

Orient Cement

Performance beat on all front led by strong volume & lower cost

Result Synopsis

Orient Cements (ORCMNT) reported a performance beat on all fronts, Revenue/EBITDA/Adj. PAT came at Rs7.3/0.90/0.28bn (beats YSECe by +4/24/132%). Performance was largely driven by volume growth of +17% y/y (+16% q/q; +5% higher than YSECe) to 1.43MT owing to good demand from the infra segment (non-trade 51%). Whereas total cost/te came 3% below YSECe due to decline in RM/te and other cost/te. Consequently, EBITDA/te reported at Rs632 (v/s YSECe of Rs535/te) in Q3FY23. Given the 9MFY23 volume performance of 4MT, we believe ORCMNT is on track to achieve our volume estimate to 5.5MT (v/s management guidance 5.8MT) for FY23E. Ongoing expansion project of 3MTPA in Maharashtra & Telangana would take total capacity to 11.5MTPA by FY24-25E. Ongoing expansion will enhance the access to Chhattisgarh, Maharashtra & South MP markets and thereby diversify its geographical presence with higher blended sales & enabling optimization of logistic cost. Management to focus on pricing over higher dispatches to offset cost inflation and improve the margins going ahead. We remain POSITIVE on ORCMNT and believe, despite being amongst the low-cost producer, ORCMNT has significant headroom to improve on its efficiency parameters like: 1) Product-mix (Higher Blended Sales), 2) Augmenting Green Power 3) Higher use of alternative fuel 4) Targeting Average TSR of 25% by 2030. ORCMNT is expected to generate a CFO of Rs11bn over FY23-25E that would aid to fund its CAPEX plans partially thereby the Net Debt is expected to peak at ~Rs9.5bn with net debt/EBITDA of ~1.1x by FY25E. We retain our BUY rating with a TP of 195, valuing the stock at 5.5x EV/EBITDA on FY25E.

Result Highlights

- ORCMNT delivered volume growth of +17% y/y and +16% q/q to 1.43MT (+5% above YSECe) owing to good demand from the infra segment (non-trade).
- NSR increased by +1% y/y and +3% q/q but remained 1% below YSECe due to the higher OPC & Non-Trade sales in this quarter. As a result, Revenue came at Rs7.3bn, up by +19% both y/y and q/q (+4% higher than YSECe).
- EBITDA came at Rs903mn (+24% beat YSECe) declined by 23% y/y but sequentially improved by +178% in Q3FY23. This performance translates to EBITDA/te of Rs632 (v/s YSECe of Rs535/te) in Q3FY23, improved by +140% q/q on account of fuel/energy prices softening.
- Owing to higher-than-expected margins and lower finance cost, ORCMNT's Adj. PAT beats YSECe by 133% to Rs275mn in Q3FY23, declined by 37% y/y v/s net loss Rs95mn in Q2FY23.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	7,323	7,012	6,812	4.4	7.5	Higher than expected volumes with lower cost than expected resulted beat on all front
EBITDA	903	727	656	24.3	37.7	
Margin (%)	12.3	10.4	9.6	197 bps	270 bps	
Adj. PAT	275	118	158	132.7	74.2	

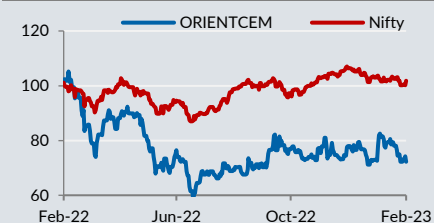
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 122
Target Price	: Rs 195
Potential Return	: +60%

Stock data (as on Feb 02, 2023)

Nifty	17,892
52 Week h/l (Rs)	184 / 96
Market cap (Rs/USD mn)	25680 / 315
Outstanding Shares (mn)	205
6m Avg t/o (Rs mn):	89
Div yield (%):	2.0
Bloomberg code:	ORCMNT IN
NSE code:	ORIENTCEM

Stock performance



	1M	3M	1Y
Absolute return	-0.4%	-5.5%	-29.3%

Shareholding pattern (As of Dec'22 end)

Promoter	37.9%
FII+DII	17.1%
Others	45.0%

Δ in earnings estimates

	FY23E	FY24E
EPS (New)	17.8	18.7
EPS (Old)	18.9	20.8
% Change	-6%	-10%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	195	194

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	28,743	34,984	38,878
Growth	5.5	21.7	11.1
EBITDA	3,645	6,767	7,830
Margin	12.7	19.3	20.1
Adj PAT	1,497	3,639	3,833
Growth	(43.1)	143.1	5.3
EPS	7.3	17.8	18.7
ND/EBITDA	0.7	1.2	1.1
ROE	9.3	19.0	17.1
ROCE	11.8	19.0	18.2
EV/EBITDA	7.5	4.9	4.3

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Exhibit 2: Quarterly snapshot

Particulars (Rs m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Net Revenue	6,175	8,039	7,139	6,153	7,323	18.6	19.0	27,254	23,241	17.3
Total Expenses	5,000	6,505	6,117	5,827	6,420	28.4	10.2	21,343	17,734	20.4
COGS	849	1,018	779	1,071	946	11.4	(11.8)	3,547	3,247	9.2
Employee Expenses	416	340	430	433	426	2.4	(1.7)	1,524	1,525	(0.1)
Power & fuel	1,399	2,183	2,287	1,937	2,274	62.5	17.4	6,244	4,506	38.6
Freight Exp	1,585	2,119	1,925	1,638	1,963	23.9	19.9	7,116	6,089	16.9
Other Expenses	751	845	696	749	811	8.0	8.4	2,912	2,366	23.1
EBITDA	1,175	1,533	1,022	326	903	(23.1)	177.5	5,911	5,507	7.3
EBITDA (%)	19.0	19.1	14.3	5.3	12.3	(670 bps)	704 bps	21.7	23.7	(201 bps)
D&A	368	366	363	369	371	0.7	0.4	1,452	1,419	2.4
Other Income	25	20	12	48	11	(54.4)	(76.6)	96	183	(47.9)
Interest Expense	158	49	80	105	97	(38.5)	(7.8)	514	936	(45.0)
Exceptional/EO items	-	-	-	-	-	-	-	-	-	-
Share JV/Associates	-	-	-	-	-	-	-	-	-	-
EBT	674	1,138	591	(101)	446	(33.7)	N/A	4,040	3,336	21.1
Tax	237	406	217	(6)	171	(27.8)	N/A	1,407	1,194	17.9
Reported PAT	437	732	374	(95)	275	(37.0)	N/A	2,633	2,142	22.9
Less: Minority Interest	-	-	-	-	-	-	-	-	-	-
Adj. PAT	437	732	374	(95)	275	(37.0)	N/A	2,633	2,142	22.9

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis

Particulars (Rs m)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Total Volumes (MMT)	1.2	1.6	1.4	1.2	1.4	17.2	15.7	5.5	5.1	7.8
NSR/te (Blended)	5,062	4,962	5,211	4,978	5,121	1.2	2.9	4,955	4,557	8.7
RM/te	696	628	569	867	661	(5.0)	(23.7)	645	637	1.3
Employees/te	341	210	314	350	298	(12.6)	(15.0)	277	299	(7.3)
Power/te	1,147	1,348	1,669	1,567	1,590	38.7	1.5	1,135	884	28.5
Freight/te	1,299	1,308	1,405	1,325	1,373	5.7	3.6	1,294	1,194	8.4
Others/te	616	522	508	606	567	(7.9)	(6.3)	530	464	14.1
Opex/te (Blended)	4,098	4,016	4,465	4,715	4,489	9.5	(4.8)	3,881	3,477	11.6
EBITDA/te (Blended)	963	947	746	263	632	(34.4)	139.9	1,075	1,080	(0.5)

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management stated cement witnessed strong traction from the infrastructure projects post festive season, on the back of pick up in construction activities and expects it to continue for Q4 taking the total volume to 5.8MT for FY23E.
- Pro CAPEX/rural housing led Union budget will contribute to the cement demand and push momentum higher going forward and could result in higher contribution of non-trade.
- Company witnessed much better demand traction in the west market and contributed 56% of total sales as compared to the other operating market.
- In Q3FY23, Non-Trade sales contributed 51% (v/s 45% in Q2FY23). Whereas non-trade sales for orient cement continues to see good traction as compared to the trade sales. As a result, higher non-trade sales increased the OPC sales to 47% (57% of Blended cement sales) caused elevated power cost in this quarter.
- Despite substantial price hikes, ORCMNT's NSR increased marginally due to higher non-trade sales. Even from Dec exit price remained flat for the company as a result management expects NSR for Q4 likely to increase marginal to flat but strong volume to be the growth driver.
- In Q3FY23, Fuel mix was Pet coke 40%; Domestic coal 43% and AFR 17%, the cost of alternate fuel turned 2x due to supply constraints over rising demand.
- Blended fuel consumption cost for Q3FY23 was below Rs2.2 per kcal/kg (+40% y/y) as compared to Rs2.379 per kcal/kg in Q2FY23. Whereas management indicated that for Q4 the fuel cost would increase marginally as the company procured pet coke at a higher rate and holds large inventories of it lasting till May'23. As a result, any further softening in Pet coke prices would be reflected only by Jun'23.
- Due to the higher non-trade sales, the working capital witnessed some pressure which increased short-term borrowing.
- Even at current prices pet coke remained the cheaper option for the industry than the imported coal. As a result, pet coke continues to sustain at current levels, due to higher demand and supply constraints. Therefore, management doesn't expect any softening of Pet coke in near future unless the imported coal continues to soften below the pet coke prices.
- Management decelerated the pace of CAPEX as current utilization stands at ~70% and there is scope of taking it to ~85% in next 2-3years, which is sufficient to cater the incremental demand.
- Upcoming 10MW of WHRS in Chittapur will aid a cost saving of Rs300mn per year.

Exhibit 4: Annual Operational Performance Estimates

Particulars (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Total Volumes (MMT)	5.1	5.5	5.5	6.6	7.5
Utilization (%)	64%	65%	65%	69%	66%
Cement Realization/te	4,554	4,939	5,218	5,306	5,161
Net Realization/te (Blended)	4,557	4,955	5,218	5,306	5,161
RM/te	637	645	782	649	651
Power/te	884	1,135	1,571	1,416	1,311
Freight/te	1,194	1,294	1,362	1,350	1,258
Employees/te	299	277	315	318	322
Others/te	464	530	526	546	579
Opex/te (Blended)	3,477	3,881	4,556	4,279	4,122
EBITDA/te (Blended)	1,080	1,075	662	1,026	1,039

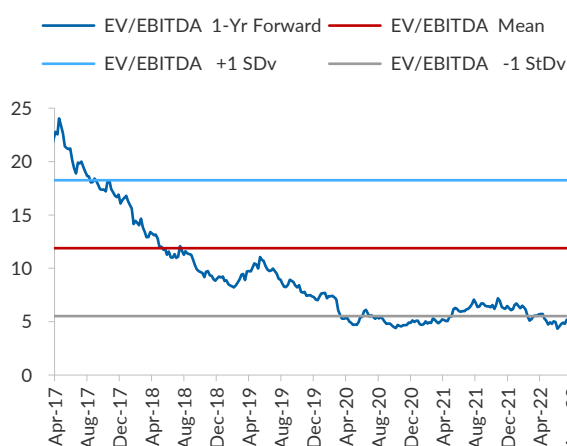
Source: Company, YES Sec

Exhibit 5: Key Estimate Revision

	FY24E			FY25E		
(Rs m)	Old	New	Change	Old	New	Change
Revenues	35,331	34,984	-1%	38,878	38,878	0%
EBITDA	7,584	6,767	-11%	7,830	7,830	0%
PAT	3,873	3,639	-6%	3,833	3,833	0%
EPS	18.9	17.8	-6%	18.7	18.7	0%

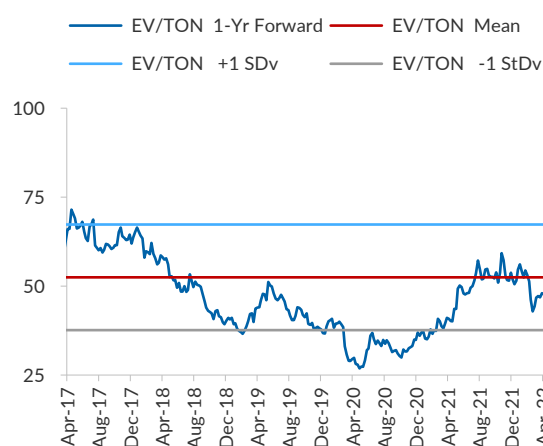
Source: Company, YES Sec

Exhibit 6: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 7: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	205	205	205	205	205
Reserves	12,854	15,049	15,932	18,956	22,174
Net worth	13,059	15,254	16,137	19,161	22,379
Other LT Liabilities	-	38	38	38	38
LT provision.	572	479	479	479	479
Minority interest	-	-	-	-	-
Long-term Borrowing	7,838	1,480	2,480	7,680	8,380
Deferred tax liabilities. (net)	1,811	2,517	2,517	2,517	2,517
Current Liabilities					
Trades Payables	1,844	2,310	2,380	2,775	2,996
Short-term Borrowing	128	1,617	492	801	1,068
Other current liabilities	2,537	2,488	2,488	2,488	2,488
Short Term Provision	331	314	314	314	314
Total Liabilities	28,121	26,496	27,325	36,253	40,658
Assets					
Total Net Block	22,061	21,093	21,625	22,119	29,097
CWIP & Other Assets	425	456	398	8,398	5,398
Investments	-	42	42	42	42
Other Non-current Asset	781	576	576	576	576
Deferred tax asset (net)	-	-	-	-	-
Current Assets					
Inventories	1,705	1,866	2,234	2,494	2,723
Trades Receivables	1,102	1,273	1,220	1,388	1,609
Other current assets	1,685	752	752	752	752
Short Term Loans & advances	0	0	0	0	0
Cash & Bank Balances	362	438	478	484	462
Total Assets	28,121	26,496	27,325	36,253	40,658

Source: Company, YES Sec

Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	23,241	27,254	28,743	34,984	38,878
EBITDA	5,507	5,911	3,645	6,767	7,830
D&A	1,419	1,452	1,468	1,505	2,023
EBIT	4,088	4,459	2,177	5,261	5,807
Interest Expense	936	514	282	532	833
Other Income	183	96	101	123	136
Exceptional/EO items	-	-	-	-	-
EBT	3,336	4,040	1,996	4,852	5,110
Tax	1,194	1,407	499	1,213	1,278
Share of Profit/(Loss) in JV/Associates	-	-	-	-	-
Reported PAT	2,142	2,633	1,497	3,639	3,833
Less: Minority Interest	-	-	-	-	-
Adj. PAT	2,142	2,633	1,497	3,639	3,833

Source: Company, YES Sec

Exhibit 10: Cash Flow

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Cash flow from operation	3,441	5,084	2,721	5,111	5,626
Profit before tax	3,336	4,040	1,996	4,852	5,110
Depreciation	1,419	1,452	1,468	1,505	2,023
Tax paid	(1,194)	(1,407)	(499)	(1,213)	(1,278)
Working capital Δ	(119)	1,000	(244)	(33)	(230)
Other operating items	-	-	-	-	-
Cash flow from Investing Activities	(534)	(311)	(1,942)	(10,000)	(6,000)
Capital expenditure	(522)	(515)	(1,942)	(10,000)	(6,000)
Change in other non-current assets	(13)	204	-	-	-
Free cash flow	2,920	4,569	779	(4,889)	(374)
Cash flow from Financing activities	(2,906)	(4,697)	(739)	4,894	352
Change in Equity & Reserves	143	75	-	-	-
Investments	-	(42)	-	-	-
Debt financing/disposal	(3,390)	(4,870)	(124)	5,509	967
Dividends paid	(410)	(512)	(615)	(615)	(615)
Other items	751	652	-	-	-
Net Δ in cash	1	76	41	5	(22)

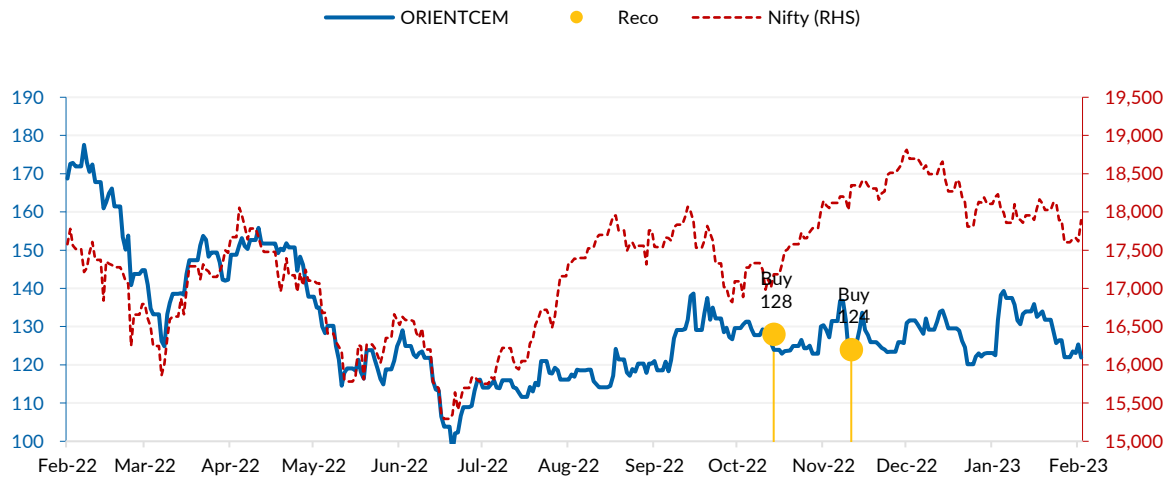
Source: Company, YES Sec

Exhibit 11: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue	(4.0)	17.3	5.5	21.7	11.1
EBITDA	43.8	7.3	(38.3)	85.6	15.7
EBT	142.8	21.1	(50.6)	143.1	5.3
PAT	147.4	22.9	(43.1)	143.1	5.3
EPS	147.4	22.9	(43.1)	143.1	5.3
Profitability ratios (%)					
EBITDA (%)	23.7	21.7	12.7	19.3	20.1
EBIT (%)	18.4	16.7	7.9	15.4	15.3
PAT (%)	9.2	9.7	5.2	10.4	9.9
ROCE	20.2	22.8	11.8	19.0	18.2
ROE	16.4	17.3	9.3	19.0	17.1
ROA	9.5	12.2	6.8	11.9	11.1
Per share ratios (Rs)					
EPS	10	13	7	18	19
DPS	2.0	2.5	3.0	3.0	3.0
Cash EPS	17	20	14	25	29
BVPS	64	74	79	94	109
Payout (%)					
Dividend payout	19.1	19.5	41.1	16.9	16.0
Tax payout	35.8	34.8	25.0	25.0	25.0
Liquidity ratios					
Inventory days	65	56	56	56	56
Payable days	65	61	61	61	61
Receivables days	21	16	16	16	16
Leverage ratios (x)					
Interest Coverage	4.6	8.9	8.1	10.1	7.1
Net D/E	0.6	0.2	0.2	0.4	0.4
Net Debt/EBITDA	1.4	0.4	0.7	1.2	1.1

Source: Company, YES Sec

Recommendation Tracker



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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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