



India

**HOLD** (previously ADD)

Consensus ratings*:	Buy 7	Hold 3	Sell 3
Current price:	Rs277		
Target price:	Rs288 ▲		
Previous target:	Rs235		
Up/downside:	4.0%		
InCred Research / Consensus:	40.8%		
Reuters:	ORCE.NS		
Bloomberg:	ORCMNT IN		
Market cap:	US\$684m		
	Rs56,820m		
Average daily turnover:	US\$4.6m		
	Rs381.3m		
Current shares o/s:	204.9m		
Free float:	58.9%		
*Source: Bloomberg			

Key changes in this note

- Maintain EBITDA for FY25F-26F.
- We now value the stock at 9x EV/EBITDA.
- Roll forward and revise our target price to Rs288 from Rs235 earlier.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(0.7)	33.4	129.3
Relative (%)	(0.9)	20.0	91.5

<b>Major shareholders</b>	% held
Promoter & Promoter Group	37.9
Nippon Life India	2.6
Aditya Birla Sun Life	2.3

Research Analyst(s)



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# Orient Cement

## 3Q volume disappoints but profitability in line

- 3QFY24 EBITDA stood at ~Rs1.15bn, in line with our estimate (up ~28% yoy & 33% qoq), on lower power costs & better realization offset by lower volume.
- EBITDA/t rose by Rs222 qoq to Rs829 in 3Q. ORCMNT is seeking environment clearance for its proposed line-2 at Chittapur, with a public hearing in Feb 2024.
- We broadly maintain our FY25F-26F EBITDA and downgrade the rating to HOLD (from ADD) after a recent stock rally, with a higher target price of Rs288.

### Volume well below expectation while realization is the saving grace

Cement sales volume of Orient Cement (ORCMNT) in 3QFY24 fell by ~3% yoy and 2% qoq to 1.39mt, 8% below our estimate, on lower B2C sales in its key states like Telangana, Madhya Pradesh & Maharashtra. However, the company stayed away from selling its products at discounted prices in Telangana and tried to push more of its premium products, which led to better realization but lower volume. Cement realization stood at Rs5,397/t (up ~7% qoq and 5% yoy on better pricing and pushing more of premium cement). In Jan 2024, cement prices stayed flattish m-o-m. ORCMNT is seeking environmental clearance (EC) for its proposed line-2 at Chittapur and aims to commission the unit in 15-18 months from the receipt of EC. Thereafter, in the second phase of expansion, it will set up a plant in Rajasthan, which will take another three-to-four years because of pending land acquisition, management expects it to start soon. Capex guidance of Rs20bn for FY25F-26F has been maintained and will provide a year-wise split once it receives necessary approvals for the expansion. We factor in a ~8% volume CAGR over FY24F-26F, as new capacity will be ramped up post FY25F and there's limited visibility on expansion in the near term.

### EBITDA/t improves to Rs829; WHRS savings to aid margin further

Total cost/t was up 2% yoy and 3% qoq at Rs4,568, mainly because of higher raw material and fixed costs. However, power & fuel cost/t was down 9% qoq & 12% yoy at Rs1,398 on lower fuel prices (blended fuel consumption cost was Rs1,900/t), b) freight cost/t inched up by ~2% yoy and 4% qoq to Rs1,401 due to ORCMNT searching for substitute markets to cover up the volume lost in Telangana (avg. lead distance was up by 10-11km over 300km), c) raw material cost/t was up by 23% yoy & 22% qoq at Rs814 during the quarter, and d) fixed cost was up 11% yoy and 6% qoq at Rs956. The 10MW waste heat recovery system or WHRS at Chittapur is running at 80% level, leading to savings of Rs40m per month (Rs56/t) in 3Q and the remaining should be commissioned fully in 4QFY24F; expect savings of ~Rs50m per month from 4QFY24F. Further, the company's total renewable capacity to increase to ~35% of its total power requirement by the end of FY25F from ~25% in 3Q. We thus factor in Rs900/Rs940 EBITDA/t growth in FY24F/25F, respectively.

### Downgrade rating to HOLD with a revised target price of Rs288

ORCMNT trades at FY25F/26F EV/EBITDA of 9.9x/9.2x, respectively. We downgrade our rating on it to HOLD (from ADD earlier) with a Mar 2025F target price of Rs288 {Rs235 earlier, set at one-year forward EV/EBITDA of 9x (earlier 8x)}. Downside risks: Weak demand, pricing pressure, rise in input costs and delay in commissioning the capacity. Upside risks: Strong demand & pricing, timely expansion, and cost control.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	27,254	29,375	32,519	35,542	39,721
Operating EBITDA (Rsm)	5,911	3,645	5,010	6,053	6,947
Net Profit (Rsm)	2,633	1,228	2,112	2,619	2,968
Core EPS (Rs)	12.8	6.0	10.3	12.8	14.5
Core EPS Growth	22.9%	(53.3%)	72.0%	24.0%	13.3%
FD Core P/E (x)	21.58	46.27	26.90	21.69	19.14
DPS (Rs)	2.5	1.5	1.0	1.3	1.4
Dividend Yield	0.90%	0.54%	0.74%	0.92%	1.04%
EV/EBITDA (x)	10.05	16.47	11.37	9.97	9.23
P/FCFE (x)	56.45	125.24	57.20	(21.01)	48.04
Net Gearing	16.8%	20.0%	0.7%	17.8%	33.0%
P/BV (x)	3.72	3.54	3.21	2.87	2.56
ROE	18.6%	7.8%	12.5%	14.0%	14.1%
% Change In Core EPS Estimates			(0.41%)	(0.38%)	(0.37%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Volume disappoints but profitability in line

### Key takeaways from 3QFY24 earnings call ►

#### Volume & Prices:

- Volume guidance for 4QFY24F stood at >1.8mt, which would result in 6.2mt volume in FY24F and FY25F, in line with the industry's growth of 10-11%.
- The company's home states such as Telangana and Madhya Pradesh, which held assembly elections, faced shortage of labour, and in Mumbai and Pune the construction ban affected volume in 3QFY24. It registered a YTD FY24 9% growth in volume.
- As per management, Telangana B2C sales were lower during the quarter due to change in state government and aggressive supply by other competitors, which affected the volume. Management stated that the company's top brands are selling at ~Rs20/bag discount vs. current prices. Telangana B2C sales declined by 29%. The company is not following other brand strategies for selling at lower prices, which resulted in a lower volume in 3Q. In Maharashtra, B2C sales channels also witnessed a decline.
- In 3QFY24, higher blended realization led to better revenue. Pricing in Jan 2024 stayed at the exit level of Dec 2023.

#### Costs:

- P&F cost was down by Rs157/t yoy and Rs87/t qoq due to softening prices.
- Freight cost was higher in 3QFY24 due to loss of volume in Telangana, which led the company to search for new markets for its volume. B2B projects in Mumbai and Pune are bulkier and the cost/t to transport in bulk is higher and in 3Q, there was termination of seasonal rail discounts. Lead distance was above 10-11km from an average ~305km.
- For 3QFY24, fuel consumption cost at Devapur unit stood at Rs1.8/'000kcal, Chittapur unit ~Rs2.0/'000kcal while in the case of blended it was ~Rs1.9/'000kcal.
- For the quarter, domestic coal prices remained flattish qoq and yoy while pet-coke prices (used mostly at Chittapur plant) were down 10% yoy and 6% qoq.
- In 3QFY24, power consumption cost stood at Rs63/t while heat consumption was 687kcal/kg of clinker.

#### Capex & expansion:

- **Progress in Chittapur plant:** As per management, Chittapur plant's expansion project will have a public hearing on 17Feb 2024 for both production capacity and mining, followed by environment clearance (EC).
- **Progress in Devapur plant:** While for Devapur grinding unit or GU, Madhya Pradesh state electricity generating unit will be providing land for 2mtpa GU at Satpura power plant in Sarni village, along with railway siding and sourcing for fly ash. Management stated that it is working on the final round of pricing negotiations with concerned parties and then will move on to the environmental clearance phase.
- **Rajasthan expansion:** The company has received a valid signed lease deed from the government for its mines and will start acquiring land for the same soon. It expects to set up a 3.2mtpa GU at the location.
- **Capex guidance:** Management has maintained its capex guidance of Rs20bn for FY25F-26F and will provide year-wise split once it receives necessary approvals.

#### Other updates:

- In 3Q, fuel mix stood at 43% coal, 41% pet-coke, and ~16% AFR.
- Green energy contributed 25% of its power requirement during the quarter.

- **WHRS:** WHRS phase-1 is still running at an 80% level and resulted in savings of Rs40m per month (Rs56/t) in 3Q. The company expects savings of Rs50m per month from 4QFY24F.
- In 3QFY24, B2B sales accounted for 56% of volume, OPC (unblended) 50 while premium cement, as a percentage of sales, stood in the range of ~20-22%.
- Geographical mix was 64% western region, 27% southern region (down from an average of ~30%) and 10% central India & other markets.

**Figure 1: Standalone quarterly performance**

Particulars (Rs m)	3QFY24	3QFY24F	2QFY24	3QFY23	% Change		
					3QFY24F	2QFY24	3QFY23
<b>Net Sales</b>	<b>7,513</b>	<b>7,861</b>	<b>7,206</b>	<b>7,323</b>	<b>-4%</b>	<b>4%</b>	<b>3%</b>
Raw Materials Consumed	1,133	1,025	949	946	11%	19%	20%
Freight and Forwarding Expenses	1,950	2,131	1,918	1,963	-8%	2%	-1%
Power and Fuel Costs	1,945	2,274	2,191	2,274	-14%	-11%	-14%
Employee Costs	471	456	462	426	3%	2%	11%
Other Expenses	860	819	821	811	5%	5%	6%
<b>Total Expenditure</b>	<b>6,359</b>	<b>6,704</b>	<b>6,340</b>	<b>6,419</b>	<b>-5%</b>	<b>0%</b>	<b>-1%</b>
<b>EBITDA</b>	<b>1,154</b>	<b>1,157</b>	<b>865</b>	<b>903</b>	<b>0%</b>	<b>33%</b>	<b>28%</b>
Depreciation	377	379	371	371	-1%	1%	2%
<b>EBIT</b>	<b>777</b>	<b>779</b>	<b>494</b>	<b>533</b>	<b>0%</b>	<b>57%</b>	<b>46%</b>
Interest	79	99	86	97	-21%	-9%	-19%
Other Income	19	25	17	11	-23%	14%	69%
<b>PBT</b>	<b>718</b>	<b>704</b>	<b>424</b>	<b>447</b>	<b>2%</b>	<b>69%</b>	<b>61%</b>
Tax	268	218	178	171	23%	51%	56%
<b>PAT before MI &amp; Associates</b>	<b>450</b>	<b>486</b>	<b>246</b>	<b>275</b>	<b>-7%</b>	<b>83%</b>	<b>63%</b>
Minority Interest	0	0	0	0			
Profit from Assoc.	0	0	0	0			
<b>Recurring PAT</b>	<b>450</b>	<b>486</b>	<b>246</b>	<b>275</b>	<b>-7%</b>	<b>83%</b>	<b>63%</b>
Extraordinary Items	0	0	0	0			
<b>Reported PAT</b>	<b>450</b>	<b>486</b>	<b>246</b>	<b>275</b>	<b>-7%</b>	<b>83%</b>	<b>63%</b>
EPS (Rs)	2.2	2.4	1.2	1.3	-7%	83%	63%
Gross Margin	33%	31%	30%	29%	214 bp	327 bp	384 bp
EBITDA Margin	15.4%	14.7%	12.0%	12.3%	64 bp	335 bp	302 bp
EBIT Margin	10%	10%	7%	7%	45 bp	349 bp	308 bp
PBT Margin	10%	9%	6%	6%	60 bp	366 bp	345 bp
PAT Margin	6%	6%	3%	4%	-19 bp	257 bp	223 bp
Tax Rate	37%	31%	42%	38%	632 bp	-462 bp	-103 bp
Cost Items as a % of Sales							
Raw Material Costs	15%	13%	13%	13%	204 bp	190 bp	216 bp
Freight Costs	26%	27%	27%	27%	-115 bp	-66 bp	-85 bp
P&F Costs	26%	29%	30%	31%	-303 bp	-451 bp	-516 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

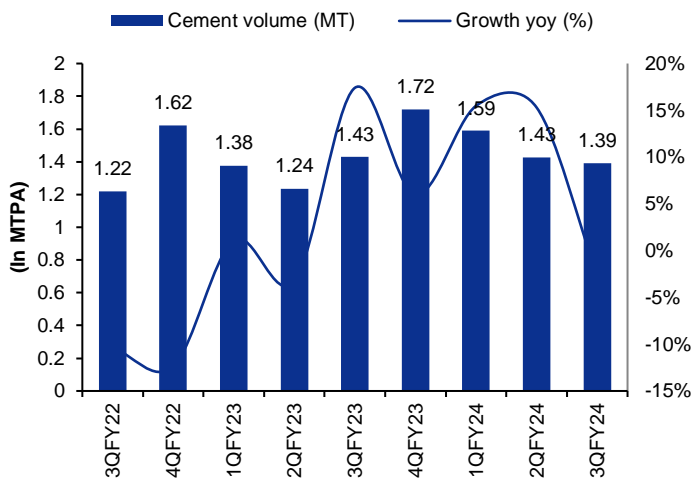
**Figure 2: 3QFY23 results as per tonne analysis**

Per tonne analysis	3QFY24	3QFY24F	2QFY24	3QFY23	% Change		
					3QFY24F	2QFY24	3QFY23
Sales Volume (Cement + Clinker)	1.39	1.52	1.43	1.43	-8%	-2%	-2.7%
Realization	5,397	5,168	5,057	5,121	4%	7%	5%
<b>EBITDA/t</b>	<b>829</b>	<b>761</b>	<b>607</b>	<b>632</b>	<b>9%</b>	<b>37%</b>	<b>31%</b>
RM Costs/t	814	674	666	661	21%	22%	23%
P&F Costs/t	1,398	1,495	1,537	1,590	-7%	-9%	-12%
Freight Costs/t	1,401	1,401	1,346	1,373	0%	4%	2%
Employee Costs/t	339	300	324	298	13%	5%	14%
Other Expenses/t	617	539	576	567	15%	7%	9%
<b>Cost/t</b>	<b>4,568</b>	<b>4,407</b>	<b>4,449</b>	<b>4,489</b>	<b>4%</b>	<b>3%</b>	<b>2%</b>

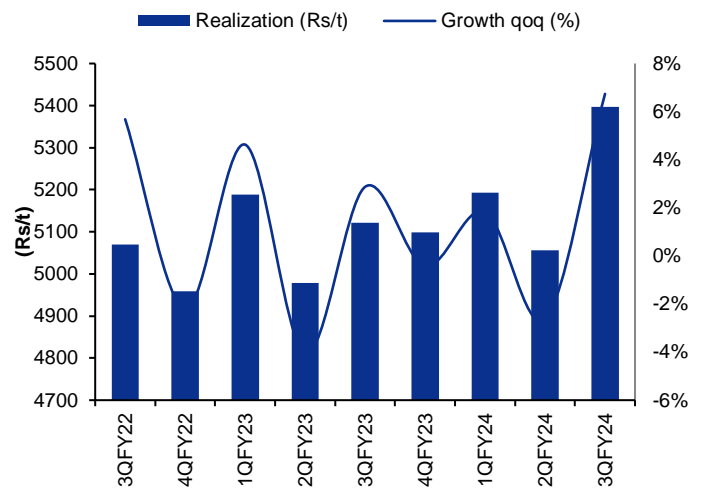
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Key quarterly charts ➤

**Figure 3: Cement sales volume declined by 3% yoy and 3% qoq in 3QFY24** **Figure 4: Cement realization grew by ~5% yoy and ~7% qoq in 3QFY24**

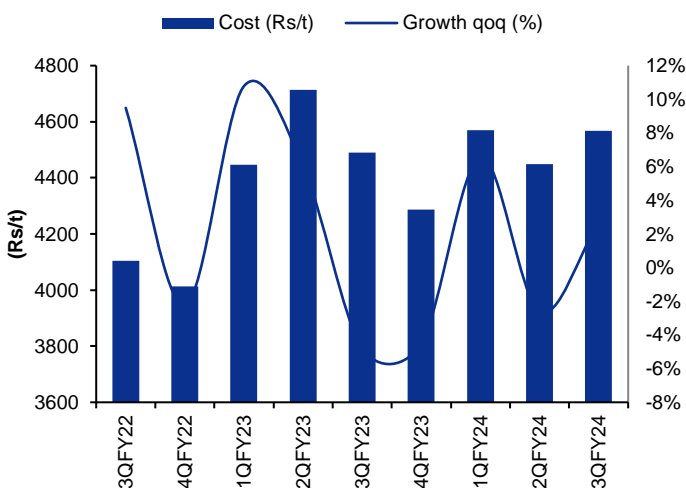


SOURCE: INCRED RESEARCH, COMPANY REPORTS



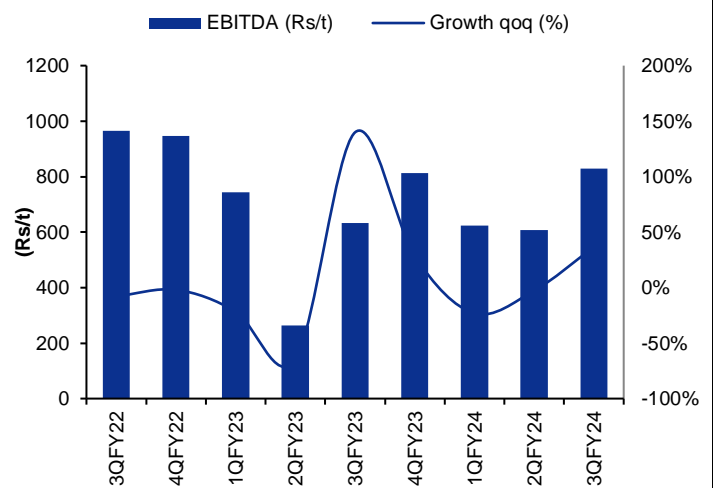
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Cost/t increased by 2% yoy and by 3% qoq in 3QFY24**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Unitary EBITDA improved by 31% yoy and 37% qoq in 3QFY24**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key changes ➤

**Figure 7: Our revised earnings estimates**

Rs. m	New			Old			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Sales	32,519	35,542	39,721	32,914	35,845	40,251	-1%	-1%	-1%
EBITDA	5,010	6,053	6,947	5,197	6,033	6,981	-4%	0%	0%
PAT	2,112	2,619	2,968	2,165	2,590	2,990	-3%	1%	-1%
EPS (Rs.)	10.3	12.8	14.5	11	13	15	-3%	1%	-1%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 8: Changes in our earnings estimates vs. Bloomberg consensus estimates**

Rs. m	Incred			Consensus			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Sales	32,519	35,542	39,721	33,455	36,646	40,851	-3%	-3%	-3%
EBITDA	5,010	6,053	6,947	5,037	5,850	6,947	-1%	3%	0%
PAT	2,112	2,619	2,968	2,125	2,643	2,912	-1%	-1%	2%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

**Figure 9: Key assumptions**

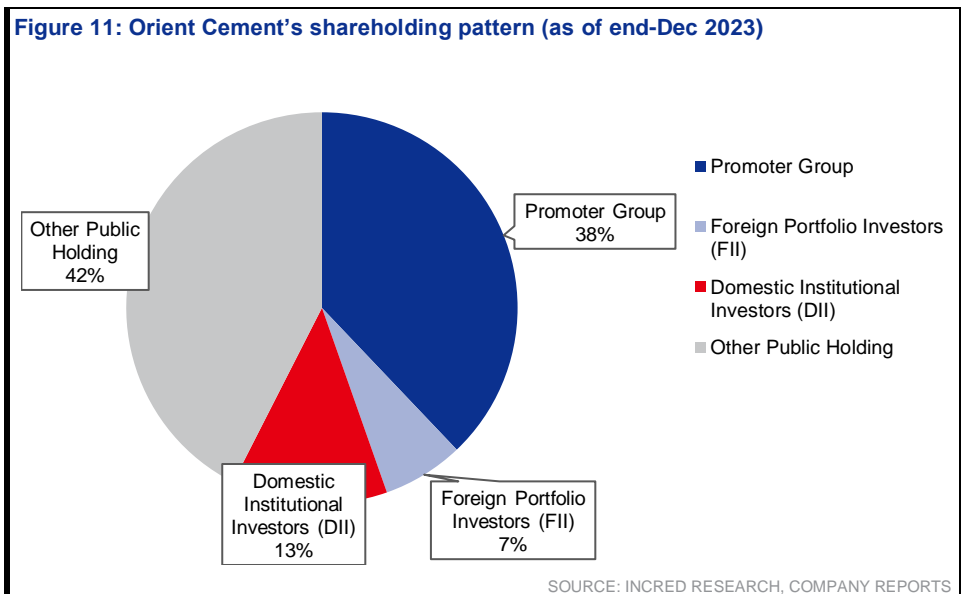
	FY22A	FY23A	FY24F	FY25F	FY26F
Volume (in mtpa)	5.5	5.8	6.2	6.7	7.4
yoy	9%	5%	8%	8%	10%
Realization (per tonne)	4,975	5,100	5,227	5,290	5,375
yoy	8%	3%	2%	1%	2%
Cost (per tonne)	3,896	4,467	4,422	4,389	4,435
yoy	11%	15%	-1%	-1%	1%
EBITDA (per tonne)	1,079	633	805	901	940
yoy	-1%	-41%	27%	12%	4%
EBITDA (Rs m)	5,911	3,645	5,010	6,053	6,947
yoy	7%	-38%	37%	21%	15%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

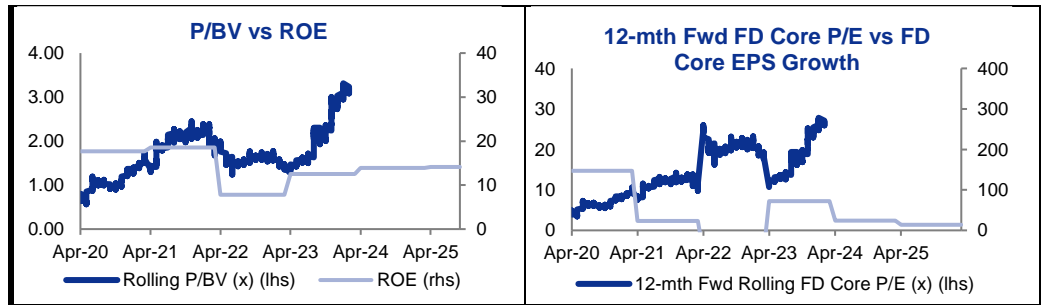
**Figure 10: Downgrade its stock's rating to HOLD with a Mar 2025F target price of Rs288, set at one-year forward EV/EBITDA of 9x (unchanged)**

Valuation	TP
Target EV/EBITDA (x)	9.0
Target EV (Rs m)	62,519
Net debt / (cash) (Rs m)	3,530
No. of shares (m)	205
Fair value per share (Rs)	288

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	27,254	29,375	32,519	35,542	39,721
<b>Gross Profit</b>	27,254	29,375	32,519	35,542	39,721
<b>Operating EBITDA</b>	5,911	3,645	5,010	6,053	6,947
Depreciation And Amortisation	(1,452)	(1,468)	(1,490)	(1,639)	(1,770)
<b>Operating EBIT</b>	4,459	2,177	3,520	4,414	5,176
Financial Income/(Expense)	(514)	(378)	(344)	(457)	(686)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	96	120	114	123	133
<b>Profit Before Tax (pre-EI)</b>	4,040	1,920	3,290	4,080	4,624
Exceptional Items					
<b>Pre-tax Profit</b>	4,040	1,920	3,290	4,080	4,624
Taxation	(1,407)	(691)	(1,178)	(1,461)	(1,655)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	2,633	1,228	2,112	2,619	2,968
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	2,633	1,228	2,112	2,619	2,968
Recurring Net Profit	2,633	1,228	2,112	2,619	2,968
<b>Fully Diluted Recurring Net Profit</b>	2,633	1,228	2,112	2,619	2,968

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	5,911	3,645	5,010	6,053	6,947
Cash Flow from Invt. & Assoc.					
Change In Working Capital	51	2,206	311	357	64
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	96	120	114	123	133
<b>Other Operating Cashflow</b>	(962)	(4,820)	(1,320)	(320)	680
Net Interest (Paid)/Received	(514)	(378)	(344)	(457)	(686)
Tax Paid	658	336	(1,178)	(1,461)	(1,655)
<b>Cashflow From Operations</b>	5,239	1,110	2,593	4,295	5,483
Capex	(525)	(1,294)	(1,000)	(8,000)	(8,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	1,227	96	400		
<b>Cash Flow From Investing</b>	702	(1,198)	(600)	(8,000)	(8,500)
Debt Raised/(repaid)	(4,935)	542	(1,000)	1,000	4,200
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(512)	(307)	(211)	(262)	(297)
Preferred Dividends					
Other Financing Cashflow	(414)	117	1,309	558	(476)
<b>Cash Flow From Financing</b>	(5,861)	352	98	1,296	3,427
Total Cash Generated	80	264	2,091	(2,408)	409
<b>Free Cashflow To Equity</b>	1,007	454	993	(2,705)	1,183
<b>Free Cashflow To Firm</b>	6,455	290	2,337	(3,247)	(2,331)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

**Balance Sheet**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	538	701	2,792	384	794
Total Debtors	1,273	1,689	1,960	2,045	2,177
Inventories	1,866	3,509	3,029	3,116	3,482
Total Other Current Assets	652	792	943	1,031	1,152
<b>Total Current Assets</b>	<b>4,329</b>	<b>6,692</b>	<b>8,725</b>	<b>6,576</b>	<b>7,605</b>
Fixed Assets	21,151	20,100	19,610	25,971	32,701
Total Investments	42	42	42	42	42
Intangible Assets	398	1,397	997	997	997
Total Other Non-Current Assets	576	536	536	536	536
<b>Total Non-current Assets</b>	<b>22,167</b>	<b>22,076</b>	<b>21,186</b>	<b>27,546</b>	<b>34,276</b>
Short-term Debt	1,617	2,933	1,933	2,433	3,633
Current Portion of Long-Term Debt					
Total Creditors	2,310	2,147	2,365	2,597	2,883
Other Current Liabilities	2,801	2,957	2,992	3,376	3,774
<b>Total Current Liabilities</b>	<b>6,727</b>	<b>8,037</b>	<b>7,290</b>	<b>8,406</b>	<b>10,290</b>
Total Long-term Debt	1,480	982	982	1,482	4,482
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,034	3,712	3,912	4,412	4,912
<b>Total Non-current Liabilities</b>	<b>4,514</b>	<b>4,694</b>	<b>4,894</b>	<b>5,894</b>	<b>9,394</b>
Total Provisions					
<b>Total Liabilities</b>	<b>11,242</b>	<b>12,731</b>	<b>12,183</b>	<b>14,300</b>	<b>19,683</b>
Shareholders Equity	15,254	16,037	17,727	19,822	22,197
Minority Interests					
<b>Total Equity</b>	<b>15,254</b>	<b>16,037</b>	<b>17,727</b>	<b>19,822</b>	<b>22,197</b>

**Key Ratios**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	17.3%	7.8%	10.7%	9.3%	11.8%
Operating EBITDA Growth	7.3%	(38.3%)	37.4%	20.8%	14.8%
Operating EBITDA Margin	21.7%	12.4%	15.4%	17.0%	17.5%
Net Cash Per Share (Rs)	(12.49)	(15.68)	(0.60)	(17.23)	(35.73)
BVPS (Rs)	74.46	78.28	86.53	96.76	108.35
Gross Interest Cover	8.67	5.76	10.24	9.65	7.55
Effective Tax Rate	34.8%	36.0%	35.8%	35.8%	35.8%
Net Dividend Payout Ratio	19.5%	25.0%	20.0%	20.0%	20.0%
Accounts Receivables Days	15.90	18.41	20.48	20.56	19.40
Inventory Days	23.92	33.39	36.69	31.55	30.32
Accounts Payables Days	35.52	31.61	29.93	30.71	30.51
ROIC (%)	21.4%	9.5%	16.2%	15.9%	15.1%
ROCE (%)	22.6%	11.4%	17.3%	19.9%	19.2%
Return On Average Assets	11.5%	5.8%	8.4%	9.6%	9.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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