

Strong show in Q4, focus now on debt reduction...

The company's stellar performance in Q4FY21 was backed by 17.1% YoY jump in sales volumes (1.85 MT) along with strong realisations (up 8.5% YoY) in the company's key operating regions. Asset utilisation also remained healthy @ 93%. In turn, this provided operating leverage benefit leading to sharp margin expansion and robust profitability growth. EBITDA margin improved 530 bps YoY, 174 bps QoQ to 24.4%. The resultant EBITDA/t came in at ₹ 1095/t vs. ₹ 789/t last year and ₹ 1005/t last quarter. PAT for the quarter was at ₹ 99.9 crore (up 126.6% YoY, 85.4% QoQ). The company has declared a dividend of ₹ 1.5/share.

Infra, rural demand to keep demand momentum strong

Orient Cement is a mid-sized (8.0 MT) cost-efficient player in the cement space. The company derives revenues largely from Maharashtra (50%), Telangana, Karnataka and MP. A revival in these markets would help the company improve its performance. Key factors driving demand over FY21-23E are: a) strong rural demand b) irrigation projects c) housing projects in AP/Telangana and infrastructure projects like metro in Mumbai-Pune, Mumbai-Nagpur Expressway, etc. Also, the pricing has improved in the past 15 months. This should lead to better margins, going ahead.

Proximity to raw materials, market provide structural advantage

The company's plants are located close to key raw materials like high quality limestone and coal reserves. Also, Orient Cement's product mix is skewed in favour of PPC, thus enabling higher use of fly ash, resulting in lower raw material cost per ton. Further, lead distance has been ~300 km, indicating products being sold in nearby areas. This has helped the company to keep production cost (CoP) lower than the industry average.

Strong cash flow to aid in significant debt reduction

With targeted sales volume of 6 MT for FY22E, we expect the company to generate EBITDA of over ~₹ 650 crore for FY22E, majority of which would be utilised towards debt repayment. Further, plan to set up another 3.0 MT capacity by FY24E is also in the radar. However, details on its execution will be known later. Besides, de-bottlenecking of 0.5 MT Devapur capacity is under execution, which should come on stream by Q3FY22E.

Valuation & Outlook

The structural cost advantage and presence in rural centric market remain key positives for the company. At the CMP, the stock is still available at attractive valuations of 4.2x on FY23E EV/EBITDA post impressive performance. With a positive outlook, the growth tempo is expected to stay strong, going forward. We value the company at 6x EV/EBITDA and arrive at a target price of ₹ 170/share (earlier ₹ 105) while we maintain **BUY** rating (i.e. at 11x FY23E EPS, implied EV/tonne of \$70/tonne).

Key Financial Summary

| Key Financials | FY19 | FY20 | FY21 | FY22E | FY23E | CAGR (FY21-23E) |
|----------------|------|------|------|-------|-------|-----------------|
| Net Sales | 2522 | 2422 | 2324 | 2771 | 3012 | 13.8% |
| EBITDA | 312 | 383 | 551 | 656 | 694 | 12.3% |
| EBITDA (%) | 12.4 | 15.8 | 23.7 | 23.7 | 23.1 | |
| Net Profit | 48 | 87 | 214 | 305 | 333 | 24.6% |
| EPS | 2.3 | 4.2 | 10.5 | 14.9 | 16.2 | |
| EV/EBITDA | 12.1 | 9.6 | 6.0 | 4.8 | 4.2 | |
| EV/Tonne (\$) | 68 | 66 | 59 | 53 | 49 | |
| RoNW | 4.5 | 7.7 | 16.4 | 19.5 | 17.8 | |
| RoCE | 7.9 | 10.7 | 19.6 | 24.2 | 24.3 | |

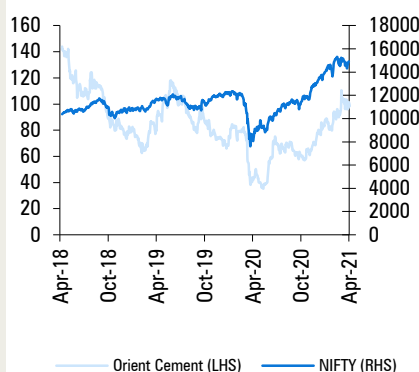
Source: Company, ICICI Direct Research

ORIENT CEMENT

Particulars

| Particulars | ₹ crore |
|-----------------------|----------|
| Market Capitalization | 2582 |
| Total Debt (FY21) | 784 |
| Cash (FY21) | 36 |
| EV (₹ crore) | 3329 |
| 52 week High/Low | ₹ 162/74 |
| Equity Capital | 20.5 |
| Face Value (₹) | 10 |

Price Performance



Key Risk

- Delay or deferral of infrastructure projects by state governments in AP/Telangana can have negative impact on volumes
- The promoter holding remains low at present

Research Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Financial summary

| Exhibit 1: Profit and loss statement | | | | |
|--------------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Total operating income | 2421.8 | 2324.1 | 2770.9 | 3011.9 |
| Growth (%) | -4% | -4% | 19% | 9% |
| Raw Material Expenses | 203.2 | 292.9 | 268.2 | 244.6 |
| Employee Expenses | 154.9 | 152.3 | 166.0 | 180.9 |
| Freight costs | 693.4 | 608.9 | 715.1 | 785.2 |
| Power & Fuel | 591.4 | 450.6 | 619.7 | 695.1 |
| Other expenses | 396.0 | 268.6 | 345.6 | 411.9 |
| Total Operating Expenditure | 2038.9 | 1773.3 | 2114.6 | 2317.6 |
| EBITDA | 382.9 | 550.7 | 656.3 | 694.3 |
| Growth (%) | 22.7% | 43.8% | 19.2% | 5.8% |
| Depreciation | 140.9 | 141.8 | 136.1 | 146.1 |
| Interest | 122.3 | 93.6 | 58.1 | 43.5 |
| Other Income | 17.7 | 18.3 | 18.0 | 19.0 |
| PBT | 137.4 | 333.6 | 480.1 | 523.7 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Tax | 50.8 | 119.4 | 175.2 | 191.1 |
| Reported PAT | 86.6 | 214.2 | 304.9 | 332.5 |
| Adjusted PAT | 86.6 | 214.2 | 304.9 | 332.5 |
| Growth (%) | 82% | 147% | 42% | 9% |
| Adjusted EPS (₹) | 4.2 | 10.5 | 14.9 | 16.2 |

Source: Company, ICICI Direct Research

| Exhibit 2: Cash flow statement | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Profit after Tax | 86.6 | 214.2 | 304.9 | 332.5 |
| Add: Depreciation | 140.9 | 141.8 | 136.1 | 146.1 |
| Add: Finance costs | 122.3 | 93.6 | 58.1 | 43.5 |
| (Inc)/dec in Current Assets | -33.8 | 115.1 | -41.1 | -41.3 |
| Inc/(dec) in CL and Def. tax | -2.1 | 77.8 | 30.0 | 61.3 |
| CF from operating activi | 313.9 | 642.5 | 488.0 | 542.1 |
| (Inc)/dec in Fixed Assets | -76.9 | -51.1 | -188.4 | -265.0 |
| (Inc)/dec in Investments | 0.0 | -115.1 | 0.0 | 0.0 |
| Others | 8.4 | -2.9 | -4.0 | 0.0 |
| CF from investing activi | -68.5 | -169.1 | -192.5 | -265.0 |
| Issue/(Buy back) of Shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | -94.1 | -353.2 | -200.0 | -200.0 |
| Finance costs | -122.3 | -93.6 | -58.1 | -43.5 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes in other equity | -21.8 | -26.6 | -45.5 | -25.0 |
| CF from financing activi | -238.2 | -473.4 | -303.6 | -268.5 |
| Net Cash flow | 7.3 | 0.0 | -8.1 | 8.6 |
| Opening Cash | 28.7 | 36.0 | 36.1 | 28.0 |
| Closing Cash | 36.0 | 36.1 | 28.0 | 36.5 |

Source: Company, ICICI Direct Research

| Exhibit 3: Balance sheet | | | | |
|-----------------------------|---------------|---------------|---------------|---------------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Liabilities | | | | |
| Equity Capital | 20.5 | 20.5 | 20.5 | 20.5 |
| Reserve and Surplus | 1097.9 | 1285.4 | 1544.8 | 1852.3 |
| Total Shareholders funds | 1118.4 | 1305.9 | 1565.3 | 1872.8 |
| Total Debt | 1137.0 | 783.8 | 583.8 | 383.8 |
| Deferred Tax Liability | 115.0 | 174.2 | 171.0 | 180.0 |
| Minority Interest / Others | | | | |
| Total Liabilities | 2370.4 | 2263.9 | 2320.1 | 2436.6 |
| Assets | | | | |
| Gross PPE | 2780.9 | 2857.9 | 2932.9 | 3282.9 |
| Less: Acc Depreciation | 571.1 | 712.9 | 849.0 | 995.1 |
| Net PPE | 2209.9 | 2145.0 | 2083.9 | 2287.8 |
| CWIP | 66.8 | 41.3 | 150.0 | 65.0 |
| Total Fixed Assets | 2276.6 | 2186.3 | 2233.9 | 2352.8 |
| Intangibles | 61.7 | 61.3 | 66.0 | 66.0 |
| Investments | 0.0 | 115.1 | 115.1 | 115.1 |
| Inventory | 236.6 | 170.5 | 183.1 | 187.0 |
| Debtors | 161.8 | 110.2 | 118.3 | 147.7 |
| Loans and Advances | 12.5 | 12.4 | 18.0 | 18.0 |
| Other Current Assets | 74.6 | 77.3 | 92.1 | 100.1 |
| Cash | 36.0 | 36.1 | 28.0 | 36.5 |
| Total Current Assets | 521.5 | 406.4 | 439.4 | 489.3 |
| Creditors | 203.5 | 219.9 | 246.7 | 253.1 |
| Provisions & Others | 319.0 | 321.3 | 327.7 | 373.5 |
| Total Current Liabilities | 522.6 | 541.2 | 574.3 | 626.6 |
| Net Current Assets | -1.0 | -134.8 | -134.9 | -137.3 |
| Others Assets | 33.1 | 36.0 | 40.0 | 40.0 |
| Application of Funds | 2370.3 | 2263.9 | 2320.0 | 2436.6 |

Source: Company, ICICI Direct Research

| Exhibit 4: Key ratios | | | | |
|-----------------------------|---------|------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
| Per share data (₹) | | | | |
| Adjusted EPS | 4.2 | 10.5 | 14.9 | 16.2 |
| Cash EPS | 11.1 | 17.4 | 21.5 | 23.4 |
| BV | 54.6 | 63.7 | 76.4 | 91.4 |
| DPS | 0.8 | 1.5 | 1.0 | 2.0 |
| Cash Per Share | 1.8 | 1.8 | 1.4 | 1.8 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 15.8 | 23.7 | 23.7 | 23.1 |
| EBIT Margin | 10.0 | 17.6 | 18.8 | 18.2 |
| PAT Margin | 3.6 | 9.2 | 11.0 | 11.0 |
| Inventory days | 35.7 | 26.8 | 24.1 | 22.7 |
| Debtor days | 24.4 | 17.3 | 15.6 | 17.9 |
| Creditor days | 36.4 | 45.3 | 42.6 | 39.9 |
| Return Ratios (%) | | | | |
| RoE | 7.7 | 16.4 | 19.5 | 17.8 |
| RoCE | 10.7 | 19.6 | 24.2 | 24.3 |
| RoIC | 11.2 | 21.6 | 28.0 | 26.9 |
| Valuation Ratios (x) | | | | |
| P/E | 29.8 | 12.1 | 8.5 | 7.8 |
| EV / EBITDA | 9.6 | 6.0 | 4.8 | 4.2 |
| EV / Net Sales | 1.5 | 1.4 | 1.1 | 1.0 |
| Market Cap / Sales | 1.1 | 1.1 | 0.9 | 0.9 |
| Price to Book Value | 2.3 | 2.0 | 1.6 | 1.4 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 3.0 | 1.4 | 0.9 | 0.6 |
| Debt / Equity | 1.0 | 0.6 | 0.4 | 0.2 |
| Current Ratio | 1.0 | 0.8 | 0.8 | 0.8 |
| Quick Ratio | 0.5 | 0.4 | 0.4 | 0.5 |

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Rashesh Shah (CA), authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.