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Company Background

Company was orginally 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

- **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 acquisation 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 strenghten balance sheet.

Financials

(₹ 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

W2W Lighthouse - A Quick Perspective

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- **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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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

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

Name of the Security	Orient Cement Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No Yes No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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