

30 July 2020

## Orient Cement

*Focus on conserving cash, deleveraging continues; Buy*

The lockdown hurt Orient's overall performance with revenue/EBITDA/PAT falling 40%/34%/54%; EBITDA/ton rose on higher realisations, cost savings and lower volumes. The expansion plan is still on hold with management's greater focus on conserving cash and reducing debt. Institutional demand is expected to improve; sudden local lockdowns, however, will be a concern. We retain our Buy rating, with a higher target of ₹87 (earlier ₹65).

**Institutional demand to improve.** The 46% volume drop caused revenue to fall 40% y/y. Realisation/ton, however, grew 10% y/y on higher Trade (~75%) and PPC (65%) sales on greater rural demand. Management expects institutional demand to rise with labourers returning along with a pick-up in government projects (Kaleshwaram/affordable housing etc.). However, sudden local lockdown remain a concern. Further, the change in the customer mix and higher non-Trade sales may pull down the NSR. We expect volumes to slip 13% in FY21 and grow 12% in FY22.

**Improving operating efficiency.** Despite high raw-material cost (flyash procured from further) and an increase in packing cost (high Trade sales), EBITDA/ton rose 21% y/y to ₹1198 on more use of petcoke, lower lead distance and renegotiating contracts. Besides rising diesel prices, management expects rising petcoke prices to impact Q3. We expect EBITDA/ton of ₹651 and ₹712 in FY21/FY22 (vs. ₹659 in FY20).

**Business outlook, Valuation.** All major expansion plans have been held up because of the uncertain demand context. The process of obtaining clearances, however, continues. Further, great cash-collection efforts led to working capital shrinking ₹1bn in Q1. Management said it would continue to focus on conserving cash and reducing debt, leading a net D/E of 0.7x in FY22 (vs. 1.1x in FY20). We retain our Buy rating, with a higher target of ₹87, based on 6.5x FY22e EV/EBITDA and an EV/ton of \$43. **Risks:** Rising prices of petcoke and diesel; extended lockdowns.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	22,223	25,222	24,218	22,050	25,183
Net profit (₹ m)	442	476	866	572	1,145
EPS (₹)	2.2	2.3	4.2	2.8	5.6
PE (x)	65.0	34.9	10.6	23.3	11.6
EV / EBITDA (x)	13.6	9.4	5.5	7.1	5.4
EV / tonne (\$)	69.2	48.7	35.1	39.2	36.0
RoE (%)	4.4	4.6	8.0	5.0	9.4
RoCE (%)	4.7	4.7	6.2	4.9	6.9
Dividend yield (%)	0.5	0.9	1.7	0.8	0.8
Net debt / equity (x)	1.3	1.2	1.1	0.9	0.7

Source: Company, Anand Rathi Research

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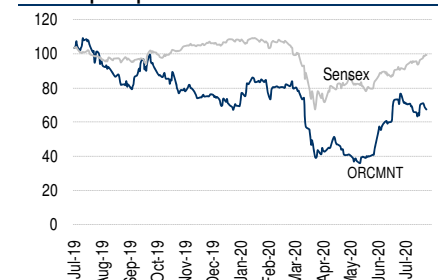
Rating: **Buy**  
Target Price: ₹87  
Share Price: ₹65

Key data	ORCMNT IN
52-week high / low	₹100 / 35
Sensex / Nifty	38365 / 11283
3-m average volume	\$0.9m
Market cap	₹14bn / \$182.5m
Shares outstanding	205m

Shareholding pattern (%)	Jun-20	Mar-20	Dec-19
Promoters	37.4	37.4	37.4
- of which, Pledged	16.1	16.1	13.4
Free float	62.6	62.6	62.6
- Foreign institutions	3.1	7.5	7.7
- Domestic institutions	26.8	28.2	28.8
- Public	32.7	27.0	26.1

Estimates revision (%)	FY21e	FY22e
Sales	1.5	2.1
EBITDA	20.9	16.3
PAT	265.3	65.2

### Relative price performance



Source: Bloomberg

**Manish Valecha**  
Research Analyst

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Research Associate

## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	5.7	6.4	5.8	5.1	5.6
Net revenues	22,223	25,222	24,218	22,050	25,183
Growth (%)	18.5	13.5	-4.0	-9.0	14.2
Direct costs	14,353	16,586	14,881	13,352	15,219
SG&A	4,819	5,515	5,509	5,405	5,946
<b>EBITDA</b>	<b>3,052</b>	<b>3,120</b>	<b>3,829</b>	<b>3,293</b>	<b>4,018</b>
EBITDA margins (%)	13.7	12.4	15.8	14.9	16.0
- Depreciation	1,262	1,327	1,409	1,460	1,499
Other income	202	140	177	221	302
Interest expenses	1,292	1,185	1,223	1,186	1,086
PBT	700	748	1,374	867	1,735
Effective tax rate (%)	36.9	36.4	37.0	34.0	34.0
+ Associates / (Minorities)					
Net income	442	476	866	572	1,145
Adjusted income	442	476	866	572	1,145
WANS	205	205	205	205	205
FDEPS (₹ / sh)	2.2	2.3	4.2	2.8	5.6
Adj. FDEPS growth (%)	-237.8	7.5	82.1	-33.9	100.0

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	700	748	1,374	867	1,735
+ Non-cash items	1,262	1,327	1,409	1,460	1,499
Oper. prof. before WC	1,962	2,075	2,783	2,327	3,234
- Incr. / (decr.) in WC	385	291	841	-245	96
Others incl. taxes	-	-	-	-	-
Operating cash-flow	1,577	1,784	1,942	2,573	3,138
- Capex (tang. + intang.)	1,413	1,261	768	500	500
Free cash-flow	163	522	1,174	2,073	2,638
Acquisitions					
- Div. (incl. buyback & taxes)	185	185	185	102	102
+ Equity raised	-	-	-	-	-
+ Debt raised	-225	-238	-634	-800	-1,200
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	61	142	282	295	590
Net cash-flow	-308	-44	73	875	745

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

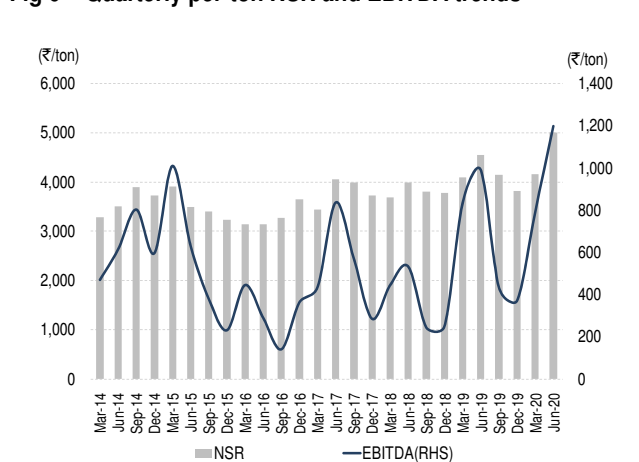
**Fig 2 – Balance sheet (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	205	205	205	205	205
Net worth	10,221	10,535	11,184	11,654	12,696
Debt	13,136	12,898	12,264	11,464	10,264
Minority interest					
DTL / (Assets)	854	961	1,219	1,219	1,219
<b>Capital employed</b>	<b>24,212</b>	<b>24,394</b>	<b>24,667</b>	<b>24,336</b>	<b>24,179</b>
Net tangible assets	21,857	22,932	22,098	21,706	20,706
Net Intangible assets	650	613	617	617	617
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,582	478	668	100	100
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	4,949	4,958	5,255	4,832	5,518
Cash	331	288	360	1,236	1,981
Current liabilities	5,158	4,875	4,331	4,154	4,744
Working capital	-209	83	923	678	774
<b>Capital deployed</b>	<b>24,212</b>	<b>24,394</b>	<b>24,667</b>	<b>24,336</b>	<b>24,179</b>
Contingent liabilities	639	607	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	65.0	34.9	10.6	23.3	11.6
EV / EBITDA (x)	13.6	9.4	5.5	7.1	5.4
EV / Sales (x)	1.9	1.2	0.9	1.1	0.9
P/B (x)	2.8	1.6	0.8	1.1	1.0
RoE (%)	4.4	4.6	8.0	5.0	9.4
RoCE (%) - after tax	4.7	4.7	6.2	4.9	6.9
DPS (₹ / sh)	0.8	0.8	0.8	0.5	0.5
Dividend payout (%) - incl. DDT	41.9	38.9	21.4	17.9	8.9
Net debt / equity (x)	1.3	1.2	1.1	0.9	0.7
Working capital (days)	-3.4	1.2	13.9	11.2	11.2
EV/ton (\$)	69.2	48.7	35.1	39.2	36.0
NSR / ton (₹)	3,868	3,933	4,171	4,361	4,461
EBITDA / ton (₹)	531	487	659	651	712
Volumes	5.75	6.41	5.81	5.06	5.64
CFO : PAT %	356.6	375.1	224.3	449.5	274.1

Source: Company, Anand Rathi Research

**Fig 6 – Quarterly per-ton NSR and EBITDA trends**


Source: Company

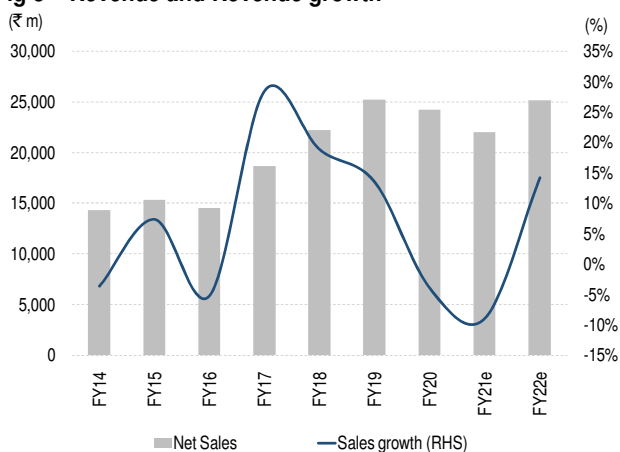
## Key updates

### Revenue growth

The company's key markets (Maharashtra 50%, Telangana/Karnataka/AP 35%), together account for 85% of its revenue. The rest comes from MP (10%) and the eastern region. In Q1 FY21, however, sales in MP and the Eastern region increased to 13%. Maharashtra saw low demand because of the great number of Covid-19 cases.

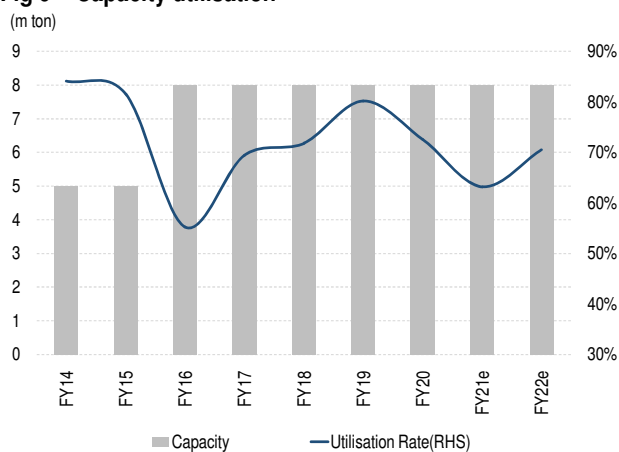
Orient's Q1 revenue slid 40.3% y/y to ₹4bn, primarily due to volumes dropping 45.7% y/y to 0.82m tons. Realisations, though, rose 9.9% y/y (20% q/q) to ₹5,004/ton on higher Trade and PPC sales. Management expects that rising institutional demand on labour returning and higher non-Trade sales (both at lower prices) would result in realisations dipping.

**Fig 8 – Revenue and Revenue growth**



Source: Company, Anand Rathi Research

**Fig 9 – Capacity utilisation**



Source: Company, Anand Rathi Research

### Operating performance

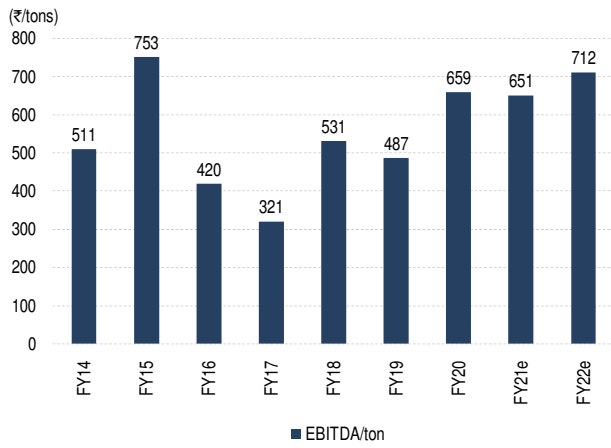
Q1 EBITDA was ₹982m (down 34% y/y). The EBITDA margin was up 219bps y/y to 23.9%. EBITDA/ton increased 21% y/y to ₹1,198 (vs. ₹990 a year ago and ₹792 the quarter prior). Power and fuel cost/ton was down 21% y/y due to the greater use of (less expensive) petcoke and a better product mix (more PPC). Raw-material cost/ton rose 13.6% y/y as flyash was procured from a distance as the nearby thermal power plants were operating at low capacity or shut.

Freight cost/ton slipped 5.3% y/y since the average lead distance shortened to fewer than 300km. More sales of packed cement and the fact that some logistics costs (warehouse and C&F, even cement loading) carry a minimum volume guarantee for handling partners led to poor operating leverage. Logistics hampered by Covid-19 partially negated the savings from the shortened lead distance.

During Q1 FY21, the share of PPC was 65%. At the Chittapur plant, use of petcoke has replaced coal almost entirely.

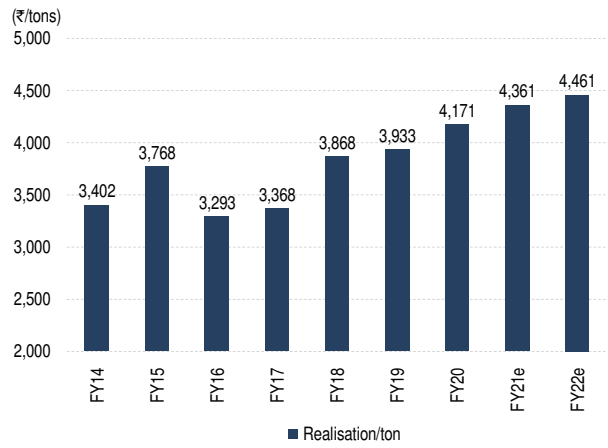
The company reported Q1 profit of ₹256m, down 54% y/y primarily due to lower operating profit, partially countered by interest costs declining 13.6% y/y and 58% higher other income y/y.

**Fig 10 – EBITDA-per-ton trend**



Source: Company, Anand Rathi Research

**Fig 11 – NSR-per-ton trend**



Source: Company, Anand Rathi Research

## Result highlights

**Fig 12 – Quarterly trend**

(₹ m)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Sales	5,115	6,197	6,399	5,608	5,707	7,508	6,878	5,150	5,645	6,545	4,104	-40.3	-37.3
EBITDA)	391	746	854	358	379	1,530	1,496	536	550	1,247	982	-34.3	-21.2
EBITDA margins (%)	7.6	12.0	13.3	6.4	6.6	20.4	21.7	10.4	9.7	19.1	23.9	219bps	488bps
EBITDA per ton	286	445	533	243	251	835	990	432	372	792	1,198	21.0	51.3
Interest	339	284	294	310	278	303	313	320	311	279	270	-13.6	-3.3
Depreciation	319	314	324	329	344	330	353	365	346	345	346	-1.7	0.5
Other income	20	34	33	25	41	41	36	41	27	74	56	57.7	-23.4
PBT	(248)	182	269	(257)	(202)	938	866	(108)	(81)	696	422	-51.3	-39.4
Tax	(71)	54	109	(89)	(65)	318	307	(31)	(24)	256	166	-46.0	-35.1
ADJ. PAT	(177)	128	160	(167)	(137)	620	559	(77)	(57)	441	256	-54.2	-41.9

Source: Company, Anand Rathi Research

**Fig 13 – Per-ton analysis**

(₹ m)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Realisations	3,737	3,696	3,992	3,815	3,782	4,101	4,552	4,150	3,817	4,156	5,004	9.9	20.4
EBITDA	286	445	533	243	251	835	990	432	372	792	1,198	21.0	51.3
Sales volumes (m tons)	1.37	1.68	1.60	1.47	1.51	1.83	1.51	1.24	1.48	1.58	0.82	-45.7	-47.9
<b>Costs</b>													
Raw material	448	469	501	401	389	391	400	400	416	427	455	13.6	6.6
Power & Fuel	1,041	1,009	1,109	1,054	998	995	1,059	1,069	959	992	836	-21.1	-15.7
Packing, Freight & Forwarding	994	1,055	1,165	1,148	1,175	1,137	1,227	1,195	1,141	1,217	1,162	-5.3	-4.5
Staff	258	204	249	269	249	205	274	319	259	227	451	65.0	98.8
Other expenditure	663	511	521	674	674	541	674	782	660	632	695	3.1	10.0

Source: Company, Anand Rathi Research

## Concall Highlights

### Operational and Financial highlights

- Q4 FY20 sales mix: 55% West (Maharashtra), 35% South (Telangana/AP/Karnataka), 10% MP+East (a small portion).  
In Q1 FY21, however, sales to MP+East stepped up to 13% since the great number of Covid-19 cases in Maharashtra kept demand low.
- Premium cement sales comprised ~7% of Trade sales (2% a year ago). Premium cement is ₹35/bag higher than PPC cement, and adds ₹500/ton to realisations.
- ₹550m extra was incurred to procure flyash from further as the nearby thermal power plants were operating at low capacity or shut. And more Trade sales led to increased packing cost of ₹10/ton.
- The average lead distance shortened to 290km (earlier 310-315km).
- The Devapur plant is using more petcoke; the Chittapur plant now uses 95% petcoke.
- The Q1 FY21 Trade-nonTrade mix was 75:25 (50:50 the quarter prior) due to more rural sales.
- Besides CSR in the quarter, ₹40m was donated to the PM Cares Fund.
- On greater cash collection, the need for working capital shrunk ₹1bn.
- On road transport having been disrupted, the road-rail mix was 70:30 (otherwise 80:20).
- On low institution/non-Trade demand, PPC sales increased to 65%

### Debt and Capex

- All capex plans have been put on hold; management spoke of ₹200m maintenance capex for FY21. Nevertheless, the company will continue with the approval process (which may take 6-9 months) for expansions: 3.5m tons at Devapur (Telangana), 3m tons at Gulbarga (Karnataka).
- The ₹1bn WHRS expansion is on hold. Management said it be set up first when capex commences.
- Repayment liabilities are ₹800m each for the next four years. ₹520m was repaid in FY20. The company has applied for prepayment of debt as it had ₹1.5bn cash on 31<sup>st</sup> Jun'20.

### Outlook

- Management expect Kaleshwaram (phase II) to commence in Q3 towards which company is planning to sell cement volumes.
- July volumes were similar those in June, with a slight dip on the start of the monsoon. July prices on average declined ₹5-7/bag.
- Petcoke prices are now \$80/ton. The impact of the higher cost is expected in Q3 FY21; sufficient inventory is available for Q2.
- Blended NSR would decline on the expected change in customer-mix and more OPC sales with institutional/non-Trade demand improving.
- Management expects flat volumes in Q3 FY21, with Q4 volumes increasing provided the pandemic subsides.

## Valuations

The lockdown hurt Orient's overall performance with revenue/EBITDA/PAT falling 40%/34%/54%; EBITDA/ton rose on higher realisations, cost savings and lower volumes. The expansion plan is still on hold with management's greater focus on conserving cash and reducing debt. Institutional demand is expected to improve; sudden local lockdowns, however, will be a concern.

### Change in estimates

We have broadly maintained our revenue estimates. However, we raise our FY21e and FY22e EBITDA 21% and 16% respectively, and PAT 265% and 65% because of better operating performance.

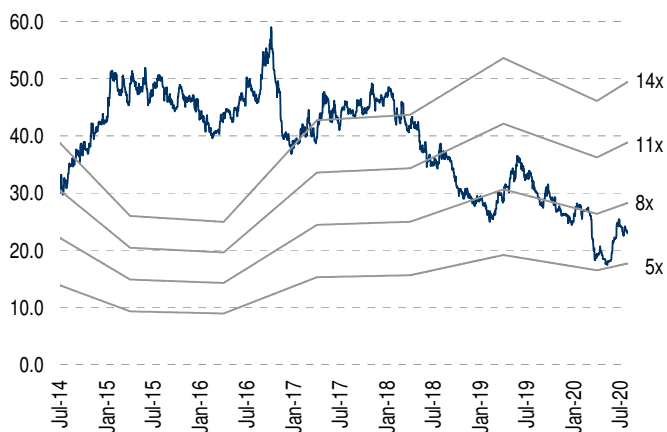
**Fig 14 – Change in estimates**

₹ m)	Old		New		Variance	
	FY21e	FY22e	FY21e	FY22e	% chg	% chg
Sales	21,715	24,675	22,050	25,183	1.5	2.1
EBITDA	2,723	3,456	3,293	4,018	20.9	16.3
PAT	156.7	693.1	572.4	1,144.9	265.3	65.2

Source: Anand Rathi Research

At the CMP, the stock quotes at an EV/EBITDA of 7.1x/5.4x on FY21e/FY22e and EV/ton of \$36 on FY22e. We retain our Buy rating, with a higher target price of ₹87 based on 6.5x FY22e EV/EBITDA implying an EV/ton of \$43.5.

**Fig 15 – EV/EBITDA band, one-year-forward**



Source: Company, Anand Rathi Research

**Fig 16 – EV/EBITDA: Standard deviation, one-year-forward**



Source: Company, Anand Rathi Research

### Risks

- Extended lockdowns
- Rising prices of pet-coke and diesel.

**Fig 17 – Peer comparison - valuations**

	CMP (₹)	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
		FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Orient Cement	65	23.3	11.6	7.1	5.4	39	36
Birla Corp.	605	19.0	13.6	8.2	6.8	61	52
Dalmia Bharat	717	NA	NA	9.5	7.8	96	81
Deccan Cement	260	12.2	7.9	5.5	3.5	20	18
Heidelberg Cement	182	18.7	13.6	9.0	6.9	82	76
India Cement	115	NA	29.9	12.7	9.3	57	58
JK Cement	1,474	30.7	19.5	14.7	10.6	116	111
JK Lakshmi	299	50.3	14.8	11.1	6.4	52	45
Mangalam Cement	193	14.0	7.9	6.8	4.8	37	34
NCL Industries	77	9.3	6.6	4.9	4.1	27	28
Prism Johnson	46	NA	27.8	10.7	7.7	51	48
Ramco Cement	718	40.3	26.5	22.1	15.4	130	126
Sanghi Industries	24	NA	13.3	11.7	7.6	41	40

Source: Anand Rathi Research

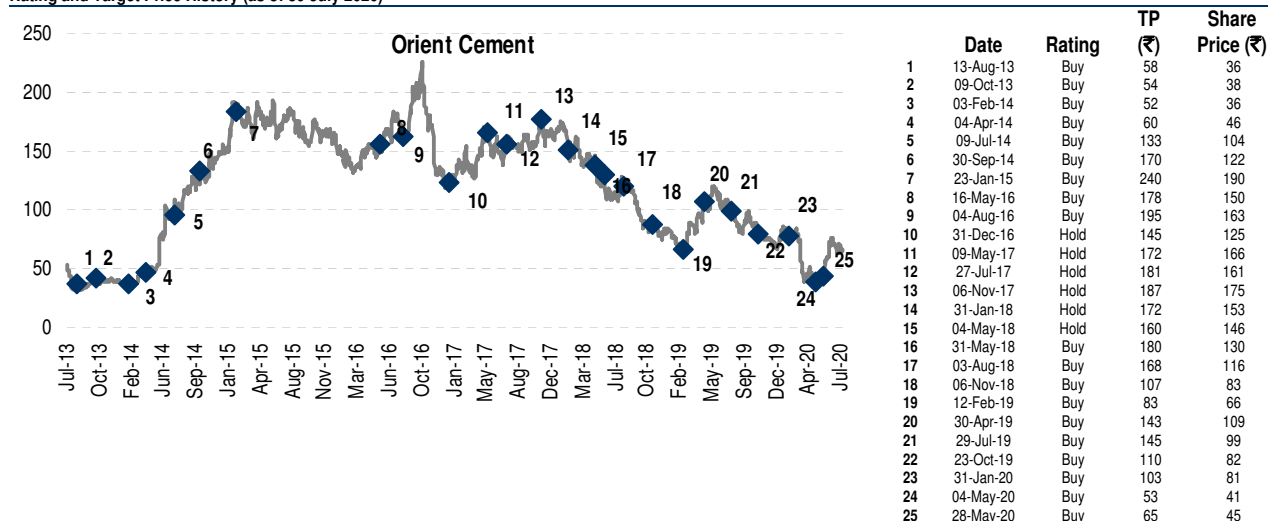
## Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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