

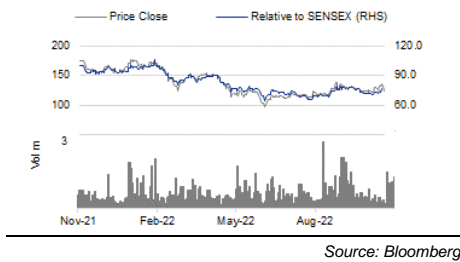
India

ADD (no change)

Consensus ratings*: Buy 14 Hold 1 Sell 0	
Current price:	Rs124
Target price:	Rs141
Previous target:	Rs156
Up/downside:	13.7%
InCred Research / Consensus:	-13.1%
Reuters:	
Bloomberg:	ORCMNT IN
Market cap:	US\$349m
	Rs25,373m
Average daily turnover:	US\$1.1m
	Rs77.0m
Current shares o/s:	204.9m
Free float:	58.2%
*Source: Bloomberg	

Key changes in this note

- Net sales cut by 4%-5% for FY23F-24F.
- EBITDA cut by 10%-21% for FY23F-24F.
- Introduce FY25F and rollover to Sep 2024F.



Price performance	1M	3M	12M
Absolute (%)	(4.2)	7.0	(29.5)
Relative (%)	(8.3)	3.9	(29.8)

Major shareholders	% held
Promoter & Promoter Group	37.9
Nippon Life India	2.4
Franklin India	2.6

Analyst(s)

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Orient Cement

Overall weakness impacts profitability in 2Q

- 2QFY23 EBITDA stood at Rs326m, 51% below our estimate (down 76% yoy and 68% qoq), due to lower-than-expected sales/ realization and higher cost.
- We slash our FY23F-24F EBITDA estimates by ~10%-21% to factor in the weak 1HFY23 performance. Delay in expansion projects could restrict growth.
- We retain our ADD rating on the stock with a lower target price of Rs141.

Volume/ realization below expectations; growth drivers delayed

Cement sales volume of Orient Cement (ORCMNT) in 2QFY23 fell by 3.3% yoy (down 10% qoq) to 1.24mt, 5% below our estimate, due to heavy rainfall in its key states. Lower prices in key markets and higher non-trade sales (45% vs. 40% normally) dented realization to Rs4,978/t (down 4% qoq and 3% below our estimate). ORCMNT is awaiting regulatory nod for capacity expansion at its 2mtpa split grinding unit at Tiroda in Maharashtra, which was earlier targeted for commissioning by FY25F, and plans to proceed with a 2mtpa clinker expansion at Devapur unit only after visibility on the grinding unit. Thereafter, in the second phase of expansion, it will put up a plant in Rajasthan which will take another four-to-five years, given pending land acquisition. We factor in a 5.1% volume CAGR over FY22-25F, as new capacity to be ramped up post FY25F and there's limited visibility on capacity expansion in the near term.

Unit EBITDA declines on higher cost; margins to improve in 2HFY23F

Total cost/t was up 26% yoy and 6% qoq at Rs4,715 because of higher raw material, fuel, packaging and fixed cost where a) power and fuel cost/t was up 49% yoy while it was down 6% qoq to Rs1,567 mainly on account of a steep hike in fuel price which was partially mitigated by improved efficiency and savings accrued from solar power plant, b) freight cost/t inched up by ~4% yoy while it was down 5% qoq to Rs1,325 mainly on account of higher road volume and general inflationary trend, and c) raw material cost/t was up by 44% yoy and 55% qoq to Rs867 during the quarter. All this led to an EBITDA/t decline of 65% qoq (down 75% yoy) to Rs263. We expect lower cost and seasonal price tailwinds going ahead to help margins recover in 2HFY23F. ORCMNT's 10MW WHRS is on track to be commissioned by FY23F-end; it will improve the margin from FY24F. We thus factor in -39%/40% EBITDA/t growth in FY23F/FY24F, respectively.

Balance sheet remains weak

OCF in 1HY23 showed an outflow of Rs583m, vs. inflow of Rs1.4bn yoy, led by lower profitability and a significant rise in additional working capital requirement (Rs1.79bn). Capex for the period stood at Rs541m vs. Rs224m yoy. Net debt increased to Rs4bn vs. Rs2.56bn as at FY22-end but was down from Rs5.9bn yoy.

Maintain ADD rating; valuation attractive

At the CMP of Rs123, ORCMNT trades at FY23F/FY24F EV/EBITDA of 6.4x/6.5x, respectively. We retain ADD rating on it. Our target price of Rs141 (Rs156 earlier) is driven by EBITDA cut, and we maintain our target multiple of 6.5x Sep 2024F EV/EBITDA. Weak demand, pricing pressure, delay in expansion and rise in input cost are key downside risks.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	23,241	27,254	28,605	31,304	33,647
Operating EBITDA (Rsm)	5,507	5,911	3,701	5,557	6,364
Net Profit (Rsm)	2,142	2,633	1,233	2,396	2,783
Core EPS (Rs)	10.5	12.8	6.0	11.7	13.6
Core EPS Growth	147.4%	22.9%	(53.2%)	94.3%	16.2%
FD Core P/E (x)	11.85	9.64	20.58	10.59	9.12
DPS (Rs)	1.5	2.5	0.6	1.2	1.4
Dividend Yield	1.21%	2.02%	0.97%	1.89%	2.19%
EV/EBITDA (x)	5.78	4.73	8.03	6.47	6.54
P/FCFE (x)	21.29	25.21	(43.38)	55.38	(11.19)
Net Gearing	49.4%	16.8%	26.7%	58.3%	79.7%
P/BV (x)	1.94	1.66	1.56	1.40	1.24
ROE	17.7%	18.6%	7.8%	13.9%	14.4%
% Change In Core EPS Estimates			(0.55%)	(0.39%)	(0.36%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Overall weakness impacts profitability in 2Q

Figure 1: Standalone quarterly performance

Particulars (Rs m)	2QFY23	2QFY23F	1QFY23	2QFY22	% Change		
					2QFY23F	1QFY23	2QFY22
Net Sales	6,153	6,682	7,139	6,131	-8%	-14%	0%
Raw Materials Consumed	1,071	714	779	769	50%	38%	39%
Freight and Forwarding Expenses	1,638	1,893	1,925	1,627	-13%	-15%	1%
Power and Fuel Cost	1,937	2,281	2,287	1,341	-15%	-15%	44%
Employee Cost	433	409	430	369	6%	1%	17%
Other Expenses	749	715	696	686	5%	7%	9%
Total Expenditure	5,827	6,011	6,117	4,791	-3%	-5%	22%
EBITDA	326	671	1,022	1,340	-51%	-68%	-76%
Depreciation	369	366	363	364	1%	2%	1%
EBIT	-44	305	659	975	-114%	-107%	-104%
Interest	105	123	80	149	-14%	32%	-29%
Other Income	48	25	12	30	91%	299%	61%
PBT	-101	207	591	857	-149%	-117%	-112%
Tax	-6	74	217	288	-108%	-103%	-102%
PAT before MI & Associates	-95	133	374	569	-171%	-125%	-117%
Minority Interest	0	0	0	0			
Profit from Assoc.	0	0	0	0			
Recurring PAT	-95	133	374	569	-171%	-125%	-117%
Extraordinaries	0	0	0	0			
Reported PAT	-95	133	374	569	-171%	-125%	-117%
EPS (Rs)	-0.5	0.6	1.8	2.8	-171%	-125%	-117%
Gross Margin	24%	27%	30%	39%	-236 bp	-560 bp	-1,456 bp
EBITDA Margin	5.3%	10.0%	14.3%	21.9%	-475 bp	-902 bp	-1,656 bp
EBIT Margin	-1%	5%	9%	16%	-527 bp	-994 bp	-1,662 bp
PBT Margin	-2%	3%	8%	14%	-474 bp	-992 bp	-1,561 bp
PAT Margin	-2%	2%	5%	9%	-353 bp	-679 bp	-1,082 bp
Tax Rate	6%	36%	37%	34%	-2997 bp	-3,083 bp	-2,776 bp
Cost items as % of Sales							
RM Cost	17%	11%	11%	13%	673 bp	650 bp	487 bp
Freight Cost	27%	28%	27%	27%	-171 bp	-35 bp	8 bp
P&F Cost	31%	34%	32%	22%	-266 bp	-55 bp	961 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

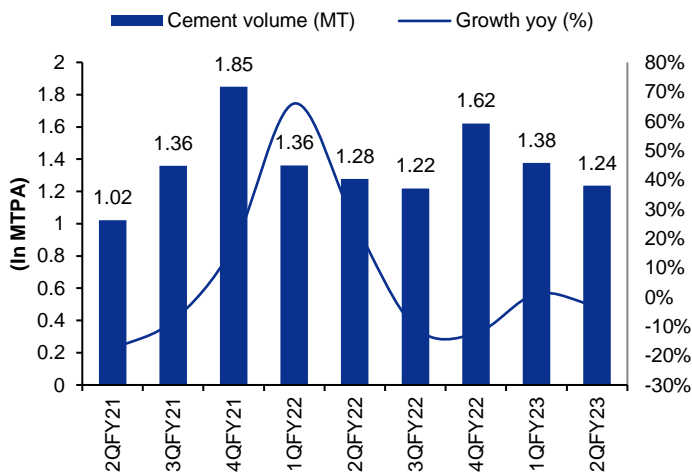
Figure 2: 2QFY23 results as per tonne analysis

Per tonne analysis	2QFY23	2QFY23F	1QFY23	2QFY22	% Change		
					2QFY23F	1QFY23	2QFY22
Sales Volume (Cement + Clinker)	1.24	1.31	1.38	1.28	-5%	-10%	-3.3%
Realization	4,978	5,111	5,189	4,798	-3%	-4%	4%
EBITDA/t	263	513	743	1,048	-49%	-65%	-75%
RM Cost/t	867	546	566	602	59%	53%	44%
P&F Cost/t	1,567	1,745	1,662	1,049	-10%	-6%	49%
Freight Cost/t	1,325	1,448	1,399	1,273	-8%	-5%	4%
Employee Cost/t	350	313	312	289	12%	12%	21%
Other Expenses/t	606	547	506	536	11%	20%	13%
Cost/t	4,715	4,598	4,446	3,749	3%	6%	26%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

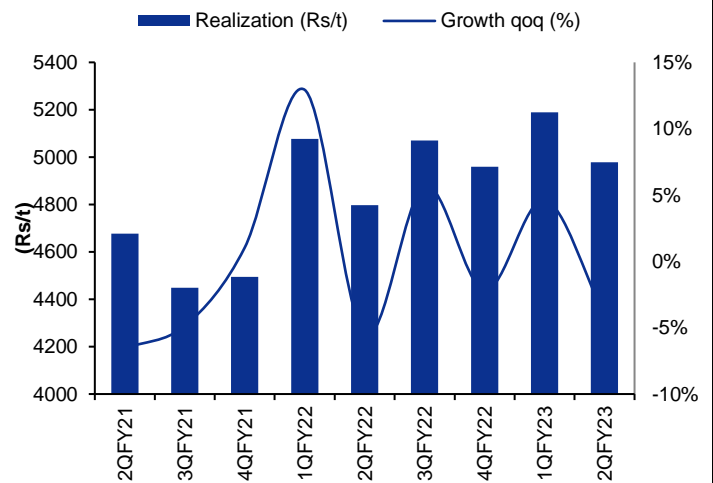
Key quarterly charts ➤

Figure 3: Cement sales volume declined by 3.3% yoy and 10% qoq in 2QFY23



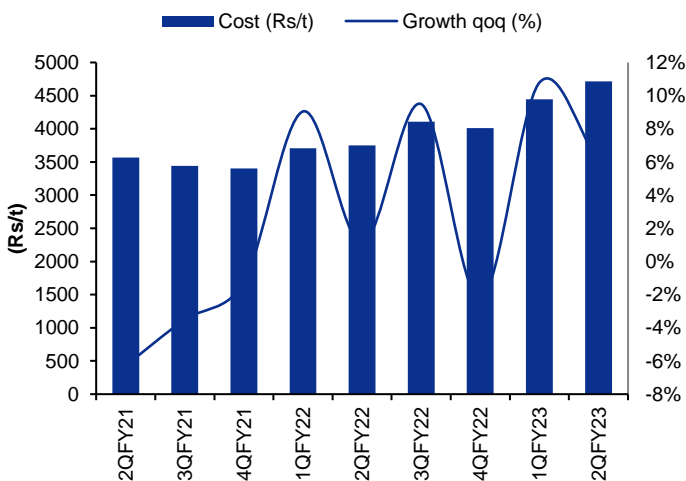
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Cement realization increased by 4% yoy while it was down 4% qoq in 2QFY23



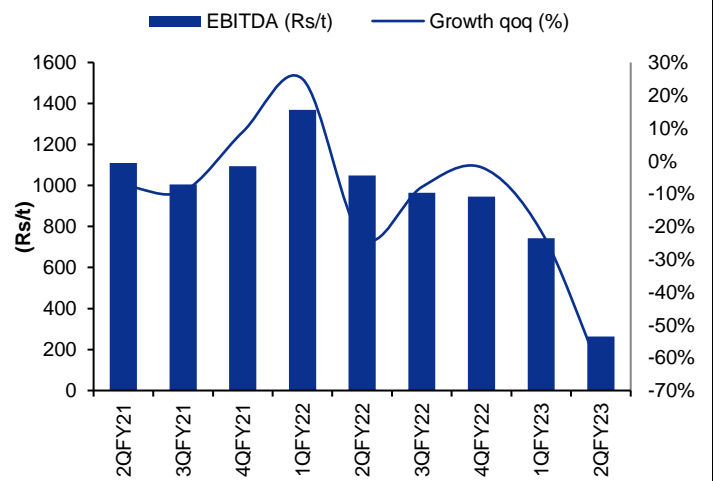
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Cost/t increased by 6% qoq and 26% yoy mainly due to higher raw material and fuel cost



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Unitary EBITDA contracted by 65% qoq (down 75% yoy) to Rs263/t during 2QFY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Revision in our earnings estimates

Rs. m	New		Old		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Sales	28,605	31,304	29,847	32,837	-4%	-5%
EBITDA	3,701	5,557	4,494	6,107	-21%	-10%
PAT	1,233	2,396	1,670	2,756	-35%	-15%
EPS (Rs.)	6.0	11.7	8	13	-34%	-15%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Change in our estimates vs. Bloomberg consensus estimates

Rs. m	Incred		Consensus		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Sales	28,605	31,304	30,509	34,322	-6%	-9%
EBITDA	3,701	5,557	4,966	6,612	-25%	-16%
PAT	1,233	2,396	1,981	2,951	-38%	-19%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 9: Key assumptions

	FY21A	FY22A	FY23A	FY24F	FY25F
Volume (in mtpa)	5.0	5.5	5.6	6.0	6.4
yoy	-13%	9%	2%	8%	6%
Realization (per tonne)	4,604	4,975	5,119	5,212	5,285
yoy	10%	8%	3%	2%	1%
Cost (per tonne)	3,513	3,896	4,457	4,286	4,285
yoy	0%	11%	14%	-4%	0%
EBITDA (per tonne)	1,091	1,079	662	925	999
yoy	65%	-1%	-39%	40%	8%
EBITDA (Rs m)	5,507	5,911	3,701	5,557	6,364
yoy	44%	7%	-37%	50%	15%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Our target price of Rs141 is based on 6.5x Sep 2024F EV/EBITDA

Valuation	TP
Target EV/EBITDA (x)	6.5
Target EV (Rs m)	41,364
Net debt / (cash) (Rs m)	10,587
No. of shares (m)	205
Fair value per share (Rs)	141

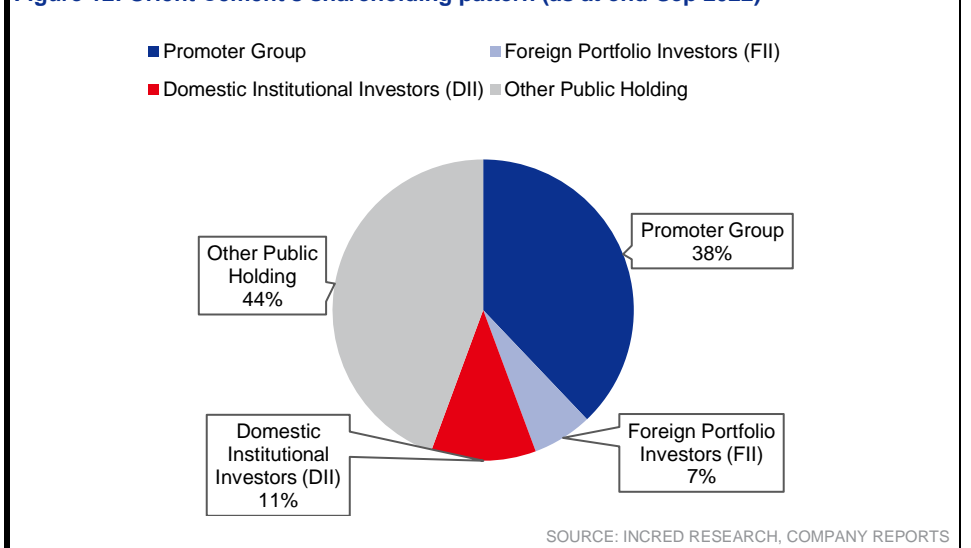
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Cement sector peer comparison

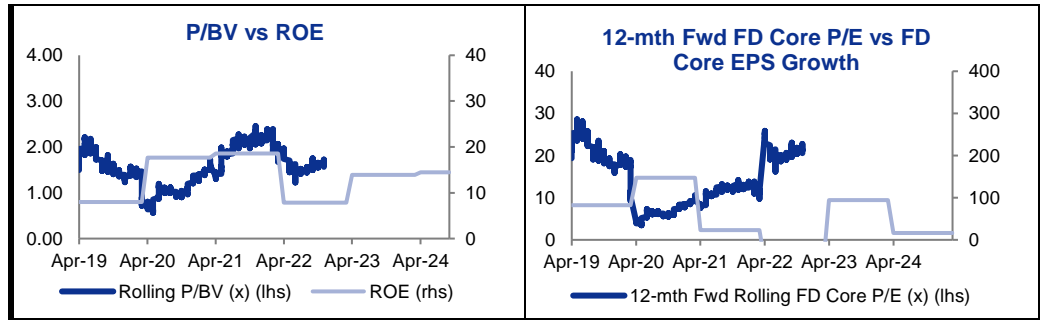
Company	Bloomberg Ticker	Rating	Closing Price (LC)	Target Price (LC)	% Upside	Market cap (US\$ m)	EV/EBITDA (x)		P/BV (x)		RoE (%)		P/E (x)		EV/t (US\$)	
							FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
UltraTech Cement	UTCEM IN	ADD	6,801	7,710	13%	24,292	17.6	13.5	3.4	3.0	10.4	13.2	33.8	24.1	181.2	177.4
ACC	ACC IN	ADD	2,392	2,636	10%	5,558	11.3	8.6	2.5	2.3	12.4	14.1	21.5	16.9	117.0	111.5
Ambuja Cements	ACEM IN	ADD	558	610	9%	13,713	23.0	19.1	4.1	3.8	12.0	13.0	35.3	30.3	183.7	186.0
Shree Cement	SRCM IN	HOLD	22,400	21,657	-3%	10,000	24.5	18.3	4.1	3.7	7.7	11.2	54.9	35.1	204.7	191.2
The Ramco Cements	TRCL IN	ADD	646	746	15%	1,890	21.5	13.9	2.5	2.3	4.0	8.9	63.2	26.7	128.6	120.3
JK Cement	JKCE IN	ADD	2,769	2,883	4%	2,646	16.4	11.9	4.1	3.6	14.6	19.0	29.9	20.1	187.1	147.4
Birla Corp	BCORP IN	ADD	942	1,152	22%	898	14.9	8.7	1.3	1.2	1.1	6.7	113.3	18.4	73.8	72.0
Heidelberg	HEIM IN	HOLD	205	205	0%	576	12.8	8.8	2.8	2.7	10.4	16.9	26.9	16.1	84.5	83.5
Dalmia Bharat	DALBHARA IN	ADD	1,682	1,901	13%	3,901	13.5	10.9	1.9	1.8	4.4	6.3	44.2	29.0	97.9	85.3
JK Lakshmi	JKLC IN	ADD	652	602	-8%	949	9.1	7.9	2.3	2.0	14.4	16.3	17.0	13.1	70.3	73.6
Orient Cement	ORCMNT IN	ADD	124	141	14%	314	8.0	6.4	1.6	1.4	7.8	13.9	20.4	10.5	44.3	39.6
Prism Johnson	PRSMJ IN	ADD	123	142	16%	765	12.9	8.7	4.5	3.9	9.2	18.9	50.9	22.2	139.6	137.5
Mean							15.5	11.4	2.9	2.6	9.0	13.2	42.6	21.9	126.1	118.8
Median							14.2	9.9	2.7	2.5	9.8	13.6	34.5	21.1	122.8	115.9
Minimum							8.0	6.4	1.3	1.2	1.1	6.3	17.0	10.5	44.3	39.6
Maximum							24.5	19.1	4.5	3.9	14.6	19.0	113.3	35.1	204.7	191.2

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG. PRICES AS ON 10 NOV 2022

Figure 12: Orient Cement's shareholding pattern (as at end-Sep 2022)



BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	23,241	27,254	28,605	31,304	33,647
Gross Profit	23,241	27,254	28,605	31,304	33,647
Operating EBITDA	5,507	5,911	3,701	5,557	6,364
Depreciation And Amortisation	(1,419)	(1,452)	(1,488)	(1,533)	(1,579)
Operating EBIT	4,088	4,459	2,212	4,024	4,785
Financial Income/(Expense)	(936)	(514)	(406)	(418)	(586)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	183	96	115	126	136
Profit Before Tax (pre-EI)	3,336	4,040	1,921	3,732	4,335
Exceptional Items					
Pre-tax Profit	3,336	4,040	1,921	3,732	4,335
Taxation	(1,194)	(1,407)	(688)	(1,336)	(1,552)
Exceptional Income - post-tax					
Profit After Tax	2,142	2,633	1,233	2,396	2,783
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	2,142	2,633	1,233	2,396	2,783
Recurring Net Profit	2,142	2,633	1,233	2,396	2,783
Fully Diluted Recurring Net Profit	2,142	2,633	1,233	2,396	2,783

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	5,507	5,911	3,701	5,557	6,364
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,939)	51	(1,345)	691	(769)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	183	96	115	126	136
Other Operating Cashflow	3,734	(962)	(962)	(962)	(962)
Net Interest (Paid)/Received	(936)	(514)	(406)	(418)	(586)
Tax Paid	590	658	(688)	(1,336)	(1,552)
Cashflow From Operations	7,141	5,239	415	3,658	2,632
Capex	(507)	(525)	(2,700)	(9,700)	(7,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,109)	1,227	(500)	(1,200)	(1,500)
Cash Flow From Investing	(1,615)	702	(3,200)	(10,900)	(9,200)
Debt Raised/(repaid)	(4,333)	(4,935)	2,200	7,700	4,300
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(307)	(512)	(123)	(240)	(278)
Preferred Dividends					
Other Financing Cashflow	(881)	(414)	1,139	1,222	1,184
Cash Flow From Financing	(5,521)	(5,861)	3,215	8,683	5,205
Total Cash Generated	4	80	430	1,441	(1,363)
Free Cashflow To Equity	1,192	1,007	(585)	458	(2,268)
Free Cashflow To Firm	6,461	6,455	(2,379)	(6,823)	(5,983)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	1,512	538	968	2,409	1,046
Total Debtors	1,102	1,273	1,567	1,715	1,936
Inventories	1,705	1,866	2,194	2,316	2,581
Total Other Current Assets	535	652	915	939	1,144
Total Current Assets	4,854	4,329	5,645	7,379	6,707
Fixed Assets	22,073	21,151	22,163	30,130	36,051
Total Investments		42	42	42	42
Intangible Assets	413	398	898	2,098	3,598
Total Other Non-Current Assets	781	576	776	976	1,176
Total Non-current Assets	23,266	22,167	23,878	33,245	40,866
Short-term Debt		1,617	4,117	5,317	6,117
Current Portion of Long-Term Debt					
Total Creditors	1,844	2,310	2,077	2,349	2,361
Other Current Liabilities	2,868	2,801	2,574	3,287	3,196
Total Current Liabilities	4,712	6,727	8,768	10,952	11,674
Total Long-term Debt	7,966	1,480	1,180	7,680	11,180
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,383	3,034	3,334	3,834	4,334
Total Non-current Liabilities	10,349	4,514	4,514	11,514	15,514
Total Provisions					
Total Liabilities	15,062	11,242	13,283	22,467	27,189
Shareholders Equity	13,059	15,254	16,241	18,158	20,384
Minority Interests					
Total Equity	13,059	15,254	16,241	18,158	20,384

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(4.0%)	17.3%	5.0%	9.4%	7.5%
Operating EBITDA Growth	43.8%	7.3%	(37.4%)	50.2%	14.5%
Operating EBITDA Margin	23.7%	21.7%	12.9%	17.8%	18.9%
Net Cash Per Share (Rs)	(31.50)	(12.49)	(21.13)	(51.68)	(79.32)
BVPS (Rs)	63.74	74.46	79.27	88.63	99.50
Gross Interest Cover	4.37	8.67	5.45	9.62	8.17
Effective Tax Rate	35.8%	34.8%	35.8%	35.8%	35.8%
Net Dividend Payout Ratio	14.3%	19.5%	20.0%	20.0%	20.0%
Accounts Receivables Days	21.36	15.90	18.12	19.14	19.80
Inventory Days	31.97	23.92	25.91	26.29	26.56
Accounts Payables Days	37.13	35.52	32.15	31.37	31.51
ROIC (%)	18.7%	21.4%	9.3%	12.4%	11.7%
ROCE (%)	18.4%	22.6%	11.1%	15.3%	13.9%
Return On Average Assets	10.8%	11.5%	5.9%	8.0%	7.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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