Management discussion and analysis

Global economic overview

Following growth of 3.8% in 2017, the global economy slowed in the second half of 2018 on account of a confluence of factors - the failure of Brexit negotiations, tightened financial conditions, geopolitical tensions, and higher crude oil prices that affected the major economies. Crude prices remained volatile due to multiple factors; oil prices dropped from a four-year peak of US$ 81 per barrel in October 2018 to US$ 61 per barrel in February 2019. Global economic growth in 2018 was estimated at 3.6% and projected to slow to 3.3% in 2019.

Global economic growth over the years

Year	2015	2016	2017	2018(E)	2019 (P)
Real GDP growth (%)	3.2	3.1	3.8	3.6	3.3

[Source: World Economic Outlook, April 2019] E: Estimated; P: Projected

Indian economic overview

India retained its position as the sixth-largest economy and the fastest-growing trillion-dollar economy through a major part of the year under review (except in the last quarter of 2018-19). After growing 7.2% in 2017-18, the Indian economy is estimated to have grown 6.8% in 2018-19 as per the Central Statistics Office release, May 2019.

The principal developments during the year under review comprised a sustained increase in per capita incomes, decline in national inflation, steadying interest rates and weakened consumer sentiment from the second half of the financial year. The weaker sentiment was on account of a large non-banking financial company announcing its inability to address liabilities. This affected credit expansion, financial markets and consumer sentiment, which in turn resulted in slower GDP growth that declined to 5.8% by the fourth quarter of 2018-19, the slowest growth in a single quarter in years.

Driven by strong policy reforms, India witnessed a 23-notch jump to a record 77th position in the World Bank's latest report on the 'Ease of Doing Business' that captured the performance of 190 countries.

The commencement of the US-China trade war opened a new opportunity for India, particularly in the agro sector. Inflation (including food and energy prices) was estimated at 2.6% on an annual basis, one of the lowest in years and well below the Reserve Bank of India's medium-term target of 4%.

Key governmental initiatives

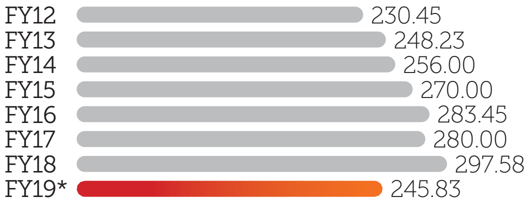
The Indian government continued to take a number of initiatives in strengthening national economy.

- Bank recapitalisation scheme: In addition to infusing ₹2.1 lac crores in public sector units, the Indian Government announced a capital infusion of ₹41,000 crores to boost credit for a strong impetus to the economy in FY2018-19. The Budget 2019-20 mandated that the Union Government will infuse ₹70,000 crores to strengthen and enhance their lending capacity.
(Source: Hindu Business Line)
- Expanding infrastructure: India's proposed expenditure of ₹5.97 trillion (US$ 89.7 billion) towards infrastructural development in Union Budget 2018-19 is expected to strengthen the national economy. As of November 2018, total length of projects awarded under Bharatmala Pariyojana (including residual NHDP works) was 6,460 kilometers for a total cost of ₹1.52 trillion (US$ 21.07 billion). The Government has announced in investment of ₹10,000,000 crores (US$ 1.5 trillion) in infrastructure over the next five years in Budget 2019-20.
(Source: IBEF)
- Pradhan Mantri Kisan Samman Nidhi: The Indian Government announced in February 2019 the Pradhan Mantri Kisan Samman Nidhi, a scheme promising an annual assured income of ₹6,000 (US$ 84.5) for any farmer owning $\leq$2 hectares of farmland. The budget for fiscal year 2020 allocated ₹75,000 crores for the scheme, benefiting ~120 million land-owning farmer households.
(Source: PIB)

Outlook

India is likely to outperform the global average economic growth and sustain growth momentum to emerge as a US$ 4 trillion economy by 2024. A combination of favourable demographics, rising urbanisation and shift from the unorganised to the organised sector are expected to drive growth in private

India's cement production (million tonnes)



*Up to December, 2018; F: Forecast - (Source: CRISIL, ICRA, IBEF)

consumption. The rise in social sector spending, improvement in agricultural productivity, increase in financial inclusion and adoption of digital technologies are expected to strengthen rural demand.

(Source: CSO, Fitch, Economic Times, Business Standard, IBEF, Business Today, India Today, Live Mont, PIB, Times Now)

Indian cement industry overview

Accounting for ~8% of the global installed capacity, Indian cement industry is the second largest in the world after China, with a production capacity pegged at 502 million tonnes in 2018. The private sector accounts for 98% of the production capacity. Of this, the top 20 companies account for 70% of total production. Of the 210 large cement plants, 77 are located in Andhra Pradesh, Rajasthan and Tamil Nadu. A cumulative of 410 million tonnes of cement is produced by 210 large cement plants and 92 million tonnes is produced by 350 mini-plants across the country.

Indian cement demand registered a double-digit growth in FY2018-19 led by a low base of the previous year (GST in H1 FY2017-18) and healthy growth rates in Eastern and Southern India. The year witnessed a steady implementation and completion of mega-infrastructure projects, especially in North and Central India. Central Government-backed mega-infrastructure projects like Bharatmala for roads, Sagarmala for ports and development of dedicated freight corridors and Smart Cities witnessed awards and implementation of new projects. Cement realisations grew ~2% y-o-y in 2018 compared to 2017.

(Source: Cement Manufacturers Association, Equity Master, IBEF)

Outlook

The price hikes announced by the cement companies in 2018-19 may help them to strengthen EBITDA per ton. Domestic cement demand is estimated to grow at ~8% till FY2019-20 on account of a likely pick-up in rural demand with the expectation of a normal monsoon in 2019 (Skymet estimate), government's continued thrust on infrastructure and low base-effect in the housing sector.

The government's positive approach to revive agriculture/rural economy is likely to augur well for the cement industry in FY2019-20. Notably, slower capacity addition (15-17 MTPA versus incremental demand of 25-27 MTPA), incremental demand from the Housing for All project (following rising number of sanctioned houses in the last few quarters) and the timely commencement of construction activities of Metro/Irrigation/ Bharatmala projects are likely to catalyse the long-term utilization and profitability of the industry. In the next 10 years, India is expected to emerge as a leading exporter of clinker and grey cement to the Middle East, Africa and other developing nations.

(Source: Hindu Business Line, ICRA, IBEF, JP Morgan)

Cement demand break up in India	%
Rural housing	28-30%
>Tier I Metro cities	8%
>Tier 2 & 3	18%
Total urban housing	25-26%
Low cost housing	11-12%
Infrastructure	22-24%
Commercial and industrial capex	10-12%
Total	100%

(Source: HDFC)

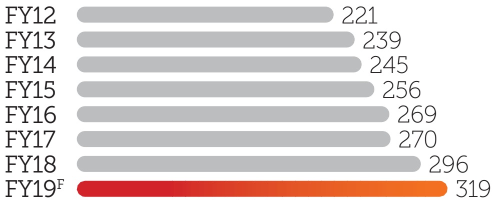
Government initiatives

- The Central Government allocated ₹10 billion for the National Investment and Infrastructure Fund.
- Budgetary allocation for infrastructure was ₹5.97 lac crores for 2018-19.
- Smart Cities Mission projects worth ₹2,350 crores were completed; projects worth 20,852 crores are under progress. A total of 99 cities have been selected under the mission with an outlay of ₹2.04 lac crores (US$ 32.07 billion).
- ~35,000 kilometres of road construction was approved under Phase-1 of Bharatmala Pariyojana for ₹5.35 lac crores (US$ 84.10 billion).
- An outlay of ₹33,000 crores (US$ 5.097 billion) has been proposed for building 4.9 million houses under Pradhan Mantri Awas Yojana (Gramin) in Union Budget 2018 -19.
- The Pradhan Mantri Awas Yojana (Universal Housing by 2022) received an allocation of ₹25,853 crore.
- In Budget 2018-19, the Government of India announced the setting up of an Affordable Housing Fund of ₹25,000 crores under the National Housing Bank to provide credit to homebuyers.

Infrastructural development in North Eastern India

The Indian Government's 'Act East' focus on strengthening relation with neighbouring countries helped enhance connectivity through transportation, telecom and power projects. Allocation towards the North Eastern region increased to ₹58,166 crore, a y-o-y increase of more than 21%.

India's cement consumption (million tonnes)



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Airports

- The North Eastern Council is a nodal agency entrusted with the responsibility of fostering economic and social development in the North East. The North Eastern Council, whose key members include the Governors and Chief Ministers of eight States, is funding the infrastructural upgradation of 12 airports.
- The Tezu Airport (Arunachal Pradesh) ensured connectivity to districts like Lower Dibang Valley, Anjaw, Namsai and Dibang Valley, among others.
- Runway extension was taken up by the North Eastern Council in Umroi (Shillong) Airport; work is underway to allocate hangars at Lokpriya Gopinath Bordoloi International Airport in Guwahati.

Roads

- Recently inaugurated projects comprised the 17.47-kilometre Doimukh-Harmuti Road (links Assam and Arunachal Pradesh) and the 1.66- kilometre Tura-Mankachar Road (connects Assam and Meghalaya). The 17.47-kilometre Doimukh-Harmuti Road provides a link across the Gumto and Gulajoly rivers.
- An express highway project along the Brahmaputra River, built at an investment of ₹40,000 crore, spanning 1,300 kilometres is expected to resolve connectivity issues in Assam.
- The North East Road Sector Development Scheme, launched in FY2015-16, is a centrally-sponsored scheme for the construction/ upgradation/ improvement of 433.7 kilometres of roads in Assam, Manipur, Meghalaya, Mizoram, Sikkim, Arunachal Pradesh, Nagaland and Tripura.

Railways

- There are plans to provide a railway link for the North Eastern states through 20 major railway projects, encompassing 13 new lines, two gauge conversions and five doublings, stretching ~2,624 kilometres.
- All capitals of North Eastern Indian states would be connected by a broad gauge rail link by 2020.
- Some 43 projects are underway within the jurisdiction of the North East Frontier Railway.
- Assam and Meghalaya will be connected through the Byrnihat-Shillong line whereas Manipur will be connected to Jiribam, a bridge with a pier height of 141 metres, making it the tallest rail bridge in the world.

Growth drivers

Infrastructure development: The Central Government-backed mega-infrastructure projects like Bharatmala, Sagarmala and Smart Cities are beginning to report increased traction in terms of project awards and implementation, a trend likely to sustain.

Affordable housing: ~1.53 crores houses were constructed under the Pradhan Mantri Awas Yojana between 2014 and 2018. The share of houses sanctioned under the Pradhan Mantri Awas Yojana increased from 22% in March 2018 to 35% in March 2019 as a proportion of the total homes being built.

(Source: Motilal Oswal)

Highway construction: In FY2018-19, highway construction and expansion reached its highest pace at ~30 kilometres per day. The Central Government has estimated that 65,000 kilometres of highways will be constructed at a cost of more than ₹5.35 lac crores by 2022.

(Source: Times of India)

Rural roads: Over the last five years, the Central Government spent more than ₹80,000 crores on building and upgrading rural roads. Since 2014, ~200,000 kilometres of new roads were built across rural India at a rate of ~109 kilometres per day. In March 2014, 55% of India's habitations were connected to a road and this increased to 91% by January 2019.

(Source: PMGSY)

The Company's consolidated financial performance

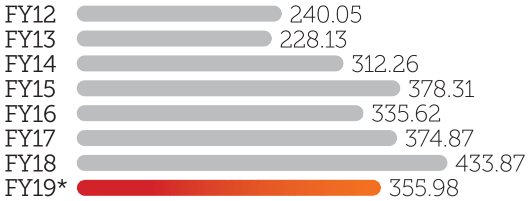
Gross revenues: Gross revenues stood at ₹1,831 crore, increasing by 12.40%, compared to ₹1,629 crores a year back.

Depreciation: Depreciation and amortisation for the year under review stood at ₹105.64 crores compared to ₹120.69 crores in the previous year,

Tax expenses: Tax expenses for the year stood at ₹29.64 crore, which included current tax payouts worth ₹68.25 crore, deferred tax charges worth ₹38.61 crores and tax related to earlier years' worth ₹16.41 crore.

Net profit: Net profit for the year under review stood at ₹299 crore, a 9.52% decline over the previous year mainly due to expiry of freight subsidy.

India's cement exports (US$ million)



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Balance Sheet analysis

Net worth

The net worth of the Company stood at ₹1724.66 crores as on 31st March 2019, increasing by 14.35% compared to ₹1476.35 crores as on 31st March 2018.

Loan profile

The total loan funds of the Company stood at ₹73.82 crores while long-term borrowings stood at ₹24.25 crore. The net debt as on 31st March 2018 stood at ₹427.13 crore.

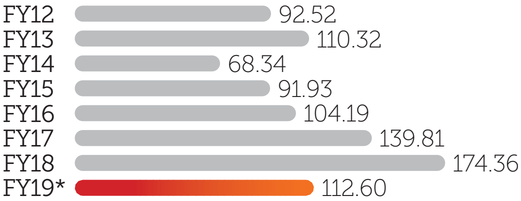
Sundry debts

Sundry debts of the Company stood at ₹143.76 crore, a decrease of 1.85% compared to the previous year.

Cash and cash equivalents

The Company had on its books cash and cash equivalents worth ₹211.30 crores as on 31st March 2019 compared to ₹19.77 crores in the previous year.

India's cement imports (US$ million)



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Risk management

The Company is subject to many risks and uncertainties that may affect its financial performance. The business, results of operations or financial conditions of the Company could be adversely affected by the risks described below. These are not the only risks the Company faces. Additional risks and uncertainties not presently known to the Company or considered immaterial may also impair its business and operations.

Economic risk	A slowdown in the economy could reduce infrastructure investments, decelerating growth for the Company	**Mitigation:** After growing at 7.2% in 2017-18 the Indian economy was expected to grow at 7% in FY2018-19 and is projected to pick up to 7.3% and 7.5% in FY2019-20 and FY2020-21, respectively. This indicates that the Indian economy is back on the growth track.
Debt risk	Inability to secure capex funding at competitive rates could jeopardise the Company's growth plans.	**Mitigation:** The Company became debt-free during the financial year and improved its debt-equity ratio from 0.13 in FY2017-18 to nil in FY2018-19. This has not only enhanced the Company's credit rating but also allowed it to access loans at pocket-friendly rates.
Demand risk	A less-than-optimal demand growth in the region can lower revenues	**Mitigation:** The Interim Budget proposed a 21% increase in budgetary support to the region amounting to ₹58,165 crores for the financial year 2019-20. The Pakyong Airport in Sikkim and the Bogibeel Bridge over the Brahmaputra will boost defence logistics along the Chinese border and reduce travel time for rail and road passengers. Japan has also joined hands with India to aggressively develop infrastructure projects in India's North Eastern states focusing on connectivity, power generation and disaster management.

Raw material risk	Significant increase in the cost or shortage of raw materials could affect operations	Mitigation strategy: Over the years, Star Cement has established a reputation of being a cost-competitive player. Its plants are located within a ~3-kilometre radius of limestone quarries, providing the Company with an uninterrupted supply of raw materials and lowering freight costs. These captive quarries offer high quality limestone with a calcium oxide content of more than 49% (higher than the rest of India) and reserves that can potentially last more than 80 years.
Concentration risk	Concentration of operations in a particular location could lead to price under-cutting	Mitigation: Star Cement has evolved being from a North Eastern India-focused company to an Eastern India-focused company. The Company's extensive distribution network is spread across 10 states in Eastern India, comprising more than 2,000 dealers and 9,000 retailers, ensuring last-mile access.

Human resources

The Company believes that its inherent strength lies in its dedicated and motivated workforce. The Company has created a holistic working environment and urged its employees to go beyond their predetermined scope of work, so that they could come up with innovative ideas that brighten long-term growth prospects. The Company reduced its employee headcount but did not replace the people who left the organisation. Instead, it chose to reskill and assign new roles to its existing employees, enhancing productivity levels.

Internal control systems and their adequacy

The internal control framework is designed to ensure proper safeguarding of assets, maintaining proper accounting records and providing reliable financial information and other data. This system is supplemented by internal audit, reviews by the management and documented policies, guidelines and procedures. The Company has a well-defined organisational structure, authority levels, internal rules and guidelines for conducting the business transactions. The Company intends to undertake further measures as necessary in line with its intent to adhere to procedures, guidelines and regulations as applicable in a transparent manner. Internal audit department of the Company carries out the internal audit of the Company operations and reports its finding to the Audit Committee. In this process the internal audit also evaluates the functioning and quality of internal controls and provides assurance of its adequacy and effectiveness through periodic reporting. Internal audit is carried out as per risk based internal audit plan which is reviewed by the Audit Committee of the Company. The committee periodically reviews the findings and suggestions for the improvement and is apprised on the implementation status with respect to the actionable items.

Disclaimer

Statements in management discussion and analysis describing the Company's objectives, projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable securities laws and regulations. Actual results could differ materially from those either expressed or implied. Important factors that could make a difference to the Company's operation include, among others, economic conditions affecting demand/supply and price conditions, variation in prices of raw materials, changes in governmental regulations, tax regimes, economic developments and other incidental factors.