

## Capacity addition to drive growth

Orient Cement Ltd (ORIENT) currently operates from Devapur (Karnataka) and Jalgaon (Maharashtra) with total capacity of 5mtpa. The current sales mix for the company is 80% for Maharashtra and 20% for Telangana region. The company is in process of completion of its 3mtpa plant at Gulbarga (Karnataka) taking the total capacity to 8mtpa from current 5mtpa (60% jump in total capacity). This will further add scope of penetrating newer markets and reducing dependence on a particular region. Orient's current plants are working at capacity utilization close to 85%; we expect post expansion capacity utilization to drop to 80% as new units may take time to stabilize. As a result, we expect a 23/32% volume growth for Orient in FY16/17.

## Entry into high yield markets will boost realisations

Orient has enjoyed a higher realisation of 3,760/ton, 3,426/ton and 3,593/ton during 9MFY15/FY14/13. We believe with new capacity addition at Gulbarga, Orient will be able to further penetrate into key markets like Mumbai, Pune and Bangalore, where yield is higher. With a stable government at the centre and the Telangana-Seemandhra resolution, the incremental and pent up demand could translate into improvement in key dynamics for the region directly benefiting players like Orient. We build-in 3/4% jump in realisation in FY16/17.

## Compelling BUY – earnings to witness 29% CAGR over FY15-18

We believe Orient will be a major beneficiary of improved demand in its key markets which in turn would support higher dispatches & realizations. This would translate into 29% CAGR in earnings over FY15-18. Stock trades at FY18 PER of 10.8x, at a similar valuation to other mid-cap players despite having better operational efficiency. On an EV/ton basis, company trades at FY18 EV/ton of US\$103, representing a 14% discount to the replacement cost. We recommend BUY for 9-mth target price of Rs219.

## Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	14,384	16,264	20,581	27,948
yoy growth (%)	(4.2)	13.1	26.5	35.8
Operating profit	2,147	2,912	4,076	5,991
OPM (%)	14.9	17.9	19.8	21.4
Pre-exceptional PAT	1,010	1,623	1,803	2,932
Reported PAT	1,010	1,623	1,803	2,932
yoy growth (%)	(37.5)	60.6	11.1	62.6
EPS (Rs)	4.9	7.9	8.8	14.3
P/E (x)	37.7	23.5	21.1	13.0
Price/Book (x)	4.6	4.0	3.5	2.9
EV/EBITDA (x)	19.2	15.5	12.7	9.0
Debt/Equity (x)	0.5	0.9	1.5	1.4
RoE (%)	12.7	18.3	17.9	24.5
RoCE (%)	14.5	15.4	14.9	17.9

Source: Company, India Infoline Research

**Rating:** BUY  
**Target (9 months):** Rs219  
**CMP:** Rs186  
**Upside:** 17.8%

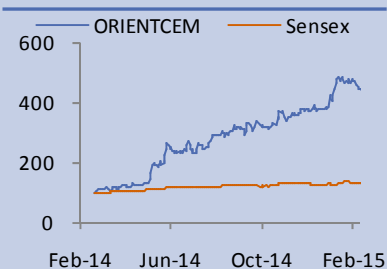
**Sector:** Cement  
**Sector view:** Positive  
**Sensex:** 29,459  
**52 Week h/l (Rs):** 199 / 37  
**Market cap (Rscr) :** 3,794  
**6m Avg vol ('000Nos):** 193  
**Bloomberg code:** ORCMNT IS  
**BSE code:** 535754  
**NSE code:** ORIENTCEM  
**FV (Rs):** 1

Price as on March 2, 2015

## Company rating grid

	Low	1	2	3	4	5	High
Earnings Growth				3			
Cash Flow				3			
B/S Strength				3			
Valuation appeal				3			
Risk		1					

## Share price trend



## Share holding pattern

(%)	Jun-14	Sep-14	Dec-14
Promoter	37.5	37.5	37.5
Insti	33.5	34.4	35.2
Others	29.1	28.1	27.3

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March 3, 2015

### Higher realizations and cost efficiency to boost margins

Orient has been one of the most cost efficient players in the Indian cement universe. Orient has been able to achieve higher degree of efficiency on back of it's a) lower freight cost (750/ton, lowest in the industry), b) savings in energy cost (shift to pet coke) and c) raw material sourcing. We believe with improvement in realizations, the margin for the company is set to head northwards. Higher operational efficiency will reduce the burden of increase in depreciation and interest outgo translating into PAT recording a 29% CAGR over FY15-18.

### Company Background

Orient is engaged in the production and marketing of OPC (25%) and PPC (75%) cement. The Company's principal operating unit is located in the limestone-rich belt of Devapur (Telangana), while another split cement grinding unit is located in Jalgaon (Maharashtra). The Company possesses an installed cement capacity of 5mtpa, supported by a 50 MW captive power plant which caters to 92% of company requirement.

#### All- India cement demand-supply scenario

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	306	322	338	357	372
yoy growth (%)	4.8	5.2	5.0	5.6	4.2
Possible production	296	311	328	342	362
Cement Dispatches	238	247	262	289	310
yoy growth (%)	5.8	3.8	6.1	10.3	7.3
Capacity Utilization	77.8	76.7	77.5	81.0	83.3
Surplus/(Deficit)	58.0	64.0	66.0	53.0	52.0

Source: Company, India Infoline Research

#### Cement demand-supply scenario in northern region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	67	74	79	85	90
yoy growth (%)	1.5	10.4	6.8	7.6	5.9
Possible production	64	69	76	82	87
Cement Dispatches	61	65	69	76	85
yoy growth (%)	8.9	6.6	6.2	10.1	11.8
Capacity Utilization	91.0	87.8	87.3	89.4	94.4
Surplus/(Deficit)	3.0	4.0	7.0	6.0	2.0

#### Cement demand-supply scenario in Western region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	45	44	47	49	49
yoy growth (%)	2.3	(2.2)	6.8	4.3	-
Possible production	44	47	49	46	49
Cement Dispatches	38	39	41	44	48
yoy growth (%)	5.6	2.6	5.1	7.3	9.1
Capacity Utilization	84.4	88.6	87.2	89.8	98.0
Surplus/(Deficit)	6.0	8.0	8.0	2.0	1.0

Source: Company, India Infoline Research

#### Cement demand-supply scenario in southern region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	119	115	118	121	124
yoy growth (%)	8.2	(3.4)	2.6	2.5	2.5
Possible production	114	114	116	120	121
Cement Dispatches	70	72	77	85	94
yoy growth (%)	4.5	2.9	6.9	10.4	10.6
Capacity Utilization	58.8	62.6	65.3	70.2	75.8
Surplus/(Deficit)	44.0	42.0	39.0	35.0	27.0

#### Cement demand-supply scenario in central region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	40	44	49	50	51
yoy growth (%)	11.1	10.0	11.4	2.0	2.0
Possible production	37	43	46	46	46
Cement Dispatches	34	37	38	42	45
yoy growth (%)	3.0	8.8	2.7	10.5	7.1
Capacity Utilization	85.0	84.1	77.6	84.0	88.2
Surplus/(Deficit)	3.0	6.0	8.0	4.0	1.0

Source: Company, India Infoline Research

#### Cement demand-supply scenario in Eastern region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	39	41	48	52	60
yoy growth (%)	5.4	5.1	17.1	8.3	15.4
Possible production	38	42	44	45	56
Cement Dispatches	35	38	41	41	44
yoy growth (%)	9.4	8.6	7.9	-	7.3
Capacity Utilization	89.7	92.7	85.4	78.8	73.3
Surplus/(Deficit)	3.0	4.0	3.0	4.0	12.0

## Financials

### Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	14,384	16,264	20,581	27,948
<b>Operating profit</b>	<b>2,147</b>	<b>2,912</b>	<b>4,076</b>	<b>5,991</b>
Depreciation	(564)	(448)	(676)	(835)
Interest expense	(144)	(139)	(1,184)	(1,674)
Other income	93	41	134	314
<b>Profit before tax</b>	<b>1,532</b>	<b>2,366</b>	<b>2,350</b>	<b>3,797</b>
Taxes	(522)	(743)	(547)	(864)
<b>Adj. profit</b>	<b>1,010</b>	<b>1,623</b>	<b>1,803</b>	<b>2,932</b>
<b>Net profit</b>	<b>1,010</b>	<b>1,623</b>	<b>1,803</b>	<b>2,932</b>

### Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	205	205	205	205
Reserves	8,083	9,226	10,549	13,002
<b>Net worth</b>	<b>8,288</b>	<b>9,431</b>	<b>10,754</b>	<b>13,207</b>
Debt	3,856	8,356	16,256	18,256
Deferred tax liab (net)	1,266	1,266	1,266	1,266
<b>Total liabilities</b>	<b>13,410</b>	<b>19,053</b>	<b>28,276</b>	<b>32,729</b>
Fixed assets	11,532	16,532	23,625	26,125
<b>Net working capital</b>	<b>1,062</b>	<b>1,292</b>	<b>2,156</b>	<b>4,025</b>
Inventories	713	886	1,234	1,676
Sundry debtors	647	805	1,018	1,383
Other current assets	1,905	1,951	2,875	4,550
Sundry creditors	(1,988)	(2,135)	(2,756)	(3,369)
Other current liabilities	(215)	(215)	(215)	(215)
Cash	816	1,229	2,495	2,579
<b>Total assets</b>	<b>13,410</b>	<b>19,053</b>	<b>28,276</b>	<b>32,729</b>

### Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	1,532	2,366	2,350	3,797
Depreciation	564	448	676	835
Tax paid	(522)	(743)	(547)	(864)
Working capital Δ	(1,037)	(230)	(864)	(1,869)
Operating cashflow	537	1,841	1,615	1,899
Capital expenditure	(3,161)	(5,448)	(7,769)	(3,335)
<b>Free cash flow</b>	<b>(2,624)</b>	<b>(3,607)</b>	<b>(6,154)</b>	<b>(1,436)</b>
Equity raised	190	-	-	-
Investments	(0)	-	-	-
Debt financing/ disposal	2,994	4,500	7,900	2,000
Dividends paid	(480)	(480)	(480)	(480)
Other items	(27)	-	-	-
<b>Net Δ in cash</b>	<b>53</b>	<b>413</b>	<b>1,266</b>	<b>84</b>

### Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
<b>Growth matrix (%)</b>				
Revenue growth	(4.2)	13.1	26.5	35.8
Op profit growth	(32.7)	35.6	40.0	47.0
EBIT growth	(37.3)	49.4	41.1	54.8
Net profit growth	(37.5)	60.6	11.1	62.6

<b>Profitability ratios (%)</b>				
OPM	14.9	17.9	19.8	21.4
EBIT margin	11.7	15.4	17.2	19.6
Net profit margin	7.0	10.0	8.8	10.5
RoCE	14.5	15.4	14.9	17.9
RoNW	12.7	18.3	17.9	24.5
RoA	7.2	8.8	6.8	8.7

<b>Per share ratios</b>				
EPS	4.9	7.9	8.8	14.3
Dividend per share	2.0	2.0	2.0	2.0
Cash EPS	7.7	10.1	12.1	18.4
Book value per share	40.5	46.0	52.5	64.5

<b>Payout (%)</b>				
Dividend payout	47.5	29.6	26.6	16.4
Tax payout	34.1	31.4	23.3	22.8

<b>Liquidity ratios</b>				
Debtor days	16	18	18	18
Inventory days	18	20	22	22
Creditor days	50	48	49	44

<b>Leverage ratios</b>				
Interest coverage	11.7	18.1	3.0	3.3
Net debt / equity	0.4	0.8	1.3	1.2
Net debt / op. profit	1.4	2.4	3.4	2.6

### Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.7	0.7	0.8	0.8
Interest burden (x)	0.9	0.9	0.7	0.7
EBIT margin (x)	0.1	0.2	0.2	0.2
Asset turnover (x)	1.0	0.9	0.8	0.8
Financial leverage (x)	1.8	2.1	2.6	2.8
<b>RoE (%)</b>	<b>12.7</b>	<b>18.3</b>	<b>17.9</b>	<b>24.5</b>

## 'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

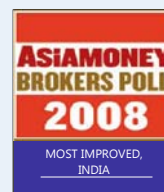
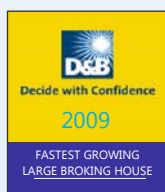
## 'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

## 'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

## Other awards



### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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