

Orient Cement

Refer to important disclosures at the end of this report

Not out of the woods yet; maintain Hold

- Orient Cement reported EBITDA of Rs379mn vs. our estimate of Rs320mn and OPM of 6.6% vs. our estimate of 5.7%, primarily driven by lower-than-expected decline in realization (down 2.4% qoq vs. 3.5% decline estimated). EBITDA/ton was at Rs251 vs. our estimate of Rs210.
- Sales volume was up 10.2% yoy to 1.51mt, with capacity utilization standing at 75% vs. 68% in Q3FY18. PPC sales stood at 60% vs. 64% in Q3FY18. Adjusted for higher FoR sales, realization was down 1.2% yoy/2.4% qoq. EBITDA/ton was at Rs251 vs. Rs286/Rs243 in Q3FY18/Q2FY19.
- Opex/ton was down 0.3% yoy despite an increase in diesel and pet coke/imported coal prices. Lower realization led to a 101bps decline in OPM. Cement prices in its key markets continued to remain subdued, which remains a concern.
- We further cut FY20/21E EBITDA estimates by 4.7%/5.4%, considering lower cement prices. The revival in cement prices in its core markets would be a key monitorable going forward. We maintain our Hold rating, with a revised target price of Rs74.

Lower realization impacts profits

Orient Cement's Q3FY19 results came in above our estimates, with EBITDA at Rs379mn vs. our estimate of Rs320mn and OPM at 6.6% vs. our estimate of 5.7% on higher-than-estimated realization. Realization, adjusted for higher FoR sales, was down 1.2%yoy/2.4% qoq vs. estimated 3.5% qoq decline. Sales volumes increased 10.2% yoy to 1.51mt, with a capacity utilization of 75% vs. 68%/74% in Q3FY18/Q2FY19. Higher sales volume led to an 11.6% yoy growth in revenues. Reported opex/ton was up 2.3% yoy; however, adjusted for higher FoR sales, opex/ton was down 0.3% yoy/2.8% qoq. Energy costs were down 4.1% yoy/5.3% qoq despite an increase in pet coke/imported coal prices. Freight costs, adjusted for higher FoR sales, were up 9.2% yoy on higher diesel prices. Other expenses were down 10.1% yoy. Lower realization led to a 3.2% yoy decline in EBITDA and a 12.1% yoy drop in EBITDA/ton. The company narrowed its losses to Rs133mn from Rs177mn/Rs167mn in 3QFY18/2QFY19.

Lower cement prices a concern; maintain Hold

Earnings of cement companies have seen continuous downgrades in YTD FY19 as cement prices have not improved. We further cut FY20/FY21E EBITDA for Orient by 4.7%/5.4%, considering weak cement prices in its key markets. Company is considering brownfield expansions at its Devapur, Telangana plant in the first phase and subsequently it's Chittapur, Karnataka plant in the next phase. We will wait for more clarity on the planned expansion projects; however, higher capex may lead to increased debt and a stretched balance sheet. We maintain our Hold rating on the stock with a target price of Rs74, valuing it at 8x FY21E EV/EBITDA. The key factor to watch out for would be the revival in cement prices in its key markets.

Financial Snapshot (Standalone)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	18,748	22,223	24,000	26,520	28,958
EBITDA	1,781	3,052	2,287	3,000	3,332
EBITDA Margin (%)	9.5	13.7	9.5	11.3	11.5
APAT	(321)	442	(67)	371	601
EPS (Rs)	(1.6)	2.2	(0.3)	1.8	2.9
EPS (% chg)	(151.5)	0.0	(115.2)	0.0	62.1
ROE (%)	(3.2)	4.4	(0.7)	3.7	5.9
P/E (x)	(42.4)	30.8	(203.1)	36.7	22.7
EV/EBITDA (x)	14.8	8.7	11.5	8.6	7.5
P/BV (x)	1.4	1.3	1.4	1.3	1.3

Source: Company, Emkay Research

CMP Rs 66 as of (February 8, 2019)	Target Price Rs 74 (▼) 12 months
Rating HOLD (■)	Upside 11.6 %

Change in Estimates

EPS Chg FY19E/FY20E (%)	nm/(9)
Target Price change (%)	(8.5)
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	(0.3)	1.8
Consensus	1.5	4.2
Mean Consensus TP (12M)	Rs 98	

Stock Details

Bloomberg Code	ORCMNT IN
Face Value (Rs)	1
Shares outstanding (mn)	205
52 Week H/L	167 / 62
M Cap (Rs bn/USD bn)	14 / 0.19
Daily Avg Volume (nos.)	74,625
Daily Avg Turnover (US\$ mn)	0.1

Shareholding Pattern Dec '18

Promoters	37.4%
FIIIs	7.5%
DIIIs	27.1%
Public and Others	28.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(18)	(25)	(45)	(58)
Rel. to Nifty	(19)	(28)	(42)	(59)

Relative price chart



Source: Bloomberg

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Exhibit 1: Actual vs. estimates (Q3FY19)

(in Rs mn)	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	5,707	5,614	5,791	1.7	-1.5	Impact of higher-than-expected realization
EBITDA	379	320	391	18.4	-3.1	Impact of higher-than-expected realization
EBITDA margin (%)	6.6	5.7	6.8	94bps	-11bps	
Adj. PAT	(133)	(198)	(145)	-32.6	-8.2	Led by higher operating profit

Source: Company, Emkay Research, Bloomberg

Exhibit 2: Quarterly Results

Particulars/Rs mn	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)	YTD FY19	YTD FY18	YoY (%)
Revenue	5,115	5,608	5,707	11.6	1.8	17,714	16,026	10.5
Total expenditure	4,724	5,250	5,328	12.8	1.5	15,418	13,107	17.6
as % of sales	92.4	93.6	93.4			87.0	81.8	
Inc/(dec) in raw material costs	66	38	69			(31)	(114)	n/m
as % of sales	12.0	12.6	12.4			8.5	8.3	
Employee cost	353	395	376	6.5	(4.8)	1,171	1,050	11.5
as % of sales	6.9	7.0	6.6			6.6	6.6	
Freight cost	1,360	1,687	1,773	30.4	5.1	5,327	4,168	27.8
as % of sales	26.6	30.1	31.1			30.1	26.0	
Power & Fuel cost	1,425	1,550	1,506	5.7	(2.8)	4,834	4,115	17.5
Other expense	907	872	899	(0.9)	3.0	2,606	2,562	1.7
EBITDA	391	358	379	(3.2)	6.0	2,296	2,919	(21.3)
Depreciation	319	329	344	7.8	4.7	997	948	5.2
EBIT	72	29	35	(51.8)	20.8	1,298	1,971	(34.1)
Interest	339	310	278	(18.1)	(10.4)	882	1,009	(12.5)
PBT	(248)	(257)	(219)	n/m	n/m	474	1,111	(57.3)
Reported Profit	(177)	(167)	(133)	n/m	n/m	455	836	(45.6)
Adjusted PAT	(177)	(167)	(133)	n/m	n/m	455	836	(45.6)
Margins (%)								
EBITDA	7.6	6.4	6.6	(101)	26	13.0	18.2	(525)
EBIT	1.4	0.5	0.6	(80)	10	7.3	12.3	(497)
PBT	(4.8)	(4.6)	(3.8)	n/m	n/m	2.7	6.9	(425)
PAT	(3.5)	(3.0)	(2.3)	n/m	n/m	2.6	5.2	(265)
Effective tax rate	28.6	34.8	39.0	1,035	419	4.2	24.7	161.9

Source: Company, Emkay Research

Exhibit 3: Realisation and Opex adjusted for higher FoR sales

	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)
Realization/tonne (Rs)	3,737	3,784	3,692	(1.2)	(2.4)
Freight cost/tonne (Rs)	994	1,117	1,085	9.2	(2.8)
Opex/tonne (Rs)	3,451	3,541	3,441	(0.3)	(2.8)

Source: Company, Emkay Research

Exhibit 4: Per-Ton analysis

Per tonne analysis	Q3FY18	Q2FY19	Q3FY19	YoY (%)	QoQ (%)	YTD FY19	YTD FY18	YoY (%)
Volume (mt)	1.37	1.47	1.51	10.2	2.7	4.6	4.1	12.4
Realization/tonne (Rs)	3,737	3,815	3,782	1.2	(0.9)	3,866	3,932	(1.7)
Raw material consumed	448	482	467	4.4	(3.0)	330	325	1.3
Employee cost	258	269	249	(3.4)	(7.3)	255	258	(0.8)
Freight cost	994	1,148	1,175	18.3	2.4	1,163	1,022	13.7
Power & fuel cost	1,041	1,054	998	(4.1)	(5.3)	1,055	1,010	4.5
Other expense	663	593	595	(10.1)	0.4	569	629	(9.5)
Total cost	3,451	3,572	3,531	2.3	(1.1)	3,365	3,216	4.6
EBITDA	286	243	251	(12.1)	3	501	716	(30.0)

Source: Company, Emkay Research

Changes in estimates

We reduce FY20/21 EBITDA estimates by 4.7%/5.4%, considering lower cement prices in its key markets. Profit estimates are being cut by 9.1%/10.8% for FY20/FY21.

Exhibit 5: Changes in estimates

Rs mn	FY19E			FY20E			FY21E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Volume (mt)	6.2	6.3	(1.2)	6.7	6.7	-	7.0	7.0	-
Realisation (Rs/tn)	3,867	3,834	0.9	3,958	3,912	1.2	4,122	4,074	1.2
Revenue	24,000	24,084	(0.3)	26,520	26,212	1.2	28,958	28,622	1.2
EBITDA	2,287	2,272	0.7	3,000	3,147	(4.7)	3,332	3,522	(5.4)
EBITDA margin (%)	9.5	9.4	9.8	11.3	12.0	(69.4)	11.5	12.3	(80.1)
PAT	(67)	(141)	n/m	371	408	(9.1)	601	674	(10.8)
PAT margin (%)	4.2	4.2		4.2	4.2		4.2	4.2	
EPS (Rs)	(0.3)	(0.7)	n/m	1.8	2.0	(9.1)	2.9	3.3	(10.8)

Source: Company, Emkay Research

Exhibit 6: Key assumptions

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Grey Cement Sales (mt)	5.55	5.75	6.21	6.70	7.03
Realization (Rs/tn)	3,368	3,858	3,867	3,958	4,122
Per tonne costs (Rs)					
Raw material	587	584	532	535	558
Employee cost	213	241	231	244	246
Power & Fuel	948	1,011	1,067	1,064	1,107
Freight	810	1,033	1,150	1,130	1,172
Other expense	481	487	519	538	563
Total Cost	3,056	3,337	3,499	3,510	3,648

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	18,748	22,223	24,000	26,520	28,958
Expenditure	16,966	19,172	21,713	23,520	25,626
EBITDA	1,781	3,052	2,287	3,000	3,332
Depreciation	1,215	1,262	1,339	1,416	1,466
EBIT	566	1,790	948	1,584	1,865
Other Income	123	202	118	124	131
Interest expenses	1,353	1,292	1,167	1,149	1,092
PBT	(665)	700	(101)	558	905
Tax	(344)	258	(34)	188	304
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	(321)	442	(67)	371	601
Adjusted PAT	(321)	442	(67)	371	601

Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity share capital	205	205	205	205	205
Reserves & surplus	9,667	10,016	9,770	9,901	10,142
Net worth	9,872	10,221	9,974	10,105	10,347
Minority Interest	0	0	0	0	0
Loan Funds	13,362	13,136	13,236	12,736	11,936
Net deferred tax liability	750	854	854	854	854
Total Liabilities	23,983	24,212	24,065	23,696	23,137
Net block	22,956	22,507	23,250	22,834	22,368
Investment	0	0	0	0	0
Current Assets	4,894	5,320	6,039	6,543	7,032
Cash & bank balance	639	331	494	498	475
Other Current Assets	344	430	430	430	430
Current liabilities & Provision	4,848	5,197	5,725	6,181	6,762
Net current assets	45	122	315	362	270
Misc. exp	0	0	0	0	0
Total Assets	23,983	24,212	24,065	23,696	23,137

Cash Flow

Y/E Mar (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT (Ex-Other income) (NI+Dep)	(665)	700	(101)	558	905
Other Non-Cash items	0	0	0	0	0
Chg in working cap	705	(207)	(210)	(103)	(50)
Operating Cashflow	2,573	2,807	2,229	2,833	3,109
Capital expenditure	(1,275)	(1,515)	(1,000)	(1,000)	(1,000)
Free Cash Flow	1,298	1,292	1,229	1,833	2,109
Investments	9	11	0	0	0
Other Investing Cash Flow	25	19	0	0	0
Investing Cashflow	(1,241)	(1,485)	(1,000)	(1,000)	(1,000)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	0	0	100	(500)	(800)
Dividend paid (incl tax)	(245)	(123)	0	(180)	(240)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(1,622)	(1,382)	(1,067)	(1,829)	(2,131)
Net chg in cash	(290)	(60)	162	4	(23)
Opening cash position	378	639	331	494	498
Closing cash position	639	331	494	498	475

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	9.5	13.7	9.5	11.3	11.5
EBIT Margin	3.0	8.1	3.9	6.0	6.4
Effective Tax Rate	51.7	36.9	33.6	33.6	33.6
Net Margin	(1.7)	2.0	(0.3)	1.4	2.1
ROCE	2.8	8.3	4.4	7.2	8.5
ROE	(3.2)	4.4	(0.7)	3.7	5.9
RoIC	2.6	8.0	4.2	6.9	8.3

Per Share Data (Rs)	FY17	FY18	FY19E	FY20E	FY21E
EPS	(1.6)	2.2	(0.3)	1.8	2.9
CEPS	4.4	8.3	6.2	8.7	10.1
BVPS	48.2	49.9	48.7	49.3	50.5
DPS	1.0	0.8	0.8	1.0	1.5

Valuations (x)	FY17	FY18	FY19E	FY20E	FY21E
PER	(42.4)	30.8	(203.1)	36.7	22.7
P/CEPS	16.5	8.7	11.6	8.3	7.1
P/BV	1.4	1.3	1.4	1.3	1.3
EV / Sales	1.4	1.2	1.1	1.0	0.9
EV / EBITDA	14.8	8.7	11.5	8.6	7.5
Dividend Yield (%)	1.5	1.1	1.1	1.5	2.3

Gearing Ratio (x)	FY17	FY18	FY19E	FY20E	FY21E
Net Debt/ Equity	1.3	1.3	1.3	1.2	1.1
Net Debt/EBIDTA	7.1	4.2	5.6	4.1	3.4
Working Cap Cycle (days)	(11.6)	(3.4)	(2.7)	(1.9)	(2.6)

Growth (%)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	28.2	18.5	8.0	10.5	9.2
EBITDA	(4.0)	71.3	(25.1)	31.2	11.1
EBIT	(47.5)	216.4	(47.0)	67.1	17.8
PAT	(151.5)	0.0	(115.2)	0.0	62.1

Quarterly (Rs mn)	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Revenue	5,115	6,197	6,399	5,608	5,707
EBITDA	391	746	854	358	379
EBITDA Margin (%)	7.6	12.0	13.3	6.4	6.6
PAT	(177)	128	160	(167)	(133)
EPS (Rs)	(0.9)	0.6	0.8	(0.8)	(0.7)

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoters	37.5	37.4	37.4	37.4	37.4
FIs	6.5	7.0	7.0	7.6	7.5
DIs	26.3	26.8	27.3	26.8	27.1
Public and Others	29.7	28.9	28.3	28.2	28.1

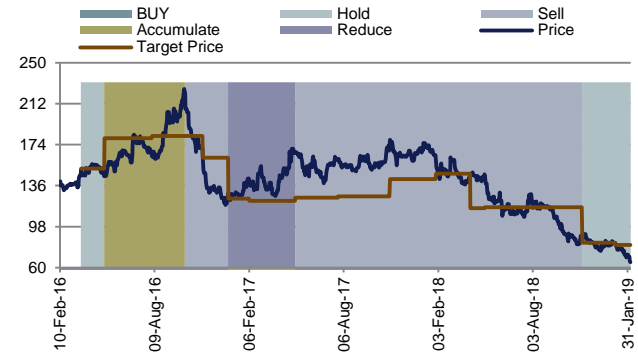
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
07-Jan-19	83	81	12m	Hold	Sanjeev Kumar Singh
05-Nov-18	86	83	12m	Hold	Sanjeev Kumar Singh
03-May-18	144	116	12m	Sell	Sanjeev Kumar Singh
05-Apr-18	147	115	12m	Sell	Sanjeev Kumar Singh
29-Jan-18	158	147	12m	Sell	Sanjeev Kumar Singh
15-Dec-17	159	142	12m	Sell	Sanjeev Kumar Singh
02-Nov-17	179	142	12m	Sell	Sanjeev Kumar Singh
26-Jul-17	160	126	12m	Sell	Sanjeev Kumar Singh
05-May-17	167	125	12m	Sell	Sanjeev Kumar Singh
06-Feb-17	140	122	12m	Reduce	Sanjeev Kumar Singh
28-Dec-16	126	124	12m	Reduce	Sanjeev Kumar Singh
09-Nov-16	162	162	12m	Sell	Sanjeev Kumar Singh
06-Oct-16	222	182	12m	Sell	Sanjeev Kumar Singh
23-Sep-16	201	182	12m	Accumulate	Sanjeev Kumar Singh
09-Sep-16	198	182	12m	Accumulate	Sanjeev Kumar Singh
04-Aug-16	163	182	12m	Accumulate	Sanjeev Kumar Singh
13-May-16	158	180	12m	Accumulate	Sanjeev Kumar Singh
05-May-16	149	180	12m	Accumulate	Sanjeev Kumar Singh
22-Apr-16	153	152	12m	Hold	Sanjeev Kumar Singh
21-Mar-16	151	152	12m	Hold	Sanjeev Kumar Singh
09-Feb-16	137	152	12m	Hold	Sanjeev Kumar Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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