

India

**ADD** (no change)

Consensus ratings\*: Buy 13 Hold 2 Sell 1

Current price:	Rs122
Target price:	Rs141
Previous target:	Rs141
Up/downside:	15.6%
InCred Research / Consensus:	-5.9%
Reuters:	
Bloomberg:	ORCMNT IN
Market cap:	US\$344m
	Rs24,984m
Average daily turnover:	US\$1.6m
	Rs113.7m
Current shares o/s:	204.9m
Free float:	58.9%

\*Source: Bloomberg

**Key changes in this note**

- Net sales raised by 0%-1% for FY23F-25F.
- EBITDA cut by 2%-4% for FY23F-25F.
- Rollover target price to Dec 2024F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.4)	(5.5)	(29.3)
Relative (%)	1.6	(4.0)	(29.8)

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

**Analyst(s)**



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# Orient Cement

## A strong comeback 3Q; all-round beat

- 3QFY23 EBITDA stood at Rs903m, 54% above our estimate (down 23% yoy while up 178% qoq), on higher-than-expected sales/realization and lower cost.
- We cut our FY24F-24F EBITDA estimates by ~2%-3% to factor in the lower pricing growth. Delay in expansion projects could restrict growth in the near term.
- We retain ADD rating on the stock with an unchanged target price of Rs141.

### Volume/realization above expectations; demand to remain robust

Cement sales volume of Orient Cement (ORCMNT) in 3QFY23 rose by 17.4% yoy and 16% qoq to 1.43mt, 6% above our estimate, on higher B2B sales (51%) in its key states. Capacity utilization improved to 70% which resulted in a higher volume. Cement realization stood at Rs5,121/t (up 1% yoy and 3% qoq). However, the pricing has been a concern. There was no hike in cement prices to offset higher cost. 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 three-to-four years because of pending land acquisition. We factor in a 5.8% volume CAGR over FY22-25F, as new capacity will be ramped up post FY25F and there's limited visibility on capacity expansion in the near term.

### Unit EBITDA improves on lower cost; margins to improve further

Total cost/t was up 9% yoy while down 5% qoq at Rs4,489 because of lower raw material, fuel, packaging and fixed cost where a) power and fuel cost/t was up only 1% qoq while it was still up 38% yoy at Rs1,590 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 ~6% yoy and 4% qoq to Rs1,373 mainly on account of higher road volume and general inflationary trend (average lead distance remained higher during the quarter from average of 300kms) and c) raw material cost/t was down by 5% yoy and 24% qoq to Rs661 during the quarter. All this led to an EBITDA/t improvement of 140% qoq (down 35% yoy) to Rs633. Pet-coke and coal prices have come down, but the company has high-cost inventory and costs will remain higher in 4QFY23F as well. Cost reduction will only be seen from Jun 2023F. We expect lower cost and higher volume (as demand remains strong) going ahead to help margin recovery in FY24F. ORCMNT's 10MW WHRS is on track to be commissioned by FY23F-end; it will improve the margin from FY24F onwards. We thus factor in Rs890/950 EBITDA/t growth in FY24F/25F, respectively.

### Maintain ADD rating; valuation attractive

At the CMP of Rs123, ORCMNT trades at FY24F/25F EV/EBITDA of 6.6x/6.7x, respectively. We retain ADD rating on it. Our target price of Rs141 (unchanged) is based on 6.5x (unchanged) EV/EBITDA and rollover to Dec 2024F. Weak demand, pricing pressure, delay in expansion, and a 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	28,774	31,625	33,791
Operating EBITDA (Rsm)	5,507	5,911	3,555	5,465	6,161
Net Profit (Rsm)	2,142	2,633	1,155	2,352	2,674
Core EPS (Rs)	10.5	12.8	5.6	11.5	13.1
Core EPS Growth	147.4%	22.9%	(56.1%)	103.6%	13.7%
FD Core P/E (x)	11.66	9.49	21.63	10.62	9.34
DPS (Rs)	1.5	2.5	0.6	1.1	1.3
Dividend Yield	1.23%	2.05%	0.92%	1.88%	2.14%
EV/EBITDA (x)	5.71	4.66	8.16	6.48	6.65
P/FCFE (x)	20.96	24.82	(30.59)	71.56	(11.19)
Net Gearing	49.4%	16.8%	25.0%	57.6%	79.3%
P/BV (x)	1.91	1.64	1.54	1.38	1.24
ROE	17.7%	18.6%	7.3%	13.7%	14.0%
% Change In Core EPS Estimates			(0.56%)	(0.39%)	(0.37%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## A strong comeback 3Q; all-round beat

Figure 1: Standalone quarterly performance

Particulars (Rs m)	3QFY23	3QFY23F	2QFY23	3QFY22	% Change		
					3QFY23F	2QFY23	3QFY22
<b>Net Sales</b>	<b>7,323</b>	<b>6,813</b>	<b>6,153</b>	<b>6,175</b>	<b>7%</b>	<b>19%</b>	<b>19%</b>
Raw materials consumed	946	1,109	1,071	849	-15%	-12%	11%
Freight and forwarding expenses	1,963	1,791	1,638	1,585	10%	20%	24%
Power and fuel cost	2,274	2,034	1,937	1,399	12%	17%	63%
Employee cost	426	466	433	416	-9%	-2%	2%
Other expenses	811	826	749	751	-2%	8%	8%
<b>Total expenditure</b>	<b>6,419</b>	<b>6,227</b>	<b>5,827</b>	<b>5,000</b>	<b>3%</b>	<b>10%</b>	<b>28%</b>
<b>EBITDA</b>	<b>903</b>	<b>586</b>	<b>326</b>	<b>1,175</b>	<b>54%</b>	<b>178%</b>	<b>-23%</b>
Depreciation	371	372	369	368	0%	0%	1%
<b>EBIT</b>	<b>533</b>	<b>214</b>	<b>-44</b>	<b>807</b>	<b>149%</b>	<b>1319%</b>	<b>-34%</b>
Interest	97	106	105	158	-8%	-8%	-38%
Other income	11	30	48	25	-62%	-77%	-54%
<b>PBT</b>	<b>447</b>	<b>138</b>	<b>-101</b>	<b>674</b>	<b>224%</b>	<b>543%</b>	<b>-34%</b>
Tax	171	49	-6	237	247%	3013%	-28%
<b>PAT before MI &amp; associate cos.</b>	<b>275</b>	<b>88</b>	<b>-95</b>	<b>437</b>	<b>211%</b>	<b>390%</b>	<b>-37%</b>
Minority interest	0	0	0	0			
Profit from associate cos.	0	0	0	0			
<b>Recurring PAT</b>	<b>275</b>	<b>88</b>	<b>-95</b>	<b>437</b>	<b>211%</b>	<b>390%</b>	<b>-37%</b>
Extraordinary items	0	0	0	0			
<b>Reported PAT</b>	<b>275</b>	<b>88</b>	<b>-95</b>	<b>437</b>	<b>211%</b>	<b>390%</b>	<b>-37%</b>
EPS (Rs)	1.3	0.4	-0.5	2.1	211%	390%	-37%
Gross margin	29%	28%	24%	38%	166 bp	474 bp	-870 bp
EBITDA margin	12.3%	8.6%	5.3%	19.0%	374 bp	705 bp	-670 bp
EBIT margin	7%	3%	-1%	13%	414 bp	798 bp	-580 bp
PBT margin	6%	2%	-2%	11%	408 bp	774 bp	-481 bp
PAT margin	4%	1%	-2%	7%	246 bp	530 bp	-331 bp
Tax rate	38%	36%	6%	35%	255 bp	3,252 bp	316 bp
Cost items as % of sales							
Raw material cost	13%	16%	17%	14%	-337 bp	-450 bp	-84 bp
Freight cost	27%	26%	27%	26%	52 bp	19 bp	114 bp
P&F cost	31%	30%	31%	23%	119 bp	-43 bp	840 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

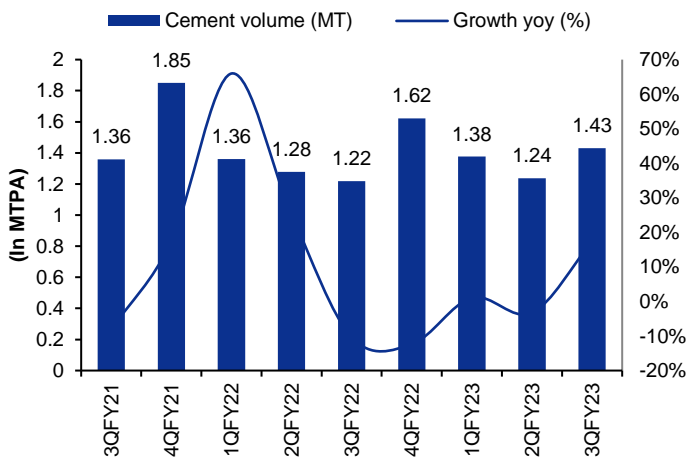
Figure 2: 3QFY23 results as per tonne analysis

Per tonne analysis	3QFY23	3QFY23F	2QFY23	3QFY22	% Change		
					3QFY23F	2QFY23	3QFY22
Sales volume (cement + clinker)	1.43	1.35	1.24	1.22	6%	16%	17.4%
Realization	5,121	5,028	4,978	5,070	2%	3%	1%
EBITDA/t	632	432	263	965	46%	140%	-35%
RM cost/t	661	819	867	697	-19%	-24%	-5%
P&F cost/t	1,590	1,501	1,567	1,149	6%	1%	38%
Freight cost/t	1,373	1,322	1,325	1,301	4%	4%	6%
Employee cost/t	298	344	350	341	-13%	-15%	-13%
Other expenses/t	567	610	606	617	-7%	-6%	-8%
Cost/t	4,489	4,596	4,715	4,105	-2%	-5%	9%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

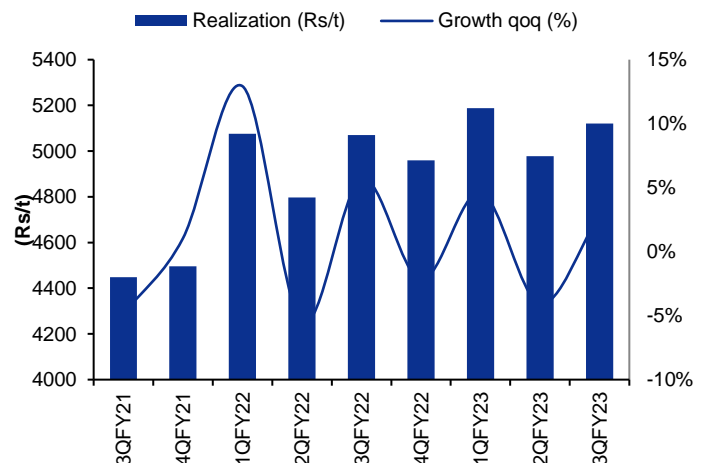
Key quarterly charts ➤

Figure 3: Cement sales volume improved by 17% yoy and 16% qoq in 3QFY23



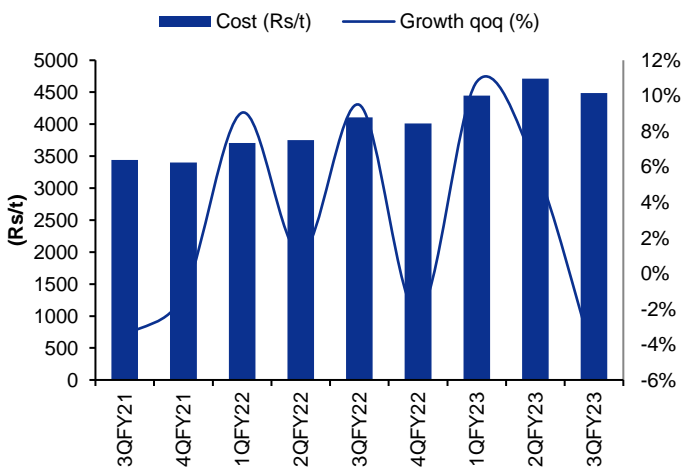
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Cement realization increased by 1% yoy while it was up 3% qoq in 3QFY23



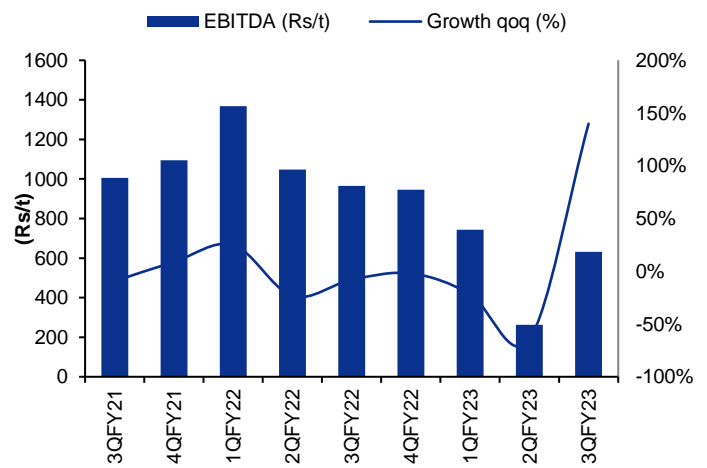
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Cost/t increased by 9% yoy while it improved by 5% qoq



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Unitary EBITDA contracted by 35% qoq (up 140% yoy) to Rs632/t in 3QFY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	New			Old			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Sales	28,774	31,625	33,791	28,605	31,304	33,647	1%	1%	0%
EBITDA	3,555	5,465	6,161	3,701	5,557	6,364	-4%	-2%	-3%
PAT	1,155	2,352	2,674	1,233	2,396	2,783	-7%	-2%	-4%
EPS (Rs.)	5.6	11.5	13.1	6	12	14	-7%	-2%	-4%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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

Rs. m	Incred			Consensus			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Sales	28,774	31,625	33,791	28,750	31,951	34,280	0%	-1%	-1%
EBITDA	3,555	5,465	6,161	3,768	5,605	6,129	-6%	-3%	1%
PAT	1,155	2,352	2,674	1,322	2,448	2,378	-13%	-4%	12%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

**Figure 9: Key assumptions**

	FY21A	FY22A	FY23A	FY24F	FY25F
<b>Volume (in mtpa)</b>	5.0	5.5	5.6	6.1	6.5
yoy	-13%	9%	3%	9%	6%
<b>Realization (per tonne)</b>	4,604	4,975	5,100	5,166	5,207
yoy	10%	8%	2%	1%	1%
<b>Cost (per tonne)</b>	3,513	3,896	4,469	4,273	4,258
yoy	0%	11%	15%	-4%	0%
<b>EBITDA (per tonne)</b>	1,091	1,079	630	893	949
yoy	65%	-1%	-42%	42%	6%
<b>EBITDA (Rs m)</b>	5,507	5,911	3,555	5,465	6,161
yoy	44%	7%	-40%	54%	13%

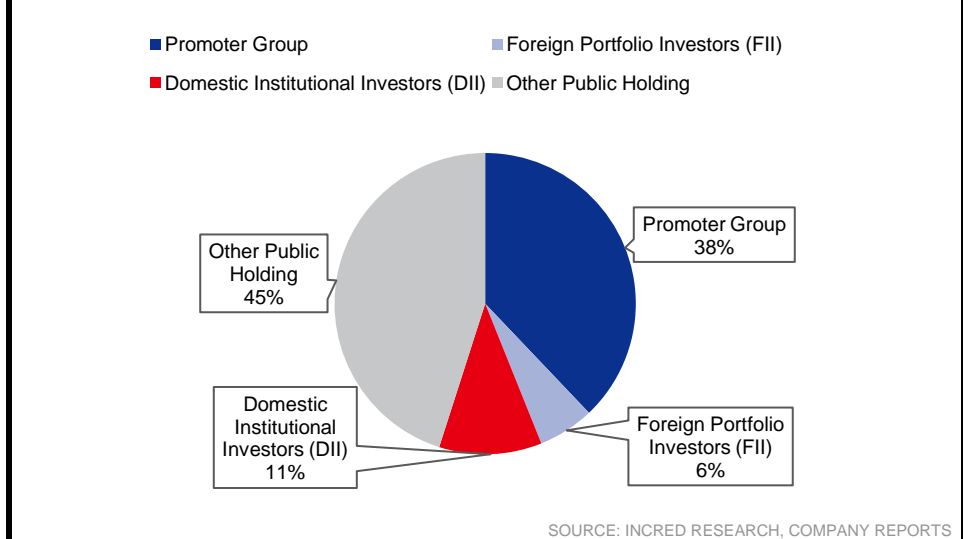
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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

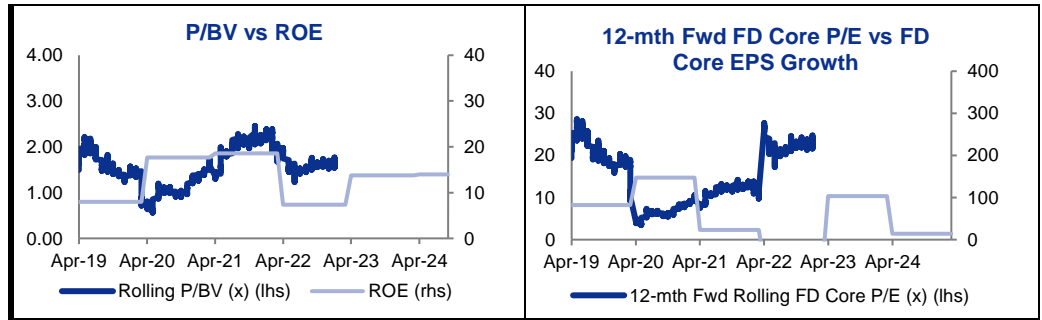
Valuation	TP
Target EV/EBITDA (x)	6.5
Target EV (Rs m)	40,229
Net debt / (cash) (Rs m)	10,404
No. of shares (m)	205
<b>Fair value per share (Rs)</b>	<b>141</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 11: Orient Cement's shareholding pattern (as at end-Dec 2022)**



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>23,241</b>	<b>27,254</b>	<b>28,774</b>	<b>31,625</b>	<b>33,791</b>
<b>Gross Profit</b>	<b>23,241</b>	<b>27,254</b>	<b>28,774</b>	<b>31,625</b>	<b>33,791</b>
<b>Operating EBITDA</b>	<b>5,507</b>	<b>5,911</b>	<b>3,555</b>	<b>5,465</b>	<b>6,161</b>
Depreciation And Amortisation	(1,419)	(1,452)	(1,481)	(1,526)	(1,571)
<b>Operating EBIT</b>	<b>4,088</b>	<b>4,459</b>	<b>2,074</b>	<b>3,939</b>	<b>4,589</b>
Financial Income/(Expense)	(936)	(514)	(381)	(392)	(549)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	183	96	105	116	125
<b>Profit Before Tax (pre-EI)</b>	<b>3,336</b>	<b>4,040</b>	<b>1,799</b>	<b>3,663</b>	<b>4,165</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,336</b>	<b>4,040</b>	<b>1,799</b>	<b>3,663</b>	<b>4,165</b>
Taxation	(1,194)	(1,407)	(644)	(1,311)	(1,491)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,142</b>	<b>2,633</b>	<b>1,155</b>	<b>2,352</b>	<b>2,674</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>2,142</b>	<b>2,633</b>	<b>1,155</b>	<b>2,352</b>	<b>2,674</b>
Recurring Net Profit	2,142	2,633	1,155	2,352	2,674
<b>Fully Diluted Recurring Net Profit</b>	<b>2,142</b>	<b>2,633</b>	<b>1,155</b>	<b>2,352</b>	<b>2,674</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>5,507</b>	<b>5,911</b>	<b>3,555</b>	<b>5,465</b>	<b>6,161</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,939)	51	(1,691)	634	(616)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	183	96	105	116	125
Other Operating Cashflow	3,734	(962)	(962)	(962)	(962)
Net Interest (Paid)/Received	(936)	(514)	(381)	(392)	(549)
Tax Paid	590	658	(644)	(1,311)	(1,491)
<b>Cashflow From Operations</b>	<b>7,141</b>	<b>5,239</b>	<b>(17)</b>	<b>3,549</b>	<b>2,668</b>
Capex	(507)	(525)	(2,200)	(9,700)	(7,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,109)	1,227	(300)	(1,200)	(1,500)
<b>Cash Flow From Investing</b>	<b>(1,615)</b>	<b>702</b>	<b>(2,500)</b>	<b>(10,900)</b>	<b>(9,200)</b>
Debt Raised/(repaid)	(4,333)	(4,935)	1,700	7,700	4,300
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(307)	(512)	(115)	(235)	(267)
Preferred Dividends					
Other Financing Cashflow	(881)	(414)	1,146	1,227	1,194
<b>Cash Flow From Financing</b>	<b>(5,521)</b>	<b>(5,861)</b>	<b>2,731</b>	<b>8,692</b>	<b>5,227</b>
Total Cash Generated	4	80	214	1,341	(1,305)
<b>Free Cashflow To Equity</b>	<b>1,192</b>	<b>1,007</b>	<b>(817)</b>	<b>349</b>	<b>(2,232)</b>
<b>Free Cashflow To Firm</b>	<b>6,461</b>	<b>6,455</b>	<b>(2,136)</b>	<b>(6,959)</b>	<b>(5,984)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	1,512	538	752	2,093	787
Total Debtors	1,102	1,273	1,734	1,906	2,037
Inventories	1,705	1,866	2,365	2,599	2,777
Total Other Current Assets	535	652	921	949	1,149
<b>Total Current Assets</b>	<b>4,854</b>	<b>4,329</b>	<b>5,772</b>	<b>7,547</b>	<b>6,750</b>
Fixed Assets	22,073	21,151	21,670	29,645	35,573
Total Investments		42	42	42	42
Intangible Assets	413	398	698	1,898	3,398
Total Other Non-Current Assets	781	576	776	976	1,176
<b>Total Non-current Assets</b>	<b>23,266</b>	<b>22,167</b>	<b>23,185</b>	<b>32,560</b>	<b>40,188</b>
Short-term Debt		1,617	3,717	4,917	5,717
Current Portion of Long-Term Debt					
Total Creditors	1,844	2,310	2,059	2,396	2,399
Other Current Liabilities	2,868	2,801	2,590	3,321	3,210
<b>Total Current Liabilities</b>	<b>4,712</b>	<b>6,727</b>	<b>8,365</b>	<b>10,633</b>	<b>11,326</b>
Total Long-term Debt	7,966	1,480	1,080	7,580	11,080
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,383	3,034	3,334	3,834	4,334
<b>Total Non-current Liabilities</b>	<b>10,349</b>	<b>4,514</b>	<b>4,414</b>	<b>11,414</b>	<b>15,414</b>
Total Provisions					
<b>Total Liabilities</b>	<b>15,062</b>	<b>11,242</b>	<b>12,779</b>	<b>22,048</b>	<b>26,740</b>
Shareholders Equity	13,059	15,254	16,178	18,059	20,199
Minority Interests					
<b>Total Equity</b>	<b>13,059</b>	<b>15,254</b>	<b>16,178</b>	<b>18,059</b>	<b>20,199</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(4.0%)	17.3%	5.6%	9.9%	6.8%
Operating EBITDA Growth	43.8%	7.3%	(39.8%)	53.7%	12.7%
Operating EBITDA Margin	23.7%	21.7%	12.4%	17.3%	18.2%
Net Cash Per Share (Rs)	(31.50)	(12.49)	(19.74)	(50.78)	(78.14)
BVPS (Rs)	63.74	74.46	78.97	88.15	98.59
Gross Interest Cover	4.37	8.67	5.45	10.05	8.36
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	19.08	21.01	21.29
Inventory Days	31.97	23.92	26.84	28.65	29.04
Accounts Payables Days	37.13	35.52	31.61	31.08	31.67
ROIC (%)	18.7%	21.4%	8.8%	12.2%	11.3%
ROCE (%)	18.4%	22.6%	10.5%	15.3%	13.6%
Return On Average Assets	10.8%	11.5%	5.5%	7.9%	7.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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