

SELL

TP: Rs 128 | ▼ 28%

ORIENT CEMENT

Cement

18 September 2023

Expansion woes, lofty valuations – cut to SELL

- Expansion snags due to plant relocation to hamper medium-term growth as utilisation likely breaches 80% in FY25
- Operational efficiencies to wane as capacity addition lags peers; expansion debt expected to strain earnings
- Valuations lofty; we cut our rating to SELL and lower FY24/FY25 EBITDA 3%/8% for a reduced TP of Rs 128 (vs. Rs 140)

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Expansion plans hit by plant relocation: ORCMNT's expansion plans have been delayed due to a shift in plant location – from Bhandara in Maharashtra to southern Madhya Pradesh – and a lack of clearances. The company expects to cross 80% utilisation at existing facilities by FY25, implying that growth could suffer in the medium term if new additions fail to come up in a timely manner even as larger peers continue to augment capacities.

Capacity add by tier-1/2 competitors poses a challenge: ORCMNT's peer group and tier-1 cement companies are adding capacities over the next two years. Though the company's Devapur plant in Telangana is cost-effective, its clinkerisation unit remains under-utilised due to weak offtake from the 2mn tonne Jalgaon grinding unit amid severe competition in Maharashtra and delays in commissioning the Bhandara unit due to the change in location.

Likely debt-driven expansion to ratchet up earnings pressure: ORCMNT has guided for capex of Rs 10bn each in FY24 and FY25 for brownfield expansion at Chittapur, Karnataka, and the relocated grinding unit at South Madhya Pradesh. The company has pared debt from Rs 700bn in FY21 to ~Rs 4bn in FY23, but we estimate additional borrowings of Rs 10bn-12bn to fund the expansion. As the contribution from fresh capacity will lag debt servicing and is likely to stabilise only post FY25, we anticipate pressure on earnings and balance sheet in the interim.

Valuation runup difficult to justify; cut to SELL: Considering the expansion delays and, hence, missed growth opportunities, we revise our FY24/FY25 EBITDA estimates down 3%/8%, leading to a reduced TP of Rs 128 from Rs 140. ORCMNT's valuations have run up over the past couple of months and the stock is now trading at 7x FY25E EV/EBITDA, which we believe is unjustified given the likelihood of mounting earnings pressure. We downgrade the stock to SELL from HOLD and continue to ascribe a target 5x EV/EBITDA multiple on FY25E. Our TP of Rs 128 implies a replacement cost of Rs 40bn/mt – 42% below the industry average.

Key changes

Target	Rating
▼	▼

Ticker/Price	ORCMNT IN/Rs 178
Market cap	US\$ 444.1mn
Free float	62%
3M ADV	US\$ 2.9mn
52wk high/low	Rs 206/Rs 105
Promoter/FPI/DII	38%/6%/11%

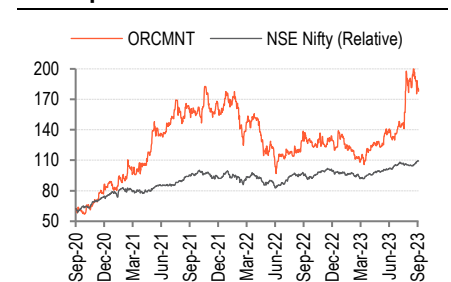
Source: NSE | Price as of 18 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	31,417	35,385	39,534
EBITDA (Rs mn)	3,646	4,577	5,512
Adj. net profit (Rs mn)	1,229	1,740	2,442
Adj. EPS (Rs)	6.0	8.5	11.9
Consensus EPS (Rs)	6.0	10.6	12.7
Adj. ROAE (%)	7.9	10.4	13.2
Adj. P/E (x)	29.7	21.0	14.9
EV/EBITDA (x)	10.9	8.8	7.3
Adj. EPS growth (%)	(53.3)	41.6	40.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Valuation methodology

Considering the expansion delays and, hence, missed growth opportunities, we trim our FY24/FY25 EBITDA estimates for ORCMNT by 3%/8%, leading to a reduced TP of Rs 128 from Rs 140. Valuations have run up over the past couple of months and the stock is now trading at 7x FY25E EV/EBITDA, which we believe is unjustified given the likelihood of mounting earnings pressure.

We downgrade the stock to SELL from HOLD and continue to ascribe a target 5x EV/EBITDA multiple on FY25E. Our TP of Rs 128 implies a replacement cost of Rs 40bn/mt – 42% below the industry average.

Fig 1 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	35,385	39,534	37,917	42,259	(6.7)	(6.4)
EBITDA	4,577	5,512	4,693	6,017	(2.5)	(8.4)
Adj PAT	1,740	2,442	1,757	2,725	(1.0)	(10.4)
Adj EPS (Rs)	8.5	11.9	8.6	13.3	(1.2)	(10.5)

Source: BOBCAPS Research

Fig 2 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	5.50	5.80	6.38	6.95
Realisations (Rs/mt)	5,555	5,411	5,546	5,685
Operating costs (Rs/mt)	4,512	4,794	4,835	4,898
EBITDA/mt (Rs)	1,059	623	712	787

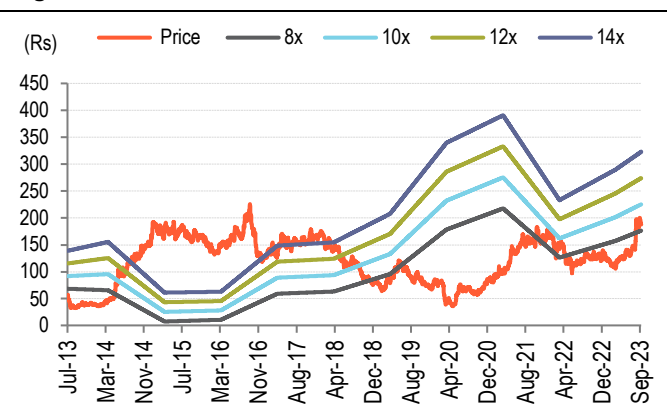
Source: Company, BOBCAPS Research

Fig 3 – Valuation summary

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	5
EBITDA	5,512
Target EV	29,763
Total EV	29,763
Net debt	3,579
Target market capitalization	26,184
Target price (Rs/sh)	128
Weighted average shares (mn)	205

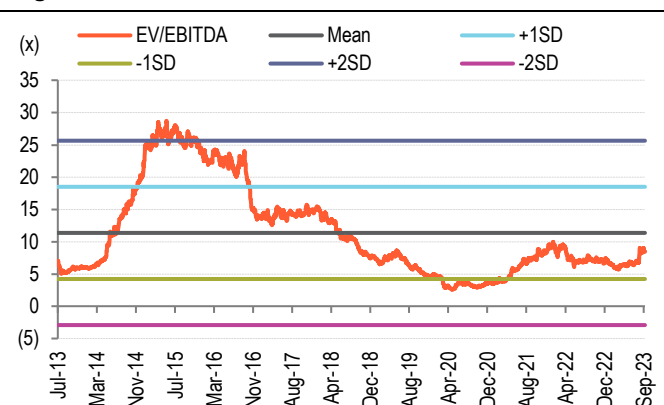
Source: BOBCAPS Research

Fig 4 – EV/EBITDA band



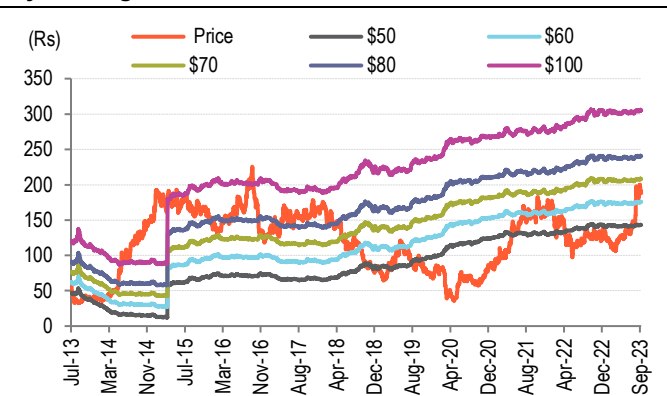
Source: Bloomberg, Company, BOBCAPS Research

Fig 5 – EV/EBITDA 1Y fwd



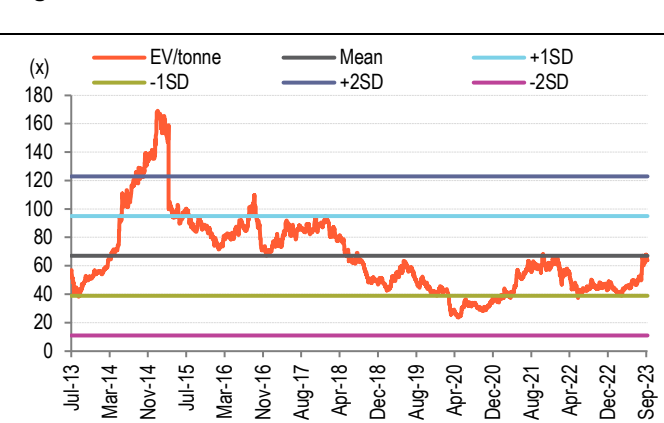
Source: Bloomberg, Company, BOBCAPS Research

Fig 6 – EV/t: Recent spike in replacement cost not backed by earnings



Source: Bloomberg, Company, BOBCAPS Research

Fig 7 – EV/t in line with the historical mean



Source: Bloomberg, Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster capacity addition than anticipated,
- above-expected demand that can aid price escalation, and
- better cost management.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.6	2,007	1,964	HOLD
Ambuja Cements	ACEM IN	10.6	437	435	HOLD
Dalmia Bharat	DALBHARA IN	5.3	2,369	1,934	HOLD
JK Cement	JKCE IN	3.1	3,320	3,474	HOLD
JK Lakshmi Cement	JKLC IN	0.9	649	551	SELL
Orient Cement	ORCMNT IN	0.4	178	128	SELL
Shree Cement	SRCM IN	11.6	26,392	24,656	HOLD
The Ramco Cements	TRCL IN	2.5	886	585	SELL
Ultratech Cement	UTCEM IN	30.3	8,628	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 18 Sep 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	25,652	30,640	31,417	35,385	39,534
EBITDA	5,507	5,911	3,646	4,577	5,512
Depreciation	(1,419)	(1,452)	(1,468)	(1,486)	(1,483)
EBIT	4,272	4,554	2,298	3,226	4,176
Net interest inc./(exp.)	(936)	(514)	(378)	(429)	(490)
Other inc./(exp.)	183	96	121	136	147
Exceptional items	0	0	0	0	0
EBT	3,336	4,040	1,920	2,797	3,686
Income taxes	(1,194)	(1,407)	(691)	(1,057)	(1,244)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,142	2,633	1,229	1,740	2,442
Adjustments	0	0	0	0	0
Adjusted net profit	2,142	2,633	1,229	1,740	2,442

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	1,844	2,310	2,147	2,873	3,173
Other current liabilities	2,665	2,599	2,863	2,903	2,944
Provisions	903	802	869	883	897
Debt funds	7,838	3,135	3,983	7,086	12,021
Other liabilities	1,811	2,517	2,869	2,912	2,955
Equity capital	205	205	205	205	205
Reserves & surplus	12,854	15,049	15,833	17,265	19,400
Shareholders' fund	13,059	15,254	16,038	17,470	19,605
Total liab. and equities	28,121	26,617	28,768	34,127	41,595
Cash and cash eq.	362	438	743	3,338	8,567
Accounts receivables	1,102	1,273	1,689	1,890	2,112
Inventories	1,705	1,866	3,509	2,133	2,383
Other current assets	1,315	1,391	1,328	1,427	1,534
Investments	1,151	100	0	0	0
Net fixed assets	21,228	20,292	19,203	18,280	17,279
CWIP	413	398	1,397	6,000	8,500
Intangible assets	844	859	897	1,058	1,219
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	28,120	26,617	28,767	34,127	41,595

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	5,467	4,653	1,180	5,125	3,926
Capital expenditures	(517)	(463)	(1,376)	(5,327)	(3,324)
Change in investments	(1,151)	1,051	58	(83)	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,668)	587	(1,317)	(5,410)	(3,324)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,532)	(4,703)	848	3,103	4,935
Interest expenses	0	0	0	0	0
Dividends paid	(256)	(461)	(461)	(307)	(307)
Other financing cash flows	(10)	0	14	1	0
Cash flow from financing	(3,798)	(5,164)	401	2,797	4,628
Chg in cash & cash eq.	2	76	264	2,511	5,229
Closing cash & cash eq.	362	438	743	3,338	8,567

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	10.5	12.8	6.0	8.5	11.9
Adjusted EPS	10.5	12.8	6.0	8.5	11.9
Dividend per share	1.3	2.2	2.2	1.5	1.5
Book value per share	63.7	74.5	78.3	85.3	95.7

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	1.7	1.3	1.3	1.1	1.0
EV/EBITDA	8.0	6.6	10.9	8.8	7.3
Adjusted P/E	17.0	13.9	29.7	21.0	14.9
P/BV	2.8	2.4	2.3	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	64.2	65.2	64.0	62.2	66.2
Interest burden (PBT/EBIT)	78.1	88.7	83.6	86.7	88.3
EBIT margin (EBIT/Revenue)	16.7	14.9	7.3	9.1	10.6
Asset turnover (Rev./Avg TA)	89.8	112.0	113.4	112.5	104.4
Leverage (Avg TA/Avg Equity)	2.4	1.9	1.8	1.9	2.0
Adjusted ROAE	17.7	18.6	7.9	10.4	13.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(1.1)	19.4	2.5	12.6	11.7
EBITDA	43.8	7.3	(38.3)	25.5	20.4
Adjusted EPS	147.3	22.9	(53.3)	41.6	40.3
Profitability & Return ratios (%)					
EBITDA margin	21.5	19.2	11.6	12.9	13.9
EBIT margin	16.6	14.8	7.3	9.1	10.6
Adjusted profit margin	8.3	8.6	3.9	4.9	6.2
Adjusted ROAE	17.7	18.6	7.9	10.4	13.2
ROCE	18.4	20.9	10.5	12.8	13.5
Working capital days (days)					
Receivables	16	15	20	20	20
Inventory	24	22	41	22	22
Payables	33	34	28	34	34
Ratios (x)					
Gross asset turnover	0.9	1.0	1.0	1.1	1.2
Current ratio	0.8	0.9	1.2	1.3	2.1
Net interest coverage ratio	4.6	8.9	6.1	7.5	8.5
Adjusted debt/equity	0.6	0.2	0.2	0.4	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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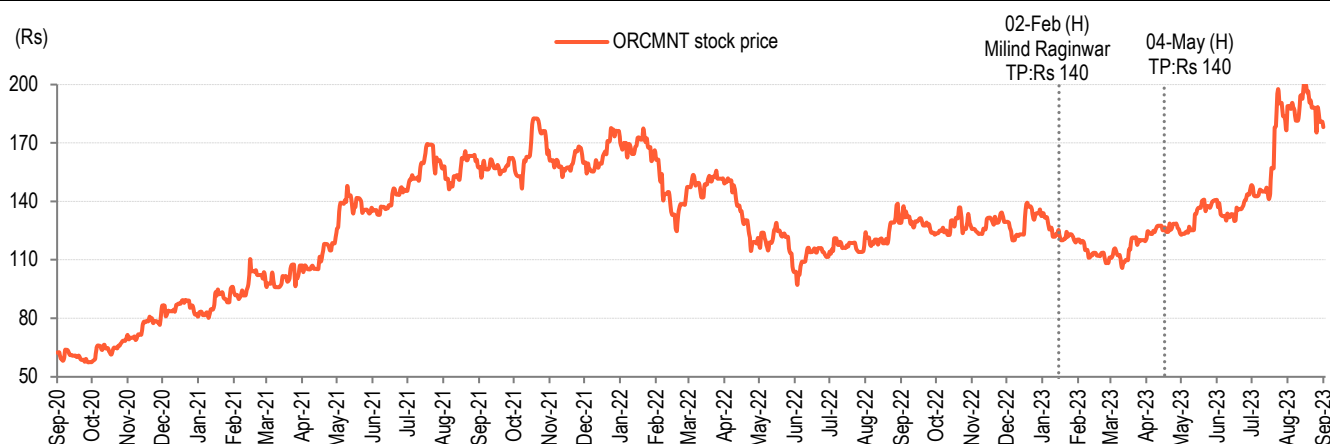
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ORIENT CEMENT (ORCMNT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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