

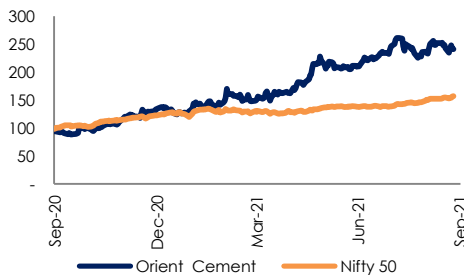
Orient Cement Ltd.
Cement

Date	1-Oct-2021
CMP	INR 157
Target Price	INR 190
Potential Upside	21%

Market Data	
O/S Shares (In Cr)	20.49
Mkt Cap (INR Cr)	3,216
52 Wk H/L (INR)	173/57
3M Volume Avg ('000)	1,070
Face Value	1
Bloomberg Code	ORCMNT IN

BSE Sensex	58,766
NSE Nifty	17,532

Comparative Price Chart



Shareholding Pattern

Particulars	June 21	Mar 21	Dec 20
Promoters	37.37	37.37	37.37
FII	4.43	2.09	1.48
DII	20.64	24.08	25.13
Others	37.56	36.46	36.02

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Key Financials

Particulars (in Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue	2,311	2,522	2,422	2,324	2,871	3,416
EBITDA	305	312	383	551	617	765
PAT	44	48	87	214	359	411
Adj. EPS (INR)	2.16	2.32	4.23	10.45	17.52	20.07
EBITDA Margin (%)	13.2%	12.4%	15.8%	23.7%	21.5%	22.4%
EV/EBITDA	14.9	14.5	11.5	7.4	5.6	4.9
P/B	3.1	3.1	2.9	2.5	1.9	1.6
P/E	72.7	67.6	37.1	15.0	9.0	7.8

Orient Cement started its business operations in the year 1979. Formerly, a part of Orient Paper & Industries, it demerged in the year 2012. It started its operation from Adilabad District, Telangana. It is one of the leading cement manufacturers in India with a cement manufacturing capacity of 8 MTPA, clinker capacity of 5.5 MTPA and captive power capacity of 95 MW. The Company's manufacturing facilities located in Devapur, Telangana (3 MTPA), Chittapur Karnataka (3 MTPA) and Jalgaon (2 MTPA) in Maharashtra help it cater the respective state's markets. The company manufactures Pozzolana Portland Cement (PPC) & Ordinary Portland Cement (OPC) branded as Birla.A1, Birla.A1 Premium Cement and Birla.A1 StrongCrete. The company is planning to expand its capacity to 11.5 MTPA by early FY24 and add another 3 MTPA by FY26, totaling its overall capacity to 14.5 MTPA. The company is led by Mr. C.K. Birla (Chairman), who heads the overall CK Birla Group as well.

INVESTMENT RATIONALE

Expansion of capacity to 11.5 MTPA by FY24 and to 14.5 MTPA by FY26

Orient Cement will expand capacity to 11.5 MTPA by FY24 in the first phase and add another 3 MTPA capacity in the next phase by FY26. The Devapur plant of currently 3 MTPA is going through de-bottlenecking for enhancing it by 0.50 MTPA by Aug 2021 end. They have expansion plans of Devapur plant by 3 MTPA at a Capex cost of Rs 1,600 Cr for commissioning by early FY24. Orient Cement will add another 3 MTPA to its Chittapur plant ready for commissioning by FY26.

Won arbitration on Transfer charges for Transfer of Mines

After 2012 when it demerged from Orient Paper, the transfer of a limestone mine originally owned got delayed and later Transfer Charges on the controller rights have come in favor of Orient Cement. The mine has limestone reserves of 100 million tonnes, and once able to operationalize it, the mine will supply limestone for next 40-50 years. The company plans to operationalize the mine before FY24, and if so, will establish a greenfield cement unit of 2.0 MTPA in Rajasthan as it seeks to enter new geographies. In that case, they will defer the Chittapur plant expansion plans.

Wide Valuation Gap to be covered as the Performance improves and scale widens in future

Orient Cement is way undervalued at only \$ 76 per tonne (as of CMP) relative to industry average of around 140-150 \$ per tonne. Cement manufacturers with installed capacity of around 20 MTPA, which includes the top 6 players are valued at an average of \$ 242 per tonne, while the sub 10-20 MTPA capacities players are valued at an average of \$ 118 per tonne and the comparable cement makers between 5-10 MTPA capacities at an average of \$ 82 per tonne.

Significant reduction of Debt by FY22 end

The company has reduced its debts from Rs 784 Cr to Rs 652 Cr as of June 2021. Along with its cash in hand, net debt stands at around Rs 580 Cr as of June 2021, and the Management intends to bring it further down to around Rs 100 Cr by end of FY22. Its healthy free cash flows will decide the extent of debt raising for its future capex plans under the broad guidelines of keeping it below levels of 1.5x Debt/Equity ratio and 3.0x Debt/EBITDA.

Valuation and Outlook

We expect cement consumption to stay robust over next several years in India driven by both Governments spending in infrastructure as well as pent-up demand after Covid blow. Orient Cement has good presence in their local markets in 3-4 states. At current realization, Orient Cement will replicate their H2FY21 capacity utilization above 70% from H2FY22 & beyond. Currently, Orient Cement is trading at 5.1x/4.9x EV/EBITDA of FY22/23E respectively. Therefore, **we recommend Orient Cement with a BUY rating with a Target Price of Rs 190 per share at 5.7x EV/EBITDA for FY23E.**

Capex Plans of Orient Cement

Orient Cement's Management have declared of their plans for further capex over the next 5 years which will increase their Installed capacity to 11.5 MTPA by FY24 and addition of another 3.0 MTPA in the next 2 years taking the overall installed capacity to 14.5 MTPA by FY26. The Investment for these expansion plans will cost Rs 1,600 Cr for the first phase of expansion and Rs 2,000 Cr for the next phase of expansion. Capex over the next 5 years will involve:

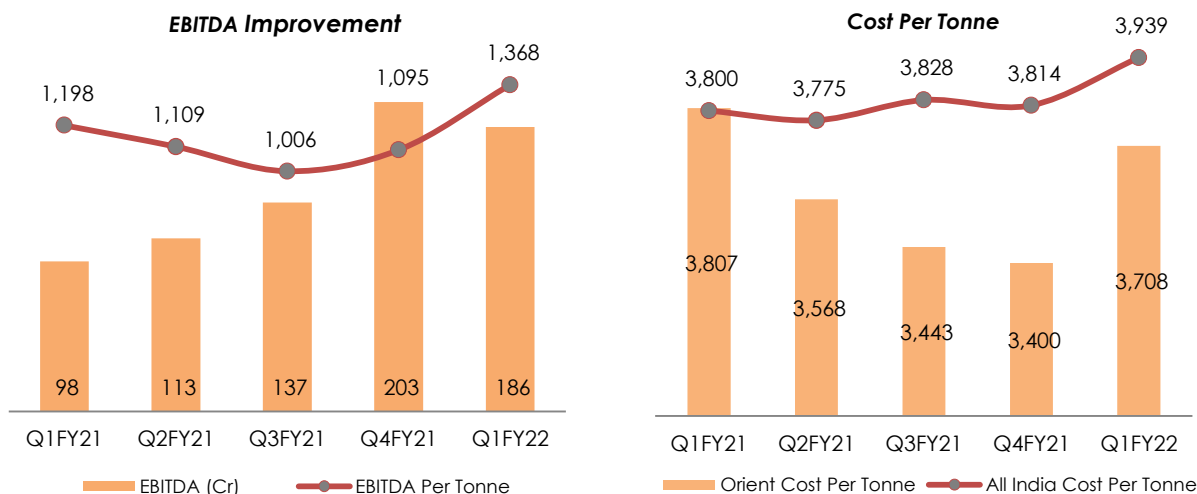
- De-bottlenecking of Devapur Cement plant which is in the final stages as of Aug 2021 will increase the capacity further by 0.5 MTPA. The company's capex for FY22 stands at Rs 50 for repairs & maintenance capex along with Rs 70 Cr capex for the waste-heat recovery system which will further improve its profitability in the long term.
- Expansion of Devapur Cement Unit by 3 million tonnes with a capex of Rs 1,600 Cr. The Management has states that they will be using their Internal Accruals as well as raise some fresh debts for the capex which will be completed by early FY24.
- Expansion of Chittapur Cement Unit by 3 million tonnes per year in the next phase of expansion at a capex of Rs 2,000 Cr and to be completed by FY26. However, given that they have won the arbitration on the Rajasthan Limestone mines deferment of Transfer charges, if Orient Cement gets ownership & control of the mines by FY24, the Management would prefer a new Cement unit in Rajasthan close to the mines, since the Raw Material supplies will benefit them as well as provide entry to a new geographic market for their products.

Management has got approval from the Board of Directors for the expansion plans, and have guided to follow certain parameters to maintain strength of the Balance Sheet. These parameters are more important to keep the company more liquid and less levered:

How is Orient Cement checking its Cost of Production of cement?

Orient Cement is one of the low cost manufacturers of cement in Indian markets with immense popularity of its product in select geographies/markets in North Telangana, Jalgaon Maharashtra and North Karnataka. Orient Cement controls its expenses through several measures:

- Agile in Changing Mix of Coal and Petcoke as per their available Pricing: Orient Cement used 77% of Coal (of which 70% was domestic and 30% imported coal), 12% Petcoke and rest 11% alternate fuels in Q1FY22 when the prices of Petcoke shot up suddenly. This agility of Orient Cement to change the mix of raw materials use helps it control its Power & Fuel Expenses.
- Use of Captive Mines for uninterrupted supplies of Limestone close by its plants.
- Switching to Railways Logistics when charges of Road Transport increased due to increase in Diesel Prices. When Diesel prices increased by 26% during the year and avoiding a logistics nightmare were imminent, the company increased use of Commercial Vehicles for supplies to customers for small sized orders.



The capex for the 3 million tonne expansion will be Rs 1,600 Cr for addition of 3 MTPA and for the next phase of expansion will be Rs 2,000 Cr, i.e. (a total of Rs 3,600 Cr to expand overall capacity to 14.5 MTPA).

Board has given broad guidelines to keep the Debt/Equity ratio below 1.5x and Debt/EBITDA ratio below 3.0x for the capex of Rs 3,600 Cr to be done with equal proportions of Internal Accruals & Debt Financing.

Orient Cement has been a low cost Cement maker against higher average Cost per tonne across Industry peers.

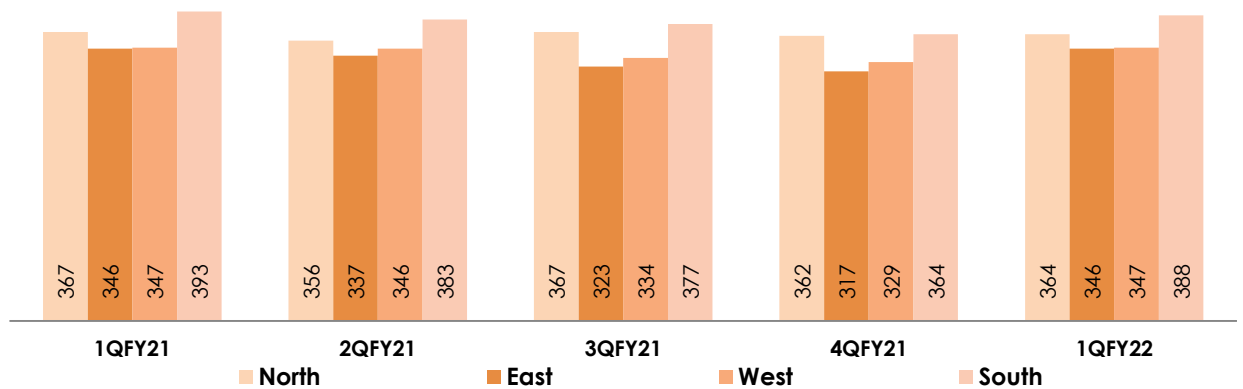
Cement Price Levels show resilience despite Covid 2.0 on YTD basis

Cement Prices have remained buoyant throughout the pandemic as the industry has kept the supply just optimum with the demand.

- The average cement prices per 50 kg bag have increased by around ~8% over Pre-Covid era.
- Average Cement Prices in the Southern states have increased by 6% over the national average cement prices per bag as of quarter ended June 2021.
- During Q2FY22, despite the rainy season, cement prices have remained almost stable sequentially. We interpret the resilience of price levels as a sign of good demand and provide opportunity for further price hike in early Q3FY22.
- Imported Coal / Coke prices have increased by around 11% in Q2FY22
- Orient Cement with its presence in Southern Indian states of Telangana & Karnataka, gets the benefit of higher prices in that region compared to other regions of India.

Changing Mix of Coal and Petcoke as per the available prices of Petcoke versus coal. As the prices of Petcoke shoot up by June end and July 2021, Cement makers started using more of Coal over Petcoke.

Cement Prices per 50 kg bag Geographic wise - Prices in South India have been higher since last 2 years



Source: Systematix Research, Company Filings

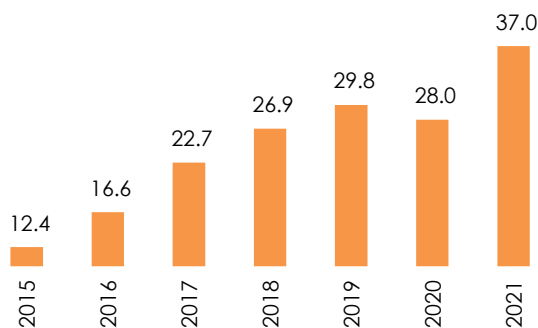
Indian Government has been laying its focus on highway connectivity across major cities & trade routes.

Government backed Infrastructure Push to act as Tailwind for Cement Sector Demand under the PM Aawas Yojana

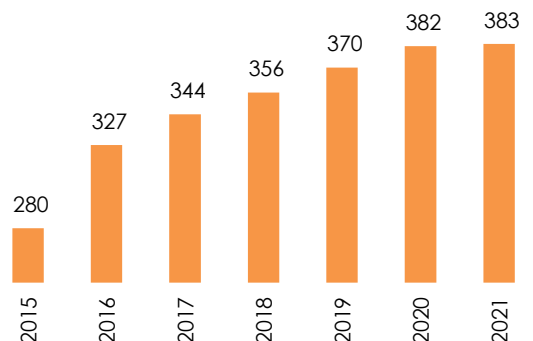
- Under the PMAY, the Government under revised Targets is looking for construction of 32.6 million houses by 2022, of which 21.4 million are to be constructed in rural and 11.2 million houses in urban localities. Of the PMAY-Rural target of 21.4 million, Government has constructed 14.16 houses as of June 2021 while in the PMAY – Urban campaign, 4.8 million houses have been completed of the revised target of 11.2 million houses. Since, the Government is already behind the revised targets sanctioned by 33% in rural and 57% in urban housing, we can expect several schemes to bring up the demand for Housing.
- Massive investments are coming in the form of ESG compliant funds into the renewables energy sector in India as the electricity consumption along with all other needs of a growing population increases. With infrastructure and utilities being laid out, financial uplift of more people will create more consumption requirements, leading to the vicious cycle of demand generation for construction materials and ferrous metals, e.g. somewhat done by China over last 3-4 decades.

India is on track to meet its Installed Electricity Generation Targets and the renewables segment is seen driving capex here.

Road Construction Per Day (km)



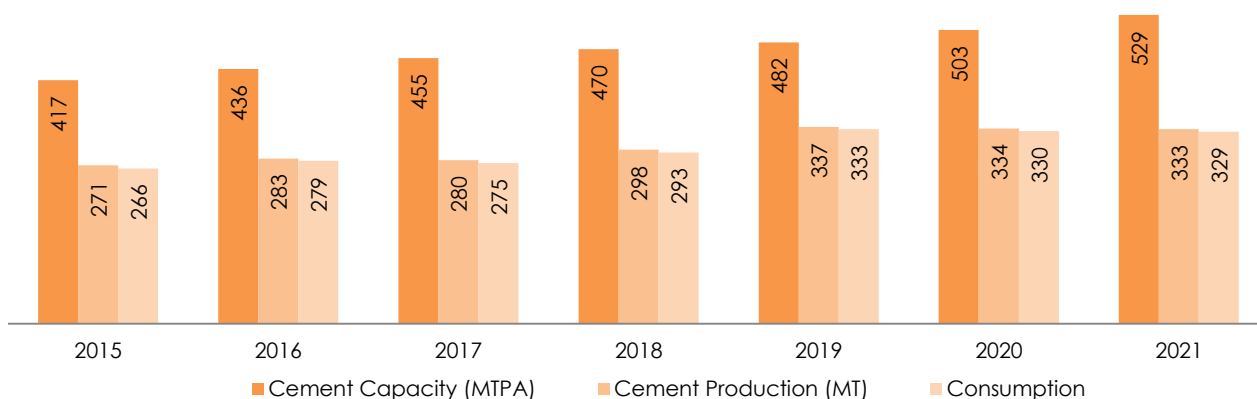
Installed Electricity Generation Capacity (GW)



Source: Systematix Research, Company Filings

Localized Cement makers are constrained from Price Discovery while catering to selective state's markets.

Cement Sector Capacity, Production & Consumption of Overall India



Valuation Gap among Large Cement manufacturers with smaller regional players

Cement Companies (FY21A) (Rs Cr)	Capacity Installed (MTPA)	Utilization (%)	Productions (MTPA)	Market Cap (Rs Cr)	EV \$/Tonne	EV / EBITDA(x)	P/B (x)	P/E (x)
Large Caps								
UltraTech Cement Ltd.	116.8	70	81.7	2,24,156	276	17.5	5.08	34.08
Shree Cement Ltd.	43.4	61	26.4	1,02,723	338	21.4	6.67	39.72
ACC Ltd.	33.1	77	25.5	45,523	156	12.5	3.35	21.73
Dalmia Bharat	30.8	67	20.6	40,076	187	14.3	3.17	31.61
Ambuja Cement Ltd.	29.7	76	22.6	83,625	326	11.0	3.43	25.52
The Ramco Cements	19.4	51	10.0	23,949	166	16.0	4.17	28.58
Small Caps								
India Cements	15.6	57	8.9	5,448	68	10.2	0.96	23.65
Orient Cement	8.0	64	5.1	3,095	76*	5.9	2.37	11.13
K C P Ltd.	7.3	80	5.8	1,596	54	6.4	5.88	4.10
Heidelberg Cement	6.3	72	4.5	5,825	122	10.6	3.90	17.40
Sanghi Industries Ltd.	6.1	33	2.0	1,676	68	2.6	0.94	17.70
Kesoram Industries Ltd.	5.8	53	3.0	3,249	57	7.9	2.7	16.1
Sagar Cement	5.8	53	3.0	3,249	79	8.8	2.70	16.14
Star Cement	4.3	59	2.5	1,748	92	3.9	1.76	8.10

Orient Cement's valuations are much low compared to Industry Peers and therefore demands a re-rating on account of capacity expansion.

Current EV/ of Orient Cement tonne of the Integrated Units

EV \$/tonne as of June, 2021	
CMP (Rs)	157
Number of Shares (Cr)	20.5
Market Cap (Rs Cr)	3,215
Net Debt as of June 2021 (Rs Cr)	580
Enterprise Value	3,795
Replacement Cost of Grinding Unit (Rs Cr)	400
Enterprise Value of Integrated Units of 6 MTPA (Rs Cr)	3,395
Capacity of Integrated Unit (million tonnes)	6
EV of IUs of 1 MTPA each	566
USD INR Rate	74.11
EV \$/tonne of Integrated Units	76

*Note:EV \$ / tonne is of June 2021, and other companies are of March 2021

Source: Systematix Research, Company Filings

Peer Comparison

Comparable Peers	Capacity Installed (MTPA)	Utilization (%)	Productions (MTPA)	Market Cap (Rs Cr)	EV \$/Tonne	EV / EBITDA (x)	P/B (x)	P/E (x)
Orient Cement	8.0	64	5.1	3,095	76	5.9	2.5	15.0
Sagar Cement	5.8	53	3.0	3,249	79	8.8	2.7	16.1
Star Cement	5.7	46	2.6	4,446	92	10.7	2.1	21.0
K C P Ltd.	4.3	59	2.5	1,748	54	3.9	1.8	8.1
Heidelberg Cement	6.3	72	4.5	5,825	122	10.6	3.9	17.4
Sanghi Industries Ltd.	6.1	33	2.0	1,676	68	2.6	0.9	17.7
Average		55		3,340	82	7.1	2.3	15.2
Deviation from Average					-7%		3%	-27%

Source: Systematix Research, Company Filings

Valuation of Orient Cement Ltd:

We value the Jalgaon Grinding Unit separately at Rs 200 Cr per 1 MTPA and the Integrated Units at Devapur and Chittapur at an Enterprise Value of 82 \$ / tonne. The Peer company selection is on the basis of installed capacity, profitability and enterprise value. Also, as per Orient Cement's run-rate of production in Q4FY21 and completion of de-bottlenecking, we believe they can ramp up production in coming future.

Valuation of separate units of Orient Cement	Unit	MTPA	EV \$/Tonne
Average EV \$/Tonne of Peers (table above)			\$82
Orient Capacity FY23 end		8.5	
Devapur	81x	3.5	\$287
Chittapur	81x	3.0	\$246
Value of 2 Integrated Units	EV \$/Tonne		\$533
Rs per \$	\$/Rs	73.77	
EV of 2 IUs in Rs Cr			3,932
EV of Non-Clinker Unit per 1 MTPA Rs Cr	Rs 200 Cr	2	400
Total EV (Rs Cr)			4,332

Orient Cement Valuation	FY23E
EBITDA(Rs Cr)	765
EV/EBITDA multiple	5.7x
Enterprise Value	4,332
[-] Debt	550
[+] Cash	119
Market Equity	3901
No. of shares	20
Target Price	190
CMP (Rs)	157
Upside	21%

Source: Systematix Research, Company Filings

Key Management Personnel

Name & Designation	Brief Profile of Board of Directors
<p>Mr. Chandrakant Birla Chairman</p>	<p>He is an industrialist and heads the C.K. Birla Group, which is in various verticals such as cement, paper, chemicals, consumer durables, auto components, automobiles, precision bearings, building materials, construction, earth moving equipment, information technology, etc.</p>
<p>Mr. Desh Deepak Khetrapal Managing Director & CEO</p>	<p>He is a professional business leader with a track record of leading and transforming large and diversified organizations, across various industries including services, industrials, consumer and retail businesses. Prior to joining Orient Cement Company, he was the Group CEO of Jumbo Group of Companies and COO & Member of Board of Directors of Raymond Ltd. Aged 58 years, he holds honors degree in business and economics along with a MBA in Marketing and Finance from the Delhi University.</p>
<p>Ms. Amita Birla Non- Executive Director</p>	<p>Amita Birla is the Co-Chairman of the CK Birla Group, and the Chairman of Birlasoft Ltd, spouse of Mr. Chandrakant Birla, Chairman. Amita had extensive experience in successfully leading companies with unique visionary yet empathetic style of leadership. Expertise in specific functional areas of Management and Operations of diverse nature of business. She holds GCE-A Level Certificaton.</p>

Source: Systematix Research, Company Filings

Income Statement

Particulars (in Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenues	2,311	2,522	2,422	2,324	2,871	3,416
COGS	930	918	912	775	1,041	1,223
Gross profit	1,381	1,604	1,510	1,549	1,830	2,194
Employee cost	138	155	155	153	168	185
Other expenses	937	1,137	972	845	1,044	1,243
EBITDA	305	312	383	551	617	765
EBITDA Margin	13.2%	12.4%	15.8%	23.7%	21.5%	22.4%
Depreciation & amortization	126	133	141	142	143	184
EBIT	179	179	242	409	474	582
Interest expense	129	118	122	94	15	54
Other income	20	14	18	18	20	22
PBT	70	75	137	334	480	550
Tax	26	27	51	119	121	138
PAT	44	48	87	214	359	411
EPS (Rs)	2.2	2.3	4.2	10.5	17.5	20.1

Source: Systematix Research, Company Filings

Balance Sheet

Particular (in Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Assets						
Property, plant and equipment	2,186	2,293	2,210	2,146	2,123	2,790
Capital work-in-progress	158	48	67	41	59	76
Investment Property/Intangibles	65	61	58	60	62	63
Loans	13	13	12	12	14	17
Other non-current assets	31	33	30	31	37	44
Total Non-Current Assets	2,481	2,471	2,415	2,327	2,339	3,042
Inventories	164	186	237	171	171	201
Trade receivables	180	153	162	110	118	140
Cash and cash equivalents	32	22	35	35	14	118
Other current assets	88	41	33	36	40	44
Total Current Assets	456	456	485	485	478	640
Total Assets	2,937	2,927	2,900	2,812	2,817	3,682
Equity & Liabilities						
Equity share capital	20	20	20	20	20	20
Other equity	1,002	1,033	1,098	1,285	1,629	2,025
Shareholder's Fund	1,022	1,054	1,118	1,306	1,649	2,045
Borrowings	1,138	1,226	1,135	784	150	550
Deferred tax liabilities (Net)	85	96	122	181	287	239
Total Non-Current Liabilities	1,273	1,366	1,299	1,022	509	857
Borrowings	124	5	0	0	0	0
Trade payables	200	187	176	184	285	335
Other financial liabilities	184	179	202	144	172	205
Other current liabilities	103	75	35	87	100	120
Total Current Liabilities	642	508	483	484	659	779
Total Liabilities	1,915	1,873	1,781	1,506	1,167	1,637
Total Equity And Liabilities	2,937	2,927	2,900	2,812	2,817	3,682

Source: Systematix Research, Company Filings

Cash-flow Statement

Particulars (in Rs Cr)	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Cash Generated From Operations	279	281	292	714	619	683
Net Cash Flow from/(used in) Investing Activities	(149)	(120)	(73)	(162)	26	(907)
Net Cash Flow from Financing Activities	(161)	(171)	(206)	(552)	(667)	328
Net Inc/Dec in cash equivalents	(31)	(10)	13	0	(21)	104
Opening Balance	63	32	22	35	35	14
Adjustments	0	0	0	0	0	0
Closing Balance Cash and Cash Equivalents	32	22	35	35	14	118

Source: Systematix Research, Company Filings

Key Ratios

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	13.2%	12.4%	15.8%	23.7%	21.5%	22.4%
RoE (%)	4.3%	4.5%	7.7%	16.4%	21.8%	20.1%
RoCE (%)	6.5%	6.3%	8.6%	15.3%	20.6%	17.4%
EPS (INR)	2.16	2.32	4.23	10.45	17.52	20.07
P/E	72.2	67.6	37.1	15.0	9.0	7.8
P/B	3.1	3.1	2.9	2.5	1.9	1.6
EV/EBITDA	14.6	14.2	11.3	7.2	5.4	4.8

Source: Systematix Research, Company Filings

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Disclosure of Interest Statement	Update
Analyst holding in the stock (%)	None
Served as an officer, director or employee	No

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EXPLANATION TO RATINGS: BUY: TP>15%; ACCUMULATE: 5%<TP<15%; HOLD: -5%<TP<5%; REDUCE: -15%<TP<-5%; SELL: TP<-15%

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