

**COVERAGE DROP**

**ORIENT CEMENT**

Cement

18 November 2024

**Await growth strategy from acquirer; drop active coverage**

- Q2 reported revenue declined 25%/22% YoY/QoQ to ~Rs 5.44bn, driven by double-digit dip in volume. Realisation fell YoY
- EBITDA/t fell steeply by 33%/42% YoY/QoQ to Rs 405/t. Adjusted PAT dropped 91%/94% YoY/QoQ to Rs 23mn
- We have a SELL rating, but await a clear growth strategy from Adani Cement (acquirer). Till then we drop active coverage on ORCMNT

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**Muted revenue performance driven by impact of lower volumes:** ORCMNT reported muted revenue decline of 25%/22% YoY/QoQ to ~Rs 5.44bn in Q2FY25 driven by a double-digit dip in volume due to which realisation fell YoY. Volumes fell by ~23%/20% YoY/QoQ to 1.09mnt (excluding clinker sales), while realisation fell 2%/3% YoY/QoQ to Rs 4,982/t indicating continued weakness in the performance.

**Fall in operating cost supported EBITDA margin:** Operating cost increased by 3.1% YoY/QoQ to Rs 4,577/t. Energy expenses (raw material adjusted) fell 7% YoY (flat QoQ) to Rs 2,050/t due to waste heat recovery systems savings, decline in pet coke prices and increased usage of alternative fuels and raw material. Logistics cost grew 5% YoY (flat QoQ) to Rs 1,411/t as lead distance stayed above 300km. Other expenditure fell 13%/11% YoY/QoQ to Rs 711mn and EBITDA by 49%/54% YoY/QoQ to ~Rs 442mn. Overall EBITDA margin dropped from 400bps/570bps YoY/QoQ to 8.1%. EBITDA/t fell by 33%/42% YoY/QoQ to Rs 405/t. Adjusted PAT fell 91%/94% YoY/QoQ to Rs 23mn.

**Acquisition of ORCMNT by Ambuja Cement:** Ambuja Cement will acquire a 37.9% equity stake in ORCMNT from the existing promoters (entire stakes), and an additional 8.9% stake from certain shareholders (extended members of the current promoters). It will further announce an open offer to acquire up to 26% stake taking the total stake to 72.8%. The transaction is valued at an equity value of Rs 81bn at a share price of Rs 395.4 and shall be funded through internal accruals.

**Drop active coverage:** We had assigned a SELL rating prior to ORCMNT's acquisition by Adani Cement as valuations shot up over the past one to two quarters and stayed above 12x-13x, clearly unjustified given limited growth prospects and the likelihood of mounting earnings pressure. The major run-up was on the consolidation buzz. Following the acquisition of ORCMNT by Adani Cement, we await clarity on growth plans charted by the acquirer for ORCMNT, including organic and inorganic growth, funding for said growth and change in the marketing strategy from the non-premium to the premium category. Thus, we drop active coverage on ORCMNT with this note.

Ticker/Price	ORCMNT IN/Rs 334
Market cap	US\$ 811.3mn
Free float	62%
3M ADV	US\$ 9.0mn
52wk high/low	Rs 379/Rs 182
Promoter/FPI/DII	38%/6%/11%

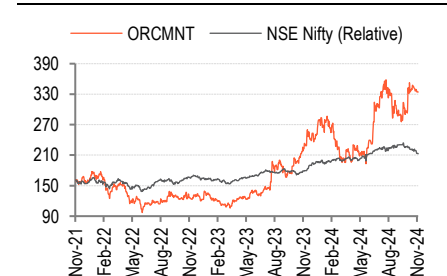
Source: NSE | Price as of 18 Nov 2024

**Key financials**

Y/E 31 Mar	FY22A	FY23A	FY24A
Total revenue (Rs mn)	30,640	31,417	31,851
EBITDA (Rs mn)	5,911	3,646	4,492
Adj. net profit (Rs mn)	2,633	1,229	1,749
Adj. EPS (Rs)	12.8	6	8.5
Adj. ROAE (%)	18.6	7.9	10.4
Adj. P/E (x)	26	55.7	39.2
EV/EBITDA (x)	12.0	19.7	15.5
Adj. EPS growth (%)	22.9	(53.3)	42.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Key metrics**

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Volumes (mn mt)	1.09	1.43	(23.4)	1.36	(19.5)	1.24	(11.9)
Cement realisations (Rs/t)	4,982	5,057	(1.5)	5,135	(3.0)	5,035	(1.1)
Operating costs (Rs/t)	4577	4449	2.9	4427	3.4	4,453	2.8
EBITDA/t (Rs)	405	607	(33.3)	708	(42.8)	582	(30.4)

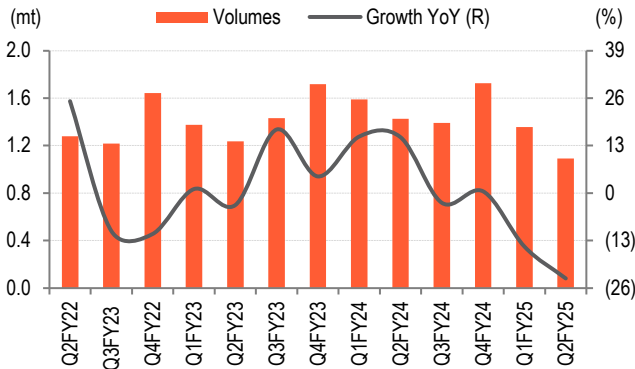
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
<b>Net Sales</b>	<b>5,440</b>	<b>7,206</b>	<b>(24.5)</b>	<b>6,963</b>	<b>(21.9)</b>	<b>6,242</b>	<b>(12.8)</b>
<b>Expenditure</b>							
Change in stock	89	(107)	-	(55)	-	(65)	(236.2)
Raw material	787	1,057	(25.5)	997	(21.1)	901	(12.7)
purchased products	0	0	0.0	0	0	0	0
Power & fuel	1,363	2,191	(37.8)	1,832	(25.6)	1,638	(16.8)
Freight	1,541	1,918	(19.7)	1,920	(19.7)	1,737	(11.3)
Employee costs	508	462	10.0	508	(0.1)	488	4.1
Other exp	711	821	(13.4)	801	(11.2)	822	(13.6)
Total Operating Expenses	4,998	6,340	(21.2)	6,003	(16.7)	5,521	(9.5)
<b>EBITDA</b>	<b>442</b>	<b>865</b>	<b>(48.9)</b>	<b>960</b>	<b>(53.9)</b>	<b>721</b>	<b>(38.7)</b>
EBITDA margin (%)	8.1	12.0	(388bps)	13.8	(566bps)	11.6	(343bps)
Other Income	36	17	113.7	61	(41.6)	22	62.5
Interest	56	86	(35.6)	56	(1.1)	55	1.2
Depreciation	391	371	5.3	386	1.4	398	(1.8)
PBT	31	424	(92.6)	579	(94.6)	290	(89.2)
Non-recurring items	0	0	0.0	0	0.0	0	
PBT (after non recurring items)	31	424	(92.6)	579	(94.6)	290	(89.2)
Tax	8	178	(95.5)	212	(96.2)	96	(91.7)
Reported PAT	23	246	(90.6)	367	(93.7)	194	(88.0)
<b>Adjusted PAT</b>	<b>23</b>	<b>246</b>	<b>(90.6)</b>	<b>367</b>	<b>(93.7)</b>	<b>194</b>	<b>(88.0)</b>
NPM (%)	0.4	3.4	(299bps)	5.3	(485bps)	3.1	(269bps)
<b>Adjusted EPS (Rs)</b>	<b>0.1</b>	<b>1.2</b>	<b>(90.6)</b>	<b>1.8</b>	<b>(93.7)</b>	<b>0.9</b>	<b>(88.0)</b>

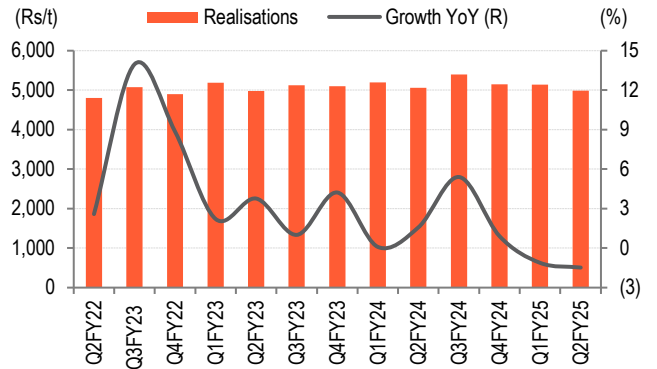
Source: Company, BOBCAPS Research

**Fig 3 – Volume weakness sharper than estimated**



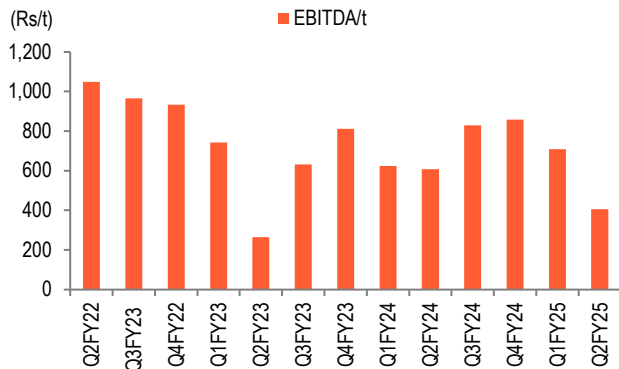
Source: Company, BOBCAPS Research

**Fig 4 – Realisation gains may not reverse in a hurry**



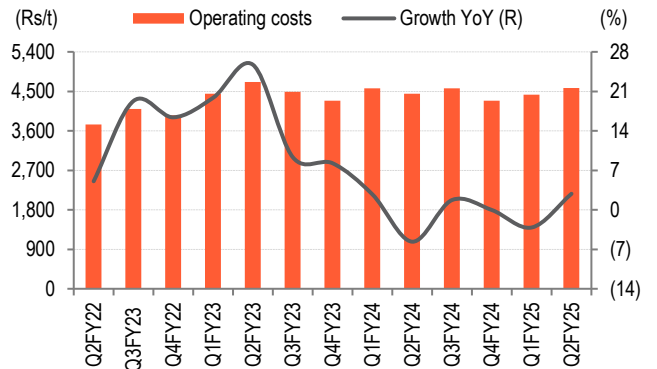
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA/t at low levels**



Source: Company, BOBCAPS Research

**Fig 6 – Operating cost levers limited going forward**



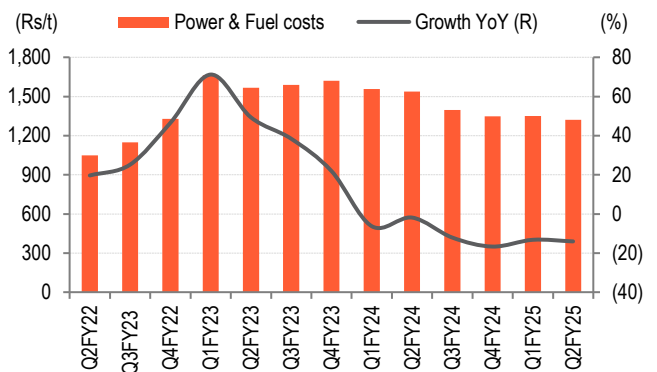
Source: Company, BOBCAPS Research

**Fig 7 – Logistics cost inflated as lead distance inches up**



Source: Company, BOBCAPS Research

**Fig 8 – Energy cost savings pace tapers off**



Source: Company, BOBCAPS Research

## Valuation methodology

We had assigned a SELL rating to ORCMNT prior to its acquisition by Adani Cement as valuations shot up over the past one to two quarters and stayed above 12x-13x, which was clearly unjustified, in our view, given limited growth prospects and the likelihood of mounting earnings pressure. The major run-up was on the consolidation buzz. Following the acquisition of the company by Adani Cement we await clarity about Adani Cement's growth plans for ORCMNT, including organic and inorganic growth, funding the same and the change in marketing strategy from the non-premium to the premium category. We drop active coverage on ORCMNT with this note.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24A
<b>Total revenue</b>	<b>25,925</b>	<b>25,652</b>	<b>30,640</b>	<b>31,417</b>	<b>31,851</b>
EBITDA	3,829	5,507	5,911	3,646	4,492
Depreciation	(1,409)	(1,419)	(1,452)	(1,468)	(1,492)
EBIT	2,597	4,272	4,554	2,298	3,156
Net interest inc./(exp.)	(1,223)	(936)	(514)	(378)	(342)
Other inc./(exp.)	177	183	96	121	155
Exceptional items	0	0	0	0	0
EBT	1,374	3,336	4,040	1,920	2,814
Income taxes	(508)	(1,194)	(1,407)	(691)	(1,066)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>866</b>	<b>2,142</b>	<b>2,633</b>	<b>1,229</b>	<b>1,749</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>866</b>	<b>2,142</b>	<b>2,633</b>	<b>1,229</b>	<b>1,749</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24A
Accounts payables	1,764	1,844	2,310	2,147	2,288
Other current liabilities	2,644	2,665	2,599	2,863	2,960
Provisions	818	903	802	869	799
Debt funds	11,370	7,838	3,135	3,983	1,696
Other liabilities	1,219	1,811	2,517	2,869	3,378
Equity capital	205	205	205	205	205
Reserves & surplus	10,979	12,854	15,049	15,833	17,228
Shareholders' fund	11,184	13,059	15,254	16,038	17,433
<b>Total liab. and equities</b>	<b>28,998</b>	<b>28,121</b>	<b>26,617</b>	<b>28,768</b>	<b>28,555</b>
Cash and cash eq.	360	362	438	743	885
Accounts receivables	1,618	1,102	1,273	1,689	2,244
Inventories	2,366	1,705	1,866	3,509	3,402
Other current assets	1,271	1,315	1,391	1,328	925
Investments	0	1,151	100	0	0
Net fixed assets	21,911	21,228	20,292	19,203	19,429
CWIP	668	413	398	1,397	890
Intangible assets	804	844	859	897	779
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>28,998</b>	<b>28,120</b>	<b>26,617</b>	<b>28,767</b>	<b>28,554</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24A
<b>Cash flow from operations</b>	<b>1,973</b>	<b>5,467</b>	<b>4,653</b>	<b>1,180</b>	<b>3,718</b>
Capital expenditures	(745)	(517)	(463)	(1,376)	(936)
Change in investments	0	(1,151)	1,051	58	(73)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(745)</b>	<b>(1,668)</b>	<b>587</b>	<b>(1,317)</b>	<b>(1,009)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(938)	(3,532)	(4,703)	848	(2,287)
Interest expenses	0	0	0	0	0
Dividends paid	(154)	(256)	(461)	(461)	(359)
Other financing cash flows	(64)	(10)	0	14	6
<b>Cash flow from financing</b>	<b>(1,155)</b>	<b>(3,798)</b>	<b>(5,164)</b>	<b>401</b>	<b>(2,639)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>72</b>	<b>2</b>	<b>76</b>	<b>264</b>	<b>69</b>
<b>Closing cash &amp; cash eq.</b>	<b>360</b>	<b>362</b>	<b>438</b>	<b>743</b>	<b>885</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23A	FY24A
Reported EPS	4.2	10.5	12.8	6.0	8.5
Adjusted EPS	4.2	10.5	12.8	6.0	8.5
Dividend per share	0.8	1.3	2.2	2.2	1.8
Book value per share	54.6	63.7	74.5	78.3	85.1

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23A	FY24A
EV/Sales	3.1	3.0	2.3	2.3	2.2
EV/EBITDA	20.8	13.8	12.0	19.7	15.5
Adjusted P/E	79.1	32.0	26.0	55.7	39.2
P/BV	6.1	5.2	4.5	4.3	3.9

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23A	FY24A
Tax burden (Net profit/PBT)	63.0	64.2	65.2	64.0	62.1
Interest burden (PBT/EBIT)	52.9	78.1	88.7	83.6	89.2
EBIT margin (EBIT/Revenue)	10.0	16.7	14.9	7.3	9.9
Asset turnover (Rev./Avg TA)	89.0	89.8	112.0	113.4	111.1
Leverage (Avg TA/Avg Equity)	2.7	2.4	1.9	1.8	1.7
Adjusted ROAE	8.0	17.7	18.6	7.9	10.4

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23A	FY24A
<b>YoY growth (%)</b>					
Revenue	(2.8)	(1.1)	19.4	2.5	1.4
EBITDA	22.7	43.8	7.3	(38.3)	23.2
Adjusted EPS	82.1	147.3	22.9	(53.3)	42.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	14.8	21.5	19.2	11.6	14.1
EBIT margin	10.0	16.6	14.8	7.3	9.9
Adjusted profit margin	3.3	8.3	8.6	3.9	5.5
Adjusted ROAE	8.0	17.7	18.6	7.9	10.4
ROCE	10.9	18.4	20.9	10.5	13.9
<b>Working capital days (days)</b>					
Receivables	23	16	15	20	26
Inventory	33	24	22	41	39
Payables	29	33	34	28	31
<b>Ratios (x)</b>					
Gross asset turnover	0.9	0.9	1.0	1.0	1.0
Current ratio	1.1	0.8	0.9	1.2	1.2
Net interest coverage ratio	2.1	4.6	8.9	6.1	9.2
Adjusted debt/equity	1.0	0.6	0.2	0.2	0.1

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

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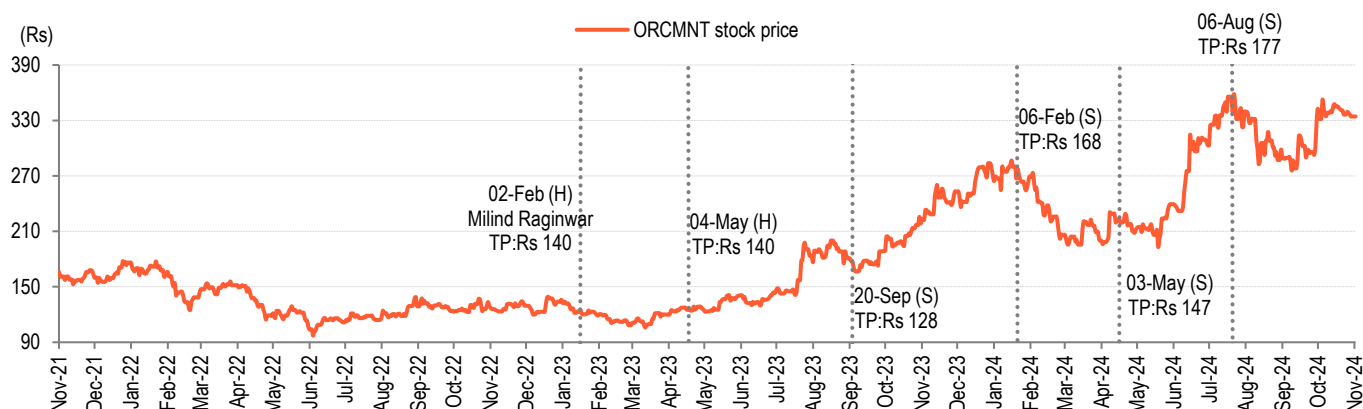
**HOLD** – Expected return from -6% to +15%

**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.

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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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