The Ramco Cements

RESULT UPDATE

20th Aug 2020

The Ramco Cements Ltd.

Volume led revenue driven; EBITDA margin improves QoQ

CMP	Target	Potential Upside	Market Cap (INR Cr)	Recommendation	Sector
INR 702	**INR 751**	**7.1%**	**INR 16,527**	**ACCUMULATE**	**Cement**

Result Highlights of Q1FY21

- The Ramco Cements reported standalone revenue decline of 25.0% QoQ (down 24.7% YoY) to INR 1,042 Cr in Q1FY21. The company's business operations were disrupted during Apr-20 due to lockdown imposed by the Government owing to COVID-19. After relaxation of restrictions by the Government, the business operations restored gradually and is continuing with weak demand in urban/semi-urban markets.
- EBITDA declined by 6.9% QoQ (down 27.6% YoY) to INR 260 crores in Q1FY21. EBITDA margin contracted by 101bps YoY to 25.1% in Q1FY21 from 26.0% in corresponding quarter last year, while on QoQ basis, EBITDA margin improved significantly by 487bps.
- Net profit in Q1FY21 declined 42.9% YoY to INR 110 crores, while on QoQ basis net profit declined 25.0%. Net profit margin for the quarter was flat on QoQ basis but declined 335bps to 10.5%.

MARKET DATA

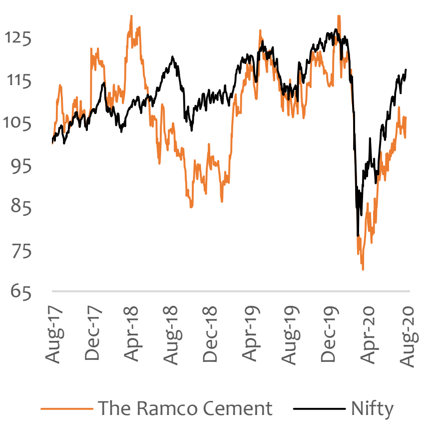
Shares outs (Cr)	23.56
Equity Cap (INR Cr)	5,007
Mkt Cap (INR Cr)	16,527
52 Wk H/L (INR)	884/455
Volume Avg (3m K)	900
Face Value (INR)	1
Bloomberg Code	TRCL IN

KEY FINANCIALS

INR Crore	FY18	FY19	FY20	FY21E	FY22E
Revenue	4,425	5,162	5,389	5,003	6,348
EBITDA	1,113	1,044	1,147	1,167	1,482
PAT	564	511	604	574	737
EPS (INR)	24.6	22.4	26.5	25.2	32.3
EBITDA Margin	25.1%	20.2%	21.3%	23.3%	23.3%
NPM	12.7%	9.9%	11.2%	11.5%	11.6%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Volume decline due to COVID lockdown:

Revenue decline on YoY & QoQ basis was due to lower cement sales volume which decreased -28.2%/-33.8% YoY/QoQ to 19.4 Lakhs Tonnes in Q1FY21 from 27.0 Lakhs Tonnes in Q1FY20 & 29.3 Lakh Tonnes in Q4FY20. The lower volume can be attributed to lockdown, which resulted in weak demand from urban and semi-urban markets. Realization was however better for the quarter, with 5.7% YoY / 11.9% QoQ improvement to INR 5,275 per ton in Q1FY21.

EBITDA margin improvement on QoQ basis due to lower logistic & energy cost:

EBITDA for the quarter declined 27.6% YoY (down 6.9% QoQ) mainly due to lower sales compared to Q1FY20. On per tonne basis, EBITDA/t was higher nominally by 0.8% YoY (+40.7% QoQ) to INR 1,340/t as improvement in realizations was offset by increase in raw material costs (clinker purchases and inventory liquidation) and fixed expenses on YoY basis. Financially, improvement in EBITDA margin on QoQ basis was because of lower QoQ transportation, power & overhead costs. Transportation cost declined to 19.4% of revenue in Q1FY21 (from 21.9% in Q4FY20), power cost declined to 14.5% of revenue (from 18.3% of revenue) while other expenses declined to 13.7% of revenue (from 16.7% in Q4FY20). Employee cost, however, was higher YoY as well as on QoQ basis to 9.4% of revenue (from 6.4% of revenue in Q1FY20 & 6.1% in Q4FY20).

Demand to improve from 2HFY21; new capacities to get commissioned in FY21 & FY22:

Demand scenario to remain weak in the second quarter as well but should start improving from third quarter onwards. We expect a strong growth with demand recovery in FY22 which will be further supported by the new capacities getting commissioned. Company is expected to commission Odisha grinding unit (1MTPA) by Sep-20 while to complete the Clinker capacity expansion at Jayanthipuram, AP (1.5MTPA) and Kurnool (2.25MTPA) by the end of FY21. An additional 1MTPA grinding unit at Kurnool is expected to be commissioned in FY22. The company has spent INR 2.6 bn on capex till now and expects to incur further INR 11.8 bn.

MARKET INFO

SENSEX	38,615
NIFTY	11,408

SHARE HOLDING PATTERN (%)

Particulars	Jun-20 (%)	Mar-20 (%)	Dec-19 (%)
Promoters	42.7	42.7	42.7
FIIs	8.91	8.9	11.7
DIIs	27.8	27.9	25.3
Others	20.6	20.6	20.3
Total	100	100	100

8.5%

Revenue CAGR between FY20 and FY22E

10.4%

PAT CAGR between FY20 and FY22E

ANALYST
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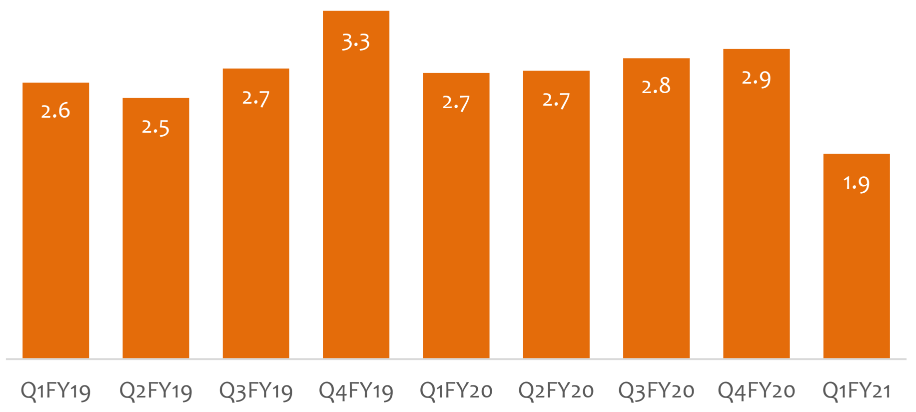
The Ramco Cements Ltd.

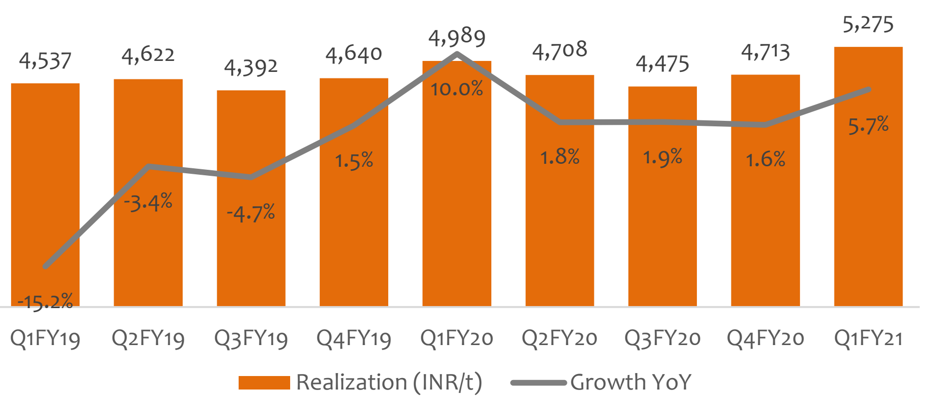
Valuation and view:

We like the company for its strong distribution network in Southern region with 50%+ market share in Tamil Nadu and Kerala, 15%+ market share in West Bengal and Odisha, 15%+ market share in Andhra Pradesh and Telangana and ~10% market share in Karnataka. With the commissioning of the new capacities & better realizations despite adverse demand scenario, we now expect the Ramco Cements to grow its topline/bottomline at 8.5%/10.4% CAGR over FY20-22E. The stock has rallied 11% since our last update on the stock (at INR 634/share) and trades at 15.1x/11.9x EV/EBITDA multiple on FY21E/FY22E EBITDA. **We slightly raise our FY22E EV/EBITDA multiple to 13.5x (earlier 13.0x) to accommodate new capacities and expectation of better margin & and arrive at a revised Target Price of INR 751 per share; an upside potential of 7.1% over CMP. Accordingly, we reiterate an "ACCUMULATE" rating to the shares of The Ramco Cements.**

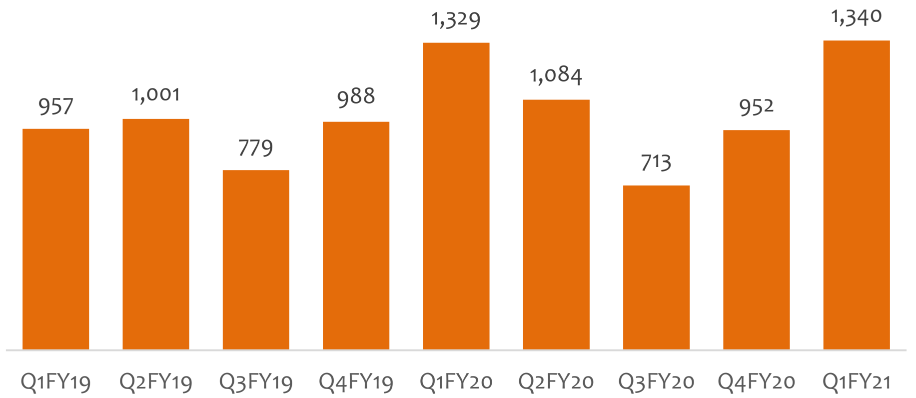
Sales Volume (Mn T) declined due to lockdown



Realization improves despite fall in volume



EBITDA/t (INR) higher on YoY as well as QoQ basis



Source: Company, KRChoksey Research

The Ramco Cements Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crore	FY18	FY19	FY20	FY21E	FY22E
Revenues	**4,425**	**5,162**	**5,389**	**5,003**	**6,348**
COGS	751	847	874	805	990
Gross profit	**3,674**	**4,315**	**4,516**	**4,197**	**5,357**
Employee cost	310	338	381	353	505
Transportation and Handing	928	1,188	1,138	1,026	1,289
Power and Fuel	729	1,057	1,051	951	1,206
Other Expenses	595	688	799	700	876
EBITDA	**1,113**	**1,044**	**1,147**	**1,167**	**1,482**
EBITDA Margin	*25.1%*	*20.2%*	*21.3%*	*23.3%*	*23.3%*
Depreciation & amortization	294	300	317	318	399
EBIT	**819**	**745**	**831**	**849**	**1,083**
Interest expense	60	51	72	128	151
Other income	33	25	34	27	30
Share of (loss) of associates and JV's	5	4	1	7	9
Exceptional items loss (profit)	0	0	0	0	0
PBT	**797**	**722**	**793**	**756**	**971**
Income tax expense	231	211	188	181	233
Minority Interest	1.3	0.7	0.9	0.3	1.1
PAT	**564**	**511**	**604**	**574**	**737**
EPS (INR)	**24.6**	**22.4**	**26.5**	**25.2**	**32.3**

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Crore	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	1,124	793	748	1,213	958
Net Cash Flow from/(used in) Investing Activities	(490)	(1,202)	(1,921)	(1,971)	(970)
Net Cash Flow from Financing Activities	(793)	653	1,194	754	15
Net Inc/Dec in cash equivalents	(159)	243	21	(5)	3
Opening Balance	(11)	(170)	73	64	59
Cash and cash equivalents at the end of the period	**(170)**	**73**	**94**	**59**	**62**
Cash and Cash Equivalents (BS)	**89**	**58**	**64**	**29**	**32**

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	25.1%	20.2%	21.3%	23.3%	23.3%
Net Profit Margin (%)	12.8%	9.9%	11.2%	11.5%	11.6%
RoE (%)	14.3%	11.8%	12.7%	11.0%	12.8%
RoCE (%)	15.8%	13.0%	11.9%	10.1%	11.6%
Current Ratio (x)	0.7x	0.7x	0.7x	0.5x	0.6x

Source: Company, KRChoksey Research

The Ramco Cements Ltd.

Exhibit 4: Balance Sheet

INR Crore	FY 18	FY 19	FY 20	FY 21E	FY22E
Current assets					
Inventories	561	561	647	530	665
Trade Receivables	443	490	528	439	643
Cash and Cash Equivalents	89	58	64	59	62
Other bank balances	31	37	30	30	30
Loans	25	27	30	30	38
Other financial assets	59	94	104	75	95
Current tax assets	3	6	3	3	3
Other current assets	88	107	170	105	133
Total current assets	**1,299**	**1,381**	**1,576**	**1,271**	**1,670**
Non-current assets					
Property, plant and equipment	5,128	5,183	5,846	7,726	8,127
Capital work in process	150	831	1,814	1,814	1,814
Investment property	144	162	147	147	203
Intangible assets	52	55	56	56	56
Intangible assets under development	25	22	26	26	26
Investments in associates	212	232	250	230	292
Other investments	27	27	26	30	38
Loan	14	16	28	28	25
Other financial assets	16	17	19	15	19
Other non-current assets	103	278	344	200	254
Total non-current assets	**5,871**	**6,823**	**8,557**	**10,273**	**10,855**
TOTAL ASSETS	**7,169**	**8,204**	**10,133**	**11,544**	**12,525**
EQUITY AND LIABILITIES					
Current liabilities					
Borrowings	583	729	800	900	1,000
Trade Payables	268	258	343	276	320
Other financial liabilities	780	932	1,060	1,251	1,270
Other current liabilities	143	121	103	125	159
Provisions	49	25	29	25	32
Deferred Government Grants	1	1	1	0	0
Total current liabilities	**1,824**	**2,068**	**2,336**	**2,577**	**2,780**
Non-current liabilities					
Borrowings	419	701	1,840	2,540	2,740
Provisions	9	16	24	24	24
Deferred tax liabilities	789	865	912	912	912
Deferred Government Grants	13	13	13	13	13
Total non-current liabilities	**1,229**	**1,595**	**2,789**	**3,489**	**3,689**
Equity					
Share capital	24	24	24	24	24
Other equity	4,089	4,513	4,978	5,448	6,025
Minority interest	4	5	6	6	7
Total Equity	**4,117**	**4,542**	**5,007**	**5,477**	**6,055**
Total liabilities and equity	**7,169**	**8,204**	**10,133**	**11,544**	**12,525**

Source: Company, KRChoksey Research

The Ramco Cements Ltd.

The Ramco Cements Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
20-08-20	702	751	ACCUMULATE
22-06-20	634	675	ACCUMULATE
30-01-20	789	836	ACCUMULATE
01-11-19	784	836	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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