

## Accumulate

## View: Recent capacity expansion to drive growth; Accumulate

- STRCEM reported Revenue, EBITDA and APAT above estimates however Volume, Realization and EBITDA/tn broadly in line.
- STRCEM posted good set of numbers with +75.1% / +41.9% / +54.0% YoY in revenue/ EBITDA/ APAT to Rs5.1 bn/ Rs927 mn/ Rs680 mn led by +65.6% / +5.7% YoY growth in volume/ realization (+1.7% QoQ).
- We expect 18.8% / 24.4% / 38.2% revenue/ EBITDA/ APAT CAGR over FY21-23E led by 28.0% / 12.0% volume growth and -1.0% / -0.5% realization de-growth in FY22E/ FY23E.
- We factor EBITDA/ tn of Rs1,282/ Rs1,330 for FY22E/ FY23E due to realization/tn de-growth of -1.0% / -0.5% and cost/tn de-growth of -2.2% / -1.6% for FY22E/ FY23E.
- We broadly maintain our FY22E/ FY23E estimates after factoring Q1FY22 results. With commencement of its 2mtpa cement grinding capacity at Siliguri, WB in Jan'21, STRCEM's total cement grinding capacity increased by 32.6% to 5.7 mtpa which will support additional volume growth and reduce its cost of sales for outside north east region. With this expansion, the company will be able to participate in ongoing growth of Eastern market (particularly WB & Bihar).
- We like STRCEM due to its strong presence in lucrative North East region, improving utilization and net cash positive balance sheet (support STRCEM's planned expansion in North East). We recommend Accumulate on STRCEM with a TP of Rs132 based on 9x (below its average of 10.4x since listing in Jul'17) consolidated FY23E EV/EBITDA. STRCM approved buyback of up to 82.49 mn shares (2% reduction) at a price of Rs150 aggregating up to Rs1.24 bn. Record date - 26 Aug'21.

## EBITDA/tn – down -14.3% / +6.4% YoY/ QoQ

In line volume (+65.6% YoY/ -16.6% QoQ to 0.76mt), in line anticipated realization (+5.7% YoY/ +1.7% QoQ to Rs6,725/tn) and in line anticipated operating cost/tn (+11.5% YoY/ +0.7% QoQ to Rs5,506/tn) helped STRCEM to report EBITDA/tn of Rs1,220.

## Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	5,111	2,920	75.1	6,026	(15.2)
Total Expense	4,184	2,267	84.6	4,982	(16.0)
EBITDA	927	653	41.9	1,044	(11.2)
Depreciation	255	204	25.2	277	(8.0)
EBIT	672	449	49.5	767	(12.4)
Other Income	85	59	43.9	83	1.5
Interest	18	17	11.3	16	13.1
EBT	738	492	50.1	833	(11.5)
Tax	58	49	18.0	20	188.6
RPAT	680	442	53.7	813	(16.4)
APAT	680	442	53.7	813	(16.4)
			(bps)		(bps)
Gross Margin (%)	73.0	79.9	(687)	75.7	(269)
EBITDA Margin (%)	18.1	22.4	(424)	17.3	81
NPM (%)	13.3	15.2	(185)	13.5	(19)
Tax Rate (%)	7.9	10.0	(214)	2.4	545
EBIT Margin (%)	13.1	15.4	(225)	12.7	43

CMP	Rs 116	
Target / Upside	Rs 132 / 14%	
NIFTY	16,615	
<b>Scrip Details</b>		
Equity / FV	Rs 412mn / Rs 1	
Market Cap	Rs 48bn	
	USD 641mn	
52-week High/Low	Rs 120/ 75	
Avg. Volume (no)	9,43,507	
Bloom Code	STRCEM IN	
<b>Price Performance</b>		
1M	3M	12M
Absolute (%)	7	14
Rel to NIFTY (%)	2	2

## Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	67.1	67.1	66.2
MF/Banks/FIs	8.1	7.9	7.9
FIs	0.1	0.1	0.1
Public / Others	24.8	24.9	25.8

## Valuation (x)

	FY21A	FY22E	FY23E
P/E	25.5	15.8	13.3
EV/EBITDA	12.9	9.9	8.4
ROE (%)	9.5	14.1	15.1
RoACE (%)	12.8	14.2	15.2

## Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	17,199	21,795	24,288
EBITDA	3,326	4,429	5,144
PAT	1,871	3,017	3,574
EPS (Rs.)	4.5	7.3	8.7

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**Exhibit 1: Actual V/s DART estimates (Rs mn)**

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	5,111	4,727	8.1	+4.8% / +3.2% higher/ higher than estimated volume/ realization
EBITDA (Rs mn)	927	856	8.2	+3.2% / +3.2% higher/ higher than estimated realization / cost
EBITDA%	18.1	18.1	2	
PAT (Rs mn)	680	540	25.9	Led by higher tax, lower tax rate and better operating efficiency

Source: Company, DART

**Exhibit 2: Broadly maintain FY22E/ FY23E estimates**

(Rs mn)	FY22E			FY23E		
	New	Old	% change	New	Old	%change
Net revenues	21,795	21,454	1.6	24,288	23,909	1.6
EBIDTA	4,429	4,338	2.1	5,144	5,017	2.5
EBIDTA margin (%)	20.3%	0	10	21.2%	0	19
Adj. Net Profit	3,017	2,936	2.8	3,574	3,463	3.2
EPS (Rs)*	7.5	7.1	4.9	8.8	8.4	5.3

Source: DART, Company \*Note - due to 2% reduction in outstanding equity shares led by buy-back

**Exhibit 3: Volume, Realization & Cost/tn Analysis**

(Rs)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volume(MT)	0.76	0.46	65.6	0.91	(16.6)	2.70	2.96	(8.7)
Realization/tn (Rs)	6,725	6,361	5.7	6,615	1.7	6,375	6,237	2.2
EBIDTA/tn (Rs)	1,220	1,423	(14.3)	1,146	6.4	1,233	1,335	(7.6)
Cost/tn (Rs)	5,506	4,938	11.5	5,469	0.7	5,142	4,903	4.9
Raw Material Cost/tn (Rs)	1,817	1,281	41.8	1,609	12.9	1,495	1,360	9.9
Employee Expenses/tn (Rs)	452	660	(31.5)	396	14.2	487	428	13.7
Power and Fuels/tn (Rs)	1,105	1,103	0.2	1,290	(14.3)	1,254	1,225	2.4
Freight Expenses/tn (Rs)	1,139	1,208	(5.7)	1,275	(10.6)	1,178	1,195	(1.4)
Other expenses/tn (Rs)	992	685	44.9	899	10.3	728	695	4.8

Source: Company, DART

**Exhibit 4: % of Revenue**

Particulars	Q1FY22	Q1FY21	Bps	Q4FY21	Bps	FY21	FY20	Bps
Raw Material Cost	27.0	20.1	687	24.3	269	23.4	21.8	164
Employee Expenses	6.7	10.4	(365)	6.0	74	7.6	6.9	77
Power and Fuels	16.4	17.3	(91)	19.5	(306)	19.7	19.6	4
Freight Expenses	16.9	19.0	(206)	19.3	(233)	18.5	19.2	(67)
Other expenses	14.8	10.8	399	13.6	116	11.4	11.1	28

Source: Company, DART

**Exhibit 5: Income statement (Consolidated)**

Particulars (Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Total Revenue</b>	<b>5,111</b>	<b>2,920</b>	<b>75.1</b>	<b>6,026</b>	<b>(15.2)</b>	<b>17,199</b>	<b>18,431</b>	<b>(6.7)</b>
Raw Material Cost	1,381	588	134.7	1,466	(5.8)	4,032	4,019	0.3
Employee Expenses	344	303	13.5	361	(4.7)	1,313	1,266	3.8
Power and Fuel	840	506	65.8	1,175	(28.5)	3,384	3,619	(6.5)
Freight Cost	866	555	56.1	1,161	(25.5)	3,179	3,530	(10.0)
Other expenses	754	314	140.0	819	(8.0)	1,965	2,054	(4.3)
<b>Total Expenditure</b>	<b>4,184</b>	<b>2,267</b>	<b>84.6</b>	<b>4,982</b>	<b>(16.0)</b>	<b>13,873</b>	<b>14,488</b>	<b>(4.2)</b>
<b>PBIDT (Excl. OI)</b>	<b>927</b>	<b>653</b>	<b>41.9</b>	<b>1,044</b>	<b>(11.2)</b>	<b>3,326</b>	<b>3,944</b>	<b>(15.7)</b>
Other Income	85	59	43.9	83	1.5	282	294	(4.1)
Depreciation	255	204	25.2	277	(8.0)	900	930	(3.2)
<b>EBIT</b>	<b>756</b>	<b>508</b>	<b>48.9</b>	<b>850</b>	<b>(11.0)</b>	<b>2,708</b>	<b>3,309</b>	<b>(18.1)</b>
Interest	18.4	16.5	11.3	16.3	13.1	69.9	93.4	(25.2)
<b>EBT</b>	<b>738</b>	<b>492</b>	<b>50.1</b>	<b>833</b>	<b>(11.5)</b>	<b>2,638</b>	<b>3,215</b>	<b>(17.9)</b>
Tax	58	49	18.0	20	188.6	121	342	(64.5)
<b>RPAT</b>	<b>680</b>	<b>442</b>	<b>53.7</b>	<b>813</b>	<b>(16.4)</b>	<b>1,871</b>	<b>2,873</b>	<b>(34.9)</b>
<b>APAT</b>	<b>680</b>	<b>441</b>	<b>54.0</b>	<b>853</b>	<b>(20.3)</b>	<b>1,873</b>	<b>2,855</b>	<b>(34.4)</b>
<b>Adj. EPS (Rs)</b>	<b>1.65</b>	<b>1.07</b>	<b>54.0</b>	<b>2.07</b>	<b>(20.3)</b>	<b>4.54</b>	<b>6.92</b>	<b>(34.4)</b>
					<i>bps</i>	<i>bps</i>		<i>bps</i>
EBIDTA Margin (excl. O.I.)	18.1	22.4	(424)	17.3	81	19.3	21.4	(206)
NPM (%)	13.3	15.1	(182)	14.2	(85)	10.9	15.5	(460)
Tax Rate (%)	7.9	10.0	(214)	2.4	545	6.1	10.6	(455)

Source: DART, Company

**Exhibit 6: Valuation**

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	9.0
EBITDA (FY23E)	5,144
EV	46,296
Less: Net Debt (FY23E)	(4,346)
Mcap	50,642
Shares o/s (mn)	404
(a) Value/share (Rs)	125.3
50% of FY23E Capital WIP	2,683
(b) Value/share (Rs)	6.6
<b>Target price (Rs.) (a+b)</b>	<b>131.9</b>
<b>CMP (Rs.)</b>	<b>115.6</b>
Up/(down)side (%)	14.1

Source: Company, DART

## Key earnings takeaways

### Demand and volume

- Second wave of COVID-19 impacted the dispatches in Q1FY22 as restrictions were imposed in various states.
- Demand in North East (NE) continue to be robust. Demand in NE grew 6% in FY21 and managements expects it to grow by 8% in FY22. Demand in East grew 4% in FY21 and is expected to grow by 6% in FY22.
- Few things that impacted the company in Q4FY21 was the collapse of two bridges connecting company's market which got resolved in Q1FY22. New bridge was constructed and movement was as usual as normal with no load restriction. In NE especially in Assam, Mizoram and Shillong, curfew is imposed only in specific areas, however there are no state lockdowns and no impact on movement of goods.
- The main purpose to expand in Silliguri was to be near the market and take logistic advantage as it has many close sources of flyash. Savings from transportation of key raw material will be seen in coming quarters.
- No company planning expansion in NE right now but Star is moving ahead with their plans as per the timeline.
- Premium cement is in nascent stage of development; it will take time to quote as a percent of sales. Good markets like Bihar and Assam will accept it.
- In Q1FY22 clinker production was 0.431 mt in Q1FY22 vs. 0.331 mt in Q1FY21 vs. 0.630 mt in Q4FY21, Cement production was 0.772 mt in Q1FY22 vs. 0.416 mt in Q1FY21 vs. 0.899 mt in Q4FY21. Cement sales (negligible clinker sale) was 0.760 mt in Q1FY22 vs. 0.447 mt in Q1FY21 vs. 0.906 mt in Q4FY21.
- Cement sales in Northeast was 0.603 mt in Q1FY22 vs. 0.343 mt in Q1FY21 vs. 0.746 mt in Q4FY21. Cement sales outside northeast was 0.158 mt in Q1FY22 vs. 0.104 mt in Q1FY21 vs. 0.160 mt in Q4FY21.
- Trade:Non trade mix was 87:13 in Q1FY22 vs. 86:14 in Q4FY21.
- In Q1FY22 OPC/ PPC share was 8%/92% vs. 8% / 92% in Q4FY21.
- Lead distance in Q1FY22 was 325 kms.

### Price

- Prices during Q2FY22 saw a small decline in NE by 3%-4% (approximately Rs10-Rs15/ bag) from the peak of May'21. Prices outside NE are down Rs20-Rs25/ bag during Q2FY22 from the peak of May'21. Management expects prices to move up only after Sept'21 as there is pressure on price due to monsoon.

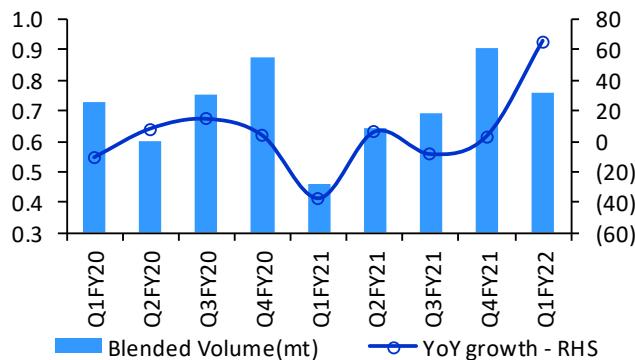
### Cost

- Company is dependent on auction coal from eastern coal fields and they have inventory to meet the requirement of Q2FY22. There was supply disruption due to monsoon. Coal prices stood at Rs8,000/ tn in Q1FY22 (kcal cost of Rs1.5/ unit). Auctions have not yet been started by Coal India, expect domestic coal prices to catch up with international coal prices once the auctions begin.
- Freight and forwarding cost stood at Rs865.8 mn in Q1FY22 vs. Rs507 mn in Q1FY21.

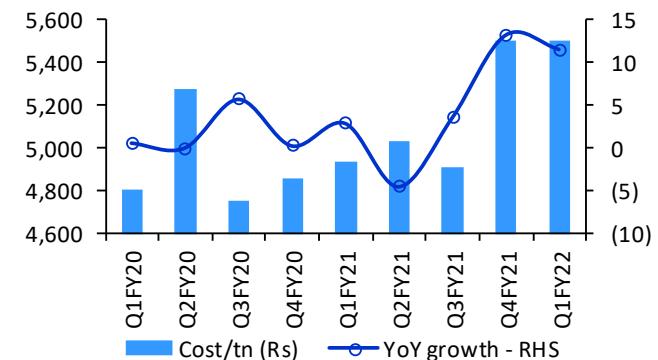
- Power and Fuel cost stood as Rs840 mn in Q1FY22 vs Rs555mn in Q1FY22.
- Other expenses were higher on account of maintenance shutdown taken in April'21 (Rs154.2 mn), expenses incurred on elections in Bihar and Assam (Rs50-Rs60 mn) and advertisement expenditure for silliguri plant (Akshay Kumar was the ambassador). This year shutdown was taken in April'21 for 25 days due to lockdown vs. normal practice of taking in Q2FY22.

### **Capex, Expansion and Debt**

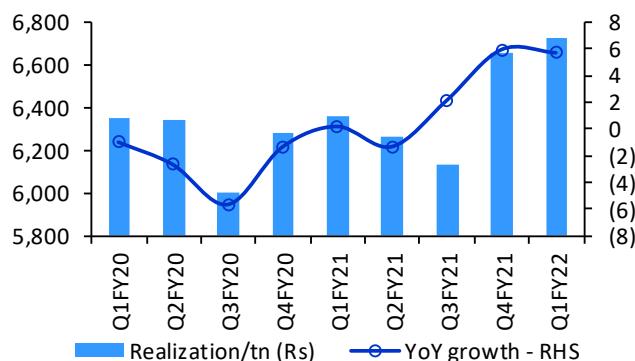
- Silliguri plant produced 0.159 mt in Q1FY22 (Demand outside NE met from this plant). The plant was operated for two months' period, as there was monsoon later on. Capacity utilization currently is 35%. Silliguri unit has just been started and will ramp mainly in Q2 and Q3. Capacity utilization is not low due to lockdowns.
- STRCEM is waiting for environment clearance for its 3mtpa clinker expansion in Meghalaya. Difficult to predict the timeline as 6-9 months is usually the time taken to get the environmental clearance. Internal target to commission clinker expansion by FY24.
- WHRS capacity expansion of 13MW is going smooth and expect completion in 15-18 months (end of FY23) from the ground breaking that happened in June'21. This WHRS capacity will meet 45% of the power requirement of Star (27MW) bringing savings of Rs150-Rs200/ tn.
- In FY22 capex worth Rs1.3 bn for WHRS and Rs1-1.5 bn capex (out of Rs13 bn) for the clinker expansion to be incurred by Star.
- Gross cash stood at Rs5.46 and gross debt was Rs230 mn as on 30<sup>th</sup> June'21.

**Exhibit 7: Blended Volume (mt)**


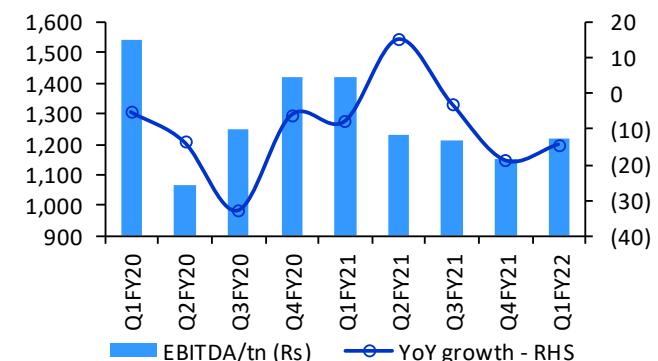
Source: Company, DART

**Exhibit 8: Cost/tn (Rs)**


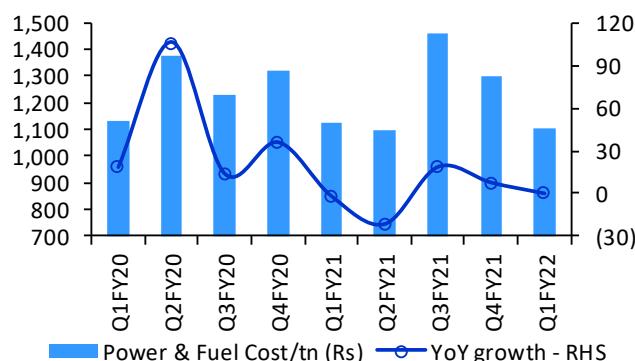
Source: Company, DART

**Exhibit 9: Realization/tn (Rs)**


Source: Company, DART

**Exhibit 10: EBITDA/tn (Rs)**


Source: Company, DART

**Exhibit 11: Power & fuel cost/tn (Rs)**


Source: Company, DART

**Exhibit 12: Freight cost/tn (Rs)**


Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>18,431</b>	<b>17,199</b>	<b>21,795</b>	<b>24,288</b>
<b>Total Expense</b>	<b>14,488</b>	<b>13,873</b>	<b>17,366</b>	<b>19,144</b>
COGS	11,168	10,595	13,395	14,725
Employees Cost	1,266	1,313	1,418	1,546
Other expenses	2,054	1,965	2,553	2,874
<b>EBIDTA</b>	<b>3,944</b>	<b>3,326</b>	<b>4,429</b>	<b>5,144</b>
Depreciation	930	900	1,107	1,151
<b>EBIT</b>	<b>3,014</b>	<b>2,426</b>	<b>3,321</b>	<b>3,993</b>
Interest	93	70	55	55
Other Income	294	282	283	267
Exc. / E.O. items	0	(646)	0	0
<b>EBT</b>	<b>3,215</b>	<b>1,993</b>	<b>3,550</b>	<b>4,205</b>
Tax	342	121	532	631
RPAT	2,873	1,871	3,017	3,574
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>2,873</b>	<b>1,871</b>	<b>3,017</b>	<b>3,574</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	412	412	404	404
Minority Interest	701	0	0	0
Reserves & Surplus	18,159	20,329	21,713	24,883
<b>Net Worth</b>	<b>18,571</b>	<b>20,742</b>	<b>22,117</b>	<b>25,288</b>
Total Debt	134	148	148	148
Net Deferred Tax Liability	0	0	0	0
<b>Total Capital Employed</b>	<b>19,405</b>	<b>20,889</b>	<b>22,265</b>	<b>25,435</b>

**Applications of Funds**

Net Block	<b>6,961</b>	<b>8,230</b>	<b>7,872</b>	<b>7,471</b>
CWIP	2,375	1,266	2,966	5,366
Investments	16	17	17	17
<b>Current Assets, Loans &amp; Advances</b>	<b>14,229</b>	<b>16,109</b>	<b>17,119</b>	<b>18,920</b>
Inventories	2,569	2,347	3,045	3,394
Receivables	1,222	1,317	1,672	1,863
Cash and Bank Balances	2,838	4,904	3,798	4,493
Loans and Advances	449	431	431	431
Other Current Assets	7,150	7,111	8,173	8,739
<b>Less: Current Liabilities &amp; Provisions</b>	<b>4,176</b>	<b>4,732</b>	<b>5,709</b>	<b>6,339</b>
Payables	958	985	1,254	1,397
Other Current Liabilities	3,218	3,748	4,455	4,941
<i>sub total</i>				
Net Current Assets	10,053	11,377	11,410	12,581
<b>Total Assets</b>	<b>19,405</b>	<b>20,889</b>	<b>22,265</b>	<b>25,435</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21A	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	39.4	38.4	38.5	39.4
EBIDTA Margin	21.4	19.3	20.3	21.2
EBIT Margin	16.4	14.1	15.2	16.4
Tax rate	10.6	6.1	15.0	15.0
Net Profit Margin	15.6	10.9	13.8	14.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	60.6	61.6	61.5	60.6
Employee	6.9	7.6	6.5	6.4
Other	11.1	11.4	11.7	11.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	32.3	34.7	60.4	72.6
Inventory days	51	50	51	51
Debtors days	24	28	28	28
Average Cost of Debt	21.4	49.7	37.3	37.3
Payable days	19	21	21	21
Working Capital days	199	241	191	189
FA T/O	2.6	2.1	2.8	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	7.0	4.5	7.3	8.7
CEPS (Rs)	9.2	6.7	10.0	11.5
DPS (Rs)	1.2	0.0	1.0	1.0
Dividend Payout (%)	17.3	0.0	13.4	11.3
BVPS (Rs)	45.0	50.3	53.6	61.3
RoANW (%)	16.0	9.5	14.1	15.1
RoACE (%)	15.6	12.8	14.2	15.2
RoAIC (%)	18.2	14.9	19.3	20.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	116	116	116	116
P/E	16.6	25.5	15.8	13.3
Mcap (Rs Mn)	47,677	47,677	47,677	47,677
MCap/ Sales	2.6	2.8	2.2	2.0
EV	44,972	42,921	44,026	43,331
EV/Sales	2.4	2.5	2.0	1.8
EV/EBITDA	11.4	12.9	9.9	8.4
P/BV	2.6	2.3	2.2	1.9
Dividend Yield (%)	1.0	0.0	0.8	0.8
<b>(F) Growth Rate (%)</b>				
Revenue	0.7	(6.7)	26.7	11.4
EBITDA	(12.2)	(15.7)	33.2	16.1
EBIT	(12.3)	(19.5)	36.9	20.2
PBT	(3.9)	(38.0)	78.1	18.5
APAT	(5.8)	(34.9)	61.2	18.5
EPS	(5.8)	(34.9)	61.2	18.5

**Cash Flow**

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	4,830	3,523	2,758	4,037
CFI	(2,110)	(1,425)	(2,167)	(2,883)
CFF	(2,013)	(33)	(1,696)	(459)
FCFF	2,559	2,455	308	887
Opening Cash	2,113	2,838	4,904	3,798
Closing Cash	2,838	4,904	3,798	4,493

E – Estimates

## **DART RATING MATRIX**

### Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



*\*Price as on recommendation date*

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