Inspired to **Outperform**

Star Cement Limited | Annual Report 2017-18

Highlights, FY2017-18

1,606 Net Sales (Rs/crore)	**526** EBIDTA (Rs/crore)	**331** PAT (Rs/crore)
457 Cash profit (Rs/crore)	**32.73** EBIDTA margin (%)	**20.58** PAT margin (%)

Forward-looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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business

The principal take-aways from this annual report

The Company reported record profits in 2017-18

The Company focused on value-addition

The Company reorganised its presence across markets to save costs

The Company is on the verge of becoming virtually debt-free (long-term and working capital)

The Company announced a capacity expansion to take its business ahead

ahead

10 things that Star Cement stands for

Rich **experience**

In the last two decades of experience, Star Cement has emerged as the largest and most profitable cement manufacturer in North Eastern India on the back of prudent locational presence, timely material availability, proactive capacity expansion and consistent brand positioning.

Ethical **pedigree**

Vision

- To become the fastest-growing and the most competitive cement company in Eastern India
- To be respected for a high level of integrity and value

Mission

- Provide utmost satisfaction to the consumer by providing the best quality of cement and after-sales customer care support
- Continuous upgradation of the product through innovation and convergence of new technology to produce the best quality at the lowest cost
- Safeguard and enhance shareholder value
- Utilise the surpluses for the welfare of all its stakeholders

Imposing **scale**

The Company's capacity stood at 4.3 million metric tonnes of cement per annum, 2.6 million metric tonnes of clinker and 51 megawatts of power as on March 31, 2018. This, in turn, helped Star Cement carve a sizable slice of the North Eastern market.

Star Cement comprised seven manufacturing units – four in Meghalaya, one in Assam and two outsourced units in West Bengal. The Lumshnong plant is spread across 174.5 hectares of land in a strategic Meghalaya location that ensures easy high-grade limestone and coal availability.

Strategic **presence**

The Company is respected as a prominent brand in North Eastern India with a market share of >23%. In 2013 and thereafter, the Company ventured into Bihar and West Bengal, strengthening its Eastern India positioning.

Quality **products**

- Ordinary Portland Cement (43-Grade and 53-Grade)
- Portland Pozzolana Cement (PPC)
- Port Slag Cement

Pride-enhancing **institutional clients**

Star Cement's with its unmatchable commitment has helped address the demanding needs of prominent institutional clients like NHPC, HCC, Simplex Infrastructures, Oil India, NTPC and L&T, among others.

Robust **network**

Star Cement's extensive distribution network is spread across 11 states in Eastern India, comprising > 2250 dealers and 9000 retailers. The Company has selected to grow its presence in North Bengal and East Bihar apart from North East India.

Validated **credibility**

ICRA Limited upgraded the Company's short-term rating (A1+) and revised its outlook on long-term rating (A+) from Stable to Positive.

Capable **subsidiaries**

- Megha Technical and Engineers Private Limited
- Meghalaya Power Limited
- Star Cement Meghalaya Limited
- NE Hills Hydro Limited
- Star Century Global Cement Private Limited

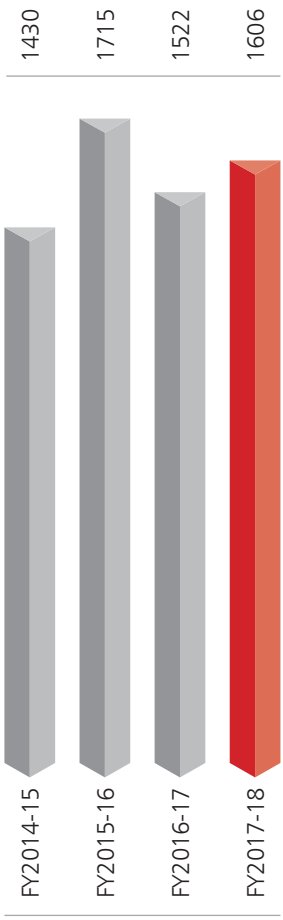
Best-in-class **accreditations**

Star Cement was recognised by the Meghalaya State Government for its pioneering cement plant in Lumshnong. The Company is an ISO 9001:2008, ISO 14001: 2004 and OHSAS 18001-certified company.

snapshot

This is how we have grown over the years

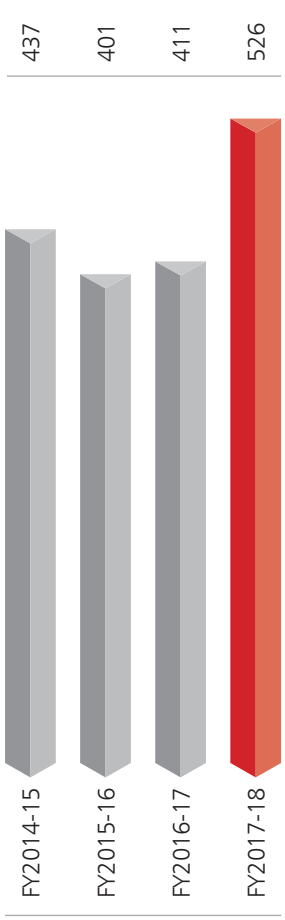
Net Sales
(Rs. crore)*



Performance, FY2017-18
Aggregate sales increased by 5.6 % to reach Rs.16064 million during FY2017-18 due to an increased demand and improved realisation in North Eastern India

Value impact
Improved product offtake bolstered the Company's reputation in the marketplace

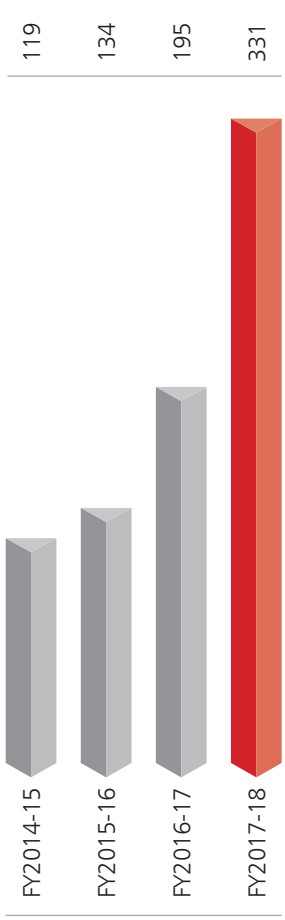
EBITDA
(Rs. crore)*



Performance, FY2017-18
The Company clocked the highest-ever EBITDA in its history during the year under review

Value impact
A high EBITDA highlights the Company's operational efficiency and stable earning potential

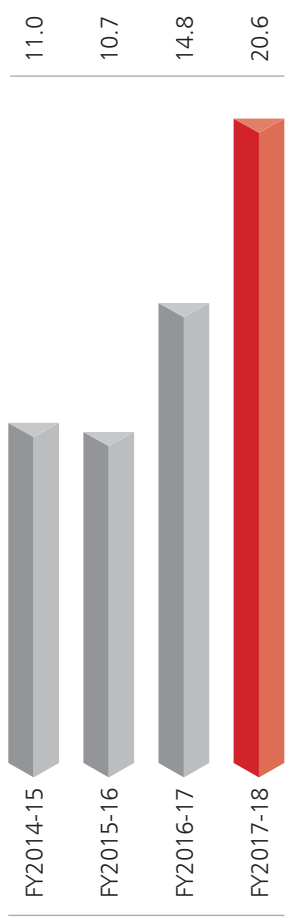
Net profit
(Rs. crore)*



Performance, FY2017-18
The Company's PAT improved by approximately 70 % over the last year

Value impact
An improved PAT ensures that adequate cash is available for reinvestment and allows the Company's growth engine to not run out of steam

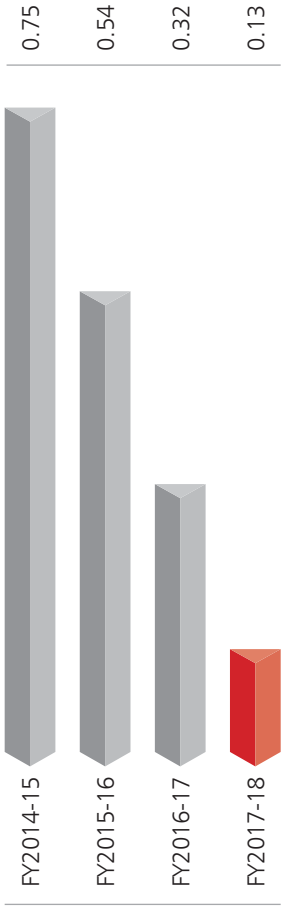
ROCE
(%)*



Performance, FY2017-18
The ROCE of the Company improved by 580 bps over the previous year, providing attractive returns to shareholders

Value impact
An enhanced ROCE can potentially drive valuations and boost the Company's visibility

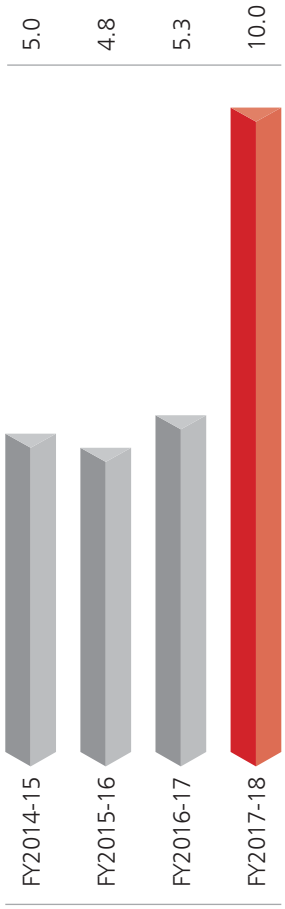
Debt Equity Ratio
(x)*



Performance, FY2017-18
The Company's debt-equity ratio improved from 0.94 to 0.13 over the past five years largely due to the repayment of long-term debt worth Rs. 495 crore

Value impact
A low debt-equity ratio provides the ease that the Company needs for undertaking expansion initiatives

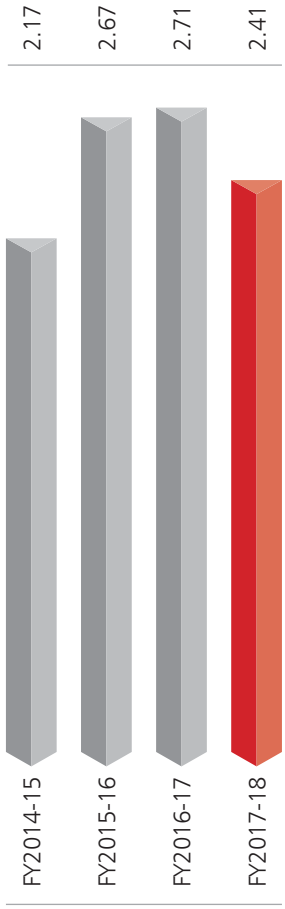
EBITDA to Interest cover (x)*



Performance, FY2017-18
The interest cover of the Company strengthened by 1.89x on the back of steady debt repayment and improved operational efficiencies

Value impact
A healthy interest cover signified the Company's ability to seamlessly address debt obligation

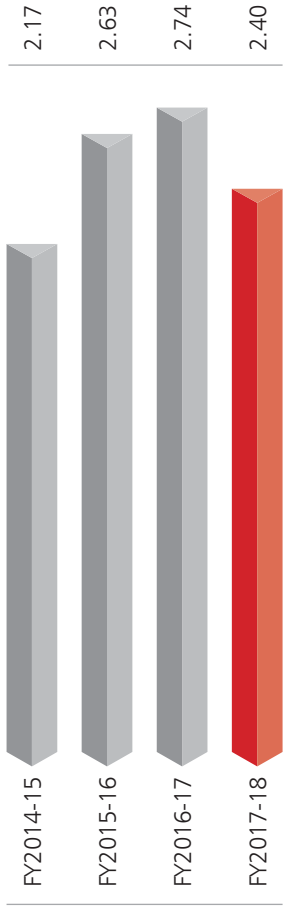
Cement production
(million metric tonne)



Performance, FY2017-18
Production levels during the year moderated to 24.08 lac metric tonnes per annum

Value impact
Decline in overall demand has impacted the cement production

Cement sales
(million metric tonne)



Performance, FY2017-18
Sales during the year stood at 24.04 lac metric tonnes

Value impact
Enhanced focus on areas with better realisations resulted in consolidation

**FY 2017-18 and FY 2016-17 financial results are stated as per IndAS standard*

Chairman's overview

Dear shareholders,

I am pleased to present a record 2017-18 performance for the attention of shareholders.

Even as the financial year under review was marked by three disruptions – the spillover of the demonetisation impact, the GST implementation that affected trade sentiment and the RERA implementation that affected construction – the Company reported unprecedented numbers.

Star Cement Limited reported a 4.2% de-growth in cement clinker production to 20.57 lac metric tonnes and 5.6% increase in revenues to Rs. 1,606 crore. The Company reported a 70% growth in profit after tax and 43% increase in cash profit during the year under review. This represents profitable growth – the percentage increase in bottom line being higher than the percentage growth in topline – and is a validation of our business strategy and competitive advantage. As an extension, the Company reported its highest-ever EBIDTA per tonne at Rs. 2018, which was 38% higher than in the previous financial year.

On a consolidated basis, total clinker production during the year was at 20.57 lac metric tonnes in 2017-18 as against 21.46 lac metric tonnes during FY 2016-17.

Strategic direction

The higher profit reported by the Company at a time when volume sales reported a marginal decline was the result of a conscious strategy of the Company to protect the long-term health of its brand. The Star Cement brand is generally respected for being one of the best brands in the marketplace, preferred on account of its superior setting time and compressive strength. The result of this superior product attribute is that over the last number of years, the brand enjoyed a premium over competition and moved faster off retail shelves.

This subtle change in our geographic mix may have resulted in a temporary decline in sales volumes but this decline was more than recovered by enhanced savings that translated into record profit per tonne of cement sold.

During the year under review, the 8 million Tonnes per annum cement market in North East India grew by around 7%, which increased our opportunities for sale. However, the Company took a conscious decision to play the game as per its established strengths: maximise cement sale within the core North East market, moderate logistic costs without selling too far from its plants, resist the temptation of maximising volumes at the cost of realisations and protect the integrity of its brand.

Reorganised market presence

This priority translated into some conscious initiatives. The Company exited the Jharkhand market on account of logistical incompetitiveness and reduced its sales presence in West Bihar and South Bengal. On the other hand, the Company focused on the remunerative markets of East Bihar, North Bengal and the established North East market. The result is that sales volume from North East climbed from 63.5% of total sales volume in FY17 to 72.8 % in FY18; the proportion of non-North East sales volume declined from 36.5% to 27.2%.

This subtle change in our geographic mix may have resulted in a temporary decline in sales volumes but this decline was more than recovered by enhanced savings that translated into record profit per tonne of cement sold.

We believe that this contrarian decision helped protect the respect and personality of our Star Cement brand, which will translate into superior returns across the foreseeable future.

Business-strengthening initiatives

In addition to making a decisive change in the markets where we would be present, the Company strengthened its business in various ways.

At Star Cement, we believe that there can be no growth without making timely investments in people. In view of this, the Company strengthened its performance-linked incentive during the year under review. The incentive strengthened a focus on performance growth, linking individual deliverables (Key Performance Indicators) to the overall business plan. Besides, the Company strengthened training around individual development and the result was a decline in absenteeism and enhanced workplace discipline. A stronger KPI-based employee reward and recognition initiative strengthened productivity. The Aadharshila programme addressed logistics associate payroll employees; the Sell to Succeed programme covered 100% sales officers.

The Company had commissioned 0.4 million tonnes per annum of cement capacity in March 2017. This incremental capacity enjoyed full utilisation during the year under review.

The Company leveraged its proximity to quality limestone and coal, helping control costs on the one hand deliver

outperform

superior resource productivity on the other.

The Company strengthened its plant automation resulting in process efficiency that helped enhance equipment uptime and operating efficiency.

One of the biggest improvements that we reported during the year under review was a sharp decline in our interest outflow – from Rs 78 crore in 2016-17 to Rs 52 crore in 2017-18. The Company utilised the substantial inflow of pending subsidy to repay debt and re-size the Balance Sheet. Rs. 427 crore of outstanding debt as on March 2018 as against Rs.800 crore in March 2017 and intends to become debt-free by 2018-19.

The Company continued to brand better in its preferred markets and I am pleased to communicate that the Star Cement brand remained the undisputed number one across various North East markets. The brand also retained its leadership position outside North East in Malda, Cooch Behar, Jalpaiguri and Darjeeling, while being a close number two in Kishangunj, Sikkim as well as North and South Dinajpur.