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Q1FY21 result review and
earnings revision

Cement

Target price Rs84

Earnings revision

(%)		FY21E	FY22E
Sales	↓	4.0	↓ 1.1
EBITDA	↑	12.1	↑ 7.7
PAT	↑	38.6	↑ 17.5

Target price revision

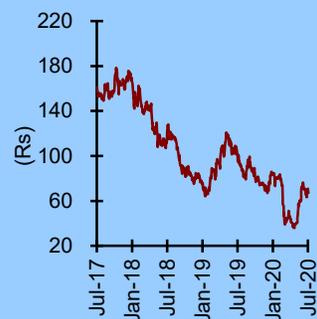
Rs84 from Rs54

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	37.4	37.4	37.4
Institutional investors	36.5	36.6	30.0
MFs and others	23.3	22.8	21.7
FIs/Insurance	5.2	5.0	5.0
FPI	8.0	7.8	3.3
Others	26.1	27.0	32.6

Source: CMIE

Price chart



Research Analysts:

Krupal Maniar, CFA

krupal.maniar@icicisecurities.com
+91 22 6637 7254

Dharmesh Shah

shah.dharmesh@icicisecurities.com
+91 22 6637 7480

INDIA

ICICI Securities

Orient Cement

BUY

Maintained

Rs65

Better realisation drives outperformance

Orient Cement's (ORCMNT) Q1FY21 EBITDA at Rs982mn (down 34% YoY) was better than our / consensus estimate of Rs843mn owing to higher realisation, which increased sharply by 20.4% QoQ / 10% YoY (I-Sec: 17% YoY). Total cost/te increased 7% YoY while volumes declined 46% YoY to 0.82mnte – both broadly in line with estimates. Accordingly, EBITDA/te increased 21% YoY to an all-time high at Rs1,198/te (I-Sec: Rs1,015/te). Management had earlier deferred expansion plan due to Covid-19 and any decision on this front is likely to depend upon demand recovery and comfort on leverage. Factoring better margins, we raise our FY21E-FY22E EBITDA by 8-12% and increase our target price to Rs84/share (earlier: Rs54/share) based on 6x FY22E EV/E also aided by lower capex over FY21-22E.

- **Revenue declined 40% YoY to Rs4.1bn, in line with our estimates.** Realisation/te sharply increased by 20.4% QoQ / 10% YoY to Rs5,004/te owing to sharp price hike in South region and Maharashtra and increase in trade sales. Volumes fell 46% YoY to 0.82mnte (in line with volume decline in South) owing to Covid'19 lockdowns. Management mentioned that overall volumes are broadly sustaining on MoM basis in Jul'20 with pick-up in non-trade / infra demand. Average prices have declined by Rs5-7/bag in Jul20 with onset of monsoon. With increasing non-trade sales, overall impact on realisation would be higher.
- **EBITDA declined 34% YoY to Rs982mn (I-Sec: 843mn).** Total cost/te increased 7% YoY / 13% QoQ to Rs3,807/te mainly due to poor operating leverage and swing in inventory adjustment. Raw material cost/te doubled YoY on sharp inventory movement and ~Rs55mn impact (Rs67/te) on procurement of fly ash from distant sources. Power & fuel cost/te declined to Rs896/te from Rs1,033/te YoY owing to increased usage of pet coke, lower fuel price and higher PPC sales. Freight costs/te increased from Rs1,196/te to Rs1,246/te YoY owing to higher cement handling charges, increase in packing charges due to higher trade sales (~Rs10/bag) despite lower lead distance which declined by 20-25kms to 290kms. Employee cost was down 10% YoY to Rs370mn; while other expenses were down 44% YoY to Rs570mn which includes payment of Rs40mn (~Rs49/te) to PM Cares Fund relating to Covid-19. EBITDA/te increased by 21% YoY to Rs1,198/te (I-Sec: Rs1,015/te). PAT declined 54% YoY to Rs256mn (I-Sec: Rs167mn).
- **Expansion plan getting deferred:** ORCMNT is still in the process of acquiring various government approvals / land for its expansion projects. Any decision on expansion is likely to depend upon demand recovery and comfort on leverage. Net debt to EBITDA ratio is unlikely to exceed the current ~3x over next few years. Company may spend on waste-heat recovery over FY21E-FY22E. Capex for FY21E is unlikely to exceed Rs200-300mn. We have factored-in capex of Rs4.3bn over FY21E-FY22E and the actual capex is likely to be lower.
- **We factor 3% volume CAGR over FY20-22E** and expect EBITDA/te to increase from Rs659/te in FY20 to Rs773/te in FY22E. Valuations at EV/te of ~US\$40/te remains attractive, in our view.

Market Cap	Rs13.7bn/US\$183mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	ORCE.BO/ORCMNT IN	Revenue (Rs mn)	25,172	24,218	22,164	26,797
Shares Outstanding (mn)	204.9	EBITDA (Rs mn)	3,120	3,829	3,972	4,737
52-week Range (Rs)	100/36	Net Income (Rs mn)	476	859	1,053	1,586
Free Float (%)	62.6	% chg YoY	22.8	80.6	22.7	50.6
FII (%)	3.3	P/E (x)	34.0	15.5	12.6	8.4
Daily Volume (US\$'000)	585	CEPS (Rs)	8.8	11.1	12.0	14.9
Absolute Return 3m (%)	66.2	EV/E (x)	9.2	6.6	5.8	5.2
Absolute Return 12m (%)	(33.1)	Dividend Yield	1.2	1.2	1.4	1.4
Sensex Return 3m (%)	20.5	RoCE (%)	5.1	6.7	7.2	8.9
Sensex Return 12m (%)	2.8	RoE (%)	4.6	7.9	9.1	12.4

Please refer to important disclosures at the end of this report

Key takeaways from management conference call

- Management mentioned that volumes are broadly sustaining on MoM basis in Jul'20. Management remain hopeful of demand recovery in urban/ infra segment post Sep'20 on likely return of migrant labourers and increase in spending by AP/TEL government on irrigation and low-cost housing projects.
- Trade and non trade sales mix stood at 75:25 in Q1FY21.
- Due to more retail / trade sales, PPC sales increased to 65% in Q1FY21 vs 53% in Q4FY20. Direct sales to customers is ~25%.
- In terms of market mix, share of Maharashtra has reduced marginally, while share of Madhya Pradesh has increased to 13% vs 10%.
- Premium products share stood at 3% in FY20 with exit at 7%. Its share also stood at ~7% in Q1FY21 and target is to increase to 10% in coming years.
- Contribution differential between blended and OPC cement stood at ~Rs200/te.
- Spot prices of international petcoke stood at ~US\$80/te. The impact of recent increase in petcoke prices likely to hit from Q3FY21.
- Road:Rail mix in Q1FY21 stood at 70:30 owing to restriction on truck movement and better availability of wagons vs 80:20 in normalised period.
- Working capital release of Rs1bn during the quarter with better debtor collections.
- Many fixed costs items converted to semi-variable on renegotiation of contracts; while part of repair and maintenance deferred as plants were shut for about a month.

Table 1: Q1FY21 result review

(Rs mn, year ending March 31)

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	I-Sec estimates	Variance
Volume including clinker	0.82	1.51	(45.7)	1.58	(47.9)	0.83	(1.3)
Avg Realisation	5,004	4,552	9.9	4,156	20.4	4,857	3.0
Net Sales	4,104	6,878	(40.3)	6,545	(37.3)	4,036	1.7
Raw Materials	543	495	9.6	468	16.0	283	91.6
Personnel Cost	370	413	(10.5)	358	3.5	360	2.9
Power and Fuel cost	686	1,599	(57.1)	1,562	(56.1)	809	(15.3)
Freight cost	953	1,856	(48.6)	1,916	(50.3)	990	(3.7)
Other Expenses	570	1,019	(44.1)	995	(42.7)	751	(24.1)
Total Expenses	3,121	5,382	(42.0)	5,298	(41.1)	3,193	(2.2)
EBITDA	982	1,496	(34.3)	1,247	(21.2)	843	16.5
EBITDA/te	1,198	990	21.0	792	51.3	1,015	18.0
Interest	270	313	(13.6)	279	(3.3)	277	(2.3)
Depreciation	346	353	(1.7)	345	0.5	348	(0.5)
Other income	56	36	57.7	74	(23.4)	38	47.4
Recurring pre-tax income	422	866	(51.3)	696	(39.4)	257	64.3
Extraordinary income/(expense)	-	-	-	-	-	-	-
Taxation	166	307	(46.0)	256	(35.1)	90	84.6
Reported net income	256	559	(54.2)	441	(41.9)	167	53.4
Recurring net income	256	559	(54.2)	441	(41.9)	167	53.4
Ratios (%)							
EBITDA margin	23.9	21.7		19.1		20.9	
Net profit margin	6.2	8.1		6.7		4.1	

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis on per-tonne basis

(Rs/te)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net realisation	4,552	4,150	3,817	4,156	5,004
Raw materials consumed	328	353	427	297	662
Power & fuel	1,058	1,069	959	992	836
Freight cost	1,228	1,195	1,141	1,217	1,162
Staff cost	274	319	259	227	451
Other expenses	674	782	660	632	695
Total costs/te	3,562	3,718	3,445	3,364	3,807
EBITDA/te	990	432	372	792	1,198

Source: Company data, I-Sec research

Table 3: Per tonne estimates

(Rs/te)	FY18	FY19	FY20	FY21E	FY22E
Net realisation	3,858	3,925	4,171	4,338	4,371
Raw material consumed	455	470	350	384	403
Power & fuel	1,011	1,038	1,019	993	1,017
Freight	1,033	1,155	1,194	1,233	1,246
Others	837	784	949	951	932
Total operating expenses	3,337	3,446	3,512	3,561	3,598
Other operating income	10	8	-	-	-
EBITDA/tonne	531	487	659	777	773

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

('000 te)	FY18	FY19	FY20	FY21E	FY22E
Capacity	8,000	8,000	8,000	8,000	8,000
Production	5,746	6,413	5,806	5,109	6,131
Capacity utilisation (%)	72	80	73	64	77
Sales	5,746	6,413	5,806	5,109	6,131
Growth (%)	3.5	11.6	(9.5)	(12.0)	20.0
Realisation (Rs/te)	3,858	3,925	4,171	4,338	4,371
Growth (%)	14.5	1.8	6.3	4.0	0.8

Source: Company data, I-Sec research

Table 5: Earnings revision

(Rs mn)	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	22,164	23,081	(4.0)	26,797	27,081	(1.1)
EBITDA	3,972	3,544	12.1	4,737	4,400	7.7
PAT	1,053	760	38.6	1,586	1,350	17.5

Source: Company data, I-Sec research

Table 6: Valuations based on 6x FY22E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	6
Target EV (Rs mn)	28,421
Net debt / (cash) (Rs mn)	11,267
Target value (Rs mn)	17,155
No. of shares (mn)	205
Target price per share (Rs)	84

Source: I-Sec research

Financial summary (consolidated)

Table 7: Profit and Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	25,172	24,218	22,164	26,797
Operating Expenses	22,101	20,389	18,192	22,060
EBITDA	3,120	3,829	3,972	4,737
% margin	12.4	15.8	17.9	17.7
Depreciation & Amortisation	1,327	1,409	1,409	1,472
Gross Interest	1,185	1,230	1,107	1,051
Other Income	140	177	164	175
Recurring PBT	748	1,367	1,621	2,389
Less: Taxes	272	508	567	803
Net Income (Reported)	476	859	1,053	1,586
Recurring Net Income	476	859	1,053	1,586

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	5,245	5,615	6,221	6,235
Current Liab. & Prov.	4,857	4,391	3,924	4,369
Net Current Assets	389	1,224	2,298	1,866
Investments of which				
Strategic/Group	-	-	-	-
Marketable	-	-	-	-
Net Fixed Assets	24,023	23,383	22,374	24,802
of which				
Capital Work-in-Progress	478	668	668	4,168
Goodwill	-	-	-	-
Total Assets	24,412	24,607	24,672	26,668
of which cash & cash equivalents	288	360	1,671	737
Liabilities				
Borrowings	12,916	12,204	11,404	12,004
Deferred Tax Liability	961	1,219	1,219	1,219
Minority Interest				
Equity Share Capital	205	205	205	205
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	10,330	10,979	11,844	13,240
Less: Misc. Exp n.w.o.				
Net Worth	10,535	11,184	12,049	13,445
Total Liabilities	24,412	24,607	24,672	26,668

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	5,150	5,645	6,545	4,104
% growth (YoY)	(8.2)	(1.1)	(12.8)	(40.3)
Recurring EBITDA	536	550	1,247	982
Margin (%)	10	10	19	24
Other income	41	27	74	56
Recurring Net Income	(77)	(57)	441	256

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,768	2,371	2,269	2,993
Working Capital changes	(209)	(634)	267	(612)
Capital Commitments	(1,212)	(766)	(400)	(3,900)
Net Operating FCF	346	970	2,136	(1,519)
Investing Activities	(11)	(16)	164	175
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(250)	(643)	(800)	600
Dividend paid	(185)	(185)	(188)	(190)
Others	-	-	(0)	(0)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	(100)	127	1,311	(934)

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	2.3	4.2	5.1	7.7
Diluted Recurring EPS	2.3	4.2	5.1	7.7
Diluted Recurring CEPS	8.8	11.1	12.0	14.9
Dividend per share	0.8	0.8	0.9	0.9
Book Value	51	55	59	66
Growth Ratios (% YoY)				
Operating Income	13.6	(3.8)	(8.5)	20.9
EBITDA	2.2	22.7	3.8	19.2
Recurring Net Income	22.8	80.6	22.7	50.6
Diluted Recurring EPS	22.8	80.6	22.7	50.6
Diluted Recurring CEPS	9.3	25.8	8.6	24.2
Valuation Ratios (x)				
P/E	13.6	(3.8)	(8.5)	20.9
P/CEPS	2.2	22.7	3.8	19.2
P/BV	22.8	80.6	22.7	50.6
EV / EBITDA	22.8	80.6	22.7	50.6
EV / te (US\$)	9.3	25.8	8.6	24.2
EV / Operating Income	13.6	(3.8)	(8.5)	20.9
Operating Ratios (%)				
Raw Material / Sales	12.0	8.4	8.9	9.2
Other expenses / Sales	43.2	45.0	43.6	43.8
Other Income / PBT	18.7	13.0	10.1	7.3
Effective Tax Rate	36.4	37.2	35.0	33.6
NWC / Total Assets	0.0	0.0	0.0	0.0
Inventory (x)	6.3	4.4	4.0	4.9
Receivables (days)	24	26	26	22
Payable (days)	33	32	33	27
D/E Ratio (x)	1.3	1.2	0.9	0.9
Profitability Ratios (%)				
Rec. Net Income Margins	1.9	3.5	4.7	5.9
RoCE	5.1	6.7	7.2	8.9
RoNW	4.6	7.9	9.1	12.4
Dividend Payout	32.3	17.9	17.9	12.0

Source: Company data, I-Sec research

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