

Capacity Expansion and cost efficiency measures will drive growth in long run.

CMP: INR 118

Rating: Accumulate

Target Price: INR 136

Stock Info

BSE	535754
NSE	ORIENTCEM
Bloomberg	ORCMNT IN
Reuters	ORCE.BO
Sector	Cement
Face Value (INR)	1
Equity Capital (INR mn)	205
Mkt Cap (INR mn)	24184
52w H/L (INR)	186/ 110
Avg. Yearly Vol (in 000')	940

Shareholding Pattern %

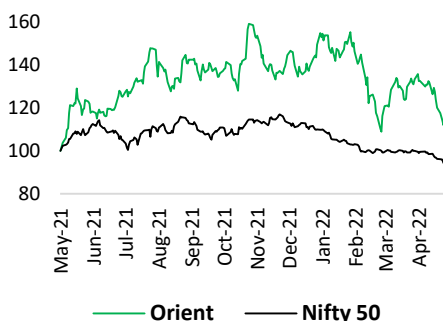
(As on March, 2022)

Promoters	37.37
Public & Others	62.63

Stock Performance (%)

	1m	3m	12m
Orient Cement	-22.	-29.7	2.6
Nifty 50	-9.8	-9.0	7.5

Orient Cement Vs Nifty 50



Orient Cement reported weak set of numbers in Q4FY22 and were below our expectation on all fronts Net Revenue declined by 3.3% YoY, and grew by 30.2% QOQ to INR 8039 mn below our expectation of INR 10865 mn . YoY decline in topline was mainly due to decline in sales volume . Sales volume de grew by 12.4% YoY, and grew by 32.8 % QOQ to 1.62 mn tonnes below our expectation of 1.74 million tonnes. Volume was impacted amid lower demand in south and the company also chose to not accept business from segments where the recovery of fuel costs looked challenging. Realization /tonne grew by 10.4% YoY and declined by 2% QoQ to INR 4962 below our expectation of INR 6244

EBIDTA declined by 24% YoY and grew by 30.5 % QoQ to INR 1533 mn below our expectation of INR 1956 mn, EBIDTA margin contracted by 528 bps YoY, and grew by 4 bps QoQ to 19.1%. Higher operating cost and higher other expense impacted YoY EBIDTA margin. Operating cost increased by 4.1% YoY and 38% QoQ to INR 5321 mn . Higher fuel cost impacted the power and fuel cost though the company did manage to increase usage of alternative fuels to partially mitigate these costs. Power and fuel cost stood at 1326/ton as compared to 908/ton in Q4FY21 EBIDTA /tonne declined by 13.5% YoY & and 1.7% QoQ to INR 946/tonne below our expectation to INR 1124/tonne.

PAT declined by 26.7% YoY and grew by 67.5 % QoQ to INR 732 Mn below our estimates of INR 761 mn.. PAT margin contracted by 291 bps YoY and grew by 203 bps QoQ to 9.1% in Q4FY22. Poor operating performance led to contraction in margin.

Outlook and Valuations

At a CMP of INR 118 stock is trading at an EV/EBIDTA multiple of 3.4(x) and 2.6(x) and to its F23E and FY24E Company delivered weak set of numbers in Q4 amid lower volumes and high operating cost .However company is confident of regaining its volume in coming times with increase in sales from B2B segment. Company's replacement cost theory to control the cost will help to reduce rising cost pressure to some extent and help margin to expand. Also government thrust on infrastructure and rising real estate demand will aid cement demand to grow. We believe OCL is well-placed to take advantage of a revival in the cement demand in its operating regions by leveraging its planned capacity expansion, better monitoring of cost drivers, and improving financials. However we believe margin pressure to continue in near term amid rising power and fuel cost. We value the stock at 3 (x) EV/EBIDTA to its FY24E EBIDTA of INR 10,017 mn. to arrive at a target price of INR 136 and we downgrade the rating from Buy to accumulate on the stock considering the near term challenges faced by the company.

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Q4FY22 Results and con call Highlights

INR mn	Q4FY22	Q4FY21	Q3FY22	YOY	QOQ
Net Revenue	8,039	8,316	6,175	-3.3%	30.2%
Operating Costs	5,321	5,109	3,833	4.1%	38.8%
Employee cost	340	416	416	-18.3%	-18.3%
Other Expenses	845	766	751	10.3%	12.5%
EBITDA	1,533	2,025	1,175	-24.3%	30.5%
<i>EBITDA margin %</i>	<i>19.1%</i>	<i>24.4%</i>	<i>19.0%</i>	<i>-528bps</i>	<i>4bps</i>
Depreciation	366	359	368	1.9%	-0.5%
EBIT	1,167	1,666	807	-30.0%	44.6%
Other Income	20	27	25	-25.9%	-20.0%
Finance cost	49	159	158	-69.2%	-69.0%
Exceptional Item	-	-	-	-	-
PBT	1,138	1,534	674	-25.8%	68.8%
Tax Expense	406	535	237	-24.1%	71.3%
Effective tax rate %	35.7%	34.9%	35.2%	80bps	51bps
PAT	732	999	437	-26.7%	67.5%
<i>PAT margin %</i>	<i>9.1%</i>	<i>12.0%</i>	<i>7.1%</i>	<i>-291bps</i>	<i>203bps</i>
EPS (Rs)	3.57	4.88	2.13	-26.8%	67.6%

Con Call Highlights

- Company faced a tough quarter due to rising cost mainly due to rise in power fuel cost
- Demand was weak on southern india Maharashtra is little better as compared to south
- In FY22 company repaid a debt upto 4860 mn .Net Debt as on March 2022 has been 2600 mn
- EBIDTA for FY22 crossed 6000 mn mark which was up by 6% as compared to last year
- In Q4FY22 company volume declined due to lower demand in south and the company also chose to not accept business from segments where the recovery of fuel costs looked challenging
- For FY22 revenue was up by 17% and volume were up by 8%
- Company continues to follow strategy to focus on profitability and restrict orders from customer where company increasing cost is not compensated based on its replacement cost theory
- Despite of challenging year company has not lost its market share
- Company EBIDTA/ton for full year fell marginally by just INR 20/ton despite of cost headwinds
- Freight cost aslo moderated marginally as the company choose nearby markets to sell its products
- Advertising cost and maintainance cost in Q4 is higher compared to Q4FY21 as timing this year was different as compared to last year
- Company continue to redefine our customer base and channel partner
- Company continues to strengthen its on ground services so that the customer gets product on time
- Sales Mix stood at 53% in West 37% in South and 10% in central India
- Fuel Mix Company Alternative fuel usage in this Quarter is as high as 17%
- Capacity expansion plan will be completed by FY24
- Employee cost are lower as company believes in hiring in house talent rather than hiring some one from outside.

Financial Statement

Income Statement

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	24,218	23,241	27,254	33,880	43,551
Change (%)	-4.0%	-4.0%	17.3%	24.3%	28.5%
Cost of Goods Sold	16,056	13,842	16,907	20,328	26,130
Employee costs	1,549	1,525	1,524	1,863	2,395
Other expenses	2,784	2,366	2,912	3,727	5,008
Total operating Expense	20,389	17,733	21,343	25,918	33,534
EBITDA	3,829	5,508	5,911	7,962	10,017
Other Income	177	183	96	136	174
Depreciation	1,409	1,419	1,452	1,266	1,302
Interest	1,223	936	514	182	182
PBT	1,374	3,336	4,041	6,649	8,706
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	1,374	3,336	4,041	6,649	8,706
Tax	508	1,193	1,408	2,317	3,034
Rate (%)	37.0%	35.8%	34.8%	34.8%	34.8%
PAT	866	2,143	2,633	4,332	5,673
Change (%)	81.3%	147.4%	22.9%	64.5%	30.9%

Source: Company, Arian Research

Balance Sheet

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Share Capital	205	205	205	205	205
Reserves & Surplus	10,979	12,854	15,049	19,022	24,336
Net Worth	11,184	13,059	15,254	19,227	24,541
Long term debt	11354	7838	1519	1519	1519
Short term debt	3	141	1,637	1,647	1,647
Total Debt	11,357	7,979	3,156	3,166	3,166
Other Liabilities & Provisions	6457	7082	8086	6401	7471
Capital Employed	28,998	28,120	26496	28794	35178
Application of Funds					
Net Block	22,098	21,460	20,502	21,102	21,702
Deffered Tax & other libilty	0	0		0	0
Other Non-Current Assets	2,053	1,806	2,286	1,686	1,636
Non Current Asset	24,151	23,266	22,788	22,788	23,338
Investments	0	0	0	0	0
Debtors	1,618	1,102	1,273	1,606	2,065
Inventories	2,366	1,705	1,866	3,007	3,866
Cash & bank balance	360	362	438	640	912
Loans & advances & other CA	503	1,686	752	752	4,997
Total current assets	4,847	4,855	3,708	6,006	11,840
Total Assets	28,998	28,120	26496	28794	35178

Financial Statement

Cash Flow Statement

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY24E
PBT	1,374	3,336	4,041	6,649	8,706
Depreciation	1,409	1,419	1,452	1,266	1,302
Interest & others	1,178	904	498	168	168
Cash flow before WC changes	3,860	5,568	5,952	4,683	2,977
(Inc)/dec in working capital	-635	2,163	-55	-55	-55
Operating CF after WC changes	3,225	7,731	5,897	4,628	2,922
Less: Taxes	-307	-590	-658	-2,317	-3,034
Operating cash flow	2,918	7,141	5,239	2,312	-112
(Inc)/dec in F.A + CWIP	-766	-507	-525	-600	-600
(Pur)/sale of investment	0	0	0	0	0
Cash flow from investing	-732	-1,616	702	-568	-568
Free cash flow (FCF)	2,134	6,627	4,908	1,712	-712
Loan raised/(repaid)	-600	-4,306	-4,910	-1,000	1,500
Equity raised	0	0	0	0	0
Interest & others	-1,206	-932	-465	-182	-182
Dividend	0	-212	-284	-284	-284
Cash flow from financing activities	-2,059	-5,521	-5,854	-1,541	959
Net inc /(dec) in cash	126	4	87	202	279
Opening balance of cash	220	346	351	438	640
Closing balance of cash	346	350	438	640	912

Source: Company, Arihant Research

Key Ratios

Y/E March (Rs Mn)	FY20	FY21	FY22	FY23E	FY42E
Per share (Rs)					
EPS	4.2	10.4	12.8	21.1	27.7
CEPS	11.1	17.4	19.9	27.3	34.0
BVPS	545.6	637.0	744.1	937.9	1197.1
Valuation (x)					
P/E	27.9	11.3	9.2	5.6	4.3
P/CEPS	8.6	5.5	4.8	3.5	2.8
P/BV	0.2	0.2	0.2	0.1	0.1
EV/EBITDA	9.2	5.8	4.5	3.4	2.6
Return Ratios (%)					
Gross Margin	33.7%	40.4%	38.0%	40.0%	40.0%
EBIDTA Margin	15.8%	23.7%	21.7%	23.5%	23.0%
PAT Margin	3.6%	9.2%	9.7%	12.8%	13.0%
ROE	7.7%	16.4%	17.3%	22.5%	23.1%
ROCE	10.7%	19.4%	24.2%	29.9%	31.5%
Leverage Ratio (%)					
Total D/E	1.0	0.6	0.2	0.2	0.1
Turnover Ratios					
Asset Turnover (x)	0.8	1.0	1.2	1.2	0.8
Inventory Days	45	40	54	54	45
Receivable Days	17	17	17	17	17
Payable days	29	31	24	24	29

Source: Company, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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