

**SELL**

TP: Rs 128 | ▼ 40%

**ORIENT CEMENT**

Cement

10 November 2023

**Volumes pick up; valuations still expensive**

- Q2 volumes recovered 15% YoY (-10% QoQ) to 1.4mt helped by below-normal rainfall and higher western region sales
- EBITDA margin expanded 670bps YoY to 12% on lower costs but was flat QoQ; cost-saving levers already embedded in our estimates
- Expansion drive weighs on earnings outlook; maintain SELL with TP of Rs 128 (unchanged)

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**Volumes aid YoY topline growth:** ORCMNT's Q2FY24 revenue grew 17% YoY (-13% QoQ) to Rs 7.2bn as volume growth rebounded 15% YoY (-10% QoQ) to 1.4mn tonnes owing to less rainfall and higher western region sales. Realisation gains were tepid, however, at 2% YoY (-3% QoQ) due to the chase for volumes.

**Cost savings from lower energy expense:** Operating cost dipped 6% YoY (-3% QoQ) to Rs 4,449/t due to lower energy expenses (raw material adjusted) which declined 9% YoY (-6% QoQ) to Rs 2,204/t. Logistics cost inched up 2% YoY (-2% QoQ) to Rs 1,346/t owing to an increase in lead distance to slightly above 300km. Other expenditure increased 10% YoY (-9% QoQ) to Rs 821mn and included Devapur kiln maintenance costs of Rs 100mn.

**Margin comes off a low base YoY; stays flat QoQ:** EBITDA jumped 166% YoY (-13% QoQ) to Rs 865mn and operating margin swelled 670bps YoY to 12% but stayed flat sequentially. EBITDA/t more than doubled YoY to Rs 607/t off a low base but fell 3% QoQ due to planned maintenance at the Devapur plant.

**Capacity expansion likely to be delayed:** ORCMNT's expansion plans have been, and may continue to be delayed, owing 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 by FY25 which means growth could suffer if the new additions fail to come up in a timely manner even as peers forge ahead.

**Retain SELL:** We maintain estimates as management commentary on the expansion drive remains unchanged and the cost levers available with ORCMNT are already captured in our model. Valuations have run up over the past couple of months and the stock is trading at upwards of ~8x FY25E EV/EBITDA, which we find unjustified given the likelihood of mounting earnings pressure as the contribution from fresh capacity likely lags debt servicing. We maintain SELL with an unchanged TP of Rs 128, ascribing the stock a 5x EV/EBITDA multiple on FY25E. Our TP implies a replacement cost of Rs 61bn/mt – 40% below the industry average.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ORCMNT IN/Rs 213
Market cap	US\$ 531.9mn
Free float	62%
3M ADV	US\$ 3.9mn
52wk high/low	Rs 218/Rs 105
Promoter/FPI/DII	38%/6%/11%

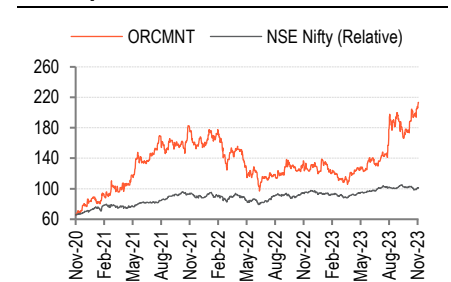
Source: NSE | Price as of 10 Nov 2023

**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)	35.6	25.1	17.9
EV/EBITDA (x)	12.9	10.4	8.6
Adj. EPS growth (%)	(53.3)	41.6	40.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q2FY24	Q1FY24	Our view
Volumes and Realisations	<p>Sales volume in Q2FY24 grew 15% YoY to 1.4mt aided by stronger construction activity in August (64% of volumes were dispatched to western markets, ~27% to southern and ~9% to central markets).</p> <p>Management targets volumes of ~6-6.5mt for FY24, in line with the industry.</p>	<p>ORCMNT put its Chittapur plant under annual maintenance after 23 months, resulting in lower volumes in Q1FY24 as no clinker output was drawn from the plant for a month. The impact of the shutdown was amplified by Q1 being a weak quarter.</p>	<p>Volume growth is likely to be healthy in H2FY24 to cater to pre-election demand.</p>
Margin	<p>Cement prices have stayed flattish in Q2FY24 despite strong demand. B2C sale volumes returned to 50%+ YoY growth. Average price hikes for the industry stood at ~Rs 20/bag in Q2FY24 with slightly higher increases in southern markets.</p> <p>EBITDA/t grew 131% YoY to Rs 607 off a weak base but fell 3% QoQ due to planned maintenance at the Devapur plant (ballpark cost of ~Rs 100mn).</p> <p>Pet coke prices have declined 14% YoY, and management remains watchful of international prices which are currently rising. Blended fuel cost was Rs 1,800/t at Devapur and Rs 2,160/t at Chittapur.</p>	<p>Prices have been flattish while softening marginally in some regions. However, brand repositioning and premiumisation resulted in higher QoQ realisation and 15% higher revenue growth.</p> <p>Power and fuel costs fell 11% QoQ but rose 8% YoY as the 13-14% QoQ fall in pet coke prices was not fully exploited due to maintenance closure of the Chittapur unit which predominantly uses pet coke as fuel while Devapur depends on domestic coal (prices up 17-18%). Future margin accretion due to lower power and fuel costs will be restricted as ORCMNT has 2-3 months of pet coke inventory at previously inflated prices.</p>	<p>We see no major operating efficiency levers for ORCMNT. Pricing too is likely to be flattish over the medium term in key markets.</p>
Capacity	<p>Devapur expansion continues to await forest clearance and management expects construction to commence in Q4FY24. Management has also applied for clearance of the new limestone mine at Devapur (588 hectares for a duration of 40-50 years) and for environmental clearance of the Chittapur brownfield expansion. The company expects to commission Devapur and Chittapur within 15-18 months.</p> <p>For the 2mt grinding unit at Madhya Pradesh, the company has applied to the State Electricity Board and awaits confirmation from the board.</p>	<p>ORCMNT is yet to receive environmental clearance for its brownfield expansion at Chittapur. Management has guided for an additional 2mt in clinker and 1mt in cement capacity to be commissioned within 15-18 months once construction begins. Devapur expansion is awaiting forest approval and the land transfer process is to be completed.</p>	<p>Barring debottlenecking, we do not expect capacity expansion to come through over the next two years.</p>
Capex	<p>Estimated capex for the Devapur and Madhya Pradesh projects is ~Rs 20bn. Management does not expect significant capex in Q3FY24.</p>	<p>Management has guided for an FY24 capex budget of Rs 10bn, with Rs 6bn allocated for the Chittapur unit expansion, Rs 1.5bn for Devapur, Rs 1bn for Rajasthan land acquisition, and the difference for WHRS capacity. Further, the FY25 guidance had Rs 9bn allocated for Chittapur, Rs 1bn-1.5bn for Rajasthan, and Rs 3bn for Devapur.</p>	<p>Aggressive execution of capacity expansion looks unlikely.</p>

Parameter	Q2FY24	Q1FY24	Our view
Debt	Borrowings for financing projects stood at ~Rs 1.7bn during Q2FY24 with working capital borrowings at ~Rs 1bn.	Bank borrowings stood at ~Rs 2bn, with net working capital changes forcing ORCMNT to take on an added Rs 500mn in debt in Q1.	Debt commentary is indicative of only grinding unit addition in the near future.

Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery System

**Fig 2 – Key metrics**

(Rs)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (mn mt)	1.4	1.2	15.3	1.6	(10.3)
Cement realisations (Rs/mt)	5,057	4,978	1.6	5,193	(2.6)
Operating costs (Rs/mt)	4,449	4,715	(5.6)	4,569	(2.6)
EBITDA (Rs/mt)	607	263	130.6	624	(2.7)

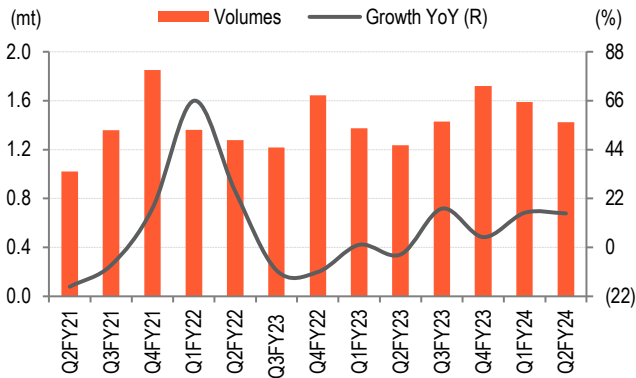
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
<b>Net Sales</b>	<b>7,206</b>	<b>6,153</b>	<b>17.1</b>	<b>8,252</b>	<b>(12.7)</b>
<b>Expenditure</b>					
Change in stock	(107)	244	-	55	-
Raw material	1,057	828	27.6	1,175	(10.1)
purchased products	0	0	0.0	0	0
Power & fuel	2,191	1,937	13.1	2,475	(11.5)
Freight	1,918	1,638	17.1	2,181	(12.0)
Employee costs	462	433	6.6	471	(2.0)
Other expenditure	821	749	9.6	903	(9.1)
Total Operating Expenses	6,340	5,827	8.8	7,260	(12.7)
<b>EBITDA</b>	<b>865</b>	<b>326</b>	<b>165.8</b>	<b>992</b>	<b>(12.8)</b>
EBITDA margin (%)	12.0	5.3	672bps	12.0	(1bps)
Other Income	17	48	(65.4)	44	(62.2)
Interest	86	105	(18.0)	97	(10.5)
Depreciation	371	369	0.6	367	1.1
PBT	424	(101)	-	572	(25.8)
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	424	(101)	-	572	(25.8)
Tax	178	(6)	-	202	(11.8)
Tax Rate (%)	42	6	3,612bps	35	669bps
Reported PAT	246	(95)	-	370	(33.5)
<b>Adjusted PAT</b>	<b>246</b>	<b>(95)</b>	<b>-</b>	<b>370</b>	<b>(33.5)</b>
NPM (%)	3.4	(1.5)	-	4.5	(107bps)
<b>Adjusted EPS (Rs)</b>	<b>1.2</b>	<b>(0.5)</b>	<b>-</b>	<b>1.8</b>	<b>(33.5)</b>

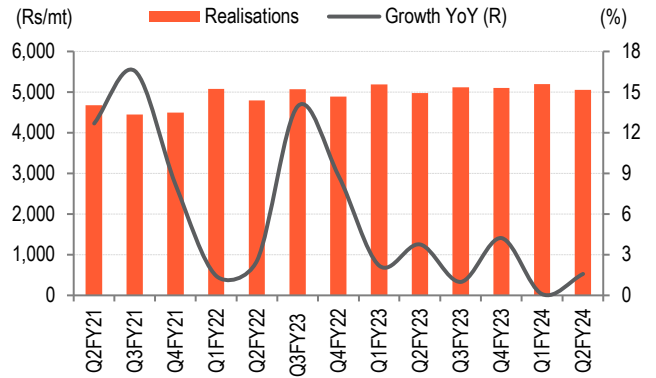
Source: Company, BOBCAPS Research

**Fig 4 – Volumes likely to be better in H2FY24**



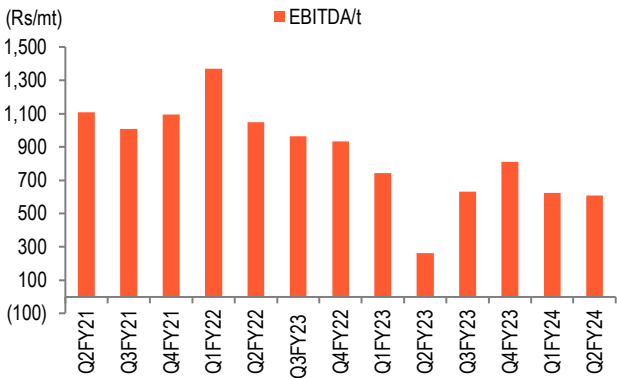
Source: Company, BOBCAPS Research

**Fig 5 – Realisations tepid in Q2FY24 due to volume push**



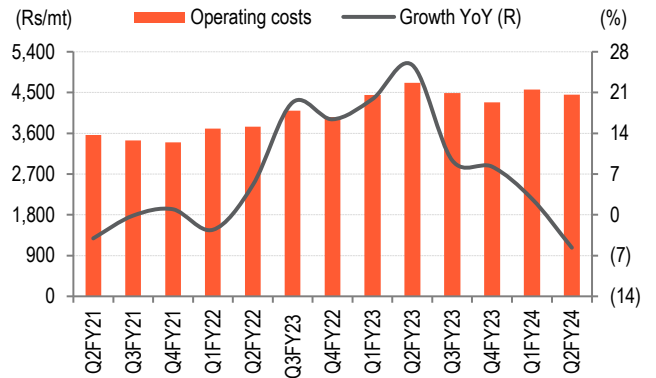
Source: Company, BOBCAPS Research

**Fig 6 – EBITDA/t remains at the lower end**



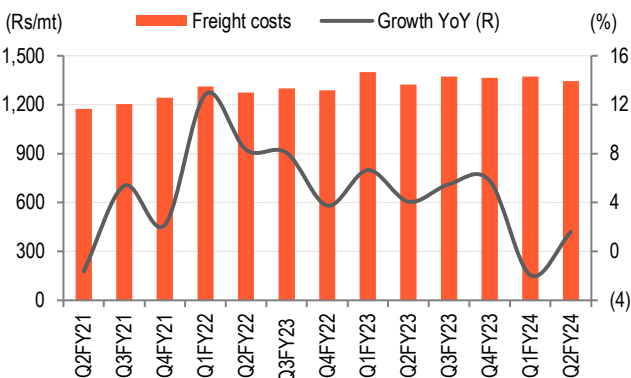
Source: Company, BOBCAPS Research

**Fig 7 – Operating cost reduction looks difficult**



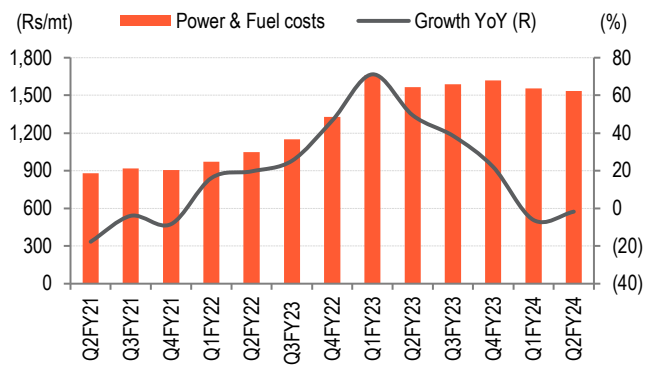
Source: Company, BOBCAPS Research

**Fig 8 – Logistic cost will be determined by target markets**



Source: Company, BOBCAPS Research

**Fig 9 – Cost levers limited to green energy initiatives**



Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our estimates as management commentary on the expansion drive remains unchanged and the cost levers available with ORCMNT are already captured in our model. Valuations have run up over the past couple of months and the stock is trading at upwards of ~8x FY25E EV/EBITDA, which we find unjustified given the likelihood of mounting earnings pressure as the contribution from fresh capacity likely lags debt servicing.

We maintain SELL with an unchanged TP of Rs 128, ascribing the stock a 5x EV/EBITDA multiple on FY25E. Our TP implies a replacement cost of Rs 61bn/mt – 40% below the industry average.

**Fig 10 – 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 11 – 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
<b>Target price (Rs/sh)</b>	<b>128</b>
Weighted average shares (mn)	205

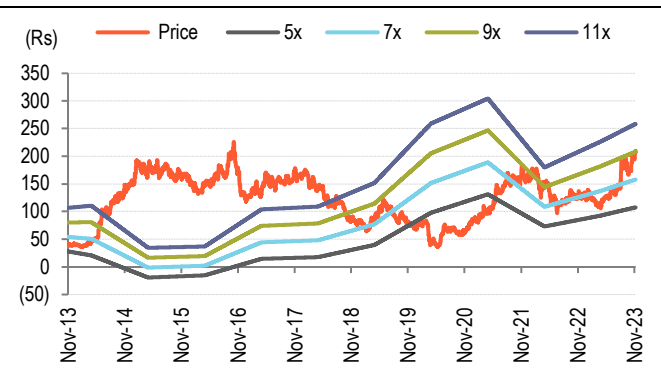
Source: BOBCAPS Research

**Fig 12 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
ORCMNT IN	SELL	128	12.9	10.4	8.6	43	41	39	7.9	10.4	13.2	10.5	12.8	13.5
STRCEM IN	HOLD	159	13.6	12.6	8.4	110	123	113	10.8	10.6	14.7	16.9	14.7	19.7
JKLC IN	SELL	551	10.1	9.5	8.7	81	84	93	12.8	13.4	14.4	16.2	17.3	17.2

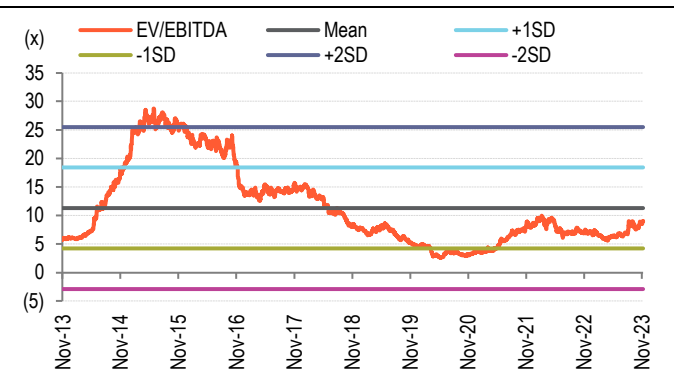
Source: BOBCAPS Research

**Fig 13 – Stock has outrun earnings post rally...**



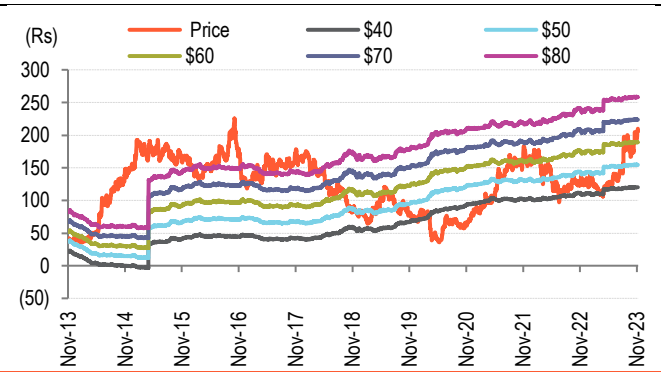
Source: Company, BOBCAPS Research

**Fig 14 – ...implying tenuous valuation support**



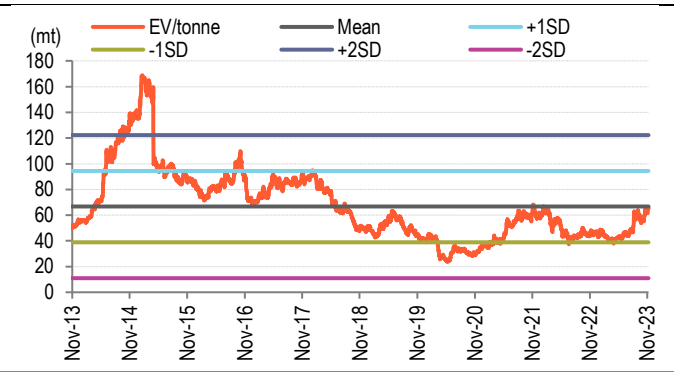
Source: Company, BOBCAPS Research

**Fig 15 – Replacement cost valuations on the higher side too...**



Source: Company, BOBCAPS Research

**Fig 16 – ...and likely to taper off given the lack of earnings backup**



Source: 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	4.2	1,825	2,158	BUY
Ambuja Cements	ACEM IN	10.1	418	449	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,090	2,286	HOLD
JK Cement	JKCE IN	3.3	3,464	3,578	HOLD
JK Lakshmi Cement	JKLC IN	1.1	777	551	SELL
Orient Cement	ORCMNT IN	0.5	213	128	SELL
Shree Cement	SRCM IN	11.6	26,359	24,792	HOLD
Star Cement	STRCEM IN	0.8	159	159	HOLD
The Ramco Cements	TRCL IN	2.8	986	661	SELL
Ultratech Cement	UTCEM IN	30.6	8,711	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 Nov 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>25,652</b>	<b>30,640</b>	<b>31,417</b>	<b>35,385</b>	<b>39,534</b>
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
<b>Reported net profit</b>	<b>2,142</b>	<b>2,633</b>	<b>1,229</b>	<b>1,740</b>	<b>2,442</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,142</b>	<b>2,633</b>	<b>1,229</b>	<b>1,740</b>	<b>2,442</b>

### 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
<b>Total liab. and equities</b>	<b>28,121</b>	<b>26,617</b>	<b>28,768</b>	<b>34,127</b>	<b>41,595</b>
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
<b>Total assets</b>	<b>28,120</b>	<b>26,617</b>	<b>28,767</b>	<b>34,127</b>	<b>41,595</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>5,467</b>	<b>4,653</b>	<b>1,180</b>	<b>5,125</b>	<b>3,926</b>
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
<b>Cash flow from investing</b>	<b>(1,668)</b>	<b>587</b>	<b>(1,317)</b>	<b>(5,410)</b>	<b>(3,324)</b>
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
<b>Cash flow from financing</b>	<b>(3,798)</b>	<b>(5,164)</b>	<b>401</b>	<b>2,797</b>	<b>4,628</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2</b>	<b>76</b>	<b>264</b>	<b>2,511</b>	<b>5,229</b>
<b>Closing cash &amp; cash eq.</b>	<b>362</b>	<b>438</b>	<b>743</b>	<b>3,338</b>	<b>8,567</b>

### 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	2.0	1.5	1.5	1.3	1.2
EV/EBITDA	9.3	7.9	12.9	10.4	8.6
Adjusted P/E	20.4	16.6	35.6	25.1	17.9
P/BV	3.3	2.9	2.7	2.5	2.2

### 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
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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
<b>Working capital days (days)</b>					
Receivables	16	15	20	20	20
Inventory	24	22	41	22	22
Payables	33	34	28	34	34
<b>Ratios (x)</b>					
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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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

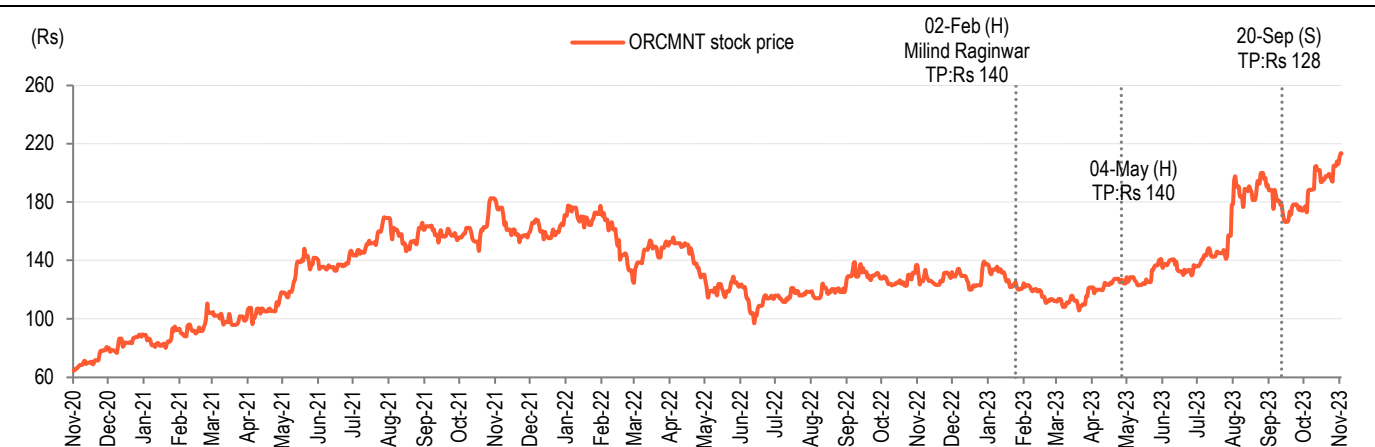
**HOLD** – Expected return from -6% to +15%

**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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