and demand in its key market.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	2,754	3,191	2798	3148	-2%	1%
EBITDA	458	598	443	565	3%	6%
PAT	240	276	219	245	10%	13%

Source: Company, Axis Securities

Result Review

(Rs Cr)	Quarterly Performance				
	Q3FY23	Q3FY22	Q2FY23	% Change (YoY)	% Change (QoQ)
Net sales	620	594	555	12%	4%
Expenditure	511	525	487	5%	-3%
EBITDA	108	70	68	61%	56%
Other income	12	14	7	67%	-13%
Interest	3	3	2	38%	25%
Depreciation	34	32	32	8%	8%
PBT	83	49	41	104%	69%
Tax	30	18.0	(3)	-1036%	66%
Adjusted PAT	52.9	31	43.8	21%	70%
EBITDA margin (%)	17.5%	11.7%	12.2%	530bps	570bps
EPS (Rs)	1.31	0.77	1.08	21%	70%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

(Rs Cr)	Quarterly Performance				
	Q3FY23	Q3FY22	Q2FY23	% Change (YoY)	% Change (QoQ)
Volume/mnt	0.91	0.89	0.87	4%	2%
Realisation/tonne (Rs)	6823	6669	6,349	7%	2%
Cost/tonne (Rs)	5629	5887	5,576	1%	-4%
Raw material/tonne (Rs)	1201	1872	1,774	-32%	-36%
Staff Cost/tonne (Rs)	536	568	477	12%	-6%
Power & Fuel/tonne (Rs)	1765	1288	1,214	45%	37%
Freight/tonne (Rs)	1255	1192	1,285	-2%	5%
Other Expenses /tonne (Rs)	873	968	826	6%	-10%
EBITDA/tonne (Rs)	1194	782	772	55%	53%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Net sales	2222	2754	3191
Other operating income	0	0	0
Total income	2222	2754	3191
Raw Material	574	634	705
Power & Fuel	417	613	693
Freight & Forwarding	427	510	582
Employee benefit expenses	159	198	217
Other Expenses	300	341	396
EBITDA	345	458	598
Other income	33	55	41
PBIDT	379	513	640
Depreciation	122	129	162
Interest & Fin Chg.	13	11	53
E/o income / (Expense)	0	0	0
Pre-tax profit	244	373	425
Tax provision	-3	133	149
RPAT	247	240	276
Minority Interests	0.0	0.0	0.0
Associates	0	0	0
APAT after EO item	247	240	276

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Total assets	2745	3219	4071
Net Block	1023	1582	2696
CWIP	105	55	55
Investments	0	0	0
Wkg. cap. (excl cash)	209	260	298
Cash / Bank balance	385	243	125
Misc. Assets	102	108	90
Capital employed	2745	3219	4071
Equity capital	40	40	40
Reserves	2128	2360	2628
Minority Interests	0	0	0
Borrowings	5	205	755
DefTax Liabilities	0	0	0
Other Liabilities and Provision	57	61	65

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Profit before tax	244	373	425
Depreciation	119	129	162
Interest Expenses	13	11	53
Non-operating/ EO item	-30	-55	-41
Change in W/C	106	-35	-22
Income Tax	35	133	149
Operating Cash Flow	417	290	428
Capital Expenditure	-199	-738	-1276
Investments	40	167	160
Others	-129	5	241
Investing Cash Flow	-289	-567	-875
Borrowings	-10	200	550
Interest Expenses	-13	-11	-53
Dividend paid	0	-8	-8
Others	-152	122	0
Financing Cash Flow	-175	302	489
Change in Cash	-47	25	42
Opening Cash	55	8	33
Closing Cash	8	33	75

Source: Company, Axis Securities

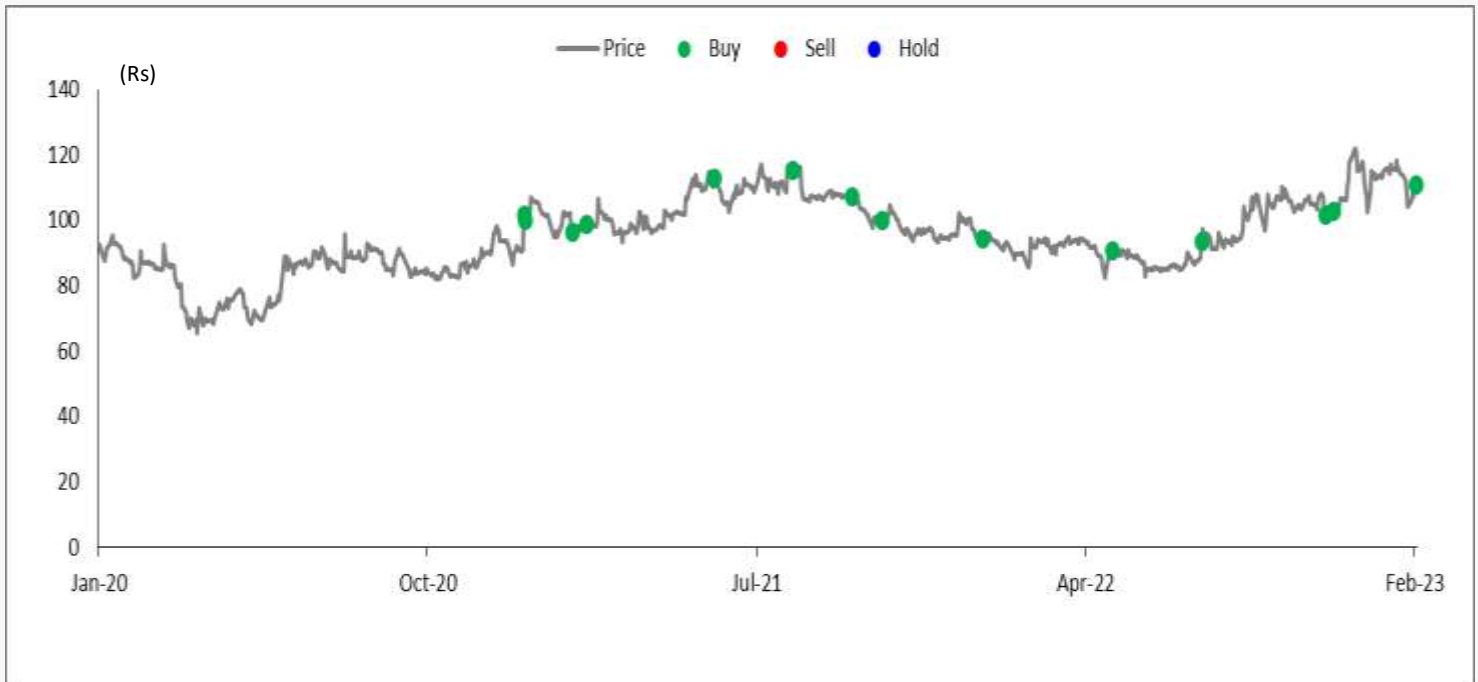
Ratio Analysis

(%)

Y/E March	FY22	FY23E	FY24E
Operational Ratios			
Sales growth	29%	24%	16%
OPM	15.5%	16.6%	18.8%
Op. profit growth	4%	33%	31%
COGS / Net sales	64%	64%	62%
Overheads/Net sales	21%	20%	19%
Depreciation / G. block	8%	6%	5%
Efficiency Ratios			
Total Asset turnover (x)	0.81	0.86	0.78
Sales/Gross block (x)	1.39	1.18	0.88
Sales/Net block(x)	2.18	1.75	1.19
Working capital/Sales (x)	0.15	0.17	0.09
Valuation Ratios			
P/E	11	11	10
P/BV (x)	1.3	1.1	1.0
EV/Ebitda (x)	10.4	9.2	8.5
EV/Sales (x)	1.6	1.5	1.6
EV/Tonne \$ (x)	85	100	89
Return Ratios			
ROE	12	11	11
ROCE	11	15	15
ROIC	15	19	16
Leverage Ratios			
Debt / equity (x)	0.00	0.09	0.28
Net debt/ Equity (x)	-0.25	-0.12	0.21
Interest Coverage ratio (x)	19	34	9
Cash Flow Ratios			
OCF/Sales	0.19	0.11	0.13
OCF/Ebitda	1.21	0.63	0.71
OCF/Capital Employed	0.18	0.10	0.12
FCF/Sales	0.10	-0.14	-0.40
Payout ratio (Div/NP)	6.6	3.4	2.9
AEPS (Rs.)	6.1	5.9	6.8
AEPS Growth	34.6	-2.8	15.0
CEPS (Rs.)	9	9	11
DPS (Rs.)	0	0.2	0.2

Source: Company, Axis Securities

Star Cement Price Chart and Recommendation History



Date	Reco	TP	Research
30-Dec-20	BUY	115	Initiating Coverage
31-Dec-20	BUY	115	New Year Pick - 2021
10-Feb-21	BUY	110	Result Update
22-Feb-21	BUY	110	Pick of the week
11-Jun-21	BUY	125	Result Update
18-Aug-21	BUY	130	Result Update
08-Oct-21	BUY	120	AAA
02-Nov-21	BUY	115	Result Update
28-Jan-22	BUY	105	Result Update
18-May-22	BUY	105	Result Update
04-Aug-22	BUY	105	Result Update
18-Nov-22	BUY	115	Result Update
25-Nov-22	BUY	115	AAA
06-Feb-23	BUY	125	Result Update

Source: Axis Securities

About the analyst

Analyst: UttamKSimal

Email: uttamkumar.simal@axissecurities.in

Sector: Cement/Infra

Analyst Bio: Uttam K Simal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research

About the analyst

Analyst: ShikhaDoshi

Email: shikha.doshi@axissecurities.in

Sector: Cement/Infra

Analyst Bio: Shikha Doshi is a Master of Science in Finance from the Illinois Institute of Technology, Chicago, currently handling the Cement/infra sector.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.

ASL has no material adverse disciplinary history as on the date of publication of this report.

I/We, Aditya Welekar, MBA Finance, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No

5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.

In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706