

Star Cement

30 December 2020

Reuters: STAT.NS; Bloomberg: STRCEM:IN

Eastern expansion to drive volume; North East profitability stable

We initiate coverage on Star Cement Ltd with a Buy rating and target price (TP) of Rs127. We believe that Star Cement is well placed to capitalize on cashflows from its profitable North East operations to drive expansion in the Eastern region. Despite the adverse demand-supply scenario in the Eastern region currently, the relatively better demand growth potential of the region and presence of larger pan-India players will ensure that pricing remains at economically viable levels. Cement prices in the North East and East regions are not correlated and hence any drop in prices in the East is unlikely to have any adverse impact on North East prices. We believe that the entry of outside players in the North East market will be limited and indigenous players will be able to retain their market share. The company plans to increase capacity to 10mn mt from the current 5.7mn mt (post expansion capacity) by 2025, which will ensure consistent volume growth. The company is net cash positive with strong return ratios and healthy margins compared to peers. We are building in 14%/16% revenue and EBITDA CAGR for the company over FY21-23, driven by increased volume from the East post the recent capacity expansion. We have valued the stock at 8x FY23 EV/EBITDA to arrive at our TP of Rs127. Improved pricing scenario in the East, higher-than-expected volume growth in its addressable markets, availability of Meghalaya coal for the regional players and further improvement in operating efficiency are some of the key upside triggers. Subdued pricing and inability to ramp-up utilization of new grinding unit coupled with delays in clinker expansion plans in Meghalaya are key downside risks to our estimates.

A formidable player in the North-East market: Star Cement is a market leader in the North East region and enjoys ~25% market share with its 'Star' brand. The North East region has significantly higher entry barriers compared to other regions and hence we expect regional players who are already present in the region to perform well. Demand-supply scenario in the North East region is well balanced given the total capacity of ~11mn mt and demand of ~9mn mt. No capex is planned in the region and hence increased supplies from outside the region will not affect pricing much.

Eastern expansion to ensure better volume growth: Star Cement is on the verge of completing its Siliguri grinding unit in West Bengal and is expected to start commercial supplies from January'21. The company already has presence in the Eastern region through leased grinding units of 0.6mn mt capacity. The new grinding unit will replace supply from the leased units and will be able to show further volume growth. We are expecting 60-70% utilization from this plant by FY22-end. Even if the new unit generates EBITDA/mt of Rs500, ROCE of investment will be 12.5-13%. The management expects profitability from the eastern unit to be Rs800-1000/mt, which we believe will be achieved in some time but not immediately.

Strong balance sheet and healthy return ratios: Given the strong profitability in the North East region and incentives received from the government in terms of capital and transport subsidy, the company's balance sheet position is strong, with FY20 net cash of Rs2.7bn. ROCE and ROE have come off recently but are still better than peers at 19% and 16%, respectively. The company is consistently generating positive free cash flows and its operating cashflows are expected to be around Rs4bn per annum. Despite plans of spending ~Rs8.5bn on Meghalaya clinker expansion, we expect FY23 cash balance to be higher than FY20.

Initiate with BUY: We initiate coverage on Star Cement with a Buy rating. We are valuing the company based on 8x FY23 EV/EBITDA, which is below its long-term average given the drop in profitability in recent times. We have added the CWIP portion of Meghalaya expansion in cash for our valuation consideration as that asset is likely to contribute to earnings in FY24.

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	18,310	18,439	17,519	20,627	22,900
YoY (%)	13.4	0.7	(5.0)	17.7	11.0
EBITDA	4,492	3,951	3,946	4,358	5,340
EBITDA Margin (%)	24.5	21.4	22.5	21.1	23.3
PAT	3,050	2,873	2,312	2,524	3,232
YoY (%)	(9.3)	(5.8)	(19.5)	9.2	28.0
EPS (Rs)	7.3	7.0	5.6	6.1	7.8
RoE (%)	19.1	16.0	11.9	11.9	13.7
EV/EBITDA (x)	11.0	9.8	8.9	8.2	6.6
EV/mt (\$)	165.2	128.4	82.2	83.2	82.3
P/E (x)	15.1	14.1	16.4	15.0	11.7

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Cement

CMP: Rs91

Target Price: Rs127

Upside: 40%

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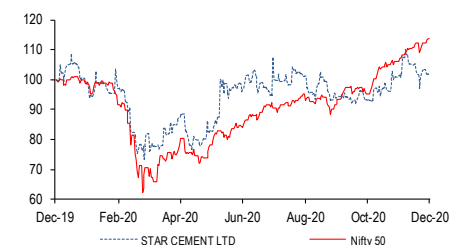
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Key Data

Current Shares O/S (man)	412.4
Mkt Cap (Rsb/US\$m)	37.4/509.5
52 Wk H / L (Rs)	105/60
Daily Vol. (3M NSE Avg.)	342,211

Share holding (%)	2QFY21	1QFY21	4QFY20
Promoters	67.2	66.8	66.8
Public	32.8	33.2	33.2
Others	-	-	-

One Year Indexed Stock Performance



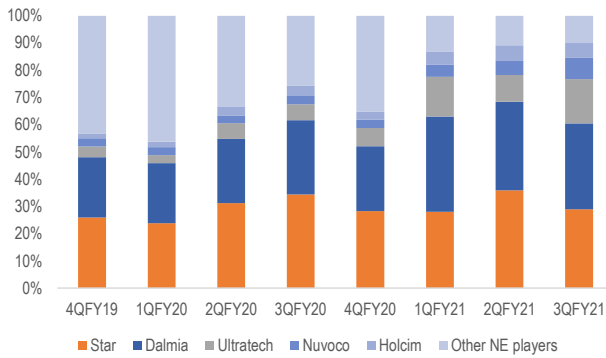
Price Performance (%)

	1 M	6 M	1 Yr
Star Cement	1.0	5.3	2.3
Nifty Index	7.4	35.2	13.7

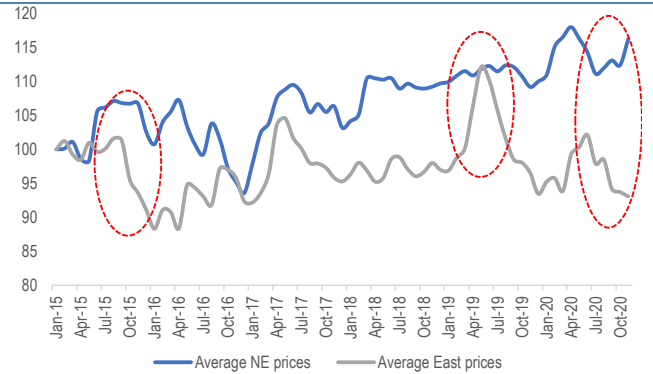
Source: Bloomberg

Focus charts

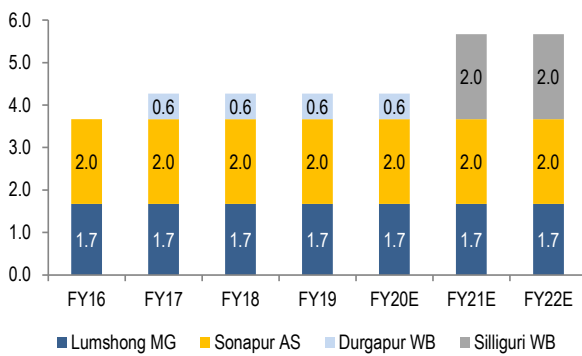
Market share in North East stable for regional players



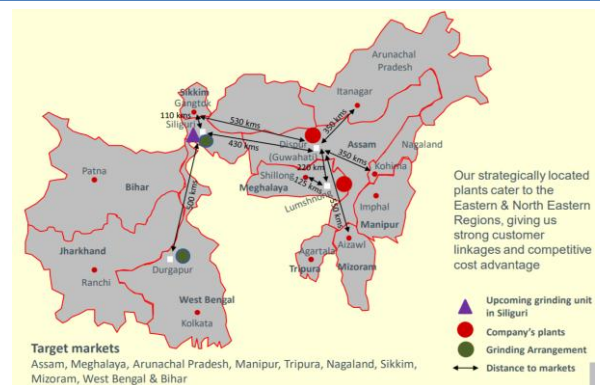
No correlation between prices in East and North-East regions



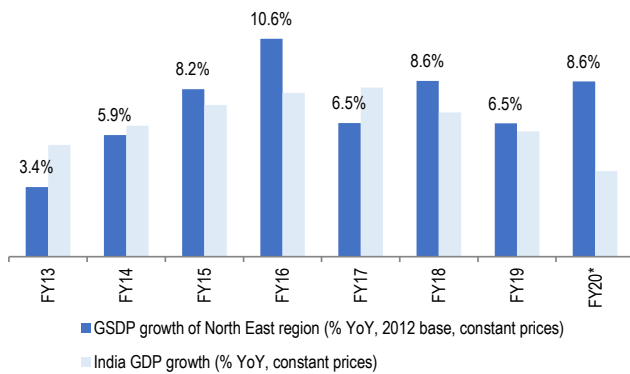
Capacity set to increase to 5.7 mn mt



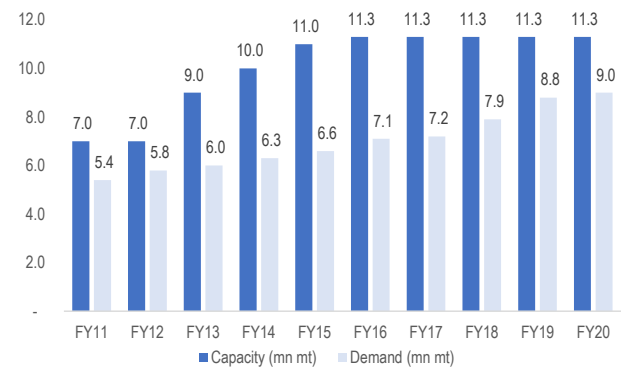
Grinding unit well positioned between clinker and market



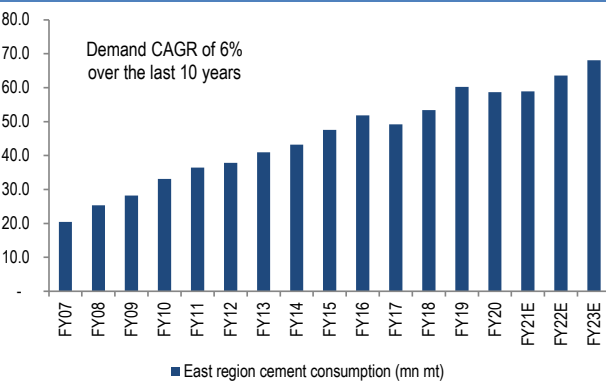
NE region has grown at relatively faster pace in recent years



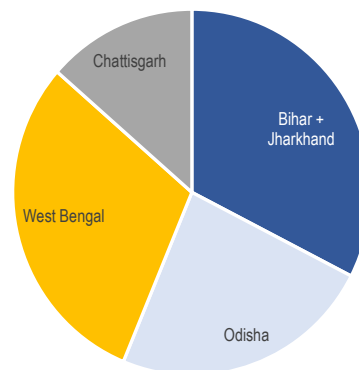
Well balanced demand supply dynamics in North East



Eastern region 10-year demand CAGR of 6% against 9% capacity CAGR



Bihar+Jharkhand is the biggest market in East followed by West Bengal



Source: Company, Industry, Crisil, RBI, Nirmal Bang Institutional Equities Research;

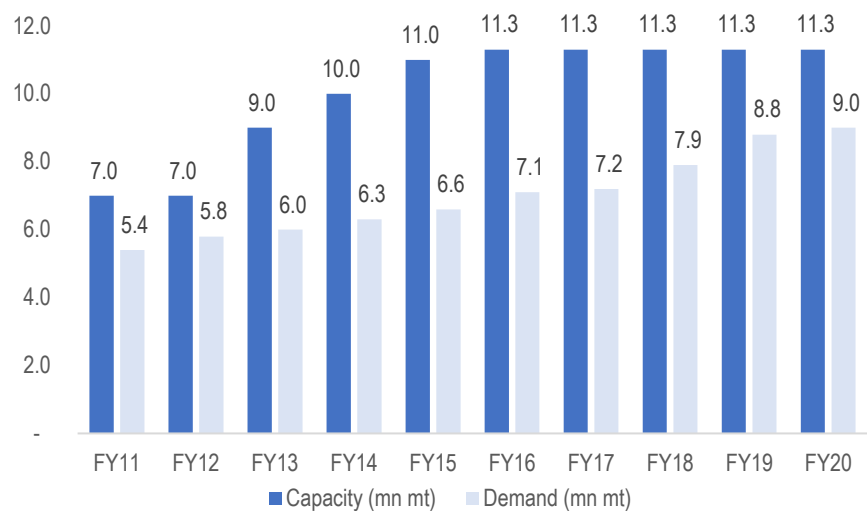
Leadership position in North-East market to continue

Star Cement is a leader in the North East market of India, which has relatively higher barriers of entry given its geographic location and challenging terrain. The North East market has various indigenous players like Star, Dalmia, Topcem, Amrit Cement etc. along with smaller grinding units. In addition, the region receives supplies from eastern players like the Holcim group, Nuvoco and Ultratech. Market share of indigenous players varies from 75% to 90% depending on the demand-supply situation in the East and North East markets. Despite these odds, Star Cement has been able to maintain its leadership position in the North East market and we expect it to continue.

No new capacity expected in the North East region in medium term

Given the fact that the North East is an ecologically sensitive area with forest land and tribal region, no new capacity has been added there over the past 5-6 years. No new capacity is expected to be added over the next 3-4 years. As on FY20, the NE region's cement capacity is 11.3mn mt while demand is ~9mn mt per annum. The region's cement demand has grown at 8% CAGR over the past 3 years and 6% over the past 10 years. We expect the region's cement demand growth to be higher than the industry given the low per capita cement consumption and infrastructure projects undertaken by the central government.

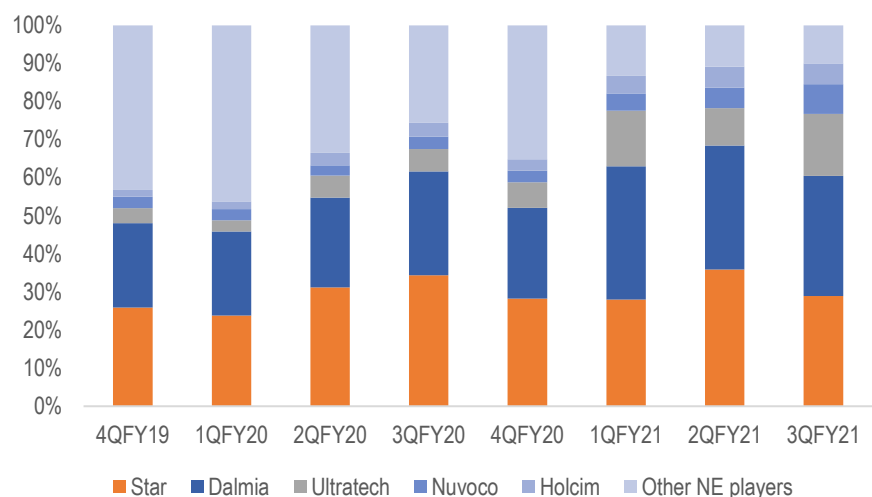
Exhibit 2: North East demand supply evenly balanced



Source: Company, Nirmal Bang Institutional Equities Research,

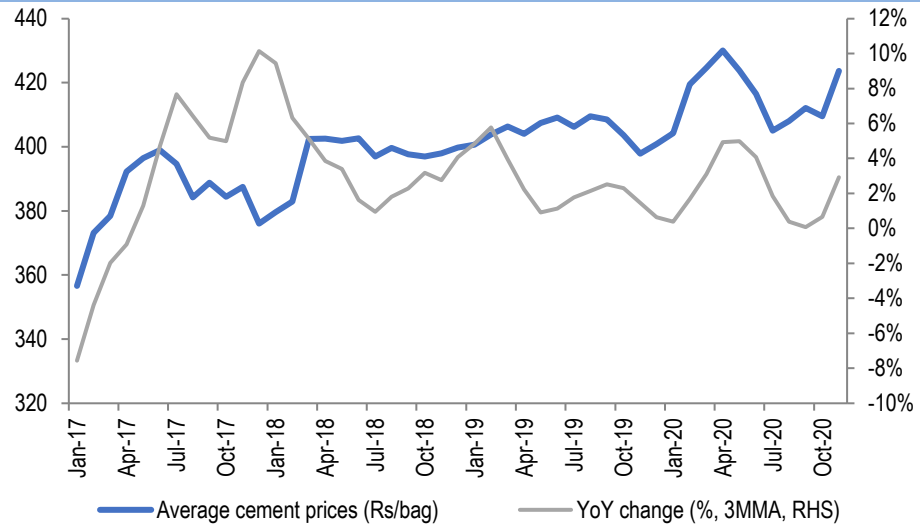
10-25% of region's total demand is catered by players from outside the region and historically this ratio is closer to 15%. Despite changes in supplies from the eastern region, cement pricing in NE has been stable. Recently, Ultratech has increased supplies in this market but market leaders like Dalmia and Star have maintained their market share. We do not expect any adverse impact of this supply on NE prices.

Exhibit 3: Estimated market share movement of key players in North East



Source: Industry, Nirmal Bang Institutional Equities Research,

Exhibit 4: Cement prices stable in North East



Source: Crisil, Industry, Nirmal Bang Institutional Equities Research,

Despite the Covid-19 pandemic, which resulted in more than 35% decline in cement demand in 1HFY21, cement prices in NE have remained stable. On the contrary, cement prices in the eastern region have turned more volatile due to increased supply. But, it has not had negative repercussions on NE prices given the distance involved for the cement to travel and resultant freight costs. Historically, volatility or change in eastern cement prices have not had any negative impact on NE prices as can be seen from the exhibit below.

Exhibit 5: Weak correlation between East and North East cement prices



Source: Crisil, Industry, Nirmal Bang Institutional Equities Research, note: Average regional cement prices indexed to 100

Demographic profile and infrastructure potential key demand drivers for cement demand in NE

NE region has ~4% of India's total population and comprises 8% of India's total land mass. The ethnicity and topography of the region are completely different from the rest of the country. Given the vast rural population in the region, development has been slower over the decades. Assam is the biggest state in the region in terms of population with 69% of the region's population. Assam boasts of 8 of the top 15 largest cities in the region in terms of size of population with Guwahati being the largest city. In terms of area, Arunachal Pradesh is the largest state with 32% of total area. Despite the size of Arunachal Pradesh, its population is only 3% of total as its population density is one of the lowest at 17/sq km against 398 for Assam. Given the vast potential for housing and infrastructure development, we expect cement demand in the region to grow at a higher rate than the all-India average.

Exhibit 6: Assam has the highest share of population in North East (000 persons)

Year	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura	North East total	Decadal growth	All India	Population as % of total
1961	337	10,837	780	769	266	369	162	1,142	14,662	41.0%	4,39,235	3.3%
1971	468	14,625	1,073	1,012	332	516	210	1,556	19,792	35.0%	5,48,160	3.6%
1981	632	18,041	1,421	1,336	494	775	316	2,053	25,068	26.7%	6,83,329	3.7%
1991	865	22,414	1,837	1,775	690	1,210	406	2,757	31,954	27.5%	8,46,303	3.8%
2001	1,098	26,656	2,294	2,319	889	1,990	541	3,199	38,986	22.0%	10,28,737	3.8%
2011	1,383	31,205	2,570	2,966	1,097	1,978	610	3,673	45,482	16.7%	12,10,569	3.8%
% of total NE	3.0%	68.6%	5.7%	6.5%	2.4%	4.3%	1.3%	8.1%	100.0%			

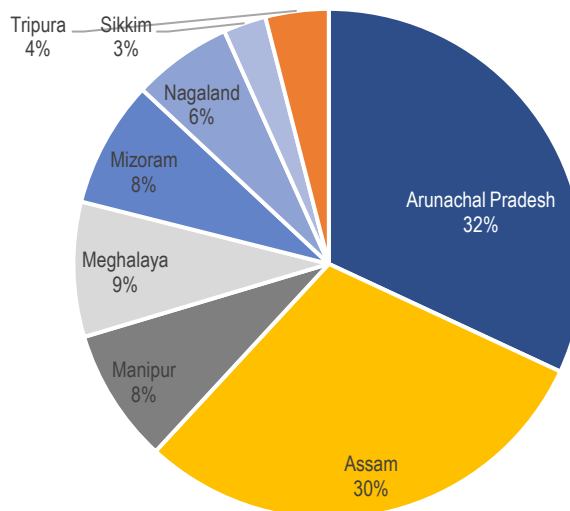
Source: Census 2011, Nirmal Bang Institutional Equities Research

Exhibit 7: Top 15 cities in North East based on population

Rank	City	State	Population
1	Guwahati	Assam	9,68,549
2	Agartala	Tripura	6,22,613
3	Imphal	Manipur	4,14,288
4	Dimapur	Nagaland	3,79,769
5	Shillong	Meghalaya	3,54,325
6	Aizawl	Mizoram	2,91,822
7	Silchar	Assam	2,29,136
8	Dibrugarh	Assam	1,54,296
9	Jorhat	Assam	1,53,889
10	Nagaon	Assam	1,47,496
11	Bongaigaon	Assam	1,39,650
12	Tinsukia	Assam	1,26,389
13	Tezpur	Assam	1,02,505
14	Kohima	Nagaland	1,00,000
15	Gangtok	Sikkim	98,658

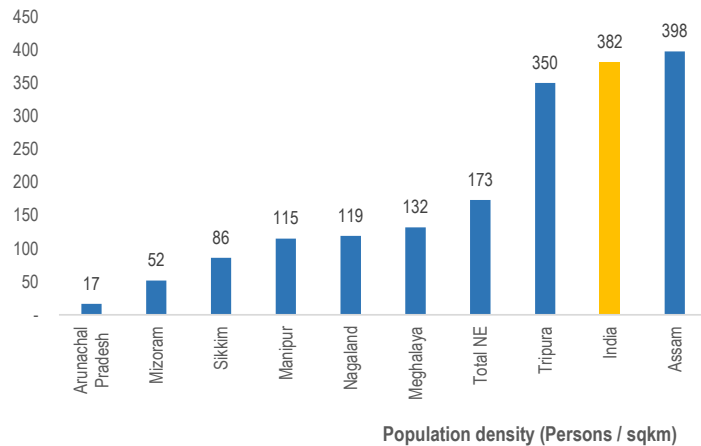
Source: Census 2011, Nirmal Bang Institutional Equities Research

Exhibit 8: Area composition of North Eastern region



Source: Ministry of Development of North Eastern Region, Nirmal Bang Institutional Equities Research,

Exhibit 9: North East has one of the lowest population densities in the country



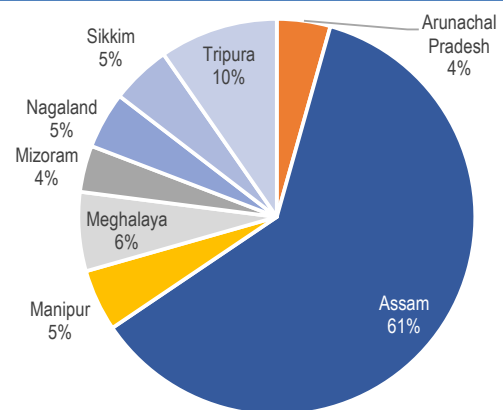
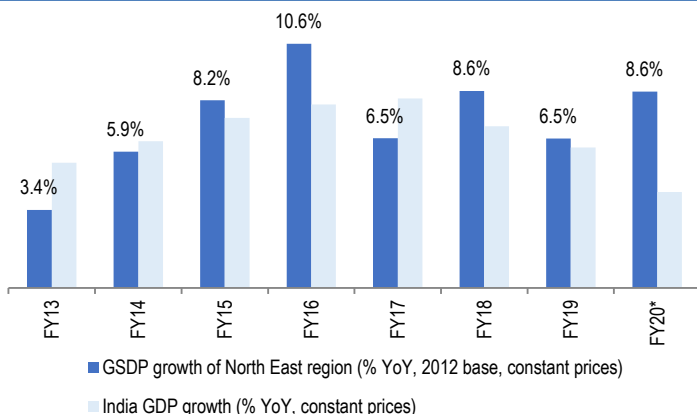
Source: Ministry of Development of North Eastern Region, Nirmal Bang Institutional Equities Research,

Economic growth of the region has been faster than the country

Given the increased pace of investments by the government of India in the region, the economic growth of the region has been faster than the all-India average. In 4 out of the past 5 years, the region's GSDP growth has been higher than India's GDP growth. Assam again leads the proportion of GSDP within the region with 61% contribution coming from the state. Barring Sikkim, per capita income of the NE states is much lower compared to the all-India average, thereby directing the government to address the anomaly by increasing investments and growing employment opportunities in the region.

Exhibit 10: NE region has grown at relatively faster pace in recent years

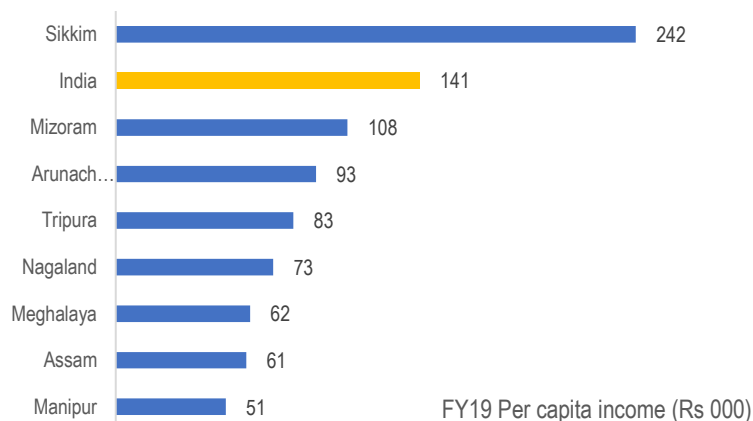
Exhibit 11: GSDP composition of North East region



Source: RBI, Nirmal Bang Institutional Equities Research; Note- *= data available for Meghalaya, Sikkim and Tripura only for FY20

Source: RBI, Nirmal Bang Institutional Equities Research

Exhibit 12: NE per capita income well below all-India average



Source: RBI, CSO, Nirmal Bang Institutional Equities Research,

We have looked at various development indicators like per capita power availability, length of national highways and length of railway routes in the region to assess the scale of infrastructure deficit in the region. It can be seen from the exhibit below that on all these parameters, the NE region fairs very poorly, suggesting the scale of infrastructure investment needed. NE region's per capita cement consumption is close to 170kg compared to the all-India average of 250kg. So, we believe that there is ample scope for better cement consumption going ahead. We expect housing, roads, railways, power and urban infrastructure segments to drive cement demand in the region.

Exhibit 13: Various infrastructure indicators suggest the extent of infrastructure deficit in NE

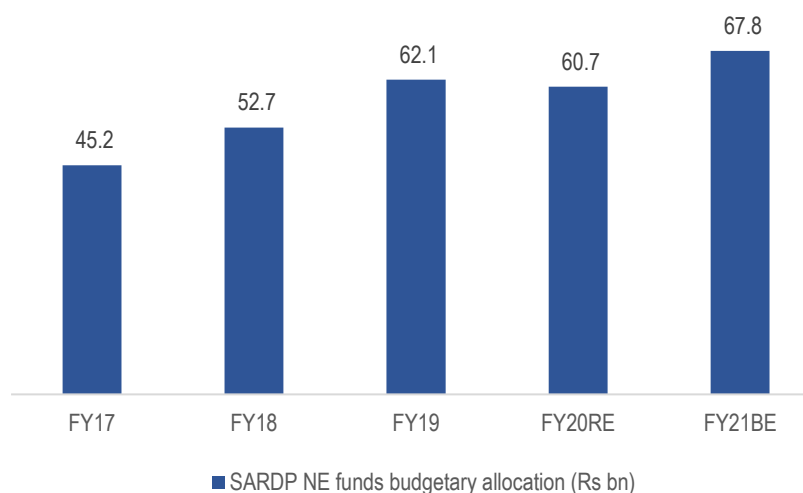
State	Per capita power availability (kwh)	Length of national highways (Kms)	Length of railway routes (Kms)
Arunachal Pradesh	618	2,537	12
Assam	295	3,909	1,519
Manipur	333	1,750	13
Meghalaya	659	1,156	9
Mizoram	606	1,423	2
Nagaland	409	1,548	11
Sikkim	843	463	-
Tripura	500	854	226
India	1,029	1,32,500	67,415

Source: Central Electricity Authority, Ministry of Power, Ministry of Road Transport and Highways, Ministry of Railways, RBI, Nirmal Bang Institutional Equities Research

Exhibit 14: NE region has vast untapped hydro power potential

State	Identified capacity (MW)	Capacity developed (MW)	Capacity under construction (MW)	Capacity yet to be developed (MW)
Meghalaya	2,298	322	-	1,976
Tripura	-	-	-	-
Manipur	1,761	105	-	1,656
Assam	650	350	-	300
Nagaland	1,452	75	-	1,377
Arunachal Pradesh	50,064	515	2,600	46,949
Mizoram	2,131	60	-	2,071
Total	58,356	1,427	2,600	54,329

Source: Central Electricity Authority, Ministry of Power, Nirmal Bang Institutional Equities Research

Exhibit 15: Funds allocated under SARDP-NE for road development has seen consistent growth


Source: PIB, MoRTH, Nirmal Bang Institutional Equities Research, Note: SARDP-NE = Special Accelerated Road Development Programme in North Eastern Areas

Entry into the Eastern market to support volume growth

As part of its growth strategy, Star Cement plans to grow in the eastern region. The company plans to use its existing clinker plant in Meghalaya to feed a new grinding unit at Siliguri (West Bengal). The company is already present in the Eastern markets and has leased 2 smaller grinding units of 0.6mn mt capacity for the same. The company had 26% of its total volume coming from the eastern region as of FY20 and we expect it to rise to 35-37% over the next 2 years. The original plan was to set up a grinding unit of 1MTPA for Rs1.5bn. However, post 3QFY18, the management decided to enhance the capacity to 2MTPA with a total outlay of Rs3.5bn or US\$24/mt. Originally, the plant was to be commissioned by 4QFY20. However, it got delayed due to Covid-19 and it is expected to be commissioned in Dec'2020. The plant will primarily produce PPC and will cater to markets of East Bihar, North West Bengal and Sikkim. Post this expansion, the company's cement capacity will increase to 5.7mn mt. Current clinker capacity at Meghalaya is 2.8mn mt and the company is undertaking debottlenecking exercise to increase the capacity to 3mn mt. The company's total clinker capacity is sufficient to increase volume up to 4.5mn mt from 2.9mn mt in FY20.

Exhibit 16: Star Cement capacity expansion plan details

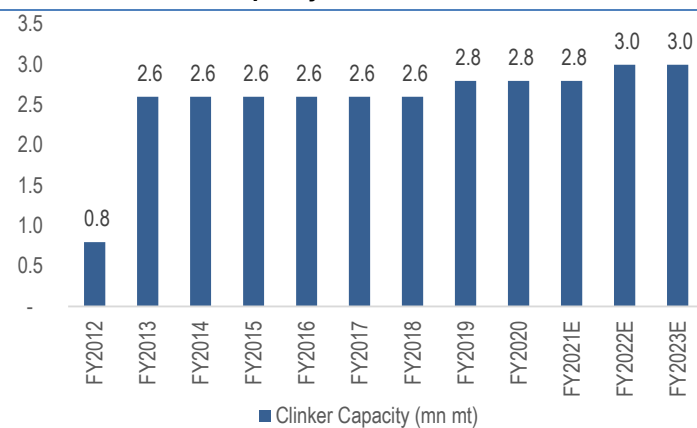
Siliguri Plant	
Announcement Date	3QFY18
Capacity (mn mt)	2.0
Type	Grinding Unit (Greenfield)
Cost of Capex (Rs. mn)	3,500
Cost per mt	1,750
Cost per mt (\$)	23.85
Status as of now	To commission in Dec 2020
Funding	Internal Accruals

Source: Company, Nirmal Bang Institutional Equities Research;

Clinker Unit (Meghalaya)	
Announcement Date	1QFY20
Capacity (mn mt)	2.0
Type	Clinker Unit (Brownfield)
Cost of Capex (Rs. mn)	8,500
Cost per mt	4,250
Cost per mt (\$)	57.91
Completion Date	CY2023
Funding	Internal accruals

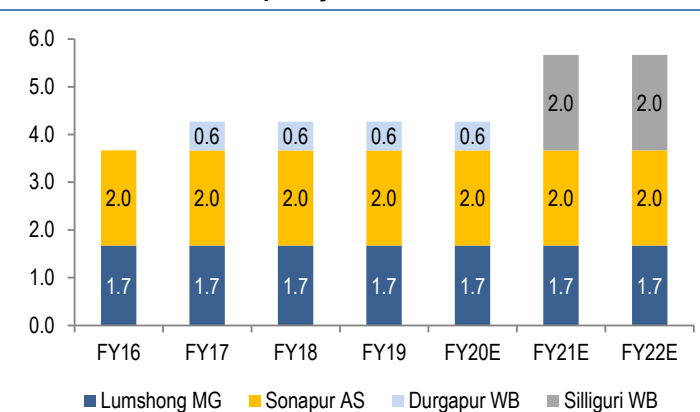
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Clinker capacity set to increase to 3mn mt



Source: Company, Nirmal Bang Institutional Equities Research;

Exhibit 18: Cement capacity to increase to 5.7mn mt

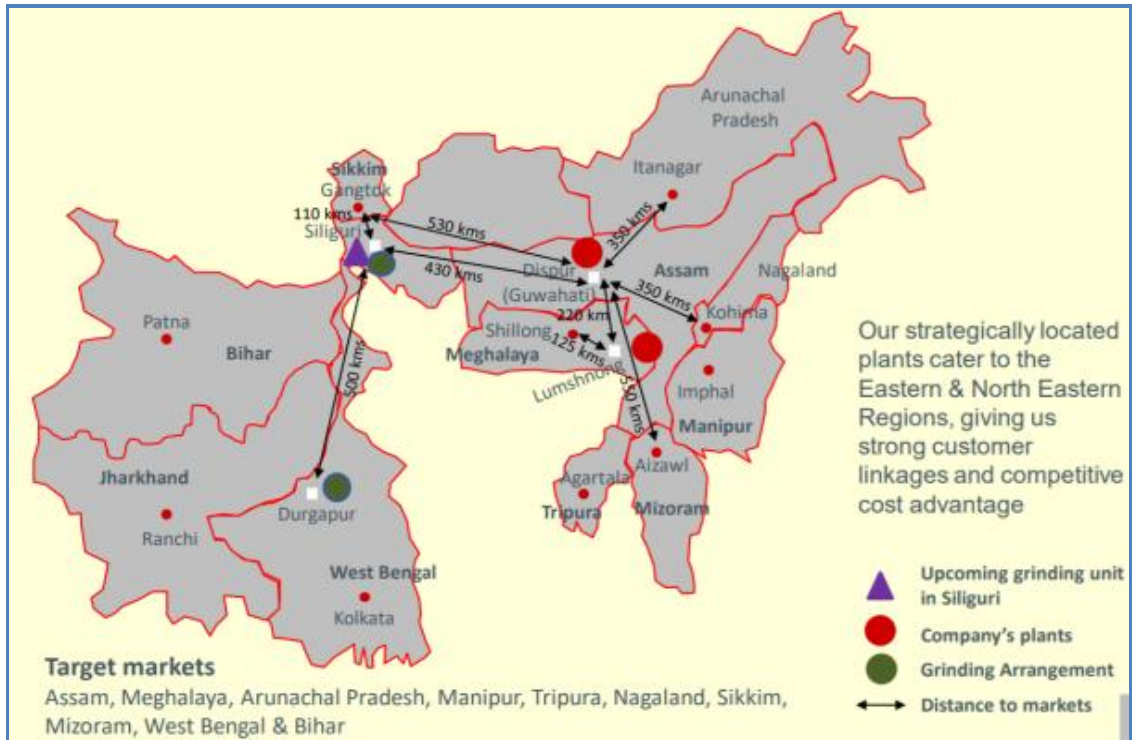


Source: Company, Nirmal Bang Institutional Equities Research

New plant location in East not ideal but better than existing grinding arrangements

Star Cement is on the verge of commissioning its Siliguri grinding unit very soon. While we believe that the location of the plant in terms of access to markets is not very ideal, it will complement the company's existing clinker unit well. The reason why we believe that the plant location is not ideal is because dispatches from there will only go towards South East as the North East market is already being catered by the existing units. However, compared to the existing grinding unit arrangement (leased grinding units), we believe the new plant at Siliguri will result in lower logistics costs. The company plans to target various cities in the 300-400 kms radius of the new plant in West Bengal and Bihar. The company is currently paying ~Rs750-775/mt for the grinding unit arrangement whereas its own production is likely to cost Rs300-400/mt less. This coupled with optimized logistics costs will result in better EBITDA/mt for the eastern markets than the current level.

Exhibit 19: Star Cement's existing and upcoming plant locations



Source: Company, Nirmal Bang Institutional Equities Research

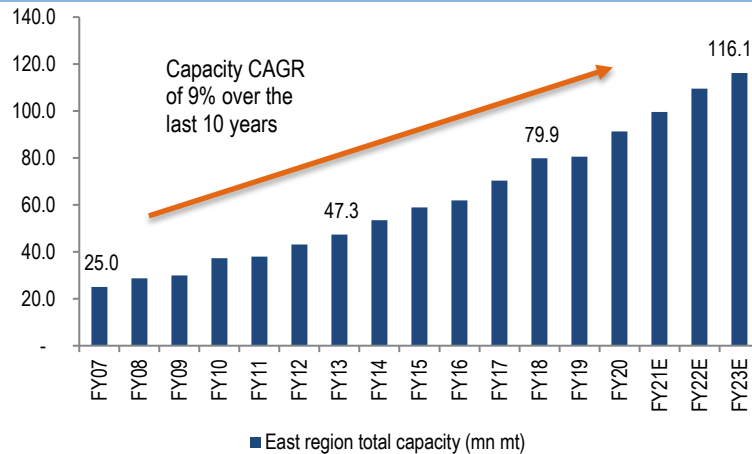
Exhibit 20: Distance of key cities from the new Siliguri unit

City	State	Distance (kms)	City	State	Distance (kms)
Jalpaiguri	West Bengal	6	Dakshin Dinajpur	West Bengal	262
Siliguri	West Bengal	46	Bhagalpur	Bihar	311
Rangpo	Sikkim	112	Dhulian	West Bengal	315
Kishanganj	Bihar	126	Saharsa	Bihar	323
Namchi	Sikkim	127	Darbhanga	Bihar	366
Uttar Dinajpur	West Bengal	138	Munger	Bihar	373
Gangtok	Sikkim	149	Jamalpur	Bihar	373
Purnia	Bihar	223	Begusarai	Bihar	398
Katihar	Bihar	246	Muzaffarpur	Bihar	422
Malda	West Bengal	262	Sitamarhi	Bihar	441

Source: Google Maps, Nirmal Bang Institutional Equities Research

Volume ramp-up will be faster in East but profitability will be poor initially

Cement demand growth in the Eastern region has been relatively faster compared to the rest of the country on account of low per capita cement consumption and massive infrastructure development undertaken by the central government. Stable state governments have also helped in generating better demand for cement. Housing shortage in the Eastern region is the highest, which is driving demand for affordable housing and cement consumption in the region. As a result, we expect capacity ramp-up to be faster for Star Cement, especially considering the fact that the company is already present in the market through leased grinding units. We expect the company to reach 60-70% utilization in FY22 itself. However, given the spate of new capacities coming up in the region and weak pricing, we expect profitability to be lower initially.

Exhibit 21: Exponential growth in Eastern capacity over the past few years


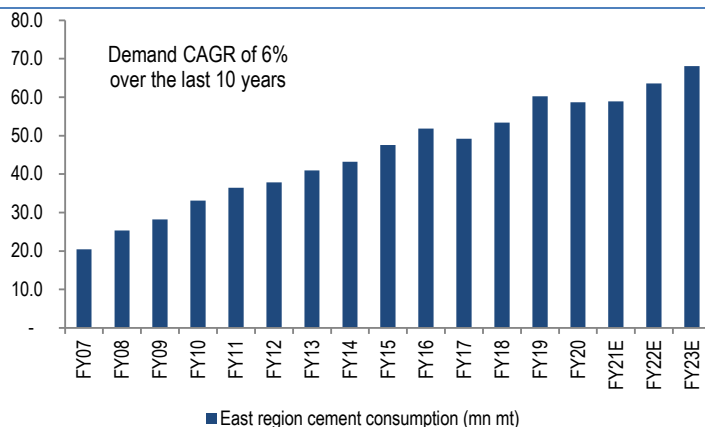
Source: Nirmal Bang Institutional Equities Research

Exhibit 22: Capacity glut in the making in East (mn mt)

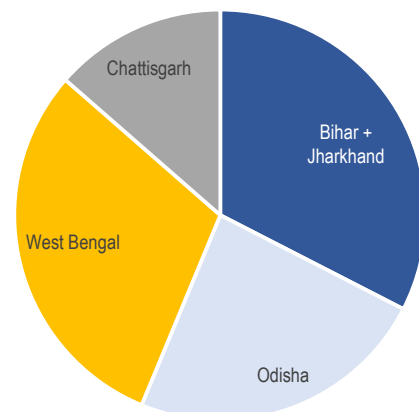
Region	FY20	FY23E	Addition	as % of total supply	as % of total capacity
North	104	108	4	7%	4%
East	91	116	25	41%	27%
South	159	163	4	7%	3%
West	60	73	13	22%	22%
Central	67	81	15	24%	22%
Total	480	541	61	100%	13%

Source: Industry, Nirmal Bang Institutional Equities Research

Eastern region capacity has grown at ~9% CAGR over the past 10 years. Demand growth has been ~6% during the same period. This has resulted in capacity utilization to slide from 90% to 60% and we expect it to go down further to ~55%. Over FY20-23, the Indian cement industry is likely to witness addition of ~61mn mt capacity. 41% of this capacity addition is happening in the Eastern region. The region is adding 27% of its FY20 capacity over 3 years. In this scenario, if the demand fails to rise, it can put severe pressure on pricing. We have already witnessed a sharp fall in cement prices in the Eastern region from August 2020 when prices dropped by Rs50/bag or 15% from August to Dec'20. Given the fact that prices in various markets are depressed, we believe that further decline in prices is difficult. Additionally, we expect the demand environment to improve in 4QFY21, which is likely to lift cement pricing in the region.

Exhibit 23: Eastern region demand growth


Source: Industry, Nirmal Bang Institutional Equities Research;

Exhibit 24: Bihar+Jharkhand is the biggest market in East followed by West Bengal


Source: Industry, Nirmal Bang Institutional Equities Research

Exhibit 25: Substantial drop in cement prices in various cities in East

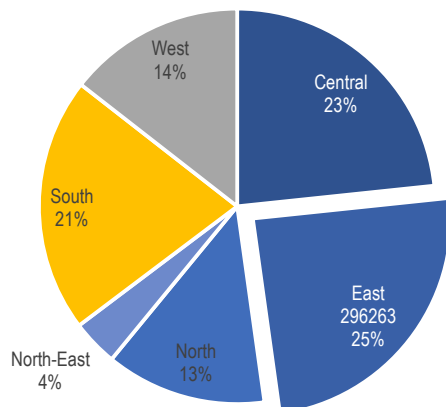
Cement prices (Rs/50 Kg bag)	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Decline from August (Rs/bag)	% drop from highs
Kolkata	340	300	297	297	280	60	18%
Raipur	280	270	265	262	247	33	12%
Bhubaneswar	320	300	295	297	272	48	15%
Patna	360	340	347	350	340	20	6%
Ranchi	310	280	278	270	230	80	26%
Average	322	298	296	295	274	48.2	15%

Source: RBI, Nirmal Bang Institutional Equities Research

Eastern region demands drivers still superior

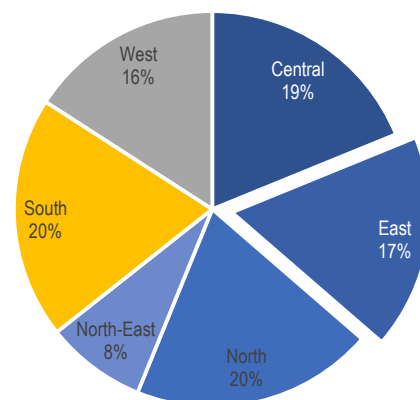
Key reason for the spate of capacity additions in the Eastern region is owing to its superior demand drivers, which are likely to underpin higher-than-industry average demand growth in the region for the foreseeable future. For the start, the East region has the highest population in the country, with 25% of India's total population. The region also has high population density given that its land area is only 17% of country's total. This coupled with high rural population and relatively lower per capita income has resulted in housing shortages. The region has abundant mineral wealth but income level of the population has remained low. The region is also home to vast number of skilled and unskilled labour, who generally earn income in other regions and repatriate money back home for development purpose. GSDP of the region is low owing to higher rural population and low industrial activity. Per capita cement consumption in this region is the lowest after the central region, which leaves ample scope for greater cement consumption.

Exhibit 26: Eastern region has the highest population in the country



Source: RBI, Census 2011, Nirmal Bang Institutional Equities Research;

Exhibit 27: East comprises 17% of total land area in the country



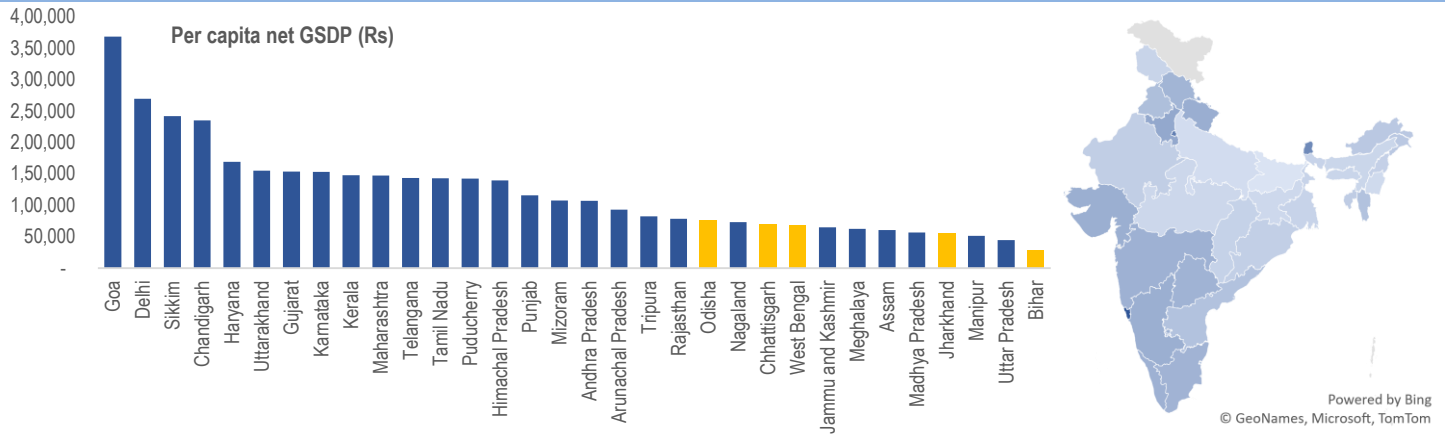
Source: Wikipedia, Nirmal Bang Institutional Equities Research

Exhibit 28: Eastern region's GSDP is still lower compared to other regions

Region	GSDP (Rs lakh cr)	% of total
Central	18.5	13.15%
East	19.5	13.86%
North	24.6	17.45%
North-East	3.8	2.71%
South	41.6	29.50%
West	32.9	23.33%
Grand Total	140.9	100.00%

Source: RBI, Nirmal Bang Institutional Equities Research

Exhibit 29: The region also has one of the lowest per capita incomes in the country

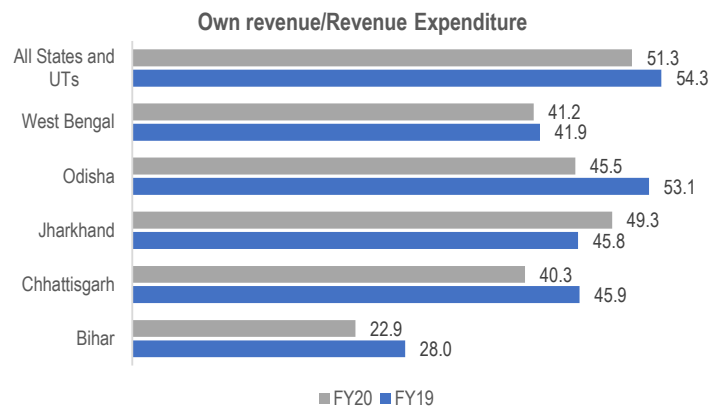


Source: RBI, Nirmal Bang Institutional Equities Research,

Moderate fiscal indicators for the region but focus is on development expenditure

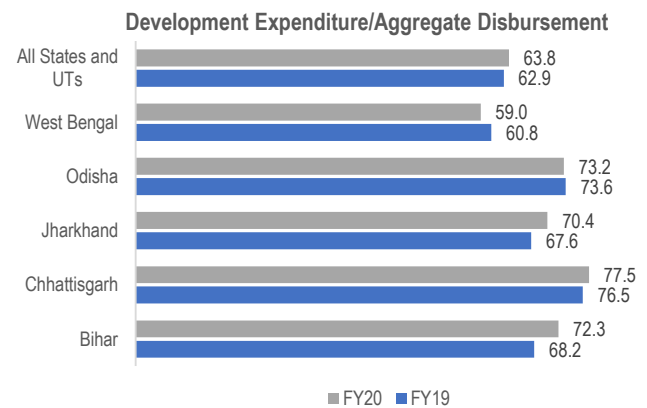
We have studied finances of the 5 states in the east region and compared them to all-India average to understand where the financial capability of the states stands and what is the growth potential. Most states in the east are not worse on fiscal indicators whereas most of these states have higher share of development expenditure out of the total. The eastern states, given their higher population, receive higher share of devolution of taxes from the central government. That's why even though the states' own revenue/revenue expenditure is lower they still spend more money on development expenditure.

Exhibit 30: Eastern region's own revenue as proportion of revenue expenditure is generally lower



Source: RBI, Budget documents, Nirmal Bang Institutional Equities Research;

Exhibit 31: Most eastern states have higher development expenditure compared to total aggregate disbursements



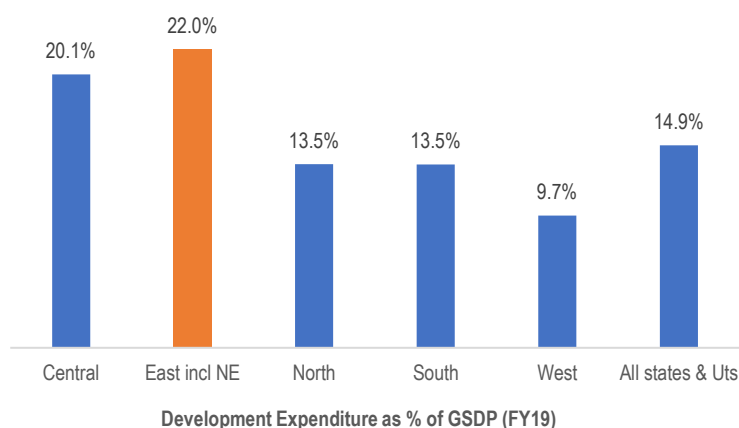
Source: RBI, Budget documents, Nirmal Bang Institutional Equities Research

Exhibit 32: Region wise growth in development expenditure by states

Region	FY19	FY20RE	FY21BE	FY20 growth	FY21 growth
Central	3,732.0	4,249.6	4,458.1	13.9%	4.9%
East	4,132.6	5,245.3	5,284.2	26.9%	0.7%
North	3,323.2	4,009.7	4,242.1	20.7%	5.8%
North-East	1,007.6	1,534.1	1,415.3	52.2%	-7.7%
South	5,614.1	5,815.1	7,144.0	3.6%	22.9%
West	3,198.6	4,028.5	4,144.6	25.9%	2.9%
Grand Total	21,008.0	24,882.3	26,688.2	18.4%	7.3%

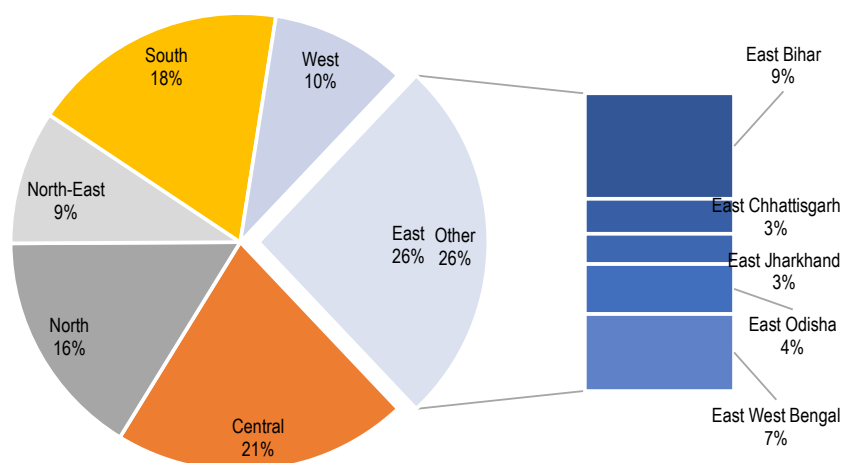
Source: RBI, Budget documents, Nirmal Bang Institutional Equities Research

Exhibit 33: Development expenditure as % of GSDP highest for East



Source: RBI, Budget documents, Nirmal Bang Institutional Equities Research,

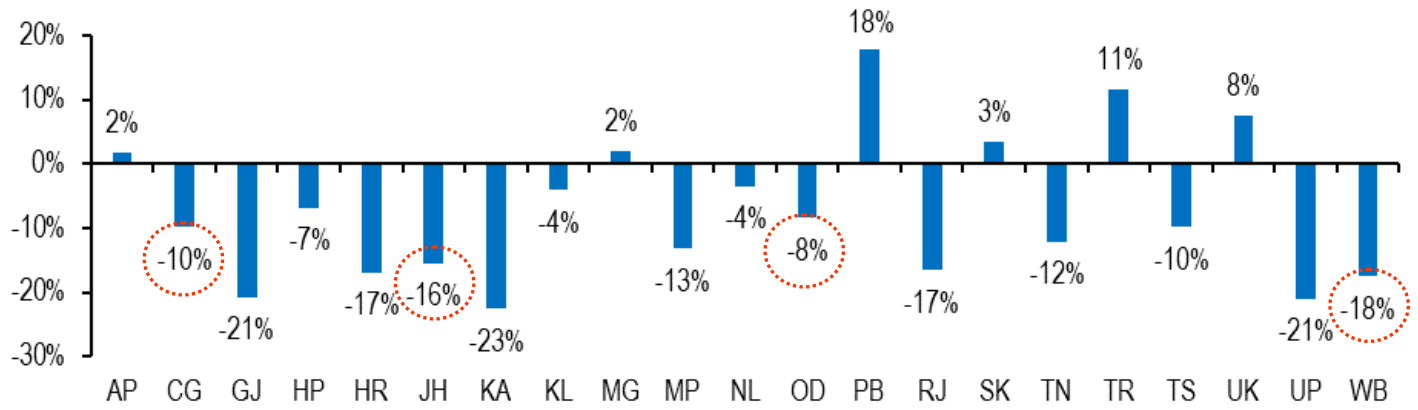
Exhibit 34: Eastern region receives maximum devolution from the centre



Source: RBI, Nirmal Bang Institutional Equities Research,

During the pandemic, revenue receipts have fallen sharply for most states. The same for Odisha and Chhattisgarh is relatively lower. We expect the states to increase borrowings this year to meet expenditure obligations on revenue as well as capital account.

Exhibit 35: Change in states' revenue receipts during Apr-Oct 2020 over the same period in 2019

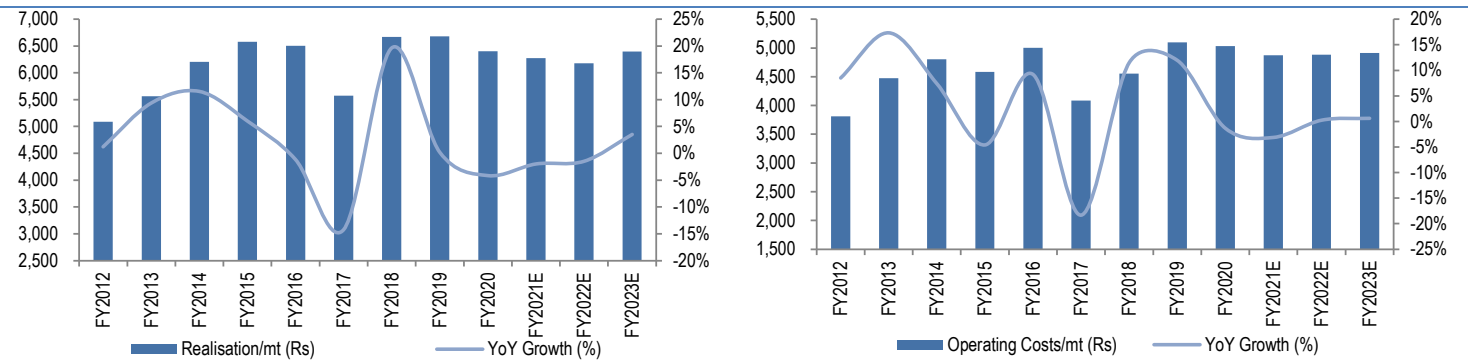


Source: CAG, PRS India, d Nirmal Bang Institutional Equities Research,

Superior profitability and return ratios; net cash balance sheet

Given its exposure to the North East region, Star Cement has generally been more profitable than peers, as realisations in the North East have been superior compared to other regions. Various capital and freight incentives have kept its profitability higher. In the recent past, exhaustion of these incentives and ban on coal mining in Meghalaya have resulted in a dent in its EBITDA margin. The company's move from the North East to the East has also resulted in relatively lower EBITDA/mt. However, with the new plant at Siliguri, we expect optimized logistics costs. The company will utilize its clinker to convert to cement and stop clinker sales to Nepal. Moreover, blending ratio for sale of cement in the East will be higher, thereby resulting in lower costs. Star Cement's revenue/EBITDA CAGR over FY10-20 has been 15%/10%. But, growth over the past five years has been lower at 5%/-2%. After the drop in revenue and EBITDA in FY21 due to the pandemic, we expect growth to resume and are building in 14% and 16% CAGR in revenue and EBITDA over FY21-23.

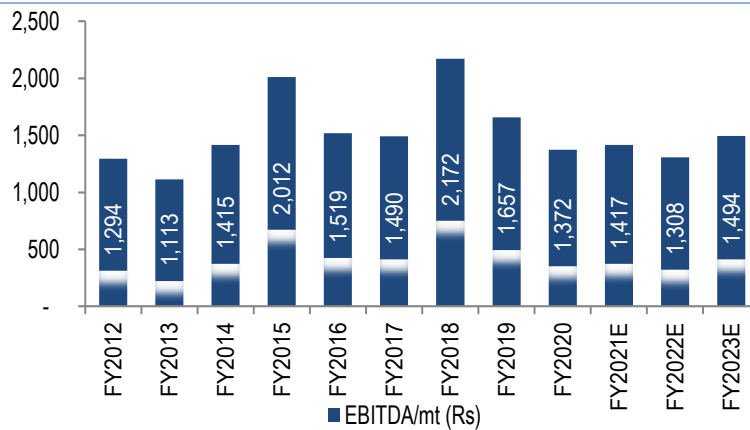
Exhibit 36: Realisation to remain below peak; costs expected to be stable



Source: Company, Nirmal Bang Institutional Equities Research

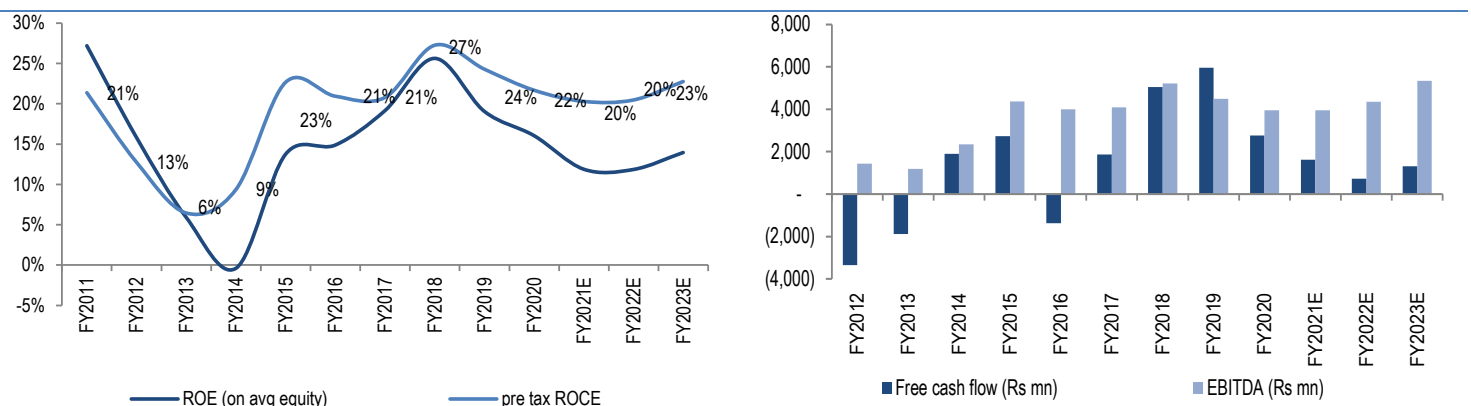
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 37: EBITDA/mt to remain stable



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 38: Return ratios better



Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Meghalaya Coal Mining Ban

Meghalaya is a mineral rich state and has around ~600 million mt of coal reserves. Before the mining ban, coal mining in Meghalaya was done by individual players or communities and was never regulated by Coal India or state government because Meghalaya is covered by Sixth Schedule under Article 244 of the constitution. This schedule safeguards the tribal interests over their land and resources i.e., private owners of the land are also the owners of the mineral resources it has. These players used rat-hole technique which involves digging of very small tunnels, usually 3-4 feet deep, in which the workers enter and extract coal. It is estimated that this method produced around 6 million tonnes of coal per annum in 2014. However, this method was very dangerous and not environment friendly and hence, was banned by National Green Tribunal in 2014. Since then, regional cement companies had to resort to imported coal. Recently, NGT recommended sale of already extracted coal to the regional players through auction by Coal India Ltd. However, presence of multiple private owners and difficulties in getting government personnel and private owners to agreement has resulted in delay. If the coal becomes available, then it will result in substantial saving in costs for the company, however we are not building that in our numbers yet.

Exhibit 39: Timeline of Meghalaya Coal Mining Ban

17th April 2014	The National Green Tribunal (NGT) banned rat-hole coal mining but allowed transportation of extracted coal kept in the open after students' union filed a petition at the NGT alleging that the water in the Kopili river was turning acidic due to coal mining in Jaintia Hills.
13th December 2018	15 miners were trapped to death inside a rat-hole coal mine. Despite the ban, illegal mining of coal continued to take place whereas, through subsequent petitions by coal mine owners, the transportation of coal was allowed by NGT and Supreme court.
3rd July 2019	Supreme court allowed mining to resume but after execution of mining leases and asked the Meghalaya government to deposit Rs.1bn fine for illegal mining. It held the government of Meghalaya to be the receiver cum custodian of 3.2mn tons of extracted coal lying on the ground. Also, it directed the government along with Coal India Limited to auction the coal and share the benefits of the same between the state government and owners of the mines. The Mines and Minerals Development and Regulation Act (MMDR), 1957 as well as Minerals Concession Act will be applicable in the state of Meghalaya.
12th March 2020	NGT committee approved auctioning of 0.2mn mt out of 3.2mn mt of coal reserves.
24th August 2020	Mining and Geology department in Government of Meghalaya and Coal India Limited jointly prepared a revised comprehensive plan for handing over of extracted coal to Coal India.
22nd October 2020	Mining and Geology department in Government of Meghalaya initiates the process of e-auction of extracted coal on MSTC portal.

Source: News articles and Govt of Meghalaya, Nirmal Bang Institutional Equities Research

Capex to continue through internal accruals

Star Cement has spent Rs4bn on expansion of the Siliguri grinding unit. The next phase of its expansion is clinker expansion in Meghalaya, which will cost ~Rs8.5bn. The management will start spending for the same from FY22 onwards and may take up to 3 years. The capex will be funded by internal accruals and the balance sheet will remain net cash positive despite investments. Star Cement generates more than Rs4bn of operating cash flows per year and plans to spend Rs2-2.5bn per annum on capex. The company has a policy of distributing 30% of its annual profits as dividends.

Exhibit 40: Quarterly financial summary

Rs mn	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	YoY (%)	QoQ (%)
Net Sales	3,623	4,164	5,344	4,609	3,825	4,512	5,494	2,920	4,019	5.1	37.7
EBITDA	687	1,219	1,269	1,121	644	940	1,246	653	789	22.6	20.8
PAT	382	837	916	839	453	712	868	442	615	35.6	39.0
Sales Volume (mn mt)	0.50	0.60	0.84	0.66	0.66	0.72	0.87	0.45	0.65	(1.8)	45.2
Realizations (Rs/mt)	7,245	6,941	6,362	7,025	5,760	6,275	6,279	6,503	6,164	7.0	(5.2)
EBITDA/mt (Rs)	1,374	2,032	1,510	1,709	969	1,307	1,424	1,455	1,211	24.9	(16.8)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 41: Key assumptions and ratios

Key Assumptions	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Capacity (mnmt)	2.9	3.1	3.7	4.3	4.3	4.3	4.3	5.7	5.7	5.7
Sales Volumes (mn mt)	1.7	2.2	2.6	2.7	2.4	2.7	2.9	2.8	3.3	3.6
Utilisation (%)	57%	73%	78%	69%	56%	63%	67%	56%	59%	63%
Realisations (Rs/mt)	6,206	6,578	6,501	5,574	6,668	6,678	6,400	6,272	6,177	6,394
Operating exp (Rs/mt)	4,803	4,582	5,003	4,086	4,555	5,099	5,030	4,873	4,884	4,913
EBITDA/mt (Rs)	1,415	2,012	1,519	1,490	2,172	1,657	1,372	1,417	1,308	1,494
Net Debt	8,072	6,715	7,219	6,521	3,119	(1,600)	(2,709)	(2,293)	(2,681)	(3,324)
Capex	(1,396)	(508)	(707)	(679)	(231)	(818)	(2,300)	(2,471)	(2,500)	(3,000)
FCF	1,905	2,736	(1,371)	1,868	5,052	5,956	2,760	1,622	720	1,314
EPS (Rs)	(0.1)	2.9	3.3	4.8	8.0	7.3	7.0	5.6	6.1	7.8
CEPS (Rs)	3.7	8.2	7.4	7.6	10.9	9.8	9.2	8.2	9.1	10.9
BPS (Rs)	20.1	22.0	22.7	27.3	35.2	41.1	45.0	49.3	54.0	60.2
EBITDA margin	22.8%	30.5%	23.3%	26.7%	32.3%	24.5%	21.4%	22.5%	21.1%	23.3%
PBT margin	-0.4%	8.8%	8.5%	14.1%	21.8%	18.3%	17.4%	17.8%	16.5%	19.1%
WC days	65	63	64	54	38	49	60	60	53	54
Total Debt/Equity(x)	0.97	0.75	0.78	0.59	0.22	0.03	0.01	-	-	-
Total Debt/EBITDA	3.50	1.58	1.87	1.65	0.64	0.11	0.03	-	-	-
Adjusted PE (x)	-	-	-	-	15.1	15.1	14.1	16.4	15.0	11.7
Price / Book Value(x)	-	-	-	-	3.4	2.7	2.2	1.9	1.7	1.5
EV/EBITDA(x)	-	-	-	-	11.0	11.0	9.8	8.9	8.2	6.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 42: Consensus vs. our estimates

(Rsmn)	FY21E			FY22E			FY23E		
	Estimate	Consensus	Difference	Estimate	Consensus	Difference	Estimate	Consensus	Difference
Revenue	17,519	17,227	1.7	20,627	21,556	(4.5)	22,900	22,764	0.6
EBITDA	3,946	3,519	10.8	4,358	4,568	(4.8)	5,340	4,974	6.9
PAT	2,312	2,253	2.5	2,524	3,026	(19.9)	3,232	3,365	(4.1)

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Valuation

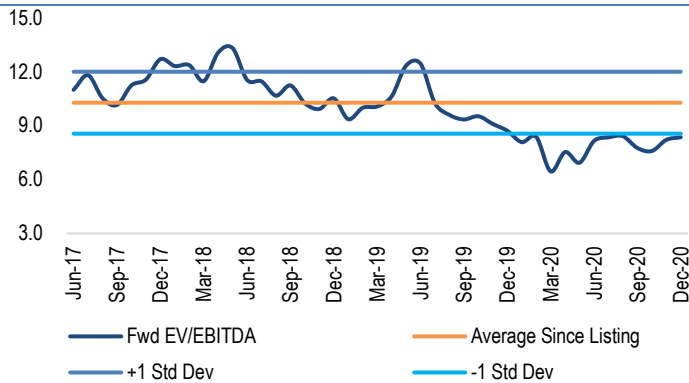
We have valued Star Cement based on 8.0x FY23 EV/EBITDA to arrive at our TP of Rs127. As the company moves towards its target of 10mn mt capacity over the next five years, we expect the multiple to move up from the current level as earnings volatility reduces on geographic diversification. We have adjusted the large CWIP number of Meghalaya clinker expansion for our valuation as that asset is likely to contribute to earnings from FY24 onwards.

Exhibit 43: Valuation summary

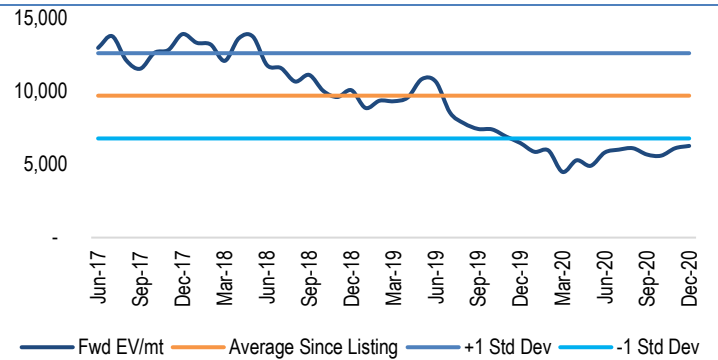
Particulars	(Rs mn)
FY23 EBITDA	5,340
Target multiple (x)	8.0
Enterprise value	42,722
Less: Net debt and CWIP	(9,824)
Equity value	52,546
No of shares (mn)	412.4
Value per share (Rs)	127
CMP (Rs)	91
Upside / (downside) %	40%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 44: Valuation multiple has come off in recent years



Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

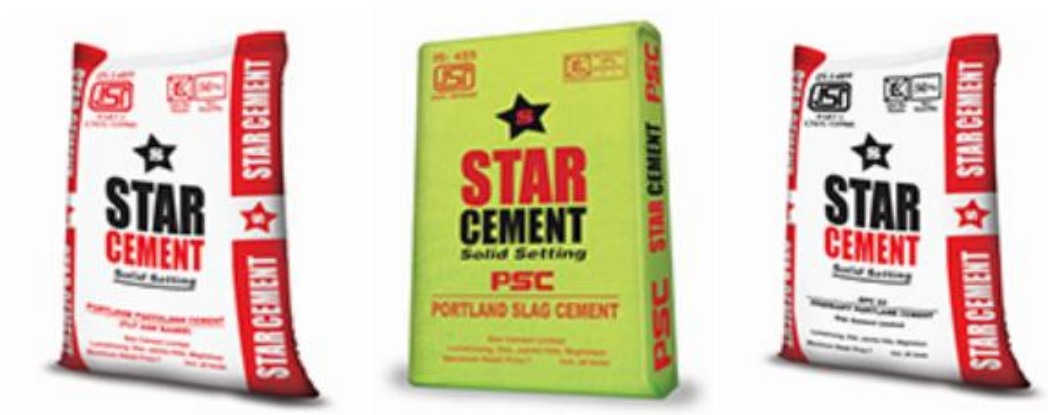


Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Company description

Incorporated in 2001, Star Cement Limited is the largest cement manufacturer in North East India on the back of strategically located plants, easy availability of raw materials and superior brand recall. The company has a cumulative clinker capacity of 2.80mn mt per annum (MTPA), cement manufacturing capacity of 4.3 MTPA and power generation capacity of 51 MW.

Exhibit 45: Brand portfolio



Source: Company

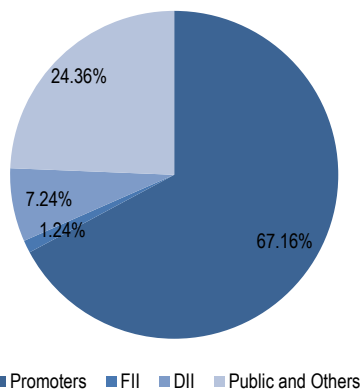
Exhibit 46: Newly Launched Premium Brand



Source: Company

Exhibit 47: Shareholding pattern and key personnel

Shareholding Pattern as of 30/09/2020



Key Management Personnel	Position
Mr. Sajjan Bhajanka	Chairman & MD
Mr. Rajendra Chamaria	Vice Chairman & MD
Mr. Sanjay Agarwal	MD
Mr. Sanjay Kumar Gupta	CEO
Mr. Manoj Agarwal	CFO

Source: Company, BSE, Nirmal Bang Institutional Equities Research

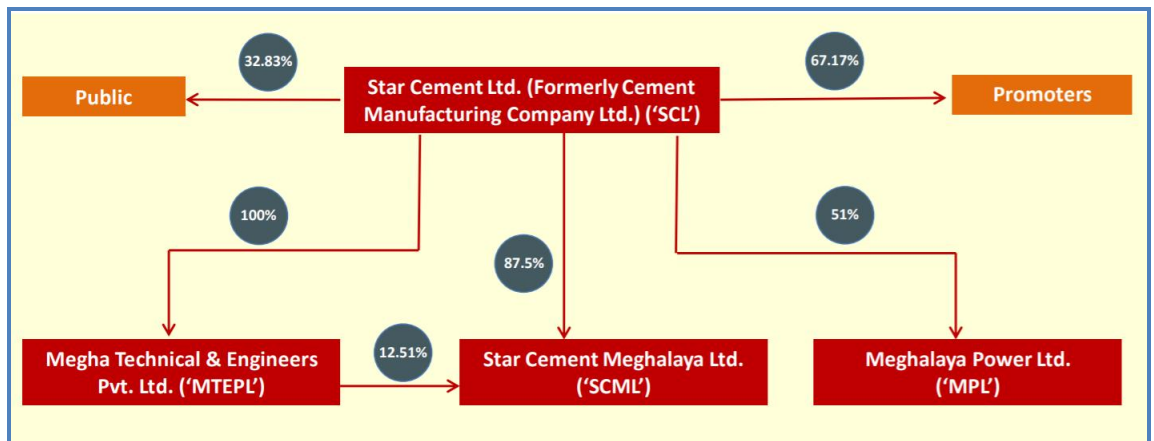
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 48: Top shareholders

Holder Name	No of shares	Holding %
SBI Funds Management Pvt Ltd	25,697,431	6.2
DSP Investment Managers	4,943,896	1.2
Dimensional Fund Advisors LP	516,257	0.1
Sundaram Asset Management Co Ltd	147,786	0.0
FundRock Management Co SA	139,556	0.0
Wells Fargo & Co	27,568	0.0
Motilal Oswal Asset Management Co Ltd	14,210	0.0
ICICI Prudential Asset Management	709	0.0

Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 49: Corporate Structure



Source: Company

Financial Summary of covered companies

Company Name (Rs mn)	Revenue			EBITDA			PAT		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
ACC	139,847	155,196	176,224	24,242	24,995	30,815	13,146	13,302	16,592
Ambuja Cement	112,145	121,294	135,768	26,223	27,383	31,545	17,206	17,252	19,396
Birla Corporation	65,484	72,280	84,574	13,932	13,464	17,126	5,525	4,802	7,158
Heidelberg Cement	21,138	23,806	27,430	5,231	5,255	6,240	2,860	3,039	3,836
JK Cement	57,054	65,510	75,164	13,788	14,091	17,004	6,565	6,416	8,527
JK Lakshmi Cement	38,924	41,620	46,088	7,577	6,996	7,850	3,389	2,976	3,590
Sagar Cements	12,361	16,350	22,125	2,972	3,309	4,438	1,153	1,286	2,085
Shree Cements	117,267	131,380	152,431	36,212	39,768	47,279	14,617	15,921	20,602
Star Cement	17,519	20,627	22,900	3,946	4,358	5,340	2,312	2,524	3,232
The Ramco Cements	52,174	60,596	70,869	14,425	15,696	18,390	7,237	7,130	8,831
Ultratech Cements	412,620	443,362	489,387	99,781	101,962	113,273	69,411	75,624	89,908

Company Name	EPS (Rs)			EBITDA Margin (%)			ROCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
ACC	70.0	70.8	88.4	17.3	16.1	17.5	13.5	13.1	14.8
Ambuja Cement	8.7	8.7	9.8	23.4	22.6	23.2	10.1	10.5	11.2
Birla Corporation	71.7	62.4	93.0	21.3	18.6	20.2	7.7	7.1	9.3
Heidelberg Cement	12.6	13.4	16.9	24.7	22.1	22.8	19.2	19.3	21.5
JK Cement	85.0	83.0	110.4	24.2	21.5	22.6	12.9	12.1	14.1
JK Lakshmi Cement	28.8	25.3	30.5	19.5	16.8	17.0	14.9	13.1	13.9
Sagar Cements	51.7	57.7	93.6	24.0	20.2	20.1	12.0	11.7	15.3
Shree Cements	405.1	441.2	571.0	30.9	30.3	31.0	16.4	17.5	19.7
Star cement	5.6	6.1	7.8	22.5	21.1	23.3	15.0	15.1	16.6
The Ramco Cements	30.7	30.3	37.5	27.6	25.9	25.9	12.5	11.9	13.1
Ultratech Cements	239.7	261.1	310.5	24.2	23.0	23.1	15.6	15.7	16.5

Company Name	Sales Volume (mn mt)			Realization (Rs. /mt)			EBITDA (Rs. /mt)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
ACC	25.6	29.1	32.0	4,945	4,821	4,990	949	858	962
Ambuja Cement	22.3	24.5	26.7	4,890	4,816	4,961	1,178	1,119	1,182
Birla Corporation	12.9	14.5	16.5	5,033	4,957	5,081	1,079	931	1,039
Heidelberg Cement	4.5	5.1	5.8	4,728	4,630	4,764	1,170	1,022	1,084
JK Cement	10.3	12.1	13.5	5,539	5,434	5,578	1,339	1,169	1,262
JK Lakshmi Cement	8.7	9.4	10.2	4,458	4,414	4,526	868	742	771
Sagar Cements	2.9	3.9	5.2	4,288	4,148	4,218	1,031	839	846
Shree Cements	24.2	27.6	31.4	4,552	4,507	4,620	1,497	1,442	1,504
Star Cement	2.8	3.3	3.6	6,272	6,177	6,394	1,417	1,308	1,494
The Ramco Cements	10.1	12.1	13.9	5,175	5,008	5,093	1,431	1,297	1,322
Ultratech Cements	75.7	82.4	89.0	5,450	5,378	5,499	1,318	1,237	1,273

Valuation Summary of covered companies

Rs mn	CMP (Rs.)	Mkt. Cap (Rs. bn)	P/B (x)		EV/EBITDA (x)		EV/MT (\$)		P/E (x)	
			FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
ACC	1,617	303.63	2.2	2.0	10.3	7.9	88.9	84.4	22.8	18.3
Ambuja Cement	244	485.38	2.2	2.1	16.6	14.1	198.7	193.3	28.1	25.0
Birla Corp	706	54.38	0.9	0.8	6.3	4.6	59.4	54.7	11.3	7.6
Heidelberg	217	49.22	3.0	2.6	8.2	6.3	93.8	86.2	16.2	12.8
JK Cement	1,911	147.64	3.7	3.2	12.5	10.4	139.9	140.8	23.0	17.3
JK Lakshmi	333	39.24	1.7	1.5	7.0	6.4	48.0	48.6	13.2	10.9
Sagar Cement	652	14.54	1.2	1.0	5.7	4.1	31.3	29.7	11.3	7.0
Shree Cement	23,840	860.21	5.6	5.1	20.4	16.7	238.2	232.1	54.0	41.8
Star Cement	91	37.41	1.7	1.5	8.0	6.4	83.5	81.9	14.8	11.6
The Ramco Cement	779	183.58	3.0	2.7	13.5	11.3	138.5	135.7	25.7	20.8
UltraTech	5,147	1,490.50	2.8	2.4	14.4	12.2	174.9	164.4	19.7	16.6

Financial statement
Exhibit 50: Income statement

Y/E March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	18,310	18,439	17,519	20,627	22,900
Raw Material Consumed	4,367	4,019	3,796	4,585	5,067
Power & Fuel Cost	2,587	3,619	3,535	4,143	4,356
Employee Cost	1,164	1,266	1,328	1,420	1,490
Freight and Forwarding	3,629	3,530	3,346	4,082	4,511
Other expenses	2,070	2,054	1,567	2,040	2,136
Total Expenditure	13,819	14,488	13,573	16,269	17,560
Operating profit	4,492	3,951	3,946	4,358	5,340
Operating profit margin (%)	25%	21%	23%	21%	23%
Other Income	55	287	303	318	333
Interest	144	93	50	50	50
Depreciation	1,056	930	1,075	1,214	1,255
PBT	3,346	3,215	3,124	3,411	4,368
Exceptional items	-	-	-	-	-
PBT post exc items	3,346	3,215	3,124	3,411	4,368
Tax	296	342	812	887	1,136
Tax rate (%)	8.9%	10.6%	26.0%	26.0%	26.0%
PAT	3,050	2,873	2,312	2,524	3,232
EPS (Rs)	7.3	7.0	5.6	6.1	7.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 52: Key ratios

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)					
Sales	13.4	0.7	(5.0)	17.7	11.0
Operating Profits	(13.8)	(12.0)	(0.1)	10.4	22.5
Net Profits	(9.3)	(5.8)	(19.5)	9.2	28.0
Leverage (x)					
Net Debt: Equity	(0.09)	(0.15)	(0.11)	(0.12)	(0.13)
Interest Cover(x)	31.24	42.31	78.92	87.16	106.81
Total Debt/EBITDA	0.11	0.03	-	-	-
Profitability (%)					
OPM	24.5	21.4	22.5	21.1	23.3
NPM	16.7	15.6	13.2	12.2	14.1
ROE	19.1	16.0	11.9	11.9	13.7
ROCE	24.3	21.7	20.3	20.5	22.5
Turnover ratios (x)					
GFAT	1.7	1.6	1.3	1.4	1.5
Debtors Turnover(x)	13	14	15	16	16
WC days	49	60	60	53	54
Valuation (x)					
P/E	15.1	14.1	16.4	15.0	11.7
P/B	2.7	2.2	1.9	1.7	1.5
EV/EBITDA	11.0	9.8	8.9	8.2	6.6
EV/mt (\$)	165.2	128.4	82.2	83.2	82.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 51: Balance Sheet

Y/E March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Equity Capital	419	412	412	412	412
Reserves and Surplus	16,817	18,159	19,923	21,846	24,416
Networth	17,237	18,571	20,336	22,259	24,829
Total Debt	513	111	-	-	-
Deferred tax liability	-	-	-	-	-
Other non-current liabilities	1,151	1,266	1,205	1,399	1,544
Trade Payables	1,254	958	897	1,076	1,161
Other Current Liabilities	2,130	1,975	1,937	2,238	2,413
Total Current Liabilities	3,880	3,037	2,834	3,314	3,573
Total liabilities	22,969	23,582	24,375	26,971	29,946
Net Block	7,223	6,932	8,732	8,018	7,263
CWIP	743	2,375	2,000	4,000	6,500
Investment	17	16	16	16	16
Other non-current assets	3,500	3,682	4,334	4,208	4,312
Inventories	2,772	2,569	2,231	2,763	2,994
Sundry Debtors	1,438	1,222	1,161	1,367	1,518
Cash and Bank	949	2,411	1,884	2,272	2,915
Other current assets	6,326	4,374	4,018	4,327	4,428
Total Current Assets	11,485	10,576	9,294	10,729	11,856
Total Assets	22,969	23,582	24,375	26,971	29,946

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 53: Cash flow statement

Y/E March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Profit before tax	3,490	3,309	3,174	3,461	4,418
Add: Depreciation	1,056	930	1,075	1,214	1,255
Add: Interest Exp	-	-	-	-	-
CFO b4 WC	4,546	4,238	4,249	4,676	5,673
Net change in Working capital	2,524	1,164	657	(568)	(223)
Tax paid	(296)	(342)	(812)	(887)	(1,136)
Net cash from operations	6,774	5,060	4,093	3,220	4,314
Capital expenditure	(818)	(2,300)	(2,471)	(2,500)	(3,000)
Sale of investments	(1,155)	756	-	-	-
Net cash from investing	(2,214)	(1,487)	(3,147)	(2,369)	(3,099)
Issue of shares	-	(7)	-	-	-
Increase in debt	(2,804)	(402)	(111)	-	-
Dividends paid incl. tax	(516)	(497)	(547)	(602)	(662)
Interest paid	(144)	(93)	(50)	(50)	(50)
Net cash from financing	(3,797)	(2,111)	(1,473)	(463)	(572)
Net Cash	763	1,461	(527)	388	643
Opening Cash	186	949	2,411	1,884	2,272
Closing Cash	949	2,411	1,884	2,272	2,915

Source: Company, Nirmal Bang Institutional Equities Research

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