

## Expansion in north region now on the cards...

**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 power requirements

**Q1FY23 Results:** Orient Cement reported weak results. However, the performance remained broadly in line with the industry trend.

- Net revenue increased 3.3% YoY (down 11.2% QoQ) to ₹ 713.9 crore. Volumes were up only 1% YoY to 1.37 MT (down 15% QoQ). Capacity utilisation was at 69% vs. 68% last year and 81% last quarter
- Production cost increased 10.9% QoQ to ₹ 4450/tonne led by higher P&F cost. This led to 480 bps QoQ contraction in margins to 14.3%
- PAT declined 58% YoY (high base) and 49% QoQ (cost pressure) to ₹ 37.4 crore

**What should investors do?** In the past four years, the company has emphasised more on debt reduction and improving its return matrix through efficiency.

- Now with the strong b/s, the company is in a better position to withstand the cost challenges and grow the business beyond south. Maintain **BUY**.

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

### Key triggers for future price performance:

- Mining lease rights in Rajasthan have now been restored to OCL by the government from Orient Paper. The company may now look to speed-up expansion process in Rajasthan (likely capex of ₹ 1500 crore for 2 MT integrated unit)
- WHRS plant of 10 MW in Chittapur should be operational in FY23E. Hence, cost-savings should start accruing from FY24E onwards
- Close proximity to raw materials, higher share of blended cement, lower lead distance to keep production costs of existing units lower than industry average

**Alternate Stock Idea:** Apart from Orient Cement, in our cement sector coverage we also like central based player Heidelberg Cement.

- Another low cost producer with strong b/s and has high dividend yield.
- BUY with a target price of ₹ 220/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	11.5	9.1	5.7	4.5		6.0	5.1	
EV/Tonne (\$)	64	62	56	44		51	41	
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

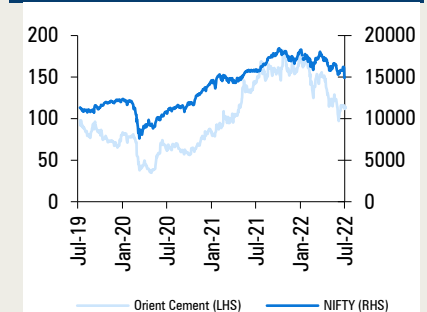
### Particulars

Particulars	₹ crore
Market Capitalization	2377
Total Debt (FY22)	310
Cash (FY22)	44
EV (₹ crore)	2643
52 week High/Low	₹ 185/97
Equity Capital	20.5
Face Value (₹)	10

### Shareholding pattern

(%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Promoter	37.4	37.4	37.4	37.9
DII	15.9	15.4	14.8	13.3
FII	6.0	6.6	6.5	5.8
Public	47.3	46.2	45.7	45.4

### Price Chart



### Key risks

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

### Research Analyst

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## Key performance highlights

- Sales volumes were at 1.37 MT (up 1% YoY, down 15% QoQ). Blended realisations were up 2.3% YoY to partially mitigate the cost impact
- Cost of production was up 10.9% QoQ to ₹4450/tonne led by higher P&F cost. This led to 480bps QoQ contraction in margins to 14.3%
- EBITDA/t was down marginally by 46% YoY to ₹ 743/tonne

### Exhibit 1: Quarterly financial summary

Quarterly Financials	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
<b>Revenue from operations</b>	<b>690.9</b>	<b>613.2</b>	<b>617.5</b>	<b>803.9</b>	<b>713.9</b>	<b>3.3</b>	<b>-11.2</b>
Total expenditure	504.7	479.1	500.0	650.5	611.8	21.2	-6.0
<b>EBITDA</b>	<b>186.2</b>	<b>134.1</b>	<b>117.6</b>	<b>153.3</b>	<b>102.2</b>	<b>-45.1</b>	<b>-33.4</b>
EBITDA margins	27.0	21.9	19.0	19.1	14.3	-1264bps	-4764bp
<b>PAT</b>	<b>89.5</b>	<b>57.0</b>	<b>43.7</b>	<b>73.2</b>	<b>37.4</b>	<b>-58.2</b>	<b>-48.9</b>
Operational data	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Cement sales volumes (In MT)	1.36	1.28	1.22	1.62	1.37	1.0	-15.2
Realizations per tonne	5076	4791	5070	4959	5194	2.3	4.7
Expenditure							
RM Costs	669	601	697	628	567	-15.3	-9.8
Employee costs	294	289	341	210	313	6.5	49.3
Freight costs	1312	1271	1301	1307	1401	6.8	7.2
Power & Fuel	970	1048	1149	1347	1664	71.4	23.5
Other expenses	463	536	617	522	507	9.5	-2.9
Total expenditure	3708	3743	4105	4013	4450	20.0	10.9
<b>Blended EBITDA/t</b>	<b>1368</b>	<b>1048</b>	<b>965</b>	<b>946</b>	<b>743</b>	<b>-45.7</b>	<b>-21.4</b>

Source: Company, ICICI Direct Research

## Other highlights

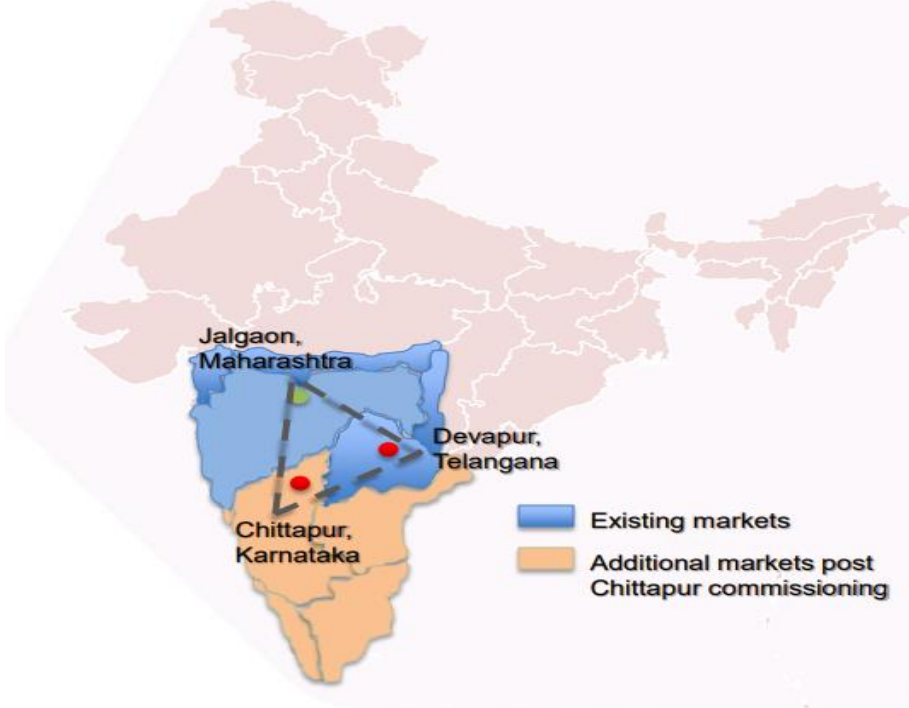
- Volume offtake remained weak as the slowdown in the retail segment was much sharper. The growth mainly come from B2B segment during the quarter
- Fuel mix: 41% coal (domestic, 42%, pet coke and 17% alternate fuel during Q1FY23
- Higher fuel prices were partially mitigated through higher usage of alternative fuels. Further, savings also accrued from the commissioning of solar power source for Jalgaon unit

### Update on expansion:

- The company finally got mining lease rights in Rajasthan transferred to its name from Orient Paper by Rajasthan government. The company may now look to speed-up expansion process in Rajasthan, which is a high growing market.
- It has total limestone mining capacity of 120-150 MT, which gives a visibility for 50 years for 2 MT cement capacity
- The likely capex for setting up integrated unit (2 MT) in Rajasthan would be around ~₹ 1500 crore. We expect to get more clarity on the same in due course
- **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 Q4FY24. However, equipment order is yet to be made. The company would commence the capex only after receiving the necessary approvals**
- The company will continue to maintain debt/equity of ~1.5x and debt/EBITDA of 3.0x. Hence, we expect some delays at the Devapur expansion project

Story in charts

Exhibit 2: Plant locations



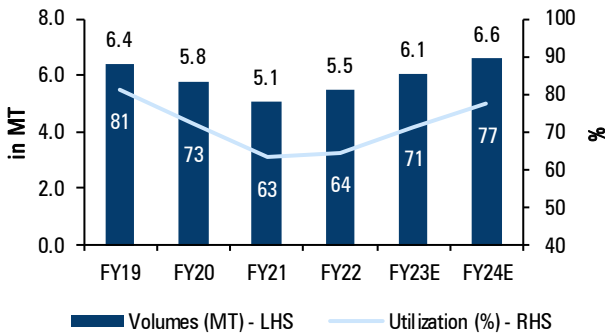
Devapur plant has 3 MT integrated cement capacity with CPP of 50 MW. It is located 2 km from the high-quality limestone reserve belt. Linkage coal is available from Singareni. Fly ash is sourced from NTPC's thermal power plant. Both are located within ~50 km range

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

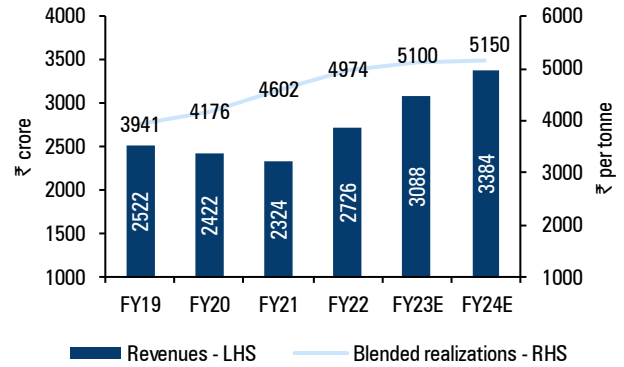
Source: Company, ICICI Direct Research

Exhibit 3: Sales volume & capacity utilisation trend



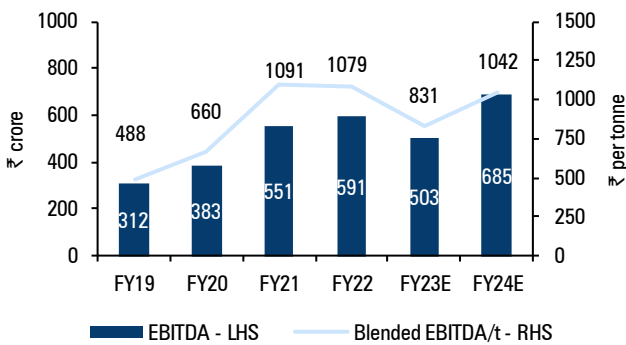
Source: Company, ICICI Direct Research

Exhibit 4: Revenue & realisations trend



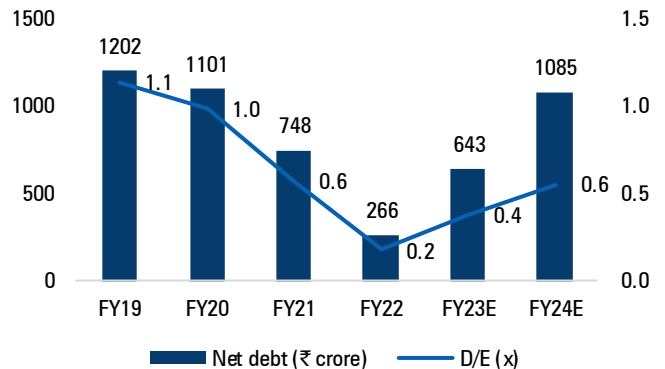
Source: Company, ICICI Direct Research

Exhibit 5: Operating 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
<b>Total operating income</b>	<b>2421.8</b>	<b>2324.1</b>	<b>2725.5</b>	<b>3088.3</b>	<b>3383.6</b>
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
<b>EBITDA</b>	<b>382.9</b>	<b>550.7</b>	<b>591.2</b>	<b>503.0</b>	<b>684.5</b>
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
<b>PBT</b>	<b>137.4</b>	<b>333.6</b>	<b>404.0</b>	<b>298.0</b>	<b>449.8</b>
Others	0.0	0.0	0.0	0.0	0.0
Total Tax	50.8	119.4	140.8	108.8	164.2
<b>Reported PAT</b>	<b>86.6</b>	<b>214.2</b>	<b>263.3</b>	<b>189.2</b>	<b>285.6</b>
<b>Adjusted PAT</b>	<b>86.6</b>	<b>214.2</b>	<b>263.3</b>	<b>189.2</b>	<b>285.6</b>
Growth (%)	82%	147%	23%	-28%	51%
<b>Adjusted EPS (₹)</b>	<b>4.2</b>	<b>10.5</b>	<b>12.8</b>	<b>9.2</b>	<b>13.9</b>

Source: Company, ICICI Direct Research

### Exhibit 9: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
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					
<b>Total Liabilities</b>	<b>2370.4</b>	<b>2263.9</b>	<b>2086.8</b>	<b>2583.9</b>	<b>3299.2</b>
<b>Assets</b>					
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
<b>Total Fixed Assets</b>	<b>2276.6</b>	<b>2186.3</b>	<b>2090.0</b>	<b>2591.6</b>	<b>3322.0</b>
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
<b>Total Current Assets</b>	<b>521.5</b>	<b>406.4</b>	<b>448.8</b>	<b>528.1</b>	<b>562.8</b>
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
<b>Net Current Assets</b>	<b>-1.0</b>	<b>-134.8</b>	<b>-113.9</b>	<b>-123.8</b>	<b>-138.9</b>
Others Assets	33.1	36.0	35.9	40.0	40.0
<b>Application of Funds</b>	<b>2370.3</b>	<b>2263.9</b>	<b>2086.8</b>	<b>2583.9</b>	<b>3299.2</b>

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	50.0
<b>CF from operating activi</b>	<b>313.9</b>	<b>642.5</b>	<b>524.4</b>	<b>374.4</b>	<b>562.5</b>
(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
<b>CF from investing activi</b>	<b>-68.5</b>	<b>-169.1</b>	<b>52.7</b>	<b>-665.5</b>	<b>-900.0</b>
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
<b>CF from financing activi</b>	<b>-238.2</b>	<b>-473.4</b>	<b>-569.3</b>	<b>314.1</b>	<b>345.4</b>
Net Cash flow	7.3	0.0	7.7	23.1	7.9
Opening Cash	28.7	36.0	36.1	43.8	66.9
<b>Closing Cash</b>	<b>36.0</b>	<b>36.1</b>	<b>43.8</b>	<b>66.9</b>	<b>74.8</b>

Source: Company, ICICI Direct Research

### Exhibit 10: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
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
<b>Operating Ratios (%)</b>					
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
<b>Return Ratios (%)</b>					
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
<b>Valuation Ratios (x)</b>					
P/E	27.4	11.1	9.0	12.6	8.3
EV / EBITDA	9.1	5.7	4.5	6.0	5.1
EV / Net Sales	1.4	1.3	1.0	1.0	1.0
Market Cap / Sales	1.0	1.0	0.9	0.8	0.7
Price to Book Value	2.1	1.8	1.6	1.4	1.2
<b>Solvency Ratios</b>					
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

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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