

3 February 2023

Orient Cement

To add 3m tonnes by FY26; retaining a Buy

Rating: Buy

Target Price: Rs.174

Share Price: Rs.121

Though good infrastructure demand boosted Orient Cement's Q3 volume growth, high input costs curbed its operating performance. While cement capacity expansion continues to be delayed, the falling fuel cost benefit will be visible post-May'23. Cost savings from the 10MW WHRS, more government spending on infra and the firm B/S are positives. We retain a Buy rating on the stock, with a lower target price of Rs.174 (earlier Rs.176) on 7.5x FY25e EV/EBITDA.

Firm infra demand aided volume growth. Operating at 70% capacity, cement volumes grew 17.4% y/y (to 1.43m tons) on higher infra demand. Cement price hikes were restricted due to keen competition, leading to realisation/ton growing 1% y/y. While the better demand momentum post Oct is expected to continue, Q4 sales volumes were guided to at 1.7m tons. The sharper infra focus in the Budget and more government spending due to the coming election would help the cement sector grow 12-13% in FY24. We expect 7%/9% cement volume/revenue CAGRs over FY22-25.

10MW WHRS to push up cost savings. High fuel costs, longer lead distances, product-mix changes (to more OPC) led to EBITDA falling 23% y/y to Rs903m and EBITDA/ton, 34.5% y/y to Rs632. Because of high fuel-cost stocks, the benefit of falling fuel prices will be visible post-May'23. Savings of Rs300m p.a. are expected on the commencement of the 10MW Chittapur WHRS. We expect EBITDA/ton of Rs789/Rs887 in FY24/FY25.

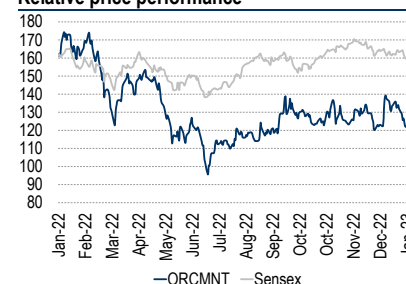
Business outlook; Valuation. The cement capacity expansion continues to be delayed, pending clearances. Identifying land for the Raj IU expansion is ongoing. During 9M FY23, Rs1.17bn debt was repaid (at 31st Dec'22, gross debt was Rs4.03bn). On high B2B sales (longer credit periods), WC days were higher. Net D/E and debt-to-EBITDA were guided to be below 1.5x and 3x respectively, despite the expansions. We retain our Buy rating, with a lower target price of Rs174. **Risks:** Rising pet-coke/diesel prices, demand slowdown.

Key data	ORCMNT IN
52-week high / low	Rs.184 / 96
Sensex / Nifty	59932 / 17610
3-m average volume	\$1.7m
Market cap	Rs.25bn / \$301.5m
Shares outstanding	205m

Shareholding pattern (%)	Dec-22	Sep-22	Jun-22
Promoters	37.9	37.9	37.9
- of which, Pledged	-	-	-
Free float	62.1	62.1	62.1
- Foreign institutions	6.0	6.4	5.8
- Domestic institutions	11.0	11.3	13.3
- Public	45.1	44.4	43.0

Estimates revision (%)	FY23e	FY24e	FY25e
Sales	-	1.4	2.6
EBITDA	(12.4)	(7.6)	(5.7)
PAT	(19.2)	(4.7)	5.9

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	23,241	27,254	29,508	32,298	35,174
Net profit (Rs m)	2,142	2,633	1,299	1,935	2,380
EPS (Rs)	10.5	12.8	6.3	9.4	11.6
P/E (x)	9.4	11.1	19.0	12.8	10.4
EV / EBITDA (x)	4.8	5.4	7.3	6.0	5.6
EV / ton (\$)	41.5	46.5	39.6	43.4	48.8
RoE (%)	17.7	18.6	8.2	11.3	12.6
RoCE (%)	11.1	13.5	6.6	8.8	9.4
Dividend yield (%)	2.0	1.8	1.2	1.2	1.2
Net debt / equity (x)	0.5	0.2	0.1	0.3	0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

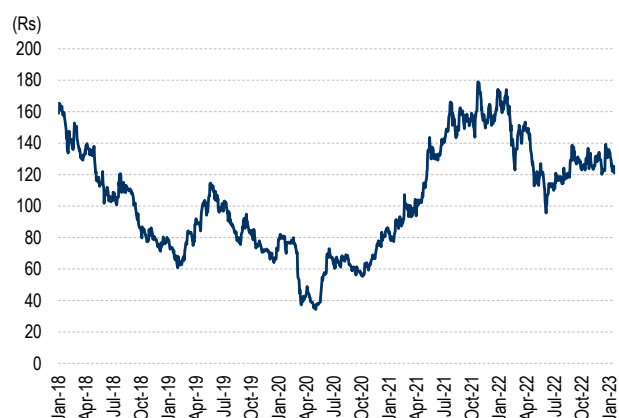
Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Sales volumes (m tons)	5.1	5.5	5.8	6.2	6.6
Net revenues	23,241	27,254	29,508	32,298	35,174
Growth (%)	-4.0	17.3	8.3	9.5	8.9
Direct costs	13,843	16,907	21,007	22,166	23,564
SG&A	3,891	4,437	4,792	5,238	5,726
EBITDA	5,507	5,911	3,710	4,895	5,883
EBITDA margins (%)	23.7	21.7	12.6	15.2	16.7
- Depreciation	1,419	1,452	1,478	1,555	1,625
Other income	183	96	118	113	123
Interest expenses	936	514	381	520	776
PBT	3,336	4,040	1,968	2,932	3,605
Effective tax rate (%)	35.8	34.0	34.0	34.0	34.0
+ Associates / (Minorities)					
Net income	2,142	2,633	1,299	1,935	2,380
Adjusted income	2,142	2,633	1,299	1,935	2,380
WANS	205	205	205	205	205
FDEPS (Rs / sh)	10.5	12.8	6.3	9.4	11.6
Adj. FDEPS growth (%)	147.4	22.9	-50.6	49.0	23.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (Adj. OI and Interest)	4,088	4,459	2,231	3,340	4,258
+ Non-cash items	1,419	1,452	1,478	1,555	1,625
Oper. prof. before WC	5,507	5,911	3,710	4,895	5,883
- Incr. / (decr.) in WC	-2,085	-99	614	381	-24
Others incl. taxes	597	851	-	-	-
Operating cash-flow	6,995	5,158	3,096	4,513	5,907
- Capex (tang. + intang.)	522	515	1,500	5,400	7,400
Free cash-flow	6,474	4,643	1,596	-887	-1,493
Acquisitions					
- Div. (incl. buyback & taxes)	410	512	307	307	307
+ Equity raised	-	-	-	-	-
+ Debt raised	-4,297	-4,870	2,000	1,000	4,500
- Fin investments	1,151	-1,009	-	-	-
- Misc. (CFI + CFF)	615	194	932	1,404	1,879
Net cash-flow	1	76	2,356	-1,598	820

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

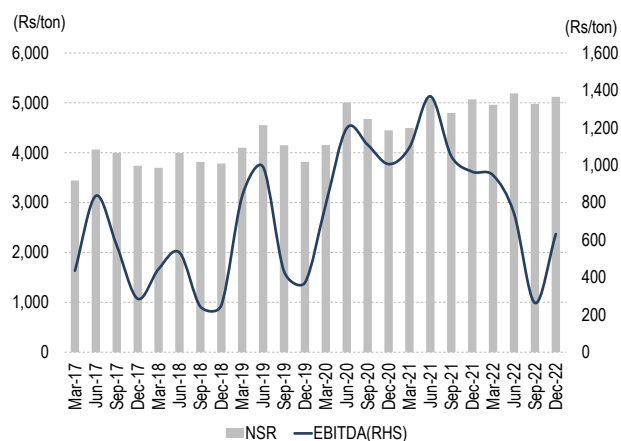
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	205	205	205	205	205
Net worth	13,059	15,254	16,246	17,874	19,946
Debt	7,966	3,097	5,097	6,097	10,597
Minority interest					
DTL / (Assets)	1,811	2,517	2,517	2,517	2,517
Capital employed	22,837	20,868	23,860	26,488	33,060
Net tangible assets	21,460	20,502	20,822	20,667	20,542
Net Intangible assets	613	649	649	649	649
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	413	398	100	4,100	10,000
Investments (strategic)	-	42	42	42	42
Investments (financial)	1,151	100	100	100	100
Current assets (excl. cash)	4,122	4,368	5,174	6,106	6,649
Cash	362	438	2,794	1,196	2,016
Current liabilities	5,284	5,628	5,821	6,371	6,938
Working capital	-1,162	-1,261	-647	-265	-289
Capital deployed	22,837	20,868	23,860	26,488	33,060
Contingent liabilities	680	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	9.4	11.1	19.0	12.8	10.4
EV / EBITDA (x)	4.8	5.4	7.3	6.0	5.6
EV / Sales (x)	1.1	1.2	0.9	0.9	0.9
P/B (x)	1.5	1.9	1.5	1.4	1.2
RoE (%)	17.7	18.6	8.2	11.3	12.6
RoCE (%) - after tax	11.1	13.5	6.6	8.8	9.4
DPS (Rs / sh)	2.0	2.5	1.5	1.5	1.5
Dividend payout (%) - incl. DDT	19.1	19.5	23.7	15.9	12.9
Net debt / equity (x)	0.5	0.2	0.1	0.3	0.4
Working capital (days)	-18.2	-16.9	-8.0	-3.0	-3.0
EV / ton (\$)	41.5	46.5	39.6	43.4	48.8
NSR / ton (Rs)	4,602	4,975	5,105	5,205	5,305
EBITDA / ton (Rs)	1,090	1,079	642	789	887
Volumes	5.05	5.48	5.78	6.21	6.63
CFO : PAT %	326.6	195.9	238.3	233.2	248.2

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trends


Source: Company, Anand Rathi Research

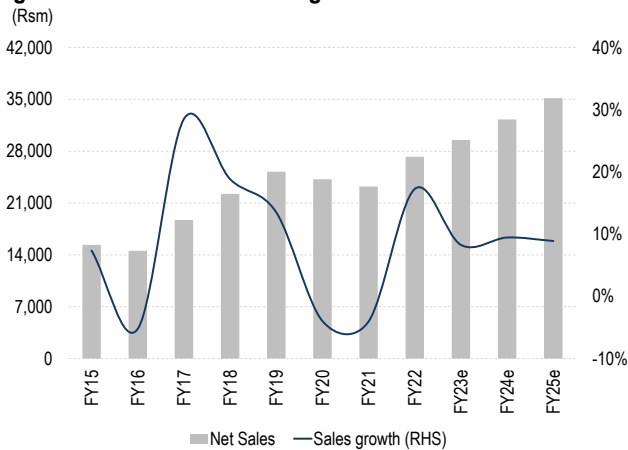
Key updates

Revenue growth

The company’s key markets (Maharashtra 55%, Telangana/Karnataka/AP 36%) together bring in 90% of its revenue. The rest of its revenue arises from MP and the eastern region.

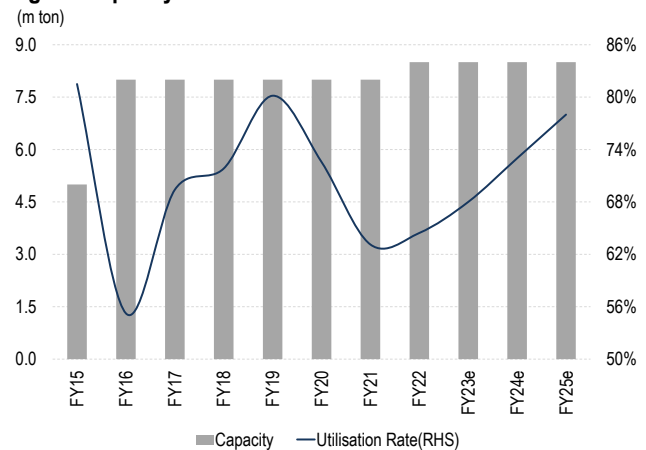
Q3 FY23 revenue was up 18.6 y/y to Rs6bn. Cement sales volumes grew a robust 17.4% y/y to 1.43m tons, and realisation/ton grew 1% y/y to Rs5121. Good demand and better realisations from the infrastructure sector pushed OPC and share of non-trade volumes higher. Stiff competition kept the company from raising prices to pass on the high input costs.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity utilisation



Source: Company, Anand Rathi Research

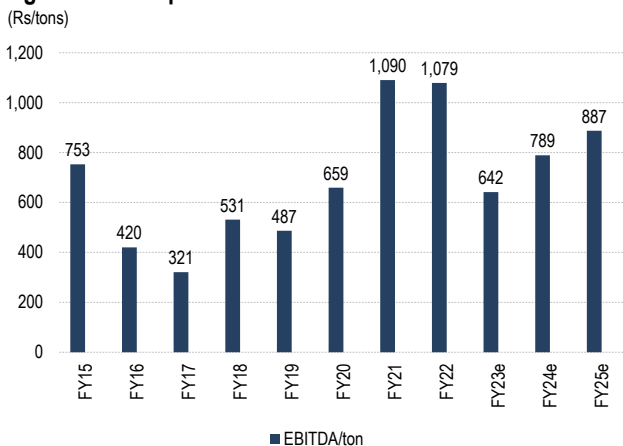
Operating performance

Q3 EBITDA was Rs903m, down 23% y/y. EBITDA/ton was down 34.5% y/y to Rs632 (Rs965 a year ago, Rs263 the quarter prior).

Power and fuel cost per ton increased 38.4% y/y on high coal and petcoke prices. Raw material cost per ton increased 6.7% y/y. Freight cost per ton rose 5.5% y/y, primarily on account of more shipments by road, while the lead distance in the quarter was slightly above 300km.

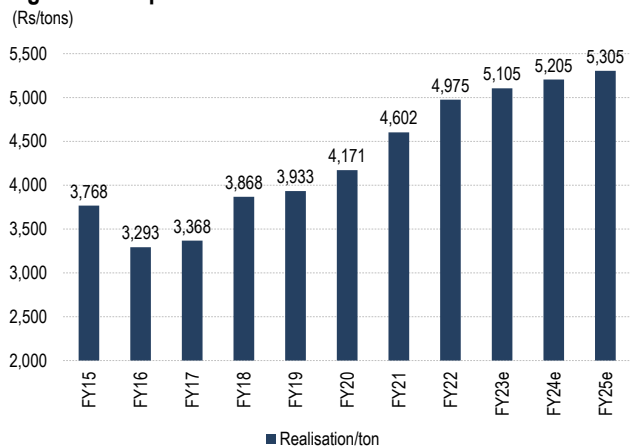
On lower operating profit, adj. PAT declined 37% y/y to Rs275m.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – NSR-per-ton trend



Source: Company, Anand Rathi Research

Result highlights

Fig 11 – Quarterly trend

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	%Y/Y	%Q/Q
Sales	4,104	4,775	6,046	8,316	6,909	6,131	6,175	8,039	7,139	6,153	7,323	18.6	19.0
EBITDA	982	1,132	1,367	2,025	1,862	1,340	1,175	1,533	1,022	326	903	-23.1	177.5
EBITDA margins %	23.9	23.7	22.6	24.4	27.0	21.9	19.0	19.1	14.3	5.3	12.3	-670bps	704bps
EBITDA / ton	1,198	1,109	1,006	1,095	1,368	1,048	965	946	743	263	632	-34.5	139.9
Interest	270	263	243	159	159	149	158	49	80	105	97	-38.5	-7.8
Depreciation	346	354	360	359	353	364	368	366	363	369	371	0.7	0.4
Other income	56	27	74	27	21	30	25	20	12	48	11	-54.4	-76.6
PBT	422	542	837	1,534	1,371	857	674	1,138	591	-101	446	-33.7	L2P
Tax	166	194	299	536	477	288	237	406	217	-6	171	-27.8	NA
ADJ. PAT	256	348	539	999	895	569	437	732	374	-95	275	-37.0	L2P

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(Rs)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Realisations	5,004	4,677	4,449	4,495	5,076	4,798	5,070	4,959	5,189	4,978	5,121	1.0	2.9
EBITDA	1,198	1,109	1,006	1,095	1,368	1,048	965	946	743	263	632	-34.5	139.9
Sales volumes (m tons)	0.82	1.02	1.36	1.85	1.36	1.28	1.22	1.62	1.38	1.24	1.43	17.4	15.7
Costs													
Raw material	623	601	582	609	673	673	648	681	686	670	692	6.7	3.3
Power & Fuel	836	877	918	907	970	1,049	1,149	1,347	1,662	1,567	1,590	38.4	1.5
Packing, Freight & Forwarding	1,162	1,175	1,204	1,243	1,312	1,273	1,301	1,307	1,399	1,325	1,373	5.5	3.6
Staff	453	353	278	225	294	289	341	210	312	350	298	-12.8	-15.0
Other expenditure	524	487	496	414	463	536	617	522	506	606	567	-8.0	-6.3

Source: Company, Anand Rathi Research

Concall Highlights

- **Demand, pricing context.** More infrastructure demand led to better B2B demand. Per DIPP, cement volumes grew 10% y/y in 9M FY23, 8% q/q. The prolonged monsoon and festivals kept demand subdued in Oct; it gathered pace in Nov and Dec. In FY24, the cement sector is expected to grow 12-13%.

Utilisation was 70% in Q3 FY23. Sales volume guidance for FY23 was reduced to 5.8m tonnes, vs 6m earlier. Stiff competition kept the company from raising prices to pass on the high input costs.

- **Operational highlights**

- The share of Maharashtra in sales rose to 56% (vs 51% normally), backed by good demand there.
 - The rail-road mix was 16:84, (15:85 the quarter prior). The Railways imposed a busy-season surcharge. The lead distance was slightly above 300km.
 - Demand from infrastructure projects resulted in the greater share of OPC, to 47% (from 45% the previous quarter). Non-trade sales rose to 51% of overall sales (vs 40% normally). More supplies to the B2B segment shrank the share of blended cement due to the slowdown in B2C demand.
 - StrongCrete sales: 15% of trade sales due to lower B2C sales.
 - The share of domestic coal and imported fuel were ~40% each. The share of alternative fuel in the fuel mix was ~17%.
 - The blended consumption cost of fuel in Q3 FY22 was Rs2,200/ton, up 40% y/y. On shipments arriving in Feb, the company will have fuel stocks till May'23. Due to higher booked fuel costs (3% higher than the last shipment), the impact of the low-cost fuel will be seen from Jun'23.
- **Debt.** Incl. a zero interest-bearing loan of Rs365m, at 31st Dec'22 gross debt was Rs4.03bn (Rs3.1bn in Mar'22); net debt, Rs2.7bn. A Rs1.17bn loan was repaid in 9M FY23 (Rs270m in Q3 FY23). Longer credit period for B2B sales led to higher working capital.
- **Expansion, capex**
 - The 10MW WHRS and rake-handling system at the Chittapur plant are expected to be complete by FY23. Savings of Rs300m p.a. are expected from the WHRS.
 - Capex of Rs1.5bn was guided to for FY23.
 - The 2m-tonne Tiroda GU expansion is expected to be delayed, pending clearances, resulting in the Devapur IU (clinker ~2m tonnes, GU ~1m tonnes) being postponed as the clinker expansion would support the GU expansion.

Rajasthan mines. The lease transfer from Orient Paper to Orient Cement was completed with no transmission charges. The mines have estimated reserves for 50 years (120m-150m tons) justifying the 2m-ton capacity expansion in Rajasthan. The company will start procuring land and applying for environmental clearances. The expansion is expected to be complete in 3.5-4 years. The time to start limestone use is three years, which may increase further.

Valuations

Good infrastructure demand boosted volume growth, but, high input costs hurt the operating performance. While the cement capacity expansion continues to be on hold, the falling fuel cost benefit will be visible post May'23. The balance sheet continues to be in good shape and further expansions await clearances. The WHRS and rake-handling system are on track for completion in FY23.

Change in estimates

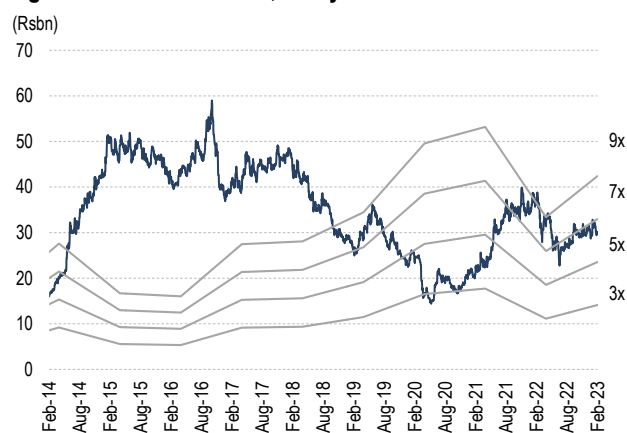
Fig 13 – Change in estimates

(Rs m)	Old			New			Variance (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Sales	29,508	31,856	34,272	29,508	32,298	35,174	-	1.4	2.6
EBITDA	4,237	5,296	6,237	3,710	4,895	5,883	(12.4)	(7.6)	(5.7)
PAT	1,608	2,031	2,247	1,299	1,935	2,380	(19.2)	(4.7)	5.9

Source: Anand Rathi Research

At the CMP, the stock quotes at an EV/EBITDA of 5.6x FY25e and an EV/ton of \$48.8 on FY25e. We retain our Buy rating, with a lower target of Rs.174 (earlier Rs.176) on 7.5x FY25e EV/EBITDA, implying an EV/ton of \$65.

Fig 14 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 15 – EV/EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risks

- Demand slowdown
- Rising prices of pet-coke and diesel.

Fig 16 – Peer comparison – valuations

	CMP (Rs)	P/E (x)			EV / EBITDA (x)			EV / ton (\$)		
		FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Orient Cement	121	19.0	12.8	10.4	7.3	6.0	5.6	40	43	49
JK Cement	2,619	30.2	25.6	22.3	15.3	13.8	12.2	185	165	151
Birla Corp.	922	63.6	14.3	9.9	13.0	7.6	5.9	63	59	54
Ramco Cement	677	36.8	27.8	21.8	18.2	14.2	11.9	125	124	114
Dalmia Bharat	1,831	46.4	37.1	28.0	13.4	11.4	9.3	99	83	80
Deccan Cement	458	11.0	8.7	7.7	5.9	6.0	5.7	35	46	39
Heidelberg Cement	167	21.5	16.5	12.5	10.5	8.2	6.2	67	58	55
India Cement	188	NA	37.8	19.1	31.7	13.7	10.3	71	69	67
JK Lakshmi	756	21.2	18.8	16.7	10.4	9.3	8.1	94	90	83
Mangalam Cement	272	9.9	7.6	5.6	5.4	4.1	3.0	33	30	25
Prism Johnson	102	NA	32.5	20.3	17.0	10.1	8.0	76	75	70
NCL Industries	158	13.4	7.1	6.1	7.1	4.3	3.4	35	32	27
Sagar Cement	208	NA	34.8	15.1	18.7	8.7	6.1	55	53	48
Sanghi Industries	56	NA	35.8	20.2	12.4	9.6	8.1	59	58	55
Star Cement	108	21.9	20.5	19.0	11.0	10.4	8.7	99	82	68

Source: Company, Anand Rathi Research

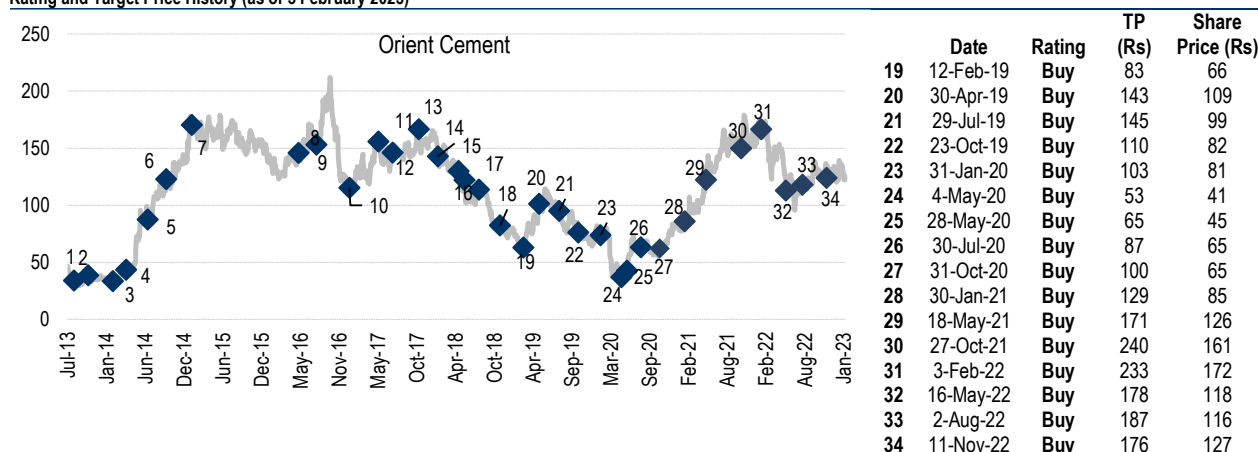
Appendix

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Rating and Target Price History (as of 3 February 2023)



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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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