

India

**ADD** (no change)

Consensus ratings*:	Buy 12	Hold 3	Sell 1
Current price:	Rs125		
Target price:	Rs148 ▲		
Previous target:	Rs141		
Up/downside:	18.4%		
InCred Research / Consensus:	-2.1%		
Reuters:			
Bloomberg:	ORCMNT IN		
Market cap:	US\$354m		
	Rs25,680m		
Average daily turnover:	US\$1.4m		
	Rs105.0m		
Current shares o/s:	204.9m		
Free float:	58.9%		
*Source: Bloomberg			

**Key changes in this note**

- Net sales raised by 2% for FY24F-25F.
- EBITDA broadly maintained for FY24F-25F.
- Rollover target price valuation to FY25F.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	8.6	4.3	(7.1)
Relative (%)	4.9	3.7	(15.5)

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

**Analyst(s)**



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# Orient Cement

## A strong comeback 4Q, but sustenance is key

- 4QFY23 EBITDA stood at ~Rs1.4bn, 26% above our estimate (down ~9% yoy while up 54% qoq), on higher-than-expected volume and better realization.
- EBITDA/t rose by Rs183 qoq to Rs816 in 4Q. The company plans to expand its Chittapur kiln-II capacity (clinker ~2mt, cement ~3mt) to ~11.5mtpa by FY26F.
- We broadly maintain our FY24F-25F EBITDA. Retain ADD rating on the stock with a higher target price of Rs148 (Rs141 earlier) as we roll forward to FY25F.

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

Cement sales volume of Orient Cement (ORCMNT) in 4QFY23 rose by 6% yoy and 20% qoq to 1.72mt, 6% above our estimate, on higher B2B sales in its key states. Higher OPC sales led to ~98% clinker utilization and ~80% cement utilization during 4Q. In FY23, clinker and cement capacity utilization stood at 78% and 68%, respectively. Cement realization was at Rs5,099/t (up ~3% yoy and flat qoq on low B2C demand). However, pricing has been a concern in the near term and is likely to remain volatile. ORCMNT announced a grinding unit or GU at Chittapur kiln-II expansion (2mt clinker and 3mt GU) at a cost of Rs15bn-16bn by FY26F. Thereafter, in the second phase, it will put up a plant in Rajasthan (sufficient reserves justifying ~2mt expansion), which will take another three-to-four years due to pending land acquisition. We factor in a ~7% volume CAGR over FY23-25F, as new capacity will be ramped up post FY25F and there's limited visibility on near-term expansion.

### EBITDA/t up by Rs183 qoq to Rs812; 1Q to be hit by plant repair

Total cost/t was up 7% yoy while down 4% qoq at Rs4,287 mainly because of lower fixed cost owing to operating leverage benefits. However, power and fuel cost/t was up 2% qoq and 20% yoy at Rs1,620 on high-cost fuel inventory (blended fuel consumption cost was Rs2,110/t and in FY23, Rs2,230/t), b) freight cost/t inched up by ~4% yoy while down only 0.6% qoq to Rs1,364 mainly on account of higher road volume and general inflationary trend (average lead distance slightly over of 300km), and c) raw material cost/t was down by 1% yoy and 6% qoq to Rs622 during the quarter. ORCMNT has booked pet-coke purchases at 12-13% lower than its previous purchases. During 1Q, operational cost would rise due to maintenance shutdown cost of the Chittapur plant and transport of clinker from Devapur to Chittapur to meet demand. ORCMNT's 10MW Chittapur WHRS is on track to be commissioned by Jun 2023F; it will improve the margins from FY24F. We thus factor in Rs840/920 EBITDA/t growth in FY24F/25F, respectively.

### Maintain ADD rating; valuation attractive

ORCMNT generated a negative FCF of Rs460m in FY23 with post working capital (WC) blockage of Rs2.3bn and capex of Rs1.3bn. Net debt increased by Rs921m to Rs3.2bn. Peak D/E and debt/EBITDA guidance stood at 1.5x and 3x-3.5x, respectively. ORCMNT trades at FY24F/25F EV/EBITDA of 6.2x/6x, respectively. We retain ADD rating on the stock. Our target price of Rs148 (Rs141 earlier) is based on 6.5x (unchanged) EV/EBITDA and rollover to FY25F. Weak demand, pricing pressure, delay in expansion, and a rise in input cost are key downside risks.

<b>Financial Summary</b>	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	23,241	27,254	29,375	32,147	34,485
Operating EBITDA (Rsm)	5,507	5,911	3,645	5,280	6,126
Net Profit (Rsm)	2,142	2,633	1,228	2,161	2,482
Core EPS (Rs)	10.5	12.8	6.0	10.5	12.1
Core EPS Growth	147.4%	22.9%	(53.3%)	75.9%	14.9%
FD Core P/E (x)	11.99	9.76	20.91	11.89	10.35
DPS (Rs)	1.5	2.5	1.5	1.1	1.2
Dividend Yield	1.20%	1.99%	1.20%	1.68%	1.93%
EV/EBITDA (x)	5.84	4.78	7.93	6.26	6.04
P/FCFE (x)	21.55	25.51	56.60	(14.79)	1,008.77
Net Gearing	49.4%	16.8%	20.0%	41.4%	57.3%
P/BV (x)	1.97	1.68	1.60	1.45	1.30
ROE	17.7%	18.6%	7.8%	12.8%	13.2%
% Change In Core EPS Estimates				(0.41%)	(0.39%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## A strong comeback 4Q; all-round beat

Figure 1: Standalone quarterly performance

Particulars (Rs m)	4QFY23	4QFY23F	3QFY23	4QFY22	% Change		
					4QFY23F	3QFY23	4QFY22
<b>Net Sales</b>	<b>8,760</b>	<b>8,157</b>	<b>7,323</b>	<b>8,039</b>	<b>7%</b>	<b>20%</b>	<b>9%</b>
Raw Materials Consumed	1,069	1,059	946	1,018	1%	13%	5%
Freight and Forwarding Expenses	2,344	2,133	1,963	2,119	10%	19%	11%
Power and Fuel Cost	2,783	2,453	2,274	2,183	13%	22%	27%
Employee Cost	372	479	426	340	-22%	-13%	10%
Other Expenses	797	924	811	845	-14%	-2%	-6%
<b>Total Expenditure</b>	<b>7,366</b>	<b>7,048</b>	<b>6,419</b>	<b>6,505</b>	<b>5%</b>	<b>15%</b>	<b>13%</b>
<b>EBITDA</b>	<b>1,395</b>	<b>1,110</b>	<b>903</b>	<b>1,533</b>	<b>26%</b>	<b>54%</b>	<b>-9%</b>
Depreciation	365	378	371	366	-3%	-2%	0%
<b>EBIT</b>	<b>1,030</b>	<b>732</b>	<b>533</b>	<b>1,167</b>	<b>41%</b>	<b>93%</b>	<b>-12%</b>
Interest	95	98	97	49	-3%	-2%	95%
Other Income	48	33	11	20	45%	329%	144%
<b>PBT</b>	<b>983</b>	<b>667</b>	<b>447</b>	<b>1,138</b>	<b>47%</b>	<b>120%</b>	<b>-14%</b>
Tax	309	239	171	406	30%	81%	-24%
<b>PAT before MI &amp; Associates</b>	<b>674</b>	<b>428</b>	<b>275</b>	<b>732</b>	<b>57%</b>	<b>145%</b>	<b>-8%</b>
Minority Interest	0	0	0	0			
Profit from Assoc.	0	0	0	0			
<b>Recurring PAT</b>	<b>674</b>	<b>428</b>	<b>275</b>	<b>732</b>	<b>57%</b>	<b>145%</b>	<b>-8%</b>
Extraordinary Items	0	0	0	0			
<b>Reported PAT</b>	<b>674</b>	<b>428</b>	<b>275</b>	<b>732</b>	<b>57%</b>	<b>145%</b>	<b>-8%</b>
EPS (Rs)	3.3	2.1	1.3	3.6	57%	145%	-8%
Gross Margin	29%	31%	29%	34%	-152 bp	4 bp	-455 bp
EBITDA Margin	15.9%	13.6%	12.3%	19.1%	232 bp	358 bp	-315 bp
EBIT Margin	12%	9%	7%	15%	279 bp	449 bp	-276 bp
PBT Margin	11%	8%	6%	14%	305 bp	512 bp	-294 bp
PAT Margin	8%	5%	4%	9%	244 bp	393 bp	-142 bp
Tax Rate	31%	36%	38%	36%	-435 bp	-690 bp	-421 bp
Cost Items as % of Sales							
RM Cost	12%	13%	13%	13%	-78 bp	-71 bp	-46 bp
Freight Cost	27%	26%	27%	26%	60 bp	-5 bp	40 bp
P&F Cost	32%	30%	31%	27%	170 bp	72 bp	461 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

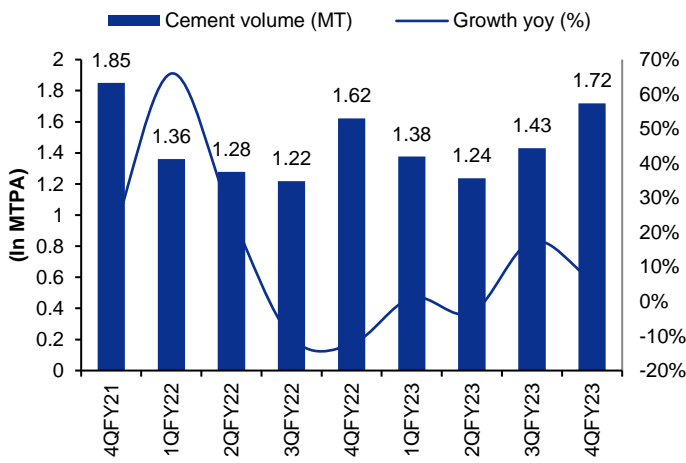
Figure 2: 4QFY23 results as per tonne analysis

Per tonne analysis	4QFY23	4QFY23F	3QFY23	4QFY22	% Change		
					4QFY23F	3QFY23	4QFY22
Sales volume (Cement + Clinker)	1.72	1.63	1.43	1.62	6%	20%	6.0%
Realization	5,099	5,011	5,121	4,959	2%	0%	3%
<b>EBITDA/t</b>	<b>812</b>	<b>682</b>	<b>632</b>	<b>946</b>	<b>19%</b>	<b>29%</b>	<b>-14%</b>
RM Cost/t	622	650	661	628	-4%	-6%	-1%
P&F Cost/t	1,620	1,507	1,590	1,347	7%	2%	20%
Freight Cost/t	1,364	1,311	1,373	1,307	4%	-1%	4%
Employee Cost/t	217	294	298	210	-26%	-27%	3%
Other Expenses/t	464	567	567	522	-18%	-18%	-11%
<b>Cost/t</b>	<b>4,287</b>	<b>4,330</b>	<b>4,489</b>	<b>4,013</b>	<b>-1%</b>	<b>-4%</b>	<b>7%</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

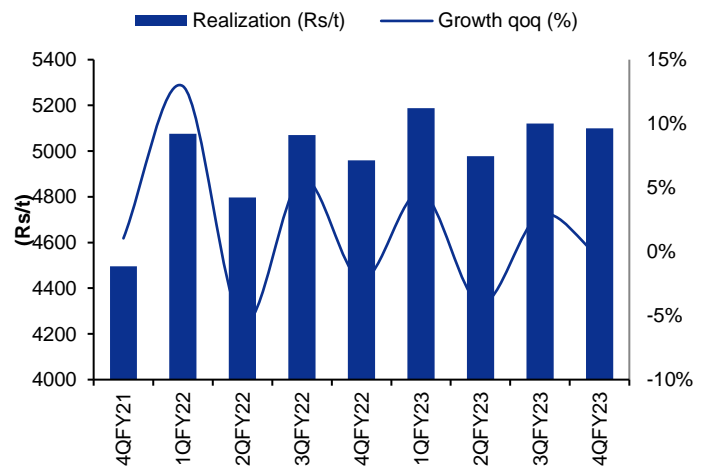
Key quarterly charts ➤

Figure 3: Cement sales volume improved by 6% yoy and 20% qoq in 4QFY23



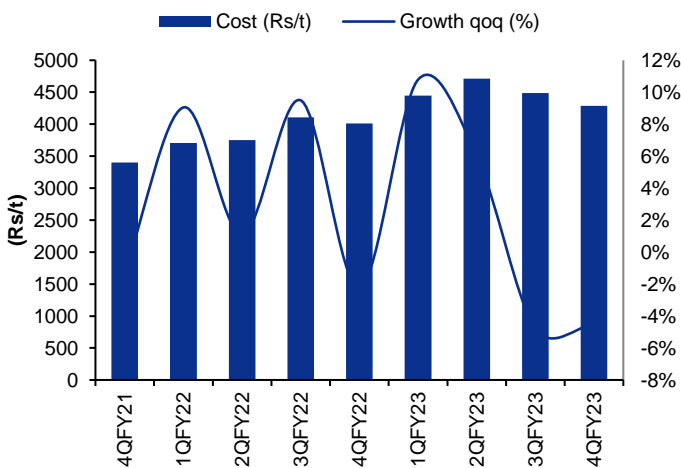
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Cement realization remained flat qoq while it was up ~3% qoq in 4QFY23



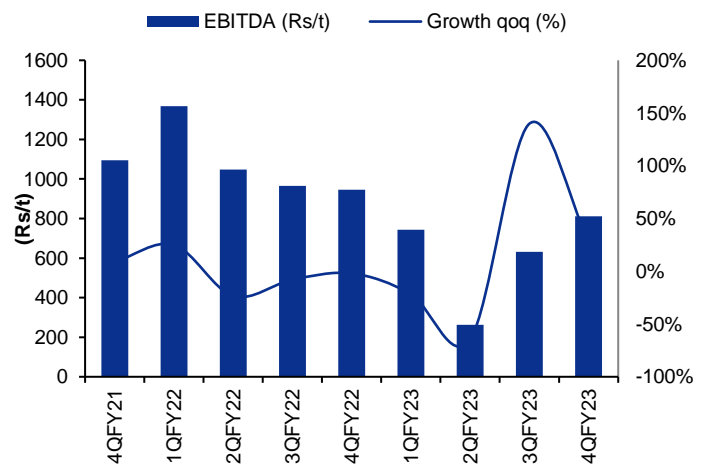
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Cost/t declined by 4% qoq while it was still up by 7% qoq



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Unitary EBITDA improved by 29% qoq (down 14% yoy) to Rs812/t in 4QFY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	New		Old		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	32,147	34,485	31,504	33,647	2%	2%
EBITDA	5,280	6,126	5,357	6,164	-1%	-1%
Recurring PAT	2,161	2,482	2,296	2,603	-6%	-5%
EPS (Rs.)	10.5	12.1	11	13	-6%	-5%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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

Rs. m	Incred		Consensus		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	32,147	34,485	32,931	35,929	-2%	-4%
EBITDA	5,280	6,126	5,311	6,082	-1%	1%
PAT	2,161	2,482	2,373	2,664	-9%	-7%

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	5.8	6.3	6.7
yoy	-13%	9%	5%	9%	6%
<b>Realization (per tonne)</b>	4,604	4,975	5,100	5,120	5,182
yoy	10%	8%	3%	0%	1%
<b>Cost (per tonne)</b>	3,513	3,896	4,467	4,279	4,261
yoy	0%	11%	15%	-4%	0%
<b>EBITDA (per tonne)</b>	1,091	1,079	633	841	920
yoy	65%	-1%	-41%	33%	9%
<b>EBITDA (Rs m)</b>	5,507	5,911	3,645	5,280	6,126
yoy	44%	7%	-38%	45%	16%

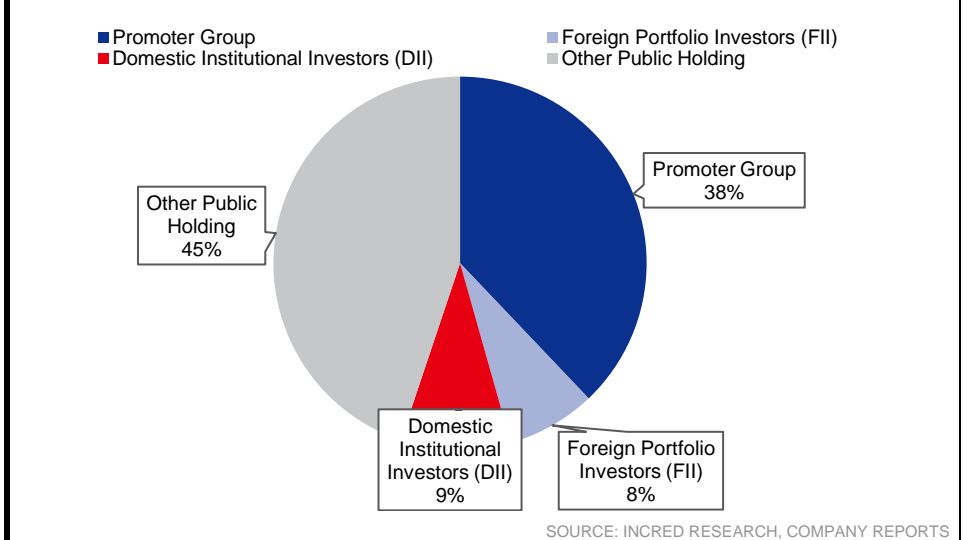
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 10: Our target price of Rs148 is based on 6.5x FY25F EV/EBITDA**

Valuation	TP
Target EV/EBITDA (x)	6.5
Target EV (Rs m)	39,818
Net debt / (cash) (Rs m)	9,337
No. of shares (m)	205
<b>Fair value per share (Rs)</b>	<b>148</b>

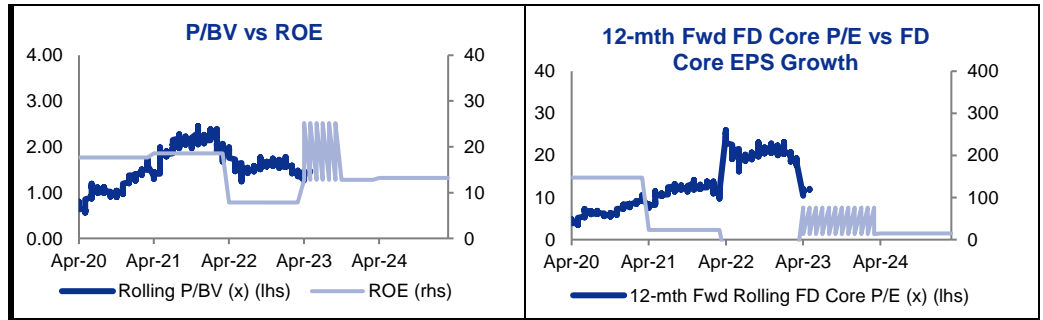
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 11: Orient Cement's shareholding pattern (as at end-Mar 2023)**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenue</b>	<b>23,241</b>	<b>27,254</b>	<b>29,375</b>	<b>32,147</b>	<b>34,485</b>
<b>Gross Profit</b>	<b>23,241</b>	<b>27,254</b>	<b>29,375</b>	<b>32,147</b>	<b>34,485</b>
<b>Operating EBITDA</b>	<b>5,507</b>	<b>5,911</b>	<b>3,645</b>	<b>5,280</b>	<b>6,126</b>
Depreciation And Amortisation	(1,419)	(1,452)	(1,468)	(1,512)	(1,573)
<b>Operating EBIT</b>	<b>4,088</b>	<b>4,459</b>	<b>2,177</b>	<b>3,768</b>	<b>4,553</b>
Financial Income/(Expense)	(936)	(514)	(378)	(529)	(820)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	183	96	120	126	133
<b>Profit Before Tax (pre-EI)</b>	<b>3,336</b>	<b>4,040</b>	<b>1,920</b>	<b>3,366</b>	<b>3,866</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,336</b>	<b>4,040</b>	<b>1,920</b>	<b>3,366</b>	<b>3,866</b>
Taxation	(1,194)	(1,407)	(691)	(1,205)	(1,384)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,142</b>	<b>2,633</b>	<b>1,228</b>	<b>2,161</b>	<b>2,482</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>1,228</b>	<b>2,161</b>	<b>2,482</b>
Recurring Net Profit	2,142	2,633	1,228	2,161	2,482
<b>Fully Diluted Recurring Net Profit</b>	<b>2,142</b>	<b>2,633</b>	<b>1,228</b>	<b>2,161</b>	<b>2,482</b>

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>5,507</b>	<b>5,911</b>	<b>3,645</b>	<b>5,280</b>	<b>6,126</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,939)	51	2,206	1,011	(209)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	183	96	120	126	133
Other Operating Cashflow	3,734	(962)	(4,820)	(1,320)	(320)
Net Interest (Paid)/Received	(936)	(514)	(378)	(529)	(820)
Tax Paid	590	658	336	(1,205)	(1,384)
<b>Cashflow From Operations</b>	<b>7,141</b>	<b>5,239</b>	<b>1,110</b>	<b>3,363</b>	<b>3,525</b>
Capex	(507)	(525)	(1,294)	(8,700)	(7,200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,109)	1,227	96	(200)	(600)
<b>Cash Flow From Investing</b>	<b>(1,615)</b>	<b>702</b>	<b>(1,198)</b>	<b>(8,900)</b>	<b>(7,800)</b>
Debt Raised/(repaid)	(4,333)	(4,935)	542	3,800	4,300
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(307)	(512)	(307)	(216)	(248)
Preferred Dividends					
Other Financing Cashflow	(881)	(414)	117	1,604	572
<b>Cash Flow From Financing</b>	<b>(5,521)</b>	<b>(5,861)</b>	<b>352</b>	<b>5,188</b>	<b>4,624</b>
Total Cash Generated	4	80	264	(348)	349
<b>Free Cashflow To Equity</b>	<b>1,192</b>	<b>1,007</b>	<b>454</b>	<b>(1,737)</b>	<b>25</b>
<b>Free Cashflow To Firm</b>	<b>6,461</b>	<b>6,455</b>	<b>290</b>	<b>(5,008)</b>	<b>(3,455)</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs m)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	1,512	538	701	353	702
Total Debtors	1,102	1,273	1,689	1,850	1,984
Inventories	1,705	1,866	3,509	2,818	3,023
Total Other Current Assets	535	652	792	868	966
<b>Total Current Assets</b>	<b>4,854</b>	<b>4,329</b>	<b>6,692</b>	<b>5,889</b>	<b>6,675</b>
Fixed Assets	22,073	21,151	20,100	27,088	32,516
Total Investments		42	42	42	42
Intangible Assets	413	398	1,397	1,597	2,197
Total Other Non-Current Assets	781	576	536	736	936
<b>Total Non-current Assets</b>	<b>23,266</b>	<b>22,167</b>	<b>22,076</b>	<b>29,464</b>	<b>35,691</b>
Short-term Debt		1,617	2,933	3,733	4,533
Current Portion of Long-Term Debt					
Total Creditors	1,844	2,310	2,147	2,381	2,440
Other Current Liabilities	2,868	2,801	2,957	3,279	3,449
<b>Total Current Liabilities</b>	<b>4,712</b>	<b>6,727</b>	<b>8,037</b>	<b>9,393</b>	<b>10,421</b>
Total Long-term Debt	7,966	1,480	982	3,982	7,482
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,383	3,034	3,712	4,212	4,712
<b>Total Non-current Liabilities</b>	<b>10,349</b>	<b>4,514</b>	<b>4,694</b>	<b>8,194</b>	<b>12,194</b>
Total Provisions					
<b>Total Liabilities</b>	<b>15,062</b>	<b>11,242</b>	<b>12,731</b>	<b>17,587</b>	<b>22,615</b>
Shareholders' Equity	13,059	15,254	16,037	17,766	19,751
Minority Interests					
<b>Total Equity</b>	<b>13,059</b>	<b>15,254</b>	<b>16,037</b>	<b>17,766</b>	<b>19,751</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(4.0%)	17.3%	7.8%	9.4%	7.3%
Operating EBITDA Growth	43.8%	7.3%	(38.3%)	44.9%	16.0%
Operating EBITDA Margin	23.7%	21.7%	12.4%	16.4%	17.8%
Net Cash Per Share (Rs)	(31.50)	(12.49)	(15.68)	(35.93)	(55.22)
BVPS (Rs)	63.74	74.46	78.28	86.72	96.41
Gross Interest Cover	4.37	8.67	5.76	7.12	5.55
Effective Tax Rate	35.8%	34.8%	36.0%	35.8%	35.8%
Net Dividend Payout Ratio	14.3%	19.5%	25.0%	20.0%	20.0%
Accounts Receivables Days	21.36	15.90	18.41	20.09	20.29
Inventory Days	31.97	23.92	33.39	35.92	30.92
Accounts Payables Days	37.13	35.52	31.61	30.75	31.02
ROIC (%)	18.7%	21.4%	9.5%	12.9%	12.7%
ROCE (%)	18.4%	22.6%	11.4%	16.6%	15.9%
Return On Average Assets	10.8%	11.5%	5.8%	8.4%	8.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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