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Q4FY20 result review and
earnings revision

Cement

Target price: Rs750

Earnings revision

(%)		FY21E	FY22E
Sales	↓	0.5	↑ 0.6
EBITDA	↑	13.2	↑ 15.7
PAT	↑	23.2	↑ 22.9

Target price revision

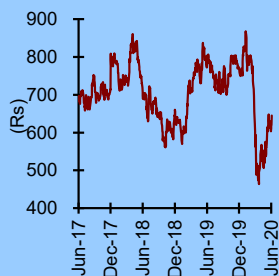
Rs750 from Rs635

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	42.7	42.7	42.7
Institutional investors	33.3	33.6	33.4
MFs and Others	21.5	21.8	23.8
FIs//Bank/Ins.	0.0	0.0	0.6
FII	11.8	11.8	8.9
Others	24.0	23.7	24.0

Source: CMIE

Price chart



Ramco Cements

BUY

Maintained

Rs645

Higher realisation drives EBITDA upgrade

The Ramco Cements' (TRCL) Q4FY20 EBITDA at Rs2.8bn (down 20% YoY) was in-line with our estimates. While realisation surprised with 5.3% QoQ increase (+1.6% YoY), the same was offset by higher ad / sales promotion expenses. Volumes were down 11% YoY impacted by Covid-19 lockdown in Mar'20. Net debt almost doubled YoY to Rs29.3bn owing to the on-going capex (Rs19bn in FY20). Channel checks suggest sharp +20% QoQ / 10% YoY price increase in South during Q1FY21E. Besides, costs are unlikely to increase owing to better cost efficiencies (WHRS, GUs) and likely rationalisation of discretionary costs like ad spend (~3% of sales or Rs150/te) and other fixed costs in FY21. Factoring higher realisation, we raise our FY21-22E EBITDA by 13-16%, EPS by 23% and increase our target price to Rs750/share (earlier: Rs635) based on 12x Mar'22E EV/E. Maintain BUY.

- ▶ **Revenue declined 9% YoY to Rs13.9bn.** Volumes declined 11% YoY to 2.93mnte (I-Sec: 3.08mnte). Management expects demand to gradually get back to normal level with further relaxations announced by the government. Realisation sharply increased 5.3% QoQ (up 1.6% YoY) to Rs4,713/te owing to better prices, sales mix change and increasing share of premium products.
- ▶ **Cement EBITDA/te declined 10% YoY to Rs955/te (I-Sec: Rs901/te).** Costs/te increased 5% YoY vs our estimate of 1.5% YoY owing to higher other expenses; but the same was more than offset by better realisation. Other expenses increased sharply 26% YoY (or Rs233/te) to Rs2.3bn owing to higher ad / sales promotion expenses which increased to Rs645mn from Rs274mn YoY and Rs458mn QoQ. Raw material plus power & fuel cost/te declined 4% both YoY and QoQ owing to decline in petcoke prices. Freight cost/te declined 1% YoY, though was up 4% QoQ. PAT declined 22% YoY to Rs1.5bn.
- ▶ **TRCL has incurred Rs19bn (out of planned capex of Rs33bn) till FY20-end:** 1.1mnte Vizag grinding units (GU) got commissioned in Mar'20, while the commissioning of new greenfield 0.9mnte Odisha GU and 1.5mnte clinker capacity expansion at Jayanthipuram (with 27MW WHRS) has been delayed by 3-6months to Aug'20 and Mar'21, respectively, owing to Covid-19 disruptions. While the management expects to commission new greenfield 2.25mnte clinker plant at Kurnool, AP, along with 1mnte GU, railway siding, 12MW WHRS and 18MW CPP by Mar'21, 3-6 months delay cannot be negated. Net debt may inch up to Rs35bn during H1FY21E; however, net debt may come below Rs30bn by end-FY21E.
- ▶ **Enough levers to improve margins:** New GUs are likely to provide logistics cost advantage of Rs200-300/te (Rs40-50/te at company level), while commissioning of WHRS and lower fuel prices would help reduce power & fuel cost. Discretionary costs including ad spends / sales promotion etc (~3% of sales) and employee costs are likely to be curtailed in FY21. Besides, industry may maintain pricing discipline in the near term (South prices up sharp +20% QoQ / 10% YoY during Q1FY21E-TD) owing to lower volumes to absorb higher fixed costs/te. We expect TRCL's cement EBITDA/te to increase from Rs991/te in FY20 to Rs1,232/te by FY22E.

Market Cap	Rs152bn/US\$2bn
Reuters/Bloomberg	RAMC.BO/TRCL IN
Shares Outstanding (mn)	235.6
52-week Range (Rs)	868/464
Free Float (%)	57.3
FII (%)	8.9
Daily Volume (US\$'000)	5,944
Absolute Return 3m (%)	14.7
Absolute Return 12m (%)	(17.7)
Sensex Return 3m (%)	23.1
Sensex Return 12m (%)	(10.2)

Year to Mar	2019	2020	2021E	2022E
Revenue (Rs mn)	51,623	53,893	54,593	65,451
EBITDA (Rs mn)	10,664	11,474	13,341	16,676
Net Income (Rs mn)	5,326	6,042	6,648	8,095
% Chg YoY	(3.4)	13.4	10.0	21.8
P/E (x)	28.5	25.2	22.9	18.8
CEPS (Rs)	35.3	39.1	42.7	51.3
EV/E (x)	15.7	15.3	13.3	10.5
Dividend Yield	0.5	0.4	0.4	0.4
RoCE (%)	8.7	8.2	8.2	9.8
RoE (%)	12.3	12.7	12.5	13.5

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- **Better FY20 performance:** Volumes were up ~1% YoY at 11.2mnte with 4% YoY increase in realisation and total cost/te increasing 3% YoY. Accordingly, cement EBITDA/te increased 8% YoY to Rs991/te. The average petcoke prices declined 28% YoY, coal prices by 9% and diesel prices by 4% YoY in FY20. Advertisement/sales promotion expense increased 77% YoY to Rs1.7bn to launch premium products in new markets, training channel partners etc., while contribution to political parties declined 21% YoY to Rs190mn in FY20. Employee expenses included Rs228mn towards ESOP/VRS charges. FY20 EBITDA increased 8% YoY to Rs11.5bn and PAT grew 13% YoY to Rs6bn.
- **FCF generation stood at negative Rs12bn** post OCF of Rs7bn and capex spend of Rs19.2bn in FY20. Accordingly, net debt increased Rs13.9bn YoY in FY20 to Rs29.3bn as of Mar'20-end post dividend payment of Rs1.6bn.

Table 1: Q4FY20 result review*(Rs mn, year ending March 31)*

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	I-Sec	Variance	%
Volumes (mnte)	2.93	3.29	(10.9)	2.84	3.1	3.08	(4.7)	
Cement realisation (Rs/te)	4,713	4,640	1.6	4,475	5.3	4,530	4.0	
Net sales	13,862	15,293	(9.4)	12,746	8.8	13,952	(0.6)	
Other operating income	37	31	20.0	34	8.8	31	20.8	
Raw material costs	2,361	2,805	(15.8)	2,371	(0.4)	2,490	(5.1)	
Personnel costs	846	823	2.7	966	(12.4)	975	(13.3)	
Power and fuel costs	2,544	2,938	(13.4)	2,592	(1.9)	2,707	(6.0)	
Freight expenses	3,039	3,454	(12.0)	2,831	7.3	3,061	(0.7)	
Other expenses	2,317	1,834	26.3	1,992	16.3	1,996	16.1	
Total expenses	11,107	11,854	(6.3)	10,751	3.3	11,229	(1.1)	
EBITDA	2,792	3,470	(19.5)	2,029	37.6	2,754	1.4	
EBITDA/te incl. windmill (Rs/te)	952	1,055	(9.7)	713	33.5	895	6.4	
Interest	216	128	68.4	215	0.5	233	(7.3)	
Depreciation	833	767	8.6	797	4.5	824	1.0	
Other income	114	111	2.9	85	34.6	91	24.8	
Recurring pre-tax income	1,857	2,686	(30.8)	1,101	68.6	1,788	3.9	
Extraordinary items	-	(219)		-		-		
Taxation	396	813	(51.3)	153	158.0	456	(13.2)	
Reported net income	1,462	1,654	(11.6)	948	54.2	1,332	9.7	
Recurring net income	1,462	1,873	(21.9)	948	54.2	1,332	9.7	
Ratios (%)								
EBITDA margins	20.1	22.7		15.9		19.7		
Net profit margins	10.5	12.2		7.4		9.5		

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis on per-tonne basis*(Rs/te)*

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Sales realisation - only cement	4,640	4,989	4,708	4,475	4,713
Raw materials	853	743	733	834	805
Power & fuel	893	984	996	911	868
Freight	1,050	1,040	990	996	1,037
Staff	250	327	358	339	288
Other expenditure	541	607	650	682	790
Total cost	3,587	3,701	3,727	3,762	3,788
Other operating income	9	52	14	12	13
EBITDA/te – cement*	1,062	1,340	995	726	952

Source: Company data, I-Sec research

Table 3: TRCL generated negative FCF of Rs12bn in FY20

(Rs mn)	FY19	FY20	% YoY
Operating Cash flow	8,558	10,059	17.5
Working Capital changes	(975)	(2,934)	201.0
Capital Commitments	(12,025)	(19,195)	59.6
Net Operating FCF	(4,442)	(12,070)	171.7
Investing Activities	(134)	(246)	83.4
Inc(Dec) in Borrowings	7,863	14,088	79.2
Dividend paid	(853)	(1,564)	83.3
Change in Cash & Bank	2,434	208	(91.4)

Source: Company data, I-Sec research

Table 4: EBITDA to OCF conversion stood at 63% in FY20

(Rs mn)	FY19	FY20	% YoY
OCF before w/cap changes	10,498	11,805	12.4
W/cap changes	(975)	(2,934)	201.0
Taxes paid	(1,597)	(1,390)	(13.0)
OCF	7,926	7,481	(5.6)
EBITDA	10,664	11,474	7.6
EBITDA:OCF	74%	65%	
Interest	(481)	(589)	22.4
Other income	250	335	34.2
EBITDA:OCF (post int./OI)	72%	63%	

Table 5: Per-tonne estimates

(Rs /te)	FY18	FY19	FY20	FY21E	FY22E
Net realisations – cement	4,637	4,563	4,736	4,855	4,855
YoY (%)	(0.1)	(1.6)	3.8	2.5	-
Raw material consumed	806	761	780	785	795
Power and fuel	783	950	938	909	917
Freight	997	1,068	1,016	1,046	1,031
Others	984	903	1,053	979	921
Total operating expenses	3,570	3,682	3,786	3,719	3,665
YoY (%)	7.3	3.1	2.8	(1.8)	(1.5)
EBITDA/te incl. windmill	1,181	959	1,024	1,203	1,271
YoY (%)	(17.1)	(18.8)	6.8	17.4	5.6
EBITDA/te - cement only	1,129	921	991	1,180	1,232
YoY (%)	(18.3)	(18.4)	7.6	19.1	4.4

Source: Company data, I-Sec research

Table 6: Performance trend and assumptions

	FY18	FY19	FY20	FY21E	FY22E
Capacity	15,490	15,490	16,040	17,590	19,590
Capacity utilisation (%)	60	72	70	63	68
Sales	9,312	11,124	11,203	11,091	13,309
Growth (%)	11.5	19.5	0.7	(1.0)	20.0
Realisation (Rs/te)	4,637	4,563	4,736	4,855	4,855
Growth (%)	(0.1)	(1.6)	3.8	2.5	-

Source: Company data, I-Sec research

Table 7: Valuations based on 12x FY22E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	12
Target EV (Rs mn)	202,924
Net debt / (cash) (Rs mn)	26,404
Target value (Rs mn)	176,520
No. of shares (mn)	236
Target price per share (Rs)	750

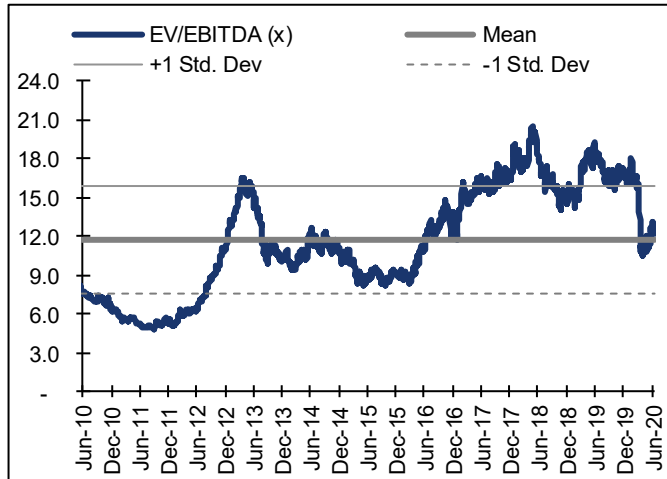
Source: I-Sec research

Table 8: Earnings revision

	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	54,593	54,846	(0.5)	65,451	65,061	0.6
EBITDA	13,341	11,781	13.2	16,676	14,417	15.7
PAT	6,648	5,398	23.2	8,095	6,589	22.9

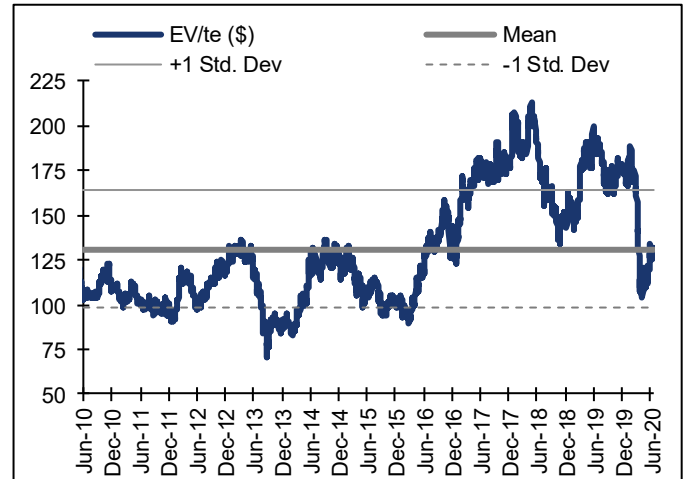
Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA



Source: I-Sec research

Chart 2: Rolling EV/te



Source: I-Sec research

Financial summary (consolidated)

Table 9: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	51,380	53,644	54,368	65,216
Other operating income	243	250	225	236
Operating Expenses	40,960	42,419	41,251	48,776
EBITDA	10,664	11,474	13,341	16,676
% margin	20.8	21.4	24.5	25.6
Depreciation & Amortisation	3,000	3,165	3,421	3,983
Gross Interest	514	721	1,263	2,093
Other Income	250	335	235	235
Recurring PBT	7,400	7,922	8,891	10,834
Add: Extraordinaries	(219)	-	-	-
Less: Taxes	2,106	1,879	2,241	2,730
- Current tax	1,854	1,026	2,241	2,730
- Deferred tax	253	853	-	-
Net Income (Reported)	5,107	6,042	6,648	8,095
Recurring Net Income	5,326	6,042	6,648	8,095

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	15,419	19,671	19,809	22,806
Current Liab. & Prov.	11,606	11,895	10,562	11,518
Net Current Assets	3,813	7,776	9,247	11,288
Investments of which	4,206	4,225	4,225	4,225
Strategic/Group	4,206	4,225	4,225	4,225
Marketable	-	-	-	-
Net Fixed Assets*	62,409	77,428	82,006	86,023
of which				
Capital Work-in-Progress	9,811	18,143	17,143	17,143
Goodwill	-	-	-	-
Total Assets	70,428	89,429	95,479	1,01,536
of which cash & cash equi.	948	942	1,585	2,447
Liabilities				
Borrowings	16,369	30,241	30,241	28,851
Deferred Tax Liability	8,642	9,118	9,118	9,118
Minority Interest	47	56	56	56
Equity Share Capital	236	236	236	236
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	45,134	49,778	55,828	63,275
Net Worth	45,370	50,014	56,063	63,511
Total Liabilities	70,428	89,429	95,479	1,01,536

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	13,698	13,129	12,746	13,862
% growth (YoY)	13.7	11.2	5.6	(9.4)
Recurring EBITDA	3,783	2,965	2,029	2,792
Margin (%)	27.6	22.6	15.9	20.1
Other income	82	92	85	114
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	2,110	1,694	948	1,462

Source: Company data

Table 12: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	8,558	10,059	9,842	11,951
Working Capital changes	(975)	(2,934)	(835)	(1,287)
Capital Commitments	(12,025)	(19,195)	(8,000)	(8,000)
Net Operating FCF	(4,442)	(12,070)	1,008	2,665
Investing Activities	(134)	(246)	235	235
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	7,863	14,088	-	(1,390)
Dividend paid	(853)	(1,564)	(598)	(648)
Others	-	-	(0)	(0)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	2,434	208	644	861

Source: Company data, I-Sec research

Table 13: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	21.7	25.6	28.2	34.4
Diluted Recurring EPS	22.6	25.6	28.2	34.4
Diluted Recurring CEPS	35.3	39.1	42.7	51.3
Dividend per share	3.0	2.5	2.5	2.7
Book Value	193	212	238	270
Growth Ratios (% YoY)				
Operating Income	16.7	4.4	1.4	20.0
EBITDA	(3.0)	7.6	16.3	25.0
Recurring Net Income	(3.4)	13.4	10.0	21.8
Diluted Recurring EPS	(3.4)	13.4	10.0	21.8
Diluted Recurring CEPS	(1.5)	10.6	9.4	19.9
Valuation Ratios (x)				
P/E	28.5	25.2	22.9	18.8
P/CEPS	18.3	16.5	15.1	12.6
P/BV	3.3	3.0	2.7	2.4
EV / EBITDA	15.7	15.3	13.3	10.5
EV / te (US\$)	137	143	130	120
EV / Operating Income	3.3	3.4	3.3	2.7
EV / Operating FCF	28.7	31.5	20.1	16.7
Operating Ratios (%)				
Raw Material / Sales	16.5	16.3	16.0	16.2
Other expenses / Sales	63.2	62.8	59.9	58.6
Other Income / PBT	3.4	4.2	2.6	2.2
Effective Tax Rate	28.5	23.7	25.2	25.2
NWC / Total Assets	0.0	0.1	0.1	0.1
Inventory (x)	3.9	3.7	3.4	3.9
Receivables (days)	33	35	34	29
Payable (days)	23	26	29	25
D/E Ratio (x)	0.3	0.8	0.7	0.6
Profitability Ratios (%)				
Rec. Net Income Margins	10.3	11.2	12.2	12.4
RoCE	8.7	8.2	8.2	9.8
RoNW	12.3	12.7	12.5	13.5
Dividend Payout	13.3	9.7	9.0	8.0

Source: Company data, I-Sec research

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