

13 August 2024

India | Equity Research | Q1FY25 results review

## Star Cement

Cement

### Q1FY25 in slow lane; recovery imminent

Star Cement's (Star) Q1FY25 performance appears to be in the slow lane owing to muted volumes (flat YoY) and 'one-off' cost impact (external purchase of clinker). As a result, EBITDA (at INR 1.16bn, down 10% YoY/ 35% QoQ) stood 24% below our expectation. Yet, recovery appears to be in sight, as the newly commissioned 3.3mtpa clinker line has stabilised – shall not only reverse the impact of external clinker purchase, but also offer accrual of state incentives. Factoring in the underlying weakness in cement prices, while we prune our FY25E EBITDA by 16%, we keep it largely intact for FY26E as we assume demand/price recovery from H2FY25. Star remains a niche player in the north-east India complimented by: 1) capex incentives of ~INR 300/t; 2) benefits of increase in share of green power; and 3) strong balance sheet with healthy RoE. We continue to value the stock at 11x FY26E EV/EBITDA and maintain **BUY** with a revised TP of INR 257 (INR 271 earlier).

### Weak quarter with multiple headwinds

Q1FY25 volumes dipped 1% YoY, being 7% below our estimate due to weak demand. While realisations held firm (up 0.5% QoQ vs. our estimate of a 2% drop), costs disappointed. Though freight cost/t eased 2.5% QoQ, overall variable cost/t rose 2% QoQ owing to the external clinker purchase (impact of ~INR 300mn). Fixed cost offered no respite as staff expenses rose 22% YoY while 'other expenses' surged 24% (includes ~INR 100mn worth of one-off cost owing to a donation and other corporate expenses). With overall cost/t rising 6% QoQ (up ~1% YoY), EBITDA/t at INR 1,006 slipped 21% QoQ (down 9% YoY, being 18% below estimate). Factoring in the underlying weakness in cement prices and weak volumes in H1FY25, we revise down our FY25E EBITDA by 16%. Being optimistic, we keep FY26E EBITDA largely intact.

### Recovery in sight; maintain BUY

Even as its Q1FY25 performance appears underwhelming, Star appeared confident of staging a recovery going ahead given: 1) ramp up of the recently commissioned 3.3mtpa clinker line potentially helping reverse the impact of the external clinker purchase and also leading to incentive accrual of ~INR 400mn per quarter; and 2) imminent benefits from increase in share of green power. Factoring in a healthy RoE of 12–17% and strong balance sheet (our estimate of virtually no debt by FY26E), we continue to value Star at 11x FY26E EV/EBITDA. Maintain **BUY** with a revised TP of INR 257 (INR 271 earlier).

### Financial Summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	27,048	29,107	34,675	40,900
EBITDA	4,684	5,563	7,917	10,580
EBITDA (%)	17.3	19.1	22.8	25.9
Net Profit	2,476	2,951	3,448	5,599
EPS (INR)	6.1	7.3	8.5	13.9
EPS % Chg YoY	0.3	19.2	16.8	62.4
P/E (x)	35.0	29.3	25.1	15.5
EV/EBITDA (x)	17.4	15.6	11.1	8.2
RoCE (%) (post-tax)	11.0	11.5	11.8	16.3
RoE (%)	10.8	11.5	12.0	16.8

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### Market Data

Market Cap (INR)	87bn
Market Cap (USD)	1,031mn
Bloomberg Code	STRCEM IN
Reuters Code	STATf.BO
52-week Range (INR)	256 /147
Free Float (%)	20.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	(2.2)	2.8	34.3
Relative to Sensex	(11.6)	(8.5)	12.4

Earnings Revisions (%)	FY25E	FY26E
Revenue	(6.3)	(4.0)
EBITDA	(15.6)	(0.3)
EPS	(37.8)	(13.4)

### Previous Reports

23-05-2024: [Q4FY24 results review](#)

07-04-2024: [Initiating Coverage](#)

## Conference call takeaways

### Volume details

#### Exhibit 1: Production snapshot

(mt)	Q1FY25	Q1FY24
Clinker	0.686	0.727
Cement	1.180	~1.180

Source: Company data

#### Exhibit 2: Volume snapshot

(mt)	Q1FY25	Q1FY24
Clinker	-	0.011
Cement	1.154	~1.154

Source: Company data

#### Exhibit 3: Geographic mix

(mt)	Q1FY25	Q1FY24
North East India	0.850	0.836
East India	0.304	0.329

Source: Company data

- In Q1FY25, trade mix stood at 84% (flat QoQ); product mix: OPC at 9% (vs. 10% in Q4FY24) and PPC at 91%.

### Demand

- In Q1FY25, total volumes were broadly flat YoY, as offtake was impacted due to India's general elections and monsoon season.
- Further, on the back of intense monsoon in India's north east (NE) region, management expects Q2FY25 to remain soft as well; uptick in demand is expected Sep'24 onwards.
- Thus, given a sluggish H1FY25, Star has toned down its FY25 volume growth guidance to 15%, from 18–20% earlier.
- Star gained market share in the NE, as its volume in the region grew ~3% YoY vs. market de-growth of ~8%.

### Pricing

- On comparison with Q1FY25's average prices, cement prices in east (West Bengal and Bihar) and NE India have dropped by INR 12–13/bag.
- In Q1FY25, Star accrued partial GST incentives of ~110mn from the Guwahati GU. It expects this run-rate to improve to ~INR 400mn in Q2FY25; total incentives income expected in FY25 is at INR 1.3–1.4bn.
- The company expects partial GST incentive benefits from Lumshnong clinker line to accrue from Q2FY25 and a run rate of INR 130–140mn Q3FY25 onwards.
- Premium cement share stood at 9.2% in Q1FY25 vs. ~7% in Q4FY24.

### Cost

- In Q1FY25, Star incurred one-time costs of: 1) clinker purchase of INR 300mn; 2) political donation of INR 60mn; and 3) incentives and project-related expenditure of INR 40mn, cumulating to INR 400mn (~INR 250/t).
- Star maintains its FY25 EBITDA/t guidance of ~INR 1,500 on the back of: 1) incentive income of ~INR 300/t Q2FY25 onwards; 2) reversal of one-time costs (~INR 250/t) incurred in Q1FY25; 3) operating leverage benefits; and 4) improved efficiency on the back of utilisation of new clinker line.
- Blended fuel consumption cost in Q1FY25 stood at INR 1.5/’000 kcal vs. INR 1.7/’000 kcal in Q4FY24. Company expects fuel costs to remain range-bound in near term.
- Star expects to save ~INR 2.5/unit of power from the group captive scheme (18MW) in the next 18 months. The total power savings/annum is expected at INR 220–240mn (on a capex of INR 230mn).
- Fuel mix in Q1FY25 was – spot contract coal + FSA: 60%; Nagaland coal: 20%; and biomass: 20%.
- Margin in east India stood at INR 250/t in Q1FY25 vs. INR 260/t in Q4FY24.
- Lead distance in Q1FY25 stood at 207kms (down 20kms QoQ).

### Capex

- Capex guidance in FY25 is INR 8.35bn. Star has spent INR 1.1bn in Q1FY25.
- Capex break-up for FY25 and FY26 is:

Particulars (INR bn)	FY25	FY26
Silchar Grinding unit (GU)	3.0	1.72
Lumshnong clinker + WHRS	1.4	-
Fleet expansion programme (BTAP wagons)	0.7	0.4
AAC Block	0.55	-
Group captive power scheme	0.23	-
Jorhat GU project (land acquisition)	1.0	3.5
Maintenance	1-1.5	1.0
<b>Total</b>	<b>8.35</b>	<b>6.7</b>

Source: Company data

- Commissioning of 2mtpa grinding capacity each at Silchar and Jorhat, Assam expected in Oct'25 and Oct'26, respectively.
- Star does not expect any greenfield expansion (besides Dalmia) project in the NE region in the next 4–5 years.
- The capacity expansion of 4.5-5mtpa in Jaisalmer/Nagaur, Rajasthan region is still work in progress. Star is in the process to acquire limestone mines in the state of Rajasthan.
- The commissioning of 12MW WHR plant at Lumshnong shall be executed in two phases. The first phase of 6MW will be commissioned in Oct'24 and balance 6MW in Nov'24-end.

**Others**

- The company envisages a net debt position of ~INR 3.5bn by FY25-end. Current gross debt is at INR 2.4bn.
- Star accounts for incentives on an accrual basis; the timespan between accrual and actual realisation of incentives is less than three months.
- The company follows the written down value (WDV) method for depreciation.
- On the back of commissioning of assets (Guwahati GU and Meghalaya clinker unit), Star expects a slight increase in the depreciation costs in upcoming quarters. Star expects it to decline Q1FY26 onwards.
- In FY25, revenue from the upcoming AAC block project is guided at INR 600–700mn with an EBITDA of ~INR 140mn; commissioning of the AAC plant is expected in Oct'24.
- Star does not expect any material impact to its operations due to the turmoil in Bangladesh.

**Exhibit 4: Q1FY25 result review – consolidated**

(INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Q1FY25E	Variance
Volume Sales (mt)	1.15	1.16	(0.9)	1.41	(18.2)	1.25	(7.3)
Cement Realisation (INR/t)	6,508	6,533	(0.4)	6,474	0.5	6,345	2.6
<b>Net Sales</b>	<b>7,510</b>	<b>7,605</b>	<b>(1.2)</b>	<b>9,135</b>	<b>(17.8)</b>	<b>7,902</b>	<b>(5.0)</b>
Raw Materials	2,280	2,003	13.8	2,865	(20.4)	1,730	31.8
Personnel Cost	622	510	22.0	548	13.6	612	1.7
Power and Fuel	1,145	1,731	(33.8)	1,172	(2.3)	1,716	(33.3)
Freight and forwarding	1,303	1,260	3.4	1,633	(20.2)	1,432	(9.0)
Other Expenses	999	808	23.7	1,120	(10.8)	877	14.0
<b>Total Expenses</b>	<b>6,349</b>	<b>6,312</b>	<b>0.6</b>	<b>7,338</b>	<b>(13.5)</b>	<b>6,366</b>	<b>(0.3)</b>
<b>EBITDA</b>	<b>1,161</b>	<b>1,293</b>	<b>(10.2)</b>	<b>1,797</b>	<b>(35.4)</b>	<b>1,536</b>	<b>(24.4)</b>
<b>EBITDA / t (INR)</b>	<b>1,006</b>	<b>1,111</b>	<b>(9.4)</b>	<b>1,274</b>	<b>(21.0)</b>	<b>1,233</b>	<b>(18.4)</b>
Interest	59	22	163.1	42	42.1	-	NA
Depreciation	725	318	128.1	423	71.7	535	35.6
Other Income	14	87	(84.1)	78	(82.3)	-	NA
<b>Recurring pre-tax income</b>	<b>391</b>	<b>1,040</b>	<b>(62.4)</b>	<b>1,411</b>	<b>NA</b>	<b>1,001</b>	<b>(61.0)</b>
Extraordinary inc/(exp)	-	-	NA	-	NA	-	NA
Taxation	81	107	(24.5)	535	(84.9)	330	(75.5)
<b>Reported Net Income</b>	<b>310</b>	<b>933</b>	<b>(66.8)</b>	<b>877</b>	<b>(64.7)</b>	<b>671</b>	<b>(53.8)</b>
<b>Recurring Net Income</b>	<b>310</b>	<b>933</b>	<b>(66.8)</b>	<b>877</b>	<b>(64.7)</b>	<b>671</b>	<b>(53.8)</b>
<b>Ratios (%)</b>							
EBITDA margins	15.5	17.0		19.7		19.4	
Net profit margins	4.1	12.3		9.6		8.5	

Source: I-Sec research, Company data

**Exhibit 5: Historical quarterly analysis – consolidated**

(INR/t)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Cement Realisation</b>	<b>6,533</b>	<b>6,532</b>	<b>6,716</b>	<b>6,474</b>	<b>6,508</b>
YoY (%)	-3.8	-2.1	-1.6	-3.5	-0.4
<b>Expenditure</b>					
Raw material costs	1,721	1,334	1,289	2,030	1,975
Power & fuel costs	1,487	1,464	1,378	831	992
Freight costs	1,083	1,007	1,135	1,158	1,129
Staff costs	438	638	562	388	539
Other expenditure	694	990	818	794	866
<b>Total costs</b>	<b>5,423</b>	<b>5,432</b>	<b>5,182</b>	<b>5,201</b>	<b>5,502</b>
<b>EBITDA</b>	<b>1,111</b>	<b>1,100</b>	<b>1,534</b>	<b>1,274</b>	<b>1,006</b>

Source: I-Sec research, Company data

**Exhibit 6: Performance trend and assumptions**

Particulars	FY22	FY23	FY24P	FY25E	FY26E
Capacity (mtpa)	5.7	5.7	7.7	7.7	9.7
Production (mt)	3.4	4.0	4.4	5.1	6.0
Capacity utilisation (%)	59.8	70.7	57.9	66.7	61.8
Sales volumes (mt)	3.4	4.0	4.4	5.1	6.0
YoY Growth (%)	25.6	18.3	10.7	15.2	16.7
Cement Realisation (INR/t)	6,554	6,745	6,554	6,504	6,519
YoY Growth (%)	2.8	2.9	-2.8	-0.8	0.2

Source: I-Sec research, Company data

### Exhibit 7: Per-tonne analysis

INR/t	FY22	FY23	FY24P	FY25E*	FY26E*
<b>Cement realisation</b>	<b>6,554</b>	<b>6,745</b>	<b>6,554</b>	<b>6,504</b>	<b>6,519</b>
YoY (%)	2.8	2.9	-2.8	-0.8	0.2
Raw materials consumed	1,692	1,560	1,647	1,782	1,725
Power and fuel	1,230	1,421	1,250	973	905
Employee expenses	470	488	489	517	521
Freight & forwarding	1,260	1,264	1,103	1,142	1,152
Other Expenses	884	844	813	816	775
<b>Total operating expenses</b>	<b>5,536</b>	<b>5,577</b>	<b>5,301</b>	<b>5,230</b>	<b>5,077</b>
<b>EBITDA</b>	<b>1,018</b>	<b>1,168</b>	<b>1,253</b>	<b>1,273</b>	<b>1,442</b>
YoY (%)	-17.4	14.7	7.2	1.7	13.2

Source: I-Sec research, Company data, \*excluding incentives

### Exhibit 8: Valuations based on 11x Mar'26E EV/E

(INR Mn)	FY26E
Assumed EV/EBITDA multiple (x)	11.0
Core EBITDA (ex-incentives)	8,609
<b>EV</b>	<b>94,702</b>
Less: Net debt	151
Net Present Value (NPV) of incentives	9,266
M-Cap	1,03,818
Shares o/s (mn)	404.2
<b>Value per share (INR)</b>	<b>257</b>

Source: I-Sec research, Company data

**Key risk:** Sharp rise in input costs.

### Exhibit 9: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	34,675	36,990	(6.3)	40,900	42,600	(4.0)
EBITDA	7,917	9,376	(15.6)	10,580	10,614	(0.3)
PAT	3,448	5,540	(37.8)	5,599	6,466	(13.4)

Source: I-Sec research

### Exhibit 10: Shareholding pattern

%	Dec '23	Mar '24	Jun '24
Promoters	66.5	66.6	66.6
Institutional investors	7.1	7.6	6.6
MFs and others	6.0	6.1	5.0
FIIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIs	1.1	1.5	1.6
Others	26.4	25.8	26.8

Source: Bloomberg

### Exhibit 11: Price chart



Source: Bloomberg

## Financial Summary (Consolidated)

### Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Net Sales	27,048	29,107	34,675	40,900
<b>Operating Expenses</b>	<b>16,107</b>	<b>16,231</b>	<b>17,643</b>	<b>20,017</b>
EBITDA	4,684	5,563	7,917	10,580
<b>EBITDA Margin (%)</b>	<b>17.3</b>	<b>19.1</b>	<b>22.8</b>	<b>25.9</b>
Depreciation & Amortization	1,311	1,466	3,194	2,991
EBIT	3,373	4,097	4,724	7,589
Interest expenditure	97	126	240	312
Other Non-operating Income	521	265	114	188
Recurring PBT	3,797	4,236	4,597	7,466
<b>Profit / (Loss) from Associates</b>	-	-	-	-
<b>Less: Taxes</b>	<b>1,321</b>	<b>1,285</b>	<b>1,149</b>	<b>1,866</b>
PAT	2,476	2,951	3,448	5,599
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,476	2,951	3,448	5,599
<b>Net Income (Adjusted)</b>	<b>2,476</b>	<b>2,951</b>	<b>3,448</b>	<b>5,599</b>

Source Company data, I-Sec research

### Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Total Current Assets	9,974	7,657	7,594	9,601
of which cash & cash eqv.	3,117	973	650	2,247
Total Current Liabilities & Provisions	5,024	7,233	7,779	7,896
<b>Net Current Assets</b>	<b>4,950</b>	<b>424</b>	<b>(185)</b>	<b>1,705</b>
Investments	1,725	20	20	20
Net Fixed Assets	8,870	14,135	27,371	29,580
ROU Assets	-	-	-	-
Capital Work-in-Progress	5,506	10,190	2,160	3,660
Total Intangible Assets	40	50	-	-
Other assets	4,666	3,587	3,587	3,587
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>26,290</b>	<b>28,791</b>	<b>33,338</b>	<b>38,938</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>261</b>	<b>1,298</b>	<b>2,398</b>	<b>2,398</b>
Deferred Tax Liability provisions	-	-	-	-
other Liabilities	77	133	133	133
Equity Share Capital	1,788	258	258	258
Reserves & Surplus	404	404	404	404
<b>Total Net Worth</b>	<b>23,760</b>	<b>26,697</b>	<b>30,145</b>	<b>35,744</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>26,290</b>	<b>28,791</b>	<b>33,338</b>	<b>38,938</b>

Source Company data, I-Sec research

### Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
<b>Net Sales</b>	<b>5,853</b>	<b>6,514</b>	<b>9,135</b>	<b>7,510</b>
% growth (YoY)	-1.5	5.1	10.7	(1.2)
<b>EBITDA</b>	<b>986</b>	<b>1,488</b>	<b>1,797</b>	<b>1,161</b>
Margin %	16.8	22.8	19.7	15.5
Other Income	58	41	78	14
Extraordinaries	-	-	-	-
Adjusted Net Profit	407	735	877	310

Source Company data, I-Sec research

### Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
<b>Operating Cashflow</b>	<b>4,846</b>	<b>5,619</b>	<b>8,031</b>	<b>10,769</b>
Working Capital Changes	(417)	41	286	(293)
Capital Commitments	(5,694)	(10,361)	(8,350)	(6,700)
<b>Free Cashflow</b>	<b>9,447</b>	<b>15,258</b>	<b>15,517</b>	<b>15,309</b>
<b>Other investing cashflow</b>	<b>2,978</b>	<b>3,860</b>	-	-
Cashflow from Investing Activities	(2,717)	(6,501)	(8,350)	(6,700)
Issue of Share Capital	-	-	-	-
Interest Cost	(107)	(172)	(240)	(312)
Inc (Dec) in Borrowings	207	1,037	1,100	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	100	865	860	(312)
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,135</b>	<b>(738)</b>	<b>(323)</b>	<b>1,597</b>
Closing cash & balance	1,216	478	155	1,752

Source Company data, I-Sec research

### Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	6.1	7.3	8.5	13.9
Adjusted EPS (Diluted)	6.1	7.3	8.5	13.9
Cash EPS	9.4	10.9	16.4	21.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	59.8	67.1	75.6	89.4
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	21.7	7.6	19.1	18.0
EBITDA	35.7	18.8	42.3	33.6
EPS (INR)	0.3	19.2	16.8	62.4
<b>Valuation Ratios (x)</b>				
P/E	35.0	29.3	25.1	15.5
P/CEPS	22.9	19.6	13.0	10.1
P/BV	3.6	3.2	2.8	2.4
EV / EBITDA	17.4	15.6	11.1	8.2
EV / t (USD)	196.6	139.7	138.6	108.0
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	76.9	74.9	73.7	74.8
EBITDA Margins (%)	17.3	19.1	22.8	25.9
Effective Tax Rate (%)	34.8	30.3	25.0	25.0
Net Profit Margins (%)	9.2	10.1	9.9	13.7
NWC / Total Assets (%)	18.8	1.5	(0.6)	4.4
Net Debt / Equity (x)	(0.2)	0.0	0.1	0.0
Net Debt / EBITDA (x)	(1.1)	0.1	0.2	0.0
<b>Profitability Ratios</b>				
RoCE (%) (Post Tax)	11.0	11.5	11.8	16.3
RoE (%)	10.8	11.5	12.0	16.8
RoIC (%)	13.0	12.5	12.1	17.0
Fixed Asset Turnover (x)	3.0	2.5	1.7	1.4
Inventory Turnover Days	61	73	63	60
Receivables Days	16	16	16	15
Payables Days	53	52	45	45

Source Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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