



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 966	
Price Target: Rs. 1150	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

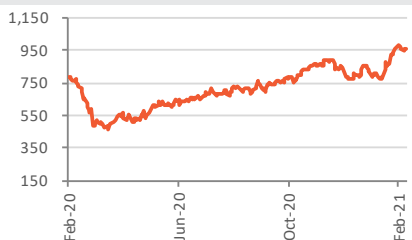
Company details

Market cap:	Rs. 22,784 cr
52-week high/low:	Rs. 1,005 / 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	42.6
FII	8.0
DII	26.3
Others	23.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	22.5	13.0	32.4	22.1
Relative to Sensex	17.5	-2.9	1.7	-4.0

Sharekhan Research, Bloomberg

Cement Sharekhan code: RAMCOCEM Company Update

Summary

- We maintain Buy on The Ramco Cements (Ramco) with a revised PT of Rs. 1150.
- Ramco is expected to benefit from the push of the Kerala and Tamil Nadu state governments towards infrastructure and housing sectors as highlighted in their respective state budget 2021-22.
- Cement prices in Southern region maintain healthy pricing discipline during January-February 2021 which may led to healthy operational performance in Q4.
- Its ongoing expansion plans provide ample room to capture future growth potential. The company's balance sheet is expected to remain strong despite its aggressive expansion plans.

The Ramco Cements (Ramco) is expected to benefit from the push of the Kerala and Tamil Nadu state government towards infrastructure and housing sectors as highlighted in their respective state budget 2021-22. In Kerala, Construction of three industrial corridors (Rs. 50,000 crore investment) will begin in 2021-22. For property transactions, the stamp duty will be reduced from 8% to 4% and the registration fee will be reduced from 2% to 1%. A policy to encourage the eco-friendly construction of buildings will be formulated which include incentives like a reduction of 20% in local building tax, 50% reduction in one-time building tax, and 1% reduction in stamp duty during the transaction. Apart from that there is increased expenditure on transport, Water Supply, Sanitation, Housing and Urban Development, Irrigation and flood control Likewise, Tamil Nadu in the recent interim Budget 2021-22 highlighted that it has granted approval to 62 investment projects worth Rs. 39,941 crore. It has also seen allocation towards PM Housing scheme (Rs. 3700 crore), phase 2 of road development projects (Rs. 5171 crore), Chennai-Kanyakumari industrial route project (Rs. 6448 crore), Greater Chennai Corporation development projects (Rs. 3140 crore). Further, Ramco is expected to gain from the strong pricing discipline in the southern region since May 2020. As per our channel checks, average cement price in the south are up 9% y-o-y (down 3.2% m-o-m) in February 2021. The southern region has been able to retain the major portion of the hike, with January-February 2021 prices still up by 12.9% as compared to Q4FY2020. As witnessed in Q2FY2021 and Q3FY2021, blended realizations rise of 16.8% y-o-y and 12.7% y-o-y respectively which aided in 2x y-o-y rise in EBITDA/tonne for the same periods despite weak volume offtake. During Q4FY2021, we expect Ramco cement to benefit from sustained pricing discipline maintained in Q4FY2021 till date leading to maintaining healthy uptick in operational performance. Although the stock is trading near the historical average valuation at an EV/EBITDA of 15.8x/13.9x 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. 1150.

Our Call

Valuation –Retain Buy with a revised PT of Rs. 1150: We expect Ramco to benefit from a strong pricing discipline in South India, while demand sees sharp pick up in FY2022 led by rising state government spending on infrastructure and housing sectors in Tamil Nadu and Kerala. Its ongoing expansion plans provide ample room to capture future growth potential. The company's balance sheet is expected to remain strong despite its aggressive expansion plans. Although the stock is trading near the historical average valuation at an EV/EBITDA of 15.8x/13.9x 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. 1150.

Key Risks

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

Valuation (Standalone)

Particulars	Rs cr			
	FY20	FY21E	FY22E	FY23E
Revenue	5,368	5,185	6,004	6,698
OPM (%)	21.2	28.6	26.4	26.0
Adjusted PAT	601	797	856	970
% YoY growth	18.8	32.6	7.4	13.3
Adjusted EPS (Rs.)	25.5	33.8	36.3	41.2
P/E (x)	37.9	28.6	26.6	23.5
P/B (x)	4.6	4.0	3.5	3.1
EV/EBITDA (x)	22.4	17.4	15.8	13.9
RoNW (%)	12.8%	15.1%	14.2%	14.1%
RoCE (%)	8.3%	9.3%	9.2%	10.0%

Source: Company; Sharekhan estimates

Key state budgets provide strong demand outlook

The Ramco cement is expected to benefit from the push of the Kerala and Tamil Nadu state government towards infrastructure and housing sectors as highlighted in their budget 2021-22.

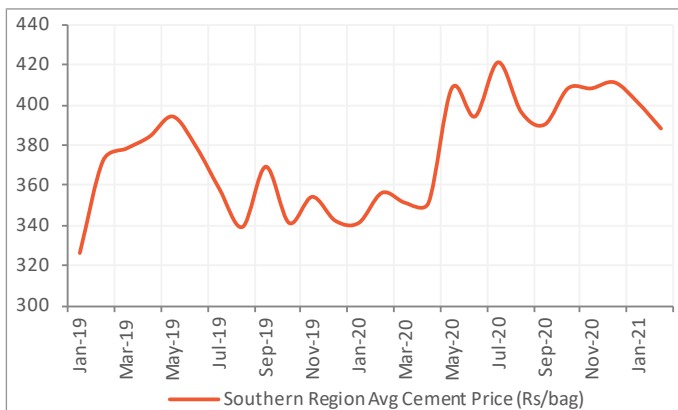
In Kerala, the construction of three industrial corridors (Kochi-Palakkad, Kochi-Mangalore, and Capital City Regional Development) involving investment of about Rs 50,000 crore will begin in 2021-22. For property transactions, the stamp duty will be reduced from 8% to 4% and the registration fee will be reduced from 2% to 1%. A policy to encourage eco-friendly construction of buildings will be formulated which include incentives like 20% reduction in local building tax, 50% reduction in one-time building tax, and 1% reduction in stamp duty during the transaction. Expenditure on transport increased by 4% from 2020-21 RE to Rs. 5659 crore (Rs.1640 crore allocated as capital outlay on roads and bridges). Water Supply, Sanitation, Housing and Urban Development see rise of 35% in expenditure allocation to Rs. 3757 crore (Rs. 720 crore allocated towards AMRUT, Rs. 400 crore towards smart cities mission). Irrigation and flood control see 50% higher allocation to Rs. 1213 crore.

Likewise, Tamil Nadu in the recent interim Budget 2021-22 highlighted that it has granted approval to 62 investment projects worth Rs. 39,941 crore. PM Housing scheme is allocated Rs. 3700 crore. About Rs. 5171 crore allocated for phase 2 of road development projects, Rs. 6448 crore for Chennai-Kanyakumari industrial route project. About Rs. 3140 crore allocated for development projects by the Greater Chennai Corporation. The state also received Rs. 1492 crore stimulus from World Bank to finance state housing sector.

Cement prices in Jan-Feb 2021 higher 13% versus Q4FY2020

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 the south are up 9% y-o-y (down 3.2% m-o-m in February 2021). Southern region has been able to retain the major portion of the hike, with January-February 2021 prices still up by 12.9% as compared to Q4FY2020. As witnessed in Q2FY2021 and Q3FY2021, blended realizations rise of 16.8% y-o-y and 12.7% y-o-y respectively which aided in 2x y-o-y rise in EBITDA/tonne for the same periods despite weak volume offtake. During Q4FY2021, we expect Ramco cement to benefit from sustained pricing discipline maintained in Q4FY2021 till date leading to maintaining healthy uptick in operational performance.

South India Cement Price Trend



Source: Company; Sharekhan Research

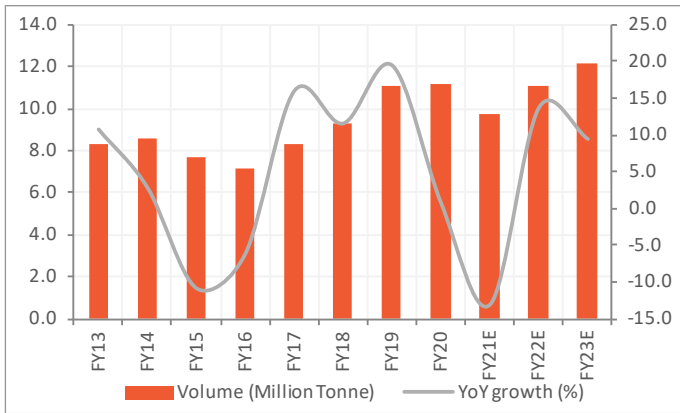
Region wise cement price trend

Price trend (Rs/bag)	Feb-21	MoM (%)	YoY (%)	Jan-Feb	Vs Q4FY20 (%)	Vs Q3FY21 (%)
West	341	0.1	1.9	341	2.4	-0.1
North	359	0.0	-0.5	359	1.0	-2.0
Central	351	0.4	-1.7	351	-0.6	-0.3
South	388	-3.2	9.0	395	12.9	-3.5
East	313	-3.1	-6.0	318	-2.2	-0.5
Pan India	351	-1.2	0.6	353	2.8	-1.4

Source: Industry; Sharekhan Research

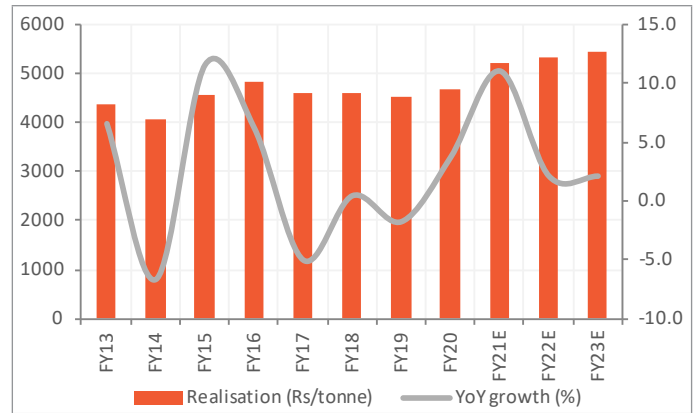
Financials in charts

Cement volume trend



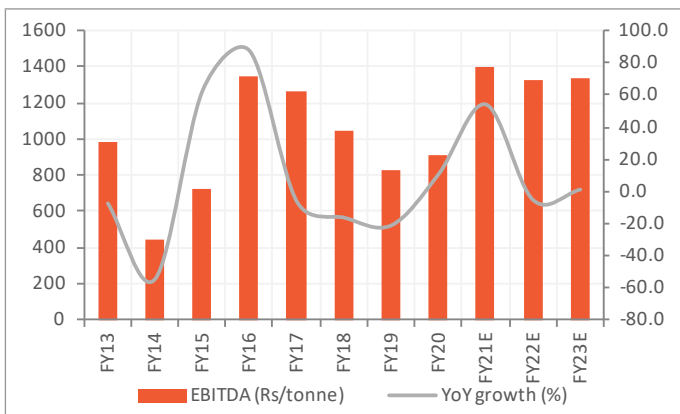
Source: Company, Sharekhan Research

Realisation trend



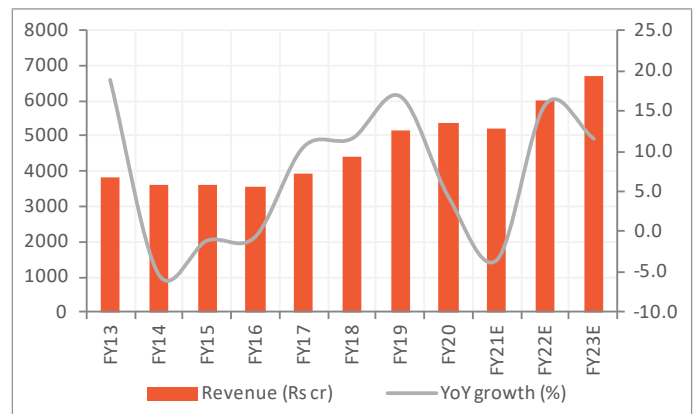
Source: Company, Sharekhan Research

EBITDA/tonne trend



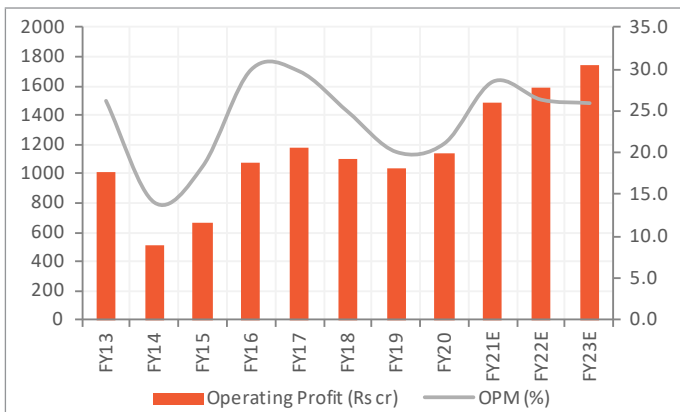
Source: Company, Sharekhan Research

Revenue trend



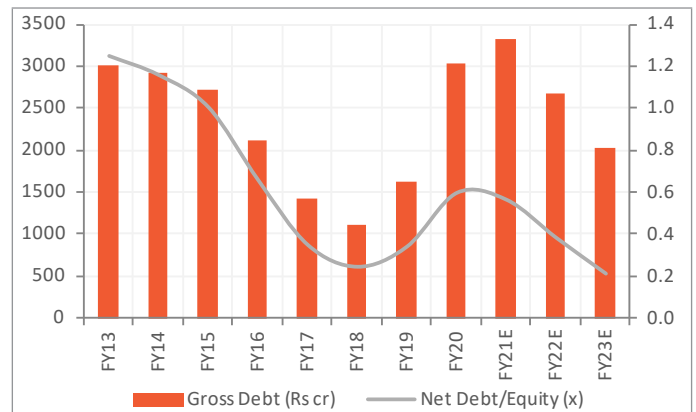
Source: Company, Sharekhan Research

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 a sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been rising over the past five years. Amid the COVID-19 led disruption, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand is expected to pick up from Q3FY2021, as labourers return 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.

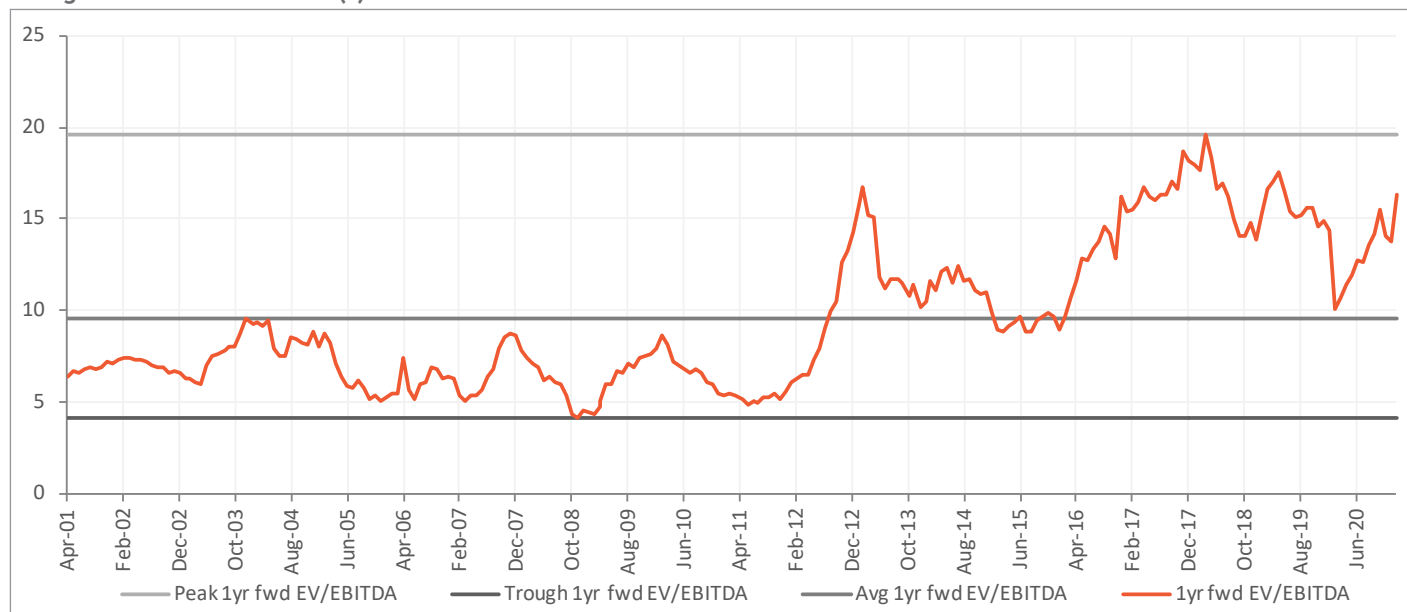
■ Company outlook - Expect strong demand bounce back in FY2022

The COVID-19 led disruption lowered capacity utilisation during Q1FY2021 for Ramco, in line with the industry. Q2FY2021 and Q3FY2021 were affected by COVID-led restrictions and heavy rainfall in key southern markets. However, we expect cement demand to rebound in FY2022. Further, cement prices rose steeply in the key southern region in Q1FY2021, which should help in maintaining strong operational profitability going ahead. Hence, overall, we believe the improvement in the demand environment along with healthy pricing discipline in the Southern region is expected to benefit Ramco during FY2022.

■ Valuation - Retain Buy with a revised PT of Rs. 1150:

We expect Ramco to benefit from a strong pricing discipline in South India, while demand sees sharp pick up in FY2022 led by rising state government spending on infrastructure and housing sectors in Tamil Nadu and Kerala. Its ongoing expansion plans provide ample room to capture future growth potential. The company's balance sheet is expected to remain strong despite its aggressive expansion plans. Although the stock is trading near historical average valuation at an EV/EBITDA of 15.8x/13.9x 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. 1150.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
UltraTech	34.2	28.7	16.8	14.2	3.9	3.4	12.0	12.7
Shree Cement	40.1	35.2	19.7	17.2	5.9	5.1	15.6	15.5
The Ramco Cement	26.6	23.5	15.8	13.9	3.5	3.1	14.2	14.1
JK Lakshmi Cement	13.6	11.1	5.5	4.6	1.9	1.6	14.8	15.7

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 and 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 19.6mtby 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 Vaithyanathan	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

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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 deteriorating 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

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