

# Orient Cement (ORCMNT)

**BUY**

Sector: Cement /Small Cap | Earnings Update –1QFY19

3 August 2018

**Background:** Orient Cement, a CK Birla group company, formed in 2012 following the demerger from Orient Paper and Industries Ltd, is a mid-sized south based cement manufacturer. The company emerged as one of the fastest growing and leading cement manufacturer in India with a capacity of 8 MTPA with clinker manufacturing capacity ~6 MTPA and captive power capacity of 50MW. The Company is primarily engaged in the manufacture and sale of Cement and its manufacturing facilities at present are located at Devapur (3 MTPA) in Telangana, Chittapur (3 MTPA) in Karnataka and Jalgaon (2 MTPA) in Maharashtra.

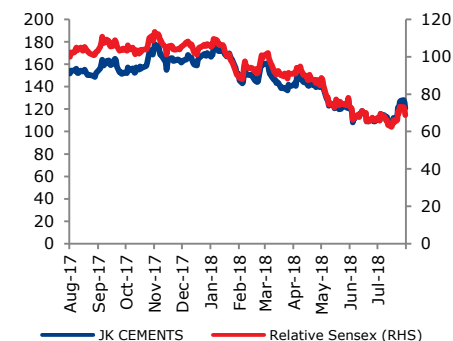
Sensex	37,431
Nifty	11,324
Price	INR 118
Target Price	INR 153
Recommendation	BUY
52 Week High/Low	INR 184/105
Bloomberg / Reuters	ORCMNT IN/ ORCE.BO
Equity (shares in mn)	204.9
Mkt. Cap in bn	INR 24.2/ \$0.4
Avg. Daily Vol. ('000)	140.4
Avg. Daily Vol. (mn)	INR 16.6/\$ 0.3

Shareholding	Jun-17	Mar-18	Jun-18
Promoters (%)	37.50	37.50	37.37
FII (%)	7.53	6.95	6.99
DII (%)	24.96	26.74	27.33
Others (%)	30.01	28.81	28.31
Pledge (% of promoter holding)	7.55	7.58	7.58

## Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	22.22	25.43	29.41
EBITDA	3.05	3.26	4.60
Adj PAT	0.44	0.90	2.00
Adj EPS	2.15	4.38	9.74
% growth	-	103.99	122.29
PE	54.94	26.93	12.12
P/BV	2.40	2.26	2.01
EV/EBITDA	10.95	9.74	6.41
EV/Sales	1.50	1.25	1.00
Div Yield (%)	0.50	1.02	2.23
ROE (%)	4.41	8.64	17.56
Net Debt/Equity	0.91	0.70	0.44

Performance %	1M	3M	12M
Orient	8.3	-16.5	-20.6
SENSEX	6.1	6.9	15.5



## Sequentially healthy quarter led by strong realizations

- Orient Cement posted a revenue growth of 13% YoY to INR 6.4bn largely led by volume growth of 14% YoY to 1.6mn ton. Realisation/ton for the quarter dropped by 1.4% YoY (+8% QoQ) to INR 3,999. Realisation improved on QoQ basis mainly on account of rise in prices in its key markets (Maharashtra & AP/ Telangana regions) and higher FOR sales.
- Raw material costs grew by 14%YoY to INR 799mn (Raw material cost/ton rose marginally by 0.4% YoY to INR 499). Freight costs increased by 34% YoY to INR 1,866mn (Freight cost/ton increased by 17.0% YoY to INR 1,167) on account of rising fuel prices, and higher freight on road sales. The company's average lead distances, continues to be one of the lowest at ~300kms.
- Power & Fuel costs increased by 29% YoY to INR 1,778mn (Power & Fuel costs/ton increased by 13% YoY and 10% QoQ to INR 1,111) due to rise in coal and pet coke prices. Employee cost during the quarter grew by 17% YoY to INR 399.7mn. As a result, EBITDA margin contracted by 723 bps YoY to 13.4%.
- Although, EBITDA fell by 27% YoY, it was up by 15% sequentially to INR 855mn. EBITDA/tn improved by 20% QoQ (0.2% YoY) to INR 534 mn.
- PAT stood at INR 160mn down 59% YoY (+24% QoQ). The growth in PAT on QoQ prices is mainly on account of improved pricing and realization during 1QFY19, coupled with lower interest costs (-12% YoY).
- During the quarter, management had announced that the deal with JP associates to acquire two plants, which was pending statutory approvals till 4QFY18, has been called off.

**Valuation:** Orient Cement has delivered a reasonably strong quarter and is well placed to capitalize on the likely uptick in cement demand in its key markets. The demand growth is expected to be led by strong project pipeline from affordable housing and metro projects of state government of Telangana and Maharashtra (~75% of sales). Healthy volume growth coupled with uptick in realization in key market and moderation in debt levels will drive the EPS growth. At CMP of INR 118, the stock is trading at EV/EBITDA 9.7X and 6.4X FY19E & FY20E respectively. We maintain a BUY rating on the stock with a revised target price of INR 153, assigning a multiple of 8X on EV/EBITDA of FY20E.

**Risk:** Slowdown in economy and elevated cost pressures.

## Results Summary 1QFY19

Y/E March ( INR mn)	1QFY19	1QFY18	YoY Growth	4QFY18	QoQ Growth
<b>Revenue</b>	6399.0	5680.0	12.7%	6197.4	3.3%
<b>EBITDA</b>	854.4	1169.1	-26.9%	746.0	14.5%
<b>Depreciation</b>	324.2	310.3	4.5%	313.5	3.4%
<b>Other Income</b>	33.4	63.1	-47.1%	33.9	-1.5%
<b>PBT</b>	269.6	589.0	-54.2%	182.9	47.4%
<b>Tax</b>	109.2	199.4	-45.2%	54.3	101.1%
<b>PAT</b>	160.4	389.6	-58.8%	128.6	24.7%
<b>Adjusted PAT*</b>	160.4	389.6	-58.8%	128.6	24.7%
<b>EBITDA Margin (%)</b>	13.4	20.6		12.0	
<b>Tax Incidence(%)</b>	40.5	33.9		29.7	
<b>Adj PAT Margin (%)</b>	2.5	6.9		2.1	

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