

7th August 2020

CMP – ₹68.9/-

View – ACCUMULATE

Company Background

Company was originally established in 1979, however it was formed as separate entity in 2012, following the demerger from Orient Paper and Industries Ltd. Company has 3 cement manufacturing plants located at Devapur (Telangana), Chittapur (Karnataka) and Jalgaon (Maharashtra) with aggregate cement manufacturing capacity of ~8MTPA coupled with clinker manufacturing capacity of close to ~6MTPA. Company sells its cement (OPC and PPC) predominantly in Maharashtra, Telangana, Karnataka, Andhra Pradesh, Madhya Pradesh.

Why we like Orient Cement Ltd:

- Increasing contribution of Premium cement in its portfolio
- Company's cost saving initiatives to help improve margins
- Focus on deleveraging and improving return ratios
- Higher Realisations and EBITDA per tonne on QoQ basis

Important Statistics

| | |
|-----------------|-------------|
| M.Cap (₹ Cr) | ₹1,411.6 |
| 52 Week H/L (₹) | 99.90/35.25 |
| NSE Code | ORIENTCEM |
| BSE Code | 535754 |

Investment Argument

Financials

- **Cost rationalisation with initiatives such as WHRS facility and railway sliding project** – Company focused on cost rationalisation by concentrating on improving its efficiency and building new infrastructure. Earlier, the cost benefit because of proximity to key inputs (coal and fly ash) at Devapur (Telangana) was not available to Chittapur plant (Gulbarga, Karnataka) thus to reduce the operating performance gap between the two plants that will benefit Orient Cement Ltd as a whole, the company commercialised a railway siding project at its Chittapur plant in FY19.

Company's initiatives such as introduction of premium product and commercialisation of railway sliding project in FY19 helped improve EBITDA margins from ~12.5% in FY19 to 16% in FY20 and 24% in Q1FY21.

Further, company has planned a 7MW (₹1000mn- extractable) WHRS at its Chittapur plant which will help reduce power and fuel costs and the full benefit of low-cost power availability will get reflected in FY22E.

- **Focus on deleveraging to continue in absence of capacity expansion** – Orient Cement Ltd had earlier planned to expand its manufacturing capacity inorganically with the acquisition of JPA assets in central and eastern region which would have helped the company with regional de-risking. However, the acquisition has been called off because of certain technical issues. This acquisition strategy by the company, coupled with aggressive expansions in FY16-FY17, without concentrating on improving earnings not only weakened company's balance sheet but also impacted stock price.

Currently, the company has not planned any major capex for the next two years, except for the maintenance capex to be ~₹200mn which can be met from internal accruals. Management stated, now with improving earnings, it will focus on cash conservation and debt repayment.

In FY20, company's net debt fell to ₹11,000mn and net debt-equity ratio fell to ~ 1.0x from 1.3x in FY16 while, net Debt/EBITDA fell to 3x vs. 4x in same period. We expect debt-equity ratio to ease further with improved earnings which will strengthen balance sheet.

(₹ mn)

| Particulars | FY18 | FY19 | FY20 |
|---------------|--------|--------|--------|
| Net Sales | 22,223 | 25,222 | 24,218 |
| EBITDA | 3,052 | 3,120 | 3,829 |
| EBITAM% | 13.7% | 12.4% | 15.8% |
| PAT | 442 | 476 | 866 |
| PATM% | 2.0% | 1.9% | 3.6% |
| EPS (₹) | 2.16 | 2.32 | 4.23 |
| ROE (%) | 4.3% | 4.5% | 7.7% |
| ROCE (%) | 7.8% | 7.9% | 10.7% |
| P/E (x) | 31.9 | 29.7 | 16.3 |
| EV/EBITDA (x) | 8.7 | 8.4 | 6.6 |

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View – **ACCUMULATE**

- **Demand revival to be driven by government projects from H2FY21E** – Company's volume growth got impacted in 9MFY20, on the back of slowdown in infrastructure, real estate sector, which was further aggravated in Q4FY20 due to lockdown restrictions led by Covid-19 disruption. However, management is confident demand to recover from Q4FY21E which would help increase its sales volume. We believe, Orient Cement's performance will get a strong boost following robust cement demand revival (driven by infrastructure segment and low-cost housing) in key markets of Telangana and Andhra Pradesh in H2FY21E.

Telangana government's three-fold focus - irrigation, roads and housing - all of which would contribute to strong cement demand, as per management. Further, Madhya Pradesh's projects such as Chambal Expressway, solar power plant project, Karnataka's UDAN projects will further aid demand recovery post Q2FY21E.

- **Despite Covid-19 disruption, company improved EBITDA/ton on YoY and QoQ basis in Q1FY21** – Revenues for Q1FY21 degrew 40% YoY and 37% QoQ to ₹4104mn on the back of decline in sales volume(45% YoY). Volume degrew 45% YoY to 8.2 lakh per tonne due to lower demand from AP and Telangana one of its key markets followed by Maharashtra which had higher number of Covid-19 infections (Covid-19 disruption). However realisations grew 10% YoY and 20% QoQ to ~₹5000 per tonne.

EBITDA for the quarter degrew ~34% YoY and ~21% QoQ to ₹982mn. EBITDA margins expanded 219bps YoY and 488bps QoQ to 23.9% in the mentioned quarter. Company has been successful in achieving EBITDA per tonne of ~1200 ₹/MT (grew 21% YoY and 51% QoQ). PAT stood at ₹256mn while PAT margins at 6.2% in the quarter.

Management iterated Q2FY21E to be impacted due to Covid-19 disruption in rural area coupled with monsoons however, from Q4FY21E sales volume to be improved QoQ as company would get more orders from Telangana – Kaleshwaram project in Q3FY21E (as per management) and also guided it would sustain realisations at FY20 levels.

- **Key Risks** – Slower than expected demand recovery, 2nd or 3rd wave of Covid – 19.

View

Despite Covid-19 disruption company managed to increase EBITDA per tonne by 21% YoY in Q1FY21 led by higher realisation and cost efficiencies. Company was able to increase its realisation per tonne due to higher proportion of trade mix and premium products. We envisage Orient Cement Ltd to report better numbers post H1FY21E on account of sales volume growth from AP and Telangana, demand recovery in infra and real estate sector, increasing penetration of premium cement sales and cost saving initiatives. Further lower capex spends in FY21E and company's focus on debt reduction would strengthen its balance sheet. **At CMP of ₹68.9 Orient Cements Ltd is trading at ~6.6x FY20 EV/EBITDA which is discount to its peers and thus recommend investors to ACCUMULATE the stock on every decline.**

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View – ACCUMULATE

Financials

(₹ mn)

| Particulars | Q1FY21 | Q1FY20 | Y-o-Y(%) | Q4FY20 | Q-o-Q(%) |
|--------------------------|--------------|--------------|-----------------|--------------|----------------|
| Sales | 4,104 | 6,878 | -40.3% | 6,545 | -37.3% |
| Raw Material Expenses | 543 | 495 | 9.6% | 468 | 16.0% |
| Employee Cost | 370 | 413 | -10.5% | 358 | 3.5% |
| Power Fuel Cost | 686 | 1,599 | -57.1% | 1,562 | -56.1% |
| Freight Forwarding | 953 | 1,856 | -48.6% | 1,916 | -50.3% |
| Other operating expense | 570 | 1,019 | -44.1% | 995 | -42.7% |
| Total Expenditure | 3,121 | 5,382 | -42.0% | 5,298 | -41.1% |
| EBITDA | 982 | 1496 | -34.3% | 1,247 | -21.2% |
| EBITDA Margin (%) | 23.9% | 21.8% | 219bps | 19.1% | 488bps |
| Depreciation | 346 | 353 | -1/7% | 345 | 0.5% |
| EBIT | 636 | 1143 | -44.4% | 902 | -29.5% |
| EBIT Margin (%) | 15.5% | 16.6% | -112 bps | 13.8% | 171 bps |
| Interest | 270 | 313 | -13.6% | 279 | -3.3% |
| Other Income | 56 | 36 | 57.7% | 74 | -23.4% |
| PBT | 422 | 866 | -51.3% | 697 | -39.4% |
| Taxes | 166 | 307 | -46.0% | 256 | -35.1% |
| PAT | 256 | 559 | -54.2% | 441 | -41.9% |
| PAT Margins% | 6.2% | 8.1% | -189 bps | 6.7% | -49bps |
| EPS (₹) | 1.25 | 2.73 | -54.2% | 2.15 | -41.9% |

Source: Company Filing

| Performance Analysis | Q1FY21 | Q4FY20 | Q3FY20 | Q2FY20 | Q1FY20 | Q4FY19 | Q3FY19 | Q2FY19 | Q1FY19 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total Sales Volume (mn MT) | 0.82 | 1.57 | 1.48 | 1.24 | 1.51 | 1.83 | 1.51 | 1.47 | 1.60 |
| Cement Realisation (₹/MT) | 5,004 | 4,169 | 3,814 | 4,150 | 4,555 | 4,103 | 3,779 | 3,815 | 3,993 |
| EBITDA (₹/MT) | 1,198 | 794 | 372 | 432 | 991 | 836 | 251 | 243 | 533 |
| Operating Expenses (₹/MT) | 3,807 | 3,375 | 3,443 | 3,718 | 3,564 | 3,267 | 3,528 | 3,572 | 3,460 |
| Raw Material Cost (₹/MT) | 662 | 298 | 426 | 353 | 328 | 388 | 510 | 508 | 332 |
| Employee Cost (₹/MT) | 451 | 228 | 258 | 319 | 274 | 205 | 249 | 269 | 251 |
| Power & Fuel Cost (₹/MT) | 836 | 995 | 958 | 1,069 | 1,059 | 995 | 997 | 1,054 | 1,110 |
| Freight Cost (₹/MT) | 1,162 | 1,220 | 1,141 | 1,195 | 1,229 | 1,137 | 1,174 | 1,148 | 1,164 |
| Other Expenditure Cost (₹/MT) | 695 | 634 | 660 | 782 | 675 | 541 | 598 | 593 | 604 |

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Disclosure of Interest Statement Orient Cement Ltd. as on August 7th, 2020

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| Name of the Security | Orient Cement Ltd. |
| Name of the analyst | Yogita Desai |
| Analysts' ownership of any stock related to the information contained | NIL |
| Financial Interest | |
| Analyst : | No |
| Analyst's Relative : Yes / No | Yes |
| Analyst's Associate/Firm : Yes/No | No |
| Conflict of Interest | No |
| Receipt of Compensation | No |
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