

SELL

TP: Rs 177 | ▼ 48%

ORIENT CEMENT

Cement

06 August 2024

No major performance triggers; valuations stretched

- Q1 reported revenue declined 16% YoY to Rs 1.35mn/t, impacted by ~15% YoY fall in volumes
- EBITDA/t rose 13.4% YoY to Rs 708 backed by cost of raw material and power cost savings. However, we believe it can revert to past run rate
- We introduce FY27 earnings and value the stock at 6x 1-year forward EV/EBITDA. We raise TP to Rs 177 (from Rs 147) and retain SELL

Milind Raginwar

research@bobcaps.in

Muted revenue performance driven by impact of volumes: ORCMNT's Q1FY25 revenue declined 16%/22% YoY/QoQ to Rs 6.9bn and Rs 1.35mn/t as volumes fell 15%/21% YoY/QoQ. Despite this, the realisation still fell 1.1% YoY (flat QoQ) to Rs 5,135/t indicating weakness in performance. Capacity utilisation fell to 68% from 79% in Q1FY24.

Fall in operating cost supported EBITDA margin: Operating cost fell 3.1% YoY but rose 3.3% QoQ to Rs 4,427/t as energy expenses (raw material adjusted) fell 12% YoY (~3% QoQ) to Rs 2,046/t as a result of decline in pet coke prices. Logistics cost/t grew 3%/2% YoY/QoQ as lead distance stayed up and increased road volumes. Other expenditure fell 11%/15% QoQ/YoY to Rs 801mn. EBITDA fell 3.2%/35.2% YoY/QoQ to Rs 960mn, operating margin rose from 180bps YoY but fell 290bps QoQ to 3.8%. EBITDA/t jumped to Rs 708, rising 13.4% YoY but falling 17.5% QoQ. Adj PAT stayed flat YoY but fell 46.2% QoQ to Rs 367mn.

Plans for capacity expansion: ORCMNT plans to double capacity at the Chittapur plant from 3mnt of cement capacity to 6mnt with commensurate clinker expansion. At Devapur, clinkerisation expansion will be followed by split grinding capacity of 1mnt in Devapur and grinding unit capacity of 2mnt in Sarni, Madhya Pradesh.

Estimates maintained, introduce FY27 earnings: We retain our FY25/FY26 estimates but will watch what happens carefully. We introduce FY27 earnings estimates with Revenue/EBTIDA 3-year CAGR of 10% each. We have not factored in any major capex or expansion as clearances are still awaited.

Retain SELL: We maintain SELL as valuations shot up over the past 1-2 quarters and stayed above 12x-13x, which is clearly unjustified given limited growth prospects and the likelihood of mounting earnings pressure. The major run-up is on consolidation buzz with a few more companies up for grabs. Our new TP of Rs 177 (from Rs 147) is based on 6x 1-year forward EV/EBITDA based on fundamentals. Our TP implies a replacement cost of Rs 65bn/mnt, below the industry average of Rs 75bn, given size, balance sheet credentials and efficiencies of ORCMNT.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ORCMNT IN/Rs 339
Market cap	US\$ 827.4mn
Free float	62%
3M ADV	US\$ 8.8mn
52wk high/low	Rs 370/Rs 161
Promoter/FPI/DII	38%/6%/11%

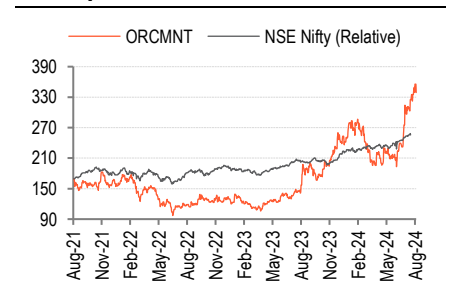
Source: NSE | Price as of 6 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	31,851	35,544	39,712
EBITDA (Rs mn)	4,492	4,681	5,473
Adj. net profit (Rs mn)	1,749	2,086	2,565
Adj. EPS (Rs)	8.5	10.2	12.5
Consensus EPS (Rs)	8.5	12.0	13.8
Adj. ROAE (%)	10.4	11.4	12.6
Adj. P/E (x)	39.7	33.3	27.1
EV/EBITDA (x)	15.7	14.9	12.6
Adj. EPS growth (%)	42.3	19.3	23.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q1FY25	Q4FY24	Our view
Volume and realisations	Sales volume in Q1FY25 fell double digits by 15%/21% YoY/QoQ to Rs 1.35mn per tonne. In Q1FY25, 68% of ORCMNT's volumes were dispatched to India's western market, ~24% to southern and ~8% to Central. ORCMNT indicated soft demand in Jul'24 in terms of volume and pricing due to monsoon season but expects demand to revive post monsoon.	Sales volume in Q4FY24 was flat YoY at 1.7mnt due to labour shortage and election mode across regions. In 4QFY24, 67% of ORCMNT's volumes were dispatched to India's western markets, ~24% to southern and ~9% to central. Management expects demand weakness to continue in 1QFY25.	In the event of faster industry growth, likely in FY26, limited volume growth for ORCMNT will imply lack of momentum.
Margin	Cement prices remained soft in Jul'24 during the monsoons and a similar trend was observed by ORCMNT in the first few days of Aug'24. Fuel mix comprised 40% domestic coal, 42% pet coke and 18% alternative fuels. Aggregate blended fuel cost was Rs 1.78/kcal in Q1FY25 compared to Rs 2.1/kcal YoY.	Cement prices were steady in Jan and Feb but fell in Mar'24. In Apr, prices picked up but would meaningfully reverse only after Jun according to ORCMNT's management. Fuel mix was 45% domestic coal, 34% pet coke and 21% alternative fuel. Aggregate blended fuel cost was Rs 1.77/kcal.	We see no major operating efficiency levers for ORCMNT except for WHRS and AFR. Pricing pressure may offset cost efficiencies with neutral impact on earnings.
Capacity	ORCMNT plans to double capacity at Chittapur plant from 3mnt of cement capacity to 6mnt with commensurate clinker expansion. At Devapur clinkerisation expansion will be followed by split grinding capacity of 1mnt in Devapur and 2mnt grinding capacity unit in Sarni, Madhya Pradesh. ORCMNT awaits environment clearances for its Chittapur plant expansion and mining expansion. ORCMNT implemented a waste heat recovery system (benefit of Rs 0.09bn) and solar power (benefit of Rs 0.03bn) in Q1FY25. At the Jalgaon grinding unit (GU), out of the 3.7MW of solar power that ORCMNT proposed, 3.4MW is operational and 17MW at the Chittapur plant will commence shortly.	Devapur expansion continues to await clearance. The Chittapur expansion too awaits clearance, however, pace has gathered relatively in movement in bureaucracy. The clearance now awaits the nod from the Pollution Control Board. A location for the 2mnt grinding unit in Madhya Pradesh has been finalised at Sarni, Satpura, subject to final negotiations with the state electricity board and ORCMNT's board. For the 3.2mnt Rajasthan greenfield expansion, the mines acquisition has been registered and this will facilitate the land acquisition.	We do not expect capacity expansion to come through over the next two years. Meaningful capacity will be available post FY27 as environmental clearances have not been received yet.
Capex	Estimated capex for the Chittapur expansion and Madhya Pradesh GU is ~Rs 20bn (Rs 15bn for Chittapur and Rs 5bn for Sarni), and Rs1bn for land acquisition in Rajasthan. In Devapur, ~Rs 1.5bn needs to be paid to the government to get the Stage 1 clearance converted into Stage 2 clearance.	Estimated capex for the Chittapur expansion and Madhya Pradesh GU is ~Rs 20bn, which is expected to be incurred in FY25 and FY26. In FY25, Rs 5bn will be earmarked for the Chittapur expansion, and Rs 1bn for land acquisition in Rajasthan.	We await clearances before factoring in any meaningful capex in the next couple of years.

Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery System, AFR: Alternative Fuels and Raw Material

Fig 2 – Key metrics

(Rs)	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %
Volumes (mt)	1.36	1.59	(14.7)	1.73	(21.4)
Cement realisations (Rs/t)	5,135	5,193	(1.1)	5,145	(0.2)
Operating costs (Rs/t)	4427	4569	(3.1)	4287	3.3
EBITDA (Rs/t)	708	624	13.4	858	(17.5)

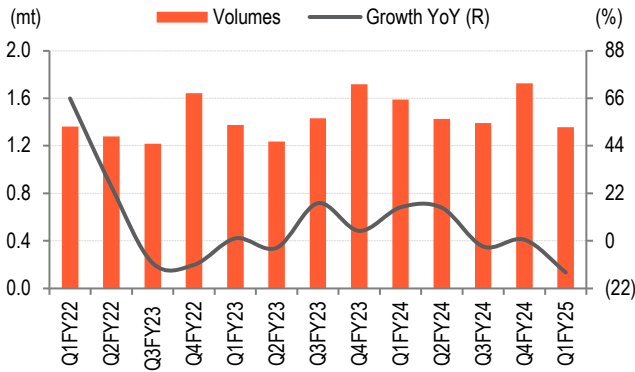
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %
Net Sales	6,963	8,252	(15.6)	8,880	(21.6)
Expenditure					
Change in stock	(55)	55	-	7	-
Raw material	997	1,175	(15.2)	1,290	(22.7)
purchased products	0	0	0.0	0	0
Power & fuel	1,832	2,475	(26.0)	2,329	(21.3)
Freight	1,920	2,181	(12.0)	2,402	(20.1)
Employee costs	508	471	7.9	431	17.8
Other expenditure	801	903	(11.3)	939	(14.8)
Total Operating Expenses	6,003	7,260	(17.3)	7,399	(18.9)
EBITDA	960	992	(3.2)	1,481	(35.2)
EBITDA margin (%)	13.8	12.0	177bps	16.7	(289bps)
Other Income	61	44	38.3	75	(18.5)
Interest	56	97	(41.8)	80	(29.3)
Depreciation	386	367	5.0	376	2.5
PBT	579	572	1.3	1,100	(47.3)
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	579	572	1.3	1,100	(47.3)
Tax	212	202	5.1	418	(49.3)
Tax Rate (%)	37	35	136bps	38	(139bps)
Reported PAT	367	370	(0.9)	682	(46.2)
Adjusted PAT	367	370	(0.9)	682	(46.2)
NPM (%)	5.3	4.5	78bps	7.7	(241bps)
Adjusted EPS (Rs)	1.8	1.8	(0.9)	3.3	(46.2)

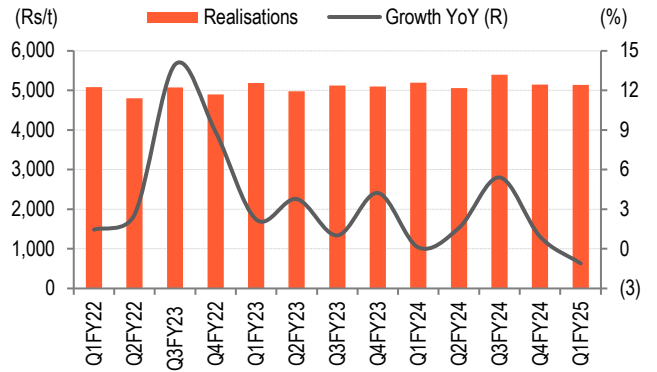
Source: Company, BOBCAPS Research

Fig 4 – Volume to stay slack in FY25



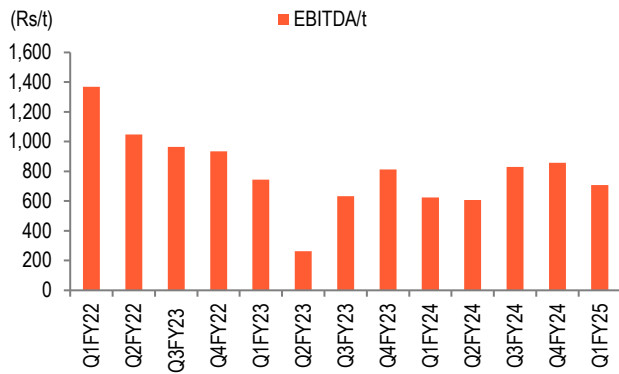
Source: Company, BOBCAPS Research

Fig 5 – Realisation gains unlikely to reverse in short term



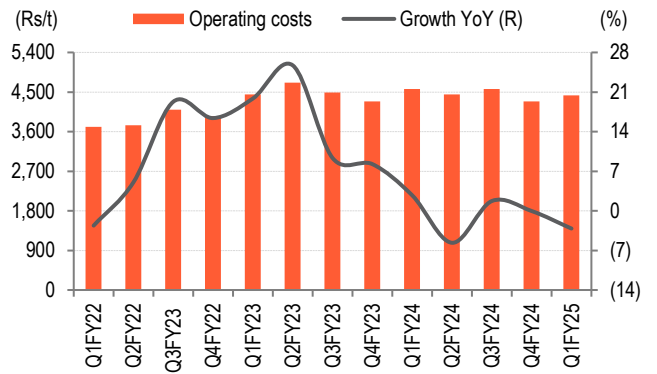
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t gains are more optical and can reverse



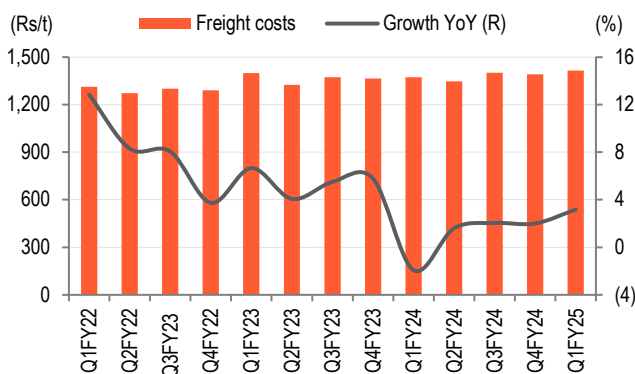
Source: Company, BOBCAPS Research

Fig 7 – Operating cost levers limited going forward



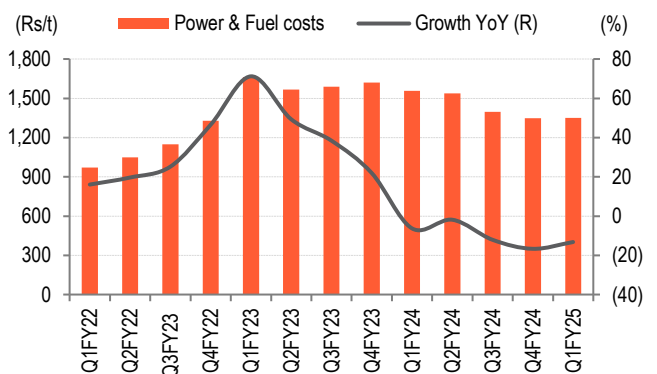
Source: Company, BOBCAPS Research

Fig 8 – Logistics cost could remain inflated



Source: Company, BOBCAPS Research

Fig 9 – Energy cost levers to emanate from power savings



Source: Company, BOBCAPS Research

Valuation methodology

We retain our FY25/FY26 estimates while continuing to watch company developments carefully. We introduce FY27E earnings with Revenue/EBITDA 3-year CAGR of 10% each. We have not factored in any major capex or expansion as clearances are still awaited.

Our SELL rating continues as valuations have shot up over the past one to two quarters by over 12x-13x which is clearly unjustified given limited growth prospects and likelihood of mounting earnings pressure. The major valuation run-up is on consolidation buzz with a few more companies. We have a new TP of Rs 177 (from Rs 147), based on 6x 1-year forward EV/EBITDA given the company's fundamentals. Our TP implies a replacement cost of Rs 65bn/mt, below the industry average of Rs 75bn given ORCMNT's size, balance sheet credentials and efficiencies.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	35,544	39,712	43,147	35,544	39,712	NA	0.0	0.0	NA
EBITDA	4,681	5,473	6,083	4,681	5,473	NA	0.0	0.0	NA
Adj PAT	2,086	2,565	3,013	2,086	2,565	NA	0.0	0.0	NA
Adj EPS (Rs)	10.2	12.5	14.7	10	13	NA	0.0	0.0	NA

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	6.1	6.3	6.8	7.2
Realisations (Rs/t)	5,411	5,207	5,193	5,299
Operating costs (Rs/t)	4,468	4,399	4,481	4,531
EBITDA/t (Rs/t)	704	749	803	842

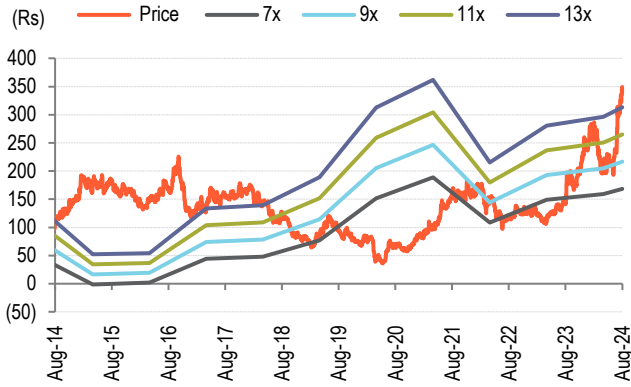
Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	6.44
EBITDA	5,473
Target EV	35,248
Total EV	35,248
Net debt	98
Target market capitalisation	35,150
Target price (Rs/sh)	177
Weighted average shares (mn)	204.87

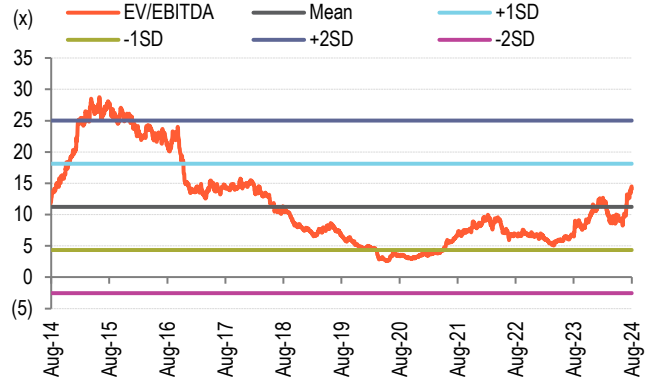
Source: BOBCAPS Research | Note: Valuations are 1-year forward including FY27 earnings partially

Fig 13 – EV/EBITDA band: Valuations run up following industry consolidation



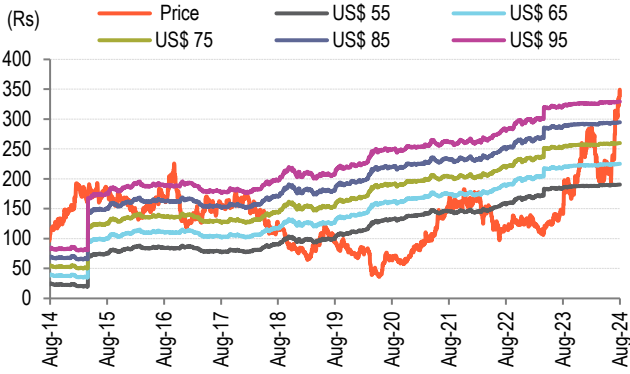
Source: Company, Bloomberg, BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: Current valuations way ahead of earnings



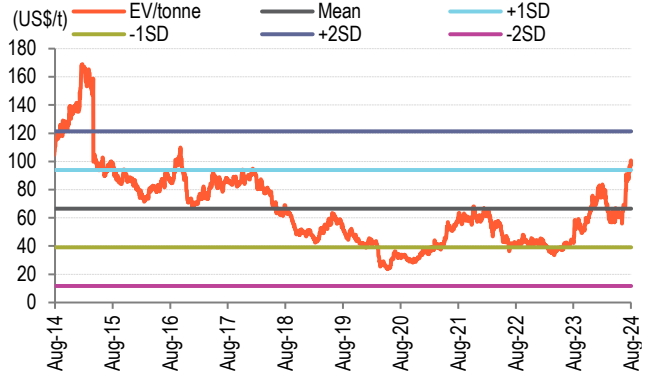
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/tonne: Replacement cost valuations has inflated too



Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: 1Y fwd fundamentals lack support for the recent run up



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster-than-expected capex execution,
- above-expected decline in energy cost, and
- faster demand and cement price revival.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	31,417	31,851	35,544	39,712	43,147
EBITDA	3,646	4,492	4,681	5,473	6,083
Depreciation	(1,468)	(1,492)	(1,483)	(1,557)	(1,635)
EBIT	2,298	3,156	3,372	4,078	4,662
Net interest inc./(exp.)	(378)	(342)	(236)	(201)	(154)
Other inc./(exp.)	121	155	175	162	215
Exceptional items	0	0	0	0	0
EBT	1,920	2,814	3,137	3,877	4,508
Income taxes	(691)	(1,066)	(1,051)	(1,312)	(1,495)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,229	1,749	2,086	2,565	3,013
Adjustments	0	0	0	0	0
Adjusted net profit	1,229	1,749	2,086	2,565	3,013

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,147	2,288	2,875	3,189	3,453
Other current liabilities	2,863	2,960	3,002	3,043	3,086
Provisions	869	799	814	828	843
Debt funds	3,983	1,696	1,468	1,642	1,523
Other liabilities	2,869	3,378	3,428	3,480	3,532
Equity capital	205	205	205	205	205
Reserves & surplus	15,833	17,228	19,006	21,264	23,970
Shareholders' fund	16,038	17,433	19,211	21,469	24,175
Total liab. and equities	28,768	28,555	30,797	33,651	36,611
Cash and cash eq.	743	885	1,424	1,669	2,085
Accounts receivables	1,689	2,244	1,899	2,122	2,423
Inventories	3,509	3,402	2,142	2,394	2,719
Other current assets	1,328	925	1,002	1,085	1,242
Investments	0	0	0	0	0
Net fixed assets	19,203	19,429	18,390	18,281	17,880
CWIP	1,397	890	5,000	7,000	9,000
Intangible assets	897	779	940	1,101	1,262
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	28,767	28,554	30,797	33,651	36,611

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,180	3,718	6,008	4,203	4,467
Capital expenditures	(1,376)	(936)	(4,934)	(3,824)	(3,624)
Change in investments	58	(73)	(10)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(1,317)	(1,009)	(4,945)	(3,824)	(3,624)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	848	(2,287)	(229)	174	(119)
Interest expenses	0	0	0	0	0
Dividends paid	(461)	(359)	(307)	(307)	(307)
Other financing cash flows	14	6	0	0	0
Cash flow from financing	401	(2,639)	(536)	(133)	(426)
Chg in cash & cash eq.	264	69	528	245	416
Closing cash & cash eq.	743	885	1,423	1,669	2,085

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	6.0	8.5	10.2	12.5	14.7
Adjusted EPS	6.0	8.5	10.2	12.5	14.7
Dividend per share	2.2	1.8	1.5	1.5	1.5
Book value per share	78.3	85.1	93.8	104.8	118.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.3	2.2	2.0	1.7	1.6
EV/EBITDA	20.0	15.7	14.9	12.6	11.4
Adjusted P/E	56.5	39.7	33.3	27.1	23.1
P/BV	4.3	4.0	3.6	3.2	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	64.0	62.1	66.5	66.2	66.8
Interest burden (PBT/EBIT)	83.6	89.2	93.0	95.1	96.7
EBIT margin (EBIT/Revenue)	7.3	9.9	9.5	10.3	10.8
Asset turnover (Rev./Avg TA)	113.4	111.1	119.8	123.2	122.8
Leverage (Avg TA/Avg Equity)	1.8	1.7	1.6	1.6	1.5
Adjusted ROAE	7.9	10.4	11.4	12.6	13.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	2.5	1.4	11.6	11.7	8.7
EBITDA	(38.3)	23.2	4.2	16.9	11.1
Adjusted EPS	(53.3)	42.3	19.3	23.0	17.5
Profitability & Return ratios (%)					
EBITDA margin	11.6	14.1	13.2	13.8	14.1
EBIT margin	7.3	9.9	9.5	10.3	10.8
Adjusted profit margin	3.9	5.5	5.9	6.5	7.0
Adjusted ROAE	7.9	10.4	11.4	12.6	13.2
ROCE	10.5	13.9	14.5	16.1	16.7
Working capital days (days)					
Receivables	20	26	20	20	21
Inventory	41	39	22	22	23
Payables	28	31	34	34	34
Ratios (x)					
Gross asset turnover	1.0	1.0	1.1	1.2	1.2
Current ratio	1.2	1.2	1.0	1.0	1.1
Net interest coverage ratio	6.1	9.2	14.3	20.3	30.3
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.1

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

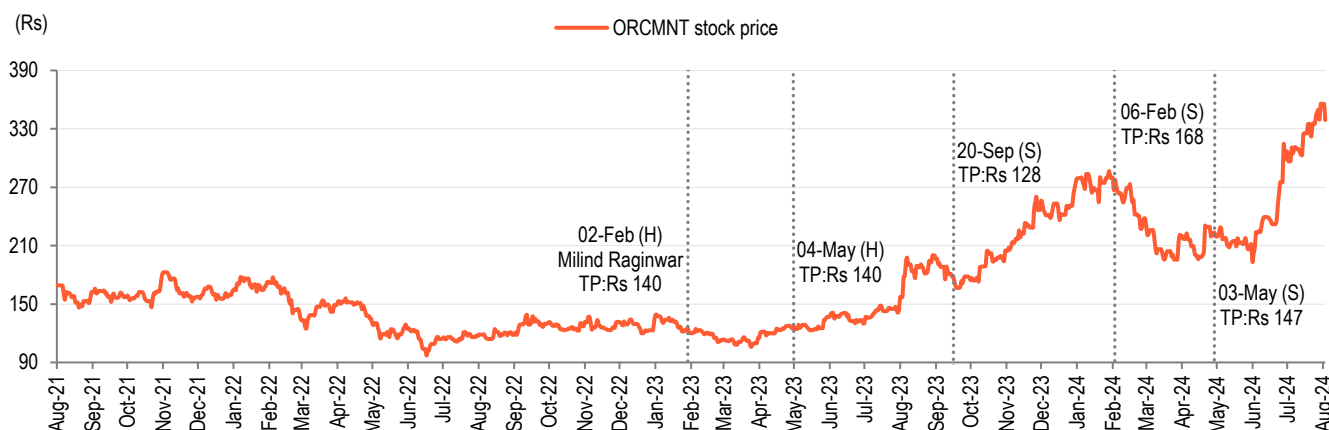
HOLD – Expected return from -6% to +15%

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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