Sharekhan
by BNP PARIBAS

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Stock Update

The Ramco Cements Ltd

A regional aberration in Q1; Positive outlook intact

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. 1,060**	
Price Target: **Rs. 1,310**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

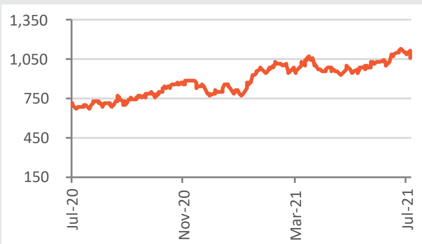
Company details

Market cap:	Rs. 25,009 cr
52-week high/low:	Rs. 1,131 / 667
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	8.6
DII	25.7
Others	23.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.1	8.4	35.0	48.1
Relative to Sensex	2.4	2.7	22.9	11.5

Sharekhan Research, Bloomberg

Summary

- We maintain Buy The Ramco Cements Limited (Ramco) with a revised PT of Rs. 1,310, considering the improving demand and pricing environment in its regional markets.
- The company reported lower than estimated earnings in Q1FY22 affected by strict lockdowns in key regional markets viz. Tamil Nadu & Kerala due to the second wave of COVID. However, EBITDA/Tonne remained broadly in-line.
- Management is confident of 20% y-o-y volume growth for FY2022 barring the possibility of a third wave impact expecting Southern markets to outpace other regional markets in terms of growth.
- The commissioning of 2.75MT clinker capacity before Q2FY2022 to improve clinker availability. Addition of 1MTPA cement capacity, 18MW WHRS & 18MW TPP to be completed by FY2023.

The Ramco Cements Limited (Ramco) reported lower than estimated earnings in Q1FY22 affected by strict lockdowns in key regional markets viz. Tamil Nadu & Kerala due to the second wave of COVID . However, EBITDA/Tonne remained broadly in-line. Standalone revenue rose by 17.9% y-o-y (down 24.6% q-o-q) to Rs. 1,229 crore, led by a 10.5% y-o-y (down 33.3% q-o-q) rise in cement volumes, while blended realisations were up 6.6% y-o-y (up 9.7% q-o-q). The company cement volumes came in below than estimates as Q1FY2022 was affected by lower output during April 2021 on account of maintenance led shutdown while May and June 2021 were affected by the imposition of strict lockdowns in its key southern states (Tamil Nadu and Kerala). The company's eastern volumes grew by more than 30% y-o-y while there was a dip in offtake from Kerala and Karnataka regions. The blended realizations were up 6.6% y-o-y (+9.7% q-o-q) at Rs. 5538/T (our estimate of Rs. 5505/T) led by a sharp rise in cement prices in Southern and Eastern regions. The blended standalone EBITDA/T at Rs. 1499 (+29.1% y-o-y, +9.5% q-o-q) was lower than our estimate of Rs. 1538/T primarily due to higher than expected power & fuel costs at Rs. 1031/T (+32.1% y-o-y, +33.6% q-o-q) and other expense at Rs. 748/T (+1.4% y-o-y, +23.8% q-o-q). Overall, standalone operating profit grew by 40% y-o-y (-18.9% q-o-q) at Rs. 364 crore (lower than our estimate). The Standalone net profit at Rs. 169 crore (+54.2% y-o-y, -21.2% q-o-q) was lower than our estimate on account of lower than expected volume and higher than expected interest expense (up 60% q-o-q to Rs. 24.3 crore led by increased working capital requirement). The management is hopeful of achieving 20% y-o-y volume growth for FY2022 if the period is not affected significantly by the third wave of COVID. The company's current capacity utilization is at 85-90%. It expects southern markets to recover at a faster clip than other regional markets. The company commissioned its 1.5MTPA clinker capacity at Jayanthipuram (stabilized to 80% capacity within one week of commissioning) on June 28, 2021. Its 2.25 MTPA clinker capacity at Kurnool expected to commission before Q2FY2022. The addition of 3.75MTPA clinker capacity can incrementally add 5-5.5MTPA cement volumes during FY2023. 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 is left with Rs. 400 crores capex on its existing projects including its dry mortar business (Rs. 160 crores). Its new clinker line with 3000 TPD capacity at Ramasamy Raja Nagar is expected to commission by Q3FY2023 at a cost of Rs. 476 crore which would lead to minimum Rs. 50 crore cost savings. The company's gross debt increased to Rs. 3700 crore from Rs. 3,102 crore in FY2021 due to increased working capital requirement. However, it expects working capital to normalise by Q3FY2022. We have fine tuned our estimates for FY2022-FY2023E. We introduce FY2024E earnings in this note. Ramco is trading at an EV/EBITDA of 15.1x/13.7x its FY2023E/FY2024E earnings, which we believe leaves room for further upside. Hence, we maintain Buy with a revised price target (PT) of Rs. 1,310.

Key positives

- Stabilization of 1MTPA clinker capacity and addition of 2.75MTPA expected by Q2FY2022.
- Management hopeful of achieving 20% y-o-y volume growth for FY2022 ex-covid third wave.

Key negatives

- Lower volumes on account of maintenance led shutdown and lockdown restrictions in key regional states.
- Increase in working capital requirement led to higher debt but expected to reverse over next two quarters.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,310: We expect Ramco to revert to a healthy volume growth in FY2022 with easing of covid led restrictions in its key southern states and commissioning of its upcoming clinker capacities. The favourable pricing environment in Southern and Eastern regions would aid in sustaining operational profitability in wake of rising power & fuel and freight costs. The 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 for FY2022-FY2023E. We introduce FY2024E earnings in this note. Ramco is trading at an EV/EBITDA of 15.1x/13.7x its FY2023E/FY2024E earnings, which we believe leaves room for further upside. Hence, we maintain Buy with a revised price target (PT) of Rs. 1,310.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	5,268	6,182	7,001	7,734
OPM (%)	29.4	27.5	26.9	26.3
Adjusted PAT	804	945	1,078	1,186
% YoY growth	*33.8*	*17.5*	*14.0*	*10.0*
Adjusted EPS (Rs.)	34.1	40.1	45.7	50.3
P/E (x)	32.5	27.6	24.2	22.0
P/B (x)	4.6	4.0	3.5	3.0
EV/EBITDA (x)	18.7	17.0	15.1	13.7
RoNW (%)	15.3%	15.6%	15.4%	14.8%
RoCE (%)	9.2%	9.9%	10.4%	10.6%

Source: Company; Sharekhan estimates

Cement volumes affected by stricter lockdown in key southern states

The Ramco Cements Limited (Ramco) reported lower than estimated earnings in Q1FY22 affected by strict lockdowns in key regional markets viz. Tamil Nadu & Kerala due to the second wave of COVID. However, EBITDA/Tonne remained broadly in-line. Standalone revenue rose by 17.9% y-o-y (down 24.6% q-o-q) to Rs. 1,229 crore, led by a 10.5% y-o-y (down 33.3% q-o-q) rise in cement volumes, while blended realisations were up 6.6% y-o-y (up 9.7% q-o-q). The company cement volumes came in below than estimates as Q1FY2022 was affected by lower output during April 2021 on account of maintenance led shutdown while May and June 2021 were affected by the imposition of strict lockdowns in its key southern states (Tamil Nadu and Kerala). The company's eastern volumes grew by more than 30% y-o-y there was a dip in offtake from Kerala and Karnataka regions. The Blended realizations were up 6.6% y-o-y (+9.7% q-o-q) at Rs. 5538/T (our estimate of Rs. 5505/T) led by sharp rise in cement prices in Southern and Eastern regions. The blended standalone EBITDA/T at Rs. 1499 (+29.1% y-o-y, +9.5% q-o-q) was lower than our estimate of Rs. 1538/T primarily due to higher than expected power & fuel costs at Rs. 1031/T (+32.1% y-o-y, +33.6% q-o-q) and other expense at Rs. 748/T (+1.4% y-o-y, +23.8% q-o-q). Overall, standalone operating profit grew by 40% y-o-y (-18.9% q-o-q) at Rs. 364 crore (lower than our estimate). The standalone net profit at Rs. 169 crore (+54.2% y-o-y, -21.2% q-o-q) was lower than our estimate on account of lower than expected volume, EBITDA/tone and higher than expected interest expense (up 60% q-o-q to Rs. 24.3 crore led by increased working capital requirement).

New capacity addition plans to capture growth opportunities

The management is hopeful of achieving 20% y-o-y volume growth for FY2022 if the period is not affected significantly by the third wave of COVID. The company's current capacity utilization is at 85-90%. It expects Southern markets to recover at a faster clip than other regional markets. The company commissioned its 1.5MTPA clinker capacity at Jayanthipuram (stabilized to 80% capacity within one week of commissioning) on June 28, 2021. Its 2.25 MTPA clinker capacity at Kurnool expected to commission before Q2FY2022. The addition of 3.75MTPA clinker capacity can incrementally add 5-5.5MTPA cement volumes during FY2023. 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 is left with Rs. 400 crores capex on its existing projects including its dry motar business (Rs. 160 crores). Its new clinker line with 3000 TPD capacity at Ramasamy Raja Nagar is expected to commission by Q3FY2023 at a cost of Rs. 476 crore which would lead to minimum Rs. 50 crore cost savings. The company's gross debt increased to Rs. 3700 crore from Rs. 3,102 crore in FY2021 due to increased working capital requirement. However, it expects working capital to normalcy by Q3FY2022.

Key Conference Call highlights

- **Weak volumes in Q1FY2022:** The company was affected by weak volume offtake in Southern region during Q1FY2022. During May 2021 and early part of June, its key southern states markets of Tamil Nadu and Kerala had stringent restrictions on the movement of goods due to the second wave of COVID led by proactive state governments. The Eastern volumes grew by more than 30% y-o-y while Southern volumes declined due to dip in Kerala and Karnataka volumes. In April took maintenance of equipments leading to lower dispatch of 8,50,000 tonnes versus normal 9,50,000 to one million tonnes.
- **Outlook:** The southern retail home demand has bounced back from June and July 2021. The demand from commercial segment and infra has picked up. Weekend lockdowns continued in Kerala. The company is confident of faster recovery in Southern region than other regions. The management expects to achieve 20% volume growth for FY2022 if normalcy returns.
- **Capacity utilisation:** Clinker capacity utilisation for Q1FY22 was 71% Vs 53% in Q1FY2021. The company is currently operating at 85-90% capacity utilisation.
- **Power & fuel:** The company was not able to import coal or pet coke in large quantities in Q4FY2021 which led to lower inventory of the same. However, the average cost of pet coke inventory is $100-115 in Q1FY2022 (higher by $14 versus Q4FY2021) versus current $150-160 (versus $69-70 last year). The company has 3-4 months inventory and hence will not be buying at higher price as of now.
- **Alternate fuel usage:** Alternate fuel supply is sustainable and stocked up for two months and the ratio is expected to improve.

- **Working Capital:** The working capital increased by Rs. 400 crores. It expects it return to normalcy by Q2 end or early Q3FY2022.
- **Capacity expansion:** Within the first week, the company was able to stabilise its 1.5MT clinkering unit in Jayanthipuram at 80% capacity.
- **Capex:** The capex of Rs. 400 crores will be spend on existing projects (excluding R.R.Nagar but including dry mortar).
- **Leverage:** The debt stood at Rs. 3700 crores. It reduced its cost of borrowings by 200bps. The working capital borrowing cost is just 3.4%.
- **Cost savings from R.R.Nagar:** The company is estimating a minimum Rs. 50 crores per annum cost savings from line two and three of R.R.Nagar. The plant being the highest generating EBITDA/T that would lead to incremental profitability.
- **Others:** Trade non-trade mix stood at 75:25. Blending ratio was 77% and OPC 33%. Road Rail mix stood at 88%:12%.
- **Dry Mix plants:** The company is estimating Rs. 50-70 crores turnover potential from each plant.

Results (Standalone) Rs cr

Particulars	Q1FY2022	Q1FY2021	Y-o-Y %	Q4FY2021	Q-o-Q %
Net Sales	1228.7	1041.8	17.9%	1630.6	-24.6%
Total Expenditure	864.7	781.8	10.6%	1181.6	-26.8%
Operating profits	364.0	260.0	40.0%	449.0	-18.9%
Other Income	6.0	10.1	-40.5%	9.9	-39.3%
EBIDTA	370.0	270.1	37.0%	458.9	-19.4%
Interest	24.3	29.9	-18.8%	15.2	60.1%
PBDT	345.7	240.1	44.0%	443.7	-22.1%
Depreciation	95.6	84.4	13.2%	95.8	-0.2%
PBT	250.1	155.7	60.6%	347.9	-28.1%
Tax	81.1	46.1	75.9%	133.6	-39.3%
Extraordinary items	0.0	0.0	-	0.0	
Reported Profit After Tax	169.0	109.6	54.2%	214.4	-21.2%
Adjusted PAT	169.0	109.6	54.2%	214.4	-21.2%
EPS (Rs.)	7.1	4.6	54.2%	9.0	-21.2%
			BPS		**BPS**
OPM	29.6%	25.0%	467	27.5%	209
PAT	13.8%	10.5%	323	13.1%	61
Tax rate	32.4%	29.6%	282	38.4%	-595

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 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. A 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 plans from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

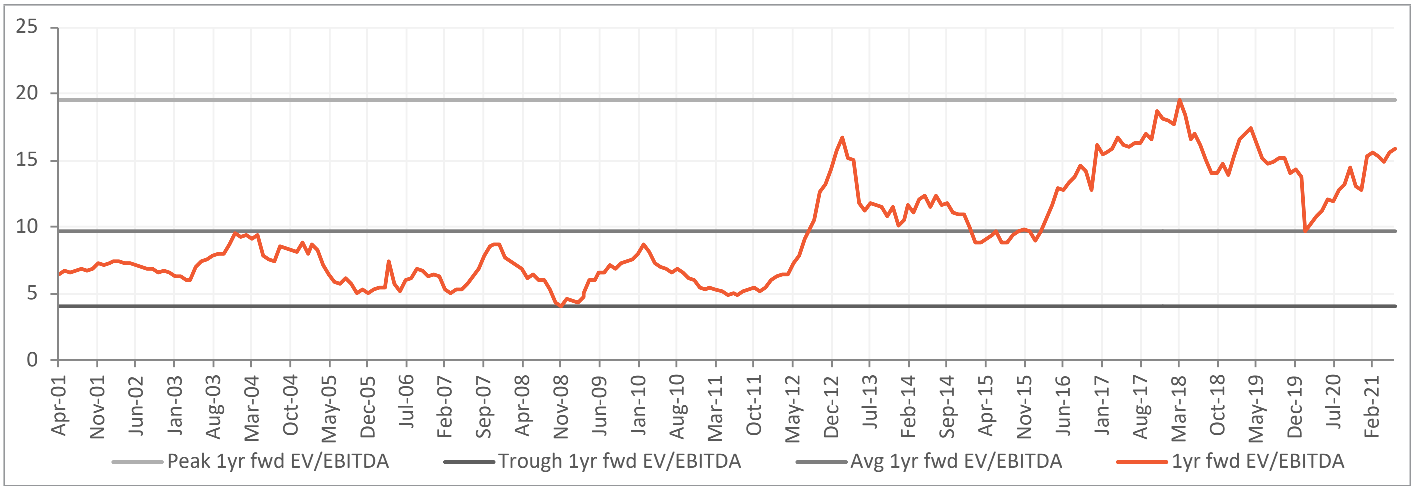
■ Company outlook – Capacity additions expected to capture growth opportunities

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 2.25 MTPA at Kurnool, are slated to commission before Q2FY2022. 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 is left with Rs. 400 crores capex on its existing projects including its dry motar business (Rs. 160 crores). Its new clinker line with 3000 TPD capacity at Ramasamy Raja Nagar is expected to commission by Q3FY2023 at a cost of Rs. 476 crore which would lead to minimum Rs. 50 crore cost savings.

■ Valuation – Retain Buy with a revised PT of Rs. 1,310

We expect Ramco to revert to healthy volume growth in FY2022 with the easing of Covid led restrictions in its key southern states and commissioning of its upcoming clinker capacities. The favourable pricing environment in Southern and Eastern regions would aid in sustaining operational profitability in wake of rising power & fuel and freight costs. The new capacity expansion plans would facilitate 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 for FY2022-FY2023E. We introduce FY2024E earnings in this note. Ramco is trading at an EV/EBITDA of 15.1x/13.7x its FY2023E/FY2024E earnings, which we believe, leaves room for further upside. Hence, we maintain Buy with a revised price target (PT) of Rs. 1,310.

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	31.4	27.6	16.1	14.2	4.4	3.8	15.0	14.8
Shree Cement	38.6	33.9	20.3	17.6	5.7	5.0	15.9	15.7
The Ramco Cement	27.6	24.2	17.0	15.1	4.0	3.5	15.6	15.4
Dalmia Bharat	43.9	35.7	14.3	12.3	3.1	2.8	7.2	8.3
JK Lakshmi Cement	20.9	17.3	10.0	8.5	3.5	3.0	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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