Cementing a Stronger Future

Star Cement Limited | Annual Report 2018-19

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, '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 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' believe we have been prudent in our 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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Cementing a stronger future

At Star Cement, we are engaged in growing our capacities – but with a difference.

Instead of the conventional approach of mobilising debt to fund a capital-intensive business, the Company is engaged in utilising the accruals generated in its business to fund new capacity.

This contrarian approach will help the Company accelerate a virtuous cycle expected to increase liquidity, profitability and sustainability.

Helping the Company cement a stronger future.

Corporate snapshot

At Star Cement, we have built a sustainable business.

Marked by a presence in attractive regions.

Reinforced by competitiveness across market cycles.

Sustained by adequate cash on the books and no debt.

Driven by a vision to be recognised among the top selling cement brands in Eastern India.

The Company comprises seven manufacturing units – four in Meghalaya, one in Assam and two outsourced units in West Bengal.

Our values driving our investments and aspirations

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

Vision

- 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 technologies to produce the best quality at the lowest possible cost
- Safeguard and enhance shareholder value
- Utilise the surpluses for the welfare of all its stakeholders

Our track record, helping strengthen our foundation

Star Cement entered business in 2001 and commenced operations in 2005. Over the last two decades, the Company has emerged as the largest and most profitable cement manufacturer in North Eastern India.

Our capacities have enhanced our preparedness

The Company commenced cement manufacturing with a clinker capacity of 0.3 million metric tonnes and cement capacity of 0.4 million metric tonnes per annum. The Company has since grown to a clinker capacity of 2.80 million metric tonnes per annum, cement manufacturing capacity of 4.3 million metric tonnes per annum and power generation at 51 MW. This aggregate capacity empowered the Company to address growing consumer demand.

Our wide-spread presence has empowered us to address growing demand

The Company comprises 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 in a strategic Meghalaya location that facilitates access to high-grade limestone and coal. The Company is engaged in commissioning a grinding unit in Siliguri (capacity 2 MTPA).

Our geographical focus is strengthening our presence across potential regions

The Company commenced the marketing of cement in North-East India. It subsequently extended its presence to Bihar and West Bengal. The Company is now a prominent player in North-East India with a growing presence across East India.

Our institutional clients have validated our quality

The Company addresses the demanding needs of prominent institutional clients like NHPC, HCC, Simplex Infrastructures, Oil India, NTPC and L&T, among others (non-trade sale at 18% in FY2018-19).

Our financial robustness has helped strengthen our credit rating

Star Cement's short-term rating was maintained at A1+ and long-term rating revised to AA- from Stable to Positive by ICRA in June 2018, validating business health.

Our quality products have strengthened our recall

The Company provides a range of products needed by consumers. It manufactures Ordinary Portland Cement (43-Grade and 53-Grade), Portland Pozzolana Cement (PPC) and Portland Slag Cement (PSC). The Company's products have been respected for a high consistent quality translating into superior compressive strength and corresponding setting time in applications.

Our widening trade network has enhanced product accessibility

The Company's extensive distribution network is spread across 11 States in Eastern India, comprising more than 2000 dealers and 9000 retailers. The Company has selected to grow its presence in Bengal and Bihar apart from its conventional market in North East India.

Our focused subsidiaries have helped enhance our business capability

The Company comprises five focused subsidiaries - Megha Technical and Engineers Private Limited, Meghalaya Power Limited, Star Cement Meghalaya Limited, NE Hills Hydro Limited and Star Century Global Cement Private Limited.

Our quality standards are driven by credible accreditations

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

Star Cement's short-term rating was maintained at A1+ and long-term rating revised to AA- from Stable to Positive by ICRA.

Capacity accretion down the years

Clinker (MMT)	Cement (MMT)	Power (MW)
2.80 in FY2018-19	4.30 in FY2016-17	51 in FY2012-13
0.40 in FY2004-05	0.40 in FY2004-05	8 in FY2009-10

Revenue by geography, 2017-18

North East 72.32%
Eastern India 27.68%

Revenue by geography, 2018-19

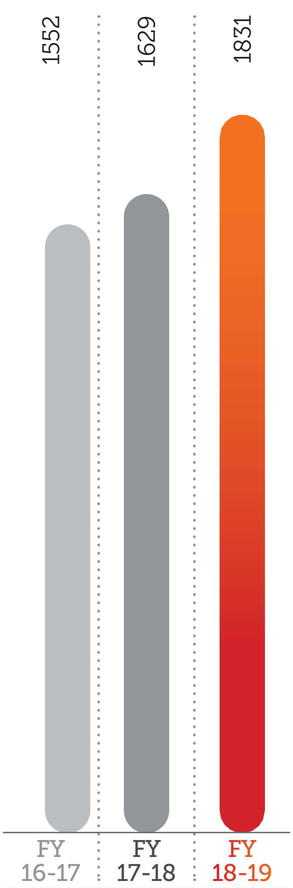
North East 67.78%
Eastern India 32.22%

Sales mix, 2018-19

Trade 81.81%
Non-trade 18.19%

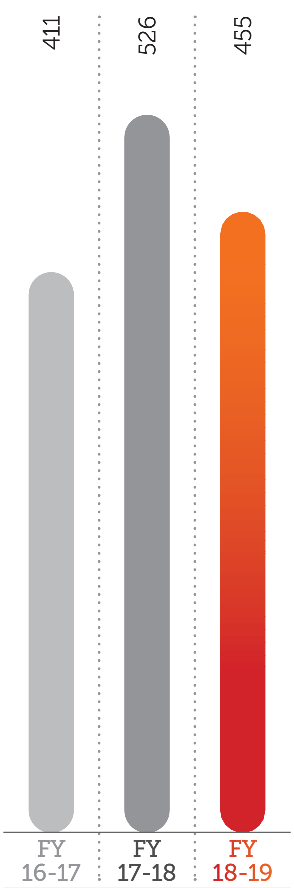
How we have consistently grown our business in the last few years

Revenues
(₹ crore)



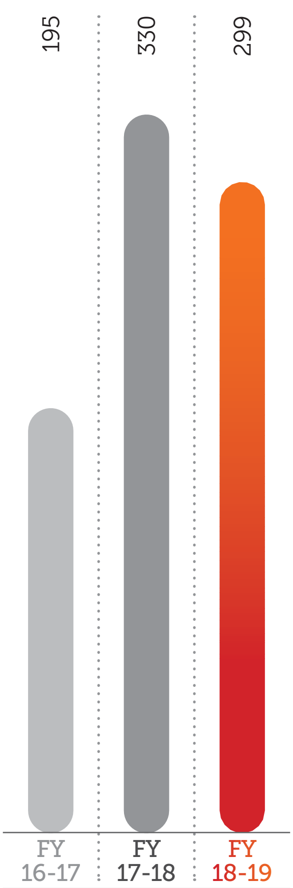
Performance, FY2018-19
Aggregate sales increased by 12.40% to ₹1831 crores in FY2018-19 following improved volume offtake in higher realisation zones.

EBITDA
(₹ crore)



Performance, FY2018-19
EBITDA declined 13.5% to ₹455 crores in 2018-19 following the expiry of freight subsidy.

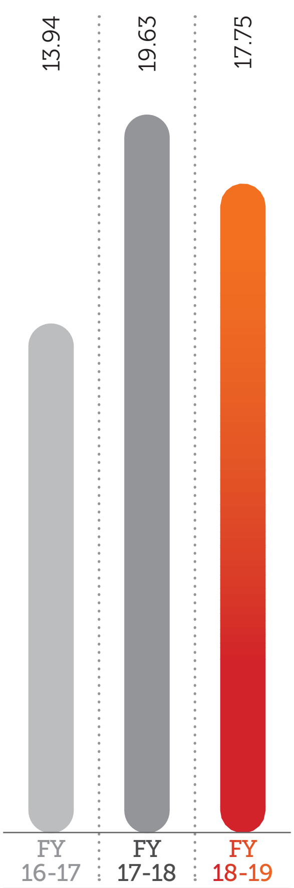
Net profit
(₹ crore)*



Performance, FY2018-19
The Company's net profit (after minority interest) declined 9.52% due to the ripple effect of the freight subsidy expiry.

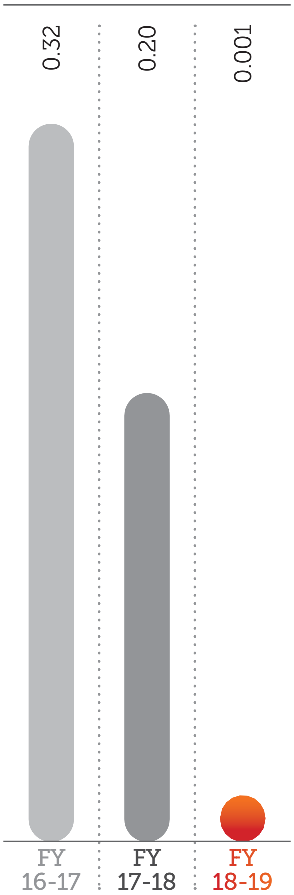
*after minority interest

ROCE
(%)



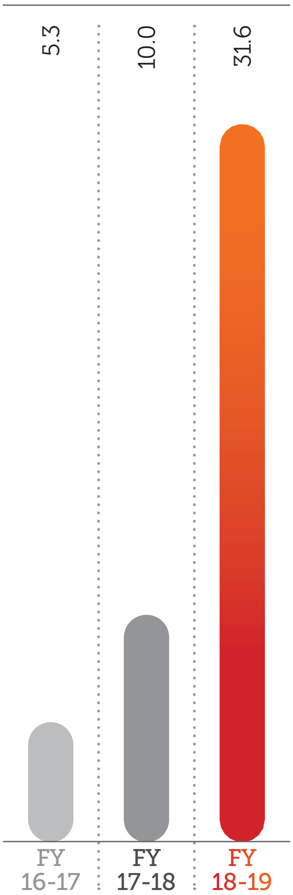
Performance, FY2018-19
The ROCE of the Company declined 188 bps over the previous year, due to reduced profits on accounts of the expiry of freight subsidy.

Debt-equity ratio
(x)



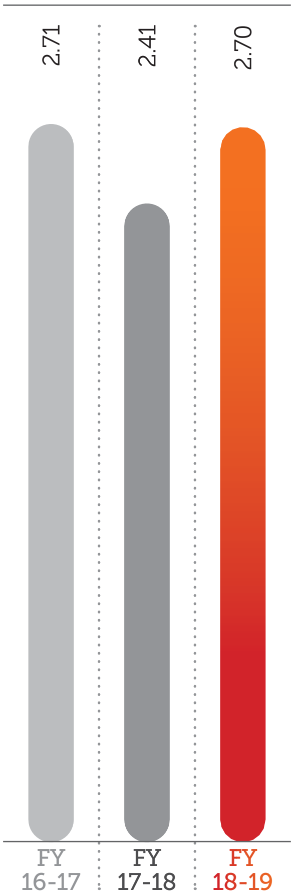
Performance, FY2018-19
The Company became debt-free following the repayment of debt during the year.

Interest cover
(x)



Performance, FY2018-19
Interest cover trebled following steady debt repayment and improved operational efficiency.

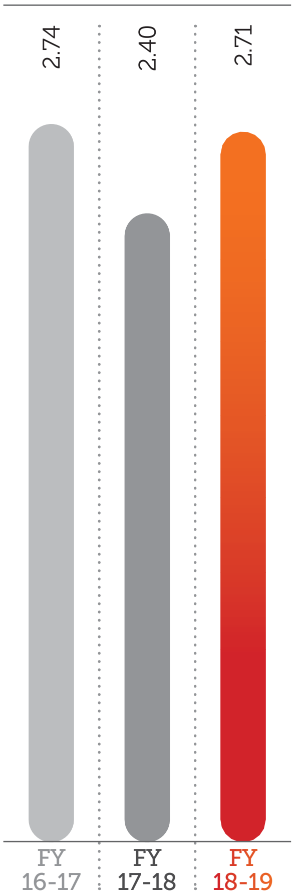
Cement production*
(million metric tonne)



Performance, FY2018-19
Cement production grew by 12.07% to 2.70 million tonnes during the year under review.

*including production from hire unit

Cement sales
(million metric tonne)



Performance, FY2018-19
Cement sales stood at 2.71 million metric tonnes, an increment of 12.54% over the previous year, following increased sales volume in higher realisation zones.

The Chairman's overview

Overview

I am pleased to present the performance of the Company during the year under review.

The Company's revenue from operations strengthened 12.40% to ₹1,831 crores while EBIDTA declined to ₹455 crores and profit after tax declined 9.52% to ₹299 crores in 2018-19.

The principal reason for the decline was the expiry of the Freight Subsidy Scheme. If the performance of the two years is normalised and compared without factoring the Freight Subsidy Scheme, then the Company would have reported higher EBIDTA and correspondingly higher profits.

Strengthening our competitiveness

The growth in our operating numbers indicates that we strengthened our competitiveness during the year under review in various ways.

One, we marketed a larger volume of cement by 12.41% over the previous year. Our growth in the North East market was more than the growth in demand in the region.

Two, the heartening feature of our performance is that in attempting to carve out a larger market share, we did not discount our product or brand. The result is that our average realisations of cement strengthened 2% to around ₹127 per tonne during the last financial year.

The regional optimism

North East India possesses a clinker capacity of approximately 7.5 million TPA and an effective cement capacity of 9.5 million TPA. The demand for cement in the region is estimated at 8.8 million TPA.

There are a number of reasons why we are optimistic of our prospects in the market.

Demand growth in North East India ranges between 8 and 12% a year, based on our experience of the last couple of decades. This provides us with adequate scope to market additional cement year-on-year.