

Orient Cement

BSE SENSEX	S&P CNX
39,298	11,662
Bloomberg	ORCMNT IN
Equity Shares (m)	205
M.Cap.(INRb)/(USDb)	18.3 / 0.3
52-Week Range (INR)	125 / 62
1, 6, 12 Rel. Per (%)	-11/-5/-13
12M Avg Val (INR M)	18
Free float (%)	62.6

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	25.2	25.7	27.4
EBITDA	3.1	4.0	4.2
NP	0.5	1.1	1.2
EPS (INR)	2.3	5.3	5.8
EPS Gr. (%)	7.5	130.0	8.6
BV/Sh. (INR)	51.4	55.9	60.8
RoE (%)	4.6	9.9	9.9
RoCE (%)	5.3	8.6	8.7
P/E (x)	38.4	16.7	15.4
P/BV (x)	1.7	1.6	1.5
EV/EBITDA (x)	9.6	6.8	6.2
EV/Ton (USD)	54	50	47

Estimate change 

TP change 

Rating change 

CMP: INR89

TP: INR105 (+18%)

Buy

Hit by weak realizations, high costs; cutting estimates by 6-7%

- Volumes, realizations disappoint:** ORCMNT's volumes fell 16% YoY to 1.24mt in 2QFY20. Realizations increased 9% YoY but were down 9% QoQ to INR4,150/t due to weak pricing in the markets of south and Maharashtra. Revenue fell 8% YoY (-25% QoQ) to INR5.1b (our estimate: INR5.8b).
- EBITDA impacted by higher costs:** Cost/t rose 4% YoY (+4% QoQ) to INR3,718, higher than our estimate of INR3,554, due to higher freight cost/t (+4% YoY) and other expenses/t (+32% YoY). Freight cost was higher, primarily due to an increase in average lead distance as ORCMNT reached newer markets in south Karnataka. Thus, EBITDA/t stood at INR432/t (+78% YoY, -56% QoQ), resulting in EBITDA of INR536m (+50% YoY; our estimate: INR908m) with the margin at 10.4% (+4.04pp YoY, -11.3pp QoQ). Tax rate was at 28.5% v/s 35% in 2QFY19. ORCMNT incurred a net loss of INR77m (estimate: profit of INR179m) v/s a loss of INR167m in the year-ago period.
- 1HFY20 performance:** Sales were flat at INR12b, while EBITDA increased 68% YoY to INR2b. PAT came in at INR482m v/s loss of INR7.4m in 1HFY19. For 2HFY20, sales/EBITDA/PAT growth is estimated at 4%/5%/27% YoY.
- Key highlights from management interaction:** (1) Volumes were impacted by slowdown in AP/Telangana and floods/heavy rainfall in markets in Maharashtra and MP. (2) Average distance travelled was slightly above 300km (3) OPC/non-trade volumes continued to grow.
- Valuation view:** We cut our FY20/21 EBITDA estimate by 6-7% in light of weaker reported realizations and higher costs. As a result, our EPS estimate is lowered by 7% for FY20 and by 4% for FY21. The stock trades at 6.8x/6.2x FY20/21E EBITDA. We value ORCMNT at 7x FY21E EV/EBITDA and arrive at a TP of INR105 (implied EV/tonne of USD 53 on FY21 capacity). **Buy.**

Quarterly Performance

Y/E March	FY19				FY20				FY19	FY20E	FY20	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales Dispat. (m ton)	1.60	1.47	1.51	1.83	1.51	1.24	1.52	1.82	6.41	6.09	1.4	-10
YoY Change (%)	15%	13%	10%	9%	-6%	-16%	1%	-1%	11.5	-5.0	-6%	
Realization (INR/Ton)	3,992	3,815	3,782	4,101	4,552	4,150	4,100	4,102	3,933	4,223	4,212	-1
YoY Change (%)	-2%	-5%	1%	11%	14%	9%	8%	0%	-3.2	5.0	10%	
QoQ Change (%)	8%	-4%	-1%	8%	11%	-9%	-1%	0%			-7%	
Net Sales	6,399	5,608	5,707	7,508	6,878	5,150	6,248	7,451	25,222	25,727	5,820	-12
YoY Change (%)	12.7	7.2	11.6	21.1	7.5	-8.2	9.5	-0.8	13.5	2.0	3.8	
EBITDA	854	358	379	1,530	1,496	536	831	1,173	3,120	4,036	908	-41
Margins (%)	13.3	6.4	6.6	20.4	21.7	10.4	13.3	15.7	12.4	15.7	15.6	
Depreciation	324	329	344	330	353	365	355	346	1,327	1,419	355	3
Interest	294	310	278	303	313	320	310	297	1,185	1,240	310	3
Other Income	33	25	41	41	36	41	36	29	140	142	36	15
PBT	269	-257	-202	938	866	-108	202	558	748	1,519	279	-139
Tax Rate (%)	40.5	34.8	32.3	33.9	35.5	28.5	28.0	16.5	36.4	28.0	36.0	
Adj PAT	160	-167	-137	620	559	-77	146	466	476	1,094	179	-143
YoY Change (%)	-58.9	-264.9	-22.4	384.2	249.2	-54.0	-206.2	-24.9	7.5	130.0	-206.8	
Margins (%)	2.5	-3.0	-2.4	8.3	8.1	-1.5	2.3	6.3	1.9	4.3	3.1	

E: MOFSL Estimates

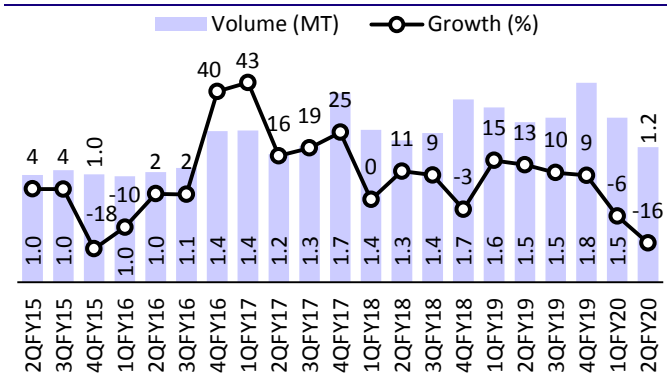
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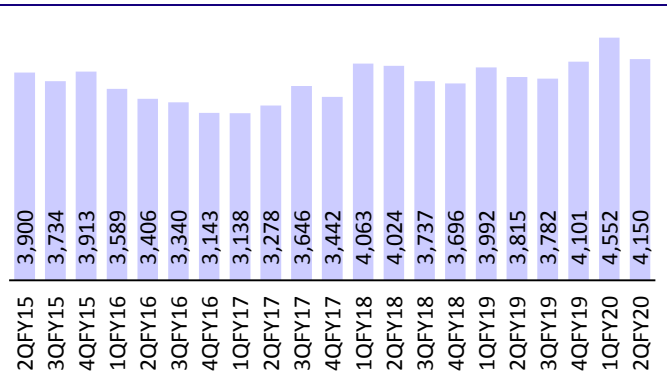
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Exhibit 1: Volumes declined 16% YoY



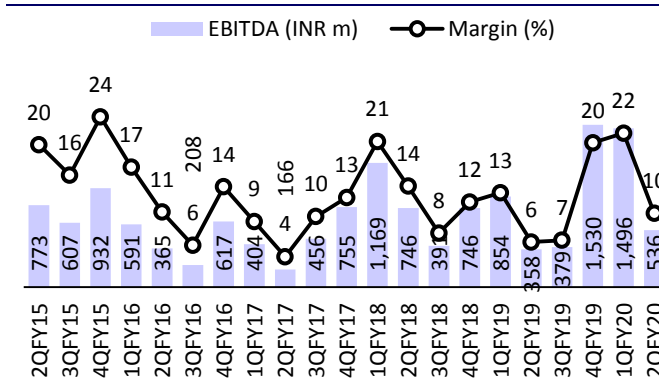
Source: Company, MOFSL

Exhibit 2: Realizations decreased 9% QoQ (INR/t)



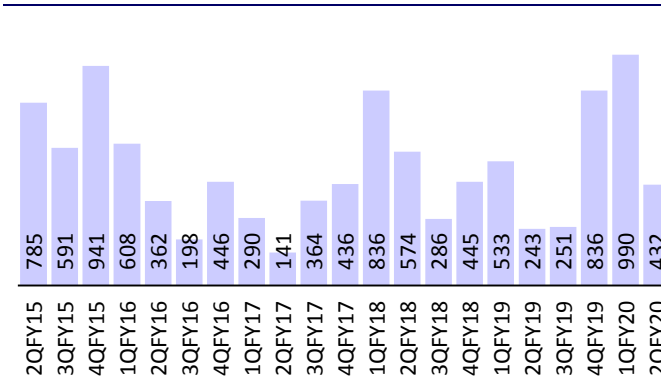
Source: Company, MOFSL

Exhibit 3: Margins contracted 11.3pp QoQ



Source: Company, MOFSL

Exhibit 4: Trend in EBITDA/ton (INR/t)



Source: Company, MOFSL

Exhibit 5: Per ton analysis

INR/Ton	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
Net realization	4,150	3,815	9%	4,552	-9%
RM Cost	353	508	-30%	328	8%
Employee Expenses	319	269	19%	274	16%
Power, Oil & Fuel	1,069	1,054	1%	1,058	1%
Freight	1,195	1,148	4%	1,228	-3%
Other Expenses	782	593	32%	674	16%
Total Exp	3,718	3,572	4%	3,562	4%
EBITDA	432	243	78%	990	-56%

Source: MOFSL, Company

Valuation and View

We cut our FY20/21 EBITDA estimate by 6-7% in light of weaker reported realizations and higher costs. As a result, our EPS estimate is lowered by 7% for FY20 and by 4% for FY21. The stock trades at 6.8x/6.2x FY20/21E EBITDA. We value ORCMNT at 7x FY21E EV/EBITDA and arrive at a TP of INR105 (implied EV/tonne of USD 53 on FY21 capacity). **Buy.**

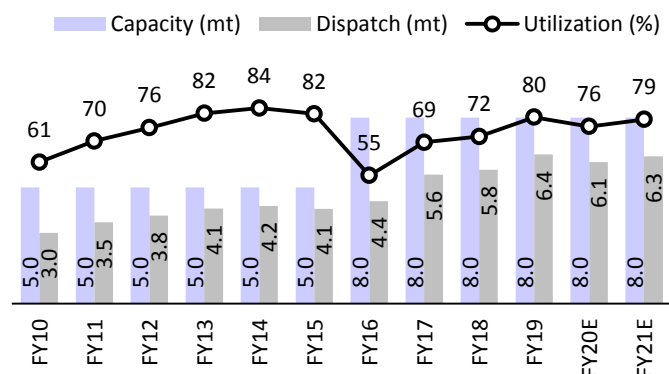
Exhibit 6: Revision in estimates

(INR b)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	25,727.4	26,059.8	-1	27,390.1	27,678.4	-1
EBITDA	4,036.1	4,338.3	-7	4,157.8	4,415.6	-6
Net Profit	1,093.5	1,175.5	-7	1,188.0	1,231.4	-4
EPS (INR)	5.3	5.7	-7	5.8	6.0	-4

Source: MOFSL, Company

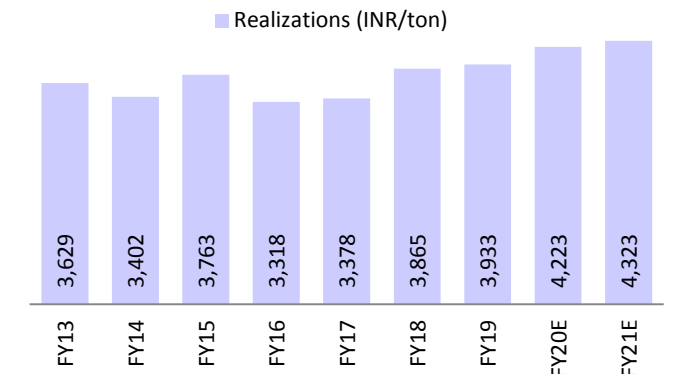
Story in charts

Exhibit 7: Utilizations to reach ~80% by FY21



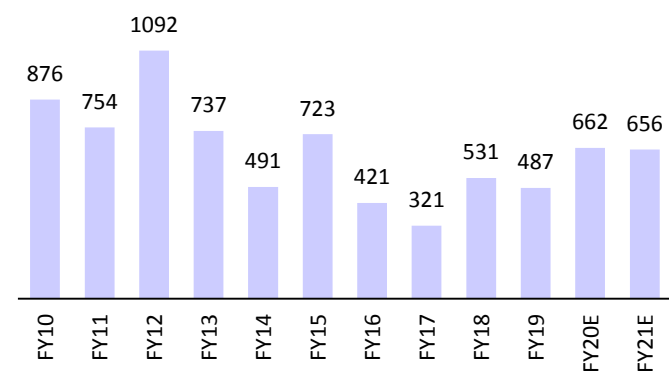
Source: Company, MOFSL

Exhibit 8: Realization trend (INR/t)



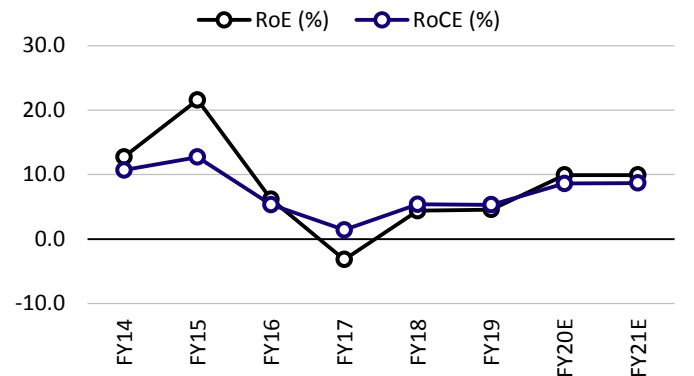
Source: Company, MOFSL

Exhibit 9: Trend in EBITDA/t (INR/t)



Source: Company, MOFSL

Exhibit 10: Trend in ROE and ROCE



Source: Company, MOFSL

Financials and Valuations

Income Statement								(INR M)
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	14,302	15,353	14,624	18,748	22,223	25,222	25,727	27,390
Change (%)	-3.7	7.4	-4.7	28.2	18.5	13.5	2.0	6.5
Total Expenditure	12,237	12,403	12,769	16,966	19,172	22,101	21,691	23,232
% of Sales	85.6	80.8	87.3	90.5	86.3	87.6	84.3	84.8
EBITDA	2,065	2,950	1,856	1,781	3,052	3,120	4,036	4,158
Margin (%)	14.4	19.2	12.7	9.5	13.7	12.4	15.7	15.2
Depreciation	564	473	778	1,215	1,262	1,327	1,419	1,513
EBIT	1,501	2,477	1,077	566	1,790	1,793	2,617	2,644
Int. and Finance Charges	144	141	544	1,353	1,292	1,185	1,240	1,183
Other Income - Rec.	175	176	76	123	202	140	142	188
PBT bef. EO Exp.	1,532	2,512	608	-665	700	748	1,519	1,650
EO Expense/(Income)	0	0	0	0	0	0	0	0
PBT after EO Exp.	1,532	2,512	608	-665	700	748	1,519	1,650
Current Tax	522	564	2	0	0	0	425	462
Deferred Tax	0	0	-17	-344	258	272	0	0
Tax Rate (%)	34.1	22.5	-2.5	51.7	36.9	36.4	28.0	28.0
Reported PAT	1,010	1,948	624	-321	442	476	1,094	1,188
PAT Adj for EO items	1,010	1,948	624	-321	442	476	1,094	1,188
Change (%)	-37.5	92.8	-68.0	-151.5	-237.8	7.5	130.0	8.6
Margin (%)	7.1	12.7	4.3	-1.7	2.0	1.9	4.3	4.3
Net Profit	1,010	1,948	624	-321	442	476	1,094	1,188

Balance Sheet								(INR M)
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Equity Share Capital	205	205	205	205	205	205	205	205
Total Reserves	8,083	9,551	10,196	9,667	10,016	10,330	11,244	12,252
Net Worth	8,288	9,755	10,401	9,872	10,221	10,535	11,449	12,457
Deferred Liabilities	1,266	1,250	1,099	750	854	961	961	961
Total Loans	3,286	11,057	12,933	13,351	13,108	12,308	11,758	11,208
Capital Employed	12,840	22,063	24,433	23,973	24,184	23,804	24,168	24,626
Gross Block	12,934	13,174	22,848	24,955	25,743	28,108	28,886	29,886
Less: Accum. Deprn.	5,300	5,192	783	1,998	3,235	4,563	5,982	7,495
Net Fixed Assets	7,635	7,981	22,065	22,956	22,507	23,545	22,904	22,391
Capital WIP	3,897	13,194	2,394	981	1,582	478	700	700
Total Investments	875	875	875	875	875	875	875	875
Curr. Assets, Loans&Adv.	3,774	4,161	4,268	4,324	4,626	5,245	6,869	8,273
Inventory	713	1,099	1,350	1,467	1,642	1,860	2,115	2,251
Account Receivables	647	832	921	1,055	1,551	1,795	1,480	1,576
Cash and Bank Balance	816	427	378	639	331	288	1,945	3,031
Loans and Advances	1,598	1,802	1,619	1,163	1,102	1,303	1,329	1,415
Curr. Liability & Prov.	2,773	3,594	4,531	4,858	5,225	5,465	6,306	6,738
Account Payables	2,442	3,130	3,851	4,148	4,473	4,722	5,145	5,478
Provisions	331	464	679	711	752	743	1,160	1,260
Net Current Assets	1,001	567	-263	-534	-599	-220	563	1,535
Appl. of Funds	12,840	22,063	24,433	23,973	24,184	23,804	24,168	24,626

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	4.9	9.5	3.0	-1.6	2.2	2.3	5.3	5.8
Cash EPS	7.7	11.8	6.8	4.4	8.3	8.8	12.3	13.2
BV/Share	40.5	47.6	50.8	48.2	49.9	51.4	55.9	60.8
DPS	0.8	0.8	0.8	1.0	0.8	0.8	0.8	0.8
Payout (%)	47.5	24.4	76.4	-148.3	0.0	0.0	43.5	0.0
Valuation (x)								
P/E						38.4	16.7	15.4
Cash P/E						10.1	7.3	6.8
P/BV						1.7	1.6	1.5
EV/Sales						1.2	1.1	0.9
EV/EBITDA						9.6	6.8	6.2
EV/Ton (USD)						54	49.6	46.7
Dividend Yield (%)						0.8	0.8	0.8
Return Ratios (%)								
RoIC	13.5	25.9	7.8	1.3	5.3	5.2	8.8	9.4
RoE	12.7	21.6	6.2	-3.2	4.4	4.6	9.9	9.9
RoCE	10.7	12.7	5.4	1.4	5.4	5.3	8.6	8.7
Working Capital Ratios								
Asset Turnover (x)	1.1	0.7	0.6	0.8	0.9	1.1	1.1	1.1
Inventory (Days)	18.2	26.1	33.7	28.6	27.0	26.9	30.0	30.0
Debtor (Days)	16.5	19.8	23.0	20.5	25.5	26.0	21.0	21.0
Leverage Ratio (x)								
Current Ratio	1.4	1.2	0.9	0.9	0.9	1.0	1.1	1.2
Debt/Equity	0.4	1.1	1.2	1.4	1.3	1.2	1.0	0.9

Cash Flow Statement

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
(INR M)								
Oper. Profit/(Loss) before Tax	1,532	2,512	609	-665	700	748	1,519	1,650
Interest/Dividends Recd.	564	473	778	1,215	1,262	1,327	1,419	1,513
Depreciation	107	134	531	1,332	1,272	1,159	1,240	1,183
Direct Taxes Paid	-544	-534	-135	9	-121	-168	-425	-462
(Inc)/Dec in WC	272	-1,005	907	720	-223	-210	874	115
CF from Operations	1,931	1,580	2,689	2,611	2,890	2,857	4,627	3,999
EO expense	-9	-21	-9	-24	-99	-44	0	0
CF from Operating incl EO	1,922	1,560	2,680	2,588	2,792	2,813	4,627	3,999
(inc)/dec in FA	-3,296	-9,222	-3,720	-1,061	-1,470	-1,212	-1,000	-1,000
Free Cash Flow	-1,375	-7,662	-1,041	1,527	1,322	1,600	3,627	2,999
(Pur)/Sale of Investments	0	0	0	0	4	1	0	0
Others	-702	261	-544	-1,829	-970	-1,109	0	0
CF from investments	-3,998	-8,961	-4,264	-2,891	-2,436	-2,321	-1,000	-1,000
Issue of Shares	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	1,237	7,466	1,586	297	-356	-435	-550	-550
Interest Paid	-96	-57	0	0	0	0	-1,240	-1,183
Dividend Paid	0	0	0	0	0	0	-180	-180
Others	52	-397	-51	267	-309	-100	0	0
CF from Fin. Activity	1,194	7,012	1,535	564	-664	-535	-1,970	-1,912
Inc/Dec of Cash	-883	-389	-49	261	-309	-44	1,657	1,086
Add: Beginning Balance	1,699	816	427	378	639	331	288	1,945
Closing Balance	816	427	378	639	331	288	1,945	3,031

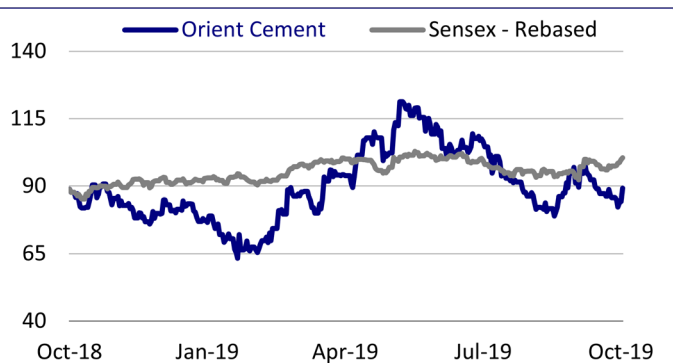
E: MOSL Estimates

Corporate profile

Company description

Orient Cement is part of the CK Birla Group company. It has cement capacity of 8mtpa in Andhra Pradesh and Maharashtra and Karnataka along with captive power plants of 50MW. It is considered among one of the lowest cost cement producers.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	37.4	37.4	37.4
DII	28.9	27.0	26.8
FII	7.9	8.0	7.6
Others	25.9	27.6	28.2

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
HDFC Trustee Company Limited- HDFC Balanced Advantage Fund	9.0
Franklin Templeton Mutual Fund A/c Franklin India Focused Equity Fund	6.2
Reliance Capital Trustee Company Limited-A/c Reliance Small Cap Fund	4.7
India Capital Fund Limited	4.4
Government Pension Fund Global	2.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Chandra Kant Birla	Chairman
Desh Deepak Khetrpal	Managing Director & CEO
Amita Birla	Director
Nidhi Bisaria	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
I Y R Krishna Rao	Rabindranath Jhunhunwala
Janat Shah	Swapan Dasgupta
R Jhavar	Varsha Purandare

*Independent

Exhibit 6: Auditors

Name	Type
Ranjeet Pandey & Associates	Secretarial Audit
S R Batliboi & Co LLP	Statutory
Somnath Mukherjee	Cost Auditor

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	5.3	6.7	-21.3
FY21	5.8	8.3	-29.8

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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