

Hit by lockdown; ease in costs help maintain profitability

CMP: Rs 720

Rating: HOLD

Target Price: Rs 762

Stock Info

BSE	500260
NSE	RAMCOCEM
Bloomberg	TRCL IN
Reuters	TRCE.BO
Sector	Cement
Face Value (Rs)	1
Equity Capital (Rs Cr)	23.6
Mkt Cap (Rs Cr)	17,032
52w H/L (Rs)	884 / 455
Avg. Yearly Vol (in 000')	613

Shareholding Pattern %

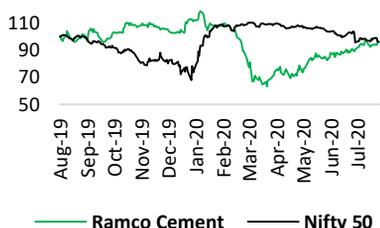
(As on June, 2020)

Promoters	42.6
FII	8.9
DII	24.4
Public & Others	24.1

Stock Performance (%)

	3m	6m	12m
Ramco	23.8	-12.2	-5.1
Nifty 50	25.0	-3.7	3.0

Ramco Cement Vs Nifty



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Ramco Cement reported 25%YOY drop in revenues to Rs 10,418 mn mainly led by drop in sales volumes by 28% YOY during the quarter as the company's operations were impacted from mid-March due to imposition of lockdown. On the other hand, realisations increased by 5% YoY. Costs per tonne increased mainly due to high RM cost and employee expenses on a per tonne basis due to lower sales volume absorption. On the other hand, power & fuel cost declined sharply due to fall in pet coke prices. With better realisations, EBITDA margins were at 25% for the quarter contracting by 101 bps YOY led by higher cost per tonne despite better prices. Net profit stood at Rs 1,096 mn, declined by 43% YOY, 23.9% QoQ for the quarter. We have a HOLD rating with revised TP of Rs 762 owing to strong historical performance, low cost producer and healthy balance sheet which are the key positives for the company.

Q1FY21 Operational Highlights

In Q1FY21, Ramco registered a volume de-growth of 28% YoY which led to drop in revenues by 25% YoY to Rs 10,418 mn. During the quarter, margin contracted by 101 bps YoY to 25%.The contraction was due to higher cost per tonne. Total cost per tonne increased mainly due to higher RM cost and employee cost. Net profit stood at Rs 1,092 mn down by 43% YOY and 25% QoQ basis.

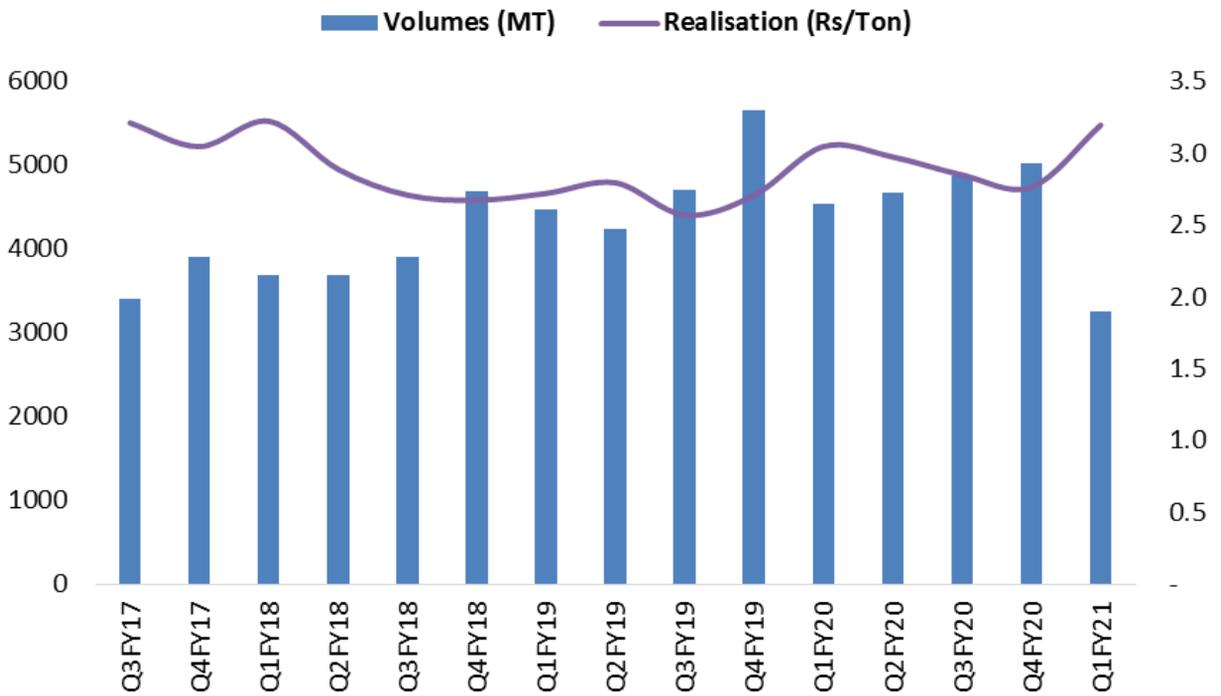
Absolute Debt level to rise but no Balance Sheet Concerns: Company spent Rs 19,200 mn on capex in FY20. The management plans to spend around Rs 14,000 mn in FY21 to fund ongoing capex (Odisha GU, Jayanthipuram clinker unit, WHRS, Kurnool expansion), funded by debt and internal accruals. Debt/EBITDA improved from 0.57x by March 2020 to 0.51x in June 2020 with borrowings reduced by Rs 1,800 mn. Average cost of interest on debt for Ramco is 7.3%, much lower than RoCE. The gross debt stood at Rs 28,440 mn.

Capacity Expansion to spur growth in FY22E: The management attributed the pandemic for slowing down its capex plans. It has spent Rs 2,570 mn of capex in the Q1FY21 and expects to spend the balance Rs 11,800 mn during the rest of the year. Among its various capex plans, the ones to be commissioned within FY21 are: Railway siding in Kolaghat and grinding plant in Orissa (Sept 20'), 27 MW Wind generation capacity in Jayanthipuram, clinkering unit of 1.5 MTPA along with 9 MW plant at Jayanthipuram and 2.25 MT clinkering unit in Kurnool (before March 2021).

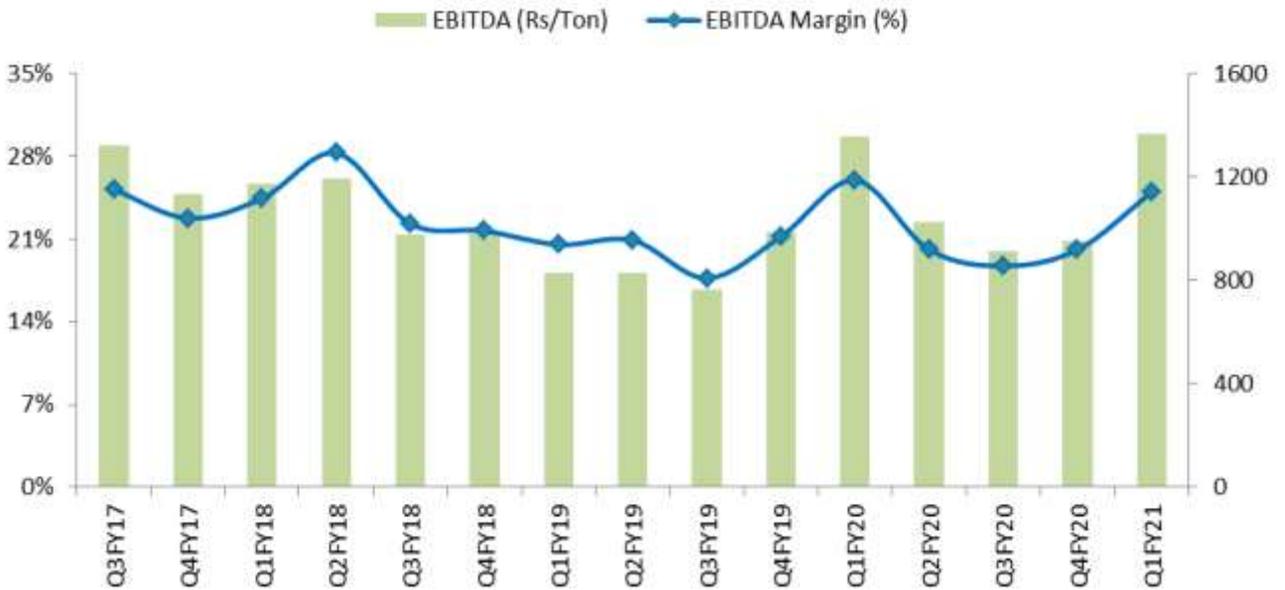
Outlook and Valuations

With the pick up in construction activity post easing of lockdown, cement demand has also picked up gradually, albeit the regional lockdowns in some states. At CMP of Rs 720, Ramco is trading at an EV/EBITDA of 17.4x and 15.3x its FY21E/22E estimates respectively. We assign exit EV/EBITDA multiple at 17.0x, factoring in revival in demand in near term as well as weak raw materials and other costs for the company. With the planned capex to be commissioned in the next couple of years, it will be able to increase its market share as well. Accordingly, we increase our target price to **Rs 762** (Rs 660 earlier) and assign **HOLD** rating with improving economic conditions and a strong balance sheet of the company.

Volume (MT) & Realization (Rs/ton)



EBITDA Margin and EBITDA/Ton



Q1 FY21 - Quarterly Performance (Standalone)

(in Rs Mn)

Particulars (Rs Mn)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	10,418	13,899	15,324	-25%	-24.7%
Material Cost	5,414	7,945	7,480	-31.8%	-27.6%
Employee Cost	975	846	884	15.2%	10.3%
Other Expenses	1,430	2,317	1,882	-38.3%	-24.0%
EBITDA	2,600	2,792	3,593	-6.9%	-27.6%
<i>EBITDA Margin %</i>	<i>25.0%</i>	<i>20.1%</i>	<i>26.0%</i>	<i>487bps</i>	<i>-101bps</i>
Other Income	101	114	82	-11.3%	23.7%
Depreciation	844	833	758	1.4%	11.4%
EBIT	1856	2073	2,917	-10.5%	-36.4%
Finance Cost	299	216	135	38.6%	121.4%
Exceptional Item	-	-	-	-	-
PBT	1,557	1,857	2,782	-16.2%	-44.0%
Tax Expense	461	396	862	16.5%	-46.5%
<i>Effective Tax Rate %</i>	<i>29.6%</i>	<i>21.3%</i>	<i>31.0%</i>	<i>831bps</i>	<i>-138bps</i>
PAT	1,096	1462	1,920	-25.0%	-42.9%
<i>PAT Margin %</i>	<i>10.5%</i>	<i>10.5%</i>	<i>13.9%</i>	<i>0bps</i>	<i>-335bps</i>
EPS (Rs)	4.6	6.2	8.1	-25.9%	-43.5%

Source: Company Filings, Arianth Research

Valuations

Rs Mn	FY22E
EV/EBITDA (x)	17.0
EBITDA	12091
EV	205555
Debt	27824
Cash	2498
Market Cap	180229
No shares	237
CMP (Rs)	720
Target (Rs)	762
Upside (%)	5.8%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials (consolidated)

Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
Revenues	51,623	53,893	48,504	55,779
<i>Change (%)</i>	16.7%	4.4%	-10.0%	15.0%
Total Expenses	41,179	42,419	37,989	43,688
EBITDA	10,445	11,474	10,514	12,091
Other Income	250	335	243	279
Depreciation	3,000	3,165	3,652	4,162
Interest	514	721	948	1,002
PBT	7,181	7,922	6,157	7,206
Extra-ordinary	0	0	0	0
PBT after ext-ord.	7,181	7,922	6,157	7,206
Tax	2,106	1,879	1,847	2,162
<i>Rate (%)</i>	29.3%	23.7%	30.0%	30.0%
PAT	5,075	6,044	4,310	5,045
MI & Associates	33	-3	0	0
Consolidated PAT	5,107	6,041	4,310	5,045
<i>Change (%)</i>	-9.4%	18.3%	-28.7%	17.0%

Source: Company, Arianth Research

Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
PBT	7,181	7,922	6,157	7,206
Depreciation	3,000	3,165	3,652	4,162
Interest & others	232	389	705	723
Cash flow before WC changes	10,412	11,477	10,514	12,091
(Inc)/dec in working capital	741	447	803	428
Operating CF after WC changes	11,153	11,924	11,317	12,519
Less: Taxes	(2,106)	(1,879)	(1,847)	(2,162)
Operating Cash Flow	9,047	10,045	9,470	10,357
(Inc)/dec in F.A + CWIP	(9,310)	(17,038)	(9,500)	(15,000)
(Pur)/sale of investment	(307)	(168)	0	0
Cash Flow from Investing	(9,616)	(17,206)	(9,500)	(15,000)
Free Cash Flow (FCF)	1,495	(6,327)	(30)	(4,643)
Loan raised/(repaid)	4,291	12,019	0	1,500
Equity raised	0	0	0	0
Interest & others	(3,266)	(567)	2,695	3,333
Dividend	(707)	(589)	(589)	(710)
Cash Flow from Financing Activities	318	10,862	2,106	4,123
Net inc/(dec) in cash	(251)	(7)	2,076	(519)
Opening balance of cash	1,199	948	942	3,017
Closing balance of cash	948	942	3,017	2,498

Source: Company, Arianth Research

Balance Sheet

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	236	236	236	236
Reserves & Surplus	45,134	49,778	53,499	57,833
Net Worth	45,370	50,014	53,734	58,069
Loan Funds	14,305	26,324	26,324	27,824
MI, Deferred Tax & other Liabilities	8,824	9,307	9,307	9,307
Capital Employed	68,499	85,725	82,846	88,736
Application of Funds				
Net Block	54,000	60,494	66,342	73,179
CWIP	8,526	18,404	8,404	8,404
Other Non-current Assets	2,779	3,445	3,445	3,445
Deferred Tax Assets	4	4	4	4
Net Fixed Assets	65,308	82,346	78,194	85,032
Investments	2,587	2,755	2,755	2,755
Debtors	4,901	5,276	4,651	5,349
Inventories	5,611	6,469	5,822	6,695
Cash & Bank Balance	948	942	3,017	2,498
Loans & Advances & other CA	2,683	3,540	4,917	5,395
Total Current Assets	14,143	16,226	18,407	19,937
Current Liabilities	13,128	15,070	15,946	18,338
Provisions	412	533	0	0
Net Current Assets	604	624	1,897	950
Total Assets	68,499	85,725	82,846	88,736

Key Ratios

Y/E March	FY19	FY20	FY21E	FY22E
Per share (Rs)				
EPS	21.7	25.6	18.3	21.3
CEPS	34.4	39.1	33.8	38.9
BVPS	192.6	212.3	228.1	245.4
DPS	3.0	2.5	2.5	3.0
Div. Payout (%)	13.8%	9.7%	13.7%	14.1%
Valuation (x)				
P/E	33.2	28.1	39.4	33.8
P/CEPS	20.9	18.4	21.3	18.5
P/BV	3.7	3.4	3.2	2.9
EV/EBITDA	16.6	16.1	17.4	15.3
Dividend Yield (%)	0.4%	0.3%	0.3%	0.4%
Return Ratio (%)				
EBITDA Margin	20.2%	21.3%	21.7%	21.7%
PAT Margin	9.9%	11.2%	8.9%	9.0%
ROE	11.3%	12.1%	8.0%	8.7%
ROCE	10.9%	9.7%	8.3%	8.9%
Leverage Ratio (x)				
Total D/E	0.3	0.5	0.5	0.5
Net D/E	0.3	0.5	0.4	0.4
Turnover Ratios				
Asset Turnover (x)	0.8	0.6	0.6	0.6
Receivable Days	35	36	35	35
Payable days	96	102	120	120

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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