

**HOLD**

TP: Rs 140 | ▲ 10%

**ORIENT CEMENT**

Cement

04 May 2023

### Listless performance

- Focus on realisation gains curbed Q4 volume growth at 5% YoY, indicating lacklustre demand in key areas
- Operating efficiencies lags behind industry, keeping margins under pressure
- Maintain HOLD for a TP of Rs 140 (unchanged), valuing the stock at 5x FY25E EV/EBITDA

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**Steady revenue growth, focus on realisation gains:** ORCMNT's Q4FY23 revenue grew 9% YoY (+20% QoQ) to Rs 8.7bn. Volume recovery was slow at 5% YoY (+20% QoQ) to 1.7mn tonnes as the company focused on realisation gains (+4% YoY, flat QoQ as prices were 0.5% lower than Q3).

**Cost driven by high energy cost, softening QoQ:** Operating cost rose 8% YoY (-5% QoQ) to Rs 4,287/t due to higher energy expenses which climbed 22% YoY (+2% QoQ) to Rs 1,620/t (Rs 2,242/t adjusting for raw material cost, +15% YoY, flat QoQ). Logistics cost rose 6% YoY (-1% QoQ) to Rs 1,364/t owing to higher transportation by road during Q4 (84% from 75% in the year-ago quarter) and average distance slightly above 300km. Other expenditure declined 6% YoY (-2% QoQ) to Rs 797mn.

**Cost inflation keeps margins under pressure:** EBITDA declined 9% YoY (+54% QoQ) to Rs 1.4bn with 315bps YoY margin contraction to 15.9% (+360bps QoQ from a lower base of 12.3%). EBITDA/t was at Rs 812/t vs. Rs 933/t in Q4FY22. Adj. PAT fell 8% YoY (+145% QoQ) to Rs 674mn.

**Capacity expansion plans:** Chittapur expansion will double capacity from the current 3mt (2mt clinker), with work to commence from Q3FY24. Devapur expansion is guided to be delayed until the grinding unit is under construction as the Tiroda project has been cancelled. The company plans to set up a 2mt grinding unit at Madhya Pradesh, with work to commence by FY26.

**Performance triggers weak, retain HOLD:** We expect the pace of capacity expansion to slow considerably following the cancellation of Tiroda plans and attendant delays for the linked Devapur clinkerisation. The Chittapur and Madhya Pradesh grinding units are unlikely to fructify before FY26. This would guard the balance sheet from stress but cap growth triggers. Cost inflation is likely to constrain margin gains as well. We thus maintain our HOLD rating for a TP of Rs 140 (unchanged), valuing the stock at 5x FY25E EV/EBITDA, which implies a replacement cost of Rs 40bn/mt – 42% below the industry average.

### Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	ORCMNT IN/Rs 127
Market cap	US\$ 317.5mn
Free float	62%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 149/Rs 96
Promoter/FPI/DII	38%/6%/11%

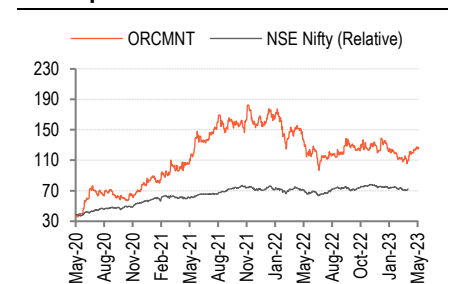
Source: NSE | Price as of 4 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	29,375	37,917	42,259
EBITDA (Rs mn)	3,738	4,693	6,017
Adj. net profit (Rs mn)	1,228	1,757	2,725
Adj. EPS (Rs)	6.0	8.6	13.3
Consensus EPS (Rs)	6.0	11.7	12.4
Adj. ROAE (%)	7.8	10.5	14.6
Adj. P/E (x)	21.1	14.8	9.5
EV/EBITDA (x)	7.7	5.8	4.3
Adj. EPS growth (%)	(53.4)	43.1	55.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY23	Q3FY23	Our view
Volume and Realisation	<p>Volume target for FY24 is 6.5mt.</p> <p>Pricing 0.5% lower than Q3FY23.</p> <p>OPC share has gone up to 43%; thus, capacity utilisation of clinker is 98% and cement 80%. Trade sales reduced to 51% from 61% a year-ago.</p> <p>Premium product share increased 22% YoY. Exposure to the western region rose to 61% from 53% a year-ago.</p>	<p>Volumes guided to grow above 10% in FY24 though ORCMNT is targeting growth above 15%.</p> <p>Capacity utilisation was above 70% in Q3, and management expects sale volumes of ~5.8mt for FY23.</p> <p>Share of B2B was above 51% against 41% in Q3FY22. OPC share has gone up to 47%. Better traction seen in the western region with 56% share of volumes sold.</p>	<p>Volume target looks achievable but shift towards OPC will put margins under pressure.</p>
Margin	<p>The fuel mix is 53% domestic coal, 35% pet coke and alternative fuel for the balance.</p> <p>Power and fuel cost stood at Rs 1,570/t, an increase of 19% YoY, with pet coke prices softening (benefits to accrue with a lag).</p> <p>There has been no change in domestic coal price.</p>	<p>Power and fuel cost was below Rs 2.2/kcal. The fuel mix was equally divided between domestic coal and pet coke at 40% and the rest towards alternate fuel and raw material.</p> <p>Management expects coal prices to soften but pet coke prices to remain high.</p>	<p>No major operating efficiency levers; fuel cost the only major respite.</p>
Capacity	<p>Chittapur expansion will double capacity from the current 3mt (2mt clinker); work to commence from Q3FY24.</p> <p>Plans to set up a 2mt grinding unit at Madhya Pradesh; work to commence by FY26.</p>	NA	<p>Capacity expansion unlikely in the near term.</p>
Capex	<p>Chittapur expansion to cost Rs 15bn-16bn, of which Rs 6bn is to be spent in FY24.</p> <p>Capex for Devapur forest clearance will be Rs 1.5bn and land acquisition for Rajasthan greenfield will cost Rs 1bn. Total capex including for waste heat recovery system and solar plant guided at Rs 10.5bn for FY24.</p>	<p>Capex for FY23 to be limited to Rs 1.5bn.</p>	<p>Aggressive capex plan; needs equally aggressive execution which is unlikely.</p>
Debt	<p>Total debt of Rs 4bn.</p> <p>Management expects debt to be in the range of Rs 6bn-7bn towards capacity expansion, with a maximum debt/equity ratio of 1.5x.</p>	<p>Total debt as on date was ~Rs 4bn, of which interest-bearing debt was ~Rs 3.7bn</p>	<p>Debt commentary indicative of only grinding unit addition in the near future.</p>

Source: Company, BOBCAPS Research

**Fig 2 – Key metrics**

(Rs)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Volumes (mn mt)	1.7	1.6	4.6	1.4	20.1
Cement realisations (Rs/mt)	5,099	4,893	4.2	5,121	(0.4)
Operating costs (Rs/mt)	4,287	3,959	8.3	4,489	(4.5)
EBITDA (Rs/mt)	812	933	(13.0)	632	28.5

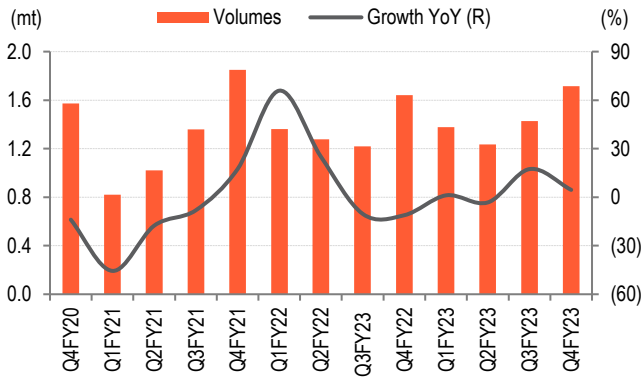
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
<b>Net Sales</b>	<b>8,760</b>	<b>8,039</b>	<b>9.0</b>	<b>7,323</b>	<b>19.6</b>
<b>Expenditure</b>					
Change in stock	(206)	(86)		(44)	
Raw material	1,274	1,104	15.5	989	28.8
purchased products	0	0	0.0	0	0
Power & fuel	2,783	2,183	27.5	2,274	22.4
Freight	2,344	2,119	10.6	1,963	19.4
Employee costs	372	340	9.7	426	(12.5)
Other expenditure	797	845	(5.7)	811	(1.8)
Total Operating Expenses	7,366	6,505	13.2	6,420	14.7
<b>EBITDA</b>	<b>1,395</b>	<b>1,533</b>	<b>(9.1)</b>	<b>903</b>	<b>54.4</b>
EBITDA margin (%)	15.9	19.1	(316bps)	12.3	358bps
Other Income	48	20	143.9	11	328.0
Interest	95	49	95.1	97	(1.9)
Depreciation	365	366	(0.4)	371	(1.7)
PBT	983	1,138	(13.6)	446	120.2
Non-recurring items	-	-	-	-	-
PBT (after non-recurring items)	983	1,138	(13.6)	446	120.2
Tax	309	406		171	80.5
Tax Rate (%)	31	36	(11.8)	38	
Reported PAT	674	732	(8.0)	275	144.9
<b>Adjusted PAT</b>	<b>674</b>	<b>732</b>	<b>(8.0)</b>	<b>275</b>	<b>144.9</b>
NPM (%)	7.7	9.1	(15.6)	3.8	393bps
<b>Adjusted EPS (Rs)</b>	<b>3.3</b>	<b>3.6</b>	<b>(8.0)</b>	<b>1.3</b>	<b>144.9</b>

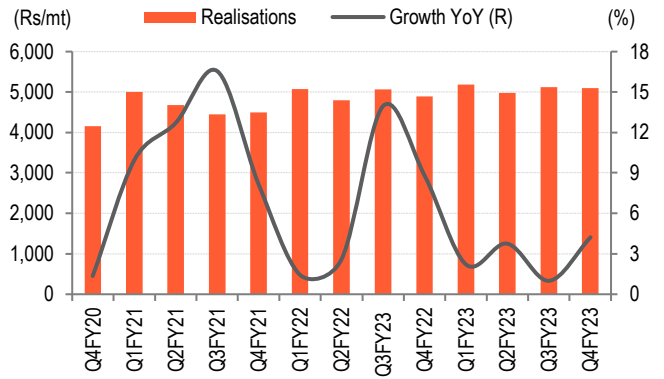
Source: Company, BOBCAPS Research

**Fig 4 – Volume growth continues to be restricted**



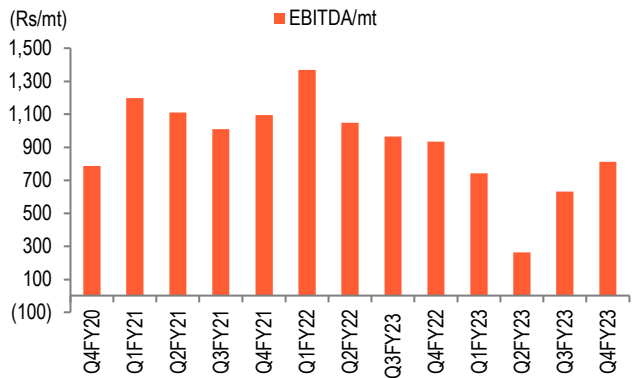
Source: Company, BOBCAPS Research

**Fig 5 – Non-remunerative markets dent realisation gains**



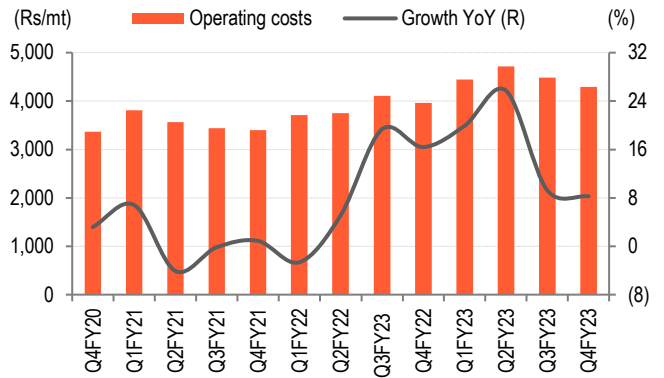
Source: Company, BOBCAPS Research

**Fig 6 – Operating profits continue to be under pressure**



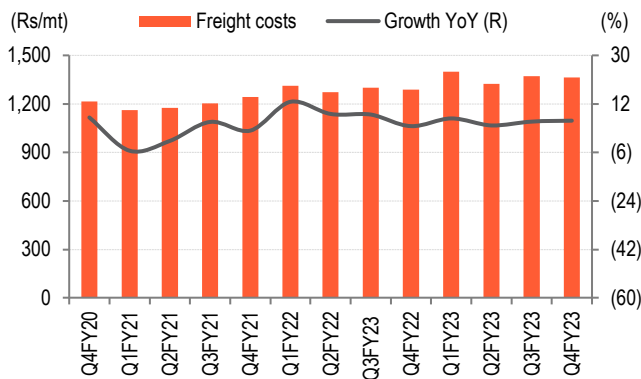
Source: Company, BOBCAPS Research

**Fig 7 – Limited cost respite**



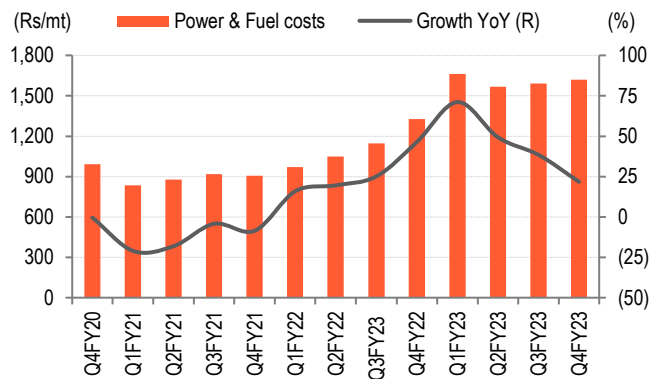
Source: Company, BOBCAPS Research

**Fig 8 – Logistics cost stays elevated, above the industry**



Source: Company, BOBCAPS Research

**Fig 9 – Fuel cost respite as coal/pet coke prices soften**



Source: Company, BOBCAPS Research

## Valuation methodology

We model for a modest revenue CAGR of 11% for ORCMNT over FY22-FY25 with flat EBITDA and PAT growth. On the capacity expansion front, we anticipate a considerable slowdown following the cancellation of Tiroda (Maharashtra) plans and attendant delays for the linked Devapur (Telangana) clinkerisation. Further, the Chittapur (Karnataka) and Madhya Pradesh grinding units are unlikely to fructify before FY26. This would guard the balance sheet from stress but cap growth triggers. Cost inflation is likely to constrain margin gains as well.

We thus maintain our HOLD rating for a TP of Rs 140 (unchanged), valuing the stock at 5x FY25E EV/EBITDA, which implies a replacement cost of Rs 40bn/mt – 42% below the industry average. Though our valuation is at a steep discount to the industry, we believe maintaining the critical balance between balance sheet stress and growth will be the key for ORCMNT and expect the discount to shrink once clarity on growth and margin improvement emerges.

**Fig 10 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	5.5	5.8	6.5	7.1
Realisations (Rs/mt)	5,555	5,100	5,793	5,924
Operating costs (Rs/mt)	4,512	4,467	5,091	5,094
EBITDA/mt (Rs)	1,059	633	703	830

Source: Company, BOBCAPS Research

**Fig 11 – Valuation summary**

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	5
EBITDA	6,017
Target EV	28,882
Total EV	28,882
Net debt	200
Target market capitalization	28,682
Target price (Rs/sh)	140
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	HOLD	140	7.6	5.7	4.3	43	41	39	7.8	10.5	14.6	10.6	14.1	19.0
STRCEM IN	BUY	138	12.2	10.6	7.6	111	129	120	9.6	10.7	13.3	13.3	15.4	18.1
JKLC IN	SELL	551	13.7	12.1	10.8	98	96	105	12.7	13.6	14.6	16.8	17.7	17.4

Source: Company, BOBCAPS Research

## Key risks

- Faster softening of fuel cost than expected will be a key upside risk to earnings.
- Any further competitive pressure in key operating regions will increase the downside risk to earnings.
- Prolonged demand weakness will translate into stress on realisations and could prove detrimental to growth.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.1	1,766	1,964	HOLD
Ambuja Cements	ACEM IN	9.4	388	375	HOLD
Dalmia Bharat	DALBHARA IN	4.6	2,024	1,917	HOLD
JK Cement	JKCE IN	2.9	3,024	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	767	551	SELL
Orient Cement	ORCMNT IN	0.3	127	140	HOLD
Shree Cement	SRCM IN	10.8	24,456	24,656	HOLD
Star Cement	STRCEM IN	0.6	123	138	BUY
The Ramco Cements	TRCL IN	2.2	754	534	SELL
Ultratech Cement	UTCEM IN	26.5	7,502	8,678	BUY

Source: BOBCAPS Research, NSE | Price as of 4 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>25,652</b>	<b>30,640</b>	<b>29,375</b>	<b>37,917</b>	<b>42,259</b>
EBITDA	5,507	5,911	3,738	4,693	6,017
Depreciation	(1,419)	(1,452)	(1,468)	(1,581)	(1,483)
EBIT	4,272	4,555	2,297	3,186	4,611
Net interest inc./(exp.)	(936)	(514)	(378)	(342)	(300)
Other inc./(exp.)	183	96	27	74	77
Exceptional items	0	0	0	0	0
EBT	3,336	4,040	1,919	2,844	4,310
Income taxes	(1,194)	(1,407)	(691)	(1,087)	(1,586)
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>1,228</b>	<b>1,757</b>	<b>2,725</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,142</b>	<b>2,633</b>	<b>1,228</b>	<b>1,757</b>	<b>2,725</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	1,844	2,310	2,397	3,104	3,385
Other current liabilities	2,665	2,599	3,252	2,676	2,715
Provisions	903	802	854	827	839
Debt funds	7,838	3,135	3,383	2,614	2,549
Other liabilities	1,811	2,517	2,869	2,912	2,955
Equity capital	205	205	205	205	205
Reserves & surplus	12,854	15,050	15,832	17,282	19,700
Shareholders' fund	13,059	15,255	16,037	17,487	19,905
<b>Total liab. and equities</b>	<b>28,121</b>	<b>26,617</b>	<b>28,792</b>	<b>29,619</b>	<b>32,349</b>
Cash and cash eq.	362	438	743	1,719	2,474
Accounts receivables	1,102	1,273	1,689	2,026	2,258
Inventories	1,705	1,866	3,509	2,285	2,547
Other current assets	1,315	1,391	1,353	1,614	1,740
Investments	1,151	100	0	0	0
Net fixed assets	21,228	20,292	20,042	19,024	18,068
CWIP	413	398	516	1,850	4,000
Intangible assets	844	859	940	1,101	1,262
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>28,792</b>	<b>29,619</b>	<b>32,349</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>5,467</b>	<b>4,653</b>	<b>1,880</b>	<b>4,110</b>	<b>4,103</b>
Capital expenditures	(517)	(463)	(1,478)	(2,058)	(2,974)
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>(1,420)</b>	<b>(2,142)</b>	<b>(2,974)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,532)	(4,703)	248	(769)	(65)
Interest expenses	0	0	0	0	0
Dividends paid	(256)	(461)	(307)	(307)	(307)
Other financing cash flows	(10)	0	(138)	0	0
<b>Cash flow from financing</b>	<b>(3,798)</b>	<b>(5,164)</b>	<b>(197)</b>	<b>(1,076)</b>	<b>(372)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2</b>	<b>76</b>	<b>263</b>	<b>893</b>	<b>756</b>
<b>Closing cash &amp; cash eq.</b>	<b>362</b>	<b>438</b>	<b>743</b>	<b>1,719</b>	<b>2,474</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	10.5	12.9	6.0	8.6	13.3
Adjusted EPS	10.5	12.9	6.0	8.6	13.3
Dividend per share	1.3	2.2	1.5	1.5	1.5
Book value per share	63.7	74.5	78.3	85.4	97.2

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	1.3	0.9	1.0	0.7	0.6
EV/EBITDA	6.1	4.8	7.7	5.8	4.3
Adjusted P/E	12.1	9.9	21.1	14.8	9.5
P/BV	2.0	1.7	1.6	1.5	1.3

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	64.2	65.2	64.0	61.8	63.2
Interest burden (PBT/EBIT)	78.1	88.7	83.6	89.3	93.5
EBIT margin (EBIT/Revenue)	16.7	14.9	7.8	8.4	10.9
Asset turnover (Rev./Avg TA)	89.8	112.0	106.0	129.8	136.4
Leverage (Avg TA/Avg Equity)	2.4	1.9	1.8	1.7	1.7
<b>Adjusted ROAE</b>	<b>17.7</b>	<b>18.6</b>	<b>7.8</b>	<b>10.5</b>	<b>14.6</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(1.1)	19.4	(4.1)	29.1	11.5
EBITDA	43.8	7.3	(36.8)	25.6	28.2
Adjusted EPS	147.3	22.9	(53.4)	43.1	55.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	21.5	19.2	12.7	12.3	14.2
EBIT margin	16.6	14.8	7.8	8.4	10.9
Adjusted profit margin	8.3	8.6	4.2	4.6	6.4
Adjusted ROAE	17.7	18.6	7.8	10.5	14.6
ROCE	18.4	20.9	10.6	14.1	19.0
<b>Working capital days (days)</b>					
Receivables	16	15	21	20	20
Inventory	24	22	44	22	22
Payables	33	34	34	34	34
<b>Ratios (x)</b>					
Gross asset turnover	0.9	1.0	0.9	1.2	1.3
Current ratio	0.8	0.9	1.1	1.2	1.3
Net interest coverage ratio	4.6	8.9	6.1	9.3	15.4
<b>Adjusted debt/equity</b>	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>

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%

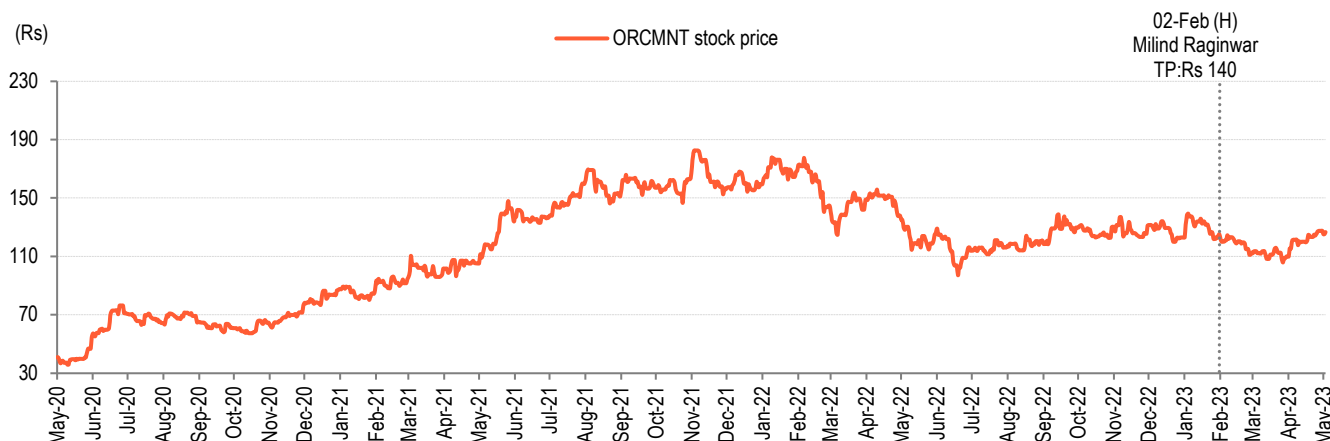
**HOLD** – Expected return from -6% to +15%

**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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