Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

The Ramco Cements Limited

Capacity additions and efficiencies to drive profitable growth

Cement	Sharekhan code: RAMCOCEM	Result Update

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. 973**	
Price Target: **Rs. 1,250**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

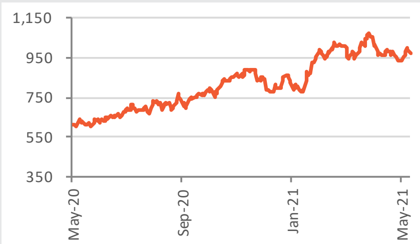
Company details

Market cap:	Rs. 22,945 cr
52-week high/low:	Rs. 1,120 / 550
NSE volume: (No of shares)	9.0 lakh
BSE code:	500260
NSE code:	RAMCOCEM
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	42.5
FII	8.3
DII	26.6
Others	22.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	-1.1	13.8	59.0
Relative to Sensex	-3.3	-0.4	-1.8	-6.5

Sharekhan Research, Bloomberg

Summary

- We maintain Buy The Ramco Cements Limited (Ramco) with a revised PT of Rs. 1,250, factoring upwardly revised estimates and strong earnings growth outlook.
- In Q4FY2021, the company reported marginally lower-than-expected operational performance owing to clinker capacity constraints, while net earnings were lower on account of higher tax outgo.
- The commissioning of 3.75MT clinker capacities in FY2022 would ease clinker capacity constraints, aiding in capturing pent-up demand as COVID-led restrictions are reversed.
- The company would unveil the next round of capacity expansion plans, balancing leverage and growth opportunities.

For Q4FY2021, The Ramco Cements Limited (Ramco) reported marginally lower-than-expected operational performance, owing to clinker capacity constraints, while net earnings were lower on account of a higher effective tax rate (ETR). Standalone revenue rose by 17.3% y-o-y (up 21.8% q-o-q) to Rs. 1,631 crore, led by a 9.5% y-o-y rise in cement volumes, while blended realisations were up 7.5% y-o-y (almost flat q-o-q). The company witnessed a strong demand environment during Q4FY2021, in line with the industry, which led to 92% utilisation rate based on clinker capacity for Q4FY2021 (March 2021 witnessing 100% utilisation based on clinker capacity). Hence, the company's volume numbers were lower due to clinker capacity constraints. Blended EBITDA per tonne (excluding other operating income) stood at Rs. 1,370 (up 50.6% y-o-y, down 4.4% q-o-q), which was marginally lower than our estimate on account of rise in raw-material costs (up 16.2% y-o-y, up 13.8% q-o-q) owing to purchase of clinker (1.49 lakh purchased clinker consumption). However, power and fuel costs per tonne declined by 11% y-o-y (down 5.7% q-o-q) owing to lower consumption of high cost pet coke (23% pet coke mix versus 57% in Q4FY2020) and procurement of coal at lower cost. Overall, operating profit rose by 60.8% y-o-y to Rs. 449 crore. Healthy revenue growth and OPM led to net profit growth of 46.7% y-o-y to Rs. 214 crore (lower than our estimate on account of higher ETR). With regards to capacity expansion, the company's clinker units of 1.5 MTPA and 2.25 MTPA at Jayanthipuram and Kurnool is delayed due to COVID-led challenges and is now expected to commission during Q1FY2022 and H2FY2022, respectively. The 1MTPA grinding unit, a 12MW waste heat recovery system (WHRS), and an 18 MW thermal power plant in Kurnool are expected to be commissioned during FY2023. The company incurred capex of Rs. 1,766 crore during FY2021, while it is left with balance capex of Rs. 500 crore-600 crore for ongoing expansions, which will be incurred during FY2022. The company's gross debt stood at Rs. 3,102 crore with D/E at 0.55x as on FY2021 end. Management would be coming up with new expansion plans, balancing leverage and growth opportunities. It would not shy away with projects having less than two years payback, which might increase debt by Rs. 400 crore-500 crore. We have fine tuned our estimates, factoring lower volume offtake and higher EBITDA/tonne for FY2022-FY2023E. Ramco is trading at an EV/EBITDA of 14.9x/13.2x its FY2022E/FY2023E earnings, which we believe leaves room for further upside. Hence, we maintain Buy with a revised price target (PT) of Rs. 1,250.

Key positives

- Reduction in receivables and inventory led by receipts from TN electricity board and strong demand, respectively.
- To unveil new capacity expansion plan shortly.

Key negatives

- Clinker capacity constraints and purchases marginally affected volume offtake and increased raw-material costs.
- Ongoing expansion delayed on account of labour availability due to COVID-19.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,250: We expect Ramco to benefit from strong demand and pricing discipline in South India as its upcoming clinker capacities come on stream during FY2022. The company continues to maintain its cost-efficient structure, leading to enhanced operational profitability. The announcement of new capacity expansion plans would provide the next leg of growth for the company. The company's balance sheet is expected to remain strong despite its expansion plans. We have fine tuned our estimates, factoring lower volume offtake and higher EBITDA/tonne for FY2022-FY2023E. Ramco is trading at an EV/EBITDA of 14.9x/13.2x its FY2022E/FY2023E earnings, which we believe leaves room for further upside. Hence, we maintain a Buy rating with a revised price target (PT) of Rs. 1,250.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	5,368	5,268	5,851	6,650
OPM (%)	21.2	29.4	29.3	28.8
Adjusted PAT	601	804	964	1,110
% YoY growth	*18.8*	*33.8*	*19.9*	*15.1*
Adjusted EPS (Rs.)	25.5	34.1	40.9	47.1
P/E (x)	38.1	28.5	23.8	20.7
P/B (x)	4.7	4.1	3.5	3.0
EV/EBITDA (x)	22.6	16.6	14.9	13.2
RoNW (%)	12.8%	15.3%	15.9%	15.8%
RoCE (%)	8.3%	9.2%	10.1%	10.6%

Source: Company; Sharekhan estimates

Marginally lower-than-expected performance owing to clinker capacity constraints

For Q4FY2021, Ramco reported marginally lower-than-expected operational performance owing to clinker capacity constraints, while net earnings were lower on account of a higher effective tax rate (ETR). Standalone revenue rose by 17.3% y-o-y (up 21.8% q-o-q) to Rs. 1,631 crore, led by a 9.5% y-o-y rise in cement volumes, while blended realisations were up 7.5% y-o-y (almost flat q-o-q). The company witnessed a strong demand environment during Q4FY2021, in line with the industry, which led to 92% utilisation rate based on clinker capacity for Q4FY2021 (March 2021 witnessing 100% utilisation based on clinker capacity). Hence, the company's volume numbers were lower due to clinker capacity constraints. Blended EBITDA per tonne (excluding other operating income) stood at Rs. 1,370 (up 50.6% y-o-y, down 4.4% q-o-q), which was marginally lower than our estimate on account of rise in raw-material costs (up 16.2% y-o-y, up 13.8% q-o-q) owing to purchase of clinker (1.49 lakh purchased clinker consumption). However, power and fuel costs per tonne declined by 11% y-o-y (down 5.7% q-o-q), owing to lower consumption of high-cost pet coke (23% pet coke mix versus 57% in Q4FY2020) and procurement of coal at lower cost. Overall, operating profit rose by 60.8% y-o-y to Rs. 449 crore. Healthy revenue growth and higher OPM led to net profit growth of 46.7% y-o-y to Rs. 214 crore (lower than our estimates on account of higher ETR).

Expect new capacity addition plans to capture growth opportunities

The company's ongoing capex plan of Rs. 3,500 crore to create new grinding and clinkerisation capacities would help it tap the growth potential in the eastern region and establish itself as a major player. With regards to capacity expansions, its clinker units of 1.5 MTPA and 2.25 MTPA at Jayanthipuram and Kurnool, respectively, are delayed due to COVID-led challenges and are now expected to commission during Q1FY2022 and H2FY2022. The 1MTPA grinding unit, a 12MW waste heat recovery system (WHRS) and an 18 MW thermal power plant in Kurnool are expected to be commissioned during FY2023. The company incurred capex of Rs. 1,766 crore during FY2021, while it is left with balance capex of Rs. 500 crore-600 crore for ongoing expansions, which will be incurred during FY2022. The company's gross debt stood at Rs. 3,102 crore with D/E at 0.55x as of FY2021 end. Management would be coming up with new expansion plans, balancing the leverage and growth opportunities. The company would not shy away with projects having less than two years payback, which might increase debt by Rs. 400 crore-500 crore.

Key Conference Call highlights

- **Demand environment:** The company had normal dispatches from April 2021 till May 10, 2021. Post this, demand was affected by COVID-led lockdown. However, till today. the company operated at 65% capacity utilisation. Cement prices were much better than Q4FY2021.
- **Capacity utilisation:** Clinker capacity utilisation for Q4FY2021 was 92% in Q4FY2021 versus 93% in Q4FY2020. For March 2021, the company operated at 100% clinker capacity utilisation. Capacity utilisation based on clinker capacity was 73% for FY2021 versus 90% for FY2020. The company's cement volume declined by 11% for FY2021 versus industry's decline of 12%. The company's growth for Q4FY2021 was lower on account of lower clinker capacity.
- **Capacity expansion:** Expansion projects in Jayanthipuram and Kurnool were delayed due to COVID. The clinkering unit of 1.5 MT in Jayanthipuram is expected to be completed by June 2021. The company commissioned 18MW of WHRS, out of 27MW, during FY2021 and the balance 9MW is expected during FY2022. The clinkering unit of 2.25MW in Kurnool is expected to commission during H2FY22. The 1 MTPA cement grinding facility, 12MW of WHRS, and 18MW of TPP in Kurnool are expected to be commissioned during FY2023.
- **Capex:** The company incurred Rs. 1,766 crore in FY2021 and Rs. 600 crore in Q4FY2021. The balance capex of Rs. 500 crore-600 crore for the ongoing expansion would be done in FY2022, apart from Rs. 100 crore-150 crore maintenance capex. The company would be announcing further expansion plans in the next quarter.
- **Debt:** The company's gross debt stood at Rs. 3,102 crore and net debt stood at Rs. 2,996 crore, of which Rs. 217 crore is interest free. The company would balance leverage and growth for the upcoming capacity

expansion plans. The company would take up a project if the payback is less than two years even though it increases debt by Rs. 300 crore-400 crore.

- **Fuel cost:** Pet coke prices increased from $70 to $110 in FY2021. Pet coke consumption decreased from 48% in FY2020 to 41% in FY2021. It decreased from 57% in Q4FY2020 to 23% in Q4FY2021. The company was able to procure coal at a lower cost, leading to lower power and fuel cost for Q4. The company expects reduction in power cost per tonne for FY2022. The average inventory price for coal in Q4 was $75-$80.
- **Working capital:** The company was able to receive Rs. 139 crore from the electricity board in FY2021 (Rs. 61 crore in Q4) and was able to clear up inventory pile up, which overall led to lower working capital.

Results Rs cr

Particulars	Q4FY2021	Q4FY2020	Y-o-Y %	Q3FY2021	Q-o-Q %
Net Sales	**1630.6**	**1389.9**	**17.3%**	**1339.1**	**21.8%**
Total Expenditure	1181.6	1110.7	6.4%	942.1	25.4%
Operating profits	**449.0**	**279.2**	**60.8%**	**397.0**	**13.1%**
Other Income	9.9	11.4	-13.1%	6.4	55.6%
EBIDTA	458.9	290.6	57.9%	403.3	13.8%
Interest	15.2	21.6	-29.7%	16.0	-5.1%
PBDT	443.7	269.0	65.0%	387.4	14.6%
Depreciation	95.8	83.3	15.1%	89.6	6.9%
PBT	**347.9**	**185.7**	**87.3%**	**297.7**	**16.9%**
Tax	133.6	39.6	237.5%	96.4	38.6%
Extraordinary items	0.0	0.0	-	0.0	
Reported Profit After Tax	214.4	146.2	46.7%	201.4	6.5%
Adjusted PAT	**214.4**	**146.2**	**46.7%**	**201.4**	**6.5%**
EPS	9.0	6.1	46.7%	8.5	6.5%
			BPS		**BPS**
OPMs	27.5%	20.1%	745	29.6%	-211
PAT	13.1%	10.5%	263	15.0%	-189
Tax rate	38.4%	21.3%	1708	32.4%	601

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. The cement industry is expected to witness improvement in demand as the situation normalises from the second wave of COVID-19, led by infrastructure and rural demand. Strong pick up in the residential real estate sector is expected to sustain after the second wave of COVID-19. 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.

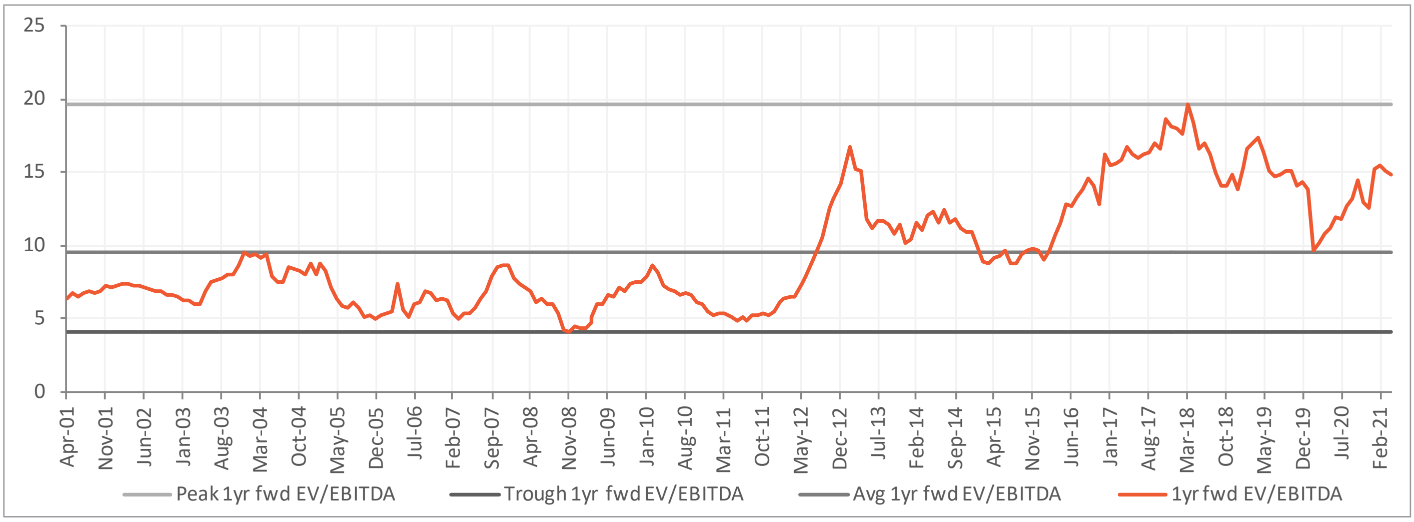
■ Company outlook – Capacity additions expected to capture growth opportunities

The company's ongoing capex plan of Rs. 3,500 crore to create new grinding and clinkerisation capacities would help it tap the growth potential in the eastern region and establish itself as a major player. With regards to capacity expansion, the company's clinker units of 1.5 MTPA and 2.25 MTPA at Jayanthipuram and Kurnool, respectively, are delayed due to COVID-led challenges and are now expected to commission during Q1FY2022 and H2FY2022. The 1MTPA grinding unit, a 12MW waste heat recovery system (WHRS), and an 18 MW thermal power plant in Kurnool are expected to be commissioned during FY2023. Management would be coming up with new expansion plans, balancing leverage and growth opportunities. The company would not shy away with projects having less than two years payback, which might increase debt by Rs. 400 crore-500 crore.

■ Valuation – Retain Buy with a revised PT of Rs. 1,250

We expect Ramco to benefit from strong demand and pricing discipline in South India as its upcoming clinker capacities come on stream during FY2022. The company continues to maintain its cost-efficient structure, leading to enhanced operational profitability. The announcement of new capacity expansion plans would provide the next leg of growth for the company. The company's balance sheet is expected to remain strong despite its expansion plans. We have fine tuned our estimates, factoring lower volume offtake and higher EBITDA/tonne for FY2022-FY2023E. Ramco is trading at an EV/EBITDA of 14.9x/13.2x its FY2022E/FY2023E earnings, which we believe leaves room for further upside. Hence, we maintain Buy with a revised PT of Rs. 1,250.

One-year forward P/E (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	28.6	16.5	14.0	3.9	3.5	12.1	12.8
Shree Cement	37.3	32.7	19.5	16.9	5.5	4.8	15.9	15.7
The Ramco Cement	23.8	20.7	14.9	13.2	3.5	2.0	15.9	15.8
JK Lakshmi Cement	15.2	12.6	7.0	5.9	2.6	2.2	18.2	18.6

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 19.6mt 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 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 Vaithiyanathan	Chief Financial Officer
K Selvanayagam	Company Secretary andCompliance 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.	6.87
4	L&T Mutual Fund Trustee Ltd./India	4.09
5	Republic of India	3.39
6	GOVT TAMIL NADU	3.39
7	SBI Funds Management	3.01
8	HDFC LIFE INSURA	2.29
9	Sundaram Asset Management Co. Ltd.	2.09
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

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