Dimensional Securities Pvt Ltd.

# Orient Cement Ltd.

**Q4 FY17 Quarterly Update**

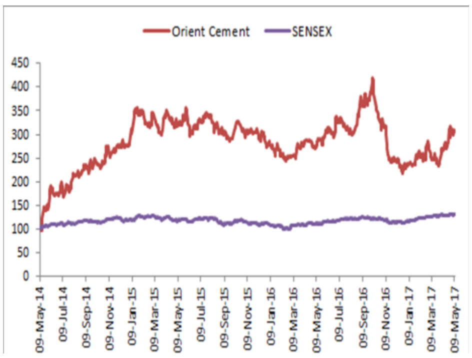
| | |
|---|---|
| **Date: 10th May, 2017** | |
| **Recommendation:** | **HOLD** |
| **CMP:** | **₹166** |
| **Target Price:** | **₹177** |

| MARKET DATA | |
|---|---|
| NSE TICKER | ORIENTCEM |
| Net worth (₹ Cr) | 987 |
| P/E Ratio (FY18E) (x) | 59 |
| P/E Ratio (FY19E) (x) | 26 |
| EPS (FY18E) (₹) | 2.8 |
| Market Price (₹) | 166 |
| 52 Week High (₹) | 241 |
| 52 Week Low (₹) | 115 |
| Market Capitalisation (₹ Cr) | 3,382 |

| AVERAGE MONTHLY VOLUME ('000) | |
|---|---|
| BSE | 86.12 |
| NSE | 459.44 |

| SHARE HOLDING PATTERN (Mar-17) | | |
|---|---|---|
| Promoters | FII, DII | Others |
| 37.5% | 32.8% | 29.7% |

**INDEXED PRICE CHART (3 years)**




| RETURN % | 3M | 6M | 12M |
|---|---|---|---|
| Orient Cement | 22.1 | 2.7 | 12.8 |
| Sensex | 5.7 | 9.8 | 16.5 |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### Orient Cement delivered strong results led by volume improvement

Orient reported ₹597crs revenue (up 37% y-o-y, 31% q-o-q) led by a sharp increase in volumes of 1.73MT in Q4 FY17, (up 25% y-o-y, 38% q-o-q). The company's capacity utilisation stood at 87% for Q4 FY17. Realisations were up 10% at ₹3,449 per tonne (down 6% y-o-y). PAT stood at ₹16.5 crs against ₹18.5 crs in Q4FY16.

### Maintains Cost Efficiency

Raw material cost per tonne has stabilised at ₹470, down 22% from ₹602 in Q3 FY17. Employee cost per tonne have rationalised to ₹181 from a peak of ₹247 in Q3 FY17. EBITDA per tonne stood at ₹437 in Q4 FY17 up 19.8% from ₹364 in Q3 FY17.

### Net Debt further increased

Orient Cement's net debt increased to ~₹1,206 crs as of Mar'17 as against ~₹1252 crs as of Mar'16 as a result of negligible debt repayments due to lower profitability and an increase in working capital requirements.

The Company has plans to acquire a 4.2 MT cement capacity from JP Associates as a part of the company's broader ambition to achieve a 15 MT cement capacity by 2020. This might lead to Equity dilution and an increase in debt, thereby stressing the balance sheet.

### Cement Price Outlook

Sharp demand recovery in AP-Telangana is expected to sustain, driven by ramp-up in government spending in irrigation and roads, leading to price recovery in the key markets for the company. Maharashtra, AP and Telangana which were amongst the worst-hit post demonetisation and saw steep price cuts in Q3 FY17. These markets are therefore witnessing a V shaped recovery with prices seeing a sharp improvement of ~16% in west and ~11% in south. We expect the recovery to gather steam as the infrastructure cycle picks up during FY18.

### Outlook and Valuation

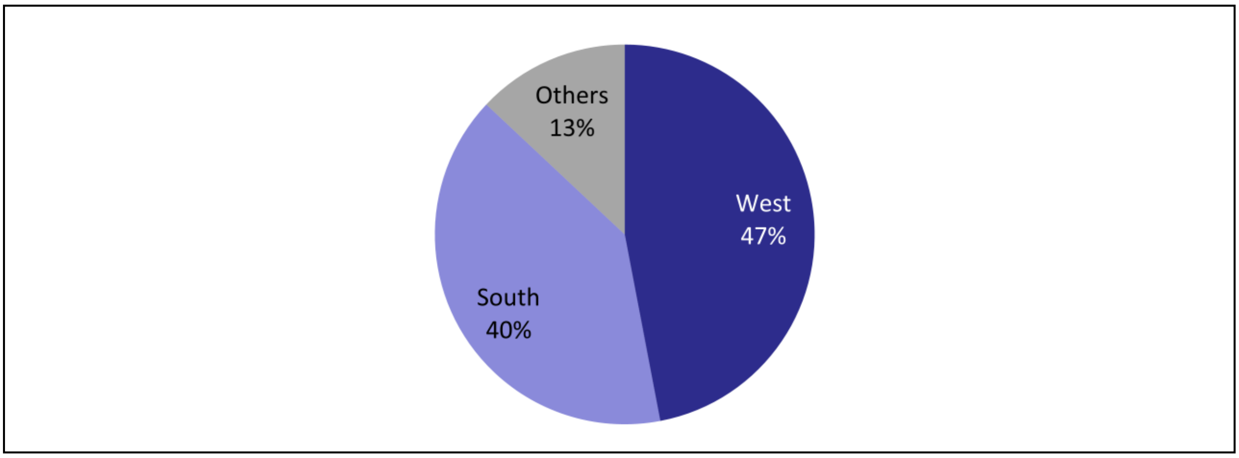
Improved realisations and demand in key markets along with cost efficiencies should help improve EBITDA per tonne, to ~₹575 in FY18E, up ~79% from ₹321 in FY17.

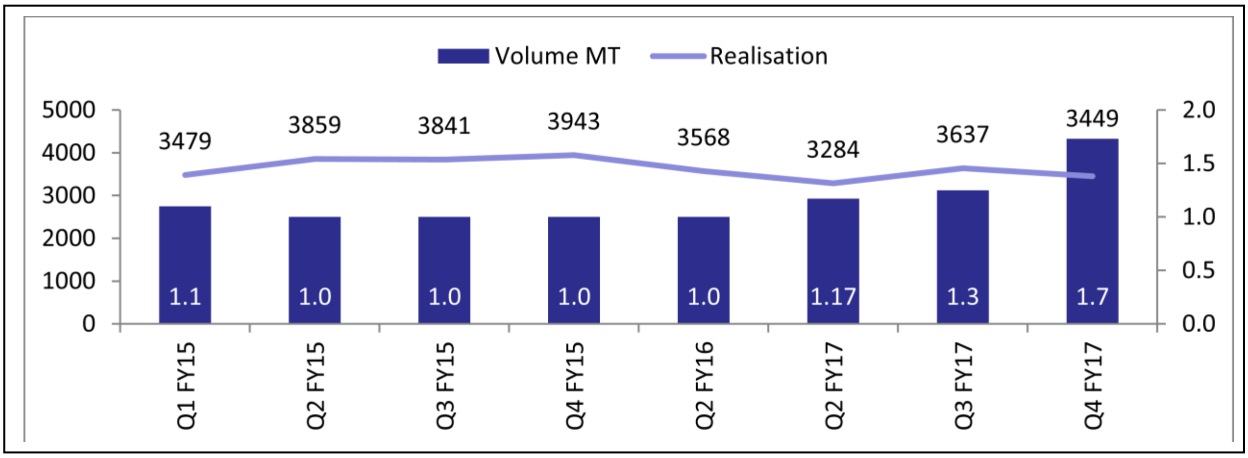
The stock is currently trading at 13.1x FY18E and 9.1x FY19E EV/EBITDA. We arrive at the target price of ₹177 with a HOLD recommendation based on its FY19E discounted EV/EBITDA multiple of 8x.

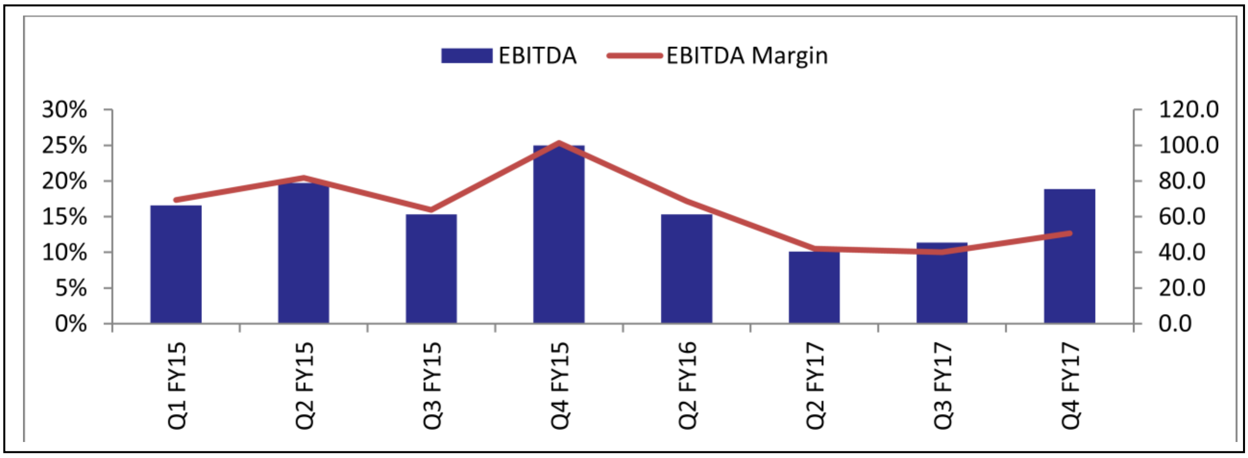
### Quarterly Performance:

| Particulars ₹Crs. | Q4 FY17 | Q4 FY16 | %YoY | Q3 FY17 | %QoQ | FY17 | FY16 | %YoY |
|---|---|---|---|---|---|---|---|---|
| Net Sales | 596.7 | 435.6 | 37.0 | 454.7 | 31.2 | 1,875.1 | 1,501.8 | 24.9 |
| EBITDA | 75.5 | 61.7 | 22.3 | 45.6 | 65.8 | 178.1 | 183.4 | -2.9 |
| EBITDA Margin | 13% | 14% | -2bps | 10% | 10bps | 9% | 12% | -3bps |
| Interest | 34.1 | 26.1 | 30.6 | 35.8 | -4.8 | 135.3 | 54.4 | 149.0 |
| PBT | 14.8 | 9.7 | 52.2 | (18.1) | -182.0 | (66.5) | 60.2 | -210.5 |
| PAT | 16.5 | 18.5 | -10.6 | (11.7) | -241.4 | (32.1) | 62.2 | -151.6 |
| EPS | 0.8 | 0.9 | -10.6 | (0.6) | -241.4 | (1.6) | 3.0 | -151.6 |

**Region Mix**


Others
13%
West
47%
South
40%


Volume MT
Realisation
5000
4000
3000
2000
1000
0
2.0
1.5
1.0
0.5
0.0
3479
3859
3841
3943
3568
3284
3637
3449
1.1
1.0
1.0
1.0
1.0
1.17
1.3
1.7
Q1 FY15
Q2 FY15
Q3 FY15
Q4 FY15
Q2 FY16
Q2 FY17
Q3 FY17
Q4 FY17


EBITDA
EBITDA Margin
30%
25%
20%
15%
10%
5%
0%
120.0
100.0
80.0
60.0
40.0
20.0
0.0
Q1 FY15
Q2 FY15
Q3 FY15
Q4 FY15
Q2 FY16
Q2 FY17
Q3 FY17
Q4 FY17

## QUARTERLY PERFORMANCE:

| Particulars (₹crs.) | Q4 FY17 | Q4 FY16 | YoY% | Q3 FY17 | %QoQ | FY17 | FY16 | YoY% |
|---|---|---|---|---|---|---|---|---|
| Total Operating Income | 596.7 | 435.6 | 37.0 | 456.5 | 30.7 | 1,875.1 | 1,509.2 | 24.2 |
| Expenditure | | | | | | | | |
| Raw Material | 81.5 | 68.8 | 18.4 | 75.2 | 8.3 | 273.7 | 208.8 | 31.1 |
| Employee Cost | 31.1 | 24.9 | 24.8 | 30.9 | 0.7 | 121.3 | 90.4 | 34.2 |
| Electricity, Power & Fuel Cost | 158.6 | 110.5 | 43.6 | 116.4 | 36.3 | 526.4 | 398.4 | 32.1 |
| Freight Cost | 153.7 | 91.1 | 68.7 | 114.0 | 34.8 | 449.9 | 318.8 | 41.1 |
| Other Expenses | 96.3 | 78.5 | 22.6 | 74.5 | 29.3 | 325.7 | 309.3 | 5.3 |
| Total Expenditure | 521.2 | 373.8 | 39.4 | 410.9 | 26.8 | 1,697.1 | 1,325.8 | 28.0 |
| EBITDA | 75.5 | 61.7 | 22.3 | 45.6 | 65.8 | 178.1 | 183.4 | -2.9 |
| Other Income | 3.9 | 3.0 | 29.6 | 2.8 | 38.8 | 12.3 | 7.6 | 62.6 |
| Depreciation | 30.6 | 29.0 | 5.6 | 30.7 | -0.3 | 121.5 | 76.3 | 59.2 |
| EBIT | 48.9 | 35.8 | 36.5 | 17.7 | 176.0 | 68.8 | 114.6 | -39.9 |
| Interest | 34.1 | 26.1 | 30.6 | 35.8 | -4.8 | 135.3 | 54.4 | 149.0 |
| PBT | 14.8 | 9.7 | 52.2 | (18.1) | -182.0 | (66.5) | 60.2 | -210.5 |
| Tax | (1.7) | (8.7) | -80.4 | (6.4) | -73.2 | (34.4) | (2.0) | 1598.7 |
| Profit After Tax | 16.5 | 18.5 | -10.6 | (11.7) | -241.4 | (32.1) | 62.2 | -151.6 |
| FV | 1.0 | 1.0 | 0.0 | 1.0 | 0.0 | 1.0 | 1.0 | 0.0 |
| EPS | 0.8 | 0.9 | -10.6 | (0.6) | -241.4 | (1.6) | 3.0 | -151.6 |

### P&L on 100

| Particulars | Q4 FY17 | Q4 FY16 | Q3 FY17 | FY17 | FY16 |
|---|---|---|---|---|---|
| Net Sales | 100% | 100% | 100% | 100% | 100% |
| Other operating income | 0% | 0% | 0% | 0% | 0% |
| Total Operating Income | 100% | 100% | 100% | 100% | 100% |
| Expenditure | | | | | |
| Raw Material | 14% | 16% | 17% | 15% | 14% |
| Employee Cost | 27% | 25% | 26% | 28% | 27% |
| Electricity, Power & Fuel Cost | 5% | 6% | 7% | 6% | 6% |
| Freight Cost | 26% | 21% | 25% | 24% | 21% |
| Other Expenses | 16% | 18% | 16% | 17% | 21% |
| Total Expenditure | 87% | 86% | 90% | 91% | 88% |
| EBITDA | 13% | 14% | 10% | 9% | 12% |
| Other Income | 1% | 1% | 1% | 1% | 1% |
| Depreciation | 5% | 7% | 7% | 6% | 5% |
| EBIT | 8% | 8% | 4% | 4% | 8% |
| Interest | 6% | 6% | 8% | 7% | 4% |
| PBT | 2% | 2% | -4% | -4% | 4% |
| Tax | 0% | -2% | -1% | -2% | 0% |
| Profit After Tax | 3% | 4% | -3% | -2% | 4% |

## OUTLOOK & VALUATION: -

Improved realisations and demand in key markets along with cost efficiencies should help improve EBITDA per tonne, to ~₹575 in FY18E, up ~79% from ₹321 in FY17.

The stock is currently trading at 13.1x FY18E and 9.1x FY19E EV/EBITDA. We arrive at the target price of ₹177 with a HOLD recommendation based on its FY19E discounted EV/EBITDA multiple of 8x.

## Cost/tonne Analysis

| Particulars (₹crs.) | Q4 FY17 | Q4 FY16 | YoY% | Q3 FY17 | %QoQ | FY17 | FY16 | YoY% |
|---|---|---|---|---|---|---|---|---|
| Volume (MT) | 1.7 | 1.4 | 24.5 | 1.3 | 38.4 | 5.6 | 4.4 | 25.9 |
| Capacity Utilisation % | 86.5% | 69.5% | 17.0 | 62.5% | 38.4 | 69.4% | 88.2% | (18.8) |
| Realisations | 3,449 | 3,133 | 10.1 | 3,652 | -5.6 | 3,379 | 3,422 | -1.3 |
| Expenditure | | | | | | | | |
| Raw Material | 471 | 495 | -4.8 | 602 | -21.7 | 493 | 474 | 4.1 |
| Employee Cost | 917 | 795 | 15.4 | 931 | -1.5 | 948 | 903 | 5.0 |
| Electricity, Power & Fuel Cost | 180 | 179 | 0.3 | 247 | -27.3 | 219 | 205 | 6.6 |
| Freight Cost | 888 | 655 | 35.5 | 912 | -2.6 | 811 | 723 | 12.1 |
| Other Expenses | 557 | 565 | -1.5 | 596 | -6.6 | 587 | 701 | -16.3 |
| Total Expenditure | 3,012 | 2,689 | 12.0 | 3,288 | -8.4 | 3,058 | 3,006 | 1.7 |
| EBITDA | 437 | 444 | -1.7 | 364 | 19.8 | 321 | 416 | -22.8 |

## Profit & Loss

| Particulars (₹crs) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| **Net sales** | **1,594** | **1,462** | **1,875** | **2,224** | **2,590** |
| **YoY (%)** | **8.1%** | **-8.2%** | **28.2%** | **18.6%** | **16.4%** |
| **Total expenses** | | | | | |
| Raw Material Cost | 196 | 209 | 274 | 284 | 326 |
| Employee costs | 71 | 90 | 121 | 127 | 134 |
| Other Manufacturing Cost | 987 | 976 | 1252 | 1412 | 1618 |
| **EBITDA** | **307** | **137** | **178** | **346** | **453** |
| **YoY (%)** | **42.8%** | **-55.3%** | **29.8%** | **94.5%** | **30.8%** |
| **EBIDTA (%)** | **19.2%** | **9.4%** | **9.5%** | **15.6%** | **17.5%** |
| Depreciation | 47 | 76 | 122 | 126 | 128 |
| **EBIT** | **259** | **61** | **57** | **220** | **325** |
| Interest | 14 | 54 | 135 | 116 | 80 |
| Other income | 6 | 8 | 12 | 15 | 31 |
| **PBT** | **251** | **14** | **-66** | **119** | **275** |
| Less: Taxation | 56 | 11 | -34 | 41 | 95 |
| Effective tax rate (%) | 22.5% | 75.3% | 51.7% | 34.6% | 34.6% |
| **PAT** | **195** | **3** | **-32** | **78** | **180** |
| **YoY (%)** | **92.8%** | **-98.2%** | **NA** | **NA** | **130.5%** |
| **PAT (%)** | **12.2%** | **0.2%** | **-1.7%** | **3.5%** | **6.9%** |

## Key Ratios

| Particulars | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| EPS (₹) | 9.5 | 0.2 | (1.6) | 3.8 | 8.8 |
| Book value (₹) | 47.6 | 49.6 | 48.2 | 50.8 | 58.4 |
| Dividend per share (₹) | 1.8 | 1.0 | 1.0 | 1.0 | 1.0 |
| Net Debt Equity Ratio | 1.1 | 1.3 | 1.3 | 0.9 | 0.6 |
| Payable Days | 21 | 42 | 42 | 42 | 42 |
| Debtor Days | 17 | 20 | 18 | 18 | 18 |
| Inventory Days | 22 | 30 | 25 | 21 | 21 |
| ROCE (%) | 16.4% | 3.1% | 3.0% | 10.6% | 17.4% |
| Recurring ROE (%) | 21.6% | 0.3% | -3.2% | 7.7% | 16.1% |
| ROA (%) | 9.4% | 0.1% | -1.1% | 2.7% | 6.5% |
| Div Yield (%) | 4.0% | 0.6% | 0.6% | 0.6% | 0.6% |
| **Valuation Ratios** | | | | | |
| PE (x) | 18.7 | 976.0 | (105.9) | 43.5 | 18.9 |
| Price/book value (x) | 3.5 | 3.3 | 3.4 | 3.3 | 2.8 |
| Market cap/sales (x) | 2.3 | 2.3 | 1.8 | 1.5 | 1.3 |
| EV/sales (x) | 3.0 | 3.2 | 2.5 | 2.0 | 1.6 |
| EV/EBITDA (x) | 15.1 | 34.2 | 26.3 | 13.1 | 9.1 |
| **Earnings growth** | | | | | |
| EBITDA (%) | 43% | -55% | 30% | 94% | 31% |
| EPS (%) | 93% | -98% | -1021% | -343% | 131% |
| PAT (%) | 93% | -98% | -1021% | -343% | 131% |

## Balance Sheet

| Particulars (₹ crs) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Equity capital | 20 | 20 | 20 | 20 | 20 |
| Reserves | 955 | 996 | 967 | 1021 | 1177 |
| **Net worth** | **976** | **1,016** | **987** | **1041** | **1197** |
| | | | | | |
| Total borrowings | 1,106 | 1,290 | 1288 | 1138 | 715 |
| Non-Current Liabilities | 190 | 199 | 125 | 131 | 145 |
| Current Liabilities | 294 | 283 | 176 | 545 | 635 |
| **Total liabilities** | **2,566** | **2,788** | **2,577** | **2,856** | **2,693** |
| | | | | | |
| Net block | | | | | |
| Investments | 798 | 2,189 | 2230 | 2065 | 1937 |
| Other Non-current Assets | 0 | 0 | 65 | 65 | 65 |
| | 1,375 | 229 | 136 | 144 | 53 |
| **Current assets** | | | | | |
| Inventories | | | | | |
| Debtors | 110 | 141 | 147 | 148 | 172 |
| Cash | 83 | 92 | 106 | 125 | 146 |
| Current Investments | 43 | 38 | 83 | 172 | 161 |
| Other Current assets | 156 | 175 | 115 | 136 | 159 |
| **Total assets** | **2,566** | **2,863** | **2,882** | **2,856** | **2,692** |

## Cash Flow

| Particulars (₹ crs) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Pre-tax Profit | 251 | 14 | -66 | 119 | 275 |
| Depn and w/o | 47 | 76 | 122 | 126 | 128 |
| Others | -42 | 39 | 122 | 40 | -15 |
| Change in working cap | -101 | 82 | 72 | 110 | 31 |
| **Op. Cash flow** | **156** | **211** | **249** | **396** | **419** |
| Capex (Net) | -924 | -370 | -61 | 39 | 98 |
| Investments | 0 | 0 | -65 | 0 | 0 |
| **Inv. Cash flow** | **-924** | **-370** | **-126** | **39** | **98** |
| Dividend | -36 | -25 | -24 | -24 | -24 |
| Fresh Equity | 0 | 0 | 0 | 0 | 0 |
| Minority interest | 0 | 0 | 0 | 0 | 1 |
| Debt | -242 | 5 | -1 | -150 | -424 |
| Others | 1,005 | 126 | -135 | -116 | -80 |
| **Fin. Cash flow** | **727** | **107** | **-161** | **-290** | **-527** |
| Net change in cash | (41.8) | (51.8) | -38 | 145 | -10 |
| **Opening cash** | 81.6 | 42.7 | 38 | 83 | 172 |
| **Closing cash** | **42.7** | **37.8** | **82.5** | **171.6** | **160.6** |

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