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Q4FY21 result review  
and earnings revision

## Cement

Target price: Rs138

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.4	↑ 6.0
EBITDA	↑ 8.8	↑ 15.7
PAT	↑ 28.5	↑ 38.1

### Target price revision

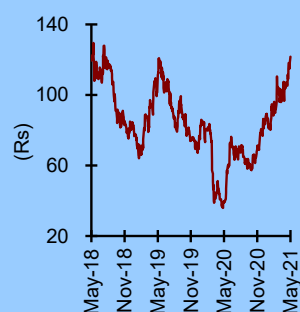
Rs138 from Rs93

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	37.4	37.4	37.4
Institutional investors	29.4	26.6	26.1
MFs and others	21.1	20.7	19.9
FIs/Insurance	5.0	4.4	2.1
FPI	3.3	1.5	2.1
Others	33.2	36.0	36.5

Source: CMIE

### Price chart



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INDIA

**ICICI Securities**

## Orient Cement

**ADD**

**Maintained**

**Rs126**

### Strong show; balance sheet strengthened

Orient Cement's (ORCMNT) Q4FY21 EBITDA at Rs2.0bn (+62% YoY) was ahead of our/consensus estimates, on account of higher realisation and lower costs. Realisation increased 8% YoY/1% QoQ also aided by higher contribution from premium products, while total cost/te was +1% YoY/-1% QoQ at Rs3,400/te due to low-cost fuel inventory, improved efficiencies and higher use of alternate fuels. ORCMNT plans to complete 0.5mnte debottlenecking project by mid-June'21, while it targets to complete 3.0mnte expansion at its Devapur plant by FY24. Net debt declined from Rs12bn in FY20 to Rs6.6bn as on Mar'21. Factoring in the improved realisation, we increase our FY22E-FY23E EBITDA by 9-16% and raise our target price to Rs138/sh (earlier: Rs93/sh) based on unchanged 6x FY23E EV/E. Maintain Add. Key risk: Lower-than-expected demand/pricing.

- **Revenue increased 18% YoY to Rs8.3bn (I-Sec: Rs7.8bn).** Realisation/te was up 1% QoQ (up 8% YoY) to Rs4,495/te (I-Sec: Rs4,451/te) also aided by higher contribution from premium products (~9% of trade sales in Q4FY21 and 10% of trade sales in the month of Mar'21). Management mentioned prices remained largely stable QoQ during Q4FY21. Volumes were up 17.5% YoY to 1.85mnte implying 92.5% utilisation in Q4FY21 (utilisation for the month of Mar'21 was +100%). Non-trade demand witnessed sharp surge in the last 6 weeks of Q4FY21.
- **Targeting 20% YoY volume growth in FY22 with 6mnte volumes:** As per the management, in the first 6 weeks of FY22, industry volumes in the key markets of ORCMNT would have dropped by ~30% (vs usual fall of 10-15% every year) as compared to Q4FY21 levels on account of covid resurgence. While demand from rural housing and large infrastructure projects remained steady, demand from urban housing and small projects have been impacted due to various restrictions and manpower issues. However, the management expects demand to normalise with decline in covid cases, and as and when normalcy resumes.
- **EBITDA increased 62% YoY to Rs2.0bn (I-Sec: Rs1.8bn)** with EBITDA/te increasing 38% YoY to Rs1,095/te (I-Sec: Rs1,024/te) owing to higher realisation and better operating leverage. Total cost/te was +1% YoY/ -1% QoQ at Rs3,400/te. Raw material plus power and fuel costs/te was +2% YoY/ +4% QoQ on account of higher pet coke prices, the impact of which was partially neutralised by low-cost fuel inventory, improved efficiencies and use of alternate fuel. Freight costs/te increased 3% QoQ and 2% YoY owing to higher diesel prices. Further, fixed costs may see usual increase in FY22 on account of increase in employee costs, maintenance expenses and advertisement/marketing costs, after being optimised in FY21.
- **Targeting net debt to come down to Rs1-2bn in FY22** from the current Rs6.6bn: OCF generation was strong at Rs6.2bn during FY20 aided by working capital release of Rs2.2bn. Net debt declined from Rs12bn in FY20 to Rs6.6bn in FY21.

Market Cap	Rs25.8bn/US\$353mn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	ORCE.BO/ORCMNT IN	Revenue (Rs mn)	24,218	23,241	26,920	29,908
Shares Outstanding (mn)	204.9	EBITDA (Rs mn)	3,829	5,507	5,143	5,567
52-week Range (Rs)	126/39	Net Income (Rs mn)	866	2,142	2,098	2,331
Free Float (%)	62.6	% chg YoY	82.1	147.4	(2.0)	11.1
FII (%)	2.1	P/E (x)	29.8	12.1	12.3	11.1
Daily Volume (US\$'000)	1,375	CEPS (Rs)	11.1	17.4	17.5	19.0
Absolute Return 3m (%)	34.7	EV/E (x)	9.9	5.9	5.9	5.5
Absolute Return 12m (%)	229.1	Dividend Yield	0.6	1.6	1.6	1.8
Sensex Return 3m (%)	(2.1)	RoCE (%)	6.7	11.5	10.8	11.2
Sensex Return 12m (%)	69.0	RoE (%)	8.0	17.7	15.1	14.9

Please refer to important disclosures at the end of this report

## Key takeaways from conference call

- During Q4FY21, non-trade segment witnessed a revival in demand. Demand during 9MFY21 was driven by trade segment in rural markets. In Q4FY21 and FY21, demand mix had broadly remained the same with 50-52% coming from west region, 30% coming from south region and the remaining from the central region. As on date, demand is largely coming from rural, semi urban and large projects whereas demand from small projects and IHB remain impacted. The management remained positive on achieving 20% YoY volume growth at 6.0mnte for FY22.
- Blended cement constituted ~59-60% of the total sales volume during Q4FY21.
- Rail: Road mix for the quarter stood at 22:78.
- Central government has given clearance to the state government to permit access of reserves to the company from Devapur mines, Telangana. The mine will be required only when the company has expanded its capacity.
- Environmental clearances have been received for capacity expansion (3.0mnte) of its Devapur plant. While the capacity is expected to go up from 8.0mnte at the end of FY21 to 8.5mnte in mid-June'21, the additional 3.0mnte capacity is expected to get commissioned in FY24, taking the overall capacity to 11.5mnte. The total incremental capex to be incurred stands at Rs20bn (including WHRS capacity expansion) by FY24. Half of the capex will be met through internal accruals and the remaining half through debt.
- The transfer of mine in Rajasthan from Orient Paper to Orient Cement has yet not taken place. The time limit of 3 years for commissioning a plant would be applicable only once the transfer is complete. The company has done an initial assessment of limestone availability which seems encouraging. Rajasthan market remains attractive for the company and it may take up the expansion of 2mnte capacity (out of 3mnte available) once the mining lease is transferred.
- In FY21, the company made a lot of structural changes such as rationalisation of customer base, channel network, trade sales, B2B sales and go to market strategy which resulted in better product, market and customer mix.
- During Q4FY21, mining and royalty expenses had been reclassified from 'other expenses' to 'raw material' cost.

**Table 1: Q4FY21 result review***(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	I-Sec estimates	Variance
Volume including clinker	1.85	1.58	17.5	1.36	36.1	1.76	4.9
Avg Realisation	4,495	4,156	8.2	4,449	1.0	4,451	1.0
<b>Net Sales</b>	<b>8,316</b>	<b>6,545</b>	<b>27.1</b>	<b>6,046</b>	<b>37.5</b>	<b>7,852</b>	<b>5.9</b>
Raw Materials	1,132	792	43.0	744	52.2	687	64.9
Personnel Cost	416	358	16.3	378	10.0	377	10.1
Power and Fuel cost	1,677	1,562	7.4	1,248	34.4	1,695	(1.0)
Freight cost	2,300	1,916	20.0	1,636	40.5	2,229	3.2
Other Expenses	766	671	14.1	674	13.7	1,059	(27.7)
<b>Total Expenses</b>	<b>6,291</b>	<b>5,298</b>	<b>18.7</b>	<b>4,679</b>	<b>34.4</b>	<b>6,047</b>	<b>4.0</b>
<b>EBITDA</b>	<b>2,025</b>	<b>1,247</b>	<b>62.4</b>	<b>1,367</b>	<b>48.2</b>	<b>1,806</b>	<b>12.2</b>
<b>EBITDA/te</b>	<b>1,095</b>	<b>792</b>	<b>38.3</b>	<b>1,006</b>	<b>8.8</b>	<b>1,024</b>	<b>7.0</b>
Interest	159	279	(43.2)	243	(34.8)	224	(29.2)
Depreciation	359	345	4.1	360	(0.3)	355	1.1
Other income	27	74	(63.8)	74	(63.9)	74	(63.8)
<b>Recurring pre-tax income</b>	<b>1,534</b>	<b>696</b>	<b>120.3</b>	<b>837</b>	<b>83.3</b>	<b>1,300</b>	<b>18.0</b>
Extraordinary income/(expense)	-	-	-	-	-	-	-
Taxation	536	256	109.4	299	79.4	489	9.5
<b>Reported net income</b>	<b>999</b>	<b>441</b>	<b>126.7</b>	<b>539</b>	<b>85.4</b>	<b>811</b>	<b>23.1</b>
<b>Recurring net income</b>	<b>999</b>	<b>441</b>	<b>126.7</b>	<b>539</b>	<b>85.4</b>	<b>811</b>	<b>23.1</b>
<b>Ratios (%)</b>							
EBITDA margin	24.4	19.1		22.6		23.0	
Net profit margin	12.0	6.7		8.9		10.3	

Source: Company data, I-Sec research

**Table 2: Historical quarterly analysis on per-tonne basis***(Rs/te)*

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
<b>Net realisation</b>	<b>4,156</b>	<b>5,004</b>	<b>4,677</b>	<b>4,449</b>	<b>4,495</b>
Raw materials consumed	503	799	700	547	612
Power & fuel	992	836	877	918	907
Freight cost	1,217	1,162	1,175	1,204	1,243
Staff cost	227	451	352	278	225
Other expenses	426	553	463	496	414
<b>Total costs/te</b>	<b>3,364</b>	<b>3,803</b>	<b>3,568</b>	<b>3,443</b>	<b>3,400</b>
<b>EBITDA/te</b>	<b>792</b>	<b>1,202</b>	<b>1,109</b>	<b>1,006</b>	<b>1,095</b>

Source: Company data, I-Sec research

**Table 3: Per-tonne estimates***(Rs/te)*

	FY19	FY20	FY21	FY22E	FY23E
<b>Net realisation</b>	<b>3,925</b>	<b>4,167</b>	<b>4,602</b>	<b>4,556</b>	<b>4,602</b>
Raw material consumed	394	553	643	648	660
Power & fuel	1,038	1,019	892	998	1,022
Freight	1,155	1,194	1,206	1,278	1,304
Others	860	746	771	762	759
<b>Total operating expenses</b>	<b>3,446</b>	<b>3,512</b>	<b>3,512</b>	<b>3,686</b>	<b>3,745</b>
Other operating income	8	4	-	-	-
<b>EBITDA/tonne</b>	<b>487</b>	<b>659</b>	<b>1,090</b>	<b>870</b>	<b>857</b>

Source: Company data, I-Sec research

**Table 4: Performance trend and assumptions**

('000 te)

	FY19	FY20	FY21	FY22E	FY23E
<b>Capacity</b>	8,000	8,000	8,000	8,500	8,500
Production	6,413	5,806	5,050	5,909	6,499
Capacity utilisation (%)	80	73	63	70	76
<b>Sales</b>	6,413	5,806	5,050	5,909	6,499
Growth (%)	11.6	(9.5)	(13.0)	17.0	10.0
<b>Realisation (Rs/te)</b>	3,925	4,167	4,602	4,556	4,602
Growth (%)	1.8	6.2	10.4	(1.0)	1.0

Source: Company data, I-Sec research

**Table 5: Earnings revision**

(Rs mn)

(Rs mn)	FY22E			FY23E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	26,920	25,789	4.4	29,908	28,226	6.0
EBITDA	5,143	4,727	8.8	5,567	4,812	15.7
PAT	2,098	1,633	28.5	2,331	1,688	38.1

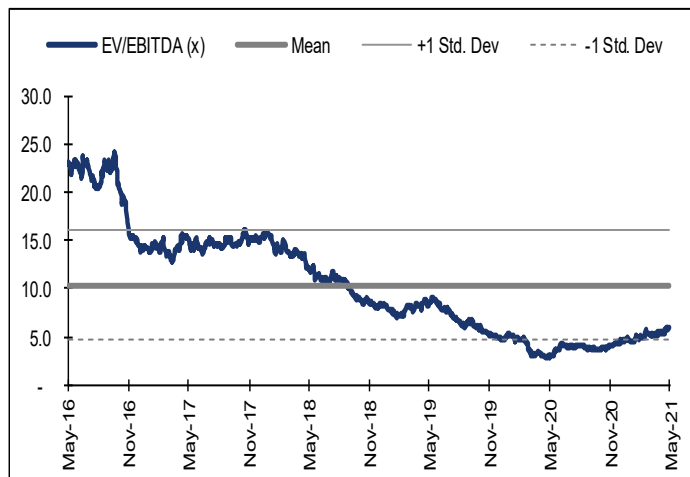
Source: Company data, I-Sec research

**Table 6: Valuations based on 6x FY23E EV/E**

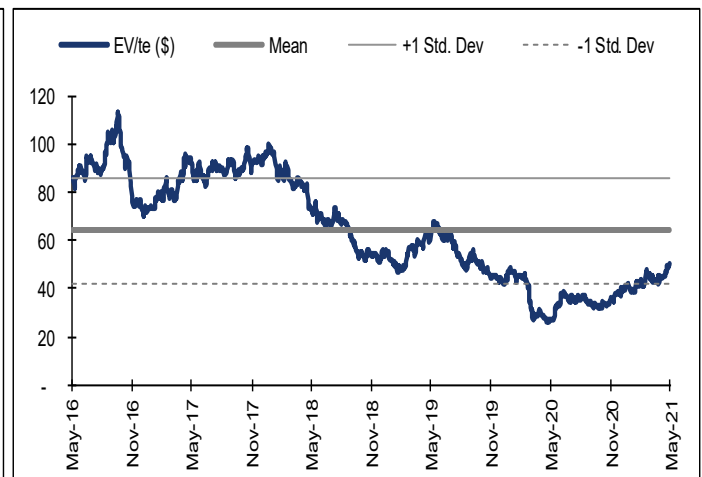
(Rs.mn)

<b>Target EV/ EBITDA multiple (x)</b>	<b>6</b>
Target EV (Rs mn)	33,401
Net debt / (cash) (Rs mn)	5,081
<b>Target value (Rs mn)</b>	<b>28,320</b>
No. of shares (mn)	205
<b>Target price per share (Rs)</b>	<b>138</b>

Source: I-Sec research

**Chart 1: Rolling EV/EBITDA**

Source: I-Sec research

**Chart 2: Rolling EV/te**

Source: I-Sec research

## Financial summary (consolidated)

Table 7: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Income (Sales)</b>	<b>24,218</b>	<b>23,241</b>	<b>26,920</b>	<b>29,908</b>
<b>Operating Expenses</b>	<b>20,389</b>	<b>17,734</b>	<b>21,777</b>	<b>24,341</b>
<b>EBITDA</b>	<b>3,829</b>	<b>5,507</b>	<b>5,143</b>	<b>5,567</b>
% margin	15.8	23.7	19.1	18.6
Depreciation & Amortisation	1,409	1,419	1,482	1,556
Gross Interest	1,223	936	579	579
Other Income	177	183	196	210
<b>Recurring PBT</b>	<b>1,374</b>	<b>3,336</b>	<b>3,278</b>	<b>3,642</b>
Less: Taxes	508	1,194	1,180	1,311
<b>Net Income (Reported)</b>	<b>866</b>	<b>2,142</b>	<b>2,098</b>	<b>2,331</b>
<b>Recurring Net Income</b>	<b>866</b>	<b>2,142</b>	<b>2,098</b>	<b>2,331</b>

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	5,615	4,484	4,688	4,664
Current Liab. & Prov.	4,317	5,162	6,017	6,206
<b>Net Current Assets</b>	<b>1,298</b>	<b>(678)</b>	<b>(1,329)</b>	<b>(1,543)</b>
<b>Investments of which</b>				
Strategic/Group	-	-	-	-
Marketable	-	1,151	1,151	1,151
<b>Net Fixed Assets</b>	<b>23,383</b>	<b>22,486</b>	<b>23,003</b>	<b>25,847</b>
of which				
Capital Work-in-Progress	668	413	1,913	5,913
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>24,681</b>	<b>22,959</b>	<b>22,825</b>	<b>25,455</b>
of which cash & cash equivalents	360	1,512	1,005	507
<b>Liabilities</b>				
<b>Borrowings</b>	<b>12,278</b>	<b>8,088</b>	<b>5,588</b>	<b>5,588</b>
<b>Deferred Tax Liability</b>	<b>1,219</b>	<b>1,811</b>	<b>2,499</b>	<b>3,264</b>
<b>Minority Interest</b>				
Equity Share Capital	205	205	205	205
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	10,979	12,854	14,533	16,398
Less: Misc. Exp n.w.o.				
<b>Net Worth</b>	<b>11,184</b>	<b>13,059</b>	<b>14,738</b>	<b>16,602</b>
<b>Total Liabilities</b>	<b>24,681</b>	<b>22,959</b>	<b>22,825</b>	<b>25,455</b>

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	4,104	4,775	6,046	8,316
% growth (YoY)	(40.3)	(7.3)	7.1	27.1
Recurring EBITDA	985	1,132	1,367	2,025
Margin (%)	24	24	23	24
Other income	56	27	74	27
Recurring Net Income	259	348	539	999

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>2,371</b>	<b>4,052</b>	<b>4,178</b>	<b>4,532</b>
W/cap changes	(634)	2,163	37	(373)
Capital Commitments	(766)	(507)	(2,000)	(4,400)
<b>Net Operating FCF</b>	<b>970</b>	<b>5,708</b>	<b>2,216</b>	<b>(241)</b>
<b>Investing Activities</b>	<b>(16)</b>	<b>(1,140)</b>	<b>196</b>	<b>210</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(643)	(4,309)	(2,500)	-
Dividend paid	(185)	(256)	(420)	(466)
Others	-	-	(0)	0
Extraordinary Items	-	-	-	-
<b>Chg. in Cash &amp; Bank</b>	<b>127</b>	<b>4</b>	<b>(508)</b>	<b>(498)</b>

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	4.2	10.5	10.2	11.4
Diluted Recurring EPS	4.2	10.5	10.2	11.4
Diluted Recurring CEPS	11.1	17.4	17.5	19.0
Dividend per share	0.8	2.0	2.0	2.3
Book Value	55	64	72	81
<b>Growth Ratios (% YoY)</b>				
Operating Income	(3.9)	(3.9)	15.8	11.1
EBITDA	22.7	43.8	(6.6)	8.2
Recurring Net Income	82.1	147.4	(2.0)	11.1
Diluted Recurring EPS	82.1	147.4	(2.0)	11.1
Diluted Recurring CEPS	26.2	56.5	0.6	8.6
<b>Valuation Ratios (x)</b>				
P/E	29.8	12.1	12.3	11.1
P/CEPS	11.3	7.3	7.2	6.6
P/BV	2.3	2.0	1.8	1.6
EV / EBITDA	9.9	5.9	5.9	5.5
EV / te (US\$)	63	54	48	48
EV / Operating Income	1.6	1.4	1.1	1.0
<b>Operating Ratios (%)</b>				
Raw Material / Sales	13.3	14.0	14.2	14.3
Other expenses / Sales	40.2	36.4	38.7	38.8
Other Income / PBT	12.9	5.5	6.0	5.8
Effective Tax Rate	37.0	35.8	36.0	36.0
NWC / Total Assets	0.0	(0.0)	(0.1)	(0.0)
Inventory (x)	5.0	4.5	6.0	5.9
Receivables (days)	26	21	16	16
Payable (days)	32	37	34	33
D/E Ratio (x)	1.2	0.6	0.5	0.5
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	3.6	9.1	7.7	7.7
RoCE	6.7	11.5	10.8	11.2
RoNW	8.0	17.7	15.1	14.9
Dividend Payout	17.7	19.1	20.0	20.0

Source: Company data, I-Sec research

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