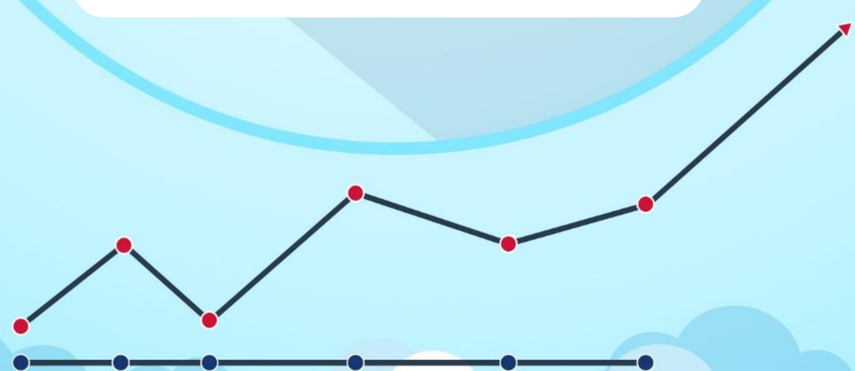
EQUITY RESEARCH

Pick of the Week

RETAIL RESEARCH

Date: June 17, 2019



Orient Cement Ltd

Key highlights

- Demand revival and narrowing supply demand gap in OCL's markets will help improve its realisations as well as utilisation,
- Aspirations of being a 14-15 MTPA player over the medium term balanced with rationalised capex plans,
- New railway siding and planned waste heat recovery system capex to help company improve its margins,
- Introduction of superior quality cement in Q1FY19,
- Capex discipline with some volume growth and decent realisation growth to drive rerating,
- Strong financials with growing revenues, expanding margins, improving return ratios and leverage ratios.

INDUSTRY
Cement & Cement Products

ADD ON DIPS TO
Rs 94-98

CMP
Rs 108.65

SEQUENTIAL TARGETS
Rs 122.5-Rs 131 RED FLAG Rs 88

RECOMMEND
Buy at CMP and add on declines

TIME HORIZON
3-4 quarters

Investors may sell 60-65% of their holdings on first target being achieved and later keep a stop loss of first target for the balance holdings, in case the second target takes time to be achieved.
Investors may also maintain Rs 88 as RED FLAG level below which investment position needs to be reviewed, including the possibility to exit.

HDFC Scrip Code	ORICEMEQNR
BSE Code	535754
NSE Code	ORIENTCEM
Bloomberg	ORCMNT IN
CMP June 14, 2019	Rs 108.65
Equity Capital (Mn)	204.9
Face Value (Rs)	1.0
Eq- Share O/S (Mn)	204.9
Market Cap (Rs Mn)	22,262.38
Book Value (Rs)	51.4
Avg.52 Wk Volume	1,71,774
52 Week High	133.80
52 Week Low	61.90

Shareholding Pattern % (Mar 31, 2019)	
Promoters	37.4
Institutions	34.7
Non Institutions	27.9
Total	100.0

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Company profile:

Established in 1979, Orient Cement was formerly a part of Orient Paper & Industries. It was carved out/demerged in the year 2012. Orient Cement began cement production in the year 1982 at Devapur, Telangana. In 1997, a split-grinding unit was added in Jalgaon, Maharashtra. In 2015, it set up an integrated cement plant at Chittapur, Karnataka. With a total capacity of 8 MTPA, it serves southern and western India. The product mix includes Pozzolana Portland Cement (PPC) & Ordinary Portland Cement (OPC) marketed under the brand name of Birla.A1 – Birla.A1 Premium Cement and recently launched Birla.A1 StrongCrete.

Investment rationale:

- Demand revival and narrowing supply demand gap in OCL's markets will help improve its realisations as well as utilisation; Capex discipline with some volume growth and decent realisation growth to drive rerating
- New railway siding and planned waste heat recovery system (WHRS) capex to help company improve its margins;
- Introduction of superior quality cement in Q1FY19 expected to help company improve its margin profile;
- Aspirations of being a 14-15 MTPA player over the medium term balanced with rationalised capex plans;
- Strong financials with growing revenues, expanding margins, improving return ratios and leverage ratios, etc.

Concerns:

- Volatility in cement prices may bring down company's profitability;
- Overcapacity in Southern states results in high competition;
- Fuel and power costs volatility may impact margins;
- Irrational capex can hurt company's long term prospects.

View and valuation:

OCL, a cement player catering to Southern India predominantly, is on the cusp of accelerated earnings growth after a stressful period due to operational lull and high financial leverage on books. Demand growth for cement in Southern India has now picked up and is expected to sustain well for the coming fiscals; this is helping players improve their utilisations. Also, the net sales realisations has now improved with realisations moving northwards / staying high in the past 4 months. Apart from these growth levers, we can expect a better margin profile for OCL due to the new railway siding project near its Chittapur plant and WHRS captive power arrangements at two of its plants. Margins may expand on account of company's efforts to improve its realisations from the superior quality cement it introduced in Q1FY19.

Large debt on books and company's earlier plans to almost double capacities in a short span raised concerns in the market about company's balance sheet strength. These concerns now stand resolved with company pulling out of acquiring Jaypee group assets and further indicating organic growth to continue gradually after considering the balance sheet strength. Realisations that have stayed high could result in sharp moves in EBITDA over the next few quarters and improve its debt equity ratio from 1.2 in FY19 to 0.9 in FY21. All these leads us to believe that the company could get re-rated from its current level of $62.7 FY21 EV/tonne.

We feel investors could buy the stock at the CMP (11.2xFY21EPS, 6.74xFY21 EV/EBITDA and FY21$62.7 EV/Tonne) and add on dips to Rs94-98 band (9.9xFY21EPS, 6.25xFY21 EV/EBITDA and FY21$58.1 EV/Tonne) for sequential targets of Rs 122.5 (12.6xFY21EPS, 7.3xFY21 EV/EBITDA and FY21$67.8 EV/Tonne 47x FY21E EPS) and Rs 131 (13.5xFY21EPS, 7.63xFY21 EV/EBITDA and FY21$70.9 EV/Tonne) over the next 3-4 quarters.

Key Highlights

- ***Orient Cement Ltd (OCL) is a part of C.K. Birla group promoted by late Mr B M Birla. The company was incorporated to acquire the cement division of Orient Paper & Industries Ltd (OPIL). The company's cement plants have an aggregate installed capacity of 8 million tonnes per annum (MTPA) - located at Telangana, Maharashtra and Karnataka.***
- ***OCL serves states of Maharashtra, Telangana, Andhra Pradesh, Karnataka and parts of Madhya Pradesh, Tamil Nadu, Kerala, Gujarat and Chhattisgarh. Demand growth for cement in Southern India has now picked up and is expected to sustain near ~8% level for the coming fiscals and the same is helping the players improve their utilisations.***
- ***Margins may expand on account of company's efforts to improve its realisations from the superior quality cement it introduced in Q1FY19.***
- ***With strong performance at operational level and improving capital structure of the company, we can expect healthy recovery in the earnings over coming two fiscals.***

Financial Summary

YE March (Rs cr)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	FY18	FY19	FY20E	FY21E
Sales	7508.2	6197.4	21.1	5706.7	31.6	22223.4	25221.7	28146.6	30368.7
EBITDA	1520.7	745.7	103.9	378.9	301.4	3051.8	3120.4	4803.6	5201.7
APAT	619.9	128.1	383.8	-138.0	549.2	442.2	475.5	1653.9	1991.0
Diluted EPS (Rs)	3.0	0.6	383.8	-0.7	549.2	2.2	2.3	8.1	9.7
P/E (x)						72.8	43.3	13.5	11.2
EV / EBITDA (x)						14.7	10.6	7.0	6.8
RoE-%						4.40	4.58	14.67	15.45

(Source: Company, HDFC sec)

Company profile

Incorporated in July 2011, OCL is a part of C.K. Birla group promoted by late Mr B M Birla. The company was incorporated to acquire the cement division of Orient Paper & Industries Ltd (OPIL). Pursuant to the approval of Honorable Orissa High Court, the cement undertaking of OPIL was transferred to OCL on a going concern basis w.e.f. April 01, 2012. The cement division of OPIL, i.e., Orient Cement Limited was setup in 1979 and in 1982 the division's first cement plant began production. The company's cement plants have an aggregate installed capacity of 8 million tonnes per annum (MTPA) - located at Telangana, Maharashtra and Karnataka (commissioned in September, 2015).

Orient Cement began cement production in the year 1982 at Devapur, Telangana. In 1997, a split-grinding unit was added in Jalgaon, Maharashtra. In 2015, it set up an integrated cement plant at Chittapur, Karnataka. With a total capacity of 8 MTPA, it serves southern and western India. OCL serves states of Maharashtra, Telangana, Andhra Pradesh, Karnataka and parts of Madhya Pradesh, Tamil Nadu, Kerala, Gujarat and Chhattisgarh.

The product mix includes Pozzolana Portland Cement (PPC) & Ordinary Portland Cement (OPC) marketed under the brand name of Birla.A1 – Birla.A1 Premium Cement and recently launched Birla.A1 StrongCrete.

Plants:

Devapur:
Devapur plant is Orient Cement's first integrated cement unit project, the plant situated at Devapur in Adilabad District, Telangana. The Line- I construction completed in 1982. In 1990, Line-II was commissioned. Line-I was upgraded to 1.18 MTPA in 1997 and Pre calcinatory string was added in 1999. Cement Mills I and II were upgraded in 2010 and 2008 respectively. Line III was commissioned in July 2009. The cement production capacity of the plant is 3.0 MTPA.

Jalgaon:
Orient Cement further commissioned a clinker grinding plant in Jalgaon, Maharashtra of 2.0 MTPA cement production capacity in 2000 to cater to Maharashtra Market.

Chittapur:
Located in Gulbarga in Karntaka, the unit was commissioned in 2015 with a capacity of 3.0 MTPA.

Brands:

Birla.A1 StrongCrete:

Birla.A1 StrongCrete is specially engineered cement for concrete applications such as foundation, beams, columns and slabs. Load-bearing concrete structures of a house are the most critical areas and hence require special cement that can sustain very high pressure and withstand harsh climatic changes.

Birla.A1 Premium Cement:

Birla.A1 Premium Cement is manufactured by the inter-grinding of clinker, gypsum and very fine-grained highly reactive fly ash. Its biggest advantage is uniform particle size distribution which gives greater strength, and helps achieve higher density with lower porosity in concrete made from it, leading to increased durability.

Birla.A1 Premium Cement – Opc 53 Grade:

One of the pioneers of 53-Grade Cement in India, Orient Cement opened up a whole new dimension in building construction with the launch of Orient Gold 53-Grade Cement in 1992. The brand has now been integrated under the umbrella brand and rechristened as Birla.A1 Premium Cement – OPC 53 Grade.

Birla.A1 Premium Cement – Opc 43 Grade:

Originally named Orient 43 Grade Cement, it was amongst the earliest successes of Orient Cement paving the way for the others to follow. Manufactured under controlled process conditions deploying sophisticated plant machinery, it gained immense popularity in a short span of time and was instrumental in making Orient Cement a household name. The brand has now been integrated under the umbrella brand and rechristened as Birla.A1 Premium Cement – OPC 43 Grade.

Birla.A1 Premium Cement – Ppc:

Key triggers

Demand revival and narrowing supply demand gap in OCL's markets will help it improve its realisations as well as utilisations:

OCL's performance will get a strong boost following robust cement demand revival in key markets of Telangana and AP. This is driven by infrastructure segment and low-cost housing. However, the demand revival is yet to be backed by sustained price recovery, largely because of excess supply. After the weakness in the traditional monsoon season, prices are set to get a boost with continued strong demand and supply addition tapering down. With limited clinker capacity addition in these regions and continued strong demand, price recovery is likely to sustain beyond the short term. OCL will be one of the key beneficiaries of price/demand recovery in these states.

Telangana government has a three-fold focus - irrigation, roads and housing - all of which are collectively contributing to strong cement demand. Similarly, Andhra Pradesh - which had experienced strong double-digit cement demand in the previous decade (2003-07) before the lull and negative growth it witnessed in the intermittent period - is steadily getting back on track with a sharp focus on improving the infrastructure and compensating for the lost period of over a decade (2006-07 to 2016-17). The new State Government is to focus on improving irrigation facilities and providing housing for the under-privileged.

With strong cement demand expected following the initiatives of Telangana and AP Governments, we expect this to benefit OCL in a major way. OCL has ~60% of its capacity in these twin states and the Vidharbha region. Further, the Chittapur facility can also cater to Telangana market. About 30% of its sales come from Maharashtra and Central region while the balance from South – Karnataka and AP contributing to ~60%.

OCL currently caters to Andhra Pradesh, Telangana, Maharashtra and Karnataka which are its core markets. AP, Telangana and Vidarbha markets are catered to by its Devapur plant (integrated unit) and Karnataka (largely north) and south Maharashtra is catered to by its Chittapur unit. The grinding unit at Nashirabad (Jalgaon, Maharashtra) caters to north and central Maharashtra market, parts of Madhya Pradesh and South Gujarat.

The demand-supply gap in South India continues to be wide with the current capacity utilisation hovering ~60-62%. However, we believe that with the strong focus on infrastructure including irrigation, roads and dams by the Governments of Telangana, Andhra Pradesh and Maharashtra, the demand-supply gap is likely to get narrowed, albeit steadily. The demand, after a long lull of flat growth from FY11 to FY17, is expected to grow strongly over the next couple of years. We have factored in ~8/10% demand CAGR over the period FY16-FY21E, but on a low base.

The region should witness fresh supply from Ramco, JSW, Chettinad, Penna and Orient and should result in total capacity addition of ~20mt. However, this will happen over time. Assuming the region to grow at a CAGR of 8% over FY19-21E, we expect utilisation levels to increase from 57% in FY18 to 63% in FY21E.

South posted robust growth in FY19 given unabated demand momentum in Andhra Pradesh / Telangana (likely >45% YoY), better volumes in Tamil Nadu (~10% YoY) and Kerala. While average prices have increased by Rs 30-35/bag in South during Feb'19 (essentially reversing price fall during past three months), additional price hikes of Rs 20-25/bag have been announced since mid-Feb'19, some of which may be reversed.

New railway siding and planned waste heat recovery system capex to help company improve its margins:
OCL focuses not only on revenue growth but also expansion of margins. OCL understands that there is little control over gross margin expansion for the company, they can concentrate on bringing down other direct costs like transit and power costs to boost its operating margins. Keeping this in mind, company undertook a capex to set up a railway siding near its Chittapur plant and also set up / enhance its waste heat recovery system power plants at its both, Telangana & Karnataka, facilities.

The Chittapur plant is newer plant for OCL with more modern infrastructure, implying a better operational performance from this plant. However, due to absence of operational enablers like proximity to key inputs (coal & fly ash) at Devapur, there was a gap between performances at the new plant as against the old plant. To close down on this gap and avail the benefits of modern plant and machinery, OCL undertook the operation of setting up a railway siding which will help it reduce on its operational costs. This will contribute positively to earnings by reducing the logistics costs. This plant entailed a total capex of about Rs 120cr which has been met from internal accruals and the same has been completed in H2FY19. The benefits of same should continue to flow in the coming fiscals.

Further, OCL has planned a 8MW WHRS at its Chittapur plant. This is likely to be commissioned in the next 12 months and the full benefit of low-cost power availability will get reflected in FY21E onwards. Total capex for setting up the WHRS is likely to be ~Rs 70cr and will be met from internal accruals. In the FY18 annual report, company has indicated its intentions to set up WHRS capacities at its both plants (Devapur - 12MW and Chittapur) to reduce costs.

OCL's focus on cost rationalisation initiatives will be beneficial in the current challenging situation of volatile crude prices (affecting the logistics costs) and constant changing regulations relating to coal / pet coke usage (affecting the power cost). It will help company protect its margins in turbulent times and expand the same in operationally sound environment.

Introduction of superior quality cement in Q1FY19 expected to help company improve its margin profile:
As mentioned earlier, OCL has little control over the pricing of products in the Southern cement market. In view of same, OCL has tried to bring about some realisation growth in its business by introducing a new superior quality product in the market. In May 2018, the company introduced its newest brand of cement Birla.A1 StrongCrete which is superior in its qualities.

This new cement is made with 'Pressure Sustaining Technology' (PST), a proprietary technology of the company which ensures that the concrete made withstands very high pressure. The new product contains an optimised dosage of mineral admixtures (around 18%), ensuring the availability of higher quantity of C3S (tri-calcium silicate) molecules which are responsible for the concrete gaining high early strength. Simultaneously, high quality mineral admixtures accelerate the formation of the double Calcium-Silicate-Hydrate (C-S-H) gel, as a result of which the concrete continues to gain strength over a long period of time.

The company has launched this product in the PPC segment at a ~10%-15% premium to the base product, Birla A1. The product is competing currently with premium segment category brands in key markets like Hyderabad. The product has been well received by the market. Although, the contribution from this product in FY19 (first year) is anticipated to be in low single digits, a double digit contribution over next couple of fiscals cannot be ruled out. With higher contribution from this product we can expect the realisations for the company as a whole to rise which in turn will help improve the margin profile for the company sustainably.

Aspirations of being a 14-15 MTPA player over the medium term balanced with rationalised capex plans:
OCL had in the past indicated of its intentions to leap to capacities of 15 MTPA from its current 8 MTPA and be a larger player catering to more markets. The company has set up earlier a deadline for the same to be by 2020. Pursuing towards its goals it bid for Jaypee Associates group's plants to expand inorganically and having a better geographical presence. However, the said bid was called off by the company due to delayed processes. This delay caused the company to postpone its deadline from 2020 to a future date.

However, the company intends to pursue its size targets through organic expansions and has in FY19 announced its intentions to grow organically with capex plans to the tune of Rs 3600cr over next five years to grow its capacities from 8 MTPA currently to 14-15 MTPA. This involves expansion at its existing plants at Devapur and Chittapur (by 3 MTPA each) over a period of next 5 years.

However, these capex plans are at least two years from materialisation of actual spending. The company has also come out and specified its intentions to pursue further growth plans in accordance of the balance sheet strength. Apart from the slow capex plans, improving operational efficiency with higher demand resulting in good volumes and better utilisation of capacities (up to ~80% in FY19 from ~72% in FY18) and improving pricing, we can expect a strong operating cash flow enabled debt reduction for the company. Its D/E ratio could come down from 1.2 in FY19 to 0.9 in FY21.

Strong financials with growing revenues, expanding margins, improving return ratio, improving leverage ratios, etc:
OCL has a strong balance sheet structure with consistent working capital cycle, good short term liquidity indicated by a strong current ratio, consistent dividend payments and good operating margin growth. We expect the ROE for the company to expand with strong profits earned from newer investments made and a relatively low cost of debt funds. Strong financials bring in greater degree of confidence amongst the investors and make OCL an attractive bet.

Capex discipline with some volume growth and decent realisation growth to drive rerating
In Q1FY20 so far, the cement prices across India are up about 10%; however for the full year FY20, this could come down to 5-6%. Volume growth has been sacrificed by the cement players (especially in North) for the time being to ensure price discipline. Cement companies' EBITDA is more sensitive to realisation growth than volume growth.

We have factored in 6% CAGR volume growth for OCL over FY19-FY21 and 3.4% realisation growth over the same period.

The above accompanied by capex discipline (displayed by abandoning plans to acquire Jaypee's assets and instead focus on organic growth in a phased manner) could lead to rerating of the stock over the next few quarters.

Concerns

Volatility in cement prices may bring down company's profitability:
Cement prices are a function of demand supply in a price sensitive market like India. Generally, small players are the price takers in the market and may not be in a position to individually affect the pricing of cement in the region. Thus, a market wide reduction in cement prices may bring down attractiveness of a relatively smaller regional players like OCL.

Overcapacity in Southern states implies high competition:
Southern India is pre-dominantly known for its surplus supply of cement and intense competition among regional as well as PAN India players. In absence of demand growth as expected (like one noticed over FY11 to FY17) or in further additions in capacities by players in the Industry, the pricing of product (which has improved in past 3 months) may be impacted and this may result in lower margins for all the cement players in the industry.

Fuel and power costs volatility may erode margins:
Fuel and power costs form a significant portion of cement players' cost structure and tend to fluctuate with fluctuations in crude prices and regulations regarding use of pet coke and it's pricing. A negative movement in these independent systemic factors may erode the margins for OCL.

Irrational capex can hurt company's long term prospects:
Irrational and aspirational capex without considering the balance sheet strength may yield negative results on net level. Leveraged expansion without enough market growth to cater to may result in negative returns for shareholders. Hence, irrational capex remains a risk for such capital intensive businesses.

Slowdown in road/infra capex and housing activity may be detrimental for OCL's business:
Government spends on roads and other infrastructural projects form a major demand driver for any cement player in a developing country like India. With elections and regulations restricting announcements of newer projects during such elections, the Government spends and schemes were curtailed for past few months. If they fail to recover, the demand for cement may fall, creating pressure on cement players in the country. Housing is another major contributor to cement spends in the country. Slowdown in housing spends could also negatively impact growth prospects of a growing company like OCL.

Delay in capacity addition plan rollout could result in muted growth in top line going forward.

Q4FY19 results review

Orient Cement's volumes reached an all-time high in Q4FY19 growing 9% YoY to 1.83 mn tonnes. Its region wise exposure was 74% south and 26% west. The company operated at 92% capacity in Q4. During Q4FY19, the company maintained ~59% PPC volume sales (67% a year ago). EBITDA/ton was at sixteen quarters high at Rs 835.

View and valuation

OCL, a cement player catering to Southern India predominantly, is on the cusp of accelerated earnings growth after a stressful period due to operational lull and high financial leverage on books. Demand growth for cement in Southern India has now picked up and is expected to sustain well for the coming fiscals; this is helping players improve their utilisations. Also, the net sales realisations has now improved with realisations moving northwards / staying high in the past 4 months. Apart from these growth levers, we can expect a better margin profile for OCL due to the new railway siding project near its Chittapur plant and WHRS captive power arrangements at two of its plants. Margins may expand on account of company's efforts to improve its realisations from the superior quality cement it introduced in Q1FY19.

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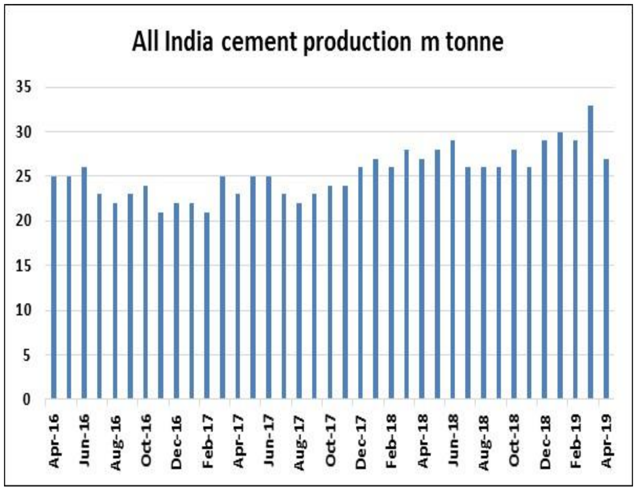
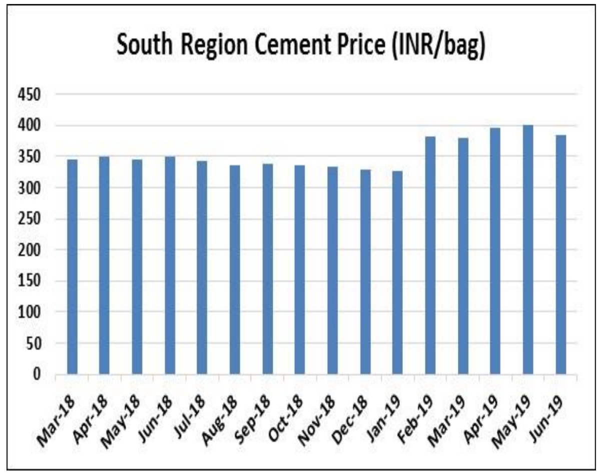
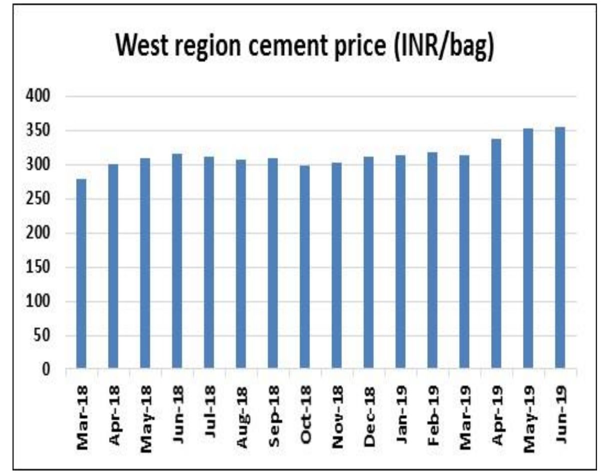
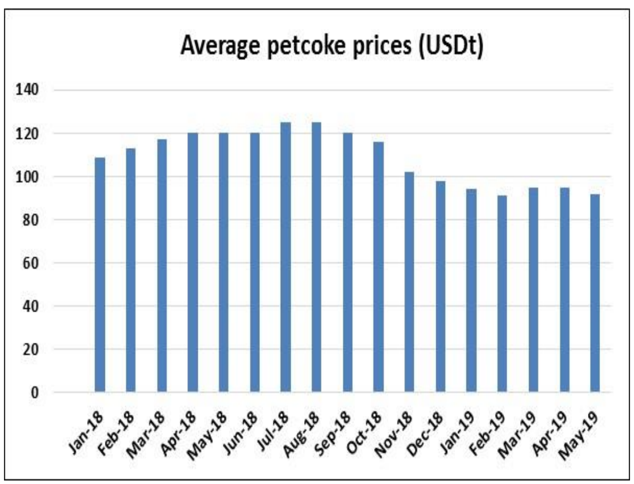
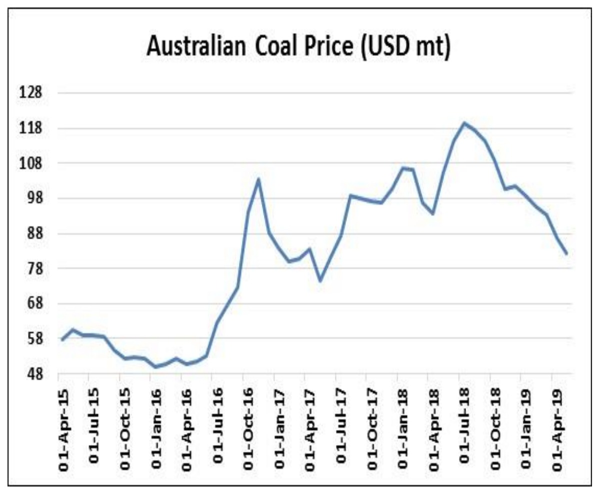
We feel investors could buy the stock at the CMP (11.2xFY21EPS, 6.74xFY21 EV/EBITDA and FY21$62.7 EV/Tonne) and add on dips to Rs94-98 band (9.9xFY21EPS, 6.25xFY21 EV/EBITDA and FY21$58.1 EV/Tonne) for sequential targets of Rs 122.5 (12.6xFY21EPS, 7.3xFY21 EV/EBITDA and FY21$67.8 EV/Tonne 47x FY21E EPS) and Rs 131 (13.5xFY21EPS, 7.63xFY21 EV/EBITDA and FY21$70.9 EV/Tonne) over the next 3-4 quarters.











One Year Mumbai Diesel Price Chart

Quarterly Financials

Financials (Rs mn)	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %	FY19	FY18	YoY %
Net Sales	7508.2	6197.4	*21.1*	5706.7	*31.6*	25221.7	22223.4	*13.5*
Total Expenditure	5987.4	5451.7	*9.8*	5327.9	*12.4*	22110.3	19171.6	*15.3*
Raw Materials	842.6	794.3	*6.1*	770.1	*9.4*	3023.5	2619.7	*15.4*
Power and Fuel	1829.9	1692.3	*8.1*	1506.0	*21.5*	6664.1	5807.1	*14.8*
Employee	375.5	342.6	*9.6*	375.9	*-0.1*	1544.3	1407.4	*9.7*
Transport	2081.6	1769.5	*17.6*	1773.0	*17.4*	7408.6	5937.0	*24.8*
Others	857.8	853.1	*0.6*	902.8	*-5.0*	3470.0	3400.4	*2.0*
EBITDA	1520.7	745.7	*103.9*	378.9	*301.4*	3111.4	3051.8	*2.0*
EBITDA margin (%)	20.3	12.0	*822.2*	6.6	*1361.6*	12.3	13.7	*-139.6*
Depreciation	329.8	313.6	*5.2*	344.3	*-4.2*	1327.2	1261.7	*5.2*
EBIT	1191.0	432.1	*175.6*	34.6	*3342.7*	1784.2	1790.1	*-0.3*
EBIT margin (%)	15.9	7.0	*889.0*	0.6	*1525.6*	7.1	8.1	*-98.1*
Interest	303.0	283.6	*6.9*	277.9	*9.0*	1185.0	1292.1	*-8.3*
Other Income (incld- exceptional)	49.8	33.9	*47.0*	40.0	*24.6*	147.8	199.6	*-26.0*
PBT	937.8	182.5	*414.0*	-203.3		747.0	697.6	*7.1*
Taxes	317.9	54.3	*485.0*	-65.3	-	272.4	258.1	*5.5*
Reported PAT	619.9	128.1	*383.8*	-138.0	-	474.6	439.5	*8.0*
Exceptional expense/ (income)	0.0	0.0	*0.0*	0.0	*0.0*	0.0	-2.7	-
Adjusted PAT	619.9	128.1	*383.8*	-138.0	-	474.6	442.2	*7.3*
Adj NPM	8.3	2.1	*618.9*	-2.4	*1067.5*	1.9	2.0	*-10.8*
Adj EPS (Rs)	3.0	0.6	*383.8*	-0.7	-	2.3	2.2	*7.3*

(Source: Company, HDFC sec)

Physical Performance

Particulars	Q4FY19	Q4FY18	% Change YoY	Q3FY19	% Change QoQ
Volumes (MT)	1.8	1.7	*9.2*	1.5	*21.3*
Realisation (Rs/t)	4100.6	3695.5	*11.0*	3781.8	*8.4*
EBITDA per ton (Ex OI)	830.6	444.7	*86.8*	251.1	*230.8*
EBITDA per ton (In OI)	857.8	464.9	*84.5*	277.6	*209.0*
Revenue	7508.2	6197.4	*21.1*	5706.7	*31.6*
EBITDA	1520.7	745.7	*103.9*	378.9	*301.4*
EBITDA Margin	20.3	12.0	*822.2*	6.6	*1361.6*
PAT	619.9	128.1	*383.8*	-138.0	*-549.2*
Costs (per ton)					
RM	460.2	473.6	*-2.8*	510.3	*-9.8*
Power & Fuel	999.4	1009.1	*-1.0*	998.0	*0.1*
Freight	1136.9	1055.1	*7.7*	1175.0	*-3.2*
Staff costs	205.1	204.3	*0.4*	249.1	*-17.7*
Other expenses	468.5	508.7	*-7.9*	598.3	*-21.7*

Financials: Income Statement

(Rs Mn)	FY17	FY18	FY19P	FY20E	FY21E
Revenues	**18747.5**	**22223.4**	**25221.7**	**28146.6**	**30368.7**
Growth %	28.2	18.5	13.5	11.6	7.9
Raw Material	2733.1	2608.8	3014.4	3214.8	3485.5
Power & Fuel	5263.9	5807.1	6655.1	7045.2	7564.3
Freight Expense	4499.4	5937.0	7406.5	7663.3	8268.3
Employee cost	1183.9	1384.7	1547.7	1733.4	1941.4
Other Expenses	3286.3	3434.1	3477.6	3686.3	3907.4
EBITDA	**1781.1**	**3051.8**	**3120.4**	**4803.6**	**5201.7**
EBIDTA Margin (%)	**9.5**	**13.7**	**12.4**	**17.1**	**17.1**
EBITDA Growth %	**-4.0**	**71.3**	**2.2**	**53.9**	**8.3**
Depreciation	1215.4	1261.7	1327.2	1341.0	1388.4
EBIT	**565.8**	**1790.1**	**1793.2**	**3462.6**	**3813.3**
Other Income (Including EO Items)	112.1	197.4	139.7	170.0	200.0
Interest	1353.4	1292.1	1185.0	1164.0	1169.0
PBT	**-675.5**	**695.4**	**747.9**	**2468.6**	**2844.3**
Tax	-343.8	258.1	272.4	814.6	853.3
Minority Int	0.0	0.0	0.0	0.0	0.0
RPAT	**-331.6**	**437.3**	**475.5**	**1653.9**	**1991.0**
EO (Loss) / Profit (Net Of Tax)	-10.7	-4.9	0.0	0.0	0.0
APAT	**-321.0**	**442.2**	**475.5**	**1653.9**	**1991.0**
APAT Growth (%)	**-151.5**	**n/a**	**7.5**	**247.8**	**20.4**
AEPS	**-1.6**	**2.2**	**2.3**	**8.1**	**9.7**
AEPS Growth %	**-151.5**	**n/a**	**7.5**	**247.8**	**20.4**

(Source: Company, HDFC sec)

Cash Flow

(Rs Mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	**-664.8**	**700.3**	**747.9**	**2468.6**	**2844.3**
Non-operating & EO Items	-45.4	-300.5	40.3	-170.0	-200.0
Interest Expenses	1353.4	1292.1	1185.0	1164.0	1169.0
Depreciation	1215.4	1261.7	1327.2	1341.0	1388.4
Working Capital Change	720.1	-222.5	-209.2	94.7	412.1
Tax Paid	9.0	-120.8	-327.9	-814.6	-853.3
OPERATING CASH FLOW (a)	**2587.7**	**2610.3**	**2763.3**	**4083.7**	**4760.5**
Capex	-1061.3	-1469.9	-1261.0	-1800.0	-5000.0
Free Cash Flow (FCF)	1526.4	1140.4	1502.3	2283.7	-239.5
Investments	-205.1	-34.8	0.0	0.0	0.0
Non-operating Income	25.2	19.4	139.7	170.0	200.0
Others					
INVESTING CASH FLOW (b)	**-1241.2**	**-1485.3**	**-1121.3**	**-1630.0**	**-4800.0**
Debt Issuance/(Repaid)	542.4	-232.7	-320.6	-995.4	1500.0
Interest Expenses	-1376.4	-1259.3	-1185.0	-1164.0	-1169.0
FCFE	692.4	-351.6	-3.3	124.3	91.4
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0

Dividend	-245.4	-122.9	-179.8	-179.8	-239.7
FINANCING CASH FLOW (c)	**-1079.4**	**-1614.9**	**-1685.4**	**-2339.2**	**91.3**
NET CASH FLOW (a+b+c)	**267.2**	**-489.8**	**-43.4**	**114.5**	**51.7**
EO Items, Others					
Closing Cash & Equivalents	**644.9**	**335.6**	**287.9**	**402.2**	**453.9**

(Source: Company, HDFC sec)

Balance Sheet

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	204.9	204.9	204.9	204.9	204.9
Reserves And Surplus	9666.9	10016.4	10329.8	11804.0	13555.3
Total Equity	**9871.8**	**10221.2**	**10534.7**	**12008.8**	**13760.1**
Minority Int	0.0	0.0	0.0	0.0	0.0
Long-term Debt	12364.9	11892.6	12770.2	11770.2	13270.2
Short-term Debt	1000.0	1243.6	45.4	50.0	50.0
Total Debt	**13364.9**	**13136.2**	**12815.6**	**11820.2**	**13320.2**
Deferred Tax Liability	749.5	854.3	960.9	960.9	960.9
Long-term Liab+ Provisions	504.1	487.1	429.9	464.3	501.4
TOTAL SOURCES OF FUNDS	**24490.4**	**24698.9**	**24741.1**	**25254.3**	**28542.7**
APPLICATION OF FUNDS					
Net Block	22956.4	22507.2	23545.0	23004.0	24115.6
Capital WIP	981.1	1582.1	478.1	1478.1	3978.1
Goodwill	0.0	0.0	0.0	0.0	0.0
Other Non-current Assets	417.8	719.3	689.5	691.1	735.5
Total Non-current Investments	0.1	0.1	0.1	0.1	0.1
Total Non-current Assets	**24355.4**	**24808.7**	**24712.7**	**25173.3**	**28829.4**
Inventories	1466.6	1642.1	1859.7	2111.0	2277.7
Debtors	1055.3	1527.8	1795.2	1970.3	2034.7
Cash and Cash Equivalents	825.5	331.3	287.7	402.2	453.9
Other Current Assets (& Loans/adv)	1140.1	1059.8	613.3	716.2	782.9
Total Current Assets	**4487.5**	**4560.9**	**4555.9**	**5199.7**	**5549.2**
Creditors	2369.8	2001.2	1865.0	2251.7	2733.2
Other Current Liabilities & Provns	1982.7	2669.4	2662.4	2866.8	3102.5
Total Current Liabilities	4352.5	4670.6	4527.4	5118.6	5835.7
Net Current Assets	**135.0**	**-109.7**	**28.5**	**81.1**	**-286.5**
TOTAL APPLICATION OF FUNDS	**24490.3**	**24699.0**	**24741.2**	**25254.4**	**28542.8**

(Source: Company, HDFC sec)

Key Ratios

Ratios	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY %					
EBITDA Margin	9.5	13.7	12.4	17.1	17.1
EBIT Margin	3.0	8.1	7.1	12.3	12.6
APAT Margin	-1.7	2.0	1.9	5.9	6.6

RoE	-3.2	4.4	4.6	14.7	15.5
RoIC	1.2	4.7	4.7	9.4	10.1
RoCE	1.4	5.1	5.0	9.7	10.4
EFFICIENCY					
Tax Rate %	50.9	37.1	36.4	33.0	30.0
Fixed Asset Turnover (x)	0.8	0.9	0.9	1.0	1.0
Inventory (days)	28.6	27.0	26.9	27.4	27.4
Debtors (days)	20.5	25.1	26.0	25.6	24.5
Other Current Assets (days)	22.2	17.4	8.9	9.3	9.4
Payables (days)	46.1	32.9	27.0	29.2	32.9
Other Current Liab & Provns (days)	38.6	43.8	38.5	37.2	37.3
Cash Conversion Cycle (days)	-13.4	-7.2	-3.8	-4.2	-8.9
Net Debt/EBITDA (x)	7.0	4.2	4.0	2.4	2.5
Net D/E	1.3	1.3	1.2	1.0	0.9
Interest Coverage	0.4	1.4	1.5	3.0	3.3
PER SHARE DATA (Rs)					
EPS	-1.6	2.2	2.3	8.1	9.7
CEPS	4.4	8.3	8.8	14.6	16.5
Dividend	1.0	0.8	0.8	0.8	1.0
Book Value	48.2	49.9	51.4	58.6	67.2
VALUATION					
P/E (x)	n/a	72.8	43.3	13.5	11.2
P/Cash EPS (x)	24.7	13.1	12.3	7.4	6.5
P/BV (x)	3.3	3.1	2.0	1.9	1.6
EV/EBITDA (x)	25.1	14.7	10.6	7.0	6.8
EV/MT (USD)	80	77	56	57	63

(Source: Company, HDFC sec)

Daily Closing Price Chart

(Source: Company, HDFC sec)

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