Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

The Ramco Cements Limited

Key beneficiary of regional pricing discipline

Cement	Sharekhan code: RAMCOCEM	Company Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 770**	
Price Target: **Rs. 955**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

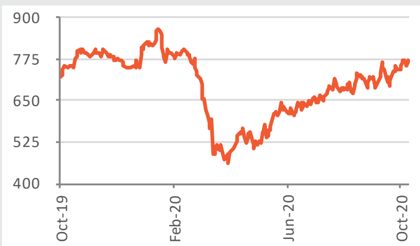
Company details

Market cap:	Rs. 18,149 cr
52-week high/low:	Rs. 883 / 456
NSE volume: (No of shares)	9.0 lakh
BSE code:	500260
NSE 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	5.5	17.3	49.0	6.4
Relative to Sensex	1.0	4.1	14.7	0.5

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on The Ramco Cements (Ramco) with a revised PT of Rs. 955.
- Cement prices in the southern region for October remain up 16% compared to April 2020, maintaining May 2020 levels. EBITDA/tonne to rise despite weak Q2 demand.
- Capacity expansion plan of Rs. 3,500 crore is progressing well. Commissioned 1MTPA Odisha GU in October. Standalone D/E ratio is expected to reduce from 0.6x in FY2020 to 0.2x in FY2022E despite capacity expansions.
- Ramco to benefit from the expected improvement in cement demand from Q3FY2021 and favourable cement pricing scenario in the key South Indian market.

The Ramco Cements (Ramco) has almost run-up 50% over the trailing six months, unhindered by the COVID-19 pandemic led country-wide lockdown and ensuing disruption. The strong surge in the stock price can be attributed to above-estimates performance for Q1FY2021 and sustained pricing discipline in its region of operations. As per our channel checks, the southern region had seen a more than 15% m-o-m hike in average cement prices during May 2020. The major part of the hike undertaken sustained during the ensuing months, partly getting affected by seasonality. As per our channel checks, southern region's cement prices during October 2020 are still up by 16% as compared to April 2020. Further, average cement prices in the South during October and Q2FY2021 are higher by 19.6% y-o-y (up 4.6% m-o-m) and 13.2% y-o-y (up 4.7% q-o-q), respectively. Hence, we expect Ramco to benefit from sustained cement pricing discipline during and post Q2FY2021. On the other hand, cement demand has remained weak for the southern region (expect cement volume to dip by 18% y-o-y for Q2FY2021 for Ramco) but is expected to benefit from pricing environment leading to higher profitability (Expect EBITDA/tonne rise of 57% y-o-y to Rs. 1,330 for Ramco). Post the monsoon season, demand is expected to recover in H2FY2021 along with strong bounceback expected in FY2022. The company is also undertaking capacity expansion plan of Rs. 3,500 crore (recently commissioned 1 mtpa grinding unit at Odisha), which would increase its cement capacity from 18.79 mtpa to 20.79 mtpa. Further, Ramco's balance sheet is expected to remain strong with D/E ratio expected to reduce from 0.6x in FY2020 to 0.2x in FY2023E despite its aggressive expansion plan. Although the stock is trading near historical average valuation at an EV/EBITDA of 14.0x/12.3x 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. 955.

Our Call

Valuation –Retain Buy with a revised PT of Rs. 955: We expect Ramco to benefit from improving cement demand from Q3FY2021 along with healthy demand bounceback in FY2022. Ongoing capacity expansion plan would provide it the next leg of growth from FY2022. Cement prices in the southern region are 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 ratio expected to reduce from 0.6x in FY2020 to 0.2x in FY2023E despite its aggressive expansion plan. Although the stock is trading near historical average valuation at an EV/EBITDA of 14.0x/12.3x its FY2022E/FY2023E earnings, we believe there is further room for an upside. Hence, we maintain our Buy rating with a revised PT of Rs. 955.

Key Risks

Weak demand and pricing environment in South India would affect profitability.

Valuations (Standalone) Rs cr

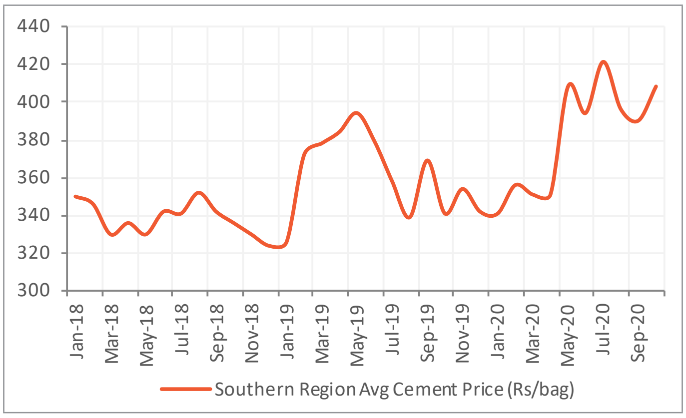
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	5,368	5,394	6,327	7,007
OPM (%)	21.2	22.9	23.3	22.7
Adjusted PAT	601	608	778	863
% YoY growth	*18.8*	*1.1*	*28.0*	*10.8*
Adjusted EPS (Rs.)	25.5	25.8	33.0	36.6
P/E (x)	30.2	29.9	23.3	21.0
P/B (x)	3.7	3.3	3.0	2.6
EV/EBITDA (x)	18.4	17.4	14.0	12.3
RoNW (%)	12.8%	11.7%	13.4%	13.2%
RoCE (%)	8.3%	7.4%	8.6%	9.2%

Source: Company; Sharekhan estimates

Southern region maintains healthy pricing discipline in October 2020

We expect Ramco to be one of the key regional beneficiaries of the pricing discipline in the southern region since May 2020. As per our channel checks, average cement price in South had risen steeply by more than 15% m-o-m in May 2020, led by supply constraints and pent-up demand. Southern region has been able to retain the major portion of the hike, with October 2020 prices still up by 16% as compared to April 2020. As per our channel checks, Southern region's average cement prices for October and Q2FY2021 are up 19.6% y-o-y and 13.2% y-o-y, respectively, which is expected to benefit Ramco in healthy operational performance during and post Q2FY2021. Further post the monsoon season, as we expect government infrastructure and housing projects to gather pace, the company is expected to benefit from maintaining regional pricing discipline, especially during the period where key input costs (power and fuel, freight) have started to inch up.

South India Cement price trend



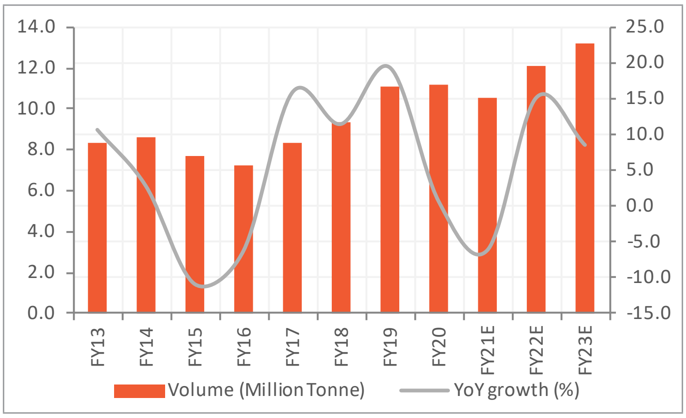
Source: Industry, Sharekhan Research

Expansion plans to provide further room for growth

The company's ongoing capex programme had been delayed due to COVID-19. The company has undertaken a capex plan of Rs. 3,500 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, was Rs. 1,180 crore for its ongoing capacity expansion. The company, in October 2020, commissioned 1mtpa grinding unit in Odisha. In Jayanthipuram, the company commissioned 9MW WHRS in September 2020 (out of 27 MW of proposed WHRS, units of 9 MW each) with balance units expected to be commissioned by December 2020. The company endeavours to complete the clinkering unit of 1.5 mtpa in Jayanthipuram and 2.25 mtpa clinkering unit in Kurnool before March 2021, 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 FY2021-FY2022.

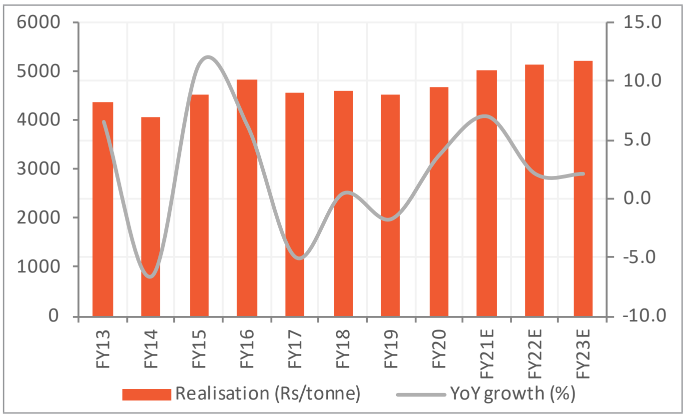
Financials in charts

Cement volume trend



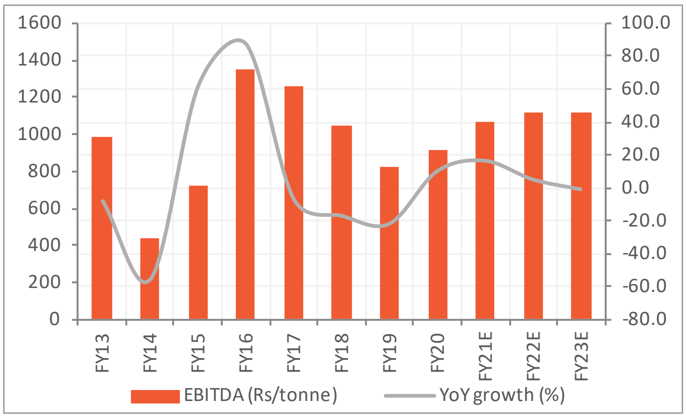
Source: Company, Sharekhan Research

Realisation trend



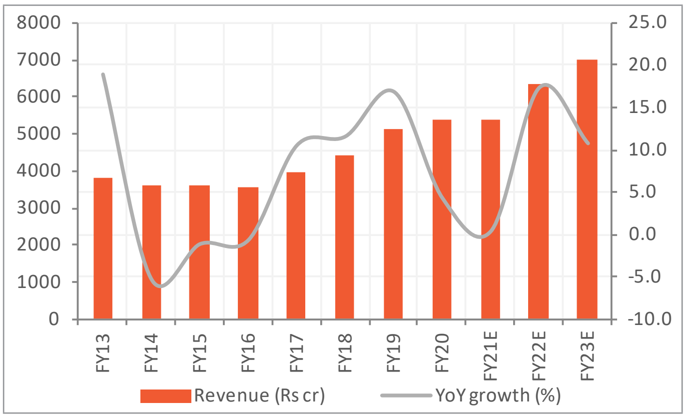
Source: Company, Sharekhan Research

EBITDA/tonne trend



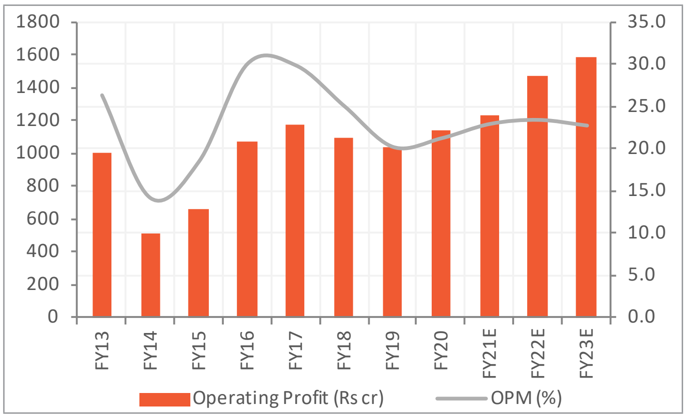
Source: Company, Sharekhan Research

Revenue trend



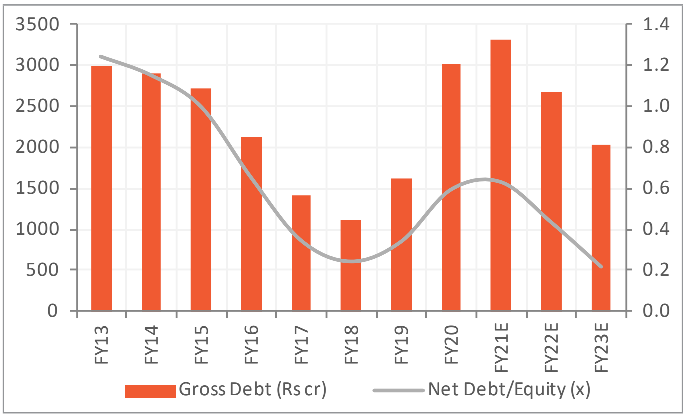
Source: Company, Sharekhan Research

Operating profit trend



Source: Company, Sharekhan Research

Leverage trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Improving demand brightens outlook

The cement industry has seen sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the trailing five years. Amidst COVID-19 led disruption,the cement industrycontinued to witness healthy demand from the rural sector, while infrastructure demand is expected to pickup from Q3FY2021,with labourers returning to project sites. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

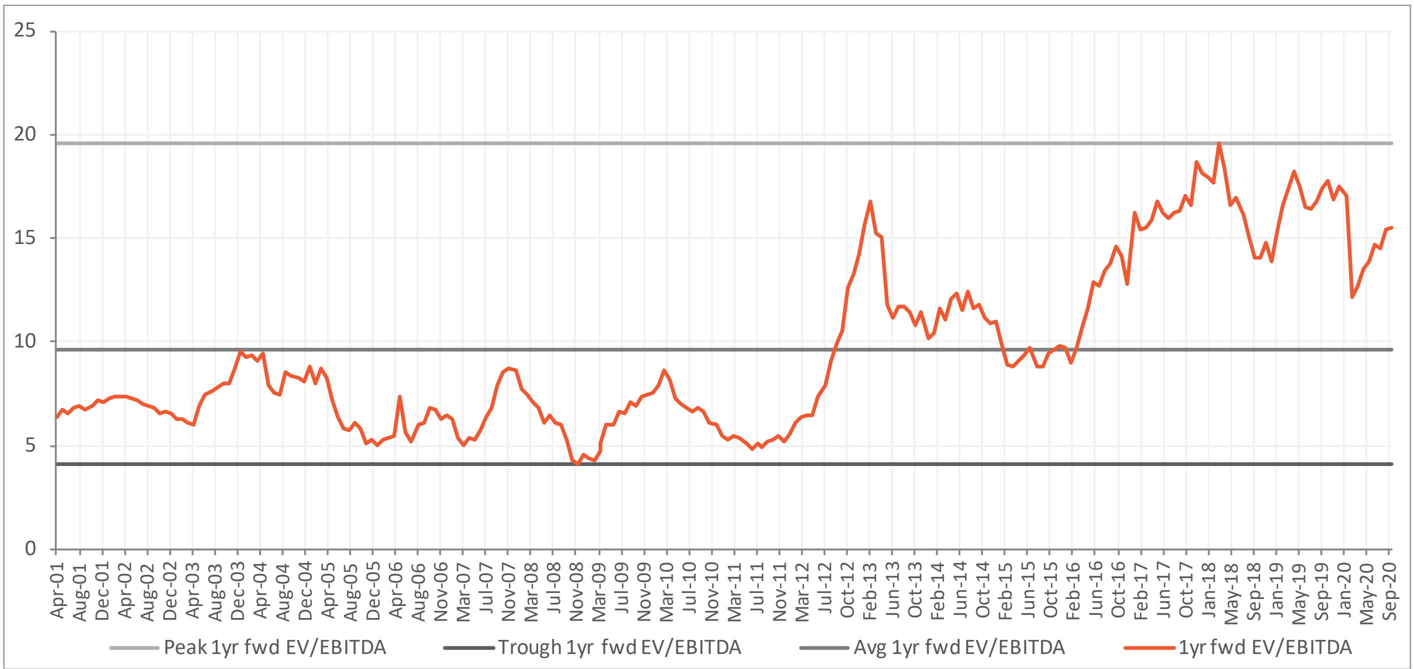
■ Company Outlook - Expect demand improvement from Q3FY2021 along with favourable regional pricing environment

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

■ Valuation - Retain Buy with a revised PT of Rs. 955

We expect Ramco to benefit from the improving demand in cement from Q3FY2021 along with a healthy demand bounceback in FY2022. Ongoing capacity expansion plan would provide it the next leg of growth from FY2022. Cement prices in the southern region are 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 ratio expected to reduce from 0.6x in FY2020 to 0.2x in FY2023E despite its aggressive expansion plan. Although the stock is trading near historical average valuation at an EV/EBITDA of 14.0x/12.3x its FY2022E/FY2023E earnings, we believe there is further room for an upside. Hence, we maintain our Buy rating with a revised PT of Rs. 955.

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	38.5	29.6	16.1	13.5	3.1	2.8	8.4	10.0
Shree Cement	56.2	44.2	22.1	17.9	5.4	4.9	10.1	11.7
The Ramco Cement	29.9	23.3	17.4	14.0	3.3	3.0	11.7	13.4
JK Lakshmi Cement	17.1	14.0	5.9	5.3	1.7	1.5	10.3	11.4

Source: Sharekhan Research

About company

Ramco is the fifth largest cement producer in the country operating in southern India with an installed capacity of 18.79mtpa. The company also produces ready mix concrete anddry 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 andfuel 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 Vaithiyanathan	Chief Financial Officer
K Selvanayagam	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ramco Industries Ltd	21.03
2	Rajapalayam Mills Ltd	14.02
3	Kotak Mahindra Asset Management Co	6.81
4	L&T Mutual Fund Trustee Ltd/India	4.11
5	Republic of India	3.39
6	GOVT TAMIL NADU	3.39
7	SBI Funds Management	2.64
8	HDFC LIFE INSURA	2.29
9	Sundaram Asset Management Co Ltd	2.11
10	DSP Investment Managers	2.08

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;