

# Orient Cement

## Healthy performance despite sharp volume decline

Orient's net sales/EBITDA/APAT fell 40/34/54% YoY to Rs 4.10/0.98/0.26bn respectively, hit hard by sharp 46% volume decline. However, the company was able to contain earnings decline, aided by strong fixed cost reduction and robust realisation gains. The pace of volume decline is slowing down, and expected demand acceleration from AP/T governments should also support sales recovery, going ahead. While we expect cement realisation to cool off from peak-1Q level, subdued fuel costs and healthy cost controls should drive profit uptick. We maintain BUY, with a revised TP of Rs 95/share.

- **1QFY21:** Sales volume fell 46/48% YoY to 0.82mn MT, hit by weak demand across south and Maharashtra, and shaper demand contraction in non-trade. Amid this, robust price hike across its markets and an increased share of trade sales drove up NSR 10/20% YoY/QoQ, cushioning the volume loss impact. On the cost front, logistics disruptions and rise in fly ash-lead distance inflated input costs by 8% YoY. While Orient cut fixed costs sharply (other expenses down 44% YoY), significantly lower utilisation (41% vs 76% YoY) led to unitary fixed cost inflating by 21% YoY. These moderated the windfall from price hikes. Unitary EBITDA surged 21% YoY to Rs 1,198/MT.
- **Outlook:** Orient expects the pace of volume decline to moderate, going forward. Cement demand from AP/T is expected to accelerate in 2H buoying sales. We thus model in 18% YoY fall in FY21E and a similar rebound in FY22E. We also factor in NSR to cool off from the peak of 1Q. We reduce our fixed cost estimates to factor in strong cost focus. Thus, we upgrade FY21/22E EBITDA estimates by 18/1% respectively. The management guided that it will decide on expansions at the end of FY21E. We maintain a BUY rating with a revised target price of Rs 95/share (7x June'22E EBITDA).

### Quarterly/Annual Financial summary

YE Mar (Rs mn)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	0.8	1.5	(45.7)	1.6	(47.9)	6.4	5.8	4.8	5.6	6.1
NSR (Rs/T)	5,004	4,552	9.9	4,156	20.4	3,933	4,171	4,421	4,333	4,420
Opex (Rs/T)	3,807	3,562	6.9	3,364	13.2	3,447	3,512	3,626	3,625	3,674
EBITDA(Rs/T)	1,198	990	21.0	792	51.3	487	659	796	708	745
Net Sales	4,104	6,878	(40.3)	6,545	(37.3)	25,222	24,218	21,050	24,343	27,064
EBITDA	982	1,496	(34.3)	1,247	(21.2)	3,120	3,829	3,789	3,979	4,564
APAT	256	559	(54.2)	441	(41.9)	476	866	938	1,143	1,665
AEPS (Rs)	1.2	2.7	(54.2)	2.2	(41.9)	2.3	4.2	4.6	5.6	8.1
EV/EBITDA (x)						8.3	6.6	6.1	5.9	6.0
EV/MT (Rs bn)						3.24	3.15	2.90	2.92	3.41
P/E (x)						28.0	15.4	14.2	11.6	8.0
RoE (%)						4.6	8.0	8.1	9.2	12.3

Source: Company, HSIE Research

### Change in Estimates

Rs Bn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Net Revenues	20.89	21.05	0.7	24.27	24.34	0.3
EBITDA	3.21	3.79	18.1	3.93	3.98	1.2
APAT	0.52	0.94	81.0	1.15	1.14	(0.9)
AEPS	2.5	4.6	81.0	5.6	5.6	(0.9)

Source: HSIE Research

**BUY**

CMP (as on 29 July 2020)	Rs 65
Target Price	Rs 95
NIFTY	11,203

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 90	Rs 95
EBITDA %	FY21E	FY22E
	18.1	1.2

### KEY STOCK DATA

Bloomberg code	ORCMNT IN
No. of Shares (mn)	205
MCap (Rs bn) / (\$ mn)	13/179
6m avg traded value (Rs mn)	43
52 Week high / low	Rs 106/35

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	59.8	(22.6)	(34.4)
Relative (%)	43.4	(15.0)	(35.4)

### SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	37.37	37.37
FIs & Local MFs	28.15	26.84
FPIs	7.49	3.11
Public & Others	26.99	32.68
Pledged Shares	6.01	6.01

Source : BSE

Pledged shares as % of total shares

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