

05 August 2023

India | Equity Research | Q1FY24 result review

Orient Cement

Cement

A mixed bag performance

Orient Cement's (ORCMNT) Q1FY24 EBITDA declined ~3%/29% YoY / QoQ to ~INR 1bn primarily due to the maintenance shutdown taken at its Chittapur kiln (in Karnataka). Despite operational bottlenecks, ORCMNT reported robust volume growth of +15% YoY to 1.59mnte (down 7.5% QoQ), while cement realisation improved 1.8% QoQ (flat YoY) led by higher sales of premium products. Factoring in robust volume growth and QoQ NSR growth, we increase our FY24E/25E EBITDA estimates by 2-7%. Further, based on the capex plan, we estimate ORCMNT to incur ~INR 20bn (vs OCF of ~INR 9bn) capex over the next two years. Consequently, this may push leverage ratios ('net debt / EBITDA' may rise to ~2.5x in FY25E vs ~1x in FY23) in the interim. Given the overhang of rising debt and our cautious sector view, we downgrade the stock to **REDUCE** and value it at 6x FY25E EBITDA with a higher target price of INR 137/sh (INR 121/sh earlier).

Higher costs dent healthy top-line performance

ORCMNT delivered a mixed bag quarterly performance. On the bright side, volumes at 1.59mnte were up 15.5% YoY with realisation improving 1.8% QoQ (flat YoY) (most cement players reported 0.5-1% QoQ dip in NSR). With demand recovery supported by infrastructure segment, ORCMNT stepped up sales in B2B segment, which drove trade sales down to 47% vs 56% YoY. However, these positives were marred by higher operational costs (INR 200-250mn) as ORCMNT a) incurred higher freight cost owing to movement of clinker from Chittapur to Devapur (in Telangana), b) adverse fuel mix (lower pet coke usage). As a result, overall cost/te was up ~3%/7% YoY / QoQ. Management expects fuel consumption cost to taper Q2FY24 onwards as low cost fuel inventory is currently under consumption/ordering.

Capex update

ORCMNT reiterated its capex plans of (in priority order): (1) Line-2 at Chittapur, (2) split grinding unit in Madhya Pradesh linked to Devapur clinker expansion and (3) GF unit in Rajasthan. As per the management, ORCMNT is awaiting regulatory clearances for its Chittapur (Environment) and Devapur units (Forest). ORCMNT has almost finalised land for MP grinding unit. Overall, capex guidance for FY24 /FY25 stands at INR 8-10bn / INR15-16bn. While we appreciate the commitment towards growth, ORCMNT is likely to endure the pain of high leverage in the interim. Given the overhang of rising debt and our cautious view on the sector, we prefer to stay conservative on the stock and hence, downgrade the stock to REDUCE with a higher target price of Rs137/sh (earlier: Rs121).

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	27,254	29,375	32,570	35,721
EBITDA	5,911	3,645	5,089	6,005
EBITDA (%)	21.7	12.4	15.6	16.8
Net Profit	2,633	1,228	2,167	2,611
EPS (Rs)	12.8	6.0	10.6	12.7
EPS % Chg YoY	22.9	(53.3)	76.4	20.5
P/E (x)	12.2	26.2	14.9	12.3
EV/EBITDA (x)	5.9	9.8	7.9	7.8
RoCE (%)	14.7	7.2	9.7	8.5
RoE (%)	18.6	7.8	12.7	13.6

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Market Data

Market Cap (INR)	32bn
Market Cap (USD)	389mn
Bloomberg Code	ORCMNT IN
Reuters Code	ORCE.BO
52-week Range (INR)	162 /105
Free Float (%)	54.0
ADTV-3M (mn) (USD)	1.3

Price Performance (%)	3m	6m	12m
Absolute	24.8	32.2	33.8
Relative to Sensex	7.2	9.0	14.2

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	2.2	1.9
EBITDA	7.2	2.4
EPS	12.4	5.2

Previous Reports

04-05-2023: [Q4FY23 results review](#)03-02-2023: [Q3FY23 results review](#)

Q1FY24 conference call takeaways

Demand/volume

- During Q1FY24, B2B demand stood strong owing to demand emanating from large infrastructure projects and RMC plant operators.
- As a result, OPC cement share increased to 45% vs 41% YoY.
- Volume guidance for FY24 stands at 6.3-6.4mnte.
- During Q1FY24, despatch mix to western markets increased to 62% vs 55% YoY. Despatches to central Indian markets stood at 10% during the quarter.
- In Q1FY24, trade mix declined to 47% vs 51% QoQ and 56% YoY.
- Premium cement contribution stood at 20% (of trade sales) during Q1FY24.
- Heavy monsoon impacted volumes in Jul'23, while Aug'23 has begun on a good note.

Pricing

- Strongcrete (super premium brand)/OrientGreen (premium) are priced at INR 45/25 per bag higher than OPC cement.

Cost

- Next booking of pet coke fuel inventory is expected to be 20% lower than previous booking. Domestic coal prices are expected to remain stable going ahead after witnessing 17% YoY inflation in Q1FY24.
- Q1FY24 fuel consumption cost at Devapur unit stood at INR 1.925/'000kcal (run entirely on domestic coal) while at Chittapur unit (run entirely on pet-coke) it stood at INR 2.34/'000kcal. At company level, the cost was INR 2.13/'000kcal.
- The ~10MW WHR system at Chittapur witnessed further operational delays and may now be commissioned by Q2FY24-end. The cost savings (INR 30mn/month) shall be realised Q4FY24 onwards.
- The fuel mix: Domestic coal at 53%, imported pet-coke at 36% and balance AFR.
- Grid power rates witnessed inflation in Karnataka and Maharashtra owing to inflation in coal prices.
- AFR cost stands at INR 1.2/'000kcal.

Capex

- FY24/25 capex guidance: INR 8-10bn/ INR 15-16bn.
- For FY24, the company is looking to undertake 3mtpa cement and ~2mtpa clinker expansion at Chittapur at a cost of INR 15bn-16bn. It has already applied for environmental and other statutory clearances and expects to place the order by Q3/Q4FY24. Further, it targets to spend INR 6bn in FY24 towards this priority capex. ORCMNT aims to commission the cement capacity within 15-18 months post equipment ordering. Currently, it is awaiting environmental clearance.
- Management reiterated it will not proceed with Devapur expansion until the expansion of the split GU (location) has firmed up. ORCMNT is awaiting forest clearance for Devapur unit. Further, the company may deposit INR 1.4-1.5bn to the forest department against afforestation of land.
- ORCMNT has almost finalised a land site (lease model) in Madhya Pradesh for the proposed 2mtpa split GU – and is awaiting counterparty Board approval.

Exhibit 1: Q1FY24 result review

INR mn	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Volume including clinker (mnte)	1.59	1.38	15.5	1.72	(7.5)
Avg Realisation (INR/te)	5,193	5,189	0.1	5,099	1.8
Net Sales	8,252	7,139	15.6	8,760	(5.8)
Other operating income	-	-			
Raw Materials	1,230	779	57.9	1,069	15.1
Personnel Cost	471	430	9.6	372	26.5
Power and Fuel cost	2,475	2,287	8.2	2,783	(11.1)
Freight cost	2,181	1,925	13.3	2,344	(7.0)
Other Expenses	903	696	29.6	797	13.3
Total Expenses	7,260	6,117	18.7	7,366	(1.4)
EBITDA	992	1,022	(2.9)	1,395	(28.9)
EBITDA/te	624	743	(15.9)	812	(23.1)
Interest	97	80	21.1	95	1.4
Depreciation	367	363	1.1	365	0.7
Other Income	44	12	265.5	48	(8.7)
Recurring pre-tax income	572	591	(3.2)	983	(41.8)
Extraordinary income/(expense)	-	-		-	
Taxation	202	217	(6.9)	309	(34.8)
Reported Net Income	370	374	(1.0)	674	(45.0)
Recurring Net Income	370	374	(1.0)	674	(45.0)
Ratios (%)			bps		bps
EBITDA margin	12.0	14.3	-229	15.9	-390
Net profit margin	4.5	5.2	-75	7.7	-320

Source: I-Sec research, Company data

Exhibit 2: Historical quarterly analysis on per-tonne basis

INR/te	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net realisation	5,189	4,978	5,121	5,099	5,193
Raw materials consumed	566	867	661	622	774
Power & fuel	1,662	1,567	1,590	1,620	1,557
Freight cost	1,399	1,325	1,373	1,364	1,372
Staff cost	312	350	298	217	296
Other expenses	506	606	567	464	568
Total costs/te	4,446	4,715	4,489	4,287	4,569
EBITDA/te	743	263	632	812	624

Source: I-Sec research, Company data

Exhibit 3: Per-tonne estimates

INR/te	FY21	FY22	FY23	FY24E	FY25E
Net realisation	4,602	4,975	5,100	5,138	5,267
Raw material consumed	643	648	671	696	716
Power & fuel	892	1,140	1,611	1,435	1,437
Freight	1,206	1,299	1,366	1,380	1,401
Others	771	810	819	824	828
Total operating expenses	3,512	3,896	4,467	4,335	4,381
Other operating income	-	-	-	-	-
EBITDA/tonne	1,090	1,079	633	803	885

Source: I-Sec research, Company data

Exhibit 4: Performance trend and assumptions

'000 te	FY21	FY22	FY23	FY24E	FY25E
Capacity	8,000	8,500	8,500	8,500	8,500
Production	5,050	5,478	5,760	6,339	6,783
Capacity utilisation (%)	63	64	68	75	80
Sales	5,050	5,478	5,760	6,339	6,783
Growth (%)	(13.0)	8.5	5.1	10.1	7.0
Realisation (Rs/te)	4,602	4,975	5,100	5,138	5,267
Growth (%)	10.4	8.1	2.5	0.8	2.5

Source: I-Sec research, Company data

Exhibit 5: Earnings revision

(Rs mn)	FY24E			FY25E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	32,570	31,884	2.2	35,721	35,054	1.9
EBITDA	5,089	4,749	7.2	6,005	5,864	2.4
PAT	2,167	1,928	12.4	2,611	2,483	5.2

Source: I-Sec research, Company data

Exhibit 6: Valuations based on 6x Mar'25E EV/E

Target EV/ EBITDA multiple (x)	6.0
Target EV (Rsmn)	36,032
Net debt / (cash) (Rsmn)	8,041
Target value (Rsmn)	27,991
No. of shares (mn)	205
Target price per share (Rs)	137

Source: I-Sec research

Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	37.9	37.9	37.9
Institutional investors	17.0	17.3	16.5
MFs and others	8.7	7.2	7.8
FIs/Banks	0.1	0.1	0.1
Insurance	2.0	2.0	1.9
FIIIs	6.2	8.1	6.7
Others	45.1	44.8	45.6

Source: Bloomberg

Exhibit 8: Price chart

Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	27,254	29,375	32,570	35,721
Operating Expenses	17,796	21,865	23,069	24,858
EBITDA	5,911	3,645	5,089	6,005
EBITDA Margin (%)	21.7	12.4	15.6	16.8
Depreciation & Amortization	1,452	1,468	1,483	1,637
EBIT	4,459	2,177	3,606	4,368
Interest expenditure	514	378	462	496
Other Non-operating Income	96	120	138	145
Recurring PBT	4,040	1,920	3,283	4,017
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,407	691	1,116	1,406
PAT	2,633	1,228	2,167	2,611
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,633	1,228	2,167	2,611
Net Income (Adjusted)	2,633	1,228	2,167	2,611

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	4,805	7,228	9,338	10,010
of which cash & cash eqv.	438	701	2,624	3,111
Total Current Liabilities & Provisions	5,628	5,655	5,862	5,892
Net Current Assets	(823)	1,573	3,477	4,118
Investments	142	42	42	42
Net Fixed Assets	21,151	20,100	27,117	36,480
ROU Assets	-	-	-	-
Capital Work-in-Progress	398	1,397	1,397	1,397
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	20,868	23,112	32,033	42,038
Liabilities				
Borrowings	3,097	4,207	10,707	17,707
Deferred Tax Liability	2,517	2,869	3,361	3,964
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	205	205	205	205
Reserves & Surplus	15,049	15,832	17,760	20,163
Total Net Worth	15,254	16,037	17,965	20,368
Minority Interest	-	-	-	-
Total Liabilities	20,868	23,112	32,033	42,038

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	6,153	7,323	8,760	8,252
% growth (YOY)	0.4	18.6	9.0	15.6
EBITDA	326	903	1,395	992
Margin %	5	12	16	12
Other Income	48	11	48	44
Extraordinaries				
Adjusted Net Profit	(95)	275	674	370

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	4,585	2,989	4,028	4,719
Working Capital Changes	459	(2,194)	(5)	(169)
Capital Commitments	(488)	(1,350)	(8,500)	(11,000)
Free Cashflow	4,556	(555)	(4,477)	(6,449)
Other investing cashflow	1,105	220	138	145
Cashflow from Investing Activities	616	(1,129)	(8,362)	(10,855)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(5,120)	1,110	6,500	7,000
Dividend paid	(615)	(307)	(238)	(209)
Others	177	(138)	0	0
Cash flow from Financing Activities	(5,557)	665	6,262	6,791
Chg. in Cash & Bank balance	103	330	1,923	487
Closing cash & balance	438	701	2,624	3,111

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	12.8	6.0	10.6	12.7
Adjusted EPS (Diluted)	12.8	6.0	10.6	12.7
Cash EPS	19.9	13.2	17.8	20.7
Dividend per share (DPS)	2.5	1.5	1.2	1.0
Book Value per share (BV)	74.5	78.3	87.7	99.4
Dividend Payout (%)	19.5	25.0	11.0	8.0
Growth (%)				
Net Sales	17.3	7.8	10.9	9.7
EBITDA	7.3	(38.3)	39.6	18.0
EPS (INR)	22.9	(53.3)	76.4	20.5
Valuation Ratios (x)				
P/E	12.2	26.2	14.9	12.3
P/CEPS	7.9	11.9	8.8	7.6
P/BV	2.1	2.0	1.8	1.6
EV / EBITDA	5.9	9.8	7.9	7.8
EV / te (USD)	50.6	51.2	57.8	67.1
Dividend Yield (%)	1.6	1.0	0.7	0.6
Operating Ratios				
Gross Profit Margins (%)	87.0	86.8	86.5	86.4
EBITDA Margins (%)	21.7	12.4	15.6	16.8
Effective Tax Rate (%)	34.8	36.0	34.0	35.0
Net Profit Margins (%)	9.7	4.2	6.7	7.3
NWC / Total Assets (%)	(3.9)	6.8	10.9	9.8
Net Debt / Equity (x)	0.2	0.2	0.4	0.7
Net Debt / EBITDA (x)	0.4	1.0	1.6	2.4
Profitability Ratios				
RoCE (%) (Post Tax)	14.7	7.2	9.7	8.5
RoE (%)	18.6	7.8	12.7	13.6
RoIC (%)	15.3	7.8	10.8	9.6
Fixed Asset Turnover (x)	1.3	1.4	1.4	1.1
Inventory Turnover Days	35	54	48	46
Receivables Days	18	22	21	21
Payables Days	43	33	31	30

Source Company data, I-Sec research

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