

Star Cement

Refer to important disclosures at the end of this report

Results below estimates; long-term outlook intact

- Star Cement's Q2FY19 operating performance was below our estimates, with EBITDA of Rs687mn (Emkay est: Rs829mn) and EBITDA/ton of Rs1,236 (Emkay est: Rs1,430) mainly due to higher opex (raw material and maintenance expenses).
- Volume grew 18.3% yoy to 0.56mt (Emkay est: 0.58mt). Cement sales volumes were up 25.1% yoy (26.8% in the North East markets), while clinker volumes were down 77.1% yoy. EBITDA/ton was at Rs1,236 vs. Rs1,637/Rs1,632 in Q2FY18/Q1FY19.
- Opex/ton was up 21.6% yoy on higher freight (higher diesel prices and the expiry of freight subsidies) and raw material costs (clinker purchase from outside had an impact of Rs100/ton). Higher opex/ton led to an 8.4pp yoy decline in OPM to 19%.
- We reduce FY19/20 EBITDA estimates by 8.9%/6.2% factoring in the higher opex. We continue to prefer Star Cement over other mid-sized players due to higher operating profit and better return ratios. Valuation at 9.1x/6.7x FY19/20E EV/EBITDA looks attractive. We maintain Buy, with a revised TP of Rs156 (10x FY20E EV/EBITDA).

Higher opex impacts profits; volume growth stands at 18.3%

Star Cement's results were below our estimates, with EBITDA coming in at Rs687mn vs. our estimate of Rs829mn and OPM at 19% vs. our estimate of 22.5% as higher days of shutdown (72 days vs. 45 days in Q1FY19) led to an increase in costs. It had to procure 30kt of clinker from outside which impacted operating costs by Rs100/ton. The higher days of shutdown due to a breakdown of gear box also led to an increase in maintenance costs. Sales volumes were up 18.3% yoy on 25.1% growth in cement sales. Clinker sales were down to 8kt from 35kt in Q2FY18. The utilization of clinker/cement (own plants) was 47%/51% in the quarter. Sales volumes in the North East region were up 26.8% yoy, while sales volumes outside the North East market were up 19.8% yoy. Realization was up 9% yoy and 1.5% qoq. Higher raw material costs and freight costs (due to the expiry of incentives and higher diesel prices) led to a 21.6% yoy increase in opex/ton. Adversely affected by higher opex, OPM was down 8.4pp yoy to 19% and EBITDA/ton was down 24.5% yoy. Management expects EBITDA/ton to be Rs1,750-1,800 in FY19. Interest expenses were down 76.9% yoy on debt repayments. Lower interest expenses and tax rate (at 2.1%) led to a 41.4% yoy increase in profits.

Reduce estimates; maintain Buy on attractive valuations

We reduce EBITDA estimates for FY19/20 by 8.9%/6.2% factoring in the higher opex. We prefer Star Cement due to its presence in the North East region that offers better growth opportunities, strong margin profile, and superior return ratios. It has consistently delivered more than 2x EBITDA/ton vs. the average of others in our coverage universe. The North East region, where Star Cement sells 65% of its volumes, is a lucrative market characterized by low competition, with just two players controlling 50% of the total capacity. Valuation at 9.1x/6.7x FY19/20E EV/EBITDA provides comfort to us. We maintain our Buy rating, with a TP of Rs156, valuing it at 10x FY20E EV/EBITDA.

Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	17,150	15,278	16,227	18,847	22,002
EBITDA	3,994	3,962	5,295	4,625	5,510
EBITDA Margin (%)	23.3	25.9	32.6	24.5	25.0
APAT	1,346	1,826	3,388	2,994	3,959
EPS (Rs)	3.2	4.4	8.1	7.1	9.4
EPS (% chg)	(14.5)	35.7	85.5	(11.6)	32.3
ROE (%)	15.5	16.6	25.8	18.7	21.0
P/E (x)	31.6	23.3	12.6	14.2	10.8
EV/EBITDA (x)	12.9	12.7	8.8	9.1	6.7
P/BV (x)	4.0	3.7	2.9	2.5	2.1

Source: Company, Emkay Research

CMP	Target Price
Rs 102 as of (November 12, 2018)	Rs 156 (▼) 12 months
Rating	Upside
BUY (■)	54.0 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	(13)/(8)
Target Price change (%)	(6.9)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY19E	FY20E
Emkay	7.1	9.4
Consensus	7.8	9.9
Mean Consensus TP (12M)	Rs 158	

Stock Details

Bloomberg Code	STRCEM IN
Face Value (Rs)	1
Shares outstanding (mn)	419
52 Week H/L	152 / 80
M Cap (Rs bn/USD bn)	43 / 0.58
Daily Avg Volume (nos.)	1,89,209
Daily Avg Turnover (US\$ mn)	0.3

Shareholding Pattern Sep '18

Promoters	68.9%
FIIIs	1.0%
DIIIs	8.4%
Public and Others	21.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	(11)	(19)	(13)
Rel. to Nifty	(2)	(3)	(17)	(14)

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs. estimates

(in Rs mn)	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	3,623	3,685	3,566	-1.7	1.6	Led by lower than estimated sales volume
EBITDA	687	829	861	-17.1	-20.2	Led by higher freight and energy costs
EBITDA margin (%)	19.0	22.5	24.1	-353bps	-517bps	
Adj. PAT	364	444	497	-18.0	-26.8	Led by lower operating profit

Source: Company, Emkay Research, Bloomberg

Exhibit 2: Quarterly results

Rs mn	Q2FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)	YTDFY18	YTDFY19	YoY (%)
Revenue	2,810	5,179	3,623	28.9%	-30.1%	7,097	8,802	24.0%
Expenditure	2,040	3,862	2,935	43.9%	-24.0%	4,741	6,798	43.4%
as % of sales	73%	75%	81%					
Consumption of RM	624	991	930	49.0%	-6.1%	1,268	1,922	51.6%
as % of sales	22%	19%	26%					
Employee Expenses	268	268	321	19.5%	19.7%	553	589	6.5%
as % of sales	10%	5%	9%					
Other Expenses	1,148	2,603	1,684	46.8%	-35.3%	2,920	4,287	46.8%
as % of sales	41%	50%	46%					
EBITDA	770	1,317	687	-10.7%	-47.8%	2,356	2,004	-14.9%
Depreciation	326	283	271	-16.8%	-4.1%	629	554	-11.9%
EBIT	444	1,034	416	-6.2%	-59.8%	1,727	1,450	-16.0%
Other Income	9	3	7	-27.0%	95.5%	13	10	-21.6%
Interest	141	54	33	-76.9%	-39.8%	299	87	-70.8%
PBT	311	983	390	25.3%	-60.3%	1,441	1,373	-4.7%
Total Tax	49	68	8	-83.4%	-88.1%	81	76	-6.5%
Adjusted PAT	262	915	382	45.5%	-58.3%	1,359	1,297	-4.6%
Extra ordinary items	-	-	-					
Reported PAT	262	915	382	45.5%	-58.3%	1,359	1,297	-4.6%
(Profit)/loss from JV's/Ass/MI	5	12	18	258.0%	50.0%	27	30	8.8%
PAT after MI	257	903	364	41.4%	-59.7%	1,332	1,267	-4.9%
Adjusted EPS	0.6	2.2	0.9	41.4%	-59.7%	3.2	3.0	-4.9%

Margins (%)				bps	bps			bps
EBIDTA	27.4	25.4	19.0	(842)	(646)	33.2	22.8	(1,043)
EBIT	15.8	20.0	11.5	(430)	(848)	24.3	16.5	(786)
EBT	11.1	19.0	10.8	(31)	(822)	20.3	15.6	(470)
PAT	9.3	17.7	10.5	120	(713)	19.2	14.7	(442)
Effective Tax rate	15.7	6.9	2.1	(1,358)	(484)	5.7	5.5	(11)

Source: Company, Emkay Research

Exhibit 3: Operating cost and Profitability analysis on per ton basis

Rs	Q2FY18	Q1FY19	Q2FY19	YoY (%)	QoQ (%)	YTDFY18	YTDFY19	YoY (%)
Cement Volumes (mt)	0.47	0.81	0.56	18.3%	-31.1%	1.18	1.36	15.5%
Raw Material Consumed	1,328	1,228	1,674	26.0%	36.3%	1,074	1,410	31.2%
Employee Expenses	571	332	577	1.0%	73.8%	469	432	-7.8%
Other Expenses	2,442	3,226	3,029	24.1%	-6.1%	2,475	3,145	27.1%
Total Cost	4,341	4,786	5,280	21.6%	10.3%	4,018	4,987	24.1%
Realisation	5,979	6,418	6,516	9.0%	1.5%	6,014	6,458	7.4%
EBIDTA	1,637	1,632	1,236	-24.5%	-24.3%	1,996	1,470	-26.4%

Source: Company, Emkay Research

Exhibit 4: Changes in estimates

Rs Mn	FY19E			FY20E		
	Earlier	Revised	Chg (%)	Earlier	Revised	Chg (%)
Sales vol (mt)	2.8	2.9	3.4%	3.1	3.2	3.5%
Realization (Rs/tn)	6,334	6,520	2.9%	6,556	6,846	4.4%
Sales	17,699	18,847	6.5%	20,362	22,002	8.1%
EBIDTA	5,078	4,625	-8.9%	5,877	5,510	-6.2%
EBIDTA (%)	28.7	24.5	-415	28.9	25.0	-382
Net Profit	3,426	2,994	-12.6%	4,309	3,959	-8.1%
EPS	8.2	7.1	-12.6%	10.3	9.4	-8.1%

Source: Company, Emkay Research

Exhibit 5: Key assumptions

Particulars (Rs/ton)	FY16	FY17	FY18	FY19E	FY20E
Sales volume (mt)	2.8	2.8	2.6	2.9	3.2
Realization	6,217	5,425	6,210	6,520	6,846
Raw material cost	1,252	1,208	1,037	1,193	1,253
Power & Fuel cost	781	-	-	-	-
Employee cost	393	421	413	394	390
Freight cost	1,073	958	1,240	1,540	1,617
Other expense	1,272	1,387	1,514	1,793	1,872
Operating cost	4,769	3,975	4,205	4,920	5,132
EBITDA	1,448	1,450	2,005	1,600	1,715
EBITDA/tn growth yoy (%)	(21.6)	0.1	38.3	(20.2)	7.2

Source: Company, Emkay Research

Con-call highlights

- **Volume details:** Clinker production was 0.3mt vs. 0.28mt in Q2FY18. Cement production from own plants was 0.49mt vs. 0.41mt in Q2FY18. Cement/Clinker sales volumes stood at 0.55mt/0.01mt vs. 0.44mt/0.04mt in Q2FY18. Cement volumes in North East stood at 0.42mt vs. 0.33mt in Q2FY18. OPC/PPC/PSC mix stood at 81%/17%/2%.
- **Volume and profitability guidance:** Management is hopeful of better demand in the North East markets (10-11% yoy demand growth in H1FY19) and expects volume to grow by 15% in FY19. EBITDA/ton is expected to be Rs1,750-1,800/ton. Road and Hydel Power projects, the Bharatmala project (some projects were announced in Manipur), Affordable Housing projects, and a pick-up in Rural Housing should help to improve demand going forward.
- **North East market dynamics:** Demand in the North East market stood at 8mt in FY18 vs. installed capacities of 11-11.5mt. However, effective installed capacity is ~9-9.5mt as smaller plants do not have limestone capacities. Demand growth in the region is expected to be 13-15% in FY19. Clinker capacity in the region is only 7.5mt, which can help to achieve production of ~9-9.5mt; hence, demand-supply dynamics is expected to remain favorable.
- **Outstanding subsidies:** The company received Rs253mn in subsidies in Q2FY19, post which outstanding subsidies stand at ~Rs4bn. It expects to receive Rs1.5bn more in H2FY19 and rest in FY20.
- **Capex plans:** The company will install a grinding unit of 2mt capacity in Siliguri, West Bengal, for which equipment has been ordered. This project is expected to get commissioned by Dec'19 and capex is expected at Rs2-2.5bn. This unit will be eligible for VAT subsidies (75% exemption) under the West Bengal Industrial Policy. Clinker capacity will increase by 0.2mt to 2.8mt through debottlenecking, which is expected to be completed in Q3FY19E and capex will be Rs150-200mn.
- **Trade: Non-Trade Mix:** Trade: Non-Trade mix in the North East region is 70:30. However, Star sells more than 80% of its total volumes in the trade segment. PPC:OPC:PSC mix during the quarter was 81%:17%:2%.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	17,150	15,278	16,227	18,847	22,002
Expenditure	13,156	11,316	10,932	14,222	16,492
EBITDA	3,994	3,962	5,295	4,625	5,510
Depreciation	1,715	1,179	1,207	1,249	1,272
EBIT	2,279	2,783	4,088	3,376	4,238
Other Income	13	24	44	77	75
Interest expenses	834	781	525	230	77
PBT	1,458	2,027	3,608	3,224	4,236
Tax	60	139	164	150	197
Extraordinary Items	5	0	0	0	0
Minority Int./Income from Assoc.	53	(62)	(55)	(80)	(80)
Reported Net Income	1,340	1,826	3,388	2,994	3,959
Adjusted PAT	1,346	1,826	3,388	2,994	3,959

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	419	419	419	419	419
Reserves & surplus	10,134	11,040	14,344	16,844	20,063
Net worth	10,553	11,459	14,763	17,263	20,482
Minority Interest	530	566	621	701	781
Loan Funds	9,398	8,007	4,324	1,417	503
Net deferred tax liability	117	(1,765)	(2,329)	(2,898)	(3,466)
Total Liabilities	20,599	18,267	17,379	16,484	18,300
Net block	9,186	8,632	7,847	6,799	5,727
Investment	15	15	14	14	14
Current Assets	14,970	13,842	14,509	13,341	15,376
Cash & bank balance	245	201	198	1,937	6,133
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	4,062	4,770	5,349	6,028	6,817
Net current assets	10,908	9,072	9,160	7,313	8,559
Misc. exp	0	0	0	0	0
Total Assets	20,599	18,267	17,379	16,484	18,300

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	1,445	2,148	3,526	3,224	4,236
Other Non-Cash items	821	701	527	230	77
Chg in working cap	(2,384)	(722)	(345)	3,586	2,950
Operating Cashflow	1,297	3,000	4,206	7,492	7,695
Capital expenditure	(808)	(890)	(324)	(2,200)	(1,843)
Free Cash Flow	489	2,110	3,882	5,292	5,852
Investments	(3)	(30)	26	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(796)	(894)	(253)	(2,123)	(1,768)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	694	(1,402)	(3,407)	(2,907)	(914)
Dividend paid (incl tax)	(222)	0	0	(493)	(740)
Other Financing Cash Flow	(99)	0	0	0	0
Financing Cashflow	(461)	(2,181)	(3,929)	(3,630)	(1,731)
Net chg in cash	40	(75)	24	1,739	4,196
Opening cash position	204	245	201	198	1,937
Closing cash position	244	170	224	1,937	6,133

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin	23.3	25.9	32.6	24.5	25.0
EBIT Margin	13.3	18.2	25.2	17.9	19.3
Effective Tax Rate	4.1	6.9	4.5	4.7	4.7
Net Margin	8.2	12.4	21.2	16.3	18.4
ROCE	11.6	14.4	23.2	20.4	24.8
ROE	15.5	16.6	25.8	18.7	21.0
RoIC	11.9	14.9	23.8	23.3	41.7

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	3.2	4.4	8.1	7.1	9.4
CEPS	7.3	7.2	11.0	10.1	12.5
BVPS	25.2	27.3	35.2	41.2	48.9
DPS	0.5	0.0	0.0	1.0	1.5

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	31.6	23.3	12.6	14.2	10.8
P/CEPS	15.6	15.8	10.4	11.2	9.1
P/BV	4.0	3.7	2.9	2.5	2.1
EV / Sales	3.0	3.3	2.9	2.2	1.7
EV / EBITDA	12.9	12.7	8.8	9.1	6.7
Dividend Yield (%)	0.5	0.0	0.0	1.0	1.5

Gearing Ratio (x)	FY16	FY17	FY18	FY19E	FY20E
Net Debt/ Equity	0.9	0.7	0.3	0.0	(0.3)
Net Debt/EBIDTA	2.3	2.0	0.8	(0.1)	(1.0)
Working Cap Cycle (days)	226.9	211.9	201.6	104.1	40.2

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
Revenue	19.9	(10.9)	6.2	16.1	16.7
EBITDA	(8.2)	(0.8)	33.6	(12.7)	19.1
EBIT	7.8	22.1	46.9	(17.4)	25.5
PAT	60.6	36.3	85.5	(11.6)	32.3

Quarterly (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	3,120	3,427	4,792	4,287	2,810
EBITDA	590	881	1,693	1,586	770
EBITDA Margin (%)	18.9	25.7	35.3	37.0	27.4
PAT	17	322	1,259	1,075	257
EPS (Rs)	-	0.8	3.0	2.6	0.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	74.6	73.3	68.9	68.9	68.9
FIs	0.4	2.0	1.9	2.2	1.0
DIs	1.6	2.7	7.3	7.3	8.4
Public and Others	23.4	22.1	21.9	21.6	21.7

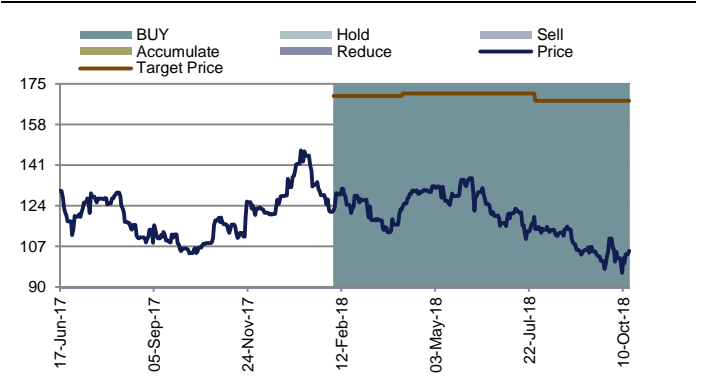
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
27-Jul-18	114	168	12m	Buy	Sanjeev Kumar Singh
18-May-18	128	171	12m	Buy	Sanjeev Kumar Singh
05-Apr-18	124	171	12m	Buy	Sanjeev Kumar Singh
05-Feb-18	122	170	12m	Buy	Sanjeev Kumar Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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