

Sector: Cement

Result Update

	Change
Reco: Buy	↔
CMP: Rs. 678	
Price Target: Rs. 803	↑
↑ Upgrade ↔ No change ↓ Downgrade	

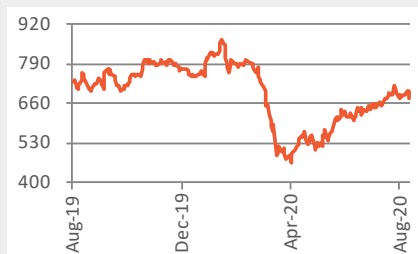
Company details

Market cap:	Rs. 15,983 cr
52-week high/low:	Rs. 883/456
NSE volume: (No of shares)	3.9 lakh
BSE code:	500260
NSE code:	RAMCOCEM
Sharekhan code:	RAMCOCEM
Free float: (No of shares)	13.5 cr

Shareholding (%)

Promoters	42.7
FII	8.9
DII	27.9
Others	20.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	17.9	-13.9	-7.1
Relative to Sensex	-1.8	-3.9	-6.2	-8.5

Sharekhan Research, Bloomberg

For Q1FY2021, The Ramco Cements (Ramco) reported better-than-expected performance on all fronts. The company's standalone revenue stood at Rs. 1,042 crore, down 24.7% y-o-y, which was led by a decline of 28.3% y-o-y in cement volume affected by COVID-19 led nationwide lock down in April 2020. The blended realization was up 5.8% y-o-y (up 10.6% q-o-q) led by a steep increase in cement prices in the southern region. The company also performed better on operational front with EBITDA/tonne at Rs. 1161 (up 3.7% y-o-y) which was aided by higher realization along with lower power & fuel costs (down 20.8% y-o-y on per tone basis). However, adjusting for the ESOPs related expense and contribution to relief schemes, CSR expenditure and political donations, the like-to-like growth in EBITDA/tonne was 6% y-o-y to Rs. 1272. Dip in revenues along with higher interest expense (up 2.2x y-o-y) led to 42.9% y-o-y decline in standalone net profit to Rs. 109.6 crore which was higher than our estimate. The company is undertaking capacity expansion plan of Rs. 3,500 crore (Rs. 1180 crore remaining to be incurred), of which there has been a delay in few projects on account of COVID. On completion of the expansion, its cement capacity is expected to increase to 20.79MTPA from 18.79MTPA. Ramco also reduced its borrowings by Rs. 180 crore during Q1FY2021 post incurring capex of Rs. 257 crore. We have increased our earnings estimates for FY2021-FY2022 factoring in higher cement realizations leading to an upward revision in operating margins while we have also introduced FY2023E earnings in this note. We expect cement demand to improve from Q3FY2021 onwards with a healthy bounceback in FY2022. Further, Ramco's balance sheet is expected to remain strong with the D/E ratio expected to reduce from 0.6x in FY2020 to 0.4x in FY2022E despite its aggressive expansion plan. Although the stock is trading near historical average valuation at an EV/EBITDA of 12.5x/10.9x its FY2022E/FY2023E earnings, we believe there is further room for an upside. Hence, we maintain our Buy rating with a revised price target (PT) of Rs. 803 (led by upward revision in estimates).

Key positives

- Volume and operational profitability came in better than expectation.
- Borrowing further reduced by Rs. 180 crores post incurring capex of Rs. 257 crores.

Key negatives

- Higher employee and other expense led by ESOP charge and contribution to relief schemes.
- capacity expansion plans gets delayed a bit due to COVID.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 803: We expect Ramco to benefit from the improving demand in cement from Q3FY2021 onwards along with a healthy demand environment in FY2022. The ongoing capacity expansion plan would provide it the next leg of growth from FY2022 onwards. The cement prices in Southern region had witnessed a steep increase and is broadly expected to remain at elevated levels aiding the company's profitability. Further, Ramco's balance sheet is expected to remain strong with D/E expected to reduce from 0.6x in FY2020 to 0.4x in FY2022E despite its aggressive expansion plan. We have increased our earnings estimates for FY2021-FY2022 factoring higher cement realizations leading upward revision in operating margins while we have also introduced FY2023E earnings in this note. Although the stock is trading near historical average valuation at an EV/EBITDA of 12.5x/10.9x its FY2022E/FY2023E earnings, we believe there is further room for an upside. Hence, we maintain our Buy rating with a revised price target (PT) of Rs. 803 (led by upward revision in estimates).

Key Risks

Weak demand and pricing environment in south India to affect profitability.

Valuation (Standalone)

	Rs cr			
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	5,368	5,394	6,327	7,007
OPM (%)	21.2	22.9	23.3	22.7
Adjusted PAT	601	608	778	863
% YoY growth	18.8	1.1	28.0	10.8
Adjusted EPS (Rs.)	25.5	25.8	33.0	36.6
P/E (x)	26.6	26.3	20.5	18.5
P/B (x)	3.2	2.9	2.6	2.3
EV/EBITDA (x)	16.5	15.6	12.5	10.9
RoNW (%)	12.8%	11.7%	13.4%	13.2%
RoCE (%)	8.3%	7.4%	8.6%	9.2%

Source: Company; Sharekhan estimates

Results beat estimates on all fronts: Ramco reported a higher-than-expected standalone net revenue of Rs. 1,042 crore, down 24.7% y-o-y, which was affected by an 28.3% y-o-y decline in cement volume led by COVID-19 led nationwide lock down during April 2020. The blended realization was up 5.8% y-o-y (up 10.6% q-o-q) led by a steep increase in cement prices in the southern region. The company also performed better on operational front with EBITDA/tonne at Rs. 1161 (up 3.7% y-o-y) which was aided by higher realization along with lower power & fuel costs (down 20.8% y-o-y on a per tone basis). The employee costs rose 10% y-o-y on account of Rs. 8.74 crore (nil during Q1FY2020) recognized towards fair value of ESOPs granted to employees. Other expenses included Rs. 12.6 crore (Rs. 21 crore in Q1FY2020) contribution to relief schemes, CSR expenditure and political parties contribution. Adjusting for ESOPs and higher other expenditure, EBITDA/tonne would have been Rs. 1272 (up 6% y-o-y). Dip in revenues along with higher interest expense (up 2.2x y-o-y) led to 42.9% y-o-y decline in standalone net profit to Rs. 109.6 crore which was higher than our estimate.

Capex expenditure may get a bit delayed due to COVID-19: The company's ongoing capex program has been delayed due to COVID-19. The company has undertaken a capex plan of Rs. 3500 crore to create new grinding and clinkerisation capacities to tap the growth potential in the eastern region and establish itself as a major player. On completion of all the projects, the aggregate capacity at the satellite grinding units will increase to 7.3MTPA (from 6.3MTPA) and aggregate cement manufacturing capacity at the integrated cement plants will increase to 13.49MTPA (from 12.49MTPA) taking its total cement capacity to 20.79MTPA (from 18.79MTPA) currently. The balance capex to be incurred as on June 30, 2020 is Rs. 1180 crores for its ongoing capacity expansion. The Railway siding in Kolaghat is expected to be operational in Sep-20. The grinding plant of 1 MTPA along with railway siding in Odisha is expected to be commissioned before Sep-20. In Jayanthipuram, out of 27 MW of proposed WHRS, units of 9 MW each are expected to be commissioned on or before Sep-20 and Dec-20 respectively. The company endeavours to complete the clinkering unit of 1.5 MTPA along with 9 MW WHRS in Jayanthipuram and 2.25 MTPA clinkering unit in Kurnool before Mar-21 albeit difficulties experienced during this pandemic time. The 1 MTPA cement grinding facility with 18 MW of TPP, 12 MW of WHRS and railway siding in Kurnool are expected to be commissioned in FY 2021-22.

Financials (Standalone)

Particulars	Q1FY2020		YoY %	Q4FY2020	
	Q1FY2020	Q1FY2020		Q4FY2020	QoQ %
Net Sales	1041.8	1383.9	-24.7	1389.9	-25.0
Total Expenditure	781.8	1024.6	-23.7	1110.7	-29.6
Operating profits	260.0	359.3	-27.6	279.2	-6.9
Other Income	10.1	8.2	23.7	11.4	-11.3
EBIDTA	270.1	367.5	-26.5	290.6	-7.1
Interest	29.9	13.5	121.4	21.6	38.6
PBDT	240.1	354.0	-32.2	269.0	-10.7
Depreciation	84.4	75.8	11.4	83.3	1.4
PBT	155.7	278.2	-44.0	185.7	-16.2
Tax	46.1	86.2	-46.5	39.6	16.5
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	109.6	192.0	-42.9	146.2	-25.0
Adjusted PAT	109.6	192.0	-42.9	146.2	-25.0
EPS	4.6	8.1	-42.9	6.1	-25.0
			bps		bps
OPMs (%)	25.0	26.0	-101	20.1	487
PAT (%)	10.5	13.9	-335	10.5	0
Tax rate (%)	29.6	31.0	-138	21.3	831

Source: Company; Sharekhan Research

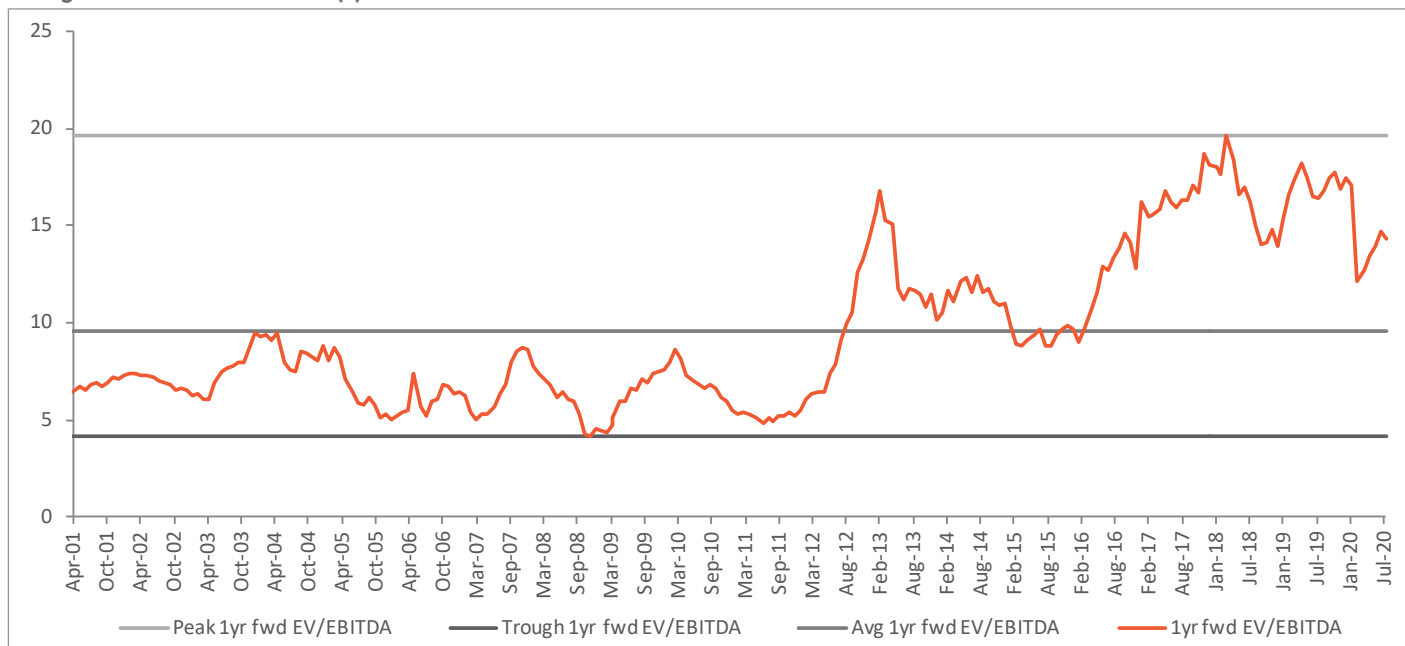
Outlook

Expect demand improvement from Q3FY2021 along with favourable regional pricing environment: COVID-19 led disruption led to lower capacity utilisation during Q1FY2021 for Ramco in line with the industry. However, we expect cement demand to improve from Q3FY2021 onwards with healthy bounce back in FY2022. Further, cement prices rose steeply in the key southern regions during Q1FY2021 which should help limit the impact of lower capacity utilisation in the near term. Hence, overall we believe the improvement in demand environment along with healthy pricing discipline in southern region to benefit Ramco Cements from Q3FY2021 onwards.

Valuation

Retain Buy with a revised PT of Rs. 803: We expect Ramco to benefit from cement demand improving from Q3FY2021 onwards along with a healthy demand environment in FY2022. The ongoing capacity expansion plan would provide it the next leg of growth from FY2022 onwards. The cement prices in Southern region had witnessed a steep increase and is broadly expected to remain at elevated levels aiding the company's profitability. Further, Ramco's balance sheet is expected to remain strong with D/E expected to reduce from 0.6x in FY2020 to 0.4x in FY2022E despite its aggressive expansion plan. We have increased our earnings estimates for FY2021-FY2022 factoring higher cement realizations leading upward revision in operating margins while we have also introduced FY2023E earnings in this note. Although the stock is trading near historical average valuation at an EV/EBITDA of 12.5x/10.9x its FY2022E/FY2023E earnings, we believe there is further room for an upside. Hence, we maintain our Buy rating with a revised price target (PT) of Rs. 803 (led by upward revision in estimates).

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
UltraTech	34.7	26.7	14.6	12.2	2.8	2.6	8.4	10.0
Shree Cement	66.7	47.3	22.5	18.0	5.6	5.1	8.7	11.3
The Ramco Cement	26.3	20.5	15.6	12.5	2.9	2.6	11.7	13.4
JK Lakshmi Cement	17.2	14.1	6.0	5.3	1.7	1.5	10.3	11.4

Source: Sharekhan Research

About company

Ramco is fifth largest cement producer in the country operating in southern India with an installed capacity of 16.45MTPA. The company also produces ready mix concrete, dry mortar products and operates one of the largest wind farms in the country.

Investment theme

Southern India has started showing signs of cement price improvement along with rising capacity utilisation over the trailing five quarters. Ramco, being one of the most efficient cement players, is expected to reap benefits from healthy demand, better pricing and a benign opex environment. Ramco has embarked on a capex plan to reach 19.6MT by FY2020, largely to be funded by internal accruals. This along with improving cement prices is expected to lead to healthy growth in net earnings during FY2019-FY2022.

Key Risks

- ♦ Correction in cement prices in south and/or sharp upward movement in power and fuel and freight costs to negatively affect profitability.
- ♦ Deterioration in cement demand in south leading to lower utilisation to negatively affect net earnings.

Additional Data

Key management personnel

Mr. P R Venketrama Raja	Executive Director-Chairperson
A V Dharmakrishna	Chief Executive Officer
S Vaitthyanathan	Chief Financial Officer
K Selvanayagam	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ramco Industries Ltd	21
2	Rajapalayam Mills Ltd	14.04
3	Kotak Mahindra Asset Management Co	5.2
4	L&T Mutual Fund Trustee Ltd/India	4.35
5	KOTAK EQUITY HYBRID	4.29
6	GOVT TAMIL NADU	3.4
7	Republic of India	3.4
8	NA	2.64
9	Sundaram Asset Management Co Ltd	2.49
10	HDFC LIFE INSURA	2.13

Source: Bloomberg

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