

**SELL**

TP: Rs 147 | ▼ 34%

**ORIENT CEMENT**

| Cement

| 03 May 2024

**Listless show; no major performance triggers**

- Q4 revenue growth subdued at 1% YoY as volumes stay flat YoY, guarding realisations a challenge
- Margins stay rangebound ~ at 16.7% compared to ~16% YoY. Power cost savings to assist in improving margins
- TP lowered to Rs 147 (vs. Rs 168) as we cut earnings by 11%/6% FY25/FY26 and value the stock at 6x FY26E EV/EBITDA. Retain SELL

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**No growth in volume and realisations:** ORCMNT's Q4FY24 revenue was flat (+1.3 %) YoY at Rs 8.9bn (+18% QoQ) as volumes and realisations stayed flat YoY at 1.7mn tonnes and Rs5,145/t. The listless performance was attributed to poor demand owing to labour shortfall and general elections.

**Margins stay range bound:** Operating cost was in control, staying flat YoY at Rs 4,287/t (-6% QoQ) as energy expenses (raw material adjusted) declined 6% YoY (-5% QoQ) to Rs 2,101/t following the decline in pet coke prices. Logistics cost/t inched up 2%/flat YoY/QoQ owing to an increase in lead distance and high transport costs in the Mumbai and Pune markets. Other expenditure surged 18%.9% YoY to Rs 939mn. Effectively, EBITDA grew 6% YoY (28% QoQ) to Rs 1.5bn, operating margin stayed ranged bound at 16.7%, versus 15.9% YoY, and EBITDA/t came at Rs 858/t (compared to Rs 812/t/829/t YoY/QoQ).

**Capacity expansions likely in FY26-end, effective volume in FY27:** ORCMNT's expansion plans for Devapur continue to be delayed, while Chittapur may add capacities by FY26-end. Management does not expect any construction activity at the 3.2mt Rajasthan greenfield expansion site for at least 2-3 years. The grinding unit in Madhya Pradesh (South) may be commissioned by FY26-end.

**Estimates revised to reflect slowing demand; challenging environment:** We cut our FY25/FY26 EPS by 11%/6% as management commentary suggests weak demand in FY25 and the cost levers available with ORCMNT are already captured in our model. We project a revenue/EBITDA CAGR of 8%/15% for FY23-FY26.

**Retain SELL:** Our SELL rating continues as valuations have run up over the past 3-4 quarters, staying upwards of ~9x FY26E EV/EBITDA, and appear unjustified given the limited growth prospects and likelihood of mounting earnings pressure. Post the estimates revision, we have a new TP of Rs 147 (previously Rs 168), based on 6x FY26E EV/EBITDA for better balance sheet health. Our TP implies a replacement cost of Rs 61bn/mt, 40% below the industry mean.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	ORCMNT IN/Rs 224
Market cap	US\$ 557.6mn
Free float	62%
3M ADV	US\$ 3.0mn
52wk high/low	Rs 294/Rs 120
Promoter/FPI/DII	38%/6%/11%

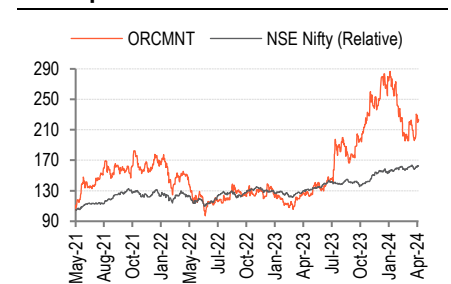
Source: NSE | Price as of 2 May 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	31,851	35,544	39,712
EBITDA (Rs mn)	4,529	4,676	5,469
Adj. net profit (Rs mn)	1,748	2,091	2,552
Adj. EPS (Rs)	8.5	10.2	12.5
Consensus EPS (Rs)	8.5	12.0	13.8
Adj. ROAE (%)	10.4	11.4	12.5
Adj. P/E (x)	26.2	21.9	18.0
EV/EBITDA (x)	10.2	10.5	8.0
Adj. EPS growth (%)	42.3	19.6	22.1

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

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q2FY24	Q3FY24	Our view
Volumes and realisations	<p>Sales volume in Q4FY24 was flat YoY at 1.7mt due to labour shortage and election mode across regions. In 4QFY24, 67% of ORCMNT's volumes were dispatched to western markets, ~24% to southern and ~9% to central India markets.</p> <p>Management expects demand weakness to continue in 1QFY25.</p>	<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 the Mumbai/Pune markets. During the quarter, 64% of ORCMNT's volumes were dispatched to western markets, and ~27% to southern and ~9% to central India markets.</p> <p>Management targets volumes of ~6.2mt for FY24 (implies ~1.8mt in Q4FY24).</p>	In the event of faster industry growth, which is likely in FY26, limited volume growth for ORCMNT will imply lack of momentum.
Margin	<p>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.</p> <p>Fuel mix was 45% domestic coal, 34% pet coke and 21% alternate fuel. Aggregate blended fuel cost was Rs 1.77/kcal.</p>	<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>	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	<p>Devapur expansion continues to await clearance. 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</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 the mines acquisition has been registered and this will facilitate the land acquisition.</p>	<p>Devapur expansion awaits forest and environmental clearances. Chittapur expansion too awaits environment clearance post a public hearing 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 3 years, after which the project will attract estimated capex of Rs 2.5bn-2.6bn.</p>	We do not expect capacity expansion to come through over the next two years, meaningful capacity will be available by FY27.
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. In FY25 Rs5bn will be earmarked for the Chittapur expansion, and Rs1bn for land acquisition in Rajasthan.	Estimated capex for the Chittapur expansion and Madhya Pradesh grinding unit is ~Rs 20bn which is expected to be incurred in FY25 and FY26.	Aggressive execution of capacity expansion looks unlikely.
Debt	Total borrowings in FY25/FY26 are expected to be ~Rs10bn-Rs15bn with debt/EBITDA at 2x.	Total borrowings as on Q3FY24 was north of ~Rs 1.5bn (including working capital).	Debt commentary indicates northward movement as ORCMNT enters capex mode.

Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery System, AFR: Alternative Fuel Resources

**Fig 2 – Key metrics**

(Rs)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Volumes (mt)	1.73	1.72	0.5	1.39	24.0
Cement realisations (Rs/t)	5,145	5,099	0.9	5,397	(4.7)
Operating costs (Rs/t)	4287	4287	(0.0)	4568	(6.2)
EBITDA (Rs/t)	858	812	5.7	829	3.5

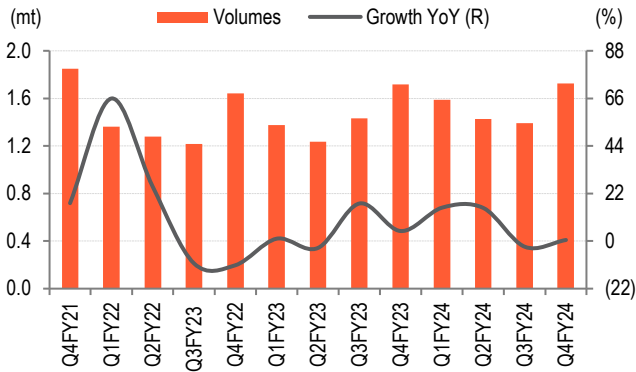
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
<b>Net Sales</b>	<b>8,880</b>	<b>8,760</b>	<b>1.4</b>	<b>7,513</b>	<b>18.2</b>
<b>Expenditure</b>					
Change in stock	7	(206)	-	87	-
Raw material	1,290	1,274	1.2	1,045	23.4
purchased products	0	0	0.0	0	0
Power & fuel	2,329	2,783	(16.3)	1,945	19.7
Freight	2,402	2,344	2.5	1,950	23.2
Employee costs	431	372	15.8	471	(8.5)
Other expenditure	939	797	17.8	860	9.3
Total Operating Expenses	7,399	7,366	0.5	6,359	16.4
<b>EBITDA</b>	<b>1,481</b>	<b>1,395</b>	<b>6.2</b>	<b>1,154</b>	<b>28.3</b>
EBITDA margin (%)	16.7	15.9	76bps	15.4	132bps
Other Income	75	48	54.9	19	293.2
Interest	80	95	(16.5)	79	1.0
Depreciation	376	365	3.2	377	(0.0)
PBT	1,100	983	11.9	718	53.3
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,100	983	11.9	718	53.3
Tax	418	309	35.2	268	56.1
Tax Rate (%)	38	31	655bps	37	69bps
Reported PAT	682	674	1.2	450	51.6
<b>Adjusted PAT</b>	<b>682</b>	<b>674</b>	<b>1.2</b>	<b>450</b>	<b>51.6</b>
NPM (%)	7.7	7.7	(1bps)	6.0	169bps
<b>Adjusted EPS (Rs)</b>	<b>3.3</b>	<b>3.3</b>	<b>1.2</b>	<b>2.2</b>	<b>51.6</b>

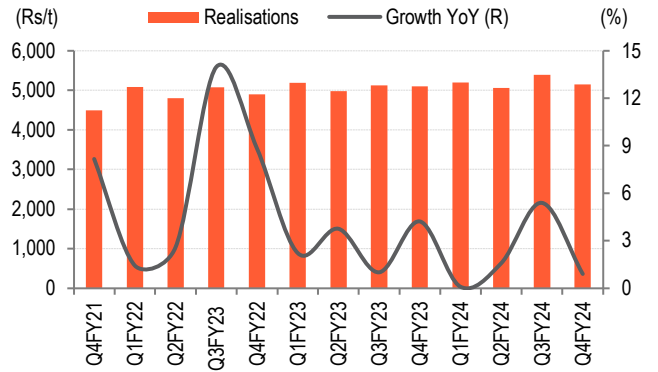
Source: Company, BOBCAPS Research

**Fig 4 – Volume to stay slack in FY25**



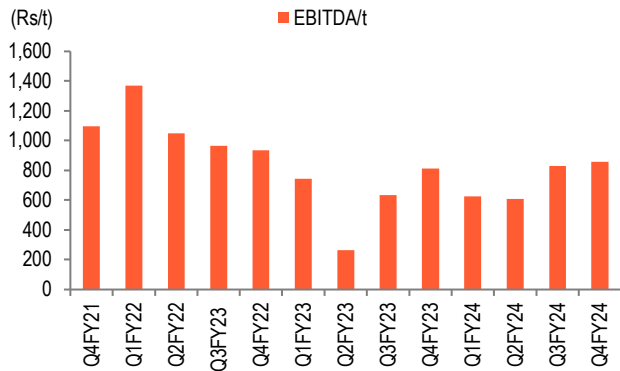
Source: Company, BOBCAPS Research

**Fig 5 – Realisation gains unlikely to reverse in short term**



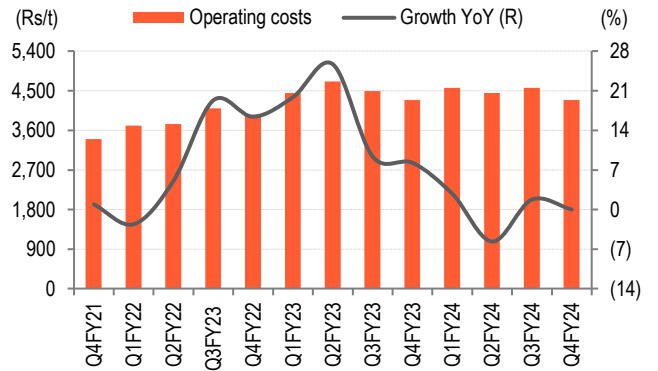
Source: Company, BOBCAPS Research

**Fig 6 – EBITDA/t may continue to stay bound with downward bias**



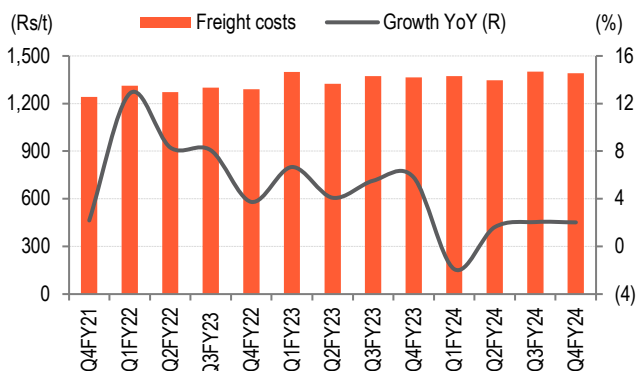
Source: Company, BOBCAPS Research

**Fig 7 – Cost efficiencies driven by energy cost savings**



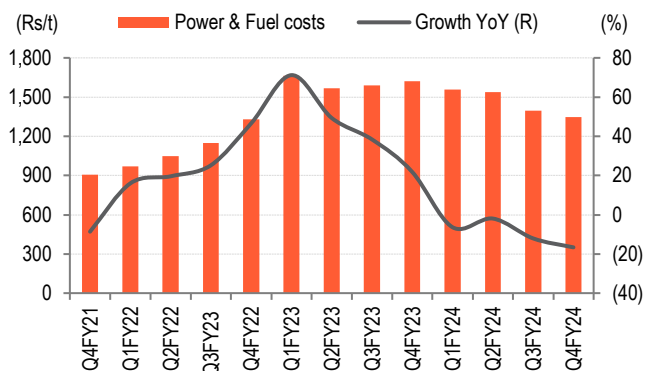
Source: Company, BOBCAPS Research

**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 cut our FY25/FY26 EPS by 11%/6% as management commentary suggests weak demand in FY25 and the cost levers available with ORCMNT are already captured in our model. We project a revenue/EBITDA CAGR of 8%/15% for FY23-FY26.

We maintain our SELL rating as valuations have run up over the past 3-4 quarters, staying upwards of ~9x FY26E EV/EBITDA, and appear unjustified given the limited growth prospects and likelihood of mounting earnings pressure. Post estimate revision, we have a new TP of Rs 147 (vs. Rs 168), based on a 6x FY26E EV/EBITDA for better balance sheet health. Our TP implies a replacement cost of Rs 61bn/mt, 40% below the industry mean.

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	35,544	39,712	38,809	42,371	(8.4)	(6.3)
EBITDA	4,676	5,469	5,272	5,800	(11.3)	(5.7)
Adj PAT	2,091	2,091	2,353	2,730	(11.2)	(23.4)
Adj EPS (Rs)	10.2	12.5	11.5	13.3	(11.3)	(6.3)

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	FY23	FY24P	FY25E	FY26E
Volumes (mt)	5.8	6.1	6.3	6.8
Realisations (Rs/t)	5,411	5,207	5,193	5,299
Operating costs (Rs/t)	4,794	4,468	4,399	4,481
EBITDA/t (Rs/t)	623	730	742	797

Source: Company, BOBCAPS Research

**Fig 12 – Valuation summary**

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	6
EBITDA	5,469
Target EV	34,184
Total EV	34,184
Net debt	4,168
Target market capitalisation	30,016
<b>Target price (Rs/sh)</b>	<b>147</b>
Weighted average shares (mn)	205

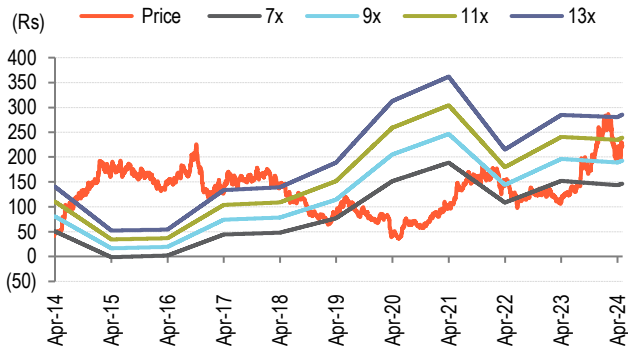
Source: BOBCAPS Research

**Fig 13 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E
ORCMNT IN	SELL	147	10.2	10.5	8.0	75	70	75	10.4	11.4	12.5	14.0	13.5	13.8
STRCEM IN	HOLD	193	12.6	8.4	9.6	123	113	110	10.6	14.7	14.3	14.7	19.7	19.3
JKLC IN	SELL	637	13.9	12.4	12.0	84	93	97	14.1	15.4	14.5	18.2	18.0	16.4

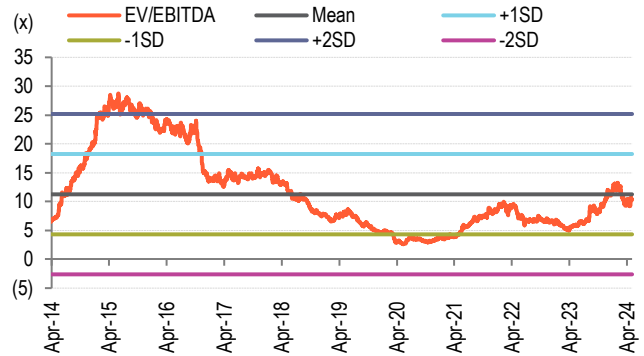
Source: BOBCAPS Research

**Fig 14 – EV/EBITDA band: Valuations to revert to mean**



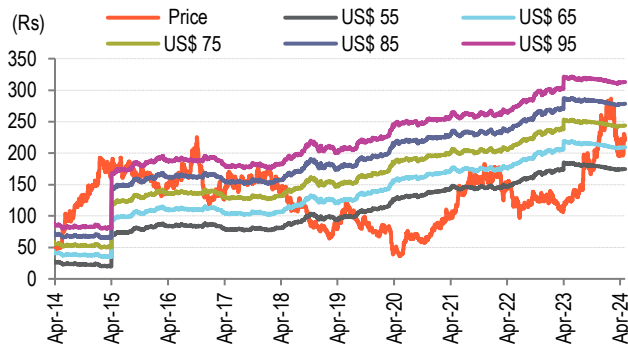
Source: Company, BOBCAPS Research

**Fig 15 – EV/EBITDA 1Y fwd: Current valuations ahead of earnings**



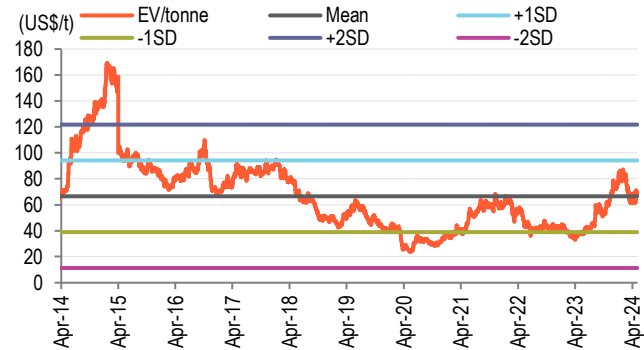
Source: Company, BOBCAPS Research

**Fig 16 – EV/tonne: Replacement cost looks reasonably poised**



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

### Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.8	2,529	2,542	HOLD
Ambuja Cements	ACEM IN	15.1	626	552	HOLD
Dalmia Bharat	DALBHARA IN	4.0	1,791	2,346	BUY
JK Cement	JKCE IN	3.7	3,936	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.1	790	637	SELL
Orient Cement	ORCMNT IN	0.6	224	147	SELL
Shree Cement	SRCM IN	10.9	24,827	27,836	HOLD
Star Cement	STRCEM IN	1.2	239	193	HOLD
The Ramco Cements	TRCL IN	2.2	771	728	SELL
Ultratech Cement	UTCEN IN	35.1	9,983	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 2 May 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>30,640</b>	<b>31,417</b>	<b>31,851</b>	<b>35,544</b>	<b>39,712</b>
EBITDA	5,911	3,646	4,529	4,676	5,469
Depreciation	(1,452)	(1,468)	(1,492)	(1,483)	(1,557)
EBIT	4,554	2,298	3,156	3,340	4,088
Net interest inc./(exp.)	(514)	(378)	(342)	(159)	(244)
Other inc./(exp.)	96	121	119	147	176
Exceptional items	0	0	0	0	0
EBT	4,040	1,920	2,814	3,181	3,844
Income taxes	(1,407)	(691)	(1,066)	(1,090)	(1,293)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>2,633</b>	<b>1,229</b>	<b>1,748</b>	<b>2,091</b>	<b>2,552</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>2,633</b>	<b>1,229</b>	<b>1,748</b>	<b>2,091</b>	<b>2,552</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	2,310	2,147	2,548	2,879	3,193
Other current liabilities	2,599	2,863	3,161	2,944	2,985
Provisions	802	869	739	897	911
Debt funds	3,135	3,983	1,295	4,596	7,031
Other liabilities	2,517	2,869	3,378	3,428	3,480
Equity capital	205	205	205	205	205
Reserves & surplus	15,049	15,833	17,228	19,011	21,256
Shareholders' fund	15,254	16,038	17,433	19,216	21,460
<b>Total liab. and equities</b>	<b>26,617</b>	<b>28,768</b>	<b>28,554</b>	<b>33,960</b>	<b>39,060</b>
Cash and cash eq.	438	743	884	1,393	2,988
Accounts receivables	1,273	1,689	2,244	1,899	2,122
Inventories	1,866	3,509	3,402	2,142	2,394
Other current assets	1,391	1,328	925	1,527	1,642
Investments	100	0	0	0	0
Net fixed assets	20,292	19,203	18,280	17,279	16,234
CWIP	398	1,397	1,760	8,500	12,300
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
<b>Total assets</b>	<b>26,617</b>	<b>28,767</b>	<b>28,554</b>	<b>33,960</b>	<b>39,060</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>4,653</b>	<b>1,180</b>	<b>4,269</b>	<b>5,079</b>	<b>4,092</b>
Capital expenditures	(463)	(1,376)	(1,087)	(7,564)	(4,624)
Change in investments	1,051	58	(73)	(10)	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>587</b>	<b>(1,317)</b>	<b>(1,160)</b>	<b>(7,575)</b>	<b>(4,624)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(4,703)	848	(2,688)	3,301	2,435
Interest expenses	0	0	0	0	0
Dividends paid	(461)	(461)	(307)	(307)	(307)
Other financing cash flows	0	14	(45)	0	0
<b>Cash flow from financing</b>	<b>(5,164)</b>	<b>401</b>	<b>(3,040)</b>	<b>2,994</b>	<b>2,128</b>
<b>Chg in cash &amp; cash eq.</b>	<b>76</b>	<b>264</b>	<b>68</b>	<b>498</b>	<b>1,595</b>
<b>Closing cash &amp; cash eq.</b>	<b>438</b>	<b>743</b>	<b>884</b>	<b>1,393</b>	<b>2,988</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	12.8	6.0	8.5	10.2	12.5
Adjusted EPS	12.8	6.0	8.5	10.2	12.5
Dividend per share	2.2	2.2	1.5	1.5	1.5
Book value per share	74.5	78.3	85.1	93.8	104.8

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	1.6	1.6	1.5	1.4	1.1
EV/EBITDA	8.2	13.5	10.2	10.5	8.0
Adjusted P/E	17.4	37.3	26.2	21.9	18.0
P/BV	3.0	2.9	2.6	2.4	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	65.2	64.0	62.1	65.7	66.4
Interest burden (PBT/EBIT)	88.7	83.6	89.2	95.2	94.0
EBIT margin (EBIT/Revenue)	14.9	7.3	9.9	9.4	10.3
Asset turnover (Rev./Avg TA)	112.0	113.4	111.1	113.7	108.8
Leverage (Avg TA/Avg Equity)	1.9	1.8	1.7	1.7	1.8
Adjusted ROAE	18.6	7.9	10.4	11.4	12.5

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	19.4	2.5	1.4	11.6	11.7
EBITDA	7.3	(38.3)	24.2	3.2	17.0
Adjusted EPS	22.9	(53.3)	42.3	19.6	22.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	19.2	11.6	14.2	13.1	13.8
EBIT margin	14.8	7.3	9.9	9.4	10.3
Adjusted profit margin	8.6	3.9	5.5	5.9	6.4
Adjusted ROAE	18.6	7.9	10.4	11.4	12.5
ROCE	20.9	10.5	14.0	13.5	13.8
<b>Working capital days (days)</b>					
Receivables	15	20	26	20	20
Inventory	22	41	39	22	22
Payables	34	28	34	34	34
<b>Ratios (x)</b>					
Gross asset turnover	1.0	1.0	1.0	1.1	1.2
Current ratio	0.9	1.2	1.2	1.0	1.3
Net interest coverage ratio	8.9	6.1	9.2	21.0	16.8
Adjusted debt/equity	0.2	0.2	0.1	0.2	0.3

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%

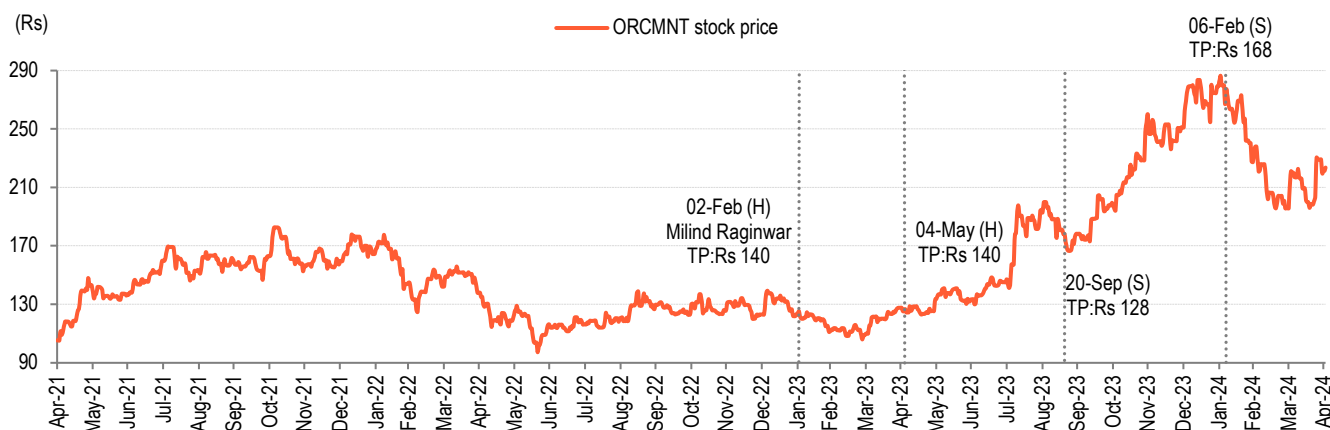
**HOLD** – Expected return from -6% to +15%

**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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