ANANDRATHI

India I Equities

Cement

Company Update

Change in Estimates ☑ Target ☑ Reco☐

21 June 2020

Ramco Cements

Operating efficiency to improve; expansions would help; Buy

Rating: **Buy**
Target Price: ₹748
Share Price: ₹645

The Covid'19-compelled lockdown from Mar'20 hurt Ramco's Q4. Its revenue/EBITDA/PAT declined 9%/15%/12%. The Vishakhapatnam expansion was completed in Mar. Labour unavailability, however, delayed the remaining expansions by 3-5 months. With demand in the near term expected to be sluggish, we expect profitability to improve on steady pricing, lower fuel prices and new capacity commissioning. We maintain our Buy rating, with a higher target price of ₹748 (earlier ₹683).

Volume dip on lockdown. The company reported an 11% volume decline on lost business days due to the lockdown in Mar'20, leading revenue to dip 9% y/y to ₹13.8bn. On firm prices, however, realisation grew 1.6% y/y. Prices are expected to be firm because of low industry utilisation, whereas volumes are expected to dip 10% in FY21. However, backed by expected government spending on infrastructure for employment generation and by commissioning of new capacities, we expect FY22 volumes to grow 17.4% y/y.

Operating efficiency to improve. EBITDA/ton dipped 4.7% y/y to ₹924 (₹695 the quarter prior, ₹970 a year ago). Softer fuel costs helped: power & fuel cost/ton and freight cost/ton dipped 2.8% and 1.3% y/y. The company is expected to further benefit from falling fuel prices on the commissioning of the WHRS, lower petcoke prices and optimising the supply chain. We expect EBITDA/ton of ₹911 and ₹1,071 in FY21and FY22 (vs ₹940 in FY20)

Outlook, Valuations. The 1.05m-ton GU expansion at Vishakhapatnam was commissioned in Mar'20. However, labour availability delayed the expansion àt Odisha and Jayanthipuram by 3-5 months; the expansion at Kurnool will be complete by Mar'21. On 31st Mar'20 gross debt increased to ₹30.24bn (vs ₹26.8bn at end-Dec'19). The company has so far incurred ₹19.2bn on ongoing expansions. With the balance capex of ₹13.8bn, we expect the leverage to be high with a net D/E of 0.7x in FY21. We maintain a Buy rating, with a higher target price of ₹748 (earlier ₹683), based on 16x FY22e EV/ EBITDA. **Risks:** Extension of the lockdown; rise in pet-coke/diesel costs.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	43,181	50,602	52,854	49,255	59,131
Net profit (₹ m)	5,557	5,059	6,011	4,195	6,372
EPS (₹)	23.6	21.5	25.5	17.8	27.0
PE (x)	31.1	34.3	20.1	36.2	23.8
EV / EBITDA (x)	18.1	19.9	14.3	20.2	14.1
EV / ton ($)	143.9	148.6	104.7	117.5	113.0
RoE (%)	14.3	11.9	12.8	8.2	11.4
RoCE - after tax (%)	8.6	7.2	7.1	4.5	6.4
Dividend yield (%)	0.4	0.4	0.5	0.3	0.3
Net debt / equity (x)	0.2	0.3	0.6	0.7	0.5

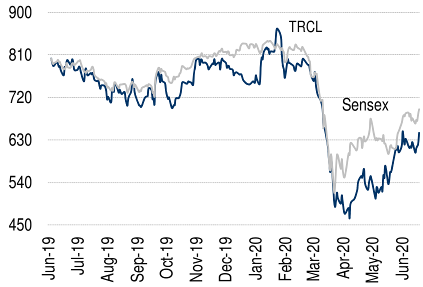
Source: Company, Anand Rathi Research

Key data	TRCL IN / MSCM.BO
52-week high / low	₹884 / 455
Sensex / Nifty	34732 / 10244
3-m average volume	$6.3m
Market cap	₹152bn / $1993.5m
Shares outstanding	236m

Shareholding pattern (%)	Mar'20	Dec'19	Sep'19
Promoters	42.7	42.7	42.7
- of which, Pledged	2.0	2.0	2.0
Free float	57.3	57.3	57.3
- Foreign institutions	8.9	11.7	11.7
- Domestic institutions	24.5	21.9	21.6
- Public	24.0	23.7	24.0

Estimates revision (%)	FY21e	FY22e
Sales	(2.8)	0.4
EBITDA	0.4	6.6
PAT	2.6	7.6

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

Vibha Jain
Research Asociate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	9.3	11.1	11.2	10.1	11.9
Net revenues	43,181	50,602	52,854	49,255	59,131
Growth (%)	*11.96*	*17.19*	*4.45*	*-6.81*	*20.05*
Direct costs	24,077.5	30,921.7	30,625.3	27,469.1	32,879.6
SG&A	8,992	10,176	11,693	12,572	13,534
EBITDA	**10,112**	**9,505**	**10,536**	**9,214**	**12,717**
EBITDA margins (%)	*23.4*	*18.8*	*19.9*	*18.7*	*21.5*
- Depreciation	2,922	2,985	3,153	3,635	4,445
Other income	1,249	1,145	1,202	1,040	1,215
Interest expenses	592	509	714	1,025	990
PBT	7,847	7,156	7,872	5,593	8,497
Effective tax rate (%)	*29.18*	*29.30*	*23.64*	*25.00*	*25.00*
+ Associates / (Minorities)	-	-	-	-	-
Net income	5,557	5,059	6,011	4,195	6,372
Adjusted income	5,557	5,059	6,011	4,195	6,372
WANS	236	236	236	236	236
FDEPS (₹ / sh)	23.6	21.5	25.5	17.8	27.0
FDEPS growth (%)	*-13.55*	*-8.96*	*18.82*	*-30.21*	*51.91*

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	236	236	236	236	236
Net worth	40,422	44,601	49,186	52,909	58,811
Debt	11,132	16,187	30,241	35,241	28,241
Minority interest	-	-	-	-	-
DTL / (Assets)	7,597	8,704	9,172	9,172	9,172
Capital employed	**59,150**	**69,493**	**88,599**	**97,322**	**96,224**
Net tangible assets	50,088	50,664	57,316	84,885	82,940
Net intangible assets	518	549	567	567	567
Goodwill	-	-	-	-	-
CWIP (tang. &intang.)	1,749	8,526	18,404	1,000	500
Investments (strategic)	3,963	4,289	4,270	4,270	4,270
Investments (financial)	5	5	5	5	5
Current assets (ex cash)	13,387	4,698	18,994	17,408	20,898
Cash	1,194	928	914	793	976
Current liabilities	11,754	11,590	11,871	11,605	13,932
Working capital	1,633	4,532	7,123	5,803	6,966
Capital deployed	**59,150**	**69,493**	**88,599**	**97,322**	**96,224**
Contingent liabilities	10967	9876	-	-	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	7,847	7,156	7,872	5,593	8,497
+ Non-cash items	2,922	2,985	3,153	3,635	4,445
Oper. prof. before WC	10,769	10,141	11,025	9,228	12,942
- Incr. / (decr.) in WC	-1,615	2,899	2,591	-1,320	1,163
Others incl. taxes	1,997	1,846	1,025	1,298	2,024
Operating cash-flow	10,387	5,396	7,409	9,250	9,754
- Capex (tang. + intang.)	4,650	10,369	19,701	13,800	2,000
Free cash-flow	5,736	-4,973	-12,292	-4,550	7,754
Acquisitions					
- Div. (incl. buyback & taxes)	2,534	853	711	471	471
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,117	5,055	14,054	5,000	-7,000
- Fin investments	79	326	-19	-	-
- Misc. (CFI + CFF)	-6	-830	1,084	100	100
Net cash-flow	13	-267	-13	-121	183

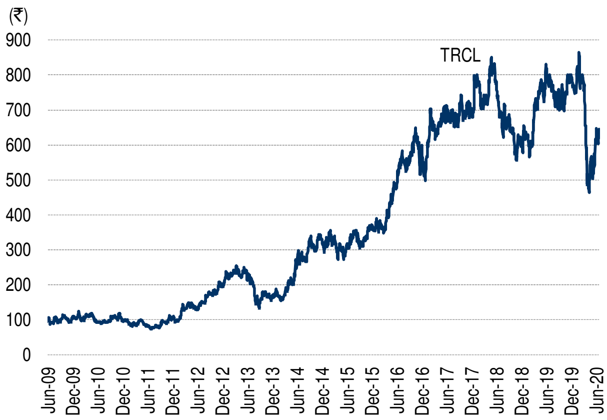
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	31.1	34.3	20.1	36.2	23.8
EV / EBITDA (x)	18.1	19.9	14.3	20.2	14.1
EV / Sales (x)	4.2	3.7	2.8	3.8	3.0
P/B (x)	4.3	3.9	2.5	2.9	2.6
RoE (%)	14.3	11.9	12.8	8.2	11.4
RoCE (%) - after tax	8.6	7.2	7.1	4.5	6.4
DPS (₹ / sh)	3.0	3.0	2.5	2.0	2.0
Dividend payout (%) - incl. DDT	45.6	16.9	11.8	11.2	7.4
Net debt / equity (x)	0.2	0.3	0.6	0.7	0.5
WC days	13.8	32.7	49.2	43.0	43.0
EV / ton ($)	143.9	148.6	104.7	117.5	113.0
NSR / ton (₹)	4,637	4,551	4,718	4,868	4,978
EBITDA / ton (₹)	1,086	855	940	911	1,071
Volumes (m tons)	9.31	11.12	11.20	10.12	11.88
CFO : PAT (%)	186.9	106.7	123.3	220.5	153.1

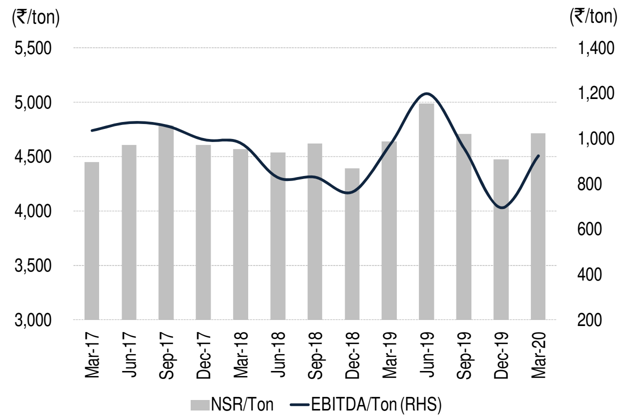
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



Source: Company

Result Highlights

Fig 7 – Quarterly performance

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	10,293	10,475	12,508	11,860	11,413	12,065	15,265	13,486	12,824	12,728	13,817	*-9.5*	*8.6*
EBITDA	2,568	2,264	2,682	2,164	2,049	2,101	3,192	3,240	2,609	1,977	2,711	*-15.1*	*37.1*
EBITDA margins (%)	*24.9*	*21.6*	*21.4*	*18.2*	*18.0*	*17.4*	*20.9*	*24.0*	*20.3*	*15.5*	*19.6*	*-129bps*	*409bps*
EBITDA per ton (₹)	1,057	996	980	828	830	765	970	1,199	958	695	924	*-4.7*	*33.0*
Interest	173	160	105	114	131	135	128	135	147	215	216	*68.4*	*0.5*
Depreciation	718	730	754	735	728	756	767	758	765	797	833	*8.6*	*4.5*
Other income	443	140	230	388	482	105	170	435	435	137	195	*15.2*	*42.9*
PBT	2,197	1,515	2,053	1,703	1,671	1,315	2,467	2,782	2,132	1,101	1,857	*-24.7*	*68.6*
Tax	512	286	967	453	527	304	813	862	450	153	396	*-51.3*	*158.0*
PAT	1,609	1,228	1,086	1,250	1,145	1,011	1,654	1,920	1,682	948	1,462	*-11.6*	*54.2*

Source: Anand Rathi Research

Fig 8 – Per-ton analysis

(₹ / ton)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Realisation	4,783	4,606	4,571	4,537	4,622	4,392	4,640	4,989	4,708	4,475	4,713	*1.6*	*5.3*
EBITDA	1,057	996	980	828	830	765	970	1,199	958	695	924	*-4.7*	*33.0*
Sales volumes (m tons)	2.15	2.27	2.74	2.61	2.47	2.75	3.29	2.70	2.72	2.84	2.93	*-10.9*	*3.1*
Costs													
Raw material	811	810	834	781	723	720	754	796	777	819	892	*18.3*	*9.0*
Power & Fuel	802	751	795	980	956	987	893	984	996	911	868	*-2.8*	*-4.8*
Freight	979	995	1,064	1,123	1,095	1,015	1,050	1,040	990	996	1,037	*-1.3*	*4.1*
Staff	369	334	270	314	340	296	250	327	362	339	288	*15.2*	*-15.0*
Other expenditure	701	647	617	601	651	600	624	696	668	700	790	*26.6*	*12.8*

Source: Anand Rathi Research

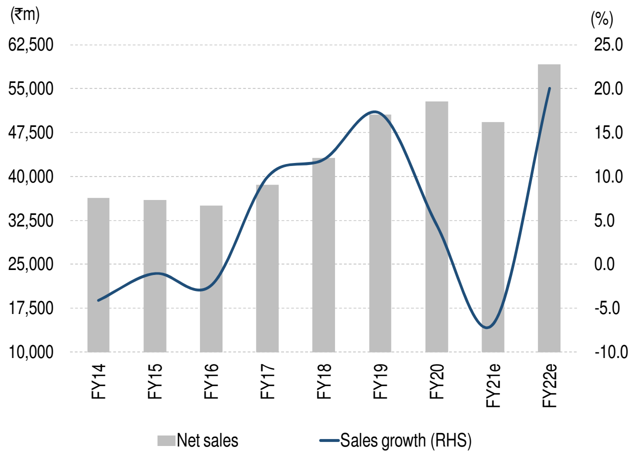
Other key highlights

Revenue growth

Impacted by the lockdown imposed in March, Ramco's Q4 sales volumes declined 11% y/y to 2.93m tons, resulting in overall revenue dipping 9% y/y to ₹13.8bn. However, realisations grew 1.6% y/y to ₹4,713/ton. In FY20, the wind-power division generated 226.8m units (242.6m units a year ago), and ₹580.7m in revenue.

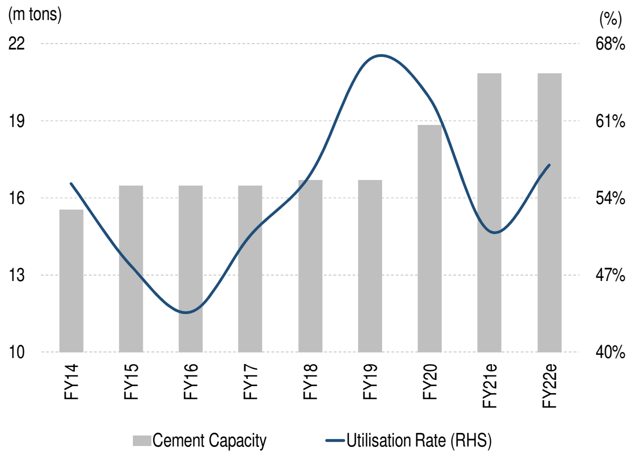
New urban construction is minimal; construction is primarily seen in rural areas. The company's projects and infrastructure divisions have huge challenges due to non-availability of workers, logistics constraints, uncertain imports and stress in the financial sector. The company expects demand for cement to return to normal, based on further relaxations announced by the Central and state governments in course of time. It expects to reach its earlier levels in the medium to long term when restrictions are lifted.

Fig 9 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 10 – Capacity and Utilisation



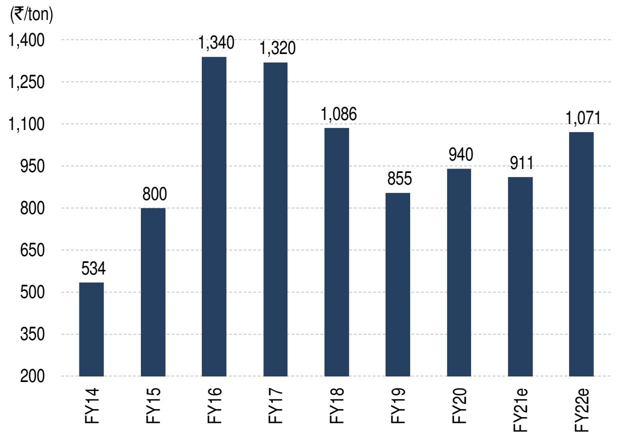
Source: Company, Anand Rathi Research

Operating performance

The company reported ₹2.7bn EBITDA (down 15% y/y). EBITDA/ton (blended) declined ~5% y/y to ₹924 (₹970 a year ago, ₹695 the quarter prior). This was mainly due to the restrained topline, a 13% y/y rise in other expenditure, and 3% in staff costs. Raw material cost per ton increased 18.3% y/y. However, some relief in costs was seen from lower pet-coke prices and savings in logistics, leading to per-ton power &fuel and freight costs declining 2.8% and 1.3% y/y respectively.

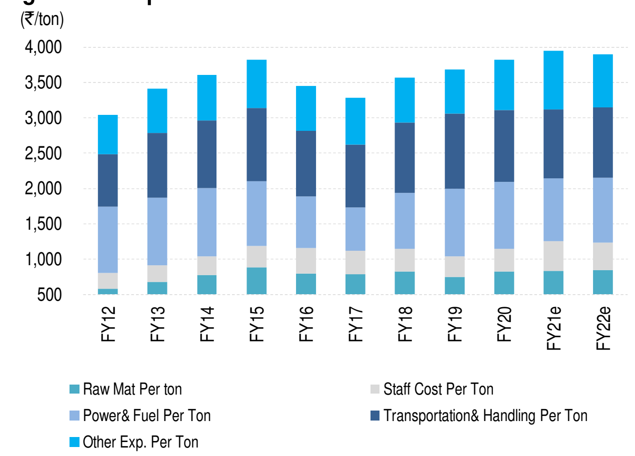
Adjusted PAT declined 12% y/y to ₹1,462m due to the subdued operational performance and higher interest expense (up 68% y/y) and depreciation expense (up 9% y/y), set off by other income increasing 15% y/y and by lower tax expense.

Fig 11 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 12 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Capex

Expansion of the 1m-ton grinding unit at Kolaghat (West Bengal) was completed on 26th Sep'19 and the 1.05m-ton grinding unit at Vishakhapatnam (AP) in Mar'20. The remaining on-going capacity-expansion is on schedule but for delays caused by the exit of labourers from project sites due to Covid-19. The company has so far incurred ₹19.2bn on capacity expansion. The balance capex to be incurred for ongoing capacity expansion would be ₹13.8bn. Further, due to the time over-run, the cost of the ongoing capacity expansion is expected to increase. Capacity details and budgeted capex are:

Fig 13 – Forthcoming plants

Plant	Capacity (m tpa)	Budgeted capex (₹ bn)	Expected commissioning
Kurnool, AP	2.25 (clinker) + 1 (cement) + 12.15MW WHRS + 18MW CPP + railway sliding	15	Mar"21
Jayanthipuram, AP	1.5 (clinker) + 27MW WHRS	7.4	Mar"21
Vishakhapatnam	1.05	2.5	Commissioned in Mar'20
Hardisarpur, Odisha	1	5.15	Aug'20
West Bengal	1.1	4.25	Commissioned in Sep'19

Source : Company

These expansions would be financed mostly through borrowings and internal accruals. This would lead to the company's business expanding in the coastal districts of AP, Odisha and West Bengal, and the north-eastern states.

Borrowings at 31st Mar'20 were ₹30.24bn (incl. current maturities of ₹3.92bn). Of this, ₹15.5bn are from banks; ₹3.95bn from debentures. Soft/interest-free loans of ₹2.78bn are long term. The average cost of interest on borrowing is 7.34%

Valuations

The Covid'19-compelled lockdown from Mar'20 hurt Ramco's Q4. Its revenue/EBITDA/PAT declined 9%/15%/12%. The Vishakhapatnam expansion was completed in Mar. Labour unavailability, however, delayed the remaining expansions by 3-5 months. With demand in the near term expected to be sluggish, we expect profitability to improve on steady pricing, lower fuel prices and new capacity commissioning.

We maintain our Buy rating, at a target price of ₹748, based on 16x FY22e EV/EBITDA.

Change in estimates

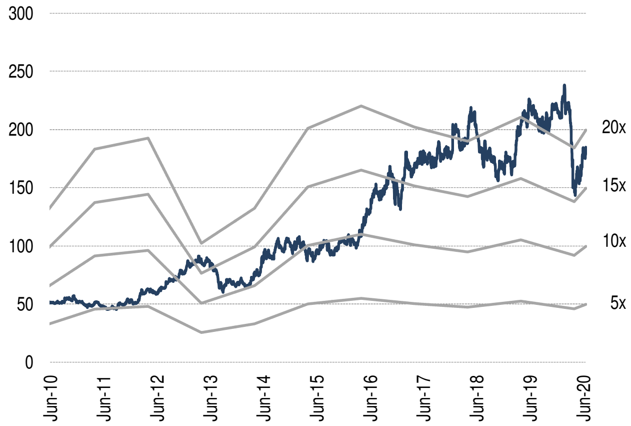
We have broadly maintained our FY21 estimates and increased FY22 EBITDA and PAT respectively 6.6% and 7.6% because of the improving operating efficiency and higher fixed-cost absorption on the new capacity commissioning.

Fig 14 – Change in estimates

	New		Old		Variance %	
(₹m)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Sales	49,255	59,131	50,672	58,872	*(2.8)*	*0.4*
EBITDA	9,214	12,717	9,179	11,929	*0.4*	*6.6*
PAT	4,195	6,372	4,087	5,923	*2.6*	*7.6*

Source: Anand Rathi Research

Fig 15 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 16 – EV/EBITDA: Standard deviation, one-year-forward

Source: Company, Anand Rathi Research

Fig 17 – Peer comparison-Valuations

	CMP	P/E		EV / EBITDA		EV / ton ($)	
	(₹)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Ramco Cement	645	36.2	23.8	20.2	14.1	117	113
Birla Corp.	575	18.1	13.0	8.0	6.6	59	49
Dalmia Bharat	598	NA	194.4	8.2	6.7	82	69
Deccan Cement	278	14.0	7.6	6.5	3.8	20	19
Heidelberg Cement	173	21.7	14.8	10.0	7.6	78	73
India Cement	130	NA	29.2	12.9	9.7	61	62
JK Cement	1,396	29.1	18.5	14.0	10.1	110	104
JK Lakshmi	255	43.0	12.7	9.9	5.6	46	39
Mangalam Cement	196	14.2	8.0	6.9	4.9	37	34
NCL Indus	75	11.2	5.9	5.2	3.6	26	23
Orient Cement	73	95.6	21.6	9.4	7.0	42	40
Prism Johnson	47	NA	28.3	10.8	7.8	51	48
Sanghi Industries	26	NA	16.0	13.3	8.5	38	39

Source: Anand Rathi Research

Risk

- Extension of the lockdown
- Profitability may be curbed by a rise in prices of pet-coke and diesel.

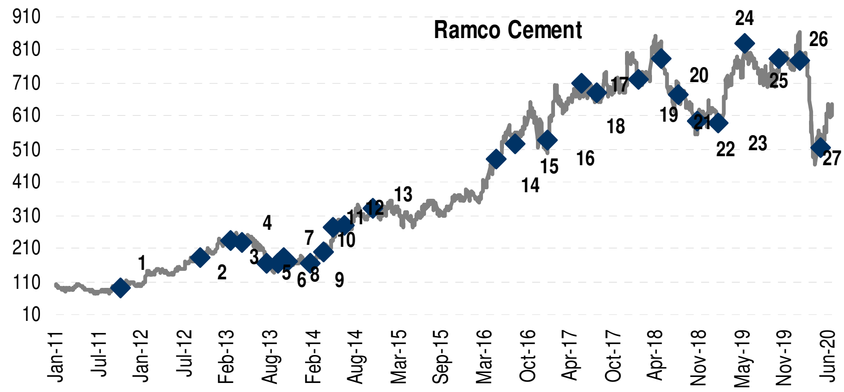
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 21 June 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Oct-11	Sell	107	99
2	03-Oct-12	Hold	205	192
3	14-Feb-13	Hold	255	242
4	09-Apr-13	Hold	260	253
5	30-Jul-13	Buy	215	170
6	18-Sep-13	Buy	225	164
7	09-Oct-13	Buy	235	185
8	24-Oct-13	Buy	222	172
9	14-Feb-14	Buy	212	163
10	04-Apr-14	Buy	219	245
11	23-May-14	Buy	320	272
12	09-Jul-14	Buy	385	301
13	07-Nov-14	Buy	456	349
14	16-May-16	Buy	562	480
15	04-Aug-16	Buy	615	536
16	31-Dec-16	Buy	718	526
17	01-Jun-17	Buy	823	721
18	04-Aug-17	Buy	817	690
19	07-Feb-18	Hold	783	732
20	24-May-18	Hold	832	789
21	03-Aug-18	Hold	807	700
22	31-Oct-18	Hold	700	599
23	30-Jan-19	Buy	711	565
24	27-May-19	Buy	921	797
25	31-Oct-19	Buy	976	782
26	31-Jan-20	Buy	1,004	790
27	04-May-20	Buy	683	566

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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