2 May 2024

Orient Cement

Rating: **Buy**
Target Price (12-mth): Rs.319
Share Price: Rs.223

WHRS savings to help; retaining a Buy

Anaemic demand in Mar'24 and keener competition hurt Orient's Q4 volume growth, while realisations rose y/y on the higher share of premium cement. Though the demand-price situation is likely to be under pressure in the mid-term, fuel cost is guided to be stable. The EC process for the Chittapur IU expansion is likely to complete by Jun'24. We retain our Buy, with a lower 12-mth TP of Rs319 (Rs350 earlier), 12x FY26e EV/EBITDA.

Realisations stable, volume growth hit by weak demand. Operating at 81% capacity, volumes grew only 0.5% y/y to 1.73m tonnes on weak demand in Mar. Realisations, though, grew 0.9% y/y on the greater share of premium cement (22% of trade sales), despite prices declining in Mar (by Rs15-20/bag), resulting in overall revenue stepping up 1.4% y/y to Rs8.89bn. Dull demand due to elections, water scarcity, heat waves, etc. kept Apr price hikes from being absorbed. Though prices in May would be under pressure, cement volumes are guided to grow 8% in FY25, vs. 6-7% industry growth.

Lower fuel cost, WHR savings helped. Stable realisations, softer fuel costs and WHR savings (Rs110m) pushed EBITDA 6.2% y/y to Rs1.48bn and EBITDA/tonne, 5.7% y/y to Rs858. This, despite high freight costs on long lead distances and greater road volumes. Blended fuel-consumption cost was Rs1.78/kcal, which is guided to be similar in FY25 on stable petcoke costs ($115-125/tonne). EBITDA/tonne in FY25 is guided to be Rs70-80 higher on WHRS savings (Rs550m pa), rising RE and premium cement shares.

Business outlook, valuation. The EC process for the Chittapur IU expansion would be complete by Jun, whereas negotiations with MP Power Generating Co. for a revised proposal to set up a GU in MP is to conclude soon. Mar'24 gross debt was Rs1.3bn, guided to be Rs6bn by end-FY25; peak net D/E and debt/EBITDA are guided to be below 1.5x and 3-3.5x respectively, despite the Rs20bn expansion capex for the next two years. We expect 9%/7%/19% revenue/volume/EBITDA CAGRs over FY24-26. We retain our Buy, with a lower 12-mth TP of Rs319. **Risks:** Rising petcoke and diesel prices, less demand.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	27,254	29,375	31,851	34,645	38,050
Net profit (Rs m)	2,633	1,228	1,749	2,375	2,321
EPS (Rs)	12.8	6.0	8.5	11.6	11.3
P/E (x)	11.1	18.3	23.0	19.3	19.7
EV / EBITDA (x)	5.4	7.1	9.1	9.1	8.9
EV / tonne ($)	44.9	36.4	57.7	71.9	80.4
RoE (%)	*18.6*	*7.8*	*10.4*	*12.9*	*11.3*
RoCE (%)	*13.3*	*6.4*	*8.3*	*10.0*	*8.7*
Dividend yield (%)	*1.8*	*1.4*	*1.1*	*0.7*	*0.7*
Net debt / equity (x)	0.2	0.2	0.0	0.3	0.5

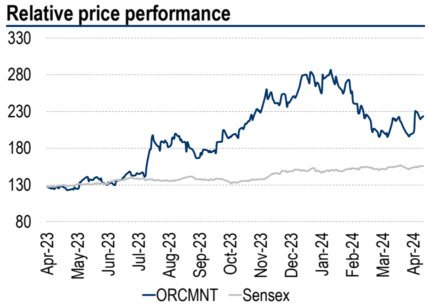
Source: Company, Anand Rathi Research

Key data	ORCMNT IN
52-week high / low	Rs.294 / 120
Sensex / Nifty	74611 / 22648
3-m average volume	$3.1m
Market cap	Rs.46bn / $548.8m
Shares outstanding	205m

Shareholding pattern (%)	Mar-24	Dec-23	Sep-23
Promoters	37.9	37.9	37.9
- of which, Pledged	-	-	-
Free float	62.1	62.1	62.1
- Foreign institutions	8.3	6.7	6.3
- Domestic institutions	14.7	13.2	12.9
- Public	39.2	42.2	42.9

Estimates revision (%)	FY25e	FY26e
Sales	(0.7)	(0.7)
EBITDA	(3.1)	(2.9)
PAT	(5.8)	(16.7)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Sales volumes (m tonnes)	5.5	5.8	6.1	6.5	7.1
Net revenues	27,254	29,375	31,851	34,645	38,050
Growth (%)	*17.3*	*7.8*	*8.4*	*8.8*	*9.8*
Direct costs	16,907	21,015	22,001	23,195	25,199
SG&A	4,437	4,715	5,358	5,894	6,483
EBITDA	**5,911**	**3,645**	**4,492**	**5,556**	**6,368**
EBITDA margins (%)	*21.7*	*12.4*	*14.1*	*16.0*	*16.7*
- Depreciation	1,452	1,468	1,492	1,706	2,034
Other income	96	120	155	121	133
Interest expenses	514	378	342	372	950
PBT	4,040	1,920	2,814	3,599	3,517
Effective tax rates (%)	*34.8*	*36.0*	*37.9*	*34.0*	*34.0*
+ Associates / (Minorities)					
Net income	2,633	1,228	1,749	2,375	2,321
Adjusted income	2,633	1,228	1,749	2,375	2,321
WANS	205	205	205	205	205
FDEPS (Rs)	12.8	6.0	8.5	11.6	11.3
Adj. FDEPS growth (%)	*22.9*	*-53.3*	*42.4*	*35.9*	*-2.3*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	205	205	205	205	205
Net worth	15,254	16,037	17,432	19,501	21,515
Debt	3,097	3,915	1,295	5,795	12,295
Minority interest					
DTL / (Assets)	2,517	2,869	3,378	3,378	3,378
Capital employed	**20,868**	**22,820**	**22,105**	**28,674**	**37,188**
Net tangible assets	20,502	19,435	19,287	23,470	28,935
Net Intangible assets	649	666	923	923	923
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	398	1,397	889	3,000	5,500
Investments (strategic)	42	42	115	115	115
Investments (financial)	100	-	-	-	-
Current assets (excl. cash)	4,368	6,527	6,570	7,309	8,027
Cash	438	701	771	787	1,298
Current liabilities	5,628	5,947	6,449	6,929	7,610
Working capital	-1,261	579	121	380	417
Capital deployed	**20,868**	**22,820**	**22,105**	**28,674**	**37,188**
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT (Adj. OI and interest)	4,459	2,177	3,001	3,850	4,334
+ Non-cash items	1,452	1,468	1,492	1,706	2,034
Oper. prof. before WC	5,911	3,645	4,492	5,556	6,368
- Incr. / (decr.) in WC	-99	1,840	-458	258	37
Others incl. taxes	851	795	1,130	-	-
Operating cash-flow	5,158	1,011	3,821	5,298	6,331
- Capex (tang. + intang.)	515	1,417	1,092	8,000	10,000
Free cash-flow	4,643	-406	2,728	-2,702	-3,669
Acquisitions					
- Div. (incl. buyback & taxes)	512	307	461	307	307
+ Equity raised	-	-	-	-	-
+ Debt raised	-4,870	818	-2,619	4,500	6,500
- Fin investments	-1,009	-100	73	-	-
- Misc. (CFI + CFF)	194	-59	-494	1,475	2,012
Net cash-flow	76	263	69	16	511

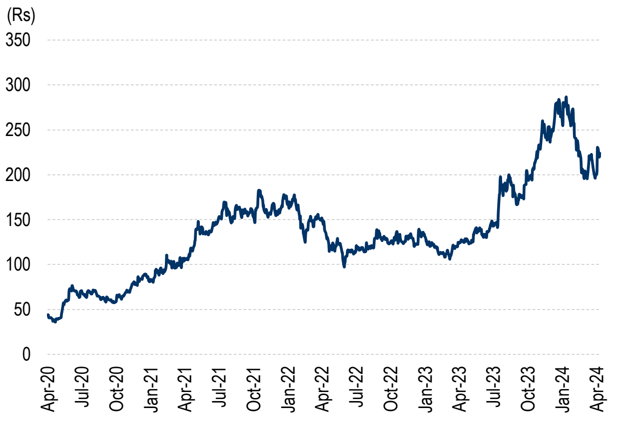
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	11.1	18.3	23.0	19.3	19.7
EV / EBITDA (x)	5.4	7.1	9.1	9.1	8.9
EV / Sales (x)	1.2	0.9	1.3	1.5	1.5
P/B (x)	1.9	1.4	2.3	2.3	2.1
RoE (%)	*18.6*	*7.8*	*10.4*	*12.9*	*11.3*
RoCE (%) - after tax	*13.3*	*6.4*	*8.3*	*10.0*	*8.7*
DPS (Rs)	2.5	1.5	2.3	1.5	1.5
Dividend payout (%) - incl. DDT	*19.5*	*25.0*	*26.4*	*12.9*	*13.2*
Net debt / equity (x)	0.2	0.2	0.0	0.3	0.5
Working capital (days)	-16.9	7.2	1.4	4.0	4.0
EV / tonne ($)	44.9	36.4	57.7	71.9	80.4
NSR / tonne (Rs)	4,975	5,100	5,193	5,293	5,393
EBITDA / tonne (Rs)	1,079	633	732	849	903
Volumes	5.48	5.76	6.13	6.55	7.06
CFO : PAT (%)	*195.9*	*82.3*	*218.5*	*223.0*	*272.7*

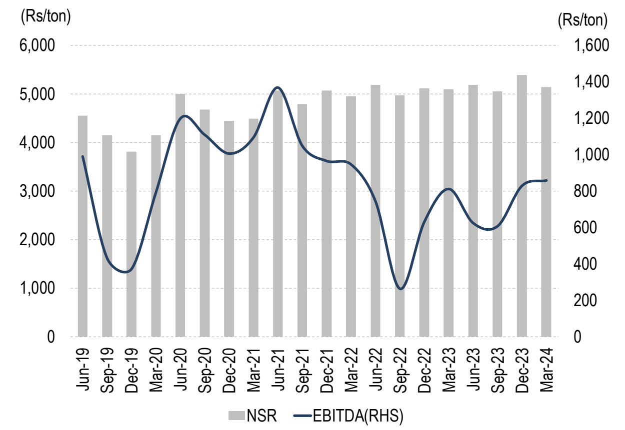
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-tonne NSR and EBITDA trends



Source: Company, Anand Rathi Research

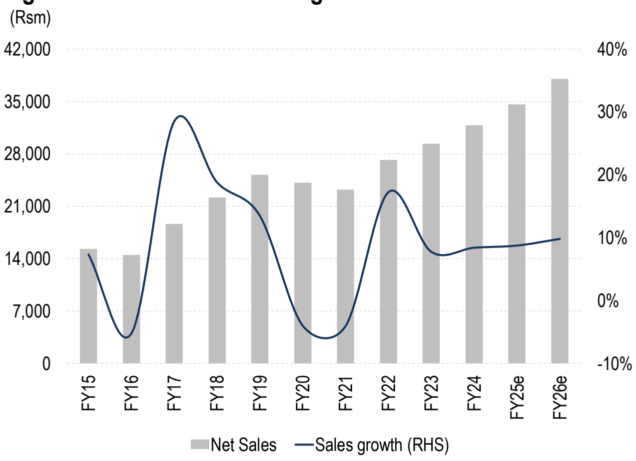
Key updates

Revenue growth

Its key markets (Maharashtra 65%, Telangana/Karnataka/AP 25%) bring ~90% to Orient's revenue, while the rest comes from MP and the east.

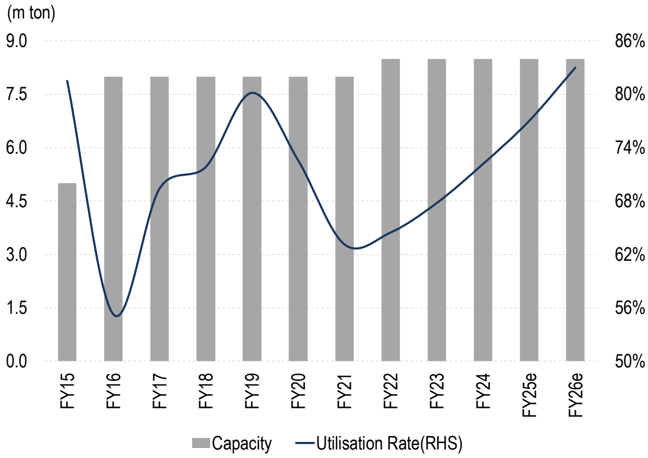
Q4 revenue grew 1.4% y/y to Rs8.9bn. Cement sales volume grew 0.5% y/y to 1.73m tonnes, whereas realisation/tonne grew 0.9% y/y to Rs5,145. Volume growth was dented by weak demand and stiff competition in Mar, especially in the Devapur GU market (Telangana and Vidarbha).

Fig 7 – Revenue and revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity utilisation



Source: Company, Anand Rathi Research

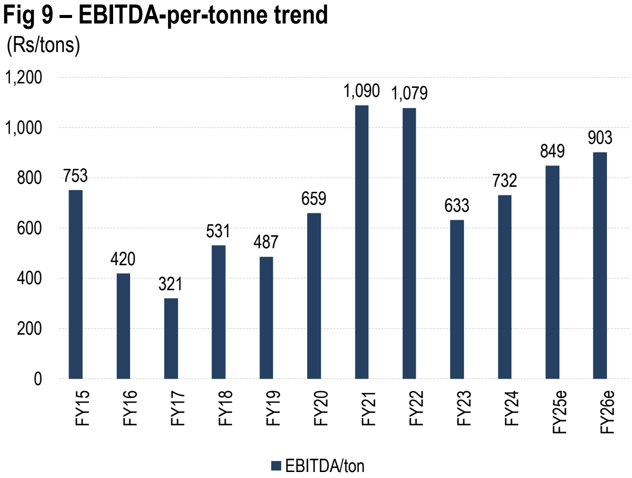
Operating performance

Q4 EBITDA was Rs1,481m, up 6.2% y/y. EBITDA/tonne grew 5.7% y/y to Rs858 (Rs812 a year ago, Rs829 the quarter prior).

Softer petcoke prices, WHRS savings and higher AFR use pulled down P&F cost/tonne 16.7% y/y. RM cost/tonne rose 0.8% y/y. Freight cost/tonne inched up 2% y/y on more road volumes and the levy of a busy-season surcharge by the Railways; the lead distance was ~315-320km.

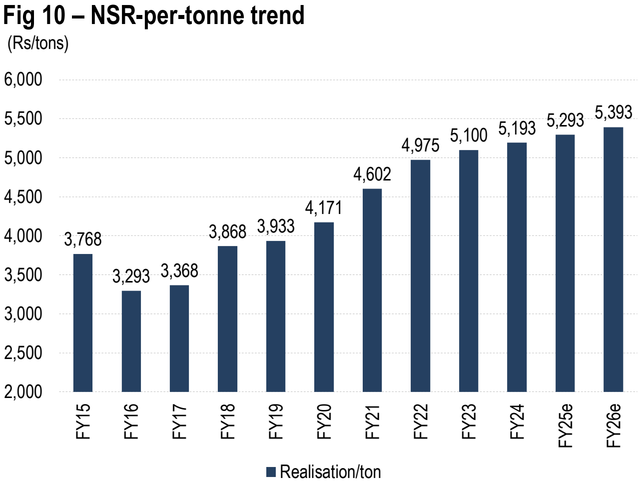
Adj. PAT rose 1.2% y/y to Rs682m on higher operating profit, other income and lower interest cost, partly hurt by the higher tax rate and depreciation.

Fig 9 – EBITDA-per-tonne trend



Source: Company, Anand Rathi Research

Fig 10 – NSR-per-tonne trend



Source: Company, Anand Rathi Research

Result highlights

Fig 11 – Quarterly trend

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	%Y/Y	%Q/Q
Sales	6,131	6,175	8,039	7,139	6,153	7,323	8,760	8,252	7,206	7,513	8,880	*1.4*	*18.2*
EBITDA	1,340	1,175	1,533	1,022	326	903	1,395	992	865	1,154	1,481	*6.2*	*28.3*
EBITDA margins %	*21.9*	*19.0*	*19.1*	*14.3*	*5.3*	*12.3*	*15.9*	*12.0*	*12.0*	*15.4*	*16.7*	*76bps*	*132bps*
EBITDA / tonne	1,048	965	946	743	263	632	812	624	607	829	858	*5.7*	*3.5*
Interest	149	158	49	80	105	97	95	97	86	79	80	*-16.5*	*1.0*
Depreciation	364	368	366	363	369	371	365	367	371	377	376	*3.2*	*0.0*
Other income	30	25	20	12	48	11	48	44	17	19	75	*54.9*	*293.2*
PBT	857	674	1,138	591	(101)	446	983	572	424	718	1,100	*11.9*	*53.3*
Tax	288	237	406	217	(6)	171	309	202	178	268	418	*35.2*	*56.1*
ADJ. PAT	569	437	732	374	(95)	275	674	370	246	450	682	*1.2*	*51.6*

Source: Company, Anand Rathi Research

Fig 12 – Per-tonne analysis

(Rs)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	%Y/Y	%Q/Q
Realisations	4,798	5,070	4,959	5,189	4,978	5,121	5,099	5,193	5,057	5,397	5,145	*0.9*	*-4.7*
EBITDA	1,048	965	946	743	263	632	812	624	607	829	858	*5.7*	*3.5*
Sales volumes (m tonne)	1.28	1.22	1.62	1.38	1.24	1.43	1.72	1.59	1.43	1.39	1.73	*0.5*	*24.0*
Costs													
Raw material	673	648	681	686	670	692	742	740	741	751	747	*0.8*	*-0.5*
Power & Fuel	1,049	1,149	1,347	1,662	1,567	1,590	1,620	1,557	1,537	1,398	1,349	*-16.7*	*-3.4*
Packing, Freight & Forwarding	1,273	1,301	1,307	1,399	1,325	1,373	1,364	1,372	1,346	1,401	1,392	*2.0*	*-0.7*
Staff	289	341	210	312	350	298	217	296	324	339	250	*15.3*	*-26.2*
Other expenditure	536	617	522	506	606	567	464	568	576	617	544	*17.3*	*-11.9*

Source: Company, Anand Rathi Research

Q3 Concall Highlights

Demand, pricing context

- While demand was good in Jan/Feb, it shrank in Mar. The market for the Devapur GU (Telangana and Vidarbha (due to new capacity)) was subdued. While Telangana volumes fell 26% y/y (though q/q they were up 12%), Maharashtra volumes rose 13% y/y, 32% q/q, by catering to markets other than Vidarbha also.
- Cement capacity utilisation was 81% in Q4 (Chittapur IU 100%+). 4.7m tonnes of clinker were produced, at ~90% utilisation. Management guided to 8% FY25 cement volume growth vs. 6-7% industry growth.
- The share of B2B volumes fell to 55% vs. 56% in Q3. The OPC share was 46% (48% the quarter prior, 43% a year back) due to more use of blended cement in B2B.
- Weak demand caused cement prices to fall Rs15-20/bag in Mar'24. While the price hike in Apr was rolled back, cement prices are guided to be under pressure in May because of elections, heat waves, water shortages and labour issues squeezing demand.

Operational highlights

- Sales mix: West/South/Central 67:24:9 (FY24 ~65:26:9)
- Lead distance: 315-320km. Sale of premium cement (StrongCrete/ Orient green/ Birla A1 Dolphin) constituted 22% of trade sales; targeted to be 25% by emd-FY25.
- While prices of petcoke were steady, prices of domestic coal are rising. The fuel mix was coal/petcoke/AFR ~45:34:21 (FY24 ~49:33:18).
- The blended cost of fuel consumed was Rs1.776/kcal, vs. Rs3.113 a year back, Rs1.89 the quarter prior. Fuel consumption is guided to be stable in FY25, where petcoke prices would be $115-125.
- EBITDA/tonne is guided to be Rs70-80 higher in FY25, aided by the higher percentage of premium cement and an increasing proportion of renewable energy.
- In Apr, the company commissioned phase II of the 10.2MW WHRS at Chittapur. In Q4, it saved Rs110m; and guided to Rs500m-550m savings in FY25.
- Freight cost/tonne rose on increased road volumes due to weak demand in Telangana/Vidarbha (keen competition, elections) and the levy of a busy-season surcharge by the Railways. The share of rail transport was 16%, vs. 13% the quarte prior, 16% a year back.

Expansion, capex, debt

- As the Chittapur clinker plant operated at 100% capacity, the company announced kiln-II expansion of 2m tonnes of clinker and >3m tonnes at the Chitapur GU at Rs16bn. While the public hearing for the expansion was in Feb, the environmental clearance process is likely to be complete by Jun'24.
- The public hearing for the Devapur IU expansion (~2m tonnes clinker, a 1m-tonne GU) was in Feb'24. The expansion, however, would start after the split GU is operational.

- The MP Power Generating Co. has accepted the company's proposal and issued an LoA to install a 2m-tonne clinker grinding unit at its Satpura power plant along with a fly-ash supply contract for 25 years. The agreement has revised the terms and conditions for handling fly-ash and is subject to the approval of the Land Use Permission agreement with the MP government; the BoD has yet to accept the revised proposal.
- The expansion of the Chiitapur IU and the MP GU would be complete by end-FY26.
- For expansion, Rs20bn capex (Chittapur Rs15bn, MP GU) is anticipated for the next two years, funded by debt and internal accruals. FY24 capex guidance was Rs10bn (Chittapur IU ~Rs5bn, MP GU ~Rs2bn, Devapur forest clearance ~Rs1.5bn and land acquisition in Rajasthan ~Rs1bn).
- **Gross debt** (incl. working-capital loans) was Rs1.3bn vs. Rs3.9bn in FY23. While debt is guided to rise to Rs6bn in FY25 due to the expansions, peak D/E and debt/EBITDA would be respectively 1.5x and 3x–3 .5x.
- **Rajasthan mines.** The transfer of the lease from Orient Paper to Orient Cement was completed with no charges. The mines have estimated reserves for 40 years (120m-150m tonnes), justifying the 3.2m-tonne capacity expansion in Rajasthan.

  Having received a lease deed, the company would start procuring land and apply for environmental clearances soon. The expansion, once commenced, is expected to be completed in 3.5-4 years (land procurement + clearance ~2–2.5 years, setting up the IU ~1.5–2 years). The time to start limestone use is three years, which may be stretched.
- **Renewable energy.** The share of renewable energy in Q4 was 23% (vs. 15% in FY24, 11% in Q4 FY23), which the company targets at 50% by FY30. Of the energy required by the Jalgaon plant, 50% is solar power.

  The BoD earlier entered into a share subscription-cum-shareholder agreement with Cleantech Solar India OA2 Pte. Ltd. An SPV was incorporated to install solar plants: 16MW DC for the Chittapur (Karnataka) plant and 3.7MW DC for the Jalgaon (Maharashtra) plant (earlier 5.5MW DC). Solar power for the Jalgaon plant would be commissioned in May'24 and for the Chittapur IU, in Jun.

Valuations

Weak demand (Mar'24) and keener competition dented volume growth. Realisations grew y/y on the increased share of premium cement. While the proposal to set up a GU in MP has yet to be accepted, the EC process for the Chittapur expansion is expected by Jun'24. Greater infrastructure demand and the sharp focus on cost optimisation (high AFR use, WHRS setup, etc.) are positives.

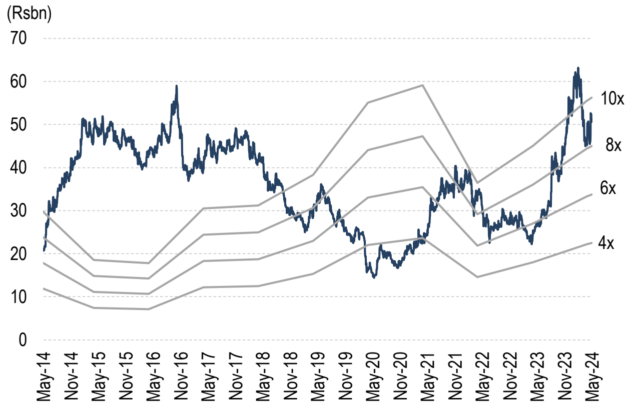
Fig 13 – Change in estimates

(Rs m)	Old		New		Variance (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Sales	34,884	38,308	34,645	38,050	*(0.7)*	*(0.7)*
EBITDA	5,733	6,560	5,556	6,368	*(3.1)*	*(2.9)*
PAT	2,521	2,786	2,375	2,321	*(5.8)*	*(16.7)*

Source: Anand Rathi Research

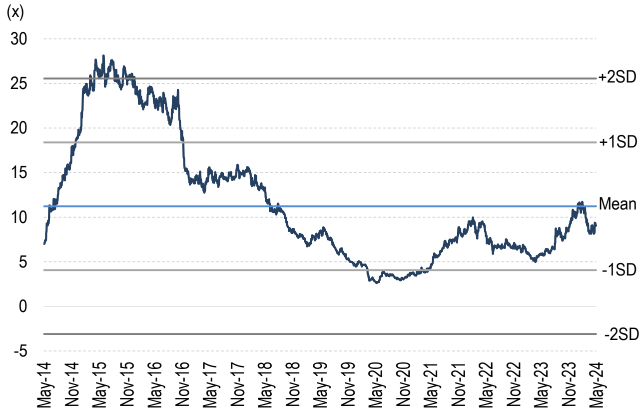
At the CMP, the stock quotes at an EV/EBITDA of 8.9x FY26e and an EV/tonne of $80 on FY26e. We retain our Buy, with a lower 12-mth TP of Rs319 (earlier Rs350), 12x FY26e EV/EBITDA, implying an EV/tonne of $108. **Risks**: Lacklustre demand, rising prices of petcoke and diesel.

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

Fig 16 – Peer comparison – valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / tonne ($)	
	(Rs)	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
Orient Cement	**223**	**19.3**	**19.7**	**9.1**	**8.9**	**72**	**80**
Ramco Cement	775	28.8	22.0	12.2	10.4	123	119
Birla Corp.	1,493	14.7	10.8	9.0	7.0	74	68
India Cement	224	136.8	34.3	19.9	14.0	78	78
JK Cement	3,947	25.3	21.9	14.8	13.0	171	171
JK Lakshmi	787	16.0	13.9	8.8	7.8	83	79
Dalmia Bharat	1,792	28.5	23.2	11.0	9.2	78	74
Heidelberg Cement	201	17.5	14.4	9.1	7.3	70	66
Prism Johnson	163	38.7	28.1	12.0	10.1	103	96
Star Cement	238	24.2	22.8	13.9	12.0	154	117
Sagar Cement	219	33.5	12.9	8.4	5.8	43	39
NCL Industries	211	7.3	6.4	4.5	3.7	41	31

Source: Company, Anand Rathi Research

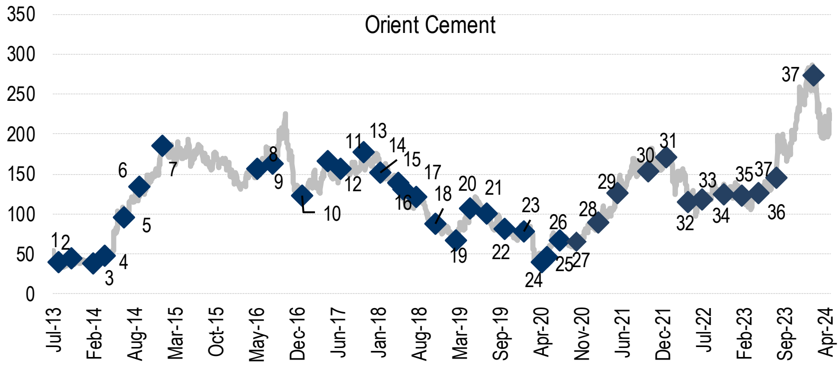
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 2 May 2024)



	Date	Rating	TP (Rs)	Share Price (Rs)
23	31-Jan-20	Buy	103	81
24	04-May-20	Buy	53	41
25	28-May-20	Buy	65	45
26	30-Jul-20	Buy	87	65
27	31-Oct-20	Buy	100	65
28	30-Jan-21	Buy	129	85
29	18-May-21	Buy	171	126
30	27-Oct-21	Buy	240	161
31	03-Feb-22	Buy	233	172
32	16-May-22	Buy	178	118
33	02-Aug-22	Buy	187	116
34	11-Nov-22	Buy	176	127
35	03-Feb-23	Buy	174	121
36	03-May-23	Buy	178	125
37	04-Aug-23	Buy	204	157
38	07-Feb-24	Buy	350	272

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)	**Buy**	**Hold**	**Sell**
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Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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