



Orient Cement Ltd.

Q1 FY17 Quarterly Update

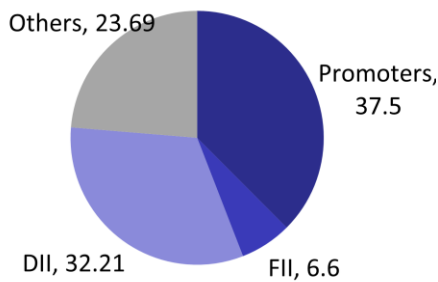
MARKET DATA

NSE TICKER	ORIENTCEM
Net worth (₹ Cr)	1,016
P/E Ratio (FY17E) (x)	38.3
P/B Ratio (FY17E) (x)	3.1
EPS (FY17E) (₹)	4.3
Market Price (₹)	165
52 Week High(29/06/2016)(₹)	185
52 Week Low (04/02/2016)(₹)	129
Market Capitalisation (₹ Cr)	3,379

AVERAGE MONTHLY VOLUME ('000)

BSE	7.9
NSE	131.4

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Orient Cement	7.4	14.8	-8.3
Sensex	8.4	21.4	-0.1

Preeti Patel
(Research Analyst)
preeti@dimensional.in
+91-22-66545239

Orient Cement reported weak results

Orient Cement's Q1FY17 results were weak, with EBITDA/tonne at ₹291 (₹444 in Q1 FY16), owing to lower realisations. Revenue grew by 28.6% Y-o-Y led by 43.3% surge in volumes attributed to the ramp up in the new Karnataka plant. The company reported a PAT loss of ₹7.6 crs (₹19.4 crs in Q1 FY16) as a result of lower operating profit, higher depreciation, interest expense and annual maintenance shutdown.

Volume gains off - set persistent low price environment

Revenues grew by 25% Y-o-Y to ₹437 crs as volumes increased by 43% Y-o-Y to 1.39MT. The capacity utilisation of the new plant in Karnataka was at 50% (28.0% in FY16), while the old units operated at the capacity utilisation of 82%. Realizations have been flat in Q1 FY17 Q-o-Q and ~10% lower Y-o-Y on the back of low price environment in Maharashtra and Andhra Pradesh. The realisations have been low despite the volume push of the new plant in the high realisation market of Karnataka. Volumes from Maharashtra, South and MP & Chhattisgarh stood at 50%, 36% and 14% respectively.

Maintains Cost Efficiency

Orient Cement has managed to maintain its cost efficiency by containing operating cost/tonne at ₹2,854, despite the annual shutdown maintenance. This can be attributed to the 12.7% decline in freight expenses to ₹697/tonne on account of moderation in fuel costs and the reduction in lead distance (300 kms). P&F cost remained almost flat declining to ₹926/tonne from ₹936/tonne in Q1 FY16.

Future Outlook

We expect good monsoon to boost cement demand in the key markets of Orient cement - Maharashtra and Telangana - from H2FY17. We also expect price recovery in these markets owing to recovering demand. We expect Operating costs to come down going ahead on commissioning of the grinding unit and higher use of petcoke at the new Karnataka plant and steady utilisation ramp-up would boost operating leverage gains.

Outlook and Valuation

Last 2 years water scarcity had impacted the volumes in Orient Cement's key markets of Maharashtra (50% of volumes), AP, Telangana. Improvement in the profitability centers on the price recovery in these markets. Although demand is expected to be subdued in Q2 FY17, we expect it to recover in H2 FY17 post a good monsoon and festive seasons.

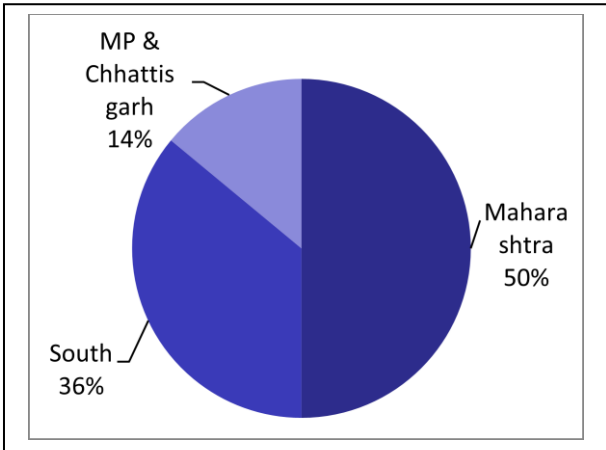
We cut our FY17 and FY18 EBITDA estimates by 12.2% and 13.9% respectively on account of weaker price assumptions and downgrade the stock to HOLD. The stock is currently trading at 13.7x FY17E and 9.9x FY18E EV/EBITDA. We arrive at the target price of ₹168 based on its FY18E discounted EV/EBITDA multiple of 10x

Quarterly Performance:

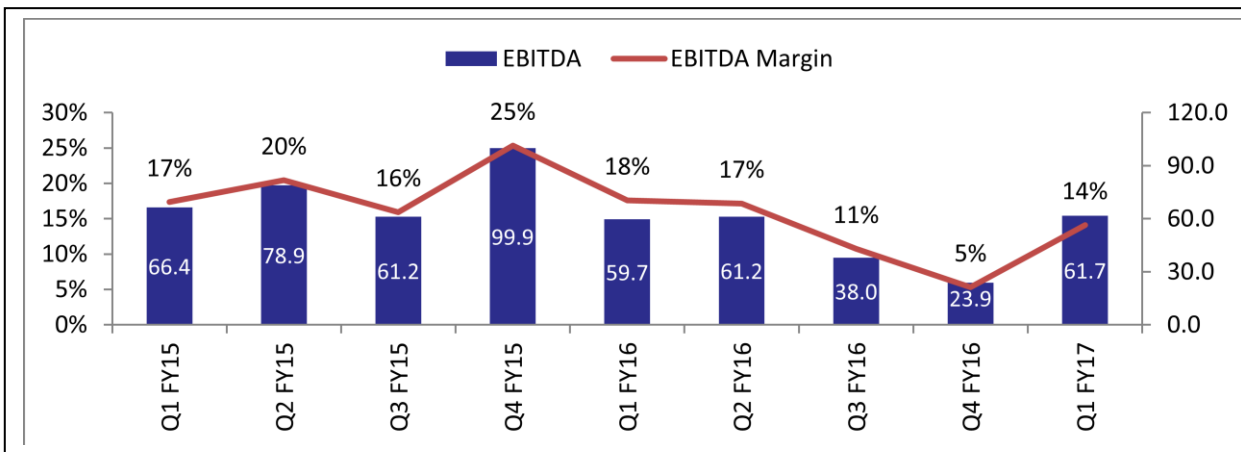
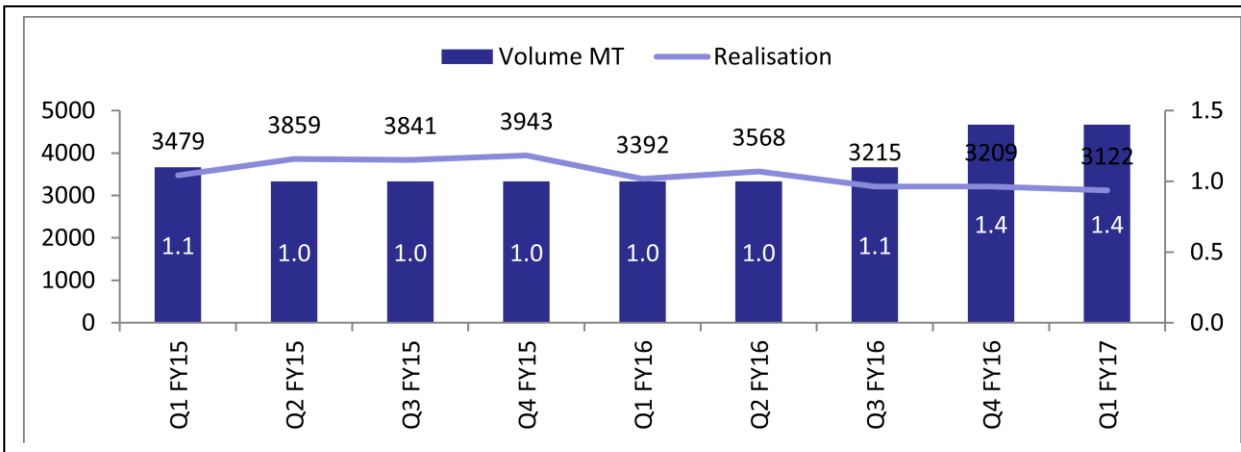
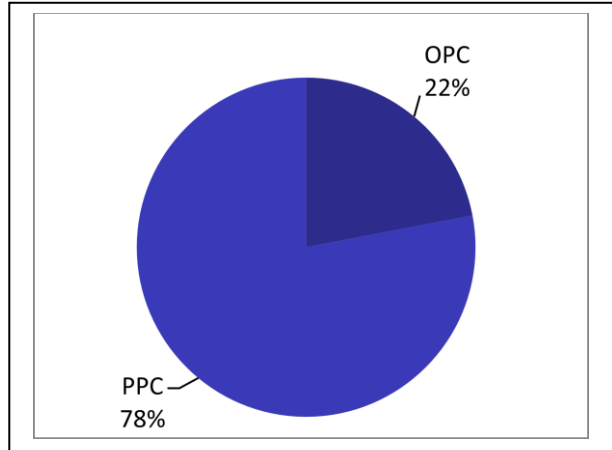
Particulars ₹Crs.	Q1 FY17	Q1 FY16	%YoY	Q4 FY16	%QoQ	FY16	FY15	%YoY
Net Sales	435.5	447.3	-2.6	338.7	28.6	1,501.8	1,535.3	-2.2
EBITDA	40.4	61.7	-34.4	61.2	-33.9	183.4	306.7	-40.2
EBITDA Margin	9.3	13.7	-447bps	18.0	-879bps	12.1	19.8	-770bps
Interest	29.3	26.0	12.7	2.5	1094.2	54.4	14.1	284.6
PBT	(14.5)	10.7	-235.2	47.9	-130.2	60.2	251.2	-76.0
PAT	(7.6)	19.4	-139.0	28.8	-126.3	62.2	194.8	-68.0
EPS	(0.4)	0.9	-139.0	1.4	-126.3	3.0	9.5	-68.0



Region Mix



Sales Mix





QUARTERLY PERFORMANCE:

Particulars (₹crs.)	Q1 FY17	Q1 FY16	YoY%	Q4 FY16	%QoQ	FY16	FY15	YoY%
Net Sales	435.5	447.3	-2.6	338.7	28.6	1,501.8	1,535.3	-2.2
Other operating income	1.6	2.0	-19.9	0.5	201.1	7.3	11.7	-37.0
Total Operating Income	437.1	449.3	-2.7	339.2	28.9	1,509.2	1,547.0	-2.4
Expenditure								
Raw Material	65.0	68.8	-5.6	44.9	44.7	208.8	196.4	6.3
Employee Cost	128.7	110.5	16.5	90.8	41.8	398.4	400.9	-0.6
Electricity, Power & Fuel Cost	29.6	25.0	18.4	20.1	47.2	90.4	71.3	26.7
Freight Cost	96.9	91.1	6.4	77.4	25.2	318.8	317.6	0.4
Other Expenses	76.5	92.2	-17.0	44.8	70.8	309.3	254.1	21.7
Total Expenditure	396.7	387.6	2.3	278.0	42.7	1,325.8	1,240.3	6.9
EBITDA	40.4	61.7	-34.4	61.2	-33.9	183.4	306.7	-40.2
Other Income	3.5	3.0	15.7	0.9	277.3	7.6	5.9	27.0
Depreciation	29.1	28.0	4.1	11.8	147.2	76.3	47.3	61.3
EBIT	14.8	36.7	-59.7	50.4	-70.6	114.6	265.3	-56.8
Interest	29.3	26.0	12.7	2.5	1094.2	54.4	14.1	284.6
PBT	(14.5)	10.7	-235.2	47.9	-130.2	60.2	251.2	-76.0
Tax	(6.9)	(8.7)	NA	19.1	NA	(2.0)	56.4	-103.6
Profit After Tax	(7.6)	19.4	-139.0	28.8	-126.3	62.2	194.8	-68.0
FV	1.0	1.0	NM	1.0	NM	1.0	1.0	NM
EPS	(0.4)	0.9	-139.0	1.4	-126.3	3.0	9.5	-68.0

P&L on 100

Particulars	Q1 FY17	Q1 FY16	Q4 FY16	FY16	FY15
Net Sales	100%	100%	100%	100%	100%
Other operating income	0%	0%	0%	0%	1%
Total Operating Income	100%	100%	100%	100%	101%
Expenditure					
Raw Material	15%	15%	13%	14%	13%
Employee Cost	30%	25%	27%	27%	26%
Electricity, Power & Fuel Cost	7%	6%	6%	6%	5%
Freight Cost	22%	20%	23%	21%	21%
Other Expenses	18%	21%	13%	21%	17%
Total Expenditure	91%	87%	82%	88%	81%
EBITDA	9%	14%	18%	12%	20%
Other Income	1%	1%	0%	1%	0%
Depreciation	7%	6%	3%	5%	3%
EBIT	3%	8%	15%	8%	17%
Interest	7%	6%	1%	4%	1%
PBT	-3%	2%	14%	4%	16%
Tax	-2%	-2%	6%	0%	4%
Profit After Tax	-2%	4%	9%	4%	13%



OUTLOOK & VALUATION: -

Last 2 years water scarcity had impacted volumes in Orient Cement’s key markets of Maharashtra (50% of volumes), AP and Telangana. Improvement in the profitability centers on the price recovery in these markets. Although demand is expected to be subdued in Q2 FY17, we expect it to recover in H2 FY17 post a good monsoon and festive seasons.

We cut our FY17 and FY18 EBITDA estimates by 12.2% and 13.9% respectively to reflect lower realization and downgrade the stock to HOLD. The stock is currently trading at 13.7x FY17E and 9.9x FY18E EV/EBITDA. We arrive at the target price of ₹168 based on its FY18E discounted EV/EBITDA multiple of 10x.

Orient Cement’s with its cost efficiency and recent capacity expansion will benefit from demand revival in AP & Maharashtra region. Orient Cement is aggressively pursuing the target of 15mn tonne cement capacity by FY20 through a brown-field expansion at either Andhra Pradesh or Karnataka and possibly an acquisition outside South India to gain market share and ensure future growth. Although increased competition has led to lower capacity utilization and prices resulting in deterioration of margins.

REVISED ESTIMATES: -

Particulars (₹ crs.)	FY17E			FY18E		
	Revised	Old	%Change	Revised	Old	%Change
Sales	2055	2129	-3.5%	2307	2434	-5.2%
EBITDA	324	369	-12.2%	433	503	-13.9%
PAT	88	120	-26.7%	206	251	-17.9%

We have lowered our earnings estimates for FY17 & FY18 given the current low price environment and an increase in energy costs.

Cost/tonne Analysis

Particulars (₹crs.)	Q1 FY17	Q1 FY16	YoY%	Q4 FY16	%QoQ	FY16	FY15	YoY%
Volume (MT)	1.4	1.4	0.0	1.0	43.3	4.4	4.1	8.1
Capacity Utilisation %	69.5%	69.5%	NM	77.6%	-8.1bps	55.1%	81.6%	-26.5bps
Realisations	3,145	3,232	-2.7	3,497	-10.1	3,422	3,792	-9.7
Expenditure								
Raw Material	467	495	-5.6	463	1.0	474	481	-1.6
Employee Cost	926	795	16.5	936	-1.1	903	983	-8.1
Electricity, Power & Fuel Cost	213	180	18.4	207	2.7	205	175	17.2
Freight Cost	697	655	6.4	798	-12.7	723	778	-7.1
Other Expenses	551	664	-17.0	462	19.2	701	623	12.6
Total Expenditure	2,854	2,789	2.3	2,866	-0.4	3,006	3,040	-1.1
EBITDA	291	444	-34.4	631	-53.9	416	752	-44.7



Profit & Loss

Particulars (₹crs)	FY14	FY15	FY16	FY17E	FY18E
Net sales	1,474	1,594	1,509	2,055	2,307
YoY (%)		8.1%	-5.3%	36.1%	12.3%
Total expenses					
Raw Material Cost	228	196	209	255	294
Employee costs	61	71	90	99	109
Other Manufacturing Cost	942	987	976	1324	1416
EBITDA	215	307	183	324	433
YoY (%)		42.8%	-40.2%	76.8%	33.4%
EBIDTA (%)	14.6%	19.2%	12.2%	15.8%	18.8%
Depreciation	56	47	76	105	108
EBIT	158	259	107	220	324
Interest	14	14	54	116	83
Other income	9	6	8	7	16
PBT	153	251	60	110	257
Less: Taxation	52	56	11	22	51
Effective tax rate (%)	34.1%	22.5%	17.6%	20.0%	20.0%
PAT	101	195	50	88	206
YoY (%)		92.8%	-74.5%	77.4%	133.1%
PAT (%)	6.9%	12.2%	3.3%	4.3%	8.9%

Key Ratios

Particulars	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs)	4.9	9.5	2.4	4.3	10.0
Book value (Rs)	40.5	47.6	49.6	52.7	61.6
Dividend per share (Rs)	1.5	1.8	1.0	1.0	1.0
Net Debt Equity Ratio	0.4	1.1	1.3	0.9	0.6
Payable Days	19	21	41	41	41
Debtor Days	14	17	19	19	19
Inventory Days	15	22	30	20	21
ROCE (%)	16.3%	16.4%	5.2%	10.1%	15.5%
Recurring ROE (%)	12.7%	21.6%	5.0%	8.4%	17.6%
ROA (%)	7.2%	9.4%	1.8%	3.0%	7.0%
Div Yield (%)	4.0%	4.0%	0.6%	0.6%	0.6%
Valuation Ratios					
PE (x)	9.7	18.7	67.9	38.3	16.4
Price/book value (x)	4.1	3.5	3.3	3.1	2.7
Market cap/sales (x)	0.7	2.3	2.2	1.6	1.5
EV/sales (x)	0.8	3.0	3.1	2.2	1.9
EV/EBITDA (x)	5.5	15.1	25.4	13.9	10.0
Earnings growth					
EBITDA (%)	-33%	43%	-40%	77%	33%
EPS (%)	-38%	93%	-74%	77%	133%
PAT (%)	-38%	93%	-74%	77%	133%



Balance Sheet

Particulars (₹ crs)	FY14	FY15	FY16	FY17E	FY18E
Equity capital	20	20	20	20	20
Reserves	808	955	996	1060	1242
Net worth	829	976	1,016	1081	1262
Total borrowings	329	1,106	1,290	1114	948
Non Current Liabilities	183	190	199	228	221
Current Liabilities	221	294	201	511	555
Total liabilities	1,561	2,566	2,706	2,934	2,986
Net block					
Investments	826	798	2,189	2108	2100
Other Non-current Assets	0	0	0	0	0
	446	1,375	229	240	246
Current assets					
Inventories					
Debtors	71	110	141	130	153
Cash	65	83	92	126	141
Current Investments	82	43	38	92	79
Other Current assets	72	156	175	239	268
Total assets	1,561	2,566	2,863	2,934	2,986

Cash Flow

Particulars (₹ crs)	FY14	FY15	FY16	FY17E	FY18E
Pre-tax Profit	153	251	60	110	257
Depn and w/o	56	47	76	105	108
Others	-45	-42	39	92	40
Change in working cap	27	-101	82	87	-45
Op. Cash flow	192	156	258	394	361
Capex (Net)	-330	-924	-370	-24	-100
Investments	-0	0	0	0	0
Inv. Cash flow	-330	-924	-370	-24	-100
Dividend	-66	-36	-25	-24	-24
Fresh Equity	0	0	0	0	0
Minority interest	0	0	0	0	0
Debt	282	-242	5	-175	-167
Others	-124	1,005	126	-116	-83
Fin. Cash flow	92	727	107	-315	-274
Net change in cash	(45.1)	(41.8)	(5.6)	55	-14
Opening cash	76.3	81.6	42.7	38	92
Closing cash	81.6	42.7	37.8	92.5	78.7



ANALYST CERTIFICATION

We /I (Preeti Patel), Research Analysts, authors and the names subscribed to this report; hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products. This Report has been prepared by Dimensional Securities Private Limited (DSPL) in the capacity of a Research Analyst having SEBI Registration No. INH000001444 and distributed as per SEBI (Research Analysts) Regulations 2014.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Preeti Patel), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Preeti Patel), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject DSPL and associates to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.