

Healthy margins maintained...

About the stock: Orient Cement is a mid-sized (8.0 MT) cost-efficient player in cement space. Its cement plants are 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

Q1FY22 Results: The company reported better results with EBITDA margin expansion of 250 bps QoQ despite 9.1% QoQ increase in cost on a per tonne basis.

- Revenues were down 17% to ₹ 690 crore, led by sales volumes de-growth of 26.4% to 1.36 MT due to lockdown. YoY, revenues were up 68%
- EBITDA/t was up 24.4% QoQ to ₹ 1362/t (vs. last quarter (LQ) EBITDA/t of ₹ 1095/t). EBITDA margin was at 26.9% vs. 24.4% LQ and 23.9% last year
- PAT of ₹ 89 crore was down only 11% QoQ due to better margins

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 business outlook, we remain positive on the company and maintain our BUY rating

Target Price and Valuation: We value the stock at ₹ 250 i.e. 6.5x FY23E EV/EBITDA.

Key triggers for future price performance:

- The company is planning a significant debt reduction from strong operating cash flows in FY22E before moving into the next phase of expansion
- To reach 14.5 MT cement capacity by FY26E with an eye on Rajasthan market with total capex of ~₹ 3,600 crore
- Likely transfer of mines in Rajasthan from Orient Paper to the company post favourable changes in the MMDR act to 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

Alternate Stock Idea: Apart from Orient Cement, in our cement 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 ₹ 1700/share



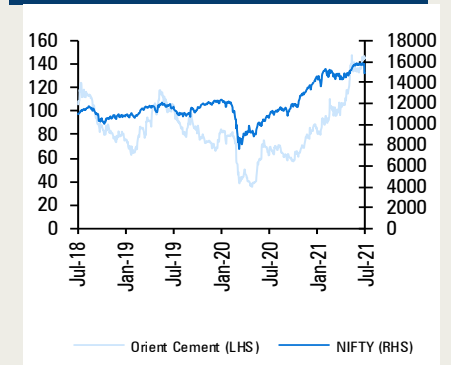
Particulars

Particulars	₹ crore
Market Capitalization	3483
Total Debt (FY21)	784
Cash (FY21)	36
EV (₹ crore)	4231
52 week High/Low	₹ 162/74
Equity Capital	20.5
Face Value (₹)	10

Shareholding pattern

(%)	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Promoter	37.4	37.4	37.4	37.4
DII	26.8	25.1	24.1	20.6
FII	3.1	1.5	2.1	4.4
Public	61.1	61.0	59.4	53.6

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 Financial Summary

Key Financials (₹ crore)	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	2222	2522	2422	2324	1.5	3009	3360	20.2
EBITDA	305	312	383	551	21.8	752	892	27.3
EBITDA (%)	13.7	12.4	15.8	23.7		25.0	26.6	
Net Profit	44	48	87	214	69.2	368	471	48.3
EPS	2.2	2.3	4.2	10.5		18.0	23.0	
EV/EBITDA	15.4	15.0	12.0	7.7		5.2	4.1	
EV/Tonne (\$)	84	84	82	76		66	62	
RoNW	4.3	4.5	7.7	16.4		22.6	22.7	
RoCE	7.8	7.9	10.7	19.6		29.1	32.7	

Key performance highlights

- Sales volumes were at 1.36 MT (down 26.4% QoQ) while blended realisations were up 12.8% QoQ to ₹ 5070/tonne, up 1.3% YoY
- Cost of production increased sharply by 9.1% QoQ to ₹ 3,708/t led by power & fuel and other expenses
- However, EBITDA/t increased 24.4% QoQ to ₹ 1,362/t on the back of higher realisations

Exhibit 1: Quarterly financial summary

Quarterly Financials	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Revenue from operations	410.4	477.5	604.6	831.6	690.0	68.1	-17.0
Total expenditure	312.1	364.3	467.9	629.1	504.7	61.7	-19.8
EBITDA	98.2	113.2	136.7	202.6	185.3	88.6	-8.5
EBITDA margins	23.9	23.7	22.6	24.4	26.9		
PAT	25.6	34.8	53.9	99.9	88.6	245.5	-11.3
Operational data	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Cement sales volumes (In MT)	0.82	1.02	1.36	1.85	1.36	66.0	-26.4
Realizations per tonne	5004.4	4681.3	4445.7	4495.2	5069.8	1.3	12.8
Expenditure							
RM Costs	661.7	500.7	546.9	612.1	669.4	1.2	9.4
Employee costs	451.3	352.5	277.7	224.6	293.8	-34.9	30.8
Freight costs	1162.2	1176.4	1203.0	1243.0	1311.7	12.9	5.5
Power & Fuel	836.2	877.7	917.6	906.7	970.5	16.1	7.0
Other expenses	694.9	663.7	495.3	413.9	462.7	-33.4	11.8
Total expenditure	3806.3	3571.1	3440.5	3400.3	3708.1	-2.6	9.1
Blended EBITDA/t	1198.1	1110.2	1005.1	1094.9	1361.7	13.7	24.4
Capacity utilisation (%)	41.0	51.0	68.0	92.5	68.1		

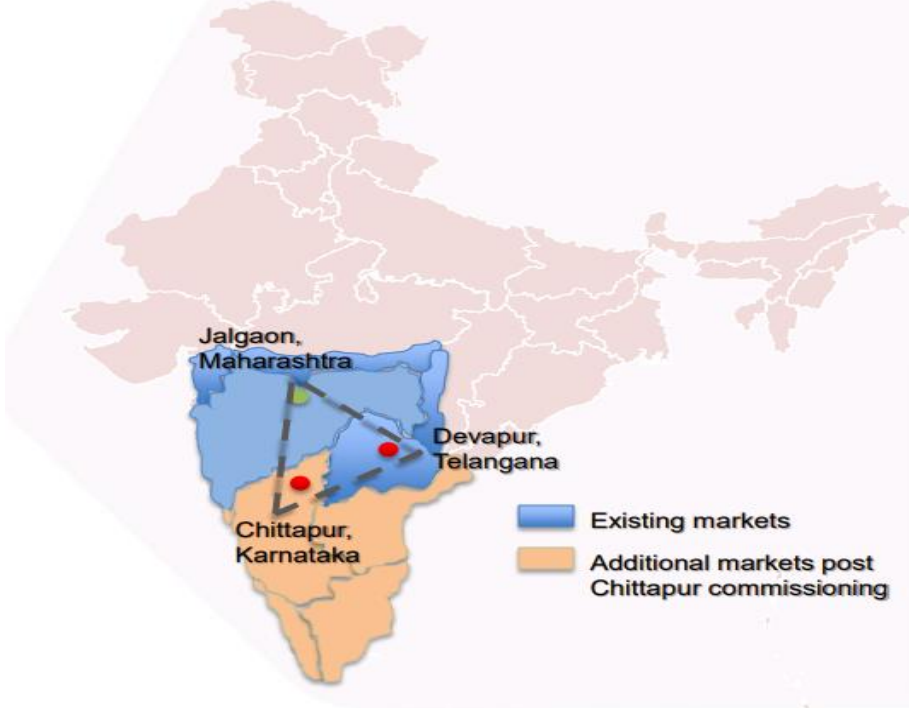
Source: Company, ICICI Direct Research

Other highlights

- The company is targeting a significant debt reduction in FY22E before moving into the next phase of expansion. The current debt is at ₹ 652 crore, which is likely to come down to ₹ 100 crore
- In the next phase of expansion, the company would add 3 MT clinker unit at Devapur, Telangana with 1 MT grinding unit (GU) in the same location and 2 MT GU near Devapur with likely capex of ~₹ 1600 crore
- The debottlenecking at its integrated plant at Devapur would increase its capacity by 0.5 MT. It would get operational in Q2FY22
- Rajasthan Expansion – The company is exploring opportunities to further enhance its capacity through a greenfield project in Rajasthan. This is dependent on transfer of mines from Orient Paper to Orient Cement. The recent changes in the MMDR Act do not require transfer charges to be paid. Hence, this will be taken up on a priority basis if necessary regulatory approval is received
- Capex for FY22E would be ~₹ 50-60 crore, which includes capex of ₹ 20 crore for WHRS (9 MW) and balance for maintenance. Total capex on WHRS is ₹ 60-70 crore. The company will spend balance capex of ~₹ 40-50 crore in FY23E
- With these expansions, the company aims to become 14.5 MT cement player by FY26E entailing total capex of ~₹ 3600 crore
- **Others:** Fuel mix is around coal 77% (30% imported), petcoke 12% and balance is alternative fuels. PPC & StrongCrete sales contribution is ~70%. Rail mix is 22% and balance by road

Story in charts

Exhibit 2: Plant locations



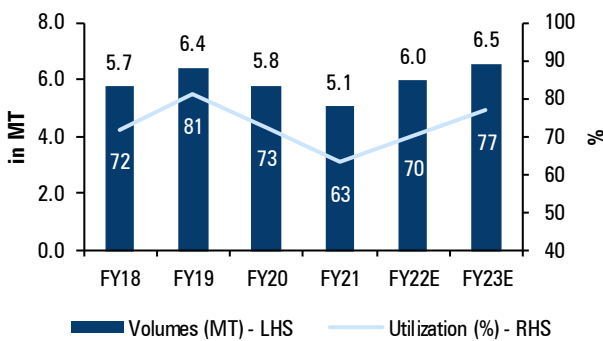
Devapur plant has 3 MT integrated cement capacity with CPP of 50 MW. It is located 2 km from the high-quality limestone reserve belt. Linkage coal is available from Singareni. Fly ash is sourced from NTPC's thermal power plant. Both are located within ~50 km range

The Jalgaon plant has 2 MT grinding unit. It sources fly ash from NTPC's Bhusawal thermal power plant, located at a distance of ~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

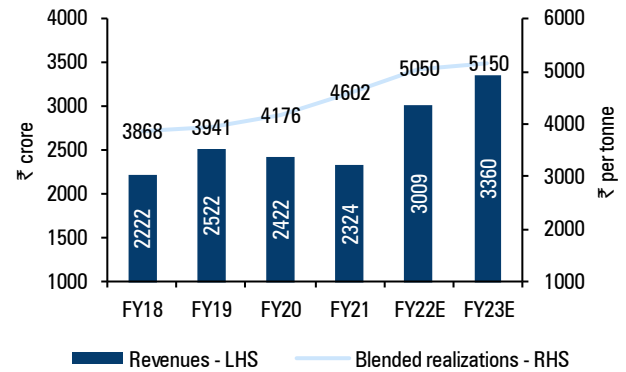
Source: Company, ICICI Direct Research

Exhibit 3: Sales volume & capacity utilisation trend



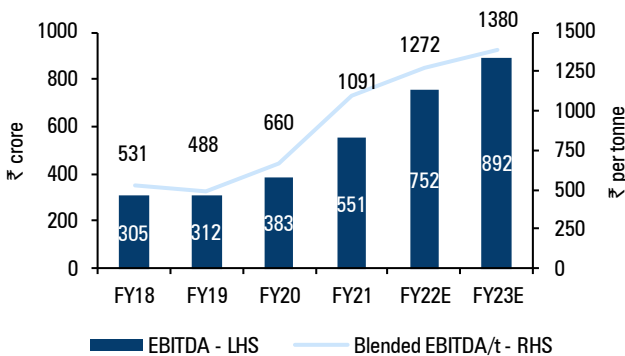
Source: Company, ICICI Direct Research

Exhibit 4: Revenue & realisations trend



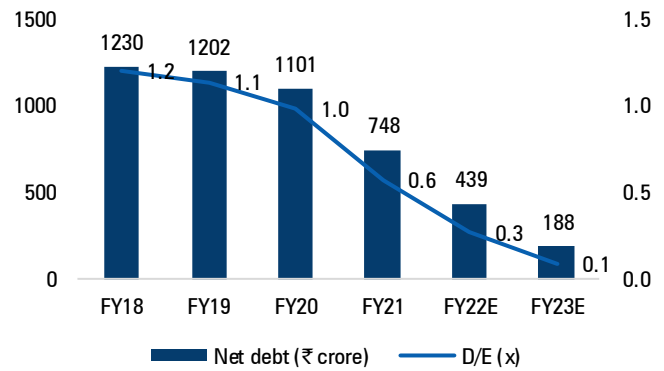
Source: Company, ICICI Direct Research

Exhibit 5: Operating profit 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	FY22E	FY23E
Total operating Income	2421.8	2324.1	3009.3	3360.4
Growth (%)	-4%	-4%	29%	12%
Raw Material Expenses	203.2	292.9	387.3	391.5
Employee Expenses	154.9	152.3	166.0	180.9
Freight costs	693.4	608.9	780.6	835.2
Power & Fuel	591.4	450.6	625.7	685.1
Other expenses	396.0	268.6	298.0	375.2
Total Operating Expenditure	2038.9	1773.3	2257.6	2468.0
EBITDA	382.9	550.7	751.7	892.4
Growth (%)	22.7%	43.8%	36.5%	18.7%
Depreciation	140.9	141.8	136.0	137.6
Interest	122.3	93.6	53.9	32.3
Other Income	17.7	18.3	18.0	19.0
PBT	137.4	333.6	579.8	741.5
Others	0.0	0.0	0.0	0.0
Total Tax	50.8	119.4	211.6	270.7
Reported PAT	86.6	214.2	368.2	470.9
Adjusted PAT	86.6	214.2	368.2	470.9
Growth (%)	82%	147%	72%	28%
Adjusted EPS (₹)	4.2	10.5	18.0	23.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	20.5	20.5	20.5	20.5
Reserve and Surplus	1097.9	1285.4	1608.1	2054.0
Total Shareholders funds	1118.4	1305.9	1628.6	2074.5
Total Debt	1137.0	783.8	483.8	233.8
Deferred Tax Liability	115.0	174.2	171.0	180.0
Minority Interest / Others				
Total Liabilities	2370.4	2263.9	2283.4	2488.3
Assets				
Gross PPE	2780.9	2857.9	2927.9	2927.9
Less: Acc Depreciation	571.1	712.9	848.9	986.5
Net PPE	2209.9	2145.0	2079.0	1941.4
CWIP	66.8	41.3	100.0	450.0
Total Fixed Assets	2276.6	2186.3	2179.0	2391.4
Intangibles	61.7	61.3	66.0	66.0
Investments	0.0	115.1	115.1	115.1
Inventory	236.6	170.5	191.6	206.0
Debtors	161.8	110.2	123.8	162.7
Loans and Advances	12.5	12.4	18.0	18.0
Other Current Assets	74.6	77.3	100.0	111.7
Cash	36.0	36.1	45.3	45.5
Total Current Assets	521.5	406.4	478.7	543.9
Creditors	203.5	219.9	255.8	269.8
Provisions & Others	319.0	321.3	339.7	398.3
Total Current Liabilities	522.6	541.2	595.5	668.1
Net Current Assets	-1.0	-134.8	-116.7	-124.3
Others Assets	33.1	36.0	40.0	40.0
Application of Funds	2370.3	2263.9	2283.4	2488.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	86.6	214.2	368.2	470.9
Add: Depreciation	140.9	141.8	136.0	137.6
Add: Finance costs	122.3	93.6	53.9	32.3
(Inc)/dec in Current Assets	-33.8	115.1	-63.1	-64.9
Inc/(dec) in CL and Def. tax	-2.1	77.8	51.1	81.6
CF from operating activi	313.9	642.5	546.0	657.5
(Inc)/dec in Fixed Assets	-76.9	-51.1	-133.4	-350.0
(Inc)/dec in Investments	0.0	-115.1	0.0	0.0
Others	8.4	-2.9	-4.0	0.0
CF from investing activi	-68.5	-169.1	-137.5	-350.0
Issue/(Buy back) of Shares	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-94.1	-353.2	-300.0	-250.0
Finance costs	-122.3	-93.6	-53.9	-32.3
Others	0.0	0.0	0.0	0.0
Changes in other equity	-21.8	-26.6	-45.5	-25.0
CF from financing activi	-238.2	-473.4	-399.4	-307.3
Net Cash flow	7.3	0.0	9.2	0.3
Opening Cash	28.7	36.0	36.1	45.3
Closing Cash	36.0	36.1	45.3	45.5

Source: Company, ICICI Direct Research

Exhibit 10: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	4.2	10.5	18.0	23.0
Cash EPS	11.1	17.4	24.6	29.7
BV	54.6	63.7	79.5	101.2
DPS	0.8	1.5	1.0	2.0
Cash Per Share	1.8	1.8	2.2	2.2
Operating Ratios (%)				
EBITDA Margin	15.8	23.7	25.0	26.6
EBIT Margin	10.0	17.6	20.5	22.5
PAT Margin	3.6	9.2	12.2	14.0
Inventory days	35.7	26.8	23.2	22.4
Debtor days	24.4	17.3	15.0	17.7
Creditor days	36.4	45.3	41.3	39.9
Return Ratios (%)				
RoE	7.7	16.4	22.6	22.7
RoCE	10.7	19.6	29.1	32.7
RoIC	11.2	21.6	33.2	44.5
Valuation Ratios (x)				
P/E	40.2	16.3	9.5	7.4
EV / EBITDA	12.0	7.7	5.2	4.1
EV / Net Sales	1.9	1.8	1.3	1.1
Market Cap / Sales	1.4	1.5	1.2	1.0
Price to Book Value	3.1	2.7	2.1	1.7
Solvency Ratios				
Debt/EBITDA	3.0	1.4	0.6	0.3
Debt / Equity	1.0	0.6	0.3	0.1
Current Ratio	1.0	0.8	0.8	0.8
Quick Ratio	0.5	0.4	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 (%)		
	(₹)	Rating	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
ACC*	2,429	BUY	73	85	125	17.6	16.5	10.5	167	139	134	17.4	14.5	20.6	11.9	12.6	16.0
Ambuja Cem*	425	BUY	7.7	9.0	0.0	23.6	21.0	0.0	235	247	0	12.2	17.6	0.0	14.7	20.3	0.0
UltraTech Cem	7,820	BUY	124	191	238	26.3	20.2	17.1	286	279	274	11.4	14.7	16.7	9.3	12.7	14.0
Shree Cement	29,600	BUY	435	641	706	26.4	24.2	21.5	286	265	261	13.8	18.2	18.5	12.1	15.2	14.6
Heidelberg Cem	265	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	3,270	HOLD	51.8	99.6	107.0	20.3	15.5	14.1	201	183	187	16.2	18.6	18.2	12.8	20.6	18.6
JK Lakshmi Cem	686	BUY	7.0	7.1	6.8	20.2	17.4	16.9	94	94	86	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	111	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	1,093	BUY	523.0	601.4	761.1	22.2	25.5	32.3	25	24	18	11.7	12.2	13.5	242.1	213.1	201.4
Sagar Cement	1,515	BUY	11.3	79.0	80.5	19.1	9.0	8.4	88	90	66	7.2	15.3	15.2	2.7	15.4	13.7

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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