

SELL

TP: Rs 168 | ▼ 39%

ORIENT CEMENT

Cement

06 February 2024

Topline muted as volumes decline

- Q3 revenue growth subdued at 3% YoY as volumes fell 3% amid state elections and festive season
- Margin trajectory improving from lower base, but pricing pressure can reverse these gains
- TP revised to Rs 168 (vs. Rs 128) on rollover and higher 6x EV/EBITDA target multiple (vs. 5x); retain SELL on lofty valuations

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Weak volumes subdue revenue: ORCMNT’s Q3FY24 revenue grew just 3%/4% YoY/QoQ to Rs 7.5bn as volumes fell 3%/2% to 1.4mn tonnes due to elections in key markets, a labour shortfall and festive season. Realisation gains were tepid at 5%/7% YoY/QoQ to Rs 5,397/t.

Margins expand off low base: Operating cost was in control, rising only 2%/3% YoY/QoQ to Rs 4,568/t, as energy expenses (raw material adjusted) declined 2% YoY (flat QoQ) to Rs 2,211/t following a 10% YoY decline in pet coke prices and flattish domestic coal prices. Logistics cost/t inched up 2%/4% YoY/QoQ owing to an increase in lead distance for Telangana markets, high transport costs in the Mumbai and Pune markets, and the busy railway season surcharge. EBITDA grew 28%/33% YoY/QoQ to Rs 1.1bn, operating margin swelled 300bps/335bps YoY/QoQ to 15.4%, and EBITDA/t rose 31%/37% YoY/QoQ to Rs 829 due to cost savings and lower volumes.

Delays dog capacity expansion: ORCMNT’s expansion plans for Devapur and Chittapur continue to be delayed by a lack of regulatory clearances. Further, management does not expect any construction activity at the 3.2mt Rajasthan greenfield expansion site for at least three years. Barring debottlenecking, we do not foresee much progress on capex plans through to FY26.

Estimates revised to reflect slow expansion: We maintain our FY24 estimates but cut FY25 EPS by 3% as management commentary on the expansion drive remains unchanged and the cost levers available with ORCMNT are already captured in our model. We now introduce FY26 forecasts for the company, projecting a revenue/EBITDA CAGR of 11%/17% for FY23-FY26.

Retain SELL: Our SELL rating stands as valuations have run up over the past couple of months and, at upwards of ~10x FY26E EV/EBITDA, appear unjustified given the limited growth prospects and likelihood of mounting earnings pressure. Post estimate revision, we have a new TP of Rs 168 (vs. Rs 128), based on a higher 6x EV/EBITDA multiple (from 5x) due to better balance sheet health and rollover of valuations to FY26E. Our TP implies a replacement cost of Rs 61bn/mt, 40% below the industry mean.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ORCMNT IN/Rs 277
Market cap	US\$ 691.6mn
Free float	62%
3M ADV	US\$ 4.2mn
52wk high/low	Rs 294/Rs 105
Promoter/FPI/DII	38%/6%/11%

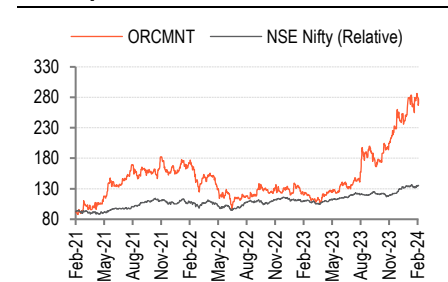
Source: NSE | Price as of 6 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	31,417	35,385	38,809
EBITDA (Rs mn)	3,646	4,577	5,272
Adj. net profit (Rs mn)	1,229	1,740	2,353
Adj. EPS (Rs)	6.0	8.5	11.5
Consensus EPS (Rs)	6.0	10.5	12.7
Adj. ROAE (%)	7.9	10.4	12.7
Adj. P/E (x)	46.2	32.7	24.1
EV/EBITDA (x)	16.5	13.3	11.5
Adj. EPS growth (%)	(53.3)	41.6	35.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Volumes and Realisations	<p>Sales volume in Q3FY24 fell 3% YoY to 1.4mt due to elections in key market states, a labour shortage, festivals, and construction bans in Mumbai/Pune markets. During the quarter, 64% of ORCMNT's volumes were dispatched to western markets, ~27% to southern and ~9% to central markets.</p> <p>Management targets volumes of ~6.2mt for FY24 (implies ~1.8mt in Q4FY24).</p>	<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>	Limited volume growth is likely to lack momentum in the event of faster industry growth.
Margin	<p>Cement prices picked up for the first six weeks of Q3FY24 but corrected thereafter and ended the quarter near Q2 exit prices. B2C volumes in Telangana fell 29% YoY.</p> <p>Pet coke prices declined 10% YoY. Blended fuel cost was Rs 1.8/kcal at Devapur and Rs 2/kcal at Chittapur.</p>	<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 Q2 with slightly higher increases in southern markets.</p> <p>Pet coke prices declined 14% YoY, and management remains watchful of international prices which are currently rising. Blended fuel cost was Rs 1.8/kcal at Devapur and Rs 2.16/kcal at Chittapur. Operating margin was also affected due to planned maintenance at the Devapur plant (ballpark cost of ~Rs 100mn).</p>	We see no major operating efficiency levers for ORCMNT. Reversal in pricing can put pressure on earnings.
Capacity	<p>Devapur expansion continues to await forest and environmental clearance. Chittapur expansion too awaits environment clearance post a public hearing which has been scheduled for 17 Feb 2024.</p> <p>A location for the 2mt grinding unit in Madhya Pradesh has been finalised at Sarni, Satpura, subject to final negotiations with the state electricity board and ORCMNT's board.</p> <p>For the 3.2mt Rajasthan greenfield expansion, management does not expect any construction activity for at least three years, after which the project will attract estimated capex of Rs 2.5bn-2.6bn.</p>	<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.</p>	Barring debottlenecking, we do not expect capacity expansion to come through over the next two years.
Capex	Estimated capex for the Chittapur expansion and Madhya Pradesh grinding unit is ~Rs 20bn which is expected to be incurred in FY25 and FY26.	Estimated capex for the Devapur and Madhya Pradesh projects is ~Rs 20bn. Management does not expect significant outlay in Q3FY24.	Aggressive execution of capacity expansion looks unlikely.
Debt	Total borrowings as on Q3FY24 was north of ~Rs 1.5bn (including working capital).	Borrowings for financing projects stood at ~Rs 1.7bn during Q2FY24 with working capital borrowings at ~Rs 1bn.	Debt commentary is indicative of only limited capex.

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

Fig 2 – Key metrics

(Rs)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Volumes (mt)	1.4	1.4	(2.7)	1.4	(2.3)
Cement realisations (Rs/t)	5,397	5,121	5.4	5,057	6.7
Operating costs (Rs/t)	4,568	4,489	1.8	4,449	2.7
EBITDA (Rs/t)	829	632	31.2	607	36.5

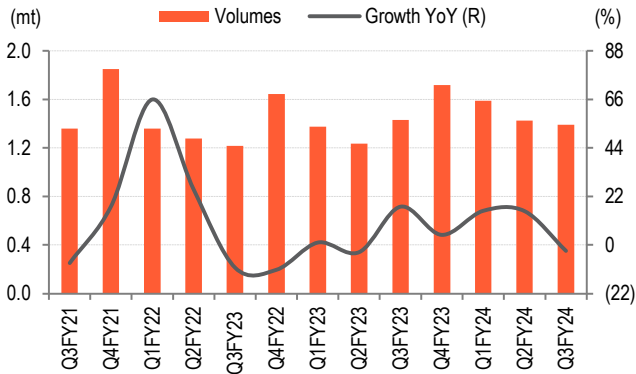
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	7,513	7,323	2.6	7,206	4.3
Expenditure					
Change in stock	87	(44)	-	(107)	-
Raw material	1,045	989	5.7	1,057	(1.1)
purchased products	0	0	0.0	0	0
Power & fuel	1,945	2,274	(14.4)	2,191	(11.2)
Freight	1,950	1,963	(0.7)	1,918	1.7
Employee costs	471	426	10.8	462	2.1
Other expenditure	860	811	5.9	821	4.8
Total Operating Expenses	6,359	6,420	(0.9)	6,340	0.3
EBITDA	1,154	903	27.8	865	33.4
EBITDA margin (%)	15.4	12.3	302bps	12.0	335bps
Other Income	19	11	68.8	17	14.2
Interest	79	97	(18.9)	86	(8.9)
Depreciation	377	371	1.5	371	1.4
PBT	718	446	60.8	424	69.2
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	718	446	60.8	424	69.2
Tax	268	171	56.4	178	50.5
Tax Rate (%)	37	38	(105bps)	42	(463bps)
Reported PAT	450	275	63.5	246	82.7
Adjusted PAT	450	275	63.5	246	82.7
NPM (%)	6.0	3.8	223bps	3.4	257bps
Adjusted EPS (Rs)	2.2	1.3	63.5	1.2	82.7

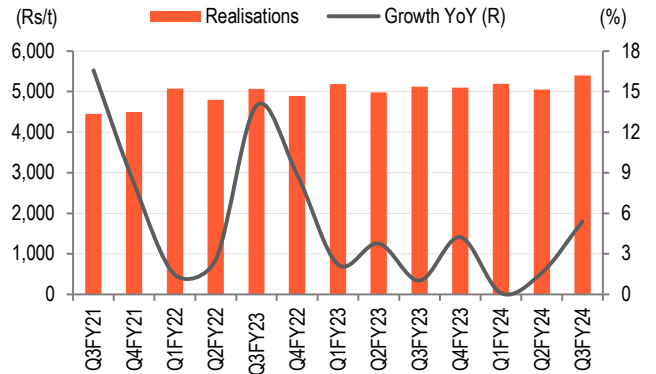
Source: Company, BOBCAPS Research

Fig 4 – Volume will likely remain soft



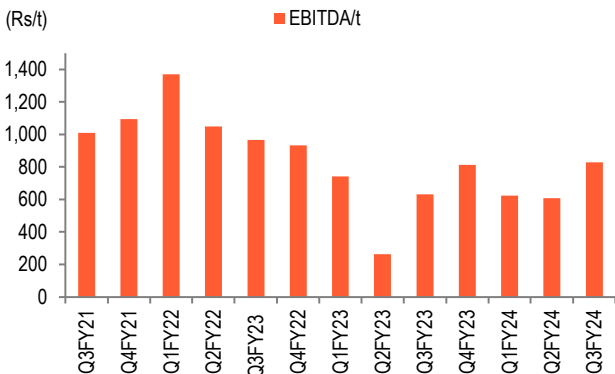
Source: Company, BOBCAPS Research

Fig 5 – Realisation gains can reverse



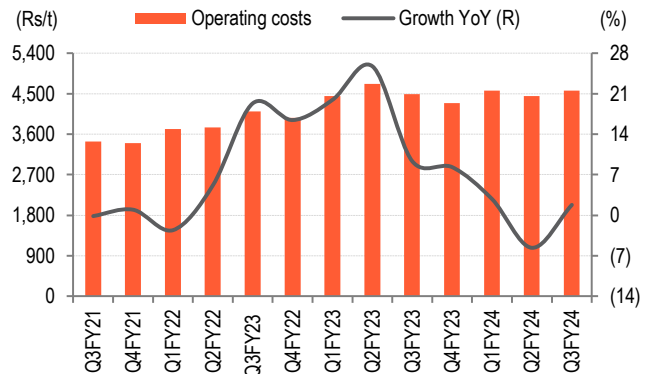
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t up from a low base



Source: Company, BOBCAPS Research

Fig 7 – Cost efficiencies driven by energy cost savings



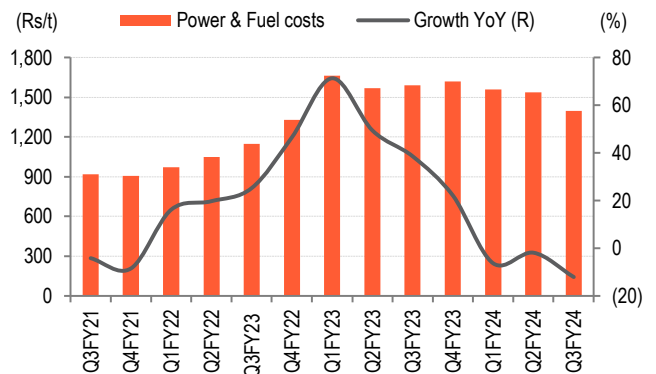
Source: Company, BOBCAPS Research

Fig 8 – Logistics cost could remain elevated



Source: Company, BOBCAPS Research

Fig 9 – Energy cost levers limited



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our FY24 estimates but cut FY25 EPS by 3% as management commentary on the expansion drive remains guarded and the cost levers available with ORCMNT are already captured in our model. We now introduce FY26 forecasts for the company, projecting a revenue/EBITDA CAGR of 11%/17% for FY23-FY26.

Our SELL rating stands as valuations have run up over the past couple of months and, at upwards of ~10x FY26E EV/EBITDA, appear unjustified given the company's limited growth prospects and likelihood of mounting earnings pressure. Post estimate revision, we have a new TP of Rs 168 (vs. Rs 128), based on a higher 6x EV/EBITDA multiple (from 5x) due to better balance sheet health and rollover of valuations to FY26E. Our TP implies a replacement cost of Rs 61bn/mt, 40% below the industry mean.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	35,385	38,809	42,371	35,385	39,534	NA	0.0	(1.8)	NA
EBITDA	4,577	5,272	5,800	4,577	5,512	NA	0.0	(4.4)	NA
Adj PAT	1,740	2,353	2,730	1,740	2,442	NA	0.0	(3.6)	NA
Adj EPS (Rs)	8.5	11.5	13.3	8.5	11.9	NA	0.0	(3.4)	NA

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	5.8	6.4	6.8	7.2
Realisations (Rs/t)	5,411	5,546	5,685	5,855
Operating costs (Rs/t)	4,794	4,835	4,918	5,059
EBITDA/t (Rs/t)	623	712	767	796

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	6
EBITDA	5,800
Target EV	34,797
Total EV	34,797
Net debt	462
Target market capitalisation	34,336
Target price (Rs/sh)	168
Weighted average shares (mn)	205

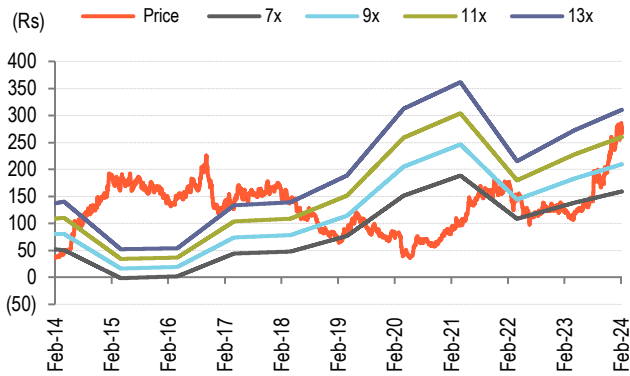
Source: BOBCAPS Research

Fig 13 – 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	168	16.5	13.3	11.5	43	41	39	7.9	10.4	12.7	10.5	12.8	13.7
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

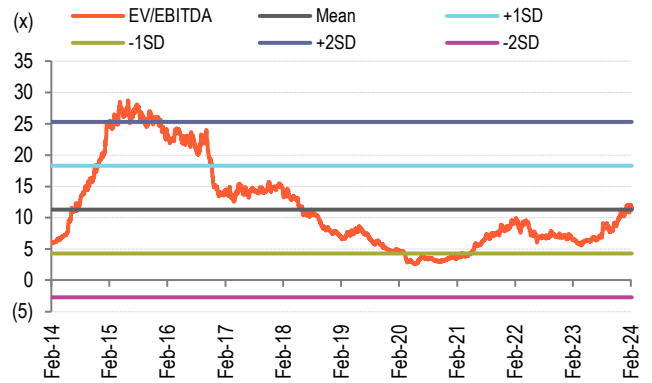
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: Current valuations unjustified



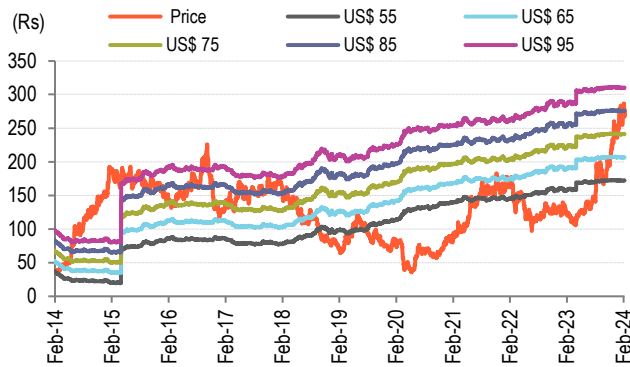
Source: Company, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Expect stock to revert to mean



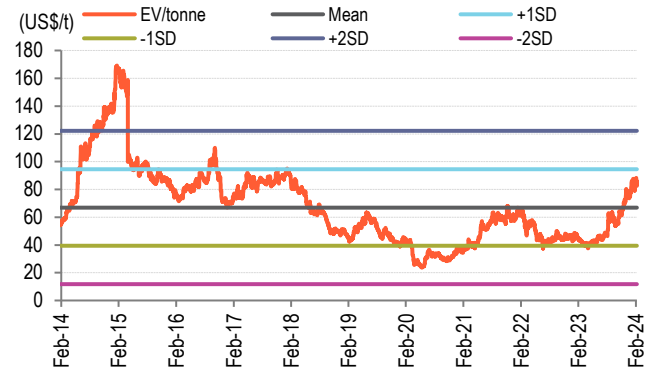
Source: Company, BOBCAPS Research

Fig 16 – EV/tonne: Replacement cost looks steep



Source: Company, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd



Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster-than-expected capex execution, and
- above-expected decline in energy cost.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.8	2,528	2,542	HOLD
Ambuja Cements	ACEM IN	13.7	567	552	HOLD
Dalmia Bharat	DALBHARA IN	4.9	2,190	2,443	HOLD
JK Cement	JKCE IN	4.1	4,340	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.3	921	551	SELL
Orient Cement	ORCMNT IN	0.7	277	168	SELL
Shree Cement	SRCM IN	12.1	27,569	27,836	HOLD
Star Cement	STRCEM IN	1.0	189	159	HOLD
The Ramco Cements	TRCL IN	2.8	990	661	SELL
Ultratech Cement	UTCEN IN	35.3	10,049	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 6 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	30,640	31,417	35,385	38,809	42,371
EBITDA	5,911	3,646	4,577	5,272	5,800
Depreciation	(1,452)	(1,468)	(1,486)	(1,483)	(1,557)
EBIT	4,554	2,298	3,226	3,936	4,418
Net interest inc./(exp.)	(514)	(378)	(429)	(377)	(317)
Other inc./(exp.)	96	121	136	147	176
Exceptional items	0	0	0	0	0
EBT	4,040	1,920	2,797	3,559	4,101
Income taxes	(1,407)	(691)	(1,057)	(1,205)	(1,371)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,633	1,229	1,740	2,353	2,730
Adjustments	0	0	0	0	0
Adjusted net profit	2,633	1,229	1,740	2,353	2,730

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,310	2,147	2,873	3,127	3,410
Other current liabilities	2,599	2,863	2,903	2,944	2,985
Provisions	802	869	883	897	911
Debt funds	3,135	3,983	7,086	7,521	7,956
Other liabilities	2,517	2,869	2,912	2,955	3,000
Equity capital	205	205	205	205	205
Reserves & surplus	15,049	15,833	17,265	19,312	21,735
Shareholders' fund	15,254	16,038	17,470	19,516	21,940
Total liab. and equities	26,617	28,768	34,127	36,961	40,201
Cash and cash eq.	438	743	3,338	4,016	7,619
Accounts receivables	1,273	1,689	1,890	2,073	2,264
Inventories	1,866	3,509	2,133	2,339	2,554
Other current assets	1,391	1,328	1,427	1,534	1,650
Investments	100	0	0	0	0
Net fixed assets	20,292	19,203	18,280	17,279	16,234
CWIP	398	1,397	6,000	8,500	8,500
Intangible assets	859	897	1,058	1,219	1,380
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	26,617	28,767	34,127	36,961	40,201

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	4,653	1,180	5,125	3,874	4,301
Capital expenditures	(463)	(1,376)	(5,327)	(3,324)	(824)
Change in investments	1,051	58	(83)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	587	(1,317)	(5,410)	(3,324)	(824)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(4,703)	848	3,103	435	435
Interest expenses	0	0	0	0	0
Dividends paid	(461)	(461)	(307)	(307)	(307)
Other financing cash flows	0	14	1	0	0
Cash flow from financing	(5,164)	401	2,797	128	128
Chg in cash & cash eq.	76	264	2,511	678	3,604
Closing cash & cash eq.	438	743	3,338	4,016	7,619

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	12.8	6.0	8.5	11.5	13.3
Adjusted EPS	12.8	6.0	8.5	11.5	13.3
Dividend per share	2.2	2.2	1.5	1.5	1.5
Book value per share	74.5	78.3	85.3	95.3	107.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.9	1.9	1.7	1.6	1.3
EV/EBITDA	10.1	16.5	13.3	11.5	9.2
Adjusted P/E	21.6	46.2	32.7	24.1	20.8
P/BV	3.7	3.5	3.3	2.9	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	65.2	64.0	62.2	66.1	66.6
Interest burden (PBT/EBIT)	88.7	83.6	86.7	90.4	92.8
EBIT margin (EBIT/Revenue)	14.9	7.3	9.1	10.1	10.4
Asset turnover (Rev./Avg TA)	112.0	113.4	112.5	109.2	109.8
Leverage (Avg TA/Avg Equity)	1.9	1.8	1.9	1.9	1.9
Adjusted ROAE	18.6	7.9	10.4	12.7	13.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	19.4	2.5	12.6	9.7	9.2
EBITDA	7.3	(38.3)	25.5	15.2	10.0
Adjusted EPS	22.9	(53.3)	41.6	35.3	16.0
Profitability & Return ratios (%)					
EBITDA margin	19.2	11.6	12.9	13.6	13.7
EBIT margin	14.8	7.3	9.1	10.1	10.4
Adjusted profit margin	8.6	3.9	4.9	6.1	6.4
Adjusted ROAE	18.6	7.9	10.4	12.7	13.2
ROCE	20.9	10.5	12.8	13.7	14.1
Working capital days (days)					
Receivables	15	20	20	20	20
Inventory	22	41	22	22	22
Payables	34	28	34	34	34
Ratios (x)					
Gross asset turnover	1.0	1.0	1.1	1.2	1.3
Current ratio	0.9	1.2	1.3	1.4	1.9
Net interest coverage ratio	8.9	6.1	7.5	10.4	13.9
Adjusted debt/equity	0.2	0.2	0.4	0.4	0.4

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

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BUY – Expected return >+15%

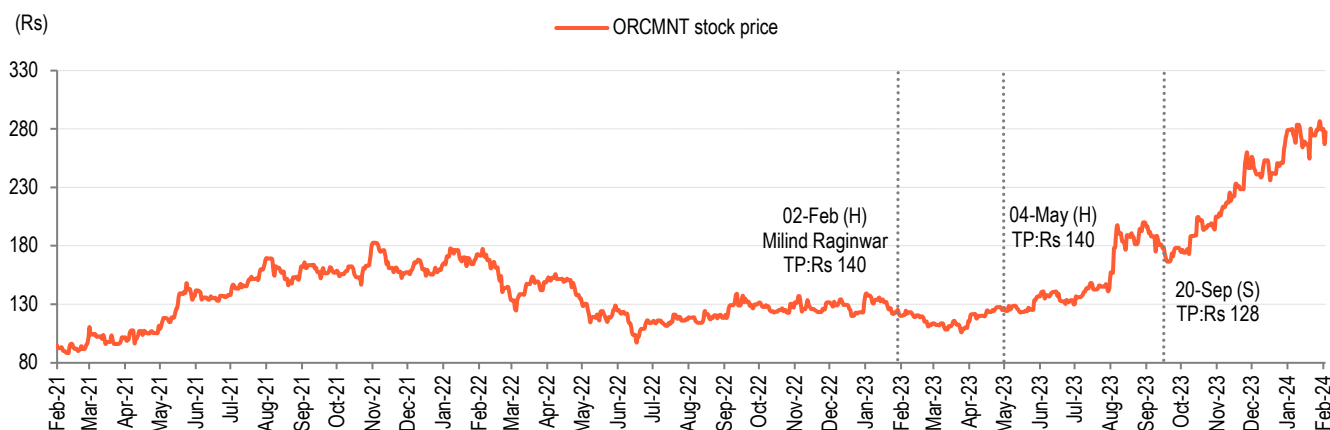
HOLD – Expected return from -6% to +15%

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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