

# HSIE Results Daily

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- **Star Cement:** Star Cement reported a weak show in 4QFY21. Consolidated revenue rose 10% YoY to INR 6.03bn on 4/12% volume/NSR growth. However, EBITDA declined 16% YoY to INR 1.04bn due to significant cost inflation. Lower tax rate moderated APAT (at INR 853mn) decline to 1% YoY. We expect margin to expand FY22 onwards on production ramp-up. We maintain our BUY rating with a revised our target price of INR 125 (8x FY23 consolidated EBITDA).

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# GAIL (India)

## Petchem segment shines!

Our BUY recommendation on GAIL with a price target of INR 195 is based on 9% CAGR expansion in gas transmission volume over FY21-23E to 124mmcmd on the back of (1) increase in domestic gas production, (2) increase in demand of RLNG, and (3) completion of major pipelines in the eastern and southern parts of India. 4QFY21 EBITDA/APAT were 7/7% below our estimates owing to higher-than-expected raw material cost and operating expenses, offset by an 8% rise in revenue and lower-than-expected finance cost and tax outgo.

- **NG transmission:** 4Q revenue fell 5/2% QoQ/YoY to INR 15bn. Transmission volumes came in at 109.8mmcmd (-1/+1% QoQ/YoY) and tariff at INR 1,554/tscm (-5/+1% QoQ/YoY). The operating profit remained flat at INR 12bn.
- **Petchem:** Revenue in 4Q grew 15/82% QoQ/YoY to INR 22bn, with an increase in sales volumes by 1/35% QoQ/YoY to 234kT, and a healthy realisation of INR 95/kg (+13/+36% QoQ/YoY). The operating profit of the segment has reached INR 7bn in 4Q on account of better physical performance and improved price realisation, the highest ever reported in a quarter in the past seven years. The overall plant utilisation for the year was above 100%.
- **Conference call takeaways:** (1) Capex of INR ~70bn was spent in FY21, mainly on pipelines, equity contribution, and maintenance. The target for FY22/23/24 is INR 70/120/90bn. (2) The Board completed buyback of 69.76mn fully paid-up equity shares of FV INR 10/sh for an aggregate amount of INR 10.5bn in March'21. (3) The management has guided for a 6-8% CAGR in the gas transmission business over the next three years, after which the business will grow at a higher rate. (4) Expansion projects of the petchem plants at Pata and Hisar are expected to be completed by Sep'23.
- **Change in estimates:** We raise our FY23E EPS estimate by 2.3% to INR 19.4 to factor in the change in gas transmission volume assumption and increased crude oil price assumption.
- **Our target price is INR 195/sh (7.0x Mar-23E EV/e for the stable Gas, LPG transmission and gas marketing business, 5.0x EV/e for the cyclical petchem and LPG/LHC business, INR 38 for investments). The stock is currently trading at 8.4x FY23E EPS.**

### Standalone financial summary

YE March (INR bn)	4Q FY21	3Q FY21	QoQ (%)	4Q FY20	YoY (%)	FY19*	FY20*	FY21P*	FY22E*	FY23E*
Revenues	155	155	0.6	178	(12.4)	762	725	574	733	816
EBITDA	26	19	33.6	25	3.6	97	90	72	109	119
APAT	19	15	28.3	14	40.1	65	94	61	80	86
AEPS (INR)	4.3	3.3	28.3	3.1	40.1	14.7	21.2	13.8	18.1	19.4
P/E (x)						11.1	7.7	11.8	9.0	8.4
EV/EBITDA (x)						7.6	8.6	10.8	6.8	6.2
RoE (%)						14.9	19.8	12.0	14.1	13.2

Source: Company, HSIE Research | \*Consolidated

### Change in estimates (Consolidated)

YE Mar	FY22E Old	FY22E New	% Ch	FY23E Old	FY23E New	% Ch	
EBITDA (INR bn)		109	109	(0.2)	116	119	2.6
AEPS (INR/sh)		18.1	18.1	0.0	19.0	19.4	2.3

Source: HSIE Research

## BUY

CMP (as on 10 June 2021)	INR 163
Target Price	INR 195
NIFTY	15,738

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 175	INR 195
EPS %	FY22E +0.0%	FY23E +2.3%

### KEY STOCK DATA

Bloomberg code	GAIL IN
No. of Shares (mn)	4,440
MCap (INR bn) / (\$ mn)	726/9,753
6m avg traded value (INR mn)	3,416
52 Week high / low	INR 170/81

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.7	36.2	66.6
Relative (%)	8.7	22.4	13.9

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	52.12	51.82
FIs & Local MFs	28.21	27.78
FPIs	15.62	15.63
Public & Others	4.05	4.77
Pledged Shares	0.00	0.00

Source: BSE

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# Star Cement

## Subdued performance

Star Cement reported a weak show in 4QFY21. Consolidated revenue rose 10% YoY to INR 6.03bn on 4/12% volume/NSR growth. However, EBITDA declined 16% YoY to INR 1.04bn due to significant cost inflation. Lower tax rate moderated APAT (at INR 853mn) decline to 1% YoY. We expect margin to expand FY22 onwards on production ramp-up. We maintain our BUY rating with a revised our target price of INR 125 (8x FY23 consolidated EBITDA).

- 4QFY21:** Sales volume grew a modest 4% YoY, pulled down by fall in clinker sales and slower ramp-up at Siliguri GU. Reported NSR rose 12/12% QoQ/YoY, mainly on account of a fall in low-value clinker sales and better cement realisation. Logistics disruption for clinker evacuation from Meghalaya (till mid-March) inflated input and freight cost during 4Q. Other expense also jumped, led by political donations and surge in packing material costs. Thus, opex inflated 15/20% QoQ/YoY and pulled down unitary EBITDA by 5/19% QoQ/YoY to INR 1,152/MT.
- FY21 highlights and outlook:** FY21 sales volume fell 9% YoY, hit by sales loss in 1Q and slower recovery thereafter. Sharp opex rise pulled down EBITDA by 8% YoY to INR 1,233/MT. These led to OCF/FCF declining 27% YoY to INR 3.5bn, despite continued working capital reduction. FCF fell 20% YoY to INR 2bn, leading to net cash balance of INR 4.7bn. We trim EBITDA estimates for FY22/23E by 8/5%, as we lower our volumes and margin estimates. In FY22E, Star will focus on completing the 12MW WHRS. Star's clinker expansion (3mn MT) in Meghalaya is expected to take at least three years, owing to delays in environmental clearance. This will hurt volume growth FY24 onwards, in our view. Factoring in this and margin contraction, we reduce our valuation multiple to 8x EBITDA (vs 9x earlier).

### Consolidated Financial Summary

YE Mar (INR mn)	Q4 FY21	Q4 FY20	YoY (%)	Q3 FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.91	0.87	3.7	0.69	31.1	2.9	3.0	2.7	3.5	4.1
NSR (INR/MT)	6,651	5,926	12.2	5,955	11.7	6,098	5,912	6,220	6,145	6,045
Opex (INR/MT)	5,499	4,582	20.0	4,774	15.2	4,602	4,645	5,017	4,878	4,702
EBITDA (INR/MT)	1,152	1,426	(19.2)	1,215	(5.2)	1,570	1,337	1,233	1,274	1,342
Net Sales	6,026	5,494	9.7	4,234	42.3	18,310	18,439	17,199	21,732	24,870
EBITDA	1,044	1,246	(16.2)	840	24.3	4,492	3,951	3,326	4,480	5,523
APAT	853	858	(0.6)	512	66.6	2,988	2,863	2,401	3,217	4,258
AEPS (INR)	2.0	2.1	(2.2)	1.2	66.6	7.1	6.9	5.8	7.8	10.3
EV/EBITDA (x)						7.9	8.7	9.5	9.0	7.3
EV/MT (INR bn)						9.67	9.54	7.70	8.62	7.88
P/E (x)						12.2	12.7	15.2	14.2	10.7
RoE (%)						17.9	15.4	12.0	14.7	17.3

Source: Company, HSIE Research

### Estimates revision

INR Bn	FY22E Old	FY22E Revised	Change %	FY23E Old	FY23E Revised	Change %
Net Sales	21.6	21.7	0.7	24.5	24.9	1.7
EBITDA	4.8	4.5	(7.6)	5.8	5.5	(4.5)
APAT	3.4	3.2	(5.7)	4.1	4.3	4.9
AEPS (INR)	8.3	7.8	(5.7)	9.8	10.3	4.9

Source: Company, HSIE Research

**BUY**

CMP (as on 10 Jun 2021)	INR 110
Target Price	INR 125
NIFTY	15,738

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 130	INR 125
EBITDA %	FY21E (7.6)	FY22E (4.5)

### KEY STOCK DATA

Bloomberg code	STRCEM IN
No. of Shares (mn)	412
MCap (INR bn) / (\$ mn)	46/612
6m avg traded value (INR mn)	67
52 Week high / low	INR 118/75

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	8.9	17.6	24.0
Relative (%)	6.9	3.8	(28.7)

### SHAREHOLDING PATTERN (%)

	Dec-20	Mar-21
Promoters	67.11	67.11
FIs & Local MFs	8.05	7.93
FPIs	0.09	0.07
Public & Others	24.75	24.89
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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## Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

## Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Harshad Katkar	Gail (India)	MBA	NO
Nilesh Ghuge	Gail (India)	MMS	NO
Rutvi Chokshi	Gail (India)	CA	NO
Rajesh Ravi	Star Cement	MBA	NO
Saurabh Dugar	Star Cement	MBA	NO

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