

DBEL: Valuation summary (INR b)

Y/E March	2015E	2016E	2017E
Sales	31.8	69.9	82.6
EBITDA	4.6	12.8	17.9
NP	1.1	3.1	5.7
EPS (INR)	14.0	37.9	69.6
EPS Gr. (%)	-1,452	171	84
BV/Sh.(INR)	393	428	494
RoE (%)	3.6	9.2	15.1
RoCE (%)	5.2	11.2	14.3
Payout (%)	-	7.7	5.0
Valuation			
P/E (x)	33.4	12.3	6.7
EV/EBITDA(x)	13.4	9.3	6.0
EV/Ton(USD)	69	79	72

ORCMNT: Valuation summary(INR b)

Y/E March	2015E	2016E	2017E
Sales	15.7	20.1	27.2
EBITDA	3.0	4.5	7.6
NP	1.7	1.4	3.2
EPS (INR)	8.1	7.1	15.7
EPS Gr. (%)	64.8	-13.1	122.6
BV/Sh.(INR)	46.8	51.5	63.7
RoE (%)	18.6	14.4	27.3
RoCE (%)	15.5	13.8	21.9
Payout (%)	28.6	32.9	14.8
Valuation			
P/E (x)	22.6	26.0	11.7
P/BV (x)	3.9	3.6	2.9
EV/EBITDA(x)	12.5	11.7	6.5
EV/Ton (USD)	121	104	99

Demand-profitability dichotomy in South

Capacity addition approaching interim pause

We recently interacted with select South India focused cement players to understand the market dynamics, challenges and individual developments. Our key takeaways:

- § Demand continues to de-grow, with Tamil Nadu being the key dampener. Funding constraints with state governments are delaying the recovery cycle.
- § However, unlike the rest of India, production discipline has enabled prices to remain resilient in the South. In 4QFY15, realizations for southern plants were higher by INR20-25/bag QoQ, driving EBITDA north of INR1,000-1,200/ton.
- § Dalmia's 2.7mt capacity at Belgaum and Orient Cement's 3mt capacity at Chittapur (serving mainly Karnataka/South Maharashtra) are up for production in March and May 2015 respectively. With this, southern capacity addition is nearing a temporary pause in FY16 onwards (6-7mt likely over FY16-18).
- § At current valuations, we maintain Buy on Dalmia and Ramco, and Neutral on Orient and India Cement. Among non-south players, we prefer UltraTech in large caps and JK Cement and JK Lakshmi in midcaps.

Demand remains sluggish – TN market key dampener; AP recovery elusive

- n As per our industry interactions, in 9MFY15, AP de-grew 9-10% YoY (v/s similar to in last year), Tamil Nadu de-grew ~8% YoY (v/s worse than -3% last year), while Karnataka and Kerala recorded growth of 8-9% YoY (1-2% last year) and 2-3% YoY (-5% last year) respectively.
- n Lack of funds with the state governments may delay the awaited infrastructure boost in Andhra Pradesh (AP)/Telangana. After a relatively strong run in the last 3-4 years, growth in Tamil Nadu may be muted for the next few years. Real estate demand in Karnataka is better.
- n However, demand levers from government's policy are in place. 'Housing for all by 2022' is a common agenda between the states and the center. Tamil Nadu and Karnataka may use this tool as the key agenda for upcoming elections.

Discipline-led pricing strength to drive strong profitability

- n Amidst high degree of volatility in cement prices in the rest of India in 4QFY15, production discipline enabled the South India market to remain resilient.
- n Prices rose INR50-100/bag since the lows of December 2014 to INR380-405/bag in Bangalore, INR420-460/bag in Kerala, and INR360-390/bag in Chennai.
- n AP recorded the sharpest price rally from INR180/bag in November 2014 to INR325-330/bag in January 2015 and largely sustained during the quarter.
- n We expect these to drive 4QFY15 realizations for the southern players versus flattish to marginal change in the rest of India.

Capacity addition cycle nearing interim pause

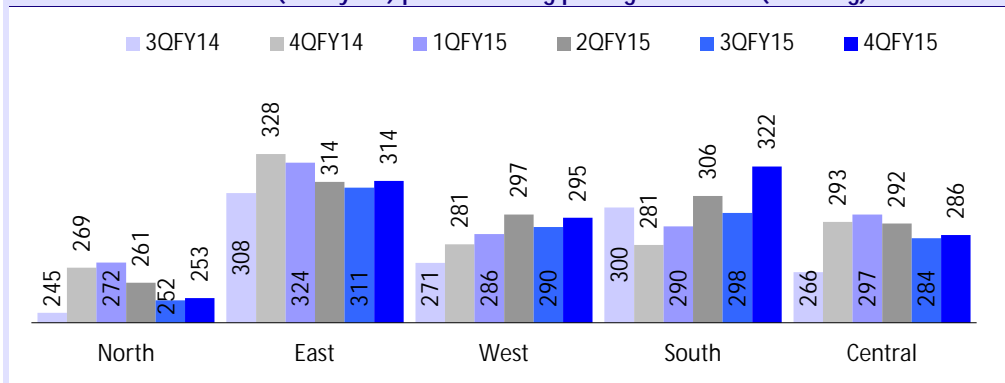
- n With Dalmia Bharat's 2.7mt plant at Belgaum (Karnataka) and Orient Cement's 3mt plant at Chittapur (Karnataka) commencing operations in March-May 2015, supply pressure would increase in Karnataka/South Maharashtra.
- n However, the southern capacity addition is nearing temporary pause in FY16 (6-7mt potential over FY16-18).

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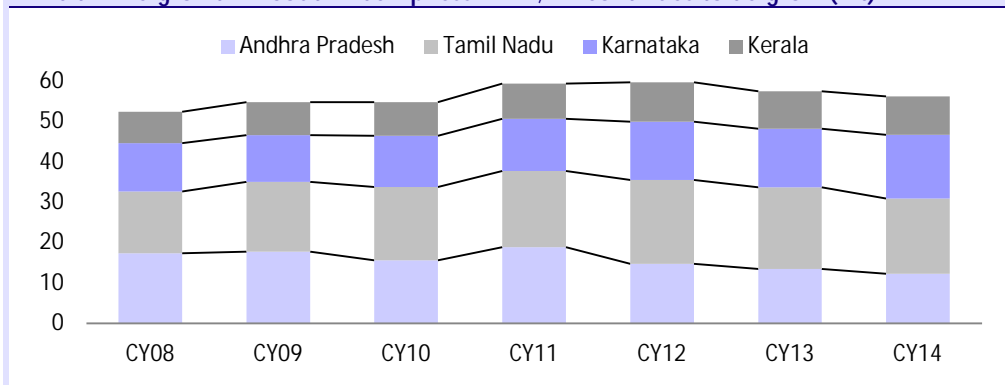
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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: South market (led by AP) posted strong pricing in 4QFY15 (INR/bag)

Source: MOSL

Exhibit 2: De-growth in South – dampness in TN; AP continues to de-grow (mt)

Source: MOSL

Prefer companies with biggest utilization levers

- n While the South offers the biggest utilization lever, outlook for the largest market, Tamil Nadu, has deteriorated. Also, the much anticipated benefit of construction and infrastructure recovery in AP/Telangana has been delayed.
- n We factor in 3-5% volume growth in FY16 for southern plants (v/s 6-7% in the rest of India) assuming AP recovery may take another 2-3 quarters.
- n Our positive outlook on the cement sector is based on (a) revival of volume growth to 6-10% CAGR over FY16-18, (b) slowing down of capacity addition boosting industry clinker utilization to 80%/85% by FY17/18 (v/s 75% in FY15E), (c) increasing consolidation, and (d) moderation of cost push.
- n Acceleration of the investment cycle, which is essential for higher demand growth and sustenance of robust pricing, is yet to materialize. However, the government's strong emphasis on infrastructure projects augurs positively for a gradual revival of the demand cycle.
- n We continue to prefer players with strong volume levers, efficient operations and healthy balance sheet (or deleveraging visibility). We like **UltraTech** among large caps, and **JK Cement**, **Dalmia Bharat** and **JK Lakshmi** among midcaps.

Exhibit 3: Operating Metrics

	Capacity (MT)			Volume (MT)			EBITDA (INR/Ton)			EBITDA (%)			Net Debt (INR b)		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
ACC	31.7	31.7	31.7	24.2	24.7	25.9	516	603	878	10.9	12.2	16.4	-18.8	-23.3	-32.5
Ambuja	29.6	29.6	30.4	22.2	22.6	23.7	840	815	1,053	18.8	18.2	21.5	-174.3	-155.8	-153.9
Ultratech	62.2	66.7	66.7	45.5	49.5	54.2	857	1,045	1,300	17.2	20.1	23.1	47.3	40.3	25.1
Shree Cement	21.0	23.0	23.0	16.1	19.3	21.2	801	925	1,256	19.9	22.9	27.5	-5.6	-14.6	-32.0
Large Cap	144.4	151.0	151.8	107.9	116.1	125.1	769	886	1,158	16.5	18.5	22.2	-151.4	-153.4	-193.3
Birla Corp	9.3	9.3	9.3	7.6	8.1	8.5	332	462	765	8.1	10.6	16.1	-6.4	-5.3	-8.5
Dalmia Bharat Ent.	18.6	18.6	18.6	6.7	13.4	14.8	691	957	1,211	14.5	18.3	21.7	44.2	57.4	50.5
India Cements	15.2	15.2	15.2	10.4	10.9	12.0	775	1,025	1,140	17.3	21.4	22.5	35.8	32.7	28.0
JK Cement	11.6	11.6	11.6	6.3	7.4	8.1	629	864	1,187	12.4	15.6	19.7	27.1	26.5	20.1
JK Lakshmi Cement	8.2	9.9	9.9	6.2	7.5	8.2	605	696	950	15.6	17.1	21.3	15.6	16.6	13.6
Madras Cement	14.5	15.5	15.5	7.8	8.2	8.9	707	918	1,151	17.3	19.9	22.7	27.2	23.0	15.9
Orient Cement	5.0	8.0	8.0	4.2	5.0	6.1	723	891	1,232	19.1	22.1	27.8	12.4	15.6	13.1
Prism Cement	5.6	5.6	5.6	5.5	6.0	6.6	458	652	909	4.9	8.3	11.8	18.3	16.5	13.5
Mid-caps	88.0	93.7	93.7	54.7	66.5	73.2	621	831	1,083	13.8	17.0	20.7	174.3	183.1	146.1
Aggregate	232.4	244.7	245.5	162.6	182.6	198.3	719	866	1,131	15.6	18.0	21.6	22.9	29.7	-47.2

Source: Company, MOSL

Exhibit 4: Cement: Valuation summary

	Reco	CMP	Target price	Upside	PE (x)			EV/EBITDA (x) *			EV/Ton (USD) at CMP*		
					FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
ACC	Buy	1,595	1,872	17	34.8	29.2	19.3	20.8	18.2	11.5	131	137	133
Ambuja	Neutral	256	265	4	18.7	28.1	20.6	11.7	18.8	13.9	118	187	183
Ultratech	Buy	3,002	3,475	16	40.4	33.2	21.6	21.6	16.5	11.7	217	205	198
Shree Cement	Buy	10,468	12,437	19	96.1	59.4	26.6	27.5	19.3	12.4	258	230	221
Large Cap					37.7	33.4	22.1	20.3	17.9	12.4	186	195	190
Birla Corp	Buy	452	523	16	22.5	14.5	7.7	10.6	7.2	3.7	46	46	41
Dalmia Bharat Ent.	Buy	467	697	49	33.4	12.3	6.7	13.4	9.3	6.0	69	79	72
India Cements	Neutral	108	99	-9	58.8	11.1	7.2	8.5	5.8	4.4	72	69	64
JK Cement	Buy	697	892	28	217.5	26.6	11.1	17.6	10.8	6.6	105	104	95
JK Lakshmi Cement	Buy	364	461	26	26.7	28.7	13.1	15.1	11.2	7.0	110	93	88
Madras Cement	Buy	325	423	28	31.8	22.9	14.2	16.5	12.2	8.5	114	103	95
Orient Cement	Neutral	184	201	9	22.6	26.0	11.7	12.5	11.7	6.5	121	104	99
Prism Cement	Buy	120	126	5	-152.8	42.9	14.6	28.2	14.2	8.1	214	189	145
MID CAPS					42.8	20.7	10.6	14.9	9.4	6.0	96	93	86
AGGREGATE					38.4	30.4	18.9	18.7	14.8	10.1	152	156	150

Source: Company, MOSL

Dalmia Bharat: Firing on all cylinders

Price strength in South; ramp-up in North East

- § We expect Dalmia Bharat (DBEL) to post its highest EBITDA/ton in the recent past in 4QFY15, driven by pricing strength in the South and higher volumes in the North-East.
- § Benefits of (a) cost optimization measures, (b) commodity price softening, and (c) resolution of Adhunik plant breakdown and (d) positive operating leverage should percolate as well. Further cost triggers are likely over FY16-17 across subsidiaries.
- § Karnataka and Calcom expansions are all set to kick in. Incremental capex is likely to moderate over FY16-17. We expect DBEL to generate ~INR12-13b of FCFE over FY16-18, triggering de-leveraging.
- § We maintain Buy with a TP of ~INR697 (USD85-90/ton FY17E prorata capacity of 18.6mt or implied 7.3x FY17E EV/EBITDA), implying an upside of 49%.

Expect strong profitability boost in 4QFY15

Expect EBITDA/ton of >INR1,200 in the South (v/s INR733 in 3QFY15), ~INR1,200 for Adhunik (INR648 in 3Q), and positive EBITDA for Calcom (v/s negative in 3Q)

- n In 4QFY15, the average realization in the South was higher by INR20-25/bag (+10% QoQ). Average realization in the North East was largely flat QoQ.
- n Backed by strong realizations, profitability should improve meaningfully, with EBITDA/ton of >INR1,200 in the South (v/s INR733 in 3QFY15), ~INR1,200 for Adhunik (INR648 in 3Q), and positive EBITDA for Calcom (v/s negative in 3Q).
- n For 4QFY15, we estimate blended EBITDA/ton at INR1,012.

Demand weakness in South to offset improvement in North East

- n Demand remains weak, with de-growth in the South region. Dalmia's South India operations de-grew 2% in FY15 (implied growth of 3% YoY in 4Q).
- n However, in the North East, volumes improved due to resolution of the issues plaguing the Adhunik plant (breakdown in 3Q). Adhunik/Calcom are operating at 60%/30% utilization, while Bokaro is operating at 40%.

4Q profitability to get additional impetus from cost savings

4Q profitability would witness benefits of cost saving measures like usage of high sulfur pet coke

4Q profitability would also be buoyed by cost saving measures:

- a) Variable cost in South operations declined INR50/ton QoQ (to INR1,470/ton) due to usage of high sulfur pet coke from the US (8% sulfur content), which led better power efficiencies, use of lesser gypsum and also lowered production cost for CPP with fly ash supply.
- b) Lower freight/energy benefits to percolate (did not come 3Q), and
- c) Resolution of Adhunik breakdown lowers clinker purchase and enables better fixed cost absorption in North East operations.

Multiple cost triggers in place, going ahead

- n DBEL expects multiple cost levers in its other subsidiaries, driven by gradual ramp-up of utilization and various synergistic measures.
- n The likely cost benefits over FY16-17 would be:
 - a) Calcom's variable cost would decline to INR1,500-2,000/ton (v/s INR3,700 currently) due to stabilization of new clinker plant,

Management guides multiple cost levers in its other subsidiaries driven by gradual utilization ramp-up and various synergistic measures

- b) OCL would source slag from Tata Steel's plant in Orissa from 1HFY16 (v/s Rourkela currently), which would benefit transport cost by ~INR50/ton.
- c) Bokaro would see improvement in capacity utilization and higher slag blending (56% v/s 48% now).
- n Bokaro would source clinker partially from OCL (other than Jaypee's Darlaghat plant as per contract) due to cheaper rate of INR1,600/ton (v/s INR3,000/ton for Jaypee contract).

Capacity expansion concluded; de-levering to begin

- n Belgaum expansion (2.7mt Greenfield) commenced in March 2015. The plant would cater to south Maharashtra and Karnataka (higher growth than South) and reduce lead distance. Calcom expansion too has commenced operations.
- n With these, there is no visible organic capex left for DBEL. With gradual ramp-up of recently expanded or acquired capacities, there should be gradual reduction of gearing from the current peak of INR67b (net debt).
- n DBEL is likely to generate INR12-13b of FCFE over FY16-18, which should trigger de-leveraging.

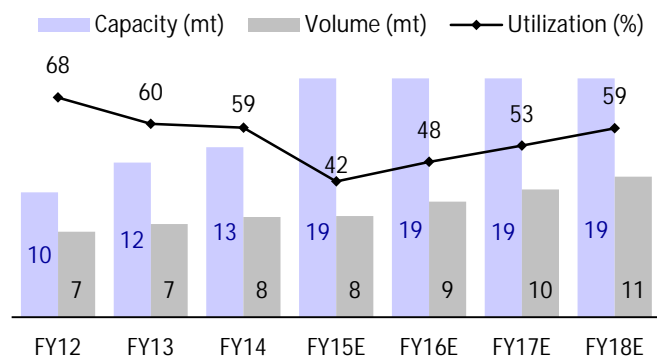
Acquisition of 26.6% promoters' stake in OCL (to 74.6%) is another step forward towards consolidation of corporate structure

Restructuring leading to simpler corporate structure

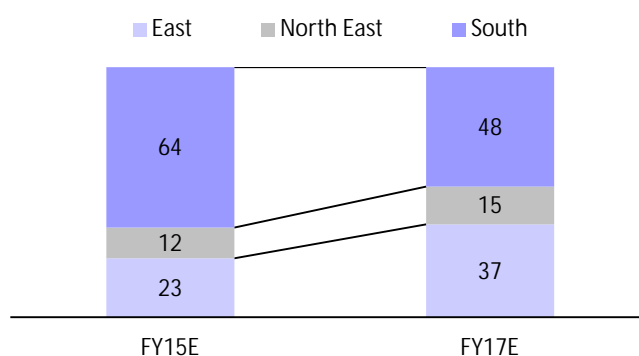
- n Acquisition of 26.6% promoters' stake in OCL (to 74.6%) is another step forward towards consolidation of corporate structure.
- n On the pending restructuring, the management guides:
 - a) No timeline for KKR exit (expect FY17/18) and merger of OCL to DBEL
 - b) Balance 24% stake purchase expected in Calcom in FY17 (post receipt of one-time capital subsidy)
 - c) Merger of Adhunik may happen in FY17

Valuation and view

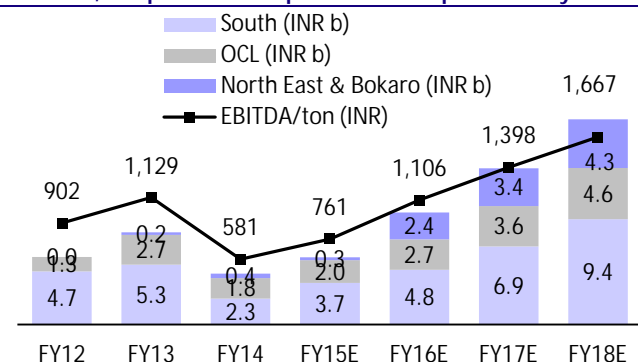
- n DBEL's sustained focus on capacity and market expansion through both the organic and inorganic routes makes it the 4th largest cement group, with 24mt of capacity under control by FY15 (effective stake of 18.6mt).
- n Current utilization of southern and stabilizing North East operations is low (effective 45%), allowing for huge volume lever, once (a) new expansions start stabilizing, (b) clinker bottleneck in North East operations (Calcom) eases off, with new capacity, and (c) southern demand starts improving.
- n DBEL is a dominant player in the South (fourth-largest), has de-risked itself through entry into better markets, and has enjoyed superior profitability historically due to operational efficiency.
- n We believe stock re-rating is imminent, and hinges upon
 - a) Improvement in financial performance, driven by stabilizing operations, especially in the North East,
 - b) Simplification of holding structure and consolidation of capacity addition before next leg of capex, and
 - c) Operating cash flow driving de-leveraging and subsequent prudence to balance long-term growth aspirations and medium-term financial health.
- n The stock trades at an EV of 6x FY17E EBITDA and USD72/ton. Buy with a TP of ~INR697 (EV of USD85-90/ton FY17 prorata capacity of 18.6mt, 7.3x FY17E EBITDA).

Exhibit 5: Strong utilization lever in place with organic and inorganic expansions set to commence operations

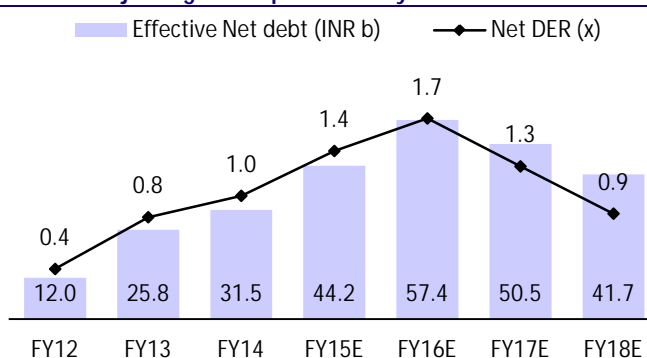
Source: MOSL

Exhibit 6: Diversification over past three years has resulted in improvement in market mix (%)

Source: MOSL

Exhibit 7: We estimate strong scale-up in EBITDA (INR b) FY16 onwards, coupled with improvement in profitability

Source: MOSL

Exhibit 8: Operational consolidation to drive de-leveraging, with no major organic capex visibility in near term

Source: MOSL

At current valuations, the stock trades at an EV of USD70/ton, almost 20-25% discount to midcap peers

Exhibit 9: We value DBEL and its subsidiaries at USD85-90/ton

INR m	Valuation method	Multiple (x)	FY17E
DCBL	EV/Ton	90	54,960
OCL	EV/Ton	85	23,338
Adhunik	EV/Ton	85	6,770
Calcom	EV/Ton	85	7,272
Bokaro	EV/Ton	85	9,479
Total EV			101,819
Less: Pro-rata Net Debt (adj for CWIP)			45,243
Total Equity Value			56,577
Fair value (INR/share)			697
Upside (%)			49.1
Implied EV/Ton (on pro-rata capacity)			88
Implied EV/EBITDA (on pro-rata basis)			7.3

Financials and valuations

Income Statement						(INR Million)
Y/E March	2012	2013	2014E	2015E	2016E	2017E
Net Sales	23,304	27,906	28,670	31,841	69,877	82,614
Change (%)	33.5	19.8	2.7	11.1	119.5	18.2
Total Expenditure	17,748	21,564	25,407	27,216	57,056	64,700
% of Sales	76.2	77.3	88.6	85.5	81.7	78.3
EBITDA	5,556	6,342	3,263	4,625	12,821	17,915
Margin (%)	23.8	22.7	11.4	14.5	18.3	21.7
Depreciation	1,817	2,059	2,422	2,320	4,523	5,219
EBIT	3,739	4,282	842	2,305	8,298	12,695
Int. and Finance Charges	1,513	2,314	3,151	4,101	7,357	7,304
Other Income - Rec.	874	769	2,081	2,016	2,836	2,872
PBT bef. EO Exp.	3,099	2,738	-229	220	3,778	8,263
EO Expense/(Income)	395	0	0	0	0	0
PBT after EO Exp.	2,704	2,738	-229	220	3,778	8,263
Current Tax	832	1,336	644	-194	400	1,514
Tax Rate (%)	45.4	48.8	-281.5	-88.3	10.6	18.3
Reported PAT	1,476	1,402	-873	415	3,378	6,749
Minority and Associates		569	789	721	-299	-1,096
PAT Adj for EO items	1,691	1,971	-84	1,136	3,079	5,653
Change (%)	1,538.8	16.5	-104.3	-1,452.5	171.0	83.6
Margin (%)	7.3	7.1	-0.3	3.6	4.4	6.8

Balance Sheet						(INR Million)
Y/E March	2012	2013	2014E	2015E	2016E	2017E
Equity Share Capital	162	162	162	162	162	162
Total Reserves	28,743	30,517	30,785	31,732	34,575	39,945
Net Worth	28,905	30,679	30,947	31,895	34,738	40,108
Deferred Liabilities	927	1,638	1,865	1,865	3,229	3,229
Minority Interest		5,181	4,464	4,988	8,628	9,725
Total Loans	19,127	35,744	42,760	59,760	71,610	71,610
Capital Employed	53,231	73,242	80,036	98,508	118,205	124,671
Gross Block	37,987	49,979	55,482	77,103	103,818	107,068
Less: Accum. Deprn.	3,659	7,410	9,832	12,152	28,570	33,789
Net Fixed Assets	34,328	42,569	45,650	64,951	75,248	73,279
Capital WIP	1,165	5,503	12,000	2,000	3,250	5,250
Total Investments	11,935	11,804	12,336	12,336	6,575	6,575
Curr. Assets, Loans&Adv.	8,795	16,139	15,560	15,303	23,915	33,917
Inventory	2,615	3,520	3,311	3,476	7,609	9,049
Account Receivables	1,354	2,572	2,843	2,704	4,924	5,855
Cash and Bank Balance	664	999	844	1,397	1,983	7,834
Loans and Advances	4,162	9,048	8,562	7,725	9,399	11,178
Curr. Liability & Prov.	3,042	6,899	7,523	6,372	13,384	16,950
Account Payables	2,726	6,241	6,874	6,567	12,980	15,437
Provisions	316	658	649	-194	404	1,514
Net Current Assets	5,753	9,240	8,037	8,930	10,531	16,966
Appl. of Funds	53,231	73,242	80,036	98,508	118,205	124,671

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2012	2013	2014E	2015E	2016E	2017E
Basic (INR) *						
EPS	20.3	24.3	-1.0	14.0	37.9	69.6
Cash EPS	43.2	49.6	28.8	42.6	93.6	133.9
BV/Share	356.0	377.8	381.1	392.8	427.8	493.9
DPS	1.5	2.0	2.0	2.0	2.5	3.0
Payout (%)	8.4	9.6	-	-	7.7	5.0

Valuation (x) *

P/E			-451.7	33.4	12.3	6.7
Cash P/E			16.2	11.0	5.0	3.5
P/BV			1.2	1.2	1.1	0.9
EV/Sales			2.1	2.7	1.4	1.1
EV/EBITDA			12.7	13.4	9.3	6.0
EV/Ton (US\$)			69	69	79	72
Dividend Yield (%)			0.4	0.4	0.5	0.6

Return Ratios (%)

RoE	5.8	6.6	-0.3	3.6	9.2	15.1
RoCE	9.7	8.8	4.2	5.2	11.2	14.3

Working Capital Ratios

Asset Turnover (x)	0.4	0.4	0.4	0.3	0.6	0.7
Inventory (Days)	41	46	42	40	40	40
Debtor (Days)	19	32	39	35	55	55

Leverage Ratio (x)

Current Ratio	2.9	2.3	2.1	2.4	1.8	2.0
Debt/Equity	0.7	1.2	1.4	1.9	2.1	1.8

Cash Flow Statement

(INR Million)

Y/E March	2012	2013	2014E	2015E	2016E	2017E
Oper. Profit/(Loss) before Tax	3,883	5,118	1,127	2,514	2,311	3,938
Interest/Dividends Recd.	874	936	928	801	597	665
Depreciation	1,817	1,847	2,004	2,320	3,392	4,218
Direct Taxes Paid	-832	-597	302	0	2,050	261
(Inc)/Dec in WC	-3,419	-3,151	1,047	-1,598	-286	7,673
CF from Operations	2,323	4,153	5,408	4,038	8,065	16,755
EO expense	1,820	-696	2,662	0	0	0
CF from Operating incl EO	4,143	3,457	8,070	4,038	8,065	16,755
(inc)/dec in FA	-220	-16,330	-12,000	-17,221	-19,927	-5,250
(Pur)/Sale of Investments	-5,343	132	-533	0	5,762	0
CF from investments	-5,563	-16,198	-12,533	-17,221	-14,166	-5,250
(Inc)/Dec in Debt	237	16,617	7,016	17,000	11,850	0
Interest Paid	-1,513	-2,263	-2,355	-3,076	-4,926	-5,371
Dividend Paid	-141	-189	-190	-189	-236	-283
CF from Fin. Activity	-2,459	13,077	4,307	13,736	6,688	-5,654
Inc/Dec of Cash	-3,880	336	-156	553	586	5,851
Add: Beginning Balance	4,543	664	999	844	1,397	1,983
Closing Balance	663	999	844	1,397	1,983	7,834

E: MOSL Estimates

Orient Cement: New growth cycle set to kick in

Chittapur plant commencing by May 2015

- § Despite demand de-growth, price resilience in the South would boost profitability in 4QFY15.
- § The Chittapur plant is set to start operations in May – only minor approvals are pending. Railway siding and WHRP would come over next 9-12 months.
- § The new plant would improve market mix and freight efficiencies, though initial fuel dynamics may hurt due to greater distance from coal mines. Gradual shift to pet coke is on the radar.
- § Current valuation factors in positives of new growth cycle to a reasonable extent. We value ORCMNT at INR201/share (EV/ton of USD105; higher end of the midcap band due to its cost leadership). Maintain Neutral with 9% upside.

Weak demand in strong season a surprise...

Orient is likely to post ~10% YoY de-growth in volumes in 4QFY15, with utilization down to 80-85% v/s 95% in 4QFY14

- n 4Q demand was weak in the South and in Maharashtra, with no infrastructure boost yet and added overhang of weakening rural spending.
- n Regional de-growth dented utilizations meaningfully. Orient's volumes are likely to decline ~10% YoY in 4QFY15, with utilization down to 80-85% from 95% in 4QFY14.

...but price resilience in South drives profitability

- n In AP/Telangana (~25% market mix), average realizations were higher by ~INR15/bag QoQ, which was negated by frequent rollback of cement prices in Maharashtra (60% market mix) during 4QFY15.
- n We expect cost to remain stable, with likely deferred benefits of diesel and energy cost moderation. Overall profitability should improve sequentially, with 4QFY15 EBITDA at ~INR950/ton.

Gulbarga plant commencing in 1QFY16; WHRP, railway siding to take 9-12 months more

Gulbarga plant on track for April commencement

- n Chittapur (Gulbarga) Greenfield plant of 3mt (and 45MW CPP) is set to become operational by April (end)/May (beginning). The mine is ready, but internal target of March 2015 commencement was missed by 2-3 weeks, as the Karnataka authority is awaiting nod from the center after passage of the new mining regulations.
- n Final capex was a bit higher at INR20b (v/s initial estimate of INR17b) due to certain emission adherence. Of this, INR16b has been spent and the balance would be spent over the next 9-12 months, when waste heat recovery plant (WHRP), railway siding and required land acquisition happen.

New plant to improve market/freight mix; cost dynamics mixed

Broadbased transition to pet coke as major fuel would be the key trend over the next two years

- n New plant will reduce outbound lead distance from 280-300km currently. Market mix will be: 50% Karnataka, 30% southern Maharashtra, and 20% Hyderabad and surroundings. Dispatch bandwidth of the existing Devapur and Jalgaon plants can be used more towards AP, MP, north Maharashtra, Gujarat.
- n The new plant is equally efficient in terms operating parameters, with added advantage of going for 100% pet coke, the transition to which will occur gradually over the next two years (MRPL source). It also targets 1/3rd pet coke in existing plant (Devapur) v/s zero now.

Management targets FY16 exit utilization at new plant to 50%, implying incremental volume of 0.9-1mt in FY16

Higher focus on evaluating inorganic route of capacity expansion

- n To start with, it will e-auction from the Singareni Coal Block, which should inflate cost initially (colliery is over 300km from new plant v/s 50km from existing). Benefits of railway siding will come from FY17. The present railway station (Chittapur) is just 4km away and can be approached by road.
- n The management targets FY16 exit utilization for the new plant at 50%, implying incremental volume of 0.9-1mt in FY16.

Growth focus intact; inorganic route gaining preference

- n The company has signed an Lol with the Rajasthan government for the Greenfield plant. However, it would take at least 5 years to bring any capacity.
- n Meanwhile, there has been higher focus on evaluating the inorganic route of capacity expansion.
- n Current capex cycle will have peak debt of INR14b by mid-FY16, 1.4x (will maintain net DER <=1.6x).

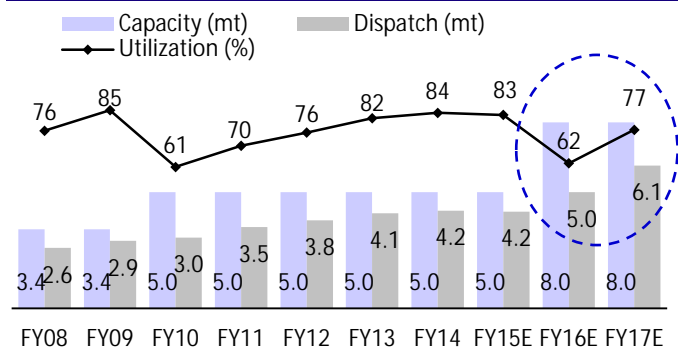
Entering new growth cycle; valuations fair

- n We estimate 20%+ CAGR in volumes over FY15-17, as the new plant will unleash the much needed utilization headroom along with stronger market mix. This translates into 35%+ EPS CAGR over FY15-17 and RoE of ~25% for FY17.
- n Being the lowest cost cement producer (15-20% lower than industry), ORCMNT enjoys superior profitability. The new plant, being distant from fuel source, may hurt initial dynamics. However, operating efficiencies, reduction in lead distance and gradual shift towards pet coke should reinstate cost advantages.
- n Its expansion plan (15mt by FY20 v/s 8mt now) may stretch ORCMNT's balance sheet intermittently, but operational ramp-up (expect INR5b annual FCF FY17 onwards) coupled with potential recovery in AP/Telangana demand should address the funding need.
- n The stock trades at an EV of 6.5x FY17E EBITDA and USD99/ton. We value ORCMNT at INR201/share (EV/ton of USD105; Higher end of the midcap band due to its cost leadership). We maintain **Neutral**.

Exhibit 10: Key operating parameters for ORCMNT

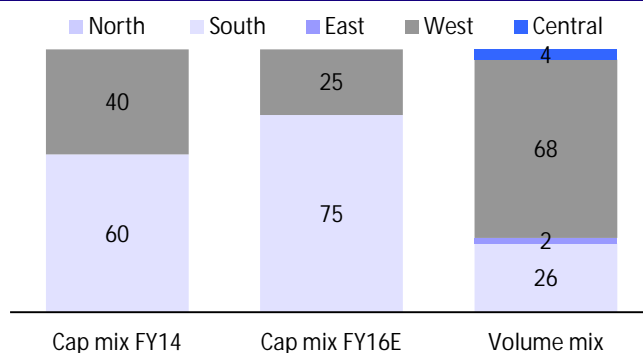
	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Capacity (mt)	5.0	5.0	5.0	5.0	5.0	8.0	8.0
Dispatch (mt)	3.5	3.8	4.1	4.2	4.2	5.0	6.1
Volume Growth (%)	15.0	8.1	8.1	2.8	-1.0	20.0	23.0
Utilization (%)	70	76	82	84	83	62	77
Net Realization (INR/ton)	2,948	3,630	3,629	3,402	3782	4,032	4,432
Change YoY (INR/ton)	0	682	-1	-227	380	250	400
Raw Material	472	543	553	615	566	594	624
Staff Cost	86	97	128	138	169	169	158
Power and Fuel	712	784	927	926	982	1,041	1,093
Freight	594	703	759	744	796	836	878
Other expenditure	331	410	525	487	546	500	447
Total Expenditure	2,195	2,538	2,892	2,911	3059	3,141	3,200
Cement EBITDA/ton	754	1092	737	491	723	891	1,232
Margins (%)	25.6	30.1	20.3	14.4	19.1	22.1	27.8

Exhibit 11: New capacity to trigger growth cycle from FY16



Source: MOSL

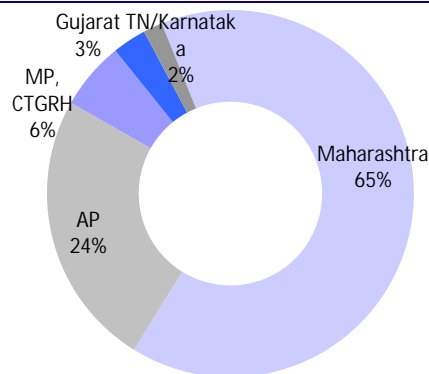
Exhibit 12: Market mix getting better



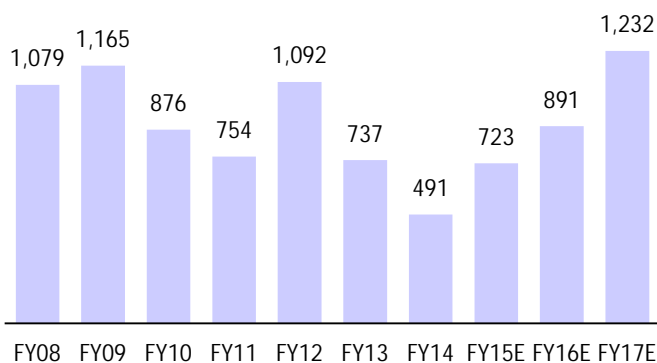
Source: MOSL

Exhibit 13: Current market mix (with Gulbarga plant commencing operations, Karnataka would gain 10-15% of volume mix)

Exhibit 14: Trend in EBITDA/ton (INR) - Cost leadership may dilute in initial days of new plant as longer transportation would hurt landed coal cost



Source: MOSL



Source: MOSL

Demand recovery in south-west would be key re-rating trigger

Exhibit 15: FY17E performance sensitivity to cement prices

Price (INR/Ton)	EBITDA/Ton	EPS	PE (x)	EV/EBITDA	EV/Ton	TP at 5x	EV/Ton	Upside
0	832	7.8	23.6	10.1	103	107	72	-42
100	932	9.8	18.8	8.9	102	131	80	-29
200	1,032	11.8	15.6	8.0	101	154	89	-16
300	1,132	13.7	13.4	7.2	100	177	97	-4
400	1,232	15.7	11.7	6.5	99	201	106	9
500	1,332	17.7	10.4	6.0	98	224	115	22
600	1,432	19.7	9.3	5.5	97	248	123	35

Source: MOSL

Financials and valuations

Income Statement					(INR Million)
Y/E March	2013	2014	2015E	2016E	2017E
Net Sales	14,844	14,302	15,740	20,137	27,226
Change (%)	8.1	-3.7	10.1	27.9	35.2
Total Expenditure	11,829	12,237	12,732	15,685	19,659
% of Sales	79.7	85.6	80.9	77.9	72.2
EBITDA	3,015	2,065	3,009	4,452	7,566
Margin (%)	20.3	14.4	19.1	22.1	27.8
Depreciation	561	564	446	1,120	1,410
EBIT	2,455	1,501	2,563	3,332	6,157
Int. and Finance Charges	187	144	141	1,291	1,454
Other Income - Rec.	219	175	100	150	175
PBT bef. EO Exp.	2,486	1,532	2,522	2,191	4,877
EO Expense/(Income)	0	0	0	0	0
PBT after EO Exp.	2,486	1,532	2,522	2,191	4,877
Current Tax	794	522	807	701	1,561
Deferred Tax	76	0	50	44	98
Tax Rate (%)	35.0	34.1	34.0	34.0	34.0
Reported PAT	1,617	1,010	1,665	1,446	3,219
PAT Adj for EO items	1,617	1,010	1,665	1,446	3,219
Change (%)	-32.0	-37.5	64.8	-13.1	122.6
Margin (%)	10.9	7.1	10.6	7.2	11.8
Net Profit	1,617	1,010	1,665	1,446	3,219

Balance Sheet					(INR Million)
Y/E March	2013	2014	2015E	2016E	2017E
Equity Share Capital	205	205	205	205	205
Total Reserves	7,363	8,083	9,388	10,354	12,854
Net Worth	7,567	8,288	9,593	10,559	13,059
Deferred Liabilities	1,293	1,266	1,316	1,360	1,458
Total Loans	1,489	3,286	13,261	17,111	17,111
Capital Employed	10,350	12,840	24,170	29,030	31,628
Gross Block	12,766	12,934	14,934	31,734	33,082
Less: Accum. Deprn.	4,228	5,300	5,746	6,866	8,276
Net Fixed Assets	8,538	7,635	9,189	24,869	24,806
Capital WIP	397	3,897	12,397	1,097	1,250
Total Investments	875	875	875	875	875
Curr. Assets, Loans&Adv.	4,391	3,774	4,517	5,963	9,989
Inventory	869	713	862	1,103	1,492
Account Receivables	765	647	647	828	1,119
Cash and Bank Balance	1,699	816	851	1,494	4,022
Loans and Advances	1,059	1,598	2,156	2,538	3,357
Curr. Liability & Prov.	3,261	2,773	2,239	3,205	4,724
Account Payables	2,649	2,442	1,725	2,758	3,730
Provisions	612	331	515	447	995
Net Current Assets	1,130	1,001	2,277	2,758	5,265
Appl. of Funds	10,350	12,840	24,170	29,030	31,628

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2013	2014	2015E	2016E	2017E
Basic (INR)					
EPS	7.9	4.9	8.1	7.1	15.7
Cash EPS	10.6	7.7	10.3	12.5	22.6
BV/Share	36.9	40.5	46.8	51.5	63.7
DPS	2.0	1.5	1.5	2.0	3.0
Payout (%)	29.5	47.5	28.6	32.9	14.8
Valuation (x)					
P/E	23.3	37.3	22.6	26.0	11.7
Cash P/E	17.3	23.9	17.8	14.7	8.1
P/BV	5.0	4.5	3.9	3.6	2.9
EV/Sales	2.5	2.5	2.4	2.6	1.8
EV/EBITDA	12.3	17.5	12.5	11.7	6.5
EV/Ton (USD)	119	116	121	104	99
Dividend Yield (%)	1.1	0.8	0.8	1.1	1.6
Return Ratios (%)					
RoE	21.4	12.7	18.6	14.4	27.3
RoCE	29.5	16.3	15.5	13.8	21.9
Working Capital Ratios					
Asset Turnover (x)	1.4	1.1	0.7	0.7	0.9
Inventory (Days)	21.4	18.2	20.0	20.0	20.0
Debtor (Days)	10.3	8.1	7.0	7.3	7.7
Leverage Ratio (x)					
Current Ratio	1.3	1.4	2.0	1.9	2.1
Debt/Equity	0.2	0.4	1.4	1.6	1.3

Cash Flow Statement

(INR Million)

Y/E March	2013	2014	2015E	2016E	2017E
Oper. Profit/(Loss) before Tax		1,501	2,563	3,332	6,157
Interest/Dividends Recd.		175	100	150	175
Depreciation		564	446	1,120	1,410
Direct Taxes Paid		-522	-807	-701	-1,561
(Inc)/Dec in WC		754	1,241	-163	-21
CF from Operations		964	1,060	4,063	6,201
EO expense		0	0	0	0
CF from Operating incl EO		964	1,060	4,063	6,201
(inc)/dec in FA		-3,161	-10,500	-5,500	-1,500
(Pur)/Sale of Investments		90	0	0	0
CF from investments		-3,071	-10,500	-5,500	-1,500
Issue of Shares		70	0	0	0
(Inc)/Dec in Debt		1,797	9,975	3,850	0
Interest Paid		-144	-141	-1,291	-1,454
Dividend Paid		-360	-360	-479	-719
CF from Fin. Activity		1,363	9,475	2,080	-2,174
Inc/Dec of Cash		-744	35	643	2,528
Add: Beginning Balance		1,699	816	851	1,494
Closing Balance		816	851	1,494	4,022

E: MOSL Estimates

Sagar Cement: Peak profitability reached ~INR2,000/ton

Demand recovery, the key to price resilience, may get delayed

- § Demand remained muted in the southern states during 4QFY15.
- § Given that several states are fund-strapped, the anticipated infrastructure boost could be delayed. However, housing could be an electoral agenda for states like Tamil Nadu and Karnataka.
- § Despite weak demand, cement prices have been resilient in the South. Sagar Cement witnessed peak profitability of INR2,000/ton in AP and INR1,400/ton in other southern states.

Demand weakness persists

- n During 4QFY15, de-growth in AP has moderated from double digit to single digit, there has been YoY weakness in demand in other states – Tamil Nadu (+8% to -5%), Karnataka (+3% to -5%), and Kerala (-5%).
- n For Sagar, cement volumes in 4QFY15 are likely to grow ~5% with (a) higher dispatches in southern Maharashtra and Orissa, and (b) BMM contribution (BMM is closer to West Bengal market).

Delay in kick-start of infrastructure projects may defer recovery

- n Demand weakness may surprise negatively going forward. The lack of funds with state governments could delay the awaited infrastructure boost in AP/Telangana.
- n After a relatively strong run for the last 3-4 years, Tamil Nadu may see muted growth in the next few years. Real estate demand in Karnataka is better.
- n However, demand levers from government policy are in place. 'Housing for all by 2022' is a common agenda between the states and the center. Tamil Nadu and Karnataka may use this as their key agenda for upcoming elections.

Prices strength to boost profitability meaningfully

- n Despite muted demand, cement prices have shown better resilience. There has been sharp improvement in cement prices in AP from INR180/bag in November 2014 to INR330/bag in January 2015, and prices largely sustained in 4QFY15.
- n Others states too have shown price resilience, with Bangalore at INR405/bag, Kerala at INR460/bag, and Chennai at INR395/bag.
- n EBITDA/ton at AP touched peak of INR2,000-2,300/ton during 4Q. In other parts of South India, EBITDA/ton was INR1,400 against INR200-250/ton in 3QFY15.

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