Ramco Cements (RAMCEM)

CMP: ₹ 1014 | Target: ₹ 1,200 (18%) | Target Period: 12 months | **BUY**

October 27, 2021

Margin under pressure; demand outlook stays firm…

About the stock: Ramco Cements is the **dominant player in South India** with cement capacity of 19.4 MT spread across Tamil Nadu, Andhra Pradesh, Odisha, West Bengal. In sales terms, south contributes ~71% of sales while east contributes 24%, which is served via grinding units in West Bengal (2 MT) and AP (2 MT).

- The company also has a windmill capacity of 166 MW, captive thermal power plants of 175 MW and 18 MW of WHRS
- Self-reliance on power, split grinding units near markets and focus on green power has helped the company to remain a cost efficient player in South India

Q2FY22 Results: Operational performance remained marginally better than our estimates; tax adjustments inflated profitability during Q2FY22.

- Revenue increased 18% YoY to ₹ 1493 crore. Volumes were up 22.5% YoY to 2.71 MT, realisations were down 3.7% YoY due to monsoon impact
- Cost pressure, high base led to margin contraction of 896 bps YoY to 26.4%
- PAT far higher at ₹ 517 crore due to deferred tax adjustment of ₹ 306 crore

What should investors do? Long operational history, brand equity and cost efficiency has helped the company to raise debt at competitive rates.

- Post completion of major capex, debt levels would peak out while growth to accelerate with revenue CAGR of 22.6%. Hence, maintain **BUY** rating

Target Price and Valuation: We value Ramco at ₹ 1,200 i.e.15.5x FY23E EV/EBITDA

Key triggers for future price performance:

- Incremental volumes from new units (1 MT Odisha GU, 1.5 MT & 2.25 MT clinker unit in Jayanthipuram & Kurnool) would help to grow the business from FY23 onwards
- Expect sales volume CAGR of 18% during FY21-23E
- Debt levels to peak out in FY22E. The company aims to become debt free three years after this

Alternate Stock Idea: Besides Ramco, in our cement sector coverage we also like ACC.

- It has a strong balance sheet with debt frees status. The company is focusing on cost reduction and also adding new capacities via internal accruals
- BUY with a target price of ₹ 2,800/share

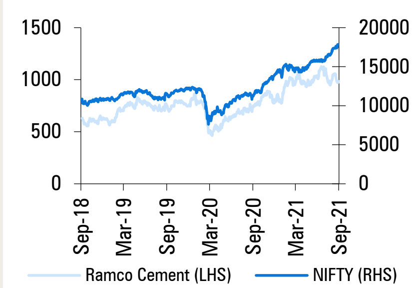
Particulars

Particulars	Amount (₹ crore)
Market Capitalisation	23913.4
Total Debt (FY21)	3102.0
Cash (FY21)	170.0
EV	26845.4
52 week H/L (₹)	884/456
Equity Capital	23.6
Face Value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	42.6	42.6	42.6	42.6
FII	8.0	8.3	8.6	8.7
DII	26.6	26.6	25.7	35.1
Others	22.8	22.5	23.1	13.6

Price Chart



Recent event & key risks

- Any delay in commissioning of new capacities
- Volatility in prices of key inputs like coal/petcoke

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	4406	5146	5389	5268	6.1	6662	7921	22.6
EBITDA	1099	1055	1147	1548	12.1	1690	2030	14.5
EBITDA (%)	25.0	20.5	21.3	29.4		25.4	25.6	
PAT	556	523	601	761	11.1	901	1130	21.9
EPS (₹)	23	22	26	32		38	48	
EV/EBITDA	22.8	24.3	23.7	17.5		16.4	13.3	
EV/Tonne ($)	231	236	213	200		204	191	
RoNW	13.7	11.7	12.2	13.5		13.8	14.8	
RoCE	10.3	8.2	7.5	8.6		9.1	10.4	

Source: Company, ICICI Direct Research

Result Update

ICICI Securities – Retail Equity Research

Key performance highlights

- Sales volumes were at 2.71 MT (up 22.5% YoY, 26.6% QoQ) while blended realisations were down 3.7% YoY, 4.0% QoQ to ₹ 5,510/tonne
- Clinker utilisation was at 74% vs. 71% in Q1FY22 and 53% last year. For H1FY22, it was at 72% vs. 61% last year
- Power & fuel cost per tonne for Q2FY22 was at ₹ 1,056 from ₹ 823 in Q2FY21, up 28.3% YoY. However, the operations of 18 MW WHRS in Jayanthipuram helped to offset the power & fuel cost for the company, to a certain extent
- EBITDA/t declined 28.1% YoY, 14.5% QoQ to ₹ 1,453/t (vs. I-direct estimate: ₹ 1,432/t) on the back of higher cost of production
- Average lead distance was 304 km in Q2FY22. Power mix: Thermal power 72%, green power 15% and grid power 13%. Fuel mix in Q2FY22 was: coal 38%, pet coke 34% and alternate fuel 28%
- The company opted to shift towards lower tax rate from FY22 during the quarter. **The tax rate now will be 25.17% from 34.94% earlier**

Key conference call highlights

- **Demand**: In Q2FY22, cement demand was affected in eastern markets due to heavy monsoons. In the southern region, cement demand was dampened in Kerala due to weekend lockdowns and heavy monsoon during the quarter. We expect cement prices to also remain firm due to high costs. The company took a price hike in October, 2021
- **Cost of production**: The continuous increase in fuel prices would likely push input cost higher in coming quarters. For pet coke, the company currently holds inventory of three to four months. Focus on green power and alternative fuels (undisclosed) would help stabilise power costs, going forward. The share of green power is at 15% (vs. 5% last year), which will further increase to 20% by increasing WHRS capacity from18 MW to 39 MW in FY23E
- **Capex:** FY22E capex is likely to be at ₹ 1300 crore vs. ₹ 800 crore planned earlier on inclusion of capex for modernisation of RR Nagar plant. With this upgradation, the management expects annual cost savings of ₹ 50 crore. Capex for FY23E would be ₹ 500 crore
- The 1 MT GU, 12 MW of WHRS and 18 MW of thermal power plant (TPP) in Kurnool are expected to be commissioned in FY23. The clinkering unit of 2.25 MT in Kurnool is expected to be commissioned during Q4FY22E

Exhibit 1: Variance Analysis

Particulars	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Net Sales	1,493	1,405	1,266	18.0	1,229	21.5	Heavy monsoon in east and weekend lockdown in Kerala affected business though lower base helped to report growth
Total cost of production	1,099.3	1,047.0	818.6	34.3	864.7	27.1	
EBITDA	393.8	358.0	447.3	-12.0	364.0	8.2	Sharp increase in petcoke and diesel prices affected margins
EBITDA Margin (%)	26.4	25.5	35.3	-896 bps	29.6	-325 bps	
Reported PAT	517.1	164.7	238.9	116.4	169.0	206.0	
Key Metrics							
Volume (MT)	2.71	2.50	2.21	22.5	2.14	26.6	
Realisation (₹)	5,510	5,500	5,720	-3.7	5,739	-4.0	
EBITDA per Tonne (₹)	1,453	1,432	2,021	-28.1	1,700	-14.5	

Per tonne Analysis	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
Net Sales	5,510	5,620	5,720	-3.7	5,739	-4.0
Raw Material Expenses	665	610	606	9.7	552	20.5
Employee Expenses	404	450	517	-21.8	490	-17.6
Power and fuel	1,056	1,080	823	28.3	1,031	2.5
Freight	1,233	1,250	1,100	12.0	1,217	1.3
Others	698	678	652	7.1	748	-6.7
Production costs	**4,056**	**4,068**	**3,699**	**9.7**	**4,039**	**0.4**

Source: Company, ICICI Direct Research

Key triggers for future price performance

New capacities to bring efficiency and spur growth from FY23E onwards: Incremental volumes from new units (2 MT already commissioned and 1 MT Odisha GU commissioned in September 2020) would help to grow faster during FY22E. The company has commissioned the clinkering unit of 1.5 MT in Jayanthipuram. Further, 9 MW WHRS in Jayanthipuram and 2.25 MT clinker unit in Kurnool is likely by Q3FY22E & Q4FY22E, respectively. Further, 1 MT GU along with 12 MW WHRS and 18 MW TPP are expected to get commissioned in FY23E. Factoring this along with expected higher realisations to offset against the cost pressure, we model 22.6% revenue CAGR during FY21-23E. While newly commissioned units would lead to a reduction in transit distance for the target markets in East India, the commissioning of total 39 MW WHRS (18 MW in FY21, 9 MW in FY22E and 12 MW in FY23E) would bring efficiencies further going forward (likely cost savings of ₹ 130 crore per annum).

Debt levels to peak out in FY23E; Aims to become debt free in three years post that: During FY21, the company incurred ₹ 1,766 crore. In H1FY22, it incurred ₹ 902 crore towards capex. Further capex of ₹ 1300 crore and ₹ 500 crore to be incurred during H2FY22 and FY23E, respectively, to fund the ongoing capex (TPP 18 MW WHRS 21 MW, Kurnool expansion & dry mortar). While debt levels would rise, debt/EBITDA would improve from 2.0x in FY21 to 1.5x by FY23E. Average cost of interest on debt for the company is now reduced to 5.51% vs. 6.49% earlier. This is much lower than RoCE. Hence, once capex is complete, it would help improve RoE in double digits.

Valuation & Outlook

Long history of operations, brand equity, low cost producer and a healthy b/s are factors that helped the company to raise debt at competitive rates. We expect these factors to drive robust performance in the future as well. We maintain our BUY rating with a TP of ₹ 1200/share (valuing the company at 15.5x FY23E EV/EBITDA).

Exhibit 2: Change in estimates

	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	Comments
Revenue	6,367.3	6,661.7	4.6	7,585.8	7,920.9	4.4	
EBITDA	1,732.3	1,690.0	-2.4	2,114.1	2,030.5	-4.0	
EBITDA Margin (%)	27.2	25.4	-184 bps	27.9	25.6	-223 bps	

Source: Company, ICICI Direct Research

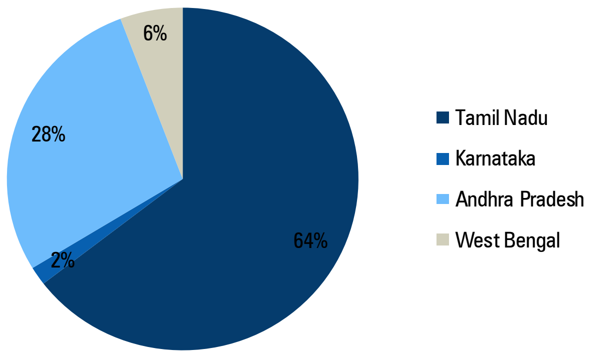
Financial story in charts

Exhibit 3: Capacity addition timeline

Integrated unit	FY19	FY20	FY21	FY22E	FY23E
RR Nagar, Tamil Nadu	2.0	2.0	2.0	2.0	2.0
Alathiyur, Tamil Nadu	3.1	3.1	3.1	3.1	3.1
Ariyalur, Tamil Nadu	3.5	3.5	3.5	3.5	3.5
Jayanthipuram, AP (1.5MT clinker unit added in June-21)	3.6	3.6	3.6	3.6	3.6
Total [A]	**12.2**	**12.2**	**12.2**	**12.2**	**12.2**
Grinding Unit					
Uthiramerur, Tamil Nadu	0.5	0.5	0.5	0.5	0.5
Salem, Tamil Nadu	1.6	1.6	1.6	1.6	1.6
Kolaghat, West Bengal	1.0	**2.0**	2.2	2.2	2.2
Vizag, Andhra Pradesh	1.0	**2.0**	2.0	2.0	2.0
Jajpur Odisha Grinding Unit			**0.9**	0.9	0.9
Kurnool, Andhra Pradesh (2.25 MT Clinker tobe added in Q4FY22E)					**1.0**
Total [B]	**4.1**	**6.1**	**7.2**	**7.2**	**8.2**
Total Capacity [A+B]	**16.2**	**18.3**	**19.4**	**19.4**	**20.4**

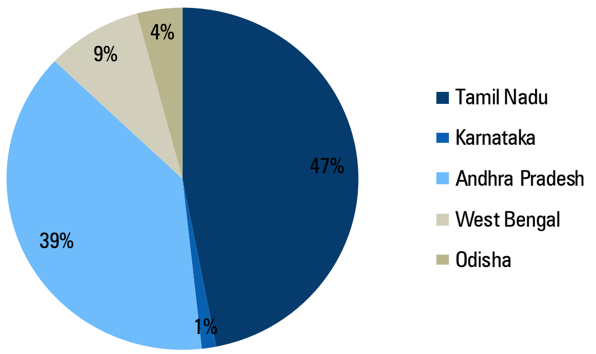
Source: Company, ICICI Direct Research

Exhibit 4: Regional capacity mix (pre-expansion)



Source: Company, ICICI Direct Research

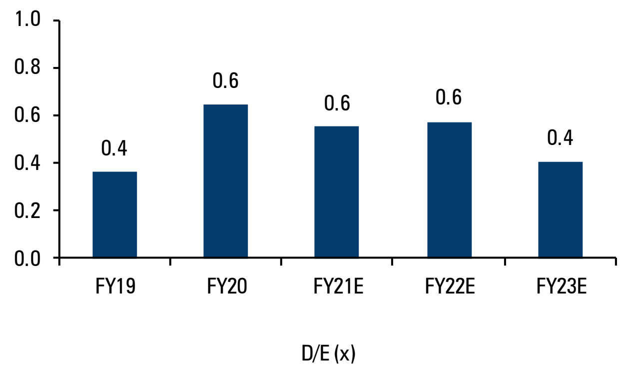
Exhibit 5: Regional capacity mix (post-expansion)



Source: Company, ICICI Direct Research

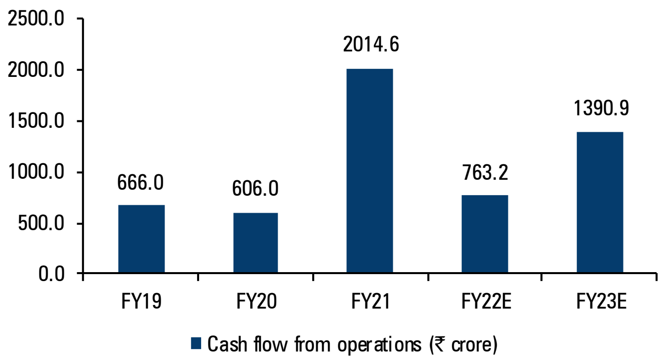
Expansion not expected to exert pressure on balance sheet

Exhibit 6: Debt to equity ratio to stay at comfortable levels



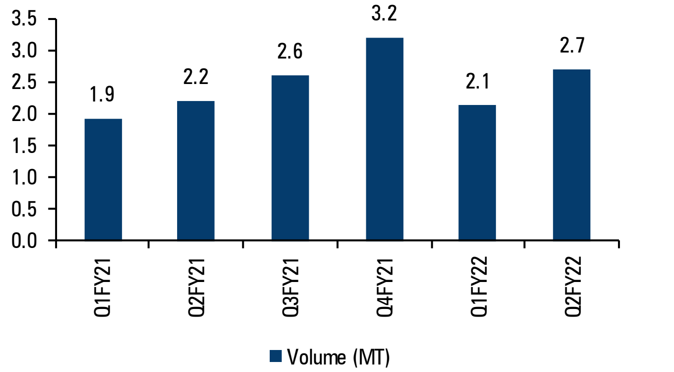
Source: Company, ICICI Direct Research

Exhibit 7: Strong operational cash flows to support growth



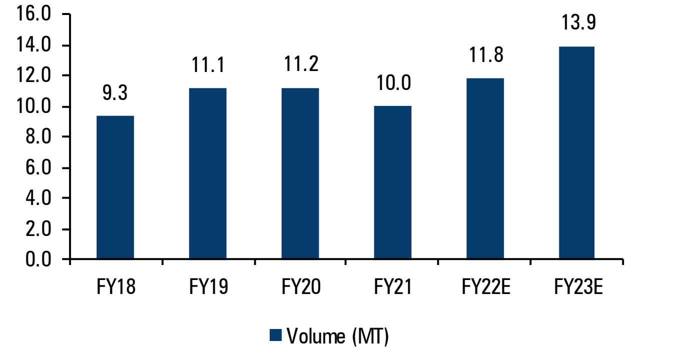
Source: Company, ICICI Direct Research

Exhibit 8: Volumes increase 22.5% YoY in Q2FY22



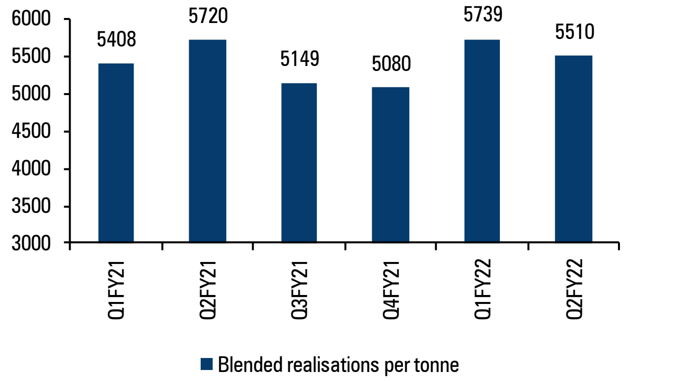
Source: Company, ICICI Direct Research

Exhibit 9: Volumes to see sharp growth from H2FY22E led by new capacity additions



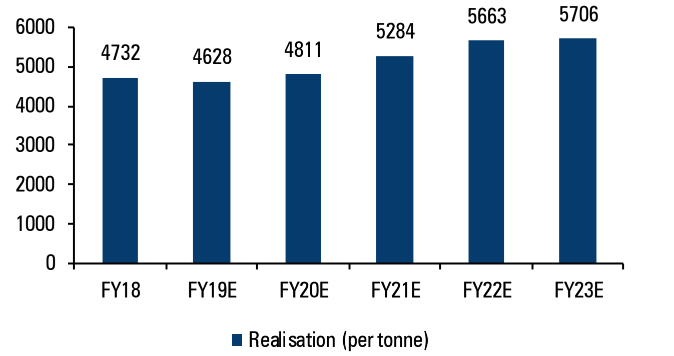
Source: Company, ICICI Direct Research

Exhibit 10: Realisations decline 3.7% YoY in Q2FY22 due to monsoon led weakness in the demand



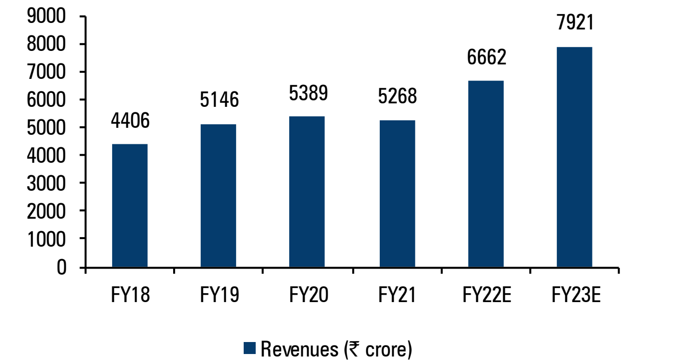
Source: Company, ICICI Direct Research

Exhibit 11: Realisations to stay firm led by underlying strong demand



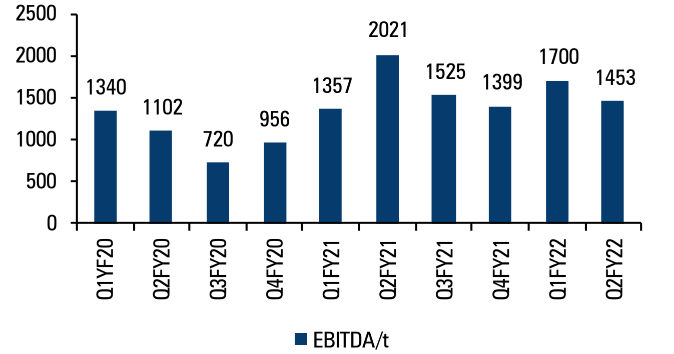
Source: Company, ICICI Direct Research

Exhibit 12: Revenues to grow at 22.6% CAGR over FY21-23E



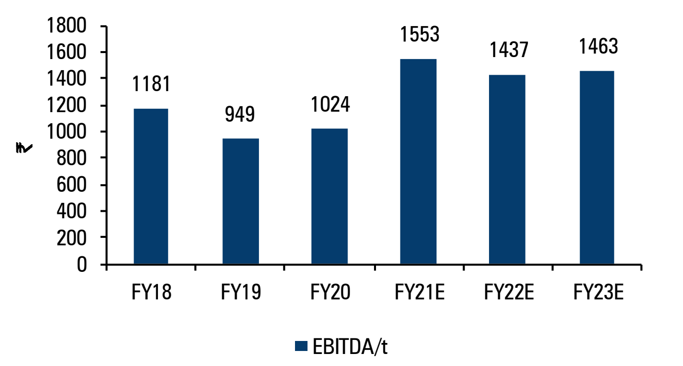
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t remains strong due to firm realisations



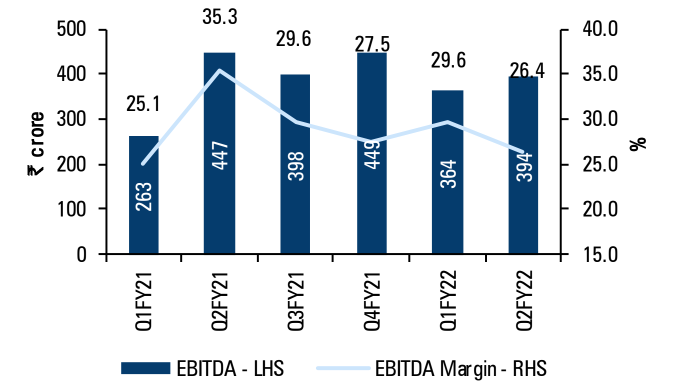
Source: Company, ICICI Direct Research

Exhibit 14: Expect EBITDA/t to moderate due to cost pressure; to still remain better than pre-Covid levels



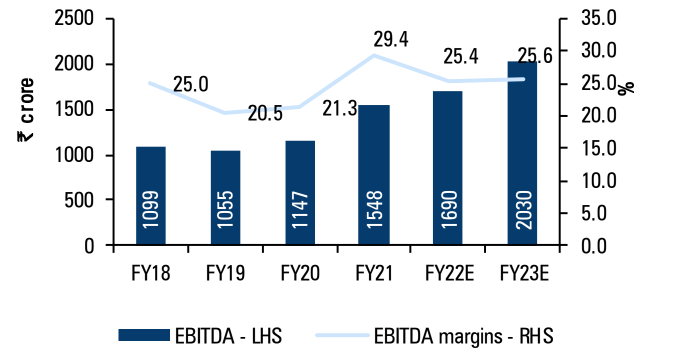
Source: Company, ICICI Direct Research

Exhibit 15: Margins decline in Q2 on lower volumes, cost pressure…



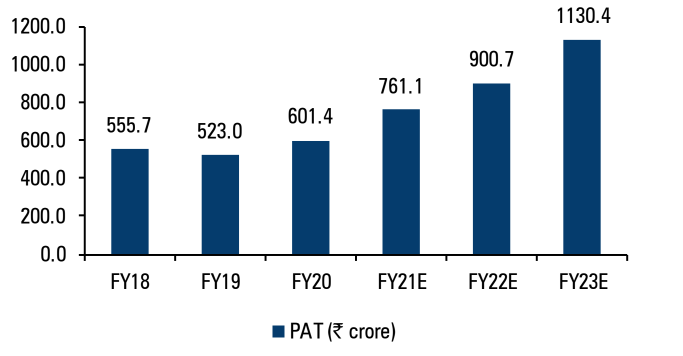
Source: Company, ICICI Direct Research

Exhibit 16: EBITDA to grow at ~14.5% CAGR over FY21-23E



Source: Company, ICICI Direct Research

Exhibit 17: PAT to rise on the back of improving operational performance



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 18: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Incon	**5,389.3**	**5,268.4**	**6,661.7**	**7,920.9**
Growth (%)	4.7	-2.2	26.4	18.9
Raw material cost	650.7	703.5	800.0	955.3
Employee Expenses	380.6	402.1	482.3	583.1
Power, Oil & Fuel	1050.9	794.7	1330.6	1589.5
Freight cost	1360.8	1187.9	1505.9	1735.3
Other Expenses	798.9	632.2	852.9	1027.3
Total Operating Exp.	4,241.9	3,720.5	4,971.7	5,890.5
EBITDA	**1,147.4**	**1,548.0**	**1,690.0**	**2,030.5**
Growth (%)	8.8	34.9	9.2	20.1
Depreciation	316.5	355.3	396.3	448.7
Interest	72.1	87.6	119.9	103.1
Other Income	33.5	34.6	32.0	32.0
PBT	792.2	1,139.7	1,205.8	1,510.7
Total Tax	190.9	378.6	305.1	380.2
PAT	**601.4**	**761.1**	**900.7**	**1,130.4**
Adjusted PAT	601.4	761.1	900.7	1,130.4
Growth (%)	15.0	26.6	18.3	25.5
EPS (₹)	**25.5**	**32.3**	**38.2**	**47.9**

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	601.4	761.1	900.7	1,130.4
Add: Depreciation	316.5	355.3	396.3	448.7
(Inc)/dec in Current Assets	-196.7	165.6	-313.6	-241.5
Inc/(dec) in CL and Provisions	-115.0	487.8	-104.1	-113.5
CF from operating activit	**606.0**	**2,014.6**	**763.2**	**1,390.9**
(Inc)/dec in investment	35.4	30.2	34.3	-168.0
(Inc)/dec in Fixed Assets	-1,971.4	-1,793.4	-1,300.0	-450.0
CF from investing activit	**-1,935.9**	**-1,763.2**	**-1,265.7**	**-618.0**
Issue/(Buy back) of Equity	-84.0	18.0	59.0	59.0
Inc/(dec) in loan funds	1,543.7	-60.7	648.3	-640.0
Dividend paid & dividend tax	-58.9	-70.7	-59.0	-59.0
Interest paid	-72.1	-87.6	-119.9	-103.1
CF from financing activit	**1,328.6**	**-200.9**	**528.4**	**-743.1**
Opening Cash	92.8	91.4	141.9	167.8
Closing Cash	**91.4**	**141.9**	**167.8**	**197.5**

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	23.6	23.6	23.6	23.6
Reserve and Surplus	4,895.0	5,603.4	6,504.1	7,634.6
Total Shareholders funds	4,918.6	5,627.0	6,527.7	7,658.1
Total Debt	3,162.4	3,101.7	3,750.0	3,110.0
Deferred Tax Liability	917.2	1,087.0	932.6	1,108.9
Non Current Liabilities	36.9	38.8	19.5	20.8
Total Liabilities	**9,035.0**	**9,854.5**	**11,229.8**	**11,897.8**
Assets				
Gross Block	9,581.4	10,863.6	13,439.1	14,739.1
Less: Acc Depreciation	3,767.0	4,122.3	4,518.6	4,967.3
Net Block	5,814.4	6,741.3	8,920.5	9,771.8
Capital WIP	1,840.4	2,346.2	1,050.0	200.0
Total Fixed Assets	**7,654.8**	**9,087.5**	**9,970.5**	**9,971.8**
Investments	427.5	431.9	429.7	629.7
Inventory	645.3	597.9	730.1	824.6
Debtors	500.8	375.2	565.8	651.0
Loans and Advances	29.8	27.8	46.6	55.4
Other Current Assets	695.2	689.7	712.8	847.5
Cash	91.4	141.9	167.8	197.5
Total Current Assets	**1,962.4**	**1,832.5**	**2,223.1**	**2,576.2**
Creditors	341.4	363.4	346.8	412.3
Other Current Liability	668.3	1,134.0	1,046.6	867.5
Total Current Liabiliti	**1,009.7**	**1,497.5**	**1,393.4**	**1,279.8**
Net Current Assets	952.8	335.0	829.7	1,296.4
Application of Funds	**9,035.0**	**9,854.5**	**11,229.8**	**11,897.8**

Source: Company, ICICI Direct Research

Exhibit 21: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	25.5	32.3	38.2	47.9
Cash EPS	39.0	47.3	55.0	66.9
BV	208.8	238.5	276.7	324.6
DPS	2.5	3.0	2.5	2.5
Cash Per Share	3.9	6.0	7.1	8.4
Operating Ratios (%)				
EBITDA Margin	21.3	29.4	25.4	25.6
PAT Margin	11.2	14.4	13.5	14.3
Inventory days	43.7	41.4	40.0	38.0
Debtor days	35.7	26.0	31.0	30.0
Creditor days	23.1	25.2	19.0	19.0
Return Ratios (%)				
RoE	12.2	13.5	13.8	14.8
RoCE	7.5	8.6	9.1	10.4
RoIC	9.0	11.1	9.9	10.5
Valuation Ratios (x)				
P/E	38.4	30.4	25.7	20.5
EV / EBITDA	23.0	17.0	15.9	12.9
EV / Net Sales	4.9	5.0	4.0	3.3
Market Cap / Sales	4.3	4.4	3.5	2.9
Price to Book Value	4.7	4.1	3.5	3.0
Solvency Ratios				
Debt/EBITDA	2.8	2.0	2.2	1.5
Debt / Equity	0.6	0.6	0.6	0.4
Current Ratio	1.9	1.1	1.5	1.9
Quick Ratio	1.2	0.7	1.0	1.2

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP		EPS(₹)			EV/EBITDA (x)			EV/Tonne ($)			RoCE (%)			RoE (%)		
	(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,233	BUY	85	110	126	16.3	11.5	9.9	137	133	133	14.5	18.7	18.9	12.6	14.3	14.4
Ambuja Cem*	380	BUY	9	11	14	21.0	16.3	14.3	247	222	220	17.6	19.4	20.6	20.3	22.0	22.9
UltraTech Cem	7,266	BUY	191	232	281	19.7	16.6	14.2	276	265	227	14.7	16.3	18.1	12.7	13.7	14.5
Shree Cement	27,800	BUY	641	682	847	24.4	22.0	18.4	285	281	275	18.2	18.2	19.5	15.2	14.1	15.2
Heidelberg Cem	240	HOLD	14	15	17	12.0	10.0	8.3	131	127	121	20.1	23.7	27.2	21.1	20.3	20.8
JK Cement	3,155	HOLD	100	118	138	17.5	15.5	12.9	207	210	209	18.6	18.5	20.0	20.6	20.1	19.4
JK Lakshmi Cen	590	BUY	34	37	41	10.5	9.2	8.4	89	89	91	21.1	22.1	21.3	19.0	19.5	18.5
Star Cement	101	BUY	6	7	8	10.8	8.4	7.2	90	86	83	13.3	16.4	17.1	12.6	14.2	13.6
Ramco Cement	1,013	BUY	32	38	48	17.0	15.9	12.9	194	199	185	8.6	9.1	10.4	13.5	13.8	14.8
Sagar Cement	285	BUY	79	81	138	10.5	9.7	6.4	104	76	72	15.3	15.2	22.0	15.4	13.7	19.1

*Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E*

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