

Star Ferro & Cement (STAFER)

₹113

Robust volumes but margins decline...

- Star Ferro & Cement's Q1FY17 results were below our estimates. SFCL's revenues increased 9.9% YoY to ₹ 449.1 crore (below I-direct estimate of ₹ 541.7 crore) led by 22.4% YoY increase in volumes to 0.76 MT while realisation declined 10.2% YoY to ₹ 5,948
- EBITDA margins declined from 29.7% in Q1FY16 to 20.4% (below I-direct estimate of 23.0%). EBITDA/tonne was at ₹ 1,212/tonne
- The board has approved a reverse merger of Star Ferro & cement with Star Cement. Under this scheme, Star Ferro & Cement shareholders will receive 1.33 shares of Star cement for every one share held. Consequently, Star Ferro & Cement will be dissolved and Star Cement will be the new entity. The price of the company will be adjusted to ~₹ 85 per share. The merger will help the promoter gain listing benefits as previously the promoter shares were privately held. Hence, representing the true holding of promoters i.e. 74.9% from 64.4%. We believe these changes will be effective in the next two or three quarters

Infra focus to provide robust opportunity for growth...

SFCL is the largest cement player in the North-East region (NER) with over 23% market share. Demand growth in this region has consistently remained higher than growth at the pan-India level. With the government's thrust on infrastructure development, demand growth in NER is expected to remain healthy over the coming years. Considering this, Star Ferro is expected to clock revenue CAGR of 21.2% in FY16-18E.

...but declining operating margins, policy changes a key challenge

EBITDA margins have declined from 30.4% in FY15 to 23.9% in FY16 mainly due to an increase in coal cost, higher freight and RM cost. Over the next two years, we expect cost pressures to continue to make it difficult for the company to regain 30% levels in operating margins. Further, various benefits (like capital investment subsidy, interest subsidy on working capital and transport subsidy) that the company enjoys under the NE industrial policy (NEIIPP 2007) will expire in 2018, which will further put pressure on operating margins of the company.

Receipt of subsidy a key trigger

SFCL is entitled to receive ~₹ 600 crore of subsidy from the government. However, receipt of subsidy has been delayed resulting in increased debt. The company has received ₹ 25 crore subsidy in this quarter. It expects to receive the remaining amount in the next two or three quarters. We believe receipt of subsidy could help make the company debt free (FY16 debt was ₹ 749 crore) and act as a key trigger for the company.

Long term potential intact; maintain BUY

SFCL's utilisation has improved from 44.1% in FY13 to over 75% in FY16 led by robust demand in the North-East region (NER). We expect the same to remain healthy, going forward, given the limited available capacity in the market, it operates. The company aims to achieve market share of over ~30% over the next five to seven years from current 23% (led by aggressive marketing efforts). Although we do not expect the company to maintain ₹ 1,400 EBITDA/t post FY18 due to expiry of NEIIPP policy, healthy demand & pricing environment in NER region will enable the company to maintain EBITDA/t of over ₹ 1000/t (in line with many large cap cement companies). Also, receipt of subsidy could act as a key trigger. Hence, we maintain our **BUY** rating for the stock with a revised target price of ₹ 132/share (i.e. 6.0x FY18E EV/EBITDA).

Rating Matrix

Rating	: Buy
Target	: ₹ 132
Target Period	: 12-15 months
Potential Upside	: 17%

What's Changed?

Target	Changed from ₹ 135 to ₹ 132
EPS FY17E	Changed from ₹ 6.4 to ₹ 5.9
EPS FY18E	Changed from ₹ 8.9 to ₹ 8.4
Rating	Unchanged

Quarterly Performance

	Q1FY17	Q1FY16	YoY (%)	Q4FY16	QoQ (%)
Revenue	449.1	408.7	9.9	563.2	-20.3
EBITDA	91.5	121.3	-24.5	126.7	-27.8
EBITDA (%)	20.4	29.7	-930 bps	22.5	-211 bps
PAT	23.6	41.5	-43.2	39.8	-40.6

Key Financials

₹ crore	FY15	FY16	FY17E	FY18E
Net Sales	1,427.0	1,709.5	2,035.0	2,508.9
EBITDA	435.1	395.0	456.9	574.1
Net Profit	83.4	92.0	131.5	186.6
EPS (₹)	3.8	4.1	5.9	8.4

* Previous figures include ferro alloy business

Valuation Summary

	FY15	FY16	FY17E	FY18E
P/E	30.1	27.3	19.1	13.5
Target P/E	35.1	31.9	22.3	15.7
EV / EBITDA	7.3	8.2	6.9	5.6
EV / Tonne	171.1	173.9	170.5	129.6
Price/Book value	3.7	3.3	2.9	2.5
RoCE	12.5	12.0	14.5	18.1
RoNW	12.3	12.3	15.4	18.4

* Previous figures include ferro alloy business

Stock Data

Market Capitalization	₹ 2510.6 Crore
Total Debt (FY16)	₹ 749.1 Crore
Cash and Investments (FY16)	₹ 24.5 Crore
EV	₹ 3235.1 Crore
52 week H/L	170 / 96
Equity capital	₹ 22.2 Crore
Face value	₹ 1

Price Performance (%)

Return (%)	1M	3M	6M	12M
Star Cement	10.8	0.2	(0.0)	(19.5)
Shree Cement	14.6	27.3	61.0	50.8
Heidelberg	13.0	32.9	81.2	75.9
JK Lakshmi	9.4	20.8	40.9	28.9

Research Analysts

Rashesh Shah
rashesh.shah@icicisecurities.com

Devang Bhatt
devang.bhatt@icicisecurities.com

Variance analysis

	Q1FY17	Q1FY17E	Q1FY16	YoY (%)	Q4FY16	QoQ (%)	Comments
Total Operating Income	449.1	541.7	408.7	9.9	563.2	-20.3	Cement revenues increased 9.9% YoY led by 22.4% YoY growth in volumes while realisation declined 10.2% YoY
Other Income	0.4	1.1	1.7	9.9	0.2	N.A	
Increase/Decrease in Stock	0.0	0.0	-24.8	-100.0	13.0	-100.0	
Raw Material Expenses	98.0	106.5	79.7	22.9	135.5	-27.7	The increase in RM cost was mainly led by higher volumes in traded goods
Employee Expenses	29.3	35.9	23.1	26.6	27.1	8.3	
Other Expenses	230.2	274.7	209.4	10.0	260.9	-11.7	
EBITDA	91.5	124.5	121.3	-24.5	126.7	-27.8	
EBITDA Margin (%)	20.4	23.0	29.7	-930 bps	22.5	-211 bps	Increase in RM cost and higher employee expenses led to lower EBITDA margins
Depreciation	34.2	45.9	41.7	-18.0	44.0	-22.1	
Interest	21.0	20.8	20.2	3.7	21.6	-3.0	Rise in interest expenses was mainly due to increase in debt
PBT	36.7	58.9	61.1	-39.8	61.2	-39.9	
Total Tax	0.5	5.9	0.5	1.6	2.6	-79.0	
Minority Interest	12.6	17.0	19.0	-33.6	18.8	-33.1	
PAT	23.6	36.1	41.5	-43.2	39.8	-40.6	The decline in PAT was mainly due to lower EBITDA margin and higher interest expenses
Key Metrics							
Volume (MT)	0.76	0.85	0.62	22.4	0.89	-15.1	Strong demand in the NE and outside NE region led to an increase in volume growth
Realisation (₹)	5,948	6,407	6,624	-10.2	6,335	-6.1	
EBITDA per Tonne (₹)	1,212	1,473	1,966	-38.3	1,425	-14.9	Pricing pressure and higher cost led to lower EBITDA/tonne

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY17E			FY18E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,115.0	2,039.2	-3.6	2,586.5	2,513.6	-2.8	We expect revenues to grow at a CAGR of 21.2% over FY16-18E
EBITDA	503.9	456.9	-9.3	620.5	574.1	-7.5	
EBITDA Margin (%)	23.8	22.4	-142 bps	24.0	22.8	-115 bps	We have revised our EBITDA margins downwards due to persistent cost pressure
PAT	141.4	131.5	-7.0	196.7	186.6	-5.1	
EPS (₹)	6.4	5.9	-7.5	8.9	8.4	-5.6	

Source: Company, ICICIdirect.com Research

Assumptions

	Current					Earlier			Comments
	FY14	FY15	FY16	FY17E	FY18E	FY15	FY17E	FY18E	
Volume (MT)	1.8	2.3	2.7	3.2	4.0	2.4	3.3	4.0	We expect volumes to increase at a CAGR of 22.5% over FY16-18E
Realisation (₹)	6,697	6,182	6,429	6,365	6,298	6,032	6,420	6,528	
EBITDA per Tonne (₹)	1,455	1,880	1,475	1,426	1,438	1,750.0	1,530.0	1,566.0	EBITDA/tonne to reach ₹ 1,438 in FY18E

Source: Company, ICICIdirect.com Research * Earlier figures include ferro alloy business

Company Analysis

Dominant player in North-East region

Star Ferro Cement (SFCL) is the largest cement player in the North-East region (NER) with over 23% market share. Demand growth in this region has consistently remained higher than the growth at pan-India level. SFCL has expanded its capacity from 1.5 MT in FY13 to 3.9 MT in FY16. This, in turn, has helped SFCL to gain market share in the NER. With the government's thrust on infrastructure development, demand growth in NER is expected to remain healthy over the coming years.

Declining operating margins, policy changes a key challenge

EBITDA margins have declined from 30.4% in FY15 to 23.9% in FY16 mainly due to increase in coal cost, higher freight and RM cost. Over the next two years, we expect cost pressures to continue to make it difficult for the company to regain 30% levels in operating margins. Further, various benefits (like capital investment subsidy, interest subsidy on working capital and transport subsidy) that the company enjoys under the NE industrial policy (NEIIPP 2007) will expire in 2018. This will further put pressure on the operating margins of the company.

Receipt of subsidy key trigger

SFCL is entitled to receive ~₹ 600 crore of subsidy from the government. However, the receipt of subsidy has been delayed resulting in increased debt. The company has received ₹ 25 crore subsidy in this quarter and expects to receive remaining amount in the next two or three quarters. We believe receipt of subsidy may help make the company debt free (FY16 debt was at ₹ 749 crore) and act as a key trigger for the company.

Reverse merger of SFCL in Star Cement to simplify holding structure

The board has approved reverse merger of Star Ferro & Cement with Star Cement. Under this scheme Star Ferro & Cement shareholders will receive 1.33 shares of Star Cement for every one share held. Consequently, Star Ferro & Cement will be dissolved and Star Cement will be the new entity. The price of the company will be adjusted to ~₹ 85 per share. The merger will help the promoter gain listing benefits as previously the promoter shares were privately held. Hence, this would represent true holding of promoters i.e. 74.9% from 64.4%. We believe these changes will be effective in the next two or three quarters.

Exhibit 1: Pre-merger promoter holding of company

Pre-merger holding in Star Ferro & Cement		
SFCL	Number of shares	% Holding
Promoter	143,123,840.2	64.4
Others	79,049,149.8	35.6
Total	222,172,990.0	100.0

Pre-merger holding in Star Cement		
SCL	Number of shares	% Holding
SFCL	295,475,000.0	70.5
Promoters	123,673,559.9	29.5
Public	65,360.0	0.0
Total	419,213,920.0	100.0

Pre-merger effective promoter holding	
SCL	% Holding
Promoter thr SFCL	45.4
Promoter	29.5
Total	74.9

Source: Company, ICICIdirect.com Research

Under the merger, every shareholder of SFCL will receive 1.33 shares of SCL for every one share held. Hence, the number of shares will increase from 22.2 crore shares to 29.5 crore shares. Further, considering 12.4 crore shares of promoters in SCL the overall shares in SCL are expected to reach 41.92 crore

Exhibit 2: Post merger shareholding pattern

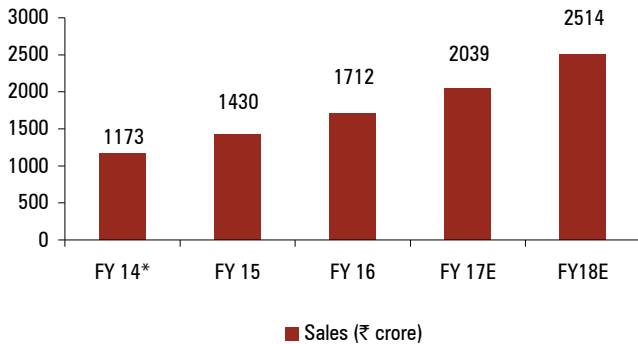
SCL	Number of shares	% Holding
Promoter	314,028,267.3	74.9
Others	105,135,369.3	25.1
Public	65,360.1	0.0
Total	419,228,996.7	100.0

Source: Company, ICICIdirect.com Research

Expect cement revenue CAGR of 21.2% during FY16-18E

The company has increased its total cement capacity from 1.27 MT in FY12 to 3.1 MT in FY14. SFCL has also taken three grinding units on hire with total capacity of 0.76 MT. This leads to a total capacity of ~3.9 MT. Moreover, SFCL is exploring opportunities in Bangladesh. Given this backdrop, we expect cement revenues to grow at a CAGR of 21.2% in FY16-FY18E.

Exhibit 3: Cement revenues to grow at CAGR of 21.2% during FY15-17E



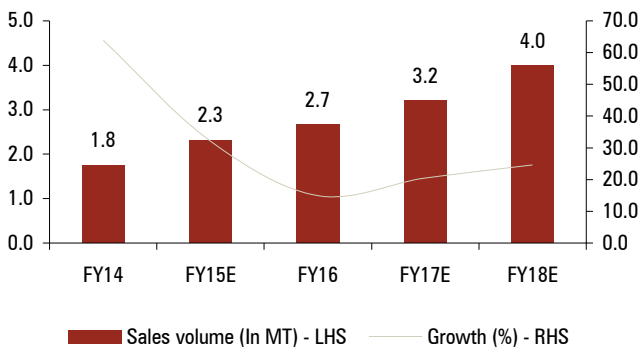
Source: Company, ICICIdirect.com Research, * Figures include ferro alloy business

Exhibit 4: Capacity addition plans (standalone)

Sr no	Location	Cement Capacity		Remarks
		(MT)	Category	
1	Meghalaya	0.62	Integrated unit	
2	Meghalaya	0.70	Clinker unit	Q4FY13
3	Guwhati (Assam)	1.80	Grinding unit	Q4FY13
4	West Bengal	0.46	Grinding unit	On lease from Q3FY15
6	West Bengal	0.30	Grinding unit	On lease from Q3FY16
5	West Bengal	1.00	Grinding unit	FY18E
Capacity at the end of FY18E		4.88		

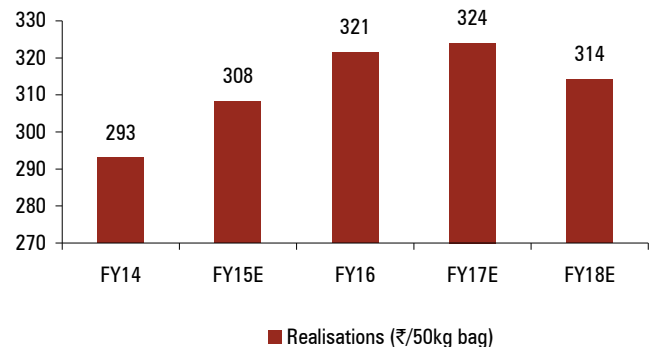
Source: Company, ICICIdirect.com Research

Exhibit 5: Volume to grow led by capacity expansion



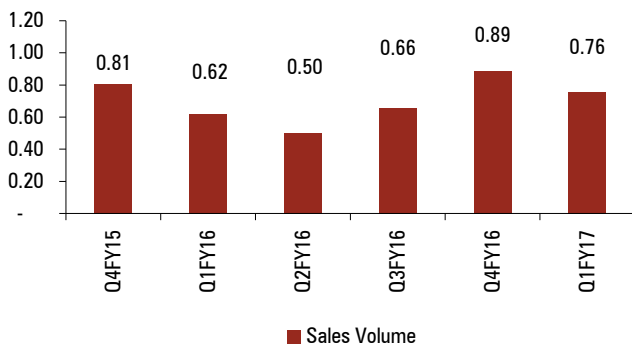
Source: Company, ICICIdirect.com Research

Exhibit 6: Realisation trend



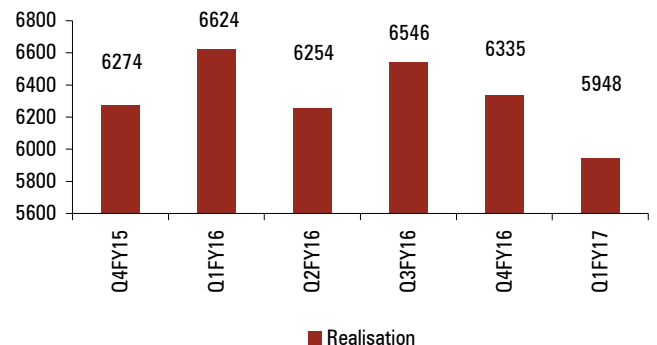
Source: Company, ICICIdirect.com Research

Exhibit 7: Q1FY17 volume increases 22% YoY to 0.76 MT...



Source: Company, ICICIdirect.com Research

Exhibit 8: ...realisation at ₹5,948 in the quarter

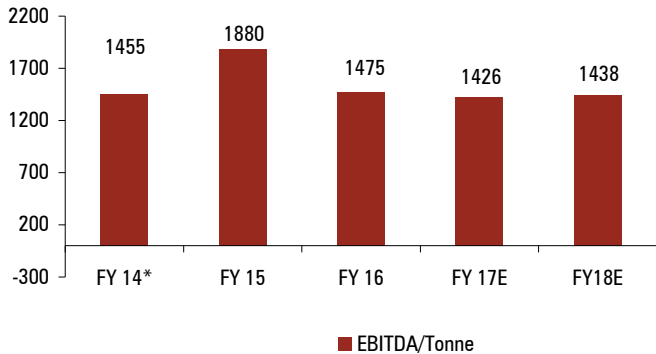


Source: Company, ICICIdirect.com Research, * Figures include ferro alloy business

Margins to remain under pressure due to increase in operating cost

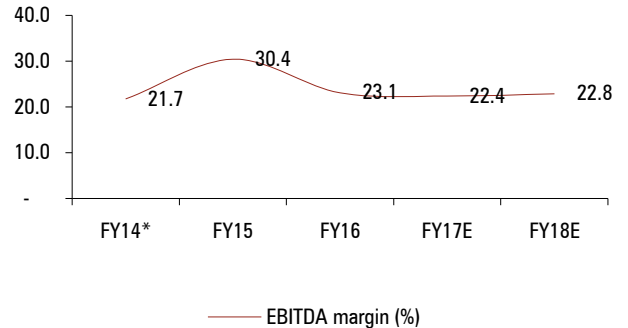
We expect pricing pressure and increase in operating expenses led by increase in marketing spend to pressurise margins in the next two years.

Exhibit 9: Expect EBITDA/tonne of ₹1,438 in FY18E



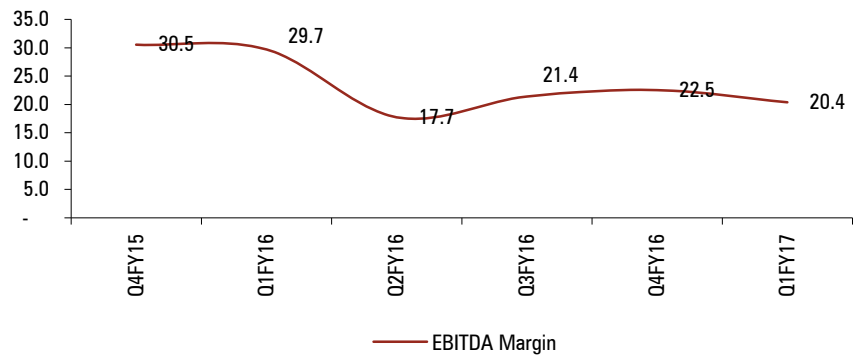
Source: Company, ICICIdirect.com Research * Previous figures include ferro alloy business

Exhibit 10: EBITDA growth trend



Source: Company, ICICIdirect.com Research * Previous figures include ferro alloy business

Exhibit 11: EBITDA margin at 20.4% in Q1FY17

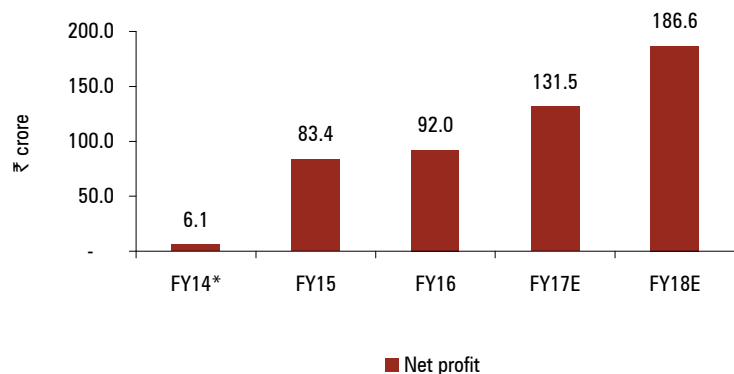


Source: Company, ICICIdirect.com Research * Previous figures include ferro alloy business

Net profit to increase from ₹ 92 crore to ₹ 186 crore in FY18E

Net margin declined from 5.8% in FY15 to 5.4% in FY16. However, net margin is expected to increase to 7.4% in FY18E mainly led by lower depreciation and interest expenses.

Exhibit 12: Profitability growth trend



Source: Company, ICICIdirect.com Research * Previous figures include ferro alloy business

Valuations

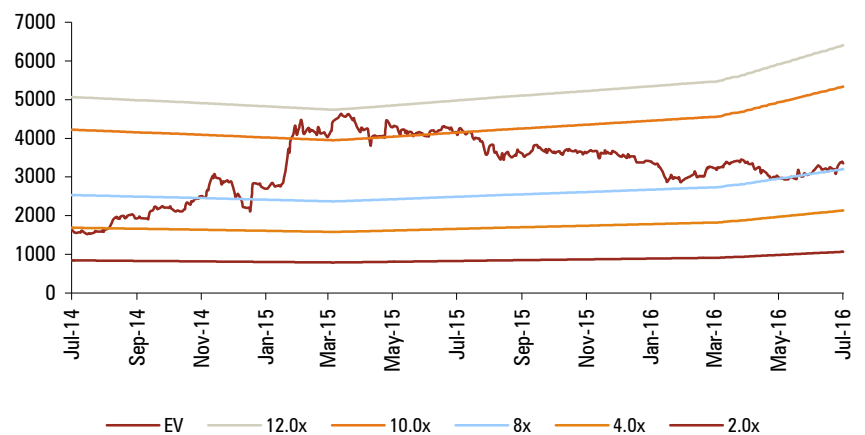
SFCL's utilisation has improved from 44.1% in FY13 to over 75% in FY16 led by robust demand in the North-East region (NER). We expect the same to remain healthy, going forward, given the limited available capacity in the market, in which it operates. The company aims to achieve market share of over ~30% over the next five to seven years from the current 23% (led by aggressive marketing efforts). Although we do not expect the company to maintain ₹ 1,500 EBITDA/t post FY18 due to expiry of NEIIPP policy, healthy demand & pricing environment in NER region will enable the company to maintain EBITDA/t of over ₹ 1000/t (in line with many large cap cement companies). Also, receipt of subsidy could act as a key trigger. Hence, we maintain our **BUY** recommendation on the stock with a revised target price of ₹ 132/share (i.e. 6.0x FY18E EV/EBITDA).

Exhibit 13: Key assumptions

₹ per tonne	FY14*	FY15	FY16	FY17E	FY18E
Sales Volume	1.8	2.3	2.7	3.2	4.0
Net Realisation*	6697	6182	6429	6365	6298
Total Expenditure	5242	4301	4954	4939	4859
Raw material	1196	940	1354	1266	1200
Changes in Inventory	-44	52	-116	0	0
Employee cost	448	394	429	388	380
Other expenses	3642	2915	3298	3284	3279
EBITDA per Tonne	1455	1880	1475	1426	1438

Source: ICICIdirect.com Research, * Previous figures include ferro alloy business

Exhibit 14: One year forward EV/EBITDA



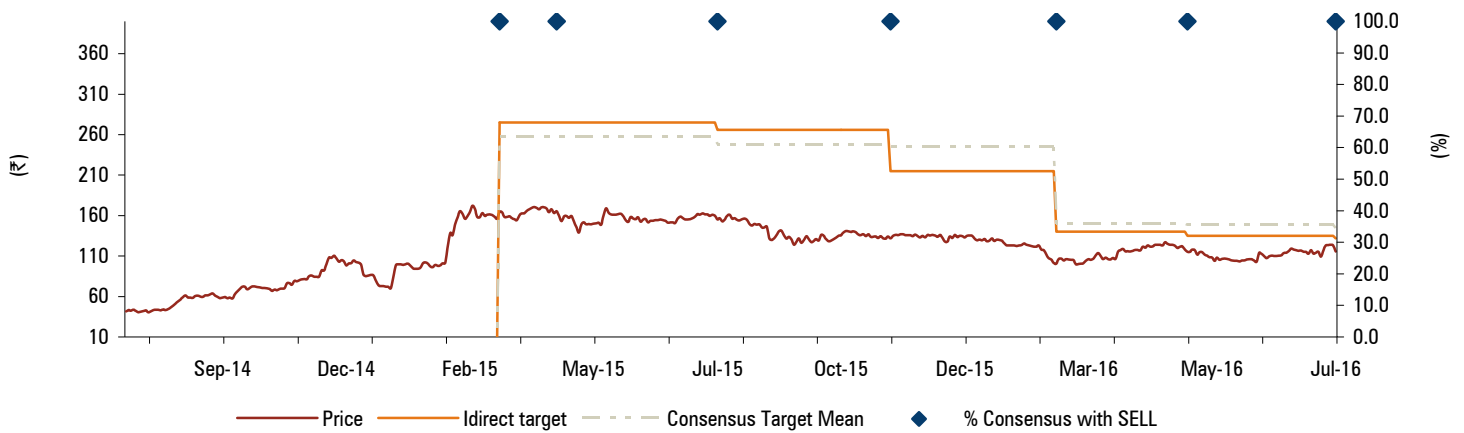
Source: Company, ICICIdirect.com Research

Exhibit 15: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/Tonne (\$)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY15	1427.0	21.9	3.8	1,151.4	30.1	171.1	7	12.3	12.5
FY16	1709.5	19.8	4.1	10.3	27.3	173.9	8	12.3	12.0
FY17E	2035.0	19.0	5.9	42.8	19.1	170.5	7	15.4	14.5
FY18E	2508.9	23.3	8.4	41.9	13.5	129.6	6	18.4	18.1

* Previous figures include ferro alloy business

Recommendation history vs. consensus estimates



Source: Bloomberg, Company, ICICIdirect.com Research, * Initiated coverage on 18 March 2015

Key events

Date	Event
Mar-05	Commences operations with cement capacity of 0.40 MT and power capacity of 8 MW
Mar-12	Increases clinker capacity from 0.80 MT to 2.60 MT, cement capacity from 1.27 MT to 3.0 MT and power capacity from 8 MW to 51 MW
Apr-15	Completes process of de-merger of ferro alloys division of Star Ferro and Cement (SFCL) into Shyam Century Ferrous Ltd
Oct-15	Hires 0.3 MT grinding unit in West Bengal

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Bhajanka (Prem Kumar)	31-Mar-16	12.58	27.9	0.02
2	Agarwal (Sanjay)	22-Jul-16	7.6	16.8	-2.68
3	Bhajanka (Santosh)	31-Mar-16	6.8	15.0	0.00
4	Bhajanka (Sajjan)	22-Jul-16	6.7	14.9	-1.73
5	Agarwal (Divya)	31-Mar-16	6.5	14.5	0.00
6	Sriram Vanijya Pvt. Ltd.	31-Mar-16	3.8	8.5	0.00
7	Brijdham Merchants Pvt. Ltd.	31-Mar-16	3.5	7.7	0.00
8	Sumangal International Pvt. Ltd.	31-Mar-16	3.5	7.7	0.00
9	Sumangal Business Pvt. Ltd.	31-Mar-16	3.1	6.8	0.00
10	Sriram Merchants Pvt. Ltd.	31-Mar-16	3.0	6.7	0.00

Shareholding Pattern

(in %)	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Promoter	66.37	66.37	66.43	66.64	66.65
FII	0.11	0.11	0.11	0.11	0.11
DII	0.02	0.01	0.01	0.01	0.01
Others	33.50	33.52	33.46	33.25	33.24

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Auroville Investments Pvt. Ltd.	3.24	1.85	Agarwal (Sanjay)	-4.95	-2.68
Agarwal (Sharaddha)	1.26	0.81	Bhajanka (Sajjan)	-3.19	-1.73
Bhajanka (Prem Kumar)	0.04	0.02	Agarwal (Bhavna)	-1.02	-0.55

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore				
(Year-end March)	FY14*	FY15	FY16	FY17E	FY18E	
Total operating Income	1,173.3	1,430.4	1,712.1	2,039.2	2,513.6	
Growth (%)	77.9	21.9	19.7	19.1	23.3	
Raw material cost	209.6	217.6	365.7	405.7	479.0	
Inc/dec in stock	-7.8	11.9	-20.2	0.0	0.0	
Employees cost	78.9	91.3	108.4	124.3	151.7	
Others	637.7	674.5	863.2	1052.3	1308.9	
Total Operating Exp.	918.4	995.4	1,317.1	1,582.4	1,939.5	
EBITDA	254.9	435.1	395.0	456.9	574.1	
Growth (%)	115.4	70.7	-9.2	15.7	25.7	
Depreciation	161.6	223.7	171.5	162.2	170.3	
Interest	87.2	87.4	83.4	83.8	78.3	
Other Income	4.3	4.2	4.4	4.3	4.7	
PBT	10.4	128.2	144.5	215.1	330.2	
Total Tax	2.7	4.8	5.5	18.4	49.5	
PAT	6.1	83.4	92.0	131.5	186.6	
Growth (%)	-75.3	1,266.6	10.3	43.0	41.9	
Adjusted EPS (₹)	0.3	3.8	4.2	5.9	8.4	

Source: Company, ICICIdirect.com Research, * Previous figures include ferro alloy business

Balance sheet		₹ Crore				
(Year-end March)	FY14*	FY15	FY16	FY17E	FY18E	
Liabilities						
Equity Capital	22.2	22.2	22.2	22.2	22.2	
Reserve and Surplus	664.1	658.1	727.9	833.4	994.1	
Total Shareholders funds	686.3	680.3	750.2	855.6	1,016.3	
Total Debt	844.3	691.8	749.1	749.1	699.1	
Deferred Tax Liability	77.3	94.6	107.2	107.2	107.2	
Minority Interest / Others	252.9	323.1	359.6	424.8	518.9	
Total Liabilities	1,860.7	1,789.7	1,966.1	2,136.8	2,341.4	
Assets						
Gross Block	1,582.4	1,662.4	1,725.0	1,830.0	1,935.0	
Less: Acc Depreciation	410.7	634.4	805.9	968.2	1,138.5	
Net Block	1,171.7	1,028.0	919.1	861.9	796.5	
Capital WIP	99.5	41.0	49.0	100.0	100.0	
Total Fixed Assets	1,271.2	1,068.9	968.1	961.9	896.5	
Investments	1.5	1.5	1.5	1.5	1.5	
Inventory	175.5	109.1	209.2	250.9	309.3	
Debtors	109.7	309.8	448.8	534.3	618.6	
Loans and Advances	286.8	680.2	814.0	854.7	1,053.8	
Other Current Assets	349.4	0.4	0.5	20.4	25.1	
Cash	12.7	20.3	24.5	88.8	20.9	
Total Current Assets	934.0	1,119.9	1,497.0	1,749.0	2,027.7	
Creditors	148.7	77.0	140.4	167.3	206.2	
Provisions	197.7	324.0	360.6	408.8	378.5	
Total Current Liabilities	346.4	401.0	501.0	576.0	584.7	
Net Current Assets	587.6	718.9	996.1	1,173.0	1,442.9	
Others Assets	0.0	0.0	0.0	0.0	0.0	
Application of Funds	1,860.3	1,789.3	1,965.7	2,136.4	2,341.0	

Source: Company, ICICIdirect.com Research, * Previous figures include ferro alloy business

Cash flow statement		₹ Crore				
(Year-end March)	FY14*	FY15	FY16	FY17E	FY18E	
Profit after Tax	6.1	83.4	92.0	131.5	186.6	
Add: Depreciation	161.6	223.7	171.5	162.2	170.3	
(Inc)/dec in Current Assets	-183.8	-178.3	-372.9	-187.7	-346.6	
Inc/(dec) in CL and Provisions	260.4	142.0	183.3	158.9	87.0	
CF from operating activities	244.3	270.8	73.9	264.9	97.4	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-139.5	-21.5	-70.6	-156.0	-105.0	
Others	-7.8	87.5	49.2	65.2	94.0	
CF from investing activities	-147.2	66.0	-21.5	-90.8	-11.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-11.8	-152.5	57.3	0.0	-50.0	
Dividend paid & dividend tax	-12.2	-26.0	-25.9	-26.0	-26.0	
Inc/(dec) in Sec. premium	0.0	-63.4	3.8	0.0	0.0	
Others	-87.5	-87.4	-83.4	-83.8	-78.3	
CF from financing activities	-111.5	-329.3	-48.2	-109.9	-154.3	
Net Cash flow	-14.4	7.6	4.3	64.2	-67.9	
Opening Cash	27.1	12.7	20.3	24.5	88.8	
Closing Cash	12.7	20.3	24.5	88.8	20.9	

Source: Company, ICICIdirect.com Research, * Previous figures include ferro alloy business

Key ratios						
(Year-end March)	FY14*	FY15	FY16	FY17E	FY18E	
Per share data (₹)						
EPS	0.3	3.8	4.1	5.9	8.4	
Cash EPS	7.6	13.8	11.9	13.2	16.1	
BV	30.9	30.6	33.8	38.5	45.7	
DPS	0.5	1.0	1.0	1.0	1.0	
Cash Per Share	0.6	0.9	1.1	4.0	0.9	
Operating Ratios (%)						
EBITDA Margin	21.8	30.5	23.1	22.4	22.9	
PBT / Total Operating income	0.6	8.7	8.4	10.6	13.2	
PAT Margin	0.5	5.8	5.4	6.5	7.4	
Inventory days	54.7	27.9	44.7	45.0	45.0	
Debtor days	34.2	79.2	95.8	95.8	90.0	
Creditor days	46.3	19.7	30.0	30.0	30.0	
Return Ratios (%)						
RoE	0.9	12.3	12.3	15.4	18.4	
RoCE	5.2	12.5	12.0	14.5	18.1	
RoIC	5.3	12.2	11.8	15.1	18.2	
Valuation Ratios (x)						
P/E	411.0	30.1	27.3	19.1	13.5	
EV / EBITDA	13.1	7.3	8.2	6.9	5.6	
EV / Net Sales	2.9	2.2	1.9	1.6	1.3	
Market Cap / Sales	2.1	1.8	1.5	1.2	1.0	
Price to Book Value	3.7	3.7	3.3	2.9	2.5	
Solvency Ratios						
Debt/EBITDA	3.3	1.6	1.9	1.6	1.2	
Debt / Equity	1.2	1.0	1.0	0.9	0.7	
Current Ratio	2.7	2.8	3.0	3.0	3.5	
Quick Ratio	2.2	2.5	2.6	2.6	2.9	

Source: Company, ICICIdirect.com Research, * Previous figures include ferro alloy business

ICICIdirect.com coverage universe (Cement)

Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
ACC*	1662	1875	Buy	31,217	31.3	57.8	68.2	25.6	17.8	14.6	163	147	141	6.0	11.9	13.4	7.0	12.0	12.9
Ambuja Cement*	264	300	Buy	40,920	5.2	7.5	8.3	25.0	19.0	16.8	164	173	172	7.9	12.0	13.3	7.8	10.8	11.3
UltraTech Cem	3637	4000	Buy	99,799	79.8	100.7	124.6	23.1	18.5	15.8	247	231	227	12.0	13.9	16.4	10.6	11.6	13.3
Shree Cement	16673	14,800	Buy	58,022	131.4	287.5	609.1	44.9	24.6	14.7	472	361	333	5.3	12.1	24.5	7.4	14.1	23.4
Heidelberg Cem	122	135	Hold	3,059	1.7	4.1	6.0	16.7	11.4	9.4	108	106	103	7.1	12.1	14.6	4.3	9.3	12.2
India Cement	116	105	Buy	3,564	4.5	7.3	6.2	8.3	7.1	7.2	70	67	65	8.4	9.8	8.7	4.2	5.8	4.7
JK Cement	737	625	Hold	5,154	14.5	47.6	60.3	15.0	8.5	7.9	105	100	99	8.8	15.1	15.5	5.9	16.5	17.6
JK Lakshmi Cem	428	405	Buy	5,038	0.5	3.6	14.3	24.6	18.0	11.4	133	113	100	3.4	6.1	12.0	0.5	3.2	11.2
Mangalam Cem	282	310	Buy	753	0.0	12.3	29.2	30.9	9.7	5.9	56	47	44	1.3	9.6	16.1	NA	6.5	13.4
SFCL	113	132	Buy	2,509	4.1	5.9	8.4	8.2	6.9	5.6	174	170	130	12.0	14.5	18.1	12.3	15.4	18.4

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: > 10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Rashesh Shah CA and Devang Bhatt, PGDBM Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Securities Limited (ICICI Securities) is a Sebi registered Research Analyst having registration no. INH00000990. ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia*, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Rashesh Shah CA and Devang Bhatt, PGDBM, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Rashesh Shah CA and Devang Bhatt, PGDBM, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.