

Retail Equity Research

The Ramco cements Limited

Cement

BSE CODE: 500260

NSE CODE: RAMCOCEM

Bloomberg CODE: TRCL:IN

SENSEX: 38,051

12M Investment period

Rating as per Mid Cap

CMP Rs.670

TARGET Rs.760

RETURN 13% ↑

(Closing: 17-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Covid-19 impact volumes but beats expectation...

The Ramco Cements Ltd (TRCL), the flagship company of Ramco group is the 5th largest cement company in India with a total production capacity of 17.8MT (South-15.54MT & East-2.25MT). TRCL has captive Thermal power capacity of 175MW and Windmill capacity of 126MW.

- We maintain Accumulate rating but revise our Target to Rs.760 (earlier Rs.580) considering better than expected performance.
- Q1FY21 revenue de-grew by 24.7%YoY mainly due to sharp decline in volumes (-28%ToY Vs -38% of industry) impacted by Covid-19.
- EBITDA margin declined by 100bps YoY to 25%, but adjusted for one-off items (donation, ESOP & Covid-CSR) improved to ~26.8% Vs 26% aided by benign fuel costs and better realisation.
- Capacity expansion in East & South is on track with slight delay due to lockdown restrictions. Total capacity would be 20.8M, post expansion
- Demand outlook continue to be uncertain in the short-term but expect to witness strong growth in FY22E.
- TRCL to witness above industry volume growth aided by market share gains through expansion. Currently TRCL trades at 13.8x 1Yr Fwd EV/EBITDA. We value at ~13x FY22E EV/EBITDA (5Yr Avg=14x).

Covid-19 impacts the volumes...

TRCL reported revenue de-growth of 24.7%YoY mainly impacted by volume declines (-28%YoY) owing to lock-down restrictions on account of Covid-19. However, the volumes are better than industry (de-growth of ~38%YoY). The company remains cautious about the demand outlook in the short-term due to current uncertain situation. We factor ~7%YoY decline in volumes in FY21 but strong double digit recovery in FY22E supported by revival in economic activities coupled with market share gains through capacity expansion. Expect revenue to grow by 3%CAGR over FY20-22E.

Lower fuels cost and better realisation support margin.

EBITDA margin declined to 25% Vs 26% YoY. Adjusting for one-off items (Donation-Rs.5cr, ESOP-Rs.8.7cr & CSR expenses-Rs7.7.6cr) EBITDA margin would be at 26.8% aided by reduction in fuel costs and better realisation (+5%YoY, 13.5% QoQ). Adj. EBITDA on a per Ton basis improved to Rs.1,442 Vs Rs.1,329 YoY. Fuel costs declined by -20.8% YoY, while Raw Material (RM) cost increased by 31%YoY due to purchase of clinker being one-off item during the quarter. Cement prices has softened in July. We expect EBITDA/Ton to improve to Rs.1,224 vs Rs.999 in FY20. Adverse price movements of cement, fuel and RM prices are the key risks.

Valuation & Outlook

Demand outlook remains uncertain in the short-term but is expected to strongly recover in FY22. TRCL's capacity expansion will support to continue its volume growth above industry. The stock currently trades at 13.8x 1Yr Fwd EV/EBITDA based on our revised estimates. We value TRCL at ~13x FY22E EV/EBITDA (5Yr Avg=14x) to arrive at a Target of Rs.760 (Rs580 earlier), maintaining Accumulate rating.

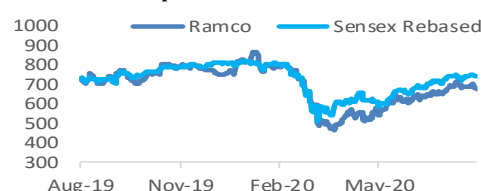
Company Data

Market Cap (Rs.cr)	15779
Enterprise Value (Rs.cr)	14623
Outstanding Shares (cr)	23.6
Free Float	57%
Dividend Yield	0.4%
52 week high Rs.	883
52 week low Rs.	457
6m average volume (cr)	0.08
Beta	0.8
Face value Rs.	1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	42.7	42.7	42.7
FII's	11.7	8.9	8.9
MFs/Insti	21.9	24.5	24.5
Public	10.8	10.6	10.6
Others	12.9	13.4	13.4
Total	100	100	100
Promotor pledge	NIL	NIL	0.0%

Price Performance	3 Month	6 Month	1 Year
Absolute Return	23.2%	-16.3%	-8.2%
Absolute Sensex	26.0%	-7.9%	1.9%
Relative Return*	-2.8%	-8.3%	-10.1%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	5,352	5,118	6,213
Growth (%)	4.0	-4.4	21.4
EBITDA	1,120	1,199	1,510
EBITDA Margin (%)	20.9	23.4	24.3
Adj. PAT	584	591	794
Growth (%)	15.5	1.1	34.4
Adj. EPS	24.5	24.0	33.3
Growth (%)	15.5	1.1	34.4
P/E	27.3	27.0	20.1
P/B	3.2	2.9	2.6
EV/EBITDA	16.5	14.8	11.4
ROE (%)	12.5	11.4	13.7
D/E	0.6	0.4	0.3

Vincent Andrews
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	1042	1384	-24.7%	1390	-25.0%
EBITDA	260	359	-27.6%	279	-6.9%
EBITDA margins %	25.0%	26.0%	(100bps)	20.1%	490bps
Depreciation	84	76	11.4%	83	1.4%
EBIT	176	284	-38.1%	196	-10.4%
Interest	30	14	121.4%	22	38.6%
Other Income	10	8	23.7%	11	-11.3%
Exceptional Items	0	0	0.0%	0	0.0%
PBT	156	278	-44.0%	186	-16.1%
Tax	46	86	-46.5%	40	16.5%
Share of profit from associates	0	0	NA	0	NA
Minority interest	0	0	NA	0	NA
Reported PAT	110	192	-42.9%	146	-25.0%
Adjustments	19	5	0.0%	0	0.0%
Adj PAT	129	197	-34.6%	146	-11.8%
No. of Shares	24	24	0.0%	24	0.0%
Adj EPS (Rs)	5.5	8.4	-34.6%	6.2	-11.8%

Per Tonne Analysis

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Cement Volume (MT)	1.94	2.70	-28.3%	2.93	-33.9%
Cost of materials consumed	974	743	31.0%	806	20.8%
Employee Expenses	503	327	53.8%	288	74.4%
Power & Fuel	780	984	-20.8%	868	-10.1%
Freight & forwarding	1042	1040	0.2%	1037	0.5%
Other expenses	738	696	6.0%	790	-6.6%
Total expenses	4036	3791	6.5%	3788	6.5%
Realisation (inc. RMC)	5378	5120	5.1%	4740	13.5%
EBITDA	1342	1329	1.0%	952	41.0%

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	5,022	5,976	5,118	6,213	1.9%	4.0%
EBITDA	1,110	1,512	1,199	1,510	8.0%	-0.1%
Margins (%)	22.1	25.3	23.4	24.3	130bps%	(100bps)
Adj. PAT *	501	779	591	794	17.9%	1.9%
EPS	21.0	32.7	24.0	33.3	14.3%	2.0%



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	4,406	5,146	5,352	5,118	6,213
% change	11.6	16.8	4.0	-4.4	21.4
EBITDA	1,099	1,037	1,120	1,199	1,510
% change	-6.5	-5.7	8.0	7.0	26.0
Depreciation	292	299	315	359	407
EBIT	807	738	804	839	1,102
Interest	59	51	71	115	100
Other Income	37	28	37	39	42
PBT	785	716	770	763	1045
% change	-7.7	-8.8	7.6	-0.9	36.9
Tax	229	210	186	192	251
Tax Rate (%)	29.2%	29.3%	24.2%	25.1%	24.0%
Reported PAT	556	506	584	571	794
Adj*	0	0	0	-19	0
Adj PAT	556	506	584	591	794
% change	-14.4	-9.0	15.5	1.1	34.4
No. of shares (cr)	23.6	23.6	23.6	23.6	23.6
Adj EPS (Rs.)	23	21	25	24	33
% change	-14.4	-9.0	15.5	1.1	34.4
DPS (Rs.)	4	4	4	4	4
CEPS (Rs.)	36.0	34.1	38.2	40.3	51.0

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	848	804	899	931	1,201
Non-cash adj.	248	213	199	192	251
Other adjustments	-140	-134	-13	-76	-150
Changes in W.C	156	-93	-292	-34	-79
C.F. Operation	1,113	790	740	1,012	1,222
Capital exp.	-494	-1202	-1919	-236	-550
Change in inv.	-10	-16	-15	45	-70
Other invest.CF	9	7	15	0	0
C.F - Investment	-483	-1,191	-1,932	-191	-620
Issue of equity	-168	0	0	0	0
Issue/repay debt	-468	775	1,427	-515	-394
Dividends paid	-85	-85	-156	-85	-85
Other finance.CF	-66	-48	-58	-115	-100
C.F - Finance	-787	643	1213	-716	-579
Chg. in cash	-157	242	20	106	23
Closing cash	88	93	91	197	220

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	88	56	61	197	220
Accounts Receivable	442	490	527	519	613
Inventories	560	560	645	611	674
Other Cur. Assets	208	270	335	238	289
Investments	159	175	189	219	249
Gross Fixed Assets	8,232	8,553	9,517	11,017	11,617
Net Fixed Assets	5,246	5,321	5,970	7,111	7,304
CWIP	150	831	1,814	550	500
Intangible Assets	77	77	83	83	83
Def. Tax (Net)	0	0	0	0	0
Other Assets	160	329	423	367	407
Total Assets	7,090	8,108	10,047	9,895	10,338
Current Liabilities	1,186	1,308	1,503	1,365	1,490
Provisions	91	42	54	43	51
Debt Funds	999	1,415	2,632	2,132	1,732
Other Liabilities	772	884	938	930	933
Equity Capital	24	24	24	24	24
Reserves & Surplus	4,019	4,437	4,895	5,400	6,109
Shareholder's Fund	4,042	4,460	4,919	5,424	6,133
Total Liabilities	7,090	8,108	10,047	9,895	10,338
BVPS (Rs.)	168	186	205	227	257

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	25.0	20.1	20.9	23.4	24.3
EBIT margin (%)	18.3	14.3	15.0	16.4	17.7
Net profit mgn.(%)	12.6	9.8	10.9	11.5	12.8
ROE (%)	14.3	11.9	12.5	11.4	13.7
ROCE (%)	8.8	7.3	7.1	6.8	8.6
W.C & Liquidity					
Receivables (days)	41.3	33.1	34.7	37.3	33.2
Inventory (days)	47.0	39.7	41.1	44.8	37.7
Payables (days)	127.1	113.0	125.0	123.8	94.7
Current ratio (x)	0.7	0.7	0.7	0.8	0.9
Quick ratio (x)	0.3	0.3	0.3	0.3	0.4
Turnover & Leverage					
Gross asset T.O (x)	0.5	0.6	0.6	0.5	0.5
Total asset T.O (x)	0.6	0.7	0.6	0.5	0.6
Int. coverage ratio (x)	13.6	14.5	11.3	7.3	11.0
Adj. debt/equity (x)	0.3	0.4	0.6	0.4	0.3
Valuation					
EV/Sales (x)	3.8	3.3	3.4	3.5	2.8
EV/EBITDA (x)	15.1	16.6	16.5	14.8	11.4
P/E (x)	28.7	31.5	27.3	27.0	20.1
P/BV (x)	3.9	3.5	3.2	2.9	2.6

Recommendation Summary



Dates	Rating	Target
1-Jan-20	Accumulate	840
11-May-20	Accumulate	580
18-Aug-20	Accumulate	760

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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