

RESEARCH
ORIENT CEMENT | TARGET: Rs 128 | -28% | SELL

Expansion woes, lofty valuations – cut to SELL

SUMMARY
ORIENT CEMENT

- 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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Daily macro indicators

Indicator	18-Sep	19-Sep	Chg (%)
US 10Y yield (%)	4.30	4.36	6bps
India 10Y yield (%)	7.20	7.19	(1bps)
USD/INR	83.18	83.27	(0.1)
Brent Crude (US\$/bbl)	94.4	94.3	(0.1)
Dow	34,624	34,518	(0.3)
Hang Seng	17,931	17,997	0.4
Sensex	67,839	67,597	(0.4)
India FII (US\$ mn)	14-Sep	15-Sep	Chg (\$ mn)
FII-D	56.5	(65.5)	(122.0)
FII-E	83.0	36.2	(46.8)

Source: Bank of Baroda Economics Research



SELL

TP: Rs 128 | ▼ 28%

ORIENT CEMENT

| Cement

| 18 September 2023

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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.

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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%

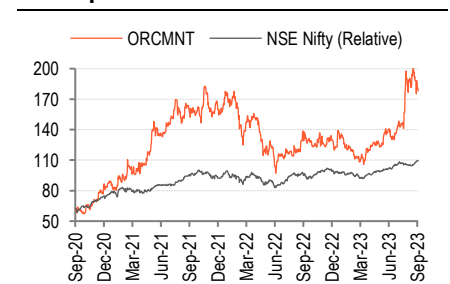
Source: NSE | Price as of 18 Sep 2023

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



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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

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