

Q4FY20 concall update

## Cement

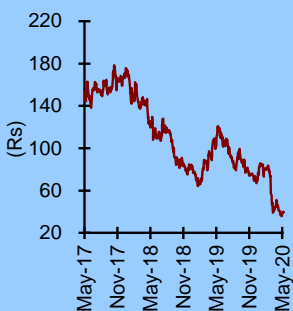
Target price Rs54

### Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	37.4	37.4	37.4
Institutional investors	36.8	36.5	36.6
MFs and others	23.3	23.3	22.8
FIs/Insurance	5.6	5.2	5.0
FPI	7.9	8.0	7.8
Others	25.8	26.1	27.0

Source: CMIE

### Price chart



# Orient Cement

BUY

Maintain

Rs41

Expansion deferred; debt unlikely to increase

Key takeaways from the management concall hosted by us include : i) demand recovery has been strong in May'20 with volumes at 75-80% of last year same time, led by rural and semi-urban housing; ii) company lost 0.23mnte volumes (4% of annual) and ~Rs300mn EBITDA in Mar'20 owing to Covid'19 disruptions; iii) current realisations are Rs300/te better than Mar'20 exit and likely to remain firm this year; iv) company's expansion plan getting deferred owing to Covid'19; and v) net debt to EBITDA unlikely to exceed from the current ~3x. The concern about likely increase in debt owing to proposed expansion seems adequately priced-in with valuation at an all-time low of <US\$40/te, or ~5x FY22E EV/E. Maintain BUY with unchanged target price of Rs54/share (6x FY22E EV/E).

- **Volumes declined by 14% YoY in Q4FY20** mainly due to COVID'19 disruptions in Mar'20. Also, the base was relatively high with pre-election spending last year. The company lost 0.23mnte volumes (4% of annual) and ~Rs300mn EBITDA in Mar'20. Realisation/te sharply increased 9% QoQ (up 1.3% YoY) as the company served distant but better priced markets like South Karnataka, Kerala and Tamil Nadu and also due to increasing share of premium products (which constituted 8% of trade volumes in Q4FY20 vs 2% in Q4FY19). The proportion of PPC sales in Q4FY20 and FY20 remained lower at 54% vs 59% in FY19.
- **Demand recovery has been strong in May'20** with gradual re-starting of various plants. Volumes are currently at 75-80% of last year same time led by better rural / semi-urban housing which is likely to sustain. Also, the base of last year has been impacted owing to elections and water-shortage in its key markets. Migrant labour issue may impact construction activities over coming months. Current realisations are Rs300/te better than Mar'20 exit and likely to remain firm this year, given better supply-demand dynamics. No major large capacity additions expected.
- **Expansion plan getting deferred:** ORCMNT is still in the process of acquiring various government approvals / land for its expansion projects. Any decision on expansion would depend upon demand recovery and comfort on leverage. Net debt to EBITDA is unlikely to exceed from the current ~3x over next few years. The company may spend on waste-heat recovery over FY21-22E. Capex for FY21E unlikely to exceed Rs200mn. The company has not opted to avail any moratorium and has made its interest payments for Mar-Apr'20. It is on track to make debt repayment of Rs800mn p.a. We have factored Rs7.8bn capex over FY21-22E and the actual capex is likely to be lower.
- **Costs has been managed well in FY20:** Variable costs has been maintained flat YoY owing to increasing share of pet coke, despite higher OPC sales and higher fly-ash prices. Absolute fixed costs have remained flat YoY in FY20. Lower fuel prices can provide savings during FY21E.

Market Cap	Rs8.4bn/US\$111mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	ORCE.BO/ORCMNT IN	Revenue (Rs mn)	25,172	24,218	23,081	27,081
Shares Outstanding (mn)	204.9	EBITDA (Rs mn)	3,120	3,829	3,544	4,400
52-week Range (Rs)	121/36	Net Income (Rs mn)	476	859	760	1,350
Free Float (%)	62.6	% chg YoY	22.8	80.6	(11.5)	77.7
FII (%)	7.8	P/E (x)	17.2	9.5	10.7	6.0
Daily Volume (US\$'000)	246	CEPS (Rs)	8.8	11.1	10.7	13.6
Absolute Return 3m (%)	(51.2)	EV/E (x)	6.7	5.2	5.5	5.3
Absolute Return 12m (%)	(65.9)	Dividend Yield	1.9	1.9	1.7	3.0
Sensex Return 3m (%)	(20.3)	RoCE (%)	5.1	6.7	6.0	7.6
Sensex Return 12m (%)	(19.5)	RoE (%)	4.6	7.9	6.6	10.9

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**Table 1: Per tonne estimates**

(Rs/te)

	FY18	FY19	FY20	FY21E	FY22E
<b>Net realisation</b>	<b>3,858</b>	<b>3,925</b>	<b>4,171</b>	<b>4,167</b>	<b>4,200</b>
Raw material consumed	455	470	350	354	370
Power & fuel	1,011	1,038	1,019	986	1,015
Freight	1,033	1,155	1,194	1,218	1,230
Others	837	784	949	969	903
<b>Total operating expenses</b>	<b>3,337</b>	<b>3,446</b>	<b>3,512</b>	<b>3,527</b>	<b>3,518</b>
Other operating income	10	8	-	-	-
<b>EBITDA/tonne</b>	<b>531</b>	<b>487</b>	<b>659</b>	<b>640</b>	<b>682</b>

Source: Company data, I-Sec research

**Table 2: Performance trend and assumptions**

('000 te)

	FY18	FY19	FY20	FY21E	FY22E
<b>Capacity</b>	8,000	8,000	8,000	8,000	8,000
Production	5,746	6,413	5,806	5,539	6,447
Capacity utilisation (%)	72	80	73	69	81
<b>Sales</b>	5,746	6,413	5,806	5,539	6,447
Growth (%)	3.5	11.6	(9.5)	(4.6)	16.4
<b>Realisation (Rs/te)</b>	3,858	3,925	4,171	4,167	4,200
Growth (%)	14.5	1.8	6.3	(0.1)	0.8

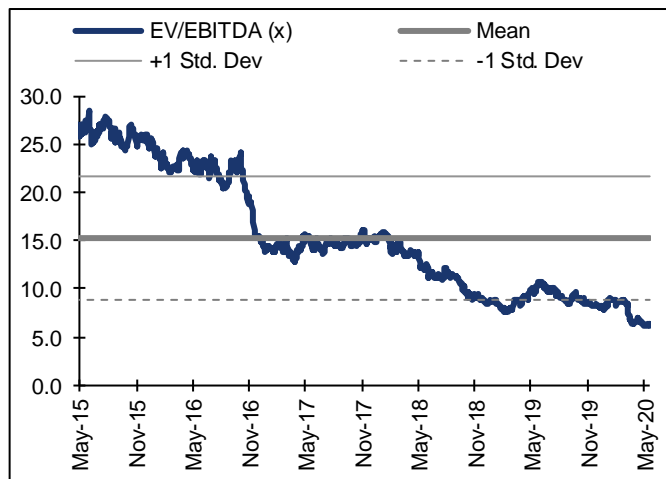
Source: Company data, I-Sec research

**Table 3: Valuations based on 6x FY22E EV/E**

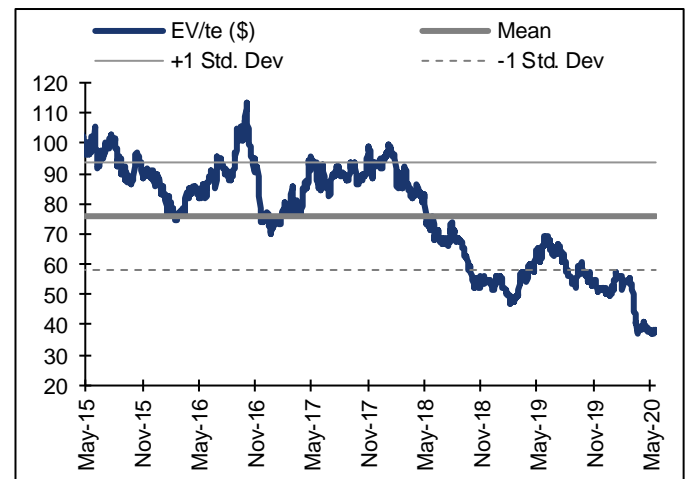
(Rs.mn)

<b>Target EV/ EBITDA multiple (x)</b>	<b>6</b>
Target EV (Rs mn)	26,398
Net debt / (cash) (Rs mn)	15,319
<b>Target value (Rs mn)</b>	<b>11,079</b>
No. of shares (mn)	205
<b>Target price per share (Rs)</b>	<b>54</b>

Source: I-Sec research

**Chart 1: Rolling EV/EBITDA**

Source: I-Sec research

**Chart 2: Rolling EV/te**

Source: I-Sec research

## Financial summary (consolidated)

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>25,172</b>	<b>24,218</b>	<b>23,081</b>	<b>27,081</b>
<b>Operating Expenses</b>	<b>22,101</b>	<b>20,389</b>	<b>19,537</b>	<b>22,681</b>
<b>EBITDA</b>	<b>3,120</b>	<b>3,829</b>	<b>3,544</b>	<b>4,400</b>
% margin	12.4	15.8	15.4	16.2
Depreciation & Amortisation	1,327	1,409	1,426	1,446
Gross Interest	1,185	1,230	1,100	1,081
Other Income	140	177	151	161
<b>Recurring PBT</b>	<b>748</b>	<b>1,367</b>	<b>1,169</b>	<b>2,034</b>
Less: Taxes	272	508	409	683
<b>Net Income (Reported)</b>	<b>476</b>	<b>859</b>	<b>760</b>	<b>1,350</b>
<b>Recurring Net Income</b>	<b>476</b>	<b>859</b>	<b>760</b>	<b>1,350</b>

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	5,245	5,615	5,228	5,805
Current Liab. & Prov.	4,857	4,391	4,154	4,476
<b>Net Current Assets</b>	<b>389</b>	<b>1,224</b>	<b>1,074</b>	<b>1,329</b>
<b>Investments of which</b>				
Strategic/Group	-	-	-	-
Marketable	-	-	-	-
<b>Net Fixed Assets</b>	<b>24,023</b>	<b>23,383</b>	<b>23,857</b>	<b>28,311</b>
of which				
Capital Work-in-Progress	478	668	2,168	7,668
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>24,412</b>	<b>24,607</b>	<b>24,931</b>	<b>29,640</b>
of which cash & cash equivalents	288	360	442	185
<b>Liabilities</b>				
<b>Borrowings</b>	<b>12,916</b>	<b>12,204</b>	<b>11,904</b>	<b>15,504</b>
<b>Deferred Tax Liability</b>	<b>961</b>	<b>1,219</b>	<b>1,219</b>	<b>1,219</b>
<b>Minority Interest</b>				
Equity Share Capital	205	205	205	205
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	10,330	10,979	11,603	12,712
Less: Misc. Exp n.w.o.				
<b>Net Worth</b>	<b>10,535</b>	<b>11,184</b>	<b>11,808</b>	<b>12,916</b>
<b>Total Liabilities</b>	<b>24,412</b>	<b>24,607</b>	<b>24,931</b>	<b>29,640</b>

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	6,878	5,150	5,645	6,545
% growth (YoY)	7.5	(8.2)	(1.1)	(12.8)
Recurring EBITDA	1,496	536	550	1,247
Margin (%)	22	10	10	19
Other income	36	41	27	74
Recurring Net Income	559	(77)	(57)	441

Source: Company data

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>1,768</b>	<b>2,371</b>	<b>2,025</b>	<b>2,732</b>
Working Capital changes	(209)	(634)	242	(609)
Capital Commitments	(1,212)	(766)	(1,900)	(5,900)
<b>Net Operating FCF</b>	<b>346</b>	<b>970</b>	<b>367</b>	<b>(3,777)</b>
<b>Investing Activities</b>	<b>(11)</b>	<b>(16)</b>	<b>151</b>	<b>161</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(250)	(643)	(300)	3,600
Dividend paid	(185)	(185)	(136)	(242)
Others	-	(0)	0	(0)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash &amp; Bank</b>	<b>(100)</b>	<b>127</b>	<b>82</b>	<b>(257)</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	2.3	4.2	3.7	6.6
Diluted Recurring EPS	2.3	4.2	3.7	6.6
Diluted Recurring CEPS	8.8	11.1	10.7	13.6
Dividend per share	0.8	0.8	0.7	1.2
Book Value	51	55	58	63
<b>Growth Ratios (% YoY)</b>				
Operating Income	13.6	(3.8)	(4.7)	17.3
EBITDA	2.2	22.7	(7.4)	24.1
Recurring Net Income	22.8	80.6	(11.5)	77.7
Diluted Recurring EPS	22.8	80.6	(11.5)	77.7
Diluted Recurring CEPS	9.3	25.8	(3.6)	27.9
<b>Valuation Ratios (x)</b>				
P/E	17.2	9.5	10.7	6.0
P/CEPS	4.5	3.6	3.7	2.9
P/BV	0.8	0.7	0.7	0.6
EV / EBITDA	6.7	5.2	5.5	5.3
EV / te (US\$)	35	33	33	39
EV / Operating Income	0.8	0.8	0.9	0.9
<b>Operating Ratios (%)</b>				
Raw Material / Sales	12.0	8.4	8.5	8.8
Other expenses / Sales	43.2	45.0	45.7	44.7
Other Income / PBT	18.7	13.0	12.9	7.9
Effective Tax Rate	36.4	37.2	35.0	33.6
NWC / Total Assets	0.0	0.0	0.0	0.0
Inventory (x)	6.3	4.4	4.0	4.7
Receivables (days)	24	26	25	23
Payable (days)	33	32	32	28
D/E Ratio (x)	1.3	1.2	1.1	1.3
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	1.9	3.5	3.3	5.0
RoCE	5.1	6.7	6.0	7.6
RoNW	4.6	7.9	6.6	10.9
Dividend Payout	32.3	17.9	17.9	17.9

Source: Company data, I-Sec research

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