

CMP: INR 173

Rating: Buy

Target Price: INR 238

Stock Info

BSE	535754
NSE	ORIENTCEM
Bloomberg	ORCMNT IN
Reuters	ORCE.BO
Sector	Cement
Face Value (INR)	1
Equity Capital (INR mn)	204.9
Mkt Cap (INR mn)	35,391
52w H/L (INR)	186/ 86
Avg. Yearly Vol (in 000')	940

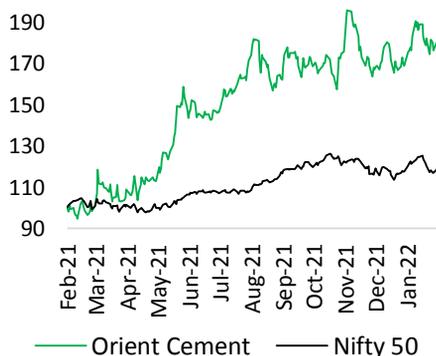
Shareholding Pattern %

(As on December, 2021)

Promoters	37.37
Public & Others	62.63

Stock Performance (%)	1m	3m	12m
Orient Cement	8.8	1.2	85.8
Nifty 50	2.3	(0.8)	21.2

Orient Cement Vs Nifty 50



Orient Cement reported weak set of numbers in Q3FY22 and were below our expectation on all fronts Net Revenue grew by 2.1% YoY, and 0.7% QOQ to INR 6175 mn below our expectation of INR 6816 mn . Topline growth on YOY basis was mainly due to rise in realization/tonne. Sales volume de grew by 10.3% YoY, and 4.7% QOQ to 1.22 mn tonnes below our expectation of 1.41 million tonnes. Volume was impacted amid lower demand. Realization /tonne grew by 13.9% YoY and 5.7% QoQ to INR 5061 above our expectation of INR 4869.

EBIDTA declined by 14% YoY and 12.3% QoQ to INR 1175 mn below our expectation of INR 1500 mn, EBIDTA margin contracted by 358 bps YoY, and 283 bps QoQ to 19%. Higher operating cost and higher employee cost impacted the margin. Operating cost increased by 5.7% YoY and 2.6% QoQ to INR 3833 mn Employee cost increased by 10.1% YoY and 12.7 % QoQ to INR 416 Mn EBIDTA /tonne declined by 4.2% YoY & and 8% QoQ to INR 963/tonne below our expectation to INR 1071/tonne.

PAT declined by 18.9% YoY and 23.2% QoQ to INR 437 Mn below our estimates of INR 613 mn.. PAT margin contracted by 184 bps YoY and 220 bps QoQ to 7.1% in Q3FY22. Poor operating performance, decline in other income and rise in effective tax rate led to contraction in margin.

Outlook and Valuations

At a CMP of INR 173 stock is trading at an EV/EBIDTA multiple of 3.9(x) and 3.0(x) and to its F23E and FY24E Company delivered weak set of numbers in Q3 amid lower volumes and high operating cost .However company is confident of regaining its volume in coming times with increase in sales from B2B segment. Company's replacement cost theory to control the cost will help to drive the margin growth going ahead. Also boost given by government in Union Budget 2022 to infrastructure development will aid cement demand to grow. We believe OCL is well-placed to take advantage of a revival in the cement demand in its operating regions by leveraging its planned capacity expansion, better monitoring of cost drivers, and improving financials We value the stock at 4 (x) EV/EBIDTA to its FY24E EBIDTA of INR 12809 Mn to arrive at a target price of INR 238 and we maintain Buy rating on the stock with an upside potential of 37.8%

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Q3FY22 Results and con call Highlights

INR mn	Q3FY22	Q3FY21	Q2FY22	YOY	QOQ
Net Revenue	6,175	6,046	6,131	2.1%	0.7%
Operating Costs	3,833	3,627	3,736	5.7%	2.6%
Employee cost	416	378	369	10.1%	12.7%
Other Expenses	751	674	686	11.4%	9.5%
EBITDA	1,175	1,367	1,340	-14.0%	-12.3%
<i>EBITDA margin %</i>	<i>19.0%</i>	<i>22.6%</i>	<i>21.9%</i>	<i>-358bps</i>	<i>-283bps</i>
Depreciation	368	360	364	2.2%	1.1%
EBIT	807	1,007	976	-19.9%	-17.3%
Other Income	25	74	30	-66.2%	-16.7%
Finance cost	158	243	149	-35.0%	6.0%
Exceptional Item	-	-	-	-	-
PBT	674	838	857	-19.6%	-21.4%
Tax Expense	237	299	288	-20.7%	-17.7%
Effective tax rate %	35.2%	35.7%	33.6%	-52bps	156bps
PAT	437	539	569	-18.9%	-23.2%
<i>PAT margin %</i>	<i>7.1%</i>	<i>8.9%</i>	<i>9.3%</i>	<i>-184bps</i>	<i>-220bps</i>
EPS (Rs)	2.14	1.70	2.70	25.9%	-20.7%

Con Call Highlights

- Q3FY22 was Soft Quarter for industry backed by extended rain , labour shortage, sand issue and construction ban
- Volume were down by 10.3% YoY and 4.7% QoQ mainly due to some clinker sold in last quarter and cement sales were down 3% sequentially. Volumes to some extent were also impacted as company more focused on realization and margin than increasing volumes due to rising fuel cost. Company choose not to sell in certain non-core markets
- Company has not lost market share in its main area of operation like Maharashtra, Telegana in right parts of Karnataka.
- Company reduced the sales to markets where they don't have their own sales network as net realization is very low till the time cement reaches these areas.
- Markets where difference between trade and Non trade sales is higher and which are far away from plants company choose not to sell to B2B segment.
- Company is confident of picking up volume in B2B segment once it has comfort with fuel cost

Con-Call highlights Continued

- During the quarter November month was the one where the company was most hit in terms of volumes.
- Trade and non trade sales mix for this quarter were 60% and 40% as compared to 52% and 48% in same quarter last year sales mix improved due to company decision to give up sale in B2B segment.
- YTD volumes up by 20% YOY revenue was 28% up YOY backed by partly improved market pricing and company strategy to improve realization.
- Company has increased spending on advertisement for better brand positing
- Average lead distance also improved as company restricted supply to some of markets
- Company follows replacement cost theory to control fuel cost which has helped them to achieve better cost efficiency with regards to other players.
- Company AFR is as high as 18% in this quarter. Company's Clinker fuel is alternate fuel.
- Company debt as on 31st January 2022 is 4600 mn as compared to 5000 mn is December 2021
- Rail dispatches stood at 21% as compared to 18% last year
- Company jargon plant has started receiving regular power supply from company's investment in solar investment
- Devapur plant mines are located in forest area for which forest clearances are required by end of this quarter company will apply for clearance of mines for Devapur plant expansion

Financial Statement

Income Statement

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues	24,218	23,241	30,080	33,880	42,697
Change (%)	-4.0%	-4.0%	29.4%	12.6%	26.0%
Cost of Goods Sold	16,056	13,842	16,544	18,295	22,629
Employee costs	1,549	1,525	1,654	1,863	2,348
Other expenses	2,784	2,366	3,309	3,727	4,910
Total operating Expense	20,389	17,733	21,507	23,885	29,888
EBITDA	3,829	5,508	8,573	9,995	12,809
Other Income	177	183	211	237	299
Depreciation	1,409	1,419	1,465	1,384	1,444
Interest	1,223	936	768	540	360
PBT	1,374	3,336	6,550	8,308	11,304
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	1,374	3,336	6,550	8,308	11,304
Tax	508	1,193	2,343	2,972	4,044
Rate (%)	37.0%	35.8%	35.8%	35.8%	35.8%
PAT	866	2,143	4,207	5,336	7,261
Change (%)	81.3%	147.4%	96.3%	26.8%	36.1%

Source: Company, Aриhant Research

Balance Sheet

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share Capital	205	205	205	205	205
Reserves & Surplus	10,979	12,854	16,777	21,829	28,806
Net Worth	11,184	13,059	16,982	22,034	29,011
Long term debt	11354	7838	6400	4500	3000
Short term debt	3	0	0	0	0
Total Debt	11,357	7,838	6,400	4,500	3,000
Other Liabilities & Provisions	6457	7224	6876	5062	5842
Capital Employed	28,998	28,121	30,258	31,596	37,853
Application of Funds					
Net Block	22,098	21,460	22,160	23,060	24,060
Deffered Tax & other liblity	0	0		0	0
Other Non-Current Assets	2,053	1,806	1,940	1,890	1,840
Non Current Asset	24,151	23,266	24,100	24,950	25,900
Investments	0	0	0	0	0
Debtors	1,618	1,102	1,426	1,606	2,025
Inventories	2,366	1,705	2,448	2,707	3,348
Cash & bank balance	360	362	598	647	649
Loans & advances & other CA	503	1,686	1,686	1,686	5931
Total current assets	4,847	4,855	6,158	6,646	11952
Total Assets	28,998	28,121	30,258	31,596	37853

Financial Statement

Cash Flow Statement

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	1,374	3,336	6,550	8,308	11,304
Depreciation	1,409	1,419	1,465	1,384	1,444
Interest & others	1,178	904	735	507	327
Cash flow before WC changes	3,860	5,568	8,750	6,799	5,875
(Inc)/dec in working capital	-635	2,163	-3,440	-185	-217
Operating CF after WC changes	3,225	7,731	5,310	6,614	5,658
Less: Taxes	-307	-590	-2,343	-2,972	-4,044
Operating cash flow	2,918	7,141	2,967	3,642	1,614
(Inc)/dec in F.A + CWIP	-766	-507	-700	-900	-1,000
(Pur)/sale of investment	0	0	0	0	0
Cash flow from investing	-732	-1,616	-668	-868	-968
Free cash flow (FCF)	2,134	6,627	2,267	2,742	614
Loan raised/(repaid)	-600	-4,306	-1,000	-1,900	0
Equity raised	0	0	0	0	0
Interest & others	-1,206	-932	-768	-540	-360
Dividend	0	-212	-284	-284	-284
Cash flow from financing activities	-2,059	-5,521	-2,052	-2,724	-644
Net inc /(dec) in cash	126	4	247	50	2
Opening balance of cash	220	346	350	598	647
Closing balance of cash	346	350	598	647	649

Source: Company, Aриhant Research

Key Ratios

Y/E March (Rs Mn)	FY20	FY21	FY22E	FY23E	FY42E
Per share (Rs)					
EPS	4.2	10.5	20.5	26.0	35.4
CEPS	11.1	17.4	27.7	32.8	42.5
BVPS	545.6	637.0	828.4	1074.8	1415.2
Valuation (x)					
P/E	41.0	16.6	8.4	6.6	4.9
P/CEPS	8.6	5.5	3.4	2.9	2.2
P/BV	0.3	0.3	0.2	0.2	0.1
EV/EBITDA	12.1	7.8	4.8	3.9	3.0
Return Ratios (%)					
Gross Margin	33.7%	40.4%	45.0%	46.0%	47.0%
EBIDTA Margin	15.8%	23.7%	28.5%	29.5%	30.0%
PAT Margin	3.6%	9.2%	14.0%	15.8%	17.0%
ROE	7.7%	16.4%	24.8%	24.2%	25.0%
ROCE	10.7%	19.6%	30.4%	32.5%	35.5%
Leverage Ratio (%)					
Total D/E	1.0	0.6	0.4	0.2	0.1
Turnover Ratios					
Asset Turnover (x)	0.8	0.8	1.0	1.1	1.1
Inventory Days	54	45	54	54	54
Receivable Days	24	17	17	17	17
Payable days	27	29	22	22	24

Source: Company, Aриhant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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