

Higher realisations ease strain on earnings...

Ramco Cements' Q1FY21 numbers broadly remained above our estimates with better net profitability. The company reported a 24.6% YoY drop in revenues to ₹ 1,048 crore (vs. I-direct estimate of ₹ 934 crore). This was mainly led by 28.3% fall in sales volume during the quarter to 1.94 MT (vs. I-direct estimate: 1.8 MT) as the company's operation were impacted from mid-March due to imposition of lockdown. On the other hand, realisations remained better, increasing 5% YoY to ₹ 5,408/tonne (vs. I-direct estimate: 5043/t). Total costs per tonne increased 6.6% YoY to ₹ 4051/t. This was led by higher RM cost and employee expenses that were up 45%, 54.5%, YoY, respectively, on a per tonne basis due to lower sales volume absorption. On the other hand, power & fuel cost declined sharply by 20.8% YoY due to fall in pet coke prices. With better realisations, EBITDA margins were at 25.1% vs our estimated EBITDA margin of 18.5% for the quarter. EBITDA/tonne came in at ₹ 1357/tonne (up 1.3% YoY, 41.9% QoQ) vs. our estimated EBITDA/tonne of ₹ 957/tonne. Net profit was at ₹ 110.9 crore (down 42.6% YoY, 23.9% QoQ) vs. our estimated net profit of ₹ 59.1 crore for the quarter.

New capacity to cushion fall in FY21, spur growth in FY22

Amid the ongoing pandemic situation, we expect demand to broadly remain weak in H1, with a gradual recovery expected from Q3 onwards. FY21 would be a weak year for cement companies in terms of volumes due to a washout Q1 (main construction period). FY22E should see strong growth, led by demand recovery and a weak base. In Ramco Cement's case, while it would also see lower volumes in FY21, incremental volumes coming up from additional capacities (2 MT already commissioned, 1 MT Odisha GU expected in September 2020 and 1 MT GU Kurnool in March 2021E) would help contain the volume decline. We model 12.8% decline and 23% growth in volumes in FY21E, FY22E, respectively. Hence, revenues are expected at ₹ 4,862 crore, ₹ 6,038 crore in FY21E, FY22E, respectively.

Absolute debt levels to rise but no B/S concerns

Ramco spent ₹ 1,920 crore on capex in FY20. The management plans to spend ~₹ 1,400 crore in FY21E to fund ongoing capex (Odisha GU, Jayanthipuram clinker unit, WHRS, Kurnool expansion), funded by debt, internal accruals. While debt would rise, debt/EBITDA would improve from 2.8x in FY20 to 2.2x by FY22E. Average cost of interest on debt for Ramco is 7.3%, much lower than RoCE. So once capex is complete, it would help improve RoE in double digits. D/E would also stay well below 1x.

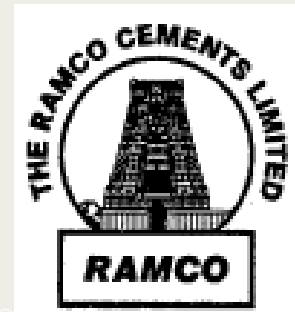
Valuation & Outlook

Long history of operations, brand equity, low cost producer and a healthy B/S are key positives for the company. Due to this, the company is able to raise debt at competitive rates. We expect these factors to drive robust performance in the future as well. We maintain our **BUY** rating, valuing the stock at 14x FY22E EV/EBITDA. We arrive at TP of ₹ 780 (i.e. EV/t of \$155).

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4406	5146	5389	4862	6038	5.8%
EBITDA	1099	1055	1147	1197	1537	15.7%
EBITDA (%)	25.0	20.5	21.3	24.6	25.5	
PAT	556	523	604	467	648	3.5%
EPS (₹)	23	22	26	20	28	
EV/EBITDA	15.6	16.7	16.7	16.6	12.3	
EV/Tonne (\$)	158	163	147	145	138	
RoNW	13.7	11.7	12.3	8.8	10.9	
RoCE	10.3	8.2	7.5	6.4	8.4	

Source: Company, ICICI Direct Research



Stock Data

Particulars	Amount (₹ crore)
Market Capitalisation	16141.6
Total Debt (FY20)	3163.0
Cash (FY20)	118.0
EV	19186.6
52 week H/L (₹)	884/456
Equity Capital	23.6
Face Value (₹)	1.0

Key Highlights

- Grinding capacity to reach 20MT in 2021.
- Spent ₹ 257 crore till date, to incur further capex of ₹1,180 crore during FY21-22
- Volume growth to resume in FY22
- Debt/EBITDA coverage to improve from 2.8x in FY20 to 2.0x by FY22E
- Maintain BUY with target price of ₹ 780 (earlier ₹ 730)

Research Analyst

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	1,048	934	1,389	-24.6	1,394	-24.9	Sales volume fell by 28.3% YoY while realisations increased by 5.2%
Other income	9.3	10.0	7.7	21.2	9.9	-6.4	
Raw Material Expenses	160.0	108.5	154.0	3.9	164.4	-2.6	
Employee Expenses	100.8	87.0	91.0	10.7	87.6	15.1	Includes ₹ 8.7 crore worth of ESOPs granted during PY accounted on pro-rata basis during the quarter
Power and fuel	151.1	168.2	266.1	-43.2	254.4	-40.6	
Freight	230.3	244.1	327.9	-29.8	375.7	-38.7	
Others	142.5	153.7	188.0	-24.2	231.6	-38.5	Includes expenses of ₹12.6 crore incurred towards CSR expenditure during the quarter
EBITDA	262.9	173.0	362.3	-27.4	280.4	-6.2	
EBITDA Margin (%)	25.1	18.5	26.1	-98 bps	20.1	498 bps	Higher costs per tonne YoY lead to margin contraction despite better pricing
Interest	29.9	21.5	13.9	115.9	21.6	38.5	
Depreciation	84.8	82.2	76.1	11.3	83.5	1.5	
PBT	157.5	79.3	279.9	-43.7	185.2	-15.0	
Total Tax	46.6	20.2	86.7	-46.3	39.5	17.8	
Reported PAT	110.9	59.1	193.2	-42.6	145.7	-23.9	
Adjusted PAT	110.9	59.1	193.2	-42.6	145.7	-23.9	

Key Metrics

Volume (MT)	1.94	1.80	2.70	-28.3	2.93	-33.9
Realisation (₹)	5,408	5,043	5,139	5.2	4,754	13.7
EBITDA per Tonne (₹)	1,357	957	1,340	1.3	956	41.9

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,838.0	4,862.1	0.5	6,056.0	6,037.6	-0.3	
EBITDA	953.4	1,196.7	25.5	1,356.4	1,537.0	13.3	Factoring the better than expected realisations for Q1FY21, we revise margins upwards
EBITDA Margin (%)	19.7	24.6	491 bps	22.4	25.5	306 bps	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Volume (MT)	9.31	11.12	11.2	9.8	12.0	10.9	13.1	
Blended Realisation (₹)	4,732	4,628	4,811	4,979	5,026	4,592	4,750	
EBITDA per Tonne (₹)	1,181	949	1,024	1,225	1,280	877	1,032	

Source: Company, ICICI Direct Research

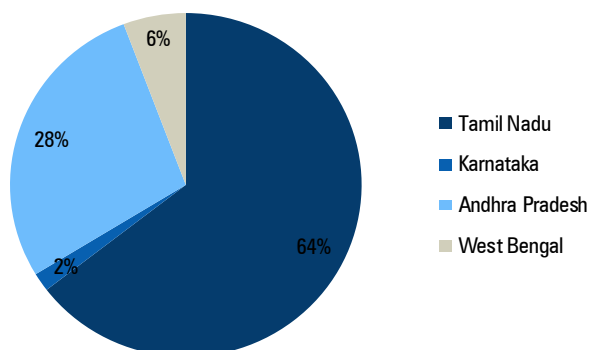
Financial story in charts

Exhibit 4: Capacity addition timeline

Integrated unit	FY18	FY19	FY20	FY21E	FY22E
RR Nagar, Tamil Nadu	2.0	2.0	2.0	2.0	2.0
Alathiyur, Tamil Nadu	3.1	3.1	3.1	3.1	3.1
Ariyalur, Tamil Nadu	3.5	3.5	3.5	3.5	3.5
Chitradurga, Karnataka	0.3	0.3	0.3	0.3	0.3
Jayanthipuram, Andhra Pradesh	3.7	3.7	3.7	3.7	3.7
Total [A]	12.5	12.5	12.5	12.5	12.5
Grinding Unit					
Uthiramerur, Tamil Nadu	0.5	0.5	0.5	0.5	0.5
Salem, Tamil Nadu	1.6	1.6	1.6	1.6	1.6
Kolaghat, West Bengal	1.0	1.0	2.0	2.0	2.0
Vizag, Andhra Pradesh	1.0	1.0	2.0	2.0	2.0
Odisha Grinding Unit			0.0	1.0	1.0
Kumool, Andhra Pradesh (2.25 MT Clinker)					1.0
Total [B]	4.1	4.1	6.1	7.1	8.1
Total Capacity [A+B]	16.5	16.5	18.6	19.6	20.6

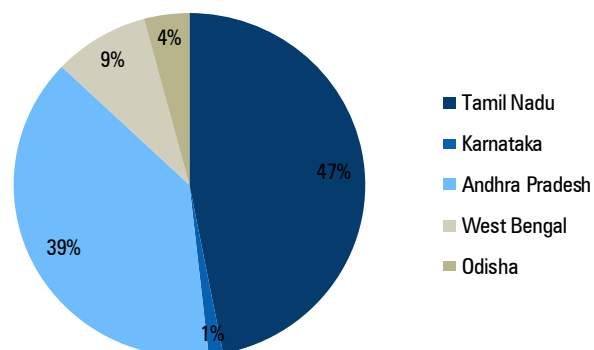
Source: Company, ICICI Direct Research

Exhibit 5: Regional capacity mix (pre-expansion)



Source: Company, ICICI Direct Research

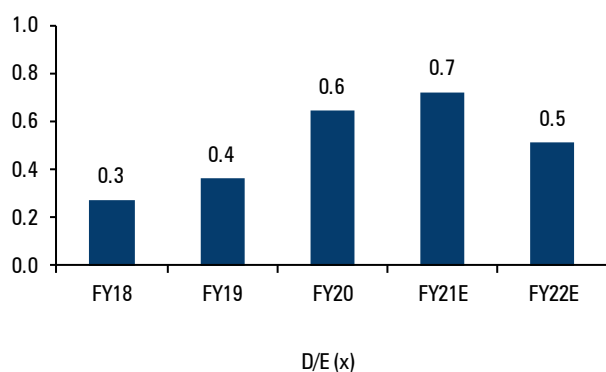
Exhibit 6: Regional capacity mix (post-expansion)



Source: Company, ICICI Direct Research

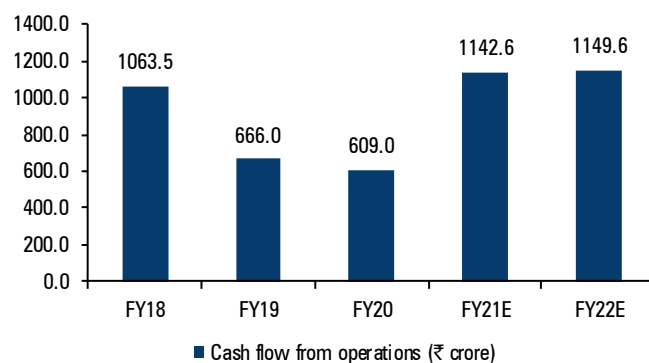
Expansion not expected to exert pressure on balance sheet

Exhibit 7: Debt to equity ratio to stay at comfortable levels



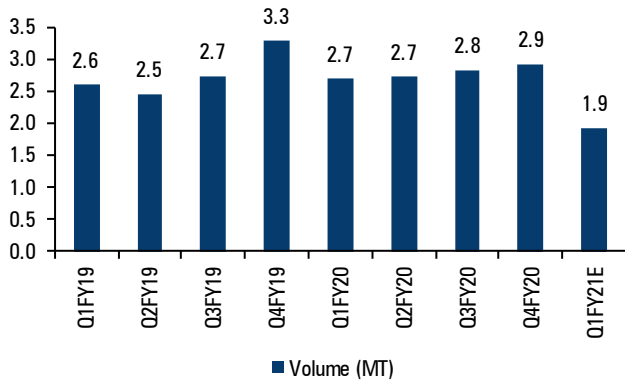
Source: Company, ICICI Direct Research

Exhibit 8: Expected to generate strong operational cash flows



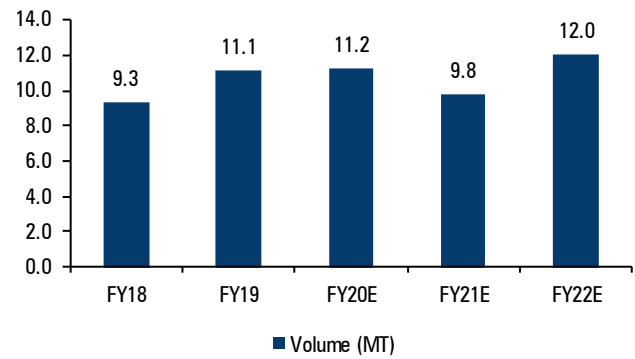
Source: Company, ICICI Direct Research

Exhibit 9: Volumes down 28% YoY in Q1FY21



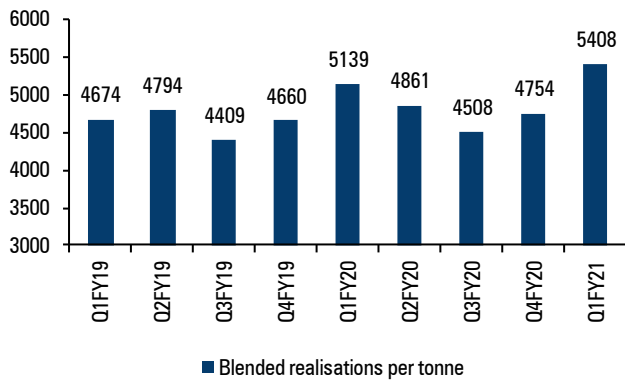
Source: Company, ICICI Direct Research

Exhibit 10: Volumes to see sharp growth in FY22E led by new capacity



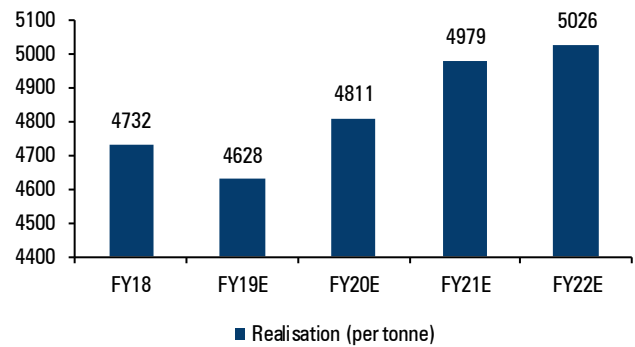
Source: Company, ICICI Direct Research

Exhibit 11: Realisations improve 5.2% YoY in Q1FY21



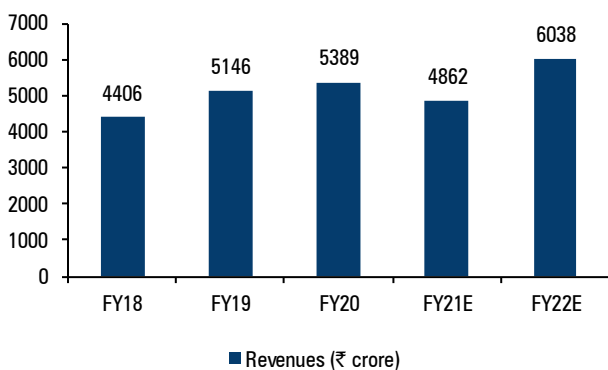
Source: Company, ICICI Direct Research

Exhibit 12: Realisations to recover in FY22E



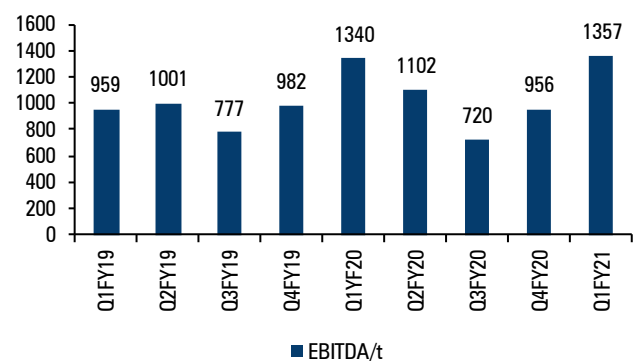
Source: Company, ICICI Direct Research

Exhibit 13: Revenues to grow at 5.8% CAGR over FY20-22E



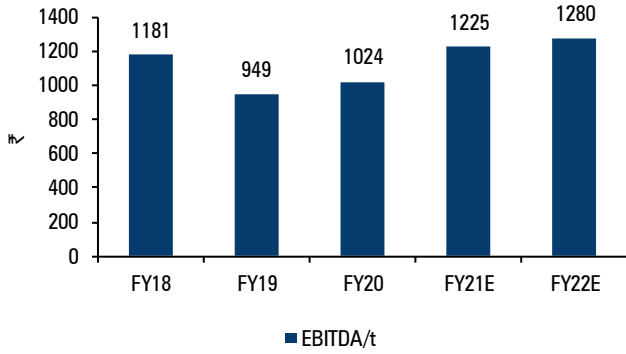
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA/t improves 1.3% YoY



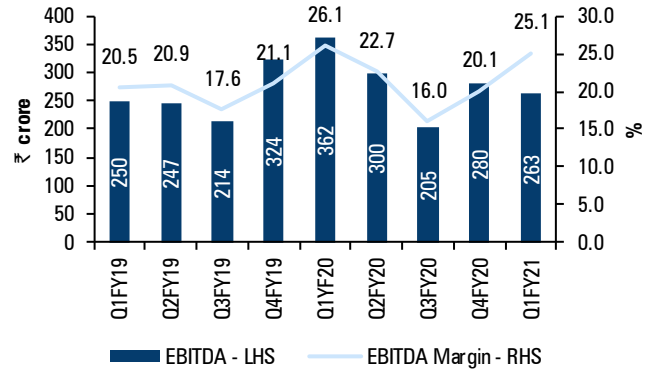
Source: Company, ICICI Direct Research

Exhibit 15: EBITDA/t growth to jump back to above ₹ 1,200 levels in FY21E led by healthy realisations



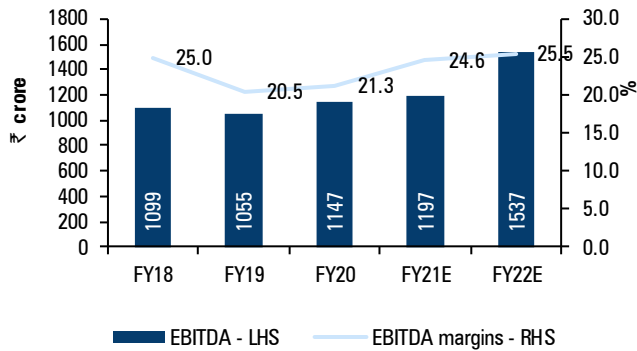
Source: Company, ICICI Direct Research

Exhibit 16: EBITDA margins contract 96 bps YoY



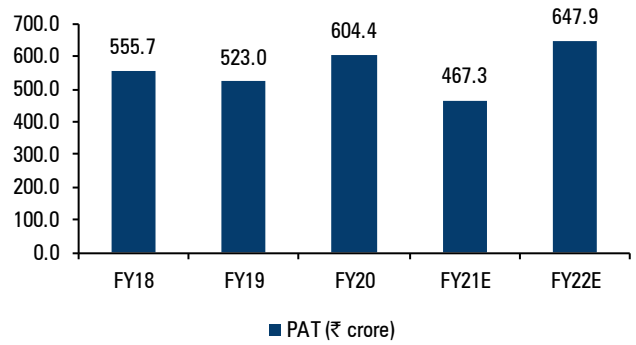
Source: Company, ICICI Direct Research

Exhibit 17: EBITDA to grow at ~15.7% CAGR over FY20-22E



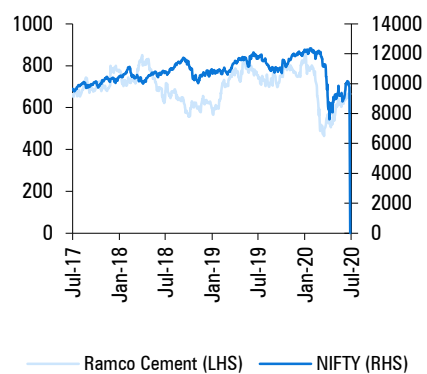
Source: Company, ICICI Direct Research

Exhibit 18: PAT to rise on back of improving operational performance



Source: Company, ICICI Direct Research

Exhibit 19: Price performance vs. Nifty



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 20: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	42.75	42.66	42.66	42.66	42.66
FII	11.99	11.74	11.74	8.91	8.91
DII	22.91	21.58	21.88	24.45	24.45
Others	22.35	24.02	23.72	23.98	23.98

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 21: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Incon	5,146.3	5,389.3	4,862.1	6,037.6
Growth (%)	16.8	4.7	-9.8	24.2
Raw material cost	623.4	650.7	578.5	725.8
Employee Expenses	329.5	380.6	376.8	399.4
Power, Oil & Fuel	1057.3	1050.9	874.0	1111.1
Freight cost	1393.2	1360.8	1162.1	1453.4
Other Expenses	688.1	798.9	673.8	810.8
Total Operating Exp.	4,091.4	4,241.9	3,665.3	4,500.6
EBITDA	1,054.8	1,147.4	1,196.7	1,537.0
Growth (%)	-4.1	8.8	4.3	28.4
Depreciation	298.5	316.5	427.2	520.8
Interest	50.9	72.1	175.1	182.3
Other Income	27.3	33.5	30.0	32.0
PBT	732.7	792.2	624.5	865.9
Total Tax	209.7	187.9	157.2	217.9
PAT	523.0	604.4	467.3	647.9
Adjusted PAT	523.0	604.4	467.3	647.9
Growth (%)	-5.9	15.6	-22.7	38.7
EPS (₹)	22.2	25.7	19.8	27.5

Source: Company, ICICI Direct Research

Exhibit 23: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	23.6	23.6	23.6	23.6
Reserve and Surplus	4,436.6	4,895.0	5,291.6	5,939.5
Total Shareholders funds	4,460.1	4,918.6	5,315.2	5,963.1
Total Debt	1,618.7	3,162.4	3,840.0	3,040.0
Deferred Tax Liability	870.4	917.2	802.2	845.3
Non Current Liabilities	28.8	36.9	17.7	18.9
Total Liabilities	6,978.0	9,035.0	9,975.1	9,867.2
Assets				
Gross Block	8,593.5	9,581.4	12,731.4	12,781.4
Less: Acc Depreciation	3,450.5	3,767.0	4,194.2	4,715.0
Net Block	5,143.1	5,814.4	8,537.2	8,066.4
Capital WIP	852.6	1,840.4	290.0	280.0
Total Fixed Assets	5,995.6	7,654.8	8,827.2	8,346.4
Investments	429.5	427.5	427.5	427.5
Inventory	559.7	645.3	572.8	694.7
Debtors	490.0	526.9	446.2	545.9
Loans and Advances	27.4	29.8	34.0	42.3
Other Current Assets	529.7	695.2	549.4	646.0
Cash	92.8	91.4	70.2	229.4
Total Current Assets	1,699.5	1,988.5	1,672.6	2,158.3
Creditors	257.2	341.4	279.7	314.3
Other Current Liability	867.5	668.3	672.5	750.7
Total Current Liabiliti	1,124.7	1,009.7	952.2	1,065.0
Net Current Assets	574.7	978.9	720.4	1,093.3
Application of Funds	6,978.0	9,061.1	9,975.1	9,867.2

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	523.0	604.4	467.3	647.9
Add: Depreciation	298.5	316.5	427.2	520.8
(Inc)/dec in Current Assets	-98.7	-196.7	260.7	-322.9
Inc/(dec) in CL and Provisions	6.1	-115.0	-57.4	112.7
CF from operating activit	666.0	609.0	1,142.6	1,149.6
(Inc)/dec in investment	-5.3	35.4	30.0	32.0
(Inc)/dec in Fixed Assets	-1,036.9	-1,971.4	-1,625.7	-40.0
CF from investing activit	-1,042.2	-1,935.9	-1,595.7	-8.0
Issue/(Buy back) of Equity	36.9	-87.0	0.0	282.7
Inc/(dec) in loan funds	505.5	1,543.7	677.6	-800.0
Dividend paid & dividend tax	-142.0	-58.9	-70.7	-282.7
Interest paid	-50.9	-72.1	-175.1	-182.3
CF from financing activit	349.6	1,325.6	431.9	-982.3
Opening Cash	119.4	92.8	91.4	70.2
Closing Cash	92.8	91.4	70.2	229.4

Source: Company, ICICI Direct Research

Exhibit 24: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adjusted EPS	22.2	25.7	19.8	27.5
Cash EPS	34.9	39.1	38.0	49.6
BV	189.3	208.8	225.6	253.1
DPS	6.0	2.5	3.0	0.0
Cash Per Share	3.9	3.9	3.0	9.7
Operating Ratios (%)				
EBITDA Margin	20.5	21.3	24.6	25.5
PAT Margin	10.2	11.2	9.6	10.7
Inventory days	39.7	43.7	43.0	42.0
Debtor days	34.8	35.7	33.5	33.0
Creditor days	18.2	23.1	21.0	19.0
Return Ratios (%)				
RoE	11.7	12.3	8.8	10.9
RoCE	8.2	7.5	6.4	8.4
RoIC	9.1	9.1	6.4	8.6
Valuation Ratios (x)				
P/E	30.5	26.4	34.2	24.7
EV / EBITDA	16.7	16.7	16.6	12.3
EV / Net Sales	3.4	3.6	4.1	3.1
Market Cap / Sales	3.1	3.0	3.3	2.7
Price to Book Value	3.6	3.2	3.0	2.7
Solvency Ratios				
Debt/EBITDA	1.5	2.8	3.2	2.0
Debt / Equity	0.4	0.6	0.7	0.5
Current Ratio	1.4	1.9	1.7	1.8
Quick Ratio	0.9	1.2	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 25: ICICI Direct coverage universe (Cement)

Company	CMP		M Cap		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	(₹ Cr)		'1FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,390	HOLD	26,124	73	64	82	10.2	11.1	9.0	92	95	81	17.4	14.0	16.4	11.9	9.7	11.2	
Ambuja Cem*	201	HOLD	39,912	7.7	7.8	9.1	11.0	10.9	8.8	109	114	100	13.2	13.4	15.4	10.0	9.4	10.9	
UltraTech Cem	4,210	BUY	121,489	189	132	181	15.4	15.8	12.1	168	168	158	11.4	10.6	13.8	14.2	9.2	11.3	
Shree Cement	21,551	BUY	77,764	435	313	521	21.1	24.0	18.5	228	216	213	13.8	10.5	14.7	12.1	8.2	12.3	
Heidelberg Cem	180	BUY	4,079	11.8	9.6	13.7	8.2	9.6	7.2	110	98	92	22.3	19.6	26.3	20.4	18.0	23.1	
JK Cement	1,412	HOLD	10,910	74.9	19.9	49.5	11.2	19.4	12.4	122	117	114	16.2	7.7	12.6	18.5	4.8	11.0	
JK Lakshmi Cem	286	BUY	3,366	22.6	19.1	25.4	6.4	6.4	5.2	46	45	43	17.1	15.7	18.8	15.5	11.7	13.9	
Star Cement	86	BUY	3,605	6.9	4.3	8.7	7.9	9.4	5.7	117	117	80	17.1	10.3	18.9	15.4	9.0	16.4	
Ramco Cement	678	BUY	16,142	25.7	19.8	27.5	16.7	16.6	12.3	147	145	138	7.5	6.4	8.4	12.3	8.8	10.9	
Sagar Cement	495	BUY	1,163	17.1	43.3	51.4	8.9	6.4	5.9	41	43	33	7.2	10.7	11.1	4.2	8.9	9.6	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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