AXIS SECURITIES

Result Update
07rd Aug, 2024

Orient Cement Limited
Cement

SELL
Target Price
300

Capacity Expansion Delayed; Downgrade To SELL

Est. Vs. Actual for Q1FY25: Revenue – MISS; EBITDA Margin – BEAT; PAT – INLINE

Change in Estimates post Q1FY25 (Abs)

FY25E/FY26E – Revenue: -6%,-5%; **EBITDA:** -18%,-12%; **PAT:** -22%,-16%

Recommendation Rationale

- **Capacity expansion delayed:** The company's capacity expansion at its Chitapur plant in Karnataka (3 mtpa Clinker and 3 mtpa Grinding unit) is awaiting environmental clearance, with work expected to start by Q3FY25. The plant is anticipated to be commissioned in the next 15-18 months. Additionally, the expansion at the Devapur plant is delayed due to pending forest clearance from the relevant authorities.
- **Revised cement volume growth guidance for FY25/26:** Due to delays in ongoing capacity expansion and a substantial decline in volume growth in Q1FY25, we have revised our volume growth guidance for FY25/FY26 from 6.7 mtpa/7.4 mtpa to 6.2 mtpa/6.7 mtpa, representing a decline of 7%/9%, respectively. Accordingly, we have adjusted our estimates for FY25/FY26, also considering the weaker pricing environment.
- **Robust cement demand outlook:** The overall cement demand is expected to remain resilient due to the government's focus on infrastructure development, the Housing for All initiative, and strong real estate demand. We estimate the industry will grow at a CAGR of 8%-9% over FY23-FY26E.

Sector Outlook: Positive

Company Outlook & Guidance: The company refrained from giving Volume growth guidance since Q1FY25 saw substantial decline in volume growth. Pricing is soft and are down by 2-3 percent since Q1FY25 prices.

Current Valuation: 11xFY26E EV/EBITDA; (Earlier Valuation: 9x FY26E EV/EBITDA)

Current TP: Rs 300/share (Earlier TP: Rs 220/share)

Recommendation: We change our rating from **HOLD to SELL o**n the stock.

Alternative BUY Ideas from our Sector Coverage

UltraTech Cement Ltd (TP- Rs 12,400/ Share), Dalmia Bharat (TP-Rs2,120/Share), Ambuja Cements Ltd (TP-Rs 750/share), JK Lakshmi (TP:Rs 950/share), JK Cement Ltd (TP-4920/share).

Financial Performance

OCL reported a mixed set of numbers for Q1FY25. Revenue and EBITDA declined by 16% and 3% YoY, respectively, falling below expectations. The company experienced a substantial decrease in volume, down by 15% YoY and 22% QoQ, totaling 1.36 mtpa. PAT stood at Rs 37 Cr, largely flat YoY, as the company chose not to sell cement at unremunerative prices.

OCL reported an EBITDA margin of 13.8%, exceeding expectations of 12.5% and improving from 12% YoY. This positive performance was attributed to lower costs and stable realizations. EBITDA per tonne was Rs 708, surpassing expectations and reflecting a 13% YoY increase. Realization per tonne was Rs 5,135, remaining flat QoQ and down 1% YoY. The cost per tonne decreased by 3% YoY to Rs 4,427, driven by a 13% YoY reduction in power and fuel costs on a per-tonne basis.

Outlook: The cement demand is expected to remain robust, driven by increased Capex towards infrastructure, affordable housing, and real estate demand in its operating region. We expect the company to grow its Volume/Revenue/EBITDA/APAT at 5%/6%/18%/25% CAGR over FY23-FY26E.

Valuation & Recommendation

The stock is currently trading at 15x and 12.5x FY25E/FY26E EV/EBITDA, higher than its 10-year average EV/EBITDA multiple of 11x. We, therefore, change our rating on the stock from **HOLD** to **SELL** with a TP of Rs 300/share, implying a downside of 11% from CMP.

Key Financials

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	696	-22	-16	805	-14%
EBITDA	96	-35	-3	96	-4%
EBITDA Margin	13.8%	(290bps)	180bps	12.5%	130bps
Net Profit	37	-46	-1	36	1%
EPS (Rs)	1.79	-46	-1	1.8	1%

Source: Company, Axis Securities Research

(CMP as of 6th Aug, 2024)

CMP (Rs)	339
Upside /Downside (%)	(11)
High/Low (Rs)	370/161
Market cap (Cr)	6,963
Avg. daily vol. (6m)Shrs.	19,06,000
No. of shares (Cr)	20.5

Shareholding (%)

	Sept-23	Dec-23	June-24
Promoter	37.9	37.9	37.9
FIIs	6.3	6.7	7.0
MFs / UTI	9.4	9.7	13.6
Banks / FIs	0.1	0.1	0.1
Others	46.3	45.6	41.5

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	3,185	3,188	3,508
EBITDA	449	463	594
Net Profit	175	184	239
EPS (Rs)	9	9	12
PER (x)	40	38	29
P/BV (x)	4.0	3.6	3.3
EV/EBITDA (x)	15	15	13
ROE (%)	10	10	11

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-6%	-5%
EBITDA	-18%	-12%
PAT	-22%	-16%

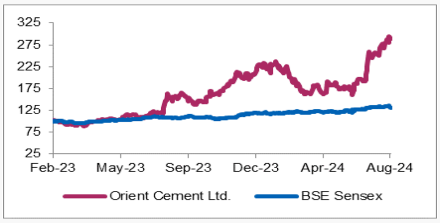
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	50

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity

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Key Result Highlights

- **Capacity Expansion:** The company's capacity expansion at its Chittapur plant in Karnataka (3 mtpa Clinker and 3 mtpa Grinding unit) is awaiting environmental clearance from the government, and work is expected to commence post-Q2FY25. This will entail a Capex of Rs 1,500 Cr. It has received final approval to set up a 2 mtpa grinding unit in Sarni, MP, from the State Electricity Board, with minor modifications in terms and conditions for which the company is negotiating with the authority. This will entail a capital outlay of Rs 500 Cr. These units are expected to be operational by Q2-Q3FY27.

- **The set-up of 1 MTPA grinding unit and 2 MTPA clinker units in the Devapur plant** will follow the set-up of the grinding unit in MP. Devapur plant would support the Grinding unit in MP in terms of clinker supply. Setting up another line in Devapur requires environmental clearance from the forest department which is awaited.

- **Rajasthan Expansion:** The company has received the signed mining lease deed from the State government and is scouting for land to set up a cement manufacturing unit of 3.2 mtpa. The land is expected to cost Rs 100 Cr.

- **WHRS capacity at the Chitapur plant:** The WHRS plant is now fully operational, and the benefits have started to accrue. During the quarter, the company realized a benefit of Rs 9 Cr in power costs supported by WHRS. The company expects savings of Rs 55-60 Cr in power costs in FY25, which will entail savings of Rs 80-90/tonne in overall power/fuel costs in FY25.

- **Volume Growth:** Volume growth declined by 15% YoY to 1.36 mtpa, due to soft demand experienced in April and May 2024. The company refrained from selling cement at unremunerative prices, while slightly better demand from the non-trade segment partially helped mitigate the soft trade demand. The company has opted not to provide volume growth guidance and intends to reassess this after Q2FY25. The western region contributed 68%, the South 24%, and the remaining 8% came from MP of the overall volume during the quarter. The company expects volume growth to be higher in H2FY25, as a better monsoon is anticipated to sustain elevated cement demand.

- **Trade–Non-Trade Mix:** During the quarter, the trade and non-trade mix stood at 44:56 compared to 45:55 QoQ. Premium products constituted 23% of overall trade sales, and the company aims to increase this to 25% of trade sales moving forward. Blended cement sales accounted for 54%, with the balance being OPC. The company hopes to build on the sale of premium cement going forward.

- **Pricing:** Cement prices are currently down by 2-3% compared to Q1FY25, and management expects prices to remain soft given the current demand environment. During the quarter, the company did not resort to selling cement at unremunerative prices and maintained price discipline. Realization was flattish QoQ and down by 1% YoY at Rs 5,135/tonne. The company is aligning its pricing with that of large brands.

- **Power/Fuel:** The fuel mix was 40% domestic coal, 42% pet coke, and the balance was AFR (Alternative Fuel and Raw Materials) and renewable power. On a KCAL basis, fuel cost stood at Rs 1.78, compared to Rs 2.10 YoY and Rs 1.78 QoQ. The Devapur plant operates on domestic coal and renewable power, while the Chitapur plant uses pet coke. The share of green power in total power consumption now stands at 24%. The company aims to increase the share of green power moving forward.

- **Freight:** Lead distance during the quarter was around 300 km. On a tonne basis, freight cost was higher by 3% YoY and 2% QoQ, at Rs 1,416/tonne. The rail/road mix was 16% and 84%, respectively, during the quarter.

- **Capex:** Since construction work on the new plant has been delayed by a few months, management guided that the majority of the capex will be incurred in FY26. The company has guided for capex of Rs 200-300 Cr in FY25.

Key Risks to Our Estimates and TP

- Lower realization and demand in its key market. Delay in capacity expansion.

- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	3,188	3,508	3383	3711	-6%	-5%
EBITDA	463	594	566	677	-18%	-12%
PAT	184	239	236	286	-22%	-16%

Source: Company, Axis Securities Research

Result Review Q1FY25

(Rs Cr)	Quarterly Performance				
	Q1FY25	Q4FY24	QF1Y24	% Chg QoQ	% Chg YoY
Net sales	696	888	825	-22%	-16%
Expenditure	600	740	726	-19%	-17%
EBITDA	96	148	99	-35%	-3%
Other income	6.13	7.5	4	-18%	38%
Interest	5.6	8.0	10	-29%	-42%
Depreciation	39	38	37	2%	5%
PBT	58	110	57	-47%	1%
Tax	21	42	20	-49%	5%
APAT	37	68	37	-46%	-0.9%
EBITDA margin (%)	13.8%	16.7%	12.0%	(290bps)	180bps
EPS (Rs)	1.79	3.33	1.81	-46%	-1%

Source: Company, Axis Securities Research

Volume/ Realization / Cost Analyses

(Rs Cr)	Quarterly Performance				
	Q1FY25	Q4FY24	QF1Y24	% Chg QoQ	% Chg YoY
Volume/mnt	1.36	1.73	1.59	-21%	-15%
Realisation/tonne (Rs)	5135	5145	5,193	0%	-1%
Cost/tonne (Rs)	4427	4287	4,569	3%	-3%
Raw material/tonne (Rs)	695	752	774	-8%	-10%
Staff Cost/tonne (Rs)	375	250	296	50%	26%
Power & Fuel/tonne (Rs)	1351	1349	1,557	0%	-13%
Freight/tonne (Rs)	1416	1392	1,372	2%	3%
Other Expenses /tonne (Rs)	590	544	568	8%	4%
EBITDA/tonne (Rs)	708	858	624	-17%	13%

Source: Company, Axis Securities Research

Financials

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	2938	3185	3188	3508
Other operating income	0	0	0	0
Total income	2938	3185	3188	3508
Raw Material	386	461	456	493
Power & Fuel	928	894	838	889
Freight & Forwarding	787	845	879	940
Employee benefit expenses	166	184	193	205
Other Expenses	305	352	359	388
EBITDA	**365**	**449**	**463**	**594**
Other income	12	16	17	14
PBIDT	377	465	480	608
Depreciation	147	149	158	169
Interest & Fin Chg.	38	34	34	65
E/o income / (Expense)	0	0	0	0
Pre-tax profit	192	281	289	374
Tax provision	69	107	104	134
RPAT	123	175	184	239
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	**123**	**175**	**184**	**239**

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	2877	2855	3406	4030
Net Block	1943	1929	2154	2756
CWIP	140	89	89	89
Investments	0	0	350	300
Wkg. cap. (excl cash)	305	336	335	365
Cash / Bank balance	69	76	56	82
Misc. Assets	419	426	423	438
Capital employed	2877	2855	3406	4030
Equity capital	20	20	20	20
Reserves	1583	1723	1887	2105
Minority Interests	0	0	0	0
Borrowings	98	71	471	871
DefTax Liabilities	287	338	338	338
Other Liabilities and Provision	888	704	691	696

Source: Company, Axis Securities Research

Cash Flow (Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	192	281	289	374
Depreciation	147	149	158	169
Interest Expenses	38	34	34	65
Non-operating/ EO item	-5	-6	-17	-14
Change in W/C	-227	18	1	-30
Income Tax	34	50	104	134
Operating Cash Flow	**111**	**426**	**360**	**429**
Capital Expenditure	-130	-79	-383	-772
Investments	10	0	0	0
Others	0	-6	-333	64
Investing Cash Flow	**-120**	**-86**	**-715**	**-707**
Borrowings	84	33	400	400
Interest Expenses	-29	-30	-34	-65
Dividend paid	-46	-36	-31	-31
Others	26	-300	0	0
Financing Cash Flow	**35**	**-334**	**336**	**304**
Change in Cash	26	7	-20	26
Opening Cash	43	69	76	56
Closing Cash	69	76	56	82

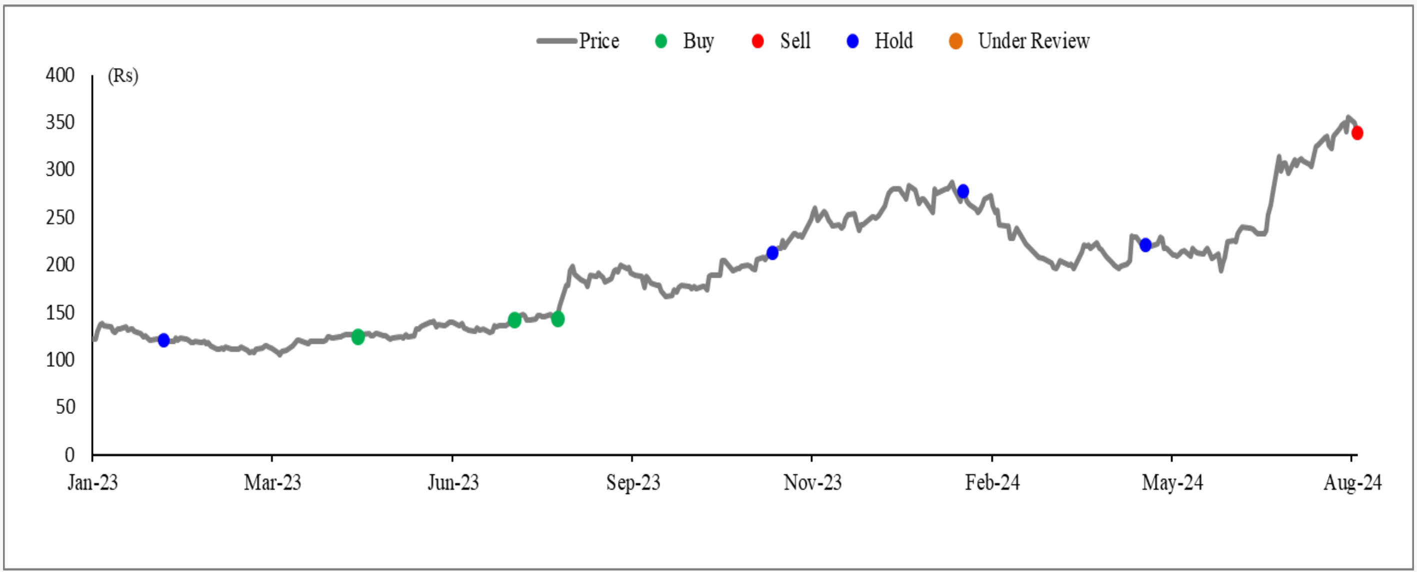
Source: Company, Axis Securities Research

Ratio Analysis (%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Gross profit margin	28%	31%	32%	34%
EBITDA margin	12.4%	14.1%	14.5%	16.9%
PAT margin	4%	5%	6%	7%
COGS / Net sales	72%	69%	68%	66%
Overheads/Net sales	16%	17%	17%	17%
Depreciation / G. block	5.0%	4.8%	4.0%	4.0%
Growth Indicators				
Sales growth	8%	8%	0%	10%
EBITDA growth	-38%	23%	3%	28%
PAT growth	-53%	42%	5%	30%
Efficiency Ratios				
Total Asset Turnover (x)	1.0	1.0	0.9	0.8
Sales/Gross block (x)	1.0	1.0	0.9	0.8
Sales/Net block(x)	1.4	1.5	1.5	1.4
Working capital/Sales (%)	0.25	0.25	0.25	0.24
Valuation Ratios				
PE (x)	48.4	39.7	37.7	29.0
P/BV (x)	3.7	4.0	3.6	3.3
EV/Ebitda (x)	16.4	15.4	15.1	12.5
EV/Sales (x)	2.0	2.2	2.2	2.1
MCap/ Sales (x)	2.0	2.2	2.2	2.0
EV/Tonne $	85	98	99	105
Return Ratios				
ROE	7.7	10.0	9.7	11.2
ROCE	11	15	13	14
ROIC	12	15	15	16
Leverage Ratios				
Debt / equity (x)	0.1	0.0	0.2	0.4
Net debt/ Equity (x)	0.0	0.0	0.0	0.2
Debt service coverage ratio (x)	2.9	3.9	4.0	5.5
Interest Coverage ratio (x)	6.1	9.2	9.6	6.7
Payout ratio (Div/NP)	25	18	17	13
AEPS (Rs)	6.0	8.5	9.0	11.7
AEPS Growth (%)	-53%	42%	5%	30%
CEPS (Rs)	13	16	17	20
DPS (Rs)	2	2	2	2

Source: Company, Axis Securities Research

Orient Cement Price Chart and Recommendation History



Date	Reco	TP	Research
03-Feb-23	HOLD	130	Result Update
04-May-23	BUY	150	Result Update
17-Jul-23	BUY	165	Result Update
04-Aug-23	BUY	160	Result Update
13-Nov-23	HOLD	215	Result Update
07-Feb-24	HOLD	260	Result Update
02-May-24	HOLD	220	Result Update
07-Aug-24	SELL	300	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
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Note: Returns stated in the rating scale are our internal benchmark.

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