

# Star Ferro & Cement Ltd.

Sensex: 27201

CMP: INR 117



## Cement

Star Ferro & Cement Ltd. (SFCL) through its 70.48% subsidiary, Cement Manufacturing Co. (CMCL), is one of the largest cement players in North Eastern Region (NER) having a cement capacity of 4 mt & power capacity of 51 MW. It enjoys a market share of 26% in the region and derives ~65% volumes from NER & remaining 35% from eastern region (*largely West Bengal, Bihar and Jharkhand*). We met the management to understand their strategy going ahead and gauge the ground level situation concerning prices and demand. Given below are the key takeaways from the meet:-

### Dominant player in favorable region

SFCL is the dominant player in North East India enjoying a market share of 26% (*other competitors being Dalmia Cement & Meghalaya Cement*). Being a decade old player in NER, the company has an established brand presence with deep market penetration in the trade segment, from where it derives +75% of its volumes (*enabling it to enjoy higher realizations of ~INR 50/bag*).

This bodes well for the company as NER is ideally paced in terms of better regional demand, higher utilizations levels and negligible capacity addition over next 3 years. The government's focus on developing the NER is likely to result in +10% CAGR in cement demand over the next 5 years.

### Category "A" brand with robust marketing network

SFCL is the most preferred brand in NER and is growing at a decent pace in the markets of Bengal, Bihar & Jharkhand. The company is the pioneer in direct distribution i.e through dealers rather than C&F agents and enjoys a robust marketing network of ~2400 dealers & +8700 retailers catering to 11 states. As a strategy, company incurs 3-5% of its revenue on advertising and brand promotion. Over the years, this has enabled it to position itself as grade 'A' brand and command premium pricing as compared to its peers in the NER.

### Capacity expansion plans on the anvil

SFCL is planning to expand its cement capacity from 4 mt currently to 4.4 mt by FY18 & 7 mt over the next 5 years through organic and inorganic route. It is planning to set up 1 mt Greenfield grinding unit in Siliguri at a capex of INR ~1.5 bn. SFCL is waiting for final clearances post which it will take 18 months to commence operations. This unit will cater to demands from WB, Bihar and Jharkhand, thereby enabling it to further increase its presence in lucrative eastern region (share of volumes increased from 3% in FY13 to 35% in FY16). Currently it is operating at CAUT of ~72% and has adequate capacities for +25% CAGR over the next 2 years.

### Industry leading profitability owing to various grants and subsidies

SFCL enjoys industry leading profitability with an average EBIDTA/tonne of ~INR 1410 over FY13-16 (2x industry avg.) as it is entitled to vast concessions under the NEIIP that ranges from Excise (received monthly), Freight (received with a lag of 12-18 months) and capital subsidy (one-time) for investments in P&M. The value of such benefits to overall cement EBIDTA/tonne is ~INR 500-700. Importantly, profitability remains superior even after excluding these subsidy benefits.

### Other Highlights

- Long term debt as on FY16 stood at INR 5.8 bn. Repayment due in FY17 & 18 stands at INR 1.8 bn each.
- Total amount of subsidy due as on date stands at INR 7 bn (INR 2 bn capital + INR 5 bn freight). Company expects to receive entire amount in FY17, post which SFCL plans to use it for debt repayment and expansion purpose.

### Outlook & Valuation

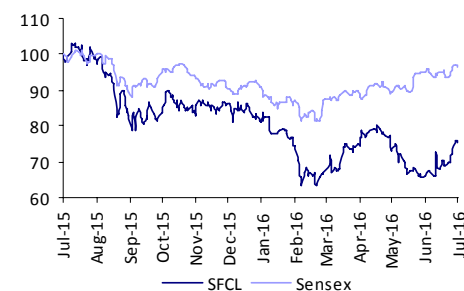
SFCL remains best placed to benefit from government's increased thrust on developing NER, given its leadership position in niche market, strong brand presence and capacity expansion plans.

SFCL has clocked volume/revenue CAGR of 36%/38% over FY13-16 driven by strong growth in NE region & expansion in eastern region. EBIDTA/tonne has improved by INR 344/tonne to INR 1419/tonne during the same period driven by the subsidy benefits that SFCL enjoys due to its operations in NE region. Going forward, SFCL targets to clock volume CAGR of +15% over the next two years and maintain EBIDTA/tonne of ~INR 1500. Strong internal accruals and likely receipt of outstanding subsidy would enable company to turn debt free, thereby resulting in superior earnings growth.

Currently the stock is trading at 12.6x TTM EV/EBIDTA & EV/ton of INR 13520/tn on FY16 capacity (*after considering 70.48% stake in CMCL*).

| Shareholding % | Mar-16 |
|----------------|--------|
| Promoters      | 66.64  |
| FIIIs          | 0.23   |
| DIIIs          | 0.01   |
| Others         | 33.12  |

### Relative Price Performance



| Key Data            |              |
|---------------------|--------------|
| BSE Code            | 536666       |
| NSE Code            | SFCL         |
| Bloomberg Code      | SFCL IN      |
| Reuters Code        |              |
| Shares O/S (mn)     | 222.20       |
| Face Value          | 1            |
| Mcap (INR bn)       | 25.94        |
| 52 Week H/L         | 170.00/96.00 |
| 2W Avg. Qty, NSE    | 23307        |
| Free Float (INR bn) | 8.65         |
| Beta                | 0.80         |

| Y/E (INR mn)          | FY13   | FY14   | FY15   | FY16   |
|-----------------------|--------|--------|--------|--------|
| Net Sales             | 6596   | 11734  | 14304  | 17150  |
| Growth (%)            | NA     | 77.89% | 21.91% | 19.90% |
| EBIDTA Margin (%)     | 17.93% | 21.07% | 29.82% | 23.17% |
| APAT                  | 248    | (0)    | 750    | 925    |
| Growth (%)            | NA     | PL     | LP     | 23.38% |
| EPS                   | 1.12   | (0.00) | 3.37   | 4.16   |
| P/E                   | NA     | NA     | 49.27  | 28.25  |
| P/BV                  | NA     | 0.82   | 5.43   | 3.48   |
| EV/EBIDTA             | NA     | 6.18   | 10.66  | 8.85   |
| Net Debt-Equity Ratio | 1.30   | 1.43   | 1.27   | 1.22   |
| RoACE (%)             | 7.14   | 4.44   | 10.24  | 11.04  |
| RoAE (%)              | 7.16   | NA     | 10.97  | 12.93  |

## Financials

### Income Statement

| Y/E December (INR mn)           | FY13   | FY14    | FY15   | FY16   |
|---------------------------------|--------|---------|--------|--------|
| Net Sales                       | 6596   | 11734   | 14304  | 17150  |
| Growth (%)                      | NA     | 77.89%  | 21.91% | 19.90% |
| Cost of Goods Sold              | 951    | 2218    | 2461   | 3455   |
| Employee Cost                   | 430    | 786     | 913    | 1085   |
| Other Expenses                  | 4032   | 6258    | 6664   | 8637   |
| Total Expenditure               | 5413   | 9262    | 10039  | 13177  |
| EBIDTA (without OI)             | 1183   | 2472    | 4266   | 3974   |
| Growth (%)                      | NA     | 109.00% | 72.56% | -6.85% |
| EBITDA Margin %                 | 17.93% | 21.07%  | 29.82% | 23.17% |
| Depreciation                    | 503    | 1616    | 2237   | 1715   |
| EBIT                            | 680    | 856     | 2028   | 2259   |
| EBIT Margin %                   | 10.31% | 7.29%   | 14.18% | 13.17% |
| Interest Expenses               | 285    | 872     | 874    | 834    |
| Other Income                    | 18     | 25      | 8      | 14     |
| EBT                             | 413    | 9       | 1163   | 1439   |
| Tax Expenses                    | 37     | 27      | 48     | 55     |
| PAT                             | 376    | (18)    | 1115   | 1384   |
| Minority Interest               | 127    | (12)    | 365    | 464    |
| Exceptional/Extraordinary Items | 1      | (6)     | 0      | (5)    |
| APAT                            | 248    | (0)     | 750    | 925    |
| Growth (%)                      | NA     | PL      | LP     | 23.38% |
| APAT Margin (%)                 | 3.76%  | NA      | 5.24%  | 5.39%  |

### Key Ratios

| Y/E December (INR mn)       | FY13  | FY14   | FY15  | FY16  |
|-----------------------------|-------|--------|-------|-------|
| <b>Per Share Data (INR)</b> |       |        |       |       |
| Adjusted EPS                | 1.12  | (0.00) | 3.37  | 4.16  |
| CEPS                        | 3.55  | 7.29   | 13.67 | 12.00 |
| DPS                         | 0.00  | 0.33   | 0.00  | 1.00  |
| BVPS                        | 31.18 | 30.89  | 30.60 | 33.74 |
| <b>Return Ratios</b>        |       |        |       |       |
| RoACE (%)                   | 7.14  | 4.44   | 10.24 | 11.04 |
| RoAE (%)                    | 7.16  | NA     | 10.97 | 12.93 |
| <b>Balance Sheet Ratios</b> |       |        |       |       |
| Net Debt-Equity Ratio       | 1.30  | 1.43   | 1.27  | 1.22  |
| Current Ratio               | 5.00  | 2.84   | 3.43  | 3.42  |
| Interest Cover Ratio        | 2.45  | 1.01   | 2.33  | 2.73  |
| <b>Efficiency Ratios</b>    |       |        |       |       |
| Total Asset Turnover        | 0.67  | 0.59   | 0.72  | 0.83  |
| Inventory Days              | 101   | 69     | 40    | 58    |
| Debtors Days                | 24    | 44     | 79    | 96    |
| Creditors Days              | 49    | 33     | 28    | 39    |
| <b>Valuations</b>           |       |        |       |       |
| P / E                       | NA    | NA     | 49.27 | 28.25 |
| P / BV                      | NA    | 0.82   | 5.43  | 3.48  |
| Dividend Yield (%)          | NA    | 1.30%  | 0.00% | 0.85% |
| Market Cap / Sales          | NA    | 0.48   | 2.58  | 1.52  |
| EV/EBIDTA                   | NA    | 6.18   | 10.66 | 8.85  |

### Balance Sheet

| Y/E December (INR mn)       | FY13         | FY14         | FY15         | FY16         |
|-----------------------------|--------------|--------------|--------------|--------------|
| <b>SOURCES OF FUNDS</b>     |              |              |              |              |
| Share Capital               | 222          | 222          | 222          | 222          |
| Reserves                    | 6705         | 6641         | 6578         | 7276         |
| Total Network               | 6927         | 6863         | 6800         | 7498         |
| Minority Interest           | 2538         | 2529         | 3231         | 3596         |
| Total Debt                  | 9292         | 9931         | 8822         | 9398         |
| Other Liabilities           | 816          | 747          | 859          | 960          |
| <b>Total Liabilities</b>    | <b>19573</b> | <b>20069</b> | <b>19713</b> | <b>21451</b> |
| <b>APPLICATION OF FUNDS</b> |              |              |              |              |
| Net Block                   | 11648        | 11722        | 10280        | 9191         |
| Capital Work in Progress    | 1289         | 995          | 410          | 490          |
| Investments                 | 15           | 15           | 15           | 15           |
| Total Current Assets        | 4926         | 5561         | 7228         | 10605        |
| Total Current Liabilities   | 986          | 1958         | 2105         | 3103         |
| Net Current Assets          | 3941         | 3603         | 5123         | 7502         |
| Net Deferred Tax            | (41)         | (45)         | (87)         | (112)        |
| Other Assets                | 2721         | 3779         | 3972         | 4365         |
| <b>Total Assets</b>         | <b>19572</b> | <b>20069</b> | <b>19713</b> | <b>21451</b> |

### Cash Flow

| Y/E December (INR mn)                    | FY13           | FY14          | FY15          | FY16         |
|--|----------------|---------------|---------------|--------------|
| EBT                                      | 413            | 9             | 1163          | 1439         |
| Add: Depreciation                        | 503            | 1616          | 2237          | 1715         |
| Add: Interest paid                       | 285            | 872           | 874           | 834          |
| Change in Working Capital                | (3670)         | 193           | (1442)        | (2338)       |
| Direct taxes paid                        | (142)          | (31)          | (264)         | (29)         |
| Less: Other Income/Exceptionals          | (18)           | (25)          | (8)           | (14)         |
| <b>Cash flow from operations (a)</b>     | <b>(2629)</b>  | <b>2635</b>   | <b>2560</b>   | <b>1606</b>  |
| Change in Investments                    | (15)           | 0             | 0             | 0            |
| Change in Fixed Assets                   | (14167)        | (1672)        | (286)         | (627)        |
| Change in CWIP                           | (1289)         | 294           | 586           | (80)         |
| Others                                   | (1886)         | (1102)        | (73)          | (278)        |
| <b>Cash flow from investing (b)</b>      | <b>(17358)</b> | <b>(2480)</b> | <b>227</b>    | <b>(985)</b> |
| Inc./Dec. in capital                     | 222            | 0             | 0             | 0            |
| Inc./Dec. in debts                       | 9292           | 639           | (1108)        | 575          |
| Dividend paid                            | 0              | 104           | 0             | 222          |
| Interest paid                            | (285)          | (872)         | (874)         | (834)        |
| Others                                   | 11029          | (171)         | (727)         | (321)        |
| <b>Cash flow from financing (c)</b>      | <b>20257</b>   | <b>(300)</b>  | <b>(2709)</b> | <b>(358)</b> |
| Opening cash balance                     | 0              | 271           | 126           | 204          |
| <b>Cash Flow during the year (a+b+c)</b> | <b>271</b>     | <b>(145)</b>  | <b>78</b>     | <b>264</b>   |
| Closing cash balance                     | 271            | 126           | 204           | 467          |

Sharad Avasthi

Head - Equity Research

sharad.avasthi@spagroupindia.com

Tel.: +91-33-4011 4800

Ext.832

**Analyst Certification of Independence:** The analyst(s) for this report certifies that all the views expressed in this report accurately reflect his or her personal views about the subject company(ies) or issuers and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of SPA Securities Limited, and have no bearing whatsoever on any recommendation that they have given in the Research Report. Disclaimer and Disclosures as required under SEBI (Research Analyst) Regulations, 2014: SPA Securities Limited (hereinafter refer as SPA Securities) and its affiliates are engaged in investment banking, investment advisory, stock broking, institutional equities, Mutual Fund Distributor and insurance broking. SPA Securities is a SEBI registered securities broking Company having membership of NSE, BSE & MCX for Equity, Future & Option, Currency Derivatives segment and Wholesale Debt Market. The Company is focused primarily on providing securities broking services to institutional clients and is empanelled as an approved securities broker with all the major Nationalised, Private and Co-operative banks, Corporate houses, Insurance Companies, Financial Institutions, Asset Management Companies and Provident Fund Trusts. Details of affiliates are available on our website i.e. www.spasecurities.com.

SPA Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH00002615.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in the last five years. We have not been debarred from doing business by any Stock Exchange/SEBI or any other authorities, nor has our certificate of registration been cancelled by SEBI at any point of time.

**General Disclosures:** This Research Report (hereinafter called "report") has been prepared by SPA Securities and is meant for sole use by the recipient and not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, (as defined under section 2(h) of securities Contracts (Regulation) Act, 1956, through SPA Securities nor any solicitation or offering of any investment/trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments.

This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by SPA Securities to be reliable, although its accuracy and completeness cannot be guaranteed. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. Any review, retransmission or any other use is prohibited. The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. While we would endeavour to update the information herein on a reasonable basis, we are under no obligation to update the information. Also, there may be regulatory, compliance or other reasons that prevent us from doing so. Hence all such information and opinions are subject to change without notice.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this complimentary Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report. Neither SPA Securities nor its affiliates or their respective directors, employees, agents or representatives shall be responsible or liable in any manner, directly or indirectly, for the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. SPA Securities may have issued other reports in the past that are inconsistent with and reach different conclusion from the information presented in this report.

SPA Securities, its affiliates and employees may, from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report.

The user should consult their own advisors to determine the merits and risks of investment and also read the Risk Disclosure Documents for Capital Markets and Derivative Segments as prescribed by Securities and Exchange Board of India before investing in the Indian Markets.

A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

**Disclaimers in respect of jurisdiction:** This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject SPA Securities or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of SPA Securities.

List of Associates as per SEBI (Research Analyst) Regulations, 2014

**Statements on ownership and material conflicts of interest, compensation - SPA and Associates**

| Disclosure of interest statement  | Yes/No |
|---|--------|
| SPA Securities/its Affiliates/Analyst/his or her Relative financial interest in the company   | No     |
| SPA Securities/its Affiliates/Analyst/his or her Relative actual/beneficial ownership of more than 1% in subject company at the end of the month  | No     |
| Immediately preceding the date of the publication of the research report or date of public appearance.  | No     |
| Investment banking relationship with the company covered  | No     |
| Any other material conflict of interest at the time of publishing the research report   | No     |
| Receipt of compensation by SPA Securities or its Affiliated Companies from the subject company covered for in the last twelve months:   |        |
| <ul style="list-style-type: none"> <li>Managing/co-managing public offering of securities</li> <li>Investment banking/merchant banking/brokerage services</li> <li>products or services other than those above</li> <li>in connection with research report</li> </ul> | No     |
| Whether Research Analyst has served as an officer, director or employee of the subject company covered  | No     |
| Whether the Research Analyst or Research Entity has been engaged in market making activity of the Subject Company;  | No     |

For statements on ownership and material conflicts of interest, compensation, etc. for individual Research Analyst(s), please refer to each specific research report.

SPA Securities Ltd: Mittal Court, A-Wing, 10th Floor, Nariman Point, Mumbai - 400 021, Tel. No. : +91-022-4289 5600, Fax: +91 (22) 2657 3708/9

For More Information Visit Us At : [www.spasecurities.com](http://www.spasecurities.com)

**SPA CAPITAL SERVICES LIMITED**

Investment Advisory services,  
AMFI Reg. No. ARN-0007

**SPA CAPITAL ADVISORS LIMITED**

SEBI registered Category-1  
Merchant Bankers  
SEBI Regn. No. INM000010825

**SPA COMTRADE PRIVATE LIMITED**

**SPA INSURANCE BROKING SERVICES LTD**

Direct Broker for Life and General  
Insurance Broking  
IRDA Lic. Code No. DB053/03

| SPA Securities Ltd          | SEBI Reg. Nos.      |
|-----------------------------|---------------------|
| NSE Cash                    | INB231178238        |
| NSE Future & Option         | INF231173238        |
| NSE Currency Derivatives    | INE231178238        |
| BSE Cash                    | INB011178234        |
| BSE Currency Derivatives    | INE011178234        |
| MCX-SX Cash                 | INB261178231        |
| MCX-SX Future & Option      | INF261178231        |
| MCX-SX Currency Derivatives | INE261178238        |
| Mutual Fund                 | ARN 77388           |
| CDSL DP                     | IN-DP-CDSL-485-2008 |
| NSDL DP                     | IN-DP-NSDL-316-2009 |
| SEBI Research Analyst       | INH100002615        |