

May 17, 2022

Strong b/s to help withstand near term challenges...

About the stock: Orient Cement is a mid-sized (8.0 MT) cost-efficient player in the cement space. Its cement plants are located in Devapur, Telangana (3 MT integrated), Chittapur, Karnataka (3 MT integrated), Jalgaon, Maharashtra (2 MT grinding unit).

- The company derives revenues largely from Maharashtra (50%), Telangana, Karnataka and MP markets
- It also has 101 MW power plant (95 MW CPP, 6 MW WHRS) that makes it self-sufficient in terms of power requirements

Q4FY22 Results: Orient Cement reported improved performance during Q4FY22.

- Net revenue increased 30.2% QoQ (down 3.3% YoY) to ₹ 803.9 crore. Volumes were up 33.1% QoQ to 1.62 MT (down 12.4% YoY on high base). CU was at 81% vs. 93% last year and 61% last quarter
- Despite 56% QoQ jump in fuel costs, margins broadly remained stable at 19.1% QoQ
- With a sharp decline in interest costs (down ~69% YoY, QoQ), net profit improved 67.6% QoQ to ₹ 73.2 crore. However, PAT was down 26.7% YoY

What should investors do? Orient Cement's share price has grown only 46% over the past three years (from ~₹ 115 in August 2018 to ₹ 167 in July 2021).

- With a strong balance-sheet, the company is now in a better position to withstand the cost challenges

Target Price and Valuation: We value Orient at ₹ 150 i.e. 6.0x FY24E EV/EBITDA.

Key triggers for future price performance:

- The company is targeting to reach 14.5 MT cement capacity by FY26E in the next phase of expansion with an eye on the Rajasthan market
- The company aims to commission (2 MT grinding unit in Maharashtra and 2 MT clinker line with 1-1.5 MT grinding unit at Devapur, Telangana by Q4FY24E. Likely transfer of mines from Orient Paper to the company post favourable changes in the MMDR Act may speed-up expansion in Rajasthan
- Close proximity to raw materials, higher share of blended cement (PPC), lower lead distance to keep production costs lower than industry average
- WHRS plant of 10 MW in Chittapur should be operational in FY23

Alternate Stock Idea: Apart from Orient Cement, in our cement sector coverage we also like another south based player Sagar Cement.

- Another low cost producer, expanding footprint in east/central region
- BUY with a target price of ₹ 265/share

Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	2522	2422	2324	2726	2.6	3088	3384	11.4
EBITDA	312	383	551	591	23.7	503	685	7.6
EBITDA (%)	12.4	15.8	23.7	21.7		16.3	20.2	
Net Profit	48	87	214	263	76.8	189	286	4.2
EPS	2.3	4.2	10.5	12.8		9.2	13.9	
EV/EBITDA	11.6	9.2	5.7	4.5		6.1	5.1	
EV/Tonne (\$)	65	63	57	45		51	42	
RoNW	4.5	7.7	16.4	17.3		11.2	14.6	
RoCE	7.9	10.7	19.6	24.3		14.3	16.5	

Source: Company, ICICI Direct Research

ORIENT CEMENT

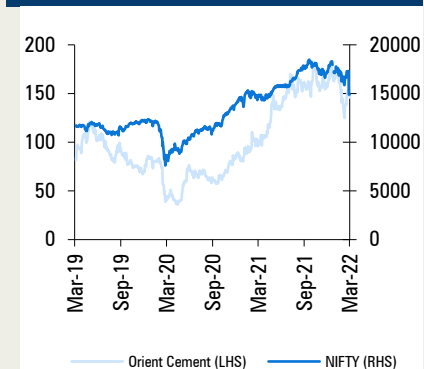
Particulars

Particulars	₹ crore
Market Capitalization	2418
Total Debt (FY22)	310
Cash (FY22)	44
EV (₹ crore)	2684
52 week High/Low	₹ 185/112
Equity Capital	20.5
Face Value (₹)	10

Shareholding pattern

(%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Promoter	37.4	37.4	37.4	37.4
DII	20.6	15.9	15.4	14.8
FII	4.4	6.0	6.6	6.5
Public	53.6	47.3	46.2	45.7

Price Chart



Key risks

- Any delay in commissioning of new capacities
- Volatility in prices of key inputs like coal/petcoke

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Key performance highlights

- Sales volumes were at 1.62 MT (up 33.1% YoY, down 12.4% QoQ). Blended realisations remained weak QoQ
- Cost of production was down 2% QoQ due to lower employee and other expenses
- EBITDA/t was down marginally by 2% QoQ to ₹ 946/tonne

Exhibit 1: Quarterly financial summary

Quarterly Financials	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY (%)	QoQ (%)
Revenue from operations	831.6	690.9	613.2	617.5	803.9	-3.3	30.2
Total expenditure	629.1	504.7	479.1	500.0	650.5	3.4	30.1
EBITDA	202.6	186.2	134.1	117.6	153.3	-24.3	30.4
EBITDA margins	24.4	27.0	21.9	19.0	19.1	-528bps	4bps
PAT	99.9	89.5	57.0	43.7	73.2	-26.7	67.6
Operational data	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY (%)	QoQ (%)
Cement sales volumes (In MT)	1.85	1.36	1.28	1.22	1.62	-12.4	33.1
Realizations per tonne	4495	5076	4791	5070	4959	10.3	-2.2
Expenditure							
RM Costs	612	669	601	697	628	2.6	-9.9
Employee costs	225	294	289	341	210	-6.7	-38.6
Freight costs	1243	1312	1271	1301	1307	5.2	0.5
Power & Fuel	907	970	1048	1149	1347	48.5	17.3
Other expenses	414	463	536	617	522	26.0	-15.5
Total expenditure	3400	3708	3743	4105	4013	18.0	-2.2
Blended EBITDA/t	1095	1368	1048	965	946	-13.6	-2.0

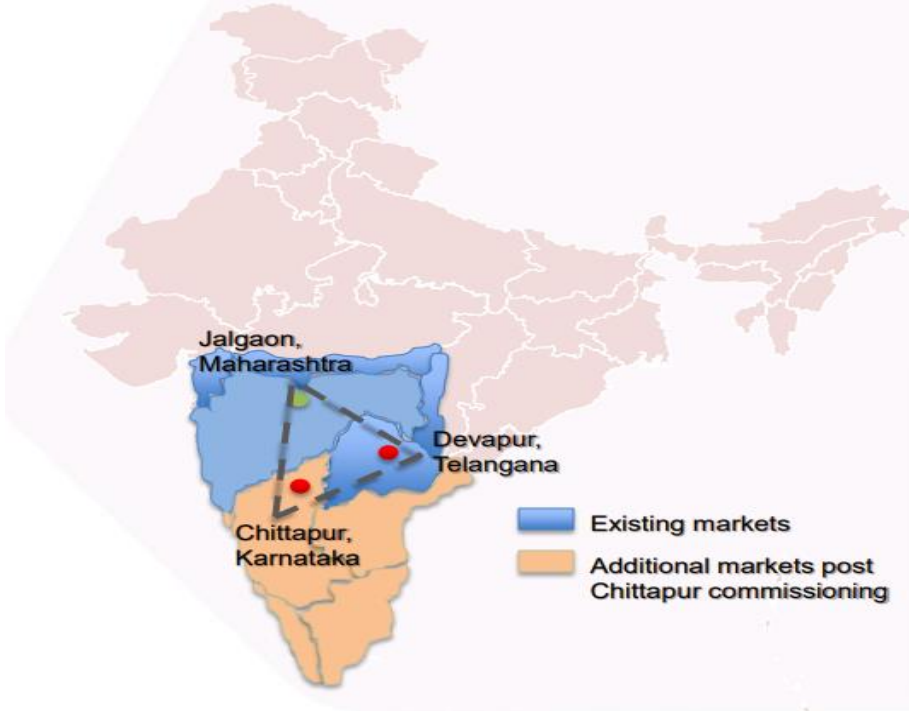
Source: Company, ICICI Direct Research

Other highlights

- Volume offtake remained weak due to absence of mega infra projects. Demand in Maharashtra was better than south markets. With regard to the market mix, Maharashtra contributed 53%, south 37% and central region 10% of total sales
- Fuel mix: 59% coal (domestic linkage: 51%, international coal: 8%) and 24% petcoke in Q4FY22
- The April 2022 price hikes were insufficient to offset fuel inflation. As per the management, the current demand scenario will not be able to absorb large price hikes
- Trade sales contributed 60% to the sales mix (flat QoQ) while blended cement share was at ~63%
- Higher fuel prices were partially mitigated through higher usage of alternative fuels. Further, savings also accrued from the commissioning of solar power source for Jalgaon unit. Power and fuel prices are expected to be up 12-13% sequentially in Q1FY23
- Employee expenses declined 18% YoY as excess bonus/variable payouts provisions made earlier were reversed during Q4FY22
- Average lead distance was at 300 km. Rail despatches were at 25% vs. 21% in Q3FY22. Higher fuel price coupled with rising packaging costs offset the gains of higher rail volumes and decline in lead distance
- Net debt as of March 2022 was at ~₹ 260 crore. The company repaid ₹ 490 crore of debt (project loans) in FY22
- **The company aims to commission the Tiroda, Maharashtra (2 MT grinding unit) and Devapur, Telangana (2 MT clinker line with 1-1.5 MT grinding unit) by Q4FY24E. However, equipment orders are yet to be made**
- **Orient to spend ₹ 700-750 crore in FY23E and ₹ 1300 crore in FY24E. The management expects peak debt to reach ₹ 1100 crore by FY24**
- **WHRS plant of 10 MW in Chittapur should be operational in FY23. Hence, the cost-savings should start accruing from FY24 onwards**

Story in charts

Exhibit 2: Plant locations



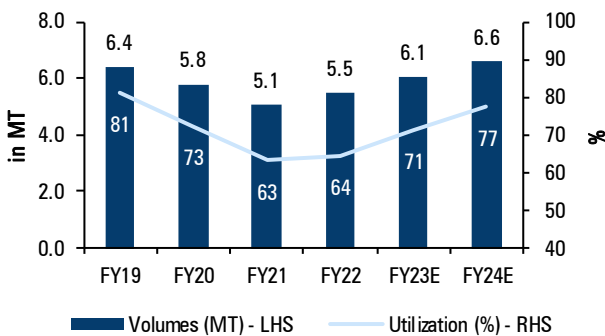
Devapur plant has 3 MT integrated cement capacity with CPP of 50 MW. It is located 2 km from the high-quality limestone reserve belt. Linkage coal is available from Singareni. Fly ash is sourced from NTPC's thermal power plant. Both are located within ~50 km range

The Jalgaon plant has 2 MT grinding unit. It sources fly ash from NTPC's Bhusawal thermal power plant, located ~20 km from the plant

Chittapur plant has 3 MT integrated cement capacity with 45 MW CPP and 6 MW WHRS. This plant was commissioned in Q2FY16. To reduce freight cost, the company commissioned a railway siding in FY19

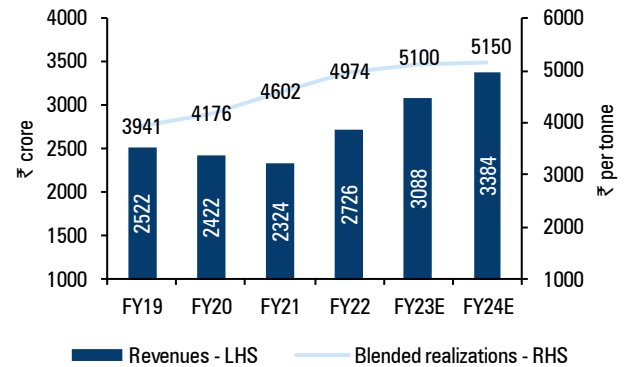
Source: Company, ICICI Direct Research

Exhibit 3: Sales volume & capacity utilisation trend



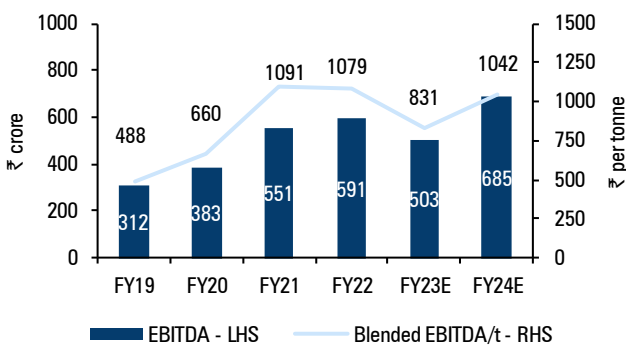
Source: Company, ICICI Direct Research

Exhibit 4: Revenue & realisations trend



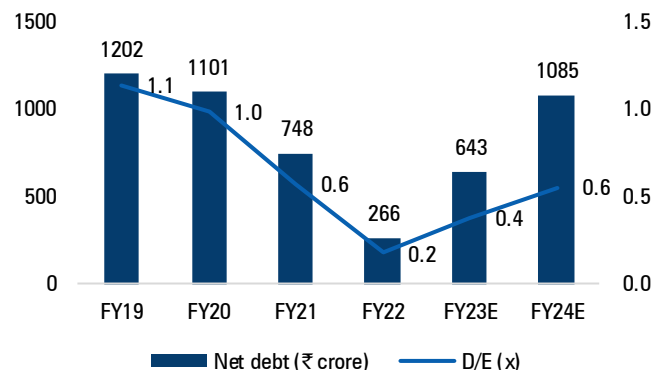
Source: Company, ICICI Direct Research

Exhibit 5: Operating profits trend



Source: Company, ICICI Direct Research

Exhibit 6: Debt to equity ratio



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total operating income	2421.8	2324.1	2725.5	3088.3	3383.6
Growth (%)	-4%	-4%	17%	13%	10%
Raw Material Expenses	203.2	292.9	354.7	405.7	443.5
Employee Expenses	154.9	152.3	152.4	163.1	172.9
Freight costs	693.4	608.9	711.6	847.8	867.3
Power & Fuel	591.4	450.6	624.4	817.5	821.3
Other expenses	396.0	268.6	291.2	351.2	394.2
Total Operating Expenditure	2038.9	1773.3	2134.3	2585.3	2699.1
EBITDA	382.9	550.7	591.2	503.0	684.5
Growth (%)	22.7%	43.8%	7.4%	-14.9%	36.1%
Depreciation	140.9	141.8	145.2	158.6	169.6
Interest	122.3	93.6	51.4	65.4	84.1
Other Income	17.7	18.3	9.5	19.0	19.0
PBT	137.4	333.6	404.0	298.0	449.8
Others	0.0	0.0	0.0	0.0	0.0
Total Tax	50.8	119.4	140.8	108.8	164.2
Reported PAT	86.6	214.2	263.3	189.2	285.6
Adjusted PAT	86.6	214.2	263.3	189.2	285.6
Growth (%)	82%	147%	23%	-28%	51%
Adjusted EPS (₹)	4.2	10.5	12.8	9.2	13.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	20.5	20.5	20.5	20.5	20.5
Reserve and Surplus	1097.9	1285.4	1505.0	1673.7	1938.9
Total Shareholders funds	1118.4	1305.9	1525.5	1694.2	1959.3
Total Debt	1137.0	783.8	309.7	709.7	1159.7
Deferred Tax Liability	115.0	174.2	251.7	180.0	180.1
Minority Interest / Others					
Total Liabilities	2370.4	2263.9	2086.8	2583.9	3299.2
Assets					
Gross PPE	2780.9	2857.9	2908.3	2908.3	4308.3
Less: Acc Depreciation	571.1	712.9	858.1	1016.7	1186.3
Net PPE	2209.9	2145.0	2050.2	1891.6	3122.0
CWIP	66.8	41.3	39.8	700.0	200.0
Total Fixed Assets	2276.6	2186.3	2090.0	2591.6	3322.0
Intangibles	61.7	61.3	64.9	66.0	66.0
Investments	0.0	115.1	10.0	10.0	10.0
Inventory	236.6	170.5	186.6	193.4	193.7
Debtors	161.8	110.2	127.3	146.6	163.2
Loans and Advances	12.5	12.4	0.0	18.0	18.0
Other Current Assets	74.6	77.3	91.1	103.2	113.1
Cash	36.0	36.1	43.8	66.9	74.8
Total Current Assets	521.5	406.4	448.8	528.1	562.8
Creditors	203.5	219.9	231.0	251.1	253.0
Provisions & Others	319.0	321.3	331.8	400.8	448.7
Total Current Liabilities	522.6	541.2	562.8	651.8	701.7
Net Current Assets	-1.0	-134.8	-113.9	-123.8	-138.9
Others Assets	33.1	36.0	35.9	40.0	40.0
Application of Funds	2370.3	2263.9	2086.8	2583.9	3299.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	86.6	214.2	263.3	189.2	285.6
Add: Depreciation	140.9	141.8	145.2	158.6	169.6
Add: Finance costs	122.3	93.6	51.4	65.4	84.1
(Inc)/dec in Current Assets	-33.8	115.1	-34.7	-56.1	-26.8
Inc/(dec) in CL and Def. tax	-2.1	77.8	99.1	17.3	49.9
CF from operating activi	313.9	642.5	524.4	374.4	562.4
(Inc)/dec in Fixed Assets	-76.9	-51.1	-52.5	-661.3	-900.0
(Inc)/dec in Investments	0.0	-115.1	105.1	0.0	0.0
Others	8.4	-2.9	0.1	-4.1	0.0
CF from investing activi	-68.5	-169.1	52.7	-665.5	-900.0
Issue/(Buy back) of Shares	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-94.1	-353.2	-474.2	400.0	450.0
Finance costs	-122.3	-93.6	-51.4	-65.4	-84.1
Others	0.0	0.0	0.0	0.0	0.0
Changes in other equity	-21.8	-26.6	-43.7	-20.5	-20.5
CF from financing activi	-238.2	-473.4	-569.3	314.1	345.4
Net Cash flow	7.3	0.0	7.7	23.1	7.8
Opening Cash	28.7	36.0	36.1	43.8	66.9
Closing Cash	36.0	36.1	43.8	66.9	74.7

Source: Company, ICICI Direct Research

Exhibit 10: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	4.2	10.5	12.8	9.2	13.9
Cash EPS	11.1	17.4	19.9	17.0	22.2
BV	54.6	63.7	74.4	82.7	95.6
DPS	0.8	1.5	2.5	1.0	1.0
Cash Per Share	1.8	1.8	2.1	3.3	3.7
Operating Ratios (%)					
EBITDA Margin	15.8	23.7	21.7	16.3	20.2
EBIT Margin	10.0	17.6	16.4	11.2	15.2
PAT Margin	3.6	9.2	9.7	6.1	8.4
Inventory days	35.7	26.8	25.0	22.9	20.9
Debtor days	24.4	17.3	17.1	17.3	17.6
Creditor days	36.4	45.3	39.5	35.4	34.2
Return Ratios (%)					
RoE	7.7	16.4	17.3	11.2	14.6
RoCE	10.7	19.6	24.3	14.3	16.5
RoIC	11.2	21.6	25.6	21.2	18.2
Valuation Ratios (x)					
P/E	27.9	11.3	9.2	12.8	8.5
EV / EBITDA	9.2	5.7	4.5	6.1	5.1
EV / Net Sales	1.5	1.4	1.0	1.0	1.0
Market Cap / Sales	1.0	1.0	0.9	0.8	0.7
Price to Book Value	2.2	1.9	1.6	1.4	1.2
Solvency Ratios					
Debt/EBITDA	3.0	1.4	0.5	1.4	1.7
Debt / Equity	1.0	0.6	0.2	0.4	0.6
Current Ratio	1.0	0.8	0.8	0.8	0.8
Quick Ratio	0.5	0.4	0.5	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Cement)

Company	CMP			EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
UltraTech Cem	6,020	8,000	BUY	185	245	197	18.2	17.9	17.6	217	214	210	14.7	14.2	13.6	12.7	14.4	10.6
Shree Cement	21,980	25,700	HOLD	641	620	596	22.0	23.2	21.9	257	260	224	18.2	16.1	14.8	15.2	13.1	11.4
Heidelberg Cem	186	225	HOLD	14	8	11	9.8	13.0	11.0	107	106	103	20.1	15.7	19.7	21.1	12.6	15.2
JK Cement	2,392	2,640	HOLD	78	99	77	15.2	15.6	17.5	155	184	161	18.6	16.7	13.2	20.6	17.5	12.2
JK Lakshmi Cen	395	580	BUY	31	28	17	7.2	9.0	11.0	62	63	66	21.1	16.8	12.4	19.0	15.3	9.2
Birla Corp	1,015	1,320	HOLD	88	35	41	9.7	12.8	10.6	119	93	91	10.8	6.5	7.2	12.4	5.0	5.5
Ramco Cement	700	900	BUY	32	24	25	14.2	18.1	17.2	162	168	160	8.6	6.4	6.2	13.5	9.3	8.7
Sagar Cement	220	265	BUY	16	5	9	8.2	13.9	8.2	82	66	54	15.3	6.6	9.5	15.4	4.7	6.7

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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