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India | Equity Research | Q1FY25 results review

Orient Cement

Cement

Value (over volume) in focus amidst M&A buzz

Leading by example (for cement industry), Orient Cement (ORCMNT) prioritised value over volume in Q1FY25. While volume plunged 15% YoY, realisation stood flat QoQ. Ergo (despite only marginal respite from costs), EBITDA drop was contained to ~3% fall YoY. That said, the underlying weakness in demand and prices in key markets of ORCMNT are forcing 14% cut to our FY25E EBITDA. Being optimistic, while we retain FY26E forecast, there certainly looms a risk should prices remain weak. Though industry commentary has stayed subdued for the past several months, recent surge in stock price is attributable to M&A buzz ([Link 1](#); [Link 2](#)) which is highly speculative and beyond the scope of our fundamental analysis. With current EV/t being broadly at par with replacement cost, we downgrade ORCMNT to **SELL** with revised TP of INR 237 (Hold, INR 220 earlier), valuing it at an unchanged 8x FY26E EV/EBITDA.

Saying 'NO' to unremunerative prices

ORCMNT chose to protect margins over chasing volumes at unremunerative prices (despite weak demand in Q1FY25 impacted by heatwave and general elections). EBITDA/t rose >13% YoY (down 17% QoQ) to INR 708 as volume plunged 15% YoY (down 21% QoQ) and realisation stood flat QoQ (down 1% YoY). On cost front, while variable cost/t eased ~1% QoQ (down 7% YoY), negative operating leverage (impact of weak volumes on fixed cost/t) led to overall cost/t rising 3.3% QoQ (down just 3% YoY). EBITDA at INR 960mn slipped 3% YoY (down a huge 35% QoQ), being 17% below estimates. Factoring in management guidance of weak volume and pricing persisting in Q2FY25 as well, we chop FY25E EBITDA by 14%. While our optimism leads us to retain FY26E EBITDA, there looms a risk should prices remain stressed.

Overhang of pricing weakness and capex-led rise in debt

We find ORCMNT's valuations of ~14x FY25E and ~12x FY26E EV/EBITDA expensive in the backdrop of – a) risk to earnings should price fail to recover from H2FY25 and 2) potential leverage concerns with high odds of it being in capex mode for next couple of years (given the intent to pursue – a) line-2 at Chittapur (Karnataka); b) grinding unit at Sarni (MP); c) additional clinker line at Devapur (Telangana) and d) greenfield plant in Rajasthan). The recent surge in stock price appears speculative given the M&A buzz. We continue to value ORCMNT at 8x FY26E EV/EBITDA and downgrade the stock to **SELL** with a revised TP of INR 237 (INR 220 earlier). The upward revision in TP is due to capex deferral pending environment clearance for Chittapur expansion.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	29,375	31,851	31,336	34,863
EBITDA	3,645	4,492	5,043	6,628
EBITDA (%)	12.4	14.1	16.1	19.0
Net Profit	1,228	1,749	2,310	3,058
EPS (INR)	6.0	8.5	11.3	14.9
EPS % Chg YoY	(53.3)	42.4	32.1	32.4
P/E (x)	56.6	39.7	30.1	22.7
EV/EBITDA (x)	19.9	15.6	13.9	11.7
RoCE (%)	6.2	7.9	9.7	11.2
RoE (%)	7.8	10.4	12.6	14.8

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Market Data

Market Cap (INR)	69bn
Market Cap (USD)	828mn
Bloomberg Code	ORCMNT IN
Reuters Code	ORCE.BO
52-week Range (INR)	370 /160
Free Float (%)	54.0
ADTV-3M (mn) (USD)	9.3

Price Performance (%)	3m	6m	12m
Absolute	52.5	22.3	115.8
Relative to Sensex	46.1	13.4	96.2

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.8	(10.2)
EBITDA	(13.7)	0.1
EPS	(12.9)	(1.8)

Previous Reports

06-05-2024: [Q4FY24 result review](#)

15-02-2024: [Q3FY24 result review](#)

Q1FY25 conference call takeaways

Demand/volume

- Demand in Q1FY25 was sluggish owing to 1) extreme weather conditions (heatwave) and 2) manpower unavailability, slowdown in construction activities due to general elections.
- The company continued with its strategy of protecting margins vs chasing volume growth at unremunerative prices in Q1FY25.
- ORCMNT expects its volume to decline in Q2FY25 as well (Q1FY25 volume plunged ~15% YoY); expects demand to improve H2FY25 onwards.
- Management will review FY25 volume guidance of 8% YoY, post Q2FY25.
- In Q1FY25, Telangana and Karnataka markets witnessed high double digit volume growth decline while Maharashtra declined ~5% YoY.
- Trade sales stood at ~44% in Q1FY25 vs ~45% in Q4FY24.
- OPC cement sales stood at 46% in Q1FY25 which was flat QoQ.
- Despatch mix stood as –

Region	Q1FY25	Q4FY24	Q3FY24
West	68%	67%	60%
South	24%	24%	30%
Central	8%	9%	10%

Pricing

- Cement prices in Jul'24 were down ~2.5-3% vs Q1FY25 average.
- In Q1FY25, intense pricing pressure was seen in company's core markets, as leading brands even sold INR 10-15/bag lower than ORCMNT's selling price.
- In B2C segment, company has positioned itself as category A player and as a policy, will not align its prices with category B or C players to capture higher market share.
- Premium cement contribution was 23% of trade sales during Q1FY25 vs ~22% in Q4FY24.

Cost

- Q1FY25 blended fuel consumption cost stood at INR ~1.785/'000kcal vs INR 2.1/'000kcal YoY and flat QoQ.
- Fuel mix in –
 - Q1FY25 – indigenous coal: 40%, pet coke: 42%, AFR: 18%
 - Q4FY24 – indigenous coal: 45%, pet coke: 34%, AFR: 21%
- The 10MW WHR plant at Chittapur, Karnataka (which was available for 2/3rd of quarter) generated ~INR 90mn of cost savings in Q1FY25.
- Renewable energy in total power mix stood at 24% in Q1FY25 vs 12% in Q1FY24 and 23% in Q4FY24. The company aims to further increase its renewable power share with the installation of 17MW solar power unit at Chittapur by Sep'24.
- In Q1FY25, power cost/t stood at INR 397 vs INR 456 in Q1FY24 and INR 401 in Q4FY24. The ~INR 60/t YoY cost savings was led by the recently commissioned 10MW WHR unit at Chittapur.

- Fuel cost/t stood at INR 939 in Q1FY25 vs INR 1,113 in Q1FY24 & INR 950 in Q4FY24.
- The sequential rise (~2%) in logistics cost/t was due to higher road mix and rail fare.
- Lead distance was in the range of 310-315kms (flat QoQ) in Q1FY25.
- AFR consumption stood at 13% in Q1FY25 vs 5% in Q1FY24 and 16% in Q4FY24.
- In Q1FY25, specific power consumption stood at 62.7 units/t of cement vs 61.7 in Q4FY24; specific heat consumption stood at 689kcal/kg of clinker.

Capex

- ORCMNT is awaiting regulatory approvals (EC) for its Chittapur unit and expects some progress only by Q2FY25-end.
- Similarly, Sarni, MP split grinding unit (2mtpa) is also awaiting forest clearance and is in advance stages to receive approvals.
- Given the delay in approvals, the commissioning of Chittapur and Sarni GU could be in early-FY27.
- Negotiations are ongoing for acquiring limestone mining land in Rajasthan; ORCMNT does not look to monetise Rajasthan mines.
- Capex guidance for FY25 is ~INR 2-3bn, which includes ~INR 1.5bn towards forest clearance for Devapur unit, ~INR 1bn for Chittapur line-2 expansion and ~INR 250-300mn for Sarni, MP split grinding unit.
- Cumulative capex guidance for Chittapur (INR 15bn) and Sarni GU (INR 5bn) is INR 20bn; Devapur line-4 expansion + 1mtpa of cement grinding unit and WHR unit will entail capex of INR 17-18bn.
- The company maintains the pecking order for its capacity expansion plan, viz. (1) Chittapur expansion, (2) Sarni GU, (3) Devapur line-4 expansion along with 1mtpa grinding unit.

Exhibit 1: Q1FY25 result review

(INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	I-sec est.	Var. (%)
Volume (mt)	1.36	1.59	(14.7)	1.73	(21.4)	1.60	(15.5)
Avg. Realisation (INR/t)	5,135	5,193	(1.1)	5,145	(0.2)	5,068	1.3
Net Sales	6,963	8,252	(15.6)	8,880	(21.6)	8,133	(14.4)
Raw Materials	942	1,230	(23.4)	1,297	(27.4)	1,206	(21.9)
Personnel Cost	508	471	7.9	431	17.8	504	0.8
Power and Fuel cost	1,832	2,475	(26.0)	2,329	(21.3)	2,126	(13.8)
Freight cost	1,920	2,181	(12.0)	2,402	(20.1)	2,234	(14.0)
Other Expenses	801	903	(11.3)	939	(14.8)	903	(11.3)
Total Expenses	6,003	7,260	(17.3)	7,399	(18.9)	6,972	(13.9)
EBITDA	960	992	(3.2)	1,481	(35.2)	1,161	(17.3)
EBITDA/t (INR)	708	624	13.4	858	(17.5)	724	(2.2)
Interest	56	97	(41.8)	80	(29.3)	80	(29.3)
Depreciation	386	367	5.0	376	2.5	389	(0.8)
Other Income	61	44	38.3	75	(18.5)	44	38.3
Recurring pre-tax income	579	572	1.3	1,100	(47.3)	737	(21.4)
Extraordinary income/(expense)	-	-	-	-	-	-	-
Taxation	212	202	5.1	418	(49.3)	243	(12.8)
Reported Net Income	367	370	(0.9)	682	(46.2)	494	(25.7)
Recurring Net Income	367	370	(0.9)	682	(46.2)	494	(25.7)
Ratios (%)			bps		bps		bps
EBITDA margin	13.8	12.0	177	16.7	-289	14.3	-49
Net profit margin	5.3	4.5	78	7.7	-241	6.1	-80

Source: I-Sec research, Company data

Exhibit 2: Historical quarterly analysis on per-tonne basis

INR/t	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net realisation	5,193	5,057	5,397	5,145	5,135
Raw materials consumed	774	666	814	752	695
Power & fuel	1,557	1,537	1,398	1,349	1,351
Freight cost	1,372	1,346	1,401	1,392	1,416
Staff cost	296	324	339	250	375
Other expenses	568	576	617	544	590
Total costs	4,569	4,449	4,568	4,287	4,427
EBITDA	624	607	829	858	708

Source: I-Sec research, Company data

Exhibit 3: Per-tonne estimates

INR/t	FY22	FY23	FY24	FY25E	FY26E
Net realisation	4,972	5,096	5,194	5,162	5,312
Raw material consumed	647	671	752	695	695
Power & fuel	1,139	1,610	1,458	1,330	1,315
Freight	1,298	1,365	1,378	1,397	1,392
Others	531	530	574	583	574
Total operating expenses	3,894	4,464	4,462	4,331	4,302
Other operating income	-	-	-	-	-
EBITDA	1,078	632	733	831	1,010

Source: I-Sec research, Company data

Exhibit 4: Performance trend and assumptions

Particulars	FY22	FY23	FY24	FY25E	FY26E
Capacity (mtpa)	8.5	8.5	8.5	8.5	8.5
Production (mt)	5.48	5.76	6.13	6.07	6.56
Capacity utilisation (%)	64	68	72	71	77
Sales (mt)	5.48	5.76	6.13	6.07	6.56
Growth (%)	8.5	5.2	6.4	-1.0	8.1
Realisation (INR/t)	4,972	5,096	5,194	5,162	5,312
Growth (%)	8.0	2.5	1.9	-0.6	2.9

Source: I-Sec research, Company data

Exhibit 5: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	31,336	31,087	0.8	34,863	38,841	(10.2)
EBITDA	5,043	5,841	(13.7)	6,628	6,623	0.1
PAT	2,310	2,652	(12.9)	3,058	3,113	(1.8)

Source: I-Sec research, Company data

Exhibit 6: Valuations based on 8x Mar'26E EV/E

Particulars	FY26E
Target EV/ EBITDA multiple (x)	8.0
Target EV (INR mn)	53,002
Net debt / (cash) (INR mn)	4,223
Target value (INR mn)	48,800
No. of shares (mn)	205
Target price per share (INR)	237

Source: I-Sec research

Key risks

- Sharp further uptick in cement prices and/or a major decline in fuel cost are key upside earnings risks.

Exhibit 7: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	37.9	37.9	37.9
Institutional investors	19.8	22.9	23.6
MFs and others	9.7	11.3	13.6
FIs/Banks	0.1	0.1	1.1
Insurance	2.3	2.0	1.9
FIIIs	7.7	9.5	7.0
Others	42.3	39.2	38.5

Source: Bloomberg

Exhibit 8: Price chart



Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	29,375	31,851	31,336	34,863
Operating Expenses	21,865	22,749	22,074	23,674
EBITDA	3,645	4,492	5,043	6,628
EBITDA Margin (%)	12.4	14.1	16.1	19.0
Depreciation & Amortization	1,468	1,492	1,547	1,595
EBIT	2,177	3,001	3,496	5,033
Interest expenditure	378	342	233	636
Other Non-operating Income	120	155	184	168
Recurring PBT	1,920	2,814	3,447	4,565
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	691	1,066	1,138	1,506
PAT	1,228	1,749	2,310	3,058
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	1,228	1,749	2,310	3,058
Net Income (Adjusted)	1,228	1,749	2,310	3,058

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	6,692	6,850	7,070	7,230
of which cash & cash eqv.	701	771	704	642
Total Current Liabilities & Provisions	5,104	5,315	5,438	5,553
Net Current Assets	1,588	1,536	1,632	1,677
Investments	42	115	115	115
Net Fixed Assets	19,435	19,287	18,240	17,145
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,397	889	3,689	14,689
Total Intangible Assets	666	923	923	923
Other assets	536	491	491	491
Deferred Tax assets	-	-	-	-
Total Assets	23,664	23,240	25,089	35,040
Liabilities				
Borrowings	3,915	1,295	1,295	8,495
Deferred Tax Liability	2,869	3,378	3,378	3,378
provisions	514	495	495	495
other Liabilities	329	639	639	639
Equity Share Capital	205	205	205	205
Reserves & Surplus	15,832	17,228	19,076	21,827
Total Net Worth	16,037	17,432	19,281	22,032
Minority Interest	-	-	-	-
Total Liabilities	23,664	23,240	25,089	35,040

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	7,206	7,513	8,880	6,963
% Growth (YoY)	17.1	2.6	1.4	-15.6
EBITDA	865	1,154	1,481	960
Margin %	12	15	17	14
Other Income	17	19	75	61
Extraordinary	-	-	-	-
Adjusted Net Profit	246	450	682	367

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,714	4,583	5,228	6,796
Working Capital Changes	(2,268)	179	(163)	(108)
Capital Commitments	(1,294)	(783)	(3,300)	(11,500)
Free Cashflow	(184)	3,476	627	(6,318)
Other investing cashflow	95	(70)	-	-
Cashflow from Investing Activities	(1,198)	(853)	(3,300)	(11,500)
Issue of Share Capital	-	-	-	-
Interest Cost	(294)	(302)	(233)	(636)
Inc (Dec) in Borrowings	1,106	(2,676)	-	7,200
Dividend paid	(461)	(359)	(461)	(307)
Others	-	-	-	-
Cash flow from Financing Activities	352	(3,336)	(694)	6,256
Chg. in Cash & Bank balance	263	70	(67)	(62)
Closing cash & balance	701	771	704	642

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	6.0	8.5	11.3	14.9
Adjusted EPS (Diluted)	6.0	8.5	11.3	14.9
Cash EPS	13.2	15.8	18.8	22.7
Dividend per share (DPS)	1.5	2.3	1.5	1.5
Book Value per share (BV)	78.3	85.1	94.1	107.5
Dividend Payout (%)	25	26	13	10
Growth (%)				
Net Sales	7.8	8.4	(1.6)	11.3
EBITDA	(38.3)	23.2	12.3	31.4
EPS (INR)	(53.3)	42.4	32.1	32.4
Valuation Ratios (x)				
P/E	56.6	39.7	30.1	22.7
P/CEPS	25.8	21.4	18.0	14.9
P/BV	4.3	4.0	3.6	3.2
EV / EBITDA	19.9	15.6	13.9	11.7
EV / t (USD)	117	102	99	110
Dividend Yield (%)	0.4	0.7	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	86.8	85.5	86.5	86.9
EBITDA Margins (%)	12.4	14.1	16.1	19.0
Effective Tax Rate (%)	36.0	37.9	33.0	33.0
Net Profit Margins (%)	4.2	5.5	7.4	8.8
NWC / Total Assets (%)	6.7	6.6	6.5	4.8
Net Debt / Equity (x)	0.2	0.0	0.0	0.4
Net Debt / EBITDA (x)	0.9	0.1	0.1	1.2
Profitability Ratios				
RoCE (%) (Post Tax)	6.2	7.9	9.7	11.2
RoE (%)	7.8	10.4	12.6	14.8
RoC (%)	7.9	10.5	13.0	14.0
Fixed Asset Turnover (x)	1.5	1.6	1.7	2.0
Inventory Turnover Days	47	57	61	59
Receivables Days	18	23	27	25
Payables Days	39	37	41	40

Source Company data, I-Sec research

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