

Growth guidance intact; b/s to strengthen further...

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

Q2FY22 Results: Reported healthy volume growth of over 25% YoY. Margins maintained at 20%+ despite cost challenges.

- Revenues grew 28.4% YoY ₹ 613.2 crore. On a QoQ basis, revenues were down 11.2% on heavy monsoon in key markets during September 2021
- EBITDA/t fell 5.6% YoY to ₹ 1048/t (vs. last quarter's EBITDA/t of ₹ 1368/t). EBITDA margin was at 21.9% vs. 27% last quarter and 23.7% last year
- PAT of ₹ 56.8 crore was up 63.1% YoY, down 36.5% QoQ

What should investors do? Orient Cement's share price has grown 92% over the past three years (from ~₹ 90 in October 2018 to ₹ 174 in 2021).

- With a strong business outlook, we remain positive on the company and maintain our BUY rating

Target Price and Valuation: We value company at ₹ 250 i.e. 7.5x FY23E EV/EBITDA

Key triggers for future price performance:

- Volume growth guidance stays intact for FY22E. Price hikes are expected to provide a cushion against further erosion in margins, going forward
- The company is a **planning significant debt reduction** before moving into the next phase of expansion. To reach 14.5 MT cement capacity by FY26E with an eye on Rajasthan market entails 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 sector 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 ₹ 390/share

ORIENT CEMENT

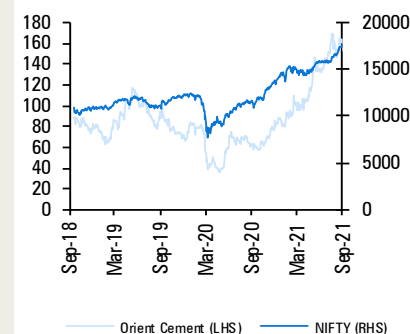
Particulars

Particulars	₹ crore
Market Capitalization	3319
Total Debt (FY21)	784
Cash (FY21)	36
EV (₹ crore)	4067
52 week High/Low	₹ 162/74
Equity Capital	20.5
Face Value (₹)	10

Shareholding pattern

(%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Promoter	37.4	37.4	37.4	37.4
DII	25.1	24.1	20.6	15.9
FII	1.5	2.1	4.4	6.0
Public	61.0	59.4	53.6	47.3

Price Chart



Recent Event & Key risks

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

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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	3032	3386	20.7
EBITDA	305	312	383	551	21.8	669	740	15.9
EBITDA (%)	13.7	12.4	15.8	23.7		22.1	21.8	
Net Profit	44	48	87	214	69.2	315	375	32.4
EPS	2.2	2.3	4.2	10.5		15.4	18.3	
EV/EBITDA	14.9	14.5	11.5	7.4		5.6	4.7	
EV/Tonne (\$)	81	81	79	73		63	58	
RoNW	4.3	4.5	7.7	16.4		20.0	19.5	
RoCE	7.8	7.9	10.7	19.6		25.9	28.5	

Key performance highlights

- Sales volumes were at 1.28 MT (up 25.5% YoY, down 6.0% QoQ). Blended realisations were up 2.3% QoQ to ₹ 4791/tonne, down 5.6% QoQ
- Cost of production increased 4.8% YoY to ₹ 3,743/t led by 19% YoY jump in power & fuel expenses though employee & other expenses remained lower YoY
- EBITDA/t declined 5.6% YoY to ₹ 1,048/t due to cost pressure

Exhibit 1: Quarterly financial summary

Quarterly Financials	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)
Revenue from operations	477.5	604.6	831.6	690.9	613.2	28.4	-11.2
Total expenditure	364.3	467.9	629.1	504.7	479.1	31.5	-5.1
EBITDA	113.2	136.7	202.6	186.2	134.1	18.4	-28.0
EBITDA margins	23.7	22.6	24.4	27.0	21.9	;-185bps	-499bps
PAT	34.8	53.9	99.9	89.5	56.8	63.1	-36.5
Operational data	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)
Cement sales volumes (In MT)	1.02	1.36	1.85	1.36	1.28	25.5	-6.0
Realizations per tonne	4681	4446	4495	5076	4791	2.3	-5.6
Expenditure							
RM Costs	501	547	612	669	601	20.0	-10.3
Employee costs	353	278	225	294	289	-18.1	-1.8
Freight costs	1176	1203	1243	1312	1271	8.0	-3.1
Power & Fuel	878	918	907	970	1048	19.3	7.9
Other expenses	664	495	414	463	536	-19.3	15.7
Total expenditure	3571	3441	3400	3708	3743	4.8	0.9
Blended EBITDA/t	1110	1005	1095	1368	1048	-5.6	-23.4

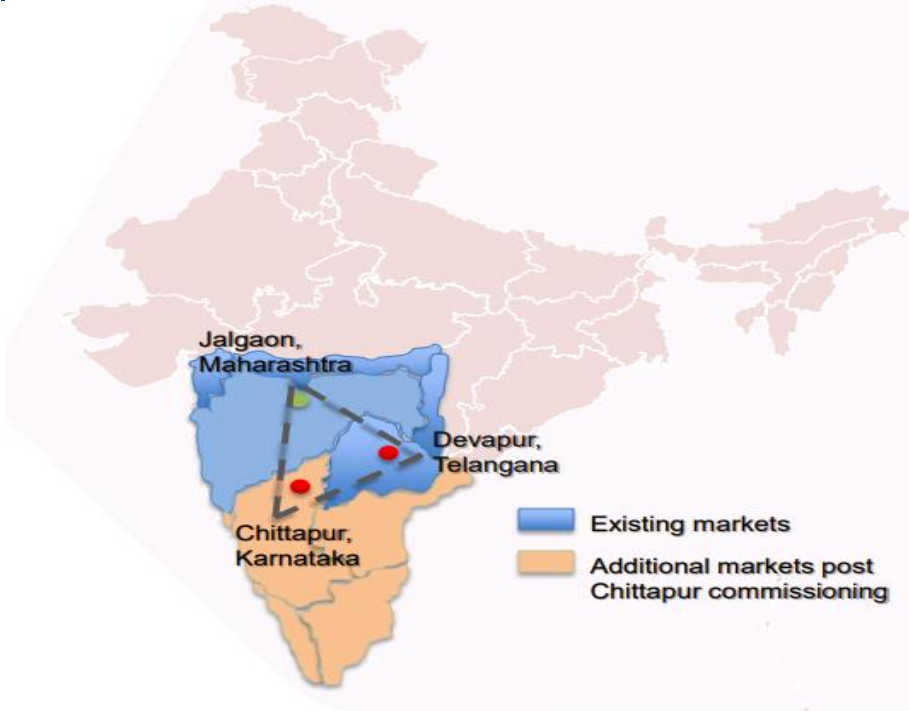
Source: Company, ICICI Direct Research

Other highlights

- The company is targeting significant debt reduction in FY22E before moving into the next phase of expansion. In H1FY22, OCL repaid total debt of ₹ 240 crore. Expect debt levels to come down to ₹ 250 crore from ₹ 783 crore in FY21
- In the next phase of expansion, the company would add 3 MT clinker unit at Devapur, Telangana with 1 MT GU in the same location and 2 MT GU near Devapur along with WHRS and CPP with likely capex of ~₹ 1600 crore
- Large part of the capex is likely to be incurred in FY24E only. Capex guidance for FY22E is at ₹ 50 crore for debottlenecking (0.5 MT) at its integrated plant at Devapur. In FY23E, the company would incur capex of ₹ 250 crore (₹ 150 crore for GU in Tiroda, ₹ 100 crore for WHRS)
- Rajasthan Expansion – The company is exploring opportunities to further enhance its capacity by 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
- Entered into MoU with Adani Power for setting up 2 MT GU in Nagpur district Maharashtra
- The company aims to become a 14.5 MT cement player by FY26E entailing total capex of ~₹ 3600 crore
- **Others:** Regional mix: West 54%, South 37%, Central 9%. Average lead distance 320 km. Trade mix is at 61:39

Story in charts

Exhibit 2: Plant locations



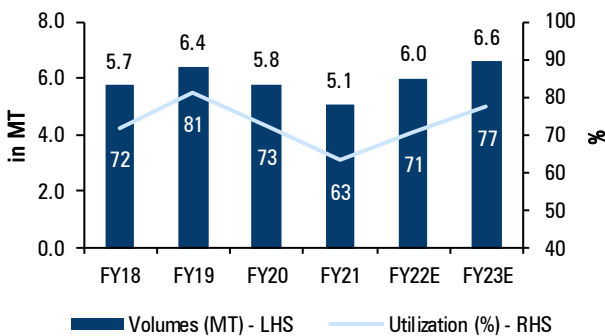
Devapur plant has 3 MT integrated cement capacity with CPP of 50 MW. It is located 2 km from the high-quality limestone reserve belt. Linkage coal is available from Singareni. Fly ash is sourced from NTPC's thermal power plant. Both are located within ~50 km range

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.

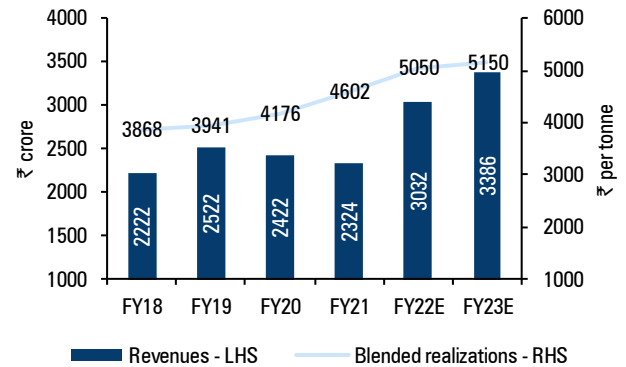
Source: Company, ICICI Direct Research

Exhibit 3: Sales volume & capacity utilisation trend



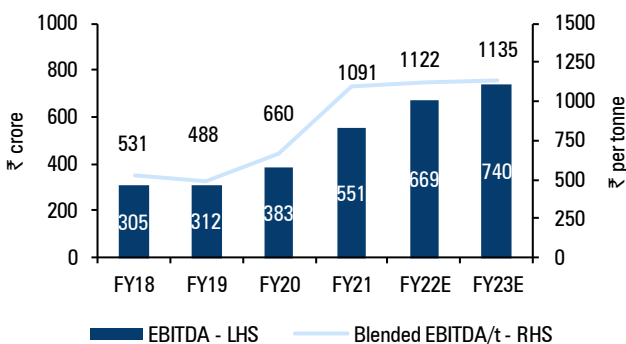
Source: Company, ICICI Direct Research

Exhibit 4: Revenue & realisations trend



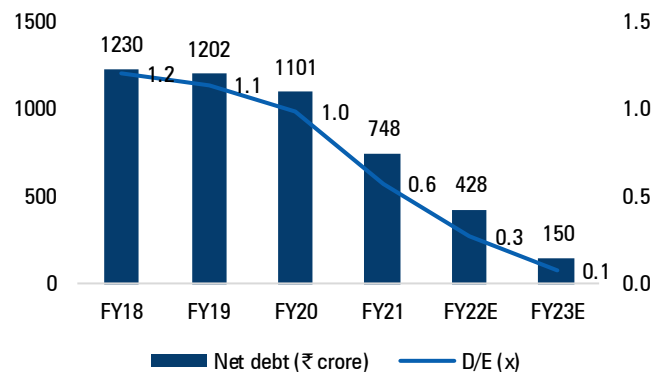
Source: Company, ICICI Direct Research

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	FY22E	FY23E
Total operating income	2421.8	2324.1	3032.2	3386.1
Growth (%)	-4%	-4%	30%	12%
Raw Material Expenses	203.2	292.9	390.3	440.5
Employee Expenses	154.9	152.3	166.0	180.9
Freight costs	693.4	608.9	786.6	874.5
Power & Fuel	591.4	450.6	690.5	775.8
Other expenses	396.0	268.6	330.2	374.8
Total Operating Expenditure	2038.9	1773.3	2363.6	2646.5
EBITDA	382.9	550.7	668.6	739.5
Growth (%)	22.7%	43.8%	21.4%	10.6%
Depreciation	140.9	141.8	136.0	137.6
Interest	122.3	93.6	53.9	30.0
Other Income	17.7	18.3	18.0	19.0
PBT	137.4	333.6	496.8	590.9
Others	0.0	0.0	0.0	0.0
Total Tax	50.8	119.4	181.3	215.7
Reported PAT	86.6	214.2	315.5	375.2
Adjusted PAT	86.6	214.2	315.5	375.2
Growth (%)	82%	147%	47%	19%
Adjusted EPS (₹)	4.2	10.5	15.4	18.3

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	1555.4	1905.6
Total Shareholders funds	1118.4	1305.9	1575.9	1926.1
Total Debt	1137.0	783.8	483.8	183.8
Deferred Tax Liability	115.0	174.2	171.0	180.0
Minority Interest / Others				
Total Liabilities	2370.4	2263.9	2230.7	2289.9
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	50.0	300.0
Total Fixed Assets	2276.6	2186.3	2129.0	2241.4
Intangibles	61.7	61.3	66.0	66.0
Investments	0.0	115.1	115.1	115.1
Inventory	236.6	170.5	192.5	207.6
Debtors	161.8	110.2	124.3	163.9
Loans and Advances	12.5	12.4	18.0	18.0
Other Current Assets	74.6	77.3	100.8	112.5
Cash	36.0	36.1	56.1	33.7
Total Current Assets	521.5	406.4	491.7	535.7
Creditors	203.5	219.9	262.5	286.1
Provisions & Others	319.0	321.3	348.7	422.2
Total Current Liabilities	522.6	541.2	611.1	708.3
Net Current Assets	-1.0	-134.8	-119.5	-172.7
Others Assets	33.1	36.0	40.0	40.0
Application of Funds	2370.3	2263.9	2230.6	2289.9

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	86.6	214.2	315.5	375.2
Add: Depreciation	140.9	141.8	136.0	137.6
Add: Finance costs	122.3	93.6	53.9	30.0
(Inc)/dec in Current Assets	-33.8	115.1	-65.2	-66.4
Inc/(dec) in CL and Def. tax	-2.1	77.8	66.8	106.2
CF from operating activi	313.9	642.5	506.8	582.7
(Inc)/dec in Fixed Assets	-76.9	-51.1	-83.4	-250.0
(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	-87.5	-250.0
Issue/(Buy back) of Shares	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-94.1	-353.2	-300.0	-300.0
Finance costs	-122.3	-93.6	-53.9	-30.0
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	-355.0
Net Cash flow	7.3	0.0	20.0	-22.4
Opening Cash	28.7	36.0	36.1	56.1
Closing Cash	36.0	36.1	56.1	33.7

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	15.4	18.3
Cash EPS	11.1	17.4	22.0	25.0
BV	54.6	63.7	76.9	94.0
DPS	0.8	1.5	1.0	2.0
Cash Per Share	1.8	1.8	2.7	1.6
Operating Ratios (%)				
EBITDA Margin	15.8	23.7	22.1	21.8
EBIT Margin	10.0	17.6	17.6	17.8
PAT Margin	3.6	9.2	10.4	11.1
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	40.5	39.5
Return Ratios (%)				
RoE	7.7	16.4	20.0	19.5
RoCE	10.7	19.6	25.9	28.5
RoIC	11.2	21.6	29.0	36.2
Valuation Ratios (x)				
P/E	38.3	15.5	10.5	8.8
EV / EBITDA	11.5	7.4	5.6	4.7
EV / Net Sales	1.8	1.7	1.2	1.0
Market Cap / Sales	1.4	1.4	1.1	1.0
Price to Book Value	3.0	2.5	2.1	1.7
Solvency Ratios				
Debt/EBITDA	3.0	1.4	0.7	0.2
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	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,233	BUY	85	110	126	16.3	11.5	9.9	137	133	133	14.5	18.7	18.9	12.6	14.3	14.4
Ambuja Cem*	380	BUY	9	11	14	21.0	16.3	14.3	247	222	220	17.6	19.4	20.6	20.3	22.0	22.9
UltraTech Cem	7,266	BUY	191	232	281	19.7	16.6	14.2	276	265	227	14.7	16.3	18.1	12.7	13.7	14.5
Shree Cement	27,800	BUY	641	682	847	24.4	22.0	18.4	285	281	275	18.2	18.2	19.5	15.2	14.1	15.2
Heidelberg Cem	240	HOLD	14	15	17	12.0	10.0	8.3	131	127	121	20.1	23.7	27.2	21.1	20.3	20.8
JK Cement	3,155	HOLD	100	118	138	17.5	15.5	12.9	207	210	209	18.6	18.5	20.0	20.6	20.1	19.4
JK Lakshmi Cem	590	BUY	34	37	41	10.5	9.2	8.4	89	89	91	21.1	22.1	21.3	19.0	19.5	18.5
Star Cement	101	BUY	6	7	8	10.8	8.4	7.2	90	86	83	13.3	16.4	17.1	12.6	14.2	13.6
Ramco Cement	1,013	BUY	32	38	48	17.3	16.3	13.2	198	203	189	8.6	9.1	10.4	13.5	13.8	14.8
Sagar Cement	285	BUY	79	81	138	10.5	9.7	6.4	104	76	72	15.3	15.2	22.0	15.4	13.7	19.1

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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