

Orient Cements

BUY

Sector: Cement /Small Cap | Earnings Update – 4QFY20

29 May 2020

Background: Orient Cement, a CK Birla group company, formed in 2012 following the demerger from Orient Paper and Industries Ltd, is a mid-sized south based cement manufacturer. The company is one of the leading cement manufacturers in India with a capacity of 8 MTPA with clinker manufacturing capacity 5.5 MTPA and captive power capacity of 95MW. The Company operates 3 manufacturing facilities, located at Devapur (3 MTPA) in Telangana, Chittapur (3 MTPA) in Karnataka and Jalgaon (2 MTPA) in Maharashtra.

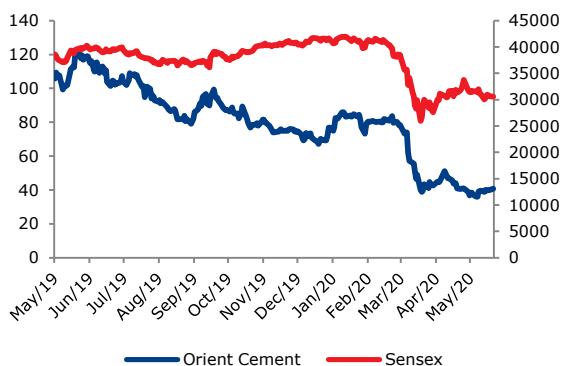
Sensex	32,093
Nifty	9,480
Price	₹ 45
Target Price (12 months)	₹ 63
Recommendation	BUY

52 Week High/Low	₹ 125/35
Bloomberg / Reuters	ORCMNT IN/ ORCE.NS
Equity (shares in mn)	204.8
Mkt. Cap in mn	₹ 8,400/ \$ 117.6
Avg. Daily Vol. ('000)	625
Avg. Daily Vol. (mn)	₹ 49 / \$ 0.7

Shareholding	Mar 19	Dec 19	Mar 20
Promoters (%)	37.4%	37.4%	37.4%
FII (%)	7.4%	7.9%	7.5%
DII (%)	27.3%	28.8%	28.1%
Others (%)	27.9%	26.1%	27.0%
Pledge (% of promoter holding)	7.6%	5.0%	6.0%

Valuation Summary (₹ bn)			
Y/E March	2019	2020E	2021E
Revenue	24.3	24.8	27.1
EBITDA	3.1	2.9	5.6
Adj PAT	0.5	0.2	-0.8
Adj EPS	2.3	0.9	-4.0
% growth	0.9	-63.4	-565.4
PE	17.5	47.9	-10.3
P/BV	0.8	0.8	0.9
EV/EBITDA	8.8	9.6	4.7
EV/Sales	1.1	1.1	1.0
Div Yield (%)	1.5	1.8	0.0
ROE (%)	4.4	1.6	-8.4
Net Debt/Equity	1.1	1.0	1.0

Performance(%)	1M	3M	12M
ORIENT	(7.1)	(49.3)	(63.4)
SENSEX	(3.9)	(25.4)	(22.1)



Volume dip on anticipated lines, cost saving led margin improvement surprise positively

- ORCMNT's (Orient Cement) 4QFY20 declined 13% YoY to ₹ 6.5bn due to 14% YoY fall in volumes (volumes: 1.57mnT) while realisations improved 1% YoY. EBITDA during 4QFY20 came in at ₹ 1.25bn, down 19% YoY.
- Negative impact of weak Volume was offset by higher realisations and savings in costs. EBITDA margin for 4QFY20 came in at 19.1% vs. 9.7% QoQ/20.4% YoY. Costs/t was lower 2% QoQ/+3% YoY. Average distance travelled was marginally above 300km. Beginning May 2020, rake availability gradually impacted due to diversion for movement of food grains/ harvests.
- Power & Fuel cost was lower 7%QoQ/YoY. At Chittapur plant (Karnataka), Company is running on full pet coke now while at Devapur (TG) plant, pet coke consumption is lower. At Company level, Pet coke consumption stood at 41-42% for 4Q and 25% for FY20. During 4QFY20, Employee expense was lower 5%YoY/6% QoQ while Other expense remained flat YoY/higher 2% YoY on absolute basis.
- Broad volume mix for Company stood at: Maharashtra: 50%, AP+TG: 26-27%, Karnataka: 11% and others 11-12% (markets like Chhattisgarh). Product Mix stood at 54% PPC and 46% OPC (similar QoQ) while Trade/Non-trade mix stood at 50:50%. According to the management,, while outlook is uncertain, there is strong volume pickup was seen in May 2020 and it has taken the Industry by surprise. The Demand is mainly driven by rural sector and pre-monsoon demand. Further, water-level and sand availability has not been an issue in Maharashtra, which has aided the recovery.
- Company was exploring to begin work on 3MTPA expansion in Telangana in FY21 with plans to commission plant in next 2 years, post announcement. However, the environment clearance for the plant is still awaited. Further, due to Covid-19, company is now assessing the impact and thus, capex plans are on hold for now. The company incurred capex of ₹ 770mn in FY20 vs. ₹ 1.2bn last year. FY20 Capex included small pending capex on Chittapur Rail siding. The Company incurred maintenance Capex of ₹ 350-400mn.

Valuation: Orient Cement is well placed to capitalize on the likely uptick in cement demand in its key markets (AP, Telangana and Maharashtra) however performance for the quarter was impacted by the lockdowns and resultant slowdown in construction projects. Higher demand with moderate increase in prices should drive earnings growth and help deleverage the balance sheet. At CMP, the stock is trading at 4.2x EV/EBITDA of FY22E. We upgrade the stock to Buy with a revised target price of ₹ 63, assigning 5.5x EV/EBITDA of FY22E.

Risk: Slowdown of construction and infra investments in key markets and low realization.

Results Summary 4QFY20

Y/E March (INR bn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Revenue	6,545	7,508	-12.8%	5,645	15.9%
EBIDTA	1,247	1,530	-18.5%	550	126.9%
Depreciation	345	330	4.5%	346	-0.4%
Other Income	74	41	80.5%	27	178.7%
PBT	696	938	-25.8%	-81	
Tax	256	318	-19.5%	-24	
PAT	441	620	-28.9%	-57	
Adjusted PAT	441	620	-28.9%	-57	
EBIDTA Margin	19.1%	20.4%		9.7%	
Tax Incidence	36.8%	33.9%		29.9%	
Adj PAT Margin	6.7%	8.3%		-1.01%	

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