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.

The Company intends to increase its clinker capacity from 2.8 million TPA to 3 million TPA through debottlenecking. Besides, the Company intends to increase its 3.7 million TPA cement grinding capacity with an additional 2 million TPA greenfield grinding capacity in Siliguri.

Assam, the largest state in the region, is growing at 12-13%, virtually twice the pace of the Indian economy.

The per capita consumption of cement in North East India is about 140 kgs compared with the all-India average of around 225 kgs and a global average of around 520 kgs. The result is that North East India is but a fraction of the global average but now increasingly marked by higher income, which is expected to accelerate the offtake of cement going forward.

Disposable incomes and aspirations are rising in North East India, translating into inceased cement offtake. We believe that the extent of under-penetration on the one hand and the government's focus on enhancing infrastructure investments in the region on the other should help correct the consumption under-penetration with speed.

The quantum of additional cement capacity going on stream in the region continues to be limited, resulting in better prospects for existing cement manufacturers who would be competently placed to either debottleneck capacities or commission brownfield units.

The Star Cement advantage

Star Cement capitalised on the sustained growth of the North East market through various initiatives.

Even though the Company increased capacity utilisation 800 bps to 63% during the year under review, the Company still possesses adequate manufacturing capacity to service increasing demand. This increase should translate into a superior coverage of fixed costs and higher RoCE going ahead.

The Company strengthened its retail focus through a wider and deeper distribution footprint. This increased retail focus helped the Company widen its consumer risk and generate realisations attractively higher than the institutional market average.

The Company increased the proportion of imported coal with a high calorific value to offset coal scarcity in the region and reduce its coal consumption.

Optimistic outlook

Star Cement is attractively placed to sustain its growth journey.

The Company is positioned to grow faster than the North East average, servicing this increased demand out of its existing capacities.

The Company intends to increase its clinker capacity from 2.8 million TPA to 3 million TPA through debottlenecking. Besides, the Company intends to increase its 3.7 million TPA cement grinding capacity with an additional 2 million TPA greenfield grinding capacity in Siliguri.

The proposed Siliguri facility is expected to be commissioned during the last quarter of the FY2019-20. Following this expansion, we are confident of competing more effectively in Bengal and Bihar. This grinding facility will empower the Company to address a sustained 8-10% cement demand growth coming from this market.

Over time, we expect to emerge as a company with half its sales derived from Eastern and North Eastern India each. We are optimistic of our prospects in East India as demand continues to be growing faster than in the rest of the country, where demand continues to match supply and where

We believe that the Company is at the cusp of evolving its personality and positioning, which should translate into larger volumes, increased respect and superior profitability across the foreseeable future.

Enhancing our sustainability

The one question that our management has been repeatedly asked is whether we will risk the Balance Sheet in growing our manufacturing capacity.

My answer is that we will strengthen our competitiveness instead. The Company had ₹143 crores on its books as on 31st March 2019, which will be completely utilised to commission the Siliguri facility. The subsidy accrued and receivable following March 2019 shall be utilised for capacity expansion. The result is that we should emerge as a 5 million TPA cement company by the close of this financial year with virtually no debt on our books.

In turn, we believe that timely commissioning and prudent market selection should translate into a sizable annual cash profit that makes it possible to sustain the pace of our capacity expansion, empowering us to emerge as a 7 million TPA company by 2024.

Regards,

Sajjan Bhajanka,
Chairman