Orient Cement

Capacity expansion plan on track

Capacity expansion to drive volume growth: Orient Cement Ltd (Orient), a CK Birla group company having its plants in Telengana (capacity 3mtpa) and Maharashtra (capacity 2mtpa), is expanding its cement capacity by 3mtpa (an increase of 60%) to 8mtpa by 1QFY2016. The new plant is expected to be the next growth driver as it would contribute significantly to volume growth. We expect Orient to report a healthy 14.1% volume CAGR during FY2014-16E, aided by expected improvement in cement demand. The improvement in demand is expected on the back of pick up in infrastructure activities with a stable government at the centre, resolution of Telengana-Seemandhara dispute, and progressive state governments in the company's key markets (Telengana, Andhra Pradesh and Maharashtra, which account for 89% of sales). Improvement in cement demand is expected to take cement prices higher; we expect realizations for Orient to increase at a CAGR of 8.5% over FY2014-16E (in 1HFY15 realizations grew by 7.2%).

A cost efficient player: Orient has been one of the most cost efficient companies in the cement industry. The company's plants are located in close vicinity of its raw material reserves and the average lead distance of 300km shows that the product is sold in regions closer to the place of manufacture, thus translating into freight cost per tonne of ₹744 as on FY2014, which is among the lowest in the industry. The Electricity cost per tonne of ₹926 is also among the lowest in the industry with the company being well supported by a 50MW captive power plant. The new plant at Gulbarga will source coal from Singareni Collieries which is at a distance of 450km from the plant. This will increase the landing cost of coal, but this plant's efficiency will still be higher compared to the existing plant. Thus we expect the low cost structure of Orient to continue going forward.

Valuation: At CMP of ₹148 the stock is trading at FY2016E EV/ton of $86 (on FY16E 8mtpa installed capacity), which is at a discount to its south based peers (Ramco Cement trades at $120/tonne). The stock is trading at 8.8x and 8.9x its FY2015E and FY2016E EV/EBITDA, respectively. **We initiate coverage on Orient Cement with a Buy recommendation and target price of ₹183 based on 10.6x FY2016E EV/EBIDTA and at EV/tonne of $95.**

Key Financials

Y/E March (₹ cr)	FY13	FY14	FY15E	FY16E
Net Sales	1,502	1,438	1,622	2,185
% chg	0.0	(4.2)	12.8	34.7
Net Profit	162	101	163	160
% chg	0.0	(37.5)	61.2	(1.7)
EBITDA (%)	21.2	14.9	19.3	22.0
EPS (₹)	8	5	8	8
P/E (x)	18.8	30.0	18.6	19.0
P/BV (x)	4.0	3.7	3.2	2.9
RoE (%)		12.7	18.4	16.0
RoCE (%)		13.8	13.5	14.0
EV/Sales (x)	2.0	2.1	1.7	2.0
EV/EBITDA (x)	9.3	13.7	8.8	8.9

Source: Company, Angel Research; CMP as of December 19, 2014

BUY

CMP	₹148
Target Price	₹183
Investment Period	12 Months

Stock Info	
Sector	Cement
Market Cap (₹ cr)	3,032
Net debt (₹ cr)	(327)
Beta	1.1
52 Week High / Low	158/34
Avg. Daily Volume	86,767
Face Value (₹)	1
BSE Sensex	27,372
Nifty	8,225
Reuters Code	ORCE.BO
Bloomberg Code	ORCMNT IN

Shareholding Pattern (%)	
Promoters	37.5
MF / Banks / Indian FIs	29.6
FII / NRIs / OCBs	18.5
Indian Public / Others	14.4

Abs. (%)	3m	1yr	Since Listing
Sensex	1.0	32.2	37.9
Orient Cement	27.2	271.3	369.1

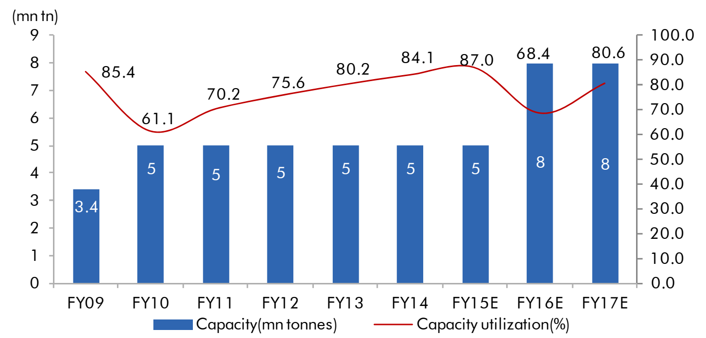
*Orient Cement Listed on 16th July 2013

Shrenik Gujrathi
022 39357800 Ext:6872
shrenik.gujrathi@angelbroking.com

Investment Arguments

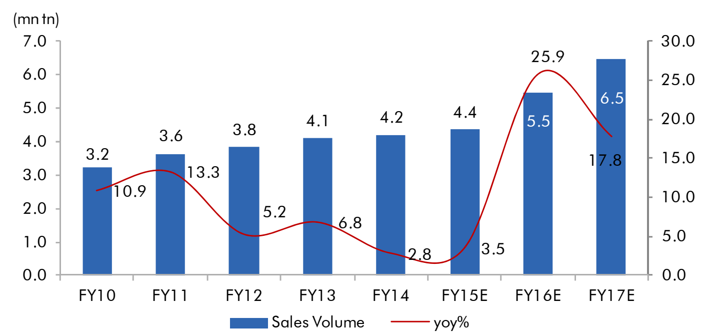
Capacity expansion plan on track: Orient is setting up a 3mn tonne per annum (mtpa) cement grinding unit (2mtpa clinker capacity) at Chittapur in Gulbarga district, Karnataka. It also has a 45MW captive power plant along with a 7MW waste heat recovery system, which will comprehensively fulfill the fuel requirement of the plant. Towards this plant, the company will incur a capex of ₹1,700cr, of which ₹1,200cr would be financed through debt and the rest ₹520cr through internal accruals. The plant is expected to be commissioned by 1QFY2016 and is expected to be the next growth driver as it would contribute significantly towards volume growth. A stable government at the centre, resolution of the Telengana-Seemandhra dispute and progressive state governments in key markets of the company (Telengana, Andhra Pradesh and Maharashtra, which account for 89% of company's sales) will provide a boost to infrastructure activities which will drive demand going forward. Hence, we expect robust volume growth for the company, ie at a CAGR of 14.1% during FY2014-16E. As demand improves we expect cement prices to move higher. We expect realizations for Orient to grow at a CAGR of 8.5% over FY2014-16E (in 1HFY15 realizations grew by 7.2%).

Exhibit 1: Cement Capacity and utilization levels



Source: Company, Angel Research

Exhibit 2: Volume Growth Trend



Source: Company, Angel Research

A cost efficient player: Orient has been one of the most cost efficient companies in the cement industry. The company's Devapur cement manufacturing plant is located in a high-quality limestone reserve belt which is just 2km from the plant. The company has linkage coal from Singareni Collieries which enables it in maintaining coal costs at lower levels. Fly Ash is sourced from NTPC's Ramagundam Thermal Power Plant, located at a distance of around 40km from the Devapur plant, while Fly Ash for the Jalgaon plant will be sourced from NTPC's Bhusawal Thermal Power Plant which is located at a distance of 20km from the plant. This will help in keeping the fly ash cost lower due to low lead distance. Orient's average lead distance is of 300km, which indicates that the products are sold in nearby areas to the place of manufacture. The low lead distance aided in keeping freight cost per tonne lower at ₹744 for FY2014 which is the lowest in industry. The Electricity cost per tonne at ₹926 is also one of the lowest in the industry as the plant is well supported by a 50MW captive power plant. The new plant at Gulbarga will also source coal from Singareni Collieries which is at a distance of 450km from the plant. This will increase the landing cost of coal, but this new plant's efficiency will still be higher compared to the existing plant. Thus we expect the low cost structure of Orient to continue going forward.

Exhibit 3: Power cost per tonne versus peers

Company	FY13	FY14
ACC*	988	996
Ultratech	1,071	1,014
Ramco Cement	956	969
India Cement	1,249	1,272
JK Lakshmi Cement	766	750
Orient Cement	**927**	**926**

*Source: Company, Angel Researc; Note: *ACC has December year ending*

Exhibit 4: Freight cost per tonne versus peers

Company	FY13	FY14
ACC*	926	968
Ultratech	1,053	1,116
Ramco Cement	920	961
India Cement	954	1,006
JK Lakshmi Cement	795	812
Orient Cement	**759**	**744**

*Source: Company, Angel Research; Note: *ACC has December year ending*

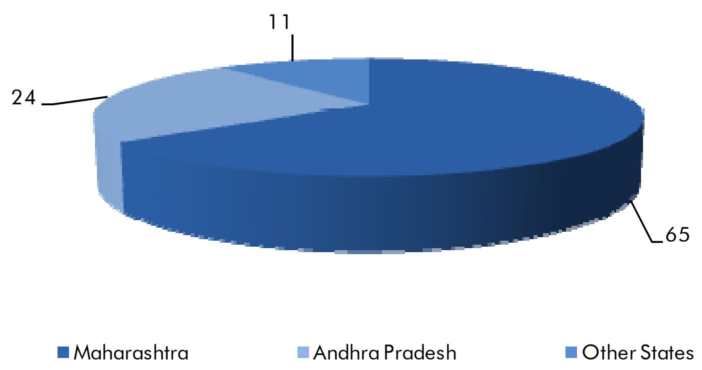
Exhibit 5: Total cost per tonne versus peers

Company	FY13	FY14
ACC*	3,797	3,987
Ultratech	3,862	4,036
Ramco Cement	3,379	3,602
India Cement	3,735	3,892
JK Lakshmi Cement	3,068	3,117
Orient Cement	**2,892**	**2,911**

*Source: Company, Angel Research; Note: *ACC has December year ending*

Strong market mix: Currently 60% of Orient's capacity is located in the south. Despite this, 65% of its sales are accrued from the Maharashtra region. Orient had a utilization level of 84% in FY2014 which is much higher than any of its peers in the south (which had utilization levels at 68-70%). The new capacity at Gulburga can sell its products in relatively high realizations markets of Karnataka and south Maharashtra. The existing plants at Devapur and Jalgaon would target to scale newer markets of Madhya Pradesh and Chhattisgarh.

Exhibit 6: Orient Cement Market Mix



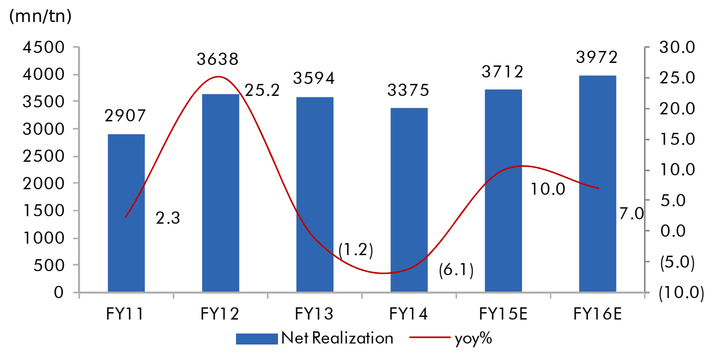
Source: Company, Angel Research

Financial outlook

We expect Orient to report a healthy 23.2% revenue CAGR during FY2014-16E. This should be on the back of strong volume growth as a new capacity will be operational in 1QFY2016 and better cement demand outlook will lead to higher realizations.

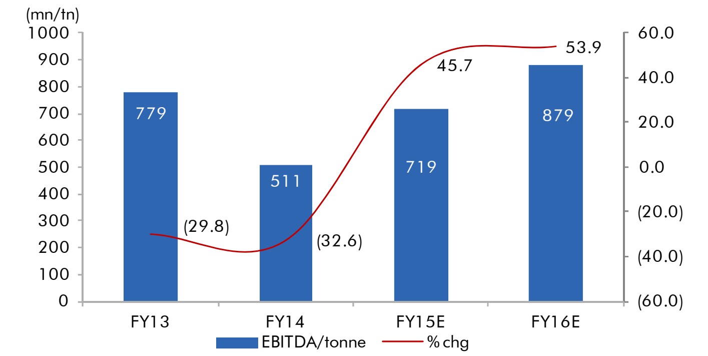
In FY2014, the company's EBITDA declined sharply by 32.6% yoy to ₹215cr while its EBITDA margin declined to 14.9% vs 21.2% in FY2013 due to fall in realizations. Going forward we expect the EBITDA margin to improve due to higher realizations and owing to the cost efficient structure of the company. The EBITDA margin is expected to improve from 14.9% in FY2014 to 22% by FY2016E. Overall we expect EBITDA to grow at a CAGR of 49.7% over FY2014-16E. With better profitability, we expect Orient's RoE to improve from current levels of 12.7% to 16% by FY2016E.

Exhibit 7: Expected realizations to grow



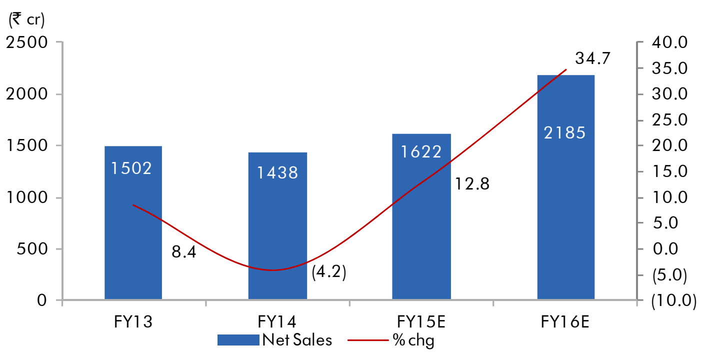
Source: Company, Angel Research

Exhibit 8: Expect improvement in EBITDA/tonne



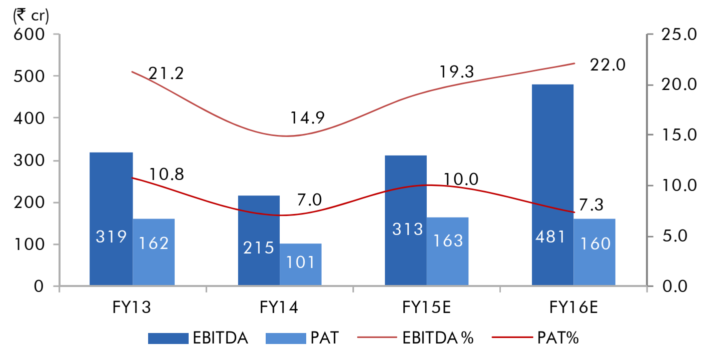
Source: Company, Angel Research

Exhibit 9: Revenue Growth Trend



Source: Company, Angel Research

Exhibit 10: Profitability Trend



Source: Company, Angel Research

Outlook and Valuation

Orient's capacity addition would drive volume growth. Further, a possible uptick in realizations and better cost efficiency will improve profitability, going forward.

At CMP of ₹148, the stock is trading at FY2016E EV/ton of $86 (on its 8mtpa expanded capacity), which is at a huge discount to its south based peers (Ramco Cement trades at $120/tonne). The stock is trading at 8.8x and 8.9x of its FY2015E and FY2016E EV/EBITDA, respectively. **We initiate coverage on Orient Cement with a Buy recommendation and a target price of ₹183 based on 10.6x FY2016E EV/EBIDTA and at EV/tonne at $95.**

Company Background

Orient Cement Ltd (Orient) a CK Birla group company was incorporated in 1979. Orient has 5mtpa cement grinding capacity plant located at Devapur, Telengana (3mtpa capacity) and Jalgaon, Maharashtra (2mtpa capacity) along with 50MW captive power capacity. Orient is setting up greenfield plant with proposed capacity of 3mtpa at Gulbarga, Karnataka which would take the total cement capacity to 8mtpa. Orient offers its product under Birla-A1 under PPC category and Orient Gold 53-grade under OPC category. Currently, Orient sells its products through a network of 2760 dealers spread across west, central and south India.

Profit & Loss Statement

Y/E March (₹ cr)	FY13	FY14	FY15E	FY16E
Net Sales	**1,502**	**1,438**	**1,622**	**2,185**
% Chg		*(4.2)*	*12.8*	*34.7*
Total expenditure	1,183	1,224	1,309	1,703
Net Consumption of Materials	226	259	266	346
Power and Fuel	379	389	408	504
Employee benefit expenses	52	58	66	88
Transport, clearing & for. charges	310	313	350	470
EBITDA	**319**	**215**	**313**	**481**
% Chg		*(32.6)*	*45.7*	*53.9*
EBIDTA %	**21.2**	**14.9**	**19.3**	**22.0**
Depreciation	56	56	58	128
EBIT	263	158	255	354
% Chg	*0.0*	*(39.7)*	*60.8*	*38.9*
Interest and Financial Charges	19	14	17	121
Other Income	5	9	9	9
PBT	249	153	247	242
Tax	87	52	84	82
% of PBT	35.0	34.1	34.0	34.0
PAT before Exceptional item	162	101	163	160
Exceptional item	0	0	0	0
PAT	**162**	**101**	**163**	**160**
% Chg		*(37.5)*	*61.2*	*(1.7)*
PAT %	10.8	7.0	10.0	7.3
Basic EPS	**8**	**5**	**8**	**8**
Diluted EPS	**8**	**5**	**8**	**8**
% Chg	*0.0*	*(37.5)*	*61.2*	*(1.7)*

Balance Sheet

Y/E March (₹ cr)	FY13	FY14	FY15E	FY16E
Sources of Funds				
Equity Capital	20	20	20	20
Reserves Total	736	808	923	1,037
Networth	**757**	**829**	**944**	**1,057**
Total Debt	46	328	1,328	1,378
Other long term liabilities	29	46	46	46
Deferred Tax Liability	129	127	127	127
Total Liabilities	**962**	**1,329**	**2,445**	**2,608**
Application of Funds				
Gross Block	1,277	1,293	1,293	3,043
Accumulated Depreciation	423	468	526	654
Net Block	854	826	767	2390
Capital WIP	40	328	1528	28
Investments	0	0	0	0
Current Assets				
Inventories	87	71	69	81
Sundry Debtors	76	65	73	98
Cash and Bank Balance	76	82	75	113
Loans, Advances and Deposits	106	160	294	314
Other Current Asset	19	25	37	39
Current Liabilities	297	232	423	481
Net Current Assets	**68**	**170**	**125**	**164**
Miscellaneous Expenditure	0	0	0	0
Total Assets	**962**	**1,329**	**2,445**	**2,608**

Cash Flow Statement

Y/E March (₹ cr)	FY13	FY14	FY15E	FY16E
Profit before tax	249	153	247	242
Depreciation	56	56	58	128
Change in Working Capital	20	(97)	38	(1)
Less: Other income	5	9	9	9
Direct taxes paid	87	52	84	82
Cash Flow from Operations	**233**	**51**	**250**	**278**
(Inc)/ Dec in Fixed Assets	(44)	(305)	(1,200)	(250)
(Inc)/ Dec in Investments	0	(0)	0	0
Other income	5	9	9	9
Cash Flow from Investing	**(39)**	**(295)**	**(1,191)**	**(241)**
Issue/(Buy Back) of Equity	0	0	0	0
Inc./(Dec.) in loans	(117)	281	1000	50
Dividend Paid (Incl. Tax)	48	36	48	47
Others	(11)	(4)	19	2
Cash Flow from Financing	**(154)**	**250**	**934**	**2**
Inc./(Dec.) in Cash	39	5	(7)	38
Opening Cash balances	**37**	**76**	**82**	**75**
Closing Cash balances	**76**	**82**	**75**	**113**

Key Ratios

Y/E March	FY13	FY14	FY15E	FY16E
Valuation Ratio (x)				
P/E (on FDEPS)	18.8	30.0	18.6	19.0
P/CEPS	13.9	19.3	13.7	10.5
Dividend yield (%)	1.4	1.0	1.3	1.3
EV/Sales	2.0	2.1	1.7	2.0
EV/EBITDA	9.3	13.7	8.8	8.9
EV / Total Assets	3.1	2.2	1.1	1.6
Per Share Data (₹)				
EPS (Basic)	7.9	4.9	7.9	7.8
EPS (fully diluted)	7.9	4.9	7.9	7.8
Cash EPS	10.6	7.7	10.8	14.0
DPS	2.0	1.5	2.0	2.0
Operating ROE	-	11.2	17.1	14.1
Returns (%)				
RoCE (Pre-tax)	-	13.8	13.5	14.0
Angel RoIC (Pre-tax)	-	17.9	28.9	21.4
RoE	-	12.7	18.4	16.0
Turnover ratios (x)				
Asset Turnover (Gross Block) (x)	-	1.1	1.3	1.0
Inventory / Sales (days)	-	20	16	13
Receivables (days)	-	18	15	14
Payables (days)	-	79	91	97

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

DISCLAIMER

Disclosure of Interest Statement	Orient Cement
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to -15%)	*Sell (< -15%)*	

6th Floor, Ackruti Star, Central Road, MIDC, Andheri (E), Mumbai- 400 093. Tel: (022) 39357800

Research Team

Fundamental:

Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angelbroking.com
Vaibhav Agrawal	VP-Research (Banking)	vaibhav.agrawal@angelbroking.com
Amarjeet Maurya	Analyst (FMCG, Media, Mid-Cap)	amarjeet.maurya@angelbroking.com
Bharat Gianani	Analyst (Automobile)	bharat.gianani@angelbroking.com
Shrenik Gujrathi	Analyst (Cap Goods, Cement)	shrenik.gujrathi@angelbroking.com
Umesh Matkar	Analyst (Banking)	umesh.matkar@angelbroking.com
Twinkle Gosar	Analyst (Mid-Cap)	gosar.twinkle@angelbroking.com
Tejas Vahalia	Research Editor	tejas.vahalia@angelbroking.com

Technicals and Derivatives:

Siddarth Bhamre	Head – Technical & Derivatives	siddarth.bhamre@angelbroking.com
Sameet Chavan	Technical Analyst	sameet.chavan@angelbroking.com
Sneha Seth	Associate (Derivatives)	sneha.seth@angelbroking.com

Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angelbroking.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angelbroking.com
Gaurang Tisani	Assistant Manager	gaurangp.tisani@angelbroking.com

Production Team:

Dilip Patel	Production Incharge	dilipm.patel@angelbroking.com

CSO & Registered Office: G-1, Ackruti Trade Centre, Road No. 7, MIDC, Andheri (E), Mumbai - 93. Tel: (022) 3083 7700. Angel Broking Pvt. Ltd: BSE Cash: INB010996539 / BSE F&O: INF010996539, CDSL Regn. No.: IN - DP - CDSL - 234 – 2004, PMS Regn. Code: PM/INP000001546, NSE Cash: INB231279838 / NSE F&O: INF231279838 / NSE Currency: INE231279838, MCX Stock Exchange Ltd: INE261279838 / Member ID: 10500. Angel Commodities Broking (P) Ltd.: MCX Member ID: 12685 / FMC Regn. No.: MCX / TCM / CORP / 0037 NCDEX: Member ID 00220 / FMC Regn. No.: NCDEX / TCM / CORP / 0302.